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PREFACE

Since 2008, in Vietnam, the focuses of economic policies have been changed many times. The year of 2011 witnessed the turning point in economic policy adjustment with the issuance of the Government Resolution No. 11/NQ-CP dated February 24th2011 on the main solutions to curb inflation, stablize macro-economy, and to ensure social security. With the issuance of Conclusion No. 02-KL/TW dated March 16th2011 on the socio-ecoomic situation in 2011, the Political Bureau confirmed to strong support for the Government's adjustment in the socio-economic objectives and policy focuses. At the end of 2011, the Third Plenum of the XIth Central Committee of the Communist Party of Vietnam (CPV)set three key strategic breakthroughs of economic restructuring and the National Assembly of Vietnam (NAV) also approved the Government's suggestions on reducing some main socio-economic targets, especially the GDP growth rate target.

To implement the XIth Central Committee of the CPV's Conclusion and the NAV's Resolution, the Government approved the Comprehensive Scheme on restructuring the economy associated with the transformation of economic growth model towards to promoting the quality, efficiency and competitiveness in period 2013 -2020 (Decision No. 339/QD-TTg dated on February 19th, 2013); Proposal on SOE restructuring, focusing on state economic groups and general corporations in period of 2011-2015 (Decision No. 929/QD-TTg dated July 17th, 2012); Proposal on restructuring credit institution system in period of 2011-2015 (Decision No. 254/QD-TTg dated March 1st, 2012); and recently, public invesrment restructuring has been implementing under the Directive No. 1729/CT-TTg date October 15th, 2011 on strengthening the management of capital investment from the state budget and government bonds.

However, results have not been as expected. In general, inflation is under control; macro-economic stability has been restored but without sustainable; the economy seems to be continuing in stagnation and recession; the economic growth rate has tended to decrease without any sign of recovery. The progress on economic restructuring is too slow compared to the requirements. Recently, the main measures for economic restructuring basically are in the existing institutions without any changes in institutional breakthroughs in mobilizing, allocating and using resources in line with the market mechanism; nature and contents of economic restructuring are understood in different ways among different stakeholders involving in economic restructuring process; for each strategic breakthrough, its restructuring process is still in preparation step. Especially, there still lack of legal framework for public investment restructuring.

In addition, the long-term application of aggregate demand management oriented policies has not been effective as expected; instead of restoring the economy after such temporary economic shocks, it has resulted in permanent instability. Overlook or negligence of measures of potential aggregate supply improvement has slowed down the average economic growth rate.

As a national institute in Vietnam with main functions of undertaking research and putting forward proposals and recommendations on economic laws and regulations, policies and mechanisms, business environment and economic renovation, the Central Institute for Economic Management (CIEM) has hosted or participated in studying, proposing, drafting many policies and mechanisms for economic growth and restructuring. CIEM has positively contributed to the Vietnam's economic reform over the past 30 years.

In order to have suggestions on policies to stimulate economic restructuring and sustainable economic growth recovery, thanks to the support of Macroeconomic Reform Program (GIZ), the Central Institute for Economic Management organizes Forum on "**Growth Recovery and**

economic restructuring: Opportunities and Challenges". The Forum is an annual activity of CIEM within the cooperation framework between CIEM and GIZ Macroeconomic Reform Programme.

The Forum is an opportunity for scientists, experts (both domestic and international), officials, policy-makers, enterprises and donor partners to share and discuss multiple points of views on the ability to restore economic growth and implement economic restructuring in Vietnam; opportunities and challenges in coming time and policy measures for boosting the economic restructuring and putting Vietnam back to the high and sustainable economic growth.

All presentation papers, comments and opinions collected from the Forum will be useful for CIEM to refer when designing, consulting economic policies and mechanism, especially for monitoring and evaluating the implementation of the Comprehensive Scheme on restructuring the economy associated with the transformation of economic growth model towards to promoting the quality, efficiency and competitiveness in period 2013-2020; completing the Proposal on SOE arrangement, reform and their performance improvement; designing Strategy on SOE Development by 2020; drafting many regulations, documents, suggestions, etc. to support for the growth recovery and economic restructuring.

The Forum is divided into two sessions, as follows:

The first session is "Economic restructuring: Opportunities and Challenges". This session focuses on the following topics:

(i) Economic restructuring: An overview on results and issues. This paper evaluates the actual situation of economic restructuring, including main results, improvements and problems of economic restructuring and growth model. The paper also provides some ideas about how to make economic restructuring really become a turning point of the renovation of growth model.

(ii) From demand to supply side policies to promote long-run growth. The papers focus on clarifying the theory and practice of demand vs. supply side economics; evaluating Vietnam's economic performance and its policies in recent years (including demand stimulus, demand expansionary policies) in an attempt to find out some suitable policy changes to promote the country's long run growth.

(iii) SOE Restructuring: Facts and solutions. The paper overviews the situation of SOE restructuring, focusing on state economic groups and corporations; clarifies the difficulties and challenges in implementing SOE restructuring plans and proposes solutions to stimulate SOE restructuring in the coming time.

(iv) Solving debts in enterprise restructuring: Problems and solutions. The paper describes the current situation of SOEs' debts, debt solving policies, problems and solutions to solve debts.

(v) Restructuring of Vietnam Post and Telecommunication Group (VNPT): Initial results, opportunities and challenges. The paper overviews the current situation of VNPT, evaluates the progress on restructuring and clarifies opportunities and challenges facing VNPT in coming time.

(vi)Public investment restructuring: Outcomes, constraints and proposed solutions. The paper reviews and evaluates the current situation of public investment restructuring, consisting of three parts. The first part presents an overview on public investment restructuring and its initial outcomes. The second part reviews, evaluates several constraints and causes for public investment. The third part proposes some solutions for further restructuring of public investment.

(vii) Improving the public investment management processing in the context of public investment restructuring. The paper considers the process of public investment management under the Draft of Law on Public Investment, based on the comparison with the key

requirements of the public investment management system, synthesized from economic theories, and international experiences, which then helps to figure out constraints and provide some proposals for perfecting policies and relevant laws.

(viii) Outwards foreign direct investment of SOEs in the context of economic restructuring. The paper focuses on clarifying the current situation of outward foreign direct investment of SOEs, performance of outwards FDI, problems and some suggestions for improving the management of outward FDI of SOEs.

(ix) Restructuring commercial banks: Initial results and addressed challenges. The paper focuses on clarifying the current situation of restructuring of commercial banks; main point of view on restructuring, initial results and impacts; main advantages and disadvantages in the restructuring process; orientations and solutions to restructure commercial banks in coming time.

The second session is “Growth recovery: Opportunities and challenges”. This session focuses on the following topics.

(i) Economic recovery: Opportunities and challenges. By using quantitative approach to analyse the relationship between economic growth and inflation and input-output model based on Keynes and Leontief’s theories, the paper focuses on analysing and explaining the production factors and the efficiency of investment to identify the effects on economic growth and deliver some recommendations to policymakers.

(ii) Raising budget deficit ceiling and issuing additional government bonds: Some analyses. This paper focuses on assessing the impacts of raising state budget deficit ceiling and issuing additional government bonds in the 2013-2015 period by using a combination of qualitative and quantitative macro-econometric-model-based analyses. The paper presents some scenario-based forecasts for Vietnam’s economy in the 2013-2015 period, using a structural macro-econometric model and focusing on the impacts of raising state budget deficit ceiling and issuing additional government bonds.

(iii) The role of private sector in growth recovery in Vietnam. The paper focuses on economic growth recovery and existing issues. The paper emphasizes that in order to restore the economic growth with the participation of the private sector, at least two issues need to be solved: (1) Growth quality improvement with the involvement of all economic sectors, including private sector and (2) Enhancement of private sector investment. The paper deeply analyses two aforementioned issues and proposes some solutions to enhance the role of the private sector in economic growth recovery in Vietnam.

(iv)FDI vs. Economic restructuring associated with the transformation of economic growth model towards to promoting the quality, efficiency and competitiveness capacity, 2013-2020. The paper focuses on identifying the economic restructuring in Vietnam, the main contributions of FDI in socio-economic development; some limitations and solutions to attract more FDI.

(v) The World Economy and Vietnam: Outlook and Challenges. The paper focuses on clarifying the current situation and outlook of global and regional economies, challenges for global and regional restructuring; current situation of Vietnam economy, policy changes, forecasts for Vietnam economy, short-term policy choice, long term perspectives and challenges.

Forum Organizing Committee would like to express our sincere thanks to all speakers, experts, scientists, policy-makers, businessmen, etc. for your valuable contributions to the Forum.

Hanoi, November 2013

THE FORUM ORGANIZING COMMITTEE

SESSION 1: ECONOMIC RESTRUCTURING: OPPORTUNITIES AND CHALLENGES

ECONOMIC RESTRUCTURING: AN OVERVIEW ON RESULTS AND PROBLEMS

Dr. Nguyen Dinh Cung

Central Institute for Economic Management

INTRODUCTION

In recent years, "economic restructuring" is definitely one of the most popular terms of mass media, in workshops, forums, scientific seminars on economic policies and reports of relevant agencies[1]. It means that there is a nearly social consensus about the necessity and indispensability of economic restructuring in this current stage of development. It is a necessary step in the transition period to apply a new growth model, which is based on increasing labor productivity, national resource efficiency and economic competitiveness.

In terms of policies, economic restructuring was defined at the 11th National Congress of the CPV and concretized at the third plenum of the 11th Central Committee of the CPV. It was also elaborated in many relevant projects of the government, including the Master plan on economic restructuring associated with renovation of growth model in the direction of increasing the quality, efficiency and competitive capacity in the period 2013 - 2020.

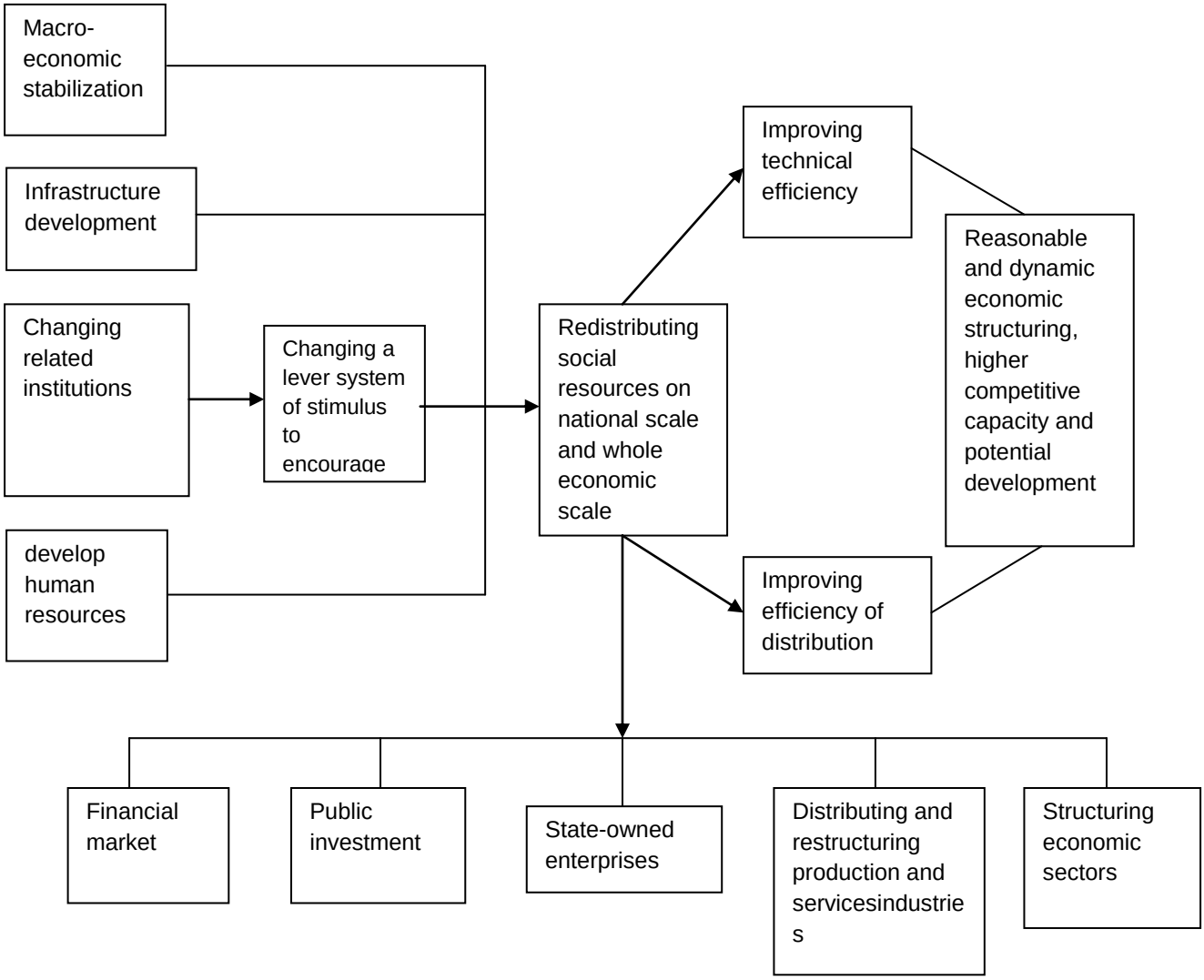
There are various opinions of the connotation of "economic structure" and "economic restructuring". In this article, "economic restructuring" can refer to the redistribution process of social resources using the market mechanism; hence, social resources could be redistributed more reasonably and effectively. The change in redistribution of resources would gradually change the growth method from widely into deeply and upgrade the level of economic development. In other words, the essence of economic restructuring is changing the encouraging lever system, rejecting and replacing wrong encouraging motive powers that lead to wrong distribution and use of national resources - with the new motive power system, which is more reasonable and in accordance with popular standards of the market economy and ethical values of the society. In addition, there are also many other factors affecting economic restructuring, including macroeconomic environment, the quality of infrastructures and human resources. The connotation, content and factors affecting economic restructuring are presented in Diagram 1:

The Master plan on economic restructuring affirmed five main orientations of economic restructuring including: *restructuring the financial-banking system* (focus on commercial banks); *restructuring investment*, (focus on public ones); *state-owned enterprises* (focus on state-owned corporations and groups); *restructuring technical and service industries* and *restructuring economic zones*. However, these above contents of economic restructuring must connect closely and interact as a united system.

This article evaluated the actual state of economic restructuring, including main results of economic restructuring, improvements and problems of factors promoting economic restructuring and renovation of the growth model. The author also expressed some ideas about how to make economic restructuring really become a turning point of the renovation of the growth model.

[1] Searching on Google, we could find 4.5 millions results for “economic restructuring” in 39 seconds, from newspapers, reports and related articles.

Diagram 1: Framework approach to research and evaluate economic restructuring



I. The results and "hesitation" in executing economic restructuring

The contents and correlative solutions of economic restructuring have been promulgated and performed at different times; hence, the results are very different. So far, evaluations and discussions have mainly concentrated on three important missions of economic restructuring.

1. Restructuring investment, focus on public ones

The basic content of restructuring investment in the period 2013-2020 is mobilizing about 30%-35% of GDP for development investment; maintaining major economic indicators properly[2] and keeping the percentage of public investment at about 35%-40% of total social investment. In addition, it is necessary to increase the annual savings from the State budget and spend about 20%-25% of total budget on development investment; to renew basically the mechanism for distributing and managing capitals, to surmount the situation of scattered, wasteful and dispersive investments. Moreover, it is also essential to improve the efficiency of Public investments, to maximize the scope and opportunities for private investments, especially private domestic ones. The basic idea is reducing public investments; increasing private investments; enhancing the efficiency of investment generally and of public investments

[2] Economy, investment and consuming, national budget, the balance of trade, the international balance of payments, public debts, foreign debts, etc.

particularly; putting social investment in the balanced relationship with other basic varieties of the economy.

In the last two years, the density of investment/GDP decreased sharply, from the average level of 39% in the period 2006-2010 to over 33% in 2011 and 30.5% in 2012. At the same time, the bank credit for the economy decreased from 136% GDP in 2010 to 121% in 2011 and 108% in 2012. Calculated at constant prices, public investment has not increased in the recent three years, the density of public investment in total social investment decreased from 51.8% in the period 2001-2005 to 39% in the period 2006-2010, 37.4% in two years 2011-2012 and about 37% in first 9 months of 2013. Thanks to the postponement and reduce of a large number of investment projects, the capital distribution has been concentrated more; the awareness of responsibility and the state discipline in managing public investments have been improved at a first step. In short, the main results during the last two years in economic restructuring were reduce of the density of Investment/GDP; initial innovation of public investment management mechanism; hence, partly minimizing scattered, dispersive and inefficient investments that existed in many years.

In recent years, economic restructuring has been palliative and short-term. It has mostly dealt with investment decisions going beyond ability to balance capital or scattered, dispersive and incomprehensive investments (lasted for many years); rather than set up a new institution to manage public investment capital or a new motive power system to promote relevant agencies, localities, organizations and individuals to enhance the efficiency of managing and using public investment capital. The Directive No. 1792/CT-TTg of the Prime Minister, dated 15th October 2011 mainly resolved the past problems rather than created a legal framework to increase the validity and efficiency of management and use of public investment capital in the future.

While a new institution for managing, distributing and using public investment capital has not been set up, there are many signs showing the great risks of loosening fiscal policy, increasing public investment capital and gradually restoring scattered, dispersive and inefficient investments. These signs are:

- Currently, confronted with the situation of the continuous decline of the economy, there are many opinions suggesting the expansion of public investment, increasing demands from public sector to replace the weakening demands of private sector. In fact, the Government seems to incline toward this suggestion.
- Executing the Directive No. 1792/CT-TTg of the Prime Minister, the public investment capital was cut down sharply; thousands of public investment projects have been postponed or cancelled, of which there are hundreds of half-done projects. There are opinions that cutting public investment down too much has caused shock for the economy; then, it is one of reasons causing decline of the demands and of the economy; hundreds of incomplete projects caused waste of social resources. These opinions also put pressure on the government; urge them to increase investment spending, at least to complete half-done projects. Actually, a part of Government bonds being intentionally issued might be distributed for these unfinished projects. Distribution of investment capital from the State budget and government bonds according to the medium-term investment plan is basically changed.
- Construction debt of localities is about VND 91 trillion, and it seems that Central Government must pay for it, or at least allow local authorities to mobilize bonds to deal with this debt. It means that mobilized capital continues to be used for the past problems, for a large amount of uncompleted or inefficient projects.

- Finally, the administrative institution is separated and dispersed based on administrative borderlines of each province or city as a particular economy, so it is easy for scattered, dispersive and ineffective to be restored. For example, right in the years of economic downturn with cutting public investment down and economic restructuring, there were still two "provincial airports" added to the scheme or opened.

In a word, actually, while a new mechanism of public investment management has not established, the old management is being restored, even getting stronger and stronger. The risk of increasing public investments and restoring the situation of scattered, dispersive and ineffective investments is great. Thus, the process of restructuring investment generally and restructuring public investments particularly seem to stagnate possibly.

2. Restructuring State-owned enterprises (SOEs), focus on state-owned groups and corporations

About restructuring SOEs, focus on state-owned groups and corporations, the Master plan defined some basic contents, including:

- Repositioning the roles and narrowing the business scope of SOEs.[3]
- Speeding the privatization up and diversifying the ownership of SOEs in which the State need not hold 100% ownership. Each State-owned group and corporation should restructure their investment portfolio, focus on their main lines of business, and hasten the implementation of the market principle ofthe divestment of public investment capital from minor lines of business or unrelated to main lines of business and from joint-stock companies in which the State need not hold dominant shares.
- Renewing, developing and fully applying modern administrative framework in accordance with best practices of the market economy for State-owned economic groups and corporations.
- Strictly observing the law, the State administrative rules and market disciplines, renewing the lever system to encourage and ensure that SOEs operate under the market mechanism and join in equal and fair competition like other enterprises from other economic sectors.

For more than a year, the main results of restructuring SOEs consist of:

- The Government promulgated five Decrees[4] on renewing management mechanisms for SOEs, in which the Decree No.99/2012/NĐ-CP on assignment, decentralization of the

[3] Classifying and rearranging SOEs, focus on main sectors such as: defence industry, natural monopoly sectors and industries, essential goods and services industries, and some fundamental industries and high tech industries with strong pervasiveness.

[4] Such documents include:

- The Decree No. 50/2013/ND-CP dated 14/05/2013 of the Government to determine labor management, wages and bonus for employees working for the state-owned single member limited liability companies.
- The Decree No. 51/2013/ND-CP dated 4/05/2013 of the Government to determine wages, compensation, bonus for Council members, Presidents, Controllers, Directors-General, Directors, Deputy Directors-General, Deputy Directors, Chief Accountants working for the state-owned single member limited liability companies;
- The Operating regulations of the controllers working for the state-owned single member limited liability companies (The State holds 100% charter capital) together with Decision No. 35/2013/QD-TTg dated 07/6/2013 of the Prime Minister;
- The Decree No. 61/2013/ND-CP dated 25/6/2013 of the Government about the regulations of financial supervision, performance evaluation and financial Information disclosure applied for SOEs with the State ownership and capitals;
- The Decree No. 71/2013/ND-CP about public investment capital on enterprises and financial management toward the enterprises that the State holds 100% charter capital;
- The Direction No. 17/CT-TTg of the Prime Minister about intensifying management and supervision of the imported technologies, machines and equipments of the enterprises

implementation of the rights, responsibilities and obligations of state owners over the SOEs and public investment capital for the enterprises;

- Approved restructuring master plan for 68 groups and corporations; approved almost whole projects to arrange and innovate the enterprises of Ministries, sectors and localities; i.e. fundamentally completed approving project to arrange and innovate enterprises in the period 2011-2015 on national scale.
- Almost groups and corporations reviewed, classified and defined their business portfolio, the main scope of business lines, in- and relative sectors to business line; hence, defined the list of divestment and specific plan to divest the investment capital from minor lines of business[5]; classified subsidiaries[6]. In addition, some groups and corporations promulgated, added and modified the internal management rules; executed organizational restructuring and staff rearrangement, etc.

It takes a long time to implement the contents of restructuring SOEs defined in the Master Plan. However, comparing achieved results with the orientation of economic restructuring, we can see that solutions being implemented (considered the results of restructuring) have not followed hard on the contents and requests of restructuring SOEs. Specifically:

- The privatization process is very slow. There were only 13 privatized enterprises in 2012 (account for 14% of the plan) and only 16 privatized enterprises in the first 7 months of 2013.
- There are many difficulties to divest from minor lines of business. Unless having change of thinking, approach methods appropriate technical solutions, it is very difficult to complete before 2015 as determined in the Resolution 3- NQ/TW. According to reflection of groups and corporations, besides the disadvantages from the financial market and the real state market, there are also some other reasons as:
    - Thinking, criterion, the methods to preserve and develop capital are not in line with the market mechanism.
    - Some modes of capital preservation in accordance with current regulations[7] are still formalistic and inflexible, hence, increase operating expenses of enterprises and does not really promote technological innovation, creative and cautious business to preserve and develop the capital;
    - "Capital" to be withdrawn of SOEs is very diversified; capital divestment is not only share and capital contribution transfer, but also assets sales (end-products and semi finished products), transfer of land use right, project transfer and so on. Meanwhile, current regulations about capital divestment are dispersed in many different legal documents; the content of such regulations have not embrace the diversification of many kinds of capital to be withdrawn, and no

[5] VNPT invested in 82 economic enterprises and organizations, it is expected to perform divestment in 57 units in the period 2013 - 2015, of which 31 units in 2013.

[6] Of which, it is determined that the subsidiaries still continue to maintain 100% of VNPT's capital; the list of subsidiaries going to be privatized with different rates such as: above 75%, 65-75%, 51-65%, and the rest will be privatized as planned; the privatization plan has begun to rearrange and restructure the organization within the corporation and enterprise.

[7] Clause 2 Article 34 of the Decree No.71/2013/NĐ-CP determined that "Capital preservation and development of enterprises are implemented by the below methods:

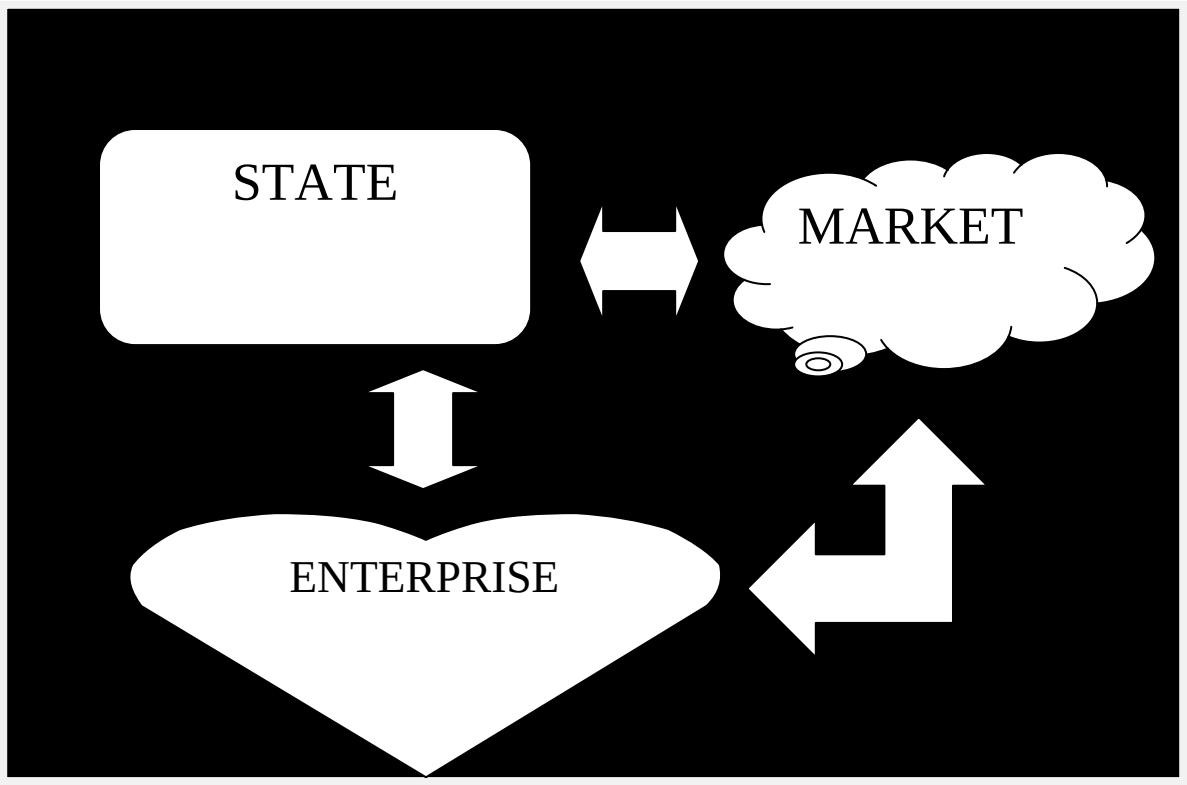
a) Follow the system of using capitals, assets and distributing benefits; follow financial management system and accounting system according to the law;
b) Purchase assets insurances according to the law;
c) Other methods to preserve capital of enterprises according to the law

longer suitable to market conditions[8] and requirement of the Decision No. 339/QD-TTg of Prime Minister.

- Although the Prime Minister announced many years ago, the full imposition of market regulations and disciplines in state-owned corporations and groups has not evolved, even in thinking, conception and policy action.
    - The conception of the roles and functions of SOEs generally and state-owned corporations and groups particularly has not changed yet. Specifically, SOEs are still used as a tool and material force for the State to regulate the market and the economy. The conception and the methods are unsuitable to the roles of the State generally and SOEs particularly.

      The State, market and enterprises are three "main forces" of the institution of market economy. About their relationship, the State regulates the enterprises in- or directly through the market.

Figure 1: The relationship among the State, market and enterprises



The State influences the market, changes the lever system of stimuli to encourage, and hence influences the enterprises under the market mechanism by prices and the market competition. In case that the market does not promote its effect, the State directly imposes conditions for the community and directly implements the methods to enforce these conditions. Protecting the

[8] For example, Article 21 Decree No. 58/2912/ND-CP dated 20th July 2012 of the Government determined the condition to offer stocks of major shareholders in mass companies as *"Business operations of 5 years right before the registering year to offer must be profitable, without accumulated losses up to the registering year to offer"*. Point C Clause 12 Article 6 Law of Stock Act, Clause 3 Article 10 of the Decree No. 58/2012/ND-CP, or Clause 2.2 Article 6 of the Circular No.117/2010/TT-BTC dated 5th August 2010 of the Ministry of Finance determined that divestments of financial investment in minor lines of business must be implemented according to the principles of openness, explicitness, capital preservation and not lower than the market price or price listed on the accounts of units contributing capital. Obviously, the above regulations is not suitable to divestment of investment capital in minor lines of business, hence, they make difficulties for divestments at many enterprises.

environment, food hygiene, etc, are typical cases of this relationship between the State and the enterprises.

In the relationship between the enterprises and the market, the State is responsible for supervising monopoly and dominant enterprises on the market so that these enterprises do not abuse their position to harm fair competitions of the market for their own benefits. In other words, the State does not use the enterprises to adjust the market, vice versa, the State must manage, supervise and prevent the enterprise from abusing their position to influence, distort and mislead the market signals. Thus, using SOEs to adjust the market is unsuitable to the market principles. In this case, market does not impose the rules upon the enterprises; on the contrary, the enterprises are the one to impose the rules upon the market; distorting and creating unfairness for other sectors of the market.

- Series of other market principles are not really applied to SOEs.

  Firstly, SOEs are responsible for their owned- business. Currently, SOEs are loss making and not payable at maturity but they are not bankrupt. It means that SOEs have not been punished harshly by the market competition yet. Basically, the State still bears such debts of SOEs in the forms of debt reduction, debt transfer to other units or debt guarantee, etc. From there, related people such as managers or ownership representatives are also not under the influences of the strictness, harshness and fairness of the market. On the contrary, the State as an investor does not claim the profits; the income of SOEs does not contribute to the State budget. Thus, the State does not get the "profits"; "loss" is beared by the people, while directly related doers are not responsibilities for such losses.

  Secondly, SOEs do not apply the market price of capital completely. Specifically, besides profiting from some preferential credits, the income/capital the owners need is only a minimum positive number; SOEs are not obliged to create a profit/equity, which is at least equal to the market capital price. In addition, SOEs need not consider, calculate and swap opportunity costs to have the best and most effective investment portfolio.

- SOEs have not fully applied the market principles and disciplines partly due to institutional barriers to protect the positions and benefits of SOEs and stakeholders, to hamper the participation into the market of other economic sectors. About development guideline for public sector, SOEs must hold the controlling role in important industries of the economy; state-owned groups and corporations are established for the realization of this guideline. To perform the controlling role, groups and corporations are facilitated [9] to get the monopoly or dominant position on the market (in appropriate industries). Hence, related groups and corporations rule most of investment and business opportunities in the industries. These state-owned groups and corporations always are selected to be "winner", and need not face-to-face compete in the domestic market.

- In addition, SOEs have not applied fully the market principles and disciplines because of current management mechanism of the State for SOEs. Government

[9] To facilitate methods for groups and corporations having dominant position on the "sector market" and dominate the development of that sector, scheme and strategy to develop sector / product are frequently use; hence, identifying scheme, product or sector development strategies with development strategy of economic groups and corporations; determining investment projects and appointing proportional corporations and groups to be "investors", which are flavored to preferentially approach land, resources and capital investments.

agencies continue to intervene by the non-market administrative modes[10]into the business operation and management of SOEs, from investment decisions, business organizations, selecting managers and recruiting employees, wages and bonus, inspection, supervision and assessing, etc. Moreover, SOEs are entrusted with political- social tasks, but they cannot enter in the accounts separately and fully using the market price. Such decisions are also an obstacle for SOEs' operation under the market mechanism and large barrier to uphold the autonomy and creativeness of SOEs. This is a disadvantage of SOEs in comparison to other enterprises.

- There is lack of application of the principles and good practices of administration to SOEs, state-owned groups and corporations.

  Asking economic groups and corporations about application for the good administration principles by market practices was determined a long time ago[11]. There are some principles of Corporate Governance are being applied, as the OECD Principles of Corporate Governance, WB's and ADB's. However, all of the Principles are quite alike. Thirty good governance principles of OECD have not applied to the administration of groups and corporations in Vietnam yet, even a principle of them, or even simple principle as Article 168 of the Enterprise Law 2005.

  The motive power system to encourage SOEs, enterprise managers and stakeholder only changes to be suitable to the market mechanism, when SOEs apply fully the market principles and disciplines as well as the framework of modern Corporate Governance. When the privatization process is slow and investment capital divestment from minor lines of business meets difficulties, to reduce and narrow the scope of business of SOEs, state-owned groups and corporations are just "guideline" or orientation.

3. Restructuring commercial banks

Restructuring commercial banks is determined and divided into three main periods consist of: (i) restructuring weak commercial banks, to deal with bad debts, and restructuring all of commercial banks comprehensively. There are some results such as: ensuring liquidity; safeness of banks system is in control; the risk of breaking and losing safeness was pushed back. (ii) The weak commercial banks are being restructured following the approved project. (iii) The Master Plan to deal with bad debt was approved; the decree on asset management enterprise was promulgated, Vietnam's Asset Management Company (VAMC) was established and put into operation officially; starting from repurchasing debts of credit institutions, etc. However, up to now, the official information about results and problems of restructuring commercial banks are very little and not checked regularly.

For example, dealing with weak banks, people and related authorities are expecting results of restructuring on: shareholders and ownership structure, capital and capital structure, business results from restructuring time, volume of bad debt, bad debt structure and main debtors, changes within the internal administration, and next restructuring measures, deadline of completing restructuring for each banks. There is also many doubts about the success of the method "voluntarily restructuring" for weak commercial banks. According to international experiences showed that it is impossible to use people who "caused problems" to deal with

[10] Despite being in the name of owner, thinking and intervention decision model is administrative hallmark rather than decision based on market grounds.

[11] The Decision No.704/QD-TTg dated 11th June 2012 of the Prime Minister approved the master plan to innovate the enterprise administration according to market economy practice.

problems. The cross- ownership situation in many different forms[12] has not been constrained, clear and controlled effectively. At a certain level, this situation could reduce the validity or counteract the regulations about safety standards of each credit institution particularly and of the financial system generally. It is impossible to foresee the abrogation of interest rate ceilings yet.

Although the State Bank of Vietnam announced total bad debts of credit institutions; total bad debt of commercial banks is still in doubt by related stakeholders. Other estimates[13] showed that the actual bad debts of credit institutions could be three times higher than in the official announcement. Dealing with bad debt of credit institutions is just in the beginning period; current method of handling bad debts might only be cutting bad debt out of credit institutions by an accounting method: changing "bad debt" to "not bad yet", rather than moving bad debt out of the economy. Thus, there is not a sign of decline in financial cost burden of enterprises; especially the number of enterprises, which are not payable at maturity, does not decline yet, etc. Such enterprises, despite having the business opportunity or effective project, still cannot approach bank credits or can but with significantly higher cost. Therefore, the credit market has not operated normally yet, has not fully performed the function of financial intermediary to reasonably dispose and effectively use the credit capital of the economy. This above reality is one of large barriers to redistribute resources under the market mechanism, raise quality, efficiency and competitiveness of the economy. It has slowed the economic restructuring together with renovation of growth model down, and it has not had clear results yet.

II. Factors promoting economic restructuring together with renovation of growth model

As mentioned above, factors promoting and creating good condition for restructuring and renovation of growth model include: macroeconomic stabilization, human resources development, infrastructure development and improvement of the institution of the socialist-oriented market economy. The ninth Congress of the Party also affirmed that selecting infrastructure development, human resources development and improvement of the market economy institution are three strategic breakthroughs for the period 2011-2020.

According to the World Economic Forum, the quality of 4 above factors of Vietnam has not made much progress recently, even tend to worsen. Particularly, the current quality of macroeconomic is worse than in 2010[14]; in 2010, the macroeconomic index of Vietnam was 4.8/7 point, ranked 65/142 of total economies; in 2012, this point decreased to 4.4, ranked 87/148. However, according to the evaluation of WEF, Vietnam's macroeconomic of 2012 has improved by 0.2 point, increased by 19 ranks on the ranking table (from 106 up to 87/148). In fact, the macroeconomic of Vietnam has stabilized gradually and improved continuously especially since 2012: inflation has decreased constantly, from about 18% in 2011 to stably 6-7%/year currently; stable exchange rate, increasing foreign currency reserves; the basic macroeconomic balances also have improved. Stable macroeconomic and restoring market beliefs are essential factors for economic restructuring and renovation of growth model.

[12] The ownership between bank -bank, enterprise-bank, bank-enterprise, of which there are some groups of large shareholders owning both banks and enterprises, creates a "network" of cross-ownership which is complex, sophisticated and difficult to control.

[13] Nguyen Xuan Thanh and Fulbright research group estimated bad debts could account for 15% of total credit of the whole system.

[14] Information used to rate and arrange the global competitiveness of WEF is usually one-year late. In other words, they take information of 2010 to rate and arrange for 2011.

Table 1: Scores and ranking of macroeconomic stability, infrastructure and human resources developments, improvement of institutions in the period 2009-2013

	2009-2010		2010-2011		2011-2012		2012-2013		2013-2014	
		133		139		142		144		148
	Rank	Point	Rank	Point	Rank	Point	Rank	Point	Rank	Point
	75	4.0	59	4.3	65	4.2	75	4.1	70	4.2
Institutions	63	3.9	74	3.8	87	3.6	89	3.6	98	3.5
Infrastructure	94	3.0	83	3.6	90	3.6	95	3.3	82	3.7
Macroeconomic environment	112	3.9	85	4.5	65	4.8	106	4.2	87	4.4
Education	92	3.5	93	3.6	103	3.5	96	3.7	95	3.7

Source: Global Competitiveness Report

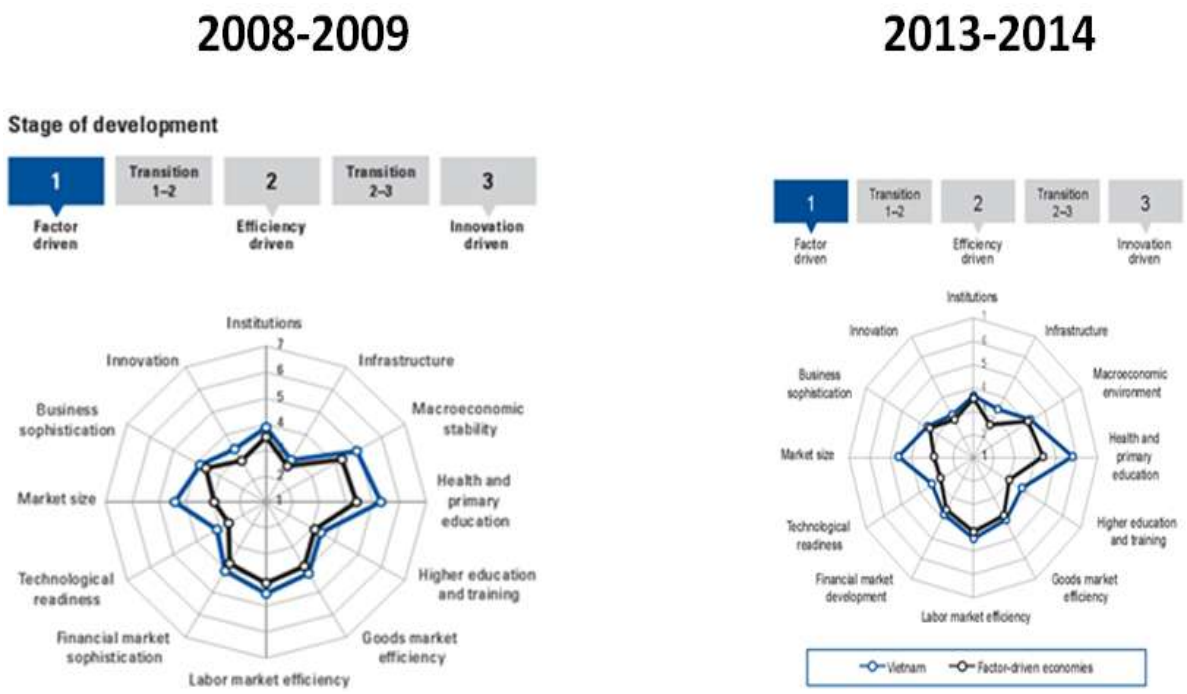
Human Resources Development, which is measured by the quality of vocational training and university education, has not improved much; increased by 0.2 point (from 3.5 point in 2010 up to 3.7 point in 2012, correlatively ranked from 103/142 up to 95/148 of total economies). It is similar for the quality of infrastructure. The quality of infrastructure has made progress, mainly due to the development of mobile communication networks; whereas the quality of other infrastructures such as railroads, roads, ports, airlines and electricity supply, has not improved or became worse than the globally average level.

Table 2. Quality and ranking of Vietnam's infrastructure (according to WEF)

	2009	2010	2011	2012	2013
Quality of overall infrastructure	97	111	123	123	119
Quality of roads	102	102	117	123	120
Quality of railroad infrastructure	66	58	59	71	68
Quality of port infrastructure	66	58	59	111	113
Quality of air transport infrastructure	112	99	97	111	113
Available airline seat kms/week, millions	92	84	88	95	94
Quality of electricity supply	104	103	98	109	113
Mobile telephone subscriptions/100 pop			58	5	18
Fixed telephone lines/100 pop	37	36	35	70	86

Among factors promoting economic restructuring and renovation of growth model, institution is the most important because appropriate institution does not promote economic restructuring only, but infrastructure, human resources development, and macroeconomic stabilization also. Domestic experts and policy makers also think that institution is the most important phase, at the same time, the weakest point of our current economic system. The quality of institution has not only unimproved, but also partly worsened. Specifically, the quality point of institution was 3.9/7 in 2008, had decreased step by step, and in 2013, down to 3.5 point, correlatively ranked 63/133 down to 98/148 (an reduce of 0.4 point and nearly 35 ranks on the ranking).

Figure 3: Comparison Vietnam's competitiveness with the average of economies, which are at stage 1 of development process.



Formerly, the quality of institution in Vietnam was always higher than the average of countries which are at the same stage. However, currently, it is down to as high as the average of countries which are at the first stage.

As described above, Vietnam has not achieved turning-point in both three strategic break-throughs. It showed that reform efforts and works done in these fields were unsuitable; or not wide, strong and deep enough to create differences and expected outcomes.

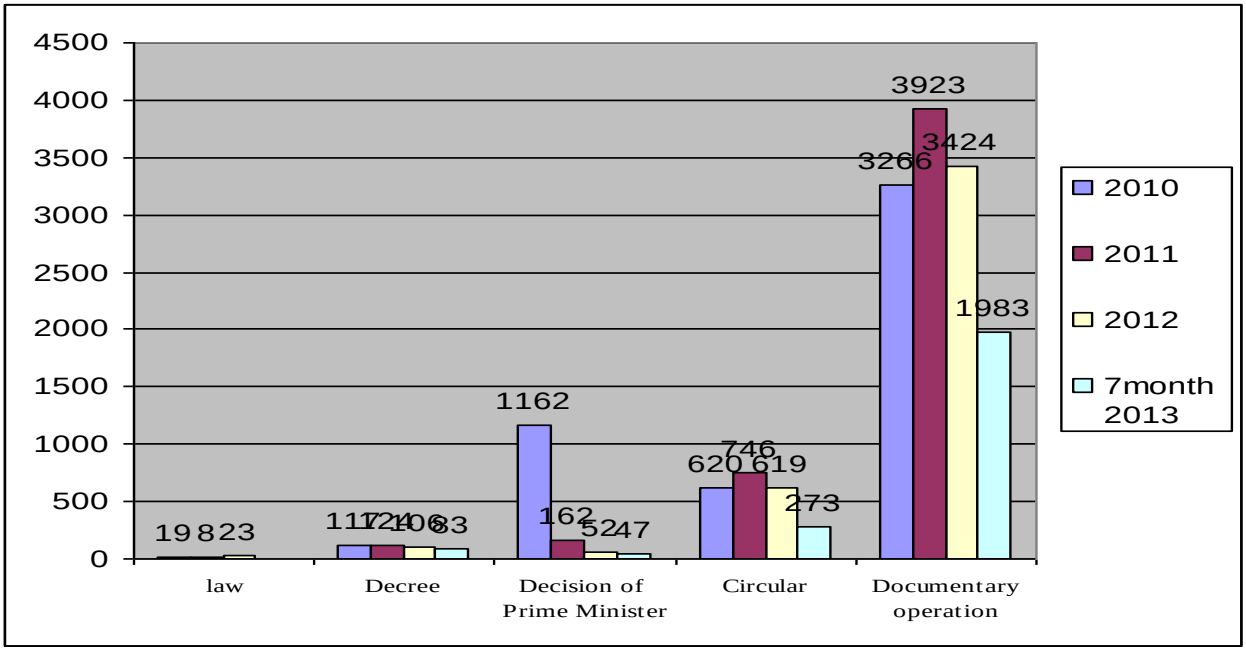
Institution is the most important phase to define the trend, scale and rate of economic restructuring and renovation of growth model. Thus, in the next part, the author would present some problem of the economic institution in Vietnam. There consists of three main contents: "playing rules", "playing ways" and "players".

Firstly, the way to formulate "playing rules" and the content of such "playing rules" have not changed much.

Table 3. Number of regulations

	2010	**2011**	**2012**	**First 7 months of 2013**
Law	19	8	23	
Decree	117	124	106	83
Decision of Prime Minister	1162	162	52	47
Circular	620	746	619	273
Operating Document (Documentary Operation)	3266	3923	3424	1983

Figure 4: Number of regulations



Source: www.chinhphu.vn

"Playing rules" still depend much on the guidelines for law enforcement (Decree, Circular) and the administrative operating decisions of competent agencies. Every year, only the central government issues from 3000 to 4000 operating documents (an average of 14 document per working day); about 600-700 circulars, etc. Thus, the legal effect is depending much on explanation and the operating way of related Ministries, agencies and authorities. The mentioned "playing rules" might define the "playing way" according to "petition and grant" mechanism[15]. "Playing rules" and "playing ways" stipulate and select "players", who have the right to "petition" and can be granted, and who have the right to "grant". Many benefits are achieved thanks to such “petition and grant" relationship, without economic activities to create new social values. The above institution is creating motive power to encourage “sent seeking” sector, where people make profits by the right to issue administrative decisions to enforce the laws, distribute resources and business rights, or by business monopoly, or dominating the business investment right in relevant sectors and fields (etc.) without an appropriate labor force needed. Such institution can prevent, restrict the sphere of actions of the principles such as "generosity", “equality", "justice"; erode motivations of technological renovation and creativeness, market competition; distort values and stimuli to encourage, then lead to wrong distribution and ineffectively use of resources; reduce the rate of social welfare growth, etc. Institutional breakthroughs must be reforms which enlarge the range of activities; enhance the development level of the market economy and international integration; control and gradually annul “petition and grant” mechanism; reduce “rent seeking behaviours”; encourage and continuously enlarge the profitable economic sectors to create values through renovation of management, modes of production, innovation and technology transfer, fair competition under the new market economy mechanism.

III. A number of proposals for further economic restructuring and contributing to growth recovery

There is a social consensus that economic restructuring and renovation of growth model are essential in the current period. Up to now, the activities and results of economic restructuring

[15] In popular language, it is called “run” (about soliciting favors).

have been slower than the request of economic growth recovery. Despite the consensus, the thinks, opinions and conceptions about the substance and contents of economic restructuring are not alike, even within the policies planning and implementing agencies. There is a conception that economic restructuring is only adjusting and restoring some temporary mistakes and weakness of recent period; hence, the economy would recover gradually and come back to the high growth orbit as before. Some people (including the author) think that economic restructuring together with renovation of growth model must be the second reform in nature. They must be the process of the wide and deep change, of upgrading market economy institution in Vietnam, creating new system of stimuli to encourage according to popular and modern market economy standards, then to redistribute and use national resources more effectively. Thus, economic renovation must go together with comprehensive renovation of political system.

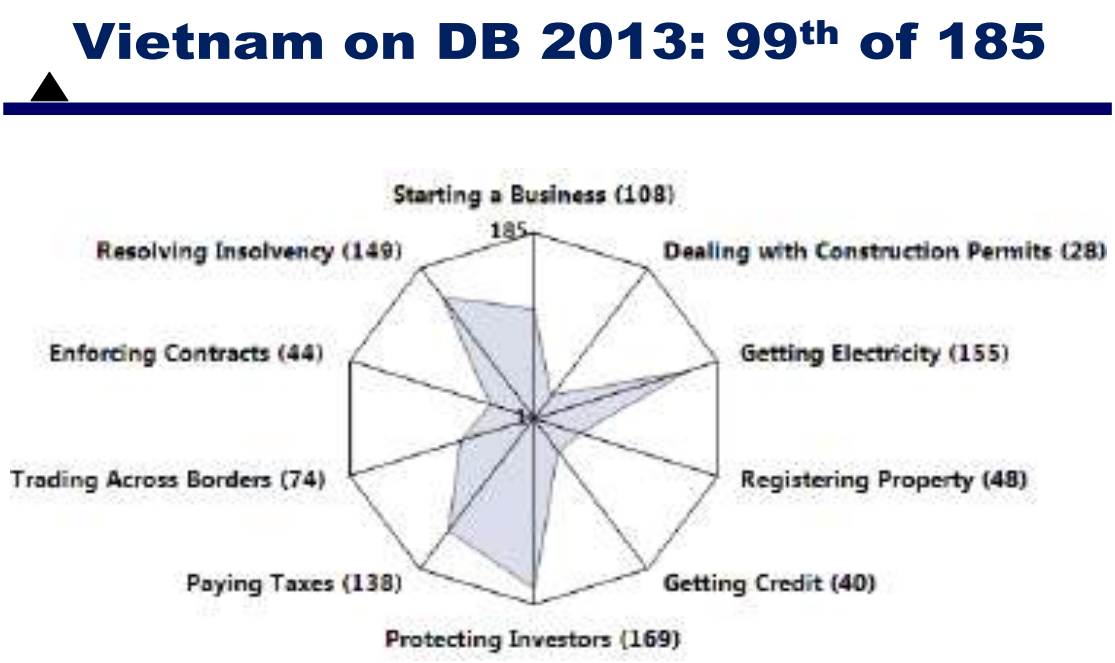
Moreover, under the pressure of immediate pressing issues, there are many different approaches to select the most suitable policies for growth recover. It seems that the choice of "supply- side" is gaining the upper hand. This choice is also a barrier to implementation of restructuring solutions; it slows down the process of economic restructuring and renovation of growth model. Thus, to implement economic restructuring, it is necessary to implement variety of changes at different levels, from thinking, conception, opinion, guideline to appropriately specific solutions. These following part focus on some solutions, which could be implemented within the current institutional framework. The way of approaching turns around the target "EFFICIENCY, EFFICIENCY AND EFFICIENCY".

1. Improving business environment, reducing and simplifying procedures, reducing compliance costs

In the current context, establishing fair equal business environment is not easy. However, it can implement a reform as reducing compliance cost and time, transaction cost and thereby increase efficiency, values and competitiveness. Vietnam ranks 99/185 on the WB's annual ranking of business environment competitiveness. In the recent years, Vietnam almost has not implemented any reform and progress in improvement of business environment. We can improve some indicators to create significant advantage to business activities and add values to the economy. These solutions are:

- Removing four procedures to join the market after registration, including: announcement on newspapers, registration of labor, registration of Labor Union and registration of insurance. Opening a bank account can combine with business registration;
- Removing the request for registration of lines of business;
- Implementing reforms, simplifying procedures, reducing time and cost of export and import, etc. If the reform aims to achieve the position in top-ten economies having the most favorable advantages in export and import, it will surely have major impact on reducing transaction costs and increasing the added-value for the economy; because that reform directly impacts on the revenue of over USD 200 billion. Preliminary estimate shows that if we reduce 15 days of export procedures and 15 days of the import procedures, GDP can increase by more than USD 27 billion.

Figure 5



- In addition, we can perform a variety of changes such as issuing, implementing special orders to solve dispute and enforce dispute of small value contracts; or simplifying procedures of electricity supply, etc.

The implementation of these solutions needs specific actions with a sensible route rather than continuously issuing Government's resolutions. Lessons of the Enterprise law Implementation Working Group in 2000-2003 should be useful for the implementation of above solutions.

2. Restructuring SOEs

Restructuring SOEs focus on state-owned groups and corporations, according to the request of economic restructuring and renovation of growth model[16], is not implemented fully; because such economic restructuring requires renovation of thinking about the roles of the State and the market, the roles of the State and SOEs in the market economy. However, we can implement some solutions to support the market to operate better, and improve efficient use of current resources:

a) Imposing some market principles and rules for SOEs generally and economic groups/corporations particularly

While market principles and disciplines have not been applied fully, we can still force SOEs to obey one of them: (i) to impose sufficient constraints on capital costs of the investments and businesses of SOEs. The State must get profits of at least equal to the market price of capital; (ii) to allow SOEs to have greater self-control on the capital and asset restructuring within the target and norm framework, etc (iii) representatives of the owner and management officers must be responsible for direct explanation of the business operations outcomes of SOEs. When enterprises meet with difficulties, cannot preserve and develop capital, pay loans due to date or taxes (etc), those representatives or managers must be replaced. It would be better rather than asking

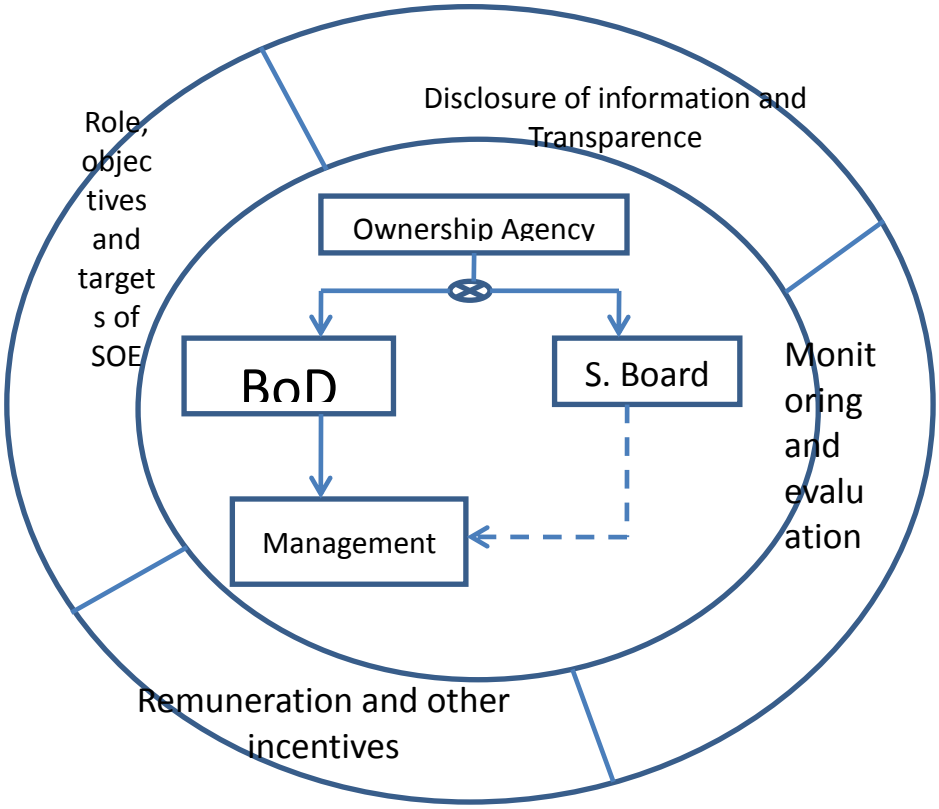
[16] That request is to change the motive power system to redistribute resources in the whole economy under the market mechanism. This requires that resources redistributed are within the SOEs; more importantly, redistribution should follow the sign of market from SOEs to private sector, from the ineffective sector to effective sector.

the Government to intervene in order to achieve debt freezing and reduce the debt repayment obligation, to act as a guarantee for SOEs to issue bonds to repay; to reduce taxes and tax obligations, etc. The result is none of organizations or individuals are responsible for bad outcomes of SOEs' activities. In a word, let the harsh market punish anyone making a mistake (subjectively or objectively) in enterprises operation and management.

b) Practicing some principles of Corporate Governance at the state-owned groups and corporations

Although principles of Corporate Governance are not practiced completely, we still practice some of them. However, firstly, it requires we consider company administration generally and SOEs administrations particularly are one framework with components as described below:

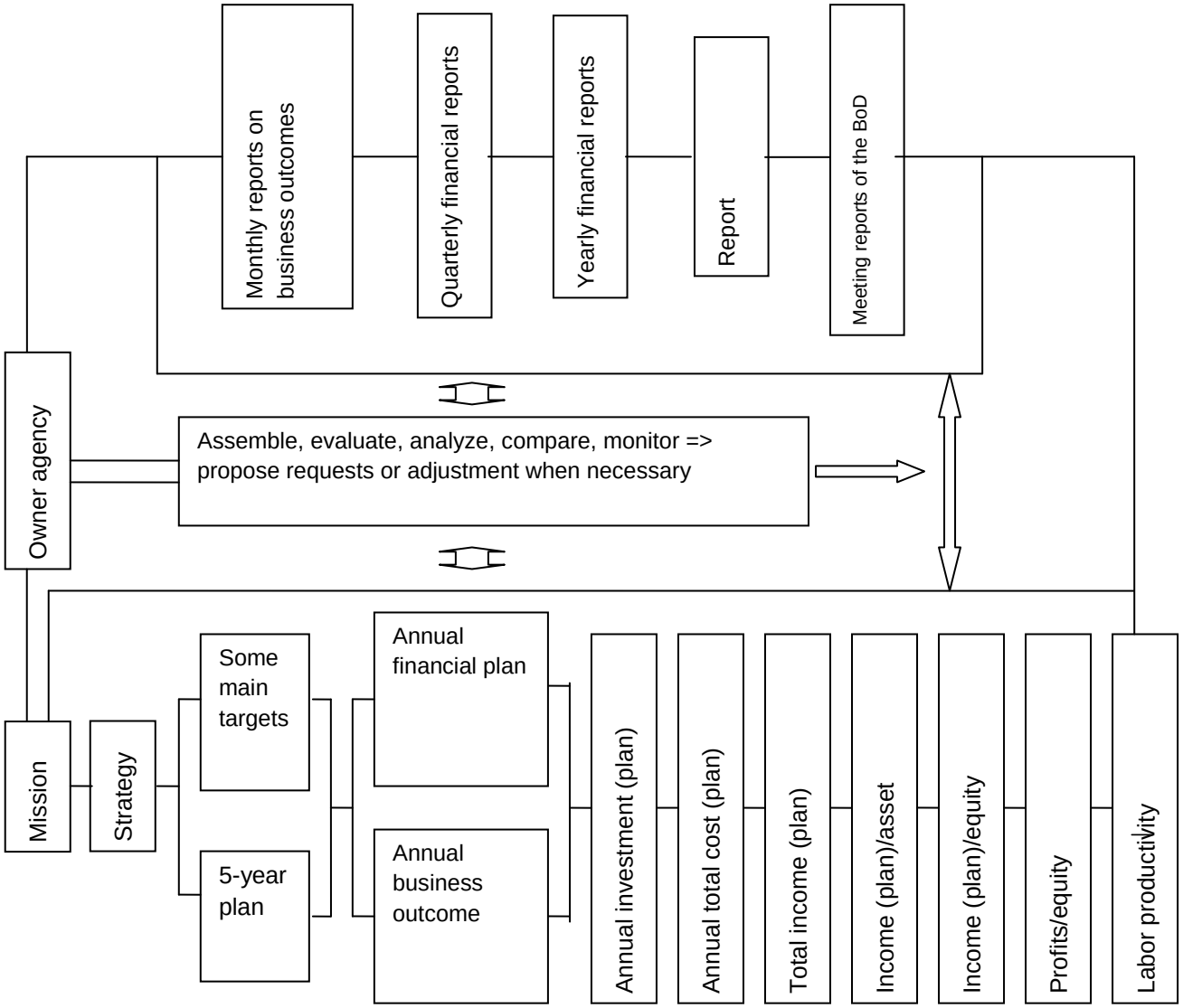
Figure 6: SOEs administration framework



We can practice fully or at least measurably improve the principle of openness and transparency of information as well as establish the effective supervisory mechanism for state-owned groups and corporations. It is very easy and cheap, but effective, to require state-owned groups and corporations to public their information according to standards applied to listed companies. Information publicity is a condition to independently monitor, supervise, and evaluate business activities and management of state-owned groups and corporations from the outside.

Beside openness, transparency of information, supervision and evaluation from the outside, improving efficiency and effect of supervision and evaluation from the inside (at first, supervising and evaluating of the owner) can be implemented immediately, possibly according to the below diagram:

Diagram 2: Diagram of supervision and evaluation of the Owner on their activity outcomes of SOEs



While there is no specialized and independent agency to implement the rights of the state ownership at enterprises, at each ministry and People's Committee should establish specialized department that has function is to monitor, supervise and evaluate the operation outcomes of SOEs directly under. Specialized ministries, which directly exercise the rights of the state capital owner, must determine the missions, the roles and specific functions of each groups and corporations[17], hence, specifically determine targets together with the norms to express the targets (as meters to evaluate the level of target completion). These targets and norms must be showed fully in the, middle term, annual and quarterly strategies and plans of groups and corporations. The plans always include two parts: production plan, business plan and correlative budget (or financial) plan. The owner agency has to establish a system to collect information, analyze, monitor, compare and evaluate the level of completion of their development targets and business targets. In case there has any difference between target and reality, they must analyze, determine the reason and apply essential intervenient solutions, which include replacing management personnel if necessary. If there is a

[17] It must answer practically and scientifically the question "Why does that particular economic group or corporation operate in the form of state ownership?"

mechanism to monitor and supervise like this, the author believes that there would not such big scandals as Vinashine and Vinalines, which caused big damage to the economy generally and public sector particularly.

Hastening the privatization and divestment from minor business line is also the solution that can be implemented at the certain level. However, beside specific solutions being proposed[18], changing conception of the roles and functions of privatization and divestment are not less important. Privatization is not the way of mobilization for the State, it is a solution to basically change the endogenous motive power system and create the market pressure to SOEs fully; hence, national assets would be managed and used more effectively to create more added values for the economy. Similarly, divestment from minor business line is not only for cutting loss or for reducing loss. It is also a solution to use the market mechanism to redistribute resources, to relive a part of resources being "dead" in the hands of the groups and corporations, to take them back to production; and to transfer another part that is unprofitable or ineffectively used to assets that are used more effectively. It is real “divestment” from minor business lines under the spirit and the contents of economic restructuring and renovation of growth model.

c) Restructuring credit institutions system, within restructuring weak banks, dealing with bad debts and overcoming cross-ownership situations continue to be the most important mission in the upcoming years. There are many researches, reports and proposals about hastening restructuring credit institutions system. However, having a more independent and objective evaluation about the process, results and problems of restructuring credit institutions system is very necessary. It is important to answer objectively and trustworthily several basic questions such as: (i) How are the results of restructuring nine weak banks (Which level)? How much is the actual value of bad debts according to international standard, Vietnam’s standard and requests of restructuring, restructuring bad debt according to sector or debtor? (Etc) How are the real situation of the cross-ownership, and what are their impacts on the efficiency of monetary policy, on effectively running of financial market? (Etc) Besides, they should review some viewpoints in the implementation of restructuring credit institutions system, if necessary. E.g. viewpoint of voluntarily restructuring; according to international experiences, entrusting people who caused problem with resolving their own problem is always not successful; replace the opinion of not to fail the credit institutions with “not let the depositor lose their money”. The current opinion might be unfair, because people who cause social loss are not punished economically. They are not at a disadvantage or to such deserved extent. Thus, they can temporize, depend on and wait for the

[18] Promulgating regulations to solve difficulties and obstacle; creating suitable legal framework to the contents that need instructions. (i) Using market capital price as a norm to measure level of capital preservation (the value of owner capital in enterprises is preserved, when profits/owner capital is at least equal to average long-term government bond; or market price of shares, share capital of enterprise increases by at least the rate of government bond. (ii) The kinds of capital which can be divested, correlative method of divestment. (iii) Potential customers, conditions and limitations for buyer (if any); (iv) Jurisdiction and process of taking divestment decision; (v) the assessing mechanism for indispensable divestment capital, etc. Amending and adding the Decree No.59/2011/NĐ-CP of the Government dated July 18th 2011 (on transformation of enterprises with 100% state capital into joint-stock companies) toward the direction of widening subjects of application, including subsidiaries or business departments, career units; increasing the rate of joining of foreign investors, especially strategic investors; handling current obstacles slowing down privatization process of SOEs; concurrently guiding to hasten privatization process of SOEs, especially SOEs which have approved privatization plan; implementing privatization for some economic groups and corporations with large scale and effective business; implementing divestment, and decreasing the proponent of state-owner capital in some joint stock companies in stock market, which have high demand from national and foreign investors

government's hand to solve their problems. The solutions to deal with bad debt should be practiced more comprehensively and fully under the market mechanism, to ensure the balance between banks' and debtors' (companies) benefits.

d) Restructuring public investment: the results of restructuring public investment, especially reducing scattered and dispersive investments, are very remarkable. However, results of restructuring public investment can be reversed, if we can not solve problems such as:

Firstly, it is necessary to change growth-recovering policies towards the direction of "supply-side". If we do not basically change the approach method in growth recovering policies and continue to prioritize aggregate - demand management policies, the reforms which change the supply towards reducing costs, the improvement of economic efficiency are disregarded to be incomplete ineffective. Because of large pressure of growth-recovery in short-term, widening public investment is the first solution to be selected for sure.

Secondly, it is essential to establish united process to assess, select, approve and decide investment in order to pick the project with highest socio-economic efficiency.

Thirdly, we must change the roles of local authorities and improve central-local arrangement in the socio-economic development.

CONCLUSION

The Master Plan on economic restructuring determined a clear and close framework of the methods to implement economic restructuring and renovation of growth model. The results of economic restructuring until now are only at the first step. There is still "confusion" and"chaos" on many faces, from awareness, thinking, and conception to "puzzlement" in implementing solutions. At the 6th session of the National AssemblyXIII, the Prime Minister Nguyen Tan Dung said that: *"The awareness of some problems on proposed guidelines and conceptions is still different. It leads to hesitation and inconsistency in renovation of the institutions and policies; especially the roles of the State and the State economy in the market economy, to guarantee the ownership and land use rights, prices of essential public goods and services (etc). We have not made a breakthrough to mobilize strongly all of resources for development".* However, it does not mean that all of solutions of economic restructuring are at a standstill and cannot be implemented. The article is trying to put forward some solutions, which can be implemented and correlative methods of implementation. The author believes that if these solutions are implemented, they will have a big influence on the improvement of efficiency and competitiveness of the economy, bringthe economyback to the high growth as before. However, renovation of awareness and thinking is still an essential condition, not only for leaders but also for planning experts and policyconsultants. The author thinks that the first essential change is quickly transferring the focus of economic recovering policy from attaching special importance to "aggregate demand" management to solutions of reforming the "supply" side of the economy.

REVIEW AND COMMENTS

Ms. Pham Chi Lan

(Review and comments for Report on "Economic Restructuring: An overview on results and issues")

1. Preface:

The author identifies that: "In this article, "economy restructuring" is understood as the process of redistribution of social resources under market mechanism, through which social resources are more appropriately distributed and more efficiently used. A change in the resources distribution mentioned above will gradually change the growth method from the width growth to depth growth and upgrade the level of economic development".

Basing on that, the Report focuses on reviewing the implementation of the Economy Restructuring Master Plan approved by the Prime Minister in terms of 5 main aspects or orientations (financial market restructuring, focusing on commercial bank restructuring; investment restructuring, focusing on public investment; SOE restructuring, focusing on state corporations; technical and services economic sector restructuring, and regional economy restructuring).

This approach is practical, direct, avoiding theoretical discussions, development model discussions to focus on urgent issues that are clearly defined in the state documents, and have impacts on the long - term development of Vietnam's economy.

2. Specific issues:

2.1. *The first comment* made by the author is that "issues and the corresponding solutions of economy restructuring have been promulgated, implemented at different times; therefore, their results also vary. So far, evaluations and discussions have mainly focused on three key tasks of economy restructuring".

This comment is correct, but insufficient. In fact, among the "three key tasks", the content and solutions have not been fully issued, or linked closely to one another; the two remaining contents (technical and services economic sector restructuring, and regional economy restructuring) haven't been discussed or mentioned by any plan. Thus, right from the beginning, the implementation of "Master Plan" is lack of the comprehensiveness and interlinks, and has the risk of inconsistency, asynchronously, limiting the interactions among the five aspects, the effectiveness of the policy measures are likely to occur.

2.2*. Investment restructuring, focusing on public investment:* The author confirms that: "The basic idea is to reduce state investment, increase private investment, improve the efficiency of investment in general and state investment in particular, put the social investment in the balanced relationship with other fundamental variables of the economy".

Reviewing some of the activities done in the last 2 years, the author rightly commented that "the restructuring of public investment in recent years has been short-term and situational; mainly handled the investment decisions which exceed the capital balance capacity", and "Directive No. 1792/CT-TTg dated October 15, 2011 was mainly to solve the legacy problems rather than creating a legal framework to improve management and efficient use of public investment in the future."

Thus it can be said that public investment restructuring has not had a sufficient legal basis or policy to be actually started. The reduction of the proportion of investment/GDP in the last two years has probably mainly been due to the difficulties of macro-economy and resource scarcity rather than investment restructuring efforts with the clear purposes.

Private investment has continuously declined due to the significant difficulties that this area has faced, but solutions and support of the Government haven't helped much. With more than 200,000 enterprises decommissioned, 69% enterprises at loss and confidence index decrease to only 34%, most of private enterprises are still waiting for an improvement in macroeconomic conditions before determining their investment restructuring directions.

There has been no evidence of a shift of resources towards reducing public investment, increasing private investment. It seems that the state investment desire is still very large. The author remarks that: "While new institution for state investment capital distribution management and use has not been formed, there is no indication showing the high risk of loosening fiscal policy, state investment capital increase and gradual spreading, inefficient investment fixing". And so, the process of public investment restructuring may be stagnant even when it has not yet started.

2.3. *SOE restructuring, focusing on state corporations.*

In this part, the author quite clearly and fully mentions policies, major orientations and relevant state documents and review tasks have been done under the SOE restructuring direction.

The results show that the number of the tasks done is very limited and very slow compared to the requirements. This is best reflected in the privatization process and investment capital exit progress of big state corporations. Difficulties and constraints in the regulations on capital exit of out of sector investment are clearly analyzed.

\More importantly, the author emphasizes the very basic requirements of SOE restructuring that has been hardly touched: the concept of the roles and functions of SOEs in general and state corporations in particular remain unchanged; the sufficient enforcement of rules and market disciplines for state corporations has been hardly changed, even in thinking, perception and policy actions; application of the governance principles and practices for SOEs, state corporations hasn't been insufficient.

The author is absolutely right when remarking that: "compare actual outcomes and restructuring orientation mentioned above, we can see that the solutions being implemented (to be considered as results of the restructuring) are not closely consistent with the content and requirements of SOE restructuring", and "when the privatization is slowed, capital exit is difficult, the reduction and downsizing of state-owned enterprises, state corporations are only "policy", "orientation".

It should be added that the development of SOE restructuring plan also has constraints. The fact that the Government allows state corporations, large SOEs to build their own restructuring plan and the Government approves the plan, can hardly help to have serious, comprehensive plans, because it's very difficult to expect SOEs to "use the rocks to smash their own legs". On the other hand, SOE restructuring plan is inseparable from the reform of the role of state agencies that are playing both the role of owner, and the role of management agencies. SOE restructuring is also very difficult as long as the application-approval mechanism or application – allocation mechanism, especially in public investment and spending, the state resources allocation, still exist.

2.4*. Commercial bank restructuring*

The author gives some comments on the restructuring of commercial banks; however, these are quite limited in terms of information for deeper analysis.

2.5*. Factors promoting economy restructuring associated with growth model change.*

The author states that: factors promoting and facilitating the restructuring, growth model transformation include macroeconomic stability, human resource development, infrastructure

development and market economy institution improvement. The XI Meeting of the Party stated that, infrastructure development, human resource development and institutional improvement are three strategic breakthroughs for the period 2011-2020.

Some of the information, evidences given by the author show the fact that we have not achieved the breakthrough in the 3 strategic areas; reform efforts and done tasks in the above areas are not appropriate, or not sufficient enough to make a difference, to achieve the desired results.

The part on our country's current economic institutional issues with three main topics: "rules of the game", "play method" and "player" is quite interesting. This part clarifies the origin of distortion, bias in the incentive system and the allocation of resources in our country. Reform of this system is critical to the restructuring of the economy.

3. Recommendations:

The author spends 7 pages, or one third of the report, to address and analyse a number of recommendations to promote economic restructuring. These recommendations are derived from the current development practices in our country as well as the reform experiences from the previous years. Thus, they are convincing, realistic and feasible, particularly the recommendations for SOE restructuring.

Additional recommendations:

- It should be emphasized that further study, information collection must be done to have accurate, realistic and transparent information about the actual situation and the restructuring progress. Without reliable information, no appropriate policies, solutions and good governance can be archived.
- It's recommended that plan for the two "forgotten" restructuring aspects - technical and services economic sector restructuring, and regional economy restructuring must be soon developed and implemented. These two aspects are particularly related to SOE restructuring and public investment restructuring, as well as resources redistribution orientation towards efficiency. Proper, specific orientation for the restructuring in these two aspects will reduce waste and spreading investment, as well as help SOEs, private and FDI sectors to have better investments.
- The policy on education reform was launched; it must be promoted to have sufficient human resources for restructuring. On the other hand, the labor market must be reformed to take advantage of the "golden population" period in parallel with the restructuring process in the coming years.
- There should be a recovery program for the two growth drivers - private sector and agriculture, and policy adjustment to enhance the quality of FDI. This is very important as on one hand, it contributes to the recovery of economic growth; on the other hand, it creates resources and pressure on SOE restructuring, commercial bank and public investment restructuring. Improving the business environment as suggested by the author is critical, but not enough to recover the private sector and agriculture. Existing supporting policies of the Government must be enforced.
- Economy restructuring promotion should take into account international integration element, with a series of new FTAs, more demanding requirements that bring about challenges, new opportunities in the next two years. Specific contents, policies of the restructuring must be relevant to commitments and requirements of the FTAs as well as the WTO, to have the optimum development of these channels.

- Due to the importance of the urgent, serious and efficient implementation of economy restructuring to the country's future, it's necessary to pay attention to the role of organizations and individuals who have authority and responsibility in the implementation of economic restructuring at all levels. Straight, determined attitude must be applied to remove those who deliberately delay or restrict the restructuring for any reason, replace incompetent people, encourage and facilitate competent people for their contribution to this process./.

FROM DEMAND TO SUPPLY SIDE POLICIES TO PROMOTE LONG RUN GROWTH

Dr. Pham The Anh

Paper 1. THE EFFECT OF DEMAND STIMULATION POLICY ON GROWTH AND INFLATION: A QUALITATIVE ANALYSIS

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Abstract:

The article attempts to quantify the effects of aggregate demand management policies on growth and inflation in Vietnam over the last decade. The aggregate demand management policies under study include both fiscal policy proxied by public investment variable, and monetary policy proxied by money supply variable. The findings revealed that the increase in these variables produces little effect on economic growth but significantly leads to high inflation and instability. Based on these findings, several recommendations are put forward on macroeconomic-oriented policies for Vietnam's longterm sustainable growth in the near future.

Key words: aggregate demand management, growth, inflation and instability

1. Introduction

Vietnam in the recent years have resorted to *aggregate demand management* policies including fiscal and monetary stimulation as panacea for the slow economic growth. However, empirical analysis in Vietnam has proved that overuse of demand stimulation measures, instead of restoring the economy after such temporary economic shocks, has resulted in permanent instability. Besides, overlook or negligence of measures of potential aggregate supply improvement has slowed down the average economic growth rate. Economics theories have indicated that aggregate demand stimulation policy can only take effect if the economy is in deep recession or if they are accompanied by the improvement of potential aggregate supply through capacity, competition, and technology development.

This article attempts to gauge the effects of aggregate demand management policies on growth and inflation in Vietnam over the last decade by three methods: (i) descriptive statistics, (ii) time-series analysis, and (iii) regression analysis. The aggregate demand management policies under study include both fiscal policy manifested by public investment variable, and monetary policy manifested by money supply variable. The findings revealed that the increase in these variables produces little effect on economic growth but significantly leads to high inflation and instability, especially in these recent years. This suggests caution should be given to the implementation process of aggregate demand stimulation policies in Vietnam in the coming future from design, implementation and supervision. Furthermore, because of limited space in the current aggregate demand management policy, we strongly believe in the importance of focusing macro policy on the improvement of potential aggregate supply and macroeconomic environment.

2. Descriptive analysis

Data from the General Statistics Office (GSO) indicates the worsening of Vietnam's economy through two indicators i.e. inflation and economic growth between 2007 and 2012 in

comparison with that of the preceding period 2001 – 2006. Inflation and economic growth stood respectively at 12.6% and 6.2% in 2007 – 2012, compared with 4.9% and 7.6% in the previous period. Moreover, the course 2007 – 2012 also witnessed increasing instability measured by standard deviation of these variables. Standard deviation of both inflation and growth during this time period was twice higher than that in the preceding period. This implies a much more instable economy in Vietnam with wide fluctuations than that before.

Table 1: Mean and Standard Deviation of Inflation, Growth, and Macro Policy (%)

	2001–2006		**2007–2012**		**2001–2012**	
	Mean	Standard deviation	Mean	Standard Deviation	Mean	Standard Deviation
Inflation	4,9	3,6	12,6	7,1	8,8	6,8
GDP Growth	7,6	0,8	6,2	1,5	6,9	1,4
M2 Growth	23,5	3,0	26,4	9,3	24,9	7,0
Public investment Growth	18,6	16,2	19,6	52,4	19,1	38,4

Source: Author's compilation from GSO and State bank's data

Economic recession and increasing disorder can be said to be attributed to by aggregate demand management policy. Vietnam has maintained its high growth rate of total payment method (M2), approximately 24.9%, and public investment, around 19.1% annually. These are over relaxed policies for the target of 6-7% economic growth and one digit inflation rate, which force Vietnam to adopt mandatory administrative measures to control price. Especially, changes in Vietnam's macro policy have become less predictable in recent years. Standard deviation of money supply rate of rise increased from 3.0% in 2001 – 2006 to 9.3% in 2007 – 2012, meanwhile that of public investment rate of rise increased from 16.2% to 52.4% in the same period. The extraordinary increase in these variables has signaled the Vietnamese government's changeability in target setting, moving from growth enhancement to curb inflation and vice versa.

3. Time-series analysis

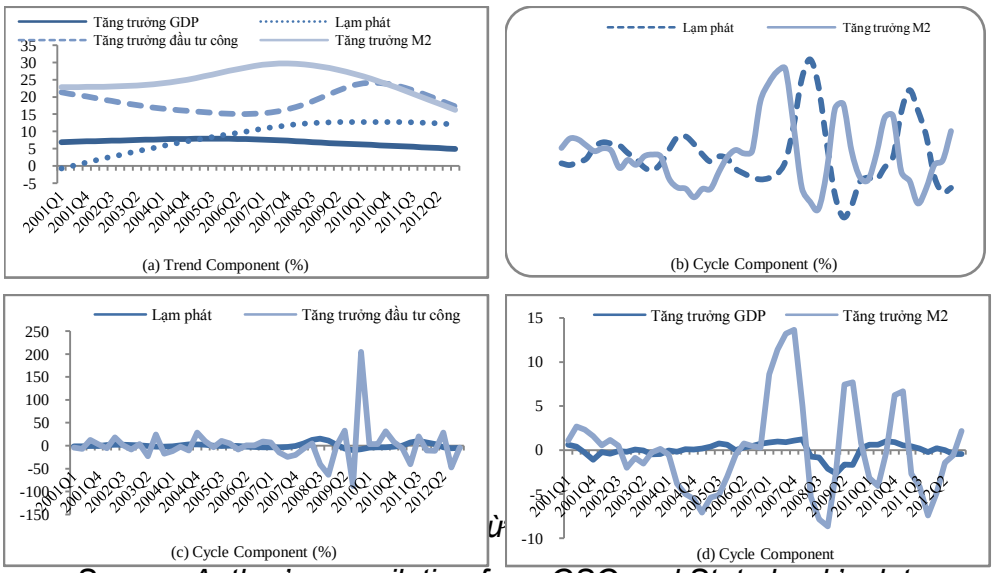
To quantify the relation between policy variables and inflation and economic growth, we first adjusted the seasonal components, then decomposed these variables into trend and cycle. Numeric series of quarterly frequency in 2001 – 2012 were seasonally adjusted by using ***Census x12*** Method, and decomposed by using Hodrick–Prescott Filter Method[19].

Findings in Figure 1 indicate a long-term increase in inflation and a long-term decrease in economic growth from 2006. Money supply growth tends to go down meanwhile public investment appears to undergo wild fluctuations due to Vietnam's aggregate demand stimulation policy in recent years.

Noticeably, the cyclical movements of variables of money supply growth, public investment growth and inflation dramatically increased in 2007 -2012, which is completely in line with the statistics in Table 1. Besides, basic correlation coefficient points out a close relation between the cyclical movements of money supply growth and that of inflation. The Granger causality test of these two series shows that money supply growth resulted in inflation changes, not vice versa, and the influence often starts after 4 to 6 months. Besides, evidence showed a cycle relation between public investment growth rate and inflation.

[19] For more information, read *Eviews 7 User's Guide.*

Figure 1: Time series analysis with long-term trend and cyclical movement



Source: Author's compilation from GSO and State bank's data

Granger causality test confirmed the influence of the cycle component of money supply variable on that of economic growth, but not on that of public investment.

4. Regression Analysis

To gauge more precisely the relation between the cyclical movements of inflation and economic growth and macro policy, we use two simple regression equations:

$$p_t = \alpha_0 + \sum_{i=1}^{k} \alpha_{1i} p_{t-i} + \sum_{i=0}^{k} \alpha_{2i} y_{t-i} + \sum_{i=0}^{k} \alpha_{3i} m_{t-i} + \sum_{i=0}^{k} \alpha_{4i} i_{t-i} + u_t^p \qquad (1)$$

$$y_t = \beta_0 + \sum_{i=1}^{k} \beta_{1i} y_{t-i} + \sum_{i=0}^{k} \beta_{2i} p_{t-i} + \sum_{i=0}^{k} \beta_{3i} m_{t-i} + \sum_{i=0}^{k} \beta_{4i} i_{t-i} + u_t^y \qquad (2)$$

In which: *p, y, m and i* are the components of inflation cycle, economic growth, money supply growth and public investments growth, respectively[20]. Additionally, standard deviations of the above variables are also employed as analytic variables in order to consider the relation between inflation and growth vs. the instability of the macro-environment. We limit the variables' maximum lags at the 8th degree (equivalent to two years) and estimate the equations (1) and (2) under traditional OLS. Besides, irrelevant statistic parameters have been gradually removed from the model. The degree of lag in each equation must be high enough to ensure the errors u^p_t and u^y_t are not auto-correlated and their variance not changeable. Some major findings are presented in Table 2.

The results found in Table 2 reveal that inflation, money supply growth and public investment growth in the past are the major variables significantly impacting on the present inflation. Variable p(-1) is considered as the proxy reflecting the inflation expectation. The estimation result shows that 1% increase in the inflation expectation may lead to 1.43% increase in the present inflation. The second important variable which determines the present inflation is the money supply variation over the last two quarters m(-2). This implies the lag of the monetary policies impacts on inflation after around 4-6 months. If the money supply growth of this

[20]All the ADF tests of these series indicate static results at traditional significant levels

present month increases by 1%, the inflation rate of the next two quarters will increase by 0.14%, correspondingly. Besides, the result of regression estimation also indicates a positive impact of public investment growth over inflation, but with relative big lag.

Table 2: Regression Results

Estimation of Inflation (p)			**Estimation of growth(y)**		
Variables	*Coefficients*	*p-values*	*Variables*	*Coefficients*	*P-values*
C	0.063	0.753	C	-0.014	0.808
p(–1)	1.425	0.000	y(–1)	0.733	0.000
p(–2)	-0.847	0.000	p(–1)	-0.051	0.000
p(–7)	-0.230	0.001	I	0.004	0.008
p(–12)	-0.148	0.024			
m2(-2)	0.143	0.006			
i(–6)	0.019	0.001			
Adjusted R^2 : 0,945			Adjusted R^2 : 0,767		
Auto-correlated LM:			Auto-correlated LM:		
F-statistic = 1,31; *p-value*–F(4,25) = 0,29			F-statistic = 0,94; *p value*–F(4,39) = 0,45		
ARCH:			ARCH:		
F-statistic = 0,10; *p-value*–F(4,27) = 0,98			F-statistic = 0,17; *p-value*–F(4,38) = 0,95		

Source: Author's compilation from GSO and State bank's data

Meanwhile, the variation of the economic growth cycle is highly dependent on the economic growth and inflation of the preceding quarter. The positive impact of the delayed variable y(-1) might comprise of private investment, the spill-over effect of technology development or any other variables that are not included in (2). In contrast, the negative sign presented in the coefficient of p(-1) indicates a negative impact of inflationon economic growth moderated either by raising interest and reducing private investment or by the influence of pushing cost. Notably, we barely found evidences of the positive impact of public investment growth or money supply growth on cyclic movement of economic growth i.e. for every 1% increase of public investment growth only leads to a temporal increase of economic growth (0.004%), while money supply growth does not. In other words, a high increase rate of these variables (public investment growth and money supply growth) only results in increasing inflation and instability rather than economic growth.

5. Conclusions and policy recommendations

Our quantitative analysis has found that public investment growth and money supply growth in Vietnam in recent years have, instead of boosting the economy's growth, produced high inflation and disorder. The overuse of public investment or money supply in the recession has been counterproductive. It can be said that the whole implementation process of Vietnam's aggregate demand stimulation policy has not been rational, from planning, implementation, supervision to agreed time to stop. Instead of focusing on private investment and export stimulation, its policy aspired to expand investment through the state-owned enterprises system and state budget spending. Every year hundreds of thousand billion VND worth public bonds and guaranteed public bonds are issued (according to HNX, it was VND 167,000 billion in 2012) to cover the public sector's spending. Credit establishments, instead of lending dormant capital to private enterprises at low interest rates, have invested in public bonds (and

gold, recently) at high interest rate.

Besides, the consequence of ineffective and unsupervised policy on aggregate demand stimulation towards the state-owned enterprises system has burdened the banking system with massive bad debts of this sector. The prolonged and excessive demand stimulation scale has directed the economy into high investment in unsustainable speculative fields, leading to a massive public debt, including the debt of the state-owned enterprises sector, almost equaling the whole economy's GDP.

In the context of increasing public debt and recently stabilized macro environment, we suggest,aggregate demand management policy, if ever needed, must focus on changing the components of aggregate demand instead of stimulating public spending or money supply growth. Public spending should be cut down to lower interest rates which would provide incentive for private investment.

It has been five years since the economic recession; restructuring programs are always high on the agenda of National Assembly and Government. However, there has not been one single specific policy implemented to increase the economy's productivity. The economy's productivity and the conditions to improve it have not improved, but gradually lagged behind that of other countries in the region. Hence, we believe, instead of changing between polices of aggregate demand stimulation and control, it is time for Vietnam to focus on supply-side policy, enhancing productivity and improving the macro-economic environment.

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Paper 2. SUPPLY-SIDE POLICIES TO FOSTER LONG TERM DEVELOPMENT

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Abstract:

Guided by the existing theoretical foundation, international practical experience, and the present domestic situation, this article recommends serious advocacy to be given to supply-side policies in Vietnam. Supply-side oriented policies at both macro level and micro/sector level would promote the efficiency of the market and sector, improve the potential total supply, hence, leading to a high and sustainable rise of the gross national income in the future.

Key words: supply-side theory, economic development

1. Supply-side economics and experience

Supply-side economy is an economic theory focusing on determinants ofthe potential output of the economy and its changes over time. In line with this, it is proposed that 'production or supply is the key to economic prosperity' (Krueger, 2010). Supply-side economics aims at improving production determinants such as labor force participation, capital investment, and that total factor productivity (TFP). If successful, the total supply curve would be shifted to the right, rendering a rise in the total demand without changes in price.

During the 1950s and 1970s, Keynesian theory of aggregate demand was applied in most developed and developing countries to foster economic growth. For developed countries, full employment was at the centre of this approach, as it was assumed to automatically lead to high economic growth if achieved and maintained. To obtain this goal, governments needed to have sufficient resources to carry out expenditure policies to stimulate the economy. As a consequence, these governments had to raise tax and fees, intervene economic activities, and bring under state ownership businesses belonging to 'major' sectors (Feldstein, 1986; Krueger, 2010). For developing countries, the aggregate demand theory was applied through the development of manufacturing industries (mostly heavy industries) by the state-owned enterprises or through protection policies of the new infant industries and/or makeshift imports.Exchange rates were usually fixed, meanwhile, expansionary fiscal and monetary policies were utilized to encourage investment (Krueger, 2010). The interaction between aggregate supply and demand would determine the output of the economy. Deficient aggregate demand (in comparison with aggregate supply) would hinder the economy from reaching its potential output/growth. Besides, if aggregate demand stimulating policies are implemented without the adequate improvement of aggregate supply, the economy would be inflated and become unstable, impinging on long term growth. In reality, the aggregate demand theory did not succeed when being applied for too long. Developed economies such as the US, UK, or France suffered stagflation during the 1970s. Aggregate demand stimulation could not foster economic growth, but it caused high inflation. Whereas developing economies, from Latin America such as Mexico, Argentina, Brazil to Asia such as India, Korea, Taiwan, Malaysia, Indonesia, and Thailand, after a period of growth, gradually faced crisis or stagnation. Apart from Korean, most countries experienced failure in their protection policies on infant industries. These industries could not expand after a course of protection. Tax exemption, black markets, smuggling, illegal activity flourished due to market and monetary stabilization programs. Domestic currency rate, though having been stabilized for a while, were devaluated because of soaring inflation making domestically produced goods more costly than imported ones. By the beginning of the 1980s, supply-side policies started to be phased in, offering

incentives to foster different factors in manufacturing. Some developing countries like Korean, Taiwan, and Singapore even switched to the supply-side economy earlier than others. A series of policies, for instances, tax reduction, trading barriers removal, sector regulation removal, and privatization of previously state-owned enterprises were steadily implemented, providing powerful incentives to attract private investment. Unemployment and social benefit were reduced; meanwhile more regulations precluding employee termination were dismissed. This had spurred employees on to take initiatives to apply for jobs instead of relying on governments. Tax policies favoring individuals and enterprises who invested in science technology, higher education and vocational training were promoted to enhance the economy's capacity. These supply-side policies paved the way for sustainable and high level development for the countries, both developed and developing, that were aspiring to them over the course from the mid-1980s to the recent global economic crisis 2008-2009. This has been the longest growth period of the global economy history.

Facing the global great recession 2008-2009, many countries have returned to demand-stimulation policies; however, these only serve as interim policies. Supply-side policies created in the previous period such as tax reduction, free trading, removal of entry deterrence are still maintained.

2. Demand–side vs. supply-side economics and Vietnam's practice

There has been controversy over whether to follow demand-side or supply-side economics to foster economic growth. Demand-side economics, in principle, is closely related to J. M. Keynes' thought in General Theory on Employment,*Interest and Money* (1936). Keynes believes that, in a short time, aggregate demand/ total spending does not always equally match with the economy's production capacity. Therefore, governments and central banks need to intervene through fiscal and monetary policies to stabilize output and employment. In the case of insufficient aggregate demand (under spending), tax reduction/government spending rise or money supply rise/ interest reduction would encourage the private sector to spend more, boosting the economy.On the contrary, in supply-side economics, which became more prominent in the 1970s – 1980s, it is believed that encouraging higher production would lead to higher demand of the product. Tax exemption, investment in R&D to increase production capacity, and competitiveness, removal of entry deterrence, privatization of SOEs, improvement of business environments, etc., as the argument goes, would promote higher production, and lower production cost and prices, resulting in economic growth.

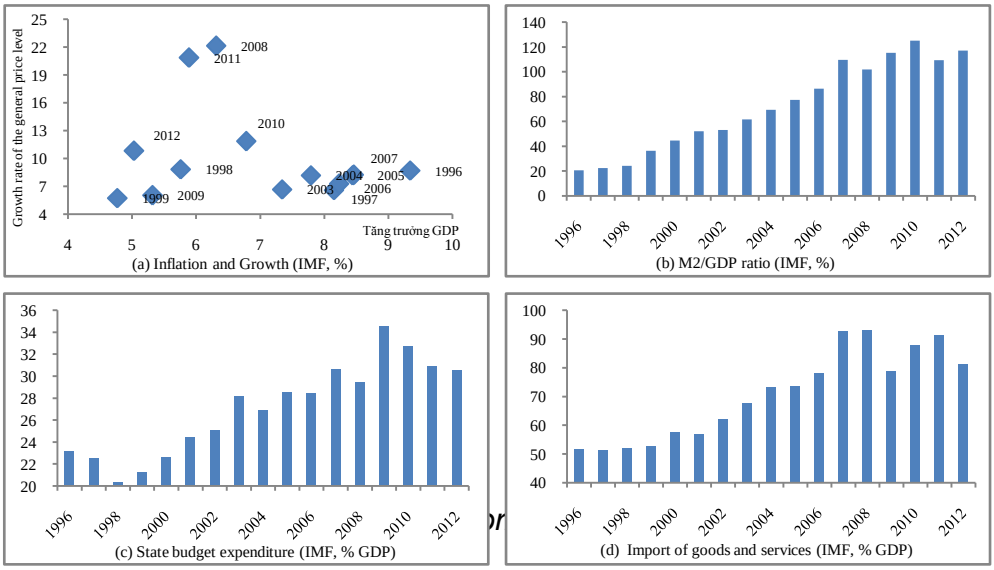
In short, though both demand-side and supply-side economics target at boosting purchasing power and production capacity, they differ in their pass through. Demand-side policies focus on government spending or increasing purchasing power of the private sector through tax reduction and money supply. Supply side policies, on the other hand, focus on improving the foundation of the economy, improving production capacity, lowering production cost and prices, leading to a growth in purchasing power of the private sector.

An economy's strength is usually indicated through inflation and growth (unemployment), which would generate four specific cases. First, if low inflation accompanies slow growth, it will make a weak economy in which both aggregate demand and supply are low. Second, if high inflation accompanies strong growth, it will make a strong economy in which both aggregate demand and supply are high. The remaining cases include (i) low inflation and high growth, indicating aggregate demand lower than aggregate supply, and (ii) high inflation and slow growth, indicating aggregate demand higher than aggregate supply. For each case, policy makers would adopt either demand side or supply side approaches accordingly to maintain suitable growth and stabilize the economy.

In search of advisory policy for Vietnam's current economic situation, the authors first

analyzedGDP's rate of growth in relation with current normal price, a reliable indicator of the economy's strength, and with average rate of price growth (inflation rate), and GDP's rate of growth in relation with fixed price (economic growth) over the period 1996 - 2012. Figure 1 well. As can be seen from Figure 1, which demonstrates the relation between the inflation rate and the economic growth over the years, the period 1996 - 2006 witnessed a low/average inflation coupled with strong growth/production. Meanwhile, the period 2008 - 2012 was characterized by high inflation and slow growth/ production. 2007 was considered the transition year for this change.

Figure 1: Vietnam's Significant Economic Indicators 1996 - 2012



Vietnam's economic achievements in the period between 1996 and 2006 were gained largely due to supply-side based policies, but not aggregate demand stimulation policies, in the 'Renovation' at the end of the 1980s. From 1996 to 2006,there was a gradual but moderate increase in indicators reflecting Vietnam's aggregate demand stimulation policies such as M2/GDP ratio or State Budget Spending/GDP with 50% and 25% respectively. Meanwhile, this period, together with previous years, saw a series of changes in the supply-side oriented policies. For example, during 1988 – 1997, supply-side policies, building the foundation for later growth, included: removal of internal commerce barriers, approval of private enterprise establishment, "*Contracting out No. 10" (Khoán 10)* policy to assign collectives' farming land to individual households, disbandment and amalgamation of poorly run SOEs, demobilization and downsizing, development of means of production markets, attracting foreign investment, trading open-door policy, and joining international organizations, just to name a few[21].

The economic crisis in Asia slowed down Vietnam's growth in 1998 - 1999. Thanks to the aforementioned basic reforms and those in the later years, Vietnam's economy resumed to strong growth and low inflation without any stimulus package. The average M2/GDP and State Budget Spending/ GDP ratios in 1998 - 1999 were 30% and 21%. Moving to the next period 1999 - 2006, other supply-side policies were introduced e.g. enterprises allowed to

[21]The introduction of new laws produced beneficial effects on productivity in this period such as Law on Private Enterprises and Companies Law (1990), approval of private ownership (Constitution 1992), detailed regulations of private ownership (Civil Code 1995), Law on encouragement of ***domestic investment (1994),*** State Enterprises Law (1995), Foreign Investment Amending Law (1996), Commercial Law (1997), the first Land Law (1987) and the Amending Law (1993). Simultaneously, commercial activity and foreign investment started to be implemented through the Trade Agreement with EU (1992), the formal ***normalization*** of diplomatic ***relations*** with the USA (1995).

carry out direct import and export; the promulgation of Enterprise Law (2000) to remove barriers to enterprise establishment, simplifying procedures, lowering market integration cost, and creating a favorable business environment; the accelerated privatization of SOEs; the settlement of the bilateral free trade agreement with the USA (2001), stimulating creativity and providing considerable opportunity to thousands of enterprises; the setup of stock exchanges (2000), and the revision of the Commercial Law, the Investment Law, the Land Law, etc. to join WTO[22]. Thanks to these policies, coupled with the appropriate corresponding aggregate demand stimulation policies, Vietnam maintained its high yet steady growth for a long time prior to 2007

Nevertheless, Vietnam has overused the aggregate demand stimulation policies to either curb inflation or foster growth since 2007 without realizing their short-termness and temporariness. Putting these policies in constant use as long-term ones is the main reason that destabilizes the economy over the last few years. Over the course from 2007 - 2012, the M2/GDP ratio increased two to three times higher than that in 1996 - 2006, and the State Budget Spending/GDP ratio 1.3 times. Yet despite those giant stimulus packages, Vietnam's economy has not recovered its growth rate of the previous period.

As indicated in Figure 1(a), Vietnam's economy does not belong to the group whichprioritizes demand-side policies in the case of high inflation accompanied by slow growth. Additionally, there has not been any more policy space for implementing aggregate demand stimulation policy through fiscal and monetary policy. The M2/GDP and State Budget Spending/GDP ratios remained high, resulting in a surge in inflation and a threat to public debt securities once aggregatedemand stimulation packages implemented. Moreover, a high rise in the imports to GDP ratio from around 50% in the 1990s to almost 90% currently indicates not a low total spending of the economy; however, most of the spending has been "wasted" through the import channel which we can absolutely explore to foster growth once alternative industries are well developed.

On the other hand, spacefor supply-side policies to enhance Vietnam's potential output is high, but has not been properly treated. To be specific, since Vietnam's state budget revenue is high, there will be enough space to evade taxes as long as public spending is carried out accordingly; the SOEs slice remains large, therefore realizingprivatization policies would attract more private and foreign investment; regulation barriers in some sectors need to be removed; the young capital market still has policy space not least to attract foreign investment; price regulation over too many types of goods, resulting in a distorted supply-demand relationship, should be floated. Furthermore, the government can provide support policies to enterprises that invest in technology upgrade, higher education and vocational training to improve the economy's capacity.

[22]For example, supplements of Enterprises Law (2005), Investment Law (2005); supplements and amendment of Commercial Law (2005)

Box 1: Real estate market: stimulating demand or improving supply source?

Let's have a look at the real estate market - which, with its high inventory, can assumingly be attributed to the sluggishness of related industries. According to the Ministry of Construction's report to National Assembly in October 2013, nationwide property inventory value by September 2013 reached VND 101,889 billions, approximately 3% GDP, mainly located in the two big cities Hanoi (VND 14,500 billions) and Ho Chi Minh city (about VND 22,000 billions). Housing will always be in great demand as the country has a young bulge in which people aged 20 – 40 make up 40% of the population. However, the demand by this group is only probable because of unaffordable property price. Despite high inventory, property price, especially in big cities in Vietnam, is inflated while the average per capita income remains one of the lowest in the world. Housing price has increased almost 100 fold during the last 20 years. The price of an average middle-sized apartment is usually 25 times higher than the average annual income of a person. Hence, it would take 100 years for a person to save up 25% of their income for a middle-sized apartment.

There is currently an analogy between the real estate market and Vietnam's economy i.e. both are in the doldrums but prices are still unaffordable for consumers. Demand stimulation policies (e.g. Vietnam's State Bank's credit stimulus package of VND 30,000 billions with annual ***interest*** rate of ***6***%) or supply control policies (e.g. stopping licensing commercial housing construction in Ha Noi) apart from 'maintaining the price', or pushing up the price, has not reduced inventory in the face of high demand for housing. Measures to stimulate property purchase would only encourage speculation or turn into a 'trap' itself when property is still overpriced.

Therefore, in place of demand stimulation policy, we believe the real estate market is in real need of supply-side policy. The government should concentrate on managing planning, simplifying bureaucratic procedures, improving the market's transparency to reduce enterprises' unofficial expenditures via tax preference for competent enterprises to launch new projects. The main goal of these measures is to build up competitiveness, improve product quality, and not least to lower product price matching with consumers' income to develop a real estate market sustainably.

3. Supply-side recommendations for Vietnam

The following recommendations are not brand new; indeed, they refer to the approach Vietnam adopted many years ago. The difference, if there exists any, is the emphasis on Vietnam's steadfastness and persistence while carrying out these recommendation, instead of a random experimental or experiential approach as in the past. It is believed that these recommendations are closely related to the three programs that Vietnam's government is pursuing i.e. restructuring public investment, restructuring the credit establishment and banking sector, restructuring the state-owned enterprises sector.

Recommendation 1: *Lowering taxes and fees, reducing government spending, and enacting fixed rule monetary policy*

The most important content of the supply-side policy is to lower taxes, cut down government spending, and enacting a neutral monetary policy. Tax and fee reduction is to encourage enterprises to invest more, securing the economy's capital and production capacity for the future. Government spending reduction and fixed rule monetary policy is to create a stable

economic environment where supply meets demands through which the economy's long term stability pertains.

In practice, at the beginning, when the capital remains low in the economy, to attract investment, different countries often apply a low rate of corporate income tax (below 15%). When the economy starts to pick up, this rate is often raised (beyond 30%) and coupled with improvement of infrastructure and social services. For instance, Thailand after the 1997 Asian economic crisis and Ireland in the recent years both have imposed low corporate income tax and attracted massive investment from foreign countries as well as the domestic private sector, having quickly recovered and maintained their strong growth for a long time.

Vietnam is currently imposing a corporate income tax rate of 25% which is as equally high as the average rate of the OECD. On the one hand, this tax rate does not encourage foreign investment or tax fraud/international transfer pricing; on the other hand, it also constrains local enterprises from accumulated investment to develop into those with large-scale operation. Meanwhile, small business or temporary trading activity in which tax evasion can easily be adopted flourish.

However, tax and fee reduction must be accompanied by government spending cut. Without government spending cut, a budget deficit will occur, while public debt will grow which will not only raise interest rate but also risk the possibility of low tax and fees in the long run. The public debt of 54,9% GDP by the end of 2011 (excluding the debt of the state-owned sector that the government has not assumed but has to settle if these enterprises are loss-making) suggests an onerous burdenof principal and interest payment in the coming years. This is the main reason why the government had to issue bounds at a fairly high interest rate to make up for the deficit, which indirectly keeps the interest rate high, impeding the recovery of the economy.

Monetary policy has to be fixed-rule instead of discretionary in order to support the economy through private enterprises' self-motivation. Policy making has to base on a consistent and predictable use of information. Policy objectives must be clearly and rationally identified and pledged by the state bank. The Taylor Rule or the Nominal GDP Targeting Rule can be both applied as long as the abovementioned principles are adhered to[23]. Vietnam's monetary policy is still passive and reactive, credit oriented on certain sectors,and rigid with exchange rates.

In short, it is recommended that Vietnam should follow a pathway of corporate income tax reduction to 20% or lower by 2015 instead of delaying the pathway. The country should also cut down on expenditure, especially current expenditure, to reduce the overspending rate to 3% instead of 5% as of now. Fixed rules monetary and exchange rates should be floated under supervision.

Recommendation 2: *Accelerating the privatization of state-owned enterprises*

A good number of SOEs have been privatized during the last two decades, however this process seems to be slow and not far-reaching. The majority of these privatized enterprises are still under state-ownership, enjoying many privileges and exploiting their monopoly positions in many fields. This coupled with the line agency's weak supervision has resulted in many SOEs' losses, increasing bad debts, threatening the national financial security. According to a recent justification of the Ministry of Finance to the National Assembly, the gross debt of state-owned corporations and firms by 31 December 2011 stood at VND 1,292,400 billion, accounting for 51% GDP and 1.77 times higher than the equity. Especially, the outstanding debts of these enterprises was VND 296,541 billion, making up 22.9% their

[23] For more information, see Pham The Anh (2011)

gross debts and 14.1% their total assets.

To create a competitive environment and enhance the economy's productivity, the government should strictly follow a pathway to downsize the SOEs sector by completing sale of stake or full privatization of enterprises operating outside public interests. SOEs should be employed as tools to overcome market failure but not tools to control the economy. The sale of a business' asset is not aimed at increasing budget revenues but at reducing pressure on future public expenditure, and minimizing financial risks of debt settlement for loss-making SOEs. This maneuver is expected to create fair and equal competition via the abolishment of SOEs' privilege access to credit, land, price support, "soft" state budget. The economy's productivity, as a result, will be promoted and its long-term growth be stimulated.

Recommendation 3: *Deregulating markets, improving competitiveness and free trade*

Deregulation policy, together with competition and free trade promotionpolicy, may boost market demand, lower price, and expand consumers' options. Deregulation would increase the number of enterprises providing goods and services of the same field, which forces these enterprises to compete and utilize their scarce resources more efficiently. Consequently, this would lead to productivity increase, cost reduction, and, inevitably, consumer price reduction. Besides deregulation, the government can apply competition policy by issuing regulations on anti - price monopoly, on anti-abuse of dominance and monopolization for big corporations, or accelerating the privatization of state-owned enterprises. The mobile telecommunication market in Vietnam in the recent years can well illustratethe effectiveness of competition enhancement through market demand increase and price cut.

Moreover, tax reduction for free trade promotion also results in resource efficiency through competition and market expansion. Resource efficiency usually boost the productivity of the economy and increasedomestic goods and services output. Free trade at the same time would provide incentives for discovering new working methods, applying new technology, and new distribution methods. Hence, production cost is reduced; consumers would have a wider range of choice at a lower price. Since, joining WTO in 2007, Vietnam has been reducing import duties on roughly 3,800 tax lines, making up around 35.5% of total tariff lines). However, the reduction rate in each line is still considered modest, ranging from 1-3%, because of concern about the weak competitiveness and unreadiness of the domestic enterprises. Besides, about 6,870 lines, accounting for 64.5% of total tariff lines, are under a ceiling constraint or not to be lowered than before WTO integration[24].

Recommendation 4*: Encouraging investment in technology development and education and training to improve productivity and enhance human capital*

The long-term important role of Research and Development, and education and training in the economy of any country is unarguable. Evidence has shown investment in R&D has increased application of new technology, and improved capital productivity. Meanwhile, quality improvement in education and training would increase human capital then, inevitably,

[24] Strikingly, since Vietnam joined WTO in 2007, the ratio of import and export taxes seems to be higher than of the preceding period. Specifically, according to the State Bank's balance sheet, the ratio of revenues from export- import duties and special import consumption tax to total export – import turnover decreased steadily in the years preceding Vietnam's entry into WTO, respectively 2.3% in 2004, 2.2.% in 2005, 1.9% in 2006. However, this ratio appeared to rise after Vietnam's official integration with 2.1% in 2007, 2.6% in 2008, and 3.6% in 2009. Besides, the ratio of revenues from VAT on imports to gross import values also witnessed a similar pattern with a downward movement during the preparation years with 2,6%, 2,5% and 2,3% in 2004, 2005 and 2006, respectively, and an upward movement after that with 2,4%, 2,4% and 3,6% in 2008,2009, and 2010. Several reasons can be attributed to this trend. (i) The ability to prevent revenue loss to tax evasion has been improved. (ii) The proportion of imports with high duty to the structure of import and export tends to increase; meanwhile the tax reduction rate of goods under the tax reduction plan is modest. These figures were calculated based on the revenues from export- import duties and special import consumption tax and revenues from VAT on imports in the Ministry of Finance's Annual State Budget Balance Sheet, and Vietnam's annual import and export values from IMF's database.

productivity. Besides, investment in education would help slow down population growth rate, and raise awareness of personal healthcare. R&D and education and training obviously not only benefit enterprises or people receiving education, but also create beneficial effects to the community so called spill-over effects. Hence, at the macro level, R&D and education and training would increase total factor productivity (TFP) and growth rate of the economy.

It is paradoxical that after series of reforms, Vietnam's education system, not least higher education system is deteriorating. Like Vietnam's economy, the higher education system has focused too much on quantity instead of quality. Hundreds of new colleges and universities have been set up. These new institutions, under financial pressure, have expanded scale of enrolment, programs, and modes of education delivery. This has increased the ratio of students to teachers, making education quality suffer. Besides, rigid and outdated study materials coupled with cramming lectures demotivate both teachers and students and leave them no time for research. These weaknesses have resulted in unqualified education products that cannot meet the society's demand. Education quality is downgrading, and institutions are resorting to "advanced programs", butonly obtain the quality as low as that of some decades ago. However, these programs seem to just obtain financial target instead of attract talented students.

Similarly, Vietnam's R&D system has not made progress. According to Nguyen Mau Trung (2011), despite over 1,200 institutions of science and technology (around 700 public institutions and 500 non-public ones), nearly 200 universities and 300 junior colleges, around 200,000 enterprises being directly involved in scientific and technical activity, the achievement remains limited regarding the number of international scientific research publications, patents, and applied scientific and technical products. The main cause for this shortcoming lies in the fact that scientific and technical institutions and researchers still conduct research under state guidance, rely on state budget, and submit research reports to state committees to receive salaries or budget for each individual project. Besides, although a great number of enterprises involve in scientific and technical research, their investment in this area remains fairly low, around 0.1%GDP, equal to one fifth of state investment. It is the bureaucratic and complicated state support mechanism such as tax reduction, establishment of scientific and technical investment private funds, or state budget access that discourages enterprises from R&D. In addition, measures for intelligent property protection are not effective enough to attract well-conducted investment in R&D.

Vietnam's economy growth in the long run cannot depart from the highly qualified labor force that can stay creative and apply new technology. For the education system, instead of expanding enrolment, Vietnam should develop a 2-tier higher education system, focusing investment and support on priority high quality institutions/programs, differentiating them with those for financial purpose or universal purpose. These high quality institutions should compete for state financial support to attract good teaching staff and students, forming the backbone of the scientific and technical development and the economic growth in the future. For the scientific and technical system, Vietnam needs to construct a new set of research standards, making the tax exemption measures for technology development more reachable and transparent, building a fair and competitive state budget allocation mechanism for science and technology development disregarding public or private research institutions, and fostering cooperation between university research centers, key research institutes, and enterprises.

Recommendation 5*: Improving business environment to attract foreign investment*

Recent real estate slump and high bad debt have necessitated foreign investment attraction, calling for an overhaul of Vietnam's business environment, making it more attractive than that

of other countries in the region. However Vietnam's global competitiveness, regretfully, keeps retrogressing in the recent years. According to the Global Competitiveness Report 2011 – 2012 lately released by World Economy Forum, Vietnam has fallen six notches from last year's position, ranked 65th out of 142 studied countries.

Corruption could be attributed to Vietnam's fall in global competitiveness. Corruption is defined by Transparency International as the abuse or illegal activity of trusted power to gain private benefits. Corruption activity includes bribery, venality, blackmailing, or fraudulency. Corruption by public officials is often endemic and copied by other social classes in different fields. Therefore, for various reasons, corruption in the public sector is considered detrimental, contagious, and difficult to cure. There has been much research in the world considering the correlation between corruption and economic growth during the last two decades. Most has pointed out a negative impact of corruption on economic growth in various ways: (i) decreasing investment rate (Mauro 1995), (ii) creating barriers to enterprises (World Bank 2002), (iii) decreasing foreign investment (Lambsdorff 2003, Wei 2000), (iv) ineffective public budget allocation (Mauro 1997, Tanzi and Davoodi 1997). Especially, corruption in the public financial sector may impinge on both scale and components of public expenditures in a way that slows down growth rate and increases inequality. Public expenditures are often used for the wrong purpose; construction bidders and public service providers are often selected disregarding proposed quality criteria and prices but based on the amount of kickback. Besides, more projects using public expenditure are carried out in order to create illegal incomes instead of improving public living standards.Empirical analysis has shown corruption usually results in public resource misallocation and misuse. To be specific, corruption tends to divert public expenditures from areas generating long-term growth such as education and health, but to project-based activity (infrastructure investment, equipment purchase) which does not foster as much productivity but houses bribery. Hence, once corruption occurs, proponents of public expenditures are often directed to projects/ programs that do not yield high productivity such as construction and large scale equipment purchase. Consequently, public investment scale tends to increase while investment quality decreases. High quality products at high price promised by officials turn out to be low quality ones at low price. Public expenditures have been inflated, and corruption occurs. These illegal activities damage the society because capital accumulationdwindle which would enhance growth and development.

Vietnam has been ranked as one of the most seriously corrupted countries by Transparency International (placed 123/174 in 2012). Corruption in Vietnam is rampant and matches with aforementioned manifestations. Although it is difficult to precisely gauge the corruption situation in reality, the Central Steering Committee for ***Anti-Corruption*** in many of its reports has acknowledged the widespread and seriousness of corruption in Vietnam[25]. Corruption has drained off state assets in most basic constructions projects and SOEs. It has not only occurred in the economic sector but also moved to other sectors which usually place high importance on ethical values such as sectors of education, health, social benefits or even law protection agencies, and anti-corruption organs. Besides, the Provincial Competitiveness Index 2011 revealed that corruption was a barrier to the development of domestic enterprises and foreign investment attraction with 52% studied enterprises having to lobby local administrative officers, 7% spending over 10% of their total income on unofficial cost[26]. It is obviously necessary for Vietnam to curb corruption in order to boost economic growth in the long term.

[25] Source: http://www.phongchongthamnhung.vn/tabid/199/CatId/4/Default.aspx
[26] Report on Provincial Competitiveness Index 2011 by Vietnam Chamber of Commerce and Industry

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REVIEW AND COMMENTS

Dr. Dang Duc Dam

(Review and comments for Reports on "Quantitative Analysis on Implications of Stimulus Policies on Growth and Inflation" and "Supply-side Policies to Promote Long-term Growth")

1. Implications of Stimulus Policies on Growth and Inflation

\In this study, Pham The Anh focused on the effects of fiscal and monetary policies on inflation and growth. Using descriptive statistical and regression tools such as time series decomposition and self-regression equation, Pham concludes that an upsurge in public investment and money supply leads to increasing inflation and instability, hence little contribution to economic growth. Overwhelming expansion of aggregate demand also leads to derailed development, i.e. overheated growth in industriesthat are highly speculative and unsustainable. Therefore, he recommends that Vietnam should give more efforts to supply-side policies, enhance productivity and improve macroeconomic environment.

In general, results of the study indicate its consistency with practical observations and that it shares common thoughts with previous studies – that Vietnam's economy is mainly grounded on growth factors of extensiveness, i.e. capital investment, in the while neglecting factors of intensiveness, such as science and technology, to improve productivity. Awaken already, the government has implemented restructuring initiatives, important among which is to restructure public investment with a view to increasing its efficiency.

In one novelty of the study, it indicates that macroeconomic environment in Vietnam downgrades significantly in 2007-2012 compared to what was seen in 2001-2006 – not just in a higher inflation and a lower growth rate, but in the variation of the many economic indicators, proven by standard deviation of the fluctuation around mean value. Macroeconomic instability is not simply the up and down, but the predictability of the future.

Another finding of the study is that a growth in money supply is the cause of inflationvolatility, while the inverse is not in the case. Fluctuations in money supply growth begin to show impacts on inflation after about 4-6 months. This conclusion is also compatible with recent studies saying that money growth has a strong impact on inflation, with a delay to some extent.

Nevertheless, this concise study of 6 pages, despite practical evidence, fails to entirely convince its readers that expansionary aggregate demand policies (through promoting monetary policy and public investment) was a cause to recent economic turmoil, i.e. its model says that the 1% growth in money supply would boost inflation in the next 2 quarters by approximately 0.14%, and a growth in public investment has a positive impact on inflation, albeit a 2-year lag. Although the result is consistent with economic theories and the aforementioned statements, how the increase in inflation leads to macroeconomic instability is not clarified. It is common knowledge that an increase in total demand boosts inflation in short term, but to what extent will inflation lead to instability is another matter. Besides, figuring this positive relationship does not also imply a cause-and-effect relationship (with M2, public investment as cause and inflation as effect, while it can be the other way around). For example, inflation may lead to an increase in money demand and therefore push nominal interest rate. To keep it stable, the State Bank must inject more to money supply and increase total payment methods (M2). On another case, inflation increases the cost of one project, hence adjustment, or addition in estimated investment.

There are multiple causes to failure to discover the effects that M2 and public investment have on fluctuation in economic growth, such as multicollinearity between explanatory variables or noise from using quarterly data, especially on variables such as economic growth and public investment; or reverse causal relationship where growth impacts money demand and volume of capital investment from the state budget. Also, this result appears to conflict with another widely recognized observation that Vietnam's recent economic growth is mainly capital-inclined (where public investment contributes largely).

2. Supply-side Policies to Promote Long-term Growth

This is an important addition to previous studies where it says that abuse of stimulus policies may lead to economic instability. Instead, policies should make efforts to emphasize on supply, create a competitive and equal environment for enterprises, and improve productivity and efficiency of the economy. In this study, Pham The Anh and Dinh Tuan Minh went through main features of economic theory of supply-side school, including: supply-side policy is a long-term macroeconomic policy grounded on 3 main pillars: tax policy (lower income taxes to stimulate investment), regulatory policy (maintain a compact government and minimize intervention), and monetary policy (advocate a stable monetary policy or make inflation low in relation to economic growth). The two authors also note that the extensive use of aggregate demand management policies to stimulate growth failed in many countries. No exception was seen for Vietnam, where economic achievements of the 1996-2006 were actually rooted in supply-side policies, i.e. the 1980s' "Renovation", not stimulus. Accordingly, the two authors propose a series of initiatives to boost total supply, such as reduce taxes and fees, reduce government spending, and adopt rules to monetary policy; accelerate SOEs equitization; regulate markets, promote competition and free trade.

In general, the initiatives proposed in the study are not new, as acknowledged by the authors themselves, and are actually being implemented by the government at different levels. However, what notable in here is that it would be a simplification (or complication) to clearly differentiate the economic policies currently applied in a (number of) country into either supply-school or demand-schools. In practice, a policy may have double effects – it both boosts demand in short term and supply in long term, and sometimes it is difficult to quantify and define which side it "inclines to". For example, how can one tell if extra public investment in infrastructure, education, science and technology is supply-side or demand-side? Even tax reduction policy (widely regarded as the foundation of supply-side school) is also aimed by many countries to stimulate investment and consumption.

In Vietnam, the government and economists alike are aware of the importance of restructuring and improvement in the supply side. These initiatives have been implemented on and on over the past 30 years of renovation, to different extents however. Let's take several examples: the policies to create an equal competitive environment for redistribution of resources, to focus investment on education, science and technology, to exempt businesses from tax, to lessen government role in many areas. However, whether to achieve that goal or not is another story.

The proposed initiatives are of driving nature and somehow too general without any specific solution. Just to name a few, cutting of government spending sounds attractive in theory, while proved infeasible in practice as we have done that for so many years (such as economization solutions) but annual spending still unduly exceeds estimate. Or, SOEs equitization has been overly discussed and sluggishly implemented for years. Or whether the root cause of poor technology comes frommodest investment or operating mechanism? What caused this condition? It requires further studies into more persuasive and specific solutions to answer this question. Fulfilling such requirement will produce more useful recommendations and result in

better added value than purely debating whether Vietnam economy is implementing supply-side or demand-side policy.

Take an example from SOEs equitization: the true conundrum here is not just about policies and techniques, but to overcome the overpowering conception of doctrine (if public sector is not strong, then how will socialism become the dominant) and the group interest barriers (of those who decide and implement SOEs equitization).

SOLVING DEBTS IN ENTERPRISE RESTRUCTURING: PROBLEMS AND SOLUTIONS

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I. Current status of State-owned enterprise's debt.

1. Receivables of SOEs in 2011 was 296,541 billion dongs, increasing by 13.8% compared to 2010; NPL accounted for 1.26%. Payables of SOEs were 1,292,400 billion dongs, increasing by 18.9% compared to 2010; debt to equity ratio was 1.77 times (Report No. 336/BC-CP dated 16/11/2012 of the Government).

2. Receivables are the enterprise's asset and benefit. Receivables occur during the business operation, including: Receivables from buyers, advances for staff to implement tasks assigned by the enterprise (including individual debts and debts of branches, production units), receivables from state budget (due to exceeded payment to the state budget/ input VAT paid but not yet deducted).

3. Receivables from buyers occur due to many reasons. For example, enterprises apply credit policy in sales to promote its sales (trade credit for buyers); buyers who not yet have fund for payment, including state budget buyers; particularly in the current difficult economy, many construction enterprises cannot receive payment timely upon the handover of the works.

4. Overdue debts, bad debts occur when customers cannot repay upon due date. Besides, debts that have been overdue for a long time, over many director's working terms, debts with loss in documents, etc. during the management handover, merge and acquisition.

Therefore, uncollected debts are losses for enterprises and they will affect directly the business performance.

5. Payables from SOEs are a part of enterprise's capital beside owner's equity. Payables are formed during the business operation. Payables include loans from credit, financial institutions; payables to suppliers/advances of buyers; payables to staff, social insurance, state budget payables and others.

6. Loans of enterprises serve to ensure its capital needs during operation. Normally, with the loans, enterprise must finance 30% of the project's investment; the rest is financed by credit, financial institutions.

7. Beside loans, enterprises can use capital in payment to ensure business operation, including capital for long term assets. In case of loans, enterprise must repay principal and interest as per commitment, regardless of its business performance. But when it does not have need for capital, it won't need the loan or it can settle the loans. With loans, enterprise will have financial leverage. The higher amount of loans is, the higher leverage is, and zero leverage is obtained when the enterprise has no loan. High leverage will lead to potential risk on repayment, but the enterprise can create higher profit if its business is good.

8. The enterprise's capital structure is the debt/equity ratio. In fact, many enterprises have reasonable capital structure (debt/equity ratio is less than 3 times), but many others have high ratio. Enterprise with this high ratio has high leverage.

9. Recently, many enterprises have difficulties in debt repayment due to various reasons. For example, high inventory; high interest expenses, causing high financial expenses, low production cost competitiveness causing limited business performance, and losses, etc.

=> The economy is in difficulty, enterprises do not have cash flow for debt repayment due to limited business performance, overdue debts/bad debts from operation. The lenders cannot collect the debt, affecting its business performance. Thus, overdue debts must be recovered to solve the bottleneck of the operation of the lender and borrower.

II. Current status of debt recovery policy

10. Recently, the Government has issued various regulations on debt recovery. However, the scope of application has been only applied to SOEs during their operation, ownership transfer.

11. Decree No. 69/2002/NĐ-CP, dated 12/7/2002 regulating SOE overdue debt recovery and management; Ministry of Finance issued Circular No. 85/2003/TT-BTC dated 26/09/2002 guiding the overdue debt recovery and Circular No. 74/2003/TT-BTC dated 09/9/2002 revaluing non-secured loans of state commercial banks. Accordingly, Decree No. 69/2002/NĐ-CP applied for active SOEs (as per Article 1, State Enterprise Law); SOEs that are implementing transform procedures (being put into the list of privatization, allocation, sales, lease or changed to One Member Limited Company) as per authorized agency's decision. Debt recovery scope under this Decree includes: (i) debts overdue until 31 December 2000 for active SOEs. Debts overdue after 31 December 2000 shall be collected, paid by the enterprise itself; (ii) for changed SOEs, debts overdue until the changing date; debts overdue after the changing date shall be collected, paid by the enterprise itself.

12. Funding for the overdue debt recovery of SOEs include: (i) NPL provision booked every year of SOEs; (ii) annual operating profit of the SOEs (accounted to the operating expense or income of enterprise, depending on the debt; deducted to the interest or principle of lenders in case of debt restructuring, extending or overwriting (for debts that the lenders cannot collect); (iii) deducted to the State capital in the enterprise; (iv) Use funds for SOEs and commercial bank system reform in 2001 - 2003 as per Decision No. 92/QD-TTg dated 29 January 2002 of the Prime Minister; (v) regarding debts that cannot be collected or cannot be repaid, enterprise must carry out measures itself, to share the difficulties between lender, borrower via debt restructuring, extending or overwriting or debt purchasing; in case the recovery is out of its authority and capability, the enterprise must report authorized agencies for support; (vi) enterprises under transform procedures are allowed to handle the overdue debts in accordance with the SOE transform policy.

Receivables:

13. Decree No. 69/2002/NĐ-CP, dated 12/7/2002 regulating the overdue debt recovery and management of SOEs. Accordingly, debt recovery can be done by sources: Debt provisions; accounting to the business expense or income; in case the debt is accounted to the business expense, the enterprise has loss and cannot offset in 2 continuous years, and the enterprise is not subject to dissolving, bankruptcy, authorized agency shall consider to reduce the State capital at this enterprise; IN case all measures have been applied but the enterprise is still in financial difficulty, Ministry of Finance in cooperation with other relevant agencies to decide to provide capital support or deal with loss reduction of the enterprise by using enterprise reform fund as per the Prime Minister's decision.

14. Regarding enterprises under the transformation process, bad debts or debts that have been handled once but the enterprise is still at loss or the enterprise at loss before debt handling, the State capital can be considered to reduce before transformation. In case the amount of State capital cannot cover the cumulative loss and bad debts, or after reducing the State capital, the remaining value is too small to apply preferential share sale policy to employees, or not sufficient to ensure the State capital contribution in the joint stock company, Ministry of Finance shall transfer several overdue debts to the agency that has the function of

debt purchasing and selling for further handling. In this case, different amount between the debt and the actual collected amount of the agency that has the function of debt purchasing and selling will be supported by the enterprise reform source, etc. Besides, this Decree also regulates the handling of payables from State Budget (including amounts that enterprise over-paid to the Budget, debt of basic construction, etc.); the State budget shall refund these or agree for the capital reduction.

15. Regarding the change from 100% SOE into joint-stock companies, Decree No. 59/2011/ND-CP dated 18/7/2011 regulates that privatized SOEs are allowed to eliminate debts that cannot be recovered (must have documented evidence) from the value of enterprise.

16. Decree No. 109/2008/ND-CP dated 10/10/2008 on 100% state-owned enterprise transfer, the debts shall handled similarly to the case of SOE transferred into joint stock company.

17. Under Circular No. 228/2009/TT-BTC, enterprises with overdue debts must book provision according to number of overdue days or accounted to expense to write off bad debts (such as: enterprise with debt overdue from 6 months to 1 year, 1 to 2 years, from 2 to less than 3 years, and over 3 years must have the provision of 30%, 50%, 70%, and 100% of the loan value, respectively. Enterprise can write off debts including before due debts but the borrower cannot repay, with the condition that, if the borrower is a legal entity, the borrower must be subject to bankruptcy or dissolving; if the borrower is a legal person, he/she must be dead/ missing but has no inheritance). Accordingly, bad debts already booked with provision, and the enterprise cannot recover, can be handled by the booked provision, in case this provision is not sufficient, it will be accounted as expense of the enterprise.

Payables recovery

18. Under the provisions of Decree No. 69/2002/ND-CP, enterprise in difficulty can be allowed to write-off with tax debt, payables to State budget or to change budget debt to capital to invest in SOEs; can be allowed to write off its import and export taxes, reduce SOE's capital, be supported with debt handling capital from SOE reform fund, etc.

19. SOEs currently active, have loans from State commercial banks, and are at loss: (i) loans of enterprises with continuous loss and must be dissolved or go bankrupt, enterprises at loss and have restructured their production, can develop further will be written off, or extended. If these enterprises are not given loan extension, loan interest can be written off, principle can be restructured as per legal regulation; (ii) for SOEs that have decision on transformation but they are in difficulty and cannot balance the source for the overdue debt repayment, CEO of State commercial banks can approve for them to extend the loans or restructure the loans before the transformation decision date for 03 - 05 years. In case these enterprises are at loss and insolvent, interest can be written off, including interest compounded into the principle but should not exceed the remaining loss; (iii) for enterprises under privatization, transfer or sale, beside loan extension, writing off, the enterprise should cooperate with creditor and AMCs to handle the overdue principle by selling the debt or converting it into equity of the bank in the joint stock enterprise as per legal regulation on equity contribution.

20. Uncollected interest can be accounted to the expense of the State commercial bank. The different amount due to the sales of outstanding debt will be handled as per legal regulation on debt handling of commercial banks.

21. However, as per Decree No. 59/2011/ND-CP on transferring 100% state-owned enterprise into joint stock enterprise: If privatized enterprise has difficulties in paying its overdue loans from credit institutions (including Vietnam Development Bank) due to business losses, it shall follow the current regulations of the State. For budget debt, Law on Tax Management

regulates that only dissolved or bankrupt enterprises will be written off. Thus, transformed or restructured enterprises will not be written off with State budget debts.

22. Decision No. 843/QD-TTg dated 31/05/2013 approving the Project "handling bad debt of credit institutions" and the Project "Establishment of asset management company of Vietnam credit institutions" define measures of credit institution's bad debt handling, including debt restructuring (repayment period extension, repayment period adjustment), and consider the interest exemption, reduction, debt conversion into equity of borrower's enterprise, bad debt sales to asset management companies for further handling during the process of reorganization and restructuring.

23. Besides, in order to remove difficulties for enterprises, the Government issued a policy to support them through tax payment delay, tax reduction for SMEs with revenue under 20 billion dongs in 2012-2013.

III. Issues and solutions for debt recovery

Issues

24. Existing regulations on debt recovery are mainly applied to SOEs in case the SOE transfers the ownership, except for the Circular No. 228/2009/TT-BTC on provisioning, is applicable to all enterprises.

25. Decree No. 69/2002/ND-CP, dated 07/12/2002 regulating the management and recovery of outstanding debts of SOEs; Decree No. 59/2011/ND-CP applied to enterprises with 100% state capital transformed into a joint stock company; Decree No. 109/2008/ND-CP dated 10/10/2008 on selling fully state-owned enterprise. In addition, Decree No. 69/2002/ND-CP only regulates the handling of outstanding debts of SOEs which are currently active as per Law on SOEs, arising from 31/12/2000 onwards. This means that there is no regulation on the handling of restructured enterprises under Decision No. 929/2012/QD-TTg of the Prime Minister approving SOE restructuring, focusing on State owned corporations.

26. Enterprises that have imbalanced loan repayment source: Normally with the bank loan, enterprises are obliged to make commitments in the loan contract/agreements, including the principal, interest and loan tenor. However, in practice, there are active enterprises that have no difficulty in production, goods consumption, but still have difficulty in cash flow for the loan repayment. The cause of this situation is mainly that the loan tenor is shorter than the project lifetime (for example: a loan contract with 5 year tenor, the enterprise has to repay 20% of the loan value annually), but the useful operating time of the asset is 10 years - every year the enterprise will account 10% of depreciation - so the enterprise has only the 10% of the asset value and the profit after tax for the loan repayment).

27. Enterprises with high debt/equity ratio because its owner's equity is low, it has to borrow more. Enterprises can have more loans because the creditor's policy requires them to have the counterpart-capital of 30% on each project, there is no requirement that total owner's equity used as counterpart-capital shall not exceed the total owner's capital. Besides, the bank creditors are not closely linked to monitor the borrower's debts.

28. Regulation on debt handling (financial handling) of SOEs in the process of restructuring is unclear about the sequence; as a result, the SOE privatization process and restructuring process have been prolonged. For example, the issue of whether debt handling of AMC (asset management company) should be done before or after the valuation and issuance of value of the enterprise is not specified in the current regulations. Thus, some enterprises request AMC to handle debt first, then the valuation agency will announce enterprise value. Some others announce the enterprise value first and the AMC involves in the handling.

29. Currently, provision of doubtful debts, bad debts has been regulated. However, there is no provision to allow the removing of the debt to off - balance sheet in case the doubtful debt has been provisioned for 100% and the handling of small debts which have the cost of handling much higher than the debt value, etc.

30. According to the current regulation, receivable debt handling for SOEs that have ownership transformation requires documented evidence. This leads to more and more difficulties for enterprises after conversion and affects investor's interest: This debt could not be recovered when it was a SOE, then when it is changed to a joint stock company, the likelihood to recover is even worse.

Solutions

31. For receivables: Enterprises must be active in bad debt handling under current regulations, including: enterprises with doubtful debts/debts that cannot be recovered, must be provisioned, debts that cannot be recovered are accounted as expense or sold to AMC. The difference between the sale price and the book value of this receivable amount must be accounted in the expense.

32. For liabilities: Enterprises must be active in generating sources for repayment such as asset sales, collect receivables for repayment; propose solutions to reduce the difficulty in terms of cash flow.

33. Research is needed to have a mechanism for handling debt incurred during SOE restructuring process, including the transfer of enterprises with 100% state capital into joint-stock companies. The following activities are needed:

- Complete receivables, payables for restructured, transformed SOEs in two ways: Allow the exclusion of the enterprise value if the debts cannot be recovered which do not have documented evidence. This debt can be transferred to AMC for further monitoring, collection.

- Issue debt handling mechanism (including receivables and liabilities) for subsidiaries of the State corporations, economic corporations (the parent company is 100% state-owned) that operate outside the core business and are transferred to other State corporations. Principles for the handling can be: The assets are transferred and liabilities are transferred also to the receiving enterprise. The creditors in general and credit institutions in particular must support the transferred enterprises to restructure debt such as interest write-off, repayment extension, repayment period adjustment, etc.

- The debt handling procedure of AMC must be clearly specified for transformed SOEs in two ways: AMC will participate in the debt handling of privatized enterprises/or sell after the value of the enterprise is announced by competent authorities. For liabilities, the credit institutions shall support the handling through solutions such as debt write-off for loss enterprises, conversion of debts into equity, etc.

34.For loans of enterprises: Adjust loan tenor in accordance with the project's life cycle in order to avoid capital imbalance, contributing to a healthy financial performance of enterprises. Accordingly, credit institutions shall support enterprises in loan restructuring from short term loans into long term loans (extend the repayment time, adjust repayment schedule), adjust interest rate, etc. In the allowed conditions on capital, the Government, credit institutions shall support enterprises in loan restructuring by using long term loans to restructure short - term loans, making a healthier balance sheet, improving competitiveness and efficiency of business performance.

35. Study the monitoring mechanism for newly occurred loans of the enterprises so that they can have a reasonable capital structure. The mechanism for loan application and monitoring

must be renovated. For example: Control the ceiling counterpart-capital amount of the enterprises for all projects. It shall not exceed the owner's equity in the latest financial statements. Besides, for enterprises opening several trading accounts at several different banks, bank creditors should appoint a representative to supervise the debt to equity ratio of the enterprise's owner. This ratio is built by the enterprises and used as the basis for debt monitoring to restrict the debt increase and ensure the appropriate debt structure with the lowest cost of capital./.

REVIEW AND COMMENTS

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(Review and comments for Report on "Solving Debts in enterprises restructuring: problems and solutions")

1. Bad debts of enterprises and credit institutions

On the balance sheet of enterprises, debts are reflected on 2 items which are asset and capital. When accounts receivable show the enterprises' equity or asset that are temporarily occupied by others, accounts payable represent the capital or financial obligations that enterprises have to pay their creditors.

During business activities, the occurrence of accounts payable/receivable in certain periods of time is common and essential. If the corporate managers know how to utilize the accounts receivable/payable reasonably and flexibly, they can even improve the efficiency and effectiveness for their businesses. For instance, thanks to credit sales, companies are able to expand their consumer markets and increase their sales; or thanks to the use of loans, firms can take advantage of the positive impacts from financial leverage in order to maximize their profits.

Things will only become abnormal when accounts receivable/payable exceed the allowed limit of scale and duration of use, become overdue arrears, bad debts, that enterprises are not able to recall or to pay. Debts then become a burden, a "blood clot" of both enterprises and the economy, causing congestion to the cash flow of corporate and the economy, making business delayed due to lack of capital and loss of liquidity. The disposal of overdue arrears and bad debts is now necessary for not only the enterprise but also the economy.

According to the IMF, debts are considered bad when (a) the borrowers are not capable of returning the principal and interest in 90 days or more, or (b) interest within 90 days are turned into principal, or deferred under the contract, or (c) even though the period of time of borrower's incapability of paying is less than 90 days, there is evidence that he/she has filed for bankruptcy.

In Vietnam, according to the Decree 69/2002/ND-CP on 12/7/2012, arrears of enterprises are receivable/payable debts which are overdue and cannot be paid even though the enterprises have applied different methods such as comparing and acknowledging, urging the payment. Arrears might be from state budget, commercial banks, National Reserves, Social insurance, individuals inside and outside enterprises and other payables.

According to the Decision of the State Bank 493/2005/QD-NHNN on 22/04/2005 about debt classification, setting and using credit risk provisions in banking activities of credit institutions, "bad debts" are liabilities of groups 3, 4 and 5. Debts of Group 3 (subprime mortgage) are liabilities evaluated to cause damages to a part of principal and interest; Group 4 (doubtful debts) is liabilities with high loss potential and Group 5 (potentially irrecoverable debts) is debts with no potential of recovery and loss of principal. *Non-performing loans ratio* is the ratio of bad debts to total outstanding loans of Group 1 to 5. In developing countries, normally, if bad debts of banks are categorized according to qualitative and quantitative indicators in accordance with international standards, the bad debts ratio of below 5% to total outstanding loans is considered normal.

On 21/01/2013, the State Bank issued the Circular 02/2013/TT-NHNN providing details and strict regulations of debt classification according to 05 groups of qualitative and quantitative criteria as replacement for the Decision 493/2005/QD-NHNN on 22/04/2005 by the State Bank. The State Bank has changed the effective date of this classifying method to 1/6/2014 from 1/6/2013 as before.

2. Some opinions on the report "Handling debts in enterprise restructuring - Problems and Solutions"

2.1The current state of bad debts of state-owned enterprises (SOEs) and credit institutions (CIs)

Dealing with bad debts, arrears is currently topical and urgent issue of SOEs and CIs. It is, at the same time, a complicated and difficult problem that concerns not only the authorities but also the business community. Therefore, the SOEs' and CIs' proper recognition and assessment of bad debts, arrears as well as the results and limitations of the mechanism, current policies in terms of handling this issue is very crucial and necessary.

The report is presented in 9 pages including 3 main parts: (i) The current debt status of SOEs; (ii) The current status of debt handling policies; (iii) Arising issues and debt handling solutions.

In part 1, the author reflected the overall debt of SOEs in Vietnam by the end of 2011 was 1,588,941 billion VND, of which debts receivable was 296,541 billion VND and debts payable was 1,292,400 billion VND (as in the report 336/BC-CP dated 16/11/2011 by the Government at the 4th session of the National Assembly XIII); General analysis the formation of debts receivable/payable in business activities of enterprises. The report also pointed out a number of reasons for the incurrence of doubtful debts and irrecoverable liabilities which is referred to as bad debts of SOEs and its consequences to business activities of enterprises and the economy as a whole.

I agree with the above assessments and comments of the author. However, the report would have been more complete and persuasive if the author had made further clarification about the situation and the results of the process of handling bad debts of SOEs in Vietnam in recent years as well as provided a more complete analysis of causes of the slow recovery from bad debts of SOEs.

Although the information about non-performing loans on mass media is not consistent, it can be seen that the current scale of bad debts of SOEs and CIs is very large and tend to increase over the years. Specifically as follow:

+ *According to the monitoring report 2011 of the NASC* about the management and use of capital, state property of Conglomerates, Corporations, the total debts receivable of Conglomerates, Corporations by 31/12/2008 was 185,826 billion VND, equal to 38.26% of equity and 14.96% of total asset of Conglomerates, Corporations, up 6.3% from 31/12/2007. A number of Conglomerates, Corporations have a huge number of debts receivable, such as the Civil Engineering Construction Corporation (CIENCO) No.5 has a debts receivable rate equal to 40.7% of total asset and 36 times larger than their equity. The rate of the CIENCO No.8 is 40.97% and 12 times. It is notable that at some Conglomerates, Corporations, the amount of doubtful debts is quite large, like for the CIENCO No. 5 it was 26.65 billion VND, for the CIENCO No. 8 it was 109.96 billion VND and for the Agricultural of Construction & Rural Development Limited Corporation (VINACCO) it was 18.02 billion VND.

About the accounts payable, debt to equity ratio of Conglomerates, Corporations during 3 years 2006-2008 was basically 3 times lower. The ratio was 1.35 times in 2006, 1.4 times in 2007 and 1.47 times in 2008. Particularly, 18 special Conglomerates, Corporations had the ratio of 1.1 in 2006, 1.2 in 2007 and 1.3 in 2008. However, there are many Corporations,

especially those in construction field, whose the ratio is quite high. In 2006, 38 Conglomerates, Corporations (40%) had the debt to equity ratio of over 3 times; in 2007 there were 31 Conglomerates, Corporations (32%) and in 2008 there were 31 of them, made up 31%.

About credit default, up to 31/12/2008, the total credit default of 7 economic groups was 128,786 billion VND, up 20.54% from the end of 2007 and accounted for nearly 10% of the total credit institution loans of the economy. Most of the credit defaults are medium and long-term debts (constitute 85%), belonging to a few large economic groups like EVN (comprising 51.84% of the total credit defaults of 7 Conglomerates); Petrol: 16.67% and Vinashin: 15.44%. The total overdue debt of 7 Conglomerates, Corporations by 31/12/2011 was 4,168 billion VND, equal to 3.24% of the projected total loans of Conglomerates at credit institutions. Bad debts made up about 15% of the total overdue debts. Overdue debts of the Vietnam Shipbuilding Industry Group alone comprised 91.4% of the total overdue debts of the 7 groups.

+ *According to the report of the National Financial Supervisory Commission(NFSC),* during 2 years 2010-2011, the credit growth was much lower than that of previous years but the non-performing loans ratio increased dramatically. The fact can be seen in the following table:

The status of delinquencies, bad debts to total outstanding loans as reported by CIs

CI Group	*Delinquency rate (%)*		*Bad debt rate (%)*	
	2010	*2011*	*2010*	*2011*
State-owned Commercial Banks	10,43	13,36	2,16	2,95
Joint-stock Commercial Banks	3,53	6,43	1,66	2,30
Joint Venture Banks, Agricultural Banks	4,66	5,76	1,20	1,86
Financial, financial leasing companies	21,06	22,9	13,38	16,56
The whole sector	*7,69*	*10,47*	*2,21*	*3,10*

Source: Report by the NFSC, 2011

In 2011, the total outstanding loans increase 13.32% when the value of bad debts increased 59.18% (from 48,400 billion VND to 77.042 billion VND). The corresponding rate of bad debts increased from 2.21% (31/12/2010) to 3.10% (31/12/2011). The debts in group 2 also made up a large proportion, implying the possibility of bad debts increasing sharply in the coming years. Along with the increase in bad debts, the delinquency rate of the whole credit institutions system also rose strongly from 7.69% (in 2010) to 10.47% (in 2011). The quality of the loans by financial and financial leasing companies is the weakest in the CIs system. The delinquency and bad debt ratios in 2011 were very high, 22.90% and 16.56% compared to total outstanding loans respectively. Compared to that of 2010, the rates of delinquency and bad debts rose by 24.33% and 66.45%. However, according to the calculations of the NFSC, the bad debts ratio of the whole system at the end of 2011 was 11.48%, 4.16 times higher than the bad debts ratio reported by the CIs.

According to recent report by NFSC, also, the sectors with low profitability and bad financial situation are those who have the highest bad debts ratio in the CIs system. They are: processing and manufacturing sector (21.15%); wholesale and retail sector (16.93%); other

service activities (12.51%); real estate (11.37%); construction, assembly and construction materials (10.13%); transportation and warehousing (9.43%). The bad debts rates of those 6 sectors are 2-5 times higher than the average bad debts rate reported by the CIs. Among those 6 sectors, only the Transportation and warehousing sector has the significantly reducing bad debts ratio, from 13.4% on 31/12/2011 to 10.98% in 2012 and 9.34% on 30/4/2013 (down 1.5 percentage points in the first 4 months of 2013). For the remaining sectors, the ratios only reduced very slightly or even went up. At the point of 30/4/2013, the outstanding loans of those 6 sectors comprised 66.69% of the total outstanding loans of the CIs while their bad debts made up 81.53% of the total bad debts of the whole system.

+ *According to the data of the State Bank,* up to 31/3/2012, the bad debts of the entire CIs system accounted for 8.6% of the total outstanding credit, equivalent to over 200,000 billion VND. In particular, bad debts of state-owned commercial banks were 125.8 trillion VND, accounting for 10.37% of the outstanding credit of the group; bad debts of joint-stock commercial banks was 60.9 trillion VND, accounting for 5.8% of the outstanding credit of the group. Recently, as in the report 422/BC-CP by the Government on 19/10/2014 at the 6th session of the National Assembly XIII, bad debts of CIs has been controlled and processed step by step. As for the end of August 2013, the total bad debts of the entire baking system was 142.270 billion, accounting for 4.64% of the total outstanding loans, up 20.15% compared to that at the end of 2012. The growth rate of bad debts during the first 8 months of 2013 decreased largely, which was equal to only 1/3 of the first 8 months of 2012 (up 59.2%).

It is also necessary to recognize that bad debts of SOEs and commercial banks mainly belong to real estate and securities sectors. Outstanding loans of commercial banks given to these sectors constituted about 16% but real estate collaterals for different loans accounted for 60-80% of total collateral value. When real estate market declines, mortgaged bad debts and overdue debts have very low liquidity. The act of aggressively liquidating collaterals will make the real estate prices go fall even further and worsen the bad debts situation of the economy. This feature will also make the bad debts processing of enterprises face more difficulties and obstacles in the current context.

The reasons for the above bad debts situation can be considered from different aspects: From the subjective view of enterprises, commercial banks and CIs; from the mechanism and policies of economic and financial management in general, handling liabilities of the state in particular; from the negative impacts of international economic crisis and the recession and inflation of the domestic economy. Nevertheless, the underlying causes belong to firms and CIs themselves, such as: the business performance of SOEs still remains low; the capability of business administration is weak; scattered investments besides the main business is quite popular; SOEs tend to make use of financial leverage more often than firms of other sectors since they are offered credit incentives. For commercial banks and CIs, their risk management methods are still limited; the competition of credit growth takes place in a long run, always over 20%/year, along with the loosening of loaning conditions which encouraged bad debts; the popular cross-ownership among banks which leads to confusing lending and investing, despite regulations, causing serious consequences; a number of banks' officers with ethical erosion collude and backhand with companies to allow loans against regulations for the purpose of their own benefits; the work of inspecting and monitoring is still weak, not able to detect promptly to prevent and handle the violations of regulatory constraints on credits and high-risk investments.

2.2. About the mechanism and policies of handling bad debts

In recent years, in order to remove difficulties for production and business activities, promote resolving bad debts of SOEs, the Government has implemented some solutions, such as: tax

and fee exemption (corporate income tax, value added tax, land tax...) in order to support firms with more resources to remain their business operations; establishment of debt and asset trading corporation (DATC) of Ministry of Finance, or Vietnam Asset Management Company (VAMC) to support enterprises and CIs to process debts. The State Bank has also directed commercial banks to review loans, evaluate the quality and recoverability of loans to have appropriate treatments; reduce costs and share difficulties with enterprises by cutting down on the interest rate for priority areas and other manufacturing sectors; complete regulations of debt classification, set up and utilize risk reversals more in line with international practices and present conditions in Vietnam; reduce interest rates; improve the performance of inspecting and observing banks. The Ministries have developed many trade promotion programs, supporting enterprises and manufacturing businesses to consolidate, develop and expand their domestic and export markets.

About the mechanism, the Government has issued many policies and regulations related to handling outstanding debts at SOEs during the process of restructuring, transformation of ownership or tackling difficulties in producing and manufacturing activities, create regulatory foundations and directions for the work of dealing with outstanding loans, bad debts of SOEs and CIs. In particular, there have been:

+ Decree 69/2002/ND-CP dated 12/7/2002 about the management and settlement of outstanding debts of SOEs;

+ Circular 85/2003/TT-BTC dated 6/9/2002 Guidelines for handling outstanding debts of SOEs;

+ Circular74/2003/TT-BTC dated 9/9/2002 Guidelines for revaluation of outstanding debts without collaterals of the State Bank;

+ Decree 59/2011/ND-CP dated 18/7/2011 about the transformation of SOEs into join-stock companies;

+ Decree 109/2008/NĐ-CP dated 10/10/2008 about selling, handing over 100% state-owned enterprises;

+ Circular 228/2009/TT- BTC dated 07/12/2009 Guidelines for the provisions of discounts for inventories, losses of financial investments, doubtful debts;

+ Decision 929/2012/QD-TTg dated 17/07/2012 about approving the proposal of restructuring SOEs with the focus on state-owned conglomerates and corporations;

+ Decision 843/QD-TTg dated 31/5/2013 about approving the proposal of settling non-performing loans of the CIs system;

+ Decision 493/2005/QD-NHNN dated 22/04/2005 about debts categorization, set up and use of credit risk reversals in banking activities of CIs;

+ Circular 02/2013/TT-NHNN dated 21/01/2013 of the State Bank about asset classification, set up and use of credit risk reversals;

The report has also mentioned the settlement of outstanding debts, bad debts of SOEs and CIs in the policies and mechanisms mentioned above, such as: the debts classification of enterprises and CIs; regulations about bad debts treatments (for which debts that enterprises receive support to process, and which one that enterprises have to repay and recover themselves); financial sources and methods to handle bad debts of companies (like setting up provisions; reducing business profit; reducing state capital within the firm; utilizing the expenses of enterprise reform; restructuring debts by freezing, rescheduling, selling debts or converting debts into bonds, equities, writing off debts...); the order of priority in settling bad

debts, outstanding debts of SOEs, CIs. The analysis and evaluation have reflected correctly the current credit and financial mechanism, policies related to handling outstanding and bad debts of SOEs, CIs. Basically, the above mechanisms have had positive effects on and positive support the bad debts settlement and accelerated the restructuring process of SOEs.

The report, at the same time, pointed out 6 existing points and obstacles in the present debt mechanism and policies, which are:

+ Lack of legal framework for the debt settlement of enterprises that practice the work of restructuring in accordance with the Decision 929/2012/QD-TTg by the Prime Minister approving the Proposal of restructuring SOEs with the focus on state-owned Conglomerates, Corporations.

+ Enterprises often lose the balance of funds to repay their loans because the term of a loan contract to invest in projects is often shorter than the life cycle of the projects;

+ There has been no control over companies' own capital to prevent reciprocal capital from exceeding equity, this can easily lead to increasing debt rate of companies (because the creditor's policy requires companies to manage a 30% of reciprocal capital on their own for each project);

+ That SOES are not yet clear about some regulations about the order of processing debts leads to prolonged SOEs equitization process in particular and SOEs restructuring process in general. For instance, the debt settlement of debt trading company should be made prior to or after the assessment and announcement of the company's value.

+ About the provisions, there have not been regulations to allow publicizing balance sheet in case of doubtful debts provision value is 100% and for the settlement of small doubtful debts, the cost for debt collection is actually too high or there is no recoverability.

+ Current regulations about the settlement of debts receivable for SOEs with ownership transformation require all the liabilities up to the point of company's value assessment to be collated, and irrecoverable liabilities have to be definitely settled in accordance with the State regulations. However, the collation of all the liabilities is complicated and unfeasible.

The above assessments and comments about the existing limitations in debt settling mechanism and policies of SOEs and CIs are justified and can be considered practical basis for proposing solutions for handling debts receivable/payable or raising debts during SOE restructuring, even the transformation of 100% state-owned companies into joint-stock companies. Different parties contribute to the causes of bad debts of enterprises and CIs; therefore, suggestions and recommendations regarding debt handling need to be taken into account more completely and comprehensively.

2.3. Some of the suggestions, recommendations to improve bad debts handling policies

In order to process bad debts effectively, it is essential to have the coordinated implementation of different methods from related stakeholders: the State (the Government, the State Bank, and the Ministry of Finance), SOEs and CIs. Specifically as follow:

- ***For enterprises:***

- Pushing up the process of restructuring SOEs, restraining the current scattered investments by state funds; only maintaining SOEs of the sectors which need to remain state monopoly, sectors providing public products and services, or sectors where other economic parties do not want to or cannot join;

- Improving performance management, using working capital of enterprises: maintaining reasonable capital structure, arranging the uses of funds properly and effectively, stabilizing

the amount of needed cash for the balance of payment; balancing the debt to equity ratio (D/E) to keep it not exceed that of the industry average; practicing all the hedging methods.

- Promoting the financial restructuring for enterprises in terms of uses of funds, capital structure and debt settlement under the scheme approved by the Government. Combining the implementation of different bad debts methods under present regulations, focusing particularly on restructuring debts, provisioning reserve, reselling debts, converting debts to bonds or equity.

- Taking positive measures to resolve inventories of firms to improve their liquidity. In order to deal with inventory, besides lowering selling price (accepting losses) to recover capital, companies can also make use of associate contracts to use each others' products and services. In addition, there should also be transparency in financial information, improvement of business administration, in order to create trust in credit relations with banks.

- Intensifying the financial inspections and observation of enterprises' business activities. Assessing regularly the financial status of enterprises by looking at typical financial ratios provides warnings about financial situation of both immediate and long term so that enterprises can be proactive in handling and preventing bad debts.

- ***For commercial banks and credit institutions:***

- For CIs where liquidity has not threatened the safety of the whole system: CIs handle debts themselves by already used methods, such as collecting debts directly, liquidating collaterals, using hedge funds to make up for irrecoverable debts, reselling debts or converting debts to equity if clients have potentials to grow.

- For CIs which are weak and have the possibility of losing liquidity: The appropriate action is to implement merging, consolidation or dissolution.The State encourages and supports weak commercial banks of small size to consolidate and merge with bigger banks, taking advantage of bigger banks' financial capacity to handle bad debts. If this cannot be done yet, these CIs need to be put under the special observation of the State Bank to resolve outstanding credits step by step.

- Banks practice synchronized performance of provisioning, restructuring debts with reselling debts to better the bad debts situation. In terms of old bad debts, commercial banks need to handle them using provision of risk reversals as regulated. Banks need to seek for every method to liquidate or sell the collateral to recover debts. Simultaneously, it is important to prevent new bad debts by reviewing classified loans, then reclassifying debts according to international standards.

- Actively coordinating with clients to restructure debts, reschedule debts for customers with temporary financial difficulties yet have positive business prospects when bad debts are taken care of; continuing to reduce interest rates to initiate new loans, helping companies cut down on cost of inputs, products being sold will help companies repay their loans borrowed from banks.

- Reselling debts to debt and asset management companies (AMC) of commercial banks, Vietnam Asset Management Company (VAMC) of the State Bank, or Debt and Asset Trading Company (DATC) of the Ministry of Finance under the market price principles, with the close observation of the State Bank;

- Regularly or unexpectedly inspecting the compliance with regulations of credit ratings, making sure the quality of input information is met in order to prevent accidental or deliberate errors in reviewing customers based on subjective opinions of an individual or a group of people, falsifying rating results, causing misleading lending decisions.

- ***For the State Bank:***

- There has to be measures to properly define the current scale and structure of bad debts, only this data can suggest specific solutions for each CI. Strictly handling the act of concealing bad debts, the State Bank also needs to make amendments and supplements to the classification of debts, provisioning and using reserves to settle credit risks. The inspection and monitoring of granting credits, classifying debts, provisioning and using reserves against the regulations should be enhanced. At the same time, there should be a mechanism that requires CIs to reduce the rate of bad debts to a certain limit in a certain period of time.

- For CIs of large scale which can greatly impact on the safety of the entire system, the economy and the social welfare: if they have positive growth prospects, after their own actions bad debts rate still remain high, the State Bank can inject capital in to support in the form of capital contributions with fixed interest (like preferred stocks) and the State Bank can withdraw its support when the institution fully recover.

- Improving the legal framework for banks to follow guidelines to perform internal credit rating under international practices and standards. Also, there should be policies to develop independent credit rating organizations to provide basis for general reference for credit ratings.

- Supervising closely the cash flows, cross-ownership among banks. This is one of the reasons why the banking system is always unstable and accumulates high systematic risk. When the cash flows and banks' cross-ownership are supervised, bad debts of commercial banks will be handled transparently; bottlenecks of capital will be resolved, enabling enterprises to access capital more easily.

- ***For the Ministry of Finance:***

- The state auditors only audit the assessment results and have financial settlement with enterprises that are parent companies of the state economic group and parent companies of the state Corporations upon requests of the Prime Minister;

- Ministries and departments, local authorities, state Conglomerates, Corporations direct joint-stock enterprises to implement comparisons on all of their liabilities (receivable, payable) up to the point of company valuation as requested. If the time of equitization does not coincide with the time for accounting closeout and reporting, or there is not enough time to make the comparison due to large amount of liabilities, the joint-stock enterprises have to report to the Ministries and local authorities to have prompt settlement:

(i) Up to the point of valuing the business, it is acceptable that there are some debts with complete profiles but has not been collated and verified yet. However, council members of the equitized enteprise have to give clear explanation of all the debts and publicize it in the decision of company valuation, as well as equitization method to provide basis for stocks auctioning and define responsibilities of the group and individuals. The collation of liabilities has to be completed before the join-stock company receives the certificate of registration.

(ii) When the enterprise register to become joint-stock company, the company has to conduct financial report at this time. If there are debts still yet to be collated and verified, the company has to process as following: *With payable debts* that company has completed the collation but creditors have not been verified, debts are then accounted for corresponding state capital raise and the new join-stock company has the responsibilities to keep records, continue the monitoring to fulfill the obligation of repaying debt when required by the creditor. Based on relevant records, documents and requests of creditors, the new joint-stock company performs repayment and recording it to the expenses of the period; *With receivable debts* that the company has conducted the process of collation but still not finished collating yet, the

company has to consider and define the responsibility of compensations for related group and individuals. The value of remaining debt (after deducting the compensation for individuals, collectives) has to be kept in records and monitored by the new joint-stock company to supervise debts collection.

- *Improving, supplementing the terms of operation of Debt and Asset Trading Company (DATC)*:

(i) Allowing, facilitating DATC to apply the new debt purchasing model; Boosting the operation scale and financial capacity so that DATC can participate more in the program of reforming SOEs handling bad debts in the economy;

(ii) Reconsidering the taxes related to DATC's activities in buying and processing bad debts. Tax treatment should be done to encourage lenders or commercial banks to transfer their bad debts to DATC in the form of new acquisitions and help DATC practice bad debts handling conveniently and effectively; Changing the regulations about minimum capital rate in purchasing debts of 100% state-owned companies to increase the autonomy for DATC's business.

(ii) Increasing the autonomy for DATC in selecting and implementing bad debts settlement methods appropriately. For example, the method of acquiring debts with discount, or negotiating to extend debts restructuring are to be decided by the DATC.

(iv) To attract strategic investors to take part in the restructuring process with the DATC to remove bad debts, the Government needs to offer a number of incentives, such as: selling shares of SOEs to strategic investors at an agreed price instead of current average bid price; specifying rules about purchasing shares of international strategic shareholders in the case of removing bad debts together with DATC; or only limiting strategic investors in certain areas, public companies and big firms playing significant roles in the economy and in the industries.

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PUBLIC INVESTMENT RESTRUCTURING: OUTCOMES, CONSTRAINTS AND PROPOSED SOLUTIONS

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Preface

The Master Plan on economic restructuring associated with economic growth model transformation towards quality, efficiency and competitiveness improvement in the period 2013-202029 identifies three main objectives for investment restructuring, with the focus on public investment. First, macroeconomic balances are regulated so that the total investment in the economy is maintained at 30-35% of GDP. Second, the State mobilizes capital with the proportion of 35-40% of the total investment. Of the total budget expenditure, 20-25% is for development investment. Capital allocation and use policy is modified to overcome spreading, waste investment and improve efficiency. Third, the scope and opportunities for private investment, especially investment in infrastructure is optimized.

This study aims to contribute to the review, re-evaluation of the existing public investment restructuring. Besides the Introduction and Conclusion, this article consists of three parts. The first part presents an overview on public investment restructuring and its outcomes. The second part reviews, evaluates several constraints and causes for public investment. The third part proposes some solutions for further restructuring of public investment.

1. Status, outcomes of public investment restructuring

1.1. Public investment policy has been asserted and reached consensus among sectors, levels

In terms of direction, the Party and the State have timely and properly determined the importance of public investment restructuring in the overall restructuring of the economy. The Party and State have issued significant and comprehensive directions for the restructuring of public investment in the medium and long term. The incorporation of economic restructuring, including public investment restructuring into the 10 year Socioeconomic Development Strategy 2011 - 2020 and 5 year Socioeconomic Development Plan2011-2015 is consistent with the importance of the economy restructuring, including the current public investment restructuringin Vietnam. The Socioeconomic Development Plan 2011-2015also clearly defines the requirements of public investment restructuring in Vietnam.

The 3th plenum of the XI Party Central Committee issued conclusions on *the socioeconomic status, financial- state budget in 5 years 2006-2010 and 2011; socioeconomic, financial and banking development plan in 5 years 2011-2015 and 2012*confirming thatin the next 5 years (2011 -2015) 3 main fields must be prioritized, namely: investment restructuring, focusing on public investment, financial marketrestructuring, focusing on commercial bank system and other financial institutions restructuring, and SOE restructuring, focusing on economic corporations and State owned corporations.

Also, in Resolution No. 10/2011/QH13 dated November 8, 2011 on the 5year Socioeconomic Development Plan 2011-2015 confirmed the direction of public investment restructuring as

[27] Tran Kim Chung, PhD. Vice President of CIEM.
[28] Dinh Trong Thang, PhD. Director of Investment Policy Department, CIEM.
[29] Prime Minister, “Decision approving the Master Plan on Economic festructuring associated with economic growth model transformation towards quality, efficiency and competitiveness improvement in the period 2013-2020”, No. 339/QĐ-Ttg, 19/2/2013.

follows: "*The public investment is restructured towards amending management decentralization regulation, firstly investmentsfinanced by the State budget and Government bonds, to ensure that only projects that comply with all required procedures and have sufficient capital sources, capital amount and have sufficient capital balance will be approved. Urgently determine the criteria and priorities to be used as a basis for investment project approval or rejection. The approval of projects financed by the Central Budget through the National Target Programs, Target Programs, target grants must be tightly controlled, with the appraisal on the balance of capital and capital source by the competent authority at the central level. Ensure the requirements on progress, technology, quality and safety of important national projects, works"*.

On 19/2/2013, the Prime Minister signed a decision approving Master Plan on Economic restructuring associated with economic growth model transformation towards quality, efficiency and competitiveness improvement in the period 2013-2020. The plan has made an important contribution to the consistency and specifying of public investment restructuring plan and orientations in the period 2013-2020. The Master plan identifies that it's necessary to renovate the institution of state investment allocation, decentralization, management, use, monitoring and evaluation.

1.2. Legal documents on public investment restructuring have been issued, studied and prepared significantly

The Prime Minister has issued a number of important documents on public investment restructuring implementation such as Directive No. 1792/CT-TTg dated 15/10/2011 on enhancing the management of investmentsfinanced by State Budget and Government bonds; Directive No. 32/CT-TTg dated 07/12/2012 on the removal of barriers and completion of mechanisms and policies to improve investment efficiency, and Directive No. 27/CT-TTg dated 10/10/2012 on the main measures for basic construction overdue debts in the locality.

Also, in the Government's Resolution No. 01 on "Main measuresfor the implementation, direction of the socioeconomic development plan and estimated budget 2013", the Government also identified several economic restructuring measures in general and public investment restructuring measures in Vietnam in particular. The Ministry of Planning and Investment and the Ministry of Construction, within their functions and duties, have chaired and coordinated with relevant ministries, agencies in the implementation of public investment restructuring. The Ministry of Planning and Investment coordinated with the Ministry of Finance in formulating medium-term budget framework 2013-2015, as the basis for budgeting.

Besides, the Government has also issued many documents and policies in order to attract, diversify sources of social investment capital. The Prime Minister signed Decision No. 71/2010/QD-TTg dated 09/11/2010 on pilot Public Private Partnership (PPP) investment regulation, Decision No.1601/QD-TTg dated 29/10/2012 approving the Project on improving the management of foreign investment capital flows into Vietnam,etc.

In addition, specialized legal systems related to components of public investment (public investment financed by budget, SOEs, Government bonds, State credit) have also been step by step completed.

1.3. The actual public investment restructuring direction has made progress in practice

The implementation has achieved a number of positive outcomes. Positions, functions and tasks of the Ministries, departments and agencies in the restructuring of the economy, in particular the restructuring of public investment have been identified clearly. Ministry of Planning and Investment is the lead agency, responsible for managing and advising the

Government in the process of economic restructuring, as per its roles, functions, duties and authority.

The key idea is to reduce public investment, increase private investment, improve the efficiency of investment in general and State investment in particular, placesocial investment in the balanced relationshipwith other basic variables of the economy.

The Government has been fully aware of the importance of public investment in the economy, as well as its current weaknesses and shortcomings in Vietnam. On that basis, the Government has issued policies, as an effort in the process of public investment restructuring in Vietnam. The content of policies is quite close to the actual situation, covering many aspects of public investment. Issues of publicinvestmenthave been regulated in details. Directive No. 1792/CT-TTg facilitated localities to review, classify priorities for local investment projects financed by State budget and Government bonds. Documents on public investment have been issued, finalized.

According to issued documents, the basic content of investment restructuring in 2013-2020 is that, about 30% - 35% of GDP is mobilized for development investment, and critical balances of the economy are maintained[30]; Sate investment accounts for approximately 35%- 40% of total social investment; savings from the Sate budget is increased; about 20% - 25% of the total investment budget is for development investment; change the capital use and management, overcome spreading, decentralized investment, improve the efficiency of public investment, maximize the scope and opportunities for private investment, especially domestic private investment.

1.4. Public investment management mechanism has been initially completed

The implementation of the Prime Minister's Directive No. 1792/CT-TTg on enhancing the management of investment financed by the State budget and Government bonds has significantly solved the problem of spreading public investment. State investment management mechanism has been improved towards the increase of responsibilities of Provincial People's Committee Chairman, investor, contractor and supervision consultant to ensure quality and progress of the works; balance the investment capital as per the medium term plan, strengthen management, minimizebasic construction overdue debt, closely monitor target capital in different ways.

Several policies havebeen implemented quite effectively. Overall, the Government has been quite efficient in attracting other funding sources for investment. Local private investment proportionhas risen and in 2012, it had the largest proportion of the total investment, up to 39.9%. Many localities have implemented Directive No. 1792/CT-TTg quite well, thereby strengthen the management and gradually solve the shortage of capital for investment projects, improve efficiency, avoid waste in public investment. Investment inspection, testing, and monitoring have been gradually improved and enhanced.

1.5. Practical outcomes of public investment have been seen

1.5.1. Investment proportion, particularly public investment has reduced dramatically, reducing spreading investment

[30] Savings, investment and consumption, state budget, trade balance, payment balance, public debt and foreign debt, etc.

Table 1: Several economic targets

	Period 2006-2010([1])	5 year plan (2011-2015)		Actual			
		XI Congress ([2])	Adjustment ([3])	2011([4])	2012([4])	2013([5])	Aver. 2011-2013([5])
1. GDP (billion dongs, at constant prices of 1994)				584,496	613,884	645,739	614,706
In which: Agriculture				94,657	97,231	99,635	97,175
Industry and Construction				244,123	255,165	267,540	255,609
Services				245,716	261,488	278,563	261,922
2. GDP growth (%)	7.0	7.0– 7.5	6.5 – 7.0	5.96	5.03	5.19	5.37
In which: Agriculture	3.3	2.6– 3.0	2.4 – 2.6	4.46	2.72	2.47	3.07
Industry and Construction	7.9	7.7– 8.0	7.2 – 7.7	5.53	4.52	4.85	4.97
Services	7.8	8.0– 8.5	7.4 – 8.0	6.99	6.42	6.53	6.65
3. Total social investment capital (billion dongs, at current prices)				877,850	989,300	1,089,300	1,002,965
Investment/GDP (%)	39.3	40.0	33.5-35.0	33.3	30.5	29.1	

Source: Report No. 421/BC-CP dated October 19, 2013 of the Government submitted to the 13thNational Assembly, 6thSession. (1) Statistical Yearbook 2011 (the highest growth rate in 2006-2010 was 8.46 % in 2007), (2) XI Congress Resolution, (3) Resolution No. 10/2011/QH13; (4) Socioeconomic Status Report 2012 of the GSO, (5) Estimates of GSO.

Relatively clear achieved outcome in the two years of 2012-2013 was the significantly reduced proportion of investment/GDP, from an average of 39% in 2006-2010 to over 33% in 2011, 30.5% in 2012 and about 30% in 2013. At the same time, bank credit to the economy declined from 136% of GDP in 2010 to 121% in 2011 and 108% in 2012. At comparable prices, the State capital has not increased in the last three years, the proportion of State investment in total social investment declined from 51.8 % in 2001-2005, to about 39% in 2006-2010, 37.4 % in the 2 years 2011-2012 and 37% in the first 9 months of 2013. A large number of investment projects have been rejected, postponed; capital allocation has been more focused, responsibility and discipline in public investment management have been improved.

Table 2. Structure of total investment capital in 1995-2012, (Unit:%)

Period	State	Non-State	FDI
1995-1999	50.94	24.56	24.5
2000-2005	54.05	29.6	16.35
2006-2010	39.08	36.36	24.56
2012	37.8	39.9	23.2

Source: GSO

It can be seen that,the major outcome of the last two years in investment restructuring has been the reduction of investment/GDP; initial innovation on State capital management mechanism has been done, thus partly solving the spreading, inefficient investment issue that has been existing for many years.

1.5.2. Public investment efficiency has been initially improved

According to several calculations[31], public investment efficiency has been initially improved. ICOR calculations show the slowdown investment efficiency reduction. ICOR calculations also indicate the efficiency increase in 2006-2007. However, it should be noted that ICOR is heavily influenced by capital growth, capital flow in this period which was congested, can reduce ICOR but it can't be confirmed that the cause is improved investment efficiency.

Investment efficiency is improved because of appropriate governance, reducing the spreading investment and increasing the efficiency of public investment, notably, Directive No. 1792/CT-TTG dated 15/10/2011 on strengthening governance of capital investment financed by the State budget and Government bonds and the recent Directive No. 32/CT-TTG dated 7/12/2012 on removing barriers and improving mechanisms and policies to improve investment efficiency.

Table 3. Average ICOR in periods and average reduction rate from 1996 - 2012 (Unit: %)

	Average ICOR		Annual reduction rate	
	ICOR _State	ICOR _non-State	ICOR _State	ICOR _non-State
1996-2000	3.9	2.0	26.3	8.0
2001-2005	5.3	2.7	4.5	4.3
2006-2010	8.3	4.6	11.4	13.7
2011-2012	7.5	5.2	-16.6	13.7

Source: GSO and calculations of Pho Thi Kim Chi (2013)

2. Constraints, causes in public investment restructuring

2.1. Constraints

2.1.1. Public investment hasn't had an overall roadmap

Public investment is one of the three components of economic restructuring. To date, restructuring plans on commercial bank system, stock market, SOEs have been approved. Basically, these components are considered as an overall restructuring process, an overall roadmap. However, restructuring of public investment (beside a number of documents, in which, it is considered as restructuring of some public investment components - such as Directive No. 1792 for State budget and Government bond source), has not had an overall program.

2.1.2. Several important documents related to the restructuring of public investment has not been timely issued

Many important documents on the management of public investment have not been issued such as:

- Law on public investment, a fundamental law governing capital sources of public investment is now being submitted to the 13th National Assembly for approval.

- Law on State capital management in the enterprises is now in the drafting process.

- Law on master planning, an important document in governing relevant subjects of public investment orientation is now in the drafting process.

- Decree on medium-term investment management has not yet been issued.

- Medium-term investment plan 2013-2015 on allocation, management and use of public investment capital, to replace the existing annual allocation, management has not been issued.

[31] Pho Thi Kim Chi (2013), Application of quantitative method to evaluate the efficiency of public investment in Vietnam

- Legal document to replace Decision No. 71/2009/QD-TTg on PPP in investment to attract non-state funds for public investment is in the drafting process.

2.1.3. Progress in public investment restructuring has been not as expected

Firstly, the imbalance between supply and demand in investment has been improved but still limited. Existing policies addressing the imbalance between supply and demand in public investment are limited. Public investment demand is huge while resources are limited. At the central and local level, the needs for infrastructure investment in 2011-2020 are very large. The Prime Minister's direction in the pilot PPP model implementation has been an appropriate step. However, its actual implementation still needs to address a lot of issues on: priority areas of investment under PPP, PPP investment procedures, awareness on PPP of the local governments, etc.

Secondly, although investment process with many procedures, steps has been reviewed under Project 30, but still limited. There are no criteria for economic and social impacts of investment projects for project approval and capital allocation. In addition, the procedure is lack of efficiency post monitoring. The monitoring of investment projects is mainly based on the project's reports. In all three provincial, district and communal levels, it shows that, the authorities are not aware of the progress of local investment projects which are not projects financed by local budget.

Thirdly, there is a lack of an appropriate, close and efficient procedure for public investment project identification, evaluation, selection and implementation. The existing process still includes the following eight steps: (i) Identify the policy, strategic orientation of the State investments in accordance with the relevant development master plans, objectives and prioritized areas of medium-term investment management framework; (ii) Initially assess, appraise the project proposals, reject projects that are not relevant to the strategic orientation, development master planand medium-term investment management framework; (iii) Evaluate and assess the socioeconomic benefits of the project; (iv) Review and assess the results of project appraisal; (v) Select projects and prepare project budget; estimate investment budget of selected projects must be suitable to the planned investment capital that can be balanced in the same time period; (vi) Implementinvestment, change and supplement (if necessary); (vii) Complete and put into operation, and (viii) monitor and evaluate the efficiency of the project, compareactual socioeconomic efficiency with appraised socioeconomic efficiency.

Fourthly, investment structure has been dominated by the State budget. According to the source structure, the State budget is the main part of the public sectorinvestment. The proportion of the State budget capital to the total public investment capital remains very high compared with the SOE and loans.

Table 4: Public investment structure, 2005-2012

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Public investment/ Total investment	47.1	45.7	37.2	33.9	40.6	38.1	38.9	37.8
In which,								
State budget	54.4	54.1	54.2	61.8	64.3	44.8	52.1	54.8
State credit	22.3	14.5	15.4	13.5	14.1	36.6	33.4	32.4
SOE	23.3	31.4	30.4	24.7	21.6	18.6	14.5	12.8

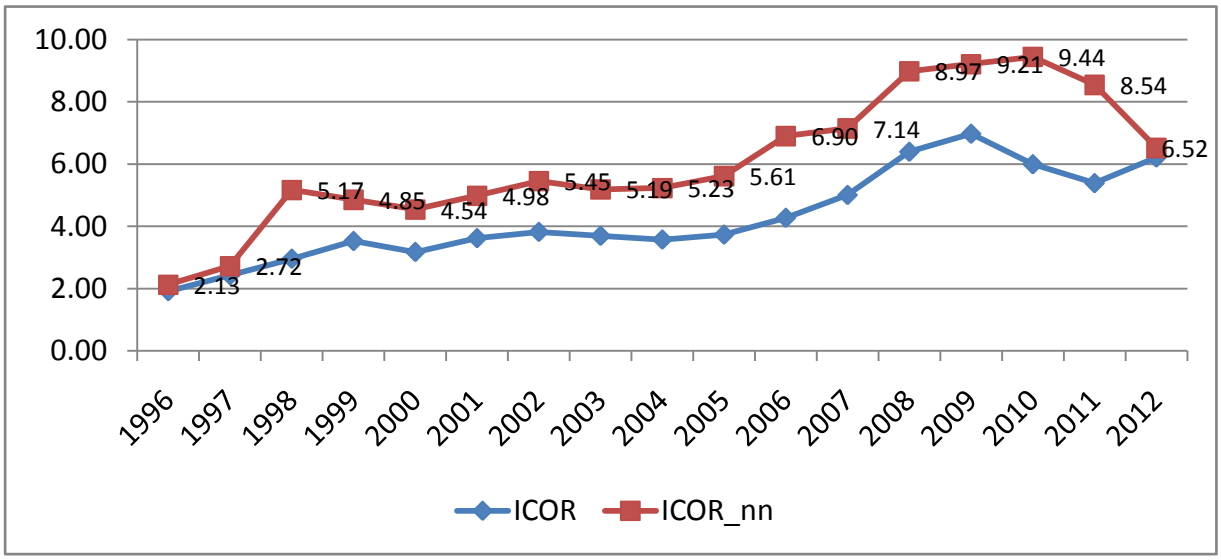
Source: GSO.

The proportion of the State budget has decreased but remains high. Reduced proportion of capital is theinvestment capital financed by retained earnings of SOEs, while State credit has

increased strongly. Table 3 shows that the State credit accounted for a third of the funding for public investment, while this ratio was only one-fifth in 2005. In terms of absolute value, the State credit increased from 30-40 trillion dongs in 2005-2009 to 114-115 trillion dongs in 2010-11 and 121 trillion dongsin 2012[32]. The reason was that in these tough economic years, at the supply side, financial institutions were ready to invest in Government bonds to avoid risks, while at the demand side, State projects have been increasingly depended on Government bonds.

2.1.4. Efficiency of public investment has been not as expected

Figure1: ICOR of public investment sector and of the entire economy in 1996-2012, (Unit: %)



Source: GSO and calculations of Study team

Efficiency of public investment remained low, although there have been some improvements. Investment efficiency by ICOR of the entire economy has been always higher than that of the public investment sector. This means that the amount of capital spent for growth has been always higher than the corresponding figure of the entire economy's capital. In particular, among the periods of the studied 5 year socioeconomic plan, in the period 1996 - 2000, the public investment capital needed for a unit of growth is 1.4 times higher than the average amount of the whole economy, and this continued to rise in the 2 periods of the next 5-year plans (respectively 1.4 and 1.5). In the period from 2010 until now, it has reduced but public investment for growth remains 1.3 times higher than the average level of the whole economy investment.

2.1.4. The strongly enhancement of public investment restructuring has been still facing many challenges

The first challenge is that public investment has focused too much on the economic field. The proportion of investments in economic field accounted for nearly 80% and tends to increase over the periods, while investment in the social, human being was modest (over 10%) and tends to decrease. This constraint presents the dominance of State sector against the private sector in many fields where private sector can participate while its role in social and public services has not been enhanced so that the State sector's investment in the fields that can solve social security and equality issues where private sector cannot or do not want to be involved. The insufficient management in investments of companies, corporations, SOEs in

[32] GSO of VN.

recent years has led to investment inefficiency. The economic regulating function of the State economy has not been focused. In addition, weaknesses in the management and administration of the business have resulted in losses, causing negative consequences for the economy.

Besides, public investment in public management tends to increase, from 6.2% in 1995-2000 to 9.3% in 2011-2012. This shows that, administrative reform has not sufficient.

Table 5. Public investment in socioeconomicand management fields in 1995-2012 (Unit: %)

Year	Economic	Social	Management	Total
1995-2000	77.8	16.0	6.2	100
2001-2005	78.6	16.4	5.0	100
2006-2010	75.3	15.7	9.0	100
2011-2012	77.15	13.55	9.3	100

Source: GSO

The second challenge is that post-investment production monitoring can not meet the requirements. Production monitoring procedure is very weak. A very typical example is the production monitoring for real estate projects. A basic data in real estate investment which is the number of m^2 of construction floor in a year, half year, quarter, month cannot been reported from each level (province, district, commune). Furthermore, once the project is put into operation, it's very difficult to get the production figures. It is difficult to get access to production performance reports. Information from sources such as tax, statistics, etc. is very different. Therefore, the evaluation of investment performance in terms of target/actual indicators is very difficult.

2.2. Causes

2.2.1. Rationale of public investment restructuring is still limited

Public investment restructuring has been approved in terms of direction. However, to date, no overall roadmap has been approved. Several relevant laws have not been issued. One of the reasons is that the rationale of public investment restructuring is still insufficient compared to demand. There has been no research on the issue of whether the public investment law governs all investment capitals sourced from the State budget or not. Currently, two laws related to this issue are being drafted (Law on public investment and Law on the management of investment capital in business operation) but it's widely discussed that these two laws should be integrated into one common law.

2.2.2. The period from the issuance of restructuring direction to the end of 2013 is not long enough for the changes to influence on basic issues such as public investment restructuring

One of the reasons for the underexpected public investment restructuring outcome is the too short period from the direction issuance to now. The Resolution of the 3rd Plenum of the XI Tenure has been put into practice for almost 3 years. Decision of the Prime Minister on the Master Plan on economic restructuring was also issued in 2013 (less than 1 year). Directive No. 1792 on State budget and Government bond capital was issued only 2 years ago. Directive No. 32 on the removal of barriers to improve the efficiency of investment (including public investment) has been put into implementation for only 1 year. Thus, their implementation require more time. In other words, policy lag is also a cause for the under expected outcomes of the public investment restructuring.

2.2.3. The implementation of the public investment restructuring has met many barriers, including institutional one

One of the reasons restricting the public investment restructuring is barriers (including institutional barrier), of which, not many have been removed. These barriers indicated in Directive No. 32 are economic thinking, economic development policy; economic mechanism and economic management policy; economic system organization barriers; planning barriers; State investment management organizational structure, etc. Strong determination and major orientations of the Party, State and Government are needed and cooperation among these should be done to remove these obstacles. Thus, it takes time.

2.2.3. The period of 2011-2013 was in economic difficulty, thus, the policy enforcement has been tough

One of the critical reasons limiting the restructuring process came from the difficult economic situation in 2011-2013. This was the economic uncertainty period. Financial resources, budget resources, public investment resources were difficult. In 2011, the Government proactively decreased public investment. In 2012, the Government spent efforts in maintaining macroeconomic stability, including reduced public investment. In 2013, budget revenue targets were not reached, etc. Other sources of public investment were limited. The adjustment of public investment structure was difficult. As a result, changes in public investment restructuring could not meet the requirements.

2.2.5. Many issues in investment restructuring haven't been solved

Many issues haven't been solved and challenge the public investment restructuring. Issue of region, regional connection; mechanism for investment: Promote key regions or disadvantaged regions to narrow the development gap, is still a question without reasonable answer. Appropriating decentralization between central and local level to ensure the public investmentin urgent targets while still ensures the autonomy and self-responsibility of stakeholders is also a question. How should State investment in target programs be reoriented? How should the integration among programs be? These issues should be studied thoroughly also. Which level should the State investment in production be? How to preserve State capital in SOEs? It can be seen that, there are many questions. When they are unsolved, the process of restructuring the investment still faces challenges. Consequently, the process of public investment restructuring cannot meet the expectation.

3. Major solutions for the strengthening of public investment restructuring in 2013-2020

3.1. The direction must be enforced, disseminated for the strengthening of public investment restructuring

To enforce the public investment restructuring direction identified in Decision No. 339/QD-TTg of the Prime Minister dated 19/2/2013 on approving the Master Plan on economic restructuring associated with economic growth model transformation towards quality, efficiency and competitiveness improvement in the period 2013-2020. Further enforce the implementation of Directive No. 1792 on State budget capital and Government bonds. Seriously implement Directive No. 32 of the Prime Minister on on the removal of barriers and completion of mechanisms and policies to improve investment efficiency, etc. All Ministries, sectors, localities must review the works, prioritize them; review obstacles, etc. for further public investment restructuring.

3.2. Issuance of documents with high legality on public investment

To actively study, modify and supplement and propose for the issuance of the following legal documents: Law on investment and Law on State capital investment in production and

business; Law on procurement, Law on budget, Law on master planning, etc. to serve as solid legal basis for the administration and management of public investment.

To revise, amend and supplement relevant documents such as Resolution on the decentralization; Decree on medium-term investment, documents on priority investment in economic zones and key economic zones key, etc.

3.3. Public investment procedure mapping

To standardize the process of formation, approval, implementation, operation and maintenance of public investment project. Assign, decentralize responsibilities among stakeholders: Approving agency - hosting agency - management agency by a sufficient procedure.

To legalize relevant issues towards a standard procedure on issues of public investment project -program - plan. The purpose is that there will be no project which is not included in the program, plan or not evaluated, approved, operated and maintained.

To arrange finance for all stages of the public investment. Budget for any period will be considered to ensure proper operation cost of the project lifetime.

3.4. Public investment management system computerization

To implement public investment project management system with modern tools. One of the most essential tasks is the computerization of public investment project system and project management system. This is one of the priorities in the coming period in order to improve the efficiency of public investment. Avoid uncontrolled loss. Ensure convenient access to the public investment project for progress management.

3.5. Strengthening of stakeholders' roles in public investment monitoring

To improve the effectiveness and efficiency of public investment project monitoring through strengthening the oversight role of National Assembly, auditing activity of public investment projects as well as monitoring mechanism of people and social organization for the investment activity.

To strengthen the role of the National Assembly in terms of policy, investment decision, implementation, maintenance, operation of public investment project works, especially key projects.

To develop criteria for investment efficiency assessment for annual investment performance assessment in each locality or region. A number of national key projects should have evaluation criteria before the pre-feasibility or feasibility study stage, so that the National Assembly and elected bodies can participate in monitoring from the early stage.

3.6. Strengthening of implementation measures

National Assembly and elected bodies shoulddevelop tools to monitor public investment. Documents must be issued to guide agencies in investment monitoring. Periodical programs and activities must be carried out to monitor public investment projects, works, etc.

Ministry of Planning and Investment shall be the Government agency responsible for leading, coordinating, advising public investment restructuring. It shall lead and coordinate with Ministries, agencies, local authorities to monitor and evaluate the implementation of the restructuring; timely proposeto Ministries, agencies, or local authorities on measures to deal with the related difficulties and problems. Ministry of Planning and Investment shall review and report to the Government, the Prime Minister, the competent levelson the implementation,

outcomes and solutions for public investment restructuring, revise, proposeappropriate issues of public investment restructuring.

Ministries, Ministerial-level agencies, government agencies, provinces and cities under the Central level shall coordinate with relevant agencies to develop public investment restructuring plan and implement solutions within their authority. They shall annually, quaterly and monthly report on these tasks.

Solutions must be further studied and translated into appropriate policies, the Ministry of Planning and Investment shall coordinate with relevant Ministries and agencies to form research groups to study, supplement,and complete solutions to improve the efficiency of public investment; advisethe Government in the solution implementation.

Authorized agencies and organizations shall participate in public investment restructuring monitoring and supervision. Monitoring results must be reported to the responsible agencies. At the same time, problems must be identified and reported to the relevant authorities.

In summary

Public investment restructuring is a focus of economy restructuring. Public investment restructuring is related to many aspects, subjects and multiple levels of the Government agencies as well as social classes. So far, public investment restructuring has achieved certain outcomes, but there are still many constraints. Under expected outcomes of public investment restructuring has been caused by several objective and subjective issues. Many solutions need to be implemented to promote the public investment restructuring success. Significant attention, consistent efforts must be paid, synchronous solutions must be done to have successful public investment restructuring: Improve the efficiency of public investment funds; and further remove socioeconomic bottlenecks and strengthen Vietnam economy position in the new context today.

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REVIEW AND COMMENTS

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(Review and comments for Report on "Public Investment restructuring: Outcomes, constraints and proposed solutions")

Public investment restructuring has gained several positive outcomes, but there remain constraints that must be taken into thorough consideration for appropriate solutions. Report of Dr. Tran Kim Chung has met the needs for this issue evaluation and urgent solutions, comments have been provided. Below are comments of the referee.

I-<u>Major advantages</u>:

1. The report has provided a relatively comprehensive picture on the public investment restructuring over the last 3 years.

The report provides an overview on public investment restructuring, from the policy to outcomes, with updated and processed data, periodically comparative data. The report confirms that economy restructuring and public investment restructuring is a consistent policy of the Party (XI Congress Resolution and other Plenums of the Central Committee), the National Assembly (in discussions and Resolution on planning) and the Government (in economic governance documents), and initial positive outcomes have been archived in the last three years (2011-2003). These directions have created the consensus among levels, localities and sectors, thus, a number of positive outcomes have been made.

However, although medium-term investment was considered, its implementation has been weak. The plan has been reviewed and approved in every separate year.

The mobilization of non-public resources to diversify the sources was mentioned, but the actual implementation has been slow. Enterprise's capital was in difficult in the context of tightened credit conditions; it has only increased by about 10% p.a in recent years. Capital attracting and use was identified but the implementation has been separated under the existing budget decentralization.

As a result, public investment has had progress in practice, although the mechanism has not changed much. Mainly because of the scarcity of public funds, units have proactively arranged, restructured. However, the restructure or arrangement has not taken consequences of the medium term works delay into consideration. The mobilization of ODA has been delayed due to lack of counterpart funds, delay in "clean land" provision, etc. These have limited the efficiency. The review of plans for better efficiency hasn't been done; capital source decentralization has been separated (70% remains under local management), thus, the efficiency has been brought mainly by downsizing rather than by governance. Corruption and waste which have been serious are not mentioned in the report.

2. Accurate analysis on advantages and successful level has been provided

The report has accurate quantitative and qualitative analysis on advantages and successful level of public investment restructuring.

The report analyses the positive points in planning, policy issuance and implementation, particularly Directives No. 1792 in 2011, which can meet the prioritization requirements. As a result, efficiency can be improved with the reduction of public investment proportion (the entire State economic sector from over 50% (before 2005) to less than 40% today). Also, certain

efforts have been made in medium-term investment plan development to have an overview and to ensure the feasibility and efficiency of selected projects. Efficiency through ICOR has been partly improved.

At the same time, the report also highlights the success of the modest public investment restructuring. I want to emphasize that, beside urgent factor of increasingly limited public funds in terms of size (as the budget cannot be increased too quickly) and proportion (from 30% to 25% of the budget), the following issues need to be analysed in details:

- Public investment restructuring should not only be attached with investment restructuring in general but also with the entire economy restructuring process, growth model change. Then, it's necessary to revise the Law on Budget to cover all investments of the State and State economic sector. Investment restructuring is related to SOE reform, ensuring the involvement of private sector in several stages (like ODA projects) and strengthening the "involvement", monitoring of the civil society, people (people know, people do, people check and people enjoy the direct and indirect benefits of the project);

- Delays have been highlighted, not only in document issuance but also in the effectiveness of these documents, many localities have tried to "violate", etc.

- Public investment restructuring in the context of in-depth international integration (generation 2), requires the re-defining of Development Strategy and Master Plan with the long term and systematic vision so that Vietnam can be more proactive in the participation in the global value added chain, not just to produce and use policies (tax, technical fence) to "shield" passively.

- Public investment must be revised in terms of capital structure to better reflect the social function of the State, particularly at the local level which is currently managing up to 70% of the State budget.

3. Good recommendations have been proposed

The report is not limited to the analysis, evaluation or criticism but several good proposals have been given.

- Among causes, rationale issue has been appropriately highlighted. Furthermore, the development thinking was also confused;

- As this was implemented "separately" in an insufficient timing, public investment restructuring has been limited;

- In 2011-2013, the economy was in difficulty. Thus, the implementation was restricted (for example the in-progress capital maintaining), but this is also a big OPPORTUNITY in the growth model change to be adapted to the new period.

4. Data have been updated and initial in-depth analysis has been provided.

Data have been updated although the transparency has been not very high, especially non-budget balance data, etc.

II-<u>Issues for further discussion</u>:

1- Public investment restructuring must be considered in the overall economy restructuring

1.1. First of all, the author assumes that what the public investment consist of are "clear", but in fact, this issue should be better analysed. In balancing the budget, if we remove the

Government bond part, it's clear that the investment in the budget has spent a large amount of what is called "investment from credit".

1.2. The author should also clarify investments that have the public feature but financed by different sources. Even ODA, which is partly considered as the budget source but because it is not clear about the disbursement possibility, it is placed "out of" the balance, and considered as the "additional" amount, causing impact on the mobilization and use of this source of fund.

1.3. Public investment restructuring must be considered together with the entire economy restructuring, in accordance with the consistent Development Strategy and Master Plan. Currently, this separation still exists, causing difficulty for the development of overall plan[33]. However, beside the overall plan, there has been no comprehensive plan on public investment restructuring, although the author emphasized that there has been strong preparation or study (actually, Directive No. 1792 has been most useful), but it's the legal document at low level.

2. Three components of economy restructuring should be considered as having relationship with restructuring of economic organizations so that an overview on the transformation into efficient growth model and competitiveness can be seen.

2.1. More comments on the chance to restructure the economy and investment as per the new development thinking.

2.2. Closely connect public investment internally (development master planning and investment master planning) to increase the direct efficiency, and externally to enhance the systematic feature in the economy restructuring, especially when 1/3 of public investment is financed by State credit and 15% is from SOEs.

2.3. Further enhance the monitoring and evaluation before, after and during the project.

3. In public investment efficiency and restructuring efficiency evaluation, the needs for restructuring of the entire budget spending and revenue system must be seen.

3.1. Public investment is closely related to spendings of the State economy and State budget. Thus, spendings and revenues must be accounted consistently as per international practice, under the supervision of the National Assembly and local people.

3.2. Budgeting method should be revised with a consistent Law, including approval, supreme supervision and balance approval.

3.3. To enhance the efficiency and disseminate public investment's positive impacts, a mechanism is needed so that technical scientific associations can get involve in right from the beginning of the process.

4. Also, investment restructuring in general must be considered basing on the new development plan and strategy, together with reform system of the in-depth integration stage.

4.1. With the change in new development view in the context of high competition, integration, public investment restructuring must be considered in the overall growth model reform;

4.2. Public investment restructuring requires strong reform in planning, decentralization with the systematic coordination;

[33] Public investment and economy restructuring has been mentioned at the 3rd Plenum of the XI Tenure but no resolution was issued (it was only reflected in the conclusion speech of the General Secretary). 6th, 8th Plenums also mentioned this but no basis has been provided for the National Assembly and the Government to take this issue into consideration. Also, the National Assembly did not have a separate resolution on public investment and economy restructuring, thus, orientation for the Government has not been clear, and the incoming review, monitoring will hardly have specific criteria for the evaluation?

4.3. The reform requires that public investment restructuring must follow international practice. The different issues must be revised, especially issues of public investment related debt management and debts guaranteed by the State within the safety limit, etc.

Despite of additional feedbacks and comments, **in general, this Report is a good contribution to the public investment restructuring,** under the context of transparent, public information shortage, etc.

SOE RESCTRUTURING: FACTS AND ISSUES

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SOE restructuring: Objectives, Tasks and Solutions

The Project “Restructuring State-owned Enterprises, with Emphasis on State-owned Economic Groups and Corporations over the Period of 2011 - 2014” was approved by the Prime Minister of Vietnam on July 17, 2013, creating essential foundations for accelerating the restructuring of SOEs, which had already been a topical issue at the time.

The goals of restructuring SOEs were clearly and specifically set out, aiming at two major aspects:

- Scope of Business: Restructuring so that SOEs focus on key sectors, provide essential products and services for the society as well as for national defense and security, act as the core factors for State economy to perform its leading role and be an important physical force in order for the State to orient and regulate the economy and stabilize the macro-economy.

- Efficiency of Business: Restructuring targets at enhancing competitiveness and profitability for business enterprises and at fulfilling the tasks of producing and providing essential products and services for the society, for national defense and security for public utility enterprises.

On the basis of the set objectives, the project outlined five groups of tasks to be carried out during the 2011 – 2015 period, specifically:

(1) Classify enterprises of 100% state capital into four distinct groups.

(2) Withdraw state capital invested into businesses neither being nor directly relating to key sectors and state capital in joint stock companies which the State does not need to govern in accordance with market rules.

(3) Restructuring is sector-based, irrespective of levels and agencies of management. Initially, restructuring is implemented in such fields as construction, commerce, telecommunications, publishing, lottery, water supply, urban environment, irrigation, management and repair of roads, railways and waterways.

(4) Restructure state-owned groups and corporations comprehensively; namely, organization, management, human resources, business industry, development strategies, investment, market and products. Reorganize some state corporations and enterprises to adapt with the current situations and task requirements.

(5) Improve the institutional mechanisms and policies on equitization, sale, transfer, dissolution and bankruptcy for enterprises of 100% state capital.

To fulfill the tasks, the project proposes six groups of solutions, some of which are clearly specified in terms of cognition, policy, implementation and responsibility. Some milestones are set out in detail:

(1) By 2015, complete the approval of the restructuring and innovation plans of state-owned enterprises in ministries, sectors, locals, state economic groups and corporations. Determine the quantity and specific list of enterprises holding 100% state capital, those holding more than 75%, those holding between 65% and 75%, those holding from 50% to 66% and other enterprises. During the implementation process, continue to promote equitization based on the actual situation.

(2) Fulfill the target of equitizing enterprises following the approved plans, considering it the key task of the 2012 - 2015 period.

(3) Submit to the Prime Minister the restructuring projects of state economic groups and corporations set up under the Prime Minister's Establishment Decisions; submit to the respective Ministries and the People's Committees the restructuring projects of corporations and enterprises under the Establishment Decisions of the Ministers, the Chairmen of the People's Committees of Provinces and Cities directly under the Central Government for approval by Quarter III of 2012. Implement the following contents: Overhaul and determine tasks and business lines; Set up development strategies by 2015 with a vision to 2020; Build financial plans to implement the assigned tasks and handle existing financial problems during the restructuring process; Put an end to investing into non-major sectors by 2015.

(4) Ministries in charge of technical and economic sectors (including Construction, Industry and Trade, Information and Communications, Finance, Agriculture and Rural Development and Transportation) shall carry out an overhaul and review of the reasonableness, possibility, conditions and methods of restructuring, thereby, setting up restructuring schemes in the field, regardless of management levels and agencies, submit the schemes to the Prime Minister for approval in Quarter III of 2012 and direct the implementation.

(5) In short, the Project requires that during the restructuring process, each enterprise, economic group and corporation shall have to re-organize and rearrange the structure of that institution (Restructuring of structure). In order for the parts to work synchronously towards the desired ends, it is necessary to adjust and supplement related regulations (Restructuring of Regulations). At the same time, the State should set up and supplement regulations and guidance and carry out the abovementioned restructuring process (Restructuring of Institution).

Implementation and Results

(1) Regarding restructuring projects

By August 2013, the Prime Minister has approved of 100 over 101 restructuring and renovation projects submitted by Ministries, Sectors and Localities during the 2011 - 2015 period. Over 40 restructuring proposals have been approved by competent authorities. The remaining SOEs are on the way to completing their restructuring projects or having them examined for approval by competent authorities.

The contents of over 40 SOE restructuring projects approved by competent authorities have demonstrated a sense of responsibility and awareness of the need for restructuring. It is clearly seen, however, that many contents still present real challenges which require time to complete, some are not specific enough to implement and monitor and some important issues have not been clearly defined.

- Concerning situation evaluation, some projects have not fully assessed the shortcomings in executive and financial management as well as productivity of enterprises (mainly economic groups and corporations). Specifically, there exists a lack of in-depth assessment in order to have structural changes in economic groups and corporations, especially in enterprises of multiple affiliations and departments where operational efficiency is still low. Moreover, there is a lack of clear, adequate analyses and assessments of current financial situations based on the most commonly used indicators such as rate of return on capital, coefficient of debt over capital, liquidity, capital allocation by sectors and so on, from which requirements of restructuring could be set out. No profound analysis of labor productivity and business

efficiency compared with those in the market has been made in order to arrange and retrain laborers.

- The plans of action of the economic groups and corporations are mostly limited to narrowing down affiliated enterprises in the form of merger or consolidation. This is probably the most striking and obvious content; however, many projects have not been able to put forward fundamental solutions to restructure following the set targets of focusing on the key business sectors and improve business productivity.

- Numerous projects lack the content of and solutions to innovating technological equipment to save energy, enhance productivity and keep pace with market development trend.

- The content of enterprise administrative reform is not profound enough, lacking clear solutions to changes and adaptations to the management and supervision of state capital owners.

- In both restructuring schemes and approval decisions, the contents of restructuring financial situations, debt, labor training, output orientation indicators were scantly mentioned. Along with this are numerous solutions and proposals; yet, there has been no tough and revolutionary measure yet.

(2) Changes in restructuring objectives (Changes in business industries and improvement in business efficiency)

Due to the relatively short implementation time of Decision No. 929/QD - TTg (most of which are in the process of construction and approval of specific projects or construction and submission of institutions, mechanisms and policies), the general assessments of SOEs restructuring (such as Economic Forum Fall September 2013) have not reflected the actual results of the implementation process as well as the effects brought by the issuance of Decision No. 929/QD-TTg. There has been no striking change in the economic trend from 2007 until now under the influence of SOE restructuring. The Economic Committee of Congress also reported that SOE restructuring has been proceeding slowly and in 2013, only 23 enterprises carried out restructuring. The implementation of SOE restructuring was not strategic but desultory, mainly involving internal transfer within economic groups, corporations or between enterprises, thereby unable to create motivation and pressure to accelerate restructuring of SOEs[34].

This leads to the need to reconsider a more appropriate implementation method and procedure. Since SOEs still prove their power and role, issues relating businesses, financial weaknesses and SOE efficiency could hardly be changed within a short period of time.

- The economic power of SOEs has still undergone an upward trend over the past years. In 2011, the total assets of economic groups and corporations were valued at 2,093,907 billion VND, increasing by 16% compared to that of 2010 while total capital of enterprise owners at 727,277 billion VND, increasing by 61,738 billion VND (about 9.3%) compared with 2010.

- In 2011, the gross turnover of economic groups and corporations was estimated at 1.577.311 billion VND, increasing by 25.1% compared with 2010. Just for parent companies, turnover was measured at 779.059 billion VND in 2011, increasing by 25% compared with that of 2010. On average, the rate of return on total assets was 0.75 time and that of return on captital was 2.16 times.

Many economic groups and corporations experienced a higher revenue growth than that of 2010 such as Binh Duong Becamex Corporation (increasing by 49%), Vietnam Coffee

[34] "Some measures to boost economic restructuring", The Congress E-news October 2013.

Corporation (46 %), Vietnam Rubber Group (42%), Vietnam National Petroleum Corporation (39%), Vietnam Steel Corporation (32%), Military Telecom Corporation (27%) and Vietnam National Chemical Corporation (24%). Of these, the corporations with the highest revenues listed Vietnam National Petroleum Corporation, Vietnam Electricity Group, Vietnam Military Telecom Corporation (Viettel Group), Vietnam Telecommunications Corporation, Vietnam Coal - Mineral Industries Group, Vietnam National Petroleum Group and Vietnam Rubber Group.

Though SOEs only account for 1 percent of the total economic sectors, they act as the core force providing such essential products and services as 85% of electricity, gas and oil, 90% of telecommunication services, 95% of domestic air transport, 56% of financial and credit services, 70% of exported rice, contributing over 30% of the total state budget revenues and 33% of the economic growth[35].

SOEs, mainly economic groups and corporations, are entrusted with many important roles:

+ Play the governing role and guarantee the production and supply of essential products, goods and services in such aspects as mining and supplying coals for nationwide usage, providing electricity for the whole society, trading petrols for consumption, producing cements, producing and supplying steels, purchasing rice, coffee for farmers.

+ Fulfill tasks assigned by the Government to invest in key projects serving the long-term socio-economic growth strategies of the nation and major projects of low economic efficiency but of striking political and social significance that enteprises of other economic sectors do not or cannot take over, especially projects of great importance in establishing infrastructure for the economy and restructuring regional economy towards industrialization and modernization of the country such as Dung Quat Oil Refinery, Nghi Son Economic Zone, Vung Ang Economic Zone, Ca Mau Power Complex and Son La Hydropower Plant.

+ SOEs perform public utility tasks in underprivileged regions, providing supports to poor localities and ensuring social welfare. Many groups and corporations put an emphasis on investing in infrastructure development projects and supporting localities in boosting poverty reduction.

In correspondence with the abovementioned tasks, by the end of 2011, Vietnam still had 1.060 enterprises of 100% state capital, including 452 enterprises working in the fields of national defense and security and public utility and 608 business enterprises working in 19 key business areas. Of the 3.976 equitized enterprises, the state still held dominant shares in 1.217 enterprises operating in important sectors.

In a word, SOEs' development and effects still have important impacts on socio-economy.

- Restructuring in business sectors has been determinedly carried out with tough acts; however, due to various reasons, its results and effects on the society and economy are not yet evident.

- During the past years, economic groups and corporations invested their capital into such areas as stocks, investment funds, insurance, banking and real estate. The gross value of investment in these areas were measured at VND 6,114 billion in 2006, which increased to VND 14,441 billion in 2007, VND 19,840 billion in 2008, VND 14,991 billion in 2009 and VND 21,814 billion in 2010.

By December 31, 2011, the parent companies of these groups and corporations have invested in the abovementioned fields VND 23,744 billion, rising by VND 3,056 billion (15%) compared with 2010, of which, investment in stocks was valued at VND 696 billion (dropping by VND 14

[35] Statement of Draft Law on State-capital Investment and Business in Enterprises, Ministry of Finance, July 2013.

billion), investment funds at VND 675 billion (rising by VND 12 billion), insurance at VND 1.682 billion (rising VND 31 billion), banking at VND 11,403 billion (rising by VND 187 billion) and real estate accounting for the highest proportion, at VND 9,286 billion (rising by VND 2,840 billion) .

The added value in 2011 was due to an increase in revenue in business capital contribution in the form of stock dividends, bonus shares for existing shareholders, rights to purchase additional shares issued. Therefore, investment values increased in quantity but the proportion of capital contributions remained the same[36].

According to Decision No. 929/QD-TTg, capital withdrawal in the abovementioned fields must be completed by December 31, 2015, which is considered a great challenge when financial markets, stock and real estate markets have not been improved. It is, therefore, hard to have a clear roadmap on restructuring these investments when the owners require the guarantee of effectiveness. Not is not to mention the fact that many regulations concerning investment projects, land use rights and the likes still remain numerous legal obstacles which are hard to surmount. The current regulations on capital withdrawal are scattered in various legal documents, and they have not fully covered the diverse types of withdrawn capitals and assets and are no longer relevant to the contemporary conditions. Take this as an example. Decree No. 71/2013/ND-CP stipulates the preservation and development of capital in enterprises are done in accordance with the regimes of capital and asset usage, profit distribution, financial management mode and other accounting modes as prescribed by law. Circular No. 117/2010/TT-BTC regulates that withdrawal of financial capital invested in non-major sectors shall comply with the principle of openness, transparency, capital preservation while maintaining it not lower than the market price or not lower than the value recorded in the accounting books of the equity owners.

This is why the leaders of many groups and corporations claim that, if the abovementioned problems are not timely handled, it will be difficult to complete capital withdrawal by 2015.

Besides, up till now, SOEs have shown little remarkable changes under the impact of SOE restructuring compared with the time Decision No. 929/QD-TTg was first issued. Many areas where other economic sectors are able to take over still maintain state capital. Moreover, several enterprises of 100% state capital or of major state capital are not working as effectively as private enterprises. A number of sectors, which are not undertaken by private enterprises, are neither taken over nor ineffectively operated by SOEs, thereby being dominated by foreign goods (such as plant and animal breeding production).

- The problems of capital shortage or loss have not been adequately adjusted. In general, groups and corporations manage to maintain and develop equity at an average capital preservation coefficient of 1.14 times. However, a number of corporations are unable to preserve equity due to business losses, risks and the lack of financial autonomy. To illustrate, Mulberry Silk Corporation underwent a negative equity (minus 281 billion VND) and Waterway Construction Corporation (minus VND 604 billion). The corporations, having run into these difficulties for a long time, have not so far overcome the problems.

Several groups and corporations experienced low rate of equity over total capital; for instance, Vietnam Corporation for Investment and Development of Highways at 2% (Parent Company 2%), Civil Engineering Construction Corporation No1 at 4% (Parent Company 8%), Vietnam Maritime Corporation at 5.9 % (Parent Company 41%) , Song Da Group at 8 % (Parent Company 31.2%), Civil Engineering Construction Corporation No. 8 at 6 % (Parent Company 8%) ; Thanh An – MOD Corporation at 8 % (Parent Company 8%), Construction Corporation

[36] Report No336/Bc-CP dated November 16, 2012 by Ministry of Finance.

No.1 at 8 % (Parent Company 8%) and Thai Son - MOD company is 9% (Parent Company 9%) .

Business efficiency of the groups and corporations is still limited and has not improved significantly. In 2011, the consolidated before tax profit of the groups and corporations was valued at VND 135,111 billion, which was 12 % higher than that in 2010. The ratio of profit on equity only stood at 18.57% compared with 16.5% in 2010. Despite the upward trend, it was only equal to the previous year once taking into consideration the costs of borrowing capitals by credit institutions in that year. According to the World Bank (WB), between 2007 and 2009, enterprises claimed a 17 percent profit, which seemed high but actually still lower than the nominal economic growth (19%) and foreign business sector (27%). Meanwhile, 80% profits still concentrated in a handful of corporations: Oil and Gas Corporation (VND 53,833 billion), Military Telecommunication Corporation (VND 19,793 billion), Telecommunications Corporation (VND 8,646 billion), Vietnam Coal and Mineral Corporation (VND 8,632 billion), Rubber Industry Corporation (VND 11,773 billion).

While profit concentrated on a number of groups and corporations, many SOEs fall into a high debt, resulting in lower production and capital loss. According to the statistic of the Ministry of Finance, the average losses of SOEs were 12 times as high as the non-state sectors and the total accumulated losses of the groups and corporations by the end of 2011 reached VND 26,100 billion. In 2011, 05 groups and corporations incurred a consolidated loss of VND 5,823 billion, including Vietnam Electricity Group losing VND 2,589 billion (excluding foreign exchange loss of VND 11,208 billion), Vietnam Petroleum Corporation VND 2,390 billion, Vietnam Maritime Corporation VND 791 billion, Waterway Construction Corporation VND 66 billion and Military Petroleum Corporation VND 17 billion.

- Accumulated losses of 13 groups and corporations up to December 31, 2011 were estimated at VND 48,988 billion, of which the heaviest was the Vietnam Electricity Group (with total accumulated losses of VND 38,104 billion including VND 11,437 billion loss due to electricity producing business and VND 26,667 billion loss due to exchange rate differences). Maritime Corporation underwent an accumulated loss of VND 5,738 billion; Vietnam National Petroleum Corporation VND 2,390 billion; Military Petroleum Corporation VND 566 billion, Song Da Corporation VND 625 billion; Sericulture Corporation VND 321 billion; Vietnam Coffee Corporation VND 209 billion; Truong Son Corporation VND 66 billion; Waterway Construction Corporation VND 871 billion; Civil Engineering Construction Corporation No.1 VND 35 billion; Vietnam Tea Corporation VND 27 billion; Civil Engineering Construction Corporation No. 6 VND 27 billion; Saigon Culture Corporation VND 3.4 billion.

It is clearly seen from the above situation that groups and corporations have to face numerous production and business difficulties and many financial risks such as high interest costs (while loan amount is extremely large), not yet recovered market and high cost of management and labor.

Debt restructuring of state-owned enterprises is not easy to solve in a short period of time. In 2011, total debts to be collected from groups and corporations stood at 296.541 billion VND (equal to 14.1 % of the total assets), increasing by 13.8 % compared to 2010, of which bad debts was valued at 3.753 billion VND, accounting for 1.26 % of the total debts. In 2011, the total liabilities of groups and corporations were 1.292.400 billion VND, 18.9 % higher than that in 2010. The average coefficient of debt over equity in 2011 was 1.77 times, while that was 1.32 times in 2006 and 1.65 times in 2010. Of all groups and corporations, 30 had ratio of debt over equity greater than 3 times, including 08 corporations with a ratio more than 10 times, 10 corporations from 5 to 10 times and 12 corporations from 3 to 5 times.

- Exclusively for parent companies, bad debt stood at VND 1,873 billion, increasing by 25 % compared to 2010. A number of parent companies did not have high bad debts but the proportion of bad debt over total debt was extremely high; for instance, Vietnam Automobile Industry Corporation (bad debts was VND 44,391 billion, accounting for 74 % of total amount to be collected; the Parent Company - The Civil Engineering Construction Corporation No.6 (VND 108,650 billion, accounting for 36%); The Parent Company - Sai Gon Trade Corporation (VND 173,470 billion, accounting for 32%)and The Parent Company - Agricultural Vegetables Corporation (VND 30 billion, accounting for 27%) .

Doubtful debts and ratio of bad debts over total debts or over total assets concentrated mainly in construction industry, trade and services.

Regarding liabilities, many groups and corporations mobilized too much capital for investment and diversification of business lines as well as established many subsidiaries and joint companies operating in various fields and sectors. By May 9, 2011 bank loans of big SOEs reached VND 415,000 billion, equivalent to nearly 17% of total loans at the bank. Of these, loans of 12 state-owned economic groups were valued nearly VND 218,740 billion.

Report of the Ministry of Finance also showed that 30 out of 85 groups and corporations mentioned above had coefficient of debt three times as high as equity. Particularly, seven cases had coefficient of debt over equity more than 10 times, including Industrial Construction Corporation, Civil Engineering Construction Corporation No1, 5 and 8, Military Petroleum Corporation, Thanh An Corporation and Highway Development Corporation.

According to consolidated statistics, the average coefficient of overall liquidity (total assets over total liabilities) is 1.62, which indicates a fact that the groups and corporations are operating mostly on the basis of loans, resulting in huge financial costs and low possibilities of returning due debts. Several groups and corporations are having overdue debts such as Vietnam Electricity Group with an overdue loan of 10.149 billion VND (The Prime Minister has directed the implementation of freezing debts to buy power of the National Oil and Gas Group of Vietnam), the National Oil and Gas Group of Vietnam with a delinquency of VND 1,731 billion (a debt of Dung Quat Shipbuilding Industry Company Limited - taking over from Vinashin), Vietnam Tobacco Corporation with an overdue debt of VND 467 billion, the Civil Engineering Construction Corporation No.6 with an overdue debt of VND 128 billion, Vegetables and Agricultural Product Corporation with an overdue debt of VND 30 billion.

Overall, 18 parent companies have the proportion of liabilities over equity greater than 3 times, of which 5 parent companies have the proportion over 10 times, 5 parent companies from 5-10 times and 8 others from 3-5 times[37].

While debt and bad debt of SOEs remain at high level, remedies to debt handling and restructuring are not tough enough. One of the most important solutions is to sell debt to professional debt trading companies. Up to now, however, only the Vietnam Debts and Assets Trading Company (DATC) of the Ministry of Finance are doing the job. Despite bearing features of a national organization majoring in handing national debts, DATC lacks specific sanctions to operate effectively. In particular, what needs to be overcome instantly is probably the lack of effective mechanisms for forming and using financial funds to handle bad debts and to support capital for enterprise restructuring. The debt volume in SOEs is extremely high and within 2012, DATC successfully handled debts and restructured nine enterprises, of which five involved buying debts, restructuring and transforming SOEs into joint-stock companies and four others involved restructuring joint-stock companies (from SOEs equitization). Despite the

[37] Report No336/BC-CP dated November 16, 2012 of the Ministry of Finance.

modest number, this is considered positive results, especially in the context of 2013 when the whole nation was able to handle only 21 enterprises (including 13 SOEs equitization)

According to the 2013 Plan, DATC strived to attain the total annual revenue of between VND 500 and 550 billion, of which revenue from trading debts at about VND 270 billion, revenue from financial activities and other revenue at about VND 220 to 230 billion (including capital divestment of approximately VND 100 billion, revenue from asset disposal and debt exclusion recovery at about VND 10 billion and pre-tax profits in 2013 no lower than those in 2012).

DATC plays an important role in realizing the target of solving all SOE sector's debts by 2015 as set by the Government. However, in the current situation of SOEs loans and liabilities, the task appears to go beyond handling capacity of DATC.

- Action more commonly deployed by groups and corporations is restructuring in the form of merger or business transfer.

However, merger and transfer are mostly not based on the objective and direction of restructuring to adjust business lines, cut losses, reduce costs and improve business productivity. Rather, most merged and transferred enterprises are those currently experiencing bad financial conditions such as losses and negative equity, therefore, requiring supports from receiving enterprises. As a result, this process has not brought about striking changes, but even caused difficulties to those involved. This could be illustrated by the case of transferring enterprises and projects of Vietnam Shipbuilding Industry Group (Vinashin) to Vietnam Maritime Corporation (Vinalines) and the National Oil Corporation of Vietnam (PVN) or transferring the Electricity Telecommunications Company (EVN Telecom) under Vietnam Electricity Group (EVN) to the Military Telecom Corporation (Viettel). As the principle of the merger and transfer are maintaining the status quo within corporations of the same field, the receiving units, besides receiving all assets and resources, have to receive the burden of loans and losses of the transferred enterprises. In addition, there are many transfer and merger proposals from cement factories (due to losses, lack of markets, inability to repay loans) and from agricultural and forestry companies and biological petroleum production company (due to losses and the unlikelihood of being able to return debts) and so on.

(3) Changes in the institutional and implementation support

- The institutional mechanisms and policies that need to be developed and adjusted have been specifically set out. The authorities have made great effort to implement these policies; however, progress has been slow due to the requirement to follow the prescribed procedures. Implementation has not been able to bring back clear progress in specific content.

Therefore, in the process of setting up and implementing the projects, many groups and corporations, ministries, branches and localities still face much confusion as to apply the related regulations and mechanisms. The major focus is equitization, however, numerous problems are met when following Decree No. 59/2011/ND-CP in transferring enterprises of 100% state capital into joint-stock companies, thereby affecting implementation progress. Specifically, the issue of conducting audit to identify business values could hardly follow the exact time requirement as defined in many circumstances, leading to the extended implementation period. Similarly, the issue of identifying land use right in assessing enterprise value depends on the ability to handle land and house issue and the prices fixed by local authorities. Or the task of collating the whole debts when assessing the value in the context of high volume of businesses in both parent company and subsidiaries is highly demanding. Besides, there exist numerous problems in transferring unnecessary units in the production line of a corporation, in conversing creditors for loans or investors for projects.

- Of the series of difficulties in SOEs restructuring implementation, we can not underestimate the resources to carry out the act, especially in debt restructuring and redundancy solving. Take Vietnam Coal - Mineral Industry Group (Vinacomin) which has a workforce of 140.000 people as an example. To implement restructuring, it is projected that at least 40,000 workers will be made redundant[38].

Overall, the SOE restructuring process can be generalized as follows. First, from regulation perspective, the splitting, merger, dissolution and new establishment of corporations are quickly done while regulations and institutions are not yet synchronized, especially the system of legal documents regulating the activities of enterprises and financial institutions defining responsibilities of management and administration force at all levels in the enterprise. Second, the internal institutions including rules, regulations, technical procedures and regulations for managing enterprises are not clear and transparent. Third, in the process of restructuring and development, many businesses have not attained high capacities and are limited in long-term problems such as labor, technology, markets and so on. As a result, there have been little clear changes and adjustments in terms of operational direction, business efficiency and competitiveness.

Proposals and Discussions

Up to this moment (late 2013), some contents of SOEs restructuring with an emphasis on state economic groups and corporations during the 2011 -2015 period have been actively carried out by ministries, sectors, locals and regions. Restructuring directions, existing issues and implementation methods have been clearly defined. At the same time, a massive number of problems of great complexity as relating to many other socio-economic issues are revealed, requiring great consideration. Besides, there are also some new contents that have been initially deployed, such as restructuring based on fields, regardless of management levels (due by the third quarter of 2012); the comprehensive restructuring of groups and corporations in the content of development strategy by 2015 with a vision to 2020 and the construction of a financial plan to implement the assigned task and handle financial existing problems (due by the third quarter of 2012)

To make a breakthrough in implementing SOEs restructuring project, creating a change in quality and promoting operational efficiency of state-owned enterprises, it is suggested to apply the following measures:

- Restructuring of SOEs, especially groups and corporations while handling a variety of issues requires supporting resources. Furthermore, simultaneous restructuring may have negative impacts on the economy, the society, causing damage to businesses and the State. Restructuring must derive from specific goals of each SOE but not follow a common plan.

Therefore, it is suggested that certain groups and corporations be selected for pilot restructuring so that efforts could be focused on specific cases. Based on that, we can improve the mechanisms and measures for large-scale restructuring.

- It is vital to set up specific schedule of SOEs restructuring of groups and corporations in an objective interrelation between enterprises, the legal for-profit businesses, and the market and social issues and between benefits of enterprises as independent business subjects and the State as investment owner. Based on that, we will have better awareness of the process and specificity of restructuring individual enterprise, group or corporation. Therefore, it is advisable to classify and identify key business lines of SOEs, thereby, publicizing list of enterprises to be equitized and divested. Time and methods of implementation should be made flexible based on specific context to harmonize with the benefits for the enterprise, the state and society.

[38] "Selecting 2-3 corporations for model restructuring", Stock Investment, dated November 2013.

- There should be appropriate policies and legal regulations regarding the transfer of projects, of land use rights, of property sale and so on in order to restructure enterprises. Equitization is not necessarily the only way of approach.

- There should be a regulation enforcing SOEs, groups and corporations to timely publicize such contents as semiannual and annual consolidated financial report already audited, decisions and resolutions of the owners and of the Board of Directors, the list of investment projects and the progress of the project being deployed, large transactions, large loans, etc.

Also, due to the nature of state ownership, the publicized information should be of higher standards, with sufficient information about wages, bonuses, arrangements and business innovation.

- Amend and supplement Governmental Decree No.59/2011/ND - CP dated July 18, 2011 regarding the transfer of wholly state owned enterprises into joint-stock companies with the view of creating conditions for enterprises to accelerate equitization. Amended contents are:

+ Consider adjusting value assessment methods and responsibilities of enterprises as well as equitization consulting agencies. Advisably, introduce additional tight sanctions or apply further supervision and assessment of enterprise evaluation and equitization rather than add auditing which is both unclear in responsibility and requires extended time for equitization.

+ Determine the value of land use rights in business value: To thoroughly overcome obstacles when determining the value of land use rights in business value, mechanisms on land management of equitized SOE should be adjusted in the direction of defining regulations; say, all lands currently administered and used by the equitized SOE must be transferred to fixed-term land lease with the authorities except for special cases where there will be specific handling mechanism. By that way, we can overcome the shortcomings in the process of determining the value of land use rights in business value as could be seen in recent years, accelerate the equitization process and create favorable conditions for the State to plan and use lands effectively, thereby avoiding losses.

- Defining rules of organizing bids to select valuation consulting organizations: To overcome difficulties and enable enterprises to accelerate the equitization process, it is suggest that the provisions of bidding in the Governmental Decree No. 85/2009/ND-CP dated October 15, 2009 (Guiding the implementation of the Bidding Law) be amended. Specifically, for packages worth no more than VND 3 billion and with no more than 02 valuation consulting organizations registering to participate in providing consulting services, the authorities shall determine equitization plan and select bidder on their own. Where the package value is not more than VND 3 billion, yet, there exists a need to organize bidding, then, bidding shall be organized in accordance with regulations. For bidding package valued at VND 3 billion or more, equitized enterprise shall have to organize bidding as prescribed by the law on bidding. The competent authority shall decide the equitization plan options and select valuation consulting organization based on bidding results.

At the same time, we need to add sanctions and inspection of the valuation consultancy together with appropriate handling measures.

- For business units belonging to groups and corporations: When equitization, under the pressure of dividend quota and labor restructuring, groups and corporations often want to retain only truly necessary business units while there are a lot of business units in the groups and corporations. To solve this problem, there should be mechanisms to entitle groups and corporations to choose the units required for the operation of the corporations later on. The remaining units shall be handed over to the ministry in charge for handling in accordance with the existing regulations. For instance, research institutes shall be shifted into science and

technology enterprises or institutes and colleges into for-profit business units. The State shall support partial funding.

- Resources to support restructuring implementation are vitally important. In time of limited resources from the State (as the owner), there exists an urgent need to develop specific mechanisms so that restructured enterprises can use their own resources to handle matters that arise; for example, surplus labor costs taken from enterprise fund, mechanism for the transfer or sale of doubtful debts, compensation for loss taken from enterprise fund or considering it loss to offset with other revenues, mechanism for transfer or sale of projects exceeding the investment and/or management ability of the enterprise or projects not bringing back economic efficiency. At the same time, promote and create mechanisms for businesses to assess credit funds that support restructuring, to carry out high-tech investment projects and serve the main business lines of groups and corporations.

- Create mechanisms enabling groups and corporations to transfer creditors in time of corporation merger and splitting under a restructuring scheme. The invested groups and corporations shall increase capital contribution to joint-stock companies of key business lines in order to achieve share-holding rate as stipulated in Decision No. 929/QD-TTg.

In a word, in order to accelerate the process of enterprise restructuring, the groups and corporations themselves have to take initiative in implementing the restructuring scheme already approved by the competent authority, make full use of existing conditions and resources to upgrade and expand the machinery, equipment and technology. Groups and corporations must actively and quickly rearrange the organization in a refined, streamlined and efficient manner to put the whole system into operation. For the State, it is necessary to complete and supplement policies relevant to its management capacity. The authorities in charge need to have regular discussions and listen to enterprises in order to have adjustments to policies and mechanism accordingly, to solve problems and create conditions for enterprises to develop their businesses.

References:

1. Report No 336/BC – CP of the Ministry of Finance, dated November 16, 2012.
2. A number of articles and information published on the Enterprise Finance Magazine, the Electronic Page of the Ministry of Finance.
3. Projects on Restructuring Economic Groups and Corporation and Approval Decision of the Prime Minister.

REVIEW AND COMMENTS

Dr. Tran Tien Cuong

(Review and comments for Report on "State owned enterprise restructuring: Problems and solutions")

(1)- This is quite a good report, showing the writer's effort in anlysising and evaluating the process of SOE restructuring in Vietnam.

The report gives an overview of SOE restructuring throughout Vietnam.

The arguments are convincing with evidence of the facts and figures about the important fields and great potentialities of SOEs. The report also gives a remarkable warning that although it is essential to restructure SOEs to solve current problems and shortcomings, we should make a long-term plan for appropriate restructuring measures to ensure the efficiency for all SOEs. This is a noteworthy suggestion in terms of the process of SOE restructuring.

The report gives insightful but concise and clear goal, tasks and necessary measures to carry out the restructuring. It also states the main points of the project "State-owned Enterprise Restructuring Focusing on State-owned Corporations in 2011 - 2015" approved by Vietnamese Prime Minister via Decision No. 929/QĐ-TTg released on July 17, 2012.

The report shows that SOE restructuring is now done according to the direction of Decision No. 929/QĐ-TTg. The nature of SOE restructuring is designing and carrying out different projects to implement Decision No. 929/QĐ-TTg.

(**2**)- The result of SOE restructuring is just in terms of such figures as the number of approved projects (one project framework issued; 100/101 overal projects approved, innovation in the enterprises of some ministries, departments and localities; over 40 projects of restructuring particular enterprises and corporations approved); reduction of the number of enterprises by mergence, unification, and handover; reduction of business fields to make the enterprises more focused, also by handover of enterprises or projects, etc.

It looks like SOE restructuring is not new as it just limits the expansion of these enterprises by reducing the number of enterprises and business fields, etc.

The reader sees that there are still difficulties in in-depth SOE restructuring due to certain obstacles or standstill in terms of measures. For example, the restructuring has not yet changed the organisational and administrative mechanism, financial management, labour quality of both employers and employees, professional training, productivity, efficiency etc.I agree with the author that this is a real challenge, so there has not been much improvement. In fact, there is not yet a record of the above improvement. The report cited the evaluation of the Committee of Economy of Vietnam's National Assembly that "the implementation of SOE restructuring is not yet strategic. It is done simply via the handover within a corporation or amongst companies or SOEs. There has not yet been a motive to force these enterprises to restructure themselves". And this is true.

This problem implies that state-owned companies and enterprises have to carry out more methods with more effort and resource to carry out in-depth restructuring in order to renovate these enterprises totally.

(**3**)- The result of restructuring now seems to be only the first step of a long and hard procedure of changing the structure of all SOEs and improving manufacturing and sales efficiency of each enterprise and corporation. In fact, this requires a lot of money and time spent on the procedure. The reason is restructuring has to be done in three stages with a lot of

things to do; first, to define the common way for SOEs (Decision No. 929/QĐ-TTg). Second, we have to make a general plan of changing and improving SOEs' structure at all enterprises, corprorations, provincial people's committee and state-owned via their equivalent projects. Third, plan and approve particular projects of each enterprise and corporation. Last, all projects on restructuring should be implemented in each enterprises and corporation.

Particularly, there are three steps of planning, issuing and approving three layers of projects:

The first step is planning and issuing a general project like a framework of instruction that can be applied to all SOEs. This project is issued with Decision No. 929/QĐ-TTg released by the Prime Minister in July 2012. This project functions as the foundation and instruction for restructuring of all SOEs. The next projects on restructuring and renovating particular SOEs must base on this framework.

The next step is to plan and approve overall projects on arranging and renovating SOEs (also known as overall measures of state-owned enterprise arrangement and renovation). These projects are approved by the Prime Minister to be implemented at different ministries, provincial people's committees and state-owned coroporations.

The third step is in more details. It is to plan and approve projects of restructuring particular enterprise and corporation. These projects are approved by the Prime Minister, concerned ministries and provincial people's committee.

To carry out the above three steps, the total time from the suggestion of SOE restructure given at the third governmental meeting of the 11th term in October 2011 to the approval of over 40 projects of restructuring enterprises and corporation in August 2013 was nearly two years. Because the number of approved projects is small and that of those waiting for approval is much bigger, the procedure of planning and approving the rest projects takes a lot of time. Therefore, the time spent on planning and approving projects on SOE restructuring is the key factor affecting the time needed for the restructuring.

After the first two types of projects were approved, the enterprises and corporations whose projects are approved start to carry out restructuring. This is the last and major step of SOE restructuring. Therefore, it needs a lot of effort, time and resources (including financial resource, human resource, guidance, supervision, evaluation, adjudgement etc.) for restructuring activities.

(**4**)- The report writer gives insightful analysis of project planning. I agree with the author in several points. Enterprises' projects do not see the enterprises' shortcomings (in terms of administrative management, financial management and business performance). The projects are not specific, making it hard to be carried out and supervised. Restructuring is not an easy task as there are challenges. This requires time. Mergence and unification are the popular measures; there is not yet a fundamental measure to narrow the business fields and improve business efficiency.

There are some other shortcomings in carrying out SOE restructuring today like:

- Although restructuring each enterprise and corporation is the key factor deciding SOE restructuring, it is not yet paid much attention. This is proved to exceed the ability of enterprises.

- The report focuses more on analysing and evaluating projects, but this is done just in terms of supposition and suggestion. This is important but not enough. If the report focused more on the procedure of different enterprises and corporations' restructuring, it would be more practical. Then we would know more about the actual situation, result and aim of restructuring.

- The information about the procedure and result of the projects on restructuring enterprises and corporations is not yet adequate or explicit. Therefore, such information is not yet clear in this report.

The report offers some data and evaluation about SOE restructuring of the Economic Forum in September 2013 and Vietnam's National Assembly's Economic Committee. However, the lack of information and data about the actual restructuring of SOEs after the projects were approved shows that the supervision of approved projects has not been done seriously. Therefore, it is hard to conclude that SOE restructuring is effective as expected. There are still a lot of things to do with such restructuring to make it one of the three factors of economic restructuring (together with public investment restructuring and banking and financial market restructuring).

- State-owned enterprise restructuring has not yet been considered the key factor of project implementation. The report does not clearly state the effort of activities carried out after the projects are approved. This is considered the responsibility of the enterprises, ministries and provincial people's committee. The implementation is merely the work of enterprises and corporations after the projects are approved.

- The rationale and mechanism of the three steps of project implementation are not clear. Is this a fixed framework of three levels of projects (framework, overall project on SOEs arrangement and innovation, and specific projects for particular enterprises and corporations) or a flexible one to be carried out in reality?

- Necessary adjudgement of the projects after being approved is not clarified or mentioned.

- According to the report's author's evaluation, projects on restructuring and their implementation do not show the resources and policies in terms of resources used to restructure SOEs.

(**5**)- Other worth-considering issues are: How are projects on restructuring particular enterprises and corporation approved? Do they meet the requirements of the three types of projects mentioned above? Do they follow the plan of state-owned enterprise restructuring defined in Decision No. 929/QĐ-TTg and approved overall projects on arranging and renovating state-owned enterprises. When restructuring is done at particular enterprises and corporations, is it possible for them to change the initial plan? And how can they do it? These issues are not paid attention to in actual restructuring of state-owned enterprises as well as in this report.

(**6**)- The report writer's evaluation of a series of difficulties hindering enterprises and corporations from carrying out the procedure of restructuring suggested by the projects is reasonable. For example, financial crisis at a lot of state-owned enterprises makes it essential for them to restructure, but they have to face obstacles in terms of regulation, mechanism, policies, debt management and capability of Debt and Asset Trading Company (DATC) although DATC's debt management is appropriate. Other difficulties are the conflict between the need of capital withdrawal by the year 2015 and the gloomy financial market, stock market and real-estate market. It is difficult to withdraw capital without affecting the aim of keeping the capital intact.

The above issues become barriers for leaders of many corporations when withdrawing their capital as they are afraid that they may violate the regulations defined in Decision No. 929/QĐ-TTg, Decree No. 71/2013/NĐ-TTg and Circular No. 117/2010/TT-BTCabout keeping capital intact and enhance capital when restructuring, among other requirements.

(**7**)- I agree with some points about the measures and procedure of SOE restructuring. SOEs have a lot of potentialities and play an important role but have to face a lot of problems

concerning production and capital source, so restructuring cannot be done in a short time. This implies that enterprises need to consider “gains” and “losses”, “opportunities” and “threats” in restructuring and the procedure of renovation and change.

The writer’s suggestion of considering restructuring and the procedure of restructuring is worth-considering. He suggests selecting some corporations to restructure only. This is a bit different from the initial instruction of Decision No. 929/QĐ-TTg. However, the problem is what criteria we should base on to select such corporations to restructure, instead of restructuring all enterprises like what we are doing now. This issue is worth-considering.

The report suggests some solutions for reference, which can be considered the criteria for restructuring. Restructuring cannot be done in all enterprises but has to base on particular situation and goals of each enterprise. Restructuring does not necessarily mean privitisation but also business and project handover, but this needs appropriate policies and legal regulation. Policies and regulations on privatisation help enhance restructuring. We should prepare necessary resources for restructuring and policies for resource generation. We should force SOEs give their information like listed enterprises. There should be regulation of creditor handover in enterprise mergence or split. This shows that the writer has a practical view. The reader agree with this approach. Before (and even while) restructuring particular SOEs, we still need to adjust the instruction, method and procedure of the framework (Decision No. 929/QĐ-TTg). It means we need to be flexible in restructuring SOEs to achieve the goal of restructuring.

In my opinion, the goal of SOE restructuring is a bit different from what is stated in Decision No. 929/QĐ-TTg. *First,* the goal of restructuring all SOEs can be narrowed down to certain fields and limit the state proprietary in these fields. It means the goal of restructuring different business fields is similar to that of overall renovation of SOE defined in the Prime Minister’s decision, but this one is an advanced version. *Second,*the goal of specific SOEs (enterprises and corporations) is to restructure the business fields, making enterprises be more focused on their strengths. However, in my opinion, the difference here is not all enterprises have to restructure in terms of narrowing their business fields. This depends on the enterprise’s condition. If the enterprise is doing well with great capability and resource, we should not force it to restructure its business fields in terms of focusing on its major fields only. We should let it develop its capability and efficiency under strict supervision over its sideline investment. *Third,* the goal of medium- and long-term business efficiency is similar to that of Decision No. 929/QĐ-TTg. However, we need to be aware that this is the goal of the ultimate result of restructuring. The actual goal of restructuring is to create a sustainable condition for a better result. Subordinating factors are sustainability, few financial risks, capital structure, management, human resource, modern administration, supervision, internal and external control, explicitness etc. These are necessary factors and should be checked on a regular basis.

(**8**)- The fact is that SOE restructuring today has to be done via a long procedure. It also takes a lot of time for a project to be approved. Moreover, restructuring is supposed to be done in all SOEs. Therefore, we should change this approach of traditional SOE restructuring. We should do it with priority in terms of business fields, in terms of enterprises and corporations. It means we should define the appropriate fields for SOEs in the medium and long run. We should select enterprises and corporations working in (or planning to work in) the fields that are prioritised for restructuring. Efforts and resources should be given to restructuring these enterprises and corporations.

RESTRUCTURING OF VIETNAM POST AND TELECOMMUNICATION GROUP (VNPT): INITIAL RESULTS, OPPORTUNITIES AND CHALLENGES

Nguyen Ba Nghia

I. OVERVIEW OF CURRENT SITUATION OF VNPT

Implementing Law on Enterprise 2005 and Government Decree No. 25/2010/ND-CP dated 19 March 2010 on the transformation of state companies into one member limited liability companies and the organization of the state owned one member limited liability companies, Prime Minister issued Decision No. 955/QD-TTg dated 24 June 2010 on the transformation of parent company of VNPT into the state owned one member limited liability company ; and Decision No. 180/QD-TTg dated 28 January 2011 on approving the Organization and Operation Charter of VNPT.

VNPT is organized and operated under the parent company and its subsidiaries, in which, parent company consists of the group office, 78 dependent and non-accounting units, 5 nation-wide business companies, 63 VNPT branches in 63 provinces and cities, and some training and health care facilities. VNPT has 3 subsidiaries where VNPT hodls 100% of chartered capital, 3 subsidiaries where VNPT holds more than 50% of chartered capital. VNPT has invested its capital in more than 80 enterprises and economic units in both domestic and abroad (accounting for 4% of chartered capital of VNPT).

Main objectives and tasks of VNPT are, as follows: To preserve and develop the state capital invested in VNPT and VNPT's capital invested in other enterprises; to fulfil other duties assigned by the state; to maximize operating performance of Vietnam National Post and Telecommunication Group and develop to be a group with modern technology and management degree and high specialized operation, in which telecommunication and information technology are main businesses; associate business and production with science, technology, research and training; with multiple economic sectors' participation; to be a core force for the rapid and sustainable development and efficient competitiveness and international integration of Vietnam telecom and information technology industry, VNPT concentrates in providing telecommunication services and products; information technology services and products; media services and products and some related industries such as site survey, consultancy, construction, installation, maintenance services for telecommunication, information technology and media building; manufacturing, importing, exporting and supplying telecommunication, IT and media materials and equipments, etc.

During 2008-2012, Vietnam's economy have faced many difficulties resulting from the global financial crisis and economic recession, demands for telecom and information technology services have declined significantly; competition has become much serious to share the telecom and information technology market. In given context, all staffs of VNPT Group have efforted to overcome all difficulties and challenges to maintain a relative high revenue growth rate (21.57% per year), and its contribution to the state budget is always higher than the target and VNPT has been one of enterprises which has significantly contributed to the state budget.

Business performance of VNPT, 2008-2012

Unit : bil. VND

Items	2008	2009	2010	2011	2012	Annual average
Total revenue	59,704	79,772	92,985	120,800	130,390	96,730
Total pre-tax profit	12,994	9,568	8,871	8,621	9,291	9,755
The State budget contribution	7,222	7,530	8,729	7,451	7,561	7,698

II. RESTRUCTURING OF VNPT – INITIAL RESULTS, OPPORTUNITIES AND CHALLENGES

Implementing the Third Plenum Resolution of The Central Party Committte (the XIth Session) on restructuring of the economy, the Forth Plenum Resolution of The Central Party Committte (the XIth Session) on buidling a synchronous infrastrutre system to bring Vietnam to be a modern oriented industry country by 2020 ; Prime Minister's Decision No. 929/QD-TTg dated 17 July 2012 o approving Proposal on restructuring of state owned enterprises, focusing on state economic groups and corporations in the period of 2011-2015 and other Instructives, Resolutions, and orientations made by the Central Party and the Government on restructuring of the economy, including restructuring of state economic groups, VNPT has applied many measures to obtain restructuring objectives. They are, as follows :

- To design a more rational structure, focusing on main businesses, consisting of: providing telecommunication - information technology (IT) - media services and products; supporting for national defense and security and the government, party's leaders to direct and steer the socio-economic development; being a main force for the state economic sector to fulfill its roles in the economy and being an important material force for the state to direct and adjust the economy and stabilize the macro economy.

- To improve competitiveness, increase the ratio of profit on equity for business enterprises.

In order to design a rational structure of VNPT in line with the party and government's directions, in addition to organize workshops to get opinions from experts and leaders boths within and outside VNPT, VNPT and its member enterprises have organized more than 40 meetings with the state management agencies (such as Ministry of Information and Media, Ministry of Finance, Ministry of Planning and Investment, the National Steering Committee of Enterprise Reform and Development - the Office of Government, Vietnam Labour Federation, Ministry of Justice) to discuss on Proposal on restructuring of VNPT. Moreover, based on the traditional cooperation with foreign partners, VNPT invited 6 consulting organizations and telecom firms from developed countries to provide their restructuring experiences that help VNPT to complete its proposal on restructuring of VNPT. They are Sofrecom (from France Telecom), Telstra (from Australia), BT Consults (from Bristish Telecom), Detecom (from Deutsche Telekom), China Telecom, and Hardiman (from Hongkong).

Based on opinions and steerings from ministries, experiences from foreign partners, VNPT's current situation and internal requirements to reform operational and organizational model to fit the changeable business environment, VNPT completed the proposal and submitted to Prime Minister on 2 May 2012 (Document No. 96/TTr-VNPT-HDTV-TCCBLD).

Soon after the Government issued Decree No. 99/2012/ND-CP dated 15 November 2012 on assignment and decentralization of the state ownership rights, responsibilities and obligations at state owned enterprises and state capital invested in enterprises, VNPT has adjusted and

completed Proposal and submit to Ministry of Information and Media for consideration and then submit to Prime Minister for approval.

1. Some results

During designing and completing Proposal on restructuring of VNPT and submitting for approval, VNPT has continuously applied many measures to rearrange its internal organization, to reform management and controlling regime, business and production process:

- Merging Postal Hospital (Ho Chi Minh City) and Rehabilitation and Sanatorium Hospital No. II is in order to increase their scale and capacity.

-Separating Can Tho and Hau Giang Telecommunication; Dak Lak and Dak Nong Telecommunication, Dien Bien and Lai Chau into 6 provincial/ city telecommunications (by administrative areas) as requested by provincial people's committees and VNPT's business demands.

- Separating Vietnam Post Corporation into independent unit (in 2007) and Vietnam Post Corporation was transferred to Ministry of Information and Media on 1 January 2013 under the Prime Minister's Decision No. 1746/QD-TTg dated 16 November 2012; Transferring three subsidiaries into one member limited liability companies.

- Improving the internal management mechanism, restructuring labour force.

- Focusing on divestment of VNPT's capital in 9 enterprises and economic units which run in non-core businesses of the group, including 1 bank, 3 investment funds; restructuring and adjusting VNPT's capital at 2 enterprises in order to solve the situation that both parent company and its subsidiaries invested in one enterprise. Currently, VNPT has prepared to divest its capital in more than 10 other enterprises in 2013.

- Establishing core enterprises for industrial group, specializing in high tech products.

2. Opportunities and challenges

a. Opportunities:

- Restructuring will create opportunities for VNPT to restructure its organization, rationalize production process and stages; apply modern corporate governance experiences; focus on core businesses which have competitive advantages to improve operating performance.

- Restructuring will create opportunities for VNPT to restructure its labour force; increase their knowledge and idea on responsibilities, obligations in a new business environment.

- With many new comers in the telecommunication services, VNPT will have to share its existing market. However, in positive aspect, this also is an opportunity for VNPT to invest in R&D new products and services, in new markets to maintain and develop the group.

b. Some challenges

- In terms of legal framework on state economic groups

As assessed by Ministry of Planning and Investment in Report on pilot implementation of state economic group model which was presented at the Meeting of State economic groups chaired by Prime Minister in December 2011, "legal framework on pilot establishment, organization and management of state economic groups has been designed but in carious manner…", in a certain aspect, this manner is suitable for Vietnam's context but this situation also show the fact that the legal framework for economic groups is changeable. The rapid changes (circle of life) in policies, nonsynchronousness, inconsistence (in terms of rights and obligations of owners, rights and obligation of enterprises, relationship between parent company and its

subsidiaries, among member enterprises within the group, etc.) in legal documents is also a challenge in making business development strategy.

- Effects by rapid technological changes

Being an enterprise operating in industry which is strongly affected by the rapid changes in technology, VNPT has to base on technological changes to select technology for investment and depreciation. In addition, business activities based on telecommunication infrastructure have not been fully managed by the state such as application provision activities (Over-The-Top or OTT) provided by internet based suppliers, application for VoIP such as Skype, FaceTime of Apple, Viber, Voxer, Tango… even Twitter and Facebook. The core issue is that applications or OTT services are not provided by traditional telecommunication companies or internet service providers. As a consequence, revenue of telecommunication or internet companies is rapidly declined, negatively affecting the state budget. As estimated by a global market analysis and research company Ovum, the decline reached to USD 13.9 billion in 2011 and USD 23 billion in 2012. This figure has increased rapidly in the next years due to the generalization of 3G, 4G, internet and terminals (e.g. computer, intelligent mobile - Smartphone). Meanwhile, in Vietnam, at the seminar organized by Ministry of Information and Media in September 2013 in Hanoi, telecommunication companies indicated that the usage of OTT services made decrease in internet providers' revenue by more than 10% on average in 2012.

- In terms of competition

According to Prime Minister's Decision No. 32/2012/QD-TTg dated 27 July 2012 on approving the Development Plan of Vietnam's national telecommunication by 2020, the telecommunication market is restructured by reorganizing telecommunication enterprises via transferring, purchasing, merging enterprises in order to form three or four strong telecommunication groups or corporations. Based on the Government and Ministry of Information and Media's directions, restructuring of VNPT shall lead to form some new telecommunication enterprises by separating member enterprises of VNPT. They shall become new competitors, creating new challenges for telecommunication enterprises, in general and VNPT, in particular because VNPT's resources and business policy have been divided.

- In terms of personnel governance

Thanks to open policy of the labour market, especially to labour management in legal documents (e.g. Labour Code, Social Insurance Law, etc.), the appearance of new companies has created more opportunities for labour to find better jobs easily. However, this situation has also created more challenges for personnel governance for VNPT. As a leading enterprise, VNPT had controlled almost all market shares in the period of 1990-2004, majority of skilled labours and technicians in telecommunication sector in Vietnam have been trained and developed from VNPT. The appearance of new enterprises, especially foreign related enterprises, etc. which have favourable policies to attract talents, many skilled labours have moved out of VNPT to these enterprises. Furthermore, to adapt the new technologies, training for labour regularly and seeking skilled labours is a challenge for VNPT in particular and other enterprises in telecommunication – information technology in general.

- In addition, multi-objectives defined and assigned as other SOEs, including non-related objectives such as ratio of profit on equity, public goods and services, etc. in competitive environment; public opinion on position, role and performance of SOEs; standardization and improvement in labours' knowledge on business culture - foundation for sustainable development of enterprises during restructuring also are challenges for VNPT.

REVIEW AND COMMENTS

Dr. Tran Thi Thanh Hong

Director of Industry Department, Economic Committee of the Central Party

(Review and comments for Report on "Restructuring Vietnam Post and Telecommunication Group: Initial Results, opportunities and challengs")

State-owned-enterprises restructuring, focusing on state-owned economic groups and corporations is one of three focusing point to carry out restructuring of the economy, renewing the growth model in our country.

Understanding in the usual way, the restructuring is rearranging the organizational structure of the enterprise by re-building the organizational chart, changing the functional departments with the new name. That's just one aspect to fit the enterprise which is having difficulty in inappropriate organizing with relatively stable operation. In fact, the restructuring needs to be systematic and professional in the work performance, coordination and execution.

In the current condition, restructuring requires the enterprises to change management thinking, management reforms, restructuring of business processes. Based on these changes to form the model and structure accordance with the conditions and orientation of the enterprise. Corporate restructuring is restructured and redesigned in neat, flexible and adaptable way.

Vietnam now integrates deeper with the world economy, especially when TPP Agreement and a series of Free Trade Agreements are being signed, the enterprises, especially groups, corporations are facing opportunities and challenges, they need to build strategic orientation to be active in the production and business activities, avoid passive, create momentum to integrate with the world and improve competitiveness on the international market. One of the strategic orientations taken into account is the process of corporate restructuring.

SOEs restructuring is essential requirement, consistent with the economic development transition from width to depth, in order for SOEs to actually confirm the key role of the state economic sector; Being the continuing process of reform, SOEs arrangement is comprehensively carried out from system to each SOE entity, and associated with social economic (socio-economic) development Strategy during 2011 -2020 and 5 years socio-economic development Plan during 2011 -2015.

Author Nguyen Ba Nghia mentioned the issues of Vietnam Posts and Telecommunications Group (VNPT) restructuring in the article: "Restructuring Vietnam Posts and Telecommunications Group: Initial results, opportunities and challenges" with 8 pages. The article preliminary evaluated VNPT performance from 2008 till now, the initial results of the implementation under restructuring Scheme "Restructuring the economic groups, corporations in the period 2011-2015" approved by the Prime Minister in Decision No. 929/QD-TTg on 17/07/2012.

The current restructuring of VNPT, in the author's opinion, is just the internal arrangement, the divestment in some enterprises of VNPT only describes as "action", not refers to the core issues: what is the level of divestments, how hard and how convenient it is, whether it can make "loss" of state capital or not?; the rearrangement of VNPT has not yet showed which major business lines need to be focused, how science and technology issues in the business lines are focused. The Summary of business performance during 2008-2012 showed: Revenue grows over the year but profits reduce and tend to slow down: it shows poor

business performance, is that due to expanding its business into other risky and ineffective areas? Therefore the restructuring of VNPT Group aims to develop key sectors of business lines, invest in science and technology development, gradual divest state capital in enterprises or organizations which have group capital, move units such as hospitals, nursing homes ... to the professionals health unit, then group should focus on business performance.

In addition to the author's analysis of opportunities and challenges for VNPT restructuring, we also want to mention some of the issues to consider when implementing SOEs restructuring. It is necessary to overcome the constraints:

(1)Awareness of the role of SOEs in the market economy is incomplete, leading to having no specific targets, no criteria for evaluation and distinction the level of task completion between enterprises which have natural advantages (utilization of natural resources, land advantage) and enterprises with less natural advantages; orientation role of state-owned enterprises for economic development is weak. Therefore, it's impossible to accurately evaluate the performance of each enterprises and difficult to determine responsibility when the enterprises operate inefficiently. The presence of SOEs in many fields and business lines which the State is not required to hold capital make the advanced economic structure building slow down and more difficult.

(2) Generally, operation of SOEs are inappropriate with the resources invested by the State; the performance of SOEs is lower than many enterprises from other economic sectors: the rate of pre-tax profit on the total capital of the SOEs sector is low, the rate of return on equity of SOEs is much lower than the foreign invested enterprises. Enterprises system depends on bank credit but business efficiency is low, financial situation is unhealthy. NPL over the credit balance of state economic groups ratio is quite big.

(3) The monitoring and supervision of the implementation the State owners rights is still inadequate: Still do not have legal provisions and mechanisms to ensure efficient, effective of owner representative; do not have closely monitoring capital and asset allocated for economic groups, corporations; do not have mechanisms to determine responsible of state agencies, of the leaders from owners representative agencies.

(4) The information system and the mechanism for receiving and processing information from the reporting enterprise are limited: information for evaluating SOEs are still weak, lacking and not timely updated; lack of consistent unit to receive and process information from the enterprises.

(5) Internal management of economic groups and corporations still has issues to further research. Do not focus on internal control in the group. The management staffs of state economic groups, corporations are weak and not enough.

One of the causes of these limitations is the lack of a synchronized and completed legal framework system for the operation of SOEs, especially economic group and corporations.

Restructuring of state economic groups in the overall SOEs review, restructure in the future must base on the determination of the enterprise's right position at each stage of economic development: the overall objective is to ensure corporate structure appropriate with modern economy structure, so effectively reshaping the manufacturing sector of economic - engineering, area and new value, improve quality and competitiveness of the whole economy.

(1) The state should invest in those sectors, business lines which the State is absolute monopoly, the field that the private sector does not want to do or has difficulty to do; the risky investment areas; the areas to ensure stability and social welfare. Flexible change the field that needed State investment, depending on the objective of socio-economic development in

each period. The intervention of the State is to ensure avoid deviation development, breaking the balance of economic structure, doing harm the country's economic development process.

(2) It should be clearly defined the two types of enterprises: enterprises do purely business activities and enterprises besides business activities must also perform other duties assigned by the state and this 2 types have separate evaluation criteria, have different monitoring mechanisms. The purely business activities enterprises have to equally compete with the enterprises from other economic sectors, operating under the market mechanism. The enterprises which do both their own business and tasks assigned by the State, their own business operation is evaluated equally as other pure business enterprises, the implementation of tasks assigned by the State must set through contracts with specific criteria, measure the task completion.

(3) For the state management to SOEs, there should be *more carefully studied about organizational unit to implement owner function for SOEs, especially economic groups, corporations.* Research to focus on the management capital, assets of SOEs (mostly economic groups, corporations) to one government agency.

(4) *Strengthening governance for SOEs*. There are contests mechanism, the selection criteria for the key leader position of economic groups and corporations. The SOEs in the field of state monopoly, the special business sector, the state will have control mechanisms for production costs. It is necessary to build financial supervision mechanism, binding material responsibility for the leaders not only with business results but also for investment project decision./.

RESTRUCTURING COMMERCIAL BANKS: INITIAL RESULTS AND OUTSTANDING CHALLENGES

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1. Background

The success of economic reforms in Vietnam over the last 26 years since the inception of Doi Moi is evident in figures: annual economic growth averaged 7.26% between 2000 and 2010, GDP measured according real price in 2011 increased 3.8 times against 2000; since 2010, Vietnam has been listed by the World Bank as a middle-income country. Economic structure has also gradually been modernized while socio-economic infrastructure has been improved both in quality and quantity. Despite the foregoing success, the country's economy has especially since the end of 2011 faced increasing difficulties and challenges, including gradual decrease in GDP growth and an inflation manifold higher than the average inflation rate of regional and global economies. In addition, macro-balance has not been stable while the production and operation activities of many businesses have been hampered and impeded. There has also been an increase in the number of businesses that have gone into liquidation or businesses that have their production shrunk or simply stopped. Bad debt among credit organizations has continued to rise while some others are having difficulties with liquidity. Poverty reduction has slowed down and there has emerged a tendency of people becoming impoverished again.

The above-mentioned problems can be attributed partly to a number of reasons, bothobjective and subjective, short-term and long-term. The main reason, however, is related to the structure and pattern of growth, such as (i) an emphasis on broad-based economic development and growth that relies to heavily on increased investment; (ii) the government's direct and profound intervention into and influences the business and investment activities while underperforming its other important functions such as planning, monitoring and macro-economic handling. The government's management and handling of the economy remains heavily centralized and subsidized; the efficiency and management model of state-owned sector is called into question and much remains to be resolved; (iii) Investment activities are basically of low efficiency and public investment is extremely ineffective: ICOR of the public sector is currently one and a half time higher than that of the whole economy and twice as high as that of home-based businesses.

Fully aware of the inherent shortcomings of our country's economy, the 11th Congress of the Communist Party advocated a policy of attaching rapid growth with sustainable development. Sustainable development is a cross-cutting issue in the Strategy for Socio-economic Development while a fundamental approach to development and changing growth pattern is the overall guideline for socio-economic development of the 2011-2020 period. The 11th Plenum of the Third Central Party Committee Congress, which took place in October 2011, stipulated the key issues in economic restructuring, which focuses on three most important areas: (i) restructuring of investment with public investment as the focus; (ii) restructuring of the SOEs with public general corporations and groups as the focus; (iii) restructuring of the market with the system of commercial banks and other financial institutions as the focus.

This paper takes as its focus the third area of the restructuring process and discusses mainly the issues related to the initial results of the restructuring of commercial banks.

2. Challenges facing the Commercial Banks System in Vietnam

As of October 2013, the system of commercial banks of Vietnam has 39 equitized banks, one state-owned bank, 54 branches overseas, five with 100% foreign capital, five joint venture banks. Up to now, the system of commercial banks has developed an extensive network that reaches out to all the provinces across the country. Some certain commercial banks have even managed to build a system of branches extending to district or even commune levels; the system of commercial banks cover all the regions of Vietnam, no matter how far away, thereby meeting the increasing demand of the domestic and foreign customer for bank products and services.

(i) After 25 years of reform, the system of banks has basically undergone four noticeable stages of development: *the 1990-1996 period* witnessed a dramatic increase in the number and form of credit organizations which served to meet the a soaring rise in demand for financial services in the early stage of the reform period; *the 1997-2005 period* which saw the alignment and enhancement of the two-tier bank system which was formed during the Asian monetary crisis; *the 2006-2010 period* in which the regulated capital was increased and regulations were enhanced; *the 2011-now* period witnessed accumulative shortcomings and vulnerability exposed, threatening to trigger the collapse of the system and prompting urgent restructuring to be implemented among commercial banks.

During the 2006-2010 period more than ten rural banks were allowed to be upgraded into urban banks and several new banks came into being as a result of extra-sectoral investment or non-bank related investment omnipresent in state-owned corporations and groups and the attractiveness of the equities and stocks price at that time. The presence of too many banks is not a bad thing in itself; the problem lies in the ineffectiveness of these banks, as best evidenced in the amount of bad debt in the system, deemed to be the biggest challenge to commercial banks. It was the increasingly grave situation of bad debt of these banks that made restructuring an imperative. Bad debt of the banks, as a matter of fact, resulted from a combination of reasons:

- Prolonged global financial crisis and economic regression adversely impacted on the domestic financial market and economy. Bad debt which increased rapidly since 2012 was mainly the credits grated previously, especially during the period of credit boom and lax conditions for granting credit.

- Outstanding debt in basic construction was enormous. Many construction buildings and projects took too long to complete with low investment efficiency. Project owners did not have sufficient capital to pay for the amount of work completed, which contributed to an increase in bad debt.

- Low-paced production and consumption of goods, evidenced in the enormity of redundant in-stock goods, made capital stagnant in the production, circulation, and distribution process. Hence, businesses were made unable to pay bank loans.

- The stock and real estate markets underwent a dramatic fall and prolonged stagnation, devaluing the collaterals in the form of stocks and immobile properties.

- Governance capabilities of the credit organizations remained weak compared with the risk level and the scope and rate with which credit grew. The credit organizations' ability to assess, appraise and manage credit and monitor the use of loans remained weak. As a considerable amount of credit capital and many credit organizations focused on potentially risky areas, such as property market, bad debt in credit organizations increased when the property price fell sharply.

- Violations of the law in terms of credit grant and security of the bank operations in previous years have led to huge bad debt in many credit organizations. Inspection showed that many credit organizations violated gravely the regulations regarding the security of bank operations, such as loan limit for one customer or a related person, especially the granting of particularly big loans to major shareholders and related people.

- Credit organizations had customers who were financially unhealthy or who were making losses in businesses which put them well on the brink of liquidation and bankruptcy or those who misused bank loans, coupled with ineffective investment strategies which led to their inability to pay bank loans.

Institutional framework, management policies, safety regulations and credit activities guidelines remained incompatible with the real evolutions; bad debt handling measures were still ineffective and lacked uniformity. There still exist inadequacies in the legal system, especially in the management of land, bankruptcy, and business liquidation, civil offence implementation, debt handling. Collaterals and mortgage for bank loans remained complicated and slow to be redressed, hence bad debt accumulated to the extent that it was very difficult to be solved. In addition, it was hard to confiscate collaterals of the customers who failed to repay loans on time, because most of them were cash-strapped or had their business on the brink of liquidation. They no longer were able to repay their debt; the guaranteed party of these customers normally demonstrated an unwillingness to transfer the mortgaged assets and harboured an uncooperative attitude.

Bad debt handling depends a lot on the macro-economic and market conditions while the real estate market has not been recovered and production has faced great difficulties, goods consumption has been slow, enterprise's financial performance and solvency has been very low and poorly improved; It takes time for macroeconomic solutions to solve difficulties for business, facilitate the real estate market as stated in Resolution No. 01/NQ - CP and the Resolution No. 02/NQ-CP of the Government to enhance their effectiveness; The prolonged stagnation of real estate market, financial market has made it difficult for the sale, handling of collaterals and bad debt is at risk of increasing. Besides modest competition in real estate market, slow financial markets have also made it difficult to sell collaterals. Thus, the mobilization of capital and the involvement of financially qualified investors in bank's bad debts has not been favorable.

(ii) The establishment of Vietnam Asset Management Company of credit institutions (VAMC) - a featured financial institution fully owned by the State, and under direct management of SBV is one of five synchronous solutions for bad debt handling and prevention. It is a specialized enterprise established in the special circumstance to deal with a special task in a certain time, thus, unprecedented VAMC model new contents is an enormous challenge in terms of better institution, regulation development to facilitate the effective operation VAMC in the future. However, currently, VAMC is experiencing some difficulties such as:

- *Legal framework:* The legal framework for debt, collateral handling is still inadequate and VAMC does not have sufficient authority and special operational mechanism to handle bad debt quickly and efficiently. The existing highest legal document on VAMC's organization and operation is the Decree, so VAMC cannot overcome limitations, constraints of the relevant Laws.

- *Bad debt selling, purchasing and handling plan:* There are many external factors that can affect the implementation of VAMC's bad debt selling, purchasing and handling plan such as: (i) a number of credit institutions (CI) have not ready and proactive in collaboration with VAMC in the purchase and sale of debt and bad debt handling, (ii) the number of bad debts that are not eligible for selling, purchasing is significant, (iii) provisions for bad debt selling, purchasing

and handling are very strict with many procedures, files to be considered, reviewed, in the condition of limited human resources, technology, governance capacity of VAMC.

(iii) In addition, the Capital adequacy Ratio (CAR) can be reduced if commercial banks funds book for provision fund as per the provisions of SBV; bank's liquidity has been unstable; and degradation in business ethics of many managers and operational staff in the banking system is the major challenge for the banking industry.

3. Restructuring of commercial banks - initial outcomes

The plan called "Restructuring the CI system in 2011-2015" was approved by the Prime Minister in Decision No. 254/QD-TTg dated 01/3/2012 (Plan) identifies main goals and tasks in 2011 - 2013 namely focusing on the evaluation on current performance, asset quality of CIs, handling of weak CIs, ensuring solvency of CIs, carrying M&A of Cis on a voluntary basis; increasing charter capital, reducing bad debts and gradually restructuring their operations, management and governance.

With the aim to enhance the role and governing position of the state-owned commercial banks, ensuring that state-owned commercial banks are actually the core of credit institution system, and have large-scale, safe and efficient operation, efficiency, advanced governance capacity, and ability to compete domestically and internationally, the plan implementation includes the following issues: (i) restructure of the credit institution system and each credit institution by a regular, continuous process; (ii) consolidate and develop the diversified CI system in terms of ownership, size and type in accordance with characteristics and level of development of Vietnam 's economy in the current period; (iii) encourage M&A of credit institutions on a voluntary basis, ensure the interests of depositors and the rights and obligations of economic stakeholders in accordance with law; (iv) implement a comprehensive financial, operational, management restructuring of credit institutions with appropriate methods and roadmap; and (v) prevent unsafe and collapse of banking activities out of SB's control. The process of restructuring, consolidating CI system shall minimize losses and cost to the state budget to handle problems of CI system.

3.1. General outcomes:

Despite many difficulties, thanks to the drastic restructuring, in general, CI system's operation has been ensured and further developed. In particular, its financial capacity has been improved, improving the ability to cope with difficulties in banking, safety has been secured, the collapse risk has been reduced, the State's assets and people's deposits have been protected, political and social order, security, and safety have been maintained. In the first 8 months of 2013, total assets of the system increased by 3.99% compared to the end of 2012, equity increased by 6.55%; charter capital increased by 4.02%, return on total assets (ROA) reached 0.48%, return on equity (ROE) was 4.94%;

- CIs have spent efforts on renovating, improving the efficiency of system management, administration and control, internal audit, reviewing and consolidating the organizational structure, restructuring business operation and asset portfolio; gradually developing business strategy, improving competitiveness, increasing application of information technology and modernizing banking technology associated with the implementation of the restructuring of the whole system as well as of each CI.

- In the current disadvantageous economic context, weak CI restructuring is mainly done by resources of the private sector, banking system, it's a remarkable effort of the banking sector to ensure safety while maintaining investment and preventing disrupted banking service supply to the economy.

- In addition to activities such as disseminating the Plan to Cis and SBV units for consistent awareness and efficient implementation, creating close coordination among relevant agencies and organizations to implement communication measures, to create consensus, concern and support of the whole society, SBV has issued the Action Plan of the banking sector for the plan implementation, formed the Steering Committee, focused on a comprehensive inspection, active supervision, requested independent audit for CIs to assess the current state of the CIs, identify weak ones for restructuring. This will serve as the basis to develop measures to control, prevent the collapse risk. SBV also directed CIs to self- restructure accordingly. Specifically:

+ SB chaired or cooperated with relevant agencies to develop and issue documents to accelerate the restructuring process such as Decision No. 48/2013/TTg-QD dated 01/8/2013 of the Prime Minister on required capital contribution and share purchase of credit institutions which are under special control; Circular No. 02/2013/TT-NHNN dated 01/21/2013 on classifying assets, provisioning and method of provision use for CI operational risk handling; Directive No. 06/CT-NHNN dated 09/11/2012 on monetary policy, credit and banking management solutions in the last months of 2012 and early 2013; Decision No. 780/QD-NHNN dated 23/04/2012 on the classification of debts under repayment schedule adjustment, extension; Directive No.01/CT-NHNN dated 31/1/2013 on implementing monetary policy and ensuring banking operations to ensure efficient and safe banking operation in 2013; Directive No. 04/CT-NHNN dated 17/9/2013 on classification of restructured debts.

+ SB conducted a comprehensive legal entity inspection for 32 banks in 2012 and 25 banks in 2013 to classify, evaluate the current financial, operational, governance performance of CIs. Based on the results of the inspection, SBV (State Bank of Vietnam) has identified a number of weak CIs or CIs with serious violations on safety regulations that must be restructured. Many potential safety and operational risks and violation to SBV's regulations have been detected, such as business loss or poor business performance; failure to meet the minimum charter capital prescribed by law; insufficient bad debt provisioning; low liquidity; inefficient management, administration quality, poor internal audit system; untransparent operation; dominance of major shareholders; serious violations on safety rules, credit, equity ownership, etc.

Based on the results of the inspection, monitoring and independent auditing, SBV requested CIs to build the restructuring plan to overcome weaknesses, violations of the law and implement appropriate restructuring solutions. For weak banks that must be restructured, SBV formed a supervision team for each bank to closely monitor, protect assets of these banks; directed State commecial banks to support liquidity and involve in restructuring; set up a Steering Committee for each bank with the participation of a number of Ministries, sectors, localities and often direct and closely supervise the restructuring process of each bank; promptly report to the Prime Minister when necessary.

+ Assess and sufficiently determine the current cross-ownership status, in commercial bank system, financial institutions and apply remedial measures such as (i) carefully evaluate financial resources of the investors wishing to contribute capital or buy shares of the banks to refuse those who do not have sufficient financial capacity, use bank loans for capital contribution or share purchasing; (ii) Develop regulations stating that loans for CI capital contribution, share purchasing must be removed from the core capital when calculating CAR, to restrict cross-ownership, cross-investment; (iii) Strengthen inspection, cross-ownership monitoring to detect and seriously treat legal violations; (iv) Request Ministries, sectors and localities to develop State enterprise's capital exit out of CIs; (v) Coordinate with the Securities Commission to monitor the sale and transfer of shares of the banks in securities market; (vi) Strengthen the supervision on shareholders and major investors of the bank in their relationship with the bank to limit group interest. However, cross-ownership in the banking

sector in Vietnam has been a historical, risky and complicated matters which limit the process of restructuring the current credit system. It should should be handled gradually, thoroughly by more comprehensive measures.

+ Increase charter capital of credit institutions: Despite having a lot of difficulties over the last year, CIs have been trying to improve the financial capability and increase charter capital to facilitate business expansion and cope with the risks of operation.

+ Bad debt handling is the central task of CI restructuring, especially in the context of economic difficulties. Thus, banking industry has been actively implementing measures to curb rising bad debts, improve credit quality, reduce NPLs, and support enterprises to overcome difficulties of production and business. Bad debt handling measures deployed include debt restructuring, debt collection, collateral handling, loan sales, provision use, cost reduction, limiting salary, bonuses, allowance, dividend distribution to concentrate on risk provisioning.

To handle bad debt comprehensively, SBV has hosted, coordinated with relevant Ministries, sectors to develop and submit the CI bad debt handling and VAMC establishment plan to the Politburo, the Government. On 05/31/2013, the Prime Minister signed Decision No. 02 843/QD-TTg approving the plan. VAMC was officially put into operation since 07/26/2013. Currently, it is actively coordinating with CIs to review, identify bad debts for handling.

At the same time, SBV has actively coordinated with Ministries, Ministerial-level agencies, Government agencies, People's Committees of provinces and cities under the central level in the deployment of issues and assigned responsibilities in Decision No. 843/QD-TTg of the Prime Minister to handle bad debts synchronously and efficiently. Many Ministries and agencies, local organizations have paid attention to the implementation of assigned tasks to reduce bad debts in the sectors, localities. In banking, SBV Governor issued the Action Plan implementing Decision No. 843/QD-TTg in the sector, identifying responsible units for the organization and implementation fo the specific roadmap.

With these significant measures, bad debt growth rate has been slowdown (in the first 8 months of 2013, it was only one third of that in the same period last year). In 2012 and the 8 first months, CIs handled a large volume of bad debt by provision, and implemented debt restructuring solutions to support enterprises.

+ Closely manage the establishment of new CIs and network expansion under more prudent standards and conditions, direct CIs to rearrange and strengthen network monitoring to ensure quality, efficiency in accordance with the CI’s internal conditions to ensure the development of a safe, healthy credit system in association with the restructuring of the whole system as well as of each bank, facilitate monetary policy execution, socioeconomic development. In 2012 and in the first 9 months of 2013, the number of newly opened branches and transaction offices was lower than the previous year. Only 19 PCFs and 01 microfinance institution have been established; 58 local branches; 01 branch and 01 subsidiary bank abroad have been opened. Written approvals have been given to 63 transaction offices (mostly of state-owned banks).

Branches and transaction offices were established primarily to serve the agricultural and rural economic development or national security, defense. They help to improve people's access to financial services in these areas and re-arrange the distribution CI network reasonably. The network expansion limit of CIs has contributed to the process of restructuring.

+ Direct, guide and supervise all CIs of all types to develop, implement their restructuring plans for 2015 in accordance with the approved CI system restructuring plan in 2011-2015 as per characteristics of each CI; encourage voluntary M&A of CIs to consolidate financial capacity, competitiveness, operating efficiency and reduce the number of inefficient CIs.

+ Flexibly execute policies, support and ensure liquidity of the system as well as of each CI; implement forex market drastic, gold trading management solution, coordinate with all levels and sectors to improve the legal framework, strengthen the supervision and development of non-cash payment in order to ensure market stability and monetary support for the restructuring of the CI system. Implement synchronous solutions to support the restructuring of the CI system. These solutions include (i) Implementation of prudent, efficient monetary policy, flexible use of the monetary policy tools; (ii) Apply reducing interest rate policy in line with macroeconomic currency and inflation movements, to lower the interest rates, solving difficulties for business and economic growth, (iii) Apply flexible credit solutions towards credit expansion coupled with the safe operation of credit institutions, (iv) Continued mechanism innovation and forex and gold management policiy innovation; synchronous implementation of anti-dolarization solutions, gradual reduction and elimination of the use of foreign currency, gold as a means of payment in the territory of Vietnam; Legal framework irmprovement for monetary and banking, to enhance the role and efficiency of State management and direction of SBV in the monetary field, restructuring support. Specifically, in 2012 and the first 9 months of 2013, SBV issued or submit to the authorized level to issue 77 legal documents (including 2 Laws, 01 Ordinance, 05 Decrees, 10 Decisions of the Prime Minister, and 59 Circulars).

SBV has actively studied, developed and improved the legal framework for monetary and banking regulations, banking safety regulations, inspection, supervision; issued banking prudent conditions and standards in accordance with practical requirements of Vietnam and international standards, practices.

3.2. Specific outcomes of the restructuring in 2011-2013

Restructuring outcomes of groups of CIs:

- *Weak commercial banks:* After 9 iweak banks were dentified for restructuring and control (including SCB, Ficombank, Habubank, TienphongBank, TrustBank, Navibank, Western Bank and GP Bank), SBV has collaborated closely with Ministries, sectors and localities to approve and direct the restructuring for each bank. To date, 8/9 banks have completed the first step in the approved restructuring roadmap, the remaining bank is now being considered by SBV to self-strengthen and reorganize with the participation foreign credit institution's capital.

In general , the weak banks have been actively implementing a comprehensive restructuring in terms of finance, operation, management and remediation of violations under the close supervision of SBV. Thanks to this, their operation has been stabilized and improved; prudential ratios, liquidity have been improved to ensure the basic rules; capital mobilization from people has been increased, bad debts have been actively handled and recovered; violations on major shareholder's proportion, loan granting have been treated; management system and organizational structure, network have been gradually consolidated, reorganized; the restructuring of these banks has not affected the system, the social safety and security.

Besides, SBV is now evaluating and identifying other weak banks (02 commercial banks and 06 non-bank CIs) for restructuring and require them to build restructuring plan and submit to SBV. Basically, weak CIs in 2013 have followed the objectives set out in the CI restructuring plan in 2011-2015 which was approved by the Prime Minister.

- *Other commercial banks:* SBV received the restructuring plan of 24/25 commercial banks and approved the restructuring plan of 6/25 banks (Eximbank, VietCapital Bank, An Binh, SeABank, Saigon Industrial and Commercial Bank, VPBank), and is reviewing the restructuring plan of two other commercial banks, directing 16 commercial banks to revise and supplement their restructuring plan, requesting VietCapital Bank to submit its restructuring plan to SBV in accordance with evaluation and approval regulations.

- *State-owned commercial banks:* SBV is directing the state-owned banks which have been privatized to develop restructuring plan including the subsidiaries from now to 2015 in line with the actual situation of each bank; directing the Bank for Agriculture and Rural Development of Vietnam to complete its restructuring in terms of organizational structure, human resources, network, NPLs, assets, investment activities, to fix its mistakes, weaknesses detected in the inspection and restructure subsidiaries such as ALCII, etc,

- *For foreign banks:* Facilitate and encourage foreign CIs to contribute equity, buy shares of Vietnam CIs, particularly restructured, weak CIs by the measures such as: improvement of legal regulations on capital contribution and share purchase of foreign investors in the commercial banks towards allowing foreign investors to own more than 20% of the charter capital of commercial bank; direct the restructuring of the State-owned commercial bank's equity in a number of joint venture banks such as Vietnam - Russia Bank (VRB) Vietnam - Thailand Bank, VID Public; withdraw license, close some inefficient branches of foreign banks or transform their organizational form, transfer assets and liabilities to subsidiaries of the same parent bank operating in Vietnam.

The results of each group restructuring shows that in 2012 the restructuring was mandatory for weak banks at risk of collapse, but in 2013 restructuring were proactive and voluntary. This proves that all policies and measures to restructure banks have been properly disseminated and awareness on bank restructuring, thinking of the owners have been changed towards recognizing the objective necessity to restructure in order to overcome the limitations, weaknesses and enhance competitiveness.

In 2013 , the central bank conducted the restructuring more broadly in all groups of banks, credit institutions in accordance with Decision No. 254 and legal regulations. All CIs were required to develop the restructuring plan to be approved by the SBV. Thanks to the close guidance of the Government, the active participation of the Ministries, sectors, committees, local governments, the synchronous CI restructuring implementation along with flexible, proactive monetary policy implementation, currency market improved management, in 2012 and the first 8 months, the system safety has been secured, the risk of collapse has been reduced, the solvency of financial institutions has been improved, assets of the State and people's deposits habe been safe, fully paid, even in some weak commercial banks that need restructuring. So, the social order, political and social security has been maintained; no mass cash withdrawal has happended, people believed in the policy of CIs restructuring of the Party and State. In the current disadvantageous economic context, weak CI restructuring is mainly done by resources of the private sector, banking system, it's a remarkable effort of the banking sector to ensure safety while maintaining investment and preventing disrupted banking service supply to the economy.

After the restructuring period 2011-2013, the number of credit institutions has decreased by 4 organizations through merger or consolidation.

Currently, SBV is directing the following tasks to be completed in 2013: the merger of DaiA Bank into Ho Chi Minh City Housing Development Bank, 02 acquisitions of financial companies, 06 closure of foreign bank branches through the transfer of assets, liabilities and revoke licenses; 02 transformation from joint venture banks to commercial banks with 100% foreign capital. In addition, some banks are still negotiating among owners on M&A under the principle of voluntary consent to submit to SBV for approval.

Restructuring progress and operational performance of restructured banks

The weak joint stock commercial banks (JSB) at the risk of collapse in early 2012 has been restructured through M&A with the participation of new investors to overcome weaknesses, mistakes and losses, and these banks have been gradually able to meet safety standards.

SBV submited to the Prime Minister the plan to restructure weak JCBs in accordance with the law and seriously handle weak CIs in 2013 according to the objectives set out in the plan.

So far, all of the plans to restructure weak commercial banks, including the M&A plans have been developed on a voluntary basis. SBV hasn't had to intervene in any case as per legal regulations. After their M&A or restructuring plan is approved by SBV, banks has been actively implementing measures for comprehensive financial, operational, and administrative restructuring under the supervision of SBV. Until now, weak banks restructured under the approved plan are under stable operation. The prudential ratios, liquidity has been improved to ensure the basic provisions of SBV; capital mobilization from people has been increased, bad debts have been actively handled; violations on major shareholders' ownership proportion, credit violation have been treated; magement system, network have been strengthened, etc.

Performance of CIS under the restructuring:

CI system safety has been secured and CI's liquidity has been improved. SBV has basically controlled the situation of weak JCBs through operational measures as prescribed by law. Liquidity of weak banks has been improved significantly, the assets of the State and the interests of the depositors have been guaranteed, the risk of collapse has been gradually reduced.

CIs are actively raising capital from the economy, apply reasonable credit growth to ensure safe operation. The liquidity of CIs has been maintained; disciplines of the banking sector has been gradually maintained; the system collapse risk has been prevented, people's deposits and State property have been secured.

4. Advantages and disadvantages in restructuring

To achieve these initial positive results after two years of restructuring mentioned above, the restructuring the credit institutions have had advantages and difficulties:

Advantages:

- There has been close guidance of the Politburo, the Government; strong commitment, flexible management policies of SBV; great support and consent of the Ministries, sectors, particularly the Ministry of Police, Ministry of Information and Communications, the People's Committees of provinces and cities involved;

- The initial legal basis to support the restructuring process (regulations on special control over credit institutions, M&A of credit institutions, weaker banks handling, etc.) have been initially formed;

- Most credit institutions have been aware of the importance as well as opportunities and challenges of restructuring and have actively build, deploy restructuring plan to tackle long-term constraints, improve financial capacity, competitiveness for sustainable development;

- The social consensus has been reached on the restructuring of the banking sector.

Disadvantages:

- The legal framework for the CI restructuring in general is incomplete, specifically: insufficient interference mechanism, handling of State for poor CIshas lead to untimely treatment on the legal entity of weak CIs; most of State-owned commercial banks which have been privatized, are listed companies in the stock market, thus their participation in the weak CI treatment through M&A has been limited; there has been a lack of mechanisms and policies such as tax reduction and exemption to encourage, support CIs in handling bad debts and collaterals, policies on M&A tax policies to support the process of CI restructuring, etc.

- The restructuring of CI system and handling of weak CIs are very complicated, sensitive issues, relating to the rights, obligations and interests of many stakeholders and taking more time to process.

- Mechanisms and regulations on collateral handling to recover the loan in case the borrower does not repay the loan or breachloan contract breach, etc. They are still inadequate, creating significant costs for banks, extending debt recovery time, affecting the market discipline in lending. These are obstacles that need attention to create a healthy environment for banking activities.

- The lack of financial resources to support the handling of bad debt, financial capacity improvement of the CI system is also one of the causes slowing downCI restructuring.

- Macroeconomy and international, local production, financial market conditions have facedvarious difficulties. Thus, the mobilization of capital and participation of qualified investors in the CI restructuring has not been favorable.

The optimum exploitation of favorable factors and application of measures to fix the problems mentioned above have made the initial success of the CI restructuring in recent years.

5. Orientation for CI restructuring in the coming time

- Based on the results of the inspection, regular supervision, SBV now is conducting further assess on the CIs performance through the inspection and supervision to categorize CIs into weak CI group, normal CI group; and directing each CI for its specific restructuring plan to consolidate and rectify shortcomings, weaknesses and improve competitiveness, business performance.

- Implement weak CI restructuring measures:

+ Weak CIs with many potential risks identified in late 2011, early 2012: Continue to closely monitor the implementation of the approved restructuring plan of 8/9 weak banks.

Continue to maintain the SBV Supervision Teams at weak banks whose restructuring plan are not approved and urgently complete the restructuring plan in accordance with the actual situation of the banks to submit to SBV for approval;

+ Weak CIs with many potential risks identified in 2013: Require these CIs to develop and submit the restructuring plan in accordance with their current status and the system restructuring plan; Closely control, monitor the activities of credit institutions and limit operational scale growth, network expansion; Reject the supplemented business lines; Where necessary, SBV can form the Supervision Team to supervise the CI restructuring and protect the CI assets; ensure that the CIs operate in accordance with the provisions of law or SBV may request CIs to limit or suspend a certain number of activities.

In case the CI does not have a feasible restructuring plan or unable to implement the restructuring plan which has been approved, the following measures can be applied: (i) put in special control, (ii) SBV directly or assign other CIs to contribute capital or buy shares; (iii) Compulsory M&A with other CI.

- Implement measures to restructure banks operating normally:

+ Commercial banks fully owned by the State, 50% owned by the State: Develop and submit the overall restructuring plan until 2015 to the Prime Minister, including the subsidiaries, associated companies in accordance with the specific conditions of the State-owned comercial banks.

+ JCBs, finance companies, financial leasing companies: Further encourage and facilitate the M&A of healthy CIs with other CIs, particularly weak CIs.

+ People's credit funds (PCF): develop the restructuring plan in accordance with Decision No. 254/QD-TTg and summarize results of Directive No. 57-CT/TW dated 10/10/2000 by the Polit Bureau; Restructure weak PCFs with potential risks and serious legal violations; Seriously treat weak PCFs that can not be recovered by revoking license, liquidation, dissolution, bankruptcy

- Further direct CIs to strengthen their financial, governance capacity, encourage joint stock CIs to list on the stock market; Increase popularity of join stock CIs, and increase the number of investors and shareholders in the chartered capital increases, strictly control major shareholder structure change and financial capability of the major shareholders.

- Develop mechanisms and policies to secure banking activities, focusing on legal documents on prudent ratios; CI network; foreign investors' shares in the JCBs; operation and structure of non-bank CIs, bad debt handling, purchasing and selling.

- Continue to improve the mechanism through the construction of a legal framework to have the relative stability of macroeconomic management.

- Develop funds for restructuring through the creation of a level playing field for domestic banks and foreign investors. SBV is carrying out the CI system restructuring in the context of difficult macroeconomic, production and financial markets conditions. So, the capital mobilization and involvement of qualified investors in the system issue handling is one of the important conditions.

- Bad debt handling:

+ Solution from CI aspect: Regularly evaluate, properly classify the debts in terms of quality and the recoverability; further restructure debts; support capital for clients in overcoming difficulties and restore production and business; tightly controll, reduce operational costs and enhance bad debt provisioning and risk provisions; CIs must strengthen the risk management, especially credit risk to restrict new bad debts, while working closely with VAMC to implement drastic bad debt handling measures as prescribed by law;

+ Solution from borrower aspect: Consolidate, reorganize, restructure operations, enhance financial, management capacity, enhance technological application and competitiveness; coordinate with CIs in implementing debt restructuring plans;

+ Solution on mechanisms and policies: Apply prudent, flexible monetary, credit and banking policies; implement investory, debt handling solutions; encourage investment, consumption, remove difficulties for production; develop real estate market, actively coordinate with the concerned agencies in proposing and issuing policies on corporate tax, VAT exemption, reduction for asset management companies of credit institutions operating in Vietnam and the purchase and sale of collateral to promote the development of the market for debt and support bad debt handling; supplemented and improve a number of provisions relating to secured transactions, collateral handling and ensure the rights of creditor, obligations of the borrower, the guarantor in the Civil Code and the Law on Land, Law on Civil Procedure, Law on Civil Case Enforcement.

+ Solution on inspection and supervision: Enhance the inspection and supervision of credit institutions in their compliance with regulations on banking, bad debt handling activities; innovate banking inspection organization and operation in accordance with international standards and practices; issue mechanism, banking safety regulations such as loan

classification, provisioning and use of risk provisions and loan application, corporate bond purchasing, entrusting; handle cross-ownership among banks, etc.

+ Proactively contact, work with local and foreign financial institutions and organizations to exchange experience, seek the assistance, cooperation and disseminate information about VAMC.

+ Proactively contact and exchange information with CIs for bad debt handling.

With the close, sufficient coordination among Ministries, sectors and local governments, Vietnam CI system will be restructured basically, thoroughly and comprehensively so that by 2020, a modern multi-functional CI system will be developed with stable performance, diverse structure of ownership, size and type and greater competitiveness. This result, together with the implementation of the SOE restructuring plan and public investment restructuring plan, will contribute to the successful implementation of the economy restructuring policy of the Party and State .

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REVIEW AND COMMENTS

Dr. Dang Duc Anh

(Review and cooments for Report on "Restructuring commercial banks: Initial results and outstanding challenges")

1. Summary of main contents of the report and some notes:

In this report, the authors generally assessed macroeconomic and economic models in recent years, reviewed the impact of the subjective and objective reasons. On that basis, giving comments about the need for economic model transformation focus on restructuring the economy in the field of public investment, state-owned enterprises and financial markets restructuring. However, the main content of the report focused on analyzing the progress of the commercial banking system restructuring and primarily on the period from 2011 till now. The author suggests solutions to restructure the system of credit institutions in the period of 2011 - 2015 which is urgently implemented by the Ministries, Agencies and especially the State Bank. Many initial positive results have been achieved, including: basically assess the situation, classify and specify the weak credit institutions to apply control methods, suggest restructuring scheme for each weak credit institution to help prevent the risk of collapse, gradually improve the operating quality of these credit institutions, system's safety is secured; the legal frameworks, policy procedures of the commercial banks' operation are added, complete to support for the restructuring process of the system of credit institutions.

2. Some issues for further discussion

In addition to the problems which are already comprehensively mentioned in the report, I would like to discuss further on some specific contents related to the challenges appearing in the process of restructuring the banking system in the near future:

Firstly, regard the issue of debt classification and NPLs ratio calculation.

One of the criteria for evaluating the financial efficiency of the credit institutions and the stability of the banking system is the NPLs (non performing loans) on outstandings debt ratio. However, so far, there has not been unification on the NPL ratio (and how it severely affect on) Vietnam commercial banking system. According to the State Bank, by the end of September 2013, the total NPL on the balance sheet of all the banking system (as report of credit institution) make up 4.62% of total outstanding loans. This ratio decreased slightly from 4.64% in late August 2013, but increased 20.20% compared with late 2012. Average NPL growth rate in 9 months early 2013 decreased compared with 2012 (2.2%/month compared with 3.91%/ month). However, this figure will certainly differ from the assessment of State Bank inspection and supervision Agency bank and international practices.

The absence of unification of the NPL ratio derived from the difference in the debt classification. According to current regulations on debt classification, provisioning and use provisions for credit risks in the banking activities of credit institutions (CIs) according to the Decision No. 493/2005/QD-NHNN, NPLs are the credits that are ranked in Group 3, 4 and 5. However, in addition to quantitative factors, the assessment of the repayment capacity of the loans also depends on qualitative factors. Meanwhile, risk management capability and internal credit ratings among banks is very different. At present, the System of internal credit rating in Vietnam's commercial banks are mostly built by expert method, which means the selection and decision of all basic factors of the rating system (the criteria, the weight of each criteria) depend entirely on subjective opinions of experts. This problem led to a number of

shortcomings in the comparison and assessment of the same customer which will lead to different results, sometimes conflicts happened between banks on the financial and repayment capability of a customer (some banks classified into high risk debt group, some banks classified into low risk debt group). Of course, we do not exclude that some banks continue to classify debts in the low risk group to limit the risk provision although they had the credit rating of that customer from the other bank.

The second cause leading to debt ratio does not reflect the reality is at present, the State bank allow commercial banks structuring debts and keep all debt groups in accordance with the Decision no. 780/QD-NHNN dated April 23, 2012 on the debt classification of adjusted repayment period debts, debt extension. According to the State bank, if we do not comply with this decision, the NPLs of all the system of credit institutions are up to 12.7% to the end of September 2013. Along with solutions in Decision no. 780, the State bank has allowed Circular no. 02/2013/TT-NHNN (regulations on asset classification, the provisioning rate and methods of risk provisioning and the use of provision to handle risks in the operation of credit institutions) taking effect later in order to reduce pressure when banks and enterprises are in difficulty. Therefore, only untilCircular No. 02/2013/TT-NHNN takes effect, the NPL of the banking industry will be reflected accurately in accordance with the international standards and practices and in accordance with regulations.

Second, the establishment of Vietnam asset management corporation of credit institutions (VAMC) and NPLs handling of the banking system.

By the end of October 2013, VAMC has purchased a total NPLs of 14 bank with14019 billion VND principal outstanding balances and the purchase price is 11119 billion VND. It is expected by the end of 2013, the VAMC will purchaseabout 30-35 trillion VND of bad debt. However, the effectiveness of VAMC establishment is still the big question as when bad loans were transferred to VAMC, how they handle the debt from the credit institutions is important. The handling of the collaterals transferred from creditinstitutions to VAMC to handle in the form of sale, auction, transfer or capital contribution is expected to face many difficulties due to many objective reasons , mainly underdevelopedmarkets debt trading and incomplete legal framework for debt purchase. Most of these debtsVAMC bought are related to assets secured by real estate while the real estate market is expected to take a long time to recover. In addition, ifa number of legal issues related to the sale of assets, collateral handling isnot handled in legislation, it will be very difficult to solve.

Relating to the purchase of bad debt, although VAMC committed with credit institutions to restructure and clean debt, but mostly transfer termed loan from the credit institutions to VAMC. As a rule, after 5 years, if VAMC still does not solvethe collateral, it has the right to return NPLsto credit institutions . Therefore, this transfer has only temporary effect in improving the financial performance of the credit institutions . For customers of credit institutions, because the debt has not been really solved, NPLs enterprises remain unchanged credit rating and are unable to improve the borrowing ability when the debt is transferred from credit institutions to VAMC. Thus, NPLs in the banking system below 3 % by 2015 is feasible, but in terms of contribution to the restructuring of the credit institution system and enhancement the effectiveness of creating capital channel for the economy is still limited .

Thirdly, regard the issue of cross- ownership and investment in the banking system .

Cross-ownership, cross- investment in Vietnamsystem of credit institutions are complicated trends, potential risks and affect the safe operation of credit institution in particular and the whole system in general, interfere the process of restructuring the credit institution system. According to Governor Nguyen Van Binh, now there exists 6 pairs of bank with cross-ownership directly and 34 credit institutions which have other credit institutions asone way

shareholders. Cross-ownership and cross- investments negatively affect the operations of credit institutions and the whole banking system because many credit institutions seriously break safety regulations of banking operation such as the maximum loan limit for a customer, especially for loans to large shareholders and relatedcustomers to investt in real estate sector. One of the reasons for this situation is because Vietnam is applying multi-function bank model (both commercial banks and investment banks), but lacking of adequate and appropriate management mechanism. Meanwhile, the tracing of capitalinto banks in terms of complexownership relationship between banks, financial corporations, enterprises, especially the economic groups, corporations company are more difficult. Therefore, the evaluation and determination the exact status of cross-ownership, cross- investments in the banking system of commercial banks and financial institutions to have effective solutions is still a great challenge in the future .

IMPROVING THE PUBLIC INVESTMENT MANAGEMENT PROCESSING DURING THE PUBLIC INVESTMENT RESTRUCTURING PROCESSINGDr.

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Public investment restructuring is the one of 3 areas of the economy restructuring program. In fact, the thought of managing the public investment, that has many big changes, tends to become more transparent and service, shown in the Draft of The Public Investment Law (the Law Draft)[39] with specific regulations about the public investment management process[40].

This paper considered the public investment management process under the Law Draft, based on the comparison with the key requirements of the public investment management system, synthesized from economic theories, and international experiences, which then helps to figure out constraints and provide some proposals for perfecting policies and relevant laws.

1. Conceptualization of the public investment management process under the Draft of The Public Investment Law

Under The Article No.4 of the Law Draft, "Public Investment management is a management process for approving for investment policies, programs, projects, making investment plans, making lists of investment programs and projects, implementing, monitoring, assessing, inspecting public investment programs, projects and public investment plans".

In particular, "public investment" is the use of public investment funds to invest with the purpose of implementing objectives of programs, projects to serve social-economic development, "public investment program" is a set of targets, functions and synchronization solutions about economy and society in order to implement one or some of social-economic development targets of several territories, sectors, or areas in the 5-year plan; "public investment project" contains investment projects with constructing components and projects without constructing components in which some parts or all of the public investment funds is invested; "public investment plans" are those that invest public investment funds in constructing social-economic infrastructures, including main contents: objectives, investment orientations, capital balance, lists of programs, projects, allocation plans of public investment funds[41], capital mobilized from other economic sectors and solutions to implement; "public investment funds" consist of investment capital from the state budget (NSNN), national, government, local bonds, the Official Development Association (ODA), and concessional loans from sponsors, development investment credit of the state and other investment capital related to NSNN, loans from local budgets to invest.

Currently, the investment management process using the state capital[42] is determined in some Laws such as the State Budget Law 2003, the Construction Law 2003, the Investment Law 2005…, decrees, circulars, decisions, directives of The Prime Minister, guideline circulars of line ministries…In the recent years, that 1792/CT-TTg Directive dated October 15th, 2011 of

[39] The Draft of The Public Investment Law, August 2013 http://duthaoonline.quochoi.vn/DuThao/Lists/DT_DUTHAO_LUAT/View_Detail.aspx?ItemID=423&LanID=838&TabIndex=1

[40] It can be said that the wastage, loss in the public investment are caused partly by the inadequacies in the public investment management process

[41] The content "Determining the list of the investment programs, projects" of the public investment management process is in the public investment plans

[42] About the actual situation of the public investment management process, see "Dinh Trong Thang, Nguyen Van Ly; Innovating the public investment management process (PIM): Doing research on some cases of northern provinces, cities.

The Prime Minister has been introduced helps to overcome partly the existences and constraints as shown above. These are, however, documents lower than Laws, which has just solved some of conflicts, but not met the requirements to change the public investment systematically, completely. These legal documents having provisions on investment management for the public investment funds are incomplete and less specific, such as, not yet having provisions on planning; procedure sequences of approving for investing in programs, projects; provisions on capital assessments of programs, projects using public investment funds; monitoring, assessing, auditing, inspecting, supervising investment plans, public investment programs, projects[43] as well.

The Public investment management process is being directed to building and implementing, shown mainly in the structures of the chapters of The Law Draft, including:

- Policies on investing in public investment programs, projects

- Making, assessing, approving for public investment programs, projects

- Making public investment plans

- Implementing public investment plans

- Monitoring, assessing, auditing, inspecting public investment plans, programs, projects

According to the public investment management process above, it shows that the main objective of management activities has been already not determined distinctly, as 3 objects shown here are public investment plans, public investment programs, public investment projects and the relationship between 3 of the objects has been also not determined distinctly.

With regards to the documents of World Bank (WB), Organization for Economic Co-operation and Development (OECD), International Monetary Funds (IMF), Public Investment Management (PIM) is “comprehensive system, starting from forming major directions of public investment policies to appraising, selecting, budgeting, implementing, and assessing specific investment projects, with the aims of ensuring efficiency and effectiveness of public investment, thereby achieving growth targets and general development of the economy”[44]. Compared with the conceptualization of public investment management above, it shows the following issues:

First, theories and international experiences envision that the public investment management is an overall system, not just a management process provided in The Law Draft. In the overall public investment management system, managing objectives are determined distinctly as: (i) public investment policies (including investment programs, plans) and specific investment projects.

Second, theories and international experiences envision the public investment management starts from forming major directions of public investment policies, not just from making public investment plans or policies on investment in public investment programs, projects.

Third, theories and international experiences put emphasis on budgeting and assessing specific investment projects. Public investment not only comes from investment policies, but also the budget, and contains not only implementing projects but also assessing those projects if they meet expected targets.

[43]See: the project proposal of The Public Investment Law of the Government; http://duthaoonline.quochoi.vn/DuThao/Lists/DT_DUTHAO_LUAT/View_Detail.aspx?ItemID=423&TabIndex=2&TaiLieuID=1223

[44]quote Vu Thanh Tu Anh (2013).”Managing and decentralizing the public investment management: Viet Nam’s situations and international experiences”, www.fetp.edu.vn/attachment.aspx?ID=8658

Forth, theories and international experiences put emphasis on the aim of public investment management to ensure effectiveness and efficiency of public investment, thereby achieving growth targets and general development of the economy.

According to theories and international experiences, the public investment project management system (PIM) contains following main components: (i) Orientating investment, guiding, reviewing, screening initial projects; (ii) Appraising the investment projects; (iii) Assessing independently for the appraising (iv) Selecting and budgeting the projects; (v) Bidding and implementing the projects; (vi) Adjusting, changing the projects; (vii) Running the projects and providing services and (viii) Assessing and auditing the projects after finished[45]

Thus, compared with those main components of PIM system as shown above, it shows that the public investment management process under The Law Draft has still lacked or not addressed adequately important contents such as “Assessing independently for appraising the projects”, “Selecting and budgeting the projects”, “Assessing and auditing the projects after finished”.

2. Regulations on deciding investment policies on public investment programs, projects

Investment policies are fairly important components of the public investment management process. However, from past up to now, there has been not any legal documents that determine specifically the process of making, appraising, approving for investment policies on public investment programs, projects.

In the last period, the public investment funds were invested in many programs, projects while the capital balance was not enough due to investment policies approved for massively; many programs, projects allocated enough capital were not effective or much less effective when being put into operation.

For instance, the investment project to construct the Central Viet Nam coastal road, after finished, had very low effectiveness because no one used it; or some investment projects to construct people’s markets, commercial centers at the borders, after finished, didn’t have any one who did business here, which caused the waste for the Government’s budget[46].

All most all of public investment programs, projects are necessary to serve the targets developing social-economic infrastructures. Total amount of public investment funds, however, is limited, the proportion of public investment funds trends to decline. Therefore, the approving for investment decisions needs considering, calculating strictly about when to invest, investment size of each program, project; making the order of investment priority of those programs, projects[47].

Article 1 of Chapter II of The Law Draft provides in detail on deciding investment policies, public investment projects, including: determining the competence for deciding investment policies; conditions and procedure sequences to decide investment policies on each important national program, project and other programs, projects.

The Draft of the Public Investment Law distinctly provides each level’s competence for deciding investment policies on each specific kind of projects in accordance with current decentralization regulations. This determination helps to decrease spreading investmentdecisions that are not appropriate to the planning and restrict putting pressure on the state budget. In particular:

[45]See more: Vu Thanh Tu Anh, Tldd
[46]One of the important objectives of The Law Draft is determined to restrict the loss, corruption right at the stage deciding investment policies
[47]See: The Report assessing the impacts of the Draft of The Public Investment Law.

- The National Assembly decides investment policies on important national programs and important national projects[48].

- The Prime Minister decides investment policies on:

+ Investment projects of the group A[49];

+ Other investment programs using the Central budget capital, the Government bond capital;

+ Objects invested in from programs, projects using the development investment credit capital of the State,

+ Investment programs, projects using ODA and concessional loans from sponsors; investment programs, projects using ODA, non-refundable aids within norms prescribed by the Government,

+ Particular programs, projects; projects based on urgent orders using the Central budget capital.

+ Other programs, projects under regulations of the Government.

The investment policies of the other projects are decided on under current regulations, but decentralized and prescribed specifically.

Rule of Article No 12 of The Law Draft about conditions to decide investment policies on public investment programs, projects is an extremely important content requiring that competent levels, when deciding investment policies on public investment programs, projects, have to consider whether the investment policies are appropriate to be approved for or not, based on following conditions:

- Being consistent with strategies, planning, and social-economic development plans approved for by competent levels;

- Don't overlap in other programs and projects in planning and plans approved for[50];

- Being consistent with abilities to borrow, repay public, Government and local government debts;

- Being consistent with abilities to balance public investment funds and abilities to mobilize other investment capital for programs, projects using much investment capital;

- Ensuring the social-economic effectiveness, the security, the defense, and the sustainable development;

Article No13 of The Law Draft provides the procedure sequences to decide investment policies on important national programs, projects, conducted through following 5 basic steps:

Step 1: Agencies assigned to prepare to invest in programs, projects make proposal Reports of investment policies on important national programs, projects or pre-Feasibility

[48]The Law Draft doesn't provide how important national programs, projects are, here it is able to refer to The Article 2 and the appendix I of the Decree 12/2009/NĐ-CP of the Government on managing construction investment projects.

[49]The Law Draft provides Group A projects to fall within the competence of The Prime Minister for deciding investment policies. According to the current regulations on approving for projects, the Prime Minister just approves for decisions on investment in national target projects, target projects, important national projects; Group A programs, projects and other projects are both decentralized to ministries, sectors, the local for deciding to invest. In practical, now, group A projects have fairly large sizes, total investment, beyond the ministries, sectors and the local's abilities making balance capital, so that these projects, in general, are submitted to the Prime Minister for deciding the investment policies by the ministries, sectors, and the local. But the sequences of making proposals to ask The Prime Minister's opinions for the investing are not unified due to no specific regulations

[50]This content is extremely important because at this moment, there are many programs having the identical contents, targets, but assigned to many agencies, units. Therefore, allocating and using the public investment capital are spreading and unfocused.

Study Reports of important national projects to send to responsible agencies reviewing and submitting to the Government.

Step 2: the State Appraisal Council is established by The Prime Minister to appraise the proposal Reports of investment policies on important national programs, projects or pre-Feasibility study Reports of important national projects.

Step 3: the Government submits the Reports to the National Assembly to review, approve for the investment policies when determining the total amount of capital and the abilities to make capital balance to implement.

Step 4: Agencies of the National Assembly appraise the Reports of the Government.

Step 5: the National Assembly reviews and approves for the Decree about the investment policies on the important national programs, projects.

The Article 14 of The Law Draft provides the procedure sequences to decide investment policies on other investment programs, projects, conducted through the following 3 basic step:

Step 1: Agencies assigned to be in charge of programs, projects make proposal Reports of investment policies to submit to responsible levels.

Step 2: The responsible levels establish the Inter-sector Appraisal Council or assign a responsible agency to appraise the proposal Reports of investment policies, then submit to responsible levels to review, decide the investment policies.

Step 3: The responsible levels approve for the investment policies when determining the capital and the abilities to make capital balance to implement.

Determining distinctly the competences, responsibilities, conditions, procedure sequences of deciding investment policies on public investment programs, projects will contribute an important part to increase efficiency of the projects, as well clarify the responsibilities of the agencies or people having competence for deciding investment policies on projects when those decisions on the investment policies lead to inefficient, spreading investment, wastage and loss of resources[51]. According to theories and international experiences, the first stage that needs adding to the public investment management process is “Orientating investment, guiding, reviewing, screening initial projects”. The problem is the need to set up a management process that is transparent, distinct, to avoid overlapping in the next stage including “Making, appraising, approving for public investment programs, projects”; to ensure the reasonableness of the procedures, to avoid wasting time and financial source for this stage[52].

[51]According to theChairman of theEconomic CommitteeNguyenVan Giau: “it is needed to determine more specifically the individual’s responsibilities, especially the responsibilities of the head, people having competence for deciding investment policies, investment projects to improve the sanction of Laws for cases such as approving for wrong, less effective investment projects, the capital increases more than initially expected, making no balance capital to cause loss, wastage”. Now, in the public investment management process, there is the shortage of specific provisions on the responsibilities of people having competence for approving for decisions on investment policies, investment plans.

[52]In China, all public investment projects both located in the planning approved for is prepared to invest in. China has a private Law about the Planning. The Commission for development and reformation of China is the focal agency holding appraising, synthesizing, making appraisal reports about the development planning to submit to TheState Council(the government) to approve; auditing, synthesizing results of implementing the planning approved for. Ministries, sectors, the local, based on the investment planning approved for to make proposals, build investment plans and lists of investment projects (by capital of the state budget and investment capital of the society). China attaches the great importance to the stage of investment policies on projects. All public investment projects both make project proposal Reports (even the projects in the planning approved for). Adjusting projects (about targets, sizes, total investment) located in the planning approved for has to approved for by the agencies approving for that planning. (See; Nguyen Phuong Thao, Experiences in managing public investment of some countries in the world, , http://noichinh.vn/ho-so-tu-lieu/201310/kinh-nghiem-quan-ly-dau-tu-cong-cua-mot-so-quoc-gia-tren-the-gioi-292530/)

3. Regulations on making, appraising, approving for public investment programs, projects

Currently, making, appraising, and approving for construction investment projects are provided in The Construction Law. Public investment projects, programs without the construction component are provided in current legal documents. Besides, following the current decentralization, there are not any regulations on the competence for approving based on capital, in accordance with the principle that is any level of which capital is used by programs, projects will made the investment decision. The popular situation is that the local approve for projects using central capital, which leads to that the capital for implementing can't be balanced.

In the time to come, the proportion of public investment goes on decreasing, therefore, approving for the investment decisions needs considering, calculating closely; making the order of investment priority of those programs, projects.

Item 2 of Chapter II of The Draft Law provides the competence for deciding public investment policies; bases and procedure sequences to make, appraise, approve for public investment programs, projects; appraisal of capital and abilities to balance capital of the public investment programs, projects; adjustment of the public investment programs, projects.

According to The Article 15, the competence for decisions on public investment programs, projects is implemented based on current decentralization regulations. However, the competence for deciding projects using a part of public investment funds to participate or contribute capital with other economic sectors as the form of public-private partnership is implemented under the regulations of The Government because of having no any Law to adjust.

Article 16 provides the bases to make, appraise, approve for public investment programs, projects, based on the following basic elements: The social-economic development strategy of the country in the period of 10 years; the 5 year social-economic development plan; the investment policies approved by competent levels, the priority targets of the programs, projects; the urgency, necessity of programs, projects; the abilities to mobilize and balance public investment funds and other capital to implement programs, projects.

According to Article 17 of The Law Draft, the process of making, appraising, approving for important national programs, projects is conducted through the following 3 basic steps:

Step 1: Based on the investment policies approved by competent levels, agencies assigned to implement programs, projects make Feasibility Study Reports of programs, projects and make the draft of The Decision on approving for programs, projects to submit to The Prime Minister.

Step 2: The State appraisal Council is established by The Prime Minister to appraise programs, projects.

Step 3: The Prime Minister decides the important national programs, projects when completely determining the capital and the abilities to make balance capital.

According to the Article 19 of The Law Draft, the process of formation, appraisal, approval for other public investment programs, projects is implemented through the following 3 basic steps:

Step 1: Based on the investment policies approved by competent levels, the owners of programs, projects make programs, projects legally to submit to the levels having competence for making the investment decisions.

Step 2: The levels having competence for making the investment decisions appraise programs, projects. Programs, projects using capital that don't fall within the management competence of the levels have to be moved to agencies having competence for appraising the capital and the abilities to make balance capital[53].

Step 3: The levels decide programs, projects that are within their competence after completely determining the capital and the abilities to make balance capital.

In Viet Nam, currently, there is not both Permanent Investment Appraisal Council and Independent Public Investment Assessment Appraisal Council. In the legal aspect, in The Law Draft and the current legal documents about public investment, there are no provisions on the independent assessment for the appraisal of public investment projects.

Determining distinctly competences, responsibilities, conditions, procedure sequences of making decision on investing in the public investment programs, projects, especially the regulations that the owners of the programs, projects themselves have to appraise before submitting to the competent levels to make decisions; the State Agencies managing the investment are responsible for appraising capital and the abilities to make balance capital, which helps to overcome the status of rampant approvals for projects as now, overcome the status of the spreading, dispersion investment.

4. Regulations on making public investment plans

The public investment plan is a public investment management tool to ensure the efficient use of public investment funds of the State and the Local. The public investment plan is also the premise basis to consider, make investment decisions.

Most of the investment projects are slower than the expected schedule because of many different reasons: non-balanced capital; problems of compensation, clearance, resettlement; poor capacities to hold bidding; poor management capacities implementing projects, problems in disbursement, payment, settlement of investment capital, acceptanceand handover ofprojects..., but the main reason is still non-balanced capital. That many investment plans of public investment programs, projects are not made well results in allocating investment capital spreadingly, debt of investment, dragging out the schedule which causes wastage, loss of investment, less effective or ineffective investment.

Now, there have been not any specific legal documents for making public investment plans. The State Budget Law 2002 provides the cost estimation of development investment that is just a small component of the state budget estimation. Simultaneously, The Law has just provided the annual estimation, hasn't provided making middle-term investment plans (5 years); making plans in accordance with investment programs, projects; making investment plans using other public investment funds such as The government bonds, ODA, state loans, lotteries…Besides, The State Budget Law hasn't had provisions on procedure sequences of making, appraising, approving for programs, projects that are put into the plans; principles, criteriaused to allocatemedium-term investmentplansandannualpublicinvestment capital.

[53]In China, the public investment management is authorized, based on 04 budget levels: the Central level, the provincial level, the city level and the district, town level. The competent level of each budget level has all competence for deciding investment in projects using capital from their budget level. For investment projects using support capital from higher budget level, it is necessary to take appraisal opinions of relevant agencies of the higher budget level before appraising for project investment policies. Appraising investment projects at all stages (the investment policies, feasibility reports, technical designs and overall estimation, bidding…) is adopted by the Appraisal Council of each level and given appraisal opinions of the relevant state management agencies at the same level or higher level if the investment projects use support capital from the higher budget level. The Appraisal Council of each level is established by the agencies assigned investment capital plan to (the specialist management agencies). The members of the Appraisal Council contain expects who are deeply specialized in fields that the projects require, selected by the random drawn form from the list of the expects made, managed at each level, by every sector. These expects are determined as having appropriate expertise, meeting appraisal requirement of each specific project). (See: Nguyen Phuong Thao, Tldd)

Chapter III of The Draft Law provides classification of public investment plans by time and management levels; bases, principles, sequences of making annual and middle-term investment plans; principles and allocations of annual and middle-term planning capital for programs, projects; conditions for public investment programs, projects to be allocated middle-term and annual investment plan capital with regards to each capital; appraisals of annual, middle-term investment plans; sequences, contents, times of making, appraising annual and middle-term investment plans; submissions of middle-term investment plans and approvals for annual investment plans.

This Chapter cover all sequences from making plans to appraising and approving and assigning annual, middle-term investment plans based on principles, conditions to select lists of investment programs, projects by each specific capital. Making, appraising, and approving for plans are still implemented according to the current decentralization, a level manages itself to make and approve for plans but in accordance with general principles provided in the Law.

The contents regarding "Selecting and budgeting projects", according to theories and international experiences are shown in the provisions of The Article 21 on appraising capital and abilities to balance the capital of public investment programs, projects.

The Ministry for planning and investment chairs or establishes the Inter-sector Council to appraise capital and abilities to balance capital of important national programs, projects using the Central budget capital, the Government bond capital and other capital under regulations of the Government[54].

The Chairmen of the People's Committees at all levels hold appraising or delegate agencies managing the investment to appraise capital and abilities to balance capital that is managed by their level.

The Article 31 "Allocating capital to projects in the public investment plans", The Article 32 "The principle selecting lists of projects and estimating amount of capital allocated to each project in annual and middle-term plans for the state budget", The Article 33 "The principle selecting lists of projects and expecting amount of capital allocated to each project in annual and middle-term plans for balanced local budget capital", The Article 34 "The principle selecting lists of projects and expecting amount of capital allocated to each project in annual and middle-term plans for other investment capital related to the state budget, managed by the local"…provide distinctly principles selecting lists of projects and estimating amount of capital allocated to each project in annual and middle-term plans for each specific capital.

The provisions on bases, principles, criteria, sequences of making public investment plans in The Law Draft will help line ministries, People's Committee at all levels and state management agencies having legal basis when making annual and middle-term public investment plans.

The Law Draft provides specifically bases; principles, criteria of making annual and middle-term capital plans in order to ensure the feasibility of investment plans. This is the basic issue to ensure centralized resources to achieve annual and 5 year social-economic development targets of the whole country, sectors, areas, the local.

5. Regulations on implementing and monitoring, assessing, auditing, inspecting public investment plans

[54]In Korea, the budget system is conducted and managed in a centralized way, in which, The Ministry for Strategy and Finance keeps a key role in making budget plans, preparing and implementing public investment programs, plans as well. Regularly, decisions related to the budget will be made after an agreement between competent agencies and Ministry agencies having capital demands is done. The middle-term expenditure framework with from top to down budget policies are introduced by The Government. Allocating budget year starts by discussing about 5 year investment budget plans (See: Nguyen Phuong Thao, Tlđd).

In order to achieve the purpose of investment public, implementing public investment projects is the key and the core of the problem. In addition, it is extremely necessary to know how public investment plans, programs, projects are implemented, how results are achieved; monitoring, assessing public investment plans, programs, projects are an important components of the public investment management process.

Currently, monitoring, assessing public investment plans, programs, projects are mainly statistical in nature through collecting information about situations of implementing plans, programs, projects; synthesizingreportsevery 6months, every year, or 3-5years for5 year programsorplans.

Chapter IV of The Law Draft provides contents about holding operating public investment plans; contents about implementing plans; time to implement and disburse annual, middle-term investment plans; monitoring, assessing, auditing, inspecting public investment plans, programs, projects.

With regards to adjusting, changing plans, this chapter, in particularl, provides distinctly the competence for making decisions on adjusting or assigning investment plans, as in The Article 46:"Agencies deciding to assign investment plans have the competence for adjusting the investment plan assignment. In addition to competent agencies assigning plans, no agencies, no units or no individuals are allowed to change, adjust plans assigned to. The coordination, and combination of capital to implement programs, projects using many public investment capital have to be approved for by the competent levels" and the time to implement, disburse annual and middle-term investment plans is provided in The Article 48 for each specific capital.

The problem of public investment projects is adjusting regularly total investment, which increases public investment capital. To remove the problem, it is needed to have specific provisions in The Law Draft on what force majeure causes changing targets, investment contents, costs…are. If not, the number of projects adjusted about total investment takes spreading risks[55].

In the Chapter IV of The Law Draft, there are some provisions to clarify tasks, responsibilities of ministries, sectors, the local for implementing plans; simultaneously, there are also provisions on contents about monitoring, assessing, auditing, inspecting public investment plans, programs, projects.

6. Some proposals completing the public investment management process

In general, the public investment management progress handed out with The Law Draft shows the innovation in the public investment management methods and contents to manage strictly projects, programs using state capital, to overcome the loss, wastage, low efficiency, and to facilitateorganizationsand individuals ofalleconomic sectorsto participate in investment and construction. The Law Draft provides that managing plans has to be appropriate to the kind of capital used under the principle that projects using different capital are managed by different methods. The Law Draft also classifies State management functions for projects and project management tasks of investors; supplements provisions on the forms of the Department for managing Specialist projects, the Department for managing regional projects. The Law Draft put emphasis on controlling, managing the construction qualities in all stages of the construction investment process.

[55]Some countries have relatively effective public investment management systems as Chile, Ireland, Korea, and the UK both apply specific mechanismsto promote reviewing implementation of projectsifthere is afundamental changein terms of cost, schedule, andestimatedprofitof projects. For instance, in Korea, projects are automatically re-appraised if the real cost increases by over 20%; in Chile, if the lowestbidis higher thanestimatedby 10% or higher, that projectwillbere-appraised (See: Nguyen Phuong Thao, Tlđd)

That the Public Investment Law is built and introduced with many provisions on the public investment management process contributes to complete the legal system of public investment management, in accordance with policies that is to restructure the economy in general and to restructure investment, especially public investment in particular; make consistent legal bases to improve effectiveness and efficiency of managing and using the public investment capital in the entire investment process, starting by deciding investment policies, preparing investment, approving for investment decisions, selecting programs added to the plans; transforming annual investment plans into middle-term plans; the entire process of implementing, monitoring, assessing, supervising investment plans, programs, projects.

Implementing the public investment management process well will overcome current status of spreading, unfocused investment, contribute to improve the effectiveness of public investment in accordance with the targets, orientations of the social-economic development plans,strategies of the country; avoid the loss, wastage; ensure openness, transparency in all the stages of the investment process.

To complete further the public investment management process, however, based on analyzing the current public investment management process and the public investment management process under The Draft of Public Investment Law, we produce the following proposals:

First, in order to achieve the integration objective, in accordance with the international practices about public investment management, it should be to referred to the conceptualization and the public investment management process according to theories and international experiences to determine clearly the connotation of public investment management and supplement contents that Viet Nam public investment management process has not addressed adequately. In our opinions, it should be considered to apply the PIM process including 8 steps in a flexible way that is appropriate for specific circumstances of Viet Nam.

Second, improve regulations on appraising projects and supplementing regulations on appraising projects independently. Namely: (i) centralizing the competent and the abilities to appraise plans into an agency[56]; (ii) applying the international standards about appraising projects for all public investment projects. Simultaneously, applying consistently the standards about appraising projects for each public investment project, regardless of any capital; (iii) applying different appraisal modes for 3 groups of projects: For projects having the special importance and size, it is necessary to establish an Independent Appraisal Council. For projects having lower importance and size, but passing a certain threshold, it is not necessary to establish an Independent Appraisal Council, but it needs re-assessing appraisal results independently. For the other projects, it just needs re-assessing appraisal results when necessary.

Third, specific regulations on selecting projects have to go along with allocating capital, estimating investment. The major constraint in the current public investment management process in Viet Nam is the separation between selecting, and estimating projects with allocating capital. In order to overcome the constraint, in the public investment management process related to selecting and estimating projects, there may be some provisions such as: (i) Just selecting, approving for projects if there are adequate, reliable programs allocating capital, recognized; (ii) Determining a specific agency (Ministry of Finance or Ministry for planning and investment, coordinating with relevant ministries, sectors) has tasks and responsibilities to appraise the abilities to allocate capital, especially for important public investment projects.

[56]According to international experiences, the best agency is Ministry for planning and investment or Ministry of Finance

Forth, regulations on managing to run projects are an important stage in the public investment management process. Now, in the current legal documents and the Draft of Public Investment Law, runningthe projectis not consideredwithin the scopeof the public investmentmanagement. This leads to the shortage of responsibilities of units implementing the projects, as well as loss and/or decrease of the state asset value in the running process. In order to restrict this status, in the public investment management process related to running projects and providing services, there may be some provisions: (i) Requiring investors (units implementing projects) to be in charge of guaranteeing the projects that they implemented for a certain period of time; (ii) Requiring adequate estimations of recurrent cost for running, as well as maintaining the projects when the projects are in operation; (iii) Building a set of the criteria for monitoring the qualify and effectiveness of services provided by the public investment projects; (iv) Deciding investment policies, approving for projects in the future are attached with the quality and effectiveness of the projects that have been implemented.

Fifth, the regulations on assessing and auditing projects after finished are an important stage, not inseparable from the public investment management process[57]. Currently, auditing the projects after finished is conducted in a formalism way, and auditing the projects after finished is conducted within a very small scope. The actual situation is caused partly by no clear regulations and much limited resources for auditing and auditing. In order to improve the effectiveness and efficiency of these activities, in the public investment management process related to auditing and auditing projects, there may be some provisions such as: (i) Unifying legal frameworks of the audition for every public investment project, regardless of any capital; (ii) Requiring that auditing has to be applied for every project. For extremely important projects, it is needed to have an Independent Assessment Council that may be the initial Project Appraisal Council[58].

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[57]In the UK, Korea, Chile, Ireland…, auditing, assessing the completion of projects is conducted through the post-auditing policy. In Chile and Korea, officials often keep a big role in auditing asset that is finished compared to the project plan. In Ireland and the UK, assessing the completion of projects is to assess impacts of investment projects based on output results. In the 4 countries, all investment projects have to be audited. In only the UK and Ireland, the special reviewing mechanism is conducted in order to detectsystemicfactors thataffectthe cost andqualityof projects. In China, supervising public investment projects is conducted through many levels, many different supervising rounds. The Government Agencies’ purpose of supervising investment is to ensure investing in right projects legally, effectively. Agencies having projects assign people to implement supervising the projects regularly, in accordance with regulations. The Committee for development and reform at each level is in charge of holding supervising investment projects within the management scope of their level, having a private investment supervising department. When necessary, a special team is established to supervise directly at the place where the projects are implemented. The Committee for Development and Reform establishes and manages inter-sector investment supervising teams in which financial, anti-corruption agencies, inter-sector management agencies at the same level and relevant local agencies (See: Nguyen Phuong Thao, Tlđd)

[58]We agree with some Dr. Vu Thanh Tu Anh’s recommendations for the public investment management in Viet Nam in the Study “Managing and decentralizing the public investment management: The fact of Viet Nam and international experiences”, source quoted.

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REVIEW AND COMMENTS

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(Review and comments for Report on "Improving public investment management procedure in Public Investment Restructuring")

Public investment and public investment management are not only the issues of development but also related directly to social and security issues. That inefficient public investmenthad led todebt burdenand economycollapse is always asoberinglessonformany countries, especially theleast developedcountries. Inrecent decades, many countrieshave beenpayinghefty pricefor inefficient public investment management and use.

Being a developing country, Vietnam's public investment are bearing the main burden of investment for infrastructure and socially benefiting projects; therefore management and efficient use of public investment are targets as well as the main challenge in the development process. Public investment management situation in Vietnam in recent years was still insufficient, the public investment projects often lacked the overall planning, funds were not provided in time and were stretched; many projects was being used late with low quality, affecting the investment efficiency. Public investment in Vietnam shall be understood as investment from the state budget including development investment from the state budget, government bonds, State preferential credit, ODA, and other State' capital sources. The role of public investment in Vietnam is associated with the concept of the leading role of the state sector in general and the role of state in particular in industrialization and modernization required by development and social security. During the past several decades, public investment in Vietnam had been considered as the most important driving force for the development of the economy, as an important component of aggregate demand as well as a contributor to increasing aggregate supply and economic capacity, particularly in building and developing national socio-economic infrastructure; primer investment and maintaining growing motivation and creating jobs.

Besides the undeniable successes and positive contribution to national development, Vietnam's public investment still remains many limitations, especially in the investment efficiency. In fact, a number of public investment projects lacked of synchronization with national comprehensive plan and fund balance and were stretched, many projects was being used late with low quality, affecting the investment efficiency. Low efficiency of public investment had resulted in high inflation, large budget deficit and rising public debt burden.

Especially, public investment in traffic infrastructure projects accounts for the lion share and overwhelms other investing sources. Higher leverage ratios of BOT projects as well as various State guaranteed projects made these projects indeed public investment (however investors are interested in intermediate benefits in the process of building, not in the payback period. The State would bear the debt burden in case of failing projects) - Dr. Nguyen Minh Phong - Journal of Finance, May 2013. Shortcomings and lack of transparency in public investment management, planning, approving, and supervising as well as in managing and operating finished projects are some of the reasons for this situation. Hence, researching about "Improving public investment management procedure in public investment restructuring" is scientifically and practically meaningful.

After reading the paper and mentioned contents I would have following comments:

1. About scientific and practical meanings

The author has based on the research viewpoint that practical generalization combines with improving investment legal policies (Draft Law on Investment) through the assessment of management criteria such as policy, evaluation, approval, implementation, monitoring, supervising, and auditing which emphasize that "public investment" is the use of public investment funds to invest in order to implement the objectives of socio-economic development programs and projects; "public investment program" is a set of socio-economically synchronized goals, tasks and solutions to perform a or many socio-economic development goals of some regions or some sectors within the 5 year plan.

The Draft of Investment Law has partially confirmed the objectively inevitability of transition from central-planned economy to market economy, from simply administration to economic management base on main economic rules, of which the transparency and efficiency are considered as the core of sustainable development.

Author is totally reasonable in pointing out that the management of public investments were implemented under the guidance of a number of laws and legal documents such as Budget Law 2003, Law of Construction 2003, the Law on Investment 2005 and many separate circulars, decrees, decisions which resulted in asynchronous, unspecific and inconsistent guides. However, it is also admitted that this is a product of the transiting economy, and the length of this process depends on the political thinking of leaders and managers.

In the Draft, investment management process consists of (i) The policy of public investment programs and investment projects, (ii) Preparation, evaluation and approval of public investment programs and projects; (iii) public investment planning, (iv) implementing the investment plans, and (v) Monitoring, evaluating, testing, inspecting public investment plans, programs and projects. The author points out that the main object of management activities has not been clearly defined; public investment planning, public investment program, and public investment project are 3 objects that have not been clearly distinguished and the relationships among these three objects have not been specifically pointed out. At the same time, the investment management process is also limited and defective.

Essentially, public investment management is a united institution which is synchronized with the research process, form, construction, preparation, appraisal, approval, inspection and monitoring to assess investment efficiency, a close and scientific process with very objective and transparent assessment indexes, criteria and tools. Thereby investment targets, investment portfolio, investment costs, lifetime of the projects as well as sort-term and long-term socio-economic efficiency... will be defined. Therefore, post-investment efficiency assessment mechanism needs to be added to the Draft.

Author's use of theoretical framework, international experiences, and PIM model is appropriate in analyzing some defects in the public investment management process of the (draft law) ; is totally correct in elaborating transparency control "independent evaluation of project appraisal"; is essential in elaborating financing "Post-investing project assessment and auditing". Therefore the renewing of public investment management can't be achieved if these contents are not in the Draft.

Some of the above interpretations suggest that the author had partly evaluated and analyzed the scientific and practical aspects in the Draft of Law of Public Investment, and pointed the shortcomings that needed to be researched and supplemented to fit with reality.

2. About Paper's content

It can be said that the restructuring of public investment in the current context is essential, there should be a break and institutional improvement to create a dynamic public sector with

the ability to build and coordinate the policies in selecting strategic objectives, allocating resources associated with plans and policies, implementing, controlling, and assessing the results of public spending activities... Especially, the consistency in institutional breakthrough needs to be ensured to promote institutional reform from the top down, from macro to micro and create strong motivations for the new development phase of the country. The authors had recognized these issues seriously and responsibly.

Institutional breakthrough has to ensure the respect for the objective laws of market economy, to ensure the consistency among components of economic institutions, the market factors and the markets, between economic institutions with political institutions, between the state, market and society, and to suit the specific conditions of Vietnam; to ensure coherent assignment, close and efficient coordination between the legislature, executive, and judiciary; to improve the quality of planning and forecasting capacity as well as policy response capabilities; to ensure the consistency of planning and development orientation; and to promote the active role, responsibility, capacity of each level, and department and unit. Expanding democracy go in line with strengthening discipline in the state administrative system and society. The process of institutional reforms needs to create a good administration and a good legal system which are operated by a team of qualified and highly responsible staffs under the widespread and regular supervision of society; The reform of institutions, decentralized functions, duties, powers, responsibilities, processes and administrative procedures in the entire process of law building, implementation, monitoring and remedies needs to be promoted; effective working relationships between the legislature with social organizations, enterprises and citizens need to be built and efficiently maintained. In other words , to create a right institutional breakthrough, law-making bodies, tools and procedures need to be focused, not the law reforms themselves; furthermore, institutional reform can't be considered as a part of administrative reform as in current narrow and avoided concept... These are central elements of the Law that need to be amended and constructed to be appropriate with the demand of management and sustainable development.

With 4 in-depth studies about the provisions in the draft law: (i) on investment decision on the program of public investment projects, (ii) on the formulation, appraisal and approval of public programs and projects, (iii) on investment planning, and (iv) on implementation, monitoring and evaluation, inspection, inspection planning of public investment, the authors have analyzed relatively deeply about the achievements as well as the limitations that need to be amended to fit with Vietnam's conditions and circumstances.

During the analysis the author also highlighted the need for law amending, used the actual material to prove his statement, therefore clearly defined the advantages and disadvantages of every content, such as wrong investment policy leads to waste and cost: "In recent period, many programs and projects have been funded by public investment fund while balance is not sufficient due to massive investment approval; many programs and projects which were provided enough fund had no or low efficiency such as the Central coast road construction project which has very low efficiency due to no use from citizens, or some projects to build markets or supermarkets close to border which had not been used due to no sellers and buyers, causing waste of State's fund"; or about public investment planning "Almost investment projects were delayed due to many different reasons such as lack of investment fund, problems in compensation and site clearance and resettlement, low bidding capacity, bad management capacity of project implementation, and problems in the banking, payment and settlement of investment , acceptance and handover works... but the main reason was "not enough fund". The bad planning in many projects and investment program has resulted in the stretched state capital, debts, and delays, loss of investment, low investment efficiency or inefficient investment".

The author also managed to analyze, explain and suggest the issues that need to be considered. This is that the public investment management procedure provided in accordance with the Draft expressed the reforms in public investment method and contents to tightly manage the projects that use State's fund, to fix the loss, waste, and low efficiency and facilitate organizations and individuals of all other economic sectors to participate in these projects.

The author stressed some recommendations in building public investment management procedure in the Draft of Public investment:

- Considering about applying PIM model which consists of 8 parts, with creative modifications to suit Vietnam's specific context;

- Completing rules for project appraisal and add regulations about independent project appraisal. Specifically: (i) centralizing project appraisal competence and capacity in an agency; (ii) applying international standards for project appraisal for all public investment projects, in the same time, using unified standards for the appraisal of all projects, regardless of funding; and (iii) applying different appraising procedures for three groups of projects, for projects with special importance and scale, it is necessary to establish an independent appraisal committee;

- Specific provisions for project selection must be accompanied by the allocation of capital, the estimation of investment, and project managing and operating regulations with following rules: (i) requiring project investors (contractors) to warrant their projects in a certain time; (ii) requesting the full estimated cost of regular costs for project maintenance activities; (iii) constructing the criteria for monitoring the quality and effectiveness of service delivery of public investment projects; and (iv) connecting the decisions of future investment policy and projects with quality and effective implementation of projects which have been implemented;

- Specifying that post-investing evaluation and auditing are important and integral steps of public investment management procedure.

These recommendations have research background to be used when issuing Law. However these backgrounds are just qualitative and have not been proved or verified quantitatively and have not pointed out how transparent the public investment management is. Information should be disclosed on mass media or just in the authorities? Is there a need to develop a set of indicators for assessment of the efficiency of investment in the public investment management procedure? The author should research more about this issue.

3. Conclusion

That the issue of the Law on Public Investment with supplements and additions to complete legal system of public investment in line with international practices for early implementation is essential and important to create a unified legal basis to increase the effectiveness and efficiency of the management and use of State's capital in entire investment process, from the stage of deciding investment policy, investment preparation, implementation and investment management process of exploitation and operation of projects; to contribute to increase investment efficiency of State's capital in accordance with the strategic economic development direction, planning, and planning; to prevent losses and wastes, spreading and to ensure transparency, openness in investment activities;

TheDraft of Law needs to clearly indicate the viewpoint that public investment institutional reformshould betowardsensuringconsistencyofnational developmentstrategies, improving using efficiency of state budgetfunds(budget), clarifyingrolesof the investment managing agencies in each program and project; determinedto cutinvestment projects if they don't meet socio-economic efficiency conditions and don't complete the proceduralrequirements, and use capital for projects that are able to finish in time withhigh efficiency;

The Law should also specify responsibilities, effective and efficient monitoring of public investment projects through strengthening the supervising role of the Parliament as well as auditing public investment projects; determined in fighting corruption and more regularly implementing the accountability of public investment; enhancing the management , inspection , testing , auditing of public investment projects; the State Audit and inspection and financial managing agencies need to strengthen their professional competency to assess, compare, detect and timely prevent violations of law; clarifying of responsibilities and penalties for each organization and individual and performing responsibility regime for heads of units in public investment management . Investors must bear full responsibility for the project efficiency and quality and stop assigning project management and implementation to professional incompetent persons.

The Law should clarify regulations and oversight mechanisms to evaluate the efficiency of investment in the process of implementation and after completion of the project program. The evaluation criteria should clearly indicate the project's time, project's life, socio-economic efficiency of project program, and associate the project program with the organizations and individuals who are responsible for the performance result of the investment. The complete of procedure of the investment management in restructuring public investment is urgent, important and sensitive; affecting interests of certain individuals or organizations, but to ensure the right inviolable interests of the nation, it should be considered as an economic renovation associated with the sustainable development of the country.

IMPROVING THE EFFICIENCY OF OVERSEA INVESTMENT OF STATE OWNED ENTERPRISES IN THE CONTEXT OF ECONOMIC RESTRUCTURING

Dr. Dinh Duc Sinh

1. The real situation of oversea investment of State-owned enterprises

1.1. Overview of oversea investment activities of Vietnam

Up to now, Vietnam has 712 projects of Vietnamese enterprises to invest in 60 countries and territories with total capital of more than USD 13.5 billion (see Table 1).

Table 1: Oversea direct investment (ODI) capital of Vietnam in the period 1989 - 2012

Period	Project (DA)		Registered capital (Million USD)		Scale capital / DA (Million USD)
	Number of (DA)	Proportion %	Total	Proportion %	
1989 - 1998	12	1.69	9.061	0.07	0.76
1999 - 2005	128	17.98	601.292	4.43	4.69
2006 - 2012	572	80.34	12,957.139	95.50	22.65
Total	712	100	13,567.492	100.00	19.06

Sources: Foreign Investment Agency- Ministry of Planning and Investment

So, as we can see, ODI activities of Vietnam were divided into three following phases:

- The first phase (from 1989 to 1998): during this period, ODI activities were just in exploration phase, Vietnamese investors trended to begin to seek ODI opportunities. Number of projects as well as the registered capital was very low, only 12 projects with total registered capital of USD 9.061 million, the scale of investment of about USD 0.76 million / project. Only 2 projects were approved per year, even there was no ODI project in the period from 1995 to 1997.

- The second phase (1999-2005): This period was marked by the issue of Decree 22/1999/ND-CP on 14/04/1999 of the Government on ODI of Vietnamese enterprises. Along with this Decree, some guidance circular of Ministries, sectors had been issued, which created a legal basis to promote ODI activities of Vietnamese enterprises. The number of projects in this period reached 128 (in 30 countries and territories) with a total registered capital of USD 601.2 million, which was 10.6 times more than the number of projects and 66.3 times more than the total of registered capital of the period 1989 - 1998, the average scale of capital was USD 4.6 million/projects.

- The third phase (2006-2012): in this period, Vietnam has 572 ODI projects with total registered capital of USD 12.9 billion, which was 4.4 times more than the number of projects and 21.5 times more than the total of registered capital of the period 1999-2005. The average scale of capital reached USD 22.6 million/project which was much more than the previous periods. The ODI projects of Vietnam in this period have some changes which is more advantageous. The ODI targets of Vietnam are not only the familiar markets, such as Laos, Cambodia, Russia but also the countries which are major investors in Vietnam, such as Japan, USA, Korea, Singapore, Australia, Europe, Latin America, etc. Most of individuals and enterprises had implemented projects since they were granted with ODI licenses, in which many projects were put into operation and had been initially effective, especially in sectors of telecommunications, aviation, bank, agriculture, forestry, rubber plantation.

Table 2: Vietnam ODI - 10 typical countries

(Cumulation till the end of 2012)

No.	Locations	Number of projects	Capital of VN (USD)	Expenditure of VN (USD)
1	Laos	222	3,981,796,318	872,569,345
2	Cambodia	120	2,640,788,484	621,008,215
3	Venezuela	2	1,825,120,000	993,679,437
4	Russia	17	776,873,090	700,458,000
5	Peru	3	770,296,085	508,769,830
6	Malaysia	7	446,340,000	112,522,347
7	Mozambique	1	345,653,000	171,396,691
8	United States	84	254,883,570	181,338,479
9	Algeria	1	224,960,000	21,360,139
10	Australia	15	125,600,500	1,282,600
11	50 remaining countries	472	2,175,181,063	296,538,088
	Total	**712**	**13,567,492,110**	**4,480,923,170**

Sources: Foreign Investment Agency- Ministry of Planning and Investment

As of 2012, the total of ODI expenditure was more than USD 4,480 billion, which accounts for about 33% of the total registered ODI capital of Vietnam. In which, the oil and gas sector made the largest amount of over USD 2.9 billion and agriculture, forestry was more than USD 500 million; hydroelectricity sector was more than USD 400 million; communication sector was USD 423.41 million, the financial, banks, insurance sectors were more than USD 100 million, etc.

In the total of ODI expenditure, a significant portion was used for purchase and use of goods, machinery, equipments and services from our country. This contributes to increase the value of oversea export of goods and services of Vietnam.

Most of the ODI projects were licensed in the period from 2006 to 2012, so they are currently in implementation stage, some projects have been put into operation, some enterprises already got profit and repatriated the profits. According to the reports of the investors, the cumulative revenue of the operating projects reached over USD 2 billion, repatriated profits reached about USD 530 million, equal to 11.8% of the total of investment capital expenditure. In which, the oil and gas sector reached about USD 360 million, Viettel reached approximately USD 155.5 million. In addition, some projects repatriated profits in materials, especially the projects in Laos and Combodia.

The ODI enterprises created about 35,000 jobs, in which the majority are local employees, Vietnamese employees play an important role, most of them are managers, engineers, professionals and skilled workers.

The ODI sectors focus on the sector of oil and gas, rubber, hydroelectricity, telecommunications and mineral.

Table 3: ODI in some large scale sectors up to 31/12/2012

Unit: million USD

No.	Sector/field	Number of projects	Registered capital	Expenditure
1	Oil and Gas	21	5280	2900
2	Rubber	20	752.8	428.5
3	Hydroelectricity	6	1860	400
4	Telecommunications	5	1010	423.4
5	Minerals	6	39.4	23.4

Sources: Foreign Investment Agency

1.2. Overview of oversea investment activities of State-owned enterprises

As in the report of Ministry of Planning and Investment, the majority of large-scale projects were invested by state-owned enterprises and corporations, the capital of the state accounts for 60% of the total ODI capital.

The large enterprises effectively invest to oversea should be mentioned are Vietnam Rubber group, Viettel group, Vietnam National Chemical Group, Vietnam National Oil and Gas Group - PetroVietnam (PVN), etc. Large-scale ODI projects in some sectors, fields should be mentioned are:

First, the ODI activities in the sector of oil and gas exploration and exploitation:

As the end of 2012, in the sector of oil and gas exploration, PetroVietnam and subsidiary companies have invested, contributed to 21 oil and gas projects in 17 countries around the world, including 15 exploration projects, 02 development projects, 04 mining projects (SK 305 and PM 304, Nhenhesky and Mongolia). The total registered ODI capital of PetroVietnam is USD 5.28 billion. Total project expenditure so far is about USD 2.9 billion, in which abroad transferred capital in cash is about USD 2.2 billion.

As reported by PetroVietnam, up to now, the total volume of equivalent discovered oil: 170.4 million tons (equivalent to oil production in 10 years of Vietnam). Total revenue from oil and gas activities of PetroVietnam from abroad is about USD 1.23 billion. Accumulated profit to re-invest is USD 219.5 million; repatriated profits reached USD 360.2 million.

Second, the ODI activities of Vietnam Rubber Group:

The Group currently has20 oversea rubber projects, in which 06 projects in Laos, 14 in Cambodia. The total investment of the project is USD 752.8 million, in which abroad transferred capital is estimated at USD 428.5 million, which accounts for 56.9% of the total ODI capital of Vietnam Rubber group.

In Laos, the projects have planted over 27,000 ha of rubber trees. In Cambodia, the projects have planted over 60,000 ha of rubber trees. Rubber trees grow well which promise to bring high economic efficiency to the investors and the locals. Most of the rubber plantation projects were licensed since 2008, and is in the implementation phase, the garden is in the growth period, currently, only a part of the rubber plantation area (about 10,000 ha) has been exploited from 2012, series of large-scale projects in Laos and Cambodia will operate in 1 or 2 coming years.

Third, investment projects in hydroelectricity sector:

Currently, there are 6 investment projects in hydroelectricity in Laos and Cambodia which have been granted with investment certificates, with a total investment of USD 2.11 billion, in which the capital of Vietnam is USD 1.86 billion, the expenditure reached USD 400 million.

The projects are in the implementation phase with no revenue and profit. In which, Xekaman 3 project in Laos with the total investment of USD 311 million and 250 MW capacity has been accomplished and is in trial phase, is expected to run the first generator in the first quarter of 2013; Xekaman1 project with a total investment of USD 440 million and 310 MW capacity is expected to run its first generator in the fourth quarter of 2014.

Forth, investment projects in telecommunications sector:

Viettel telecom has 5 ODI projects in Cambodia, Laos, Haiti, Mozambique and Peru with a total investment of USD 1.01 billion, in which the expenditure reached USD 423.4 million.

In Cambodia, the project revenue in 2012 reached about USD 275 million, accumulated repatriation of profits till the end of 2012 reached USD 104 million; Viettel currently is the largest telecommunications service provider in Cambodia. In Laos, Viettel has developed 1,800 BTS; 1.6 million subscribers; have had coverage of all communes in Laos; accumulated repatriation of profits till the end of 2012 reached USD 51 million, Viettel is the leader among telecommunications companies in Laos.

The telecommunications projects of Viettel in Haiti, Mozambique and Peru have operated since 2012 with good results.

Fifth, ODI activities in mining sector:

Some large-scale projects have completed exploration and survey phases, and are in the stage of feasibility study and is preparing to apply for mining and processing licenses from Lao government, in which 2 projects are in the cooperation agreements between the two Governments, which are salt mine project of Vietnam National Coal - Mineral corporation in Savannakhet province and the salt project of Vietnam National Chemical group in Kham Muon province. These two projects are implemented with the investment of approximately USD 400-450 million each, will create large industrial complexes in Laos, rapidly increase capital investment of Vietnam in Laos and significantly contribute to enhance the value of industrial production of Laos.

2. Evaluating the efficiency of ODI projects of Vietnamese Enterprises in general and state-owned enterprises in particular

2.1. Success

First, the position of many Vietnamese enterprises has now been confirmed and enhanced on the global market. Vietnamese enterprises have taken advantages to produce and trade, to expand manufacturing market and step by step built up their brands and their competitiveness on global market. Moreover, the implementation of ODI activities also helps Vietnam have more friends in the world and expand socio-economic relationship with other countries.

As can be seen, the operating oversea projects play an important role in improving the position of Vietnam National Oil and Gas Group in the global oil and gas sector. Vietnam Rubber group has hundreds of thousands of hectares of raw materials for the rubber industry in Laos and Cambodia markets. Viettel has also become one of the leading telecommunications service providers in Laos, Cambodia, some countries in Africa and Latin America, etc.

In addition, ODI of non-state enterprises tended to increase rapidly in recent times, particularly Hoang Anh Gia Lai Group has invested in many large-scale projects in Laos and Cambodia, Myanmar; some other investors of Vietnam took advantage of the plunge of the global real estate market to invest in some small and medium-sized stores, manufacturing facilities, commercial centers in United States, Europe, Australia to expand their influence abroad, etc. The private investment projects have started to take effect, however, most of these projects

are large-scale with long term investment goal, so in short term, the figures can not represent their revenues and repatriated profits.

Table 4: Revenues and profit of some ODI projects of SOEs

Investors	Number of reported projects	Total revenue (million USD)		Total profit of project (million USD)	
		2012	Accumulation	2012	Accumulation
Viettel international investment JSC	9	552.7	1,240.9	114	161
Vietnam National Oil and Gas group	36	3,501	5,756	325	522
Ha Tinh Minerals and Trade Company	1	6	30.6	0.82	3.400
Da river general company	3	1.2	1.733	-0.915	-1.327
BIDV insurance Company	1	7.341	16.671	0.466	0.033

Source: Report on “Improvement of ODI law", Research institute of Central economy management, 2013

Second, Vietnamese enterprises can learn many new experiences, especially experiences from developed countries while investing in them. The developed countries always have effective mechanism of finance management, human resource management as well as effective technology approaches and modern sciences. Investing in these countries, Vietnam has the opportunities to expand the market and promote exportation as well as to learn management experiences, etc. Moreover, during implementation of ODI, Vietnamese enterprises have gained more knowledge and vision of the market, learned good things from working behaviour and management methods of other countries. They will significantly change the way of thinking as well as the way of trading of Vietnamese investors.

Third, ODI activities also give the enterprises the opportunities to approach high-tech sciences, and to learn IT applications as well to enhance their capacities.Performing ODI activities in advanced countries with developed IT and technology like the United States, UK, etc, Vietnamese enterprises have the opportunities to witness the practical application of those achievements. Moreover, the enterprises can implement advanced technologies which can not apply in Vietnam in new countries and markets to be more competitive.

Forth, ODI activities of SOEs have brought a number of Vietnamese workers abroad.

Table 5: Workforce of ODI State-owned enterprises

Investors	Number of reported projects	Total Vietnamese employees abroad (person)
Viettel international investment JSC	9	1458
Vietnam National Oil and Gas group	36	508
Ha Tinh Minerals and Trade Company	1	55
Da river general company	3	169
BIDV insurance Company	1	5
Vietnam Airlines	1	24
Southern foodsGeneral Corp.	2	45

Source: Report on "Improvement of ODI law", Research institute of Central economy management, 2013

2.2. Shortcomings

First, some investment projects did not meet deadline. Some important, large-scale projects in hydroelectricity, minerals have been implemented slowly or the implementation period was longer than expectations, which affected the investment progresses and efficiency; some projects have not fully calculated the risks of capital scale, markets, as well as legal conditions, language, culture, etc which caused problems and slow in implementation; some other projects are in operation but with poor performance.

Second, efficiency of the investment capital is low. Profit ratio and capital payback is still low. Although the rate of abroad transferred capital is increasing but the profit ratio (repatriated profit vs. abroad transferred capital) is still low.

The table 6 below indicates the ratio between repatriated profit and abroad transferred capital of Vietnam in the period 1989-2012 is only 11.8%.

Table 6: Profit ratio and capital payback capacity

No.	Indicators	Number of projects	Total registered investment capital of Vietnamese investors (million USD)	Money was transfered abroad (million USD)
1	1989-2012	712	13,567.4	4.48
2	2006-2012	572	12,957.1	3,571
3	Ratio between 2006-2012 and 1989-2012	80.3%	95.6	79.7%
4	Performed ration (abroad transferred capital /registered investment capital) in 1989-2012	33.0%		
5	Performed ration (abroad transferred capital /registered investment capital) in 2006-2012	27.5%		
6	Profit ratio (repatriated profit/abroad transferred capital) in 1989-2012	11.8%		

Source: Foreign Investment Agency- Ministry of Planning and Investment

Abroad transferred capital and repatriation of profit of SOEs which perform ODI have not been out of the common trend mentioned above. Based on data from 40 large projects of SOEs such as PetroVietnam, Viettel, Coal and Minerals group, the accumulated repatriated profit untill 12/2012 is about less than USD 200 million, meanwhile, the investment capital which has been transfer oversea reached more than USD 3 billion.

This phenomenon in short term has created the imbalance between incoming and outgoing money flows of ODI projects. However, in long term, the capital efficiency may be more positive as large-scale projects will be in operation in upcoming years.

Based on data of SBV (Table 7), the abroad transferred capital has continuously increased from 2006 to 2011, and decreased significantly in 2012 due to the difficulty in domestic situation. Meanwhile, profit and other legal income from ODI activities of Vietnamese enterprises is still humble.

As can be seen, the investment is long term and can not be profitable at this moment, however, for SOEs, it is necessary to be very careful as those projects are very large. Therefore, it is necessary to have specific mechanisms to monitor ODI activities of SOEs, and this issue need to be emphasized as currently, the monitoring mechanisms on domestic investment of SOEs have not been perfect yet.

Table 7: Performance of ODI capital of enterprises (Million USD)

No	Type of capital	2006	2007	2008	2009	2010	2011	2012
1	Abroad transfered capital	34.03	221.37	478.39	439.33	839.28	1085.17	574.52
2	Cash	32.09	196.50	270.20	408.99	803.00	1064.36	570.73
3	Machinery	0.69	1.91	3.37	23.53	34.31	15.63	0.62
4	Other types of contributions	1.21	22.93	204.82	6.57	1.49	5.12	3.16
5	Retained profit for reinvestment	0.04	0.03	0	0.24	0.48	0.06	0.01
6	Repatriation of profit and other legal income from ODI activities of Vietnamese enterprises		0.06	49.33	27.54	8.76	149.53	123.27
7	Profit transfer	0	0.06	49.33	27.54	8.76	113.68	110.54
8	Other legal incomes	0	0	0	0	0	35.85	12.73
9	Repatriation of capital	0	0	0	0.14	0	1.97	0.05

Source: State Bank of Vietnam

3. Some recommendations on enhancing management of ODI of State-owned enterprises

First, it is necessary to have a clearer orientation of strategy on development and management of ODI activities of SOEs. On aspect of argument as well as of reality, the ODI activities bring resources, production, foreign currency back to the domestic economy, by these activities, the domestic economy will penetrate more widely into the region and the global economy. However, without close and good management, ODI activities of SOEs may have potential risks of capital losses.

Therefore, it is urgent to develop a strategy on ODI development to orient the ODI activities of Vietnamese enterprises, including SOEs. To insure maximum benefit from ODI support, specific policies on those activities, including policies on ODI of SOEs need to be placed in the national general strategy to enhance the capacity of international competitiveness.

ODI strategy represents the vision and orientation of the Government on this sector, plays an important role in promoting ODI, at the same time, the State authorities on investment and related ministries, departments have the basis to develop specific and practical supportive policies for investors.

Second, it is necessary to manage closely abroad transfered capital of SOEs. In recent times, despite being monitored, many domestic projects of SOEs are low in economic efficiency, caused big losses.

The monitor will be more complicated for ODI of SOEs, which have many potential risks of capital losses. Specifically, it is necessary to improve legal documents on ODI, perform review, editing errors, adding related regulations, including:

- Develop and issue Public investment Law and State capital investment Law with clear and transparent regulations on management and use of State ODI capital.

- amend and add to current Procurement Law with regulations related to consulting service, goods purchase, construction in ODI project which uses State capital.

- Clearly define the concept of State capital in State-owned enterprises in amended Investment Law 2005, Public Investment Law, Procurement Law, State capital Investment Law to have a common basis to determine the limitation of total outside investment and the authority level to approve ODI (the National Assembly, or the Prime Minister), closely access the efficiency of State ODI capital.

- Adding regulations on: Registered criteria on capital include: Total investment capital, charter capital of companies; to clearly define the concept of State capital in ODI under the Investment Law and the State capital contribution in enterprises on the basis of total outside investment of enterprises; to concretize the regulations of the National Assembly on investment guideline approval to large projects under the jurisdiction of the National Assembly under Resolution No. 49/2010/QH12 on 19/06/2010; to oblige tender, development and implementation of monitor and evaluation mechanism of efficiency of ODI investment of SOEs; to develop regulations on internal expenses (management cost, salary cost, allowances, etc) of SOEs which invest to oversea.

- Adding strict regulations on management of state ODI capital.

- Adding specific guidance on investment conditions for investors. As for the 100% State-owned enterprises, it is necessary to add condition that total outside investment value (including the capital value of proposed projects) shall not exceed the charter capital of the enterprises.

- Adding more specific regulations on issues such as oversea reinvestment (sanctions to investors who do not repatriate profit unless they have new investment or reinvest from profit), adjustment on ODI capital; management and use of profit from ODI activities.

- Allowing the use of independent audit of Vietnam and recognizing the results of audit conducted by independent audit of Vietnam for oversea projects (if there is no audit regulation or independent audit company in foreign countries).

- Specific guidance for financial mechanism between parent enterprises and subsidiary enterprises established in oversea (whether parent enterprise can lend subsidiary enterprises using loans or just contribute in capital, in this case, what scheme can be used to paying bank).

- Adding sanctions to ODI projects on report regime, especially two ways communication between ODI enterprises and State management agencies and oversea representative agencies of Vietnam government as well. Regulating ODI enterprises is submittedto oversea audited financial statements and statements of repatriated profit to Ministry of Finance and local tax agencies as a basis to evaluate the efficiency of investment and financial obligations; regulations related to report and investment monitor.

Third, reducing potential risks related to Oversea Investment without impeding the process of internationalization. Oversea investment activities may bring potential negative affect to employment and technology of target countries (due to the shift of manufacture activities, R&D technology transfer and workforce abroad), and cause problems to balance of international payments of those countries. Therefore, the State need to have specific public policies to these groups such as education, training programs as well as support programs to develop small and medium enterprises, support domestic industries to produce parts and materials for export, intensively attract FDI, especially high-tech industries[59].

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REVIEW AND COMMENTS

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(Review and comments for Report on "Improving the effectiveness of outward foreign investment of SOEs in the context of economic restructuring")

The article "Improving the effectiveness of outward foreign investment of State-owned enterprises in the context of economic restructuring" written by Dr. Dinh Duc Sinh generally gave an overview of Vietnam's outward foreign investment. The data on this article partly showed the current situation of this activity, which could been evaluated and given some suggestions about policy to improve the effectiveness of Vietnam's outward foreign investment activities.

It is said that the outward foreign investment activity has mainly been encouraged since 2006, so we could see it as a new activity of Vietnamese enterprises in general.

As the common activities of economy, Vietnam has still been following the developed economies in the world. However, it might be a good chance to study, learn by experience and seize the good opportunity, restrict the risks and challenges in this field.

On this article, the author will give some referential information about China's outward foreign investment, which is called the larger-sized and higher developed economy than Vietnam, but has lots of similar characteristics about development objectives as well as institutions and practice in economic sector.

I. OVERVIEW OF CHINA'S OUTWARD FOREIGN INVESTMENT

1. Current situation of China's OFDI

In recent years, China has emerged as one of the largest outward foreign investment countries in the world with total investment till 2012 reached USD 476.2 billion, a growth of 41.1% per year during the past 10 years according to the officially published data. In accordance with Heritage tracker, in the period of 2005-2012, total investment reached USD 606.6 billion and if added the remaining of USD 44.8 billion before, total investment till 2012 reached USD 651.4 billion. From 2008 to 2010, the China's average outward foreign investment was about USD 60.7 billion per year, ranked as the no.8 but being the country having the fastest growth rate of OFDI over the world.

In fact, China's OFDI activity has been lasting so long in 30 years from 1982, however like Vietnam, it has been strongly developed and left some impressions even since 2006.

2. Structure of China's OFDI

About geographical locations, the OFDI flows concentrated in two regions of Africa and North America, followed by South America, Europe, East Asia, West Asia, and a smaller part in Australia and Arab.

About industrial structure, leading portfolio is energy with many oil and gas projects. Metal mining is the 2nd sector having large proportion of investment. Following are financial sector and agricultural sector thanks to the big M&A deals recently.

3. Objectives of China's OFDI

From the structure of China's OFDI flows about geographical location and industry, we can draw out the investment objectives of China's outward FDI as follows:

*Investment to exploit natural resource*s is one of the decisive main trends of China's outward foreign investment activity. Africa is one of the largest markets in that case.

Investment to expand markets and improve effectiveness leads investment flows to developing countries in order to avoid quotas and other technical barriers when exporting into the target market especially the United State and EU.

Investment to access property and science and technology is one of the other main trends implemented by M&A deals of Chinese companies to approach and apply the technology, hold the patents, inventions and world- renowned brands.

Investment aiming to political objectives, despite not being shown by figure, there has been many studies emphasizing the political factors behind China's outward foreign investment activity.

4. Basic factors for developing China's investment activity

The first factor – The largest foreign exchange reserve in the world:

In the past 15 years, China has constantly had the huge current account and capital account, which creates an abundant amount of foreign exchange reserves. With the largest foreign exchange reserves in the world, China could ensure the long- term resources for outward foreign investment.

The second factor – Direct financial support from the Statement:

The Chinese companies have been relatively good foundation due to the process of economic overheating in recent years, but more importa.ntly they get the great support/assistance from the Statement through very favorable financial support mechanism. Many studies have shown that without the support of the Statement, the Chinese investment projects will hardly efficient.

II. SUGGESTIONS FOR VIETNAM

1. Assessment of Vietnam's OFDI management

Legal Framework: The legal framework for Vietnam's outward FDI (OFDI) was not perfect, not oriented to support enterprises in the right direction. In addition, the regulations of foreign exchange management are not available for cash transactions relating to guarantees for non-residents (except capital or current transactions). Currently, there is no guideline ruled by central bank about guarantees for non-residents. The most important legal documents relating to outward FDI activity is the Decree No.78/2006/ND-CP. However, the procedures and project documentations for approval in this Decree are rather complex. Additionally, the provisions of this Decree haven't included the overseas transaction of a part of funds to serve survey, project planning activities before the project has been approved and officially licensed; forms of foreign indirect investment and corporate M&A, etc. Besides, the legal framework for foreign investment flow has been certain limited, especially a variety of procedures when verifying the capital investment, capital transferred for the preparation period, etc.

Licensing Jurisdiction: If the activity of foreign direct investment (FDI) in Vietnam might be adopted by 4 authorities for FDI certificates (Prime Minister, Ministry of Planning and Investment, the provincial Committee and the management board of industrial, export processing and high-tech zones), the activity of outward foreign investment have not been assigned. According to current regulations, the Ministry of Planning and Investment is the only department which could issue outward foreign investment certificates.

Inspection and supervision: The current regulations defined that the Ministry of Planning and Investment will inspect and supervise the operation of outward foreign investment after being approved, thus every 6 months the investors must periodically report on the status of

investment project. However, in reality, if there is no problem occurring in the process of project, this report will not really be fully detailed. On the other hand, when the investors violate any regulation of reporting the status of investment project, the current administrative sanctions are estimated to be mild in that case.

2. Lessons from the solution of China

As mentioned above, the strong development of China's outward FDI is based on 2 factors: (1) the support and good orientation of China's Government; (2) the great internal force of China's economy with the largest foreign exchange reserves in the world. These factors are not fully available in Vietnam. However, learning the experience of China along with the current situation of Vietnam's outward foreign investment, Vietnam's outward foreign investment activity is expected to be more effective and well develop with some adjustments.

The adjustment will aim to two ways: (1) adding and adjusting the management mechanism of the Statement about outward foreign investment so as to create the advantages for enterprises, and (2) Under the allowed capability, implementing some financial supporting solutions reasonably. The specific lessons from China are:

- In the period of investment orientation:

+ In order to improve the outward foreign investment, it is necessary to determine a detailed development strategy. The outward foreign investment strategy needs to be set in Vietnam's overall strategy of socio-economic development to balance the capital for national development and capital for outward foreign investment.

+ The clear objectives of outward foreign investment is to bring the real efficiency to national socio- economic development basing on (1) expanding the market, (2) ensuring national security, (3) strengthen the manufacturing capacity, (4) competing and creating the benefit.

+ While determining the strategy, the policies of encouraging outward foreign investment should be made/ revised sufficiently, clearly, comprehensively and compatibly.

- In the period of licensing the investment certificate:

The organizations of licensing outward foreign investment certificate should be assigned to create the advantages for enterprises. The procedure and investment documentation should be simplified; especially the complex procedure of investigating and verifying should be rejected.

The authorities also should improve their capacity of clarifying enterprises. When approving the investment documentation, they should define the condition of maintaining corporate financial resource that the enterprises must have and commit to maintain enough their financial and technological resources for the overseas project and continue developing in nation as well.

It is also necessary to improve the ability of accessing foreign exchange funds to serve OFDI activity of enterprises. Currently, the need of guarantees for non-residents with the purpose of ensuring the overseas loans is so huge. Therefore, SBV should amend the provisions of guarantees for foreign legal entity. SBV also should add some rules related to cash transactions guaranteed for non-residents (except capital or current transactions).

- In the period of implementing investment project:

+ The support from the Statement, especially financial support, plays an important role in the development of outward foreign investment activity. But the implementation of financial support should be concentrated on the key enterprises and in the strategic markets to avoid spreading the resources.

+ In order to create advantages for outward foreign investment, the role of the Statement is important through the large State-owned enterprises in the strategic sectors, which play the key role in the foreign investment activity leading the operation of other companies. In addition, the participation of organizations being able to assess the potential of foreign investment market is estimated to be necessary (the research institutions, the Economic and Trade Counselors in overseas, etc.) to support enterprises in identifying the investment opportunities.

+ Combining the aid and investment activity: with some countries attracting more investment from Vietnam's firms like Laos, Cambodia, etc., it is necessary to combine effectively the ODA and FDI funds in Vietnam to create favorable condition for outward foreign investment of Vietnamese enterprises in the host country.

- In the period of inspection and supervision:

+ The operation of overseas projects must be tightly inspected and monitored by assessing the financial and non-financial indicators.

+ The statistics about outward foreign investment should be standardized according to international practice to help the management of authorities more convenient.

+ Frequently assess and rearrange outward foreign investment activity of SOEs. The licensed projects but not able to implement could be cooperated by other enterprises or transferred to other potential enterprises in principle of cost reimbursement in order to finalize the projects.

SESSION2: GROWTH RECOVERY: OPPORTUNITIES AND CHALLENGES

ECONOMIC RECOVERY: OPPORTUNITIES AND CHALLENGES

Bui Trinh[60], Nguyen Viet Phong[61], Binh Phan[62]

I. Introduction

Since the end of the 1980s, the Vietnamese economy has stepped into a new era when the government initiated the "Doi Moi" policy, which "released" resources from a very low background in the past, reflecting a revolutionary transition from a centrally planned to a market guided economy. Thanks to such transformation, the economy has gained significant achievements, particularly in terms of impressive economic growth and improved living standards. Especially, many major reforms from 2000 to 2006 were conducted in the spirit of supply-side management such as the allowance of direct import & export, issuance of the Law on Enterprises in 2000, removal of barriers in establishing enterprises, equitization of state owned enterprises, etc. During the period of 2000 - 2006, the average economic growth rate was about 7.7% and the inflation rate was nearly 5% per annum. In the period of 2007-2012, the annual growth rate dropped to 5.9% and the annual inflation rate rose up to about 13%to 6.2% and 13%.

Today most researchers as well as policy planners often equate conception of economic growth with GDP[63], while the GDP only counts in residential units in Vietnamese territory, they forget that what a country actually receives is Gross National Income (GNI) and National Disposable Income (NDI) not a frivolous target like GDP. If in the 2000-2006 period, the disparity between GDP and GNI was just about 1 percentage point (GDP growth rate in this period is 7.4%), in 2007-2012, the disparity increased substantially to 6 percentage point (GNI growth rate is estimated at 5.3%).

One of the most important reasons for the declined economic growth is the adjustment from supply side[64] management policy to the *aggregate demand management* policy. This change, together with the exhausted booming of the resources after the Doi Moi reforms, the potential risks of imbalanced economic structure in the past, the increasing trend of ineffective investment and the participation in the World Trade Organization (WTO) has expose a more and more deviant economic structure.

A research of some economic experts in the Fulbright Economics TeachingProgram, including writers of Vu Thanh Tu Anh, Pham Duy Nghia, Huynh The Du, Do Thien Anh Tuan, Ben Wilkinson, Dwight Perkins and David Dapice, supposes that weak institutions is the underlying reasons for signs of macroeconomic instability and economic downturn for the time being. In this regard, economic, political and social risks nowadays can all be explained by some institutional reforms which were delayed or hadn't been carried out thoroughly in the past. The above-mentioned report also shows that among four engines of development, three "domestic" engines, including the state sector, the private sector and the agriculture sector have problems now; only the FDI sector runs smoothly. This situation may make the less unimportant indicator of GDP look good but it makes the growth rate of GNI become lower and lower than that of GDP and contributes to declined domestic savings and if remittances excluded, the rate

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of savings just accounts around 20% of GDP. In recent years, economic growth has started slowing down and inflation is always regarded as the barrier against economic growth. The issues of growth and inflation always worry policy makers, but whether the price is the "main reason" for such situation?

This paper employs the quantitative approach to analyze the relationship between economic growth and inflation, using the input-output model based on Keynes and Leontief's theories to analyze and explain to some extents for the problems. In this connection, this research will be based on the analysis of the production factors and the efficiency of investment to identify the effects on economic growth and deliver some recommendations to policymakers.

II. Comparison of some macroeconomic factors between 2000-2006 and 2007-2012

Incremental capital output ratio (ICOR) coefficient constantly increased from 4.89 in 2000-2006 to 7.56 in 2007-2012. While the contribution of total factor productivity (TFP) to GDP was 22.93% during 2000-2006, it decreased to 6.44% in 2007-2012. Besides, if calculating the ratio between value added (VA) and gross output (GO) from the period 2000 up to now, this ratio has been declining since 2000. In 2000, producing 10 dong of GO would create more than 4 dong of VA while in the current period, producing 19 dong of GO would only generate 3.5 units of value added. Therefore, with the same amount of money used to invest but the less quantity of commodity is made in return, which will break the cash-commodity relation and contribute to the increase in cost of domestically produced commodity.

Table 1. Comparison of some macroeconomic indicators in 2000-2006 and 2007-2012

	2007 - 2012 (%)	**2000 - 2006 (%)**
Total resources (supply)	100.00	100.00
Domestic Products	81.16	79.25
Imports	18.84	20.75
Total demand	100.00	100.00
Intermediate demand	48.12	42.99
Final demand	51.88	57.01
Consumption (C + G)	20.2	26.42
Investment/saving	8.88	10.75
Export	22.8	19.85
Intermediate cost/gross output	65	54
Value added/ gross output	35	46
ICOR	7.56	4.89
Contribution of TFP to GDP	6,44	23
Saving/GDP ratio	28	36
GDP growth	5,9	7.5
GNI growth	5,3	7,4
GNI/GDP ratio	95	98
Investment/GDP ratio	40	38.5

Source: Authors' calculation based on the I-O tables 2011 of Vietnam

Also, accumulation of the economy through spending indicators (saving) is falling. If the accumulation in the internal economy accounted for about 36% of GDP in the period of 2000-2006, it dropped to 30% of GDP in the period of 2007 - 2012 while annual investment increasingly accounted for a high proportion of GDP, which shows that the growing debt together with the inefficient use of it poses huge risks in the long term.

In addition, calculating index of the power of dispersion of factors of final demand based on the I-O tables of Vietnam in 2000 and 2010 shows that the powers of dispersion of final demand on production and income varied between periods. In 2000-2006, investment dispersing on production was highest among factors of final demand, but now investment is the worst factors dispersing on production and this decline was very sharp (about 23%; in 2000, an increase of 1 dong of investment led to 1.65 dong of production; in 2012, however, an increase of 1 dong of investment just led to 1.27 dong of production). Also, in 2000, an increase of 1 dong of investment created 0.53 dong of VA; in 2011, nevertheless, an increase of 1 dong of investment just led to an increase of 0.48 dong of VA. In term of final consumption at present, an increase of 1 dong of consumption requires more gross output but disperses less on added value less than previously; export also experiences the same situation: an increase of 1 dong of current investment led to a reduction of 18% of VA compared to the previous period. The results of calculation also shows that investment is becoming more and more unproductive; and if supply is weak, any increases in demand only contribute to price rise, trade deficit and exchange rate tension. Thus, if the government insists on the current demand side management policy, the economy will fall in the spiral of inflation - recession.

Table 2. Power of dispersion of final demand factors on production and income

	2000			2011		
	Final consumption	**Total investment**	**Export**	**Final consumption**	**Total investment**	**Export**
Power of dispersion on production	1.55	1.65	1.53	1.71	1.27	1.59
Power of dispersion on income (VA)	0.731	0.526	0.685	0.70	0.48	0.57

Now, assessment on economic situation is often adhered to GDP indicator. GDP in Vietnam now is not only calculated but regarded as a concept of supply, meaning that it is a sum of added values of sectors in the economy and import tax (the value added as calculated by the statistics office of Vietnam include product tax) in the principle of permanent residence, for example for an FDI enterprise operating in Vietnam's territory in more than one year, all their added value would be calculated in Vietnam's GDP, so as the natural resource exploiting enterprise. Thus, in fact, the growth of scale and scope of GDP does not fully reflect the real situation of the economy. For instance, the profit of a FDI enterprise exploiting natural resources will be transferred back to its home country but is still reflected in Vietnam's GDP. The System of National Account (SNA) includes many aggregate economic indicators; in this writing, however, we would like to introduce another indicator to reflect more accurately the economic situation of the country that is, Gross National Income (GNI). GNI equals to GDP adding capital income and subtracting the capital expense. If the expense is greater than capital income, the GNI will be smaller than GDP and vice versa.

In the statistical year book of the General Statistic Office of Vietnam, there is not only GDP but also GNI, but unfortunately, there is almost nobody (or just a few people) who uses the indicator in their research or reports. This indicator reflects more accurately what the country actually gains. People compare the resources of the nation to the precious property (gold) left by the former generation for the later. However, the property was hidden so secretively that they had to hire an outsider to look for it and of course have to pay for it. The exploited property, before subtracting the hiring expenses, will be calculated in GDP. That family can show to the neighbor the property found (GDP) but they actually gain only a part of it (GNI).

Reviewing statistical data in the past 12 years from 2000 to 2011 shows the following:

+) GDP scope in 2012 increased by 6.7 times compared to 2000 while the level of net capital expense paid to foreign investors increased by 26 times.

+) GDP after eliminating price factor in 2011 was two 2.3 times greater than GDP in 2000 but the level of net capital expense paid to foreign investors increased by 9 times.

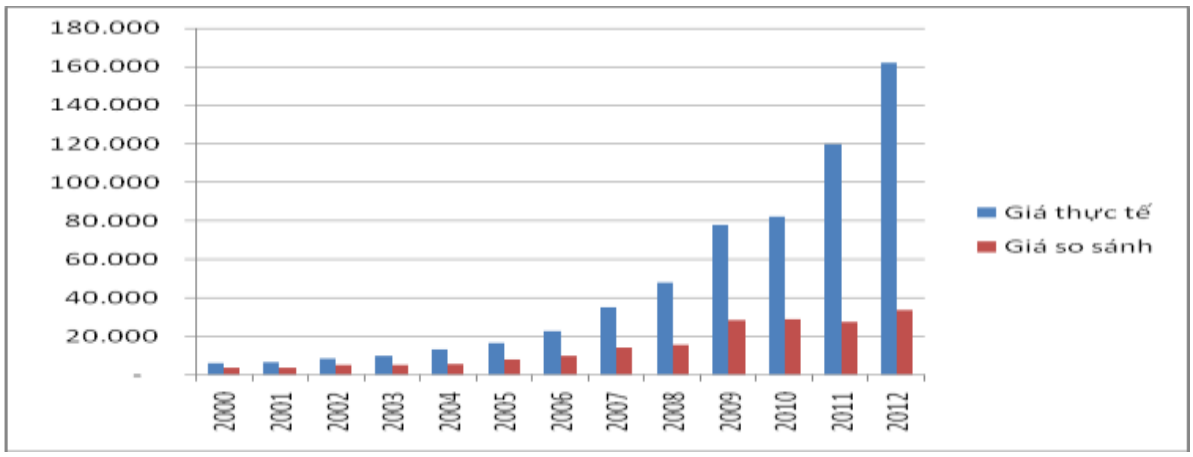
+) Calculation from data in Statistical Year Book shows that the share of value added of the FDI sector in GDP was 13% in 2000; this share increased by 7 percentage point in 2011 (accounting for 20% of GDP). At current price, the level of net capital expense paid to foreign investors, however, increased by 26 times in 2012 compared to 2000; and if eliminating price factor, this level also increased roughly by 9 times between 2012 and 2000.

However, GNI in the real price in 2012 grew only 6 times in comparison to 2000 and if we eliminate the price factor in GNI by reflecting the GDP deflator, GNI grew only 2.15 times. Considering the two period from 2000 to 2006 and from 2007 to 2012, GDP and GNI growth in the two periods were 7.5% - 7.4% and 5.9% - 5.3% respectively, showing that the gap between GDP and GNI growth was widening. In 2000, the GNI/GDP ratio was 99%, it was only 94% in 2011; this shows that the money outflow is getting bigger and GNI was getting significantly smaller than GDP.

At current price, the capital expense paid to foreign investors in 2012 increased by 26 times in comparison to 2000 (while GDP grew by 6.7 times); the average net capital expense paid to foreign countries increased by 20% annually (while average annual GDP was 7%). As above-mentioned, among four engines of the economy since 2011 up to now, three “domestic” engines have had problems; only one "foreign" engine (the FDI sector) runs smoothly. This situation may make the "frivolous" indicator of GDP look good but it will also make national resources become increasingly exhausted. Figure 1 showed the capital expense paid to foreign countries (capital expense - income from capital) in 2000 - 2011. This number increased sharply from 2005 to 2011

Figure 1.Net capital expense paid to foreign investors at current and real prices

Unit: Billion VND

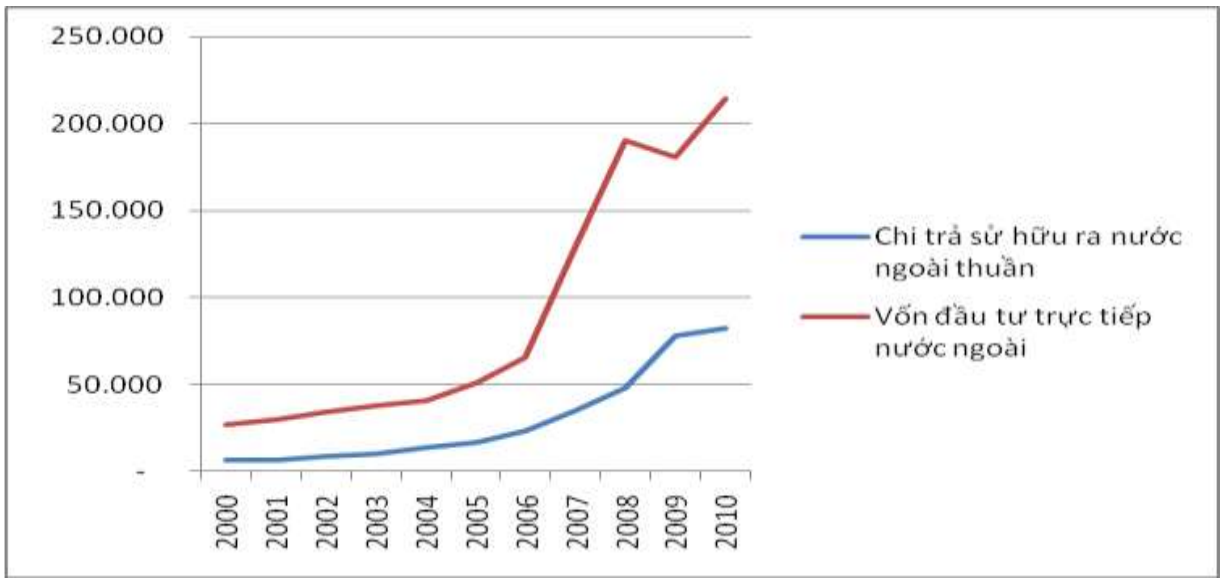


Source: Statistical Yearbook of Vietnam, GSO, 2010 and authors' calculation

In addition, although it is not totally caused by the FDI sector, it is clear that the FDI sector plays a main role in making the money outflow of the country greater, and Figure 2 shows the relevance of FDI sector to the money outflow.

Figure 2.Comparison of capital paid out and FDI

Unit: Billion VND



It shows that beside the perpetual trade deficit, the capital payment outflow should also be seriously alerted[65]. Is this a negative consequence of the overcall for foreign investment without a clear direction? Besides, people focus too much on GDP indicator but forget about a fact that what we actually gain is the GNI.

Along with high trade deficit, this is a key reason leading to the devaluation of Vietnam dong. It proves that the speed of GDP growth makes little sense in reflecting the real situation of the

[65] For example, the entire of added value from oil exploitation is added to GDP according to the permanent residence principle, but when calculating the GNI, 50% of this value will be eliminated to the foreign investors.

economy. This is not only a problem relating to natural resource exploitation but also a warning for us to tighten the management of FDI to limit the increasing money outflow.

Decreasing GNI/GDP ratio (98.6% in 2000 and 95% in 2012) is also a reason for the saving ratio (source for investment) of the economy fell sharply especially from 2006 till now (from 36% to 29%). The entire domestic saving is a basic source for investment but the ratio of saving over investment decreased from 87% in 2006 to only 67% in 2009. It means that the ratio has decreased for 20 percent points within 4 years. But the most worrying is that the investment over GDP ratio has not decreased substantially. The general statement such as slowing down the growth rate in order to stabilize the macroeconomy is not appropriate; it should be precise of what to stabilize? Economic restructuring should not be like the "jack fruit" but there should be an overall plan on the initial distribution and how to restructure according to sectors and ownership? How to carry out the income redistribution to mitigate losses for the country?

IV. Research results and policy implications

1. Policy implications of Vietnam economy

Apparently, Vietnam's economy seems to go on the right direction with high economic growth, inflation control, industrialization and modernization policies. However, based on the aforementioned research, some major issues of the economy can be recognized as follows.

- So far most experts and policy advisors in Vietnam have focused on short-term policies such as aggregate demand management and monetary issues to prevent the dramatic increases in price, hence forgetting other factors in long-term policies. There is no wrong with the Keynesian aggregate demand management policy if there is a consciousness that it is only a short-term one, which cannot be constantly used. The continuous use of this policy since 2007 up to now has put Vietnam's economy in the spiral of inflation and recession, which leads to the decline in demand and supply. Even the inflation has been only superficially solved despite the core reasons of low productivity, reducing investment and deviant economic structure. Whether the priority ranking for industry, services and agriculture sectors creates a proper economic structure? Whether we rely too much on export to promote economic growth? Some effective sector, creating added value for society and solving jobproblem - these sectors have the high index of power of economic dispersion and low power of import stimulation (agriculture and agricultural product processing) have not approriately been focused on. Is this the high time for us to care about the supply-side policy to consider the supply and long-term economic policies?

- Regarding public investments, most of them tend to focus on the areas that have no direct influences on production, spread too thinly and create little economic efficiency, for example the head-office reconstruction of government agencies, the rebuilding of pavement and road, purchasing cars, building parks etc. Such public budget spending may create a few jobs, reduce some inventory materials, raise some GDP temporarily (the second half and all year 2012) but seem to have negative effects on the next years' development instead. In 2012, the Government aimed at enhancing the public investment in the second half of the year to promote production, particularly through doubling investment from the state budget, but this increase may pose serious hazards subsequently. Despite the continuous high levels of public investment, they all seem to spread too much and unable to improve the social added values and living standards. Our research group suggests focusing public investment on infrastructure construction, education, healthcare, agriculture and rural sector.

- The dependence of growth on capital instead of technology innovation and the inefficient use of capital may cause inflation. Besides, the enterprises' inaccessibility to capital due to

monetary tightening and banks' high interest rates has led to the strong decline in aggregate supply, income and capital, hence causing adverse impacts on aggregate demand. The decline of aggregate demand therefore deteriorates the supply and the economy falls in the spiral of inflation and recession.

- Regarding the production and business sector, since 2011 up to now, a number of policies aimed to stimulate production have been introduced but not really led to effective, setting a record in history in the number of enterprises that went bankrupt or are in the waiting list of bankruptcy. Most of them are private enterprises that contributed 48% to the national GDP. Meanwhile, the investment efficiency of state and foreign enterprises was very low. The ICOR index of private enterprises from 2006 to 2010 was about 4, while those indexes of state and foreign enterprises were 9.7 and more than 10 respectively. What would happen once those private enterprises get insolvent or bankrupt and incapable of expending the production? The stagnant production will result in the drop of the total added value of the economy. Then the declining income and consumption will lead to another serious demand crisis, which seems so hard to end.

Vietnam almost does not receive any benefits such as technology, labor and taxes from FDI sector; furthermore, the money flows sent back to their home countries are extremely large as being proven before. Mr. Truong Trong Nghia, the delegate of the National Assembly, said that "The aim of talking about our current achievements just to console ourselves. We often say that Vietnam is a destination of FDI, but the truth is that Vietnam is the destination of outdated technology, poor management, and price transferring,...". The amount of capital invested has been around 11 billion USD for many years (appendix 1).

2. Policy Recommendation

+ Designing a long-term overall plan for economic development is crucial at the moment. The plan should be strategic, reflecting a smooth coordination among ministries and sectors in management, paying special attention to development efficiency, and limiting activities of interfering the market with administrative orders.

+ Reviewing the economic structure, focusing on economic sectors that create high power of dispersion on domestic production and low power of dispersion on import and on energy such as agricultural production and agricultural product processing, seafood processing industries; these are currently the only industries that have the high power of dispersion on domestic production and the relatively low power of dispersion on imports. (Appendix 2)

+ Fostering institutional reforms to make an equal playing field between the private sector, the agricultural sector, the State sector and the FDI sector. Reviewing and amending the Law on Enterprises and the Law on Investment.

To avoid the risk of being left behind facing the economy, the essential point is that we have to develop an independent and autonomous oriented economy. Accordingly, improving the internal factors of the economy is top priority in parallel with guaranteeing profitability of enterprises and protecting national interests.

According to our research, the opportunity only arises with the correct assessment of the current economic situation instead of rosy compliments; otherwise the economy may be lagged further even compared to regional countries.

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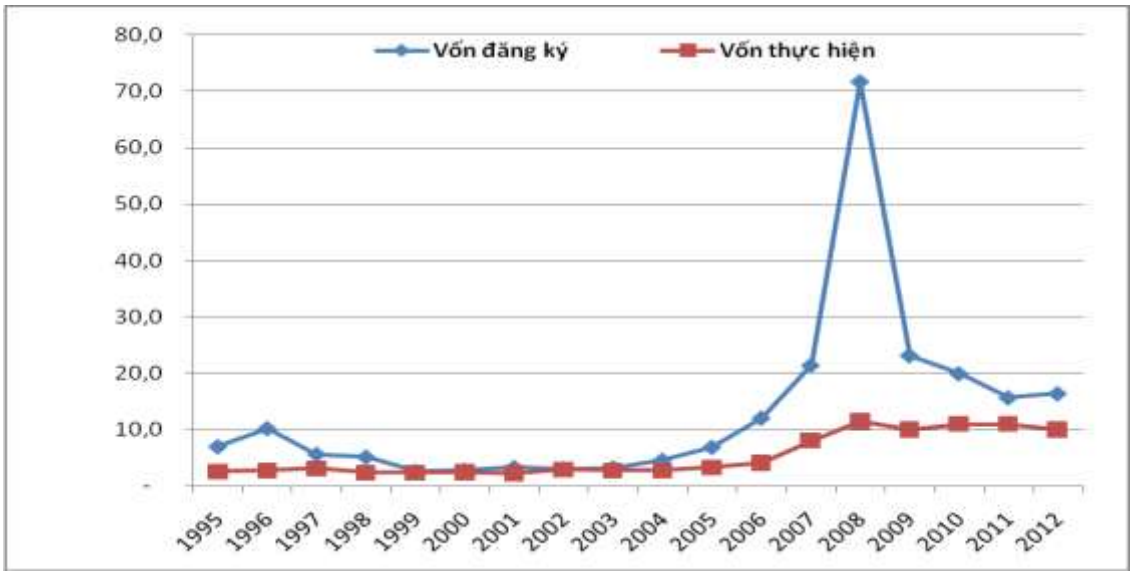
Appendix 1

FDI sector

In a long time so far, together with GDP growth, attracting foreign investment always has been seen as the achievement popularly reported from central to localities; accordingly, FDI enterprises have received many preferentials from investment attraction policies of the central government as well as local authorities, faccilitating them to get access to resources (land, taxes, capital). Joining WTO in 2007, Vietnam was expected to have great progress in attracting foreign investment, which was reflected in 71.7 billion USD of registered capital of FDI in 2008. However, the actual amount of investment capital of the FDI sector has hardly increased in the last 5 years (around 11 billion USD).

Figure 3: Registered capital and implemented capital of FDI enterprises in period 1995-2012

Unit: Billion USD

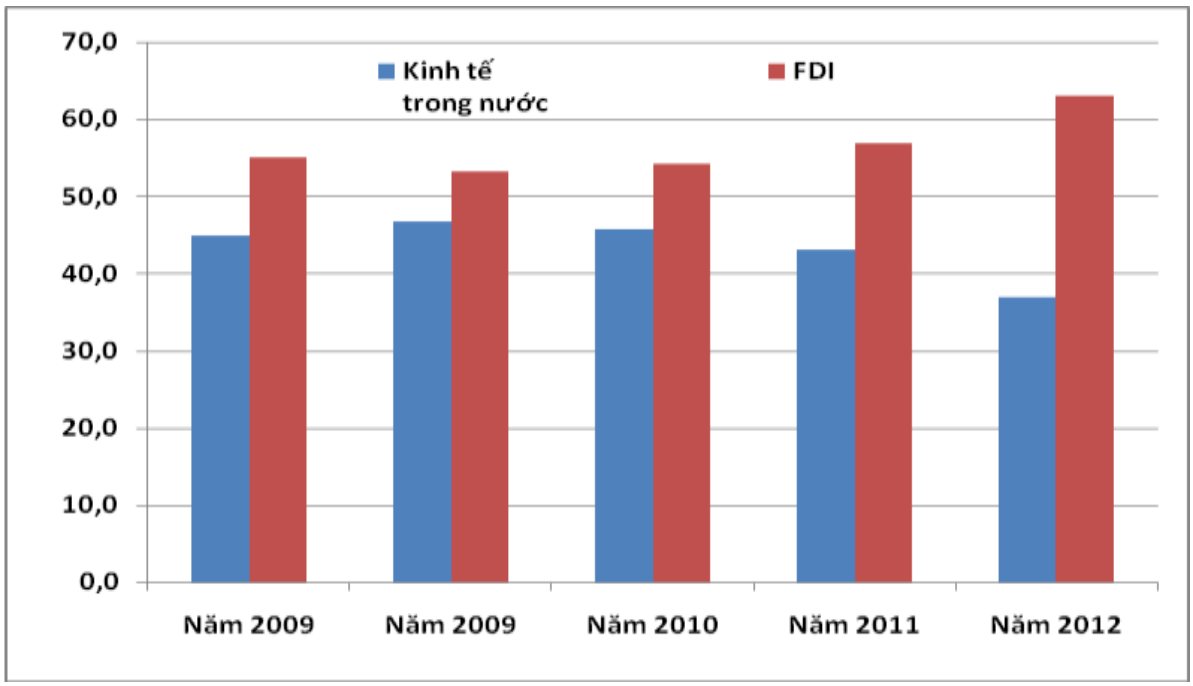


Source: Statistical yearbook of Vietnam, GSO

Implemented capital of the FDI sector almost hasn't increased over the years, but if we analyze further on the export and import of goods and services of Vietnam in the 2 sector, namely, the state sector and the FDI sector, we may see a highly noticeble point: it is the phenomenon of **self-restructuring** in term of ownership. The FDI sector has demonstrated more and more advantages over the state sector in both export and import. It is noted that this sector mostly imports electronic components, raw materials for the textile industry, which is not really meaningful as these imported inputs are used to produce exported goods. What Vietnam gains may be just the wages of the unskilled workers and obsolete technology.

Figure 4: Structure of exports by State sector and FDI sector in 2008-2012

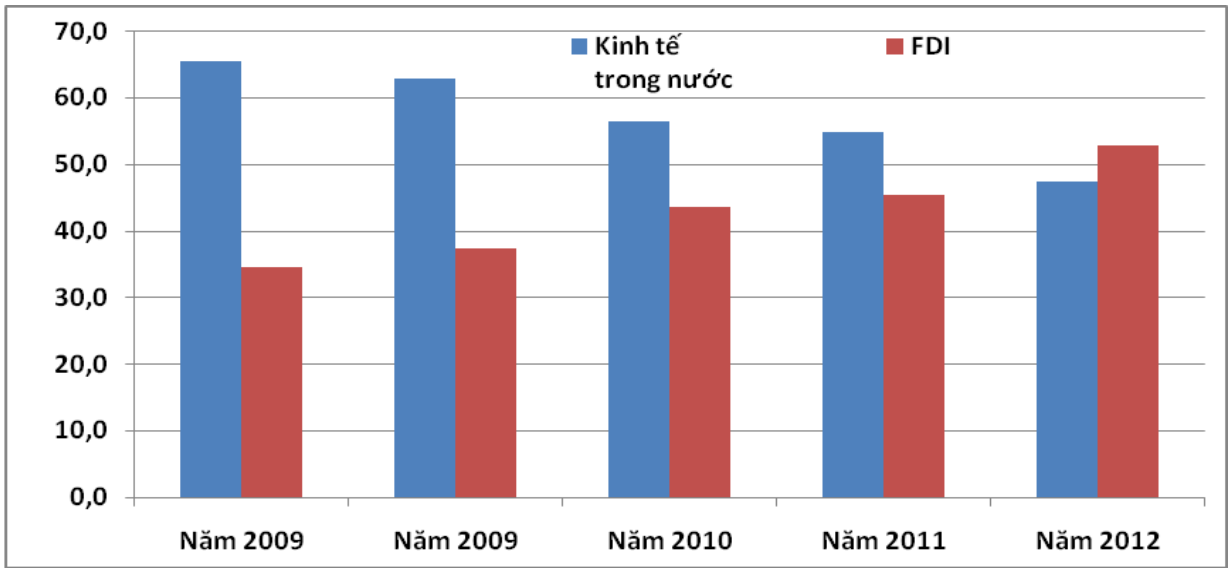
Unit: %



Source: GSO

Figure 5: Structure of imports by State sector and FDI sector in 2008-2012

Unit: %



Source: GSO

Appendix 2

Index of the power of dispersion

		Power of dispersion on domestic production	Power of dispersion on import	Sensibility on Energy	Index of Value added /Gross output
1	Paddy (all kinds)	0.901	0.880	0.3397	56.9%
2	Sugarcane	0.945	0.946	0.4268	47.5%
3	Other crops	0.987	0.977	0.4792	41.1%
4	Raw rubber	0.769	0.929	0.3037	64.8%
5	Coffee beans	0.872	1.080	0.5012	41.9%
6	Tea, processed (all kinds)	0.779	0.944	0.3258	62.2%
7	Other perennial plants	0.859	1.061	0.4762	44.8%
8	Buffaloes, cows	1.149	0.724	0.3231	60.4%
9	Pigs	1.794	0.752	0.7022	13.7%
10	Poultry	1.616	0.748	0.6016	26.3%
11	Others livestock and poultry, n.e.c	1.591	0.747	0.5870	28.1%
12	Agricultural services and other agricultural products	1.484	0.796	1.1657	23.3%
13	Round timber	0.932	0.974	0.2140	42.8%
14	Other forestry products: forestry service, planting tree	0.853	0.858	0.2683	60.3%
15	Fishery	0.764	1.665	0.5467	34.0%
16	Fish farming	1.694	0.771	0.7104	21.6%
17	Coal	1.042	1.058	0.9432	26.7%
18	Crude oil	0.660	0.770	0.1365	89.7%
19	Natural gas	0.692	1.218	0.2073	57.2%
20	Stone, sand, gravel, clay	0.849	1.062	0.8223	49.4%
21	Other none-metallic minerals	0.873	0.930	**1.3423**	56.1%
22	Supporting service for exploiting mine and ore	1.377	0.789	0.7561	14.7%
23	Processed, preserved meat and by-products	2.034	0.743	0.7112	8.3%
24	Processed, preserved fishery and by-products	1.713	0.782	0.9155	7.8%
25	Processed, preserved vegetables and fruit	1.516	0.848	0.7551	14.4%
26	Vegetable and animals	1.102	1.276	0.2982	2.9%

	oils and fats				
27	Milk and by-milk	1.191	0.885	0.7297	23.6%
28	Rice	1.535	0.733	0.5527	1.6%
29	Flour (all kinds)	1.480	0.805	0.5451	1.5%
30	Sugar	1.265	0.854	0.8225	22.4%
31	Cocoa, chocolate and candy, cake products from flour	1.430	0.911	0.9927	11.0%
32	Processed coffee	1.013	0.802	0.5118	54.1%
33	Other remaining food (macaroni, my yarn and same products; processed food: spices, sauce, vinegar, ferment beer)	1.421	0.904	0.9782	12.3%
34	Animal feed	1.636	0.828	0.6683	1.1%
35	Alcohol	1.129	0.958	0.7432	22.9%
36	Beer	1.151	0.969	0.7707	20.1%
37	Non-alcohol water and soft drinks	1.132	0.959	0.7466	22.6%
38	Cigarettes	1.229	0.921	0.6015	9.3%
39	Fiber (all kinds)	**1.213**	**1.076**	**1.1910**	**9.6%**
40	Textile products (all kinds)	**1.203**	**1.070**	**1.1747**	**10.8%**
41	Costume (all kinds)	0.875	1.123	0.7022	**19.2%**
42	Leather, preliminary processed fur, suitcase, bags, saddle and other same kinds	0.945	1.176	0.6368	21.9%
43	Shoes, sandal (all kinds)	0.860	1.055	0.8253	37.2%
44	Processed wood and by-wood products	1.100	0.901	0.7245	32.1%
45	Paper and by-paper products	**1.132**	**1.021**	**1.7795**	17.5%
46	Products of printing activities	1.070	0.982	0.9365	26.6%
47	Coke coal and other by-product cokes	0.809	1.039	0.2202	43.7%
48	Gasoline, lubricants	0.766	2.010	0.1515	8.4%
49	Other products extracting from oil, gas	0.795	2.065	0.5002	4.5%
50	Basic organic chemicals	**0.982**	**1.434**	**1.8239**	9.1%
51	Fertilizer and nitrogen compound	**0.993**	**1.455**	**2.0667**	7.1%
52	Plastic and primary synthetic rubber	**0.934**	**1.338**	**1.7008**	18.5%
53	Other chemical products; man-made fibers	1.030	1.201	0.9472	12.6%

54	Medicine, chemical prophylaxis and pharmacy	0.984	1.065	0.6790	24.8%
55	By-product rubber	0.735	1.003	0.1279	51.7%
56	By-product plastic	0.811	1.165	0.3393	37.7%
57	Glass and by-product glass	0.777	1.255	0.9345	37.5%
58	Cements	**1.152**	**0.939**	0.8952	30.4%
59	Other non-metallic mineral products	1.074	0.880	0.5935	32.2%
60	Iron, steel, iron	0.921	1.480	0.6030	9.6%
61	Other metal products	0.873	1.379	0.4207	16.9%
62	Electronic device, computer and peripheral	1.327	1.024	0.5149	4.2%
63	Machinery & equipment used for broadcasting, television and information activities	1.055	1.025	0.3628	33.5%
64	Electrical household appliance	1.684	0.967	0.5264	9.2%
65	Other electronic products and optical products	0.757	1.015	0.5251	54.9%
66	Motor, electric generator, power transformers 623	0.770	0.895	0.1817	64.3%
67	Cell and battery	0.790	0.901	0.2025	60.0%
68	Electric conductor	0.787	0.868	0.1815	59.6%
69	Electric light equipment	1.009	1.117	0.6502	20.2%
70	Consumer electronic equipment (refrigerator, dishwasher, washing machine, dust allayer)	1.376	0.968	0.7279	8.3%
71	Other electric equipments	1.120	1.065	**1.1173**	13.1%
72	General-purpose machinery	0.855	1.087	0.9940	36.7%
73	Special-purpose machinery	0.980	1.302	0.7803	14.4%
74	Cars (all kinds)	0.885	1.362	0.5473	11.7%
75	Car engines with tractor (except automotive)	0.864	1.311	0.5114	17.5%
76	Ships and boats	0.951	1.291	0.5623	18.2%
77	Motor vehicles, motor bikes	0.898	1.216	0.5646	22.6%
78	Other transport means	0.914	1.245	0.6003	17.7%
79	Bed, cabinet, tables, chairs	1.023	0.862	0.6155	44.4%

80	Jewelry, fasle jewelry and related details; musical instrument; fit tools, sports, toys, games	0.768	1.118	0.4837	44.4%
81	Medical equipments, dental, Orthopedics and rehabilitation	0.723	1.012	0.6532	51.8%
82	Other processed industrial products, repair service and equipment and machinery maintenance	0.791	0.969	0.3282	60.7%
83	Electric transmission services	0.885	0.795	27.8516	59.8%
84	Gas, fuel distribution by pipeline	0.844	0.807	**3.4650**	64.1%
85	Steam distribution, hot water, air conditioner and ice producing	0.912	0.776	**7.3088**	59.1%
86	Exploitation, processing and water supply	0.835	0.820	**4.3636**	64.3%
87	Management and waste water handle, waste	0.823	0.881	0.8280	63.5%
88	Construction (all kinds)	1.048	0.957	0.3656	37.1%
89	Railway and road construction, useful construction, other technical construction	1.052	1.131	0.5086	22.6%
90	Special-purpose construction	1.140	0.992	0.6024	24.2%
91	Sell,car repairing and other car engine repairing, sell, maintenance and repairing car, motorbikes, accessories and auxiliary parts of motorbike and car	0.818	0.889	0.7329	55.3%
92	Wholesale (except automobile, moto, motorbike and other car engines), retail (except automobile, moto, motorbike and other car engines)	0.797	0.887	0.3617	59.3%
93	Railway passenger transport	0.817	1.213	0.4634	42.2%
94	Railway good transport 624	0.799	1.167	0.4233	47.2%

95	Bus transport; other road passenger transport	0.746	1.646	0.1850	33.9%
96	Good transport by road; pipeline transport	0.743	1.621	0.1802	35.7%
97	Passenger waterway transport service	0.760	1.542	0.1945	36.4%
98	Good waterway transport services	0.765	1.573	0.2015	34.1%
99	Passenger airline service	1.004	1.377	0.3789	13.6%
100	Cargo airline services	1.004	1.377	0.3789	13.6%
101	Parking services and supporting services for transportation	0.798	0.873	0.5491	61.8%
102	Postal and delivery	1.099	0.821	1.8503	36.2%
103	Residential service	0.873	0.763	3.7114	58.7%
104	Food service	1.043	0.737	0.5390	64.1%
105	Publishing services	1.109	0.890	0.7479	33.0%
106	Film, television, recording and music publishing	1.069	0.779	1.1685	40.7%
107	Radio, television	0.930	0.743	1.0195	53.2%
108	Telecommunication services	0.975	0.772	0.3540	57.3%
109	Programming computer service, consulting services and other information services	0.983	0.757	1.5919	54.9%
110	Financial services (except insurance and social insurance)	0.763	0.832	0.0664	51.8%
111	Non-life insurance and re-insurance	0.875	0.838	0.6727	61.6%
112	Life insurance, social insurance	1.139	0.933	1.2629	28.7%
113	Other financial services	0.923	0.814	1.2724	59.9%
114	Real estate business service	0.819	0.791	1.9894	69.9%
115	Legal services, accounting and audit	0.824	0.771	0.4180	64.4%
116	Headquarters office service; consulting services for management	0.843	0.753	0.3797	65.3%
117	Architectural, testing and analysis technique service	0.871	0.811	0.4483	61.8%
118	Research and development	0.767	0.787	0.3814	76.6%

119	Advertising and market research service	0.922	0.759	0.3502	62.3%
120	Other professional, scientific and technological service	0.980	0.970	1.1115	38.5%
121	Veterinary services	0.758	0.986	0.1207	63.4%
122	Rent machinery and equipment (no operator), personal household appliances for rent	0.811	0.892	0.5227	60.8%
123	Work and job service	0.917	0.805	0.9017	48.0%
124	Travel agency services, tour business; supporting services of promoting and organizing tour	0.843	0.999	0.4864	52.3%
125	Investigation services and security	0.750	0.791	0.7620	76.0%
126	Sanitation services for house and landscape	0.908	1.082	1.2494	42.2%
127	Administrative services, office support and other business supporting activities	0.896	0.832	0.8077	58.5%
128	Service of communist Party activities, political and social organization, state management, defense and compulsory social security	0.890	0.802	0.7087	63.8%
129	Education and training (except college, university and postgraduate)	0.874	0.784	0.8959	64.7%
130	College, university and post-graduate service	0.821	0.790	0.6794	67.9%
131	Healthcare services	0.884	0.979	0.7053	44.2%
132	Care services, centralized nurse and non-centralized social supporting services	0.762	0.748	0.4958	79.9%
133	Creation, arts and entertainment, library services, archives, museums and other cultural services	0.958	0.821	1.1012	52.0%
134	Lottery, Bet and gamble	1.223	0.711	0.5225	37.3%
135	Sports; entertainment	0.934	0.799	1.9843	56.1%

136	Other services of organizations and foundations	0.970	0.849	0.8294	52.2%
137	Repair service for computer, other personal household appliances	0.894	0.839	1.2584	59.7%
138	Household service; self-consumption products of household, service of organizations and international offices	0.692	1.253	0.1626	61.7%

Source: Authors' calculation from the I-O tables of Vietnam, 2010

REVIEW AND COMMENTS

Dr. Nguyen Duc Thanh

(Review and comments for Report on "Economic Recovery: Opportunities and Challenges")

The authors' writings focused on developing the main idea that there has been widening gap between GDP (Gross Domestic Product) and GNI (Gross National Income) of the Vietnamese economy.

By definition, GDP measures the value added of all goods and services produced within the borders of Vietnam, whether they are owned by Vietnamese or foreign citizens. In contrast, GNI reflects the value of goods and services owned by the Vietnamese citizens.

The authors observe that during the period 2000-2012, Vietnam's GNI always grew slower than GDP. Yet, since Vietnam joined the World Trade Organization (WTO), GNI's growth rate has become much lower than that of GDP (Table 1), thus the ratio of GNI over GDP has decreased from 98% to 95%. This fact implies that a larger share of output within Vietnam's borders has been owned by foreign people, and has been shifted out of Vietnam. It is demonstrated by the data on net property income to abroad, which has increased by 9 times from 2000 to 2013, while GDP increased by 2.3 times during that period (inflation has been excluded from all indicators) (page 7).

Those economic phenomena are consistent with the fact that the FDI sector has played an important role in Vietnam's production and exports (see appendices).

From those considerations, the authors believe that it is necessary to focus on recovering the domestic sectors' production and making them comparable to the FDI sector.

In the authors' points of view, the recovery of production depends on supply-side policies rather than demand-side policies in the last few years. With low economic productivity, the private sector has been crowded out by the public sector and the FDI sector. The inefficient use of resources, especially in public investment, has made demand-side effects spread to inflation or asset bubbles, and lead to macroeconomic instability.

The authors also note that it is necessary to re-evaluate whether the FDI sector's efficiency could help domestic enterprises to strengthen technological progress and create spillover effects or not. Besides proposing several supply-side policies, the authors also recommend some demand-side policies which based on sectoral spillover effects, as calculated by the Input-Output table techniques.

The author's arguments in this paper are very noticeable. They include, in particular, the observations on the relationship between GDP and GNI, the FDI sector's increasingly fast growth compared to other sectors, among other Vietnam's economic trends.

In my opinion, the growing profit repatriation of FDI sector could be due to:

- **Production cycle**: FDI is made under the expectations of long-term profitability. In the principle of profit accounting from the investors' perspective, the (discounted) cash outflow in the cycle of an investment project must be greater than the accumulated investment (or inflow). Thus, in early stages, FDI injections result to net cash inflow. Afterwards, at later stages, profit is realized, the cash outflow will reverse, and by principle, it will exceed the net inflow. Thus, on the basis of each project, the early stages have a positive net cash inflow, and after that the cash inflow turns negative. Overall, the net inflow of FDI may remain positive by

new FDI investment, either from other projects or current running projects (injecting new capital or retaining profit).

- Therefore, the second reason, which is equally important, mainly derived from **investors' expectations** of the economy and the quality of the investment climate. If the economy does not improve fast and sustainably enough, the additional investment inflow will not be sufficient to offset the repatriated profits.

From the policy perspective, the first reason depends on the will of the investors; their freedom of making decision should be respected. The second reason, on the other hand, can be influenced by the policy, in order to increase their incentive to retain profit and reinvest, also inject additional capital to expand production. Evidently, the policy affecting the second cause requires a number of sustainable supply-side factors.

Although the authors did not mention in the article specific suggestions about the supple-side measures, I agree with their general opinion. If a greater space and time is allowed, I believe that more specific supply-side and demand-side solutions essential to the current context of Vietnamese economy, will be discussed in order to bring out the "opportunities" for "economic recovery" written in the title. I anticipate that the authors and colleagues would continue to develop this topic, making more specific and detailed discussions.

RAISING BUDGET DEFICIT CEILING AND ISSUING ADDITIONAL GOVERNMENT BONDS: SOME ANALYSES

Nguyen Manh Ha và Nguyen Anh Duong

Introduction

In line with boarder and deeper international economic integration, Vietnam also witnessed more drastic socio-economic changes. The accession to the World Trade Organization (WTO) in 2007 and subsequent efforts towards deeper economic integration then consolidated the expectations for more opportunities so that Vietnam would accelerate its socio-economic development. However, after a short period of over-excitement with insufficient domestic reforms, Vietnam soon recognized the economic risks that accompanied international economic integration process, especially when the current growth paradigm revealed more clearly many inherent weaknesses. Notably, rapid and unpredictable impacts in the post-WTO period necessitate more drastic and timely changes (even reversals) in policies. The interactions between international-regional factors and domestic policies and measures have significantly affected the socio-economic performance in Vietnam.

Thanks to the determination towards restoring macroeconomic stability in accordance with the Resolution No.11 in early 2011, Vietnam's economy has undergone many positive changes. Inflation has eased rapidly, the foreign exchange market has been stabilized, trade deficit and investment-saving gap has been reduced remarkably, while the pace of export growth has been sustained, etc. Nonetheless, these changes have happened within a long period of contracting aggregate demand, associated with huge difficulties in production and business activities. Despite some initial progress, the process of economic restructuring still failed to adhere to expectations. In this context, speeding up economic recovery - in order to consolidate business and investors' confidence and to lay a background for the economic growth in 2015 as well as in 2016-2020 - also emerged with urgency. Following this direction, the proposals to raise state budget deficit ceiling in 2013-2014 (approved recently by the National Assembly) and to issue additional government bonds in the 2014-2016 period have been considered as important efforts. Implementing the proposals, however, requires caution taking into consideration the efficiency of fiscal stimulus and prolonged consequences on Vietnam's macroeconomic performance after the global financial crisis and economic recession.

This paper aims at assessing the impacts of raising state budget deficit ceiling and issuing additional government bonds in the 2013-2015 period. The assessment will incorporate a combination of qualitative and quantitative macroeconometric-model-based analyses. Apart from the Introduction, the remainder of this paper consists of 3 Sections. Section I reviews in brief the context of economic development in Vietnam till 2013. Section II then provides some initial analyses about the impacts of raising state budget deficit ceiling on the economys. Section III, finally, presents some scenario-based forecasts for Vietnam's economy in the 2013-2015 period, using a structural macro-econometric model and focusing on the impacts of raising state budget deficit ceiling and issuing additional government bonds.

I. Economic context and the proposals to raise state budget deficit ceiling and issue additional government bonds

5 years after the global financial crisis, the world economy still encounters many difficulties such as slow recovery in major economies, sovereign debt crisis in Europe, rapid increase in the prices of many commodities and fuels, etc. However, compared with the 2011-2012

period, the world economy has exhibited many positive changes. On the one hand, the fundamentals of international financial market have been significantly improved due to measures to improve fiscal situation in EU, arrangements to avoid fiscal cliff and to increase public debt ceiling in United States, etc. The key security markets have made remarkable recoveries, contributing to more efficient allocation of capital. On the other hand, developing countries, especially in Asia and the BRICS group, still maintained their dynamic development and this trend can continue in subsequent years. The bilateral and regional trade liberalization process is still under way, if not accelerated. In 2013, the maintained development momentum can be seen as a notable driver for the international economy.

To date, Vietnam's economy still encounters various difficulties. Since 2011, the country has started to implement the Socio-economic Development Strategy for 2011-2020 and Socio-economic Development Plan for 2011-2015. Vietnam's international economic integration process has also been pushed up. However, as a notable shortcoming, the Government has to continuously implement band-aid measures to cope with macro-economic instablities and to address difficulties for production and business activities. Since 2011, Resolution No. 11 has been carried out seriously in order to quickly stabilize macro-economic environment, alongside restraints of public investment and credit growth. However, because of unfavorable impacts of this policy and of slow growth in the world economy on a majority of Vietnam's enterprises, the Government must relax many measures to support enterprises in 2012 and 2013.

In this context, the Government could not dedicate proper focus on more long-term reforms. Although the Socio-economic Development Strategy for 2011-2020 set out priorities on addressing key bottlenecks in the growth paradigm, namely institutional inadequacy, underdevelopment of infrastructure, and inadequate labour quality, the outcomes in 2011-2013 period failed to live up to expectation. Economic restructuring has been always considered as a priority but the process of concretizing and building consensus over related solutions is very slowly deployed. Vietnam has specified ideas and directions for structuring priority sectors, including SOEs, credit institutions and public investment. Still, more time, enforcement mechanisms and political determination are required to realize these directions. Price management sometimes follows a stop-and-go pattern, without full accountability, thereby adversely affecting inflationary expectation of people and enterprises. In addition, resources for reforms became more limited in the context of scarce budget revenues, sizeable public debt and absence of efficient mechanisms for mobilizing private resources.

Table1: Structure of State budget revenues, 2007-2013 (% of GDP)

	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*6T/2013*
Total budget revenues	27.6	27.0	25.9	28.7	26.6	22.9	23.5
- Domestic revenues (excluding revenues from crude oil)	*15.2*	*13.9*	*14.6*	*18.2*	*16.8*	*13.0*	*14.7*
- Revenues from crude oil	*6.7*	*6.8*	*3.5*	*3.6*	*3.9*	*4.3*	*3.7*
- Revenues from export, import activities	*5.3*	*6.0*	*7.5*	*6.8*	*5.7*	*3.9*	*4.1*
- Revenues from grants and financial reserve fund	*0.4*	*0.3*	*0.4*	*0.2*	*0.2*	*1.7*	*1.1*
Total budget expenditures	34.9	32.1	32.4	31.6	28.9	26.2	27.6
In which: Development investment	*9.8*	*8.0*	*8.2*	*8.8*	*6.9*	*6.0*	*5.1*
State budget deficit	4.9	4.5	6.9	5.6	4.9	4.3	6.1

Note: State budget deficit includes "brought forward items".

Source: calculated from data of Ministry of Planning and Investment and Ministry of Finance

Prolonged difficulties of the economy led to major consequences, including slow economic growth, enterprises facing with many hardships in doing production and business activities or

even going bankruptcy. The former economic growth paradigm depends to a large extent upon investment expansion (namely public investment), thus requiring more investment for economic recovery. Meanwhile, the fiscal room for economic stimulus becomes considerably narrower since revenue collection is more difficult and measures on tax exemption and reduction are being applied to support enterprises' production and business.

On the other hand, State budget deficit is limited within a threshold percentage of GDP. Unlike previous periods, recent state budget deficit results from slow revenue collection, notwithstanding efforts to cut down public investment. State budget revenue in 2013 is much lower than the planned target: state budget revenue in the first 9 months of 2013 was only VND 509.7 trillion, equivalent to 62.5% of planned target of the whole year (the figures for the first 3 months, first 6 months were 16.7% and 41.8% respectively). In addition, a significant portion of state budget deficit (according to Vietnam's classification) comes from repayment of principal. For example, in the first 6 months of 2013, interest repayment was VND 21.3 trillion, while principle repayment amounted to nearly VND 30.3 trillion.

With smaller sources for public investment - the most important instrument of Vietnam's economy, raising state budget deficit ceiling and issuing additional government bond might be alternatives under consideration. Recently, the National Assembly has approved proposals on raising state budget deficit ceiling from the current level of 4.8% GDP to 5.3% GDP for 2013 and 2014, and the additional proceedings will be used for investment. Accordingly, investment from state budget will be supplemented with nearly VND 17 trillion in 2013[66] and nearly VND 20 trillion in 2014. In addition, beside VND 75 trillion of government bonds which is yet to be issued under the plan for 2011-2015 period, the Government proposes to issue an additional amount of VND 170 trillion of government bonds for the 2014-2016 period which can be used for on-going projects in capital shortage.

II. Analysing impacts of raising state budget deficit ceiling and some issues for consideration

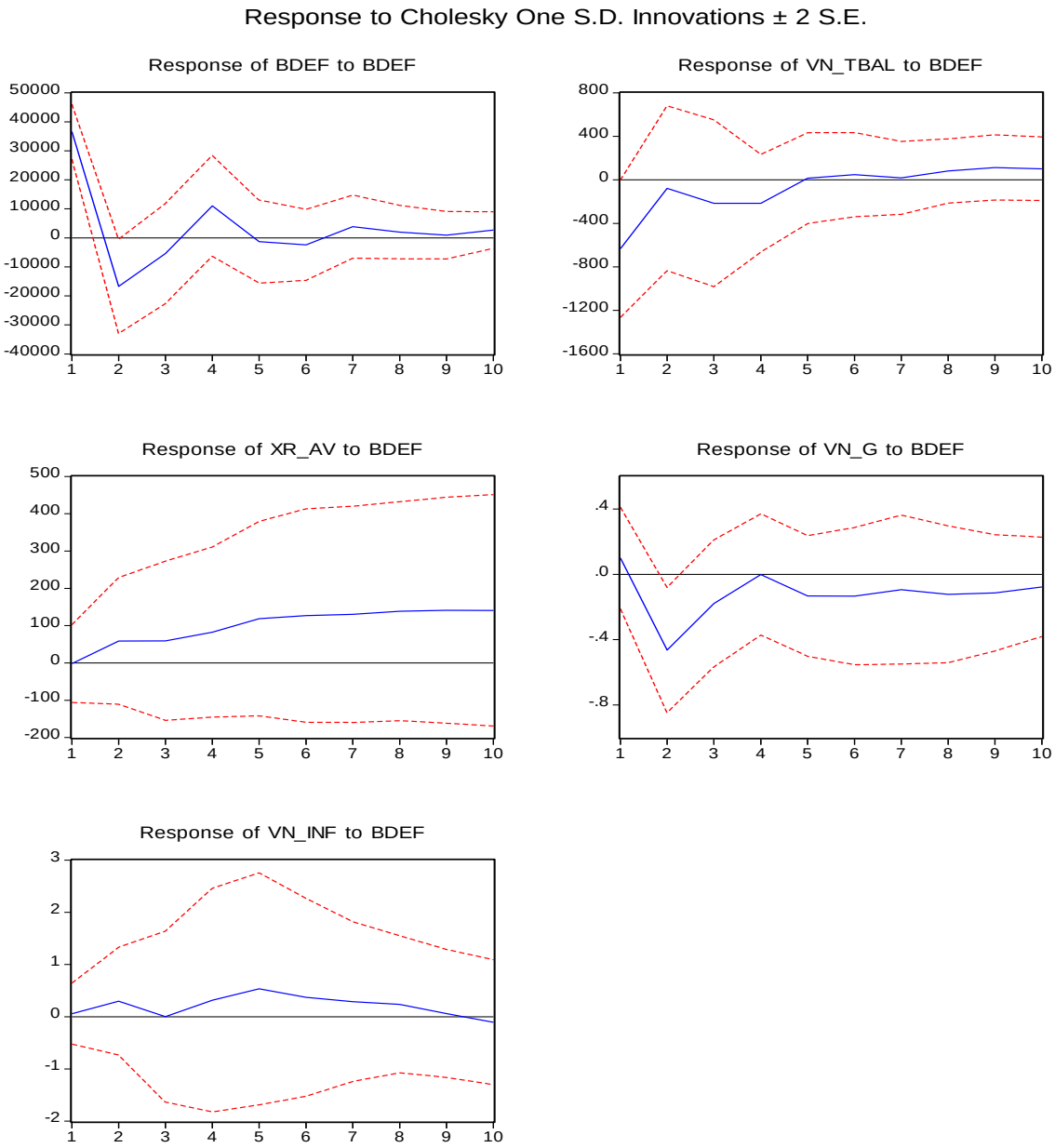
In 2009, the Government carried out a fiscal stimulus package of about VND 145.6 trillion (equivalent to 8.7% GDP). Contemporary estimations by the Central Institute for Economic Management (CIEM) show that this package only helped increase GDP growth rate by 1-1.5 percent points. As an inference, even if all the proceedings from raising state budget deficit ceiling (equivalent to 0.5% GDP) for public investment and if this investment amount *is disbursed quickly and bring about instant results*, it only helps increase GDP growth rate by **0.057-0.086** percent point in 2014. This outcome is rather probable in the absence of many break-throughs in policies and major structure changes in Vietnam's economy as expected since 2009. For this reason, in 2013, raising state budget deficit ceiling only brings about the largest impacts if investment capital is disbursed quickly in the sectors which produce quick outcomes. In 2014, *if there is no other driver for growth*, reaching the target of reasonable growth rate (of 5.5-5.8%) is very difficult despite exploiting additional resources from raising state budget deficit.

Impacts of raising state budget deficit on some key variables such as economic growth, inflation, trade deficit and exchange rate in 2014 can be simulated with an econometric model. *With a hypothesis that the proceedings from higher state budget deficit is used for investment and is implemented immediately from the early of first quarter of 2014*, the simulation results show that economic growth rate will increase in the first quarter, decrease in the second and change slightly in subsequent quarters (see Figure 1). Meanwhile, trade deficit will increase immediately and only decrease in subsequent quarters. As a result, pressure on exchange rate will increase and may cause exchange rate to increase continuously (if the State Bank of

[66] In the planned figures, GDP (at current prices) is projected at VND 3.3 thousand trillion.

Vietnam opts against increasing foreign exchange supply and reducing foreign exchange reserves).

Figure 1: Simulated changes of trade balance, exchange rate, economic growth and inflation when raising state budget deficit ceiling



Source: The author's simulation

Note: BDEF: state budget deficit; VN_TBAL: trade balance; XR_AV: exchange rate (quarterly average); VN_G: economic growth; VN_INF: Inflation.

Obviously, impacts in next years will also depend of contribution of development investment items to increasing overall production capacity of the economy. In recent years, this impact has not been clear (even if we exclude the 2011-2013 period) due to investment dispersion (possibly even wastage). The ICOR index always stays at high level (about 7), reflecting that we have to invest a lot of capital to acquire economic growth. Notably, increasing resources for development investment (through raising state budget deficit ceiling and issuing additional government bond) is efficient *only if* measures for restructuring public investment and improving the efficiency of public investment management are deployed. A change in

approach is also necessary: *with the current resource availability, the choice of best projects to invest in is critical,* instead of finding ways to increase resources to implement *all* existing projects.

As another concern, increasing resources for public investment can "*crowd out*" private investment. Even with good cooperation among government agencies relating to issuing additional government bonds, interest rate of government bonds must be relatively attractive (compared with normal lending rate). Consequently, instead of loans to private enterprises, liquidity of the banking system can be used for buying government bonds. This is a sensitive issue because many private enterprises are currently facing with difficulties in accessing capital. In fact, with the implementation of fiscal stimulus package in 2009, the ratio of private sector in gross investment decreased to 33.9% (from 35.2% of 2008) while implemented capital of this sector increased by only 10.6%.[67]

The impact of raising state budget deficit ceiling and issuing additional government bonds on the sustainability of state budget poses another concern. Public debt of Vietnam has continued to increase, both in absolute value and as percentage of GDP. In 2012, public debt of Vietnam was VND 1,641,296 billion (55.6% GDP), higher than the figure of VND 1,392,020 billion (54.9% GDP) in 2011. As mentioned above, pressure from repayment of principal and interest became larger over time, reaching VND 25-26 trillion dong per quarter, equivalent to about 16% of budget revenue[68]. Looking back, big public debts apparently failed to bring about appropriate improvement in overall production capacity of the economy. Therefore, instead of arguing about whether public debt is safe or not (because it is still lower than the permitted level and lower than many countries), attention should be paid to *the capacity of repayment* (which is reflected by economic growth and state budget management in the future). Agencies can cooperate with one another to issue governments bond with rather low interest rate, but proceedings from such easy process may not be allocated with highest efficiency. At that time, pressure on repayment of principal and interest in the coming years will be much bigger.

Outstanding debt in capital construction is another factor hindering the process of allocating resources for new public investment projects. According to the recent report of State Audit Office of Vietnam, such outstanding debt of the whole country has reached VND 91,000 billion. In fundamental, such debts represent some implicit financing by the enterprises for the State budget. If the Government alternatively borrows money or issues government bonds to pay all outstanding debt in capital construction, the capital cost will be much higher. If the proceedings from raising state budget deficit ceiling is used for pay off outstanding debt in capital construction, the desired impacts on economic growth may be even lower. However, if outstanding debt in capital construction is not addressed, construction enterprises will encounter more difficulties, even in medium term.

Finally, raising State budget deficit ceiling to increase development investment will increase concerns that the Government will again switch highest priority on promoting economic growth *despite continuing announcement of priority focus on macroeconomic stabilization and controlling inflation*. Of continuing importance is to further consolidate market confidence in policies, especially when such confidence has been improved after the implementation of Resolution No.11 since early 2011. In reality, the macro-economic performance and inflation has been improved partly because of drastic contraction of aggregate demand. However, pressure on inflation remains high because the causes of inflation since 2008 (including aggregate supply-aggregate demand imbalance, trade deficit, budget deficit, investment and investment efficiency) have not been addressed in fundamental. As shown in Figure 1, with

[67] This was partly due to consequences of the global financial crisis and economic recession.
[68] Calculating based on data for the first 6 months of 2013.

higher permitted budget deficit, inflation will increase in some quarters while the impact on economic growth is not high. As a result, determination with consolidating macro-economic stability is essential, so as to avoid creating impression that the Government will focus more on improving economic growth while paying inadequate attention to controlling inflation.

III. Forecast of Vietnam's key economic indicators

The year 2014 is important since it is right before the last year in the Socio-Economic Development Plan for 2011-2015. Strengthening macro-economic stability in line with creating momentum for growth recovery in 2014 will lay foundations for more positive changes in 2015 as well as for formulating and implementing the Socio-economic Development Plan for 2016-2020. Therefore, forecasting impacts of related policy options becomes essential in order to formulate reasonable policies and solutions for the 2014-2015 period.

This Section focuses on forecasting impacts of raising state budget deficit ceiling in the 2013-2014 period and issuing additional government bonds in the 2014-2016 (as mentioned above). In doing so, the author adopts a structural econometric model with annual data of the CIEM to produce forecasts for the years of 2013-2015. For 2013, because the year is nearly finished (only one month left), the author uses a combinationboth econometric model (using annual data) and leading indicator models for key macroeconomic indicators (using quarterly data).

The forecasts are based on 3 main scenarios. The *Baseline scenario* provides forecasts under "normal conditions", which is in line with general expectations of global economic recovery and Vietnam's economic development. In this scenario, overall GDP of partners increases by 2.2%, 3.0% and 3.3% in 2013, 2014 and 2015, respectively[69]. Consumer prices of the United States increases by 2.4% in 2013 and by 2.5% per annum in the years 2014-2015[70]. Agricultural export price decreases by 5.93% and 1.97% in 2014 and 2015, respectively[71]. The international oil price goes up by 2.4%, 2.2% and 1.9% in 2013, 2014 and 2015, respectively[72]. About Vietnam economy, in the 2013-2015 period, nominal exchange rate climbs by 2% per annum while M2 increases by about 15%/year and import price decreases by around 5%/year. Vietnam's population and employment increases by 1.1%/year and 3%/year respectively in the 2013-2015 period. The volume of exported crude oil and real effective exchange rate are supposed to be unchanged for the whole period of 2013-2015. On balance of payment, the Government transfer item goes up by 10% per annum while private transfer (net) is supposed to decrease by 10% each year. Implemented FDI capital surges by 5% per annum. Meanwhile, investment from state budget source is added by VND 50,000 billion in 2013[73] and VND 37,500 billion/year in the 2014-2015 period[74]. As an assumption, the additional investment capital is disbursed totally in corresponding year.

Scenario No.1 differs from the *Baseline scenario* in that the increase in public investment is equal to the proceedings from raising state budget deficit ceiling and issuing additional government bonds. Specifically, public investment capital in 2013 is added with VND 17,000 billion after the National Assembly approved the state budget deficit ceiling of 5.3% GDP. In 2014, the corresponding increase is VND 77,000 billion, of which, VND 20,000 billion dong comes from raising state budget deficit ceiling[75] and VND 57,000 billion comes from

[69] World Bank's forecast.
[70] World Bank's forecast.
[71] World Bank's forecast.
[72] World Bank's forecast.
[73] Calculated based on VND 150,000 billion of government bond issued in 2011-2013 (under the plan for government bond issuance for 2011-2015 period).
[74] VND 75,000 billion is yet to be issued (for 2014-2015 period) under the plan of government bond issuance for 2011-2015 period.
[75] An estimated number because the exact number will depend on GDP of 2014 which depends on many other factors.

additionally published government bond[76]. In 2015, public investment capital is VND 57,000 billion higher than the one in base scenario. For this reason, M2 growth rates in 2013, 2014 and 2015 are supposed to be 16%, 20% and 18% respectively.

Scenario No.2 is based on suppostion that Vietnam will make more efforts to reform legal system and the investment-business environment in the context of boarder and deeper international economic integration in the 2014-2015 period. In details, important arrangements such as the Trans-Pacific Partnership Agreement (TPP), Vietnam - EU Free Trade Agreement, etc. are suposed to be signed and implemented immediately. As a result, FDI flows into Vietnam is supposed to be about 15% higher than the one in *baseline scenario* in 2014 and 2015. Meanwhile, increase in public investment capital and M2 in the 2013-2015 period are supposed to be the same as in *Scenario No.1*.

Table 2 shows the summary of main forecast results by using a structural macroeconometric model for the 2013-2015 period. From the forecasts, in the *Baseline Scenario*, GDP, consumer prices, and export increase by 5.27%, 6.04% and 15.32% respectively in 2013 while trade deficit is forecast to be USD 0.5 billion. In 2014, the economy can recover slowly with higher economic growth (5.47%) in line with higher inflation rate (6.58%) and a slightly higher trade deficit despite of higher export growth. This trend can prevail in 2015 in which, GDP, consumer prices, and export are forecast to increase by 5.83%, 6.9% and 16.43% respectively while trade deficit is forecast to attain USD 2.1 billion.

Regarding increase in public investment by raising state budget deficit ceiling and issuing additional government bond, in *Scenario No.1*, economic growth recovery is generally quicker but the pressures on inflation and trade deficit are larger. In 2013, the differences between Scenario No.1 and *Baseline scenario* are not material because proposal on raising state budget deficit ceiling was approved in the end of the 2013. In 2014, compared with *Baseline scenario*, GDP growth rate in Scenario No.1 is forecast to be higher (5.65%) while inflation rate is significantly higher (8.86%) along with sizeable trade deficit (USD 4.3 billion), consistent with domestic investment-saving gap. In 2015, the momentum for growth recovery is maintained while inflation tends to decrease in line with slower growth rate of M2. Trade deficit in 2015 is forecast to be USD 3.7 billion, lower than 2014 but much higher than the *Baseline scenario*. As a positive feature of *Scenario No.1,* export is forecast to increase more rapidly in 2014 and 2015. These forecast results also show that Vietnam can achieve higher growth rate and lower trade deficit and inflation *only if* additional public investment helps increase production capacity of the whole economy quickly and domestic reforms for improving efficiency in using resources and competitiveness are implemented promptly.

Table 1: Forecast for some macro-economic indicators of Vietnam, 2013-2015 (%)

	Baseline scenario			**Scenario No.1**			**Scenario No.2**		
	2013	*2014*	*2015*	*2013*	*2014*	*2015*	*2013*	*2014*	*2015*
GDP growth rate	5.27	5.47	5.83	5.34	5.65	6.08	5.34	5.81	6.22
Inflation	6.04	6.58	6.90	6.12	8.86	8.52	6.12	8.94	8.56
Export growth rate	15.32	16.11	16.43	15.36	17.28	17.79	15.36	17.65	18.31
Trade deficit (bil. USD)	-0.6	-1.4	-2.1	-0.8	-4.3	-3.7	-0.8	-4.9	-4.0

Source: Author's own model-based forecast.

Similarly, *Scenario No. 2* shows that if additional public investment resource is deployed in line with domestic reforms to improve the efficiency of this resource and encourage private sector

[76] Calculated from the proposal on publishing an additional government bond amount of VND 170,000 billion for the 2014-2016 period.

and foreign-invested sector to increase investment in production and business activities, the positive impacts on the economy will be even bigger. GDP growth rate will be higher than those in *Baseline scenario* and *Scenario No.1* (except for 2013). Specifically, the difference between GDP growth rates of *Scenario No. 2* and *Scenario No. 1* is about 0.14-0.16 percent point in the 2014-2015 period. This outcome is driven largely by increase in FDI and higher growth rate of export (even up to 18.31% in 2015). However, with current economic structure and potential inflationary pressure, the inflation rates in Scenario No.2 are all forecast to be higher, reaching 8.94% in 2014 and 8.56% in 2015. Trade deficit will be also bigger in the condition that export still depends much on imported inputs, reaching USD 4.9 billion and USD 4 billion in 2014 and 2015 respectively.

In general, the increase in public investment, induced by higher state budget deficit ceiling in 2013 and 2014 and issuance of additional government bonds, will bring about positive changes for Vietnam's economy, especially in terms of economic growth and export growth. However, the accompanied risks include higher inflation rate and more sizeable trade deficit, though they may be less serious than in the 2007-2008 period or 2010-2011 period. Therefore, increase in public investment should come along with efforts to improve efficiency of using this resource and to create positive spillover impacts on domestic private sector and foreign-invested sector. Of utmost importance is to channel this resource into priority sectors which can create quick results and spillover impacts and to avoid investment dispersion. In this regard, realizing the directions toward restructuring the overall economy and priority sectors plays a very crucial role.

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After having to cope with prolonged difficulties, Vietnam's economy is expected to quickly recover in 2014. Nonetheless, the risks of macroeconomic instability, being revealed in the second half of the 2000s, have not been addressed in fundamental because of Vietnam's efforts to prevent domestic economic downturn. The switch in policies towards promoting economic growth can affirm concerns that these risks will actually materialize. The lessons from previous years require Vietnam to be more sceptical in dealing with inherent socio-economic challenges. Therefore, stimulating production and business activities should be in parallel with fundamental reforms in priority sectors/areas, starting with public investment management and supervision. The year 2014 will showcase how the Government attempts towards fundamental reforms, seeking to create a foundation for Vietnam's economy to recover and ignite a more robust growth process./.

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REVIEW AND COMMENTS

Dr. Le Dang Doanh

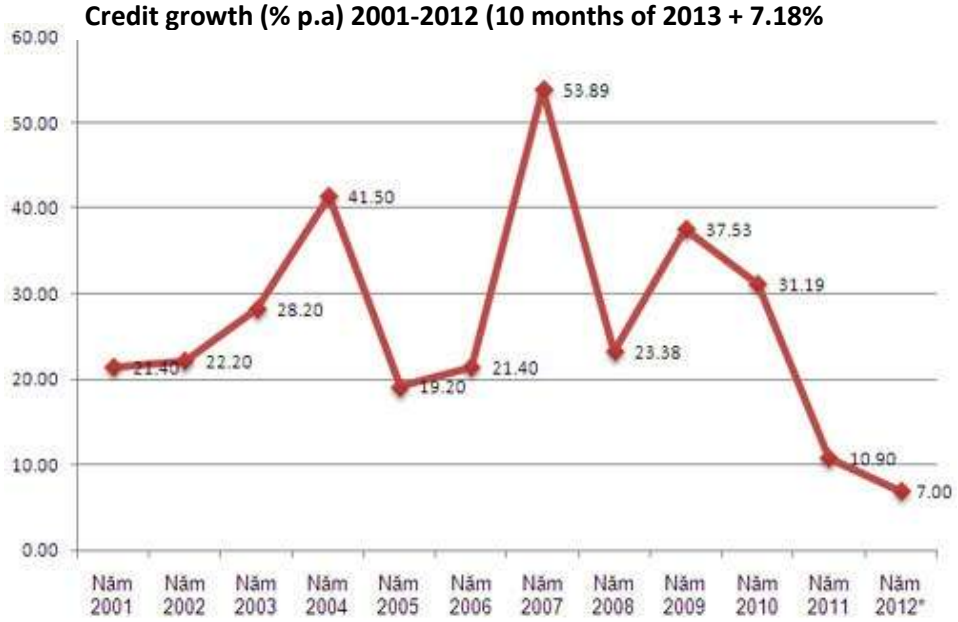
(Review and comments for Report on "Raising budget deficit ceiling and issuing additional government bonds: Analyses")

1. This is a very timely analysis on a hot topic when the National Assembly has recently approved to increase the budget deficit ceiling to 5.3% of GDP and allowed the Government to increase bond issuance on November 12. The advantage of this research is that it adopted a quantitative calculation and a forecast on the impact of the ceiling budget deficit and bond issuance increase on GDP growth and other parameters. The highlighted result published by the authors is that, the increased ceiling budget deficit can only increase GDP growth by "**0.057 - 0.086** percentage points in 2014" if there is no other reform, but it will negatively affect the trade deficit and increase pressure on the exchange rate. The authors also mention the impact on private investment as the capital will be prioritized for Government bonds and less for private investment. This has taken place in recent years. If we take the higher capital efficiency of the private sector than the public sector, this measure clearly causes negative effects on the economy. The authors also analyze the impact on public debt increase and the result of unsustainable budget. The authors also question whether development investment increase is a sign of the Government's priority on economic growth and whether it will affect macroeconomic stability. If the authors could have calculated the quantitative impact on inflation, the content would have been better and had sounder basis.

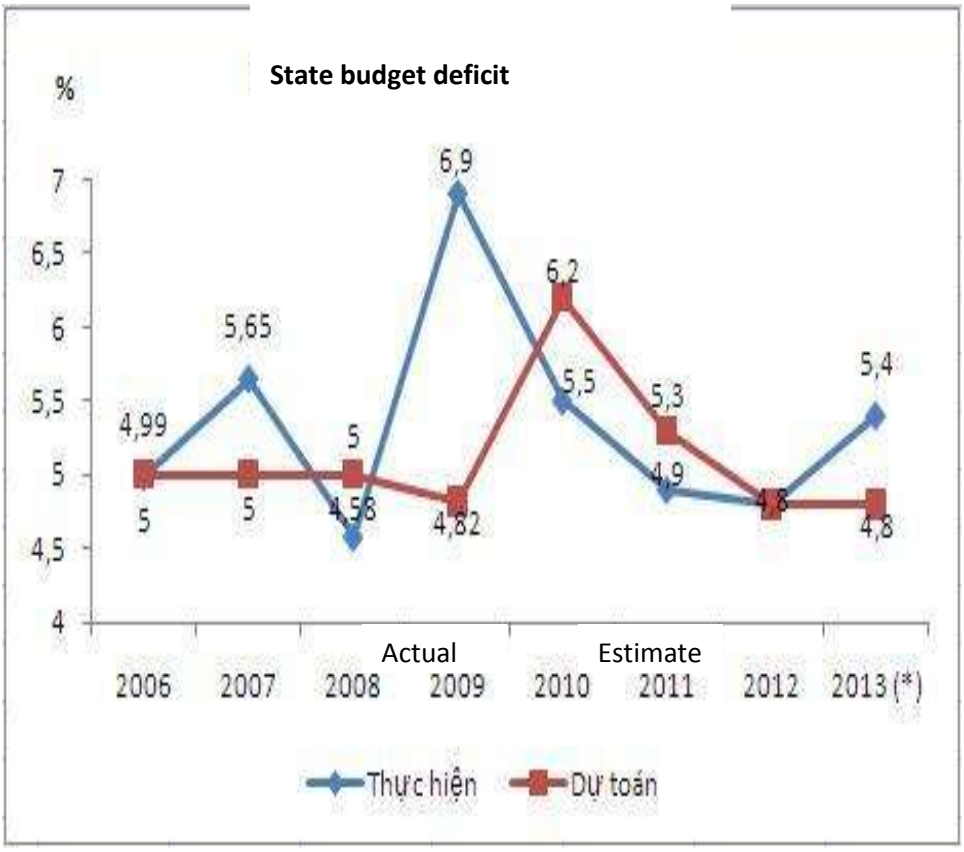
2. Part 2 of the Report refers to three different scenarios on the impact of the ceiling budget deficit increase on 4 factors namely GDP growth, inflation, growth in exports and trade deficit. The results show that GDP and export growth may better but inflation and trade deficit could be worsen. Those are proper warnings for economic operation.

3. In the arguments, authors put too much emphasis on the integration factor and impacts of the global financial crisis on Vietnam economy while missing the analysis on the impact of domestic policies. The fact that exports and FDI have rapidly recovered shows that external effects may exist but cannot be the primary cause. Monetary policy factors such as over growth of the credit can be mentioned:

Credit growth (% p.a) 2001-2012 (10 months of 2013 + 7.18%

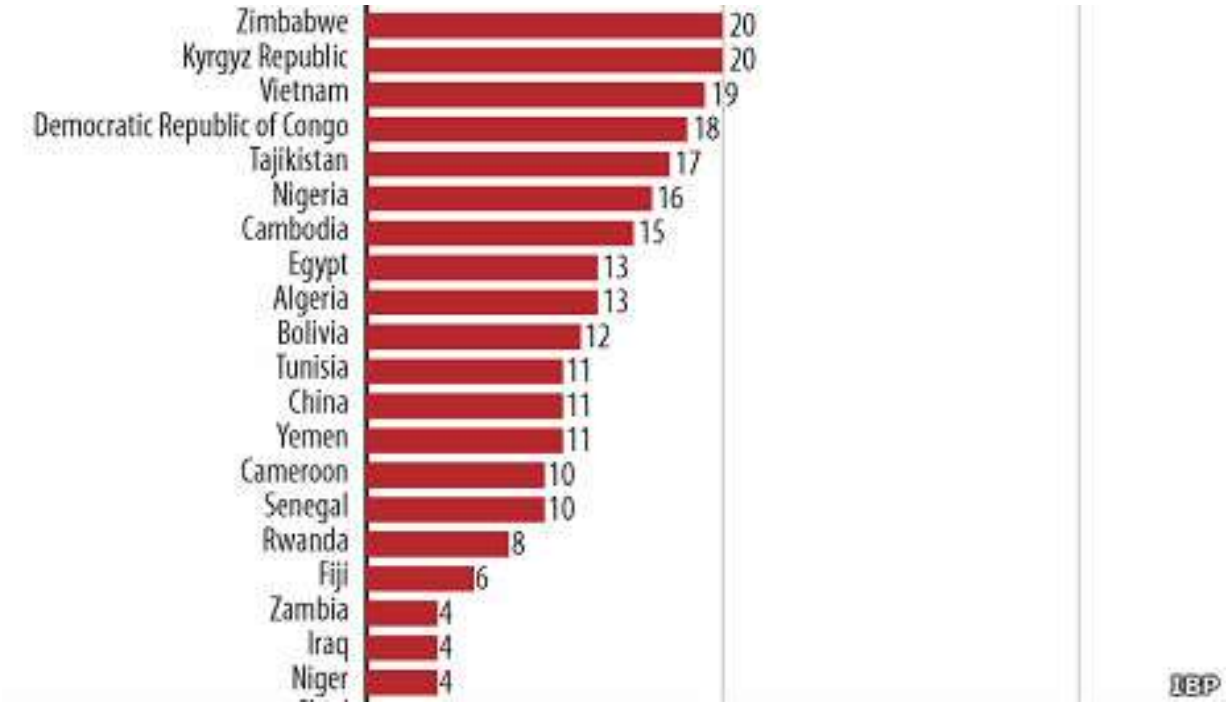


Discipline is very low budget; the actual budget spendings have been always higher than the estimates:



Budget publicity is very weak:

Ranking of budget publicity



In recent years, the proportion of regular expenditure in total budget expenditure increased continuously from 65.4% (2005) to 77.1% (2012) while budget spendings on investment decreased continuously from 34.6% (2005) to only 22.9% (2012).

Administrative expenses increased from 8.2% (2005) to 10.2 % (2012), much higher than 6.4% of health expenditure (2012). Non-strictly controlled administrative spendings with the waste use of public cars, oversea traveling, receptions, etc. while local budgets are still seeking for the central assistance, is a sad issue.

Also, interest expenses increased rapidly from 2.9% (2005) to 5.1% of the total budget (2012) and this trend will continue to increase in the future due to the sharply increasing public debt. Tax revenues are contributed by the people, they are supposed to benefit the people but public services such as health, education, social welfare have been lower in quality and overloaded.

The authors might consider these factors for a more complete and valuable report.

THE ROLE OF PRIVATE SECTOR IN GROWTH RECOVERY OF VIETNAM Dr. Pham Thi Thu Hang

General Secretary of VCCI

I .GROWTH RECOVERY AND EXISTING ISSUES

Vietnam's economy used to be ranked among top economies in terms of GDP growth in the world. Its average 2000-2007 GDP growth per capita was 7.6%. However, under the impact of the global financial crisis, Vietnam's GDP growth rate reduced to only 6% in 2008-2011. In 2012, GDP growth of Vietnam was even only 5.03%, lower than the 5.32% rate of 2009, the year seriously impacted by the global financial crisis. It is noticeable that prior to the 2008 financial crisis, Vietnam's GDP growth had been always higher than Asia's GDP growth rate; nevertheless, since 2009, Asia's GDP growth has been higher. Even in ASEAN-5, including Thailand, Philippines, Indonesia, Malaysia and Vietnam, before 2009, Vietnam's GDP growth rate had been constantly much higher than that of this region, in three years of 2010 - 2012, this gap was narrowed significantly. Pre-crisis growth of China was particularly high. Meanwhile, post-crisis growth of Vietnam (5.8%) was less than 1 percentage point compared to its pre-crisis period (6.8%). The growth rates of Indonesia and the Philippines - two countries with lower growth rates compared with Vietnam in the past – were higher than that of Vietnam in 2010. This shows that the recovery of Vietnamese economy after the crisis has been worse than other countries and Vietnam has been facing issues of economic growth quality in recent years.

According to the World Bank, one of the reasons for the slow growth recovery of Vietnam is that, recently, all components of GDP's total demand, except for net exports, has grown slowly. Private consumption and investment accounting for over 90% of Vietnam's GDP, have decreased sharply. In 2012, private consumption increased by 3.5%, while investment rose by only 1.9% compared to 5.3% in 2009 and 9.8% in 2010. Net export in 2012 was positive as a result of good export and slow import growth. Exports climbed by 18.2% in 2012, mainly contributed by the strong growth in FDI. Reduced consumption growth and stagnant investment have led to modest increase of imports, by 6.6% in 2012.

However, also according to the World Bank, one of the worrying signs is the constant and comprehensive decline of investment proportion. It is estimated that total investment in Quarter I/2013 accounts for 29.6% of GDP, down nearly 13 percentage point from its peak in 2007. While the investment proportion went up to more than 40% (in 2007), that could not ensure the sustainability and was also lower than expected, the decline of nearly 10 percentage point in 3 years seems to be too fast and surprising. Some investments in the State sector have declined due to the impact of demand stimulus policy in 2009-2010. Accordingly, expenditure items have been only temporary. However, it's concerned that the private sector investment has gone down due to the serious impact of domestic demand reduction, interest rate increase, and slow credit growth over the past two years (see Table 1).

Thus, the growth recovery with the strong involvement of private sector requires that at least two issues need to be settled: (1) Growth quality improvement with the involvement of all economic sectors, including private sector and (2) Enhancement of private sector investment.

Table 1. Investment / GDP by enterprise sector

Unit : %

	SOE	Non-SOE	FDI	Total investment/GDP
2007	10.4	16.4	15.9	42.7
2008	11.8	12.4	13	38.2
2009	10	13.3	15.9	39.2
2010	9.9	13.9	14.7	38.5
2011	8.2	12.8	12.3	33.3
2012	7.1	11.9	11.5	30.5
Quarter 1 - 2013	7.8	10.9	10.9	29.6

Source: General Statistics Office (GDP at constant 2010 prices)

II. OVERVIEW OF VIETNAM ENTERPRISES

As of 01/4/2012, there were almost 342 thousand enterprises. Business sector attracted 10.9 million workers, of which 10.77 million people were working for active enterprises. Collective - cooperative economic category had 13.6 thousand enterprises. The country had 4.6 million of non-agricultural, forestry, aquicultural individual business facilities, accounting for 35 % of the total labor force in the business administrative and non-profit units. Although this area has small contribution to GDP but it has great social significance in generating retail sales of goods and social services, creating a large number of jobs, improving household's income, especially in the context of domestic economic difficulties which forced business to dissolve or decommissioned in 2012.

By category, state owned enterprise (SOE) group included 3.3 thousand enterprises, accounting for 1% of the total; non-state owned enterprise (non-SOE) group included 328.8 thousand enterprises, accounting for 96.3% and FDI group had 9,5 thousand enterprises, accounting for 2.8%. With the privatization policy, number of SOEs has reduced by 400, number of non-SOEs has increased by 211.6 thousand, its proportion increased from 93.7% in 2007 to 96.3% and its labor proportion increased from 49% to 62% of the total. Compared to 2007, non-SOE proportions have increased quite well: capital mobilization from 29.4% to 50.7%, net revenue from 47.8% to 52.5%, profit before tax from 11.8% to 25.1%, contribution to State Budget from 17.6% to 33%. However, in terms of business performance, SOE sector still has had the high one (see Table 2).

Table 2: Capital mobilization and business operation performance of enterprises in 2011 (%)

	SOE	Non-SOE	FDI
Capital mobilization	33.7	50.7	15.6
Business operation net revenue	28.0	52.5	19.5
Profit before tax	45.0	25.1	29.9
Contribution to State Budget	35.0	33.0	32.0

Source: General Statistics Office.

In general, the size of our enterprises is still small in terms of capital and labor. Average capital of an enterprise in 2011 was 49 billion dongs. Significant capital differences among SOEs (1,582 billion dongs), non-SOEs (26 billion dongs), SMEs (18 billion dongs) and micro-enterprises (8 billion dongs only) were seen.

Basing on the criteria for classification of small and medium enterprises (Decree No. 56/2009/ND-CP of the Government dated 30/6/2009), the country had 304.9 thousand small and medium enterprises (SME) in the total number of 312.6 thousand active enterprises (accounting for 97.5 % of all enterprises), of which, micro-enterprises (less than 10 employees) was 205.4 thousand (65.6% of the total number of active enterprises and 67.4 % of SMEs). These enterprises were mostly from the private sector.

III. GROWTH QUALITY AND ROLE OF THE PRIVATE SECTOR.

Although Vietnam gained a relatively high growth rate in the pre-crisis period, but this growth focused mainly on scale, so Vietnam didn't have sufficient resources for economic recovery in the post-crisis period. The growth was mainly gained in terms of quantity, not quality. This was reflected in the heavy reliance on capital, causing spreading investment and inefficient use of capital. Economic growth in Vietnam in recent years has mainly based on capital, while the contribution of the remaining two elements, namely labor and total factor productivity (TFP) has been very low. According to calculations by researchers, the contribution of TFP to economic growth in Vietnam recently has ranged from 12% - 20%, but the proportion of the contribution of TFP has almost unchanged, increased by only 2.14 % during the period 2006-2012. Meanwhile, with the economy of capital-based growth, capital always contributes 50% of GDP growth, or even up to 80% since the crisis, Vietnam has not paid attention to the capital efficiency. ICOR - Incremental Capital Output Ratio of Vietnam currently is still higher than that of the region and tends to increase in the last 3 years, respectively 5.73 times in 2010, 5.87 times in 2011 and 6.66 times in 2012. Vietnam's high ICOR was mainly due to spreading investment, causing major losses and waste in the use of capital, especially state capital. In addition, the third resourced for growth, namely labor in Vietnam still reveals many weaknesses. The labor force in Vietnam is high in number but workers are mostly unskilled and untrained. Trained labor accounts for only about 25%. Because of this, FDI enterprises in Vietnam only aims to make use of low cost, unskilled labors, not qualified ones.

The above overview (in Section II) on the development of Vietnam enterprises has not fully reflected different capacities of the enterprise sectors in quality growth improvement. In theory, the quality of economic growth is synthesized from three components, namely: economic efficiency, competitiveness and economic structure. An economy with high growth quality must have a rational economic structure, highly efficient enterprises and high competitiveness. However, this is not a problem that can be solved in a short time, 1-2 years. It requires a clear strategy. Economic restructuring has been mentioned much recently, but the two remaining components, namely economic efficiency and competitiveness seem to have been neglected.

3.1. From the perspective of "economic efficiency", private enterprises in Vietnam are small-sized, not to mention the fact that, millions of individual business households are making informal sector of the economy increasingly expanded. Not big enough for efficient business, the private sector now faces a lot of problems to be able to contribute to the quality growth, especially in terms of sustainable development. Unstable and untrained labor force with non-guaranteed social security in SMEs will not contribute to labor productivity improvement, if the State and enterprises do not have a strong human resource development strategy and technology investment, right from the enterprise starting days.

Measures implemented by the Government in recent years (Resolution No. 02/2013) and the approval of National Assembly on reducing corporate income tax rate to 20% for SMEs and 10% for businesses investing in, selling or renting social houses (for low-income households) have partly solved several difficulties for enterprises, but the sign of recovery has not been clear. Total number of dissolved, decommissioned enterprises in the first half of 2013 was 26,324. According to General Department of Taxation, in the first 9 months of 2013, up to 66

% of enterprises reported losses, down from 69% in 2013. Higher interest expenses, unfavorable business environment and high inventory are often cited as the main reasons for dissolving or decommissioning and these have been seen mainly in the private sector.

However, in the first half of 2013, there were 38,908 newly formed businesses with a total registered capital of nearly 194,000 dongs. Noticeably, in the first 9 months of 2013, tax revenue from the state sector was only 98% of that in the same period last year. Meanwhile, tax revenues from the FDI and non-SOE sectors rose by 30% and 18%, respectively. In addition, number of temporarily decommissioned enterprises put into operation has also increased month by month: in 4 months, 5 months, and 6 months it was about 8,300, 8,800 and 9,300, respectively. In the first 8 months of 2013 there were about 10,649 temporarily decommissioned enterprises back to operation. Thus it can be said that there is still room for strong growth of private sector growth, contributing to the growth recovery. The remaining question is what needs to be done to make these “sprouts” further develop and grow.

3.2 ***From the perspective of “competitiveness”*** of enterprises in general and non-SOEs in particular, the issue considered in the current development stage depends on the enterprise restructuring. Unlike SOEs, non-SOE restructuring process is a self-process: continuous innovation, continuous development. However, non-SOEs can only be successfully restructured if they have sound business strategy. In a role as a "Facilitator" for all enterprises of all economic sectors to develop their business strategy, the State must give development priorities, supporting policies so that enterprises (regardless of the public or private sector) can find good business opportunities and favorable conditions for investment and development in high value added and sustainable fields/areas. The determination of national, regional competitive advantages and the master plan is very important and requires the participation of enterprises in order to create consensus in economic restructuring strategy and development orientation of enterprises.

Vietnam enterprise’s competitiveness must be strongly improved to create *value added products.* Vietnam is now implementing export focused development strategy. Several Vietnam’s products have good position in the international market, and Vietnam is even among top exporters of agricultural products (rice, coffee, cashew nut, pepper, etc.) or high position in the international trading map such as garment, footwear, electronic products (See Table 3).

Table 3. Main export products of Vietnam

Unit: million USD

	2010	2011	2012
Textile, garment	15.53	14.49	13.18
Telephone and spare parts		4.82	11.10
Crude oil	6.87	7.47	7.17
Computer, electronic product and spare parts	4.97	7.11	6.84
Footwear	7.10	6.76	6.34
Seafood product	6.95	6.31	5.32
Main agricultural product (rice, coffee, cashew nut)	8.64	8.13	7.70

Source: General Department of Vietnam Customs

Although export value of the above mentioned products is high, but their added value is low because they are exported in raw form or are just the product assembled from imported materials. Typically the textile and garment industry, for many years, Vietnam's textile and garment exports are mainly in the form of fabrication for the foreign companies (fabrication

exports) and goods manufactured from imported raw materials (manufacturing exports). In 2012, the proportion of these two types accounted for more than 96% of the total textile exports of the country; of which 75.3% was fabrication, manufacturing exports accounted for 21.2%. This is similar in Vietnam's footwear. Data from the General Department of Vietnam Customs shows that in 2012, fabrication and manufacturing exports accounted for over 97% of total footwear exports of the country, of which, fabrication accounted for 52.7%, and manufacturing exports accounted for 44.6%. Furthermore, in order to manufacture goods for export, the industry has to import raw materials from abroad. In 2012, Vietnam had to import USD7.04 billion, USD3.16 billion, USD1.41 billion, and USD877 million of fabrics, textile and footwear raw materials, and fiber yarn, and cotton, respectively. These two sectors also have extensive labor need and proportion of non-SOE is very large.

Thus it can be said, the investment of the private enterprises in the production of export commodities in Vietnam has mainly focused on the renovation of equipment for the fabrication and insufficient attention has been paid to the technological innovation to create new products with high added value. So far mobilized capitals for this activity has been based on loans from banks, especially once the fabrication contract has been signed. The exporters also receive preferential interest rates compared to those producing for the domestic market.

IV. ENHANCEMENT OF PRIVATE SECTOR INVESTMENT CONTRIBUTING TO THE GROWTH RECOVERY THROUGH ECONOMIC RESTRUCTURING.

Poor growth quality as mentioned above has put Vietnam economy under an unstable turbulence recently. Under the requirement of growth quality improvement through restructuring, economic model change, Vietnam economy restructuring project was approved and is being implemented with the focus on: corporate restructuring (focusing on SOEs), investment restructuring (focusing on public investment) and financial system restructuring (focusing on banking system).

4.1. Public investment restructuring

As per the Government’s economic restructuring orientation, public investment proportion in the total investment has reduced from the very high percentage of 41-47% in the early 2000 to 38-39% in 2011-12, within the target of 35-40% in the Overall Economy Restructuring Plan. However, the capital proportion fell significantly, especially investment from retained earnings of SOEs. Mean while, state credit capital still went up sharply.

The reason is, over the past difficult years, in the supply side, financial institutions have always wanted to invest in government bonds to avoid risks, while in the demand side; state projects have been increasingly reliant on the government bond capital. Public investment restructuring will impact SOE investments and state credit (for banking sector), then impact private sector. This will be discussed in the next sections (3.2 and 3.3). A “series” of impacts can create “double impact”, restricting the growth of private sector. Investment from State Budget accounting for over 50% of public investment has created issues on the development of the private sector and the important issue is not the statistical number of investment proportion but the requirements on the change of allocation, investment management policy and solving of spreading and wasteful investment.

For example, regarding spreading investment, the two public investment activities that have been not much improved are investment in infrastructure of industrial parks (IP), economic zones (EZ), and investment in infrastructure of new urban areas. International practice shows that, IPs-EZs must be connected to the national and social infrastructure system. Without private investment in these fields, IPs-EZs can hardly enhance their efficiency. Involvement of private sector in IPs-EZs must be promoted in all aspects:

- Investment in connecting infrastructure under Public Private Partnership (PPP) form.

- Development of social infrastructure so that private sector can provide IP-EZ development supporting services such as: housing for workers, hospitals, schools.

- Connection to the market: input and output markets, other supporting services.

The inefficiency of spreading investment in IPs-EZs, with high area has been warned, as many areas could not connect to the national infrastructure. Within the scope of local economy, synchronous infrastructure development is challenged by the high investment, while the provincial government cannot finance and many projects have poor payback capacity. So far, very few IPs have a comprehensive and overall master plan to attract private investment, to promote several IPs-EZs. Also, many localities have too many IPs-EZs without considering the local “attracted capital capacity and management”.

According to some experts, despite the calls for private investment (local and foreign) and highlighted infrastructure investments, non-state investment proportion has reduced in all fields of electricity, water, transport and telecommunication. However, policy on encouraging private investment in infrastructure still has some constraints. PPP models have been piloted but no review has been made to make it become an efficient leverage policy and multiply the results. The “room” for public investment improvement by attracting private investment is very large and the State cannot ignore.

Public investment management decentralization is also a factor influencing the development of private enterprises. Recently, changes have been made in development investment allocation decentralization has reduced the overload of investment management of central agencies, and enhanced the pro-activeness of local agencies. But an evaluation on socioeconomic efficiency of this decentralization must be made. It would create the favorable condition and facilitate the resources to create a proactive, creative enterprise community in the locality, enhance local economic development, and contribute to growth recovery. Issues that should be evaluated in the short term are:

- Current public debt level of local government to enterprises, causes and solutions.

- Public investment decentralization and development control of development master plan.

- Role of private sector in local public service implementation.

Private sector as well as SOEs and FDI enterprises can explore the local competitiveness to develop their own business strategy. The public investment decentralization and local economic development orientation have great significance as they can gather many favorable conditions for the enterprise’s development. Master plan on socioeconomic infrastructure development must be made in attachment with the development master plan of sectors in the locality, basing on the local competitiveness. In these cases, investment in industrial clusters, regional connection shall support enterprise’s strong involvement in global value chain, cost reduction and competitiveness improvement.

4.2. Banking restructuring and financial access of private sector.

According to VCCI's survey, in the first half of 2013, approximately 54% of surveyed enterprises have the need for bank loans, while in 2012 this number was 57.3%. Thus, the demand for bank loans of enterprises was still in downtrend over 2012. Among enterprises with loan demand, approximately 41% were given loans by banks. The loan purpose was mainly to implement the new business plan, cover the variable costs, such as payroll, payment to suppliers and some enterprises used loans to repay due debts to other banks. Reasons for the failure in applying loans from the banks include high interest rates, lack of collateral, complex procedures and high transaction cost, existing bad debts of the enterprise, etc. Beside difficulties in interest rates and other conditions, the difficulty in meeting the long term

capital needs of the business is still ongoing. The over-reliance on collateral which is real estate has also caused obstacles to bad debt recovery, collateral sales in the current conditions. The use of asset financed by loan as collateral has begun popular, while the use of other forms, such as overdraft, Credit Guarantee Fund has been very limited. Recent report of the Ministry of Finance on the performance of Credit Guarantee Funds shows that after 12 years of implementation of Decision No. 193/2001/QD-TTg dated 20/12/2001 on the establishment, organization and operation of Credit Guarantee Fund for SMEs, only 10 localities have established this Fund with the total charter capital of 512 billion dongs. As of 31/12/2012, these funds had the accumulated guarantee revenue of 2,976 billion dongs; the guarantee balance was estimated to be over 344 billion dongs.

According to some experts, the Credit Institutions Restructuring Plan is almost the document that orients the improvement of the credit institution's performance quality. The State may also give various specific tasks associated with the restructuring of credit institutions (specialized companies such as VAMC is an example). However, the process of credit institutions restructuring will not only be an issue that "deals" with weak commercial joint stock banks, but also is the self-process of all credit institutions. The State only creates tools to promote this process or intervene in weak areas.

The above mentioned current status of access to credit by the private sector and credit growth in 2013 (missed the targets) show that: to promote credit growth in this sector and enhance its competitiveness, Vietnam's banks have to care more about the customers, especially corporate customers, small enterprises, and develop other services (other than financial services).

Beside financial resources of credit institutions, private equity funds play an important role in the near future to promote the growth of the private sector. In particular, when investment in technology innovation to create new value added products is quite risky, investment fund is a suitable form for private sector's contribution to the growth recovery. The technology constraint has been clearly shown in many recent studies and its result is a popular fabrication industry in Vietnam as cited above.

In general, it's obvious that it's hardly accessible for investments in technology research with high risk in terms of bank loans, or almost not accessible. Therefore, in many countries around the world, a system of private equity funds has been formed to contribute capital to the business. At each growth stage of business, the goal of technological innovation, product innovation, the involvement and investment of private funds may be different, but obviously, the success in one enterprise will offset risks in others.

In Vietnam, a number of investment funds have begun to develop dramatically, especially since the operation of the stock market. However, the number of investment funds is much less than the demand and investment portfolio focuses primarily on privatized SOEs, real estate enterprises. Currently, there are only 23 closed-end funds, including 6 small-sized public funds. Few funds have paid attention to technological innovation in enterprises.

Meanwhile, Vietnam is in urgent need of fostering private enterprises which are formed based on technology. Existing Angel Funds, Private Equity Funds, Venture Capital Funds, etc. in the world indicate the long-term investment nature of funds and it is not limited to listed companies. Encouraging the development of private equity funds is now an important orientation. It should be emphasized that, in the early stages, a companion between state funds and private equity funds for high added value product innovation, creation is necessary.

4.3 SOE restructuring and its impact on private sector.

SOEs are using huge resources of the country, including credit resources but with very poor efficiency. This is one of the major obstacles in the formation of market economy. Many policies, documents issued by the Party and State have clearly stated the principle: the State facilitates "equal access to resources" among the business sectors, especially between SOEs and non-SOEs. This is also the reason for the State to restructure SOEs.

Thus, the restructuring of SOEs will create opportunities for private enterprise development in many ways, such as:

- Market discipline will be imposed to ensure the "equality", and this is critical in the breakthrough on completing the Social Republic oriented market economy institution.

- Several inefficient SOEs will be dissolved, transformed to reduce their “monopoly” in the market.

- Transparency in operation of SOEs will be improved to facilitate non-SOEs to invest, cooperate in the supply chain.

However, so far, the restructuring of economic corporations and State corporations - the focus of the SOE Restructuring Plan - has only focused on the privatization and the State capital exit from industries which are not the main business lines; reassignment of responsibility for the implementation of state ownership role towards the Hosting Ministry model. Non-SOEs will be very interested in the business strategy of the SOEs so that these SOEs can lead other SMEs in the supply chain, create the key players in an open market economy, not only restricted within State economic corporations or State corporations.

In summary:The private sector accounts for an important role in the recovery process and growth quality improvement. This role will be promoted if enterprises in this sector are paid attention in three aspects of economic efficiency, competitiveness and economic restructuring:

- The focal point of economic efficiency improvement is to promote the improvement of size for non-SOE sectors, to ensure “sufficient size to be efficient" and reduce the size of the informal economy, through SME development policies.

- The focal point of competitiveness strengthening is technological innovation and labor productivity increase. Attention should be paid to the local advantage.

- Improved economic structure through three core restructuring pillars: Public investment restructuring, credit institution restructuring and SOE restructuring need pay further attention to its leverage impact on private sector to have clear and consistent restructuring orientation.

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REVIEW AND COMMENTS

Dr. Nguyen Trong Hieu

Vice Director of Enterprise Development Agency

(Review and comments for Report on “The role of private sector in growth recovery in Vietnam)

The report on "The roles of private sector in Vietnam growth recovery" by Dr. Pham Thi Thu Hang - VCCI General Secretary, addresses urgent and meaningful theoretical, practical issues in the context of Vietnam's difficult economy, the uncertain growth recovery, despite of positive signals of development. These are major issues that need objective assessment, analysis, basing on which, recommendations for policy mechanism development can be develivered in the context of economy restructuring promotion. The author has spent great effort in collecting, processing information, briefing issues of the report with four main parts:

I. Growth recovery and existing issues

II. Overview on Vietnamese enterprises

III. Growth quality and the roles of the private sector

IV. Promoting private investment to contribute to growth recovery through economic restructuring

In part I, the author brief the process of economic development in Vietnam in recent years, emphasizing the continuing decline after the world and regional economic crisis in 2008 and the following years. So far, the growth momentum in the period before the crisis has not yet recovered. It is interesting that ASEAN countries such as Indonesia and Philippines have surpassed Vietnam in terms of economic growth. The author suggests that "non-State investments proportion (domestic private sector) deteriorated due to severe impacts of the reduced domestic demand, rising interest rates and slowing credit growth in two years". The author thinks that at least two problems must be solved to have growth recovery with the participation of the private sector:

(1) Growth quality improvement with the participation of all economic sectors, including private sector; and

(2) Enhancement of private investment.

In the next part the author gives data on enterprises (number of SOEs should probably be checked) until April 1013 and mobilized capital of various economic sectors in 2011. It’s a pity that now is almost the end of 2013 but investment capital data were only updated until the end of 2011. Thus, it cannot be clearly reflected as after nearly 2 years of operation with many difficulties and declined private investment in the context of public investment tightening to restrict inflation and gain macro-economic stability.

Regarding the quality of growth and the roles of private sector, the report clearly raises the issue of spreading, insufficient investment, continuously increased ICOR in recent years, economy restructuring, but two other issues namely economic efficiency and competitiveness haven’t been mentioned sufficiently. To clarify the "economic efficiency", the report provides data on the dissolution of businesses, the increasing number of companies brought back to operation, the increasing number of newly established enterprises, etc. Other data such as profit ratios, efficient use of capital, etc. may need to be provided so that a clear view on

"economic efficiency" can be seen. Regarding "competitiveness of enterprises", the report provides data on imports of raw materials, accessories, processed products, etc., but very important data on product design capability, modern advanced level of technology, equipment, machinery, management and market development capabilities, etc., missing. Thus, the competitiveness of enterprises can hardly be evaluated.

Promoting private sector investment to contribute to growth recovery through economy restructuring is the central part of report with three aspects analyzed, namely: public investment restructuring; banking restructuring and access to financial source of the private sector; SOE restructuring and its impact to the private sector. The report mentioned some aspects of public investment through infrastructure investment in the EZ – IZ, which emphasizes the participation of the private sector in the form of public-private partnerships (PPP); Private sector can take part in the development of social infrastructure by providing EZ - IZ supporting services in terms of housing, hospitals and schools; Provide services and market connectivity services and other supporting services. Mechanisms to encourage private investment in infrastructure have limitations; PPP is in the improving process, there has been no effective leverage policy, which can disseminate the outcomes. The author argues that there should be assessment on the socioeconomic effect of decentralization on public investment. The restructuring of public investment is currently implemented as per the Prime Minister's Directive No. 1792/2011-CT-TTg, which regulates that the development of investment projects approved by the competent authority must ensure sufficient capital for the entire implementation phase. The issue of developing sectoral connecting cluster, supporting enterprises to participate in the value chain is emphasized as a policy solution to the regional economic development, and this shows a serious study of the author and the application of advanced development theory in Vietnam situation under the in-depth international economic integration.

Regarding the restructuring of credit institutions, the report presents overview on existing banking and credit solutions and provides the necessity of the private equity funds together with State funds in supporting technological innovation, new high added value product creation. Successful practices of South Korea in the past decade made thanks to active support of the private sector in terms of science and technology, demonstrates the feasibility of the author's approach in the private investment in technological innovation, development of new products in Vietnam.

Regarding SOE restructuring, to create opportunities for private company development, the report mentioned some related contents, emphasizing that the non-state sector is interested in business strategy and the role of state-owned enterprises in leading SMEs in the supply chain. So far, many corporation restructuring projects have been approved by the competent authority for implementation. However, most of the projects could not provide a business development strategy as a key enterprise, leading SMEs in the supply chain, ensuring the key role of state economy as per the orientation of the Party.

In overall assessment on the report, the referee thinks that, the report has a broad thematic and complicated topic. The author outlines and studies some issues that should be paid attention in building the economic development policies, particularly the policy to attract private investment, which is an important capital, accounting for over 50% of total capital raised (in 2011 it accounted for 50.7%). So far, not many studies have been done in the current investment status of the private sector; the statistics is based on the estimate method basing on the total society's investment to ensure that annual GDP growth will be deducted from the investment of SOEs and FDI. In this difficult situation, the report's completion is a major effort of the author and the results are encouraging and should be exchanged, further analyzed, basing on which, recommendations for further studies can be made. The results of this study,

although are primary, but have identified the necessity of the issue, because, the total capital invested in the development of the country estimated by the researchers is more than 3 million billion dongs, while the budget investment including bonds is only less than 250,000 billion dongs, the remaining investment of the private sector is really huge. Thus, policies and mechanisms need to be developed to ensure the efficiency of this capital source.

FOREIGN DIRECT INVESTMENT vs. ECONOMIC RESTRUCTURING ASSOCIATED WITH THE TRANSFORMATION OF ECONOMIC GROWTH MODEL TOWARDS TO PROMOTING THE QUALITY, EFFICIENCY AND COMPETITIVENESS CAPACITY, 2013-2020

Dang Xuan Quang

Since the ”Rennovation” in 1986, thanks to the whole nation’s endeavor and international supports, Vietnam has overcome challenges, and achieved fruitful historical results. The country has departed the under-deveopment status to become a middle income economy; the macro economic system has been relatively stable with an high average annual growth (around 7%); the physical and spiritual lives of the public have been ameliorated significantly; the socio-politic system has been stablised; the national defence and security has been upheld; the order of society has been maitained and the role of the country in the international map has been unceasingly promoted. As a consequence, Vietnam has been become an attractive and credible destination for foreign investors.

Employing a consistant rennovation policy, Vietnam’s government has implemented a slew of measures to reform the investment and business environment. The legal system regarding to investment policy has been gradually adjusted toward a more simplified, open and transparent platform where both domestic and foreign investors enjoy favorable treatments. Besides, the government has also mobilized diverse domestic and foreign resources to upgrade the infrastructure system and train human resources. The sectorial and territorial arrangement schemes have been examined, updated and complemented to provide a legal framework that supports fair competition

The practices over last few years indicate that calling for foreign direct investment is an appropriate policy that contributes to different aims of scocio-economic development of the country. By Feb 2013, there were 14.550 (investment) projects in force, with the total subcribed capital of US$ 211 billion, and real capital of US$ 100 billion. In 2012, the public sector made up 25% of the total social investment capital and its export turn-over accounted for more than 60% the total export turn-over of the whole nation. During the period 2001-2010, the state revenue generated from foreign direct investment was US$ 14.2 billion; the coresponding figure for year 2012 was US$ 3.7 billion. Foreign direct investment has also created around two million jobs of direct employments and three to four million jobs of indirect employments.

To sum up, the foreign invested economic sector has gradually developed and become an essential element of the nationwide economic system. The sector has been encouraged to operate sustainably and enjoy an equal treatment as other economic sectors.The sector also impacts positively on the transition of whole economy, contributes to the system’s restructuring accompanied by a shift in the growth model.

Identifying the present economic structure of Vietnam

The success of “Renovation” and “Global economic integration” over past 25 years has been widely acknowledged. In the period of 2000-2010, the average economic growth reached 7.26%. The real GDP in 2011 was more than 3.8-fold of that in 2000; as a result, Vietnam has joined the group of low-middle income countries. In the battle of hunger eradication and poverty reduction, Vitenam has also reaped fruitful achievements; the economic structure has been transferred into a more modern-based development level; the socio-economy infrastructure has been improved greatly both in quantity and quality; compared with other nations in the region, the gap between Vietnam and other North-countries has been narrowed down dramatically.

The agricultural production structure has initially brought into play the advantage of each region; certain agricultural products have turned into main exports that are competitive in the international market. A number of important industries have been developed, being the motive for the general growth and particularly, the industrial growth. Service industries have been growing together with different types of modern and high value added services. Key economic regions have been developed well, making great contribution to GDP and GDP growth of the country.

The economy structure has basically changed; there is a positive shift in the labor structure, corresponding with the shift in the structure of sectors, economic elements and regions. The source for investment and development capital is diversified, and the capital amount is on the rise. State investment capital is focused on some certain sectors, especially on transport infrastructure, and other social benefit services, and certain groups i.e. impoverished regions, or provinces, and ethnic minorities.

However, Vietnam's economy has revealed its internal weaknesses. GDP growth despite its high rate appears to slow down; growth quality is low. The scopes of economic sectors are small; industrial products are mainly in the form of processing, and assembling; domestic value addition is modest. Products that heavily contribute to GDP and exports turnover are those in agriculture, marine industry, mining and quarrying industry, processing industry, and in labor-intensive service provision. The number of sectors or fields that employ advanced technology is limited; there is an unbalance among the steps in the production and distribution chain.

The ratio of agriculture to the economy is large; farming, harvesting, processing, and other related services in the marine industry are not simultaneously developed. Shift in the pattern of production in agriculture and in the country towards industrialization and modernization remains slow. The development of services does not correspond with the potential.

Regional economy has not been developed by the cooperation between and complementing localities based on the comparative and competitive advantages of the region in general and each locality in particular. Instead, division of the development environment is made according to the administrative unit at provincial level. The key economic regions have not brought into play their leading role in helping other regions to develop; the gap in development level and living standard is still big and seems to be growing wider.

Allocation of investment capital is not reasonable. Sectors that make substantial contribution to the economy or high profit, or high influence do not receive adequate investment; investment in high technology sectors is limited, which does not make these sectors attractive enough to investors. State investment is not focused and in sync, increasing cost and reducing capital use efficiency. Usage of other resources such as land, natural recourses, is still wasted.

Resource allocation in the economy structure is unreasonable. State owned enterprises have not been able to take on the leading role in the economy structure shift, and technology reform and development. The domestic private economic sector is still small; though the foreign invested sector has been growing quick, its impact on technology transfer, and technological skill development of the country is modest. Domestic enterprises are not able to join the production network, supply chain and global distribution system.

The abovementioned shortcomings are both subjective and objective, yet most are subjective.

The extensive growth model has been followed for too long. The business environment is restricted in many ways. Administrative procedures are bureaucratic and costly; the legal framework is unstable and unreliable, which cannot make a powerful incentive for investors to

invest heavily in reform, technological skill development, and competitiveness enhancement, and cannot eliminate speculation.

State enterprise administration cannot catch up with the market's principles and conventions. The public sector has limited capital, and weak business administration skills; the state controlled mechanism for the allocation and usage of national resources is not effective. The application – approval mechanism still prevails under different forms in many cases such as allocating investment capital, selecting investment projects, assigning and loaning land, authorizing mineral resources exploitation. They do not exist clear and transparent assessment and verification criteria for socioeconomic benefits, which may lead to a distortion of the investment planning, or approved schemes.

Investment incentives have not focused enough on exploiting and developing advantageous sectors; they still lack specific objectives, conditions, criteria, and tools to commit responsibilities to the receivers. The supporting amount is not large enough to attract potential and prestigious investors. Checking, supervision, assessment of the implementation of these policies is not well designed and conducted regularly.

Following the extensive growth model for too long, the policy, the guideline, the policy, and the economy management method at all level have lagged behind, failing to boost the productivity and competitiveness of the economy. Increasing investment capital via different channels still remains the key to growth. To meet that demand, expansionary fiscal and monetary policies have been employed for years, which is one of the main reasons for high inflation and macroeconomic instability in recent years.

Foreign direct investment has contributed Vietnam's economy structure shift for the last few years.

Right after the Rennovation, foreign investment proved an effective solution to help Vietnam out of the hardship caused by the embargo and blockade. It was in line with the open attitude that 'Vietnam wants to befriend other countries in the world.' In the following period, foreign investment has been a substantial source of capital for total social investment capital, accelerating the economy structure shift, improving productivity, reforming technology, open to the international market, increasing exports turnover, improving foreign balance, contributing to state budget, developing high quality human resoure, and creating more jobs.

Apart from those contributions, foreign investment has produced spillover effects to other economic sectors such as stimulating domestic investment, raising competitiveness, enhancing technology innovation and transfer, promoting productivity, developing the supporting indutry, bringing Vietnam closer to the global value chain. Vietnam so far has hosted many international corporations with international standard products in various field such as BP, Total, Toyota, Canon, Samsung, Intel, Unilever, etc. This, on the one hand, affirms Vietnam's position in the region and the world, and on the other hand, it provides competitive incentives for domestic enterprises to adapt to globalisation. Foreign investment also accelerates the reform of state-owned enterprises, encouraging the reform of administrative procedures, and accomplishing the market economy institution.

First, foreign investment facilitates economic growth, and boosting domestic investment efficiency

There were 14,522 foreign invested projects in force, with US$ 210.5 billion of the total registered capital and US$100.6 billion of the real capital (making up 47.7% registered capital) by the end of December 2012. The foreign invested sector is the fastest grown sector with the GDP growth rate higher than that of the country. In 1995, GDP of this sector increased by 14.98% while that of the country 9.54%; The respective growth rates were 11.44% and 6.79% in 2000, 13.22% and 8.44%

in 2005, 8.12% and 6.78% in 2010. This sector's contribution to GDP also increased gradually, from 2% (1992) to 12.7% (2000), 16.98% (2006), and 18.9% (2011). This ratio is almost 7.7% higher than the average ratio in the world, indicating a substantial influence of foreign investment on Vietnam's economy.

Contribution to total social investment capital: the real foreign investment capital quickly increased over the years, from US$ 20.67 billiion (around 24.32% total social investment capital in 1991 - 2000) to US$69.47 billion (around 22.75% total social investment capital in 2001 - 2011). The proportion of the foreign invested sector to the economy structure during 2000 - 2011 raised by 5.4%.

Contribution to exports: before 2001, exports turnover of the foreign invested sector accounted for only 45.2% , including crude oil turnover. However, by 2003, export of this sector has started to be the leading component facilitating exports. It contributed around 64% exports turnover in 2012.

Foreign investment has helped to change the exports structure towards reducing the proportion of mining and quarrying products and basic goods, raising the proportion of manufactured products[77], developing export markets to USA, EU. This has helped make dramatic change to the exports structure, stabilized the domestic market, restricting trade deficit by providing the domestic market with high quality products made by domestic enterprises instead of being imported.

Contribution to state revenue: foreign investment contribution to state revenues has increased from US$ 1.8 billion (1994 -2000) to US$ 14.2 billion (2001 - 2010). It was US$ 3.7 billion in 2012 (excluding revenue from crude oil), making 11.9% total state revenue (18.7% total domestic revenue, excluding revenue from crude oil).

Second, foreign investment accelerates economy structure shift towards industrialization and modernization

Currently, 58.4% foreign investment capital is focused on the construction industry with the technology more advanced than the average level in the country, the growth rate is almost 18% per year, higher than the rate of the whole sector, creating 45% industrial productive value. It contributes to the establishment of several key industries of the economy such as telecommunication, oil and gas processing, electronics, information technology, steel industry, and concrete industry, etc. It facilitates the economy structure shift, product diversification, agricultural export price raising, and access to advanced technology, high productivity crops and breeds of international standards, giving rise to new working methods of high productivity, especially in projects that focus on developing resources, improving farming methods and weak infrastructure at some localities. The foreign invested sector has altered the appearance of high quality services such as hospitality industry, offices and department for lease, banking, insurance, auditing, legal consultancy, sea transport, logistics, and supermaket service. These services have contributed to the creation of new product distributions, and consumption, stimulating domestic commercial activities and increasing export turnover.

Third, foreign investment creates jobs, improves labor quality, and changes the labor structure.

The foreign invested sector has created around two million jobs for direct labour and around three to four million jobs for indirect labours, which has made great impact on the labour structure shift towards industrialisation and modernisation. Foreign invested enterprises are considered pioneers in providing on site and off site training, improving skills of laborers,

[77]Before 2003, crude oil made up almost a half of the exports of the foreign invested sector. It has reduced to only 7% of the exports turnover since 2007.

technicians, and management staff. A group of these trained employees have been qualified enough to replace foreign experts. Besides, foreign investment has played an important part in improving labor quality through the spillover effect on concerned bodies.

Forth, foreign investment assumes an important technology transfer channel, developing the economy's technology level.

The foreign invested sector applies the technology that is more advanced than or equal to the technology used in Vietnam, or that is popular in the region. There have been 951 technology transfer approved/ signed contracts since 1993 in which 605 contracts belong to the foreign invested sector, accounting for 63.6%[78]. Through these contracts, advanced technology transfer has been carried out in Vietnam, improving the technological capacity in many fields of which processing and manufacturing industries have benefited most. According to the Ministry of Science and Technology, other sectors have succeeded in transfering technology such as oil and gas processing, electronics, telecommunication, informatics, mechanical engineering, automobile manufacturing industry, garment and footware manufacturing industries, among which telecommunication, and petroleum industry have been most successful.

The technical spillover effect of the foreign invested sector has been produced through the production cooperation between foreign invested enterprises and domestics ones, laying the foundation for domestic enterprises' technology transfer. In general domestic enterprises in the same field and service enterprises in the different field are under indirect influence of these foreign invested enterprises. Besides, via the relation with foreign invested enterprises, local enterprises apply a similar technology to produce alternative products/ services and other goods to avoid competition. At the same time, other lines of production and services are created to support those foreign invested enterprises.

Fifth, foreign investment has positive impacts on competitiveness at three levels i.e. national, enterprise and product levels

Many Vietnamese exports are competitive enough to secure a place in the USA's, EU's, and Japan's markets. Indicator analysis in capital, technology, management capacity, market approach (input and product consumption) and participation in the global production network has revealved a higher competitiveness level of the foreign invested sector in comparison with other domestic sectors. Currently, the foreign invested sector has been facilitating regional competition in the country in general and in the economy in particular through productivity improvemet, emports growth, foreign balance improvement, technology and labour skill improvement, labour structure shift.

Sixth, foreign investment has improved economic management and enterprise administration capacity, exerting more pressure on the improvement of business environment.

Foreign investment has offers benefitial lessons and experiences in economic management and enterprise administration, causing changes in the management methods, accelerating the accomplishment of the legal system towards improving equity, publicity, and transparency, matching with international standards, producing management officers that can work in the integration era.

Seventh, foreign investment has played an important role in international integration.

Foreign investment attraction has helped remove embargos, strengthen foreign economic relationships, facilitate Vietnam's joining ASEAN, signing the Framework Agreement with EU,

[78] According to the Ministry of Science and Technology's report

signing the Trade Agreement with the USA, signing the Investment Incentives and Custory Agreement and Economic Partnership Agreement with Japan and other countries.

However, inspite the aforementioned achievements, the foreign invested economic sector still suffers from the following shortcomings that need to be remedied.

- First, general effect of foreign investment capital is not high.
- Second, the ratio of real capital to subscribed capital is low; the scope of projects is small; a large number of projects are delayed; the subscribed capital tends to go down recently.
- Third, the target of technology attraction (both high technology and source technology) and technology transfer has not been achieved.
- Forth, underemployment is rampant; laborers' living standard is low; conflicts and strikes tend to rise.
- Fifth, the spillover effect of the foreign invested economic sector to other sectors is limited.
- Sixth, the valued added generated in Vietnam and the ability to join the value chain are low.
- Seventh, a large number though having been approved are not sustainable enough, contaminating the evironment, consuming too much engergy and resources, and do not paying attention to national security.
- Eighth, there are signs of price transfering and tax evasion.

Recommendations on foreign investment attraction, accelerating restructuring the economy

Prime Minister has just signed *Resolution 103/NQ-CP on orientations to increase efficiency of attracting, using and managing foreign direct investments in the future* to accelerate the economy restructuring process in the hope of making a dramatic change in foreign investment by selecting projects of high quality, high profit, modern technology involvement, environment friendliness especially those in information technology and bioengineering that can be applied in agriculture, develop infrastructure, high quality human resource, research and development, and modern service. Simultaneously, more importance needs to be attached to attracting large scale projects, or competitive products, or joining the global value chain of the multinational corporations in order to develop the supporting enterprises and sectors, encouraging industrial projects from processing to producing, choosing renowned investors to develop the financial market, focusing on small and medium projects that are suitable with individual sector or province. Encourage, making incentives for, and enhancing cooperation between foreign investors, and foreign investors with local ones. Arrange foreign investment attraction according to sectors, fields, and partners that can work to the advantage of each sector or field, matching with the general planning, ensuring the national benefits and restructuring the economy towards the new model.

To carry out the abovementioned, Prime Minister's Decision No. 339/QĐ-TTg dated 19/2/2013 of the Prime Minister on approving the Overall Economy structure Reform Proposal in combination with shifting the growth model towards improving quality, efficiency and competitiveness capacity for the period 2013 – 2020, Directive No. 11/CT-TTg of June 19, 2013, on a number of tasks to be performed during 2013-2015 to implement the overall scheme on economic restructuring associated with the change of the growth model toward improving the quality, effectiveness and competitiveness during 2013-2020, follows are some recommendations:

First, focus FDI resources from specific potential partners on infrastructure development, education and training, health, high technology, and green technology. For example, to exploit its strength, and accelerate sector restructuring, and relate local enterprises with foreign ones especially Japanese ones, the Prime Minister issued Decision 1043/QD-TTg dated 01/07/2013 approving Vietnam's industrialization strategy within the framework of Vietnam - Japan cooperation towards 2020, with a vision till 2030. Currently, the Ministry of Planning an Investment is cooperating with other ministries and concerned organs to produce the action plan on developing six priority fields including electronics, agricultural machinery, agricultural and seafood processing industries, environment industry and energy saving, cars and auto parts manufacturing. The government said, assigned activities are all carried out according to schedule and initial results have been obtained.

Second, restructuring the FDI sector calls for good planning at all levels i.e. nationwide, region-wide, local and sectorial. These planning schemes must be comprehensive, connective and long-term. Avoid the chance of schemes modified to attract investment at any cost; local economic development should be in line with sectorial, regional and national development. Avoid unplanned investment and aping investment.

Third, survey the list of projects that are to be implemented, unimplemented, under cessation, dissolved, or those that do damage to the environment or employ outdated technology, etc. in order to have plans to refer them to other potential investors.

Forth, hasten the privatization process of state-owned enterprises so that foreign investors can join the capital raising in interested fields.

Fifth, accelerate the devolving process in which the central government selects and authorizes significant projects or those at the macro level such as those in the transport infrastructure field, in afforestation, involving large land use, or involving many provinces.

Sixth, it necessitates raising appraisal capacity, investment project monitoring and assessment capacity to optimize investment effects.

Seventh, harmonious solutions need to be adopted. This requires absolute determination of the whole political system from central to grassroots levels regardless of term-based thinking and group interest.

Restructuring takes on a vital importance to the present economy when economic growth is more challenging, inflation pressure is increasing, enterprises and the public are facing more difficulties. The current situation urgently calls for the second reform, an intensive reform to develop internal power and competitiveness for Vietnam to become a modern industrialized country by 2020.

REVIEW AND COMMENTS

Dr. Le Thi Thuy

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(Review and comments for Report on FDI vs. Economic Restructuring accociated with the transformation of economic growth model towards to promoting the quality, efficiency anf competitiveness capacity, 2013-2020)

After morethan 25 years of open door and foreign investment attraction (FDI) policy in Vietnam with the issue of the Foreign Investment Law in 1987, the FDI sector is playing a more and more important role in the process of socio-economic development of Vietnam, positively contributes in economic growth, improves the balance of payments, directly and indirectly creates jobs for millions of workers, is a factor of technology innovation and improvement of business management method, motivates stronger competitiveness in each sector, promotes economic restructuring towards industrialization and modernization, etc.

In the report, author Dang Xuan Quang has clarified the following:

- Recognition of Vietnam economic restructuring at present: The author has pointed out the inherent problems of the current economic structure, which are small scale and distributed economy, industrial manufacture are mainly assembly and processing, supportive industries have not developed yet, lack of connectivity between regions, the motivated and key economic regions have not been flagships to motivate the development of other areas; the investment structure is not reasonable, the structure of economic elements has many shortcomings of resource allocation, etc.

The author has come up with the causes of the above condition, which are mainly due to the limitation of the business environment, unstable law and low enforcement effectiveness, enterprise administration has not caught up with the market principle, regulations and policies of investment promotion have many shortcomings, etc.

- The contribution of FDI on economic growth and restructuring: The author pointed out the direct and specific contribution of FDI, such as economic growth, improvement in efficiency of domestic investment resources, economic restructuring towards industrialization and modernization; creating jobs, improvement in quality of human resources and work force restructuring; is an important channel of technology transfer which improves the technology level of the economy; improvement in competitive capacity; improvement in business and enterprise administrative capacity, creating pressure to improve business environment; significant contribution in international economic intergration, etc.

- The report makes clear the limitations and shortcomings of FDI in recent time, including many notable limitations as limited spillover effects of FDI sector to other sectors of the economy; the goal of technology attraction, technology transfer have not been achieved; price shifting and tax evasion, etc.

- Based on the analysis and assessment of the updated data system on FDI, the authors proposed 7 groups of solutions to attract investment and promote economic restructuring.

In addition to the above issues (analysis, assessment on causes and solutions), I have some more issues to be discussed and added, especially in current context of promoting economic restructuring and economic growth recovery:

(i) FDI should be placed in overall economy. FDI is one of the engines of Vietnam economic growth machine. Therefore, the relationship between FDI and other engines like State-owned enterprises, domestic private enterprises, etc need to be in-depth analyzed in the context of economic restructuring and economic growth recovery.

(ii) Decentralization in FDI management is one of the problems which bring many shortcomings and issues to FDI and need to be reviewed. In the report, the author has proposed "it is necessary to innovate the decentralization in FDI, etc". However, the author has not clarified the current status of decentralization in FDI and its corollary. In fact, many shortcomings of FDI are caused by decentralized machanism. For example, decentralization in FDI led to unfair competition between localities, the formation of partial localities, dignification of local and group benefit, lack of overall solution; the localities took full advantage of decentralized management authorities to issue policies, regulations which give preferential treatment to attract FDI (caused conflicts, inconsistence in investment promotion of localities, etc)

(iii) Some of the shortcoming of FDI also need to be considered, such as: Recently, FDI has increased and recovered slowly after the global financial crisis and economy recession; the FDI in poor, remote areas, agriculture and rural area, electricity, water, finance, credit, education, health, culture, sport, personal and community service, etc have accounted small proportions and improved slowly; many FDI enterprises have high proportion of importation, but did not focus on manufacture, only focused on assembly, processing and mainly exploited the domestic market, which affect the balance of trade. There are enterprises which took advantage of loopholes in policies and laws of Vietnam to implement price shifting, declaring losses or low in profits, so the contributions to the state budget of Vietnam are limited. There are foreign investment projects which used low-tech that caused energy consumption, environmental pollution, etc.

(iv) In the amended legal framework, many issues related to FDI are not properly considered, especially issues of environment, consumer protection, tax evasion, tax avoidance, price shifting, etc.

(v) Regarding solution to attract FDI, to promote economic restructuring and growth recovery, according to me:

- It is necessary to adjust the FDI structure in a reasonable way, by increasing the proportion of FDI in transport infrastructure, agriculture and rural areas, electricity, water, finance, credit, education, health, culture, sport, activities, personal and community services; high-tech sectors, workforce training and technology transfer in accordance with environmental protection and sustainable development, skills, R&D activities. Intensively attract FDI in disadvantaged areas, remote areas.

- To develop and issue preferential policies to attract FDI projects to form network links to produce, trade in supportive industries, to form value chains to reduce input cost of materials which contribute in improvement of competitive capacity of domestic products. It is necessary to have policies to

attract FDI, to form links with domestic enterprises in consumption and supply to form industrial - service clusters to promote the development of domestic enterprises and create spillover effects.

Besides, it is necessary to have policies to attract, promote more investment in manufacture, processing which use domestic materials instead of import, outwork and assembly.

Continue planning and implementation of industrial parks, supportive industrial clusters. Creating favorable conditions for attracting FDI enterprises in supportive industries, it is also one of the important factors to attract large corporations to come to study and invest, and it is necessary to have supportive policies for investors of infrastructure of industrial parks and supportive industrial clusters.

- To improve the quality and effectiveness of FDI attraction, it is necessary to incorporate FDI policies with adjusted policies of other sectors, including general investment policies, policies of industrial parks with the goal of forming industrial cluster with specialization, and regional economic development policies. These policies should be developed on the principle of overall national approach to generally signal to lead FDI to the sectors, regions which are needed to be encouraged in development; restrict localities to attract same industries, lack of coordination and supplementary between sectors which lead to rampant development without balance and specialization.

Above are some of my comments on the report "Foreign Direct Investment vs. Economic restructuring associated with the transformation of economic growth model towards to promoting the quality, efficiency and competitiveness capacity, 2013-2020”.

THE WORLD ECONOMY AND VIETNAM: OUTLOOK AND CHALLENGES

Dr. Vo Tri Thanh

Global and Regional Economies

Current Situation and Outlook

- *2011:* Slower growth
- *2012*: Recession seen to continue
- 2013-2014: Recovery track projected to get more difficult.
  - *IMF forecast in Oct. 2012:* Baseline based on two assumptions: (1) the Euro zone can improve financial conditions in the second half of 2013; and (2) the US can avoid fiscal cliff, and raise debt ceiling.
  - *Current forecasts:* more cautious despite some positive signs of US economy and Euro Zone.

IMF forecasts in October 2013

			Projections in October 2013		Differences from July 2013	
	2011	2012	2013	2014	2013	2014
World	**3.9**	**3.2**	**2.9**	**3.6**	**-0.3**	**-0.2**
Advanced Economies	**1.7**	**1.5**	**1.2**	**2.0**	**0.0**	**0.0**
Emerging & Developing	**6.2**	**4.9**	**4.5**	**5.1**	**-0.5**	**-0.4**
Developing Asia	***7.8***	***6.4***	***6.3***	***6.5***	***-0.6***	***-0.5***
- China	***9.3***	***7.7***	***7.6***	***7.3***	***-0.2***	***-0.4***
- India	***6.3***	***3.2***	***3.8***	***5.1***	***-1.8***	***-1.1***
- ASEAN-5	***4.5***	***6.2***	***5.0***	***5.4***	***-0.6***	***-0.3***

Note: Recently China, India, Indonesia, and Thailand have reduced the projections of growth rates.

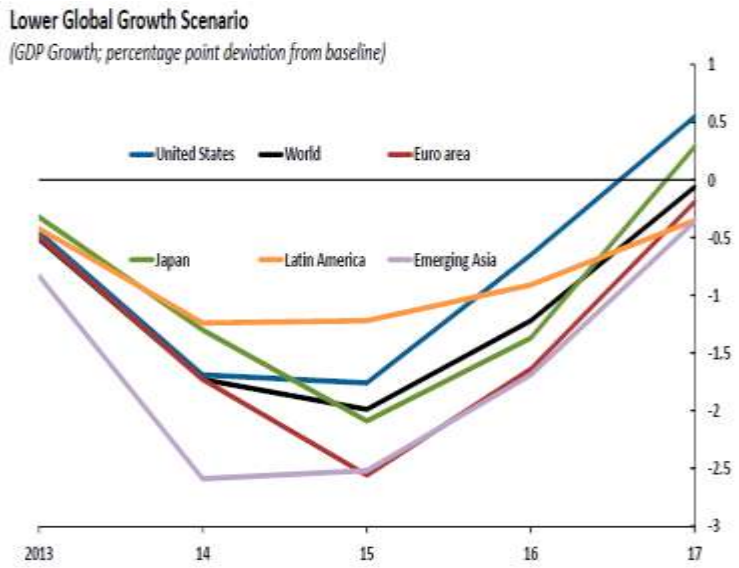
- The risks have shifted to emerging economies, including especially those in East Asia.
  - China: Problems of “shadow” banking + Local public debts
  - Indonesia and India: End of QE3? → USD appreciation + K-outflows & volatility

Example of Indonesia (with remarkable growth performance of 6% between 2008-12) in recent months

- Depreciation of about 15%; BI increased policy rate by 25 basis point in June and 50 basic point in July, and lowered growth target for 2013
- The banking sector's exposure to cross-border bank lending activities (globalized banking sector)
- Current account weaknesses (root cause has been attributed to long-standing and costly energy-subsidy of the fiscal policy and heavy reliance on commodity exports)

- The global economy continues to have numerous risks: Not end of Euro zone crisis; fiscal & debt ceiling stress in US; oil/food price shocks; and financial instability.
- Medium-term risk of low potential output

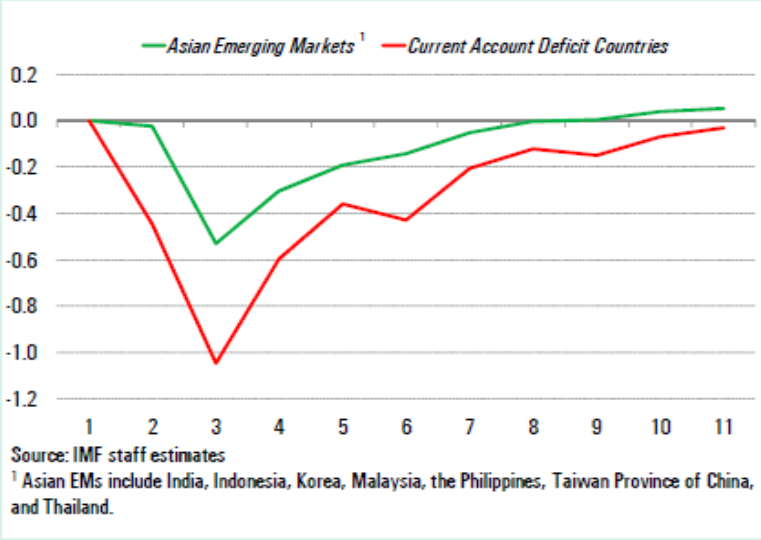
Deviation from baseline forecast of world GDP growth 2013-2017 (*Percentage point)*



Source: WEO (IMF, Oct 2012)

Figure 6. Effect of 100 bp Rise in U.S. 10-Year Treasury Yield on GDP

(Average impulse response across seven Asian emerging markets)



Source: IMF staff estimates

[1] Asian EMs include India, Indonesia, Korea, Malaysia, the Philippines, Taiwan Province of China, and Thailand.

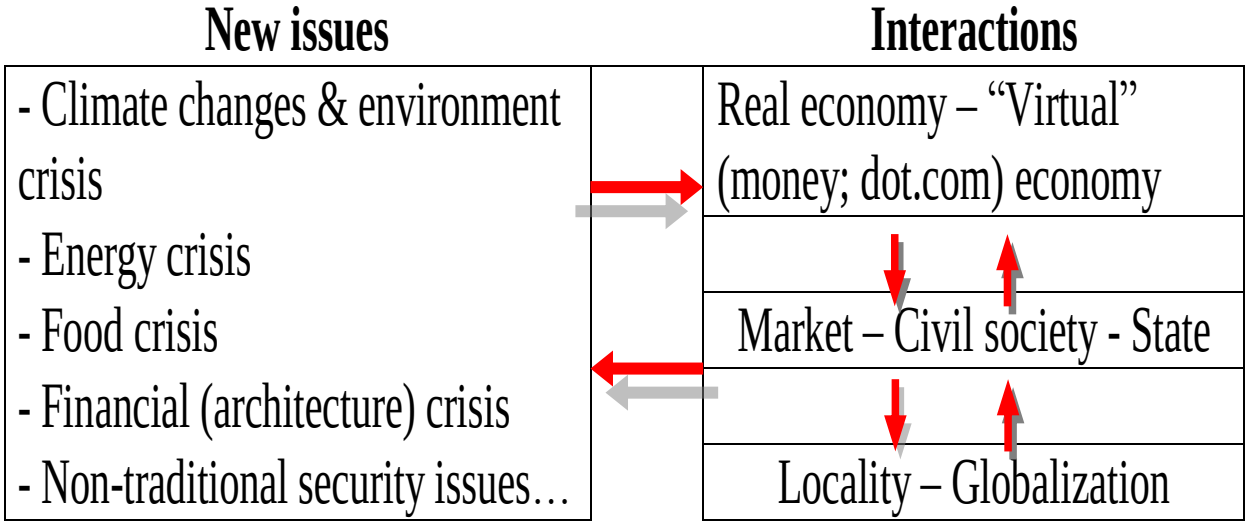
Source: A-PEO (IMF, Oct 2013)

Forecasts by WB, IMF, and ANZ (2013)

		WB (Jun)			**ANZ** (Sep)			**IMF** (Oct)	
GDP%	**2012**	**2013**	**2014**	**2015**	**2013**	**2014**	**2015**	**2013**	**2014**
Cambodia	7.3	7.0	7.0	6.2				7.0	7.2
Indonesia	6.2	6.2	6.5	6.2	5.5	6.0	7.0	5.3	5.5
Lao PDR	7.9	8.0	7.7	8.3				8.3	7.8
Malaysia	5.6	5.1	5.1	5.3	4.4	4.4	5.5	4.7	4.9
Myanmar	6.4	6.5	6.6	6.7				6.8	6.9
Philippines	6.8	6.2	6.4	6.4	7.1	6.5	6.8	6.8	6.0
Singapore	1.3				3.1	2.8	4.0	3.5	3.4
Thailand	6.5	5.0	5.0	5.5	4.0	4.5	4.8	3.1	5.2
Vietnam	5.0	5.3	5.4	5.4	5.1	5.3	5.8	5.3	5.4
China	7.7	7.7	7.9	7.9	7.6	7.2	7.3	7.6	7.3

Challenges for global and regional restructuring

- The global economy is being "in transition" with high risks and uncertainties, but hope for a new way of development
- *The World*: Complexity of new issues and interactions ► New ideas of more balanced, inclusive, innovated, and sustainable development



- Three essential shifts in the process of economic restructuring
  - To a more balance between real economy and virtual/money economy
  - To a more inclusive growth and development
  - To a more innovated and environmental- friendly economy
- *East Asia*: The shifts on
  - Deepening regional integration (AEC & RCEP by 2015)
  - Improving connectivity (people-to-people; institution-to-institution; physical connectivity): MPAC 2012 → ASEAN+3 & APEC connectivity
  - "Rebalancing growth"
  - Promoting green development

Vietnam Economy

Performance 2001-2011

- *2001-2006:* Rather high growth (7.8% p.a.); increasing investment and trade; relatively stable macroeconomic environment (low inflation and current account balance)
- *2007-2011 (5 years since WTO accession):* Growth decelerated (6.5% p.a.); expansion of investment and trade; serious macroeconomic instability (High budget deficit; Sizeable trade and current account deficits; High & volatile inflation; significant S-I gap (>> 10% GDP)
- *In general*:VN economy has suffered from both structural problem (low quality of growth) and macroeconomic instability (The economy became less resilient to external & external shocks)

Policy changes since 2011-2012

- To focus on macroeconomic stabilization (Gov't Resolution 11 in March 2011)
- To "accept" lower growth while supporting agricultural activities, SMEs, exports and vulnerable/poor groups (Resolution 11 in March 2011; Resolution 13 in May 2012; Resolutions 01 & 02 in January 2013)
- To initiate programs of restructuring the economy for greater efficiency and sustainability
  - Financial & banking sector, March 2012
  - SOE sector, June 2012
  - Program of restructuring the public investment is to be approved

The economy 2012- Oct 2013

- Improved macroeconomic stability, but risks remain evident
  - YoY inflation decelerated rapidly, to about 7%; rather stable nominal ER; trade balance and surplus BOP (USD 9 bill in 2012 and USD 4 bill in 1st half of 2013); huge increase in foreign reserves.
  - Risks: returning rather high inflation (?); couldn't keep targeted budget deficit; (still) fragile banking sector (bad debt), though improved liquidity and 9 small banks under restructuring; (still) not high confidence in macroeconomic stabilization.
- Hardship in business activities despite improving industrial production (PMI > 50 in Sep & Oct) & overall export growth (yoy 15.2% in Oct)
  - Aggregate demand decreased significantly
  - Firms' continuing difficulty in accessing to credit (in spite of significantly declining lending rates)
  - "Frozen" real estate sector + huge bad debt + substantial "debt from public construction" (about VND 90,000 bill)
  - Production-business activities (esp. of domestic firms) stagnated in many areas
- In general, the structural reform has been slowly implemented (it seems to be more complex and complicated than expected at the beginning)

- Policy targets and realization: There has been a hard landing?

	2010	2011	2012	2013
M2 growth (%)	**11.0**	**10.0**	**22.0**	**9M: 8.6**
Credit growth (%)	**32.4**	**12.0**	**9.0**	**9M: 6.4**
(*Target*)	(25)	*(<20)*	(*15)*	*(12)*
Total investment (% GDP)	**41.9**	**36.4**	**33.5**	**9M: 30.0**
(Target)	*(<40)*	*(35-36)*	*(34-35)*	*(34-35)*
Public investment (% of total I)	**38.1**	**38.9**	**37.8**	**9M: 35.0**
Budget deficit (% of GDP)	**5.6**	**4.9**	**4.8**	**9M: 5.4**
				(Target: 4.8)

Short-term policy choice

- To continue making macro-economy healthy (rather low inflation target; credit growth during 2014-2015: about 15% p.a)
- To gradually recover economic growth (Resolution 02: interest rate reduction thanks to lower inflation; solving bad debt; tax exemption/reschedule/reduction; advancement of bond issuance for infrastructure dev't; "soft" loans of VND 30,000 bill. for buying/leasing "social" houses)

  Current consideration: raising budget deficit (from 4.8% to 5.3% GDP) and increasing issuance of additional bonds (160.000 bill VND for infrastructure dev't, support of ODA disbursements; a solution for debt from public construction?)

- *Risks?*
  - US appreciation (QE3?) → harder to keep VND attractiveness and exchange rate competitiveness
  - Raising "ceiling of budget deficit and public investment" → How to ensure efficiency of public investment, macro-stability and "acceptable" public debt?

Forecasts for VN economy 2013-15

- *Economic Outlook:* VN can not achieve 5-year Plan 2011-15 with economic growth of 7.5% p.a. It is more cautious now in setting growth target (Target for 2013: growth 5.4 & inflation 7%)
- *Projection for 2013 and forecasts for 2014-2015*
  - 2013: Growth: 5.2% - 5.3%; inflation: about 7%
  - *2014:* Growth around 5.5% (but most 5.3% - 5.4%); 2015: 5.7% - 5.8%. Inflation 7% – 8% (Gov't targets: growth 5.8% & 6%; inflation 7%)

VN's longer term perspective

- *Ambitious goals*
  - Macro-stability
  - "Reasonable" growth (social stability)
  - Structural reforms
  - Deeper integration (TPP, VN-EU FTA, VN-Russian CU FTA; RCEP,…)
- *Opportunity (never seen) for reform and development*
  - VN is at the decisive point of time for transforming the paradigm/pattern of development by establishing foundations for her to overcome "middle-income trap".
  - VN needs to have a new impetus for reforms as well as "quality resources" for development. Interaction between domestic reforms and integration (TPP; RCEP; VN-EU FTA; VN-Russian.. Custom Union FTA;..) becomes much more profound.
- *… but challenges.* Ambitious goalsis to be realized in the context of
  - Limited human & finance resources
  - A more demanding society
  - Political reforms
- The key is to regain (market and investors') confidence in macroeconomic stability and structural reforms in VN!

REVIEW AND COMMENTS

Associated Prof. Dr. Tran Dinh Thien

(Review and comments for Report on “The World Economy and Vietnam: Outlook and Challenges”)

1. Because the article is in the form of slides, containing issues are not clearly explained, in a logical relationship. So, the review is based on the provided data, brief statements. Fortunately, the author presents in a fairly coherent manner, trends have been clearly indicated.

2. Regarding the world and regional economic status, the following comments are provided.

- First, the common trend of the world economy in the next few years is expected to be worse (compared with the previous forecast) in all official forecasts. This situation is a consequence of the worsening of the emerging economies, especially BRICs with the two “gloomy” economies, namely China and India while forecasts on the developed economies are "unchanged". This observation need to be explained in more details because, in the slides, several "negative" remarks have been given: i) "the world economy continues to deal with risks: Euro zone crisis is not over; fiscal and debt ceiling pressure in US; the oil/food price shock, and financial instability"; ii) unclear development prosperity of the third largest economy in the world (Japan).
- Second, the remark that the level of risk, uncertainty of the world economy remain high or even increase in the next few years, mainly due to the structural problems, is true, but perhaps further explanations are needed in the following points: i) capability to solve the structural problems (renminbi exchange rate, the trend of an economic structure shift and increasing investment, ambitious economic reform prosperity) and medium-term movements of Chinese economy.
- Third, content of the global economic restructuring in the coming years must be specified - in the slow restructuring process of recent years. The slides are too general, mainly focusing on major orientations, not very clear about the internal function in the context where both developed and emerging economies are facing very specific structure difficulties which are not easy to be solved: "Three major shifts in the economic restructuring process: i) better balance between the real economy and the "virtual"/monetary economy; ii) Aiming at overall growth and development; iii) Aiming at a more creative and environmentally friendly economy".
- Failure to clarify those internal functions of restructuring makes the clarification of their impacts on the economic development in the next period and the selection of proper policies and solutions to be difficult.
- Fourth, for Asian region, there should be a deeper analysis because of the following factors. Firstly, this is still an area of influence conflict and high conflict potential. Thus, in terms of both challenges and opportunities, there must be more specific evaluation. Secondly, in 2015, AEC will be formed, ACFTA will take full effect, TPP, with increasing impact over time, have direct and strong relationship with the economic life of the region.

3. Regarding Vietnam’s economy prospect, some highlighted issues are as follows.

- First, the relationship between the impacts of the world economy on the prospect of Vietnam's economy has not been seen. It should be noted that Vietnam's economy is now very weak, the economy itself has a very high open level, so it will be very "sensitive" to the " world economic weather". The multi-dimensional, reverse impacts of

the trends of the world economy on Vietnam will cause consequences which are unpredictable and very serious.

- The current, actual status of Vietnam's economy must be identified. Comments on the actual economic status are very different [may be due to different approaches, being derived from the various purposes, etc.]. The view on "a restored recovery trend" - though supported by a statement that "on a quite blur basis" still need to be placed in another context - the process of restructuring and growth model renovation has not been properly carried out - to have convincing remark on this trend.
- Also, the arguments about the recently raised "parallel topics" should be further explained: what is the real growth of the economy when the growth bases are so weak? Are there costs for restructuring? What are the sources of funding for those costs when the budget and enterprises are so weak? If the budget plan does not have any part for the restructuring, can the restructuring be done?, etc.
- Besides, the change in status and features of Vietnam's economy in relation to the power of four "growth drivers" must be clarified- not just in the overall ratio among the numbers but also the critical aspect of quality. From this analysis, abnormal changes in the current FDI trend (large scale, investment in the "geographic coordinates" which are particularly politically sensitive and strategic (Vung Ang, Nhon Hoi) and its strategic consequences must be provided.
- How serious is the structural problem originated from the distortion, mistakes in monetary policy (the most typical one is the high interest rate policy and "fixed" exchange rate in a high inflation economy) – low technology economy depending too much on imported inputs? Only with the right answer for this question, will the orientations and solutions be efficient. This is a key point for assessing the future and prospect of Vietnam's economy.
- TPP is also a new and big issue in Vietnam. Although the author mentions some "motivations" in terms of institutional reforms such as TPP in Vietnam in the next period, the comments are not clearly explained - and perhaps, they are quite "loose". The reason is the approach – it’s necessary to compare the WTO joining 7 years ago, and the consequences, with the adoption of the current similar reform motivations, which, typically is TPP.
- It should be pointed out more clearly about the prospect of restructuring process in the coming period. The lack of financial resources, problem solving is not clear in terms of both overall and specific aspects. This is a critical issue, challenging the determination to reform and international competitiveness development of our country in the coming period.
- Aspects affecting confidence and social unrest should be added – these are currently being evaluated as "being unprecedented weak" in the last 13 years, the impact of this factor on socioeconomic prospect of the country in the coming years.

This study topic is certainly very important. The findings archived by the author are various, clear and have strong bases.
However, due to the importance of this topic, there should be in-depth and systematic study with the proper approach to accurately identify the status and provide appropriate proposals for development.