

# Economic Reforms in Vietnam following 'Đổi Mới': A source of inspiration for Ethiopia?

Otto Williams & Jamie Smith, March 2020<sup>1</sup>

The Vietnamese experience of economic reforms and an activist industrial policy, that begun under the *Doi Moi* policy in 1986 and continue to this day, is sometimes cited as a potential source of lessons for Ethiopia's own structural transformation under the *Homegrown Economic Reform* programme. Although Vietnam has not opened up politically, the two countries have certain similarities in institutional backgrounds and experience of transition from command to more market-based economies, with both countries adopting activist state-led industrial policies. They both also have similar demographics: both have young and growing populations of around 100 million, with a median age in 2015 of 30 in Vietnam and 18 in Ethiopia respectively<sup>2</sup>. Whilst both countries have recorded high levels of GDP growth in the last decade, Vietnam has come further in developing a thriving private sector based on manufacturing and exports and is now a middle-income country.

## What were the reforms?

Against a backdrop of widespread poverty, famine and hyperinflation, the *Doi Moi* ('renovation') economic reform policy was launched in Vietnam in 1986 with the aim to gradually introduce market economic elements whilst maintaining a strong role for the state in the economy. Differentiated approaches have been adopted for the three sectors of the economy: 1) State-owned enterprises (SOEs), 2) Domestic private enterprises (DPEs), and 3) Foreign-invested enterprises (FIEs). Investments at the beginning of *Doi Moi* were targeted towards three main objectives: agricultural development; production of consumer goods; and trade and foreign investment (Van Arkadie and Mallon, 2003).

Much of the Vietnamese success in industrial development to date has been the result of government decisions to remove barriers to entrepreneurial efforts for both foreign direct investors and, more recently, for domestic private investors. These reforms were combined with large increases in investment in human capital.

**Creating a more favourable environment for Foreign trade and investment:** From the outset of the reforms, Vietnam has opened up its economy by removing barriers to trade and investment from abroad. This, however, has been done in a gradual and pragmatic way to protect national industries (Rama, 2008).

The first barriers to fall were the restrictions on imports and access to foreign exchange, but later numerous amendments to the foreign investment law sought to remove discrimination between domestic and foreign investors. As a result of this improved framework and an abundance of cheap labour, foreign investment sky-rocketed, and within a decade of the first reforms the foreign invested enterprise sector accounted for more than a third of Vietnam's

---

<sup>1</sup> This short case-study was carried out by FCG Sweden and complements a broader analysis institutional development in Ethiopia commissioned by the Ad Hoc Working Group on Institutional Development in Ethiopia

<sup>2</sup> <https://population.un.org/>

industrial production. This FDI has predominantly focused on labour-intensive manufacturing industries such as garments, agro-processing and electronics.<sup>3</sup>

Vietnam's integration into the global economy also expanded through numerous free-trade agreements, most importantly the bilateral agreement with the US (2001), entry into the WTO (2007) and the CPTPP (2018). These trade agreements have gradually lowered tariffs on imports to and exports from Vietnam, encouraging FDI and forcing the state-owned sector to become more internationally competitive.

**Encouragement of domestic private enterprise:** Central to the Vietnamese reforms was the encouragement of the privately owned enterprise sector through the introduction of a number of legal frameworks to allow private businesses to participate in previously state dominated sectors and to lower the cost and administrative barriers to doing business. The introduction of three generations of Enterprise Laws (1990, 1999 and 2005) led to an extraordinary blossoming of the domestic private sector. During the 10 years following the implementation of the 1999 law, the domestic private sector's average annual growth rate reached 20.5%, contributing to millions of new jobs, and eventually overtaking the foreign invested enterprise sector as the biggest contributor to industrial growth (Page and Tarp 2017).

**Privatisation of State-owned Enterprises (SoEs):** From around 12 000 SoEs at the beginning of the reform period, there are now less than 1000 SoEs in Vietnam (IMF<sup>4</sup>), and in recent years there has been a gradual but large-scale push to equitize more state-owned enterprises. The privatisation process has faced many challenges, including bureaucratic hurdles (many Vietnamese SoEs are owned by different ministries), the return of state land, and problems with the transparency and financial reporting of the SoEs. Several Initial Public Offerings of key SoEs have been delayed or cancelled, or disappointed by only opening up for minority stakes. SoEs still account for approximately 30% of the nation's GDP, but that percentage has declined and will continue to decline as the State Aid rules in trade agreements are tightened.<sup>5</sup>

**ICT sector reforms and investment:** The Vietnamese political leadership were able to identify the technology sectors as a priority for reforms and infrastructure investments. The reforms introduced more competition and investment, and in less than a decade Vietnam transformed its weak telecommunication and ICT production systems into a highly competitive digital infrastructure, creating a vibrant hub of global ICT manufacturing and outsourcing (Vu and Austin 2014).

**Land reform and agriculture liberalisation:** Careful land reform, which sought to distribute the assets of production relatively equitably and restrict reconsolidation of land by elites, resulted in a more equitable distribution of land than in neighbouring countries (Klump and Bonschab, 2004). This, combined with de-collectivisation and liberalisation of the agriculture sector that gave farmers more freedom to sell in the open market and supported them with productivity investments, led to significant increases in agricultural yields and a significant poverty reduction in rural areas (Rama, 2008). This in turn led to more demand in non-agricultural sectors, creating a virtuous circle of growth and poverty reduction.

---

<sup>3</sup> WTO 2015, cited in Transformative Industrial Policy for Africa by the Economic Commission for Africa,

<sup>4</sup> <https://www.imf.org/en/Countries/VNM/vietnam-raising-millions-out-of-poverty>

<sup>5</sup> <https://asiatimes.com/2019/02/vietnams-privatization-buzz-loses-its-fizz/>

**Improved consultation with business:** During the 1990s and 2000s the Vietnamese government was able to slowly increase levels of trust and dialogue with the domestic business community, which was particularly important for the consultations on the draft Enterprise Laws. Annual high level policy dialogues between the Prime Minister and the business community were initiated under Prime Minister Phan Van Khai, which in turn set a precedent for many ministries, agencies, and local governments to also held regular meetings with the business community to discuss barriers to entrepreneurship in areas such as customs and taxation, imports, land, credit, investment and administrative procedures (Vu-Thanh 2014). Some observers note, however, that these consultations diminished in the 2010s (ibid).

## What were the results?

The reforms are largely credited with creating the conditions for a dramatic period of economic growth and industrial development in Vietnam that drastically improved the living conditions of the Vietnamese people. Vietnam is now a middle-income country, and extreme poverty fell from over 70% to below 3% today, with more than 45 million people lifted out of poverty. According to some measures (e.g. the [Inclusive Development Index](#)<sup>6</sup>), this economic growth has been more inclusive and gender equal than comparable countries.

The key driver of the economic growth has been the development of the private sector, particularly in the manufacturing and agricultural sectors. Vietnam has made extraordinary strides in improving both its competitiveness (in the World Economic Forum's Global Competitiveness Report, Vietnam rose from [77th place in 2006](#)<sup>7</sup> to [55th in 2017](#)<sup>8</sup>) and ease of doing business (rising from [104th place in 2007](#) to 68th place in 2017 in the World Bank's Ease of Doing Business<sup>9</sup> rankings).

Exports rose on average by more than 20% per year in the decades following the first reforms. Vietnam became a hub for foreign investment and manufacturing in Southeast Asia, the largest exporter of clothing in the region and the second largest exporter of electronics (FT<sup>10</sup>).

As a result of this growth the provision of public services has significantly improved, particularly in education, healthcare and access to water and electricity where Vietnam consistently outperforms comparable countries. Many problems still remain with ensuring equitable access to public services, nonetheless.

## What were the reasons for successes?

Several reasons for the success of the Vietnamese reforms have been identified. These include:

**A pragmatic party leadership:** Under key periods of reform the party leadership in Vietnam encouraged internal debate and trial-and-error approaches to policy innovations (so-called '*fence-breaking*'). This, combined with discipline in implementing policies, contributed to the adoption of an effective and appropriate set of reforms. In this way Vietnam's experience is

---

<sup>6</sup> [http://www3.weforum.org/docs/WEF\\_Forum\\_IncGrwth\\_2018.pdf](http://www3.weforum.org/docs/WEF_Forum_IncGrwth_2018.pdf)

<sup>7</sup> [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2006-07.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2006-07.pdf)

<sup>8</sup> <http://reports.weforum.org/global-competitiveness-index-2017-2018/countryeconomy-profiles/>

<sup>9</sup> <https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB07-FullReport.pdf>

<sup>10</sup> <https://www.ft.com/content/03e4f016-aa9a-11e8-94bd-cba20d67390c>

consistent with the statist literature (Vu-Thanh 2014) that suggests that a prerequisite for rapid industrial growth in the late industrializers is that the leaders commit to economic growth and put national interests above political, ideological and personal interests.

**Gradual liberalisation process:** following a two-track approach: protecting some sectors while liberalising others and designing measures to attract FDI into labour-intensive industries (Vandemoortele 2011).

**Key institutions that enabled effective implementation of economic reform policies:** Between 1992-2006 the Prime Minister's Research Commission (PMRC) and Implementation Task Force for the 1999 Law on Enterprise in particular played a central role in the successful design and implementation of the 1999 Law on Enterprise, a key milestone in creating the institutional foundations for private sector growth in Vietnam. The PMRC consisted of up to 12 highly dedicated technocrats and enjoyed 'embedded autonomy' in terms of personnel, funding and collaboration with domestic and international research organisations and experts. By reporting directly to the Prime Minister and not holding official posts or business interests themselves, the advisors were able to maintain a degree of autonomy from both the government and business. Under the guidance of the PMRC, the Law on Enterprise Implementation Task Force led the process of drafting decrees to guide the implementation of the Law on Enterprise, with a particular focus on reducing the administrative burden for business and the burdensome business licensing system (in total 286 licences were revoked under recommendations of the Task force) (Vu-Thanh 2014).

**Equitable initial investment in human development and infrastructure** prepared the populace to take advantage of economic opportunities and attracted Foreign Direct Investment. A more educated citizenship has also been better able to hold the government to account. Equitable infrastructure investments included providing electricity, irrigation, education and health services to mountainous highland areas. Equitable redistribution of factors of production (land reform) complemented by the gradual liberalisation of and investment in agriculture supported equitable growth in the sector (Vandemoortele 2011).

## What are some of the weaknesses of the Vietnamese model?

The Vietnamese model is often criticized for the degree of cronyism between the Communist Party, administrative bodies and the state-owned enterprises (SOEs), which leads to inefficiency and high levels of corruption. Domestic entrepreneurs and foreign investors often complain that, whilst the laws may be in place for fair competition, the legal and administrative systems remain weak, often resulting in discrimination in favour of the state owned enterprises and a handful of crony domestic enterprises. (Vu 2008; Malesky 2014).

More broadly, the enterprise legal reforms in Vietnam have also been criticized for weak implementation. Delaying implementation of reforms at the ministerial and lower levels of government through has often been used as a way of protecting vested interests. Poor inter-ministerial coordination is also frequently cited as a barrier to reforms.

Vietnam also faces a number of macro-economic vulnerabilities including the fiscal deficit, fiscal risks associated with guarantees in the SOE sector and public debt burden. This is compounded by weaknesses in the state-controlled banking sector. The state still controls the

prices of several goods and services in key sectors such as petrol, gas, and electricity, and property rights are not sufficiently protected (BTI 2016).

The increasing regional wealth, education and health disparities are another concern. Economic prosperity has largely concentrated in Ho-Chi-Minh City and Hanoi and their respective surroundings.

Environmental issues have also become a major cause for concern, with growing levels of pollution from intensified agricultural production, mining and manufacturing, poor water productivity and exploitation of natural resources compounded by a weak legal framework that is unable to enforce environmental protections.

Vietnam's record on human rights is also poor, with press freedom one of the worst in the world and regular surveillance of the population.

### **Implications for Ethiopian institutional strengthening**

Policy actions are always specific to a particular political time and context, and caution should be applied when seeking to draw far-reaching lessons from another country's experience. Ethiopia has very different institutions and starting points, with federalism and ethnic diversity adding more levels of complexity to the industrial policy. In addition, Vietnam has not undertaken a political transition towards more open and competitive politics; it remains a one party-state while Ethiopia has been democratising since 2018.

The Vietnamese experience can nonetheless provide some insights into the type of institutional strengthening and capacity building that may be useful in Ethiopia. The literature on industrial policy points to several key areas of competence:

**Policy and regulatory capability for key growth sectors:** Key institutions could be supported in increasing policy and regulatory capabilities in key sectors important to the Homegrown Economic Reform programme. Policymakers could be supported to identify concrete goals and to enhance existing or potential strengths of the country (as opposed improving governance or capacity generally without specific goals.) (Ohno 2010).

**Capabilities for more effective public private partnerships (PPP) and privatisation-** with a continued strong role for the state in the economy, there is a risk of market distortion and corruption. To avoid this risk, effective models of cooperation between the government and the private sector must be built, and competences in areas such as privatization and managing the sale of public assets must be strengthened.

**Deeper knowledge of key industries**—to avoid policy misjudgment and political capture, the Ethiopian government must continually invest in its knowledge and understanding of key industries. Knowledge can be brought in from private experts, academicians or donors, but its acquisition must be led by policy makers themselves to ensure the quality of industrial policy.

## Selected References

Arkadie, Brian & Mallon, Raymond. (2004). 'Viet Nam — a Transition Tiger?' 10.22459/VNTT.01.2004.

Economic Commission for Africa (2016) 'Transformative Industrial Policy for Africa' Addis Ababa, Ethiopia

Klump, R. and Bonschab, T. (2004) 'Operationalising Pro-Poor Growth: A Country Case Study on Vietnam.' Joint initiative of AFD, BMZ, DFID and the World Bank.

Malesky E. (2014). The Vietnam Provincial Competitiveness Index: Measuring Economic Governance for Private Sector Development. 2013 Final Report, PCI Report #9. Ha Noi: Vietnam Chamber of Commerce and Industry and United States Agency for International Development.

Ohno, K. (2010) 'Avoiding the Middle Income Trap: Renovating Industrial Policy Formulation in Vietnam' Vietnam Development Forum (VDF), Hanoi National Graduate Institute for Policy Studies (GRIPS), Tokyo

Page, J. and Tarp, F (2017) 'The Practice of Industrial Policy: Government business coordination in Africa and East Asia' Oxford University Press, Oxford

Rama, M. (2008) 'Making difficult choices: Vietnam in transition', *Working paper 40*, Commission on Growth and Development, Washington DC: World Bank

Vandemoortele, M. and Bird, K. (2011) 'Viet Nam's progress on economic growth and poverty reduction: Impressive improvements,' ODI, ODI Publications, London

Vu, K.M., and Austin R.D (2014) 'Vietnam: Embracing ICT for Economic Catch-up' Singaport, Lee Kwan Yew School of Public Policy Working Paper Series.

Vu-Thanh (2014) 'The Political Economy of Industrial Development in Viet nam: Impact of state-business relationships on Industrial Performance, 1986-2013' in Page and Tarp (2017)