

HOW WILL VIET NAM BLOSSOM?

Reforming institutions for effective implementation



Every five years, the World Bank Group proposes a Systematic Country Diagnostic for its member countries. At the end of 2021, the emphasis for Viet Nam is on the priorities for an efficient, sustainable and inclusive post Covid-19 recovery toward a high-income economy in 2045. The country will have also to raise its implementation performance by considering five major reforms that will make its institutions fit for the 2045 aspiration.

Scan to download
FULL REPORT





HOW WILL VIET NAM BLOSSOM?

Reforming institutions for effective implementation

OVERVIEW



Information and Communication Publishing house

@2021 The World Bank
1818 H Street NW, Washington DC 20433
Telephone: 202-473-1000; Internet: www.worldbank.org

This work is a product of the staff of the World Bank with external contributions. The findings, interpretations and conclusions expressed in this work do not necessarily reflect the views of the World Bank and its Board of Executive Directors. The World Bank do not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations and other information shown on any map in this work do not imply any judgement on the part of the World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Nothing herein shall constitute or be considered to be a limitation upon or waiver of the privileges and immunities of the World Bank, all of which are specifically reserved.

All queries on rights and licenses should be addressed to the Publishing and Knowledge Division, the World Bank, 1818 H Street NW, Washington DC, 20433, USA, Fax: 202-522-2625; email: pubrights@worldbank.org.

EMBARKING ON AN INSTITUTIONAL REVOLUTION

Viet Nam aspires to reach upper middle income by 2035—prosperous, creative, equitable, and democratic—and high income by 2045. Reaching middle income requires the accumulation of human and physical capital and the sustainable use of natural resources. Reaching high income requires using assets and resources much more efficiently and strengthening market-based institutions.

Realizing those aspirations demands a dramatic shift in economic model and a sharp improvement in coordinating and implementing economic policies and plans. Viet Nam has long relied on an abundant youthful labor force and extensive stocks of agricultural and mineral resources. Using resources to enhance rapid and inclusive growth made sense for reaching lower middle income today, but such a model faces diminishing returns and is unsustainable in the longer term. Viet Nam also needs to move from implementing its policies and plans fairly well but unevenly to ensuring consistently strong implementation across the board.

Sharply improving implementation requires building a platform of five institutional reforms. Creating a solid institutional anchor will transform

development priorities into concrete actions. Streamlining administrative processes will increase the effectiveness of government at all levels. Using market-based instruments will motivate public and private stakeholders. Enforcing rules and regulations will enhance motivation, trust, and fairness. And engaging in participatory processes will secure greater transparency and accountability.

Building that platform will underpin the country's vision for economic development, its capacity to implement national strategies, and its motivation to produce results. Its vision will require leadership at the top to provide clear direction about strategies, priorities and

Reaching high income requires using assets and resources much more efficiently and strengthening market-based institutions.

plans and to coordinate agencies so that they work together at and across all levels. Its capacity will depend on the financial and technical resources needed to translate priorities into action plans and targets. And its motivation will derive from incentives that create a sense of individual and collective responsibility for achieving the country's vision and from

a mechanism to collect and share timely information with key stakeholders

Can Viet Nam close the implementation gaps on so many economic fronts? Yes. It did so with the Doi Moi, reforms initiated in 1986 to create a socialist-oriented market economy. And in response to Covid-19, it has started to do so once again.

SHIFTING THE ECONOMIC AND IMPLEMENTATION MODEL

In these challenging times, Viet Nam needs to navigate a series of shifts—from focusing on the quantity of growth to focusing on its quality, from dealing with urgent issues to dealing with structural problems, from engaging in incremental experimentation and rollout to launching an institutional revolution (the second Doi Moi), and from experiencing implementation shortfalls to delivering on six development priorities that demand immediate and greater attention (figure 1). Using resources with greater efficiency is more important than increasing them at all cost. Doing that means relying on high-value products and services, digital transformation, green growth, modern infrastructure, diversified and inclusive financial markets, and universal social protection.

As Viet Nam has grown bolder in its development aspirations—to become prosperous, creative, equitable, and

democratic—it has become increasingly timid in its policy reforms and implementation. Two key challenges threaten its development aspirations. First, the Covid-19 pandemic, coupled with slowing globalization ("slowbalization"¹) and rising recognition of the country's vulnerability to external shocks, especially climate shocks, has unleashed substantive challenges to Viet Nam's current growth model. Second, the uneven implementation record of the past 35 years has left Viet Nam's institutions underprepared to address more complex, often cross-cutting development trials, such as climate change, or to facilitate the transition to a higher-income society. These two challenges—one with contemporary roots, the other historic—are expected to reorient the country's development priorities and alter the actions that Viet Nam needs to take to achieve its development aspiration of becoming a high-income country by 2045.

FIGURE 1. SIX DEVELOPMENT PRIORITIES



Adjusting to slowing globalization by focusing on higher value addition of exports and increased trade in services.



Accelerating digitalization of the economy.



Moving from a growth at any cost mindset to an emphasis on building a green and sustainable economy.



Stepping up infrastructure by improving the quality of public spending and enhancing private sector solutions.



Balancing banking sector stability with expansion of financial inclusion and deepening capital markets.



Shifting from piecemeal poverty reduction efforts to a nationwide social protection program.

Viet Nam has epitomized successful development over the past 35 years, but the government recognized as early as 2010 that it had to adjust the country's growth model. The traditional drivers of growth—accumulating physical capital, having a fast-growing youthful workforce, and expanding manufacturing, mostly in labor-intensive sectors—were gradually running out of steam.

Three major diagnostic studies produced between 2016 and 2020 to probe how to structure this new growth model all emphasized shifting to greater efficiency.² International experience reveals that achieving middle-income status requires accumulating physical and human capital and using natural resources. But transitioning to high income demands using new and existing assets and resources, including human and natural resources, more efficiently and strengthening market-based institutions³. Efficiency advances are needed to generate the productivity gains in output and improvements in quality that are expected by a more sophisticated middle-class population. In early 2021 the government adopted the Socio-Economic Development Strategy for 2021–2030, which included many of these recommendations.

A wealth asset framework—as in the recent Vibrant Viet Nam report—provides a simple organizational framework for analyzing how to make the Vietnamese economy more efficient. It defines national wealth accumulation as the

combination of a country's productive, physical, human, and natural capital. Optimizing wealth accumulation requires improving the efficiency of all four categories of capital.

- Improving the efficiency of productive capital requires the entry or development of competitive firms and the exit of noncompetitive ones, so that resources are allocated to the most productive and innovative firms. Achieving that depends on having a supportive business environment that draws on transparent regulations and legal protection to ensure healthy competition; providing equitable access to infrastructure, public services, and finance; and rewarding innovation.
- Improving the efficiency of physical capital—beyond the development of modern infrastructure—requires

National wealth accumulation is defined as the combination of a country's productive, physical, human, and natural capital.



Photo credit: Celebrating the Viet Nam's National Day @ Minh Truong/People's Army Newspaper

more efficient management of public investment, including in the operation, maintenance, and use of public assets to raise the quality of infrastructure services. Better public investment planning and coordination are needed to optimize synergies between economic sectors and across region. In the provision of quality infrastructure, priority should be given to partnerships with the private sector and with the more efficient state-owned enterprises.

- Improving the efficiency of human capital requires developing advanced university-level and vocational-technical skills and supplying the social protections needed for a middle-income economy. As the relative size of the labor pool shrinks, efficiency as well as equity demands removing entry barriers, including discrimination and information gaps. Having already achieved near-universal health care coverage, the Government now needs

to turn its attention to the quality of health care, especially in view of a rapidly aging population.

- Improving efficiency in natural capital requires attending to sustainability and resilience, areas in which Viet Nam is lagging many of its peers. Sustainable development involves a shift from liquidating natural assets for short-term growth to using resources more efficiently over the longer term. It also requires transitioning to a low-carbon economy, with many opportunities for more effective natural resources management, stricter pollution control, and greater resilience to the impacts of climate change. Countries that manage their natural assets carefully are able to move up the development ladder—investing more in manufactured capital, infrastructure, and intangible capital, such as human skills and education, strong institutions, innovation, and new technologies.

BUILDING THE PLATFORM OF INSTITUTIONAL REFORMS

To achieve upper middle-income status by 2035 and high-income status by 2045, Viet Nam needs to move from relatively good but uneven implementation of reforms to consistently strong implementation, while recognizing that some priorities are more complex and require more difficult policy trade-offs. The Government has delivered on its promise to catch up with lower middle-income countries in three of six priorities but not in the other three (figure 2). The uneven implementation has been particularly evident for the priority of moving toward greener growth, which is almost 40 percent below the lower middle-income country threshold. To reach thresholds achieved by upper middle-income countries, Viet Nam will need to strongly boost its implementation performance in five of the six

priorities. And the bar has been raised even higher for Viet Nam in a dynamic world where all upper middle-income countries are making strong progress.

Building a platform of five institutional reforms can help the government develop better vision, capacity, and motivation, the key determinants of efficient implementation. These five reforms (figure 3) give specificity to the steps needed to modernize the country's institutions and establish the conditions needed to elevate the government's implementation performance:

- Create a solid institutional anchor.
- Streamline administrative processes.
- Use smart market instruments.
- Enforce rules.
- Engage in participatory processes.

Viet Nam will need to strongly boost its implementation performance in five of the six priorities. And the bar has been raised even higher for Viet Nam in a dynamic world where all upper middle-income countries are making strong progress.

FIGURE 2. HOW MUCH VIETNAM NEEDS TO IMPROVE ITS IMPLEMENTATION PERFORMANCE TO REACH UPPER MIDDLE INCOME

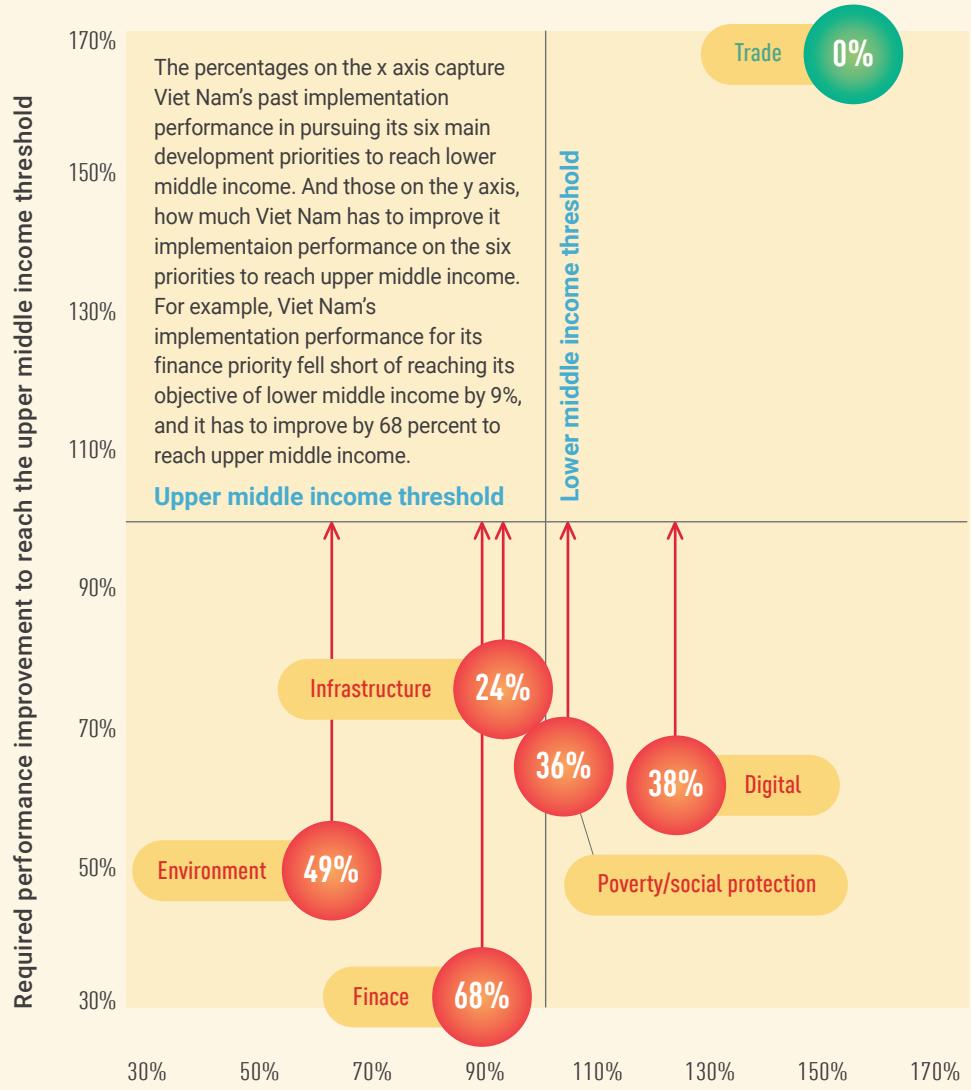
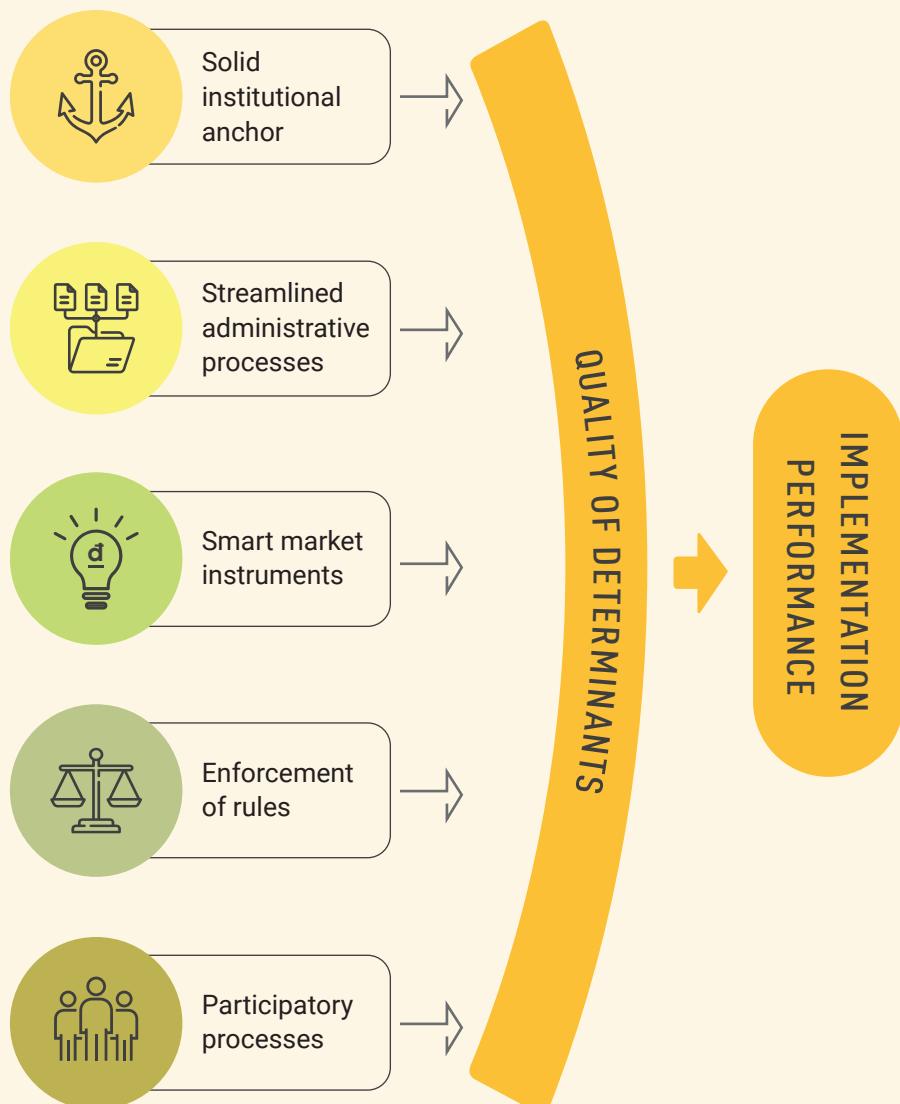


FIGURE 3. A PLATFORM OF INSTITUTIONAL REFORMS TO CREATE THE DETERMINANTS OF EFFICIENT IMPLEMENTATION



Each institutional reform will shape the determinants of implementation and thus boost implementation performance across all six priorities. The current status of each proposed reform for more efficient implementation of priorities is evaluated below, paving the way to recommendations based on best (local and international) practices. These recommendations can be

interpreted as directions for stimulating debate and making decisions. Because Viet Nam has already successfully applied the proposed platform of institutional reforms in managing the Covid-19 crisis in 2020, it should be able to replicate the reforms to systematically improve implementation performance of its other development priorities.

Create a solid institutional anchor to transform reform visions into actions

A solid institutional anchor is required to secure strong leadership and coordination—two components of the vision. Inter-agency coordination is difficult without a strong and specific institutional home for reforms, whatever the sector. Without an institutional anchor, policy messages from leaders are easily diluted and unlikely to be translated into concrete plans and actions. This diminishes the likelihood of developing a whole-of-Government framework that can assign responsibilities across institutions and of defining each institution's functions, relationships, and accountabilities, both vertically and horizontally. The absence of an institutional anchor reduces accountability—and thus motivation—as institutional functions and responsibilities are fragmented across agencies and not clearly defined.

The Government organizational structure has changed little since adoption of the

Constitution in 1992.⁴ Accordingly, the main functions and responsibilities of key ministries have changed little as well. This stability has benefits, but it has also delayed the adaptation of the institutional framework even as the economy has grown thirtyfold. The problem is acute. Development priorities have been evolving while institutional arrangements to implement them have not adapted, especially for aligning implementation for complex, cross-cutting challenges such as climate change adaptation and mitigation, environmental protection, skill development, and digital transformation.

The Government has improved its implementation performance when it has adapted its institutions to changing conditions and priorities. The strengthening of the Ministry of Industry and Trade was key in the successful implementation of trade liberalization reforms in the mid-1990s.

The Government has improved its implementation performance when it has adapted its institutions to changing conditions and priorities.

Similarly, elevating the Committee for Ethnic Affairs to ministry rank and thus to participation in cabinet discussions led to greater poverty reduction among ethnic minority groups. Accordingly, Viet Nam has outperformed lower middle-income countries and many upper middle-income countries on the trade and poverty reduction priorities.

The main recommendation would therefore be to better align the institutional framework with the six development priorities. While institutional reforms need to be carefully evaluated, three directions can be derived from the historical evidence in Viet Nam and from international experience.

- Anchoring implementation of each priority on strong, high-level institutional arrangements—often with direct reporting to the Prime Minister. This is imperative. Ad hoc



Photo credit: Grand Ballroom, National Assembly Building @ Duy Linh

steering committees can complement but cannot substitute for a strong institutional anchor, because it does not confer adequate legitimacy and may not send a clear message to individual ministries, which may continue to act independently.

- *Consolidating key and related functions and responsibilities in one institutional anchor.* This has been effective in Viet Nam, as evidenced by the experience of the Ministry of Industry and Trade. The Netherlands has merged the Ministries of Economy and Climate Change for dealing with the priority of climate change, and other countries, including Singapore, Thailand, and the United Kingdom, have consolidated their digital transformation agenda around one strong institution. Consolidation does not necessarily mean vesting all implementation responsibilities

in one ministry or agency, but rather establishing efficient institutional mechanisms to coordinate and integrate decisions.

- *Adapting the decentralization framework to current conditions.* Most fiscal decentralization rules have not been altered since 1996. The current fragmentation across a high number of provinces has been ineffective for

implementing increasingly complex priorities that require strong regional coordination and economies of scale. Many development challenges such as climate change and water resources or air pollution are transboundary. Reducing the number of provinces and establishing regional coordination, or perhaps governing, bodies could be an option.

Streamline administrative processes to improve Government effectiveness

Streamlined administrative processes are crucial for enabling the proper functioning of public administration and influencing the determinants of capacity and motivation. They are also a key element for effective coordination among government agencies and relationships between the Government and private stakeholders. Administrative processes influence Government effectiveness through multiple channels. An important one is accelerated decision-making and approval processes that enable administrative units to respond effectively and efficiently to emerging challenges, freeing time for more creative tasks. Effectiveness and efficiency are also enhanced when administrative processes are not overcentralized and when civil servants are empowered to make decisions and are held accountable for them, motivating them to act

promptly and take prudent risks with new initiatives. Streamlined procedures in the business environment reduce transaction costs and delays and can diminish opportunities for bargaining and corruption, contributing to improved transparency.

The heavy administrative burden imposed on almost all ministries and agencies is a legacy of French colonialism and the centrally planned economic system. In 2016, the Government launched a nationwide and provincewide initiative to rationalize administrative procedures. Approximately 1,000 business licenses and two-thirds of specialized inspections of goods were eliminated by the end of 2020. To advance this rationalization, the authorities have used benchmarking to monitor and compare progress over time. Since 2019, the greater attention

of Government to the digitalization of administrative procedures has reduced the transaction costs associated with many procedures.

All these efforts at rationalization, benchmarking, and digitalization need

to be intensified, but they might not be sufficient. Another option to further incentivize administrative reforms has been to provide civil servants or administrative units with appropriate financial awards or key performance indicators.

Use market-based instruments to motivate public and private stakeholders

Three first-order principles for a well-functioning market economy are making the same information available to all participants, ensuring fair competition in market entry and exit, and using pricing mechanisms to achieve supply and demand equilibrium. Applying these principles can influence the quality of implementation, especially through their impact on planning, accountability, and transparency. For example, good and timely information is crucial for allocating resources optimally and for monitoring their use for their intended purposes. Competition encourages innovation and incentivizes market participants and government agents to improve performance. Finally, in a market economy, prices are the main signal for participants to adjust their behavior. The challenge for Government interventions is to correct market failures that prevent the application of these three principles without creating new government failures.

When Viet Nam has applied the three basic principles of a market economy, its vision, capacity, and motivation to implement

the country's development priorities have improved considerably. Its dramatically successful trade liberalization was based on these three principles. In contrast, weak implementation of the environmental/climate change priority reflects, to a large extent, limited access to information and the misalignment of prices to the country's priorities. The question is why those market instruments are not used more widely in all priorities.

**Competition
encourages
innovation and
incentivizes market
participants and
government
agents to improve
performance.**

Economically successful countries have been able to reduce potential resistance from losers while optimizing gains for winners. These approaches have included combining pricing instruments, taking advantage of events that modify the existing equilibrium to create coalitions of winners, and

designing information campaigns to explain complementarities that justify, for example, increasing prices/tariffs to improve the quality and sustainability of public services or deploying climate financing instruments to reduce greenhouse gas emission.

Enforce rules and regulations to enhance motivation, trust, and fairness

While incentives are a powerful instrument for modifying behavior, enforcing regulations is a key tool for strengthening motivation and thus implementation performance. Because prices alone do not always achieve the desired effects, competition and market pricing are more effective when

complemented by smart regulations. Soft regulations can focus on sharing information to modify behavior and encourage negotiations, such as requiring information labels on the energy efficiency or carbon contents of products, which can shape more responsible consumer behavior and



Photo credit: Aerial view of Solar panel in Ninh Thuan @ Nguyen Quang Ngoc Tonkin/Shutterstock

generate demand for compliance with socially and environmentally responsible production regulations. Harder targets or ceilings can be set for the quality of goods or services purchased with public money, or controls or prohibitions can be placed on the use of products detrimental to the environment or people. Ultimately, it is important to find the right balance between carrots and sticks and, when sticks are used, to strengthen monitoring and enforcement capacities.

The Government has been especially good at motivating citizens to follow rules during an emergency, especially one that is defined as a common enemy or threat to the national welfare. However,

enforcement has not been consistent in non-crisis times. Inadequate or incomplete rules and regulations and lack of monitoring and reporting can lead to weak enforcement. Proper enforcement requires an uncorrupted monitoring and inspection system, accompanied by strong and independent regulators and a judicial system that enforces property rights and consumer protection against potential abuses. Because developing and applying an inspection system that achieves the highest levels of compliance, while keeping regulatory costs and administrative burdens low, is a major challenge, new information technologies and digital data platforms can be a promising resource for efficient enforcement.

Engage in participatory processes to secure greater accountability and transparency

Information is the nervous system of a country's political, economic, and social system. Just as the human nervous system tells the brain where the body needs attention, transparent flows of information are necessary for an efficient participatory process. Once information is collected and shared, stakeholders can provide informed feedback to policymakers. A mechanism for sharing information gives stakeholders a voice, leading to better resource allocation decisions and stronger accountability. Participatory processes are generally the joint outcome of the demands of society

and of active policies adopted by the Government.

The government has applied participatory mechanisms unevenly or selectively across priorities, most notably in the use of data to monitor and share progress with stakeholders. Comparing selected outcome indicators with targets can lead to more consistent monitoring of implementation performance. Sharing the results with stakeholders can improve accountability and create a sense of common ownership that strengthens the reform process.

Data need to be effectively used to address priorities. This could be done using the same three step-approach that Viet Nam adopted so successfully during

the Covid-19 pandemic: collecting data, providing open access to data, and using digital tools to collect, standardize, and share more information and data.

Together, the five institutional reforms constitute a platform for efficient implementation

While each of the five institutional reforms can contribute to the improvement of the determinants of implementation, only applying them together will make a real difference to implementation performance. This is well illustrated by Viet Nam's radical but highly successful move during the 1990s and 2000s from being one of the most closed economies in the world to being one of the most open. The Government used the institutional reform platform to:

- *Constitute an institutional anchor* by establishing the National Steering Committee for International Economic Integration and strengthening the

Ministry of Industry and Trade (MOIT), thus creating a clear leadership hierarchy. Empowering the MOIT with decision-making authority enhanced its effectiveness in leading the country's international economic integration agenda.

- *Gradually streamline administrative processes and procedures* by establishing special regimes for strategic investors, including those established in export and industrial parks; delegating approval processes to the provinces (notably for foreign investment); and setting up a single window for customs procedures.

While each of the five institutional reforms can contribute to the improvement of the determinants of implementation, only applying them together will make a real difference to implementation performance.

- Apply a market-based approach to creating competition by reducing barriers to entry and lowering external tariffs to change relative prices between tradable and non-tradable goods. Multilateral and regional trade partnerships, with transparent information sharing,⁵ have been a powerful channel for introducing these market mechanisms.
- Achieve effective enforcement by monitoring the compliance by exporters and FDI companies with environmental, labor, and social regulations even if there are still huge variations in performance and sanctions.
- Enhance participatory processes by using open data and consultations with key stakeholders, including business associations and citizens, as part of the country's international commitments, thereby reinforcing visibility and ownership and contributing to greater accountability among decision makers.

DRIVING THE INSTITUTIONAL REVOLUTION

By positively influencing the determinants of implementation, adopting the five proposed institutional reforms will enable Viet Nam to implement its development priorities more effectively. Drawing on the literature on public policy and political science, a new methodological framework has been developed to illuminate the mechanisms of implementation in Viet Nam. Implementation performance was deconstructed into the three determinants of vision, capacity, and motivation, which were in turn unbundled into six components (figure 4).

Low scores on these three determinants of implementation performance and their components explain the uneven implementation performance across the six development priorities. Figure 5 summarizes the quantitative outcomes

of analyses of the six priorities, showing scores (from 0, weakest, to 5, strongest) for the determinants and their components calculated through an intensive consultative process.⁶ The lowest scores are associated with the weakest quality of implementation determinants, and the highest scores with the strongest quality. For example, the quality of vision, capacity, and motivation has been uniformly better for the trade priority than for the environment or infrastructure priorities. There is a wide range in the quality of the determinants; the Government has performed better on strategic leadership and planning than on accountability and transparency. Coordination and accountability are the weakest determinants across almost all priorities.

FIGURE 4. DETERMINANTS OF IMPLEMENTATION PERFORMANCE AND THEIR COMPONENTS



VISION



CAPACITY



MOTIVATION

LEADERSHIP

commitment at the highest level and clear direction of priorities that, in Viet Nam, are captured by strategies, resolutions, laws, and directives

RESOURCES

adequate provision and allocation of financial and technical capacities

ACCOUNTABILITY

sets of incentives and sanctions that create a sense of individual and collective ownership and responsibility

COORDINATION

processes of organizing agencies so they work together properly across the same level (horizontal) or across levels (vertical)

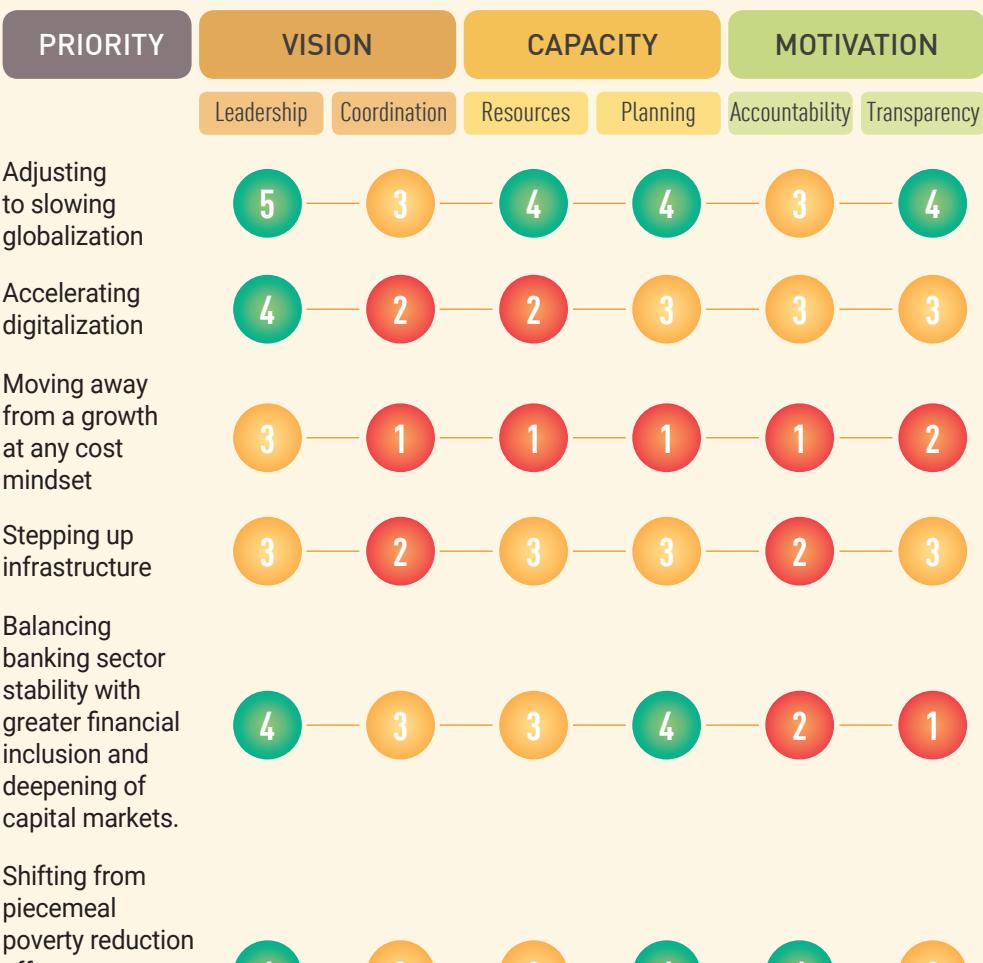
PLANNING/DESIGN

translation of priorities into actions and targets through action plans and regulations

TRANSPARENCY /COMUNICATION

mechanisms to collect and share relevant information in real time with key stakeholders.

FIGURE 5. HEATMAP OF THE QUALITY OF THE DETERMINANTS OF IMPLEMENTATION PERFORMANCE



Note: **Red** is weak quality ([1–2 rating], **orange** is mixed quality [3 rating], and **green** is strong quality [4–5].

Comparing the score of the determinants of implementation performance for each priority with the corresponding past implementation performance yields an estimate of how implementation performance might improve if the quality of determinants improved. While only indicative, this statistical correlation confirms a positive relationship between the quality of determinants and implementation performance. For

each 1-point increase in the total score of the determinants, implementation performance improves by 5.7 percent.⁷ For example, if the Government had demonstrated the same quality of vision, capacity, and motivation for infrastructure as for trade, it would have improved implementation performance for the infrastructure priority almost to the threshold attained by lower middle-income countries.

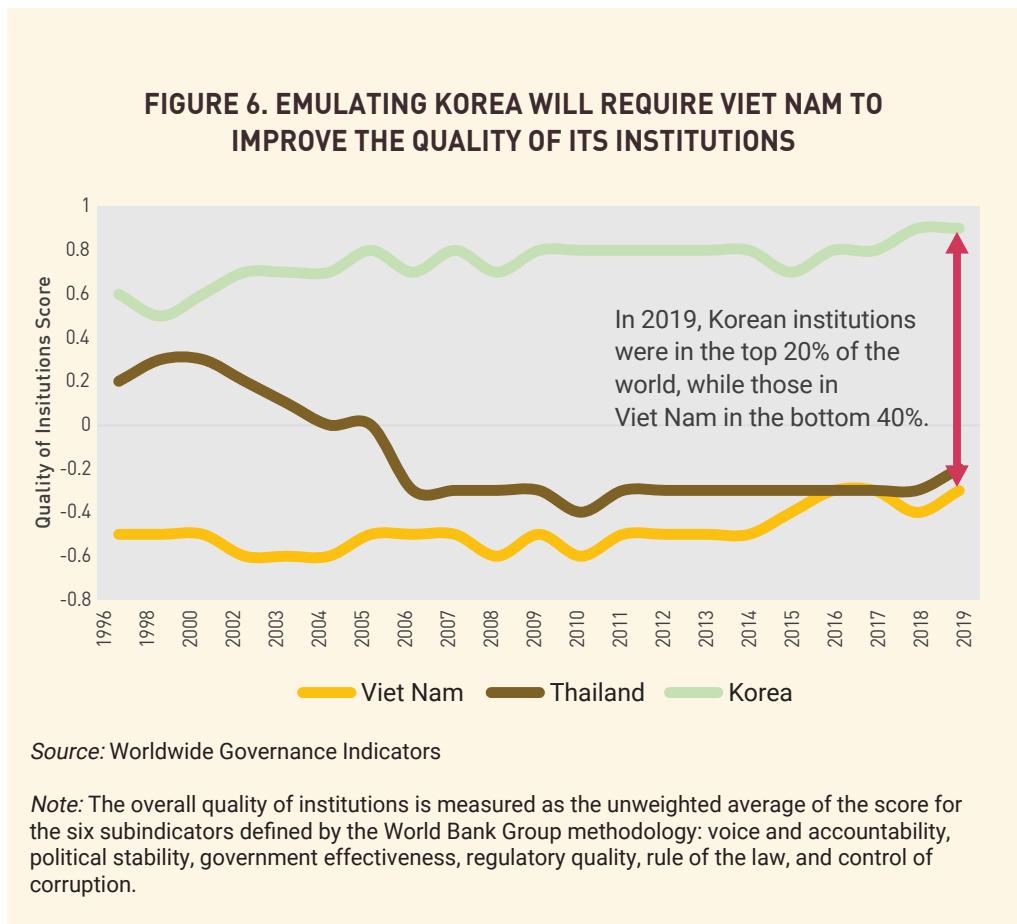
REACHING UPPER MIDDLE AND HIGH INCOME

Like most countries, Viet Nam will have to find ways to build back better in the aftermath of the Covid-19 pandemic and meet its ambition to become a high-income economy by 2045. The transition from middle income to high income status is profoundly challenging. Over the past 50 years, only a few countries have graduated from low to middle income and even fewer from middle to high income. Of countries categorized as middle income in 1965, only 18 were categorized as high income by 2013, including five East Asian countries (Hong Kong SAR, China; Korea; Japan; Singapore; and Taiwan, China). Korea, one of the most successful, increased its income per capita sixfold in the 25 years after it reached the level of Viet Nam today (figure 6). Thailand, by contrast, managed to multiply its income per capita less than threefold within the same time frame. The aspiration and

challenge for Viet Nam are to join the 18 graduates.

Viet Nam has arrived at a crossroads—the steps it takes today will determine whether, in two decades, it becomes as successful as Korea. Guided by the six development priorities, Viet Nam can both safely navigate the waters of the

Over the past 50 years, only a few countries have graduated from low to middle income and even fewer from middle to high income.



post-pandemic era and achieve greater efficiency in the use of its capital—imperative for a strong transition from middle- to high-income status. Acting on these priorities should lead to better integration into global markets and to more digitally transformative, greener, resilient, and inclusive growth.

Because these priorities will make a difference only if properly implemented, building the platform of five institutional reforms can help the Government develop better vision, capacity, and motivation—the key determinants of

efficient implementation. Viet Nam has already applied several of these reforms, but implementation has been uneven and generally in response to crisis. When the country was on the verge of economic collapse in the mid-1980s, the Government moved daringly to transform the economy from centrally planned to a socialist-oriented market economy. Similarly, the Government boldly reformed its institutions, using market-based instruments to incentivize farmers in the 1980s and strengthening the Ministry of Trade and Industry to accelerate trade liberalization in the mid-1990s.

In the absence of crisis, the Government of the Socialist Republic of Viet Nam has taken a gradual approach to institutional reform, relying on pilot projects before adopting measures on a larger scale. While experimentation reduces the uncertainties of policy reforms and insulates the rest of the economy from possible negative impacts, gradual institutional reforms are often not comprehensive, systematic, or timely. Gradualism is also a long process that may not lead to concrete outcomes and, so, discourages reformers and results in lost opportunities.

The stop-and-go process of oscillating from bold to gradual institutional reforms has only marginally improved the quality of institutions in Viet Nam over the past 25 years. The Worldwide Governance Indicators (WGI), which collects annual information on six dimensions of governance, reveal that institutional quality has even deteriorated slightly since 2015 (see figure 6). The limited improvement in institutional quality and adaptability means that the platform for efficient implementation has not been widely applied and that institutions are unprepared for the next phase of economic development. When a country progresses up the ladder of economic development, it requires better institutions to manage the societal issues that emerge with more extensive and sophisticated markets and respond to the needs of a more demanding society.

Viet Nam risks falling into a middle-income institutional trap if it does not

accelerate institutional reforms. The divergent growth trajectories of Korea and Thailand, for example, can be explained to a large extent by differences in the quality of their institutions over the past 25 years. Korea's experience suggests that it is an opportune time for Viet Nam to act more boldly in its institutional reforms. As the Korean economy matured during the 1980s and its institutions showed signs of weakness in handling social and economic changes, the Government adopted bold reforms that are similar to those in the proposed platform for Viet Nam. It replaced five-year economic plans with innovative agendas to improve planning and provide

Implementing the five institutional reforms will require a change of mindset, determination, and commitment. Viet Nam now needs a second Doi Moi to rebound from Covid-19-pandemic and achieve its goal of becoming a high-income country.

How will Viet Nam blossom?

more flexibility in decision processes, merged the Economic Planning Board with the Ministry of Finance and Economy to solidify the institutional anchor, and established the Regulatory Reform Committee to streamline procedures and the use of market-based instruments.

A traditional policy objective in Viet Nam has been to find the balance between institutional stability and adaptability. Important changes in the global context and the desired shift in the country's growth model toward greater efficiency suggest giving more weight to adaptability in the next phase of economic development. This could help

the country address the new challenges emerging from the Covid crisis and implement its development priorities faster and better.

Implementing the five institutional reforms will require a change of mindset, determination, and commitment. Viet Nam's top policy makers evidenced such a bold change during the Doi Moi in the late 1980s, when the country faced one of its most severe economic crises. Exceptional time calls for expectational responses. Viet Nam now needs the second Doi Moi to rebound from the Covid-19-pandemic and achieve its goal of becoming a high-income country.



Photo credit: Peach blossom in spring @ Tran Quoc Chinh

¹ The term “slowbalization,” which was coined by Nobel Laureate Paul Krugman, refers to the slowing of globalization, characterized by the slowing of global trade.

² The Systematic Country Diagnostics, the 2035 Viet Nam report, and the Vibrant Viet Nam report.

³ As most low-income countries, Viet Nam has relied heavily on its demographic dividend (a young and abundant labor force) and natural resources, using its extensive stocks of agricultural and mineral resources to enhance its economic development over the past three decades. Using its natural advantages to enhance rapid and inclusive growth during its first phase of development made sense for Viet Nam, a country blessed with abundant agricultural land, water resources, and mineral reserves. However, such a model produces diminishing returns and has become unsustainable over time.

⁴ The 1992 Constitution was subsequently amended in 2001, and replaced by the 2013 Constitution, effective January 1, 2014.

⁵ The Viet Nam Trade Information Portal and Viet Nam Free Trade Agreement Portal were respectively established in 2017 and 2020 to greatly enhance information sharing.

⁶ The deep dives and consultative process was conducted in early 2021 through the establishment of specific groups within the World Bank Group that were chosen because of their technical knowledge and years of engagement with the authorities. These groups included the participation of external experts. For each priority, these groups assessed the implementation performance and quality of each determinant, which were then quantified by assigning specific ratings on a scale from 1 to 5 (with 1 being weak quality and 5 being strong quality).

⁷ However, this statistical correlation should be interpreted with some caution as it assumes that all determinants have the same weight on the implementation performance. It also only captures the impact of a variation in the quality of the determinants across priorities at one time, but not its evolution over time. The number of observations is also limited.

HOW WILL VIET NAM BLOSSOM?

Reforming institutions for effective implementation

OVERVIEW

Content and publishing responsibility

Director - Editor-in-Chief:
TRAN CHI DAT

Editors

NGUYEN LONG BIEN
NGUYEN THO VIET

Design and presentation

LE BROS

INFORMATION AND COMMUNICATION PUBLISHING HOUSE

Website: www.nxbthongtintruyenthong.vn; book365.vn

Headquarters: 6th floor, Radio Frequency Department Building
No. 115 Tran Duy Hung, Cau Giay District, Ha Noi City
Editorial phone: 84-24.35772143
Publication Phone: 84-24.35772138 Fax: 84-24.35579858
E-mail: nxb.tttt@mic.gov.vn

Print 300 books, size 19 x 25cm. Tai Công ty TNHH MTV in Vietnam Development Joint Stock Company -
Address: No 2/164/6 Mieu Nha street, Hanoi

Confirmation of publication registration: 4824-2022/CXBIPH/3-195/TTTT

Number of Publishing Decision: 506/QĐ-NXB TTTT, issued on December 31, 2021

Print and deposit in December 2021. ISBN: 978-604-80-6002-2

Affiliate Partner: Le and Brother.Ltd - Address: 4th floor, No.1 Luong Yen, Hai Ba Trung, Ha Noi



To download this report:

63 Ly Thai To, Ha Noi
Tel: (84-24) 3934 6600
Fax: (84-24) 39350752
Email: vietnam@worldbank.org
Website: www.worldbank.org.vn



