VIETNAM – COUNTRY ASSISTANCE STRATEGY

1. We welcome the opportunity to discuss the Country Assistance Strategy of Vietnam at this crucial period for the country. We commend the staff members for this candid and forthright report which clearly depicts the current situation of Vietnam and the course of action it has to adopt to achieve the twin objectives of “restoring the momentum of growth” and “improving the quality and sustainability of development”.

2. We appreciate the efforts made by the staff members for their highly participatory approach in preparing this report through extensive consultations with all concerned – including the Communist Party, National Assembly, IFC, IMF and our UN partners. This process will set a new milestone in collaboration between the Bank and UN Agencies.

3. The lending strategy proposed by the management is very appropriate, given the uncertainty and the pace of reforms. The high case lending scenario which is three times higher than the low case should work as a strong motivating factor for the Government in accelerating the pace of reforms.

4. State-owned enterprises (SOE) are well entrenched in the economic activities of the country. It is very difficult to change this culture and create an atmosphere for private investment overnight. The potential investment of US $ 400 million by IFC may work as a catalyst for creating a conducive climate for private sector operations. But, what is needed is constant and determined effort by the Government in establishing appropriate legal and regulatory frameworks wherein private sector entry, operations and even exit are made systematic and smooth. Otherwise, simply generating expectations of a huge investment in the private sector runs the risk of being counterproductive.

5. Similarly, the Government’s efforts in implementing the accelerated program of equitization of more than 1000 SOEs may not yield expected results if a viable and dynamic capital market is absent. We are somewhat disappointed to note that the issue of sequencing of reforms is not addressed properly in this paper.
6. We are glad to note the importance being given for Banking Sector Reforms. No doubt, this is an urgent need of the hour. Steps need to be taken for structural reforms in the Banking Sector before the contagion of the East Asian crisis engulfs Vietnam. Otherwise, the positive gains achieved in the past are likely to be washed away.

7. The recent experiences in East Asia and Russia fully justify the authorities’ concerns regarding the adverse effects of globalization and privatization. Unless the problems of unbalanced growth, widening rural–urban gaps and the increase in unemployment are addressed properly, pushing reforms will only lead to social unrest. In this regard, the Bank’s strategy of emphasizing improved public expenditure on the poor as one of the triggers for the higher case lending scenario is a welcome move.

8. Given the fact that Vietnam has received substantially lower IDA resources than would be warranted, it is high time for the Bank to mobilize more resources for enhanced investment to establish an adequate social safety net. We are glad to note the Bank’s sensitivity and willingness to work in this direction.

9. An area of concern is the unsustainable external debt. With exports slowing down, the problem is likely to aggravate further. Since Vietnam is currently a HIPC eligible country, the CAS could have thrown more light on the progress made under the initiative and its impact in the medium term. We hope Vietnam will take full advantage of the Initiative and come out of the crisis.

10. On the whole, we extend our support to the CAS and the proposed lending scenario.