

Economist Conferences

The Economist

EXECUTIVE SUMMARY

VIETNAM SUMMIT A NEW PATH INTO A NEW WORLD

**Hội nghị Kinh tế Đối
ngoại Việt Nam**

*Hành trình vào một thế
giới mới*

Hanoi, January 11th 2012
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Vietnam Summit

A new path into a new world

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Speakers

Government

- H.E. Hoang Trung Hai, **Deputy Prime Minister, Vietnam**
- Pham Vu Luan, **Minister of Education and Training, Vietnam**
- Dinh La Thang, **Minister of Transport**
- Nguyen Van Binh, **Governor of the State Bank of Vietnam**
- Nguyen Phuong Nga, **Deputy Minister of Foreign Affairs, Vietnam**
- Bui Thanh Son, **Deputy Minister of Foreign Affairs, Vietnam**
- Cao Viet Sinh, **Standing Deputy Minister of Planning and Investment, Vietnam**
- Tran Tuan Anh, **Deputy Minister of Industry and Trade, Vietnam**
- Tran Hong Ha, **Deputy Minister of Natural Resources and Environment, Vietnam**

Co-chairs

- Charles Goddard, Editorial Director, Asia-Pacific, **Economist Intelligence Unit**
- Justin Wood, Director, South-east Asia, **Economist Corporate Network**

Panelists

- Tomoyuki Kimura, Country Director, Vietnam Resident Mission, **Asian Development Bank**
- Stefaan Le Clair, Chairman and Managing Director, **Berenike Global Fashion Management**
- Stephen Yeo, CEO, South-east Asia, **British Telecom**
- Minh Chau Nguyen, Country Director, **East Meets West Foundation**
- Michael Michalak, **Former United States Ambassador to Vietnam**
- Truong Gia Binh, Chairman, **FPT**
- Vu Thanh Tu Anh, Director of Research, **Fulbright Economics Teaching Programme**
- Stuart Dean, Chief Executive Officer, **GE ASEAN**
- Michael MacDonald, Chief Technology Officer, **Huawei South-east Asia**
- Henry Nguyen, Managing General Partner, **IDG Ventures Vietnam**
- Peter Ryder, CEO, **Indochina Capital**
- Warrick Cleine, Head of Tax, KPMG Asia-Pacific, Chief Executive, **KPMG, Vietnam and Cambodia**
- Do Van Hau, President and Chief Executive Officer, **PetroVietnam**
- Thanh Le, Country Chairman and General Manager, **Shell Companies in Vietnam**
- Louis Taylor, Chief Executive Officer, Vietnam, Cambodia and Laos, **Standard Chartered Bank**
- Yen Dang, Chairwoman and Chief Executive Officer, **Tan Tao Group**
- Vo-Tong Xuan, Rector, **Tan Tao University**
- Lord Michael Hastings of Scarisbrick CBE, **UK Parliament**
- Gerardo Pataconi, Chief, Clusters and Business Linkages Unit, **United Nations Industrial Development Organisation**
- Ton Nu Thi Ninh, Former Ambassador of Vietnam to the EU; Former Vice Chair, Foreign Affairs Committee, **Vietnam's National Assembly**
- Luong Van Tu, Chairman, **Vietnam Coffee and Cocoa Association**, Former Vice Minister of Trade and Chief Negotiator for Vietnam's World Trade Organisation accession
- Le Hong Minh, Founder, Chairman and Chief Executive Officer, **VNG Corporation**
- Victoria Kwakwa, Country Director, Vietnam, **World Bank**

Executive summary

Organised by Economist Conferences, the Vietnam Summit attracted an audience of over 260 people in January in Hanoi. Bringing together a broad range of business leaders, politicians, policymakers and academics, the strong interest from investors was encouraging given the uncertain global economic environment and Vietnam's own need to position itself for the future.

Economic outlook



It is often customary in Vietnam, said Charles Goddard, the Economist Intelligence Unit editorial director in Asia-Pacific and co-chair of the summit, to remind everyone of the country's extraordinary journey from poverty and war to economic success and improvement in living standards. Twenty-five years after the beginning of a series of market reforms, *doi moi* in Vietnamese (renovation in English), economic growth has always been positive and has averaged about 7% over the past 20 years.

But today Vietnam finds itself at a crossroads. The low labour cost and export-led development model will soon run its course and the government must restructure during an uncertain global economic environment in order to achieve its goal of moving from a lower-income nation to an industrialised middle-income country by 2020.

The deputy prime minister of Vietnam, Hoang Trung Hai, in the keynote opening speech tackled the issue head on. Acknowledging the gloomy world economy, he optimistically noted that with crisis come opportunities: "Many countries, both developed and developing, are restructuring and finding new growth models, creating opportunities, and Vietnam is no exception."

One reason for optimism is Vietnam's performance during the last financial crisis. It grew at about 5% in 2009, followed by 7% in 2010 and 6% in 2011. "Growth is the last thing we're worried about in Vietnam," said Louis Taylor, CEO of Vietnam, Cambodia and Laos for Standard Chartered Bank.

Much of the country's success has come because it has opened itself to the outside world. In doing so, it is increasingly exposed to the global macroeconomic environment and fluctuating commodity prices, said Justin Wood, the director for the Economist Corporate Network in South-east Asia and summit co-chair.

Nguyen Van Binh, the governor of the State Bank of Vietnam (the central bank), agreed that Vietnam is likely to be affected by the uncertain world economy and expected the year ahead to be tough. His major policy priorities will be to ensure macroeconomic stability and contain inflation, an old and ongoing problem in Vietnam. The country has set twin targets for 2012 of 6% GDP growth and inflation in the single digits.

The growth rate is high enough to allow for the creation of new jobs while curbing inflation. The governor said the best-case scenario for inflation in 2012 would be a low of 8.5% and the worst-case scenario a high of 12.5%, figures that are well below the 2011 rate of 18%.

Victoria Kwakwa, country director at the World Bank, said Vietnam has surprised a lot of analysts as policy targets have been met and macroeconomic indicators continue to move in the right direction, despite the gloomy world economy. She agreed that Vietnam has potential to grow at 6% in 2012. Looking ahead, Cao Viet Sinh, the standing deputy minister at the Ministry of Planning and Investment, projected annual growth at about 6.5% over the next five years and around 7–8% for the next ten.



A new path into a new world

Despite the projected volatile global economy in 2012, the deputy prime minister stressed that economic reform and restructuring are top priorities. A defining moment for Vietnam was how Truong Gia Binh, chairman of FPT, described the current situation as he passionately talked about how the country must transform itself from a low-cost exporter into a value-added provider, like Japan, South Korea, China, Taiwan and Singapore before it.

But unlike some of its Asian counterparts, Vietnam cannot rely on protectionism during its transformation because of international commitments, such as its membership in the World Trade Organisation. In her welcoming remarks, Nguyen Phuong Nga, deputy minister of foreign affairs, said Vietnam must carefully select the appropriate path for development in order to achieve sustainable growth and reach its goal of becoming an industrialised country by 2020. To do so, Vietnam must restructure its economy through new management models, improve corporate governance and increasingly leverage information technology.

Industrial development in Vietnam needs to reflect cultural aspects specific to the country. Take foreign direct investment. In the first instance, Vietnam simply tried to attract as much as possible, but in the future more emphasis will be placed on the quality of the investment. Cao Viet Sinh, standing deputy minister of planning and investment, stressed priority for energy savings and high-tech projects as well as investment in the agriculture and infrastructure sectors. For example, Dinh La Thang said his Ministry of Transportation has identified bottlenecks to growth and must stay one step ahead to help Vietnam modernise.

Yen Dang, chairwoman and CEO of the Tan Tao Group, said the message of economic restructuring was clear but it was uncertain how it would actually happen. The gap between aspiration and execution quickly became a theme of its own. Actions need to be fast and deep rather than cosmetic, warned Victoria Kwakwa. The former United States ambassador to Vietnam, Michael Michalak, echoed those sentiments and called on a “hero” to stand up and put the necessary reforms in place.

As a foreign investor, Stuart Dean, CEO of GE ASEAN, agreed that the government is heading in the right direction and that the challenge is in execution and whether it can happen fast enough. Cao Viet Sinh acknowledged the gap between policies and implementation. But, he said, Vietnam is making the necessary changes to improve its actions. For example, it has issued specific near- and long-term measures and changed its annual plan into multi-year investment strategies, which improves regional autonomy and responsibility.

In the next five years, Cao Viet Sinh stressed that the economic restructuring process identified by the party congress in 2011 would focus on three areas in order to keep Vietnam on track to become a modern and industrialised nation by 2020: investment restructuring with a focus on public investments; business restructuring with a focus on state-owned enterprises (SOEs); and financial and commercial restructuring, which includes market devolvement of human resources, such as a high-quality workforce.

Government challenges



Amid global economic difficulties, the new government, endorsed by the 13th National Assembly of Vietnam in July 2011 and led by the prime minister, faces a host of challenges. Perhaps the biggest problem, as acknowledged by Hoang Trung Hai, the deputy prime minister, is in how to prioritise them. Many investors are also asking whether—in a fragile global economy—the government has the capacity to deal with them all.

Beyond the transformation to a new growth model and the need to curb inflation (see earlier sections), Vietnam must tackle key challenges such as maintaining macroeconomic stability, equitisation of SOEs and dealing with climate change.

The deputy prime minister began by reaffirming the government's commitment to macroeconomic stability. Beyond strong action on curbing inflation, he stressed the importance of growth as key to employment and capital efficiency, though it would also be balanced against the need for stability in the system.

Of particular concern were deteriorating real estate prices, which have the potential to destabilise the banking system. "Lending has been significant and has caused overheating," acknowledged Nguyen Van Binh, the central-bank governor. Artificially high prices have also adversely affected other sectors and have the potential to create overall market instability.

Warrick Cleine, head of tax at KPMG Asia-Pacific, and CEO at KPMG in Vietnam and Cambodia, added the importance of corporate governance to the list. Capital markets have dropped two-thirds since their peak because there is a lack of confidence in companies, he said. Because the banking sector is a proxy for the broader economy, he suggested greater transparency in financial reporting as one way to increase macroeconomic stability.

As ever in Vietnam, SOEs were mentioned as a key obstacle to create greater competition and aroused strong viewpoints. "Every time they are subject to criticism, they say they have to help the government," said Vu Thanh Tu Anh, director of research, Fulbright Economics Teaching Programme. "You need to subject SOEs to competition," he exclaimed.

PetroVietnam offers an example of the importance of SOEs, countered Do Van Hau, the company's president and CEO. PetroVietnam has US\$15bn turnover a year and is currently working hard to meet the country's future needs. Energy consumption in Vietnam is high and grows faster than GDP, with demand for electricity alone increasing at 10–15% per year.

When pressed on accelerating the plans for SOE equitisation, the deputy prime minister said they have been reduced from 12,000 in 1991 to about 1,100 today. He added his strong support for SOE reform and said that by 2015, the aim was to have cut the number to about 650.

Gerardo Pataconi, chief of the clusters and business linkages unit at the United Nations Industrial Development Organisation, called equitisation "a big obstacle to development" and called for increasing the speed of reforms. Some have suggested the process of SOE equitisation has slowed because of the gloomy global economy in which the government can't maximise profits from selling their stakes in the open market, something that Hoang Trung Hai denied. "The ultimate goal is to improve efficiency and a level playing field," he countered.



The issue of climate change came up frequently throughout the summit. Because of its long coast line and the Red River and Mekong Deltas, Tran Hong Ha, deputy minister of natural resources and environment, emphasised that Vietnam is one of the countries most affected by climate change in the world. In the worst-case scenario, a 1-metre rise in sea level would result in a 40% land loss in the Mekong Delta, affecting about 25m people, and causing an estimated 10% drop in GDP.

As the world's second largest rice exporter, fertilizers constitute a particular problem for Vietnam. Vo-Tong Xuan, rector at Tan Tao University, said farmers typically use too much and that 60% of all fertilizers used in the country go into the air. He called on educating farmers to reduce excessive fertilisation, which would improve the environment while also lowering production costs.

Beyond awareness, there is also a huge opportunity for mitigation efforts in terms of renewable-energy development, said Tomoyuki Kimura, country director at the Vietnam resident mission for the Asian Development Bank. However, he acknowledged that such efforts can be costly and that the government may need to subsidise them. Lord Michael Hastings of Scarisbrick CBE, UK parliament, suggested that Vietnam has access to international development funds and can also seek private-sector support for such efforts.

Vietnam wants to create a sustainable green model in which environmental issues are an integral part of economic and social development. To achieve this, Tran Hong Ha, the deputy minister of natural resources and environment, said there is a need for inter-regional and cross-sector co-ordination. As an example of progress in this area he pointed to the recent establishment of the National Committee on Climate Change, the first working session of which the prime minister had chaired earlier in the morning.

The view from business



Investors continue to see long-term opportunities in Vietnam, but many are concerned about the short-term challenges they face and the scope and pace with which the government is addressing them.

The confidence of foreign investors was a big topic. Gerardo Pataconi had recently conducted a survey of 1,500 local and foreign investors and found that sentiment was generally positive, though challenges have to be addressed for it to continue. Of particular note, there was a general feeling that Vietnam is not China.

Henry Nguyen, managing general partner of IDG Ventures, a venture-capital and private-equity investor, said it is very positive that Vietnam is not like China. He said Vietnam is much more progressive and open, both from an investment perspective, but also from a censorship perspective. He acknowledged red tape and drawn-out processes of bringing new business models to the market when investing in sensitive sectors such as telecom and media. But, he said, the government has encouraged open dialogues and his work primarily entails policy advocacy and educating the government on new business models.

"The more things change the more they stay the same," said the CEO of Indochina Capital, Peter Ryder, who has spent 20 years in Vietnam. While there has been an extraordinary transformation, the business environment remains challenging, he said, and he agreed that Vietnam is very much at a crossroads. On the one hand, there has been amazing poverty alleviation and there is now obvious affluence; on the other hand, the stockmarket has plunged, real estate is in shambles, inflation is woefully high, the high interest rate is unsustainable and the currency is weak. The government, said Peter Ryder, continues to say all the right things, but now they have to start to deliver. The problem with investor confidence, agreed Thanh Le, country chairman and general manager at the Shell Companies in Vietnam, is in consistency and implementation.



Everyone agreed, however, that one undeniable benefit is the country's population demographics. Vietnam has nearly 90m people, about two-thirds of whom are under the age of 30. They are also increasingly urban as 1m move to a city every year. Minh Chau Nguyen, country director at the East Meets West Foundation, pointed out that Vietnam is in a demographic dividend period as the working population will peak in 2018. In order to maximise this opportunity, additional investment in education and training are needed.

During the past ten years, Vietnam had quantitative achievements, such as an increase in education facilities and school attendance. Moving forward, it will focus on the quality of education. Fundamental reforms are planned in the next five to ten years as the government seeks to improve the link between education and the demands of business and society. As evidence of this commitment, Pham Vu Luan, the minister of education and training, pointed out that this area was one of only three (the others being healthcare and social security) for which budgets were not reduced in 2011.

Several participants echoed the need for better education and improved skill sets. Le Hong Minh, founder, chairman and CEO of VNG Corporation, noted that the level of commitment of workers is poor and turnover high. In the high-tech industry in which he operates, it is difficult to recruit qualified people, especially with global competition for talent. However, he pointed to opportunities as well. In 2005, there were only 3m Internet users in Vietnam; today there are 30m and the country is now among the world's top ten in terms of both Internet and mobile-phone users.

This increasingly affects people's relationship with media. "You don't have control, users decide," says Michael MacDonald, chief technology officer at Huawei South-east Asia. He pointed out that older generations tend to view the Internet as a medium for digesting information, whereas the younger population takes a much broader view and sees it as a tool for collaboration, interaction and, indeed, employment.

Tran Tuan Anh, deputy minister of industry and trade, said the development of industries related to information and communications technology (ICT) are prioritised given their value-added contribution.

There are two ways to make use of ICT. One is to develop ICT as an industry, whether hardware and software production or as a service. Countries such as Singapore and Malaysia started with hardware manufacturing and moved up the value chain, said Stephen Yeo, CEO of South-east Asia at British Telecom; however, he cautioned that this strategy carries some risk and the pay-off may be low. Instead, the greatest gain can be achieved when using ICT to enable efficiency in a traditional industry, he said.

Working in the garment, textiles and shoe business, Stefaan Le Clair, chairman and managing director at Berenike Global Fashion Management, agreed that Vietnam should upgrade its manufacturing technology to increase speed to market and quality. But in order to fully capitalise in this industry, it also needs to become less dependent on raw materials and improve infrastructure to allow products to reach their final destinations faster.

The role of Vietnam in Asia and the world: Changes afoot?

"Vietnam stands at a defining juncture," exclaimed Ton Nu Thi Ninh, former ambassador of Vietnam to the EU and former vice chair of Vietnam's National Assembly Foreign Affairs Committee. With more than a decade of increasing international integration, the country is a member of all important international organisations and has foreign relations with 180 countries. It has played it safe in trying to be everyone's friend and staying clear of leadership roles.



Luong Van Tu, chairman of the Vietnam Coffee and Cocoa Association and former vice minister of trade and chief negotiator for Vietnam's accession to the World Trade Organisation, said the country hasn't participated in serious international negotiations, such as with the International Labour Organisation or matters regarding the environment. Now, however, many, such as Ton Nu Thi Ninh, are calling on the country to take more initiative and shape international policy.

Vietnam, as a non-permanent member of the UN Security Council, has shown the ability to work in a multilateral environment and the practical ability to mediate through quiet diplomacy. Bui Thanh Son, the deputy minister of foreign affairs, put the current situation in perspective. Global restructuring took place after the 2008 financial crisis, and the balance of economic power shifted from west to east and increasingly from north to south. Another global change has taken place because of the emergence of a number of unconventional policy issues, in particular climate change. In this new world, Vietnam finds itself both in one of the most dynamic regions economically and also as one of the countries most at risk of environmental degradation.

The primary international goals for Vietnam remain multilateralism and having friendly relations with all countries in the world, said Bui Thanh Son. But in order to adapt to the changing global context, Vietnam will also make changes to its foreign policy. Between now and 2015, there will be an increasing focus on regional partnerships as well as strategic bilateral relationships, such as with the United States.

In the case of China, with which Vietnam has historically had strained relations, the relationship has improved since normalisation of relations in 1991. Bui Thanh Son called their relationship the "strongest ever" as both sides have confirmed they will take peaceful measures to resolve their differences.

Vietnam has a story to tell about peace and development. Having overcome the challenges of poverty and war, Ton Nu Thi Ninh believes the country should focus on two avenues to help shape the regional and global agenda: firstly, climate change and sustainable development; secondly, inclusive socio-economic development. In regards to peace, she says Vietnam can be an honest broker, potentially assuming a mediating role, though the country will continue to prefer quiet diplomacy rather than a leading role.

To be more proactive abroad first means finding stability at home. To do so, Bui Thanh Son repeated the message of restructuring, from macroeconomic stability and banking to infrastructure development, and the need for education, themes that were made abundantly clear through the day.

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