



COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN VIETNAM

Bolstering the Private Sector during COVID-19 and Beyond:
Relief, Restructuring, and Resilient Recovery

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WHAT IS THE VALUE PROPOSITION OF THE VIETNAM CPSD?

- **Integrated Private Sector Development (PSD) approach:** The Country Private Sector Diagnostic (CPSD) integrates existing PSD work on Vietnam and provides new knowledge in areas related to conglomerates, sector-specific issues, and the impact of COVID-19 on businesses using new business pulse firm surveys in Vietnam.
- **Unbundling private sector:** Most Advisory Services and Analytics (ASAs) have focused on small and medium enterprises (SMEs) and foreign direct investment (FDI) in Vietnam. The CPSD undertakes new analysis on domestic conglomerates as well as SMEs and FDI as part of the formal private sector.
- **Combining horizontal and vertical constraints and opportunities:** Bringing together sector-specific constraints with general constraints reinforces systematic business environment issues. As a joint International Financial Corporation-World Bank work, the CPSD draws on the sector expertise of IFC.
- **Joint IFC-World Bank PSD diagnostic:** Prepared jointly using IFC and World Bank staff's complementary knowledge and expertise in the PSD space, the diagnostic provides a common basis for the country's policy makers, the private sector, and the World Bank Group (WBG) to engage on private sector issues as part of the overall growth and sustainable development dialogue. Adopting a programmatic approach, it builds agreement on critical interventions through deployment of multiple instruments to support private sector development.

COVID-19 and CPSDs: Objective, approach, and scope

- **Aligned to government priority:** Private sector development has been identified as a key driver of growth in Vietnam's Socio-Economic Development Strategy, the Systemic Country Diagnostic and this CPSD. The COVID-19 outbreak has reinforced the urgency to address PSD issues to seek public-private solutions, including investments.
- **Twin focus:** CPSDs in pre-COVID times focused on *creating markets*. The COVID-19 crisis poses the additional challenge of *minimizing destruction of markets* in the short term and restructuring of markets in the medium term. The recovery phase will focus on how to revitalize firms and the most affected sectors and how to strengthen and reshape markets.
- **Scaling up private sector financing and solutions:** The government, already fiscally constrained, will need to rely even more on efficient markets to capture cascade-type solutions, and they will look for reform recommendations on how to best leverage and incentivize the private sector.
- **Selectivity:** Filters have been deployed:
 - **Feasible priorities:** The WBG has established dialogue in the PSD space across multiple areas, but implementation progress is uneven partly because of weak agency capacity and the breadth and depth of policy actions needed. The CPSD focuses on a more manageable set of priority actions under key pillars that the private sector considers more binding.

- **Timeline:** Feasible to address in the three-to-five-year horizon.
- **Choice of sectors:** Four of the five sectors focus on services sectors in which Vietnam has significant untapped potential for private sector growth and in which regulatory constraints remain significant. Three of the five sectors are enablers for broad-based growth. The COVID-19 outbreak has heightened the importance of these sectors as well as the urgency of reform.
- **Private sector consultation:** External consultations with private sector stakeholders (chambers of commerce, industry associations, and PSD Forum), development partners, and think tanks were undertaken throughout the preparation and finalization of the CPSD.

ABBREVIATIONS

ADB	Asian Development Bank
AI	Artificial intelligence
ASA	Advisory Services and Analytics
ASEAN	Association of Southeast Asian Nations
ASF	African Swine Fever
BCM	Billion cubic meters
BOT	Build-operate-transfer
CAGR	Compound Annual Growth Rate
CG	Corporate governance
CPSD	Country Private Sector Diagnostic
CPTPP	Comprehensive and Progressive Agreement for the Trans-Pacific Partnership
D	Vietnamese dong
DFS	Digital Financial Services
DVT	Department of Vocational Training
EU	European Union
EVN	Vietnam Electricity
EVFTA	EU-Vietnam Free Trade Agreement
F&V	Fruit and vegetables
FDI	Foreign direct investment
FIE	Foreign-invested enterprise
FID	Final Investment Decision
fintech	Financial technology
FO	Follow-on Offerings
FY	Fiscal year
GDP	Gross domestic product
GER	Gross enrollment rate
GVC	Global value chain
GW/MW/kw	Gigawatt/megawatt/kilowatt

HCMC	Ho Chi Minh City
HNX	Hanoi Stock Exchange
HOSE	Ho Chi Minh Stock Exchange
HEI	Higher education institution
HIC	High-income country
IBRD	International Bank for Reconstruction and Development
ICD	Inland container depot
ICT	Information and communication technology
IFC	International Finance Corporation
IPO	Initial public offering
IPP	Independent power producer
IPR	Intellectual property rights
IT	Information technology
kWh	Kilowatt-hour
LNG	Liquefied natural gas
LPI	Logistics Performance Index
LSP	Logistics service provider
MOIT	Ministry of Industry and Trade
MPI	Ministry of Planning and Investment
MRO	Maintenance, repair, and operation
NCC	National Competition Committee
NPL	Non-performing loan
OECD	Organisation for Economic Co-Operation and Development
OSS	One-stop service
PC	Power corporation
PCI	Vietnam Provincial Competitiveness Index
PISA	OECD Programme for International Student Assessment
PPA	Power purchasing agreement
PPP	Public-private partnership
PSC	Production-sharing contract
P2P	Peer-to-peer
PVN	PetroVietnam

R&D	Research and development
RE	Renewable energy
RPDP	Revised Power Development Plan
PDP	Power Development Plan
SBV	State Bank of Vietnam
SCF	Supply chain finance
SEDS	Socio-Economic Development Strategy
SEZ	Special economic zone
SME	Small and medium enterprise
SOE	State-owned enterprise
SPV	Special purpose vehicle
SSC	State Securities Commission
T&D	Transmission and distribution
TEI	Tertiary education institution
Telecom	Telecommunications
TVET	Technical and vocational education
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
VAT	Value-added tax
UPCOM	Unlisted Public Company Market
VCGI	Vietnam Corporate Governance Initiative
WBG	World Bank Group

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The CPSD has made extensive use of analytical and policy works prepared by the World Bank Group in Vietnam over the past several years, including (a) Vietnam Policy Notes; (b) Vietnam Country Partnership Framework for the period FY2018–FY22; (c) Taking Stock series; (d) Vietnam 2035: Toward Prosperity, Creativity, Equity, and Democracy; (e) Vietnam: Science, Technology and Innovation Report; (f) Vibrant Vietnam: Forging the Foundation of a High-Income Economy; (g) Vietnam Future Jobs; (h) “What Will Be New Normal for Vietnam?”; and (i) Vietnam Joint Capital Market Program (J-CAP).

EXECUTIVE SUMMARY

COUNTRY CONTEXT

The private sector has played a central role in Vietnam's outstanding development journey. From boosting investments to creating productive jobs and growth, it has helped propel Vietnam to the ranks of a middle-income economy in one generation. Driven by its trade openness and an exported-oriented growth model, Vietnam has attracted large amounts of foreign direct investment (FDI) in labor-intensive segments of manufacturing global value chains (GVCs). Extreme poverty declined from 50 percent to around 2 percent between 1990 and 2018. Today, Vietnam is the world's second-largest smartphone exporter, producing over 40 percent of Samsung's global phone products—an embodiment of the success of the country's growth strategy. Entry into the domestic private sector has been equally dynamic, and large domestic enterprises are emerging with Vingroup, VietJet Aviation, and Masan Group operating across the East Asia region.

Vietnam was preparing for its next economic transformation when the COVID-19 crisis unfolded. Building on its impressive achievements, Vietnam's ambition is to become a high-income country by 2045 by following the path of its regional peers, such as the Republic of Korea, which underpinned its development trajectory with increasing reliance on productivity growth and thereby avoided the middle-income trap.¹ The challenges of the global slowdown in growth and trade, combined with rapid changes in technologies related to Industry 4.0,² and the push toward servicification of manufacturing³ have been compounded by the COVID-19 crisis that hit Vietnam in early 2020.⁴ Vietnam has demonstrated leadership and swift action in the containment of the virus by imposing strict lockdown measures and stringent border controls. These measures led to a significant decline in economic activity resulting in social and economic hardship on businesses and households. While Vietnam stands out as one of the few countries in the world to register positive growth in 2020, recording a gross domestic product (GDP) growth rate of 2.9 percent (IMF 2021), its performance was less than half of what was registered during the pre-COVID period. By the end of the second quarter of 2021, Vietnam's output was well above its pre-pandemic level. However, by July 2021, Vietnam had been hit by the highly infectious Delta variant, which, combined with the country's low vaccination rate, risks a setback for the recovery path. Nonetheless, to resume its ambition of realizing a high-income growth trajectory, strengthening private sector development and investment through a productivity-led and inclusive growth model is necessary.

The objective of the Vietnam Country Private Sector Diagnostic (CPSD) is to examine opportunities and challenges, both cross-sector and sector-specific, to strengthen private sector development and facilitate investments in Vietnam. The CPSD is closely aligned with the government's strategic priorities (as outlined in Vietnam's Socio-Economic Development Strategy [SEDS] 2021-2030 and the *Vietnam 2035* report) and World Bank Group policy priorities and programs (WBG Vietnam Country Partnership Framework [CPF] FY18–FY22 and IFC's Vietnam Country Strategy 2020–22). The CPSD relies on multiple data resources, including knowledge from the literature (including sectoral studies) and from WBG staff, enterprise surveys, high-frequency/real-time data generated by private firms, and interviews and consultations with the private sector, Vietnamese authorities, and other external stakeholders.

BUSINESSES HAVE BEEN SEVERELY HARMED BY THE COVID-19 PANDEMIC

The COVID-19 crisis has dealt a severe blow to businesses and employment, mirroring the downward pressure on overall growth. Several factors make businesses in Vietnam particularly vulnerable to the crisis, including the country's integration in trade and GVCs, and its reliance on investment flows and the tourism sector. The COVID-19 shock is transmitted to businesses through multiple and mutually reinforcing channels—including falling demand, reduced and disrupted input supply, tightening of credit conditions and a liquidity crunch, and rising uncertainty. The successful containment of the first wave of COVID-19 had enabled the continued reopening of businesses bringing the total share of opened firms to 94 percent in October (Tan and Trang 2020). However, many businesses are still running below normal (pre-crisis) capacity and will be further constrained by the renewed lockdown measures introduced over July and August 2021. Reduced demand appears to be the most important channel of impact. Almost 1 in 4 firms still have decreased operating hours, and the extent of the sales drop is about 36 percent lower than the same period last year. Net employment has stayed significantly below the January 2020 level. Further, recovery has been mixed and uneven, and firms are facing further and acute pressure from the renewed lockdown as a result of a sharp resurgence of COVID-19 cases in Vietnam over July and August 2021. On average, small firms and firms in manufacturing, services, and agriculture continue to experience revenue shocks. While liquidity has improved, firms are still at significant risk of arrears, which will be worsened by the ongoing rise in new COVID-19 cases. Even after a recovery in demand, in a climate of uncertainty, being saddled with debt and negative expectations can reduce investment and threaten bankruptcies and job losses that could slow growth even further.

Encouragingly, businesses continue to respond to the new normal by adopting digital technologies. Close to 60 percent of firms in September-October 2020 had adopted or increased use of digital platforms in response to COVID-19 (Tan and Trang 2020). Uptake was higher among larger firms and service firms. E-commerce activity has surged following the outbreak; the leading e-commerce site, Tiki, has seen an explosion in the number of purchase orders, and big retailers have seen a dramatic increase in online sales. SMEs have been more likely to use digital platforms for less complex front-end business functions, suggesting potential capacity or resource constraints. The COVID-19 outbreak has demonstrated the urgency for Vietnam to step up the pace of adoption and diffusion of technologies and digital solutions to support business resilience and growth.

Fiscal constraints limit the public sector's ability to address development investment needs, particularly in infrastructure and human capital. The crisis has increased pressure on the government's budget as it swiftly moved to support affected businesses and households through fiscal measures. Looking forward, Vietnam's recovery is tied to enhancing the role of the private sector in the economy. An effective public-private partnership (PPP) framework will play a critical role in mobilizing private sector participation in the infrastructure and education sectors.

Vietnam's exceptional growth has been accompanied by the degradation of environmental and natural assets. Greenhouse gas emissions are outpacing the country's economic growth, reflecting a rising dependence on carbon-fueled power generation. The country is highly vulnerable to climate change and natural disasters while rising salinity threatens two-thirds of fish production from aquaculture.

RECOVERY AND SUSTAINING ECONOMIC GROWTH DEPEND ON A PRODUCTIVE PRIVATE SECTOR

Meeting these challenges will require ramping up productivity growth. Rapid GDP growth has relied heavily on expanding the labor force and on investment, while total factor productivity (TFP) growth has been slower than in most other fast-growing East

Asian economies. To achieve the government’s ambition of achieving high-income status by 2045, productivity will have to become the main driver of growth, with continued contributions from capital accumulation. Boosting productivity will require exploiting the full potential of the private sector, through policy reform to reduce constraints on the efficiency and innovation of private firms, accompanied by progress in ensuring inclusion and sustainability. Digitalization, which was accentuated by the COVID-19 pandemic and is shifting the source of growth from industry to services, will also be critical.

ENTERPRISE SECTOR OFFERS OPPORTUNITIES FOR GROWTH, INCREASED PRODUCTIVITY, AND INNOVATION

The enterprise sector has grown rapidly over the last 20 years. The number of active registered enterprises in Vietnam increased from 42,300 in 2000, when the Enterprise Law 1999 was adopted, to 758,610 in 2019 (General Statistics Office of Vietnam 2019a). Non-state domestic enterprises accounted for 60.6 percent of employment of all registered enterprises in 2018; foreign-invested enterprises (FIEs), 31.8 percent; and state-owned enterprises (SOEs), 7.6 percent. There is also considerable churning of enterprises—in 2019, 89,282 firms closed or suspended their business and 138,139 new firms registered their business. Preliminary reports indicate that the number of newly registered enterprises in 2020 was 134,000, down 2.3 percent from 2019.

FIEs play an important role in the Vietnamese economy. As a share of GDP, FDI inflows to Vietnam exceed those into China and most large ASEAN countries. FIEs tend to be much larger in size than domestic enterprises and are major drivers of manufacturing production and exports. Vietnam specializes in the labor-intensive, low-complexity, and final-assembly stage of GVCs—primarily exporting apparel, shoes, and mobile phone handsets. However, FDI in these activities has not been a catalyst for generating spillovers to the domestic private sector, either in the form of increased demand for inputs, access to technology and managerial skills, or agglomeration benefits. Foreign investors point out that the main constraints to shifting to local production inputs are the dearth of domestic suppliers with the ability to meet required quality, quantities, delivery times and prices, as well as the absence of policies to assist local firms.

Domestic private enterprises are mostly small, less productive, and less innovative than FIEs, and not well integrated into GVCs. Most domestic private enterprises are micro and small enterprises that have less than 50 employees, operate in relatively low productivity services (such as small retail and restaurants) and simple manufacturing, and produce for the domestic market rather than for exporting. While the number of domestic private enterprises increased sharply from 2000 to 2016, the average size fell by about 40 percent. Vietnam is still far from the global productivity frontier, investment in research and development (R&D) and patenting is low, and self-reported innovations seem to be lower than expected given the country’s level of development. In addition, there are large and growing productivity gaps between leading and lagging firms across and within sectors.

Nevertheless, some large domestic private enterprises have emerged. Seven Vietnamese corporations are among the 200 top-performing listed companies across the Asia-Pacific region with revenues of US\$1 billion or more (Burgos 2019). In 2018 the 40 most valuable brands in Vietnam had a total value of more than US\$8.1 billion, up by over 30 percent compared with the list announced in 2017. These large enterprises primarily focus on the domestic market and production of non-tradables, and some adopt new technologies, invest in training, and recruit locally and globally. A number of large private corporations participate in multiple sectors and rank among the top private companies. Three of the top 10 private companies are conglomerates that have diversified into at least three entirely different economic sectors. Still, the value of Vietnamese brands remains low compared with that of many countries in Southeast Asia.

State-owned enterprises (SOEs) maintain a large economic footprint in Vietnam and may discourage private investment (Dinh and others 2019). While the number of SOEs has declined over time, they remain dominant players in the economy, generating nearly a third of GDP. Vietnam had 2,486 active SOEs at the beginning of 2018 (compared with 3,281 in 2010). SOEs account for 0.4 percent of registered enterprises but produced nearly 30 percent of GDP (General Statistics Office of Vietnam 2018). The government holds a majority share in 1,500 companies, including about 740 listed on the two main stock exchanges in Hanoi and Ho Chi Minh City (HCMC). This included the majority of shares in at least 6 of the top 10 companies on the Vietnam Stock Exchange, as of 2017. Although Vietnam is undertaking the equitization of SOEs on a large scale, progress is slower than planned.⁵ With the state remaining a dominant player in enabling sectors, especially in absence of social or economic rationale for government participation, it may crowd out much-needed private investment and innovation.

Sustainable growth in the future will rely on a shift toward private investment that is associated with efficiency, innovation, and productivity gains. The objective for the government is to ensure that scarce resources are directed to tasks in which the private sector cannot fully meet a particular need (Ogus 1994; Sauter and Schepel 2009). Whereas large shares of investment could be justified in socially sensitive sectors such as water, sanitation, and health, investment in other sectors that can be more efficiently operated by private firms, such as information and communication technology (ICT), energy, and construction, may not be the most efficient use of public resources. For instance, the state provided nearly 84 percent of total investment in energy, nearly 70 percent in transport and storage, and 54 percent in the information technology sector in 2018 (General Statistics Office of Vietnam 2018). By undertaking market reforms, increased private sector participation in these sectors could potentially lead to a considerable increase in the overall productivity and competitiveness of the economy, as was evidenced by reforms in the airlines industry.

As Vietnam moves toward recovery, the development of a productive and diversified private sector will become imperative given scarce public resources. For Vietnam, the path to becoming a high-income country is predicated on increasing value addition in existing sectors, expanding and deepening participation in GVCs, and diversifying into new sectors and markets while ensuring sustainability and the digitalization of the economy. This effort entails tackling the key cross-cutting constraints that deter private sector growth, productivity, and diversification.

KEY CROSS-CUTTING STRUCTURAL CONSTRAINTS HOLD BACK PRIVATE SECTOR DEVELOPMENT

The COVID-19 pandemic provides an impetus to accelerate implementation of unfinished structural as well as second generation business climate reforms, that build on the government's earlier reform efforts. Key priorities include: (i) reducing the regulatory burden on businesses to facilitate expansion of existing firms and entry of new digital businesses; and expediting the opening of markets and sectors, through a strengthened competition framework and SOE reforms, to enhance efficiency and competition in strategic sectors; (ii) improving access to finance for underserved SMEs as well as supporting financial inclusion and innovative financial services through growth of the fintech industry; and developing capital markets for future growth; (iii) addressing skill gaps and building managerial practices to support innovation; and (iv) lowering high logistics and infrastructure costs to support the development of a productive and vibrant economy. Tackling implementation and governance challenges, especially at the sub-national level, remains a cross-cutting agenda.

LEVEL THE PLAYING FIELD TO INCREASE PRIVATE INVESTMENT AND SCALING UP OF DOMESTIC FIRMS

The large size and influence of SOEs could hinder competition for smaller and less established firms. The potential for entry and the operations of firms may be affected by SOE market dominance, or by the greater ability of established firms to influence government decisions of importance to firms, or both. Private firms find it difficult to fully participate and compete in many markets because of the preferential treatment given to SOEs. Commercial banks continue to lend to under-performing SOEs on a noncommercial basis (IMF 2019) thus increasing the local cost of borrowing for profitable firms. SOEs in financial trouble can receive state support through loan write-offs and rescheduling, limiting resources that could be directed to private firms. While existing laws and regulations on land assignment and rent for business and production do not discriminate between SOEs and non-state enterprises, SOEs hold 70 percent of land dedicated to production and business purposes.

Domestic private conglomerates are emerging as important economic players but generally do not compete in the same sectors as SOEs. While domestic private conglomerates are evolving, they do not appear to have a dominant position in the economy and their shares of sector-wide sales range from 5 to 27 percent. The largest conglomerates operate in commercial sectors rather than in natural monopolies or network sectors. Barring a few exceptions, private conglomerates do not appear to compete against each other in the same sector. In some markets, conglomerates are contesting with more established players, including in a few cases with SOEs. In general, however, the overlap between SOEs and private conglomerates is insignificant.

Conglomerates may use their influence to erect barriers to entry or thwart the scaling-up of smaller domestic firms. Earlier work and recent in-field consultations suggest that some conglomerates leverage political connections as they expand their businesses. These corporations appear to have easier access to factors of production (land, skilled labor, and finance) than smaller firms and new entrants. While domestic private conglomerates do not benefit from explicit regulatory protection, they may be benefiting from restrictions on foreign investment. For example, Vietnam has an economic needs test for foreign-invested retail outlets.

KEY GAPS IN ACCESS TO FINANCE RELATE TO UNDERSERVED SMES AND AVAILABILITY OF LONG-TERM CAPITAL

Although Vietnam has a sizable banking system and ample liquidity, financial inclusion is limited. The Vietnam Provincial Competitiveness Index 2020 found that 41 percent of firms surveyed faced difficulties in getting credit. Credit growth to SMEs has been anemic, around 3 percent annually. According to an SME survey by the Central Institute of Economic Management, SMEs have a much lower chance of obtaining bank loans than large enterprises do. Long-term finance is particularly scarce: more than 85 percent of commercial bank liabilities are due in less than one year. Banks generally view liquidity as one of their key risks, a situation which limits commercial banks' lending capacity and appetite for long-term lending.

Difficulties in using secured assets as collateral remain a key barrier for SMEs to access bank credit. Banks in Vietnam generally require fixed assets and tend not to accept other movable assets, such as account receivables and inventory, as collateral. Building on earlier reforms, focus needs to shift to developing regulations along with an action plan for inventory and receivables financing needs. Banks and other credit providers are often uninformed about the potential for the market, and they lack the required expertise in valuing movable assets, especially machinery and equipment.

The availability of supply chain financing is limited for SMEs. Supply chain finance (SCF) enables suppliers and distributors to optimize their working capital management by converting their sales receivables and inventories to cash and to obtain lower-cost financing.⁶ According to Vietnam's secured transaction registry, only 30 percent of total filings are related to receivables and inventory, significantly lower than those in more developed markets (for example, compared to 60 percent in China). Vietnamese micro enterprises and SMEs embedded in supply chains and ecosystems of larger corporate anchors have limited opportunities to leverage the enhanced credit standing of anchor firms to get better access to finance. In addition, low productivity and low-quality production make it difficult for SMEs to participate in GVCs. As of December 2018, only 300 SMEs in Vietnam's supporting industries were part of a global supply chain. SCF e-platforms are critical in creating a transparent database of transactions among suppliers and buyers and can support lending by financial institutions. These e-platforms are available in Vietnam but most of them are bank-led, and the penetration of third party e-platform providers is not strong. Further improvements in the enabling environment for collateral management (such as national warehousing and logistic systems) and the development of nonbank financial institutions, as players in the SCF market, also are important.

The COVID-19 pandemic has underlined the urgency for the development of digital financial services (DFS). There is significant scope for growth in DFS (including digital payments, lending, insurance, and savings) given that Vietnam has a high rate of smartphone penetration and cost-effective internet and Wi-Fi access. While the State Bank of Vietnam (SBV) has taken a cautious approach to fintech regulations, it could increase granting of licenses which could in turn help fintech firms diversify into other areas such as lending. In response to the pandemic, the government has recently allowed, as a pilot, the implementation of mobile money. Overall, development of DFS and the fintech industry will lead to increased financial inclusion and help address constraints in SCF and collateral registries.

Vietnam's capital markets are experiencing an expansion but remain shallow. Despite the growth, Vietnam continues to lag other ASEAN member countries, as evidenced by the size of its bonds market. The relatively rapid expansion of the bond market in Vietnam has been concentrated in issuances from the public sector, whereas the use of bonds by corporations has remained mainly limited to banks and real estate companies. Most of these were private placement bonds and not listed on the exchange market. A well-developed corporate bond market will be important to recapitalize state-owned banks, fund major SOEs, finance infrastructure projects, provide opportunities for various sectors to create instruments appropriate to their funding needs, improve financial stability, and potentially attract more local and foreign institutional investors. However, several obstacles hinder the growth of the market, including an inadequate legal and regulatory framework for corporate bonds; lack of necessary and standardized documentation; limited use of credit ratings; and the lack of a credit culture based on proper disclosure.

Meanwhile, only a few companies have used the equity market to raise capital, and foreign investors have limited access to Vietnamese equities. The total of initial public offerings and follow-on offerings reached US\$3.8 billion between 2016 and 2018, which was lower than the amount raised by peers: the Philippines (US\$4.7 billion), Malaysia (US\$5.1 billion), Thailand (US\$5.8 billion), and China (US\$143 billion). The secondary market in Vietnamese equities has been more active, with a modest turnover ratio of 40 percent, which is in the mid-range of the ratios reported by peer markets in the region. Obstacles to greater equity market issuances include limits on foreign ownership, which have created some price discovery issues for companies whose foreign ownership has reached the limit, and a lack of information

disclosure (including the timely availability of information in English) and access to management for listed companies. Capital control measure—for instance, access to foreign exchange hedging instruments—also hinder foreign participation.

It is important to continue the development of the building blocks for long-term finance. These include enhancing pricing mechanisms through yield curve development, thus taking advantage of the existing momentum through the improved government bond market. Development of money market and reliable short-term reference rates would help solidify the yield curve and indirectly facilitate the development of innovative instruments in the capital markets. Banks are unlikely to meet the full extent of growing demand for financing because of their liquidity and capital constraints, and maturity mismatches. In this context, new types of instruments—such as infrastructure bonds, asset-backed securities, and other structured instruments—are necessary to support infrastructure and other long-term investments in Vietnam. These developments should be accompanied by efforts to broaden the investor base, which is important not only to sustain market growth but also to increase liquidity and reduce volatility. Among other efforts, the development of mutual funds and private pension funds would be important as long-term saving vehicles for individuals and as a long-term funding mobilization tool through the capital market. The launch of the first private pension fund in April 2021 is a promising development. In addition, an appropriate incentive system (such as through tax incentives) should also be considered to channel more investments through these vehicles.

IMPROVING SKILLS

As Vietnam transitions toward an innovation-led growth model and increases value addition, the demand for skilled labor as well as for more sophisticated technologies will increase. The growth of knowledge-intensive exports, the service industry, and automation will require a labor force with a range of skills and a means for continuous upskilling. However, Vietnam’s labor force has low levels of education, and skill gaps (poor quality of skills) and skill shortages (inadequate quantity of workforce with required skills) are major constraints for engaging in/investing in firms’ innovation practices (Cunningham and Pimhidzai 2018). The 2018 Global Competitiveness Index (WEF 2019b) ranks Vietnam 127th of 140 countries on the industry-relevant skills of university graduates. Although Vietnam is recognized globally for its high and equitable level of PISA (educational) scores that are on par with fellow member countries of the Organization for Economic Co-operation and Development (OECD), Vietnam has not yet capitalized on this great potential of high school graduates because of the low quality and low relevance of the tertiary education system. COVID-19 has also underlined the need for Vietnam to build digital skills, which will affect the way service sectors such as tourism and agribusiness recover from the pandemic.

Skills gaps are a major obstacle to firm performance. Almost half of employers who responded to the 2015 World Bank Enterprise Survey for Vietnam identified “skills” as an obstacle to firm performance, compared with 31 percent of firms in the rest of developing East Asia and Pacific. Exporting firms are also three times more likely than non-exporting firms to identify this skills constraint. Managerial skills are particularly scarce. And skills gaps are widening rapidly. The 2014 and 2017 Labor Force Surveys show a reduction in jobs that require simple skills (such as subsistence farmers and street vendors). In contrast, 8 of 10 of the fastest-growing occupations require higher-level knowledge and a broader range of skills, including in manufacturing and modern services (telecommunications, finance, and transport).

STRENGTHENING KEY INFRASTRUCTURE SECTORS—LOGISTICS AND POWER

Vietnam's investment needs for infrastructure are enormous. Between 2012 and 2017, Vietnam invested 6–8 percent of GDP in infrastructure per year, which was in the upper range of estimated investment needs for low- and middle-income countries (needs are estimated between 2.0 and 8.2 percent of GDP per year). Estimates by ADB, KPMG, UNESCAP, and the World Bank indicate that Vietnam's annual investment needs could range from \$17 billion to \$25 billion for 2015–25. In addition, Vietnam's existing infrastructure needs substantial improvements. The Global Competitiveness Index (WEF 2019b) ranked Vietnam 77th of 141 economies in infrastructure, behind its regional peers Thailand, China, and Indonesia. The CPSD considers two infrastructure service sectors, i.e. logistics, particularly domestic logistic services, and power, because of their crucial role in private sector growth. In addition, the private sector can contribute to greening of infrastructure through new investments in renewable energy.

LOGISTICS

Vietnam has done a remarkable job in investing in infrastructure connectivity but weaknesses remain. Overall performance and efficiency of domestic logistic services are lagging. Vietnam's ranking on the World Bank's Logistics Performance Index improved from 53 in 2010 to 39 out of 160 economies in 2018. However, total logistics costs in Vietnam were estimated around US\$41 billion in 2016, accounting for about 21 percent of total GDP, compared with a global average of 12 percent and much lower figures in China (15.4 percent), the United States, and Singapore (both 8-9 percent). The high proportion of total logistics costs to GDP in Vietnam reveals underdeveloped domestic logistics infrastructure and relatively low connectivity, resulting in congestion in road transport, airports, and ports. Inefficient logistics, particularly in trucking, also cause unnecessarily high emissions of greenhouse gases.

Foreign companies tend to dominate the high-value segments of the logistics market with experience and professional management. Local logistics companies have difficulties matching these attributes. Foreign investors are mostly present through sizable companies, typically with sales over \$100 million. Although there are only about 25 foreign companies participating in the logistics sector, they currently capture the majority of the market share, providing high-value-added logistics services, such as supply chain management. They have brought with them higher service expectations and requirements.

Road transport accounted for 77 percent of the total transported freight volume in 2018. Transported volumes grew by an average of 10.6 percent per year (compound annual growth rate) between 2008 and 2018, and in 2020 road freight tonnage was expected to grow by 8.0 percent. Trucking services are inefficient because the industry is fragmented and lacks aggregators. Excessive fragmentation drives down margins and the sustainability of the trucking sector. A recent World Bank study (2019a) found that logistics costs per ton-km have been falling because of an increase in the number of trucks owned, increases in truck tonnage, and better truck utilization rates.

Freight brokerage services are underdeveloped and contribute to empty backhauling rates as high as 50–70 percent. Given the fragmentation of the trucking industry, aggregators could play a key role in increasing efficiency—notably, by reducing empty backhauling—and promoting transparency. There is a lack of freight brokerage services covering the whole country, which has resulted in limited use of technology to improve logistics efficiency. The use of ICT to create digital freight aggregators has the potential to provide real-time matching of supply and demand and route optimization and could contribute to increasing the sector's efficiency.

Inadequate non-road infrastructure stifles the development of multimodal networks.

Recent World Bank analysis indicates that it is important to develop alternative modes of transportation, such as inland and coastal waterways, along with supporting infrastructure such as river ports and inland container depots (ICDs). Currently, 39 percent of traffic in seaports is for domestically transported cargo; this traffic has increased faster than international traffic. The majority of this traffic is in bulk, rather than containerized. The containerization of cargo would foster multimodal transport and facilitate shipping on waterways. However, this effort would require the development of adequate infrastructure for ports to handle containers. Inland waterways also lack proper landing stages with adequate access roads. Many bridges with low clearance also pose a challenge. ICDs are a key interface between roads and ports and can serve as points of road freight consolidation. Unfortunately, truck operators currently avoid them because of their long processing times and often-inconvenient locations, far from industrial zones.

Inadequate planning hinders the delivery of goods from fulfillment centers to consumers.

Demand for these last-mile services has boomed with e-commerce, as small parcels have multiplied. The main challenges for urban deliveries are linked to traffic rules, a lack of adequate infrastructure, and intense competition between actors. Surveyed logistics providers complain about insufficient road infrastructure, such as overpasses, underpasses, and bridges. Rules limiting truck circulation in Hanoi and HCMC during peak hours help regulate the traffic in congested city centers but also stifle the development of needed services.

The demand for efficient logistic services in Vietnam is expected to increase substantially in the coming years. Rising incomes will increase the demand for consumer goods and safer food products, which will place greater emphasis on modern food distribution and retail chains. Preferences for remote purchases have increased in the wake of the COVID-19 pandemic, underlining the lack of adequate urban consolidation centers and cross-docking facilities to facilitate the aggregation/disaggregation of the traffic exiting and entering urban centers and the organization of deliveries by clusters. Efforts to increase value addition in the agribusiness sector will increase the demand for cold chain facilities. The rapid growth of the airfreight market will place increasing pressure on inadequate cargo facilities at airports.

Several major constraints limit private sector participation in the logistics sector:

- **Limited access to finance** impedes efforts by smaller logistics services providers to upgrade and scale up the vehicle fleet, and for innovative start-ups to enter the market. Financing options, such as leasing, are underdeveloped, particularly for commercial vehicles.
- **Restrictions on foreign ownership** of some logistics providers and difficult and costly processes to obtain licenses, particularly in the air sector, impede entry.
- **Pricing guidelines for public procurement** issued by subnational governments can facilitate collusive agreements by making it easier for private providers to engage in price setting.
- **Weaknesses in the regulatory framework**—including the lack of a process for bonded warehouses to transfer goods for sale in the domestic market, inadequate food safety requirements and poor enforcement, a lack of transparency and consistency in rules and regulations (for example, different rules may be applied by different authorities when regulatory changes are not well communicated), and the lack of documentation (such as a value added tax invoice) for e-commerce sellers—impair the efficiency of logistics.
- **Skills in the logistics sector are in short supply at all levels.** Industry leaders report difficulties attracting and retaining talent in the sector, especially for top- and mid-level managers. There are also difficulties in finding trained staff for lower-skilled jobs, such as drivers or equipment operators.

POWER

Electricity demand has grown 13 percent per year since 2000 and is projected to grow 8 percent per year to 2030, driven by further industrialization, a growing middle class, and urbanization. This growth rate would require generation capacity to increase from 55 gigawatts (GW) in 2019 to 60 GW in 2020 and to 100 GW by 2030. Electricity Vietnam (EVN)—the state-owned power company—is forecasting power shortages for at least 2021–25, with a deficit of more than 7.5 GW by 2025. It is estimated that a loss of US\$23 billion would be incurred between now and 2030 should Vietnam fail to solve the power shortfall. The ADB estimates that US\$152–\$185 billion of total investment in the power sector would be needed over the period 2016–30 to close the power shortage gap (Dang and Taghizadeh-Hesary 2019).

The public sector will not be able to provide this level of resources, particularly as concessional funding declines and the public debt ceiling of 65 percent of GDP constrains public borrowing and guarantees. The Revised Power Development Plan (RPDP7) envisions that private investment should rise from 42 percent of total capital investment in the power sector in 2019 to 70 percent in 2030. Public-private partnerships (PPPs) will be a major instrument to boost domestic and international investment in the sector. In addition, improved energy efficiency could save an estimated 10,300 megawatts (MW) of thermal power by 2030 if factories start to implement energy-saving actions (World Bank and MPI 2016). The government is working on the new Power Development Plan 8 (PDP 8), which will be published in 2021.

Private sector participation in electricity generation is large and growing rapidly. The private sector contributed 42 percent of generation capacity in 2019 (20.4 GW), an increase of approximately 54.8 percent from 2018 (13 GW). Most of this capacity was added through investment in renewable energy under the build-operate-transfer (BOT) and independent power producer (IPP) models.

Natural gas will play a critical role in bridging future energy demand. Vietnam's Gas Master Plan shows gas demand will grow from the current 10 billion cubic meters (bcm) per year up to 30 bcm per year by 2035. Cumulative investment needs for the period 2015–35 are estimated around US\$20 billion, including upstream production facilities, pipelines, gas treatment facilities, and liquefied natural gas (LNG) infrastructure. The development of Vietnam's next generation of gas fields will require large investments at a time when, due to lower oil prices, PetroVietnam (PVN) is financially stretched. At the same time, the need for new investments in midstream gas infrastructure and the challenges being encountered in moving forward with LNG import projects are exposing weaknesses in Vietnam's gas market structure and pricing regime. Under these, PVN is the monopoly midstream player and gas prices are based on bilateral negotiations referencing low-cost fields developed before 2007.

The government has recently highlighted the use of LNG as a source for power generation and will look to create more favorable conditions for foreign investors to develop such projects. This undertaking has already translated into strong investor interests in LNG projects and a robust LNG-to-power project pipeline. There are now approximately 26 GW worth of gas-fired power projects in the pre-Final Investment Decision phase in Vietnam, which are slated to come online between 2022 and 2029.

In order to hit the target for renewable energy stipulated in RPDP7, Vietnam will require a total investment of \$23.7 billion by 2030. The government has taken some steps to unlock private investment in the renewable energy sector, such as allowing 100 percent foreign ownership of Vietnamese companies in the sector. Foreign investors can choose among permitted investment firms, such as 100 percent foreign-invested companies, joint ventures, PPPs, or BOT projects.

Vietnam has exceeded its target for solar energy, and it has enormous potential for developing wind energy projects. The RPDP7 goal of about 4 GW of solar power for 2025 was exceeded by mid-2019. PDP 8 is anticipated to increase the planned capacity of wind and solar well beyond RPDP7 targets. The country's technical potential for wind power is assessed at 27 GW. However, current wind power projects are expected to add just over 300 MW in total capacity, lower than the target of 800 MW by 2020 stated in RPDP7. An increase in the feed-in tariff for wind power projects in September 2018 may eventually attract developers back into the market, and previously distressed deals may become feasible again.

Foreign and domestic investment is on the rise in the renewable energy sector, but much more needs to be done to ease investors' concerns. In spite of the liberalization of the policies in the past few years, investors are facing numerous obstacles: lack of funding; high investment costs in newer technologies; lack of qualified human resources; underdeveloped supporting industries; weak grid capacity; unbankable power purchasing agreement (PPA) terms; delays in larger projects due to the complex regulatory framework; and lack of clarity on future energy prices.

The absence of a clear and transparent policy framework and bankable PPAs is constraining private investment in the power sector, including renewable energy. Despite high feed-in tariffs and investment incentives for renewable energy, only a few wind projects have made it to the construction stage and are in operation to date. International renewable energy developers have encountered many challenges in getting projects to the operational phase, including the questionable bankability of the PPA, and the operational risks that projects face.

The regulatory framework for private sector participation in infrastructure through PPPs is governed by a new PPP law. The recently approved PPP law serves as the main legislation governing PPP transactions in the country. Looking forward, legal and fiscal risks could be lowered with further development of implementing regulations and standard contract forms to ensure that the remaining ambiguities are addressed in a way that encourages investment. The new PPP law includes many positive measures, such as (a) allowing wider sector inclusion for PPPs; (b) enabling a special purpose vehicle framework or "Project Enterprise" status to facilitate investment; (c) clarifying policies and mechanisms for the availability of viability gap financing for national and local PPP projects; (d) establishing a regime for the provision of minimum revenue guarantees that will make risk sharing between the public and private sectors more equitable; (e) providing standard form contracts for use in PPPs; (f) providing for the eligibility of bond-based financing for PPPs; (g) permitting the option of third-country international arbitration; and (h) including competitive bidding processes.

However, the new PPP law still lacks elements required to optimize private sector participation and international bankability for PPP projects. The PPP law is a step in the right direction; however, the following issues would still need to be resolved to create transparency and a level playing field for private investors (both international and domestic): (a) PPP contracts should be governed under international law and not Vietnamese Law; (b) change the minimum revenue guarantee process so it is less complex and no longer heavily weighted against the private investor; (c) make the financial closing timeline less restrictive; (d) clarify the termination clause and payment regime; (e) allow foreign lender security regarding land rights; and (f) have the process of certifying completion of works be certified by an independent engineer selected by the parties, not the government.

Making PPAs for renewable projects bankable, in line with international standards, is key to attracting private investment. Regulatory provisions that place excessive risk on the private party reduce the bankability of projects. Major issues under solar and wind PPAs include strict limits on compensation in the case of termination of an agreement; Vietnam Electricity (EVN's) authority to curtail a project for technical reasons,

without compensation for lost revenue to the project company; and arbitration of disputes by a government agency or local court, which raises doubts about the impartiality of decisions.

The procurement process for IPPs is subject to bottlenecks. At present, negotiations over PPA and BOT concessions typically take at least three years. Since the introduction of the PPP decree in 1997 on such concessions, only a handful of projects have been implemented with foreign investors. In addition, there is a lack of consistency across provinces with respect to the many licensing and permitting procedures required.

SOEs in the power sector face challenges in mobilizing commercial financing. The ability of SOEs, such as EVN and PVN, to raise commercial financing hinges critically on the creditworthiness of the enterprises as assessed by an adequate credit rating from a reputable rating agency. EVN received its first credit rating in June 2018 and EVN Hanoi in July 2020, although financial difficulties remain. Key EVN subsidiaries in the power sector, such as the distribution companies (PCs), are corporatized but do not have the financial strength to raise commercial finance from their own balance sheets to meet their large investment requirements.

Progress in the government's divestiture program in the power sector is important to generating required investments. The planned divestiture of at least 50 percent of two subsidiaries would increase the financial health of EVN as the sole buyer in PPAs (Dang and Chuc 2019), and thus help to attract foreign investment. Foreign investors may be reluctant to buy these assets, owing to concerns over corporate governance, transparency, and the quality of accounting among Vietnamese SOEs. Hence, the government recently issued legislation to provide greater transparency and protection to investors. It remains to be seen whether those changes will be sufficient for private investors to participate. Major reforms to liberalize the gas sector are not scheduled to start until 2025, leaving doubts as to how the much-needed investments will be financed during the intervening years.

MARKET INSTITUTIONS AND GOVERNANCE

A well-functioning and efficient regulatory environment will be crucial to reinvigorating productivity growth in Vietnam. The regulatory process for setting up and expanding businesses, while improving, remains cumbersome in Vietnam. Entry barriers depend on a broad range of procedures that go beyond business registration and vary by type of firm and sector. While there were some improvements in the legal framework governing bankruptcy, Vietnam could reinforce the insolvency framework, which could include: easing the commencement rules to provide incentives to initiate cases early on; strengthening creditors rights, including in the appointment of the insolvency administrators and in the divestiture of assets; building stronger national professional standards for insolvency administrators; and enhancing the role of commercial courts.

Recent legislation represents significant progress toward a comprehensive corporate governance framework, but the quality of corporate governance remains well below that of peer countries. Vietnam's score on the ASEAN Corporate Governance Scorecard increased from 28.4 in 2012 to 41.3 in 2017. However, Vietnam still ranked the lowest among the assessed ASEAN countries. The main weakness stems from the lack of an effective enforcement mechanism to ensure that rules are consistently applied. Only about 10 percent of listed companies' boards in Vietnam meet the independence requirement set by the State Securities Commission. In the banking and financial sector, governance issues include a lack of independent directors; a lack of board oversight and accountability mechanisms; inadequate internal audits, asset-liability management, know-your-customer and compliance functions; and poor disclosure practices. In addition, a high degree of cross-ownership between banks and with enterprises, as well as complex shareholding structures, raise risks of conflicts

of interest and connected party lending. The Vietnam Corporate Governance Initiative, launched in December 2016, is a promising attempt to promote good governance practices in the corporate sector.

The new competition law is an important step toward boosting competition. The 2018 Competition Law, which came into effect on July 1, 2019, improves the 2004 law in several respects, but in other aspects it still falls short of international practice: (a) the notification requirement for mergers is still partially based on the market share of the combined firms, which creates regulatory unpredictability because the definition of relevant markets can vary depending on technical assumptions; (b) participation in the new leniency program designed to streamline enforcement against cartels is likely to be limited, because cartel members may still be subject to penalties under the penal code; (c) the law allows agencies to provide exemptions for hard-core cartel agreements that should be exempted rarely, if ever; and (d) the prohibited acts of dominant firms are defined so broadly that actions benefiting consumers could be penalized.

Important concerns on enforcement also remain. The application of merger control to SOEs has reportedly been uneven, the competition authority may not have even been notified of some major mergers between SOEs, and enforcement of the competition law is undertaken by the same ministry to which most of the SOEs are mapped. Setting priorities for enforcement targets, advocacy and outreach to the private sector, and the transparent and well-publicized resolution of cases is important for effective enforcement. The 2018 Competition Law requires that decisions of the National Competition Committee (NCC) be publicly announced, which can foster even-handedness and provide firms with a greater understanding of what is viewed as anti-competitive behavior. The NCC's independence is critical to limit political interference and gain broad acceptance of its decisions. Thus, the NCC's establishment under the line ministry with responsibility for many SOEs raises concerns over whether it is capable of making unbiased decisions with respect to SOEs. Moreover, members of the NCC are both appointed and removed by the Prime Minister at the request of the Minister of Industry and Trade, so that political pressure could potentially affect the decisions of the NCC.

KEY SECTORS—EDUCATION AND SKILLS TRAINING, AGRIBUSINESS, AND TOURISM

The CPSD identified five sectors in which private sector participation can make a significant difference to economic growth: power (energy), logistics, agribusiness, tourism, and education and skills training. Because power and logistics are considered in the section on cross-cutting constraints, here the focus is on higher education and skills training, agribusiness, and tourism.

HIGHER EDUCATION AND SKILLS TRAINING

The gross enrollment rate for tertiary education increased from 10 percent in 2000 to 28.6 percent in 2019, driven by the rise of the middle class and increased high school graduation rates, as well as by policies to promote non-university technical and vocational education and training (TVET) institutions and private sector tertiary education institutions. Nevertheless, the gross enrollment ratio in higher education remains below 30 percent, compared to gross enrollment ratios of close to 50 percent in China and close to 50 percent in Malaysia, and a global average of 38 percent (UNESCO data, 2020, <http://data.uis.unesco.org>).

There are several opportunities for private sector institutions to help improve skills. Information technology skills are particularly in short supply. It was estimated that Vietnam needed an increase of 411,000 information technology staff during 2016–20 which is likely higher in the post-COVID-19 era. Rapid growth in construction

has greatly increased the demand for civil engineering skills, and it is estimated that the industry needs an additional 400,000 to 500,000 workers per year. There is increasing need for college-graduated engineers and vocationally trained workers. Business and management skills are also in high demand, with a recent World Bank survey (2019a) reporting that 73 percent of firms find it difficult to hire an employee with managerial and leadership skills. Private universities with international affiliation are playing an increasing role in business and management education, targeting students from affluent families in Vietnam who find the tuition fees more affordable than studying abroad.

Some barriers to private sector participation in higher education persist. The new Law on Higher Education, which came into effect in July 2019, does not state how a private educational institution should be established. In addition, there are gaps in the Investment Law and the Enterprise Law relating to investor protection. The process for obtaining licenses to establish and operate a private educational institution remains cumbersome. While foreign education institutions are permitted in Vietnam they are subject to minimum investment requirements and constraints on the size of facilities for a given number of students as well as obligations to provide political and cultural subjects and content in the curriculum.

Vietnam comprises a wide variety of TVET institutions. TVET institutions have grown more slowly than those in higher education despite potentially meeting employer needs better. Public TVET institutions are under resourced and undersupplied with qualified teachers, offer outdated curricula that do not meet industry needs, are not well managed, and suffer from inadequate certification, accreditation, and quality assurance standards. Vietnam has encouraged non-public provision of TVET since 1998, and many private providers have entered the market. Today, private TVETs account for 33 percent of the total. The main recurring challenge is the unequal treatment in terms of government investment between private and public TVET institutions. Some employers have invested in third-party TVET institutions, in exchange for oversight or board positions and preferential or first-choice of trainees and students. Nevertheless, program choice and design are not market responsive; the majority of new TVET programs are started through government initiatives and have weak industry links, making them unable to offer curriculum aligned to industry needs. International TVET programs are also available, mostly provided through twinning programs with local partners. Corporates are also providing extensive in-service/on-the-job training and retraining.

Significant opportunities exist for private providers of TVET. The demand for TVET among Vietnamese youths is increasing, particularly in light of poor employment prospects for university graduates, including in the low-cost fields (ICT, business subjects, and languages) in which private trainers tend to concentrate. The regulatory environment for private training providers is relatively favorable, because private training providers can set their own fee levels and go through the same registration screening as public institutions. Private training providers also must follow the same curriculum framework as public institutions.

The effectiveness of the TVET system is impaired by several factors. Obtaining permission from the Department of Vocational Training (DVT) takes significant time, which means that institutions can lose the opportunity to respond to training orders from enterprises. The system is decentralized, with 2,000 institutions providing a range of courses to about 2 million students and managed by several ministries or state-level departments. There is no quality assurance or accountability structure in place. There is no national examination for vocational training, and assessment policies and procedures need to be strengthened to ensure that learners are assessed according to national skills standards. The system relies heavily on funding from the DVT's

budgets, where the allocation of funds is based on inputs rather than linked to performance, and tuition is far below levels necessary to ensure cost recovery. Inconsistency in the legal framework has impeded the use of TVET institutions' own assets to invest or operate joint ventures or other industry-linked businesses. There are no national or institutional scholarship programs, and the student loan scheme is accessible only for a narrowly defined set of beneficiaries. The ability to increase tuition and attract new students is limited by negative attitudes toward vocational education. Industry participation in TVET is minimal, and most teachers are recruited through the schooling or university systems, leading to a disconnect between curricula and actual workplace requirements. Many classrooms and technical workshops have limited materials and equipment, low teacher salaries make it difficult to hire highly skilled teachers, and teachers have few opportunities to gain experience in industry and to learn new technologies.

AGRIBUSINESS

Crop production has become more diversified over time, while livestock remains dominated by pork and poultry. Although rice continues to be the largest crop, the agricultural sector has been transformed from largely producing rice to feed domestic production to one of the world's largest producers and exporters of a wide range of agricultural products. Vietnam is now recognized as a leading producer of coffee, cashews, black pepper, cassava, rubber, and tea, as well as aquaculture. In animal protein, pork represents 71 percent of production value, while poultry represents 20 percent. Feed is the principal cost related to production of both pork and poultry, so that international commodity prices determine a large portion of production costs.

The agribusiness sector is dominated by smallholder farmers and the challenge is to improve their productivity. Nearly 90 percent of agricultural land falls under household farms, with 94 percent of household farms being 2 hectares (ha) or less (with 69 percent being less than 0.5 ha), and in many cases this land is fragmented (World Bank, 2016). Private sector farms face difficulty in accessing or leasing land. Most pigs are slaughtered in backyard facilities or are collected by traders and killed in small slaughterhouses handling one to three pigs a day, while many broilers are slaughtered in backyard operations tied to wet markets. While Vietnam has many industrial-scale processing firms in rice, coffee, cashews, wood, tea, sugar, vegetables, and fruits, of all agriculture business, more than 96 percent are small or very small in scale. Vietnam's retail food landscape is largely dominated by traditional wet markets and small independent stores. The dominance of small-scale production and processing, combined with fragmented land, limits potential gains in productivity and the shift to higher-value markets.

Production and exports have increased sharply. Agriculture production rose by 189 percent and livestock 282 percent over the past three decades. Mechanization has increased over the past two decades, but more rapidly in the rice sector than in other sectors. Irrigated land area also has increased, with more than 70 percent of Vietnam's cultivated area (taking into account multiple crops within a year) now serviced by irrigation infrastructure. Agricultural exports increased by more than half from 2007–12 to 2013–17, and the structure of export products is slowly transforming from lower-grade commodities to processed, high-quality, and high-value-added products. Nevertheless, commodity price/yield gains have now leveled off, and total factor productivity has fallen. Almost all accessible arable land is already in cultivation, so future growth in production will have to rely on increasing yields, and growth in incomes will come from transition to higher-value commodities. Recent trade agreements open the door for increasing access to higher-value markets, but challenges remain to meet international market requirements while also competing with new domestic market entrants.

Several problems constrain private sector production in the sector:

- **Lack of access to finance** is identified as the main constraint on doing business by a higher share of firms in agribusiness than in any other sector in Vietnam. There is only a limited supply of financial and nonfinancial products and services, such as leasing, warehouse finance, receivables and contracts financing, guarantees, collateral management, and agri-insurance.
- **Vietnam's high cost of logistics** has serious implications for agricultural products, particularly the transport of fruits and vegetables from small-scale producers. Cold chain infrastructure is needed for development and modernization of the sector.
- **Poor biosecurity** threatens production and sales of agricultural products, particularly the sharp reduction in pork production due to African swine fever and the dangers of diseases to poultry in village-level production and informal slaughterhouses. (Highly pathogenic avian influenza wreaked havoc on production in 2010.)
- **Food safety concerns hamper both domestic and international market access.** Reported high levels of chemical and pesticide residues in fruits and the overuse of antibiotics and growth promoters in both the pork and poultry value chains are impairing the domestic and international reputation of the sector. Monitoring of farms and slaughterhouses (especially of small-scale facilities) is limited, and the lack of recordkeeping makes it impossible to track products to verify conformity to food safety and quality requirements, a prerequisite for participation in exports, especially in a post-COVID-19 environment.
- **Digital technology has not been widely adopted.** A number of farmers are beginning to adopt digital technologies to manage their irrigation on smart phones or to mark their brands with QR codes. The scope and benefits are large as a wider adoption of digital technologies would help raise the productivity of agricultural producers and help achieve food safety standards.
- **Risk management instruments such as agricultural insurance are limited.** These products are critical in dealing with systemic risks in the sector such as natural disasters and crop diseases. Only 3 percent of those who work in agriculture purchased agricultural insurance.

TOURISM

The tourism sector accounts for a significant share of economic activity in Vietnam. In 2019, the tourism industry contributed 9.2 percent to GDP, accounted for 3.9 percent of total exports, and employed nearly 5 million workers (VNAT 2020). Tourism is dominated by small and micro establishments. Individual-owned establishments accounted for 81 percent of the accommodation and the food service workforce (the closest approximation to tourism in the national economic statistics), with each establishment employing 1.8 workers, on average.

The 2005 shift toward encouraging private sector participation in tourism led to a boom in the sector. From 2007 to 2019 the number of rooms rose from 180,000 to 650,000, and the number of tourism establishments grew from 9,000 to 30,000. The rise in domestic tourism reflected the expansion of Vietnam's middle class and the introduction of low-cost air carriers, such as Vietjet Air. The growth of international tourism arrivals was driven by tourists from East Asia (particularly China and Korea), but travelers' spending and length of stay are quite low compared with visitors from long-haul markets such as France, Germany, the United Kingdom, and the United States. Nevertheless, the competitiveness of Vietnam's tourism sector remains below that of many regional competitors. While Vietnam's absolute score on the WEF Tourism Competitiveness Index (WEF 2019a) improved from 3.6 in 2015 to 3.9 in 2019,

its ranking remains 5th lowest of the nine major developing East Asian tourist destinations.

The most immediate challenge facing private tourism firms is to survive the impact of the COVID-19 pandemic, due to restrictions on entry, the banning of international flights, restrictions on domestic movement, and the decline in incomes. The Vietnamese government is providing emergency support, including low-interest loans, tax reductions and payment deferrals, and opportunities for debt restructuring. The country's lack of a digital platform and digital skills for tourism has exacerbated the impact of the COVID-19 pandemic on the sector.

Over the medium term, private sector participation in the tourism sector will be limited by several problems:

- **The number of countries benefiting from unilateral visa exemptions for their citizens is quite small**, and the maximum duration of stay for visitors with a visa exemption is only 15 days.
- **The failure to follow master plans or their modification during implementation (often not on the basis of objective considerations) has led to overinvestment and accommodation gluts** in crowded and at-risk destinations and thus have increased pressures on local infrastructure and the environment, promoted certain categories of investment (usually mass market) over others, and has placed less well-connected investors at a disadvantage.
- **Aggressive marketing of condotels has increased speculative investment and led to significant losses with the recent bust in the market**, while the lack of a clear legal and regulatory framework has impaired confidence in the duration of land rights for condotel projects and thus increased investor risk aversion.
- **Operating costs for tourism projects are high**. The base electricity price for the tourism sector is set at the rate for services sectors, which is two to three times higher than for production sectors. The land tax is set at a level that significantly reduces the profits of hotel owners. And the increase in infrastructure services has not matched the rapid expansion in accommodations in recent years.
- **The scarcity of management skills** has required tourism companies to spend large amounts to train their staff. Furthermore, in the context of ASEAN integration, Vietnam has not yet provided a nationwide tourism training curriculum.

SUMMARY OF REFORM RECOMMENDATIONS

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
LEVELING THE PLAYING FIELD AND ENHANCING COMPETITION		
Strengthen and modernize the regulatory framework for businesses		
<ul style="list-style-type: none"> • Improve entry of digital businesses and scaling-up of firms. • Accelerate digitalization for reducing administrative burden and physical interface. 	<ul style="list-style-type: none"> • Streamline business registration and licensing processes across ministries and provinces. • Strengthen the ecosystem for digital start-ups. 	<ul style="list-style-type: none"> • Transition to a full online system of registration through a single window and national portal. • Improve services of incubators and adopt policies on using cloud-based hosting.
<ul style="list-style-type: none"> • Prevent viable firms from premature exit and facilitate exit of "zombie" firms. 	<ul style="list-style-type: none"> • Promote use of informal restructuring and out-of-court or hybrid work-out. • Strengthen the insolvency framework by easing commencement rules to initiate cases early. 	<ul style="list-style-type: none"> • Introduce simplified procedures for SME insolvency provisions. • Enhance the role of commercial courts and strengthen creditor rights.
Enhance competition by opening up markets and sectors		
<p>Maintain commitment to international trade: further open up economy toward regional markets and service sectors.</p>	<ul style="list-style-type: none"> • Expedite the implementation of newly ratified trade agreements. • Improve market access by tackling behind-the-border hurdles. • Remove barriers to entry in sectors currently dominated by SOEs, especially the financial sector, ICT, transport, and utilities. 	<ul style="list-style-type: none"> • Rationalize procedures and expand use of risk-based inspections. • Enhance digital cross-border trade and logistics; implement national single window. • Advance trade facilitation by continuing to reduce trade costs related to nontariff measures.
<p>Facilitate links between FDI and smaller domestic firms as well as between large and smaller domestic firms.</p>	<ul style="list-style-type: none"> • Strengthen intellectual property rights regime. • Build domestic firm capabilities and management skills to facilitate technology adoption. 	<ul style="list-style-type: none"> • Improve implementation capacity of the IPR protection system for IPR enforcement. • Revise FDI framework to reduce limits on investment and hurdles for foreign investors.
<p>Implement competitive neutrality to encourage private sector entry and expansion.</p>	<ul style="list-style-type: none"> • Implement regulatory and tax-neutrality principles for SOEs. • Strengthen separation between regulatory and ownership functions. 	<ul style="list-style-type: none"> • Impose requirement of a market rate of return to SOEs as in private businesses • Develop a registry of state-aid recipients.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
ENHANCING ACCESS TO FINANCE		
Provide financial support to viable firms most affected by COVID-19.	<ul style="list-style-type: none"> • Ensure that credit institutions proactively monitor and assess potential losses and impact on existing borrowers. 	<ul style="list-style-type: none"> • Monitor the impact of financial intermediation and ensure that support is well-targeted to most affected businesses.
Increase role of the market and market discipline in credit allocation while preserving banking stability.	<ul style="list-style-type: none"> • Implement the Basel standards for all commercial banks. • Improve risk-based supervision, the macroprudential framework, and the banking resolution framework. 	<ul style="list-style-type: none"> • Strengthen State Bank of Vietnam's capacity to execute its core mandate of regulation and supervision. • Provide greater autonomy to the banking sector to manage loan portfolios. • Establish the principle of setting interest rates through monetary policy instruments.
Facilitate use of all secured and movable assets as collateral to enhance SME's access to finance.	<ul style="list-style-type: none"> • Develop regulations and an action plan on movable assets, especially inventory and receivables financing. • Encourage financial institutions to deploy movable finance products. 	<ul style="list-style-type: none"> • Reform the insolvency law and the secured transactions law. • Change regulations to allow new debt-related financial instruments. • Develop digital collateral registration.
Scale up supply chain finance (SCF) solutions for SMEs participating in GVCs.	<ul style="list-style-type: none"> • Leverage fintech to spur the adoption of SCF and facilitate its implementation. • Establish SCF e-platforms to create a transparent database on transactions. • Develop operational supporting services for SCF. 	<ul style="list-style-type: none"> • Scale up integration of local SMEs that are part of the ecosystem of larger corporate anchors into formal supply chains. • Further improve the enabling environment for collateral management and the development of nonbank financial institutions in SCF.
Deepen capital markets.	<ul style="list-style-type: none"> • Strengthen regulatory and enforcement in disclosure, market transparency, conduct of participants and efficient clearing and settlement. • De-risk the corporate bond market by promoting the public (listed) corporate bond market. • Improve the reliability of the benchmark yield curve. 	<ul style="list-style-type: none"> • Improve governance and market infrastructure. • Enhance supervision and enforcement capacity to ensure market integrity and efficiency. • Broaden investor base and improve market accessibility for foreign investors. • Develop private pension funds; introduce effective taxation to promote long-term savings.
Encourage development and use of digital financial services.	<ul style="list-style-type: none"> • Scale up mobile phone e-payment mechanisms. • Leverage e-know-your-customer processes for better financial inclusion. 	<ul style="list-style-type: none"> • Develop the data security policy framework. • Deepen the data ecosystem.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
BRIDGING SKILL GAPS AND SHORTAGES		
<p>Enhance resilience in tertiary education institutions—TVETs and higher education institutions (HEIs)—for continuity of learning and skills formation.</p>	<ul style="list-style-type: none"> • Collaborate with private sector and development partners in supporting distance learning, e-learning teacher training, adapting training material and on-line testing. • Provide incentives (tax deductions) for investments in workers training and innovation. 	<ul style="list-style-type: none"> • Develop a national approach for continuity of learning and contingency planning as well as capacity building efforts. • Systematically build distance learning capacity for delivery in TVETs and HEIs to mitigate the effect of emergencies.
<p>Support adoption of technologies to improve the quality of learning in tertiary education institutions (TEIs).</p>	<ul style="list-style-type: none"> • Foster PPP approaches to implement e-learning in TVETs and HEIs. • Enhance existing ICT infrastructure, including bandwidth, to host e-learning. • Build digital content in TEI's curricula and improve quality of teaching. 	<ul style="list-style-type: none"> • Develop a national digital strategy and management information system for the higher education system. • Increase investments in digital infrastructure, including a centralized hosting infrastructure across member TEIs. • Move toward output-based education financing, including voucher-based models.
<ul style="list-style-type: none"> • Engage with the private sector to increase enrollment and respond to market needs. • Develop alternative modes of education including e-learning Massive Open Online Courses (MOOCs) education. 	<ul style="list-style-type: none"> • Develop and approve a tertiary education expansion strategy and implementation plan. • Develop a TVET access and quality enhancement strategy. • Remove legal/administrative, licensing hurdles to entry and expansion of private sector providers and foster alternative modalities. 	<ul style="list-style-type: none"> • Improve pathways across HEIs and TVET colleges through strengthened coordination between relevant ministries. • Develop a robust labor market information system and use this system to inform training provision. • Develop and operationalize a coordinated e-learning platform.
<p>Improve systemwide governance of TEIs to reduce fragmentation.</p>	<ul style="list-style-type: none"> • Improve stewardship and coordination at the national level. • Approve the Higher Education Strategy 2021–2030 and a higher education master plan. • Establish and operationalize a single funding agency. 	<ul style="list-style-type: none"> • Progressively raise the share of public funding to higher education. • Improve the income diversification and resource mobilization capacity of HEIs through public-private partnerships.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
IMPROVING CORE INFRASTRUCTURE SERVICES THAT SUPPORT GROWTH		
LOGISTICS		
Create an enabling environment to encourage private sector participation in logistics.	<ul style="list-style-type: none"> Facilitate operations of e-commerce sellers and logistics service providers via consistency of rules, fees. Optimize process, time, and cost of obtaining licenses for air freight operations. Review and amend potentially anticompetitive regulations. 	<ul style="list-style-type: none"> Review the overall regulatory framework and design an action plan in consultation with private sector. Develop appropriate TVET offerings in close collaboration with private sector to meet skill needs for agri-logistics, cold chain, ICT, and truck drivers.
Encourage growth of logistics service providers via coordinated planning for developing shared logistics infrastructure assets and a multi-model transport network.	<ul style="list-style-type: none"> Improve urban planning to include urban consolidation centers and inland container depots. Ease remaining FDI restrictions to encourage competition in key sectors. Encourage growth of aggregators. 	<ul style="list-style-type: none"> Create public-private dialogue platforms for planning process. Invest in ports infrastructure (landing stages, access roads) to promote freight containerization. Encourage domestic shipping companies to improve their fleets and switch to container traffic.
POWER		
Improve the PPP framework to attract more private investment in power sector.	<ul style="list-style-type: none"> Follow the international standard in enforcing contracts beyond Vietnamese law. Provide clarity on government support and risk allocation, especially termination and curtailment clauses. Set up the PPP Viability Gap Financing (VGF) fund expeditiously. 	<ul style="list-style-type: none"> Consolidate all relevant policies, decrees, and regulations for private participation under one law. Develop necessary implementing regulations and guidance for the new PPP law (June 2020). Develop consistent and streamlined licensing and permitting procedures across provinces for PPP. Strengthen technical capacity to conduct and implement PPPs within various ministries.
Support growth of the renewable sector by attracting private investments.	<ul style="list-style-type: none"> Make the power purchase agreements for renewable projects in line with bankability international standards. Roll out programmatic (and competitive) IPP procurement. Clarify the post feed-in tariff regime for solar energy. Increase the cap from 1 MW to 3 MW without requiring a power operation license. 	<ul style="list-style-type: none"> Improve the credit rating of the off-taker. Provide net metering credits for rooftop solar power. Build a transmission and distribution network to integrate new renewable energy capacity, especially solar. Launch tenders of solar photovoltaic with battery storage to improve integration of solar generation in the grid.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
Support development of liquefied natural gas (LNG).	<ul style="list-style-type: none"> Address the weaknesses in Vietnam's gas market structure and pricing regime that deter private investments. 	<ul style="list-style-type: none"> Build LNG storage and midstream infrastructure and gas power plants.
Advance the dialogue with Laos PDR to import hydro power.	<ul style="list-style-type: none"> Establish an arrangement between Vietnam and Laos PDR and support integration with the domestic grid. 	<ul style="list-style-type: none"> Propose a transmission corridor that builds new interconnection capacity between Laos PDR and Vietnam under the PPP structure.

PROMOTE GREATER PRIVATE SECTOR PARTICIPATION IN AGRIBUSINESS AND TOURISM

AGRIBUSINESS

Strengthen land policies to facilitate increased private sector investment and efficiency in agribusinesses.	<ul style="list-style-type: none"> Raise the ceiling on the agriculture land holding and usage to enable consolidation and a transition. Facilitate land conversion mechanisms to balance agricultural needs with other sectors. Improve land valuation methodology. 	<ul style="list-style-type: none"> Support and expand public-private mechanisms to monitor implementation and resolve issues, such as the Vietnam Business Forum working groups on land and agriculture. Clarify the framework for foreign lenders to take mortgaged land.
Improve access to finance for agribusiness firms.	<ul style="list-style-type: none"> Review interest caps on short-term loans to lend to the sector. Develop and implement an action plan for supply chain market development. 	<ul style="list-style-type: none"> Support the expansion of financial products using moveable assets as collateral. Support the scale-up of commercial agri-insurance.
Modernize the livestock sector.	<ul style="list-style-type: none"> Reduce Vietnam's dependence on imports of commodity inputs for commercial feed. Improve biosecurity and food safety at farm and slaughterhouse level. Review regulatory guidelines for biosecurity controls. 	<ul style="list-style-type: none"> Support domestic production of feed crops for livestock as an alternative to higher-cost imports. Identify sustainable small farmer models in livestock production.
Increase exports of high value-added fruits and vegetables.	<ul style="list-style-type: none"> Enhance access to high-value markets and links from production to market. Support agribusinesses to meet updated requirements of importing countries relating to sanitary and phytosanitary measures, traceability, quality standards, and food safety practices and adopt digital technology in doing so. 	<ul style="list-style-type: none"> Promote investment in cold chain/ cold storage facilities. Improve the institutional framework and capacity of national quality infrastructure to ensure product conformity to internationally accepted standards.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
TOURISM Keep financially viable tourism businesses afloat.	<ul style="list-style-type: none"> • Establish and support wage and training subsidies; enhance upskilling support. • Strengthen health and safety measures by leveraging digital technologies. 	<ul style="list-style-type: none"> • Adopt protocols and allocate resources to permit sanitary use of transport services in line with internationally recognized standards. • Enforce international health regulations at points of entry, especially airports and border crossings.
Re-attract tourists by stimulating demand via targeted marketing and policy measures.	<ul style="list-style-type: none"> • Promote domestic travel through implementation of a domestic tourism stimulus program while preserving high safety standards. • Develop a strategy for reviving tourism demand by first focusing on domestic tourism and travel, then international travel. 	<ul style="list-style-type: none"> • Further liberalize the visa regime, including an increase in the number of visa-exempt countries, and an increase in length of allowed visa-exempt stays. • Participate in tourism bubbles with countries that have declining infection rates and are ahead of the economic recovery curve.
Support adoption of digital business models in the tourism sector ecosystem.	<ul style="list-style-type: none"> • Provide advisory services and financial incentives for tourism-related SMEs to digitalize their marketing, sales, and product/service delivery processes. 	<ul style="list-style-type: none"> • Support firms to adopt more digital business models through financial and technical support. • Implement demand-driven training and upskilling, using information collected about jobs and skills in demand.
Promote investments in destination service infrastructure and quality.	<ul style="list-style-type: none"> • Promote PPPs in infrastructure services at the provincial level. • Enhance legal and regulatory frameworks for accommodation investments. • Improve coordination between tourism stakeholders and consistency between planning and investment execution. 	<ul style="list-style-type: none"> • Establish governing laws and regulations for condotels and other nonresidential tourism accommodations. • Invest in basic and tourism-specific service infrastructure in high-demand destinations, as well as in environmental and cultural asset preservation. • Enhance tourism sector management, particularly the consistency between national and province/destination-level tourism planning, and between destination master plans and investment approvals/execution.

1. INTRODUCTION

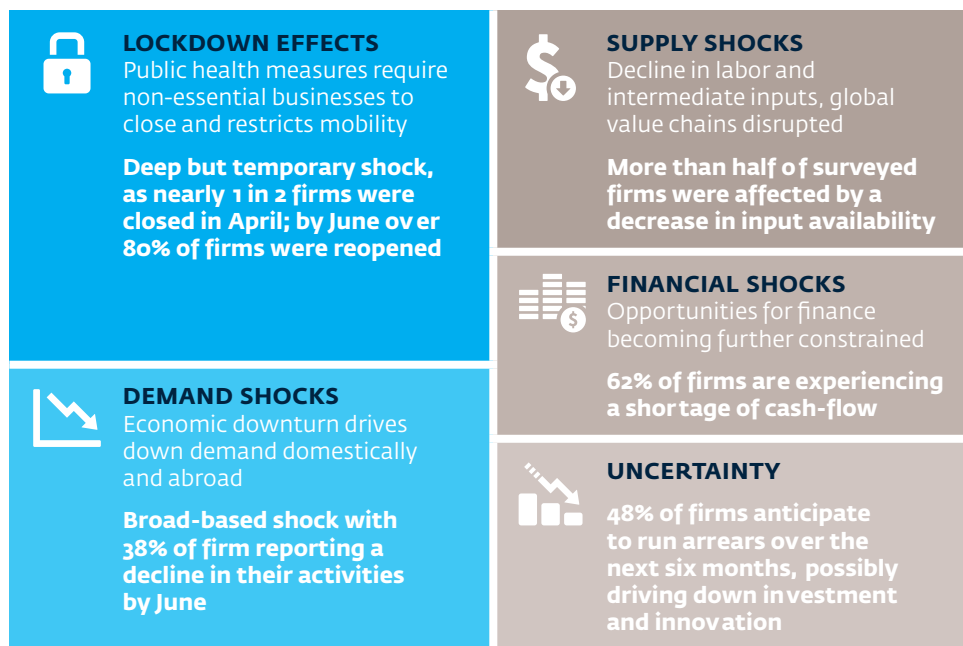
MOVING AHEAD WITH THE NEXT PHASE OF ECONOMIC TRANSFORMATION OCCURS AT A TIME OF UNCERTAINTY AND GLOBAL SHIFTS

The private sector has played a frontline role in Vietnam's outstanding development journey. From boosting investments to creating productive jobs and growth, it has helped propel Vietnam to the ranks of a middle economy in one generation. Vietnam had been growing by 6 percent annually since 2012 prior to the COVID-19 outbreak. Driven by its trade openness and an exported-oriented growth model, Vietnam has attracted large amounts of foreign direct investments (FDI) in labor-intensive segments of manufacturing global value chains. Extreme poverty declined from 50 percent to around 2 percent between 1990 and 2018. Today Vietnam is the second-largest smartphone exporter, producing over 40 percent of Samsung's global phone products—an embodiment of the success of its growth strategy. The domestic private sector is large and segmented, with opportunities for increasing competitiveness. Large domestic enterprises are emerging, with Vingroup, VietJet Aviation, and Masan Group operating across the East Asia region.

Vietnam was preparing for its next economic transformation when the COVID-19 crisis unfolded. Building on its impressive achievements, Vietnam seeks to become a high-income country by 2045 by following the path of its regional peers such as the Republic of Korea, which underpinned its development trajectory with increasing reliance on productivity growth and thereby avoided the middle-income trap.¹ The challenges of the global slowdown in growth and trade, combined with rapid changes in technologies related to Industry 4.0² and the push toward the servicification of manufacturing³ have been compounded by the outbreak of the COVID-19 crisis (figure 1.1). While Vietnam has demonstrated leadership and swift action in containment of the pandemic, the economic fallout was expected to bring down Vietnam's overall gross domestic product (GDP) growth rate to 2.4 percent in 2020—the lowest rate recorded since before the past three decades. Still, Vietnam was one of the few countries in the world to register positive growth in 2020 (IMF 2021).

BUSINESSES HAVE BEEN SEVERELY HARMED BY THE COVID-19 PANDEMIC

The COVID-19 crisis has dealt a severe blow to businesses and jobs, mirroring the risk of downward overall growth. Several factors make businesses in Vietnam particularly vulnerable to the international crisis, including the country's integration in trade and global value chains (GVCs), its reliance on investment flows, and its tourism sector. The COVID-19 shock is transmitted to businesses through multiple and mutually reinforcing channels—including falling demand, reduced and disrupted input supply, tightening of credit conditions and liquidity crunch, and rising uncertainty (figure 1.1). The successful containment of the first wave of COVID-19 has enabled the continued reopening of businesses, bringing the total share of opened firms to 94 percent in October (Tan and Trang 2020). However, many businesses are still running below normal (pre-crisis) capacity and will be further constrained by the renewed lockdown measures introduced over July and August 2021. Reduced demand appears to be the most important channel of impact. Almost one in four firms still have decreased operating hours, the extend of sales is about 36 percent lower than the same period in 2019, and net employment has stayed significantly below the January 2020 level. Furthermore, recovery has been mixed and uneven, and firms are facing further

FIGURE 1.1 COVID-19 EFFECTS THROUGH MULTIPLE CHANNELS

Source: Tan and Trang 2020.

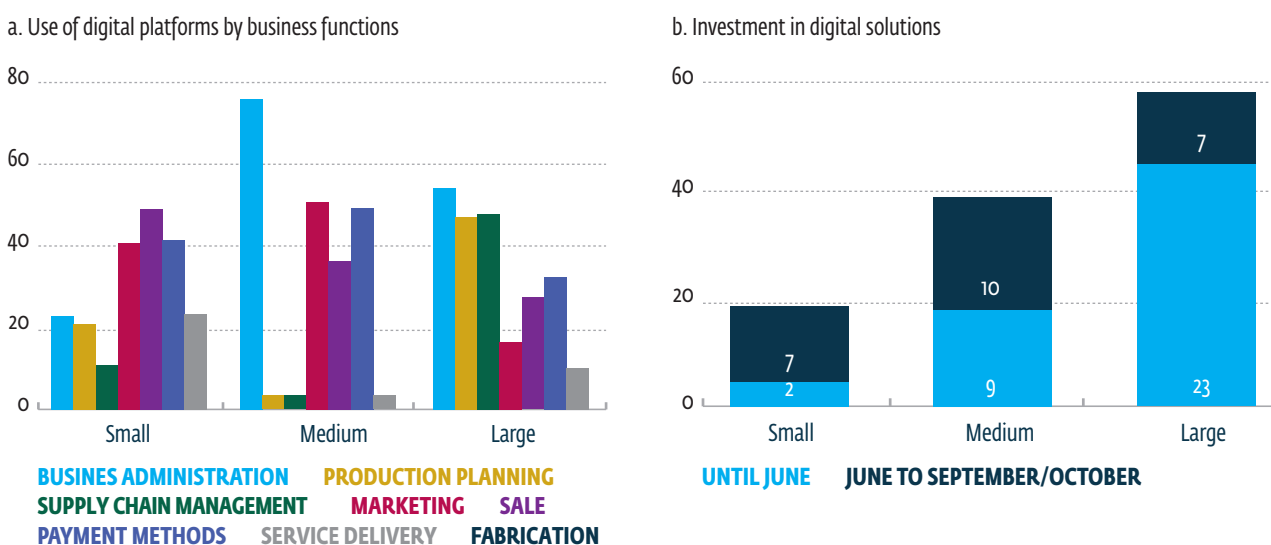
and acute pressure from the renewed lockdown as a result of a sharp resurgence of COVID-19 cases in Vietnam over July and August 2021. On average, small firms and firms in manufacturing, services and agriculture continue to experience revenue shocks as severe as in June 2020. While liquidity has improved, firms are still at significant risk of arrears, which will be worsened by the ongoing rise in new COVID-19 cases. Even after a temporal recovery in demand, in a climate of uncertainty and of being saddled with debt, negative expectations can reduce investment and threaten bankruptcies and job losses that could slow growth further.

On the positive front, businesses are adjusting to the new normal by accelerating adoption of digital technologies. Close to 60 percent of firms in September–October 2020 had adopted or increased use of digital platforms in response to COVID-19 (figure 1.2). Uptake was higher among larger firms and service firms. E-commerce activity has surged following the outbreak; the leading e-commerce site, Tiki, has seen an explosion in the number of purchase orders, and big retailers have seen a dramatic increase in online sales.⁴ Small and medium enterprises (SMEs) are more likely to use digital platforms for front-end functions—such as sales and payment methods—that are likely less complex and less costly to implement than changes in other business functions. Those other functions may require higher investments and skills that subject SMEs to potential capacity or resource constraints. The COVID-19 outbreak has demonstrated the urgency for Vietnam to step up the pace of adoption and diffusion of technologies and digital solutions to support business resilience and growth.

COVID-19 PROVIDES AN IMPETUS FOR ACCELERATING REFORMS THROUGH A RESILIENT RECOVERY AND BY REBUILDING BETTER

Vietnam has been impressive in its successful containment of the COVID-19 pandemic and can retain its competitive edge by undertaking the unfinished structural reforms that will carry over to the recovery phase. The crisis offers an opportunity to expedite the pace of unfinished private sector development policy and institutional reforms that

FIGURE 1.2 FIRMS TURN TO DIGITAL PLATFORMS: LARGE MORE THAN SMALL FIRMS, 2020
Share of firms that started or increased use of digital platforms (%) and share of firms (%)



Source: Tan and Trang 2020.

could facilitate the pace of recovery and rebuild better and with resilience. Vietnam will need to reprioritize and sequence its economic transformation agenda, first by countering economic destruction in the face of an unprecedented decline in economic activity and jobs in the immediate run, and then by helping firms restructure in the face of the new normal and positioning them for a resilient and productivity-led recovery.

The COVID-19 shock has accentuated the pre-COVID reform priority of enhancing productivity while also highlighting the need to increase flexibility and resilience. Decisive and sustained reforms can help facilitate productivity growth at the firm level to contribute to overall growth. Economic recovery from the pandemic and sustained economic growth in Vietnam will depend on ensuring that the most productive private sector firms remain viable and that new firms can enter, grow, and innovate. Efforts to maintain and redirect value chains, as well as to seize emerging opportunities related to new business models and digitization, will gain urgency. Post crisis, fiscal headroom and debt capacity will be constrained; thus it will be imperative to find and further expand the use of private sector solutions. In addition, firms may need to shift business models to respond to emerging new demands—such as digitalization and green solutions—as well as to build-in resilience to remain agile in a changing environment.

This CPSD will assess the key binding cross-cutting and sector-specific constraints that inhibit private sector competitiveness and growth in Vietnam. In particular, the CPSD will analyze the key structural cross-cutting constraints faced by private sector firms in the areas of competition and level playing field, access to credit, availability and quality of skills, infrastructure bottlenecks, and market institutions and implementation capacity for public policy. The sectors the CPSD will analyze are agribusiness, tourism, logistics, power, and skills, which were identified as key sectors for enhancing private sector investment.⁵

The CPSD will prioritize and sequence policy recommendations to unleash the full potential of the private sector to bolster a resilient economic recovery and generate sustainable growth and employment. Although CPSDs have been focused on creating markets, the COVID-19 crisis poses the additional challenges of minimizing the destruction of markets in the short term and restructuring markets in the medium

term. The Vietnam CPSD will identify and propose a sequenced set of priority policy measures that support and restructure private sector firms in the face of the new normal and position them for a resilient recovery, as well as boost the growth and resilience of key sectors. The recovery phase over the next two to five years will focus on how to energize firms and to create and strengthen markets. Governments, already fiscally constrained, will need to rely even more on efficient markets to capture cascade-type solutions, and to implement reforms to incentivize the private sector.

The CPSD is aligned with the government's and World Bank Group's strategic priorities and programs. The CPSD is a joint International Finance Corporation (IFC)-World Bank diagnostic tool that adopts a common basis for the country's policy makers, its private sector, and the World Bank Group to engage on private sector issues as part of the overall growth and sustainable development dialogue. The CPSD is fully aligned with Vietnam's strategic priorities regarding private sector development, as outlined in Vietnam's Socio-economic Development Strategy 2021-2030 and the *Vietnam 2035* report (World Bank and MPI 2016). It is consistent with the World Bank Group's *Systematic Country Diagnostic for Vietnam* (Eckardt, Demombynes, and Behr 2016), which underlines the need for strengthening competitiveness, particularly in the domestic private sector; the focus areas of the World Bank Group Vietnam Country Partnership Framework (World Bank 2017a, for fiscal year 18–22); and the IFC's Vietnam Country Strategy (2020–22).

Structure of the CPSD: Section 2 describes the country context. Section 3 discusses the current state of the private sector in Vietnam. Section 4 identifies and analyzes the key cross-cutting constraints to private sector growth. Section 5 discusses potential private sector opportunities and constraints in priority sectors. Section 6 presents the policy recommendations. The CPSD relies on multiple data resources, including knowledge from the literature (including sectoral studies) and from World Bank Group staff, enterprise surveys, high-frequency/real-time data generated by private firms, and interviews and consultations with the private sector, Vietnamese authorities, and other external stakeholders.

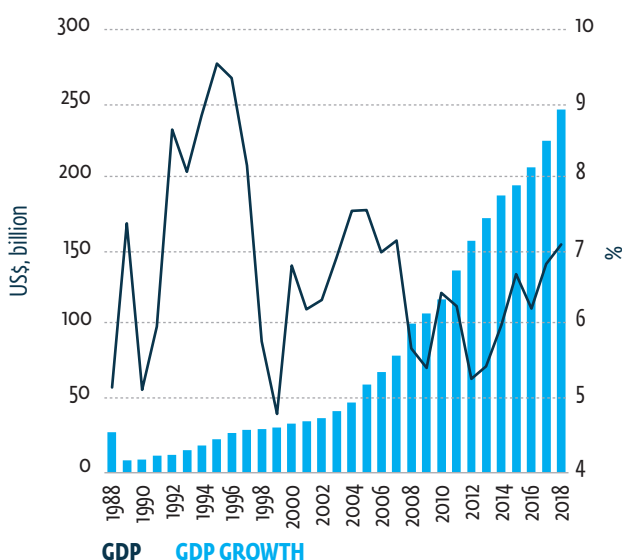
2. COUNTRY CONTEXT

Vietnam's development success over the past 30 years has been extraordinary. Vietnam has enjoyed sustained rapid growth since the launch of economic and institutional reforms under Doi Moi in 1986. The economy has expanded at an average annual rate of nearly 7 percent since 1988—leading to an almost sixfold increase in its per capita income and propelling the country to middle-income status in one generation (figure 2.1) (World Bank 2020f). The country's spectacular growth has been driven by trade openness and export orientation, which capitalized on Vietnam's comparative advantage in low-cost, labor-intensive manufacturing as well as policies that led to investment in basic human capital and sound economic governance (Akhlaque, Ong Lopez, and Coste 2017).

Sustained, robust growth has been accompanied by reduction in poverty and increasing shared prosperity. Poverty declined from around 80 percent in 1992 to less than 6 percent in 2016 (figure 2.2), and more than 13 percent of the population has joined the global middle-income class.⁶ Trade and investment liberalization has attracted large amounts of efficiency-seeking FDI, and has generated wage-paying jobs in the export-oriented, labor-intensive segment of manufacturing GVCs. Economic restructuring has also led to millions of Vietnamese moving from subsistence agriculture to wage-paying jobs in industry and services. The unprecedented economic shock caused by the COVID-19 crisis, nonetheless, has revealed the vulnerability of businesses to job losses.

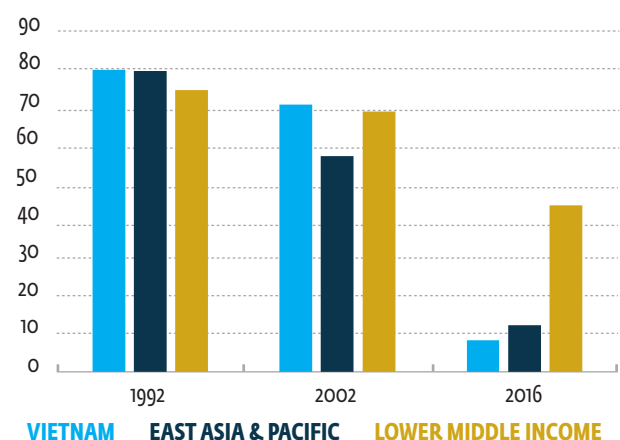
Vietnam is slowly moving toward advanced manufacturing and service GVCs, but more needs to be done, including enhancing links between FDI and domestic enterprises. Between 2012 and 2017, the number of foreign-owned and joint-venture firms increased by more than 50 percent (General Statistics Office of Vietnam 2018). Exports have remained resilient compared with regional neighbors (China, Indonesia, the

FIGURE 2.1 VIETNAM'S SPECTACULAR GDP GROWTH



Source: World Bank, World Development Indicators.

FIGURE 2.2 POVERTY HEADCOUNT RATIO, VIETNAM AND COMPARATORS
% of population



Source: World Bank, World Development Indicators.

Note: GDP = gross domestic product. Poverty rate based on 2011 US\$, purchasing power parity.

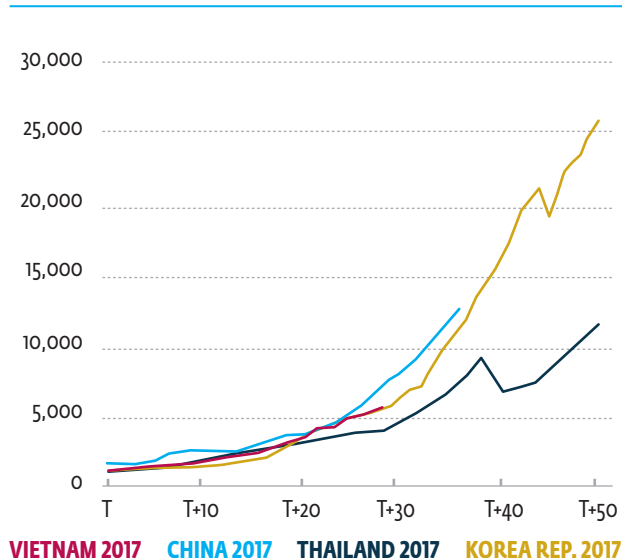
Philippines, and Thailand). After establishing a foothold in the labor-intensive segment of the manufacturing GVCs, Vietnam now has opportunities to move into advanced manufacturing as well as beyond manufacturing into information and communication technology (ICT) and other services. Vietnam is currently Japan’s second-largest software outsourcing partner, and Ho Chi Minh City (HCMC) and Hanoi are ranked among the top 20 cities in the world for software outsourcing and services. While Vietnam has greatly benefited from its insertion in GVCs, the predominant model remains FDI led and focused on import-dependent, final-stage assembly tasks, with limited or low-value-added backward links. For instance, most of the local domestic suppliers to Samsung—one of the biggest high-tech investors in Vietnam—operate in the maintenance, repair, and operation (MRO) space. Looking ahead, as a response to the COVID-19 crisis, supply chains of consumer goods will have to prioritize flexibility and resilience over efficiency alone, a requirement that may catalyze opportunities for local suppliers.

The domestic private sector has also experienced continuous entry growth, although scale-up and productivity growth remain a challenge. The number of active formal domestic private enterprises increased more than 10-fold in the 15 years before 2017, to around half a million. More than 80 percent of all firms are micro and small and operate in low-value-added service sectors in which productivity is low. Large domestic enterprises and corporations are emerging, with some graduating to become regional players, such as Vingroup, Mobile World Investment Corporation, VietJet Aviation, and Masan Group Corporation. The vast majority of firms, nonetheless, primarily serve the growing domestic market with a focus on property development, finance, and consumer goods. Spillovers from large domestic private enterprises to SMEs remain untapped.

Building on its achievements, Vietnam is now preparing for its next economic transformation but at a time of unprecedented global and domestic headwinds. Vietnam’s ambition is to become a high-income country by 2045 by following the path of regional peers like the Republic of Korea. Notwithstanding its impressive success, Vietnam still has significant catching up to do (figure 2.3). Vietnam’s per capita income today is only 20 percent of the Association of Southeast Asian Nations (ASEAN) average and a meager 5 percent of the high-income economies’ average. Realizing

FIGURE 2.3 VIETNAM GDP PER CAPITA VERSUS REGIONAL COMPARATORS

GDP per capita (2011, purchasing power parity adjusted US\$)

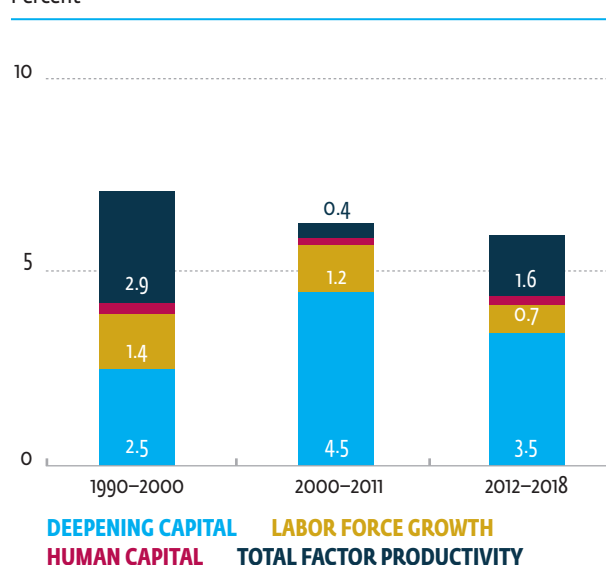


Source: World Bank Group 2020.

Note: GDP = gross domestic product.

FIGURE 2.4 DECLINING POTENTIAL GROWTH

Percent



Source: World Bank Group 2020.

its ambition would require a rapid annual growth rate of 7 percent over the next two decades, which in turn calls for a productivity-led growth model. Without decisive reforms that can boost investment and facilitate productivity and innovation, Vietnam's potential growth would continue to slip and is estimated to be 6.3 percent in the next decade before decreasing to 5.5 percent by 2041–45 (figure 2.4). The unfolding of the COVID-19 crisis has now made the emerging challenges in the global trade and production networks, technology shifts, and rapidly aging population more acute. While Vietnam stands out as one of the few countries in the world to register positive growth in 2020, recording a gross domestic product (GDP) growth rate of 2.9 percent (IMF 2021), its performance was less than half of what was registered during the pre-COVID period. All these changes add urgency to renewing Vietnam's growth model.

The COVID-19 pandemic will intensify the global and domestic shifts and create a new normal facing Vietnam. The pandemic will not only affect the future pace and quality of growth, it will most likely accelerate the following global and domestic shifts that may offer opportunities along with new challenges:

- **Slower global growth and trade are accompanied by supply chain disruptions and weaker cross-border investment flows.**
 - This will make the goal of achieving high GDP growth even more challenging, given the economy's strong trade and investment links.
 - At the same time, fostering regional integration through new trade agreements would offer new markets and reorganize supply chains to make them more resilient in the post-pandemic world.
- **Accelerating technological change, especially new technologies that are associated with Industry 4.0, are disrupting production and distribution processes, reshaping Vietnam's manufacturing-led export strategy and changing the nature of work and jobs.**
 - The COVID-19 crisis has shown starkly the role of technology, particularly digital, as a defining factor for business resilience and recovery.⁸
 - Taking full advantage of the rise of disruptive technologies will require universal broadband access through concerted public actions and private operations and financing; a more complex set of skills and management capabilities; and the safeguarding of data privacy through better governance, online security, and agile regulatory frameworks than in the past.
- **Rising wages are outpacing labor productivity, a situation that is eroding Vietnam's comparative advantage in labor-intensive manufacturing and the low-value segments of GVCs.**
 - Neighboring countries, such as Cambodia and Myanmar, are emerging as competitors for Vietnam for low-skilled production jobs.
 - At the same time, rising wages are leading to the growth of the middle class, which, combined with rapid urbanization, will catalyze the growth of domestic demand for housing and consumer durables as well as intensify pressures on public services and the environment.
- **A rapidly aging population is dissipating Vietnam's demographic dividend and decreasing its labor supply (Aterido and Jaffee 2018).**
 - Nonetheless, there remains a window of opportunity for leveraging the remaining demographic dividend; how Vietnam employs its youth in more productive jobs will influence its overall growth rate and livelihood prospects.
 - In the medium term, rapid aging may also serve as a boom for the senior-care⁹ industry, as is occurring in China.

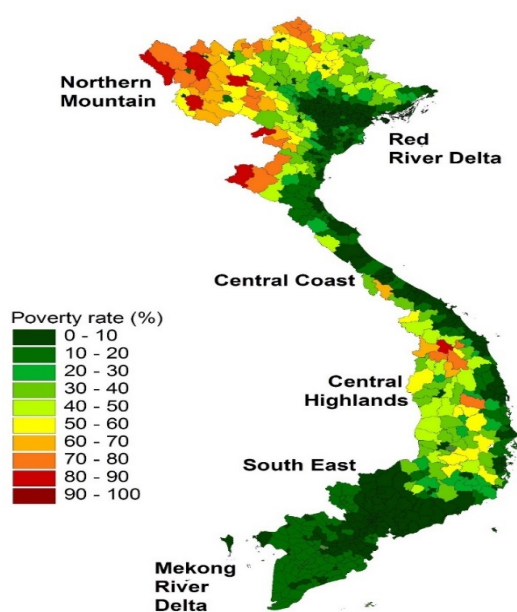
- Fiscal constraints are limiting the public sector's capacity to address investment needs in the development of infrastructure and human capital.¹⁰
 - The COVID-19 crisis is increasing the pressure on the government's budget and the balance of payments because of declining tax revenues, exports, and capital inflows.
 - Although Vietnam has sustained macroeconomic stability in recent years, macroeconomic buffers remain thin and under increased pressure as the crisis continues to affect the world. This challenge may serve as a natural catalyst to mobilize private sector participation through an effective public-private partnership (PPP) framework.

Vietnam's exceptional growth has been accompanied by growing degradation of environmental and natural assets. Greenhouse gas emissions are outpacing Vietnam's economic growth, reflecting a rising dependence on carbon-fueled power generation. The country is also highly vulnerable to climate change and natural disasters. Changing salinity threatens two-thirds of Vietnam's fish production from aquaculture. Furthermore, land erosion paired with increased salinity in the Mekong Delta puts at risk the livelihood of 13.6 million rice farmers. The COVID-19 crisis has highlighted the urgency to protect Vietnam's natural assets for long-term growth as well as the sustainability of key sectors such as agriculture, food processing, and tourism.

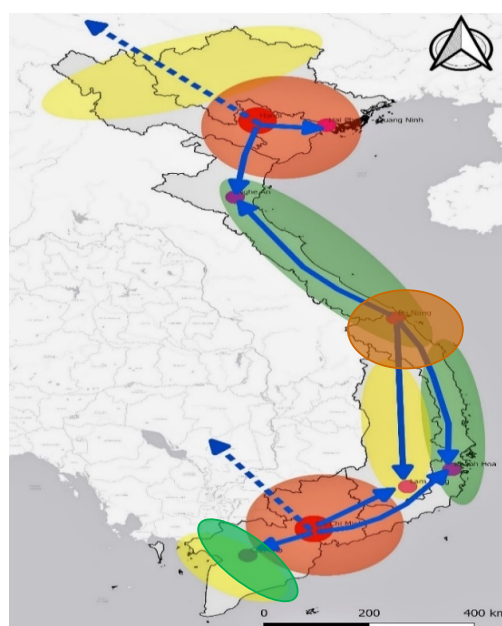
Spatial disparities exist, with remaining poverty increasingly concentrated in a few lagging regions¹¹ (figure 2.5). Wage jobs are concentrated in the Red River Delta region (where Hanoi is) and the Southeast region (where HCMC is), which together account for 39 percent of all workers but 55 percent of non-agriculture wage jobs. The lack of diversification of livelihoods in lagging areas might also reflect poor local economic development that limits small enterprise creation and alternative employment opportunities. Proximity to urban economic hubs is also a critical factor, because cities and urban areas are drivers of growth, innovation, and productivity. With Vietnam's urban population projected to double over the next two decades, agglomeration around growth poles has the potential to boost economic performance and create opportunities.

FIGURE 2.5 CHANGES TO VIETNAM'S ECONOMIC GEOGRAPHY

a. Poverty rate



b. Economic hubs



Source: World Bank, Poverty and Equity Advisory Services and Analytics (2019).

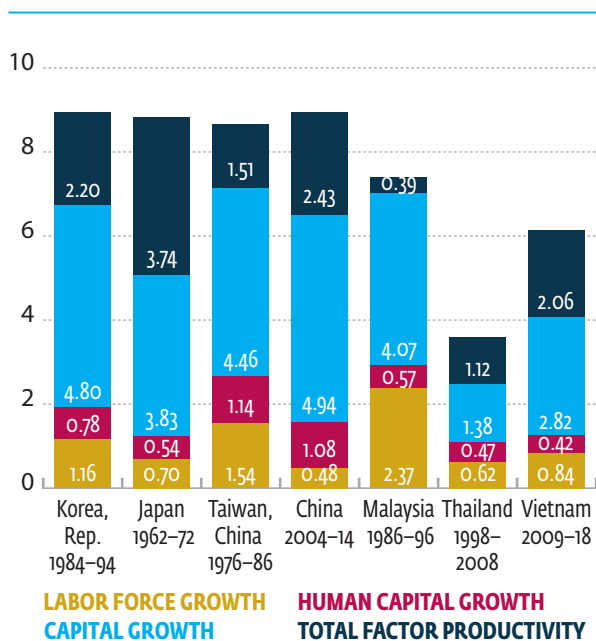
The growth drivers of the past relied heavily on expanding labor force and capital—both FDI and domestic investment—and less on productivity growth. Furthermore, the contributions from capital accumulation and productivity growth in Vietnam are below the levels observed in fast-growing economies (figure 2.6). To sustain an average annual growth rate of 7 percent over the next 25 years, productivity growth would need to be the main driver, with continued contribution from capital accumulation.¹² Vietnam also has an opportunity to increase labor productivity by addressing the gender gap in wages and participation. Equalizing men and women’s participation in the economy in Vietnam could yield an estimated US\$ 40 billion by 2025 (Ha and Francois 2019).

RECOVERY AND SUSTAINED ECONOMIC GROWTH DEPEND ON A PRODUCTIVE PRIVATE SECTOR

To boost productivity growth, Vietnam needs to unlock the full potential of its private sector. This would involve deepening reforms aimed at eliminating constraints on private firms that inhibit them from (a) improving factor use across firms and sectors, (b) upgrading within existing firms, and (c) facilitating the entry of high-productivity firms and the exit of low-productivity firms (figure 2.7) (World Bank 2019a; World Bank and MPI 2016). These reforms will need to be accompanied by policies that are responsive to social and environmental concerns, that ensure inclusion, and that aim to rebuild better and with resilience. There is clear recognition that improving the productivity and growth of the domestic private sector will be critical for Vietnam to realize its next economic transformation.¹³

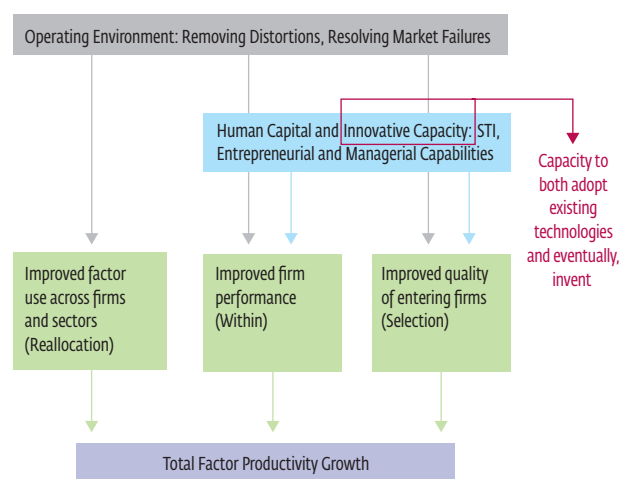
Despite recent government efforts, state presence in the market is still widespread. The state represents a third of total investment, and the share of state investment over GDP is four times that of Organisation for Economic Co-operation and Development (OECD) countries. The government holds a majority share in

FIGURE 2.6 CONTRIBUTION OF TOTAL FACTOR PRODUCTIVITY AND CAPITAL DEEPENING TO GROWTH VERSUS OTHER FAST-GROWING EAST ASIAN ECONOMIES
Percent



Source: World Bank, forthcoming.

FIGURE 2.7 CHANNELS OF PRODUCTIVITY GROWTH



Source: Cusolito and Maloney 2019.

Note: STI = science, technology, and innovation.

1,500 companies, and these include about 740 listed on the two main stock exchanges in Hanoi and Ho Chi Minh City (*Nikkei Asia* 2018). The state also held a majority of the shares in at least 6 of the top 10 companies on the Vietnam Stock Exchange, as of 2017. Moreover, state-owned enterprises (SOEs) are important players in Vietnam's enabling service and industrial sectors, in some cases even in those segments that could be provided profitably by the private sector. These sectors include telecommunications (telecom); energy and oil; air, rail and maritime transport; and the production and distribution of chemicals, fertilizers, construction materials, rice, coffee, and textiles, among other products.

Vietnam has great potential to meet its ambitions, but continued success is predicated on how well the country embraces its new set of challenges and opportunities. In particular, the key challenges are to help domestic private enterprises integrate into and move up GVCs and to expand opportunities for all private enterprises across sectors (especially those where there is no social or economic rationale for government participation) and across geographical areas in Vietnam. This action would, in turn, expand opportunities for productive employment in the private sector—especially better-paid, formal wage employment, which is one of the pathways to income growth and upward social mobility. In addition, addressing these challenges would reduce spatial disparities and increase links among different segments of the enterprise sector in Vietnam.

In the near term, manufacturing production supply chains appear to be shifting out of China to Vietnam. There are risks in the medium to long term, such as a slowdown in global trade that would affect external demand for Vietnamese exports and a potential United States action against Vietnamese exports. COVID-19 triggered a disruption of supply chains from China, which has provided an impetus for multinational enterprises to revisit their sourcing strategy to reduce dependence on China and to look for new markets. This reconsideration could offer an opportunity for Vietnam if it positions itself as a competing FDI location. Fostering and deepening regional integration through trade agreements also provides new growth pathways for Vietnam. Advancing the implementation of new trade agreements like the CP-TPP (Trans-Pacific Partnership) and EVFTA (with the European Union) can provide expanded market opportunities for the private sector. In addition, these deep agreements serve longer-term benefits of enforcing commitments on the substance of nontariff barriers to regional trade.

3. STATE OF THE ENTERPRISE SECTOR IN VIETNAM

LARGE BUT HIGHLY SEGMENTED DOMESTIC PRIVATE SECTOR HAS MANY CONGLOMERATES AND A MISSING MIDDLE

Vietnam has a diverse ecosystem of enterprises with varying size, ownership, and performance. This section sheds light on the current landscape and performance of the formal enterprise sector—covering the Vietnamese private sector (also called nonstate enterprises),¹⁴ foreign-invested enterprises (FIEs), and state-owned enterprises (table 3.1). The enterprise sector employed 14.5 million people in 2018. In analyzing the Vietnamese private sector the discussion unpacks the characteristics and evolving contribution of the different segments. Special attention is focused on the larger firms that include the corporate private sector and the emerging conglomerates. The growth of large and productive firms matters for Vietnam as it tries to emulate the path of high-income countries where large competitive firms have played a critical role in aggregate growth through income generation and employment and are associated with higher productivity.¹⁵ They are also more likely to innovate, to export, and to bring about sizable spillovers to the wider economy.

TABLE 3.1 SHARES OF ACTIVE REGISTERED FIRMS AND EMPLOYMENT IN 2017, BY TYPE OF ENTERPRISES

TYPE OF ENTERPRISES	SHARE OF ACTIVE REGISTERED FIRMS ^a (%)		SHARE OF EMPLOYMENT (%)	
	2010	2017 ^b	2010	2017
Nonstate enterprises	96.2	96.7	61.4	60.5
Domestic private enterprises	17.2	8.1	6.5	2.7
Limited companies ^c	58.7	68.6	31.7	33.4
Joint stock company without state capital	19.71	19.6	18.1	22.4
Joint stock company with state capital ^d	0.6	0.2	5.2	2.16
Foreign-invested enterprises	2.6	2.9	22.1	31.1
State-owned enterprises^e	1.2	0.4	16.5	8.3

Source: General Statistics Office of Vietnam 2019a.

Note: Nonstate enterprises also include collectives.

a. Active enterprises are enterprises with business operations. Vietnam had 560,417 active enterprises in 2017.

b. As of December 31, 2017.

c. Includes private limited companies and limited liability companies with 50 percent or less state capital.

d. With 50 percent or less state capital.

e. With more than 50 percent state capital.

FOREIGN-INVESTED ENTERPRISES PLAY AN OUTSIZE ROLE IN JOB CREATION AND EXPORTS

Foreign-invested enterprises are an important component of the private sector landscape and play a lead role in Vietnam's export-led growth model. Vietnam has attracted efficiency-seeking FDI and generated jobs in export-oriented, labor-intensive segments of manufacturing GVCs. FDI has expanded dramatically in Vietnam—representing 2 percent of GDP—with inflows exceeding those of most large ASEAN countries such as Malaysia and Thailand. FIEs tend to be much larger in size than domestic enterprises. Around 51 percent of active registered enterprises with more than 1,000 employees are FIEs, 35 percent are domestic private enterprises, and 14 percent are SOEs. FIEs account for less than 3 percent of all firms but about 31 percent of employment in Vietnam's enterprise sector (General Statistics Office of Vietnam 2019b). FDI accounts for 70 percent of total exports.

FDI is concentrated in terms of products, markets, and firms. Electronics, textiles, chemicals, and metals make up over 60 percent of GVC trade with China, Japan, Korea, and the United States as the top destination markets. The bulk of FDI flows come from Asian nations. Japan tops the list, followed by Korea, Singapore, and Taiwan, China, with large-scale investments by Honda, Intel, Samsung, and Toyota. While the European Union (EU) and the United States are increasing their shares of the FDI investment in Vietnam, there has been a recent spike from China due to the US–China trade tensions. This trend is expected to accelerate because of the COVID-19 outbreak (Shoulberg 2019). Samsung Electronics is considered to be the largest player, accounting for 30 percent of total exports. Samsung Vietnam's revenue share of Samsung Electronics reached 31 percent in 2017. The company has registered a total of US\$17 billion in FDI in Vietnam since 2008. Samsung, together with Foxconn, Intel, and Panasonic represent over 70 percent of manufacturing GVC trade.

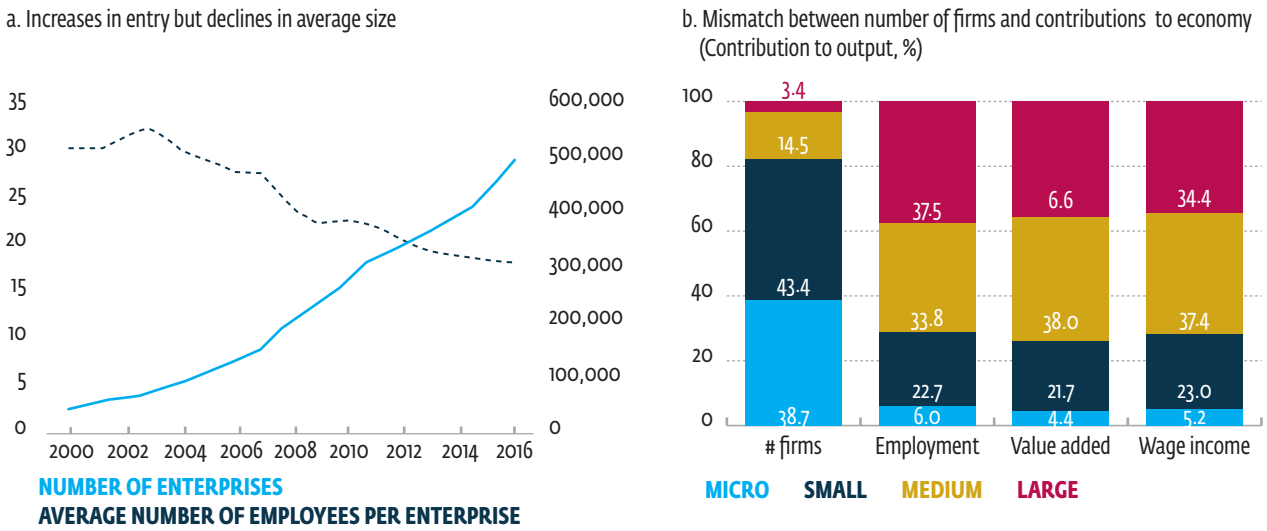
FDI inflows and trade in services remain low. Vietnam specializes in the labor-intensive, low-complexity, and final-assembly stage of the manufacturing GVCs. This specialization is partly driven by the fact that the services sectors—such as finance, transport, and communications—remain largely protected. With the servicification of manufacturing along with the automation of labor-intensive jobs, the liberalization of the services agenda is imperative for Vietnam's diversification into new growth markets. With the emergence of the COVID-19 crisis, easing access to competitive services would enable firms and workers to take advantage of digital opportunities as well as enhance firm productivity.

FDI has not yet been a catalyst for generating spillovers to the domestic private sector—either in the form of increased demand for inputs, access to new technology, or agglomeration benefits. This shortcoming is reflected in low addition to domestic value and a weak domestic supplier base. Foreign investors point out that the main constraints to shifting to local production inputs are the dearth of domestic suppliers that have the ability to meet required quality, quantities, delivery times, and prices, as well as the absence of policies to assist local firms.

DYNAMIC IN ENTRY, MOST DOMESTIC ENTERPRISES HAVE LOW PRODUCTIVITY AND CHALLENGES WITH SCALE-UP

Vietnam's domestic enterprise sector has experienced vibrant firm creation, but scale-up remains an area of concern (World Bank 2019a). The number of active registered enterprises in Vietnam increased substantially after the adoption of the Enterprise Law in 2000,¹⁶ from 42,288 to 714,755 in 2018 (General Statistics Office of Vietnam 2019a, b).

FIGURE 3.1 VIETNAM’S DOMESTIC PRIVATE SECTOR ENTERPRISES, 2000–16



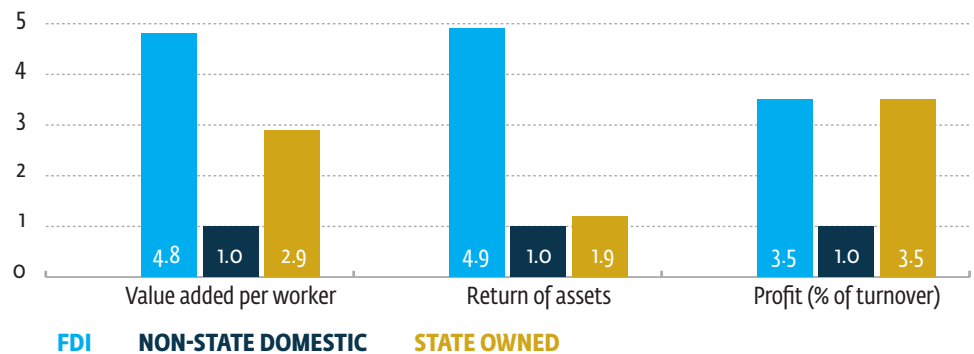
Source: World Bank Group 2020.

Over 95 percent of Vietnamese private enterprises are micro and small enterprises with fewer than 50 employees (appendix A). While the domestic private sector is dynamic in terms of entry, scale-up in size remains a challenge (figure 3.1).

Newly established enterprises tend to be located in large cities or coastal provinces in the Red River Delta (Hanoi) and Southeast regions (HCMC). In 2018, around 52 percent of private enterprises registered their businesses either in Hanoi or HCMC. A similar share of active enterprises is located in these two large cities. Only 7 percent of the active registered firms are located in the Central Highland and Mekong Delta regions.

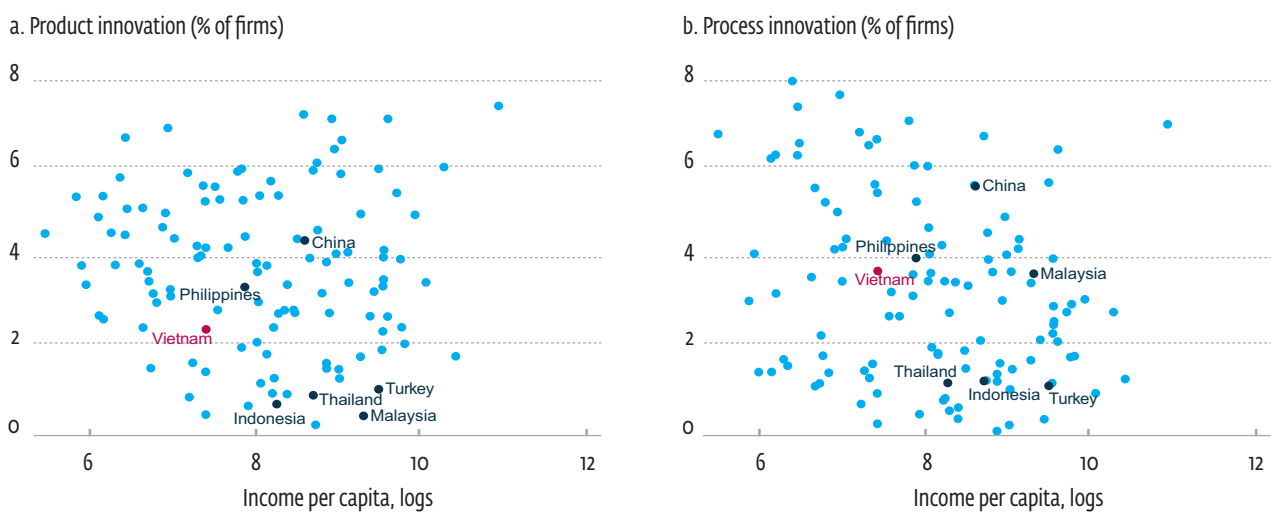
Domestic private enterprises are significantly less productive than FIEs and are not well integrated into GVCs. FIEs report their labor productivity is almost five times higher than in domestic firms (figure 3.2). The latter are also less profitable, with their returns on assets and (before tax) profits over turnover ratio substantially higher than for domestic private firms. Vietnam’s significant FDI offers potential for domestic firms to integrate into GVCs and benefit from technological catch up. Most domestic private enterprises operate in relatively low-productivity services (such as small retail and restaurants) and simple manufacturing, where productivity is significantly lower than in foreign firms (Figure 3.2). Currently, only 17 percent of domestic enterprises export.

FIGURE 3.2 ENTERPRISE PERFORMANCE AND OWNERSHIP, 2017



Source: World Bank 2020a.

Note: Benchmarked on value of domestic private sector = 1. FDI = foreign direct investment.

FIGURE 3.3 VIETNAM'S INNOVATION VERSUS THAT OF COMPARATOR COUNTRIES

Source: Akhlaque and others 2020, using World Bank Enterprise Surveys and World Development Indicators.

Vietnam's innovation capacity remains constrained. Vietnam is still far from the global productivity frontier, and within Vietnam there are large and growing productivity gaps between leading and lagging firms across sectors and within sectors. Investment in research and development remains low, with Vietnam spending only 0.4 percent of GDP, compared with Singapore (2.2 percent), China (2.1 percent), and Malaysia (1.3 percent). Further, patents granted in Vietnam are among the lowest in the world compared with the number of applications.¹⁷ Although within-firm productivity growth has been positive, self-reported innovations also seem to be lower than Vietnam's level of development would suggest, particularly in terms of product innovation (figure 3.3).

LARGE DOMESTIC ENTERPRISES ARE EMERGING BUT PRIMARILY IN THE DOMESTIC AND NONTRADABLE SECTORS

Large private enterprises, mainly in the form of joint stock companies, are an important component of the private sector in Vietnam. They are increasingly playing a key role in driving growth and industrialization in Vietnam. Seven Vietnamese corporations are on the latest list of 200 top-performing listed companies across the Asia-Pacific region with revenues of US\$1 billion or more (Burgos 2019).¹⁸ They are Vingroup, Mobile World Investment Corporation (The Gioi Di Dong), VietJet Aviation Joint-Stock Company (VietJet Air), Vietnam Dairy Products Joint Stock Company (Vinamilk), Sabeco Brewery, Vietnam Technological and Commercial Joint-Stock Bank (Techcombank), and Masan Group Corporation (see table 3.2). Overall, however, large domestic private enterprises have yet to become global players. The value of Vietnamese brands is still low compared with that of many countries in Southeast Asia, including Singapore, Malaysia, Thailand, the Philippines, and Indonesia.

TABLE 3.2 ENTERPRISES WITH MOST VALUABLE BRANDS IN VIETNAM, 2018

ENTERPRISE	BRAND VALUE (MILLION, US\$)	SECTOR
1. Vinamilk	2,280	Dairy
2. Viettel	1,390	Telecommunications
3. VNPT	416	Telecommunications
4. Sabeco	393	Beverage
5. Vinhomes	384	Real estate
6. Vinaphone	308	Telecommunications
7. Vingroup	307	Multi-sector
8. Masan Consumer	238	Consumer goods
9. Vietcombank	178	Banking-finance
10. FPT	169	Information technology
11. Vietinbank	154	Banking-finance
12. BIDV	146	Banking-finance
13. VPBank	99	Banking-finance
14. Vincom Retail	92	Retail
15. Techcombank	90	Banking-finance

Source: Burgos 2019

Large domestic private enterprises primarily focus on the rapidly growing domestic market and invest in the nontradable sector. According to *Forbes* (Burgos 2019), the 40 most valuable brands in Vietnam in 2018 had a total value of more than US\$8.1 billion, up by over 30 percent from the list announced in 2017. Five sectors topped revenue incomes, including finance (accounting for 15.1 percent); food, beverage, and tobacco (14.3 percent); construction, building materials, and real estate (13.9 percent); steel (11.7 percent); and telecom, information technology (IT) (9.2 percent). These sectors made up 64.2 percent of revenue and 75.5 percent of after-tax-profits.

Some of these large corporations adopt new technologies, invest in training, and recruit locally and globally. For instance, Vingroup recently recruited from overseas a Vietnamese Yale professor of mathematics as its chief adviser on artificial intelligence and a former General Motors executive as VinFast's chief executive officer. Some conglomerates fill underserved areas, such as health and education. For instance, Vingroup established Vinschool, which has provided elementary and secondary schooling since 2013. It also established a technical training center, in cooperation with the German Chamber of Commerce and Industry, in the special economic zone in Hai Phong in February 2019. The center will offer a two-and-a-half-year program in electronics and industrial machinery training. Upon completion of the course, students will have certified skills equivalent to those needed for work in a German factory (Tomiyama 2018).

A number of large private corporations participate in multiple sectors and rank among the country's top private companies. Although 32 of the top 50 companies in Vietnam are publicly owned, there are a number of large private sector players as well. Three of the top 10 private companies are conglomerates.¹⁹ These firms have diversified into at least three entirely different economic sectors and are founded and led by high-wealth individuals.

STATE-OWNED ENTERPRISES REMAIN DOMINANT PLAYERS IN ENABLING SECTORS AND CONTINUE TO CROWD OUT PRIVATE INVESTMENT AND INNOVATION

State-owned enterprises maintain a large economic footprint in Vietnam and may discourage private investment (national and foreign), especially in sectors where there is no social or economic rationale for government participation (Dinh and others 2019). While the number of SOEs has declined over time, they remain a dominant player in the economy, representing 30 percent of GDP in terms of production. Vietnam had 2,486 active SOEs at the beginning of 2018 (compared with 3,281 in 2010). SOEs accounted for 0.4 percent of registered enterprises but produced nearly 30 percent of GDP in 2018 (General Statistics Office of Vietnam 2019b). In Vietnam, the government holds a majority share in 1,500 companies, including about 740 listed on the two main stock exchanges in Hanoi and HCMC. The state holds a majority of the shares in at least 6 of the top 10 companies on the Vietnam Stock Exchange, as of 2017. Although Vietnam is undertaking efforts to equitize SOEs on a large scale, progress is slower than planned.²⁰ State presence may crowd out private investment (national and foreign), especially in sectors in which there is no social or economic rationale for government participation.

Sustainable growth in the future will rely on a shift toward private investment that is associated with efficiency, innovation, and productivity gains. The objective for the government is to ensure that its scarce resources are directed to tasks in which the private sector cannot fully meet a particular need (Ogus 1994, 267; Sauter and Schepel 2009, 22–23). Whereas large shares of investment could be justified in socially sensitive sectors—such as water and sanitation and health—such investment may not be the most efficient use of public resources in other sectors that are typically attractive for private firms—such as ICT, energy, and construction. For instance, in Vietnam the state provides nearly 84 percent of the total investments in energy, nearly 70 percent in transport and storage, and 54 percent in the information and technology sector (figure 3.4). By undertaking market reforms, Vietnam could potentially see increased private sector participation in these sectors lead to a considerable increase in the overall productivity and competitiveness of the economy, as was evidenced in the airlines industry (see box 3.1).

BOX 3.1 AIR TRANSPORT—A CASE STUDY IN POSITIVE PRIVATIZATION OUTCOMES

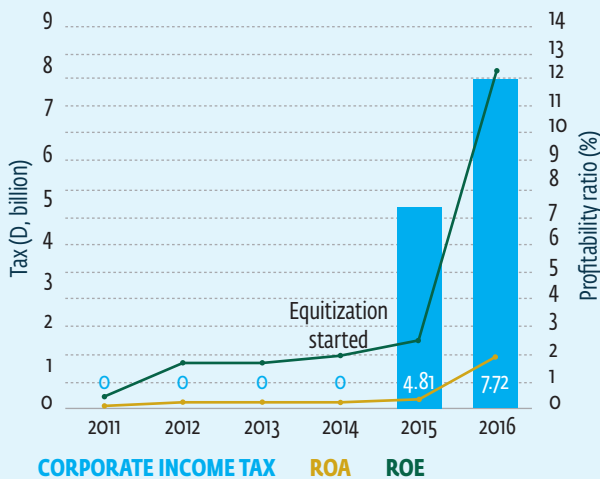
Following successful liberalization efforts in the domestic air transport sector, one private entrant, VietJet, has already captured a 43 percent share of the domestic air travel market, competing head-to-head with Vietnam Airlines and Jetstar.

Vietnam’s domestic aviation market currently features four competing commercial airlines: Vietnam Airlines, Vietjet Air, Jetstar Pacific, and Vietnam Air Services Company (Vasco). Jetstar Pacific is a joint venture formed by Vietnam Airlines and Qantas, and VietJet is a relatively new market entrant, launching in 2011. In 2012, Vietjet accounted for only 15 percent of the market, while Vietnam Airlines still held around 70 percent. Within only six years, Vietjet was able to almost triple its market share.

Additional participation by the private sector, through partial acquisition of the national state airline, has led to improved performance.

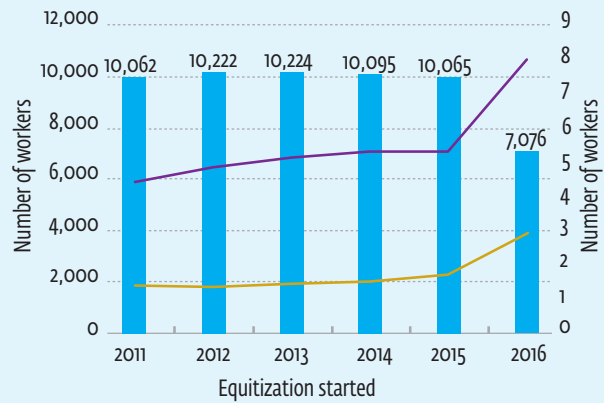
Vietnam Airlines’ privatization process began in 2013 and culminated with its initial public offering in November 2018. Although the government still owns 86 percent of the carrier, the airline’s performance measures have greatly improved. Corporate income, return on equity, and return on assets have all improved since 2014 and—arguably more importantly—productivity had increased markedly by 2016.

FIGURE B.3.1.1 CORPORATE INCOME TAX (BILLION VIETNAM DONG) AND THE PROFITABILITY RATIOS OF VIETNAM AIRLINES, 2011–16



Source: BSC (2014b); Deloitte (2011–16).
 Note: ROA = return on assets; ROE = return on equity.

FIGURE B.3.1.2 NUMBER OF WORKERS AND PRODUCTIVITY OF VIETNAM AIRLINES, 2011–16



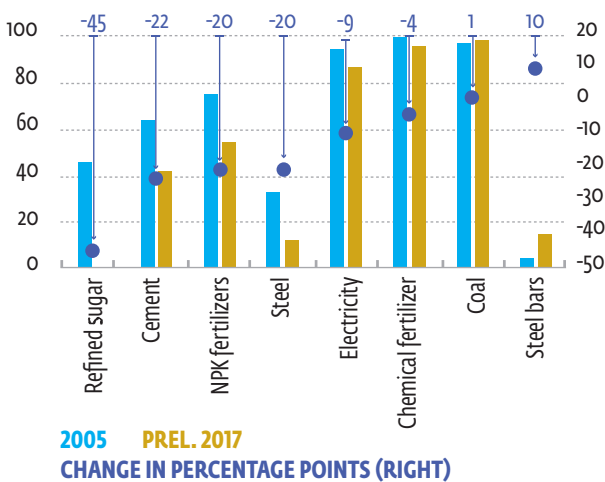
NUMBER OF WORKERS
PRODUCTIVITY: NUMBER OF PASSENGER PER WORKER PER YEAR (THOUSAND PEOPLE)
PRODUCTIVITY: REVENUE PER WORKER PER YEAR (D, BILLION)

Source: Vietnam Airlines (2015); Vietnam Airlines (2016); BSC (2014b), Deloitte (2011–16)

SOEs are important players in enabling service sectors, in some cases even in those segments that could be profitably provided by the private sector. Viettel, wholly owned by the Ministry of Defense, is Vietnam's largest mobile network operator. Vinalines, wholly owned by the Ministry of Transport (currently undergoing initial public offerings; IPOs), operates 14 ports, ships 25 percent of the total tonnage of Vietnam's shipping market, and provides logistics services through nine associates and affiliates.²¹ Likewise, Vietnam Airlines, a limited liability company with board members appointed by the prime minister, owns 100 percent of Vietnam Air Services Company (a regional airline in the South of Vietnam), 70 percent of the low-cost carrier Jetstar Pacific Airlines, and 49 percent of the Cambodian national airline Cambodia Angkor Air. The SOE is also involved in airline catering, maintenance, and overhauling of aircraft through a number of its subsidiaries. Its diversification strategy includes investments in the aircraft leasing and airport ground-servicing industries. SOEs are also prominent in the energy sector. Petro Vietnam has a monopoly on the import and distribution of gas products in Vietnam, and the petroleum market is marked by substantial market participation by Petrolimex (48 percent), Petro Vietnam (22 percent), and Saigon Petro (7 percent).

Vietnamese public companies also produce and sell industrial products that in other countries are exclusively provided by private companies. Markets for production and distribution of chemicals, fertilizers, construction materials, and pharmaceuticals typically present economies of scale and feature few market participants. However, these markets are generally profitable and can be provided exclusively by the private sector. In Vietnam, even in these markets, SOEs are present, although the share of production in some of these sectors has fallen (figure 3.4). Vietnam National Chemical Group (Vinachem), a 15-company group, produces and trades basic chemicals, raw materials for fertilizer and chemical production, phosphate fertilizers, and pesticides (*Saigon Times* 2018). Vietnam Cement Industry Corporation manufactures and sells cement through a network of dealers in the country. Vietnam Pharmaceuticals, a parent joint stock company with three affiliated units, four subsidiaries, and nine joint ventures, manufactures and commercializes pharmaceuticals (SSI 2017). Moreover, there is state participation in the transport and storage, banking and insurance, real estate, retail, and arts and recreation sectors (figure 3.5).

FIGURE 3.4 DECLINE IN SOE MARKET SHARES IN SOME INDUSTRIAL SECTORS, 2005–17
Market share (%)

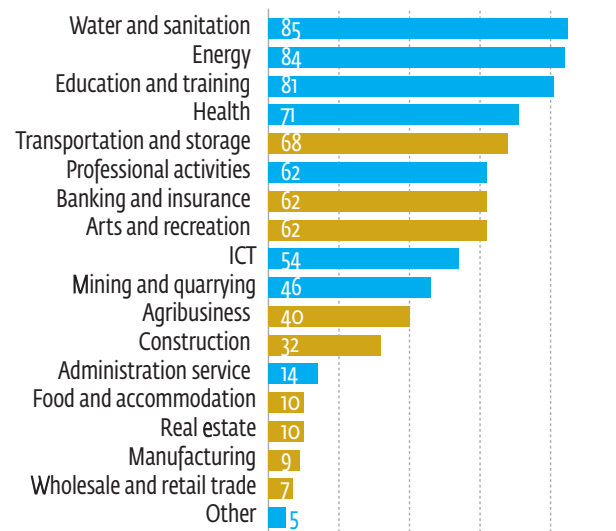


Source: Vietnam Statistics Office.

Note: NPK = nitrogen, phosphorous, potassium.

Prel = Preliminary

FIGURE 3.5 SOE DOMINANCE IN VIETNAMESE SECTORS, 2018
State investment as a share of overall investment by economic activity (%)



Source: Cusolito and Maloney 2019.

Note: STI = science, technology, and innovation.

Finally, in several sectors, SOEs, enterprises with minority state ownership, or both compete with one another. For example, the banking sector contains not only five SOEs but also minority state ownership in private banks. In chemicals, the SOE Vinachem also owns 8 percent of its “private” competitor. In addition to the three public telecom companies, the state holds 6 percent of the “private” competitor FPT.

Looking to the future, Vietnam needs to facilitate the development of a dynamic, diversified, and productive private sector, which will become even more pertinent in the post-COVID-19 recovery phase when public resources become scarce. For Vietnam the path to becoming a high-income country requires increasing value added in existing sectors, moving up the GVCs, and diversifying into new sectors and markets. This effort entails tackling the key cross-cutting constraints that are deterring private sector growth, productivity, and diversification.

Given the significant share of assets held by the state, successful reforms of inefficient SOEs in critical enabling sectors could potentially lead to a considerable increase in the overall productivity and competitiveness of the economy. As discussed in the next section, depending on the sectors, reforms could involve multiple strands of strategy from expediting equitization and divestment from SOEs where state presence may crowd out private investment (such as ICT, energy, and construction) to introducing good international governance in socially sensitive sectors (like water and sanitation) in which large shares of state investment may be justified.

4. KEY CROSS-CUTTING CONSTRAINTS HOLDING BACK PRIVATE SECTOR PARTICIPATION

The private sector in Vietnam faces multiple challenges that constrain growth and productivity. Several important studies have been carried out on the Vietnamese private sector in recent years that together provide a rich knowledge and starting point for the present analysis. Cross-cutting constraints that are consistently emphasized point toward the need to level the playing field for all firms through more competition, SOEs reforms, and removal of cumbersome regulations; to improve access to finance and skills, particularly for the growth of SMEs; and to enhance the quality and reliability of core infrastructure. These constraints limit productivity gains from (a) improving factor use across firms and sectors; (b) upgrading within existing firms; and (c) facilitating the entry of high-productivity firms and the exit of low-productivity firms.

Over time, the government's commitment has helped improve the business climate for the private sector, but opportunity remains to accelerate the implementation of unfinished structural as well as second-generation reforms. To help validate and pinpoint priorities within each of the broad cross-cutting themes mentioned, the CPSD team held consultations with different segments and sectors of the private sector in Vietnam.²² Key priorities include (a) reducing the business regulatory burden that hinders expansion of existing firms and entry of new digital businesses; (b) expediting the opening of markets and sectors through a strengthened competition framework and SOE reforms that focus on improving efficiency and competition in strategic sectors; (c) closing gaps in access to finance pertaining to underserved SMEs, developing capital markets for future growth, and enhancing financial technology (fintech) to support financial inclusion and innovative financial services; (d) addressing skills gaps and managerial practices needed for innovation; and (e) addressing high logistics and infrastructure costs that continue to impede the development of a productive and vibrant economy outside the FDI sector despite rapid growth.

Moreover, while the regulatory burden has declined, implementation and governance challenges, especially at the subnational level, remain. A recurring theme in all private sector consultation was the importance of supporting digitalization across sectors and particularly for SMEs. Similarly, to improve government effectiveness, enhancing digital platforms for provision of government services would be necessary. In the context of limited public sector capacity and weak governance, it is important to be selective and to demonstrate results through targeted actions that, in turn, may build further momentum for reform.

4.1 LEVELING THE PLAYING FIELD FOR ALL FIRMS

Supporting the development of a dynamic and productive private sector is vital to Vietnam's ambitions and entails a two-pronged approach: (a) strengthening the business climate for new firms to enter, grow, and innovate and (b) supporting the scale-up and competitiveness of existing Vietnamese firms through enhanced productivity. Improvements in regulatory framework and competition as well as SOE reforms can open up markets and sectors, contributing to growth and productivity.

Strengthening and modernizing the business regulatory framework

A well-functioning and efficient regulatory environment will be crucial to reinvigorating productivity growth in Vietnam. The regulatory constraints of setting up and expanding businesses, while improving, remain cumbersome in Vietnam. Opportunities remain for the authorities to make it easier to do business. For Vietnam to achieve its goal to be among the top four ASEAN countries in the ease of doing business, more ambitious reforms are required. The next generation of reforms will require a new focus on closing implementation gaps, legal changes, digitalization, and interagency coordination to move toward a digital "one government" system concerning the private sector.

Entry barriers depend on a broader range of procedures that go beyond business registration and that vary by type of firm and sector. For example, complex licensing requirements for investment in conditional sectors are still subject to unpredictability, which can give rise to the perception of bias and non-transparency. Authorities had indicated their intention to remove limits on foreign ownership of state-owned and listed companies (foreigners cannot own more than 49 percent in general and no more than 30 percent in specific sectors such as banking and air transport) by the end of 2019, which would help encourage the entry of competitive firms.

The growth of new digital business models also necessitates modernizing the regulatory framework. As part of its drive toward economic transformation, the government has emphasized support for the digitalization of businesses and for enabling the creation and growth of new digital business models that include commercial digital platforms and data-driven firms. Developing and modernizing regulations are critical to the entry and growth of digital businesses in many sectors. For instance, new business models such as a shared accommodation platform and a gig economy platform are not well recognized in the legal framework. The existing regulations related to e-transaction, personal data protection, and cybersecurity need to be updated in line with good international practices.

In addition to the entry of firms, the exit of less efficient firms will become increasingly important as the COVID-19 crisis increases the risk of insolvencies and bankruptcies. A robust insolvency framework facilitates the efficient business exit and liquidation of nonviable companies and thereby supports the efficient reallocation of resources across the economy. Despite some progress, especially in terms of providing an adequate legal framework and increasing the number of filed insolvency cases, some weaknesses persist. Reinforcing the insolvency framework could include easing commencement rules to provide incentives to initiate cases early on; strengthening creditors' rights, including in the appointment of the insolvency administrators and in the divestiture of assets; building stronger national professional standards for insolvency administrators; and enhancing the role of commercial courts.

Opening up markets and sectors through competition and SOE reforms

The large size and influence of SOEs and private conglomerates could impair competition from smaller, less established firms. The potential for the entry and operations of firms may be affected by market dominance, by a greater ability of established firms to influence government decisions of importance to firms, or both.

The impact of the presence of SOEs on private firms in Vietnam is well documented. New insights are provided on the role and contribution of emerging private conglomerates in Vietnam's economy.

The importance of SOEs limits opportunities for private sector firms. As discussed, SOEs dominate many important markets in Vietnam, such as electricity, gas, oil, minerals, telecommunication services, domestic air transportation, railways, and financial services, and are involved in agribusiness and manufacturing sectors. Private firms find it difficult to fully participate and compete in these markets because of preferential treatment for SOEs (World Bank and MPI 2016). For instance, SOEs in the energy sector enjoy preferential treatment and dominate the energy market. The slow reforms of energy SOEs are also barriers to building a competitive energy supply market (World Bank and MPI 2016). In agribusiness, the SOE Vietnam Northern Food Corporation—also called Vinafood I—is involved in the purchase, processing, import, and export of a range of food and salt products.²³ At the same time, it supplies farmers with fertilizers, animal feed products, and other agricultural inputs. Vinafood II, on the other hand, is the country's largest rice exporter. In October 2018, the World Trade Organization questioned the designation of Vinafood I and II (by the Ministry of Foreign Affairs) as exclusive traders in charge of applying or negotiating certain government export contracts with Iraq and the Philippines.

The presence of SOEs and the lack of a level playing field appear to slow down private sector-led growth. For instance, when SOEs borrow significant amounts of capital from state-owned banks directly and with ease, they can increase the local cost of borrowing for private companies. While existing laws and regulations on land assignment and rent for business and production do not discriminate between SOEs and nonstate enterprises, SOEs hold 70 percent of the land dedicated to production and business purposes (Thu 2017). Forty-one large SOEs have debts three times higher than their equity, increasing their risk level. When in financial trouble, SOEs receive state support through loan write-offs and rescheduling. Evidence from 2008 suggests that more SOEs in a particular province increase the risk of favoritism, lower the proportion of bank loans to private companies, and delay access of land to private firms. SOE growth is negatively correlated with private sector growth and, even more importantly, with overall growth of GDP and GDP per capita (Nguyen and Freeman 2009). In addition, without having to face competition, SOEs lack the incentive to strengthen their productivity and growth. For instance, the labor productivity of SOEs in Vietnam is about 40 percent lower than that of private sector firms.

The private conglomerates are important market players, but determining the extent of their market power is challenging. Private conglomerates do not appear to have a dominant position in their respective sectors, except for very specific markets, according to available information. As seen in table 4.1, conglomerates' shares of sectorwide sales range from less than 5 percent to 27 percent, according to the information available. Under a more careful definition of the relevant market, conglomerates may have considerably higher market shares. For instance, one conglomerate (Masan Group) held 71 percent of the market for chili sauce, 67 percent for soy sauce, and 66 percent for fish sauce in 2017, according to its annual report for that year. However, conducting more systematic analysis at this level of disaggregation is not possible with the existing data (including surveys or the national census) and would instead require a series of market studies.

Moreover, the largest private conglomerates operate in commercial instead of network sectors. The extent to which large corporations may exercise significant market power depends on, among other things, the economic characteristics of the sectors in which they operate. In natural monopolies or network sectors, the risk of abuse of dominance is higher than in sectors that are tradable or that tend to be otherwise contestable. The three largest conglomerates²⁴ operate in sectors that could be competitive and do not present natural monopoly features.

In some sectors, conglomerates are contributing to competition by contesting more established market players. For example, in the retail sector, one conglomerate (VinCommerce) was able to rapidly expand after 2014, gaining market shares from the incumbent (Saigon Co-op), and reaching 27 percent of market share by 2018.²⁵ In this case, its growth strategy involved the acquisition of smaller players and also building its expertise in real estate, where the conglomerate has an important footprint. The same conglomerate (Vingroup, through Vinfast) appears to be disrupting (or at least entering) a highly competitive field in the automotive sector.

Large private conglomerates compete with some SOEs, though the overlap is modest. One of the top three private conglomerates (Masan Group) competes with three state-owned enterprises in the food sectors (Vissan, Vinafood, and Vinamilk, which is minority state owned). Another conglomerate (VinGroup) competes with public companies for IT business. Some of the larger firms are linked to foreign capital, and some are domestic private corporations that have not diversified into multiple sectors.

Private conglomerates do not seem to compete against each other in the same sector, with a few exceptions. Given the relatively high fixed costs of operating in developing economies and a process of capital consolidation, it can be expected that conglomerates compete against each other in several markets at the same time (such as banking, retail, and insurance). In Vietnam, there are only a few sectors in which more than one large group operates (table 4.1). In at least 10 sectors only one of the top three conglomerates operates. In construction, retail, and the meat sector, two of the top three conglomerates operate. The retail sector saw a recent merger between two large conglomerates (VinGroup and Masan Group). There is no sector in which all three conglomerates compete.²⁶

On the other hand, conglomerates may use their size and influence to erect barriers to the entry or growth of smaller firms. Earlier work (World Bank and MPI 2016) and recent in-field consultations (the team's 2019 mission) suggest that some conglomerates leverage political connections as they expand their businesses. These corporations appear to have easier access to factors of production (land, skilled labor, and finance) than smaller and newer enterprises do. Although domestic private conglomerates do not benefit from explicit regulatory protection, they could be benefiting from restrictions on foreign investment, although it is not clear if these are binding constraints. For example, Vietnam has an economic needs test for foreign-invested retail outlets. In the real estate development market, in which one of the conglomerates is the established player (VinGroup's VinHomes), there is a minimum capital requirement of US\$850,000. Moreover, under current law, foreigners can retain a land use rights certificate—which shows the user's right to the property—for 50 years (70 in special cases), while locals can have one indefinitely (Dezan Shira & Associates 2019).

An additional concern is that private conglomerates operate in sectors in which business entry and operations depend on authorizations from the government, including by local governments. For example, one of the conglomerates operates in a number of sectors that depend on government authorizations: firms in the pharmaceutical sector and hospital sector require authorizations by health authorities; the food retail sector features important food safety regulations as well as local government authorizations and inspections; the real estate sector is known for complex building codes and urban planning regulations; financial services involves authorizations and oversight by financial sector regulators; and mineral mining involves concessions and local permits for exploration and extraction. Although these technical and social regulations are in many cases well justified with important public policy objectives, room for discretionary interpretation or application in these regulations could bear particular risk of discrimination against smaller or foreign market entrants aiming to compete with well-connected private conglomerates.

TABLE 4.1 PRESENCE OF CONGLOMERATES AND SOEs ACROSS SECTORS

SECTOR	Product/ market segment	Private conglomerate			Other private corporations	SOE presence
		1	2	3		
Commercial sector		[Vin Group]	[Masan Group]	[Hoa Phat]		
Automotive		● (<5%)				
Electronic devices		● (17%)				
E-commerce and payment		●				
Retail		● (27%)	●			
IT		●			●	●
Hospitals		●				
Pharmaceuticals		● (< 20%)				
Real estate		● (housing)		● (industrial, complex)		
Mineral mining	Tungsten		●			
	Bismuth		●			
	Fluorspar		●			
	Copper		●		●	
	Steel			● (25– 26%)	●	●
	Coal				●	●
Agriculture	Fruits and vegetables	●	●		●	●
	Coffee		●		●	●
	Rice		●		●	●
	Tea				●	●
	Sugar				●	●
Meat	Pork		● (10%)	●	●	●
	Beef			●	●	●
	Poultry and eggs			●	●	●
Animal feed		●	●	●	●	
Banking			●	●	●	
Cement				●	●	
Chemical				●	●	
Construction				●	●	
Insurance				●	●	
Paper				●	●	
Textiles				●	●	
Network sector						
Energy	Generation				●	●
	Transmission					●
	Distribution					●
Telecom				●	●	
Transport	Air				●	●
	Rail					●
	Maritime				●	●
Strategic sectors						
Petroleum					●	
Shipbuilding					●	
Tobacco					●	

Source: Competition Policy Team Note, WBG 2020, based on various sources.

Note: Market shares are indicated in parentheses where available. IT = information technology; SOE = state-owned enterprise.

4.2. ENHANCING ACCESS TO FINANCE

Key gaps in access to finance relate to underserved SMEs and availability of long-term capital

There is substantial room for improving financial intermediation in Vietnam to help private enterprises expand, innovate, and diversify into new productive activities in infrastructure and service sectors and the SME segment. Vietnam has a reasonable financial system for a low-middle-income country but continues to be dominated by a banking sector that represents 80 percent of total financial system assets. Much of the lending in the past, especially by state-owned banks, has gone to SOEs and has crowded out lending to more productive segments of the domestic private sector. Capital markets, despite growth in recent years, remain shallow.

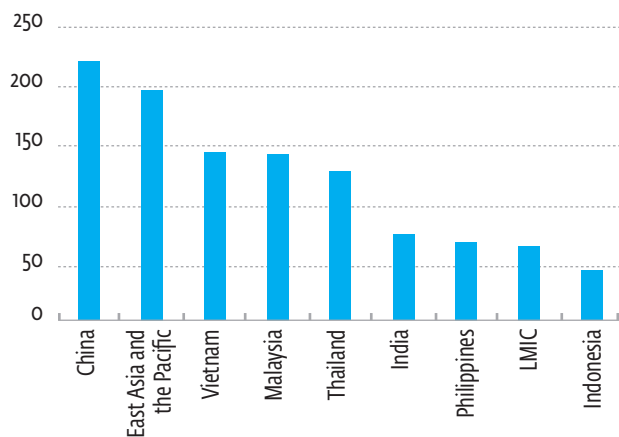
Cognizant of the need for developing a deeper and broad-based inclusive financial sector that is underpinned by resilience and stability in the financial system, the government has issued comprehensive strategies for financial sector development.²⁷ The reform agenda for strengthening financial intermediation has multiple pillars, each of which entails a large menu of policy recommendations. This complex array, combined with limited capacity at the agency level and weak coordination across institutions, has led to an uneven record of implementation. The CPSD focuses on four main priorities that the private sector has identified as priority areas and that have gained urgency as businesses are hit hard in the COVID-19 environment. These priorities are (a) improving access to finance for SMEs through a secured transaction system; (b) increasing supply chain financing for enterprises participating in GVCs; (c) deepening capital markets as a channel to provide long-term and diversified sources of financing to firms in productive sectors; and (d) supporting the growth of digital financial services (fintech) and new business models for broader financial inclusion and innovative financial services in Vietnam.

Access to finance remains a constraint facing SMEs in Vietnam. According to the latest Enterprise Survey (2015), access to finance was the main business environment constraint for SMEs. Only 29 percent of the smallest enterprises (1–20 employees) had an active line of credit, versus 57 percent of large firms (more than 100 employees). The Vietnam Provincial Index 2020 found that 41 percent of firms surveyed face difficulties in getting credit (VCCI and USAID 2019). SME Finance Forum data suggest that the SME financing gap relative to potential demand is large, at 68 percent, and that 57 percent of formal SMEs have no access to finance. Unmet financing needs for micro, small, and medium enterprises is estimated to be US\$23.6 billion, equivalent to 12 percent of GDP. SMEs' access to finance through the banking sector is still limited, partly because of the structure of the banking sector (see section 4.1). Underlying problems in the collateral registry, which relies on land, are creating constraints to extending lending. Further, women-owned SMEs are twice as likely as SMEs owned by men to finance their business on their credit card instead of through loans from the banking sector (IFC 2017).

These financing constraints have emerged in an environment of high credit growth and ample liquidity. Vietnam has a sizable banking system, with assets close to twice the size of GDP. Credit to the nonfinancial sector (excluding government) amounted to 135 percent of GDP in 2018, higher than in other lower-middle-income economies (figure 4.1). However, financial inclusion is poor: only 31 percent of households have a bank account, compared with 71 percent in East Asia and the Pacific region, excluding high-income countries (figure 4.2).

Growth in credit to the SME sector has been anemic, around 3 percent annually, as domestic SMEs compete for credit with SOEs and large domestic corporates. Commercial banks continue to lend to underperforming large SOEs on a

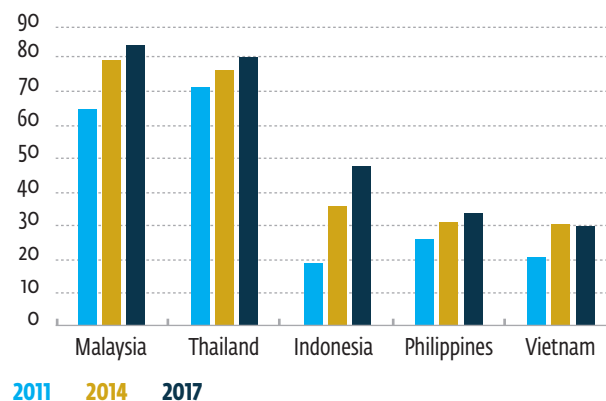
FIGURE 4.1 IN VIETNAM, MODERATE LEVEL OF CREDIT-TO-GDP
Credit (% of GDP)



Source: World Bank World Development Indicators.

Note: GDP = gross domestic product; LMIC = lower-middle-income countries.

FIGURE 4.2 VIETNAM'S LOW FINANCIAL INCLUSION LEVEL
Account ownership (% of population age 15 and over)



World Bank Global Findex data.

noncommercial basis, thus preventing profitable private firms from accessing credit (IMF 2017). According to an SME survey by the Central Institute of Economic Management, SMEs have a much lower chance of obtaining bank loans than large enterprises do. The total outstanding loans of SMEs account for 22 percent of the total credit in the banking system (Le and Anh 2019). Consequently, SME investment is subdued and largely financed internally. Further, digital technology has not been effectively used to promote financial inclusion.

The system is hampered by an asset-liability mismatch. Commercial bank deposits are short term but financing from commercial banks is not available at the long tenors needed for long-term investment projects, such as infrastructure. Additionally, interest rates on short-term deposits of one to six months are capped at 5.5 percent, while long-term rates are floating. Generally, more than 85 percent of the total liabilities of Vietnam's commercial banks are due in less than one year; for some banks, the rate is as high as 98 percent. Vietnamese commercial banks generally view liquidity as one of the key risks in their risk management system. This limits commercial banks' lending capability and appetite for long-term lending. The State Bank of Vietnam reduced the ceiling for the ratio of short-term deposits to medium- and long-term loans to 40 percent in 2019 (down from 45 percent in 2018) to address the long-standing maturity mismatch.

Vietnam needs to increase the role of the market and move toward risk-based lending while preserving banking stability. The State Bank of Vietnam (SBV) is using stringent administrative measures, such as limits on credit growth and interest rate caps on short-term deposits, to maintain banking stability. Looking forward, Vietnam needs to transition to a more modern supervision approach that deploys risk-based supervision for managing banking risks and an effective monetary policy for managing the economy, in addition to moving to risk-based lending and digital platforms. This effort requires SBV to continue to enhance its capacity in monitoring and supervising banks. Doing so entails implementing Basel standards for all commercial banks and improving risk-based supervision, the macroprudential framework, and the banking resolution framework.

Thus Vietnam would lay the path for a more efficient allocation of supervisory resources and would enable innovation in the sector, while improving the ability to address and resolve weak banks to maintain the overall sector's resilience.

Secured transactions system

Difficulties in using secured assets as collateral remain a key barrier to accessing bank capital for SMEs. Banks in Vietnam generally require fixed assets and do not accept movable assets, such as inventory and account receivables, as collateral. Vietnam has been undertaking gradual and extensive reforms of its secured transaction laws over the past decade. Multiple laws and regulations have been enacted over time to facilitate lending based on movable assets (FIAS and IFC-MPDF 2007).

A key improvement has been the inauguration of an electronic system for registering movable assets. In 2012 Vietnam launched a new world-class centralized online registry for movable assets, moving away from the old paper-based system to an electronic notice system.²⁸ In 2017, the upgraded secured transactions registration system was launched. The design of the upgraded system included additional features to meet the requirements of e-government Level 4, such as online access, payment, and support.²⁹ These features have made it easier to register security interests and have promoted movable lending, resulting in broad-based credit growth, particularly for SMEs.

These reforms have already produced a substantial, positive impact on the financial sector in Vietnam.³⁰ The number of registrations in the National Registration Authority for Secured Transactions rose from 43,000 in 2005 to nearly 2.2 million by the end of 2019, and financing against movable increased to US\$103.4 billion after the reform. The authority has also confirmed that more than 7.9 million searches on existing security interests were done in the new online registration system in 2019. These changes contributed to the improvement in access to credit for businesses reported by the *Doing Business 2020 report* (World Bank 2020a), in which the Legal Rights Index indicator that measures the strength of secured financing systems increased from 4 to 8. Vietnamese stakeholders (including public sector and private sector/financial sector representatives) increased their awareness about the new secured transactions system and strengthened their capacity on movable finance.³¹

Despite the regulatory and legal reforms, obstacles still constrain the widespread use of movable finance in Vietnam. These include

- **Lack of regulations, policies, guidance, or an action plan on movable finance, specifically inventory and receivables financing.** International experience shows that governments need these to further promote movable finance. In Vietnam, there is a lack of coordination among related government stakeholders in promoting movable finance. The State Bank of Vietnam and other related ministries have not issued sufficient policies and guidance to encourage financial institutions to deploy movable finance products.
- **Lack of common operating infrastructure and service capacities.** Promoting moveable finance requires addressing market players in addition to lenders. In addition, sector (meso) level education and knowledge development work is indispensable to generate a critical mass of willing participants in a market. In this context, good business associations or business alliances (which are another type of player) can play an invaluable role in dialogue with the regulators and in moving a market forward, particularly in education and knowledge development. Also, third-party service providers (such as collateral management companies) are necessary for a market to scale up and to employ the appropriate checks and balance. The more developed independent third-party service providers are, the further the advanced movable finance market can be developed.

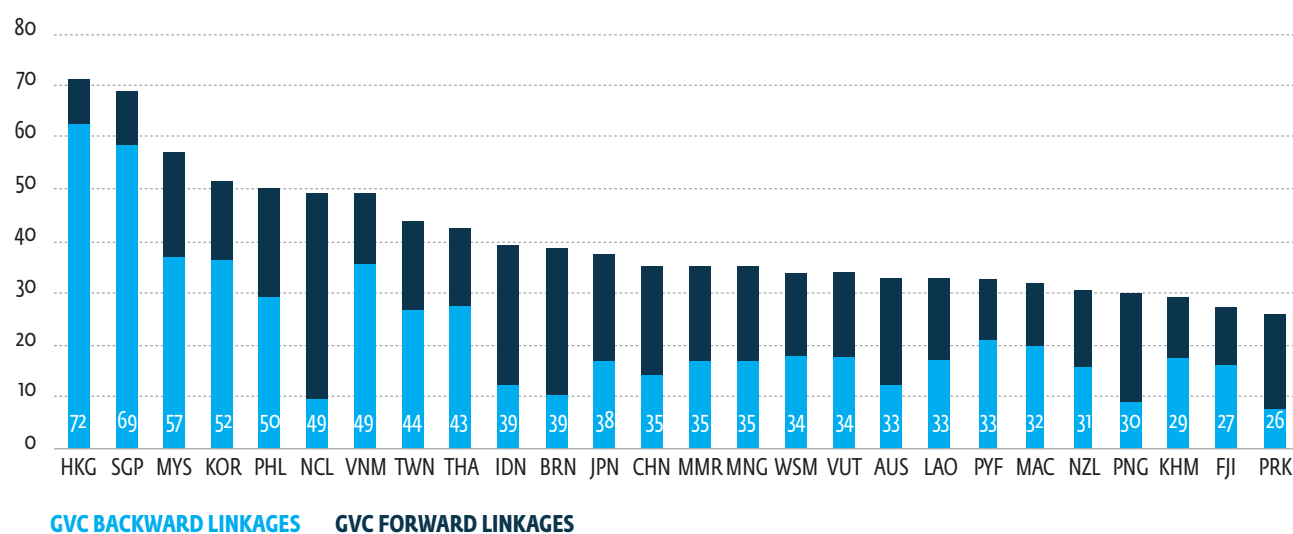
- **Lack of knowledge and expertise.** Credit institutions sometimes fail to recognize the economic potential and new business opportunities available through moveable asset lending. Banks are often not keen on movable asset lending because they lack the required knowledge and expertise to value and monitor such assets, especially machinery and equipment. Moreover, contrary to the general practices in developed economies, Vietnamese banks are often reluctant to regard inventory, account receivables, and other tangible and intangible assets as collateral (IFC 2010).

Supply chain finance

Vietnam is well integrated into GVCs, particularly through backward links (that is, the share of foreign value added in total exports of a country) (figure 4.5). In the coming years, Vietnam aims to deepen its participation in GVCs as it implements its recently ratified CPTPP and EVFTA free-trade agreements. Against the backdrop of rising protectionism and US-China trade tensions, the COVID-19 crisis has accelerated the relocation of some segments of GVCs from China and other countries in East Asia and the Pacific as multinational enterprises pursue alternatives to supply chain locations to diversify risks. Vietnam is well positioned to capitalize on this shift to increase forward links (the domestic value added embodied in intermediate exports that are further re-exported to third countries) if it continues to strengthen the absorptive capacity of domestic supporting industries (De Nicola, Timmis, and Akhlaque 2020). A dearth of technical and managerial skills and the lack of working capital and transaction banking services, such as supply chain finance (SCF), hinder the ability of producers and suppliers to accept large orders or to develop new relationships with their value chain actors.³¹

SCF includes a broad set of products that can be grouped into two categories: (a) receivable purchase-based SCF products and (b) loan-based SCF products (figure 4.6). In receivable purchase financing, banks finance sellers through purchasing a part or the entire receivable from the seller and take these receivables off the balance sheet of the seller. The bank gains ownership of the receivable and holds the title rights.

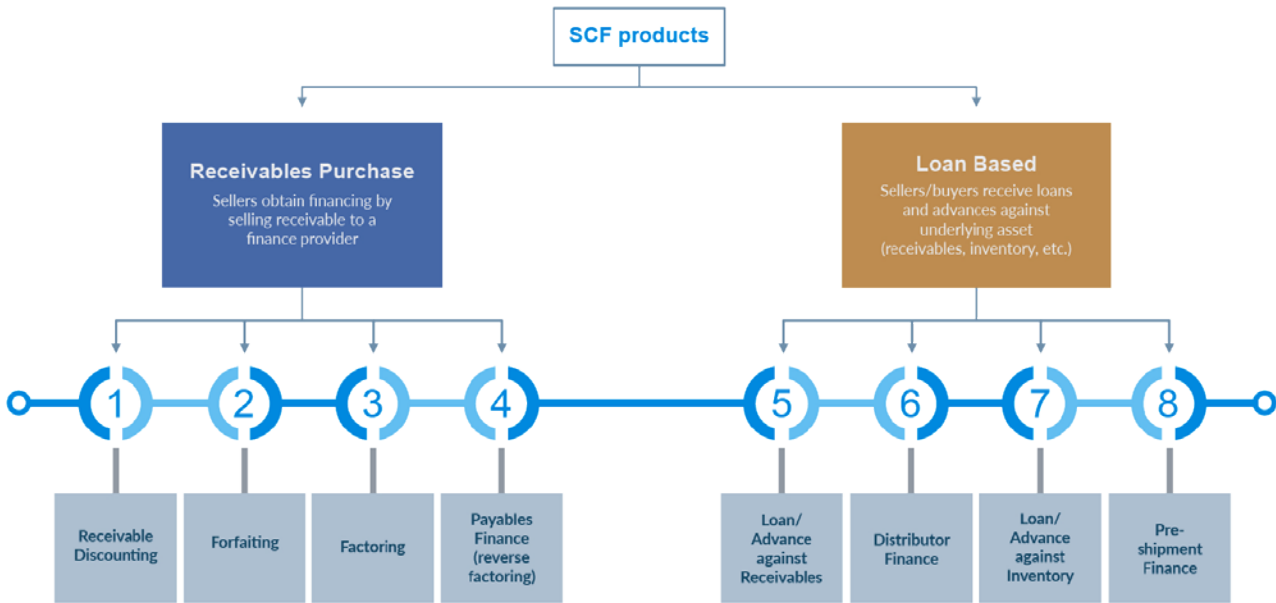
FIGURE 4.5 VIETNAM'S INTEGRATION IN GVCs, PARTICULARLY THROUGH BACKWARD LINKS



Source: World Bank Group 2020.

Note: Backward links measure the direct and indirect foreign value added in a country's exports. Forward links measure how much of a country's value added is embodied in other country's exports, expressed as a share of the country's exports. GVC = global value chain.

FIGURE 4.6 SUPPLY CHAIN FINANCE PRODUCTS



Source: IFC 2014.

Note: SCF = supply chain finance.

Against this purchase, the seller receives an advance payment with a certain margin for the bank. In loan-based financing, banks finance sellers/buyers by providing loans against receivables, purchase orders, and inventory (or, in other words, banks take receivables, purchase orders, and inventory as pledged assets). In this category, the receivable stays on the balance sheet of the seller, with the underlying asset used as collateral (IFC 2014). An example of a supply chain financing project is given in box 4.1.

BOX 4.1 A LARGE CORPORATION THAT HAS ADOPTED SUPPLY CHAIN FINANCING

Context: Siemens is an international group with 100 subsidiaries across 115 countries. Its products span power and gas, turbines, compressors, renewable energy, and building technologies. Just two countries, Germany and the United States, account for about 50 percent of Siemens’ procurement volume. Siemens launched a comprehensive supply chain finance program that offers reverse factoring and distributor financing to its suppliers and distributors, respectively.

Approach: Siemens undertook a partnership with Siemens Financial Services and used the Orbian platform to launch a reverse factoring and distributor financing

program. The group started with reverse factoring for tier 1 suppliers in 2008 and then later expanded it to reverse factoring for tier 2 suppliers and then toward distributors as well.

One of the key success factors of the supply chain financing program was the speed of invoice approval. The company approves—or rejects—invoices within an average of just eight days, using platform pioneer Orbian for the electronic transmission of payment instructions. Another success factor was that the supplier never has recourse to Orbian, so the relationship is strictly between the supplier and Siemens.

Source: IFC 2014.

Limited supply chain financing is available for SMEs participating in GVCs. SCF enables suppliers and distributors to optimize their working capital management by converting their sales receivables and inventories to cash and obtaining lower-cost financing. Vietnam's secured transaction registry indicates that only 30 percent of total filings are related to receivables and inventory, significantly lower than the level in more developed markets (60 percent in China, for example). Currently, Vietnamese SMEs embedded in the supply chains and ecosystems of larger corporate anchors have limited opportunities to leverage the enhanced credit standing of anchor firms to get better access to finance. By leveraging the credit rating and commercial strength of large entities, SCF can provide access to competitive financing solutions for these SMEs. It also provides an opportunity to banks to develop long-term relationships and to cross-sell products.

Most Vietnamese businesses that are linked to GVCs are larger companies. Local SMEs are characterized by low productivity and low-quality production. Integration into formal supply chains would provide SMEs new financing opportunities and exposure to new business practices and technologies. An inability to fund capital expenditures backed by receivables prevents SMEs from investing in equipment and other productive assets needed to grow. SMEs are forced to take out traditional commercial loans, usually backed by real estate and priced on the basis of the credit standing of the SME. SCF can support local SMEs trying to improve their links to supply chains, resulting in improved access to finance and greater competitiveness. The use of receivables and inventory in an organized way allows financial institutions to better understand and monitor business borrowers, thus increasing their confidence and willingness to lend.

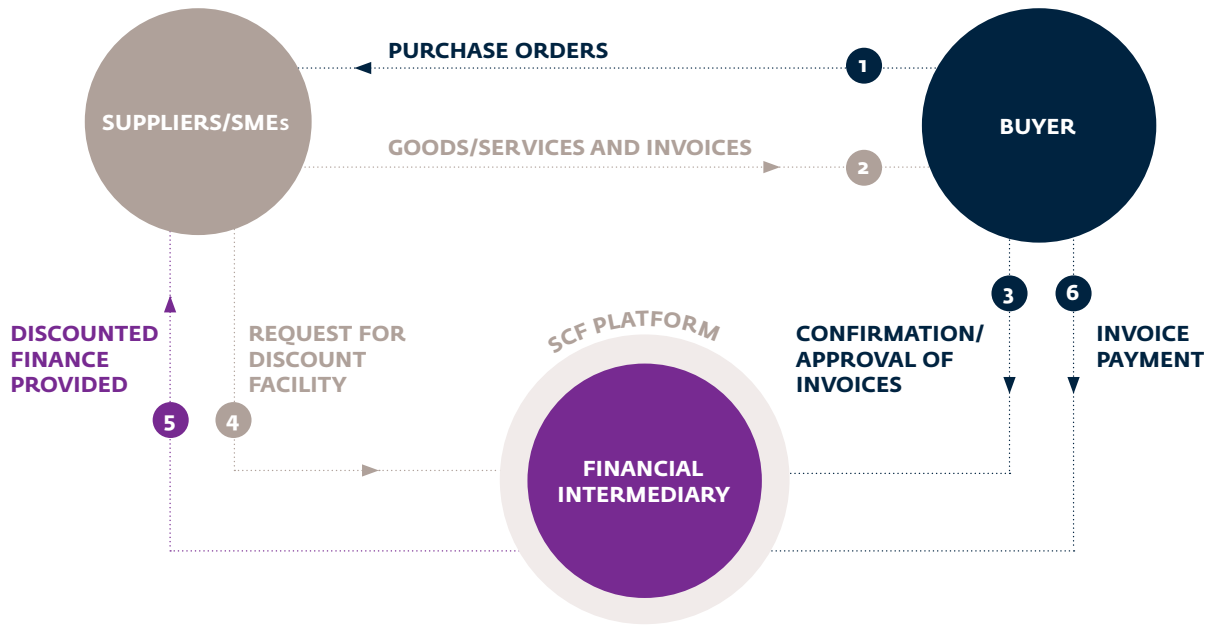
In Vietnam, SCF is still very new. Although Vietnam has a legal framework for movable finance, including SCF, the implementation and institutional underpinnings remain weak. It is important that various key ministries, such as the Ministry of Planning and Investment, the Ministry of Industry and Commerce, the Ministry of Agriculture and Rural Development, the Ministry of Justice, and SBV work together to promote SCF development in Vietnam. Recently in China, seven stakeholder ministries signed off on an action plan for SCF, and the People's Bank of China (the central bank) issued policies to encourage the implementation of SCF.

In addition, partnerships between foreign companies and their Vietnamese counterparts, particularly SMEs, are limited. As of December 2018, only 300 SMEs in Vietnam's supporting industries were present in the global supply chain. The local buying rate of Japanese investors in Vietnam is only 20 percent, much lower than in nearby markets, according to reports by the Japan External Trade Organization (Phuong 2019). The lack of partnerships with foreign partners causes Vietnam's SMEs to miss business opportunities and opportunities for financing. Financial institutions, especially those from abroad, usually want to see an existing relationship between SMEs and foreign partners before considering whether they should provide funds.

The adoption of SCF solutions is on the rise globally, driven primarily by the increase in fintech and third-party technology providers, but awareness in Vietnam is still low. Fintech players offering SCF platforms, such as payables finance (or reverse factoring) (figure 4.7) and receivables discounting (or invoice discounting) solutions, will help spur on the adoption of SCF and facilitate its implementation.

Third-party operational supporting services (including SCF e-platforms, collateral management, and the operations of nonbank financial institutions) are critical in creating an SCF ecosystem. SCF e-platforms create a transparent database on transactions among suppliers and buyers (figure 4.8). These e-platforms help financial institutions, including commercial finance companies, to better finance their clients. Further improvements in the enabling environment for collateral management (such as national warehouse and logistics systems) and the development of nonbank financial institutions, which are important players in the SCF market, also are important.

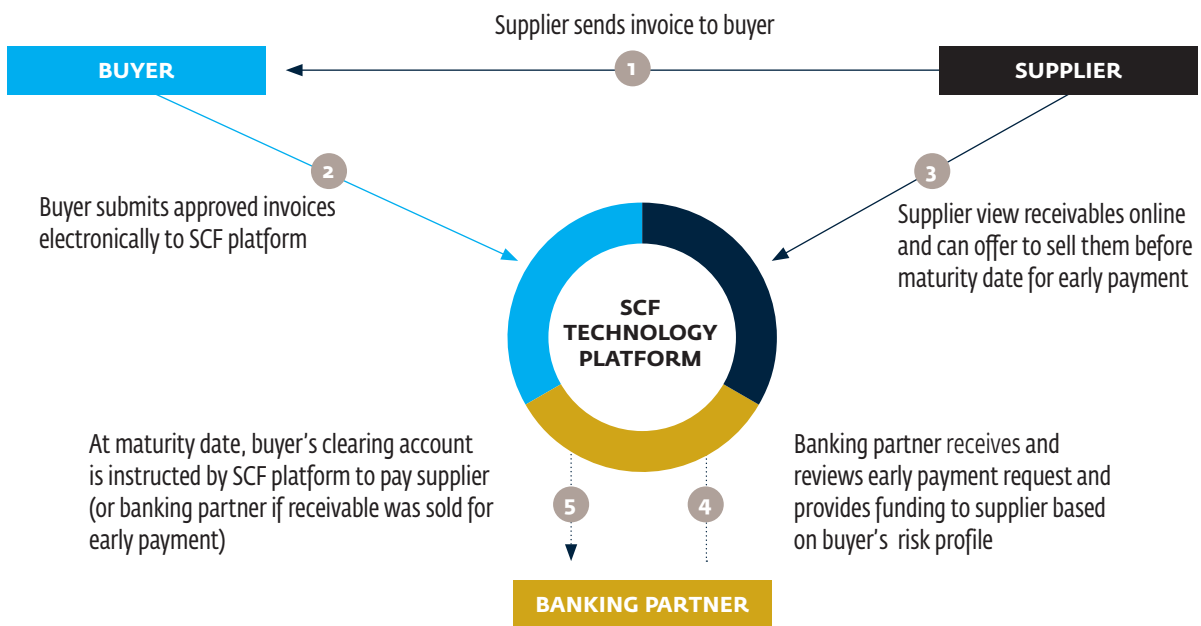
FIGURE 4.7 PAYABLES FINANCE



Source: McKinsey and Company 2015.

Note: SCF = supply chain finance; SME = small and medium enterprise.

FIGURE 4.8 ROLE OF E-PLATFORM IN CONNECTING COUNTERPARTIES IN SCF



Source: PwC 2020.

Note: SCF = supply chain finance.

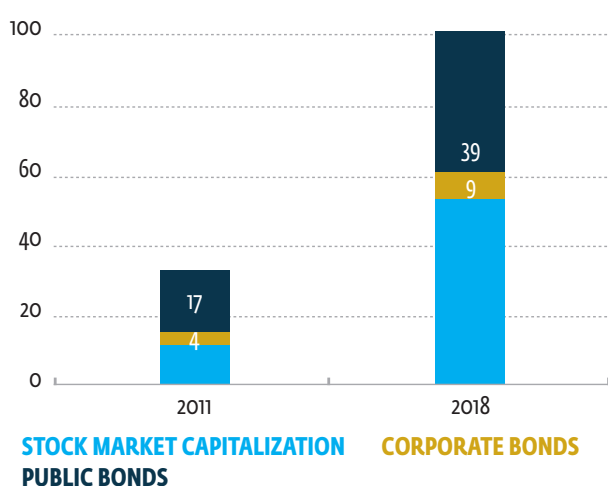
Capital markets

Vietnam's capital markets are experiencing an expansion but remain shallow. The government recognizes the importance of capital markets as a channel to provide long-term and diversified sources of financing to firms in productive sectors. Vietnam's capital markets have achieved robust growth since 2011. The size of the bond and stock markets increased from less than 40 percent of GDP in 2011 to almost 100 percent of GDP at end-2018 (figure 4.9), which represents about 68 percent of the total value of the credit provided by the banks. Despite this rapid expansion, Vietnam continues to lag other ASEAN member countries, as evidenced by the size of their bond markets (figure 4.10). The relatively rapid expansion of the bond market in Vietnam has been concentrated in issuances from the public sector, as the use of bonds by corporations has remained mainly limited to banks and real estate companies.

Vietnam's corporate bond market has grown rapidly and is likely to continue at a similar pace. The value of outstanding corporate bonds increased from about 4.1 percent of GDP in 2011 to over 9.4 percent of GDP in 2019. It reached about D 590 trillion by end-June 2019. Corporate bonds were issued mainly by commercial banks (35 percent of total issuance), real estate companies (21 percent), and securities firms (5 percent). However, most of these were private placement bonds and were not listed on the country's exchange markets. In the coming years, efforts to recapitalize big state-owned banks, fund major SOEs, and finance infrastructure projects will be the main drivers for the development of the corporate bond market. These sectors require long-term funding. A well-developed local corporate bond market would provide opportunities for the various sectors to create instruments appropriate to their funding needs. It would also improve financial stability and potentially attract more local and foreign institutional investors.

However, several obstacles hinder the growth of the corporate bond market in Vietnam. First, the legal and regulatory framework remains inadequate. Most corporate bonds are issued in the opaque private placement market, hindering active participation from

FIGURE 4.9 GROWTH IN VIETNAM'S CAPITAL MARKETS
% of GDP



Source: World Bank 2019d.

FIGURE 4.10 VIETNAMESE BOND MARKET COMPARED WITH OTHER ASIAN COUNTRIES, JUNE 2019



Source: World Bank 2019d.

the broad institutional investor community. Private placements require no formal regulatory approval and only minimal disclosure to investors, making access to this market relatively easy and less costly. But the process presents investor protection issues when the bonds are resold to public investors, including retail. The 2019 Law on Securities has limited the private placement market to only professional investors and prohibits the distribution of these bonds to public/retail investors, presenting a positive development in the legal regulatory framework for corporate bonds. Confidentiality is a core element of the private market; thus limited credible data are available to the public to assess market information, even on an aggregated basis. Although reporting to the authorities is mandatory, data have not yet been shared on a consistent and regular basis. When information is available, it is frequently not up to the standards acceptable to many professional investors. To improve market transparency, it is therefore essential to promote the public and listed corporate bond markets. To this end, the administrative processes to issue and list bonds in the public market should be streamlined to reduce the burden for issuers. At the same time, good quality and standardized documentation and the use of credit ratings would attract more investors into this market.

There are currently two segments of the stock market in Vietnam: Ho Chi Minh Stock Exchange (HOSE) and Hanoi Stock Exchange (HNX). An additional unlisted but “registered” market is called the Unlisted Public Company Market (UPCOM),³³ housed at the HNX. As of March 2019, the market capitalization of the HOSE (D 3,247 trillion) was approximately three times that of the HNX (D 1,091 trillion, including the UPCOM). The HOSE lists larger companies, including large SOEs, and is the main market for IPOs, as well as the market in which foreign investors in Vietnam typically participate. More than 756 stocks are listed on the two exchanges (378 stocks on each of the two exchanges), plus 738 companies are registered on the UPCOM. The total market valuation of listed companies equaled 52 percent of GDP at end-2018, slightly above the level in China and Indonesia but far from the levels reported in the Philippines, Malaysia, and Thailand (figure 4.11).

The equity market has been used to raise capital directly by only a few companies over the past few years, even though there seems to be sufficient broad market liquidity to support more activity. The total IPOs and follow-on offerings reached US\$3.8 billion between 2016 and 2018, which was the lowest amount raised among the Philippines (US\$4.7 billion), Malaysia (US\$5.1 billion), Thailand (US\$5.8 billion), and China

FIGURE 4.11 VIETNAM’S EQUITY MARKET COMPARED WITH OTHER ASIAN MARKETS
Market capitalization to GDP (%)



(US\$143.0 billion). In 2018, about two-thirds of these deals were from only two companies: (Techcombank, US\$0.9 billion) and Vinhomes (US\$1.3 billion). The secondary market in Vietnamese equities has been more active, with a modest turnover ratio of 40 percent, which is in the midrange of the ratios reported by peer markets in the region.

Limits on foreign ownership may constrain investment in Vietnamese equities. Vietnam is seeking to deepen its equity markets by seeking reclassification from a frontier market to an emerging market. For instance, the country seeks its equity market to be upgraded to an emerging market classification in the Morgan Stanley Capital International and FTSE Russel equity indexes. Such a reclassification is pending, among other things, improvement in the clearing and settlement process (such as removal of trade prefunding requirement) and greater clarity in the pricing of stocks subject to foreign ownership limits. The limits appear to have created some price discovery issues for those companies whose foreign ownership has reached the limit; for these stocks, prices quoted in the exchange may not be the actual price obtained by foreign investors.

Another challenge for investors, especially foreign investors, is the lack of quality information disclosure. Concerns about the lack of quality disclosure and access to management for listed companies, as well as a lack of information in English available to foreign investors in a timely manner, further limit foreign investment in the market in Vietnam. This, among other factors, has hindered the Vietnam stock market from being included in the emerging market category in the global stock indexes, keeping the market from attracting a broader investor base.

It is important for Vietnam to continue the development of areas that serve as building blocks for long-term finance. These areas include enhancing pricing mechanisms through yield curve development, taking advantage of the existing momentum through the improved government bond market. The development of money market and reliable short-term reference rates will help solidify the yield curve and indirectly facilitate the development of innovative instruments in the capital markets. Banks are unlikely to meet the full extent of growing demand for financing because of their liquidity and capital constraints and maturity mismatches. In this context, new types of instruments—such as infrastructure bonds, asset-backed securities, and other structured instruments—are necessary to support infrastructure and other long-term investments in Vietnam. This should be accompanied by efforts to broaden the investor base, which is important not only to sustain market growth but also to increase liquidity and reduce volatility. The development of mutual funds and private pension funds, for example, would be important as long-term saving vehicles for individuals and as a long-term funding mobilization tool through the capital market; an appropriate incentive system (such as through taxes) should be considered to channel more investment through these vehicles.

Fintech in Vietnam

The COVID-19 crisis has intensified the use of digital financial services (or fintech, including digital payments, lending, insurance, and savings) and e-commerce in Vietnam and in other countries in the region. Fintech has helped reduce the full economic impact of the pandemic on commerce and access to financial services. While Vietnam is in the early stage of development of fintech, the pandemic has hastened the need to transition away from a cash-based economy toward a system that encourages the use of electronic payment services, which are vital to increase efficiency, reduce costs, and facilitate financial inclusion.

Vietnam's digital connection and infrastructure offer significant scope for growth in digital financial services because the country has a high rate of smartphone penetration and cost-effective internet/Wi-Fi access. Internet penetration was around 70 percent

TABLE 4.2 INTERNET ACCESS IN SELECTED SOUTHEAST ASIAN COUNTRIES

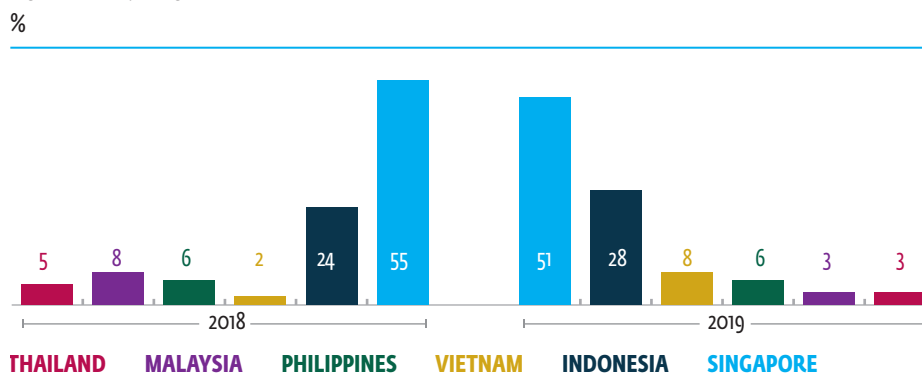
COUNTRY	RATE OF MOBILE BROADBAND PENETRATION	RATE OF FIXED BROADBAND PENETRATION	RATE OF INTERNET PENETRATION	COST OF INTERNET CONNECTION		SMARTPHONE USERS OR PENETRATION
	Active mobile broadband subscriptions per 100 inhabitants in 2018	Fixed broadband subscriptions per 100 inhabitants in 2018	Individuals using the Internet in 2018 (% of population)	Average broadband download speed in 2019	Average cost of a fixed-line broadband package in 2020 (per month in USD)	Mobile cellular subscriptions (per 100 people)
Vietnam	71.89	13.60	70.35	7.02 (rank: 89)	\$11.23	147.20
Indonesia	87.15	3.32	39.91	6.65 (rank: 92)	\$30.02	119.34
Malaysia	116.70	8.55	81.20	23.86 (rank: 30)	\$31.75	134.53
Philippines	68.44*	3.68	60.06	6.05 (rank: 97)	\$39.29	126.20
Thailand	104.67	13.24	56.82	18.21 (rank: 45)	\$23.82	180.18
Singapore	148.82	27.97	88.17	70.86 (rank: 2)	\$43.80	148.82
Cambodia	82.82	1.02	40.00	4.03 (rank: 122)	\$32.63	119.49

Source: International Telecommunication Union, World Telecommunication/ICT Development Report and database.

Note: * 2017 value.

and mobile penetration around 150 percent in 2018 (table 4.2). The average cost of a fixed-line broadband package was US\$11 per month in 2020. Over 40 percent of Vietnam's population had access to 3G mobile broadband in 2018, but only about 20 percent had access to 4G/LTE mobile broadband, which offers much faster data transmission capability. Vietnam's fixed broadband penetration is comparable to that of Thailand and much higher than that of Indonesia, Malaysia, and the Philippines. Mobile broadband download speeds in Vietnam are comparable to the ASEAN average but significantly below the OECD average. For Vietnam to be competitive and leverage other digital technologies, additional investment in 4G/LTE and fixed broadband networks is required, including in rural and remote locations.

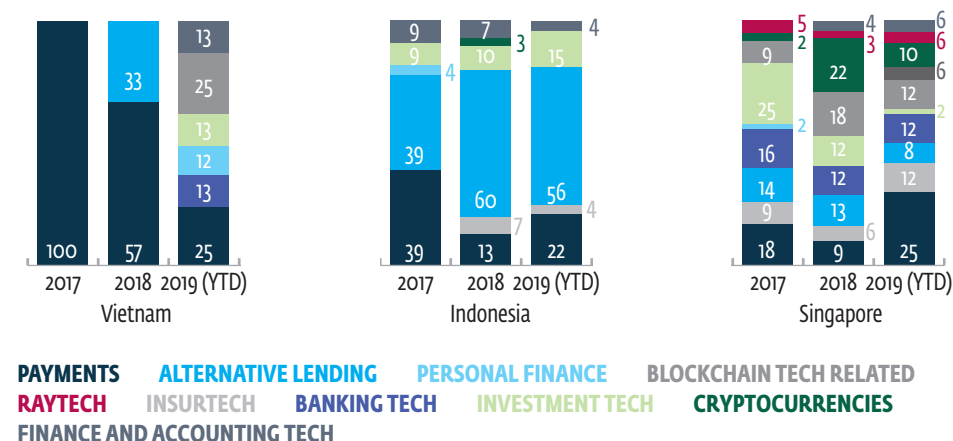
Vietnam is capturing a small but growing share of the funding for fintech start-ups in major East Asian markets (figure 4.12). As of September 30, 2019, there were 136 fintech companies incorporated in Vietnam. Vietnam's fintech industry is one

FIGURE 4.12 VIETNAM'S SHARE IN TOTAL FINTECH START-UP FUNDING AMONG MAJOR EAST ASIAN MARKETS

Source: UOB, PWC and SFA 2019.

FIGURE 4.13 FUNDING DEALS, PROPORTION BY CATEGORIES ACROSS VIETNAM, INDONESIA, AND SINGAPORE, 2017–19

%



Source: UOB, PWC and SFA 2019.

Note: Insurtech = insurance technology; Regtech = regulatory technology; YTD = year to date.

of the smallest in Asia, behind Singapore (1,157 companies), Indonesia (511), and Malaysia (376). Payment was the most advanced segment, with about 35 companies, according to the Fintech Startup Vietnam Map 2019. Notable ventures and platforms include MoMo, a mobile payments platform by M Service and one of the most well-funded fintech start-ups in Vietnam; Moca, a mobile payments service integrated into super-app Grab; and ZION, the company behind Zalo Pay, a service integrated into Vietnam's popular messaging platform Zalo. In addition, peer-to-peer (P2P) lending is another popular segment, with more than 20 companies, including Tima, a consumer financial marketplace and P2P lending platform; Growth Wealth, a P2P lending platform for SMEs in Vietnam; TrustCircle; and Vay Muon.

The bulk of funding in fintech has gone to digital payments, which is common for economies in the early stages of developing a fintech sector (figure 4.13). As of March 31, 2019, the number of financial transactions conducted on mobile phones was almost double the 2018 level, according to the SBV. The Vietnam mobile payments market is projected to reach US\$70.9 billion by 2025, up from US\$16 billion in 2016. As fintech payment firms capture more consumer and business spending data, they will then be able to diversify into other areas, such as lending, bringing about a corresponding change in the range of fintech solutions in the market. Finally, as the fintech sector matures, fintech firms will seek to capture more growth opportunities in insurance and asset and wealth management solutions while the disposable income of the expanding middle class in Vietnam increases.

The SBV has taken a cautious approach to fintech regulations, observing the initiatives championed by regulators in neighboring countries before determining its strategies to drive fintech growth. For example, the SBV imposed a limit on the number of payment licenses that can be granted to nonbank organizations in order to safeguard the interests of consumers. The SBV has also been very selective in issuing payment licenses, granting only 31 so far. The fintech firms that have received the license are permitted to provide services such as electronic payments, money transfers, and e-wallets. Services to generalize the use of electronic know-your-customer processes are also lacking; this is a key element to minimize the costs of and simplify the process.

The SBV is also piloting P2P lending, which is set to build a foundation for a robust P2P lending industry in the country. To spur more fintech developments, the SBV has also continued with the second round of the Fintech Challenge Vietnam, which focuses on fintech solutions that use big data and artificial intelligence technology to drive financial inclusion and to improve cybersecurity. Lessons from the challenge will be used to shape the development of a legal framework for the fintech ecosystem. The information will also help in guiding the secure and intelligent use of data to better serve the needs of Vietnamese consumers and businesses.

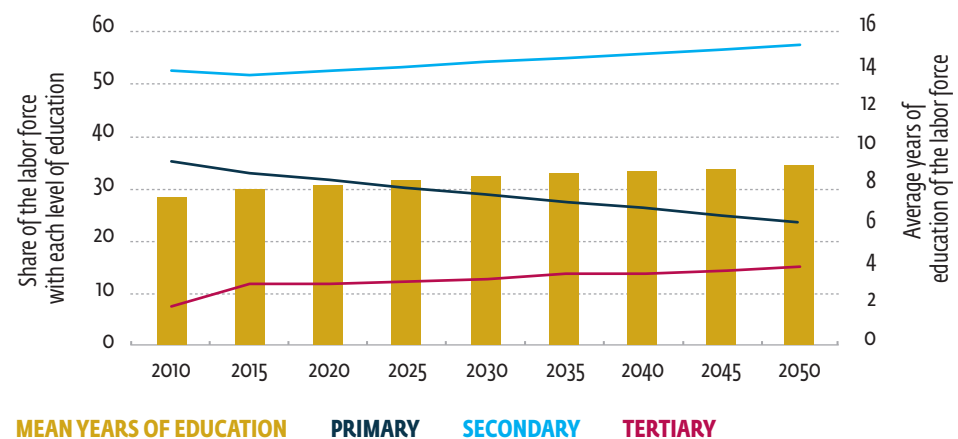
4.3 BRIDGING SKILLS GAPS AND SHORTAGES

As Vietnam transitions toward an innovation-led growth model and moves up the value chain, the demand for skilled labor and more sophisticated technologies will increase.³⁴ Vietnam needs to navigate changing terrain on global and domestic markets, made more acute by the COVID-19 crisis, that will affect Vietnam’s future skills and jobs landscape. Automation from Industry 4.0 (including digital technologies), renewed disruption to trade and consumption patterns, the rise of knowledge-intensive industries and service exports, and an aging population all require a new and complex set of skills and production processes. For this reason, vocational and technical training and university education have become priorities.

With a labor force that has low levels of education, Vietnam faces skills gaps (poor quality of skills) and skills shortages (inadequate quantity of workforce with required skills) that are major constraints for engaging and investing in firms’ innovation practices.³⁵ The growth of knowledge-intensive exports, the service industry, and automation will require a labor force with a range of skills and a means to upskill over a worker’s lifetime. The 2018 Global Competitiveness Index ranks Vietnam 127th of 140 countries on the industry-relevant skill set of university graduates. Although Vietnam is recognized globally for its high and equitable level of Programme for International Student Assessment scores that are on par with OECD countries, the country has not yet been able to capitalize on the great potential of high school graduates because of the low quality and low relevance of the tertiary education system.

Inadequate skills are a major obstacle to firm performance. Almost half of employers who responded to a 2015 Enterprise Survey for Vietnam identified “skills” as an obstacle to firm performance, compared with 31 percent of firms in the rest of

FIGURE 4.14 SHARE OF THE LABOR FORCE WITH TERTIARY EDUCATION 2010–50, FORECAST



Source: Cunningham and Pimhidzai 2018.

TABLE 4.15 SHIFT IN SKILLS AND EDUCATION AND TRAINING FOR THE DIGITAL ECONOMY

TRADITIONAL ECONOMY	DIGITAL ECONOMY
Basic skills, thinking skills, knowledge	Socio-behavioral skills, higher-order cognitive skills, learning to learn, digital literacy, managerial skills
Education and training while young	Continuous learning throughout the life-time
Multi-year educational programs	Short, tailored training courses and learning by doing
Education and training institution-based skilled development	Industry/workplace, adult-learning, web-based training courses
Dedicated to learning, at public expense, while living at home	Information and financing to allow for transitions (jobs/skills development)

Source: World Bank Group 2020 background papers.

developing East Asia and the Pacific region. Exporting firms are also three times more likely than nonexporting firms to identify this skills constraint. In addition, in the World Bank Enterprise Survey on Innovation and Skills (2019), a large proportion of firms reported difficulties hiring employees with the required levels of managerial and leadership skills (43 percent), socioemotional skills (53 percent), foreign language skills (58 percent), and technical and vocational skills other than IT skills (68 percent). The need for managerial skills, however, ranks at the top across different categories of firm size. The lack of workforce skills cuts across sectors, but there may be specific skillsets demanded by individual sectors. For instance, in the electronics/ICT sector, complaints relate to the lack of workers with skills related to foreign language, management, and technical skills.

Skills gaps also are widening rapidly. The 2014 and 2017 Labor Force Surveys show a reduction in jobs that require simple skills (such as subsistence farmers and street vendors). In contrast, 8 of 10 of the fastest-growing occupations require higher-level knowledge and a broader range of skills, including in manufacturing and modern services (telecommunications, finance, and transport) (table 4.15). Employers, therefore, value high-skilled workers who, for example, are able to perform nonroutine analytical work and will pay such workers a 25 percent premium over the income received by those who cannot. The gender dimension in the skills gap also needs to be addressed. For example, the gender diversity of corporate boards is positively correlated with the financial performance of the company.³⁶

4.4 CORE INFRASTRUCTURE SERVICES THAT SUPPORT GROWTH

Vietnam has made significant investments in infrastructure over the past 10 years, but its investment requirements to meet the rising demand for quality infrastructure services are still enormous.³⁷ Between 2012 and 2017, Vietnam invested between 6 and 8 percent of GDP in infrastructure per year,³⁸ which was in the upper range of estimated investment needs for low- and middle-income countries (needs are estimated between 2.0 and 8.2 percent of GDP per year) (Rozenberg and Fay 2019). The G20 Global Infrastructure Outlook estimates that Vietnam's annual infrastructure investment needs could reach US\$25 billion by 2020–30. In addition, the quality of Vietnam's infrastructure needs

substantial improvement. According to the World Economic Forum (WEF) *Global Competitiveness Index* (2019b), Vietnam is ranked 77th out of 140 economies in the Quality of Infrastructure ranking, behind its regional peers such as Thailand (71st) and Indonesia (68th).

Large infrastructure gaps have been identified in the logistics and power sectors in Vietnam. These sectors are critical to development, and both face considerable challenges in efficiently meeting the growing demand for services. Infrastructure is an area in which private sector participation could help enormously—both in terms of volume and in the quality of investments. In logistics, a key issue is making the investments required to transition to multimodal services and containerized shipments. One of the major stumbling blocks for attracting more private sector investment in power is the need for a PPP framework, for which resolving legal and regulatory issues and improving planning, transparent procurement, permitting, and balanced risk allocation would be important.³⁹

Improving domestic logistics services

Vietnam has done a remarkable job in investing in infrastructure connectivity, which has contributed to its ability to integrate into GVCs.⁴⁰ As the country transitions toward the next generation of GVCs, the connectivity and competitiveness bar is rising. Despite Vietnam's improved ranking on the World Bank's Logistics Performance Index from 53rd in 2010 to 39th out of 160 economies in 2018, total logistics costs in Vietnam were estimated around US\$41 billion in 2016, accounting for about 21.0 percent of total GDP, which was much higher than in China (15.4 percent) and in the United States and Singapore (8.0 to 9.0 percent) (table 4.4). Typically, the proportion of total logistics cost to a country's GDP reveals the state of its logistics sector: the world's average logistic costs are around 12 percent of GDP. The main reason for the high proportion of logistics costs over GDP in Vietnam is the country's underdeveloped infrastructure and relatively low connectivity, which result in congestion in road transport, airports, and ports and affect domestic logistics. Inefficiencies also cause unnecessarily high emissions of greenhouse gases. Vietnam's intensity of greenhouse gas emissions is also very high, largely reflecting inefficiencies in the trucking sector (table 4.4).

TABLE 4.4 GLOBAL BENCHMARKS FOR LOGISTICS COSTS AND GHG EMISSIONS

COUNTRY	2018 LPI RANK (SCORE)	LOGISTICS COSTS AS PERCENTAGE OF GDP	GHG EMISSIONS (GRAMS OF CO ₂ /GDP)
Germany	1 (4.20)	8.5	200
Japan	5 (4.03)	9.0	190
Singapore	7 (4.00)	9.5	155
United States	14 (3.89)	8.5	300
Korea, Rep.	25 (3.61)	9.5	460
Vietnam	39 (3.27)	20.8	1,090
India	44 (3.18)	13.0	900
Brazil	56 (2.99)	12.0	200

Source: World Bank Logistics Performance Index, Asian Development Bank (costs); International Energy Agency and Organisation for Economic Co-operation and Development (GHG emissions); World Bank 2019a.

Note: CO₂ = carbon dioxide; GDP = gross domestic product; GHG = greenhouse gas; LPI = Logistics Performance Index.

Logistics sector in Vietnam

The logistics sector in Vietnam can be segmented into three subsectors: **transportation, forwarding, and warehousing**. Road transport is the backbone of Vietnamese freight transport and accounted for 77 percent of the total transported freight volume in 2018. Transported volumes grew by an average of 10.6 percent per year (compound annual growth rate) between 2008 and 2018, and in 2020 road freight tonnage was expected to grow by 8.0 percent (Fitch Solutions 2020), ahead of inland waterways (7.0 percent), airfreight (6.3 percent), and rail (3.1 percent). Domestic firms dominate the trucking segment with about 80 percent of market share in 2016. There are four main airfreight players: Vietnam Airlines, VietJet Air, Jestar Pacific, and Vasco. Freight forwarding includes inland container depot (ICD) and container freight station services. Vietnam has 24 ICDs (and dry ports) concentrating in the north and the south.⁴¹ Warehousing can be segmented into two main categories: dry warehousing and cold storage warehousing.

Foreign companies tend to dominate the high-value segments of the logistics market with experience and professional management that the local logistics companies find difficult to match. Foreign investors are mostly present via sizable companies, typically with sales over US\$100 million. The over 25 foreign companies participating in the logistics sector currently capture the majority of the market share, providing high-value-added logistics services such as supply chain management.⁴² They have brought with them higher service expectations and requirements. Some local players, including ITL, Gemadept, and Transimex Saigon (1TL), are trying to tap this segment. They face competition from foreign players, such as DHL, Schenker, Logitem, Yusen, and Kuehne + Nagel.

Trucking services are inefficient because the industry is fragmented and lacks aggregators. A recent World Bank study (2019a) found that road transportation costs were higher than in other economies because of the sector's fragmentation and low efficiency. Transportation costs account for about 60 percent of overall logistics costs. Competition in the trucking market is strong because of excessive fragmentation, which drives down the margins and the sustainability of the trucking sector (World Bank 2019a). The study also found that logistics costs per ton-kilometer decreased with increases in the number of trucks owned and truck tonnage, and with better truck utilization rates.

Freight brokerage services are underdeveloped and contribute to empty backhauling rates as high as 50 to 70 percent. Given the fragmentation of the trucking industry, aggregators could play a key role in increasing efficiency—notably by reducing empty backhauling—and in promoting transparency. Vietnam lacks freight brokerage services covering the whole country, an absence that has resulted in limited use of technology to improve logistics efficiency. Therefore, the use of ICT to create digital freight aggregators has the potential to provide real-time matching of supply and demand and route optimization, and would contribute to increasing the sector's efficiency. However, despite several attempts to launch freight aggregators, a widely used platform is yet to emerge, in part because of a lack of trust from logistics service providers (LSPs), who are reluctant to share their fleet information on these platforms.

Inadequate nonroad infrastructure stifles the development of multimodal networks. Recent World Bank analysis (2019a) indicated that it is important to develop alternative modes of transportation, such as inland and coastal waterways, along with supporting infrastructure such as river ports and ICDs. Currently, 39 percent of the traffic in seaports is for domestically transported cargo; this traffic has increased faster than international traffic. The majority of this traffic is in bulk rather than containerized. The containerization of cargo would foster multimodal transport and facilitate shipping on waterways. However, that option would require the development of adequate infrastructure for ports to handle containers. Inland waterways also lack proper

landing stages with adequate access roads. Many bridges with low clearance also pose a challenge. ICDs are a key interface between roads and ports and can serve as points of road freight consolidation. Unfortunately, truck operators currently avoid them because they involve long processing times and are often in inconvenient locations, far from industrial zones.

A lack of adequate infrastructure, excessive traffic rules, and intense competition hinder last-mile delivery services, which are the last segment of the logistics chain and consist of delivering goods from fulfillment centers to consumers. Demand for these services has boomed with e-commerce, as small parcels have multiplied. Only the larger e-commerce companies have their own delivery service (first-party logistics), while smaller companies rely on external logistics services. Service providers are a mix of international companies (DHL, FedEx, and UPS), domestic and regional start-ups (GHN and Ninja Van), and historical players (Viettel Post and Vietnam Post). Surveyed logistics providers complain about insufficient road infrastructure, such as overpasses, underpasses, and bridges (World Bank 2020f). Rules limiting truck circulation in Hanoi and HCMC during peak hours help regulate the traffic in congested city centers, but they also stifle the development of needed services. In addition, anecdotal evidence reveals that facilitation payments and corruption, especially for cross-border trade, contribute to the logistics inefficiencies.

Emerging opportunities in the logistics sector

The demand for efficient logistics services in Vietnam is expected to increase substantially in the coming years, driven by the following factors:

- **Over 13 percent of households in Vietnam are now part of the global middle class,** with 3 million people joining this group between 2014 and 2016. The trend is projected to rise further, which will heighten demand for consumer goods, safer food products, and other goods and services.
- **Vietnam is Southeast Asia's third-largest e-commerce market** (US\$2.8 billion) after Indonesia (US\$12.2 billion in 2018) and Thailand (US\$3.0 billion in 2018) and is set for continued growth. Additionally, with the COVID-19 pandemic, social distancing will change consumer preferences and further increase demand for e-commerce among the Vietnamese middle and upper class. The growth of e-commerce, now with stricter sanitary protocols, will create continuing logistics challenges. The main challenges for urban logistics include traffic and congestion, truck access, and off-hour delivery. In contrast, cost, distance, and lack of facilities and infrastructure make up the main challenges for rural deliveries. These problems will generate increased demand for courier and airfreight services.
- **As Vietnam strives to move up value chains in the agribusiness sector to meet external and internal demands, it will place increasing pressure on firms to develop agribusiness-related logistics,** such as cold chain facilities and slaughterhouses.
- **With increasing demand for fresh food and growing health concerns, Vietnamese consumers have grown increasingly conscious of food safety, but supply chains for food products have not significantly evolved** and modern distribution and retail remain rare. It is estimated that traditional stores still account for 95 percent of grocery retail sales nationwide. The country still lacks effective collection hubs for producers, leading to food waste. The development of better cold chain services is key to addressing consumers' concerns with food safety.
- **The rapid growth of the airfreight market has placed increasing pressure on airport facilities.**⁴³ For instance, among the 22 airports in Vietnam, only four have separate cargo terminals (including Noi Bai in Hanoi and Tan Son Nhat in HCMC) and only two have onsite logistics centers. The remaining airports have no cargo terminals and handle cargo in passenger terminals.

Major constraints hindering private sector growth of the logistics sector in Vietnam

The major constraints that limit private sector participation in the logistics sector relate to limited access to finance, competition and coordination failures, and an inadequate regulatory framework.

- **Limited access to finance.** This creates an obstacle for smaller LSPs to upgrade and scale up the vehicle fleet, and for innovative start-ups to enter the market because they lack funds to purchase capital-intensive assets, which tend to be imported and expensive. Limited access to financial support and the high costs of finance are the key challenges perceived by logistics companies. Financing options, such as leasing, are underdeveloped, particularly for commercial vehicles.
- **Use of the underdeveloped multimodal network is limited despite long waterways and an extensive railway network** in addition to its roads. Several factors contribute to this:
 - **Low level of containerization.** A large share of domestic freight is in bulk—for instance, it is estimated that only 4 percent of the Mekong Delta’s rice production is containerized. Containerized freight offers many advantages over bulk, notably in protecting goods and in facilitating transshipment, multimodal integration, and freight consolidation.
 - **Lack of platforms to coordinate and aggregate traffic.** Without effective aggregators, such as freight brokers and digital freight platforms to act as intermediaries between LSPs and clients, firms do not optimize traffic. Currently, this role is mostly done via personal networks, and most brokers do not cover the entire country. The development of effective freight aggregation platforms is limited by poor data availability, notably the limited use of transportation management systems and lack of transparency in existing regulations.
 - **Lack of urban consolidation centers and cross-docking facilities.** Such facilities would play a key role in domestic logistics by facilitating the aggregation/disaggregation of traffic exiting and entering urban centers and the organization of deliveries by clusters. The better conceived and located they are, the more efficient LSPs can be. Currently, many facilities are basic truck stops with limited supporting infrastructure. Inclusion of such consolidation centers in urban masterplans would help the sector’s development.
- **Barriers to entry.** In logistics firms face challenges entering the section because of the following:
 - **Foreign ownership is low in the sector,** even though international firms have a large market share. Only 4 percent of LSPs are 100 percent foreign owned. The sector could benefit from more technology and skills transfers that would come from efficient international LSPs (World Bank 2020f).
 - **For domestic firms, the need for licenses may constitute an entry barrier,** such as in the air cargo sector, where licenses are difficult and costly to obtain.
- **Anticompetitive regulations.** It is still common for subnational governments to issue pricing guidelines for public procurement (OECD 2018). These public guidelines can facilitate collusive agreements by making it easier for private providers to engage in price setting.

- **Inadequate regulatory framework**
 - **Lack of flexibility regarding bonded warehouses.** Currently, there is no process to “import” a share of the products stored in bonded warehouses to be sold in the domestic market. This creates very inefficient processes for manufacturers wishing to do so. As the domestic market continues to expand, this will create increasing inefficiencies and costs.
 - **Lack of transparency and consistency in general rules and regulations.** LSPs pointed out the lack of predictability in the regulatory framework. Notably, different rules may be applied by different ports of entry, subnational governments, and staff. Authorities do not provide adequate communication on regulatory changes, some of which are applied retroactively. These issues typically concern licensing (such as for building a warehouse), customs duties, and taxes. There is also no clear recourse for resolving such matters.
 - **Lack of documentation for e-commerce sellers.** Many sellers are small informal businesses, which lack documentation (such as a valued added tax invoice) for parcels that they entrust to LSPs; the LSPs might be stopped by the authorities and asked to provide further documentation, creating delays and incurring additional costs.
 - **High tolls and informal road fees.** One of the main challenges identified by road freight providers is the cost of tolls and informal road fees. These create inefficiencies because drivers often avoid them by using local roads rather than highways. Companies also complain that in general there are inconsistencies across locations and levels of government in the interpretation and implementation of regulations.
- **Skills in the logistics sector are in short supply at all levels.** Industry leaders report difficulties attracting and retaining talent in the sector, especially for top and mid-level managers who understand the full logistics chain and can coordinate between actors. Firms also face difficulties in finding trained staff for lower-skilled jobs, such as drivers or equipment operators. Most companies currently use on-the-job training to train staff at all levels, and there are limited formal private training opportunities (Dinh and others 2019). Finally, a regulatory framework for freelancers (“gig economy workers”—which can represent up to one-third of the workforce of e-commerce LSPs) is lacking.

Ensuring reliable and clean energy supply

Electricity demand has grown 13 percent per year since 2000 and is projected to grow 8–10 percent per year until 2030, driven by further industrialization, a growing middle class, and urbanization. Electricity shortfalls are expected to result in rolling blackouts in the next two to three years and will reach 12 million megawatt-hours annually by 2023, or the equivalent of 8–10 percent of expected industrial power demand (World Bank-MFD 2019). The economic impacts of these shortfalls could be as high as 3–4 percent of GDP, and the sluggish economy, lockdowns, and travel bans due to the COVID-19 pandemic could further delay some of the power projects and hinder private investment in the sector. Failure to move forward could result in an estimated US\$23 billion loss between now and 2030, and more in the years to follow (Breu and others 2019). Delays would also leave Vietnam vulnerable to higher costs and higher emissions because of increased reliance on fossil fuel-based power plants.

The World Bank estimates the total investment needed in the power sector for the period 2020–30 to be US\$39–40 billion, one-third of which will be in the network infrastructure. High levels of historic investment—close to US\$8–10 billion annually—will be needed for the forecasted period (World Bank-MFD 2019).

Vietnam's Revised Power Development Plan VII (RPDP7) calls for an increasing share of private sector investment in generation: 47 percent by 2020⁴⁴ and 70 percent by 2030 of the total capital investments in the power sector.⁴⁵ While public sector investment will be needed to support Vietnam Electricity (EVN) in the medium term, a PPP would be a major instrument to boost domestic and international investment in the sector. In addition to new investments, energy efficiency efforts could save an estimated 10,300 megawatts (MW) of thermal power before 2030 if factories started to implement energy-saving actions (World Bank and MPI 2016).

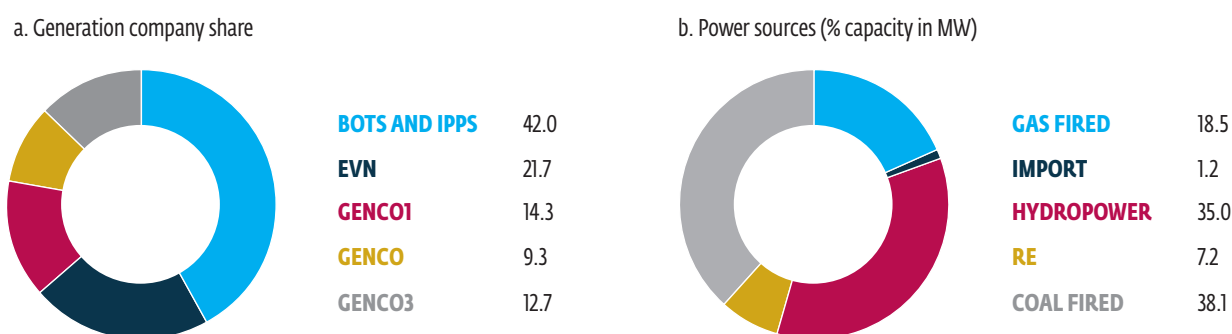
The traditional financing approach to energy investment will no longer be sustainable. As Vietnam moves toward middle-income status, the country's access to concessional finance will decline. Furthermore, the public debt ceiling of 65 percent of GDP is making it difficult for the government to access other sources of public finance or private finance that require government guarantees. That said, public debt fell from 63.7 percent of GDP at the end of 2016 to 54.3 percent at the end of 2019. Lending from domestic banks is also constrained because of the single borrower limit of 15 percent of a bank's equity capital. All this is compounded by the fact that EVN and PetroVietnam (PVN) are financially restricted and stretched at a time when the electricity and gas sectors need substantial investments.

Power and gas sector in Vietnam

Vietnam's Politburo issued Resolution 55 on February 11, 2020, which lays out the orientation of the forward-looking National Energy Development Strategy, 2030–45, and envisions the removal of all barriers to attract private investment in domestic and overseas energy projects, especially in generation. The resolution also calls for innovative mechanisms and policies to promote the development of renewable energy and liquefied natural gas (LNG)-to-power and for open space for private investment in specific instances in the transmission infrastructure (such as tie lines from the power plant to substation). Although Resolution 55 provides guidance to the relevant ministries and departments, it still needs to be seen how it will be reflected in the Power Development Plan VIII (PDP8) currently under formulation. PDP8 will provide the blueprint for power sector development in Vietnam going forward.

Power

The scale of Vietnam's electricity system ranks second in the ASEAN (after Indonesia) and 23rd in the world. By the end of 2019, the total installed capacity of the system reached 54.9 gigawatts (GW). Electricity production and purchase by EVN in 2019 reached 231.1 billion-kilowatt hours (kWh), an increase of 8.85 percent compared with 2018. The private sector contributed 42 percent of generation capacity in 2019 (20.4 GW), an increase of approximately 54.8 percent from 2018 (13.0 GW). Most of this capacity was added under the build-operate-transfer (BOT) model for thermal energy and independent power producer (IPP) model. The total renewable energy contribution was 7.2 percent, mainly because of utility scale solar, and besides a very small share of imported energy (from Lao People's Democratic Republic), the remainder of the country's needs for power came from gas or coal-fired plants (figure 4.15).

FIGURE 4.15 PRIVATE SECTOR SHARE OF POWER GENERATION AND POWER SOURCES

Source: EVN 2019.

Note: BOT = build-operate-transfer; EVN = Vietnam Electricity; GENCO = Generation Corporation; IPP = independent power producer; MW = megawatts; RE = renewable energy.

According to the RPDP7, electricity demand is projected to grow 8 percent annually through 2030. This would require generation capacity to increase from 55 GW in 2019 to 60 GW in 2020 and to 130 GW by 2030 (World Bank Group 2018). The 2020 target of 60 GW was most likely missed by 5–6 GW. Despite the impact of the COVID-19 pandemic, Vietnam’s power sector is poised for robust growth over the coming decade at an annual average of 6.5 percent between 2020 and 2029. This remains one of the fastest growth rates in Asia.

Natural gas and LNG

Natural gas will play a critical role in meeting future energy demand in the power and industrial sectors. Vietnam’s Gas Master Plan shows gas demand growing from the current 10 billion cubic meters (bcm) per year up to 30 bcm per year by 2035. Cumulative investment needs for the period 2015–35 are estimated around US\$20 billion, including upstream production facilities, pipelines, gas treatment facilities, and LNG infrastructure. A growing reliance on LNG would reduce the costs and emissions required in using coal plants and would increase the flexibility of supply.

PetroVietnam—the national oil and gas company—has been primarily responsible for the development of the natural gas sector. In upstream exploration and production, it enters into production-sharing contracts (PSCs) with international oil companies. In the case of midstream gas pipelines, about half of all investments have been undertaken under BOT contracts with international investors. The downstream gas sector has been financed and developed by PV Gas, a fully owned PVN subsidiary.

The development of Vietnam’s next generation of gas fields will require large investments at a time when, because of lower oil prices, PVN is financially stretched. Meanwhile, the need for new investments in midstream gas infrastructure and the challenges being encountered in moving forward with LNG import projects are exposing weaknesses in Vietnam’s gas market structure and pricing regime. The weaknesses arise from PVN’s being the monopoly midstream player and from gas prices based on bilateral negotiations that reference low-cost fields developed before 2007.

The government has recently highlighted the use of LNG as a source for power generation and aims to create favorable conditions for foreign investors to develop such projects. This effort has already translated into strong investor interest in LNG projects over the past six months, and a robust LNG-to-power project pipeline. The Vietnamese Ministry of Industry and Trade confirmed the US\$5 billion deal for the Son My 2 plant, which will be built under a 20-year BOT contract (Guthrie, 2019).

Renewable energy

A survey by Grant Thornton investment firm in 2019 reports that renewable energy was the third-most-preferred sector for private equity investment in Vietnam. At the end of 2019, Vietnam had 90 solar plants with total capacity of 4,696 MW and 10 wind power plants with 378 MW, with a combined generation capacity of 5,074 MW.

In order to hit the target for renewable energy stipulated in RPDP7, Vietnam will require a total investment of US\$23.7 billion by 2030. Given the resource constraint faced by the public sector, the government has taken some steps to unlock private investment in the renewable energy (RE) sector, such as allowing 100 percent foreign ownership of Vietnamese companies in the energy sector.

Foreign and domestic investment is on the rise in the RE sector, but much more needs to be done to ease investors' concerns. In spite of the liberalization of the policies in the past few years, investors face numerous obstacles, including (a) lack of qualified human resources; (b) underdeveloped supporting industries; (c) weak grid capacity; and (d) unbankable power purchasing agreement (PPA) terms, especially because such agreements are not considered bankable by international investors, who find the risk allocation for project finance is not in line with international best practice.

The government has exceeded its target for solar energy. In RPDP7, the government set a goal of about 12 GW of solar power for 2030 and intermediary targets of installed solar generation of 850 MW in 2020 and 4 GW in 2025. Vietnam had already reached its 2025 target by mid-2019, with over 4.5 GW of installed solar capacity. The government is now considering increasing the target for solar generation in the new PDP 8 from 12 GW to 18 GW. Once approved the PDP 8 is expected to be published in 2021.

Vietnam has enormous potential for developing wind energy, especially offshore wind projects. The country's technical potential for offshore wind power is assessed at 27 GW. The country has an estimated total wind capacity of 513,360 MW, the largest in Southeast Asia. Vietnam has several wind power projects with total capacity of over 300 MW, still lower than the target of 800 MW by 2020 stated in the RPDP7. Vietnam has seven wind farms in operation with a total installed capacity of 270 MW, and around 4,000 MW of wind energy has been approved in the master plan, according to the Electricity Regulatory Authority of Vietnam.

After Decision 39,⁴⁶ another 7,000 MW is being proposed for approval in the plan. The 2018 revision increased the feed-in tariff for wind power projects to 8.5 US cents/kWh for onshore and 9.8 US cents/kWh for offshore/nearshore, respectively. This level may attract investors and developers back into the market and may make previously uneconomical deals feasible again. There have been 17 projects signed under PPAs with EVN, with total installed capacity of 834.2 MW and around 195.2 MW in commercial operation. Major investors in wind include Phu Cuong Group, Blue Circle, Superblock Pcl, and Tan Hoan Cau Corp.

Main constraints to private sector participation in energy

The lack of know-how in key line ministries to prepare and competitively procure IPP and PPP projects has been partly responsible for the poor implementation of the new legal framework and the slow process in closing deals. For there to be a successful IPP/PPP program in the future, it will be important to build capacity and consider establishing an efficient central PPP unit for the procurement of new power-generation capacity. Moreover, to maximize investor interest, the government should consider crafting and launching a multiyear IPP/PPP program based on the substantial generation project pipeline, with a view to establishing a strong track record of successful IPP/PPP projects using a competitive and transparent bidding process that will gradually reduce the need for government support over time. This effort could be rolled out with

differentiated timeframes for different types of projects, starting with the post-feed-in-tariff regime solar auction program that the Ministry of Industry and Trade (MOIT) is currently preparing. Such an IPP/PPP program for power generation should be developed closely with the upcoming PDP8.

The absence of a clear and transparent policy framework and bankable PPAs has been constraining the growth of private investment in the power sector, including for RE. For instance, despite high feed-in tariffs and investment incentives for RE, to date only a few projects have made it to the construction stage and are in operation. Renewable energy developers have encountered many challenges in getting projects to the operations phase, including the questionable bankability of the PPA, the lack of credit rating of the off-taker, and the operational risks that the project faces. According to Fitch Solutions (subsidiary of Fitch Group), the lack of a unified PPP legal framework has been the main reason that Vietnam's infrastructure sector growth potential is capped at 6.1 percent per year through 2029, despite the country's having one of the fastest-growing economies in the world (*Hanoi Times* 2020). The new PPP law passed by the National Assembly on June 18, 2020, is an attempt to bring the legal framework for private participation under one umbrella, but it lacks elements to be at par with international standards that are important to attract global investors. This section discusses the constraints affecting PPPs/IPPS and financing for SOEs.

Constraints affecting PPPs and IPPs

The regulatory framework for private sector participation in infrastructure is now governed by the new PPP law. The approved PPP law serves as the anchor legislation governing PPP transactions in the country. Lack of a unified PPP law has been a challenge for foreign investors who are unfamiliar with the Vietnamese legal landscape and, going forward, legal and fiscal risks could be lowered with further development of implementing regulations and standard contract forms to ensure that the remaining ambiguities are addressed in a way that encourages investment. The new PPP law includes many positive measures, such as (a) providing wider sector inclusion for PPPs, (b) enabling a special purpose vehicle framework or "project enterprise," (c) clarifying policies and mechanisms for the availability of viability gap financing for national and local PPP projects, (d) establishing a regime for the provision of minimum revenue guarantees that will make risk sharing more equitable between the public and private sectors, (e) providing standard form contracts for use in PPPs, (f) providing for the eligibility of bond-based financing for PPPs, (g) granting the ability to select third-country international arbitration, and (h) including competitive bidding processes.

However, the PPP law still lacks elements required to optimize private sector participation and the bankability of PPP projects, especially when domestic banks are unable to provide long-term finance for large projects and SOEs cannot raise finances to match investment needs on their own. The following issues would still need to be resolved to create transparency and a level playing field for private investors:

- **PPP contracts governed under Vietnamese Law.** Most of the BOT/PPP contracts with foreign investors have been governed by a foreign law of contract in common usage internationally, such as English and Singaporean. This practice may be a deterrent for international investors.
- **Minimum revenue guarantees.** Even though the new law provides some clarity on risk sharing, the availability is subject to the satisfaction of complex terms and conditions. The current law is also heavily weighted against the private investor and restricts revenue risk sharing in case of a change in plan, policy, or legal scenario.

- **Financial closing timeline.** The law stipulates equity and debt financing into the project vehicle to be completed within 12 months, or 18 months in case of exception granted by the prime minister. The deadlines ensure funding is provided in a timely manner; however, they are restrictive and unnecessarily prescriptive and could threaten financial feasibility, especially if project developers are issuing corporate bonds.
- **Termination.** The law gives rights to the government to terminate a project in the “interests of the nation.” Although the law provides protection and contractual flexibility in case the investments become unviable or inconsistent with the public interest, the reference to national interests creates very broad powers for the government entity and is inconsistent with international best practice.
- **Termination payment regime.** This is a major concern for investors, and therefore the principles to be used to value assets to be turned over to the government and the treatment of the various financing sources for recovery under different scenarios of termination should be clarified.
- **Foreign lender security.** The requirement to mortgage in accordance with the Vietnamese law on land is still in the PPP law, which means the security over land use rights and real property is available only to domestic lenders. Foreign lenders’ inability to directly take security over land and assets attached to land can be a serious impediment to attracting international funding to finance projects.
- **Process of certifying completion of works.** Upon completion of a PPP project, the project company is required to submit a report on completion to the state authorized bodies, which are allowed to sign PPP contracts and will issue a certificate of completion. Project companies are allowed to operate and exploit PPP projects only after the certificate has been issued. Under international good practice, this process is conducted by an independent engineer selected by the parties.

Despite Vietnam having a regulatory framework for private participation in infrastructure since 2015 and adding amendments to provide better clarity in 2018, not a single power project has been procured under this framework. Most of the recently added RE (solar and wind) capacity comes from project-by-project negotiations, both for domestic and international investors. These challenges are reflected in the current draft PPP law. More broadly, in 2019, 47 of Vietnam’s 62 electric generation projects of 200 MW or more faced delays, in part because of the complex regulatory framework. Some projects are at least two years behind schedule, while the pandemic is likely to cause further delay. The problems with the legal and regulatory framework are compounded by the lack of technical capacity in the ministries and the lack of financial resources needed to fulfill these requirements.

Making PPAs for renewable projects bankable, in line with international standards, is key to attracting private investment. While the PPP law is a step in the right direction, further implementing legislation and decrees would be equally important to ensure the bankability of PPAs. For example, current differences in opinion between the government and investors regarding the risk allocation for PPPs and IPPs have slowed or hindered the much-needed deployment of international capital, especially for renewables. The following issues need to be resolved:

- **Termination compensation.** Under the current solar and wind PPAs, EVN’s liability for compensation to the project company for termination of the PPA in the event of an EVN default is either capped at one-year revenues (solar PPAs) or unspecified and thus to be determined through negotiation, the courts, or both (wind PPAs). This policy means that non-recourse project finance lenders to the project company are uncertain that the outstanding debt would be repaid in the case of termination of the PPA.

- **Curtailment.** Under the current solar photovoltaic (PV) and wind PPAs, EVN, as the grid operator, can curtail a project for technical reasons (including when the local transmission or distribution grid breaks down) without compensation for lost revenue to the project company. This means that, in cases of severe curtailment (as are currently reported by EVN in Ninh Thuan and Binh Thuan provinces), project lenders cannot be certain that the project company will produce enough revenue to service the debt.
- **Arbitration.** If a dispute cannot be resolved between a project company and an off-taker (EVN) under a PPA, it is escalated to the Electricity and Renewable Energy Authority, under the Ministry of Industry and Trade. If the dispute cannot be resolved by the authority, the case is transferred to a local court. Thus disputes between a private sector company and a state-owned company, EVN, are handled by state authorities. The new PPP law, however, provides a provision for international arbitration.

Procurement of IPPs and PPPs

Lengthy negotiations may discourage foreign investors. At present, negotiations over PPAs and BOT concessions typically take at least three years. Since the introduction of the public-private partnership decree in 1997 on such concessions, only a handful of projects have been implemented with foreign investors. The lingering presence of IPP projects that have yet to reach financial closure after a decade of negotiations does not set a good precedent or encourage new investors to enter the Vietnamese market. It is important to adopt clear time-bound procedures for how such IPP/PPP negotiations should be conducted.

Another bottleneck in the procurement process that needs to be addressed is the lack of consistency across provinces with respect to licensing and permitting procedures, as well as the multiplicity of licenses and permits required for a project.

Constraints affecting corporate finance by SOEs

SOEs in the power sector face challenges in mobilizing commercial financing. The ability of SOEs such as EVN and PVN to raise commercial financing depends on the creditworthiness of the companies as assessed by an adequate credit rating from a reputable rating agency. EVN received its first credit rating in June 2018 and EVN Hanoi (Power Corporation; PC) in July 2020. However, about 65 percent of EVN's loans are denominated in foreign currency, exposing the company to substantial currency risk, and the rating agency believes EVN's financial profile could deteriorate rapidly in the absence of regular tariff increases to keep pace with costs. In addition, key EVN subsidiaries in the power sector, such as the distribution companies (PCs), are corporatized and only a few of them have credit rating. Their financial position is weak to raise commercial finance from their own balance sheets to meet their large investment requirements.

Progress in the government's divestiture program is important to EVN's ability to attract finance. On August 15, 2019, the prime minister issued Decision No. 26/2019/QĐ-TTg, which approved a new list of SOEs to be equitized by the end of 2020. The decision includes plans to divest at least 50 percent of EVN Generation Corporation (GENCO) 1 and EVN GENCO 2. Increasing the creditworthiness and financial health of EVN as the sole buyer in PPAs would create a healthy and positive image of off-takers in PPA contracts that would directly improve the confidence and profitability evaluation of investors (Le, Ngoc Dang and Taghizadeh-Hesary, 2019). Foreign investors are concerned about corporate governance, transparency, and the quality of

accounting in Vietnamese SOEs. The government could also sell brownfield assets to reduce government ownership.

There is some concern over progress in SOE reforms in the sector. The privatization/equitization program and the restructuring of the SOEs, after a promising start in 2017, subsequently slowed considerably (World Bank 2019a). The government has published the “Plan for “Development of the Vietnam Gas Industry by 2025 with Vision to 2035,” which envisages market liberalization preceded by divestiture of almost all PVN subsidiaries, reducing public shareholding to under 50 percent. Among the first companies to be equitized are PV Power and PetroVietnam Oil Corporation. Nevertheless, the government’s timetable for reform has been deferred to 2025, leaving doubts as to how the much-needed investments will be financed during the intervening years. This timetable may require a greater part of the future investment requirements being met by the private sector, which in turn makes it more urgent to develop a robust and consistent investment framework.

4.5 STRENGTHENING MARKET INSTITUTIONS, GOVERNANCE, AND IMPLEMENTATION CAPACITY

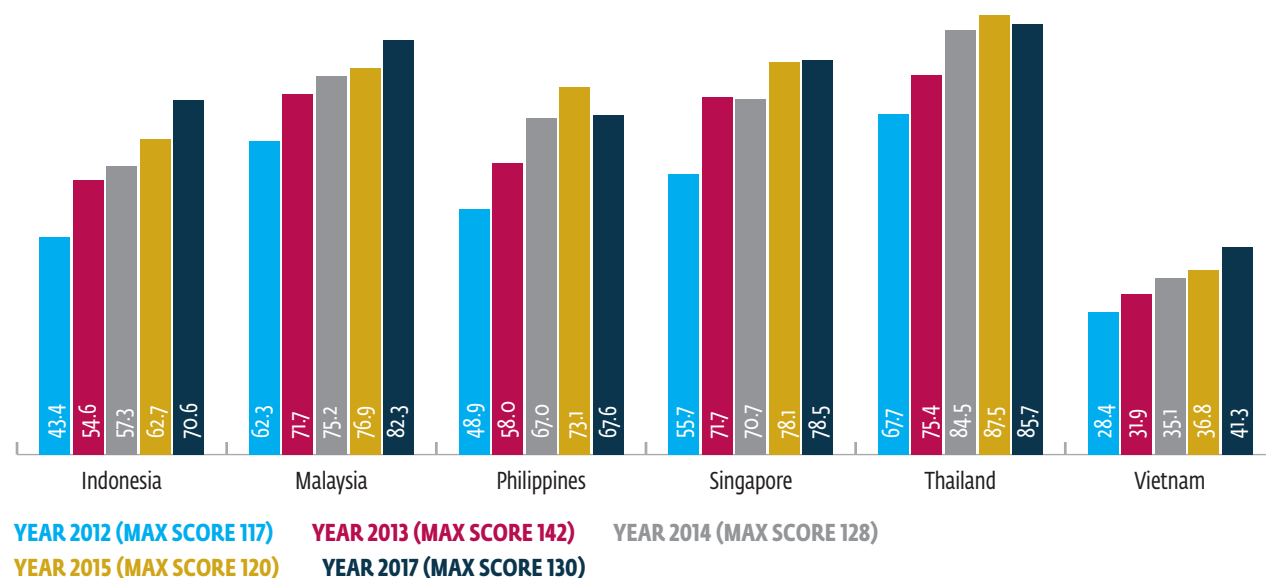
Boosting economic performance requires a paradigm shift. In tandem with investing in reforms aimed at unleashing private sector growth, Vietnam will need to address the weaknesses in the overall quality of public institutions and capabilities for effective implementation, accountability, and transparency. The government is undertaking e-government initiatives to address some of these issues. Following are selected areas in which strengthening governance and implementation capacity is key to supporting a competitive and productive private sector.

Corporate governance

Along with strengthening public institutions, progress is needed in improving corporate governance. The government of Vietnam has strengthened the legal and regulatory framework for corporate governance (CG), including the following significant steps:

- Law on Enterprises (first passed in 1999, then updated in 2005 and most recently in 2014);
- Law on Securities (first passed in 2006, then updated in 2010 and most recently in 2019);
- CG regulations for public companies and listed companies (Circular 121 in 2012, Decree 71/Circular 95 in 2017);
- Decree 81 (2015) on SOE information disclosure and Circular 155 (2015) on information disclosure in the securities market; and
- Vietnam Corporate Governance Code of Best Practices (first introduced in August 2019).

These efforts represent significant progress toward a comprehensive governance framework, but the quality of corporate governance remains well below peer countries. Vietnam’s ranking for Protecting Minority Investors in the Doing Business 2017 report (World Bank 2017b) increased by 31 positions from 118 in 2016 to 87 in 2017. Vietnam’s score on the ASEAN CG Scorecard increased by 45 percent, from 28.4 in 2012 to 41.3 in 2017. However, Vietnam still ranked the lowest among the assessed

FIGURE 4.17 ASEAN SCORECARD RESULTS, SELECTED COUNTRIES, 2012–17

Source: ASEAN Corporate Governance Scorecard, 2012–17.

ASEAN countries (figure 4.17). The main weakness stems from the lack of an effective enforcement mechanism to ensure that rules are consistently applied, because an adequate legal and regulatory framework for corporate governance is not enough to ensure actual improvements.

Ensuring that market participants are fully aware of, and comply with, CG rules and practices is the greatest challenge. The new regulations have set a high bar for Vietnamese companies. However, the rules are not adequately implemented: only about 10 percent of listed companies' boards in Vietnam meet the independence requirement set by the State Securities Commission. The continued prominence of SOEs and the preferential treatment they receive in terms of access to finance raise questions about competitive neutrality with domestic and foreign private firms (see the previous section on SOEs). High levels of state ownership coupled with insufficient corporate transparency increase risks for minority investors and reduce firms' ability to access global markets.

In the banking and financial sector, the weak regulatory and supervisory capacity of the regulatory authorities contributes to governance practices that fall short of international best practices. Some of the main challenges are (a) a lack of independent directors; (b) a lack of board oversight and accountability mechanisms; (c) inadequate internal audits and asset-liability management, know-your-customer, and compliance functions; and (d) poor disclosure practices. In addition, a high degree of cross-ownership between banks and enterprises and complex shareholding structures raise risks of conflicts of interest and connected party lending. In the real sector, risks stem from the prevalence of closely held family businesses with controlling shareholder(s) and insider boards, substantial key-person risk, immature management systems, and poor disclosure practices.

Several initiatives have helped promote corporate governance practices in Vietnam, including the newly established Vietnam Institute of Directors. The Vietnam Corporate Governance Initiative (VCGI) was launched in December 2016.⁴⁷ VCGI is a platform to collaborate and promote good governance practices in the Vietnamese corporate sector. The VCGI's council is now composed of 18 individual members who are corporate governance experts, as well as representatives from regulators and private sector stakeholders. In March 2018, VCGI formed the Vietnam Institute of Directors,⁴⁸ a professional organization to promote corporate governance standards and best practices in the corporate sector. Over the past two years, the institute has conducted various technical activities to raise awareness of good corporate governance practices and provide professional training to help advance board professionalism and pave the way to build a network of independent directors.

For companies in Vietnam, acquiring locally available, high-quality, and cost-effective CG services is difficult. Such services are critical to strengthen CG practices, but the number of companies having access to high-quality CG services is still limited.

2018 Competition Law

The new competition law is an important step toward boosting competition (appendix B). The 2018 Competition Law, which came into effect on July 1, 2019, improves the 2004 law in several respects, but in several other aspects it still falls short of international practice and more importantly risks ineffective or even harmful enforcement. Several provisions worthy of note are detailed here.

The new law takes a more efficient approach to assessing the anticompetitive effects of mergers. The previous law relied on artificial thresholds of market share to evaluate the impact of mergers on competition, and it prohibited mergers where the combined market share of the merging firms exceeds 50 percent. The new law removed prohibitions that do not address the impact on competition, so that a finding of anticompetitive behavior may be based on an assessment of that impact.⁴⁹ The new law also changed the criteria for determining whether firms are required to provide notification of a merger. However, the result was only a partial improvement over the 2004 Competition Law, in which a duty to notify was triggered by a combined market share of over 30 percent.⁵⁰ This approach creates regulatory unpredictability for firms, because the definition of relevant markets can vary depending on technical assumptions. The implementing Decree 35 from 2020 of the 2018 Competition Law sets a threshold requiring notification based on total assets and transaction value, a trigger that provides greater certainty. However, it also requires notification if the combined market share is 20 percent or more.⁵¹

The 2018 Competition Law features a new leniency program, which promises to streamline enforcement against cartels. However, for the law to be effective, the overall benefit to participating cartel members must be made sufficiently clear. For example, it is not clear if leniency applicants can be subject to criminal charges under competition provisions of the penal code, even if they are exempted from civil charges under the competition law. As of 2015, articles 217 and 222 of the penal code prohibit agreements that closely track the agreements prohibited by the competition law.⁵² Offenses are subject not only to fines, but also to jail time,⁵³ and thus, to the extent that the leniency program cannot shelter participants from the penal code, there may be little incentive to participate.

Harmful anticompetitive conduct may be exempted, while procompetitive conduct may be prohibited or at least discouraged. The competition law is not strict enough insofar that it allows entities to apply for exemptions from the competition law for hard-core cartel agreements that should be exempted rarely, if ever. Other types of agreements that

TABLE 4.18 ISSUES WITH THE TREATMENT OF ANTICOMPETITIVE CONDUCT IN THE 2018 COMPETITION LAW

Critical article of 2018 Competition Law	Definition could apply to:	Is treated under the 2018 Competition Law as follows:	By economic reasoning and under international practices is considered as follows:	Implementation risk:
Art 11 (1)-(3)	Price fixing, market allocation, and output restrictions	Practice could be exempted	Most harmful anticompetitive practice; has rarely ever been shown to have benefits for consumers; per se illegal; cannot be exempted	Tolerating exceptionally harmful practices that can lead to ~49% overcharges
Art 11 (4)	Bid rigging	Practice cannot be exempted		N/A
Art 11 (5)-(6)	Exclusive dealing, vertical price agreements, horizontal agreements such as joint R&D or joint marketing	Practice cannot be exempted	Can bring benefits to consumers through efficiencies (lower prices, better service), evaluated under "rule of reason"	Precluding consumer benefits brought by efficiencies of such agreements
Art 27 (1) (e)	Any type of aggressive competitive behavior (discounts, marketing, loyalty programs)	Practice cannot be exempted	Generally benefits consumers by reducing prices, improving service, and so on; only considered harmful if forecloses market to other competitors; evaluated under "rule of reason"	Precluding consumer benefits brought by vigorous competitive practices by large firms

Source: Markets and Competition Policy Team's elaboration.

Note: Green boxes suggest alignment with international practices, yellow boxes suggest lack of alignment with international practices, and orange boxes reflect areas of implementation risk. N/A = not applicable; R&D = research and development.

are potentially treated as per se violations by the competition law are usually not, under international best practice. The prohibited acts of dominant firms are defined so broadly that they could potentially penalize dominant firms that—to the benefit of consumers and to the detriment of competitors—engage in vigorous competition (see figure 4.18 for a summary of how different anticompetitive behavior is treated under the 2018 Competition Law in Vietnam versus international practice).

The remaining provisions regarding mergers are largely in keeping with international best practice, but the application of merger control to SOEs has reportedly been uneven. It has been claimed that mergers between SOEs are not generally assessed by the competition authority, and the Vietnam Competition Council may not even have been notified of major mergers between SOEs.⁵⁴ Although Vietnam is undertaking efforts to privatize SOEs on a large scale, many large firms are still SOEs and thus many mergers of concern are bound to involve SOEs.

Vietnam Competition Authority

Vietnam lacks an effective institutional design and enforcement mechanism to ensure a level playing field for public and private firms. Certain elements of the national overarching legal framework favor a level playing field. For instance, special disclosure provisions have been introduced for SOEs, and the 2018 Competition Law applies equally to SOEs and privately owned enterprises. However, in practice, the enforcement of the competition law is undertaken by the same ministry to which most of the SOEs are mapped. Ministries under which SOEs operate also are involved in regulatory design, such as in setting airport services fees.

The competition authority will need to address technical enforcement issues but will also need to follow a broader strategy to make enforcement effective. An effective strategy involves—among other things—effective enforcement, including setting priorities for enforcement targets, advocacy and outreach to the private sector, and a resolution of competition cases that is transparent and well publicized enough to provide guidance to entities attempting to comply with the law. The 2018 Competition Law requires that decisions of the National Competition Committee (NCC) be publicly announced and that decisions be published online for 90 days after the decision takes effect.⁵⁵ This requirement can foster even-handedness and the clarity necessary for parties to decide whether, and in what manner, to appeal the decision.

The independence of the competition authority is of particular importance in the Vietnamese context, given the extent of direct state participation in many sectors across the economy. Independence can ensure that political interference does not hamper the effectiveness of enforcement activities and, in practice, an independent competition agency can offer developing countries substantial gains in productivity.⁵⁶ The establishment of the competition authority under a line ministry—originally the Ministry of Trade⁵⁷—rather than setting up an independent agency exposed the authority to concerns over whether it was capable of making unbiased decisions with respect to SOEs. The MOIT itself holds control over several large SOEs, and today, while there are plans for the MOIT to divest itself of stakes in SOEs, such plans are in progress but not complete (Pham 2006, 559). Moreover, other ministries controlling SOEs could also exert political pressure on the competition agency through the MOIT.

Because members of the NCC are both appointed and removed by the prime minister at the request of the minister of industry and trade, political pressure could potentially affect the decisions of the NCC. The fact that members appointed to the NCC have been representatives of various ministries with interests in pending cases creates, at the very least, an appearance of bias. The 2018 Competition Law does specify standards regarding members of the NCC not only with regard to work experience and technical education, but also to “having good ethics, and being incorruptible and honest.”⁵⁸ There is, however, no indication that these standards provide a meaningful limitation on the prime minister’s and trade minister’s discretion, because there is no mechanism to challenge appointments.

5. KEY SECTORAL OPPORTUNITIES FOR GREATER PRIVATE SECTOR PARTICIPATION

This section of the CPSD focuses on sectoral analysis with the objective of identifying potential opportunities for unlocking private investments in Vietnam, with an eye toward the constraints that need to be confronted. Consultations with representatives of private sector firms, associations, and the Ministry of Planning and Investment, as well as with IFC and World Bank colleagues identified power, agribusiness, tourism, logistics, and education and skills training as key sectors in which private sector participation could make a significant difference and help maximize finance for development. In addition, reforms could open up opportunities in these sectors for private firms within three to five years. As part of the CPSD process, the team has undertaken sector assessments for these five sectors; renewable energy and logistics are discussed in the previous section under cross-cutting constraints. The criteria proposed for selection of additional sectors included the geographical impact, government priorities (as set out in Vietnam 2035, Vietnam's Socio-economic Development Strategy, and the November 2019 consultations), World Bank Group priorities (based on the Systemic Country Diagnostic, Vietnam Country Partnership Framework, and IFC Strategy), the importance of the sector in supporting the Maximizing Finance for Development agenda, and the realistic chances for substantial reforms over the next three to five years.

5.1 HIGHER EDUCATION AND TECHNICAL VOCATIONAL EDUCATION AND TRAINING

Vietnam's tertiary education has made notable progress over the past 15 years.⁵⁹ The gross enrollment rate (GER) at the tertiary education institutions (TEIs) increased dramatically, from 9 percent in 2000 to 28 percent in 2016, more than doubling the total tertiary enrollment from 0.9 million to 2.3 million students in the same time period. This progress was driven by (a) demand-side factors, such as the rise of the middle class and increased high school graduation rates, and (b) supply-side policies, such as a move toward diversification, including the growth of non-university TEIs (that is, colleges and technical vocational education and training; TVET) and the private sector TEIs (table 5.1). Private universities and colleges are permitted to operate in Vietnam and accounted for 13 percent of total students. Foreign higher education institutions are permitted in Vietnam either through a fully or partially foreign-owned university, or through a collaboration with local public or private universities.

TABLE 5.1 ENROLLMENT IN TERTIARY EDUCATION BY INSTITUTIONS, 2005–16

TYPE OF INSTITUTION	NUMBER OF INSTITUTIONS			ENROLMENT (IN '000)			ENROLMENT SHARE (%)		
	2005	2010	2016	2005	2010	2016	2005	2010	2016
Public Universities	111	137	170	934	1,248	1,498	67	53	65
Open Universities (Public)	2	2	2	16	n.a.	26	1%	–	1
Private Universities	27	50	65	138	190	244	10	8	11
Public College	130	197	189	277	582	311	20	25	13
Private College	7	30	28	22	144	46	2	6%	2
VET College	0	120	190	0	193	183	0	8	8
Total	227	536	664	1,387	2,355	2,308	100	100	100

Source: World Bank 2020c.

Note: n.a. = not available; VET = vocational education and training.

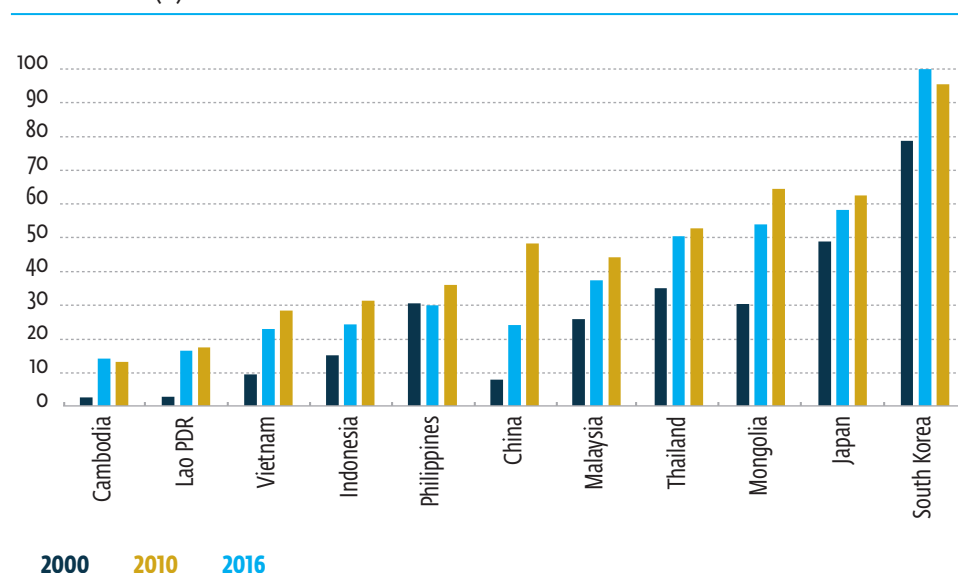
Despite progress, Vietnam's tertiary education access level is one of the lowest in East Asia. Vietnam's GER lags behind its comparators and aspiring peers—such as China, Malaysia, and Thailand, whose GERs are closer to 50 percent (figure 5.1). Currently, Vietnam's tertiary education enrollment is below that of its 2010 level, and the corresponding GER is 28 percent, one of the lowest in East Asia. The reasons for the low level of access include (a) the absence of a clear financing plan to achieve the originally set quantitative targets; (b) a fragmented tertiary education system of universities, colleges, and TVET sectors managed by multiple ministries; (c) an inconsistent regulatory framework that has not encouraged private sector expansion even though a high target was set; (d) insufficient student financial aid coverage for low-income students; and (e) underdevelopment of alternative modes of education, including e-learning and massive online open course (MOOC) education. Vietnam aims to increase enrollment in tertiary education, but this goal requires significant changes in the way institutions and the system function.

Higher education

The number of college graduates from Vietnamese institutions has expanded significantly, but not enough to keep up with fast-growing demand for higher education. Vietnam is currently one of the most dynamic outbound student markets worldwide. Between 1999 and 2016, the number of outbound Vietnamese degree students increased by 680 percent, from 8,169 to 63,703 students (World Education News and Reviews, 2017). This sharp increase in Vietnamese mobility reflects the country's swift economic growth, as well as the shortcomings of its education system.

FIGURE 5.1 ENROLLMENT RATE IN UNIVERSITIES, VIETNAM AND OTHER EAST ASIAN COUNTRIES

Net enrollment (%)



Source: World Bank Group 2020.

Opportunities for private providers of higher education

Vietnam's shortage of information technology skills is an opportunity for private sector providers, accentuated by the COVID-19 pandemic. It is estimated that Vietnam needed an increase of 411,000 in the number of IT staff in 2016–20, which is likely higher in the post-COVID-19 era. However, only 32,000 IT students have graduated from universities each year, 15 percent of whom cannot meet the requirements of employers.⁶⁰ A successful example of private sector provision of IT training is FPT University, which was founded by Vietnam's largest information technology service company (FPT Group) in 2006. It is the only private university among the top providers of IT education in Vietnam.⁶¹ Currently, 36,000 students are enrolled, and enrollment has been growing steadily at 40 percent per year. Although its tuition fee is 15 times higher than that of its public competitors, its students can benefit from modern facilities; hands-on experience; and opportunities to work at the FPT Group, its strategic partner Microsoft, or other overseas companies. Statistics show that 98 percent of its graduates were able to find a job with a starting salary 66 percent higher than the average, and 19 percent of its alumni are working overseas.

Constraints to private sector participation in higher education

The Ministry of Education and Training regulates higher education. The new law on higher education, which came into effect in July 2019, governs the higher education sector. However, the circular of this law has not been issued yet. The new law does not state how a private educational institution should be established. In addition, there are gaps in the investment law and the enterprise law relating to investor protection. And the process for obtaining licenses to establish and operate a private educational institution is cumbersome.

Foreign institutions operate in Vietnam either through fully or partially foreign-owned universities or through collaboration with local public or private universities. Decree 86 regulates foreign cooperation and investment in education, which has provisions that constrain foreign investment:

- The Ministry of Education and Training regulates compulsory political and cultural subjects and content for Vietnamese students in foreign-invested institutions, requirements that increase the compliance burden for providers.
- There are minimum investment requirements:
 - A foreign-invested university requires D 1,000 billion (US\$45 million), which has tripled from the previous requirement of D 300 billion (US\$15 million), exclusive of land expenditure.
 - A branch of a foreign-invested university requires D 250 billion (US\$11.5 million), exclusive of land expenditure.
 - For arrangements with facilities already set up by rental or contributed in-kind by a Vietnamese partner, the minimum investment capital is 70 percent of the other requirements.
- Minimum requirements on facilities include a campus area of 25 square meters per student, classroom space of 0.06 square meters per student, and dormitory space of 0.03 square meters per student.

TVET

Although the number of TVET institutions has increased significantly in recent years, quality remains a concern.⁶² As of 2016, there were nearly 2,000 TVET institutions in Vietnam, of which 1,300 were public institutions (see table 5.2). However, 80 percent of employers searching for technicians and 40 percent of those hiring craftsmen said they find that applicants lack the required skills, which suggests that the aspect of quality in TVET education remains a concern for businesses.

The government's decision to increase autonomy across the education and training sector is an opportunity for Vietnam to reform its TVET system to better meet the demands of today's and tomorrow's jobs. Specifically, autonomy in TVET financing and governance, coupled with stronger TVET-industry links will overcome institutional deficiencies and lead to a TVET system that responds to industry needs and gives workers the skills to successfully engage in future jobs. These three levers—autonomy in TVET financing, autonomy in governance, and TVET-industry links—work together to create better results and thus all must be addressed in the reform process.

Professional, technical, and managerial skill shortages are critical barriers. A significant proportion of firms in Vietnam report difficulties in recruiting employees with leadership and managerial skills, socioemotional skills, and job-specific technical skills, suggesting large skills gaps. Although gaps in skilled labor have been recognized and addressed in various policies (covering institutional development, qualifications and curricula frameworks, financing, teacher and trainer training, and enterprise partnership), public and nonpublic provision is inadequate for many reasons. Gaps are not being bridged in practice or are bridged too slowly, particularly at higher skill levels. Private market entrants are generally inadequate, small, in low-cost fields, and catering to specific industries or occupations.

TABLE 5.2 VIETNAM'S TVET SCHOOL NETWORK, 2016

	TOTAL SCHOOLS	TOTAL NUMBER, SCHOOLS		SHARE BY TRAINING LEVEL, %	BY OWNERSHIP, %		
		PUBLIC	PRIVATE		TOTAL	PUBLIC	PRIVATE
College	387	304	83	19.62	100	78.55	21.45
Secondary technical and professional school	551	308	243	27.94	100	55.90	44.10
Vocational training center	1,034	695	339	52.43	100	67.21	32.79
Total	1,972	1,307	665	100.00	100	66.28	33.72

Source: National Institute for Vocational Education and Training, 2019.

Note: Some totals do not sum to 100 due to rounding.

Public TVET institutions are under resourced and not linked to industry needs. Public provision of TVET in Vietnam is heavily reliant on government funding and lacks the impetus for meeting industry needs. Overall, the current system, including training content, delivery, assessment, and certification, is disconnected from the private sector and results in large skills gaps.

Private provision of TVET is growing. Vietnam has encouraged nonpublic provision of TVET since 1998, and many private providers have entered the market. Today the private TVETs account 33 percent of the total. The main recurring challenge is the unequal treatment in terms of government investment between private and public TVET institutions. Some employers have invested in third-party TVET institutions, in exchange for oversight or board positions and preferential or first choice of trainees and students.

To help close its skills gap, Vietnam has opened its education and training market to international providers. Most international TVET programs are provided through twinning programs with local partners, though there are well-established direct providers in-country (such as the Asian Institute of Technology). Corporates are also making their own provision; they engage in extensive in-service, on-the-job training and retraining, and they recruit staff with preservice qualifications on the open market.

Opportunities for private providers of TVET

Skills gaps are widespread across sectors. Employers have extreme difficulties (even by international benchmarks) in finding qualified, vocationally trained workers. Vietnam's National Human Resources Development Master Plan has identified priority industries for skills development. High returns to vocational education indicate that workers with advanced education levels remain in short supply (Patrinos, Thang, and Thanh 2018).

The demand for TVET among the country's youth has increased but the supply has not kept pace. Poor employment prospects for university graduates have pushed an increasing number of high school graduates to opt for vocational education. For instance, between 2001 and 2010, the number of students enrolled in vocational training schools and professional secondary programs increased by 132 percent. This upward trend has continued since 2010. According to the 2017 Vietnam Labor Force Survey, two of every three workers in Vietnam today have no more than a lower secondary education.

The regulatory environment for private training providers can be improved further. Private training providers make up a significant proportion of Vietnam's vocational training institutions. However, private trainers tend to concentrate in low-cost fields, such as ICT, business subjects, and languages. Private training providers can set their own fee levels and go through the same registration screening as public institutions. At the same time, the TVET providers are heavily dependent on tuition fees for revenues which makes them vulnerable to fluctuation in enrollment. Further expansion in private sector providers will entail, among other things, offering subsidized student loans, creating an enabling environment for fostering alternative modalities i.e. recognition and quality assurance framework for e-learning courses and degrees and accreditation of private institutions.

Establishing Vietnam's competitive edge in the global market will require innovative workers with sophisticated skills and enhanced productivity. The current system is not adequately focused to improve productivity. The Government's decision to increase autonomy across the education and training sector is an opportunity to reform its TVET system to better meet the demands of today's and tomorrow's jobs. Proactively engaging with the private sector to increase enrollment and to respond to changing needs of industry is an important element of this process.

Constraints to private sector participation in TVET

Vietnam's current TVET system is constrained by its financing mechanism, lack of flexibility to respond to skill demands, and limited examples of cooperation between enterprises and the TVET sector exist. Other cross-cutting issues include the country's weak labor market information system to inform skills gaps/shortages and the lack of an information management system to monitor the performance of training providers that need improvements (World Bank 2019b).

The current financing mechanism is input-based rather than output-based, a structure that weakens incentives for TVET institutions to focus on improving performance. The system is heavily reliant on state budget funding, both for recurrent and capital expenditures. Allocation of the state budget for TVET public institutions is still input based (mostly relating to faculty and staff quota), without any link with output or performance and efficiency. Tuition is the second-largest source of funding for TVET public institutions. However, given the oversupply of TVET institutions and perceptions of students and their parents that favor universities, it is not easy for TVET institutions (even fully autonomous ones) to raise tuition; hence tuition levels are currently far below cost recovery levels. Inconsistency in the legal framework has impeded TVET institutions from using their own assets to invest, operate joint ventures, or other industry-linked businesses. Neither national nor institutional scholarship programs exist. The student loan scheme is accessible only for narrowly predefined beneficiaries. A parallel mechanism to support students when they are facing high tuition costs is lacking.

Centralized control limits TVET institutions' flexibility to respond to skill demands and slants decision-making toward compliance rather than on improving the quality of the TVET service. The TVET system is managed by a range of ministries or (state-level) departments. Opening a new training program takes a long time because permission from the Department of Vocational Training is required. Thus institutions can lose the opportunity to respond to training orders from enterprises. There is also no quality assurance system or accountability structure in place. The Ministry of Labor, Invalids, and Social Assistance has published 700 national occupation standards but without clear learning outcomes. There is no national examination for vocational training. Assessment policies and procedures need to be strengthened to ensure that learners are assessed on the basis of national skills standards. The lack of independence of the TVET accrediting agencies causes conflicts of interest, thus leading to diminished trust in the system.

The participation of industry in TVET is minimal. Curriculum frameworks do not correspond to actual requirements in the workplace, even though they have been developed recently. This issue can be traced partly to the composition of the groups preparing curriculum frameworks: they tend to be dominated by teaching staff, some of whose knowledge is dated, and do not include enough enterprise representatives. Many classrooms and technical workshops have limited materials and equipment. Most teachers in technical institutions are recruited through the education or university systems, and not from industry. The low salary levels do not provide incentives for higher-skilled teachers. As such, theory is emphasized at the expense of technical skills. Teachers have few opportunities to gain experience in industry and to learn new technologies.

Negative attitudes toward vocational education are widespread among prospective students and their families. Despite seemingly chronic unemployment for graduates, university degrees are held in much higher esteem than are vocational qualifications, a reflection of early double-tracking in secondary education on merit and a legacy of Vietnam's colonial past.

5.2 AGRIBUSINESS

Over the past three decades, Vietnam's agribusiness sector—including agriculture, livestock, forestry, fisheries, and agro-industry—has gone through a significant transformation, with the volume of agricultural crop production increasing by 189 percent and livestock by 282 percent. Crop production has become more diversified over time, while livestock remains dominated by pork and poultry. Rice continues to be the largest crop (22 percent of agricultural production), and fertilizer and seed markets are predominantly oriented toward rice. However, Vietnam is now recognized as a leading producer of coffee, cashews, black pepper, cassava, rubber, and tea, as well as aquaculture (table 5.3). Vietnam is considered to have high yields in rice, cashew nuts, and coffee, but it is in the middle of the pack in terms of other major crops. Pork represents 71 percent of production value, while poultry represents 20 percent. Feed is the principal cost related to production of both pork and poultry; because a sizable portion of commercial feed is imported, international commodity prices determine a large portion of those production costs.

TABLE 5.3 GLOBAL RANKING OF TOP VIETNAM EXPORTS

	WORLD EXPORT (BILLION USD)	VIETNAM (%)	RANK IN VOLUME	RANK IN VALUE
Rice	20.1	11.3	3	10
Horticulture	117.6	2.1	19	15
Coffee	30.9	10.5	2	10
Pepper	4.7	23.9	1	8
Cashew (raw)	7.5	46.8	1	6
Rubber	170.2	11.4	3	10
Tea	7.3	2.2	9	10
Shrimp	18.6	16.9	1	2
Pangasius	1.8	95.0	1	1
Wooden furniture	127.8	6.0	2	4

Source: ITC Trademap, General Department of Vietnam Customs, 2017.

Agricultural production is dominated by smallholder farmers. Nearly 90 percent of agricultural land falls under households or farms, with 94 percent of household farms being 2 hectares or less (69 percent less than 0.5 hectares)—and in many cases this land is fragmented. Of the total agriculture firms, most of which are involved in processing rather than production of primary commodities, more than 96 percent are small or very small in scale (MPI 2018). Most pigs are slaughtered in backyard facilities or are collected by traders and killed in small slaughterhouses that handle one to three pigs a day, while many broilers are slaughtered in backyard operations tied to wet markets.

The agribusiness sector is predominantly small firms, and although food and beverage consumption is growing, the retail landscape is still mainly traditional. Vietnam has many industrial-scale processing firms in rice, coffee, cashews, wood, tea, sugar vegetables, and fruits, but of the total agricultural firms, more than 96 percent are small or very small in scale, with 58 percent having fewer than 10 employees. Vietnam's retail food landscape is largely dominated by traditional wet markets and small independent stores, with traditional retailers in 2016 accounting for 94 percent of sales and modern retailers only 6 percent (Foreign Agricultural Service 2017b). However, the latter is growing rapidly because of strong economic growth, a growing middle class, rapid urbanization, and concerns about hygiene and food safety. Vietnam's total food and beverage consumption rose 9.3 percent in 2016, while the food manufacturing sector grew at a similar pace. Local food and beverage processing sector sources predict that strong growth will continue in the coming years, with rising incomes, urbanization, and modernizing lifestyles incorporating more convenience and processed foods into diets (Foreign Agricultural Service 2017a).

Sector performance

Vietnam's agricultural sector has been transformed from largely producing rice to feed domestic production to one of the world's largest producers and exporters of a wide range of agricultural products. Growth in the agribusiness sector averaged 5.5 percent from 2000 to 2018, exceeding that of India, Thailand, and Korea over the same period. Mechanization has increased over the past two decades, and the 2010s were characterized by a growing shift from small to large tractors and from reapers to combine-harvesters. Mechanization has been faster within the rice sector than in other sectors, particularly upland crops. Irrigated land area also has increased, with more than 70 percent of Vietnam's cultivated area (taking into account multiple crops within a year) now serviced by irrigation infrastructure.

Export turnover has increased sharply in recent years. Agricultural exports averaged US\$31.5 billion a year over 2013–17, an increase of 51.2 percent compared with the average exports in the previous five-year period. Although Vietnam's agro-food exports were commonly derived from lower-grade commodity sales, the structure of export products aims to transform the sector to processed, high-quality and high-added-value products. In the rice sector, high-quality rice amounts to 80 percent of Vietnam's total rice exports. Fruit and vegetable exports increased by an average of 33 percent a year from 2012 to 2018 (OECD 2015). Recent trade agreements with Asian and European trade partners create additional export opportunities but also come with competitive challenges in the domestic market.

Nevertheless, commodity price/yield gains have now leveled off and total factor productivity has fallen.⁶³ The challenge now is to transition from a large volume producer of lower-quality/high-volume products to a modernized and high-value agro-food system. Almost all accessible arable land is already in cultivation, so future growth in production will have to rely on increasing yields, and increases in incomes will come from a transition to higher-value commodities.

Major constraints to private sector development

The dominance of small-scale production and processing and restrictions on land access and consolidation limit potential gains in productivity and the shift to higher-value markets. Facilitating the shift of land from rice to higher-value commodities, together with consolidation of smallholder production in key sectors (such as grains, pork, and poultry) and local processing to larger, more efficient processing firms, would (a) increase efficiency, (b) enable improved compliance with international and (rising) domestic standards for food safety, (c) support stronger biosecurity safeguards, and (d) facilitate monitoring by value chains and by government to achieve these common goals. Increasing competition domestically and gaining access to higher-value markets internationally will require this shift.

Lack of access to finance is identified as the main constraint on doing business by a higher share of firms in agribusiness than in any other sector in Vietnam. Most lending to the agribusiness sector requires collateral (93 percent of loans),⁶⁴ typically a land use right certificate (“red book”).⁶⁵ Vietnam has only a limited supply of financial and nonfinancial products and services such as leasing, warehouse finance, receivables and contracts financing, guarantees, collateral management, and agricultural insurance. New data network-based services that use digitized information to support credit analysis are appearing, but they have not reached the scale needed to make a substantial impact on financing the sector.

Weaknesses in logistics and transport limit trade in agriculture. Vietnam’s cost of logistics to GDP is as much as twice that of comparator countries. The size of the cold chain market, including cold chain services (cold storage and cold transportation), was estimated at US\$169 million in 2019, much lower than the US\$830 million market in Thailand.⁶⁶ Poor logistics and limited investment in infrastructure have particularly serious implications for agricultural products. Cold chain and smooth farm-to-market logistics are a key issue for agribusiness sector development and modernization because they enable the industry to meet quality requirements for both domestic and international markets.

Biosecurity issues threaten production and sales of agricultural products, particularly livestock. African swine fever is sharply reducing pork production. Small-scale farms are most vulnerable to African swine fever and other diseases, because such farms have inadequate housing facilities, poor or no vaccination, few veterinary staff, and little understanding of disease control.⁶⁷ The government does not have the capability to monitor the thousands of small-scale slaughtering facilities. Similarly, biosecurity for poultry production is poor in village-level production and informal slaughterhouses serving the wet markets. Highly pathogenic avian influenza wreaked havoc on production in 2010, and other dangerous diseases are present (table 5.4).

Food safety is another critical issue that needs to be addressed to increase market access, both domestically and internationally. High levels of chemical and pesticide residues reported in fruits could diminish Vietnam’s reputation in the international market. Antibiotics and growth promoters are overused in both the pork and poultry value chains, and the lack of traceability or recordkeeping makes it impossible to track pig and chicken meat and thus verify conformity to food safety requirements. Many exporters indicate that their principal problem in reaching new, higher-value markets is that they cannot control or track the activities in the supply chain. Meeting sanitary and phytosanitary requirements will be necessary for exporters to reap the full benefit of the recent entry of Vietnam in bilateral and multilateral free trade agreements. (Stagnation in fruit and vegetable exports to China with the tightening of food safety regulations has highlighted these risks.) Ensuring the safety of the domestic food supply is critical to health and to the viability of the sector; otherwise, expectations for safer food and processed products with a longer shelf life will erode the market share of warm meat, particularly as access to imports rises. Not addressing risks in domestic food safety

TABLE 5.4 BROILER DISEASES IN VIETNAM

BROILER	
Newcastle Disease	Vaccination
Infectious Bursal Disease (IBD)	Vaccination
Mareks Disease (Gumboro)	Vaccination
Infectious Bronchitis (IB)	Vaccination
Chronic Respiratory Disease (CRD)	Antibiotics
Avian Influenza (AI)	Vaccination
Fowl pox (FP)	Vaccination
Mycoplasma gallisepticum (MG)	Vaccination
Avian RhinoTracheitis (ART)	Vaccination
Coccidiosis	In feed coccidiostat/cide
Infectious Larangeal Trachitis (ILT)	Vaccination
Coryza	Vaccination
Reo virus	Vaccination
Egg drop syndrome (EDS)	Vaccination
Worms	Dewormers

Source: ITC Trademap, General Department of Vietnam Customs, 2017.

would also impair Vietnam's tourism industry, because Vietnamese cuisine and street food are among the attractions for international tourists, and these tourists' perceptions would in turn influence the trade partners' view of the safety of Vietnam's food exports.

Digital technologies have not been widely adopted in the sector. Appropriate digital technologies have the potential to help agricultural producers to be productive. For example, low access to markets could be resolved by platform technologies and e-commerce; traceability for safety and quality control could use digital technologies such as block-chain; and farmers could monitor pesticide residue against international food safety/quality standards using technology. There is a growing trend among a number of farmers in adopting digital technologies to manage their irrigation on smartphones or to mark their brand with QR codes for product traceability. With the booming digital economy in Vietnam, such trends could be promoted more systematically toward the wider adoption of digital technologies in the country's agricultural sector.

Farmers face a limited supply of risk management instruments such as agricultural insurance to deal with systemic risks in the sector that include natural disasters or crop disease. Among those who work in agriculture, only 3.1 percent have purchased agricultural insurance. The National Agricultural Insurance Pilot Program was conducted from 2011 to 2013 and targeted three sectors— rice, livestock, and aquaculture—covering about 300,000 households. The pilot was considered unsuccessful because it relied on heavy subsidy support, with 75 percent of participants from poor households receiving 90–100 percent subsidy and not generating commercial interest beyond the pilot. The main challenges observed in the pilot were a low level of understanding of the risks in the agricultural sector and especially in aquaculture, limited capacity to monitor those who purchased insurance, limited available data to design insurance products, weak links between credit and insurance, and the low level

of financial literacy (understanding of insurance) among farmers. It is suggested that future agricultural insurance programs differentiate commercial insurance products and insurance products that serve social protection purposes. Commercial insurance products should be promoted in a package with advanced technology support and better access to credit to attract clients, with the insurance covering only certain diseases but not a wide range of them. However, commercial viability requires (a) having greater access to data from government entities in order to design appropriate and well-priced products; (b) developing an advanced monitoring system, especially for the aquaculture sector; and (c) exploring other initiatives and collaboration with international reinsurance partners to manage risk.

The COVID-19 pandemic caused particular challenges in the agribusiness sector. Details are in box 5.1.

BOX 5.1 COVID-19 IMPACT AND IMPLICATIONS FOR VIETNAM'S AGRIBUSINESS SECTOR

Because Vietnam's agribusiness sector runs the highest trade surplus in one of the most open economies in the world, the sector was immediately affected by COVID-19 upon its outbreak in Asia. This impact was a result of labor and input supply shortages, mobility restrictions, and reduced logistics capacities within domestic and international markets. In the first three months of 2020, Vietnam's agricultural exports decreased sharply compared with the same period in 2019, notably to China (down 13.8 percent), the Republic of Korea (12 percent), Japan (11 percent), and the European Union (7.7 percent).

After successfully containing the pandemic during the second quarter of 2020, Vietnam quickly restored agricultural production, increased exports, and partly achieved its turnover targets. However, Vietnam's agricultural export data for the first two quarters of 2020 reflected pandemic-driven structural changes that could have policy implications, particularly:

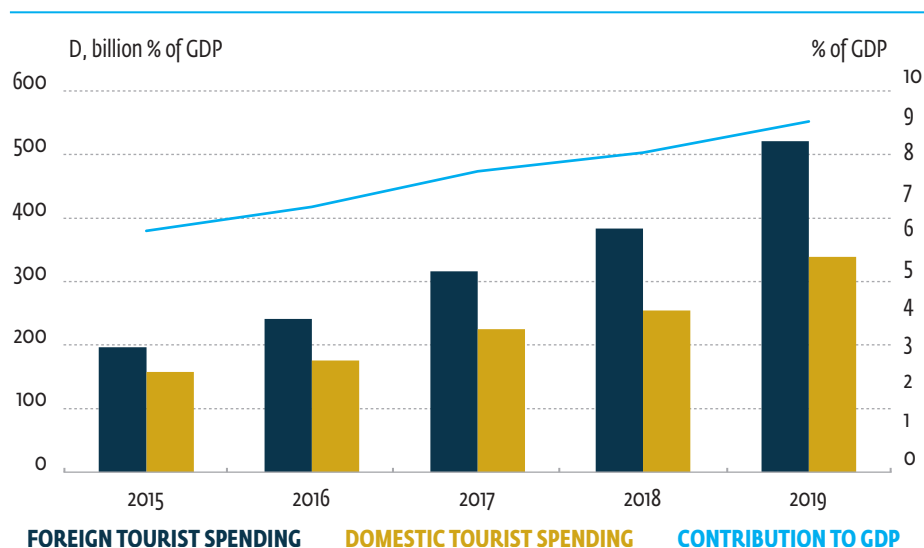
- **COVID-19 provided Vietnam with an opportunity to increase exports of essential agricultural products, such as rice.** This trend is a result of the government's prioritization of food security during the crisis. Although the demand for niche products (such as fresh tropical fruit) decreased, it rose dramatically for essential commodities (such as rice and meat). Vietnam's rice exports in the first seven months of 2020 hit more than four million tons worth US\$1.95 billion. Rice exports were up only 0.6 percent in volume, but jumped 13.1 percent in turnover compared with the first seven months of 2019.
- **COVID-19 reduced demand for high-quality fresh produce but increased the appetite for imports of processed products.** Because COVID-19 is believed to have resulted from animal-to-human transmission, many countries now place increased

emphasis on sanitary and phytosanitary requirements for fresh agrifood imports to prevent transmission of pathogens during cross-border trading in agricultural products. For example, exports of fruit and vegetables (F&V) to China in the first seven months of 2020, which accounts for 70 percent of Vietnam's fresh F&V export turnover, fell sharply to US\$1.04 billion—down 29.3 percent compared with the same period in 2019. Alternatively, many countries have increased imports of processed F&V because of standardized quality, low risks of pathogens that could result in public health outbreaks, and reduced disruptions to logistics and customs clearance during the pandemic. As a result, although exports of fresh products to China fell during January–July 2020, exports to markets that traditionally consume Vietnamese processed F&V rose. For example, such exports to Korea were up 25.2 percent, to Japan were up 13.1 percent, and to the United States were up 9.8 percent compared with the same period in 2019.

- **As the global demand for processed F&V has risen continuously, Vietnam, given its limited F&V processing capacity, is becoming a supplier of raw materials for F&V processing centers in the region, such as in Thailand.** As a leading exporter and processor of F&V in Southeast Asia, Thailand in the first seven months of 2020 increased F&V imports from Vietnam by 234 percent (US\$79.4 million) and then processed and re-exported it to high-end markets.

These changes underline the need for Vietnam to strengthen local production of essential commodities while enhancing the quality, safety, and processing capacity to conform to international standards for both fresh and processed products. Complying with these standards creates an opportunity for both the fresh and processed sectors to increase exports.

Source: Ministry of Agriculture and Rural Development, Q1 2020 report.

FIGURE 5.2 DIRECT CONTRIBUTION OF THE TOURISM SECTOR TO THE VIETNAMESE ECONOMY, 2015–19

Source: VNAT 2020.

Note: GDP = gross domestic product.

5.3 TOURISM

The tourism sector accounts for a significant share of economic activity in Vietnam. In 2018, the tourism industry contributed 9.2 percent to GDP (figure 5.2), accounted for 3.9 percent of total exports (VNAT 2020) and employed nearly 5 million workers. Of revenue, 61 percent was generated by international tourist arrivals, and 39 percent was from domestic tourism (VNAT 2020).

Tourism is dominated by small and micro establishments. In the accommodation and food services subsector, the closest approximation to tourism in the national economic statistics, 75 percent of firms had fewer than 10 employees and 20 percent had from 10 to 50 employees. Individual-owned establishments accounted for 81 percent of the accommodation and food service workforce, with each establishment employing 1.8 workers, on average.

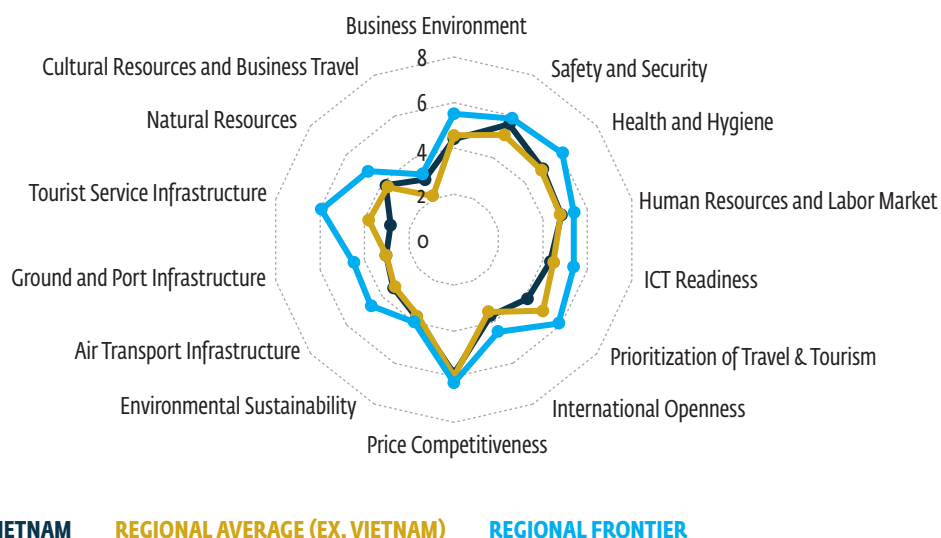
Luxury tourism establishments and “condotels” are concentrated regionally. Luxury accommodations are concentrated in some key destinations, such as Hanoi, Quang Ninh, Thua Thien Hue, Khanh Hoa, and Ho Chi Minh City. In certain tourism hotspots (particularly coastal destinations), commercial hotels have been supplemented by “condotels,” or condominium buildings with multiple owners who operate their units as hotels. The Ministry of Construction estimates that 27,000–29,000 condotel units came onto the market between 2017 and 2019.

Sector performance

The 2005 shift toward encouraging private sector tourism led to a boom in the sector.⁶⁸ From 2007 to 2019 the number of rooms rose from 180,000 to 650,000 and the number of tourism establishments from 9,000 to 30,000, while the share of state-owned enterprises in the sector fell from 13.7 percent to negligible. The number of rooms in four-star and five-star hotels in 2019 was seven times the level of 2007. From 2005 to 2019, the numbers of international tourism arrivals and domestic tourists rose 5.2 and 5.3 times, respectively. Vietnam was one of the fastest-growing tourism destinations

FIGURE 5.3 INDICATORS OF TOURISM COMPETITIVENESS, VIETNAM AND REGIONAL AVERAGE FOR DEVELOPING EAST ASIA

World Economic Forum Competitiveness scores, 2019



Source: World Economic Forum.

Note: Scores are on a 0–7 scale (7 = most competitive). ICT = information and communication technology.

in the world from 2015 to 2019. The rise in domestic tourism reflected the expansion of Vietnam's middle class and the introduction of low-cost air carriers such as Vietjet Air. The growth in international tourism arrivals was driven by tourists from East Asia (particularly China and Korea), who accounted for two-thirds of international arrivals in 2019. However, their spending and length of stay are quite low compared with visitors from long-haul markets such as France, Germany, the United Kingdom, and the United States. As a result, the average daily spending per international visitor peaked at US\$106 in 2011 and declined to around US\$96 in 2017 (the latest year of available data). Average daily spending by domestic visitors, adjusted for inflation, has been flat since 2003.

The competitiveness of Vietnam's tourism sector remains below that of many regional competitors. Although Vietnam's absolute score on the WEF Tourism Competitiveness Index improved from 3.6 in 2015 to 3.9 in 2019, its ranking remained fifth lowest of the nine major developing East Asian tourist destinations.⁶⁹ In particular, the indexes for tourist services infrastructure and prioritization of travel and tourism remain below the regional average (figure 5.3). Moreover, there are several competitiveness dimensions—including ICT readiness, human resources and the labor market, international openness, health and hygiene, and number of hospital beds—in which Vietnam is on par with regional averages but remains well below the level of top-performing countries.

The COVID-19 pandemic has severely harmed Vietnam's tourism sector through restrictions on entry, the banning of international flights, restrictions on domestic movement, and the decline in incomes. International arrivals in the first quarter of 2020 were down 82 percent compared with the same period in 2019, and the hotel occupancy rate fell from 90 percent in December 2019 to 10 percent in March 2020. In a recent survey of 1,200 companies in Vietnam across various sectors, including tourism, 60 percent of respondents anticipated that their revenue would drop by 50 percent if the COVID-19 lockdown lasted for more than six months.⁷⁰ And 74 percent of interviewees believed that, under those circumstances, their company would go bankrupt.

Constraints on private sector development

The most immediate challenge facing private tourism firms is to survive the crisis. The government is providing emergency support (approximately D 250 trillion in measures for all sectors in the economy), including low-interest loans, tax reductions and payment deferrals, and opportunities for debt restructuring. If firms can secure the financial resources to maintain their workforce and continue skeletal operations, they will be in a better position to recapture business once tourism demand begins to recover.

Visa restrictions limit the potential for tourism. Although the Vietnamese government has applied a unilateral visa exemption for visitors from important source markets—Japan, Korea, Germany, and the United Kingdom—the number of exempted countries is quite small in comparison to the number of countries exempted in visa policies of neighboring countries such as Indonesia and Singapore. Furthermore, the maximum duration of stay for visitors with a visa exemption is only 15 days, a policy that discourages longer stays by international visitors.

Weak coordination between tourism management authorities and the private sector in implementing master plans has led to overinvestment and accommodation gluts in crowded and at-risk destinations. Many destination tourism master plans either have not been properly followed or have been modified during the course of their implementation, often on the basis of special business interests rather than on objective performance metrics. This circumstance has increased pressures on local infrastructure and the environment (such as by allowing overbuilding in restricted zones), promoted certain categories of investment (usually mass-market) over others, and placed at a disadvantage investors' who are not as well connected with local politicians.

Aggressive marketing and the lack of a clear legal and regulatory framework for condotels have increased speculative investment and investor risk aversion. Decisions at the local level and the lack of a legal framework at the national level have called into question the duration of land rights for condotel products (with fixed-term land use rights of 50 years in some cases substituted for long-term rights), creating significant legal uncertainty for investors. And many condotel investors have incurred significant losses with the recent spate of developers' renegeing on promised return payments.

Operating costs are high. The base electricity price for the tourism sector is set at the rate for services sectors, which is two to three times higher than for production sectors. The land tax is set at a level that significantly reduces the profits of hotel owners. Furthermore, access to basic infrastructure services in many destinations is becoming more difficult and costly because capacity growth has not kept up with demands from the rapid expansion in accommodation in recent years. According to the WEF Tourism Competitiveness Index, improvements to ground and port infrastructure and to health and hygiene (which captures sanitation and water access) have been limited, particularly in the 2017–19 period.

Shortages of skilled labor in the tourism sector remain widespread. The scarcity of management skills has required tourism companies to spend large amounts to train their staff. To further complicate matters, in the context of ASEAN integration, Vietnam has not yet provided a nationwide tourism-training curriculum. Digital skills and staff know-how are also in short supply, contributing to the sector's low labor productivity levels and constraining the ability of firms to adapt to customers' increased demand for digital and contact-free services in the wake of the COVID-19 pandemic.

6. DETAILED RECOMMENDATIONS

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
LEVELING THE PLAYING FIELD AND ENHANCING COMPETITION		
Strengthen and modernize the regulatory framework for businesses.		
<ul style="list-style-type: none"> • Improve entry of digital businesses and scale-up of firms. • Accelerate digitalization for reducing administrative burden and limit physical interface. 	<ul style="list-style-type: none"> • Introduce regulations to implement Government Resolution 02 related to streamlining business registration and licensing processes that cut across central-provincial agencies and across ministries at the central level. • Strengthen the ecosystem for digital start-ups by establishing a one-stop digital platform that provides information on supportive policies/procedures; incubators that provide advisory services; subsidized workplace, finance, and business networks; mentoring; and so on. • Speed up provision of government-to-business services through digital platforms to maintain business continuity and improve government effectiveness. 	<ul style="list-style-type: none"> • Transition to a full online system of registration by strengthening the e-signature system at the Department of Planning; improve interagency coordination and information sharing to streamline redundant procedures and documents; link agencies through a single window and national portal. • Improve services of incubators by promoting public-private partnerships. • Adopt policies on using cloud-based hosting, digital identity, digital transactions, data privacy, and data sharing to support digital platforms.
<ul style="list-style-type: none"> • Facilitate exit of “zombie” firms while preventing viable firms from premature exit. 	<ul style="list-style-type: none"> • Promote use of informal restructuring and out-of-court or hybrid work-outs. • Temporarily suspend obligation to direct debtors into liquidation if business has stopped producing while undergoing reorganization. 	<ul style="list-style-type: none"> • Strengthen the insolvency framework by easing commencement rules to initiate cases early; enhance the role of commercial courts and strengthen creditor rights, including rules for protecting dissenting minority creditors; introduce simplified procedures for SME insolvency provisions; introduce a framework for out-of-court workouts.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
Enhance competition by opening up markets and sectors.		
<p>Maintain commitment to international trade and further open up the economy toward regional markets.</p>	<ul style="list-style-type: none"> • Enhance digital trade and logistics. • Expedite the implementation of newly ratified trade agreements (CPTPP, EVFTA) to promote trade in services. • Improve market access by tackling behind-the-border issues (nontariff measures, trade in services, and logistics costs). 	<ul style="list-style-type: none"> • Rationalize procedures and expand use of risk-based inspection across agencies involved in border management. • Apply electronic service systems, including national single window, related to cross-border trade. • Advance trade facilitation by continuing to reduce trade costs related to nontariff measures.
<p>Promote links between FDI and smaller Vietnam firms as well as between large and smaller domestic firms to reduce the productivity gap through diffusion of new technology and skills.</p>	<ul style="list-style-type: none"> • Strengthen intellectual property rights regime (IPR) to encourage knowledge transfer from FDI by enforcing patent protection copyrights and industrial property rights. • Build domestic firm capabilities and management skills to facilitate technology adoption. 	<ul style="list-style-type: none"> • Strengthen the overall implementation capacity of the IPR protection system to support enforcement. • Revamp the public support programs to support firm capabilities. • Revise the FDI framework to reduce limits on investment and bureaucratic hurdles for foreign investors.
<p>Open up further the service sectors.</p>	<ul style="list-style-type: none"> • Remove barriers to entry in sectors currently dominated by SOEs, especially the financial sector, ICT, transport, and utilities. 	
<p>Implement competitive neutrality to encourage private sector entry and expansion.</p>	<ul style="list-style-type: none"> • Implement regulatory and tax-neutrality principles for SOEs. • Eliminate instruments that can limit competition. • Strengthen the separation between regulatory and ownership functions of the state capital investments in enterprises through the law on state capital. 	<ul style="list-style-type: none"> • Impose the requirement of a market rate of return to SOEs as in comparable private businesses. • Develop a registry of state-aid recipients.
<p>Strengthen the implementation of the competition law enacted in 2018.</p>	<ul style="list-style-type: none"> • Implement prohibitions on agreements between firms in a manner that does not (a) allow exemptions for “hard-core” cartel behavior or (b) prohibit agreements that may on balance be pro-competitive. • Develop key legal concepts (dominance, relevant markets, and so on) through guidelines. • Define the thresholds for merger notification in a manner that provides legal certainty to businesses. • Clarify the relationship between the civil enforcement of the competition law and criminal enforcement of competition offenses. 	<ul style="list-style-type: none"> • Amend the competition law that would not allow for exemptions in the cases of horizontal price-fixing, market allocation, and output restriction agreements. • Revise the agreement types that are treated as per se illegal in the competition law to exclude those that could entail significant efficiencies. • Amend the competition law and penal law to clarify the extent to which the leniency program shelters participants from criminal liability.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
Enhance competition by opening up markets and sectors.		
<p>Strengthen the National Competition Commission to be a fully independent body of experts.</p>	<ul style="list-style-type: none"> • Select members of the NCC from an independent, professional class of experts rather than of ministry representatives using a multistage selection process and separate independent committees. 	<ul style="list-style-type: none"> • Increase budget and staffing to the extent possible. • Establish memorandums of understanding between the NCC and penal authorities to provide certainty that penal authorities will not pursue penalties for cartel behavior that has been granted leniency under the competition law.
ENHANCING ACCESS TO FINANCE		
<p>Provide financial support to viable firms most affected by COVID-19.</p>	<ul style="list-style-type: none"> • Ensure that credit institutions proactively monitor and assess possible losses and impact on existing borrowers as a result of COVID-19 in order to restructure loans (SBV Decision 1117/2020). 	<ul style="list-style-type: none"> • Introduce specialized lines of credit, targeting affected sectors (productive SMEs) in the event of prolonged COVID-19 impacts. • Monitor the impact of financial intermediation and ensure that the support is well-targeted to most affected.
<p>Increase the role of the market and market discipline in credit allocation while preserving banking stability.</p>	<ul style="list-style-type: none"> • Implement the Basel standards for all commercial banks. • Improve risk-based supervision, the macroprudential framework, and the banking resolution framework. 	<ul style="list-style-type: none"> • Continue to strengthen State Bank of Vietnam's capacity to execute its core mandate to execute its regulatory and supervisory role. • Provide greater autonomy to the banking sector to manage loan portfolios on the basis of risk by moving away from assigning specific credit growth limits for each commercial bank and replace with a credit growth target as guidance for the entire banking system. • Establish the principle of setting interest rates through monetary policy instruments by removing the interest cap on short-term deposits.
<p>Facilitate use of all secured and movable assets as collateral to enhance SMEs' access to finance.</p>	<ul style="list-style-type: none"> • Develop regulations and action plan on movable finance, specifically inventory and receivables financing. • Strengthen coordination among related government stakeholders in Vietnam to encourage financial institutions to deploy movable finance products. 	<ul style="list-style-type: none"> • Reform the insolvency law and the secured transactions law to further promote movable collateral in lending to SMEs. • Change regulations to allow new debt-related financial instruments. • Develop digital collateral registration.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
<p>ENHANCING ACCESS TO FINANCE</p> <p>Scale up supply chain finance solutions for SMEs participating in GVCs.</p>	<ul style="list-style-type: none"> • Leverage fintech to spur the adoption of SCF and facilitate its implementation. For instance, fintech players offering SCF platforms, such as payables finance (or reverse factoring) and receivables discounting (or invoice discounting) solutions are important. • Establish SCF e-platforms to create a transparent database on transactions among suppliers and buyers. • Develop operational supporting services for SCF, including a collateral management industry, insurance, and credit enhancement. • Facilitate the development of a business association or alliance as a key advocate for SCF. 	<ul style="list-style-type: none"> • Promote SCF development in Vietnam by bringing together the key ministries, such as the Ministry of Planning and Investment, the Ministry of Industry and Trade, the Ministry of Agriculture and Rural Development, the Ministry of Justice, and the State Bank of Vietnam to work out an action plan for key steps. • Scale up integration of local SMEs that are part of the ecosystem of larger corporate anchors into formal supply chains through new business practices and technologies. This would allow SMEs to leverage the enhanced credit rating of anchor firms to get better access to competitive SCF solutions. • Further improve the enabling environment for collateral management (such as for national warehouse and logistic systems) and the development of nonbank financial institutions as important players in the SCF market.
<p>Deepen capital markets.</p>	<ul style="list-style-type: none"> • Strengthen the regulatory foundation and enforcement, pursuant to the new law on securities, particularly in the areas of disclosure and market transparency, conduct of market participants, and efficient clearing and settlement. • De-risk the corporate bond market by promoting the public (listed) corporate bond market, including by streamlining approval and listing processes, standardizing the documentation required to issue bonds, and introducing credit ratings. • Improve the reliability of the benchmark yield curve, including the short-term reference rate. 	<ul style="list-style-type: none"> • Improve governance, information dissemination, and market infrastructure. • Enhance supervisory and enforcement capacity to ensure market integrity and efficiency. • Broaden the investor base and improve market accessibility for foreign investors, working toward the inclusion of Vietnam in the global emerging market equity and bond indexes. • Develop private pension funds as long-term saving vehicles for individuals and simultaneously as a long-term funding mobilization tool for capital markets; introduce effective taxation to promote long-term savings. • Promote well-designed new instruments and investment schemes, such as asset-backed securitization, project bonds, and various types of investment funds.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
ENHANCING ACCESS TO FINANCE		
<p>Encourage the development and use of digital financial services.</p>	<ul style="list-style-type: none"> • Scale up mobile phone e-payment mechanisms by strengthening fintech regulations. • Diversify into lending and other innovative services developed through lessons from the pilot peer-to-peer lending. • Implement the lessons from the Fintech Challenge to shape the development of a legal framework for the fintech ecosystem. • Leverage e-know-your-customer processes for better financial inclusion. 	<ul style="list-style-type: none"> • Develop the data security policy framework. • Deepen the data ecosystem, including the regulatory framework, data security, and privacy to promote use of technology and knowledge flow.
BRIDGING SKILL GAPS AND SHORTAGES		
<ul style="list-style-type: none"> • Enhance resilience in tertiary education institutions—TVETs and HEIs—for continuity of learning and skills formation during the COVID-19 crisis and beyond. 	<ul style="list-style-type: none"> • Undertake rapid and coordinated assessment of distance learning capacity to understand the gaps across (a) types of tertiary education providers and (b) geographical distribution to help inform interventions. • Collaborate with private sector and development partners in supporting distance education interventions in the TVET sector focusing on e-learning teacher training, adapting training materials, and online testing. • Provide incentives (tax deduction) for investments in workers training and innovation. 	<ul style="list-style-type: none"> • Develop a national approach for continuity of learning and contingency planning as well as capacity building efforts to ensure that resources and efforts are optimized in line with defined priorities. • Systematically build distance learning capacity for delivery in TVETs and HEIs to mitigate the effect of emergencies. • Revamp SME programs to support business resilience.
<ul style="list-style-type: none"> • Support adoption of technologies to improve the quality of learning in TEIs. 	<ul style="list-style-type: none"> • Foster public-private partnership approaches to implement e-learning in TVETs and HEIs. • Enhance existing ICT infrastructure, including bandwidth, to host e-learning. • Build digital content in TEI's curricula and improve quality of teaching. • Build public-private collaboration to address the skill needs and gaps for the digital economy. 	<ul style="list-style-type: none"> • Develop a national digital strategy for the higher education system and integrate digital skills in the overall education system. • Increase investments in digital infrastructure, including a centralized hosting infrastructure across member TEIs. • Strengthen governance of ICT and sustainable financing resources. • Move toward output-based education financing, including voucher-based models. • Revamp and create SME support programs to promote investments in management training and technology adoption.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
BRIDGING SKILL GAPS AND SHORTAGES		
<ul style="list-style-type: none"> • Improve access to TEIs and respond to market needs. • Engage with the private sector to increase enrollment and respond to market needs. • Develop alternative modes of education including e-learning Massive Open Online Courses (MOOCs) education 	<ul style="list-style-type: none"> • Develop and approve a tertiary education expansion strategy and implementation plan to meet the quantitative enrollment targets through a coordinated and well-articulated differentiated and diverse system. • Develop a TVET access and quality enhancement strategy and implementation plan that is aligned to industry needs. • Remove legal/administrative/licensing hurdles to entry and expansion of private sector providers, including offering subsidized resources and subsidized student loans to accredited private institutions. • Create enabling legal conditions to foster alternative modalities, including a recognition and quality assurance framework for e-learning degrees and courses and charters of open universities. 	<ul style="list-style-type: none"> • Improve pathways across HEIs and TVET colleges through strengthened coordination between the Ministry of Education and Training and the Ministry of Labour, Invalids, and Social Affairs, through operationalization of the Vietnam Qualification Framework and in partnership with industry. • Develop a robust labor market information system and use this system to inform training provision. • Set up an information management system to monitor the performance of training providers. • Encourage establishment of industry/sector councils to facilitate dialogue between industry and TVET providers. • Integrate socio-emotional skills into curriculum in TEIs. • Develop and operationalize a coordinated e-learning platform with resources shared among universities and offering high quality educational content to a wider audience.
<ul style="list-style-type: none"> • Improve systemwide governance of TEIs to reduce fragmentation. 	<ul style="list-style-type: none"> • Improve stewardship and coordination at the national level, including the creation of a single ministry for higher education, science, and technology that includes TVET. • Approve the Higher Education Strategy, 2021–2030, and a higher education master plan with adequately funded implementation plans. • Establish and operationalize a single funding agency to administer allocation of public resources to universities. • Update policies to enable public universities to pursue PPPs for capital/infrastructure projects or other educational services. 	<ul style="list-style-type: none"> • Establish a national digital higher education management information system and a national digital labor information system. • Establish a systemwide capacity building mechanism for quality assurance and accountability. • Progressively raise the share of public funding to higher education. • Improve the income diversification and resource mobilization capacity of HEIs through public-private partnerships, fundraising, donations, continuing education, and so on. Allow public HEIs to set up for-profit entities to diversify revenue sources, such as through corporate training and commercialization of research.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
IMPROVING CORE INFRASTRUCTURE SERVICES THAT SUPPORT GROWTH		
Logistics		
<p>Create an enabling environment to encourage private sector participation in logistics.</p>	<ul style="list-style-type: none"> Facilitate operations of e-commerce sellers and logistics service providers via (a) information about regulatory changes, (b) consistency in rules applications at different ports of entry, (c) control over informal fees and tolls. Explore avenues to optimize the process, time, and cost of obtaining licenses for air freight operations. Review and amend potentially anticompetitive regulations (such as price guidelines issued by the subnational government). Simplify rules and establish processes to allow flexibility in selling a share of products in bonded warehouses in the domestic market. 	<ul style="list-style-type: none"> Review the overall regulatory framework and design an action plan in consultation with private sector with the objective to (a) improve consistency, predictability, and transparency for public-private partnerships or outright private provision and (b) adapt to current market needs. Develop appropriate TVET offerings in close collaboration with private sector to meet skill needs for agri-logistics, cold chain, ICT, and truck drivers. Consider developing agricultural collection hubs to improve collection logistics and reduce food waste.
<p>Improve access to finance to promote LSPs, particularly domestic logistics</p>	<ul style="list-style-type: none"> Facilitate access to finance to enable smaller efficient LSPs to upgrade and scale -up the vehicle fleet, and support entry of innovative startups in new markets 	<ul style="list-style-type: none"> Improving access to finance would enable smaller efficient LSPs to upgrade and scale-up the vehicle fleet, and support entry of innovative startups in new markets
<p>Encourage growth of LSPs via coordinated planning for developing shared logistics infrastructure assets and a multi-model transport network.</p>	<ul style="list-style-type: none"> Improve urban planning to include urban consolidation centers and inland container depots to enable LSPs to aggregate and disaggregate the traffic entering/exiting and organize deliveries by clusters. Ease remaining FDI restrictions to encourage competition in key sectors (such as digital platforms, freight aggregators). Encourage growth of aggregators, such as freight brokers, transportation management systems, and digital freight platforms, notably by fostering trust in the platforms. 	<ul style="list-style-type: none"> Create public-private dialogue platforms to involve the private sector in the planning process. Invest in ports infrastructure (landing stages, access roads) to promote freight containerization. Encourage domestic shipping companies to improve their fleets and switch to container traffic.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
Power		
<p>Improve the PPP framework to attract more private investments in the power sector.</p>	<ul style="list-style-type: none"> • Follow the international standard in enforcing contracts under other laws beyond Vietnamese law. • Provide clarity on government support and risk allocation, especially termination and curtailment clauses. • Set up the PPP fund expeditiously. 	<ul style="list-style-type: none"> • Consolidate under one law, all relevant policies, decrees, and regulations for private participation. • Develop necessary implementing regulations and guidance, including licensing criteria, to make the new PPP law effective. • Develop consistent and streamlined licensing and permitting procedures across provinces. • Pilot investor competitive bidding in 2020/2021. • Strengthen technical capacity to conduct and implement PPPs within various ministries.
<p>Support growth of the renewable sector by attracting private investments.</p>	<ul style="list-style-type: none"> • Make the power purchase agreements for renewable projects in line with bankability international standards. • Roll out programmatic (and competitive) IPP procurement to replace ad hoc project-by-project negotiations. • Establish clear time-bound procedures for IPP/PPP negotiations. • Clarify the post feed-in tariff regime for solar energy (solar auctions). • Increase the cap from 1 megawatts to 3 megawatts without requiring a power operation license. 	<ul style="list-style-type: none"> • Improve the credit rating of the off-taker. • Provide net metering credits for rooftop solar power delivered to Vietnam Electricity under a PPA to avoid delays in the implementation of the payments. • Build a transmission and distribution network to integrate new renewable energy capacity, especially solar. • Support local capital market development by strengthening the legal framework that promotes issuance of bonds to carry out green projects. • Launch tenders of solar photovoltaic with battery storage to improve integration of solar generation in the grid.
<p>Open space for private sector investment in domestic transmission grid infrastructure.</p>	<ul style="list-style-type: none"> • Encourage private sector investment to help the grid meet the needs of a more distributed network that includes renewables, integrated grid battery storage, and new liquefied natural gas power plants. 	<ul style="list-style-type: none"> • Improve planning and coordination among key government entities under a comprehensive power plan (PDP 8).
<p>Support development of liquefied natural gas.</p>	<ul style="list-style-type: none"> • Address the weaknesses in Vietnam's gas market structure and pricing regime that deter private investments. 	<ul style="list-style-type: none"> • Build LNG storage and midstream infrastructure and gas power plants.
<p>Advance the dialogue with Laos PDR to import hydro power.</p>	<ul style="list-style-type: none"> • Establish an arrangement between Vietnam and Laos PDR and support integration with the domestic grid. 	<ul style="list-style-type: none"> • Propose a transmission corridor that builds new interconnection capacity between Laos PDR and Vietnam under the PPP structure.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
PROMOTE GREATER PRIVATE SECTOR PARTICIPATION IN AGRIBUSINESS AND TOURISM		
Agribusiness		
<p>Strengthen land policies to facilitate increased private sector investment and efficiency in agribusinesses.</p>	<ul style="list-style-type: none"> • Raise the ceiling on the agriculture land holding and usage to enable consolidation and a transition toward efficient and productive agribusinesses. • Facilitate land conversion mechanisms to balance agricultural needs with industrial and service sector needs. Support the government on implementation of the Decree (2019) to stimulate land consolidation and facilitate smoother acquisition. • Improve land valuation methodology. • Clarify the framework for foreign lenders to take mortgaged land. 	<ul style="list-style-type: none"> • Support and expand public-private mechanisms to monitor implementation and resolve issues, such as the Vietnam Business Forum working groups on land and agriculture.
<p>Improve access to finance for agribusiness firms.</p>	<ul style="list-style-type: none"> • Review interest caps on short-term loans to incentivize banks to lend to the sector. • Develop and implement an action plan for supply chain market development that focuses on collateral management services using warehouse receipts and an e-financing platform. 	<ul style="list-style-type: none"> • Support the expansion of financial products using moveable assets as collateral. Develop expansion of financial instruments that allow for risk-sharing and use of movable assets as collateral. • Support the scale-up of commercial agri-insurance; this requires implementation of a legal framework, access to data, and development of advanced monitoring systems along with determination of the appropriate role for public sector support.
<p>Modernize the livestock sector.</p>	<ul style="list-style-type: none"> • Reduce Vietnam's dependence on imports of commodity inputs for commercial feed by assessing the viability of cultivating "protein rich" crops and by supporting expansion of existing energy feeds (maize). • Improve biosecurity and food safety at the farm and slaughterhouse level. • Review regulatory guidelines to identify areas to improve biosecurity controls and a timeframe for enforcing the guidelines. 	<ul style="list-style-type: none"> • Support domestic production of feed crops for livestock as an alternative to higher-cost imports. • Identify sustainable small farmer models in livestock production.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
Agribusiness		
<p>Increase exports of high-value added fruits and vegetables.</p>	<ul style="list-style-type: none"> • Enhance access to high-value markets and links from production to market. • Support agribusinesses to meet updated requirements of importing countries relating to sanitary and phytosanitary measures, traceability, quality standards, and food safety practices and adopt digital technology for doing so. 	<ul style="list-style-type: none"> • Promote investment in cold chain/cold storage facilities. • Improve the institutional framework and capacity of national quality infrastructure to ensure product conformity to internationally accepted standards.
Tourism		
<p>Keep financially viable tourism businesses afloat during the COVID-19 crisis.</p>	<ul style="list-style-type: none"> • Expand financial temporary relief for tourism businesses: deferred taxes, lower land and electricity fees. • Establish and support wage and training subsidies. • Strengthen health and safety measures to reassure travelers and workers and protect local communities. • Enhance training/upskilling support via government-subsidized training programs for tourism industry workers (such as temporarily paying worker salaries while they receive training). • Leverage digital technologies to enhance resilience and efficiency. 	<ul style="list-style-type: none"> • Strengthen the emergency response capacity of tourism businesses and transport operators. • Adopt protocols and allocate resources to permit sanitary use of transport services (air, ground, sea) in line with internationally recognized standards, including provision of testing equipment, under post-pandemic conditions.
<p>Re-attract tourists by stimulating demand via targeted marketing and policy measures.</p>	<ul style="list-style-type: none"> • Develop a strategy for reviving tourism demand by first focusing on domestic tourism and travel, then international travel. • Promote domestic travel through implementation of a domestic tourism stimulus program while preserving high safety standards. • Facilitate a more flexible policy with respect to bookings with carriers and travel agencies. • Provide publicly subsidized travel vouchers and discounts to travelers, as well as value added tax refunds for certain categories of tourism-related expenditures. 	<ul style="list-style-type: none"> • Further liberalize the visa regime, including an increase in the number of visa-exempt countries, and an increase in the length of allowed visa-exempt stays. • Participate in tourism bubbles with countries that have declining infection rates and are ahead of the economic recovery curve. • Enforce international health regulations at points of entry, especially airports and border crossings, to manage public health risks and strengthen the capacity of public health staff for early detection of health problems.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
Tourism		
Support adoption of digital business models in the tourism sector ecosystem .	<ul style="list-style-type: none"> • Provide advisory services and financial incentives for tourism-related SMEs to digitalize their marketing, sales, and product/service delivery processes. • Improve workers' ICT and related skills needed for the more digitalized business models. 	<ul style="list-style-type: none"> • Support firms to adopt more digital business models through financial and technical support. • Implement demand-driven training and upskilling, using information collected about jobs and skills in demand.
Promote investments in destination service infrastructure and quality .	<ul style="list-style-type: none"> • Enhance legal and regulatory frameworks for accommodation investments, particularly condotels and resort villas. • Promote PPPs in infrastructure services at the provincial level. • Improve coordination between tourism stakeholders and consistency between planning and investment execution. 	<ul style="list-style-type: none"> • Establish governing laws and regulations for condotels and other nonresidential tourism accommodations through appropriate amendments to the land law, tourism law, law on real estate business, and the civil code. • Invest in basic and tourism-specific service infrastructure in high-demand destinations, as well as in environmental and cultural asset preservation. • Enhance tourism sector management, particularly the consistency between national and province/destination-level tourism planning, and between destination master plans and investment approvals/execution.

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APPENDIX A

ENTERPRISES AND EMPLOYEES

TABLE A.1 SHARE OF SIZE OF ACTIVE REGISTERED FIRMS (%), BY TYPE AND NUMBER OF EMPLOYEES

TYPE OF ENTERPRISES	NUMBER OF EMPLOYEES								
	< 5	5-9	10-49	50-199	200-299	300-499	500-999	1000-4999	>5000
Non-state enterprises	98.8	98.7	95.9	82.8	66.2	58.9	48.4	36.1	25.7
Domestic private enterprises	9.8	7.9	6.1	3.8	1.0	0.6	0.4	0.2	0.9
Limited companies	73.5	70.0	63.9	46.8	34.0	26.5	21.0	13.7	6.9
Joint Stock Company w/o state capital	15.3	20.6	25.5	30.0	28.0	28.2	22.9	18.8	15.6
Joint Stock Company with state capital	0.01	0.02	0.3	1.8	3.2	3.6	4.0	3.4	2.3
Foreign invested enterprises	1.2	1.3	3.7	13.9	26.4	30.8	39.1	49.5	62.4
SOEs	0.03	0.05	0.4	3.4	7.4	10.3	12.6	14.4	11.9

Source: General Statistics Office of Vietnam 2019b.

Note: Nonstate enterprises also includes collectives.

APPENDIX B

VIETNAM'S 2018 COMPETITION LAW

The new competition law in Vietnam came into effect on July 1, 2019, replacing the 2004 version. The new law requires assessment of anticompetitive effects in instances in which the previous law relied on artificial thresholds of market share.

Under the new law, the Vietnam Competition Authority and the Vietnam Competition Council will be merged to establish the National Competition Committee (NCC), which will monitor, investigate, and adjudicate anticompetitive behavior and practices.

The new law covers both Vietnamese and foreign companies and individuals where their practices will exclude, reduce, or hinder competition in the domestic market. It also includes public service entities, such as hospitals and schools. It prohibits anticompetitive agreements if the firms are in the same market or if the agreements can hinder market competitiveness. The 2014 law only prohibited anticompetitive agreements when the combined market share of the parties was 30 percent or more. The new law includes a new leniency program, which promises to streamline enforcement against cartels.

The new law narrows the scope of exemptions. It allows for certain exemptions if they can satisfy certain conditions, such as promoting technical progress or business efficiency. It imposes a five-year limit on any exemption, and the NCC will decide whether to continue the exemption within 90 days before its expiration.

Under the new law, economic concentration activities (such as mergers, acquisitions, consolidations, and joint ventures) need to be reported to the NCC if they breach the thresholds on the basis of total assets and turnover of the firms in the domestic market; transaction value; and combined market share. Under the 2014 law, economic concentration activities were prohibited when the combined market shares of the entities were above 50 percent. Under the new law, the NCC can prohibit economic concentration activities if they have a significant competition restraining impact on the market. Before a merger, acquisition, or joint venture, the entities have to notify the regulator if certain thresholds are crossed, such as assets and turnover as per the revised competition law. If firms violate the economic concentration regulations, they will be subject to a penalty of 5 percent of the total turnover for the previous financial year.

There are several aspects in which the new law still falls short of international practice and more importantly risks ineffective or even harmful enforcement. These include aspects of the institutional set-up that may not allow for a sufficiently independent agency, treatment of firm conduct (both through anticompetitive agreements and unilateral abuse of dominance), and merger control.

ENDNOTES

1. Korea learned to raise the contribution of productivity to economic growth from 16 percent in the 1970s to 43 percent in the 1980s and 56 percent in the 2000s (Dieppe 2020).
2. These technologies include robotics (particularly artificial intelligence [AI] enabled); digitalization and internet-based systems integration (internet of things), including sensor-using “smart factories” (that may also be AI enabled); and 3D printing.
3. Servicification of manufacturing is defined as the use of services as inputs into manufacturing. In this context, services and manufacturing sectors are interlinked and complementary sectors.
4. See <https://zingnews.vn/top-5-san-thuong-mai-dien-tu-duoc-yeu-thich-nhat-2020-post1174992.html#page-intro>
5. These sectors were endorsed by World Bank management during the Concept Review Decision meeting held on November 30, 2019.
6. Defined as members of households with per capita spending of more than US\$15 per day.
7. These projections were formulated before the COVID-19 crisis. See World Bank Group 2020.
8. Acknowledging this, the government passed a new decision in April 2020 that focuses on the establishment of globally competitive Vietnamese digital technological enterprises, among many other objectives (Directive No.18/CT-CTG, April 2020).
9. Based on interviews, however, it seems that opportunities for private sector investments in the aged-care industry will be limited for the next five to seven years.
10. With Vietnam’s population projected to double in the next 30 years, investments in urban infrastructure and service delivery will be required for effective and integrated urban planning. Vietnam has a national law that limits sovereign debt to within a debt-to-GDP ratio of 65 percent, close to the recent level.
11. Furthermore, ethnic minorities account for 80 percent of the remaining poor.
12. Under the high growth scenario, capital formation at 32 percent of GDP (up from the existing level of 27 percent) could generate GDP growth of only 3.4–3.5 percentage points. Therefore, Vietnam needs to achieve a considerable increase in productivity, and productivity’s contribution to GDP growth needs to improve over time, from 2.5 percent in the next decade to 3.2 percent in 2041–45.
13. In 2017, the fifth plenary meeting of the Party Central Committee issued Resolution No.10-NQ/TW on developing the private sector into an important driving force of the socialist-oriented market economy.
14. This section does not cover nonfarm household businesses, which operate in the informal sector and are not registered with the tax office. In 2017, there were 5.2 million household businesses, which employed over 8 million people. The average productivity of household businesses is generally lower than that of registered enterprises (Economica 2018).
15. According to development literature, long-term national income growth implies a transition from self-employment to wage employment as well as shifts in production from small toward larger and more productive firms (Gollin 2008; McMillan, Rodrik, and Sepulveda 2017).
16. The law aimed to improve the legal and regulatory framework: it subsequently led to the reduction in cost and time for firms to register and formalize a business.
17. The number of applications increased from 196 to 560 over a decade.
18. Other large domestic conglomerates include Truong Hai Auto Corporation, Hoa Phat Group JSC, FPT Corporation, and Vietnam Prosperity Joint Stock Commercial Bank.
19. Among the top 500 private companies as per the VNR Top 500 Company Rating 2019, VinGroup was ranked 1; Hoa Phat, 5; and Masan, 9. The other private companies in the top 10 include firms that are less diversified and not classified as conglomerates, including Mobile World Investment (retail), DOJI Gold and Silver (precious metals), Truong Hai Automobile (car manufacturing), Vietnam Dairy products (diary), VietJet Aviation (air transport), and Vietnam Tinh Vuong Commercial Bank (banking).

20. Refer to the 2018 Economic Policy Framework (Ministry of Planning and Investment; MPI), which lays out the plans to further reform SOEs.
21. See the company profile at <http://vinalines.com.vn/en/intro/company-profile/>.
22. A World Bank Group mission was undertaken to Vietnam from October 29 to November 8, 2019, to meet with key stakeholders before the development of the concept note. Preliminary findings and proposed recommendations were discussed during three days of private sector consultations held in August 2020 to help finalize the drafting of the CPSD.
23. On August 15, 2019, the Prime Minister of Vietnam issued Decision No. 26/2019/QĐ-TTg (Decision 26) on the list of state-owned enterprises to be equitized by the end of 2020. Vinafood I is one of four SOEs of which the government shall continue to hold a majority stake (more than 65 percent).
24. These are VinGroup, Masan, and Hoa Phat.
25. A 2019 report by McKinsey and Company reports that VinGroup had a 27 percent market share. However, the same report suggests that VinCommerce's market share, determined on the basis of the number of convenience store and supermarket outlets, was 53 percent in 2019 and only 5 percent in terms of revenue in 2018.
26. In particular, VinGroup grew from real estate development and management (including tourism, offices, and parks) into retail, medical (pharmaceuticals and health care), and technology (telecom, technology, and network security), whereas Masan Group has its base in food and consumer staples and now operates in banking and resources/mining. The only area in which the two groups appeared to compete is the food sector, where the two have merged (Masan Consumer Holding acquired a controlling stake of VinCommerce in December 2020, forming a new company). This could reflect a potential strategy of vertical integration between Masan Group (in the production of rice, coffee, and so on) and VinCommerce's retail segment.
27. These include the Vietnam banking sector strategy; capital market strategy; National Financial Inclusion strategy; and bond market development roadmap (2019).
28. This was supported by IFC. See "IFC Helps Expand Access to Credit by Improving Vietnam's Financial Infrastructure," December 15, 2010, https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/ifc_helps_expand_access_to_credit_by_improving_vietnam_financial_infrastructure.
29. The National Registration Authority for Secured Transactions received an award from the Vietnam justice minister for the upgraded system as one of the top 10 outstanding highlights of the judicial sector in 2017.
30. The sources are IFC 2010 and statistics from the National Registration Authority for Secured Transactions.
31. An IFC program has facilitated dissemination, advocacy, and awareness through conferences, workshops, training, focus group meetings, and dialogues for more than 8,570 practitioners and stakeholders.
32. Supply chain finance refers to the use of financing and risk mitigation practices and techniques to optimize the management of the working capital and liquidity invested in supply chain processes and transactions. SCF programs help companies unlock working capital and liquidity that have been trapped for use in reinvestment back into the businesses.
33. The UPCOM was set up to encourage unlisted public companies to participate in the securities market, boosting visibility and accessibility to investors and allowing better regulation of over-the-counter trading. However, disclosure remains a critical issue among the UPCOM companies, which is of particular concern because the stocks are available to be traded by public investors, just like listed stocks.
34. This section provides an overview of skills gaps and shortages in the Vietnamese economy. The discussion of the higher education sector covers the institutional setup, as well as opportunities for and constraints on private sector participation.
35. See the World Bank Enterprise Survey on Innovation and Skills (2019).
36. For example, companies with a more balanced board are earning 2 percentage points more in return on equity than all-male boards in ASEAN countries (IFC 2019).
37. World Bank, *Investing in Infrastructure for Growth*, January 2020.
38. This includes investments in water supply, transportation, electricity and gas, information, and communications. Source: World Bank PER: *Fiscal Policies towards Sustainability, Efficiency and Equity*, 2017.

39. This discussion draws on the sector assessments prepared as part of this CPSD.
40. This discussion focuses on issues related to domestic freight transport and considers only tangentially issues related to international trade.
41. "An inland container depot, or ICD, is an inland, intermodal transportation facility or area that provides the services of handling, temporary storage, and customs clearance for containerized cargoes entering and leaving seaports" (World Bank 2019b). ICDs are concentrated around the Red River Delta in the north and around Ho Chi Minh City in the south.
42. Almost all global giant shipping lines have their own logistics companies in Vietnam (including APL logistics, NYK logistics, OOCL logistics, Maersk Logistics, DSL Star Express, and Damco).
43. The airfreight market grew by an average of 15.6 percent between 2011 and 2017 and stood at 1.1 million tons in 2017.
44. The private contribution was 42 percent at the end of 2019. The additional 5 percent could come from solar plants, but the failure to meet this target could be due to the impact of COVID-19.
45. The Power Sector Development Plan VII (PDP 7-GoV) was revised in 2016.
46. Decision 39 is on the feed-in-tariff program for wind projects and was revised on September 10, 2018.
47. By the IFC, HOSE, and HNX with support from the State Securities Commission of Vietnam.
48. With technical assistance from the IFC and the Swiss State Secretariat for Economic Affairs.
49. Compare 2018 Competition Law art. 30 with the 2004 Competition Law, art. 18. Under the 2004 Competition Law, mergers resulting in market share of over 50 percent could go ahead only upon being granted an exemption under article 19.
50. See 2004 Competition Law, art. 20.
51. See art. 33, para. 2.
52. Penal Code No. 100/2015/QH13. The penal provisions are, however, only applicable to agreements that result in threshold amounts of illegal profits or damages, and for the agreements tracking all but agreements (4)–(6) of article 11 of the 2018 Competition Law, there is a requirement (as in the 2004 Competition Law) that the cartel members possess at least 30 percent of the relevant market. The threshold for illegal profits is VND 500,000,000 (and VND 100,000,000 in the case of bid rigging) and the threshold is VND 1,000,000,000 (VND 100,000,000 in the case of bid rigging). (On November 17, 2018, there were VND 23,307 VND to the US\$.)
53. Fines range from D 200,000,000 to D 1,000,000,000 and penalties include 3–24 months prison time (1–5 years for bid rigging) for parties to prohibited agreements.
54. See OECD 2018, 27, which cites commentators who have suggested that mergers between SOEs do not receive scrutiny by the competition authority. One major merger between SOEs was in fact investigated by the competition authority, but after receiving a report from the authority, the prime minister approved an exemption. The merger was between two SOEs (Banknet and Smarlink) that were the only two financial switching services for banks' credit card transactions. The exemption was approved despite the resulting 100 percent market share because prices were imposed by regulation and because there was significant duplication of costs both in terms of the banks' having to use two systems and in terms of the fixed costs of the merging parties. See Thanh 2015.
55. 2018 Competition Law, art. 104, 106.
56. Kitzmuller and Licetti 2012, citing Voigt 2009 for the proposition that for a developing country, "de facto independence of the competition authority will translate into a 17 percentage point reduction in the productivity gap with the United States."
57. The Ministry of Trade became part of the MOIT in 2007.
58. 2018 Competition Law, art. 49.
59. This section draws on World Bank 2019b and World Bank 2020b.
60. National Institute of Information and Communications Strategy.
61. The other universities in the top five are University of Information Technology VNU-HCM, Posts and Telecommunications Institute of Technology, University of Science and Technology, and VNUHCM-University of Science.

62. To pursue TVET, students can follow one of two pathways: intermediate vocational school after completing lower secondary school or TVET college after graduating from high school.
63. WB Vietnam Development Report 2016.
64. WB A2F.
65. WB A2F.
66. SCB Economic Intelligence Center 2019.
67. Vietnam Port and Broiler Value Chains, IFC 2015.
68. Data are from General Statistics Office of Vietnam and VNAT annual tourism statistics, various years.
69. The nine countries are Cambodia, China, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Thailand, and Vietnam.
70. The survey was conducted by Private Sector Research Division (Division IV), Administrative Reform Committee.