

TWENTY YEAR REVIEW OF DOI MOI
FOURTH HIGH LEVEL ROUND TABLE MEETING

VIETNAM'S VOYAGE TO PROSPERITY

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I am pleased to participate in this timely review of the impact of the Doi Moi policy on Vietnam's development. This review affords us an opportunity to examine the process of Doi Moi over two decades while taking a brief look into the crystal ball to suggest what may be in store for Vietnam in the future. It is interesting to note how unusual this meeting is in terms of today's modern, fast moving, globalized world. It is so rare these days for anyone with the exception of a few dedicated historians, to take the time to look into the past for answers to questions relative to future events, but that is exactly what we are doing here today. For that, I congratulate the organizers of this extraordinary meeting and Vietnam's leaders, past and present, who seek an international report card on their performance in enacting the provisions of the Doi Moi policy and their desire to hear our feedback in determining Vietnam's future courses of action.

I suspect that 99.9% of the presentations at this seminar will conclude that the Doi Moi policy has been a grand achievement. I agree with that assessment, but Doi Moi could have delivered far greater economic successes in a much shorter period of time had it been enacted more aggressively and with greater vision. That is my personal opinion and perhaps my comments today will give you a few clues as to why I have arrived at that conclusion.

As reports are read at this meeting, keep in mind that the Doi Moi policy is still a work-in-progress and must continue to grow and be tailored to fit the future challenges experienced by Vietnam's fast growing economy and its increasingly important role in world diplomacy. I am confident that Vietnam's leaders will continue to refresh the Doi Moi policy as they go along to ensure positive growth and development of Vietnam's economic, social, and political structures.

In the past 20 years Vietnam has experienced enormous renovation, reform, renewal, change, newness, transformation, metamorphosis, overhaul, revitalization, conversion – all terms used to define the extraordinary enactment of the Doi Moi policy that was agreed to at the Vietnam Communist Party 6th Party Congress in late 1986. It came as no surprise that the Party leadership decided to reroute Vietnam's voyage to prosperity because by the mid-1980s Vietnam had become one of the world's most impoverished countries. Something had to be done to prevent the potential collapse of the government, its economy and widespread food shortages.

The enactment of the new Doi Moi policy in December 1986 was a practical reaction to the desperate economic needs of the country. The Party leadership had surely observed the results of China's experiment with privatization in dealing with similar economic

problems so the idea of combining the strengths of socialism and capitalism to form a “market economy with socialist direction” was neither totally new nor unprecedented. Nevertheless, this was a major political decision that codified an economic process where central economic planning gave way to market-driven private enterprise. I now suspect that Doi Moi was never intended to be a fast paced reform process. Vietnamese officials have repeatedly emphasized that change would occur only “step by step” and at a pace commensurate with social and political stability. Clearly, Vietnam needed time to prepare for the fundamental political, economic and social changes that were to take place. In 1986 there was still much domestic political and economic consensus building that had to take place before Doi Moi could be implemented. Thus, the economic reforms, particularly those involving increased privatization and market access and trade issues, were enacted very slowly, purposely, and only after a general political consensus was reached at every bend on the road.

The first practical application of Doi Moi was logically directed toward rural Vietnam where the economic situation had become so desperate that many agricultural collectives and state enterprises were failing and had begun to preempt the Doi Moi process by introducing their own version of economic renovation. Secret contracts were being used in most rural areas between agricultural collectives, private individuals and state enterprises designed to increase production and stave off acute food shortages. The enactment of Doi Moi essentially legalized those existing contracts and established a process whereby everyone was able to join in to improve the efficiency and productivity of farms all over the country. Food security was clearly the first and foremost objective of the Doi Moi policy and it proved to be the right policy at the right time, perhaps just in the nick of time. Its immediate success saved the country from near starvation and Vietnam quickly recovered its ability to produce rice and other essential foods at rates never before experienced in the country. Food security was pretty well assured by the early 1990s.

My first personal encounter with Doi Moi came during my return visit to Vietnam in 1991. At first glance, I witnessed a very backward country that appeared to be frozen in time. I saw little in the way of economic renovation for it was apparent that the country and its people were experiencing a very tough time. I saw primitive agriculture methods, yet I do remember visiting several markets and found that food appeared to be generally plentiful, but I’m not so certain that everyone had sufficient funds to purchase what they needed. I also recall that the general population was poorly clothed in drab, single fashion clothing and few had footwear other than the famous Vietnamese rubber tire sandals. Bicycles ruled the streets, literally thousands of them – very few vehicles were to be seen and all of those you did see were government or military vehicles. There was evidence of some very small private enterprises along the streets. Bicycle repairmen were present at nearly every street corner; there were numerous small street food vendors, shoeshine kids roaming the streets and since there were no fuel stations anywhere, petrol was distributed in one liter drink bottles from vendors along the streets or from tankers stationed at strategic locations in the cities and countryside. Hotel accommodations were quite rustic and limited in those days and it was virtually impossible to find a decent restaurant outside of those associated with the hotels (but there were some good pho stalls

along the street). State stores with limited goods on their shelves were the primary shopping source for everyone. In 1991, Vietnam indeed had all the attributes of a very poor country.

I briefly visited Vietnam again in 1993 and of course returned to live there in 1997 as the American ambassador. On the 1993 trip I saw significant economic progress in Vietnam which suggested that Doi Moi was beginning to have the desired impact. Things throughout the country remained incredibly rustic, but one could see that progress was being made. Bicycles were giving up space to motorbikes, many owned by the relatively wealthy recently returned Vietnamese overseas laborers, an offshore employment opportunity spurred along by Doi Moi policies. There was evidence of recent foreign investment with some recognizable name brands appearing along the streets. In 1993, my wife to be, was already there setting up one of the first foreign banks in Vietnam and I found that the diplomatic community had grown significantly over the past couple years.

By 1997, there was evidence that Doi Moi was truly beginning to take hold. The streets now were full of motorbikes (I bought one just a couple days after my arrival), there was much more evidence of small private enterprises and the streets were full of durable goods that I had not seen there before. Yet I found myself greatly frustrated with the pace of the reform process. The business climate remained opaque and the burdensome legal and administrative regimes were extremely difficult to navigate. It seemed that we were always waiting for a critical government decision that would move things forward. As I have stated earlier, I think Doi Moi has been a great success overall, but the reform process should have been implemented more effectively and in a more timely manner. There is no doubt a certain amount of political courage was lacking when it came to hard decisions such as SOE privatization, licensing and the removal of trade barriers.

I was particularly disappointed with the virtual standstill of the reform process during the Asian economic crisis in mid-1997. While many of Vietnam's neighbors suffered great economic upheaval at that time, Vietnam was virtually untouched with the exception of a reduction in regional exports. There was no fear of a collapse of the Vietnamese Dong as it was not market driven and a stock market did not exist. Unlike its Asian neighbors, Vietnam's economy was not yet deeply dependent of foreign investment so when FDI began to dry up during this period it was not an immediate disaster. I thought at the time that had Vietnam accelerated its reform process then and created a more attractive investment climate, it would have been well placed to lure foreign investment from its neighbors during the crisis. Vietnam was still enjoying relatively high growth rates (with a lot of help from ODA, Viet Kieu remittances and the black economy) and was perceived at the time as one of the more economically and politically stable countries in the region. Unfortunately, the Asian financial crisis deepened the lingering doubts and fears the Vietnamese leadership had with respect to the fundamental economic, political and social changes unleashed by the forces of Doi Moi. They were extremely frightened by what they believed "market forces" had done to their neighbors' economies and decided to just "wait and see". I remain convinced that had Vietnam's political leadership been less risk-averse and had they quickly moved to establish a more open,

business friendly environment, they could have actually capitalized on the Asian financial downturn and benefited from the FDI exodus that was occurring elsewhere in the region. I think this was an opportunity missed. The momentum of Doi Moi quickly evaporated during that period and it took years for foreign investor confidence to return to pre-crisis levels.

Frankly, foreign investor sentiment toward Vietnam had already begun to turn negative by mid-1997. Whether motivated by the Asian financial crisis or not, many investors were preparing to abandon their investments in Vietnam. Where Vietnam had earlier been international investor's "flavor of the month", investors were getting fed up with the incredibly long and costly licensing processes, the entrenched bureaucracy, the lack of a clear and transparent legal framework, the ever increasing cost of doing business generally and the uncertainties for returns on their investments. The failure of the government to reasonably address these grievances compounded the country's economic problems and in effect helped to create Vietnam's own local version of the Asian financial crisis.

Perhaps the greatest missed opportunity since the enactment of Doi Moi relates to Vietnam's failure to move more quickly to complete the U.S./Vietnam Bilateral Trade Agreement (BTA). Bilateral trade talks began in 1995 - negotiations were slow and difficult from the outset, but they came to a virtual standstill in 1997 and the process very nearly died when the Vietnamese side essentially terminated negotiations. I was deeply involved in the negotiations and helped to revive them a couple times while constantly urging the Vietnamese leadership to accelerate its decision-making process so that the BTA could be enacted during the Clinton Administration. I pointed out that the BTA was exactly what Vietnam needed to kick start the economy following the serious economic erosion that occurred in '97, '98 and '99. But, the Politburo was totally deadlocked and a multi-billion dollar opportunity was missed.

An agreement in principle on the BTA was finally reached in July 1999 and the documents initialed, but still the Vietnamese side balked and refused to sign the official agreement, again due to internal political disagreement. Had the Vietnamese Government completed negotiations earlier and had they signed the BTA at the September 1999 APEC meeting in New Zealand, as was strongly recommended by the American negotiating team, the BTA would have sailed through confirmation in the U.S. Congress and the Vietnamese National Assembly. Furthermore, completion of the BTA would have stimulated immediate U.S./Vietnam WTO negotiations, a point that I personally and strenuously stressed to the Vietnamese officials at the time. Vietnam's bid to join the WTO would have without a doubt been greatly accelerated. I am convinced that Vietnam would have been granted membership in the WTO several years ago if the Vietnamese leadership had seized the opportunity presented to them and moved quickly to close the BTA deal. The Vietnamese side finally formally signed the BTA agreement in July 2000 (a full year after the agreement in principle), but by that time it was too late for the agreement to be taken up by the U.S. Congress that year. The BTA subsequently fell victim to trade squabbles between the new Bush administration and Congress which caused further delays in its final approval. Today Vietnam is still not a

member of the WTO (although we hope it will be allowed entry soon) and Vietnam is still paying a huge price for its lack of vision and failure to understand the US political dynamics that existed at that time and as a result, another multi-billion dollar trade opportunity was missed.

As noted earlier, life was difficult and unpredictable in the '90s for Vietnam's early foreign investors. There was little understanding of market economies and international business principles. Key financial intermediaries either did not exist or were very weak and Vietnam's legal institutions were not equipped to deal with the complexities of the emerging private sector environment. Vietnamese laws at the time were based on "authorization" rather than "exception", and were open to inconsistent interpretation and enforcement. Further, Vietnam was still very suspicious and fearful of "foreign exploitation", an attitude that has not completely disappeared even today. Doi Moi provided the Vietnamese leadership an excellent macro-economic platform to address these early deficiencies and implement the necessary economic reforms. However, while Doi Moi was accepted in principle by the leadership, in practice the actual implementation of Doi Moi policies was a stop/start process (two steps forward coupled with one step back). As a result, the reform process has been jerky and much slower than it could have been and was plagued by indecision and a lack of political courage and vision in the face of rapid economic, social and political changes attributed to Doi Moi.

If I was asked to nominate a time when I thought Doi Moi made its most significant mid-course correction I would say in 2000 (14 years after its enactment). It was in 2000, in a bid to promote economic recovery, that the government put into place a series of decrees aimed at improving the investment climate and to create a more attractive business environment. This included the passage of the new Enterprise Law, an amended Foreign Investment Law and the signing of the BTA. The Enterprise Law set off the equivalent of a domestic gold rush in Vietnam. The new law streamlined domestic private business licensing procedures and legalized thousands of "mom and pop" businesses that were operating illegally or without full accreditation, and served to create thousands more. Not all of those businesses survived, but Vietnamese entrepreneurs sharpened their business skills quickly and set up innovative operations resulting in some great success stories. Some of those little "mom and pop" businesses are now listed on the Vietnam stock exchange. Entering private business however was not always without its perils. In the early days, the government was very suspicious of private business owners often subjecting them to 10 or more inspections of their businesses each year. Private businesses found it very difficult to compete with highly subsidized state enterprises and many sectors of the economy were simply off-limits to them. Nevertheless, the new Enterprise Law gave the economy a great lift and continues to be a major factor in sustaining the Vietnamese economy today. Subsequent amendments to the Foreign Investment Law also streamlined many of the complex procedures governing FDI and effectively addressed a number of the grievances foreign investors frequently aired.

Yes, Doi Moi has been a success (but as I have suggested, not as big a success as it should have been) – last year Vietnam's economy grew at a rate of 8% with an average GDP of roughly 7% over the past decade. The private sector contributed roughly half of

the nation's GDP in 2005. Today Vietnam is the world's 2nd largest exporter of rice, a major exporter of coffee, crude oil, textiles, marine products, footwear and black pepper. Tourism has flourished with Vietnam becoming one of the world's favorite places to visit. Vietnam is rare in the mix of developing countries in that it is both an exporter of energy and food thus giving it an economic base often missing from other developing nations. The per capita income in Vietnam has risen from a couple hundred dollars per year in the '80s to over \$3000 today and the quality of life in Vietnam is now perhaps the highest in its history, albeit there is a significant division of wealth between the rural and urban communities. Poverty rates have been reduced to below 20%, but the poverty cycle has not been completely broken, particularly in remote rural areas. On the positive side, the people of Vietnam live in an increasingly secure and a relatively crime free environment.

The success Doi Moi has enjoyed is fundamentally due to the existence of strong Vietnamese family units, a well educated and youthful population possessing a hard work ethic, and by the long-term domestic investments by the government in education and to a lesser extent, public health. Without these cultural and social strengths, the Doi Moi policy would have either failed or would have experienced even more serious delays. Doi Moi has continued to strengthen educational opportunities for Vietnam's citizens and its public health statistics are now comparable to many more advanced nations, a condition Vietnam can be justifiably proud of. However, because of Vietnam's rapidly changing economic circumstances, the Vietnamese family unit is sustaining transitional pressures with heavy family work cycles resulting in a reduction of shared quality time compared with families in the past. The children too, are under pressure – pressure to succeed academically, technically or artistically. Furthermore, the success of Doi Moi has not visited each region or household equally.

Doi Moi is first seen as an economic policy, but it has had a huge political and diplomatic impact on Vietnam as well. It's most important political attribute in my view is that it provided Vietnam a roadmap to confidently transform the country into a world class economy and at the same time, become a respected player in the world diplomatic community. The Party leadership has attempted to follow the Doi Moi policy to accomplish those goals, but it has done so under enormous pressure and in a period of significant internal political conflict. With respect to their diplomatic situation, with the exception of becoming a member of the United Nations in 1977, Vietnam was quite isolated internationally in the '80s. Following the establishment of Doi Moi Vietnam put its hand out in friendship to all nations of the world and not surprisingly, most countries responded positively and many have posted diplomats to Hanoi. By the time I arrived in Hanoi as ambassador, the diplomatic community numbered over 50 and it keeps growing. It is also likely that Doi Moi had something to do with Vietnam's decision to withdraw its troops from Cambodia in 1989 which greatly enhanced the prospects for normalization of relations with the U.S, an oft stated high priority diplomatic goal of Vietnam. And certainly, Doi Moi was at the core of Vietnam's application for membership into ASEAN, AFTA, APEC, WTO and other notable international organizations that have proven to be so important to its economic well-being and its increasing international prestige. It is my view that Doi Moi helped measurably to broaden Vietnam's political

spectrum, strengthen its legislative processes and substantially stimulate healthy, constructive debate within the Party, its legislative bodies and within the society in general.

Given the general success of the Doi Moi policy over the past two decades – where does Vietnam go from here? I certainly cannot answer that question precisely, but I can make a few observations, predictions and recommendation that might help present and future Vietnamese decision makers.

First of all, Vietnam's economic liberalization and its international integration must continue at a pace equal to or better than in the past two decades. You will recall that there are two major parts to the stated Doi Moi policy - to form a "market economy with socialist direction". The "market economy" renovation process is well underway, but Vietnam's slow progress in the privatization of key state enterprises (many of them unprofitable) remains a serious impediment to achieving the full benefits of that aspect of the policy. A genuine, accountable commitment should be made to privatize as many of the state enterprises as possible within a reasonably short time. This effort should be viewed as the first step to release ministries from their current burden and dependence on ministry owned and operated businesses used to fund ministry operations. Ministries, like all other government entities should ultimately be funded from the national treasury to assure proper accountability and independence. With an improved tax collection policy, more effective procedures and a concerted effort by the government, this is more doable than anyone in the government would now agree. One thing is clear, privatization must take place before a true market economy can be developed and with Vietnam's eminent accession to the WTO, the pressure to accelerate privatization will increase.

The "social direction" component of the Doi Moi process must undergo further modification as well. There has clearly been a move to improve the government's role in directing the development of the market economy, but the process is still in its infancy. Happily more government officials are versed in modern business economics and national institutions are better prepared to deal with the complex nature of a free-wheeling private sector, yet government obstacles still loom in the way of the exercise of "good business practices" thus greatly reducing economic effectiveness. Laws are not enforced equally and there still exists a wariness of private businesses. In an effort to "level the business playing field" and ensure greater consistency, the government must place a high priority on the creation of a strong, transparent business regulatory system. I understand an attempt is underway to address this void which I heartily applaud. While the system of regulation should fall somewhat short of a pure "laissez faire" policy, it should be broad enough in scope to allow the exercise of a relatively open market process that stimulates competition, productivity and efficiency. The legislative and government decision making processes must be streamlined to ensure that Vietnam is able to respond to political and economic opportunities as they arise. The government must also seriously address the problems associated with the current widespread corruption that continues to cast a huge black cloud over the government and the business community. The Government must ensure greater transparency within its agencies and it would be wise to begin efforts to raise civil servant salaries to levels commensurate with

community standards. The further development of a free press will help greatly to assist in the fight against corruption and would help spur competitiveness as well.

As noted, Vietnam's impending membership in the WTO will help drive the Doi Moi process, but real privatization of state enterprises must quicken in order to capture the strengths and business opportunities afforded by WTO membership and economic globalization in general. Vietnam will experience ever increasing world competition in the future and it must create a political, business and industrial environment that is able to react quickly, effectively and efficiently to the competitive challenges it will face. In that regard, quality control will become increasingly important for Vietnam's industries. Within the global marketplace not everything is driven strictly by price – quality is what sells and what brings back repeat business. The Ford Motor Company once had a motto: "Quality is Number 1". I think it is a good one and I suggest it or something like it be widely adopted throughout Vietnam.

Judicial and financial institutions must be significantly strengthened to meet the needs of an ever growing sophisticated economy. Trading partners and new investors in the future will demand that strict international standards be present in those key institutions before making commitments in Vietnam. The legal system can be greatly enhanced through the empowerment of the judiciary, better judicial training and development of a more efficient system of arbitration. Financial institutions will have to quickly improve their standards of service, accountability and efficiency in order to compete as the financial sector is opened to more foreign investment.

Education will require continued major investments to ensure a viable workforce to support the projected economic growth in Vietnam. Free primary and secondary education should be a national goal. Curricula should be heavily focused on math, science, language and economics. Currently, Vietnam's major academic advantage over many of its competing trading partners is its people's skills in math and science – an advantage Vietnam does not want to lose. Plus, technology is fast becoming one of Vietnam's most important industries and the education system must be capable of meeting the increasing demand for highly qualified technicians.

Health care will require major investments to help prevent historically debilitating health problems like SARS, Avian Flu, HIV/AIDS, and mosquito-borne illnesses. A major concentration on injury prevention is necessary to counter the rapidly growing epidemic of accidental death and disability. Accidents are a huge burden in health care facilities nationwide and the costs for providing assistance to those injured, together with the associated loss of productivity, are roughly equal to 3-4% of the national GDP. The cost of doing nothing in Vietnam to prevent accidents is far too high and accident prevention programs must receive high level support.

Inflation will become a dampening factor in the economy in the future if not tamed. In 2005 inflation was well over 8% which should turn on some alarm bells within the government. Wages are increasing as they should given the increased productivity of the average Vietnamese worker, real estate costs are skyrocketing, the cost of commodities is

rising fast and Vietnam has already become known as one of the more expensive places in Asia to live and do business (at least if you're a foreigner) – that reputation could have a damaging impact on Vietnam's future investment prospects and its competitive edge vis-à-vis its Asian neighbors if not contained.

The lack of attention to preserving the pristine Vietnamese environment from the deadly impact of unregulated industry will be one of Vietnam's most challenging tasks in the future. Rampant deforestation was and still is a major problem. The country's drinking water, its waterways, rivers, streams and coastline are being polluted everyday by unfriendly environmental activity and Vietnam's air quality is deteriorating at an alarming rate. The excessive use of agricultural chemicals also poses an environmental problem. Historic sites and sensitive lands are being ruined by uncontrolled tourist and industrial activity. Huge problems exist in disposing of hazardous substances and ordinary domestic and industrial waste. To date, few formal recycling programs exist and there is a question of whether dumpsites or landfills are adequately designed to prevent future soil and water contamination. Vietnam would be wise to engage in serious, practical environmental protection early in its industrial development process, for trying to clean up an environmental disaster is far more costly than investing in its prevention.

Infrastructure growth management is already a problem and one that can only become more difficult in the future. Up to now, Vietnam's growth management has been generally weak, but there are signs that things are getting a little better. Currently, Vietnam has a luxury not found in many developing countries – i.e. whole new cities or satellite towns can be created to accommodate the country's rapid population growth, its migration and industrialization norms. But, future development must be “smart development” that considers all the major requirements of a modern society. As noted above, environmental protection should be at the heart of that planning with an added emphasis placed on energy conservation. Preservation of historical sites, traditional architecture and cultural relicts must be a priority. Transportation infrastructure will be one of the most expensive activities, but it must be a high priority for government, for the lack of convenient, safe, accessible, functional transportation facilities will become a serious drain on the country's economic development. I am a firm believer in the early investment of mass transit systems. Investments made now in mass transit will prove to be much less expensive than those delayed by even a few years. Ultimately, mass transit systems will have to be built in all of Vietnam's urban areas to keep up with local transportation demands, for energy conservation and to help eliminate paralyzing traffic congestion.

Protection of the Vietnamese people's human rights and religious rights will require increased and constant government attention. First and foremost, Vietnam must take ownership of these issues. External forces should not drive Vietnam's efforts to improve conditions for its own people – that is an internal responsibility and by doing so; external interests will quickly take note of improvements and more likely become supportive of domestic action on these issues. Vietnam has made significant positive strides to address its human rights and religious rights issues over the past two decades, but no country can

achieve perfection in this area – the goal should be to continue to make steady, positive progress to protect citizen’s rights - this is an ongoing task – it is never completely done, but Vietnam must demonstrate that it will continue to strive for improvement in this area.

I acknowledge that I have offered here a list “too long” and at the same time a list “not long enough” of do’s and don’t’s and some of my thoughts may be dated or simply incorrect. Nevertheless, I present them as one person’s constructive feedback, based on my personal experience in Vietnam during a period of unprecedented and historical economic, political and social change in the country. As many of you know, I have been and one of Vietnam’s biggest cheerleaders and I remain confident that Vietnam’s future is extremely bright. I fully intend to be a key witness and participant in Vietnam’s continuing voyage to prosperity.