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Dollar & Sense: The story of Vietnam's economic revolution

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This is a rough transcript.

DOLLAR: Hi, I'm David Dollar, host of the Brookings trade podcast "[Dollar & Sense](#)." Today's episode is coming to you from Hanoi, Vietnam. Vietnam has been one of the most successful developing countries. The World Bank estimates that in 1992, 53 percent of the population was living in extreme poverty. Today that figure is less than 2 percent. So extreme poverty has been wiped out in one generation. It's a remarkable story.

My guest today is Madame Pham Chi Lan – someone I have known for 30 years. She was a leading figure in Vietnam's reform. She was deputy secretary general and then secretary general of the Vietnam Chamber of Commerce and Industry, a leading advocate for the private sector, and an adviser to Prime Minister Vo Van Kiet and other Vietnamese leaders. So welcome to the show, Madam Lan.

LAN: Thank you very much, David Dollar. It's very nice to meet you again after 30 years and to be in Vietnam together.

DOLLAR: So you've been involved with Vietnam's reform, known as Doi Moi, for 30 years or more. If you were going to pick out two or three key reforms that have underpinned Vietnam success what would you say?

LAN: I think firstly the development of the market in Vietnam, when Vietnam decided to open the market within the country and to the world. The opening up of the market within Vietnam to get free goods circulating among different provinces in Vietnam is a big help for Vietnamese producers at all levels and traders. At the same time, Vietnam removed the dual pricing system, revoked the state and SOE [state-owned enterprise] monopolies in most markets for goods and services, and opened Vietnam to the world markets. That is the first and most important reform.

The second one is to give back the right to do business to the people of Vietnam, for the development of a private sector. Even this was rather late. Only by 1999 we could have the first enterprise law which really provided freedom to run business or private sector in Vietnam. The third one is to develop legal and regulatory framework for the market system in Vietnam. To replace the state-run business in Vietnam of the past.

DOLLAR: Well that's a very clear answer. Opening up space for private initiative, developing the regulations for the private sector, freeing up prices. As you say, 30 years ago there were a lot of dual prices in Vietnam. I remember on my first trip in 1989 the official exchange rate was very, very low, but then the black market rate was ten times higher. So you had this huge difference in the price of a dollar between going to the bank or going around the street, and you saw that for a lot of prices. Now one of the reforms you mentioned there was opening up to foreign trade and investment. So let's talk a little bit more about the role of foreign trade and investment in Vietnam's reform.

LAN: The foreign trade and investment in Vietnam could help Vietnam firstly by getting access to necessary resources for the country. Vietnam was in shortage of almost everything after the war and with the isolation to the world and the trade embargo imposed on Vietnam. So, getting access to necessary resources was so important for the country, including the right to do business and export-import trade to help Vietnam. To export something, to gain necessary hard currency, to import, there were so many things needed for the country. Help improving the skill of running business, the skill...even the managing of the economy at the macro level. Also, it helped Vietnam to develop the capabilities to explore the untapped resources necessary and available in this country.

Secondly, the liberalization of foreign trade and investment helped Vietnamese enterprises and industries to recover rapidly and develop a future where they could work more with foreign partners. The third area that the foreign trade and investment could help Vietnam in its reform process. Vietnam can conduct learning by doing in relations with the foreigners to learn on our own how a market system can really operate. It could help to have more skill and tools to operate, especially at the macro level. And it could help also to enhance the confidence and consensus on the reform and the market system in the country and to improve the business environment and the market mechanisms.

And last but not least, the foreign trade and investment helped Vietnam to normalize our relations with various countries in the world and international organizations like the World Bank, IMF [International Monetary Fund], ADB [Asian Development Bank], etc. – so that Vietnam could have better and more diversified relations with them.

DOLLAR: It's interesting that when we talk about developing countries and trade we often emphasize the advantages of exporting – the opportunity to export. But you started with the import side – that there were a lot of shortages in Vietnam, Vietnam needed certain natural resources and also machinery. I remember visiting that giant textile mill in Nam Dinh and they had equipment from the 1930s. Very hard to produce modern products with equipment from the 1930s.

But let's talk a little bit about the export side. So what was Vietnam able to export as it opened up? What are some of the successful industries or even firms?

LAN: Yeah. In exportation we had the first successes in the apparel industries. Garments and footwear are products that Vietnam can produce, can manufacture, rather cheaply because when we contracted with foreigners to supply to them, we could develop very well. And then the foreign investors were coming to Vietnam and the first areas that they put investments are in garment and footwear manufacturing in the country. Other export items like later on the automobile industry, electronics, and even computers opened to Vietnam and Vietnam could export more and more diversified products. And from the success of exporting mainly low-productivity products we could improve and have the higher part or higher portion for manufacturing items to export with more value added in this country.

DOLLAR: Right, so that's a very good point. So this foreign investment certainly helps a country get started. Probably many listeners are not aware that a large number of Samsung hand phones are assembled in Vietnam. So a lot of the foreign investment starts with assembly, but getting those backward linkages so you have more value added, that's important. So is there backward linkage developing to the Vietnamese private sector?

LAN: Yes, there are. And in fact the FDI [foreign direct investment] can have what we call the spillover effects to help Vietnamese enterprises to improve themselves. So the private sector, even state owned enterprises of Vietnam, can benefit from that in order to improve their capacity. And based on that, many of them became good partners or suppliers to FDI in Vietnam. Or to supply the products of Vietnam to the world market directly in case they can do that.

DOLLAR: In 2001, Vietnam signed a bilateral trade agreement with the United States, and in 2007 Vietnam joined the World Trade Organization. So how important are these trade agreements for a poor developing country like Vietnam?

LAN: The BTA [bilateral trade agreement] between the U.S. and Vietnam is so important to Vietnam because the U.S., as everybody in Vietnam knows, is the largest and most important market in the world. And we understand that only when we have a trade agreement with the U.S., the relation between the two countries can be fully normalized. If we normalized the diplomatic relations only and did not normalize the trade and business relations it's not enough for Vietnam. So it's important.

The second one is the fact that with the BTA with the U.S. we can accelerate legalization for WTO in order to get access to WTO six years later and also to improve our relations with all the major trade partners in the Western countries by that time and so to receive more resources from all the countries and financial organizations as international aid to help Vietnam develop.

DOLLAR: You mention that normalizing relations with the U.S. enabled Vietnam to benefit from the World Bank, the International Monetary Fund, the Asian Development Bank. Can you talk a little bit about the role of those international institutions in Vietnam's reform?

LAN: Yeah. The role of these financial institutions to Vietnam's reform is so important. These institutions could not only help in providing finances necessary to Vietnam to improve the infrastructure, to help in dealing with poverty issues in Vietnam, also in development, but more important, it helped Vietnam a lot in the reform process by providing the necessary expertise and even teaching the Vietnamese people at the government level and international business level on how to operate in a market system -- how to build up new necessary capacities in development. So building capacities was always a very important portion of the assistance we could receive from these institutions and organizations, particularly the World Bank.

DOLLAR: Right. You and I were involved in some policy seminars 30 years ago. The way I think about it is we had some events with very senior people including the prime minister and other ministers. I remember taking a group of Vietnamese ministers to South Korea on a study tour. But we also had training courses for all of the cadre in the Trade Ministry, the Finance Ministry, the Central Bank.

LAN: Yeah, we could never forget those activities in which you were the first one to come to Vietnam. In fact, we call it a workshop, but actually it's a training course for top ranking officials in Vietnam -- in the government of Vietnam. So many of them were taught by that time in order to work better in their positions and based on that we could have rather successful activities in the early days of the reform in Vietnam. In fact without those very first lessons Vietnam could hardly conduct the reform in so smooth a way by that time.

DOLLAR: More recently Vietnam is one of the countries that negotiated the Trans-Pacific Partnership, and it's a shame the United States has pulled out. Let's hope that's temporary. But the other 11 countries have gone ahead with the Trans-Pacific Partnership. So is that going to make some substantial difference for Vietnam? Are there new commitments in this trade agreement?

LAN: Yeah. TPP and CPTPP are so important for Vietnam. In the mindset of the people like economic researchers like us and those who want to see the second reform in Vietnam, they consider these FTAs [free trade agreements] -- high quality FTAs -- could help Vietnam. First in the continuous reform needed in Vietnam. You need to upgrade the institutional system in Vietnam today to be more comprehensive and more bold, so that Vietnam can have an economic system similar to the norms and the standards of the world and the requirements of these FTAs. So, that's so important. Vietnam itself

really needs a second reform, but internally we could hardly conduct it. So we need another impetus from the external relations, particularly with important partners within TPP and the FTA.

DOLLAR: Vietnam still has quite a few state enterprises and a pretty large role for that state part of the economy. One of the agreements in the Trans-Pacific Partnership is that there will be discipline on state enterprises. So as you suggest, this is an opportunity for Vietnam to make an external commitment to do reforms that are needed, and there is a lot of support for these reforms in Vietnam, but sometimes it's difficult to get all the interest groups together. So that kind of external commitment can really help you follow through.

LAN: Yeah. Particularly it put some, not only time frame, but also clear and very transparent conditions on what it can be considered as SOE reform and to turn to work based on the market system. So far, we have conducted SOE reform, but sometimes with very slowly developed and also not quite clear...not quite transparent conditions, about whether the SOEs which have been equitized [partially sold on the stock market] can operate on market principles or not.

DOLLAR: Right. So Madame Lan and I were at the same policy seminar here in Hanoi in the last few days and one of the things that struck me is that Vietnam is very open in the manufacturing sector but less open in some of the modern services like financial services, telecom, air transport. Those are all sectors dominated by state enterprises. So I think ... I took away the message that that's an important part of the next stage of reform.

LAN: Yeah, yeah. In Vietnam we discuss a lot also about that. We really wish to see Vietnam to break the monopoly industry and to open the markets for local and private sector as well as FDI in Vietnam. But we've raised the issue for over 10 years now, but we've failed to do because 10 years before Vietnam already introduced a reform program in the institutional system. But after 10 years not so many things improved, particularly on the role of the state sector in the economy of Vietnam which is still considered as the leading sector in Vietnam's economy. But with the new FTAs Vietnam has a commitment to open its market after some period of time. So anyway, eventually we should do that, and we must do that.

DOLLAR: Are there other important reforms that Vietnam needs to carry out in the next stage?

LAN: I think we need to do a lot to improve the business environment in Vietnam to give more room for the local private sector to develop and to remove the discrimination we still have toward the private sector in Vietnam. So far in Vietnam we could not have the equal ground between SOE, FDI, and local private sector. Normally the most incentives and priorities are given to SOEs and FDI. And the local private sector, they have been discriminated [against] in many ways. So we need that kind of reform.

Also, we need to reform the administrative system in Vietnam which is very much bureaucratic, corrupted, and lacks necessary capacity. In fact, the market system in Vietnam has been developed to some level, but the administration system, the political system in general, failed to reform in coordination with the new market system we have in Vietnam today and the opening up of Vietnam to the world market.

DOLLAR: Right. So it's interesting you're saying that in many ways policies favor foreign investors and state enterprises but not so much the domestic private sector. So if you think about it, it's quite

ironic. Most of the job creation is in the domestic private sector. So you don't necessarily want to discriminate against the foreign investors, but at the very least you want to have a level playing field.

LAN: Yeah, yeah. Particularly in the allocation of necessary resources in Vietnam because in Vietnam you have still a system of state ownership over the most of the most important resources of this country, from land to natural resources, to the capital market, and in many things. The state has a so important role in allocating necessary resources. So whenever they have the right in hand, the state officials normally prefer to provide to SOE or FDI rather than to local ones. But the local private sector in Vietnam is so important in the way that they are creating most of [the] jobs for people. They are creating also so many opportunities for young people, for women, for minorities in Vietnam, to help develop not only in poverty alleviation, but also to bring more incomes and improve life of a majority of people in Vietnam and to create more equity for the society in Vietnam.

DOLLAR: So you mentioned the opportunities for women. So it's always struck me that there are a lot of women entrepreneurs in Vietnam.

LAN: Yeah, yeah. Particularly when the enterprise law of 1999 was introduced and became enforced in 2000. Since then, there's booming in private sector in Vietnam, particularly in enterprises led by women or by young people in Vietnam.

DOLLAR: So that's very heartening to see. So last topic I want to bring up, Madam Lan, concerns the U.S.-China trade war. China's your big neighbor next door and the United States has become something of a friend of Vietnam. So in some ways Vietnam is caught in the middle. There are some experts arguing that Vietnam can benefit from the U.S.-China trade war because some of the products that were being exported from China now might shift to Vietnam and be exported from Vietnam. So, what is your assessment of the effect of this U.S.-China trade war on Vietnam?

LAN: Well, several researchers show that Vietnam can be the country that most benefit from the trade war. But that's not true. On the one hand, we can benefit some part. As you just mentioned, we can export more to the U.S. It's replacing Chinese exports to the U.S. But on the other hand, having more exports to the U.S. may make Vietnam's trade surplus to the U.S. increase and Vietnam could become a new target for the U.S. administration to aim to have some punishment to Vietnam and ask Vietnam to create a better balance in trade relations with the U.S.

On the other hand, it can make the U.S. have more ... they could think that Vietnam may become a kind of a country that helps China to avoid the tariffs and punishment by the U.S., by bringing the products from China to Vietnam and just turning into Vietnamese origin in order to export to the U.S. So that could be very bad for Vietnam. In such circumstances, not only in relation with the U.S., but also to Vietnamese manufacturers within Vietnam and FDI in Vietnam because we may have thousands of products that compete directly with the producers in China and that can make Vietnam more difficult in dealing with the U.S. On the other hand, we could have more FDI coming from China – moving from China to Vietnam. We do wish to receive more investment from American companies or from Western companies, but not much from Chinese companies because normally China's investment in Vietnam could not provide a high-technology level or better products. But besides that, it also can bring the poor or the negative impact on the environment in Vietnam because we watch and we could see many products manufactured by the Chinese here can also bring pollution to Vietnam and sometimes their

laborers from China also come to Vietnam to work here instead of recruiting Vietnamese laborers. So there are many complicated aspects of Chinese investment in Vietnam that we want to avoid.

DOLLAR: So I think that's a very shrewd analysis. So far the American strategy of putting tariffs on products from China – it's not meeting the U.S. objectives. China's exports to the US are down, and China's trade surplus with the US is down, but the trade surplus from other countries is growing. Vietnam is a good example, but also Mexico and a number of other countries. And so you're right, the U.S. may turn its attention to Vietnam if it's unhappy about the growing trade imbalance.

LAN: Yeah, yeah. I think the current trade war and our relations with China and with the U.S. also came to the level that it needs Vietnam to revise and restructure our relations with these two important partners of Vietnam. Both China and the U.S. are most important partners of Vietnam: China in exportation to Vietnam, and the U.S. for both exports and imports from Vietnam and also other relations in investment, in technology, in technology transfer, in educational system. So we want to improve relations with both of them.

With China, to reduce our trade deficit, we have, so far, with China importation of so many items that Vietnamese firms and Vietnamese industries can produce in Vietnam. And when we import too much from the U.S. it can let Vietnamese enterprises have less opportunity to develop even within the domestic market in Vietnam – not saying in exportation. And also, as I mentioned, the quality of the Chinese investment, including in infrastructure in Vietnam, is really doubtful to Vietnam and very costly to Vietnam as well. So we need to upgrade our relations with China to be more a qualified one and could be resilient and really mutually beneficial in the long run. With the U.S., also we need to improve relations with the U.S. by trying to import more from the U.S. We do wish to see more investment from the U.S. companies in Vietnam because normally with that the U.S. can bring more products to Vietnam and Vietnam can import more. We do we want to improve the overall relations with the U.S. in many fields, not only in trading, but also in many areas.

DOLLAR: I've been talking to Madame Pham Chi Lan here in Hanoi, Vietnam. I consider her one of the heroines of the early reform and liberalization in Vietnam. It's so great to see all of the economic development here and the improvement in people's lives. And we've been talking about the role of trade in Vietnam's reform and the many, many issues that are still there, including the U.S.-China trade war, Vietnam's commitment to the Trans-Pacific Partnership, and the role of further trade liberalization. So thank you very much, Madam Lan.

LAN: It's my great pleasure to talk with you. Thank you.

DOLLAR: Thank you.

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