

# **Orientations and Solutions to Restructuring of the Economy in Association with Growth Model Innovation up to 2020**

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## **ABSTRACT**

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The paper is based on Resolution of CPV National Congress XI and Conclusion of the third conference of CPV Central Executive Committee of term XI on restructuring of the economy and innovation in growth model which has been institutionalized and implemented as a central task for the whole 5-year Socioeconomic Development Plan 2011-2015. The implementation of the plan has produced several important results along with certain shortcomings that should be dealt with in the coming years. This paper provides some general estimates of the socioeconomic development in recent years and offers some directions and solutions needed for promoting the restructuring of the economy and innovation in the growth model up to 2020.

## 1. Problem Statement

Resolution of the 11th CPV Congress identified one of the main duties on development in the years 2011–2015 as “achieving macroeconomic stability, innovating the growth model, and restructuring the economy by moving from an extensive growth to a new model incorporating reasonably extensive and intensive growth patterns, enhancing the growth quality and efficiency, ensuring a fast and sustainable economic development, and raising economic independence and self-reliance.”

Conclusion No. 10-KL/TW dated Oct. 18, 2011 of the 3rd Conference of the 11th CPV Central Committee declared that economic restructuring should be associated with innovation in growth model by increasing the growth quality, efficiency and competitiveness. Additionally, it was necessary to focus on the most important fields in the next five years including: investment restructuring with priority given to public investment; financial restructuring, focusing on commercial bank system and financial organizations; restructuring of state-owned enterprises, particularly economic groups and state-owned corporations.

This paper generally estimates achievements as well as shortcomings in the process of socioeconomic development in Vietnam in the period 2011–2015, thereby suggesting some major orientations and solutions in order to help improve the whole economic restructuring associated with innovation in growth model that should be implemented from now to 2020.

## 2. Estimation of Vietnam socioeconomic development in the years 2011–2015

### 2.1. Achievements

The growth model, in the period 2011–2013, has initially changed from extensive development to intensive development, focusing better on the growth quality:

- Efficiency of the use of capital is improved, and incremental capital-output ratio (ICOR) fell from 6.96 (in 2006–2010) to an estimated 6.5 (in 2011–2013).
- Productive forces achieved both quantitative and qualitative improvements. In 2011–2013, production technology made good progress by approaching more advanced and modern technology.
- Share of manufacturing industry in industrial output tends to increase while proportion of mining industry falls. Electricity waste decreased from 0.8 kWh/USD of

GDP in 2010 to 0.74 kWh/USD of GDP in 2013. The ratio of elasticity coefficient of the electricity to GDP (speed of electricity consumption/speed of GDP increase) was 1.69, 1.9 and 1.75 in 2013, 2012 and 2011 respectively – a considerable decrease compared to 2.03 in 2010.

- The implementation of three strategic breakthroughs - (1) breakthrough in the institution of socialism-oriented market economy focusing on building a fair competitive environment and administrative reform; (2) breakthrough in human resource development, especially a high-quality resource; and (3) breakthrough in building a compatible infrastructure system, particularly communication system and major urban infrastructure – produced first encouraging results.

- Macroeconomic stability is ensured as shown in the following facts:

+ Average growth rate was 5.64% in the years 2011–2013, higher than the ASEAN average of 5.1% in the same period as estimated by the IMF. The growth rate was 6.24% in 2011, 5.25% in 2012, and 5.42% in 2013. This figure was estimated to be 5.8% in 2014 and expected to be 6.2% by 2015. Thus, 2010 economic decline was prevented in 2013, helping Vietnam economy pass the US\$170-billion mark. Additionally, GDP per capita rose to US\$1,543, US\$1,755 and US\$1,911 in 2011, 2012 and 2013 respectively[1].

+ Consumer price index decreased from 18.1% in 2011 to 6.8% and 6.04% in 2012 and 2013 respectively. Up to September, 2014, the CPI only increased by 2.25% compared to the end of 2013.

+ Inflation was tightly controlled; therefore, it fell sharply from 18.13% in 2011 to 6.81% in 2012, 6.04% in 2013, and an estimated 3% in 2014.

More efforts were made to ensure a balance between economic growth and cultural development, human development, social progress and equality, and protection of resources and the environment. Social security is guaranteed. The system of social security and social welfare was developed rather properly, especially in poverty and unemployment reduction. The social insurance, preferential treatment to people who have contributed to the revolution, social benefits, a universal health insurance policy, were all developed to provide people with more cultural, health care and education services.

Public expenditure on social welfare keeps increasing over years although the budget income contracted because of economic recession. In the period 2006–2010, the public

expenditure on social welfare was approximately VND471,000 billion, accounting for 20.1% of total budget expenditure. This figure in the period 2011–2013 was estimated to be VND913,000 billion, accounting for about 34.1% of total budget expenditure, which increased by 1.7 times over the figure in 2006–2010 [2]. In 2012, additionally, human development index (HDI) ranked 127 in 187 countries and territories, equaling the world average.

Restructuring the economy, particularly pivotal fields, achieves some initial results that has a positive impact on macroeconomic stability and promotes innovation in growth model. The institutionalization of government's policies by improving the law system and conducting projects on economic restructuring is applied in many industries and fields. Business and investment environment is improved, facilitating the access to resources for both domestic and foreign investors.

Public investment restructuring has obtained positive results such as preventing scattered investments, reducing speculative investment, rationalizing the structure of investment, and improving effectiveness of public investment (ICOR of the public sector decreased from 9.6% in the period 2006–2010 to 7.5% in 2011–2013); and enhancing speed and quality of transport infrastructure projects.

Restructuring system of commercial banks and financial organizations as well as handling bad debts have achieved initial results:

- + Legal framework of restructuring banking institution, and stock and insurance markets keeps being improved. Efficiency of state control over monetary, foreign exchange, stock and insurance markets are enhanced.

- + The commercial bank system and financial organizations have been restructured in terms of financial and managerial aspects, avoiding systematic problems. State-owned commercial banks obtain growth rates higher than banking institutions in other sectors and still play a decisive role on monetary-credit market. Meanwhile, joint-stock commercial banks are more tightly managed and monitored. In weaker banks, their solvency and capital adequacy ratio were improved. The number of joint-stock commercial banks tended to decrease. Foreign banking institutions, non-banking credit institutions and people's credit funds were more safe and sustainable.

- + Many measures were taken to deal with bad debts, such as increasing risk provisions and selling debts to Vietnam Asset Management Companies (VAMC).

+ Stock market kept developing: the supply of commodities (stocks, bonds) achieved a considerable increase. In addition, stock companies, insurance companies and investors are initially restructured.

Restructuring state-owned enterprises (SOE) tended to focus on obstacles to business, and rearrangement of SOEs, especially by equitization. State-owned groups and corporations began to restructure their organizations, labor force and administration, withdraw their investments outside main business fields according to the market mechanism and increasingly enhance the transparency of activities of state owners as well as enterprises.

Agricultural restructuring has obtained positive changes. The share of agriculture, forestry and fisheries in the GDP decreased from 20.08% in past years to 18.38% in 2013. Additionally, investment restructuring was adjusted to enhance the ability to attract more investments in agriculture. This had an impact on agricultural development in terms of output, export, international economic integration, and a shift to clean and green production, thereby supporting the program on development of new rural districts and increasing income for farmers.

The agricultural development was based on tropical agricultural advantages and thus the agriculture is completely developed. Production models appropriate to conditions of each province were built and developed. In addition, technology transfer and application of technical advances were promoted to improve productivity and product quality. Infrastructure in agricultural and rural regions was upgraded along with mechanization, which has contributed to enhancing agricultural production efficiency. Income and living standard of the majority of farmers are improved, which helps maintain social stability.

The growth rate of manufacturing and construction sector was maintained and recovered. Its share in the GDP increased from 37.9% in 2011 to 38.31% in 2013. This sector has gained better access to modern technologies.

Growth rates of trading, service and export-import are rather high. The share of service sector in the GDP rose from 42.02% in 2011 to 43.31% in 2013. Structure of exports tended to change according to the process of industrialization, modernization and innovation in the growth model.

Urbanization made good progress, and most cities became more beautiful. The program for new rural districts was promoted with positive results obtained.

These achievements come from better perception of the growth model and restructuring of the economy. Priority is given to the quality of the fast and sustainable growth by the 11th CPV National Congress while the economic restructuring is considered as a must and a basic, long-term and crucial solution to all ministries and industries. In implementing this policy, the CPV and Government made many adjustments to methods, objectives, instructions and solutions while facing both internal and external difficulties.

## *2.2. Shortcomings*

In addition to the aforementioned achievements, the national economy has been suffering the following shortcomings:

- There has not yet been a clear and uniform perception of the new growth model, especially growth incentives. The growth model has not been marked with tangible innovations in accordance with guidelines and policies of the CPV and State; the economy still features an extensive growth, depending much on capital, resources, and low-skilled workers instead of knowledge and science-technology. The existing growth model has been fully developed and left almost no room in terms of resources and motives for improvements.

The labor productivity, in spite of its improvement (increasing by 10.1%; 6.1%; and 3.5% in 2013, 2012, and 2011 respectively, and being expected to reach 19.7% for the 2011–2015 period), is significantly lower than that of countries in the region—currently twice to fifteen times lower than ASEAN countries [3]. Trained labor has yet to satisfy the demand in terms of both quantity and quality, and its share in the working population was much lower than the target set for 2015–2020 [4].

Changes in the labor structures are slow [5], whereas Vietnam's total factor productivity (TFP) is not high, reaching US\$3,000/person/year by 2013, equaling 1/16 of the Singapore's rate and ½ of that of ASEAN. In the period 2011–2013, only 1.8% out of 5.64% GDP growth was attributed to TFP despite its improvement. The 2012 Vietnam's knowledge economy index (KEI) reached 3.51, categorized into the lower-middle group. In terms of creative capability, the creativity index of Vietnam by 2013 was 34.82, ranking 76/141 among the surveyed countries. While efficiency of capital use and investment is low, the 2011–2013 Vietnam's ICOR was 5.53, much higher than that of other countries in the region (ICOR of China and other countries in the region ranges from 2.7 to 4.0).

The macroeconomic stability is not truly ensured; there appears latent instability in the long run. Economic growth speed decreases; the 2011–2013 average growth rate was 5.64% (compared with targets of 6.5–7% and 7.5–8% set for periods of 2011–2015 and 2006–2010, respectively). Vietnam's economic growth is below the potential rate and reveals no significant changes in quality toward sustainability; there are signs of the national economic lag behind others in the ASEAN region [8] and the world as well as dangers of being caught in “middle income trap.”

The economy's competitiveness tends to diminish. The opportunities for international integration have not been well grasped to enhance growth quality for sustainable economic development. Scant attention has been paid to long-term objectives, let alone the fact that several of the growth policies prove incompatible with the requirements of integration and that the Vietnam's participation in global value chains is still limited.

Implementation of three strategic breakthroughs has lately produced a shift mainly in the construction of communication infrastructure when the building of a series of major roads was completed and several new key projects were started. The breakthrough in completing institutions of a socialism-oriented market economy, in which the focus is to create an environment for fair competition and administrative reform, seemingly ends in promulgation of a number of legal documents related to these institutions. The administrative reform is carried out slowly and limitations are exposed, regarding the breakthrough in human resources.

The results for the green economic development strategy display quite many limitations, alarming the impacts of climate change, environmental pollution, ecological imbalance, and resource depletion due to the development of various types of environmentally unfriendly production.

The formulation and implementation of the Overall Scheme to Restructure the Economy Associated with Change in the Growth Model through Improvements in Quality, Effectiveness and Competitiveness remain at low speed. Efforts to restructure the economy as a whole and its “pivotal fields” only produce limited results that fail to create any vivid shifts in growth renovation and economic restructuring.

There has not been a specific scheme on restructuring investment with adequate focus on public investment and long-term strategic solutions that fully tap social resources for development. Authorities are slow to promulgate regulations about PPP projects with the result that investment from private and foreign sectors did not flow to such projects.

Public investment restructuring has not been placed in the whole context of and/or associated with restructuring of public finance and budget revenue and expenditure while budget deficit and public debt are on the increase. The management of public investment is inadequate and lacking in transparency; and dispersed and scattered investment is widespread. Outcomes of the task of dealing with overdue debts from contractors in publicly-financed projects are not satisfactory.

There has not been full implementation of objectives for schemes on restructuring the system of credit institutions which aims at strengthening financial conditions and reinforcing operation capacity of commercial banks; improving orders and market principles for bank's smooth operations are not fully implemented. Handling bad debt is not sufficiently efficient; high bad debt which arises confusingly at commercial banks constitutes a serious impediment to the economy. Cross ownership is becoming complicated and unpredictable, causing problems for the reform and management of system safety. Growth of stock and insurance markets is unsustainable, while restructuring of commodities, investors, and stock and insurance enterprises are at the early stage; efficiency of state control is not optimum besides problems in overcoming the habit of using dollar and gold as legal tender.

Restructuring state-owned enterprises is slow; and the equitization does not meet requirements. Innovation in business administration in state-owned groups and corporations fails to produce significant breakthroughs, whereas weak competitiveness, unsatisfactory business performance, poor management of assigned resources, low labor productivity, and deficient business transparency still exist. Developing and conducting restructuring schemes lacks long-term visions; the impacts of reforms in state-owned enterprise on socioeconomic development are not visible.

Agriculture restructuring has not been seriously concerned and effectively carried out by ministries and local governments. The attraction of investments to agriculture is unfavorable while demand for investments in agricultural infrastructure is buoyant. Effective mechanisms for attracting and encouraging investment suited to each economic zone, and coherent policies on large-scale farming, forestry, handicraft village, and reasonable exploitation and use of natural resources are still lacking.

Plans for agricultural development and improvement in farmers' income made no progress. Business models based on benefit-linking chains are not common. The



agricultural production is still of a small scale and slow to change while rural infrastructure is poor, prices of farm products unstable, and farmers' living standard low.

Schemes for restructuring of manufacturing, construction and service sectors are absent; therefore, the implementation of these schemes has not been complete and synchronous with the specified itinerary and duties for relevant ministries, local governments and enterprises. Growth rate of each sector does not satisfy the requirements posed by industrialization and modernization as well as innovations in the growth model. Cooperation between provinces in the same zone and among regions is not close enough. Mechanisms for zonal economy and cooperation are unavailable, whereas economic space is divided by provincial boundaries.

### *2.3. Main causes of shortcomings*

The aforementioned shortcomings are attributed to a stagnant, unsystematic and inconsistent process of institutionalization and implementation of guidelines on restructuring the national economy in association with innovation in the growth model as suggested by Resolution of the 11th CPV National Congress. Moreover, some contents of the restructuring scheme are not turned into specific projects, resulting in a lack of long-term visions and detailed itinerary.

Perceptions of various aspects related to growth model and model innovation, particularly of such important issues as methods, strategies, growth motives, growth quality/objectives and connection between economic restructuring and innovation in the growth model are not obvious enough; thus, confusion is inevitable in formulating and conducting the mentioned schemes.

Resources, exclusively human and financial ones necessary for the process, are hampered by severe shortages as for demands. In handling bad debts too much attention was paid to technical aspects, which led to limited results.

Furthermore, there is no breakthrough in reforming mechanisms for mobilizing, allocating and using social resources according to laws of market economy. In the past tenure, since concentration is needed to tackle difficulties and negative impacts of financial crisis, global recession, and domestic macroeconomic instability, the effort to transform the growth model and restructure the economy did not produce intended results.

### **3. Orientations and solutions to restructuring the whole economy in association with growth model innovation**

To foster the process of changing the growth model in association with economic restructuring up to 2020, the following orientations and solutions should be taken into account:

#### *3.1. Innovating the growth model*

The growth model in the coming years for Vietnam will be based on improved labor productivity, growth quality and competitiveness and aim at a fast and sustainable development with the following main aspects:

*Firstly*, the growth will rely on harmonious combination of extensive and intensive development with the latter playing the leading role based on the modern market economy and international integration.

All policies should focus on the growth quality by paying full attention to productivity and quality, especially the labor productivity. More investments should be put in factors of intensive growth, such as human resource, knowledge-based economy, national innovation system, science and technology, R&D activities, and technology transfer. The economic growth is based on not only physical resources but also knowledge and intelligence with human beings can employ, develop and organize into a system of increasingly extensive and intensive innovations and creativity. This is an economic development based on existing and new knowledge. Sciences and technologies should be considered as keys to reductions in input factors (capital, land, energy, and labor, etc.) while maintaining the same growth rate and striving for a higher ones.

It is worth noting that in the process of innovating the growth model, especially in the period from now to 2020, Vietnam should keep exploiting factors of extensive development, but in a more effective way, to establish its international competitiveness by developing key industries and motivational fields.

From a growth model based on doing low-paid, passive and dependent subcontract jobs, Vietnam should move to a new one based on proactive and reasonable exploitation of its competitive advantages, thereby increasing added values and local content of its products and taking more effective part in the global value chain. Additionally, mining and manufacturing industries should be developed evenly in an effort to reduce and stop exporting raw materials and unfinished goods.

*Secondly*, regarding the growth strategy, Vietnam should stop depending totally on export and investment and start increasing investment, export and consumption simultaneously. Higher public investment and all other sources of non-state finance should be oriented toward development projects. While promoting export, full attention should be paid to satisfying domestic market demand in terms of quality, quantity and price. Competitiveness should be enhanced to substitute imports.

*Thirdly*, the principal driving force of economic growth should be based on better labor productivity, sciences and technologies, and innovation created and encouraged by a modern market economy and intensively international integration. In this direction, techno-scientific advances should be linked with operations of the national innovation system, and moreover, based on small- and medium-size enterprises and the private sector to create preconditions for a breakthrough in labor productivity.

Other useful measures are to improve institutions of innovation, strengthen public governance, develop the human resource, encourage innovations among enterprises and state-run research institutes and other sectors, promote R&D activities, increase added value of local products, increase national value and participate effectively in the global value chain.

*Fourthly*, regarding resources for growth, the principle is that the economic growth should be based on developing internal resources to the fullest and making the best use of external ones. Balance between intensive and extensive integration into the world economy and economic independence should be kept while the international integration is linked with innovation in the growth model and improvement in the growth quality.

*Fifthly*, the economic growth should be oriented toward long-term objectives, including a sustainable development for human being, balance between short- and long-term objectives and between economic growth and social progress, protection of the environment, improvement in the quality of life, and development for all.

### *3.2. Restructuring of industries*

- Continue to implement effectively the Overall Scheme to Restructure the Economy along with schemes to restructure industries and fields through enhancing competitiveness, promoting application of scientific and technological advances, supporting green economy, increasing national/added values, expanding domestic/foreign markets, and participating in production network and global value chains.

- Implement industrial restructuring both in economic and technological sectors or economic regions by increasing techno-scientific content and domestic proportion and build up a manufacturing sector with national brand name based on middle- and long-term visions and itinerary defined specifically for each development phase.

It is important to develop industries by modernizing them and increasing techno-scientific content and proportion of locally-generated values in manufactured goods, focusing on industries with comparative advantages and strategic significance needed for a rapid and sustainable growth, and enhancing independence and autonomy of the economy in order to take part intensely and effectively in global production/distribution system.

- Develop manufacturing, engineering, high-tech, energy, electronic, chemical, national defense and security industries; properly concentrate on those with competitive advantages, support industries, or those supporting agriculture and gradually develop biology technology and environmental industry.

- Boost the growth of labor-intensive industries; enhance capacity of constructions industry to best satisfy both domestic and foreign market demand; allocate industrial parks more reasonably all over the country; uplift efficiency of economic zones; complete more quickly the construction of high-tech industrial parks, and encourage development of industrial clusters and large-scaled and highly efficient industrial complex.

- Regarding the agriculture restructuring, develop the agricultural production into a larger scale and high-technologies applied widely to improve product quality, increase added value, and promote export of farm products.

The agriculture should be fully developed, including crop growing, forestry and aquaculture by tapping comparative advantages, reorganizing farming practices, applying techno-scientific advances, especially biology and information technology to speed up industrialization and modernization of agricultural production, thereby enhancing productivity, product quality, and competitiveness, ensuring national food security in both short and long terms, and improving farmers' living standard and income.

Additionally, advantages of a tropical agriculture should be taken of to increase added value and form high-tech agriculture-industry-service complexes. Transformation of rural economic structure should be logically associated with the process of building new rural communities and urbanization; improving service quality and socioeconomic infrastructure; narrowing the gap between urban and rural areas; bettering the connection

between urban and rural regions; and coordinating rural development programs with development of industrial and service sectors.

The central role of enterprises in the agricultural production should be recognized. For the time being local authorities should develop modern agricultural cooperatives, establish the link between farming households and large-scale farms to form zones specialized in supplying certain farm products as raw materials to factories, thereby strengthening the link between industry and agriculture.

Restructuring service/trading sector requires modernization and a growth rate higher than those of manufacturing sector and GDP. Priority should be given to such advantageous and technological-intensive fields as tourism, shipping, oil technical logistics, aviation, telecommunication, and information technology.

Besides the modernization and expansion of services with high added values like finance, banking, insurance, stock, logistics and other business support services, it is important to improve high-quality education/training and medical service, establish several service centers of regional and international standards, proactively bolster up domestic wholesale/retail channels with an aim of participating in global distribution network.

### *3.3. Restructuring of pivotal fields*

First of all, public investment should be restructured to attach it to the restructuring of public finance, national budget, and public debt. The next step is to reform mechanisms for mobilize, allocate and employ, and control all flows of investment to ensure major balances and priorities for public and social investments in the restructuring of the economy.

A Law on ODA management and use should be made in the way full attention is paid to criteria for accepting ODA sources, and mechanisms for publicizing sums of ODA capital, ODA-financed projects and allocation of ODA sources of capital. In accepting and implementing ODA-financed projects, independent comments and judgments should be allowed. Additionally, control over the use of this source of capital should be beefed up to fight against losses, wastes and embezzlement during the employment of it. Authorities should create mechanisms for selecting ODA schemes and make plan to finish this source in a short term.

Institutional and administrative reforms should continue effectively to create a favorable investment environment for all classes and kinds of companies. The Public Investment Law should be carried out properly by standardizing all stages from making plan, approving, implementing and supervising publicly-invested projects, and promulgating policies on PPP.

Laws on national budget and public investment should be improved by delegating control over sources of revenue and responsibility for expenditures to local governments as allowed by the Constitution, reducing overlaps between central and provincial budgets, implementing medium-term budgeting plans and allocating funds according to results of budget implementation.

Master plans for industries, fields and zones of both national and local levels should be reviewed. A master plan for investment and use of each source of capital could be made to serve innovation in the growth model and restructuring of the economy.

Management and use of public investment during the restructuring of the economy should be improved to deal with scattered investment that causes losses, wastes and inefficiency in publicly-financed projects. Better inspection and supervision will allow allocation of investments according to approved principles. Governments of all levels, especially local ones, should take full responsibility for restructuring public investment, collecting advances and dealing with overdue debts from contractors in publicly-financed projects.

Public debt including national debt, external debt, government-guaranteed debt and municipal debt should be controlled to ensure public debt safety and national financial security.

Credit institutions and financial organizations also need restructuring. It is necessary to implement the plans to handle bad debt in credit institutions, restructure the financial market, ensure macroeconomic stability, and erase dangers of systematic insecurity, thereby promoting restructuring in other fields.

System of commercial banks can be restructured by merger and acquisition with a view to reducing the number of banks and improving their efficiency and competitiveness. Banks should enhance their financial strength and banking technology, apply international standards and practices and modern managerial methods, improve competitiveness, and supply more useful services to customers.

Strict and reasonable regulations should be devised to control cross ownership and deal with bad debt. Policies on interest rate, exchange rate, and monetary instruments adopted by the SBV should be carried out according to market principles and laws. The relationship between mobilization and lending of foreign currency should be gradually transformed into that between its sales and purchases in compliance with the anti-dollarization policy.

Ministries should cooperate in restructuring of the system of credit institutions and financial organizations. Inspecting and supervising competence should be improved during the process of restructuring the banking system and handling bad debt, especially in the process of restructuring weak joint-stock commercial banks and credit funds.

Stock market should be developed in a healthy and effective way to be a channel for medium- and long-term capital. Quality of insurance services should be also improved and insurance companies and market, restructured.

Companies in all sectors are also restructured by improving their efficiency, applying modern managerial framework and enhancing their competitiveness. Laws, policies, and mechanisms related to freedom of business, especially procedures for entry, exit, and determinants of operations, should be bettered.

The system of state-owned companies, especially large groups and corporations, should be restructured according to the restructuring plans for their industries or fields. In these, urgent tasks include restructuring of finance, diversification of sources of capital, equitization, withdrawal of capital from the fields beyond their main ones, changes in business management, restructuring of human resource, training courses for corporate leaders and managers, and reductions in labor force and managerial agencies.

Mechanisms for supervising public investment and state funds and assets in state-owned companies should be beefed up. Competence of leaders and managers working as civil servants should be improved in order to introduce modern managerial framework of international standards to state-owned companies and other enterprises where the state holds controlling shares. Owners should enhance their control and management. All activities in state-owned companies should be transparent and well under control and supervision.

Cooperative sector also needs reforms in its mode of operation, cooperation based on legitimate interests for all relevant parties, application of modern managerial practices, and links with the program for modernization of rural areas.

Policies on and mechanisms for the development of private sector should be improved to make this sector an important driving force of most industries and fields of the national economy. Better support must be given to small- and medium-sized enterprises, and competent private companies, allowed to invest in state-owned groups and corporations.

Regarding FDI enterprises, cooperation between these enterprises and local ones should be strengthened to develop support industries in Vietnam and help local companies take part in international value chains by making the best use of technological advantages and improving labor productivity.

#### *3.4. Restructuring of zonal economies*

- The restructuring of zonal economies could be accelerated by imposing the state control over a comprehensive economic strategy and planning the economic development at national, zonal and interzonal levels.

- Restructuring zonal economies by making the best use of their comparative advantages and establishing modern and integrated institutions with competitiveness of regional and international levels, thereby creating new development poles, experimenting new mechanisms, and developing zonal economies.

- Developing the zonal economic development plans based on comparative advantages of each zone and preventing provincial boundaries from dividing economic space.

- Increasing public investment in socioeconomic infrastructure and making mechanisms and policies to encourage companies to engage in trans-zonal value chains.

- Establishing a mechanism for coordinating economic zones.

- Building modern economic mechanisms with competing power at regional and international levels for economic zones, especially special economic zones, to create development poles and experiment new mechanisms, making zones real driving forces for the whole economy and peripheral areas, and creating favorable conditions for development of depressed areas, such as border districts, islands, Central Highlands, northwestern provinces in the North and western districts of Central Coastal provinces.

- Perfecting the mechanism for delegating authority and responsibility to local governments in a manner that ensures even development of the economy and exploit creativity and proactiveness of provincial governments.

- Reforming the system of targets and criteria for national and provincial socioeconomic development.



### *3.5. Developing the marine economy*

Developing the marine economy could be considered as a strategy to unlock national economic potentials and protect sovereignty. Priority could be given to oil industry, open-sea fishing, fishing logistics, maritime industry (port services, shipbuilding and repair, and shipping), and maritime tourism. A mechanism for encouraging breakthroughs in development of maritime economy and attracting more sources of investment in order to protect the environment, deal with climate changes, and tap maritime resources in a sustainable manner should be realized and investment in seaside economic zones and their business performance, improved.

### *3.6. Promoting internationally economic integration*

In this aspect Vietnam should: (i) proactively accelerate its internationally economic integration and develop an independent economy; (ii) join and make the best use of bilateral and multi-lateral economic liberalization agreements, especially TPP, and develop an independent and autonomous economy to avoid dependence on any market or trading partner; (iii) review and improve the system of laws to implement free trade agreements after ratification, such as TPP and Vietnam-EU Agreement; (iv) improve institutions (including laws, human resource and mechanism) for preventing and reducing international disputes, especially in international investment and trading; (v) prepare favorable conditions for joining the ASEAN economic community in 2015; and (vi) make laws on judicial assistance in compliance with international ones.

## **4. Conclusion**

To restructure the economy associated with innovation in the growth model up to 2020, Vietnam should keep improving its institutions and establish socialism-oriented market economic institution by 2020 that can operate effectively in compliance with the Constitution and nature of the socialism-oriented market economic model along with socioeconomic conditions in Vietnam. The system of socialism-oriented market economic institutions will act as a powerful driving force that creates conditions for implementation of the three strategic breakthroughs, ensures a firm basis for industrialization and modernization, and promotes innovation in the growth model associated with the restructuring of the economy and a fast and sustainable development■

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## Notes

[[1] Data supplied by the World Bank.

[2] Report No. 26-BC/BCSD dated Nov. 7, 2013 by Board of CPV Officials in Ministry of Finance.

[3] According to the ILO, labor productivity of Vietnam in 2013 was among the lowest in Asia Pacific, 15 times lower than Singapore, 11 times lower than Japan, and 10 times lower than South Korea.

[4] According to the GSO, proportion of trained labor was 15.4% in 2011, 16.6% in 2012; and 18% in 2013.

[5] According to a Government report on socioeconomic situation, proportion of agricultural labor in rural areas was 49.5% in 2010; 48.4% in 2011; 47.3% in 2012; and 47% in 2013 while its plan is to reduce this figure to somewhere between 30% and 35% by 2020.

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