

KEYNOTE SPEECH

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The Vietnamese economic success story and one thousand steps to become a high-income economy.

I would like to thank Professor Dr Nguyen Xuan Thang and the Australian Ambassador, Andrew Goledzinowski, for the invitation to present to you today.

I am Australian, with an Economics doctorate from the Australian National University, but I have been living in Vietnam more than half my life. I am married to a Vietnamese, and have two charming sons. My wife and I run our economic consulting company, Mekong Economics Ltd. I am 5% Vietnamese.

Today I want to provide my explanation for the Vietnamese economy success story. And it is very much a success story, Vietnamese GDP per capita thirty years ago was \$225 [1994; \$1,636 in purchasing power parity terms], and today it is about \$4,347 [\$15,173 in purchasing power parity terms]. In 1994 Vietnamese GDP per capita was 9% that of Thailand, and 21% of The Philippines; now it has grown to 61% of Thailand and it exceeds The Philippines. Vietnam is “catching up”; Vietnam is arguably now an Asian “Economic Tiger”, and most certainly Vietnam in 2024 is a “market economy”. There is still a long way to go, however: Vietnamese GDP per capita is still only 34% of China’s.

My argument is that during the first two decades of Doi Moi a number of key strategic decisions were made that put the Vietnamese economy on a sustained growth path. This prestigious Academy had an important role in those key decisions. The second two decades of Doi Moi were more about improving and implementing those key decisions. And the next two decades will be about lifting the economy to high levels of efficiency and productivity - in both the private and the state sectors - to become a high-income economy.

Three Strategic Decisions Behind the Economic Success of Vietnam

The first key action was the return to household ownership of land and property in 1988 [*Vietnamese title of that here*], followed by the first Land Law in 1993. Most Asian economy success stories begin with similar land reforms. Countries that do not – and they are more common in Latin America [also India and The Philippines] - become stuck with very low-income agriculture sector workers, much higher formal sector urban wages, and a large and miserable urban informal sector hanging around cities. Property rights remain strong in Vietnam, and rural incomes do not lag too far behind average urban incomes. One good policy decision put Vietnam on a path to rapid growth with equity.

My second “strategic decision” was the recognition by Vietnam’s leaders that Vietnam must be very open to the global economy: to join at the bottom of global value chains, and to welcome foreign investment. This was not an easy decision 30 years ago, when many state enterprises wanted protection from imports. I remember conversations with Vietnamese academics who argued that Vietnam needed infant industry protection to compete with higher-quality imports. They were wrong. The ideological turning point here was when Vietnam signed to United State bilateral trade agreement (USBTA) in 2001. That led smoothly to joining the WTO in 2007.

The third strategic decision during these early decades of Doi Moi was gradually accepting that market economies are led by a competitive private sector. Changes to the 1992 Constitution laid the foundation for the first Enterprise Law in 2000. During the 24 years since that Law, there have been constant efforts to improve the “doing business” environment.

These three strategic decisions (and others) unleashed the economic potential of rural and urban households in Vietnam. Combined with foreign direct investment, the first decades of Doi Moi might be summarised as a process of “moving from farm to factory”. In the year 2000, 25% of Vietnamese lived in urban areas, now 40% do; and mostly in high-rise apartments.

Australia contributed to this early development stage. Australia's first Ambassador to the Socialist Republic of Vietnam started his term on 2 July 1976, but input to Doi Moi started with Telstra Australia investing \$67 million based on a 5-page business cooperation contract (BCC) in 1988. Development assistance soon followed, including the first serious training of Vietnamese economists in Australia during the 1990s [Dr. Ngo Huy Duc from the HCMPA was one], and a research and training project about Public Policy at this Academy. I think it is fair to say that Australia was an "early friend" of Vietnam, alongside countries like Sweden and Finland.

From Strategic Decisions to climbing a thousand steps towards high-income status

In 2008 Vietnam became a middle-income country. And since then, there has been a never-ending process of small and larger changes to improve the efficiency and effectiveness of government services and the regulatory framework to sustain high growth rates. Where we are now, in 2024, is not a "turning point" – that process of incremental improvements (one thousand steps) must continue. But at this stage we might refocus the ideological challenge to answer the question: "How does a middle-income economy become high-income?". To answer that question we must have an economic vision about what drives growth and productivity in modern market economies. I want to share some of my vision for "getting rich", and that leads to some recommendations – maybe different from the usual shopping lists of "everything must be improved".

It is important to start with theory – a vision for high-end growth – for as Maynard Keynes once remarked:

"The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else."

[Also: "Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist."]

My theory starts with never forgetting the magic of competitive markets. Consider your total monthly income. Now break it into income per day; per hour; per minute. If your monthly

income was US\$5,000 then you get 52 cents per minute, or about vnd13,000. I can buy this pen for vnd13,000. Its production involved various minerals and chemicals to make metal, plastic and ink components. These were then fabricated and put together to make the pen; which was then transported (maybe from China) to wholesalers, and then to retailers, and then I buy it for one minute of work. This is the first magic of markets: incredibly efficient production of goods. Another magic is that consumers decide how many pens to produce, and how many with black, blue, red or purple ink. Consumers decide by buying or not buying them, and producers respond to consumer tastes, preferences, fashions. A final magic is market discipline. Private businesses are truly results-focused, and there is one result “key performance indicator” that is so important that if you do not achieve it you are kicked out of the game: profit. No profit = game over¹.

It follows then that one of the most important jobs of modern governments is to ensure that markets are competitive. Business leaders will not help you to do that – they like monopolies, oligopolies, and cartels. As Adam Smith observed:

“People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.” *The Wealth of Nations*, Book I, Chapter X.

150 years after the theory of historical determinism was presented, we can see that a static view of technological change did not account for the constant process of new industries replacing old industries, and even within industries the process of constant innovations and improvements: Think of a car in 1924 compared to a car in 2024. Profits never fall to zero because new industries - in goods and services - create new high profits. You can Google long lists of “Jobs that did not exist 20 years ago”. A modern economy embraces technology-driven change – it is “change friendly”. That means not just encouraging start-ups but also making it easy to close a business, which is something Vietnam needs to improve. The economist Joseph Schumpeter described this process of constant economic evolution as “creative destruction”, and Eric Beinhocker argues that: “The economy is not a closed

¹ Another magic is the role of competitive markets as “evolutionary search mechanisms” (E.Beinhocker [2005] *The Origin of Wealth*. p.295), where markets provide “a fitness function for Business Plan selection” (p.423).

equilibrium system; it is an open disequilibrium system and, more specifically, a complex adaptive system” (The Origin of Wealth, 2005; p.70).

My vision for Vietnam to become high-income by 2045 therefore centres around a globally competitive private sector in constant change due to technological advances. The appropriate role for government is a more complex question, but it too must be constantly changing and moving to higher levels of efficiency and complexity. Government must ensure a competitive environment, including for state enterprises. The South Korean and Japanese model of state-supported conglomerates was to make them compete against each other, with performance-based rewards. Vietnam should do something similar, or find other ways to put competitive pressures on its Corporations, state enterprises, and even universities.

Yet government also has many other responsibilities. Not the least of which, for a Socialist country, is ensuring equality of opportunity and safeguarding those citizens who, for whatever reasons, need help. And properly taxing the very rich; which is something that Australia is not very good at doing. Real world markets are far from perfect, and there are good arguments for the state to lead in delivery of transport, education and health services. And the Government itself produces incredibly important goods and services – from infrastructure to statistics. In general, however, Vietnamese government services are not up to high-income country standards. There is so much to improve: Regional planning; improving the quality of public investment planning (e.g. using cost-benefit analysis); transparent procurement and construction permission processes; stronger legal protection of business and property rights; infrastructure project management; proper coordination, cooperation and information sharing across government agencies; e-government; and supporting self-regulating professional service associations.

We can make a very long list of “what needs to improve”, but maybe it is more productive to think about how to go about doing so. At the moment, Vietnam, like most countries, has plans and priorities, but in reality there is also a strong reactive approach to change: That is, when “problems” become clear, it is eventually agreed that “solutions” must happen. There is nothing wrong as such with solving problems, except that it means that the overall pace of change tends to be slow. How to move from a reactive to a proactive approach to making

public sector change happen? Rapid change happens in the private sector due to the magic of competitive markets: creative destruction. But for the state sector we need to develop our own change-friendly model. Vietnam has solid “Doing Business” performance measures, but it also needs many more “Doing Government” performance measures and objectives.

Where to start? Well, Vietnam knows where it wants to be in 2045: High-income. The next step is to break that target down into numerous measurable performance indicators. What are the characteristics – the physical and social technologies² - of a typical high-income economy? Select a number of characteristics that you consider necessary or desirable, and then make detailed plans to get there by 2045 (or earlier). Some targets might be:

- A cashless economy by 2045
- Three universities in the top 200 globally by 2045
- 100,000 skilled immigrants coming to live in Vietnam per annum by 2045
- 50% of motorbikes and cars will be electric by 2035

In addition, Vietnam should embrace public service performance measures and benchmarking. Measures on their own are not useful: Measures also need to be “competitive”. One good example in practice already is the Vietnamese Provincial Competitiveness Index, which is constructed from over 200 indicators of economic governance areas that affect private sector development. Every province is transparently measured and ranked, and the PCI has become a useful tool for evaluating provincial leadership. The same approach should be used to compare Vietnam to a list of countries it wants to catch up with on the way to become high-income. How rich countries measure the performance of their public services needs to be studied and copied. Measure everything you can and set goals; and to achieve goals you need more measures, and plans, and budgets. In this way you can move the state sector from reactive change management to proactive planning for moving quickly towards ambitious goals.

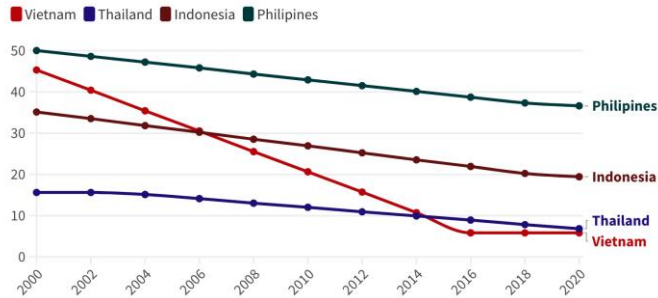
² Social technologies include: “The rule of law, the existence of property rights, a well-organised banking system, economic transparency, a lack of corruption, and other social and institutional factors” (E.Beinhocker (2005), *The Origin of Wealth*. P. 261). Also contract law, securities law, antitrust regulations, consumer protection regulations, and worker safety rules (p.425). Wealthy per-capita countries also have high levels of “trust” (p.433).

Vietnam made crucial strategic and ideological decisions during the first decades of Doi Moi. Since then, the discipline of competitive markets has ensured rapid changes and growth by the private sector. But now the Vietnamese state sector needs to lead, and to change and improve 1,000 policies and processes – 1,000 steps – in the climb up to high-income status.

THANK YOU.

ANNEXES

Population living in slums % of urban population



Source: World Development Indicators. 2023 • Created by Open Development Vietnam

[https://vietnam.opendevlopmentmekong.net/topics/urbanization-in-vietnam/#:~:text=Nationwide%2C%20there%20were%2037.4%20million,global%20trends%20\(Figure%203\).](https://vietnam.opendevlopmentmekong.net/topics/urbanization-in-vietnam/#:~:text=Nationwide%2C%20there%20were%2037.4%20million,global%20trends%20(Figure%203).)

TELSTRA

<https://vir.com.vn/australian-telecom-giant-leads-in-race-for-mobifone-42523.html>

ADAM SMITH: 'The interest of [businessmen] is always in some respects different from, and even opposite to, that of the publick ... The proposal of any new law or regulation of commerce which comes from this order ... ought never to be adopted till after having been long and carefully examined ... with the most suspicious attention. It comes from an order of men ... who have generally an interest to deceive and even to oppress the publick...'
Wealth of Nations, I:XI.p, p.267