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# **Efficiency enhances the competitiveness of Viet Nam**

**Omkar Shrestha**

**Deputy Head, ADB Viet Nam Resident Mission**

**Presentation at Ho Chi Minh City, 1 December 2006**

# Outline of the Presentation

- Viet Nam: development prospects
- WTO accession: competitiveness is vital
- Why Efficiency matters
- Issues affecting efficiency both at national and at firm level
- The way forward

# VIETNAM: Development Prospects

- Viet Nam development as of today
  - Rapid economic growth:
    - 7% GDP growth over 20 years
    - 8.4% in 2005 and estimated 8.2% in 2006
  - Structuring economy toward market oriented, further integrated
    - Structural change: agriculture sector - 20% of GDP, industry and service sector, each - 40% of GDP
    - FDI sector: 15.4% of the total investment, 15.5% of GDP, 37% of the national industrial production value
- Development prospects
  - Become an industrialized country by 2020
  - SEDP 2006-2010: ambitious targets but achievable
  - 2006 a turning for development: WTO accession and APEC

**Table: Growth Rates of GDP and Major Sectors <sup>a</sup>**

(percent)

Asian Development Bank (ADB) - Key Indicators 2006 ([www.adb.org/statistics](http://www.adb.org/statistics))

	DMC	GDP	Agriculture	Industry	Service
		2005	2005	2005	2005
<b>East Asia</b>					
	China, People's Rep. of	9.9	5.2	11.0	10.4
	Korea, Rep. of	4.0	-0.1	5.7	3.1
<b>Southeast Asia</b>					
	Cambodia <sup>b</sup>	8.4	9.5	8.5	7.5
	Indonesia	5.6	2.5	4.4	8.1
	Lao PDR <sup>c</sup>	7.2	3.0	13.0	8.0
	Malaysia	5.3	2.1	3.9	6.6
	Philippines	5.1	2.0	5.3	6.3
	Singapore	6.4	-2.5	7.8	5.8
	Thailand	4.5	-2.4	5.7	4.6
	Viet Nam	8.4	4.0	10.6	8.5
<b>South Asia</b>					
	Bangladesh	5.8	0.3	8.5	5.9
	Bhutan <sup>b</sup>	5.8	2.2	6.1	7.7
	India <sup>d</sup>	8.4	3.9	8.7	10.0
	Maldives	-2.9	4.0	1.3	-8.1
	Nepal <sup>d</sup>	2.8	3.0	1.4	2.5
	Sri Lanka <sup>c</sup>	6.0	1.5	8.3	6.4

# WTO accession:

## Competitiveness is vital

- Viet Nam enters into a new development phase
- WTO accession: many opportunities, but there are challenges
- Competitiveness is vital to make use of the opportunities
  - Competitiveness of real sector
    - Some competitive sectors: Garments, Food, metals, and particularly Wood products
    - But,
      - 95% of private sector are SMEs with limited technological capacity and competitiveness.
      - Absence of the supporting industry
      - Low labor productivity

# Why Efficiency Matters (1)

- **At the national level**
  - Economic growth depends not only on factor markets, capital and labor but also on the factor productivity
  - Productivity increase is critical for sustaining strong growth in Viet Nam
- **At the firm/sectoral level**
  - Efficient sectors are competitive:
    - Wood products (Viet Nam 26.5% more productive than Malaysia, 21% more than Thailand)
  - Inefficient sectors are low competitive
    - Textile: Thailand is 10.4 percent more productive than Vietnam in the textile sector. Vietnam is on par with Malaysia and the Philippines (ICS).

## Doing Business Indicators for Trading Across Border 2006-2007

Country	Document for Export (number)	Signatures for Export (number)	Number of days for Export	Document for Import (number)	Signatures for Import (number)	Number of days for Import
Philippines	6/6	5	19/18	8/7	7	22/20
Thailand	9/9	10	23/24	14/12	10	25/22
Malaysia	6/6	3	20/20	12/12	5	22/22
Indonesia	7/7	3	25/25	10/10	6	30/30
China	6/6	7	20/18	11/12	8	24/22
<b>Vietnam</b>	6/6	12	35/35	9/9	15	36/36
India	10/10	22	36/27	15/10	27	43/30

# Why Efficiency Matters (2)

## Quality of growth

### Low Labor productivity

- Median value added/worker: increased from \$2,080 in 2002 to \$2,160 in 2004; But lower by regional standards

( in the Philippines \$2,970 in 2002, and in Thailand \$6,720 in 2003 )

- Lower labor costs in VN insufficient to compensate for the lower level of productivity.

For each USD of wage cost, a worker produces \$3.2 of output in Thailand (2003), \$2.7 in China (2001), \$2.3 in Vietnam (2004), and \$2.3 in the Philippines (2002).

**( Investment Climate Survey)**

- The labor productivity during 1991-2005 increased by 4,9%/year - lower than average GDP growth at 7.5%.

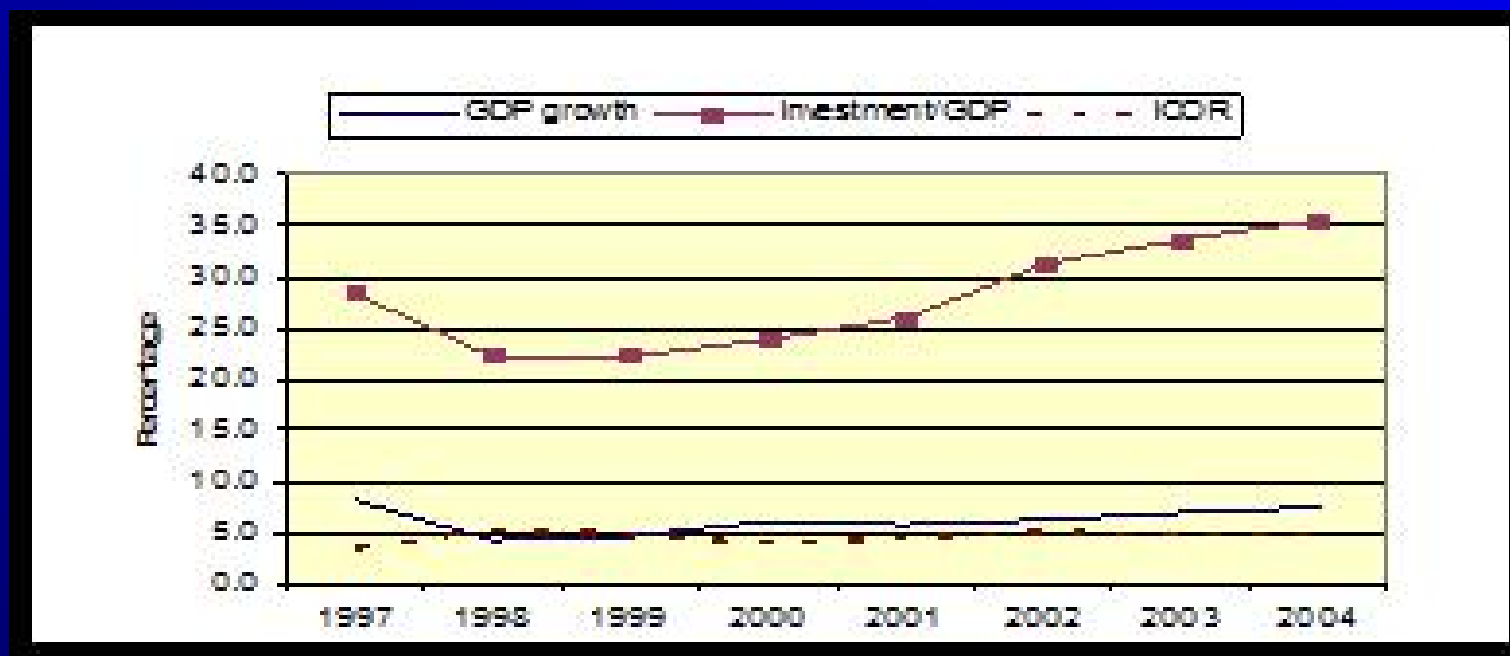
( Prof. Tran Though Dat, 2005)

# Why Efficiency Matters (2)

Quality of growth:

-Capital productivity

- ICOR, measuring investment productivity: 4.5-5 for the period 1997-2004 - little improvement



# Why Efficiency Matters (2)

## -Quality of growth

### Total Factor Productivity (TFP)

- TFP growth reflects the technology change and the efficiency in using production factors.
- During 1996-2004:
  - Contribution of capital to GDP growth increased from 34.6% to 61.5%
  - Contribution of labor to GDP growth increased from 1.5% to 21.9%, and
  - TFP decreased from 62.1% to 16.6%.

*( Prof. Nguyen Van Nam & Prof. Tran Tho Dat, 2006)*

# Issues affecting efficiency

- Inefficient use of scarce public resources
- Inefficiency of SOE
- High costs related to investment (office rent, sea transportation and telecommunication charge), according to JETRO's survey
- Labor productivity is lower than some regional countries and shortage of skilled labors
- Inadequate infrastructure
- Weak governance raises transaction cost

# The way forward

## Enhancing the efficiency

- accelerate infrastructure development
- address remaining policy and institutional bottlenecks to private investment;
- improve financial intermediation;
- and enhance human resource development.

# The way forward (3)

## At firm level:

To be successful, firms must

- enhance labor productivity
- rapidly adapt to new market opportunities,
- let-go of obsolete or dated product lines, upgrade existing product lines, and
- introduce new products or enhance quality to appeal to the rapidly changing consumer demand in competitive markets

**THANK YOU**