

GOVERNMENT

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Independence - Freedom - Happiness

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SUMMARY REPORT

On economic restructuring plan for period 2016 - 2020

(Presented at the second session of XIVth National Assembly on October 20, 2016)

With a view to further implement the Resolution of the XIIth National Congress of the Communist Party of Vietnam, the Resolution of the 4th Plenum of the XIIth Central Party Committee on the Scheme “Several major policies on renewing the growth model and improving growth quality, labour productivity and competitiveness of the economy”, the Resolution No. 142/2016/QH13 of the National Assembly on the Socio-Economic Development Plan for the period 2016 – 2020, the Resolution No. 98/2015/QH13 of the National Assembly on the Socio-Economic Development Plan in 2016, the Decision No. 339/QD-TTg of the Government Prime Minister approving “the master plan on economic restructuring in association with transformation of the growth model towards improving quality, efficiency and competitiveness for the period 2013 - 2020”, the Government has developed the Plan on economic restructuring in the period 2016 - 2020 and hereby reports to the National Assembly as follows:

I. ECONOMIC RESTRUCTURING RESULTS IN PERIOD 2011 - 2015

1. Achievements

- *Macroeconomic environment was stable and favorable.* Macroeconomic indicators such as inflation, exchange rates, and interest rates were basically stable; economic growth step by step recovered; balances of major economic items were basically guaranteed.

- *The implementation of three focuses of economic restructuring achieved certain initial results.* Public investment regulations and mechanisms were gradually accomplished through the promulgation of the Public Investment Law, amendment and supplement of the Law on Procurement, the Construction Law; investment efficiency was initially improved. Restructuring of state-owned enterprises was step-by-step implemented with focus on equitization, improvement of corporate governance and restriction of investment outside main business lines by enterprises. The financial market gradually became more stable and secure, average lending interest rates decreased.

- *Restructuring of economic sectors achieved some changes in the proportions of sectors:* Agricultural restructuring of agriculture which was conducted in three directions: strengthening the application of scientific and technical advances in production, reorganizing production industries and trade development and promotion initially achieved positive results;

Industrial restructuring has created positive changes in the internal structure of the industry in the direction of increasing the proportion of the processing industry, reducing the proportion of mining industry and improving competitiveness. Restructuring of the service industry was actively deployed towards improving service quality, focusing on infrastructure investment and development of diverse products, especially competitive products.

- *Restructuring of economic regions was paid due attention:* regional plans were reviewed and supplemented (plan on development of six socio-economic regions, four key economic regions). Investment was focused on development of 5 coastal economic zones, 8 border-gate economic zones for the period 2011 - 2015. Some initiatives on regional economic association were deployed.

- Viet Nam integrated more deeply and widely in the world economy towards further liberalizing trade, creating a more favorable business environment, further developing the market economy, gradually diversifying partners, markets and products.

2. Limitations

Apart from remarkable results achieved, quite a few limitations remained in the economic restructuring process. In particular:

- *The model of economic growth was still largely based on inputs, growth quality, labour productivity and competitiveness of the economy remained low and were slowly improved:* Economic restructuring still had no significant impact on the change of the growth model, economic growth was mainly on a quantitative basis, the objective of expanding economic scale and duty to improve quality and efficiency were not fulfilled.

- *The macroeconomic environment was stable but uncertain:* Balances of major items of the economy were not really sustainable, handling of bad debts was ineffective, state budget balances remained so difficult, state budget deficit was huge and persistent, public debts increased sharply, inflation control faced various challenges.

- *The implementation of three focuses of economic restructuring failed to fulfill the set target:* (i) Investment structure changed slowly; waste and losses were still complicated and investment efficiency remained lower than required; (ii) Restructuring of SOEs was slow and inefficient, equitization of SOEs was not closely attached to restructuring and diverse ownership, the State still played dominant role in direct business in various fields and sectors; (iii) Restructuring of the financial system still faced numerous obstacles, the market structure changed slowly, the role of the capital market, especially securities market, remained insignificant, some systematic and prolonged shortcomings were not yet dealt with, bad debts, cross-ownership and banking governance were not efficiently settled. Several commercial banks which performed poorly and showed signs of bankruptcy were not drastically handled.

- *Restructuring of economic sectors has not made positive and significant changes in the cross and intra-sector structure:* Restructuring of agriculture associated with the building of new rural areas was slow, failed to meet requirements for integration and adaptation to climate change.

Restructuring of industrial production and services has not changed substantially in the direction of improving productivity, quality and efficiency.

- *Restructuring of economic regions was not adequately implemented, failed to comply with market principles in regional economic association:* Development space was still separated by administrative boundaries, there was a lack of institutions and mechanisms for creating the connection of localities in a region and regions to promote potentials to the fullest;

There are five main causes for the above limitations:

(i) The innovation of institutions and mechanisms for effectively mobilizing, distributing and using resources for development was slow;

(ii) The organization of implementation of economic restructuring remained ineffective and asynchronous;

(iii) Economic restructuring was not associated with the international economic integration process;

(iv) The capacity of the administrative and state economic management apparatus remained limited and failed to suit requirements of a modern and integrated market economy;

and (v) The role of supervision of socio-political organizations and people for economic restructuring was not fully promoted.

II. TARGETS, VIEWPOINTS OF ECONOMIC RESTRUCTURING IN PERIOD 2016 - 2020

1. Targets of economic restructuring in period 2016 - 2020

The overall target of the Plan on economic restructuring in the period 2016 - 2020 is economic restructuring in association with the conversion of the growth mode, focus on improving efficiency of allocation and use of development resources, thereby changing the structure and the level of development of the economy, forming a proper and more dynamic economic structure with higher productivity, competitiveness, greater growth potentials and ensuring green, clean and sustainable growth.

Accordingly, three specific targets include:

- Step-by-step letting the market mechanism to play a key role in distributing and effectively using resources for development.

- Forming and developing a proper economic structure on the basis of improving the development of sectors, fields and economic zones; developing hi-tech and high added value industries and fields which can gradually replace low-tech and low added value ones as mainstay economic sectors.

- Toughening step by step internal economic strengths, speeding up international integration, fortifying the nation's status on the international arena, taking full advantage of

opportunities from international integration, and maintaining political stability, national security, social security, social order and safety.

2. Viewpoints of the formulation of Plan on economic restructuring in period 2016-2020

a) Restructuring the economy in the period 2016 – 2020 in association with the innovation of the growth model, improvement of growth quality, labour productivity and competitiveness, ensuring fast and sustainable economic development on the basis of maintaining a favorable and stable macroeconomic environment, taking full advantage of potentials and advantages of integration trends, of each sector, locality and the whole economy.

b) Restructuring the economy strongly and substantially with two pillars which assist and reinforce each other, including (i) Comprehensively innovating the method of state economic management, building an incorruptible and creative State, allowing the market to play an increasingly important role in the mobilization and allocation of social resources and (ii) Focusing on restructuring and modernizing of economic sectors and zones, raising productivity and the added value of each sector and of the economy.

c) Restructuring the economy with focus and priority given on specific solutions, policies which may assess results, have strong and timely effects on realities and are in line with market signals.

d) Restructuring the economy in association with administrative reforms in order to improve quality of administrative services in all sectors and at all echelons, especially grassroots and local levels, so as to guarantee the central government's uniform and concentrated guideline while highlighting local governments' creativity and proactiveness.

dd) Continuing the open-door policy and international integration; mobilizing active involvement of people and different economic sectors, especially the private one at home in order to maximize and fruitfully use resources for socio-economic development.

III. PLAN ON ECONOMIC RESTRUCTURING IN PERIOD 2016 - 2020

Based on the above-mentioned targets and viewpoints (including two pillars of economic restructuring), the Plan on economic restructuring in the period 2016-2020 sets out five underlying targets and 10 key tasks, namely:

- Target 1: Developing the domestic private sector and attracting FDI adequately.
- Target 2: Restructuring of the state sector: restructuring of SOEs, restructuring of public investment, restructuring of state budget and the public service sector.
- Target 3: Restructuring the finance market with emphasis on restructuring of credit institutions and the securities market.
- Target 4: Modernizing the planning of economic sectors and economic regions towards improving productivity, quality, efficiency in connection with promoting international economic integration.

- Target 5: Restructuring major factor markets, including the land use rights market, labor market and science and technology market.

Specific quotas are detailed in the five underlying targets of economic restructuring.

In order to implement the five above-mentioned underlying targets and achieve the set quotas, the Plan puts forward several specific tasks, of which there are 10 key tasks which it is necessary to concentrate resources to implement, including:

- *Task 1:* Improving the business environment and supporting the development of private enterprises at both central level and local level (Task 1 of Target 1).

- *Task 2:* Resolutely equitizing and withdrawing State capital following approved plans and roadmaps (Task 1 of Target 2).

- *Task 3:* Completing public investment regulations and mechanisms (Task 3 of Target 2).

- *Task 4:* Restructuring non-productive agencies providing public services towards enhancing the autonomy, accountability and competitiveness (Task 5 of Target 2).

- *Task 5:* Speeding up the handling of bad debts and applying Basel II standards at credit institutions (Task 2 of Target 3).

- *Task 6:* Expanding the scale, number and improving the quality of investors and products and improving effective operations of the securities market, the bond market and the insurance market (Task 3 of Target 3).

- *Task 7:* Modernizing planning tasks (Task 1 of Target 4).

- *Task 8:* Developing and restructuring prioritized economic sectors based on initiatives and projects proposed and implemented by the enterprise sector (Task 2 of Target 4).

- *Task 9:* Encouraging production expansion according to VietGAP standards or equivalent or higher standards and regulations on green and clean production, developing the distribution system for agricultural products and ensuring the quality of agricultural products in the market (Task 3 of Target 4).

- *Task 10:* Annuling or loosening regulations hindering the concentration and accumulation of agricultural land, proceeding to the completion of the legal framework for promotion of effective operations of the land market (Task 1 of Target 5).

IV. EXPECTED IMPACTS OF ECONOMIC RESTRUCTURING IN PERIOD 2016 - 2020

The plan for developing and using a Multi-equation structural econometric model¹ to make quantitative assessment of impacts of scenarios of the economic restructuring in the

¹ Details of the HERMIN Vietnam Model, economic restructuring scenarios and assessment of their impacts are stated in Appendix 2, Plan on economic restructuring in the period 2016 - 2020. The model is also built on Keynesian theories of demand with focus on changes in supply, demand functions for production factors are built on CES cost function. HERMIN Vietnam model comprises of 100 equations, including 68 defining equations and 32 behavioural equations. The model has 241 variables,

period 2016 – 2020 according to two economic restructuring possibilities in the coming period, including possibility to implement the restructuring drastically and with numerous breakthroughs (Scenario 1) and possibility to speed up the restructuring (Scenario 2).

Quantitative assessment results showed that drastic implementation or promotion of the economic restructuring in the coming period would have positive impacts on the economy and growth model, such as accelerating the GDP growth rate, curbing inflation, reducing State Budget deficit, improving investment efficiency and contributing to the transformation of the economic model. (See Appendix 2 for detailed results of the economic restructuring scenarios). In particular, the scenario of restructuring the economy drastically produces clearer results, especially in the mid-term and long-term.

In this Plan on economic restructuring in the period 2016 – 2020, targets of the economic restructuring were set carefully and in reality, Scenario 2 (speeding up the restructuring) is followed, however, Scenario 1 is also approached in contents which can accelerate the economic restructuring.

V. ORGANIZATION OF IMPLEMENTATION

1. Implementation guidelines

- The Government directs the implementation of the Plan on economic restructuring in the period 2016 – 2020 in order to ensure synchronous and effective implementation of the economic restructuring process by 2020 in accordance with the set targets; reviews and assesses implementation results to be submitted to the National Assembly on a yearly basis.

- Ministries, branches and localities shall actively incorporate the above contents and tasks into duties assigned in the Action Plan of the Government in the Resolution No. 63/NQ-CP dated July 22, 2016 by the Government promulgating the Action Plan of the Government on implementation of the Resolution of the National Assembly on socio-economic development plan in the period 2016 - 2020

- Ministries, branches and localities shall carry out assigned duties as detailed in Appendix 1 of the Plan on economic restructuring in the period 2016 – 2020.

- Ministries, Governmental agencies, People's Committees of centrally-run cities and provinces, state-owned groups and corporations, related agencies shall, based on assigned functions and duties and contents and tasks of economic restructuring as mentioned in this Plan, promptly and actively formulate Plans on economic restructuring in the period 2016 – 2020 for fields, sectors or territorial regions under their management.

- Setting up working groups for implementation of economic restructuring at central, sectoral and local levels, assisting, supervising, assessing and directing the implementation of the economic restructuring in the period 2016 – 2020.

2. Resources for Plan implementation

Proposed resources for implementing the Plan on economic restructuring in the period 2016 – 2020 within the framework of general resources mobilized from the economy in the period 2016 – 2020, are around VND10,567 trillion at actual prices².

Given the limited ability to mobilize additional resources, the implementation of the Plan on economic restructuring in the period 2016–2020 is directed according to the following viewpoints:

- Prioritized tasks of the Plan focus on improving the efficiency of the allocation and use of development resources. Minimizing the mobilization of additional resources from the state budget to implement the economic restructuring.

- In certain cases, it is possible to use certain state resources to conduct economic restructuring tasks, specific interests and costs of such tasks shall be estimated and proposed in details in restructuring schemes and plans of sectors and fields, such as the Scheme on restructuring of credit institutions.

- Taking full advantage of resources gained from restructuring tasks set out, especially restructuring of SOEs, to be reinvested in making three strategic breakthroughs, especially synchronous infrastructure development.

The assessment of general impacts of economic restructuring in terms of expenditure and interests, including impacts on the state budget, is discussed in the Appendix 2 attached hereto.

3. Implementation roadmap

The Plan on economic restructuring in the period 2016 – 2020 sets forth 70 tasks with specific timelines for implementation by Ministries, branches, localities and related units³. Among 70 tasks, priority should be given to the implementation of some tasks right in the period 2017 - 2018, namely:

(i) Resolutely handling bad debts in credit organizations, developing a healthy financial market, accelerating the effective handling of bad debts, applying bankruptcy measures to poorly-performing commercial banks.

(ii) Resolutely equitizing, with focus on divesting State capital from enterprises following approved plans and roadmaps. Restructuring the portfolios of investments and assets of the state sector, primarily SOEs; transferring commercial assets and business opportunities to the private sector, reinvesting investment capital earned in infrastructure development and other functions of the State;

² Scheme on Assessment of the proposed solution to promote the mobilization of social resources for development investment (Letter No. 7779/BKHĐT-QLKTTW dated September 22, 2016 by the Ministry of Planning and Investment reporting to the Government Prime Minister).

³ For more information, see Appendix 01, Scheme on economic restructuring in the period 2016 – 2020 .

(iii) Completing public investment regulations, improving the efficiency of mobilization, allocation and use of public investment resources. Renovating the mechanism for management and allocation of public investments according to the principle of competition and on the basis of priority economic sectors and feasible project proposals, thereby reducing ask – give practices in the allocation of public investment.

(iv) Strictly enforcing the State Budget Law, closely managing state budget revenues and expenditures. Further reforming the State Budget Law and restructuring state budget spending; first of all, strictly and consistently exercising budget discipline, especially budget spending discipline for each project, unit and locality, ministry and the Government.

(v) Restructuring non-productive units providing public services towards enhancing the autonomy, accountability and competitiveness. Giving full autonomy to public service organizations and units; forcing them to operate under the market mechanism, liberalizing the public service market to be open to private enterprises.

(vi) Improving the business environment and supporting the development of private enterprises at both central and local levels. Concentrating on restructuring and developing priority sectors, primarily domestic private enterprises, which play an important role in directing and implementing the economic restructuring.

(vii) Restructuring major factor markets, including the land use rights market, labor market and science and technology market./.