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FULBRIGHT  
UNIVERSITY  
VIETNAM

**HO CHI MINH CITY**  
**DEVELOPMENT VISION AND**  
**INSTITUTIONAL BOTTLENECKS\***

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*This paper is prepared for HCMC's Vietnam Executive Leadership Program (VELP), to be held at Harvard Kennedy School of Government from 12 through 15 of September 2017. It aims to analyze major bottlenecks that are impeding HCMC economic development and holding it back from pulling ahead and competing with other cities in the region. It is not intended to provide a comprehensive socio-economic analysis of the city. Instead, it chooses to focus selectively on major bottlenecks or barriers confronting the city. As this paper is still in draft form, the authors wish to receive feedback from the VELP members in order to revise and complete it afterwards. We hope this paper will fulfill its intended purpose as a catalyst for discussion not only among members of VELP but also in the community of policy planners and analysts in Ho Chi Minh and throughout Vietnam.*

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\* This research is conducted by a group of faculty members (listed in alphabetic order) of the Fulbright School of Public Policy and Management, Fulbright Vietnam University. The paper reflects the authors' personal views and not necessarily the view of the Fulbright School of Public Policy and Management or Fulbright Vietnam University. It is only a draft and cannot be circulated or cited without written consent from its authors.

## PART I – OVERVIEW

### I. HO CHI MINH CITY’S POSITION AND ITS COMPETITIVENESS

#### 1. HCMC comparative position in the regional and international context

Throughout the three decades since *doi moi*, despite many constraints, Ho Chi Minh city (HCMC) has always been at the forefront of national economic development. Home to only 10% of the nation’s population and occupying an area that is only 0.6% of the country’s total area, HCMC has generated approximately 20% of Vietnam’s GDP, 30% of its revenue, and attracted 20% of its total FDI. Hanoi, with a comparable population and size and always favored by national development policy, lags far behind HCMC in terms of GRDP, budget contribution, export turnover and FDI inflows (Table 1).

**Table 1: Comparative Indicators between HCMC and Hanoi**

<b>Year 2015</b>	<b>HCMC</b>	<b>Hanoi</b>	<b>HCMC/HN</b>
Area (km <sup>2</sup> )	2.095	3.325	0,63
Population (million)*	8,22	7,38	1,11
Number of firms in 2013 (thousand)	121	86	1,41
GRDP (trillion)	957	567	1,69
Revenue (trillion)	281	147	1,91
Expenditure (trillion)	60	70	0,86
Expenditure to GRDP (%)	6,3%	12,3%	0,51
Exports (billion USD)	30,6	11,4	2,68
<b>Period 2008-2015</b>			
Revenue (trillion)	1.753	975	1,80
Expenditure (trillion)	496	546	0,91
Expenditure to GRDP (%)	10%	19%	0,52

*Source: by the authors from statistics*

*Note: \*Population data is from GSO’s statistics yearbook which might not reflect actual number without updating on migration.*

The city owes its pioneering characteristic partly to the spirit of reform sweeping through the country and partly to its “prime location” (lying at the crossroads of the south-east region and the Mekong Delta). But more importantly, its innovative and adventurous qualities come from its open and rule-bending mindset and its capacity for nurturing and growing talented individuals and businesses.

To the present day, and in a predictable future, no other city in Vietnam could match HCMC’s “pulling power.” During the 1995-2015 period, the city’s population increased by 78%, topping the list and far outpacing Hanoi’s 51% population growth rate. In addition, the number of businesses in HCMC account for one third of the country’s total businesses. Quality-wise, FDI businesses as well as major businesses operating in the knowledge and high value-added

sectors are mostly concentrated in HCMC. HCMC is “the promised land” for those who wish to get ahead, build their fortune and make their name in Vietnam.

However, the city’s pioneering spirit and lead position are declining, a result of too many existing bottlenecks at the local, regional and national levels. Not unlike other rapidly developing cities, HCMC is experiencing multiple *issues and setbacks in urban planning and management*. In a report to the Politburo in 2012, the city’s government openly admitted: “Urban planning and management in HCMC has failed to keep up with the pace of development and shown many weaknesses.”

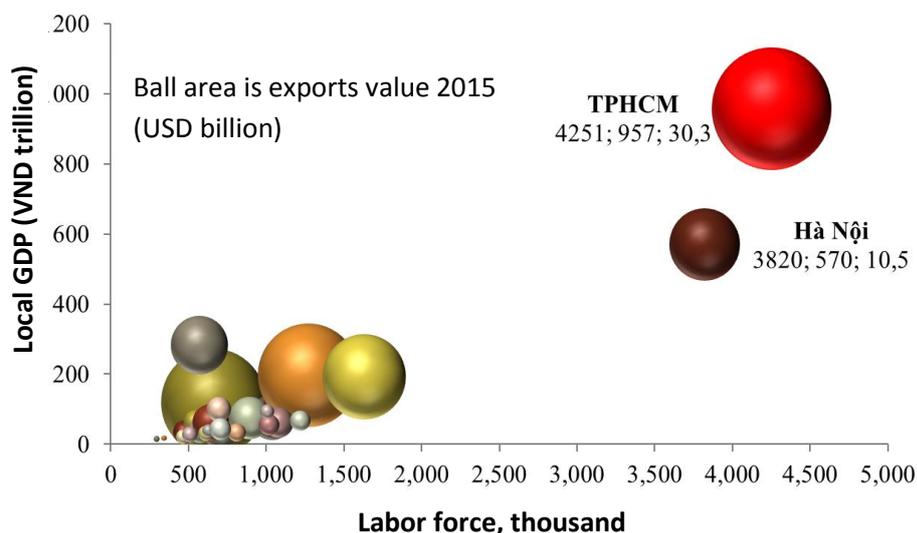
*The city’s infrastructure is increasingly stretched beyond its limits and quickly deteriorating.* Traffic jams take place daily across the city and have reached alarming proportions. Travel speed estimated for all means of transport has reduced to half its speed ten years ago. Tân Sơn Nhất International Airport is also beset with chronic overcrowding and flight delays. Overflooding and environmental pollution have also become serious issues.

*The city’s human capital has yet to meet the demands of an economy that urgently needs to be upgraded, leading to a worrisome mismatch between supply and demand in human resources.*

To preserve its leadership position in the country and narrow the gap with other cities in the region, HCMC needs to boost its presently fairly low productivity to a remarkably high level. So far, higher education institutions and vocational schools are still unable to connect with the business community and satisfy the developmental needs of the city.

*HCMC’s constantly growing demands for financial resources for development projects have always been seriously handicapped by the municipal tight budget.* According to HCMC’s master plan for comprehensive socio-economic development for 2020, looking toward 2025, HCMC needs about 13.8 trillion VND (or 630 billion USD) of capital investment for the 2016-2025 period. Of that amount, 1.2 trillion VND should come from the central budget. And yet, under the state budget stabilization for 2017-2020, the city’s **retained share of revenues** drops sharply from 23% to 18%.

### **Figure 1. Labor Force, GDP and Exports (2015)**



Source: Statistics yearbook by provinces

*The cause of all the bottlenecks above can be traced back to one single source: institutional.*

For a fairly long time, HCMC has not showcased any institutional innovations that blazes the way for business development and public welfare growth. Despite being home to more than one third of the country’s enterprises, it was not until 2014 that HCMC could join the country’s top local cities with excellent Provincial Competitiveness Index (PCI). HCMC’s Provincial Governance and Public Administration Performance Index (PAPI) in 2016 was even worse than in 2011.

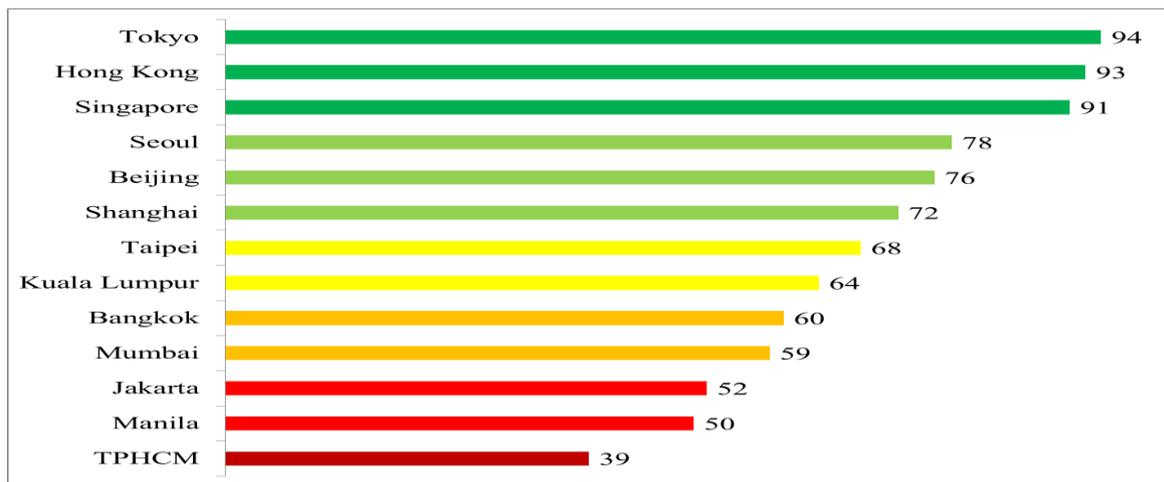
*What are the consequences of these bottlenecks?*

Domestically, HCMC is unlikely to be ousted from its leadership position in a near future, but to juxtapose HCMC next to some high-performing provinces is to highlight a rather unpleasant reality—its pioneering and leading position is being challenged.

For more than a decade back, Hanoi, Da Nang, Binh Duong, Dong Nai and other provinces are rapidly catching up. Take Hanoi, for example. Its annual growth rate in the last 20 years averages nearly 9.5%, approximately 1 percentage point higher than HCMC’s.<sup>1</sup> As a result, Hanoi’s share in the national economy has increased from 8.2% twenty years ago to 13.6%, significantly reducing the gap with HCMC’s. If, in 1995, HCMC’s economy was twice as large as Hanoi’s, the ratio has now come down to slightly below 1.7. Many other provinces, including Hai Phong, Quang Ninh, Vinh Phuc, Thai Nguyen, Binh Duong, Dong Nai, are “no economic match” for HCMC at the moment and likely remain so in the next decade, but in certain areas they now can compete directly with HCMC. These provinces, not HCMC, have been the key players providing the inspiration for economic competition for many provinces over the past years. Some of the provinces even become “the role model” for their neighboring provinces, however nascent and limited this role may be.

<sup>1</sup> Since 2008, Ha Tay was annexed to Hanoi, significantly raising Hanoi’s economies of scale. This was already factored into our calculation.

**Figure 2: Competitiveness and Livability Ranking**

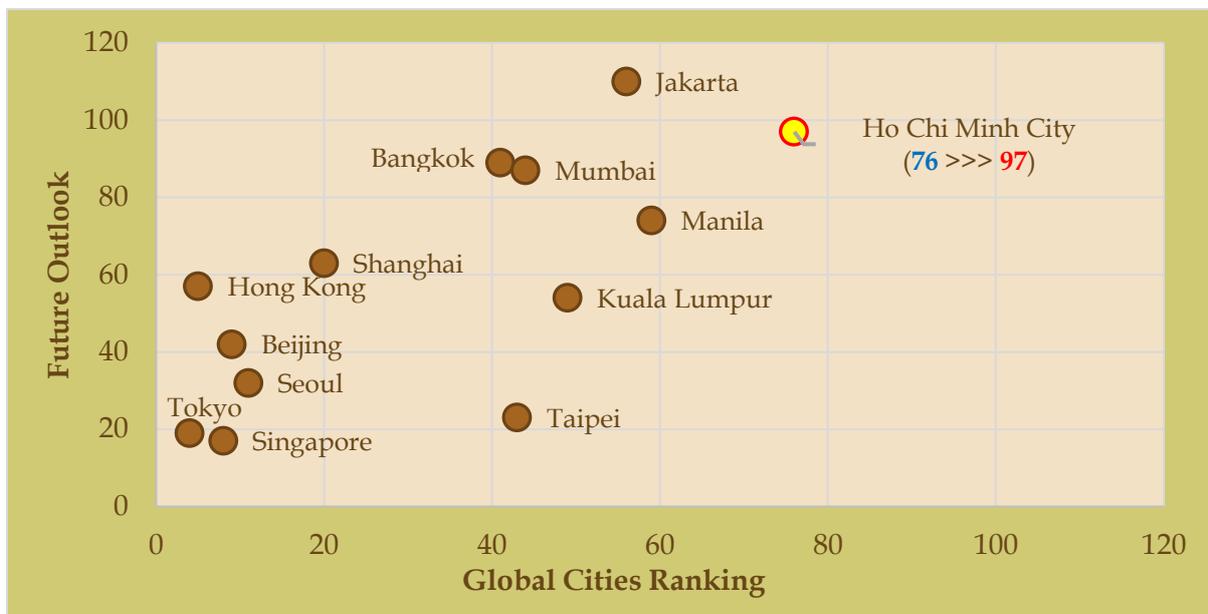


Source: Huynh The Du et al (2015)

Internationally, compared with other South East Asian cities of comparable population and size, HCMC ends up at the bottom of the table of 12 cities, based on two key indicators - competitiveness and livability (Figure 2).

Similarly, A.T. Kearney’s 2016 Global Cities report ranked HCMC 76th – the lowest of all the cities in the region. Worse, given the city’s chronic problems and its deteriorating prospect, A.T. Kerney’s projection of HCMC’s potential dropped from its current 76th ranking to 97th in the future (Figure 3).

**Figure 3. Ranking of 120 Global Cities (2016)**



Source: A.T. Kerney, Global Cities 2016

In his memoir, comparing HCMC with Bangkok, Lee Kuan Yew wrote: “*In 1975, Ho Chi Minh City could vie with Bangkok; now (in 1992) it lagged more than 20 years behind.*” In 2012 Bangkok had a GDP-PPP per capita of 23,400 USD while the current figure of HCMC is 11,000 USD. Assuming Bangkok’s GDP per capital growth rate remains at 4.3% annually, as in 2012, while that of HCMC is 8.7% (or a 10% growth rate in GRDP annually), it would take HCMC two more decades to reach a similar level as Bangkok’s. The question of whether HCMC can overtake Bangkok in 20 more years remains as topical as ever. This dilemma is relevant not only to HCMC but to the general situation of the entire country.

Comparing Seoul and Shanghai also illustrates how far HCMC lags behind. In the three decades since *doi moi*, HCMC’s GDP has increased tenfold, while that of Seoul grew more than 20 times during the 1960-1990 period, and over the last three decades, Shanghai also boasted a GDP increase of more than 20 times.

On a nationwide scale, Vietnam also lags farther and farther behind Korea and China. One of the reasons that help these two countries to achieve such a strong growth rate and robust economic development is their decision to concentrate resources on cities, especially key cities that serve as the drivers of economic growth for the entire economy. In Vietnam, on the other hand, its “leveling” policy has left Vietnamese cities in the doldrums and uncompetitive. Consequently, over the last three decades, Vietnam’s GDP has recorded an increase of only 6.7 times, while that of China’s is 15.7.

Past experience from successful developing economies shows that that the concentration of resources on key cities is critical. What is noticeable about this policy is that, when resources are directed to urban centers or leading cities, it helps other provinces achieve a higher growth rate, thus reducing the economic gap between cities at the center and other regions at the periphery and vice versa. For instance, Seoul’s GDP per capita in 1960 was 1.94 times higher than the national average, but the disparity was virtually erased in the early 1990s. The same thing happened in China and Shanghai when the gap in 1978 (3.2) was brought down to 2.1 in 2015. By contrast, because resources were not properly concentrated and its national development strategy hit some snags, Jakarta’s GDP per capita growth rate increased from 2.1 times in 1960 to 4.1 times in 2015. The same figures for Manila and the Philippines in 1960 and 2015 are 2.8 and 3.0, respectively. Both the Philippines and Manila show a strikingly low economic growth rate compared to other cities and countries in the region.

Another noticeable thing about the success story of Seoul and Shanghai is the fact that they were viewed as their country’s “champion city”. Put another way, they have always been favored by national policy and resource commitment to create leap-frog progress for the rest of the country. By contrast, for cities like Jakarta and Manila, to be considered a priority for national development does not entail any meaningful policy or measure. In reality, the leaders of these countries neither appropriated adequate resources nor initiated measures to remove the bottlenecks that inhibited economic growth. As a result, these cities are always beleaguered with problems, and the gap with other more developed, more resourced and better invested cities has widened further.

Our analysis shows that, in the three decades following *doi moi*, HCMC received enormous support and encouragement from the central government in the first decade. As a result, it was motivated, in ways never possible before, to produce ideas, initiatives and economic breakthroughs. Unfortunately, this level of support has declined significantly in the last two decades. At present, HCMC is simply viewed as the biggest budget contributor whose revenues are to be redistributed to other provinces, rather than as a city with enormous potential that can expand the size of the national economic cake if it is to be appropriated as much resources as in the case of Korea and China.

Moreover, HCMC's role as the regional driver of growth or the national locomotive has diminished significantly, compared to the role it had under the leadership of Võ Văn Kiệt, Nguyễn Văn Linh and Mai Chí Thọ.

In short, vis-à-vis other provinces HCMC will continue to be in the lead for at least several more decades. However, if it is to content itself with its domestic status and the historical trajectory on which it was placed, HCMC will lag farther and farther behind other cities, increasing the distance between Vietnam and other leading economies in the region.

For an old vehicle to accelerate its speed is no easy task, though. HCMC economic machine needs to be fitted with a new, more powerful engine, so it can speed up and overtake the region's leading economies. Additionally, only after HCMC has reached a faster speed of growth can it lead the south east and Mekong delta regions forward, boosting the nation's growth rate and reducing Vietnam's gap with other countries in the region to boot.

This paper identifies what keeps HCMC's economic machine from accelerating, and then proposes methods and solutions to improve or even replace the vehicle engine so it can surge forward and catch up with other cities in the area. In doing that, HCMC will confirm its leadership role for other provinces and increase its share in the national economy.

## **2. The paper's approach**

This paper starts with an observation about the City history: Just a half century ago, Saigon was referred to as the "Pearl of the Far East." Today, Ho Chi Minh City (HCMC) remains the largest city and economic engine of Vietnam, but it is falling behind other mega-cities in the region in terms of economic development, competitiveness, and livability, endangering the future prospects of the country as a whole.

This study looks at the city's development over the past four decades and analyzes its major opportunities and challenges to inform a development vision for the coming two-to-three decades. This development vision is fundamentally grounded in short-term institutional and governance solutions to current growth bottlenecks, the resolution of which is key to bringing the city's long-term competitiveness and livability up to a level comparable with other successful Asian metropolises.

This paper is strongly *strategy-* and *action-oriented*. *Strategy-oriented*, it is not intended to cover every policy area but to focus only on the *highest priorities* the city needs to concern

itself with, namely, to establish its long-term competitiveness. *Action-oriented*, the paper will make policy proposals aimed at removing the bottlenecks, on the basis of which HCMC can formulate *specific policy and action plans*.

Based on the modern theory of urban competitiveness, the experiences of the advanced cities and the realities of HCMC, the study provides a new approach for analyzing strategic challenges and policy issues that HCMC can implement both in the short and the longer term, focusing on three main issues: *firstly*, the policy mechanisms proposed to the central government to overcome bottlenecks for the city's development, unleashing its growth potential and pioneering capacity; *secondly*, the cooperation and coordination mechanisms among provinces in the larger HCMC region for fostering its competitiveness vis-à-vis other metropolitan regions; and *thirdly*, the city's own policies to create new growth drives and improve the governance quality of the city.

It is also worth pointing out that it is our view that HCMC particularly, and the south east and Mekong delta regions generally, are an integral part of Vietnam's organic process of development. As such, HCMC's path-breaking role and its achievements also provide strong motivation for the reform and development of the whole country.

In the following parts, the paper will identify and analyze the most serious *bottlenecks* that hinder HCMC development, including: (i) vision for development; (ii) urban planning and development; (iii) public services and social policy; (iv) human capital; (v) mobilization of private resources and state budget; (vi) industrial and service development; (viii) specific institutions, mechanisms, and policies.

## **PART II – KEY BOTTLENECKS THAT STRANGLE HCMC’S GROWTH**

### **I. BOTTLENECKS IN VISION AND STRATEGY**

In its “*The Competitiveness of Cities Report 2014*”, the World Economic Forum highlights the crucial role of establishing a vision and strategy to the success of major world cities. Unfortunately, vision is what is missing in HCMC. HCMC practically has never had an active and clear-sighted long-term development strategy or vision due to its limited resources, weak motivation, tension in local-central government relations, and failure to mobilize the knowledge and talents of the intellectuals and business community.

The decade from 1975 to 1985 is often cited as one of HCMC’s most dynamic periods in the last forty years. However, the reality is, during this period, HCMC was mostly obsessed with “scraping by.” None other than Mr. Mai Chí Thọ, then Chairman of HCMC People’s Committee from 1979 to 1985, referred to himself as “Mr. Chairman of Rice,” implying his utmost concern with meeting the immediate needs of his constituents, as opposed to focusing his energy on more long-term projects. Since *doi moi*, the city mindset is still focused mostly on handling everyday affairs. Given its budgetary constraints and limited autonomy, HCMC cannot actively formulate a strategic plan, and its bureaucratic machine has to devote an inordinate amount of time and energy to the task of “begging” the central government for more resources, just so the city can deal with its immediate problems.

One other important reason why HCMC has yet to come up with an appropriate development strategy is the lack of a mechanism that allows for a mobilization of the numerous intellectuals and business people in HCMC and throughout the country, and even abroad, for its development. In other words, Vietnamese intellectuals have not been considered for their brain power, not having the opportunity to work with HCMC leaders to strategize the city’s long-term future; business people in Vietnam have not been recognized as innovators and pioneers who apply new ideas or initiatives to the business world. In his recently published book, titled: “*Shock of Time and Vietnam’s Economy*”, Trần Văn Thọ, a Japan-based economist who has agonized over the development of Vietnam for the last forty years, shows how an alliance of a country’s intelligentsia, business people and top leaders plays an important role in carving a development pathway in successful countries like Japan. The implication is that, absent this alliance or consensus, Vietnam cannot successfully develop its economy.

### **II. BOTTLENECKS TO URBAN PLANNING**

#### **1. Background**

Urban planning is both a *technical and political* process. It involves the regulation of land use and the design of an urban environment, including traffic grids, that provide guidance and directions for an orderly development of settlement areas and communities. Yet, urban planning in HCMC is ineffective because of the following six issues: i) population growth is often underestimated, quickly making an urban plan obsolete; ii) unrealistic levels of investment are often called for by urban planners; iii) urban plans are unconvincing due to its failure to take into consideration all possible scenarios concerning land use and transport

policy; iv) different plans exist in different implementing agencies, making it unclear which one is to be followed; v) urban plans are constantly changed and implemented piecemeal due to the influence of private infrastructure developers; and vi) public participation via civil organizations is missing.

## 2. Some key issues in urban planning in HCMC

### 2.1. Problem with population projection

The highest goal of urban planning and development is to serve the people in that community. The projection of future population is, therefore, very important. However, HCMC's population projections in urban planning are unreliable both in terms of magnitude and distribution. HCMC population projection for 2010 in the 1993 plan was pegged at 5 million, but official statistics surpassed 5 million in 1998 and 7.4 million in 2010. If we add an estimated 2.2 million unregistered immigrants entering HCMC in 2007, the population in 2010 reached 9.6 million, more than twice the projected figure in the 1993 plan. Population projections in the 1996 plan come close to official statistics, but still do not match the real figure. Clearly, population underestimation is a common problem in urban planning, as illustrated in Table 2.

**Table 2: Planning Projections vs. Reality (million)**

Year	Planning '93	Planning '96	Planning '98	Planning 2010	Official Estimates	Unofficial Est.
2010	5	7.5-8			7.4	9.6
2020			10			
2025				12.5		

Source: Huỳnh Thế Du (2013)

Cities are shaped into what they are today by not only size but also the distribution of population. Although population estimates in the 1995 plan are close to official figures, the projected distribution of population is anything but accurate. By choosing to expand the city to the southeast, the municipality estimates the absolute increase of population in the southern half by drawing a line through the city center. The resulting estimate shows 70% of absolute population growth from 1996 to 2010. The actual number is 23%, while the other half accounts for 77%.

### 2.2. Unrealistic investment planning

The targets have been set too high, most are unrealistic, especially with regard to key indicators. All four indicators in the 1996 master plan (Table 3) -- GDP per capita, total investment capital, electricity output and water supply -- are way below the set targets. A typical example is the 2020 Transport Plan, in which the projected total capital requirements approved in 2007 is 886 trillion VND. The actual investment received in 2007-2012 is only VND45 trillion, or 5.08% of the total capital requirements (HCMC-CPV 2012). If the city's GDP increases by 12% per

annum as planned, the investment capital for transport will take up 10% of its GDP. The city's spending on transport infrastructure over the past decade makes up only 5.5% of its GDP, slightly higher than the national figure of 5.2% from 2005 to 2010. Public investment in transportation in the world is usually 2.0-2.5% of GDP (UNESCAP 2006). Moreover, the capital requirements for transport in the 2013 adjustment plan is more than VND2.500 trillion, a threefold increase over the target set in the 2007 plan.

**Table 3: Selected Indicators in Master plan vs. Reality**

<b>Items</b>	<b>Planning projections 1996</b>	<b>Reality 2010</b>	<b>Reality Projection</b>
GDP per capita (USD)	4,540	2,982	-34%
Total investment (USD billion)	71	45	-37%
Electricity (million kWh)	23.9	15.8	-34%
Water (million cubic meter per day)	2.82	1.54	-45%

*Source: HIDS (2012)*

### ***2.3.No analysis of different land use options and transport policy***

Various plans weigh the importance of south and south west quadrants in HCMC differently. The 1993 plan identifies the north east quadrant as the primary direction for HCMC expansion. The south and south west quadrants are secondary. The north east quadrant is again confirmed as the primary development direction in the 1998 plan. Yet, the very same plan mentions ambiguously that “additional directions for expansion are to the south and south east, in the direction of the sea.” Linguistically, expansion to the south and south east can be interpreted as either primary or secondary expansion. Secondary expansion is towards the north and north west. This is completely changed in the 2010 plan. At present, the primary direction for expansion is to the east and the south, seawards. Two secondary directions for development are north west and south west. The north east is no longer mentioned at all.

This inconsistency in the choice of direction shows a lack of a comprehensive analysis of all the possible scenarios for land use and transportation. The municipal government simply reacted passively to a market signal, prompting this remark from a person who closely follows HCMC urban planning activities: “Perhaps no one really knows the appropriate direction for development and the selection of one in the master plans is simply made on the observations of a few highlights in the market dynamics.”

### ***2.4.Contradictory schemes and lack of cooperation among state agencies***

Many different plans exist in different government agencies, making it difficult to know which plan has the ultimate authority. There are many agencies, each with its own jurisdiction, but they cannot properly supervise several plans with several versions. For example, the 1998 spatial plan is actually a modified version of the 1993 plan, the 2010 spatial plan is a version

of the previous two, and all three are still in effect. More troubling is the duplication, inconsistency, and ambiguity between these different plans and versions. In addition, it is difficult to decide, between spatial planning and development planning, which one is to be prioritized and which one is designed for a longer time frame. Moreover, various plans have been approved at different points in time, based on different versions and types of documents. Many of the indicators and goals in these plans are prescribed simply as a formality and constantly changed. Population projections are a case in point.

### ***2.5. The influence of private investors on planning***

Designing an urban plan in HCMC is like making a government wish list, because many of the planning objectives and infrastructure projects do not appeal to private investors. In fact, private investors have proposed their own projects, many of which have been approved and constructed. Private infrastructure investors play an important role in shaping HCMC, but they are also responsible for developments in the city that deviate from its planning. International experience shows that the urban development process is effectively determined by real estate developers. The influence of private infrastructure investors in HCMC is clear. At a special session of HCMC People's Council focusing on urban planning for 2012, it was admitted that “there has arisen the practice of designing urban plans to fit with private projects” due to the influence of private developers.

### ***2.6. Lack of public participation***

The importance of eliciting public feedback in the process of urban planning has been institutionalized, particularly through the Law on Urban Planning in 2009. However, in practice, civil organizations and professional associations are not recognized and encouraged, making public participation largely non-existent. The discussion and participation of community residents in certain plans and projects that potentially have a direct impact on their lives are rare. It is only when these projects are being implemented that they come to know about them. Taken by surprise, their reactions are often hostile and negative, especially against commercial projects. Experience in many countries, like Seoul in Korea, shows that if the public had been familiarized with the master plan or “sold the idea”, the likelihood of getting their support is very high.

## **3. Summary**

Urban planning has not been an effective tool in shaping the spatial development of the city. Exchanges with government officials reveal that most of them acknowledge the unrealistic nature of urban planning and the key indicators, such as **public transport usage rates**, are only desired targets. City leaders only encourage rather than compel concerned authorities to achieve these goals. In fact, urban planning has so far been used as an effective tool for local governments to (i) negotiate with the central government for greater fiscal and policy autonomy, (ii) seek financial and technical support from international donors, and (iii) encourage private sector participation in urban development.

There is generally a split between the technical and political economy aspects of urban planning in HCMC. Planners seem to be overly focused on their ideas on paper, while in terms of political economy, the role of an urban plan is very different from their technical goals. This is a problem HCMC should overcome.

## **II. BOTTLENECKS IN PUBLIC SERVICE AND SOCIAL POLICY**

### **1. Problems with public services**

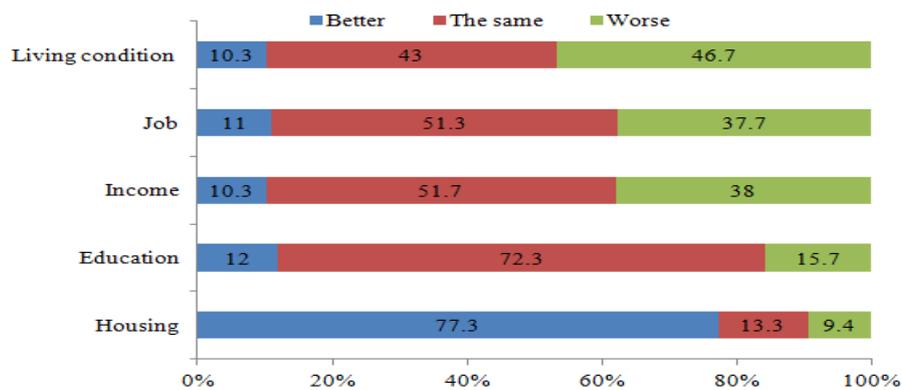
HCMC represents a complex picture of urban services. On the one hand, the supply of electricity and water is good. Through the National Electrification Program, the number of households with access to electricity increased from 14 percent in the early 1990s to nearly 100 percent in 2009. All households now have access to safe water and more than 80 percent in rural areas have tap water. On the other hand, the collection and treatment of waste water, as well as sanitation, is still inadequate. The shortage and low quality of urban services have been repeatedly acknowledged by the municipality.

Urban services in HCMC, except for some new urban areas such as Phu My Hung, are mainly provided by state-owned companies. According to the World Bank, in the early 1990s, the overhaul of urban services in Vietnam was undertaken to help recover costs through service charges, a move towards operation on a commercial basis. In general, this has had a positive impact on increasing access to basic services in all urban areas. However, service quality is still a problem. Garbage collection and its large volume are one example. Although garbage trucks or motored vehicles are now used to collect garbage, older and cruder (open-roofed) vehicles are still needed in small alleys, which can cause environmental and sanitation problems.

### **2. Problems with resettlement programs**

The construction or upgrading of infrastructure facilities has positive implications for the development of Ho Chi Minh City. However, fairness is a questionable issue. According to the resettlement authority, 165,000 households were affected by the city's reconstruction and development projects during the 1995-2010 period, of which 96,000 were relocated. The problem with this situation is that the quality of life of most displaced people appears to remain unimproved after resettlement. Municipal government investment is mainly used to support development projects, not to improve the quality of suburban residential areas.

### **Figure 4: Feedback from resettlers**



Source: Huỳnh Thế Du (2013)

Since no comprehensive assessment has been conducted of the resettlement programs in Ho Chi Minh City, we will summarize the results of some of the existing studies. These studies all show consistently that relocated households do not benefit from these programs as they should. From the perspective of the authorities, site clearance seems to be more important than improving the quality of life of displaced households. Figure 4 illustrates the responses of 300 selected households from the city's major resettlement programs.

Only 10.3 percent of the respondents said their living conditions improved, while 38 percent said their living conditions were worse off than before, and about half said theirs remained unchanged. There is almost no difference between projects completed in the 1990s and those recently finished. Of the respondents surveyed on their expectations for the next five years, 11 percent said they felt unable to improve their quality of life, and 49 percent said they needed extra help. Although 77.3 percent of the households said their housing conditions improved, 9.4 percent said the opposite. Their houses were of better quality but inconveniently located, a common problem in Ho Chi Minh City.<sup>2</sup>

### III. BOTTLENECK IN THE MOBILIZATION OF HUMAN CAPITAL AND BUDGET

#### 1. Background

Resources are always limited and one of the important functions of the state is to ensure that they are distributed fairly and effectively. Support for disadvantaged people or localities by sharing with them budget revenues from fiscally advantaged localities is necessary in all countries. The important thing, however, is to ensure the redistribution scheme does not disincentivize the advantaged locations and create a dependency mindset in disadvantaged ones, as is happening in Vietnam.

A significant problem in the current budget allocation mechanism in Vietnam is the lack of clearly defined criteria to create fairness and motivation in localities or regions. Jonathan

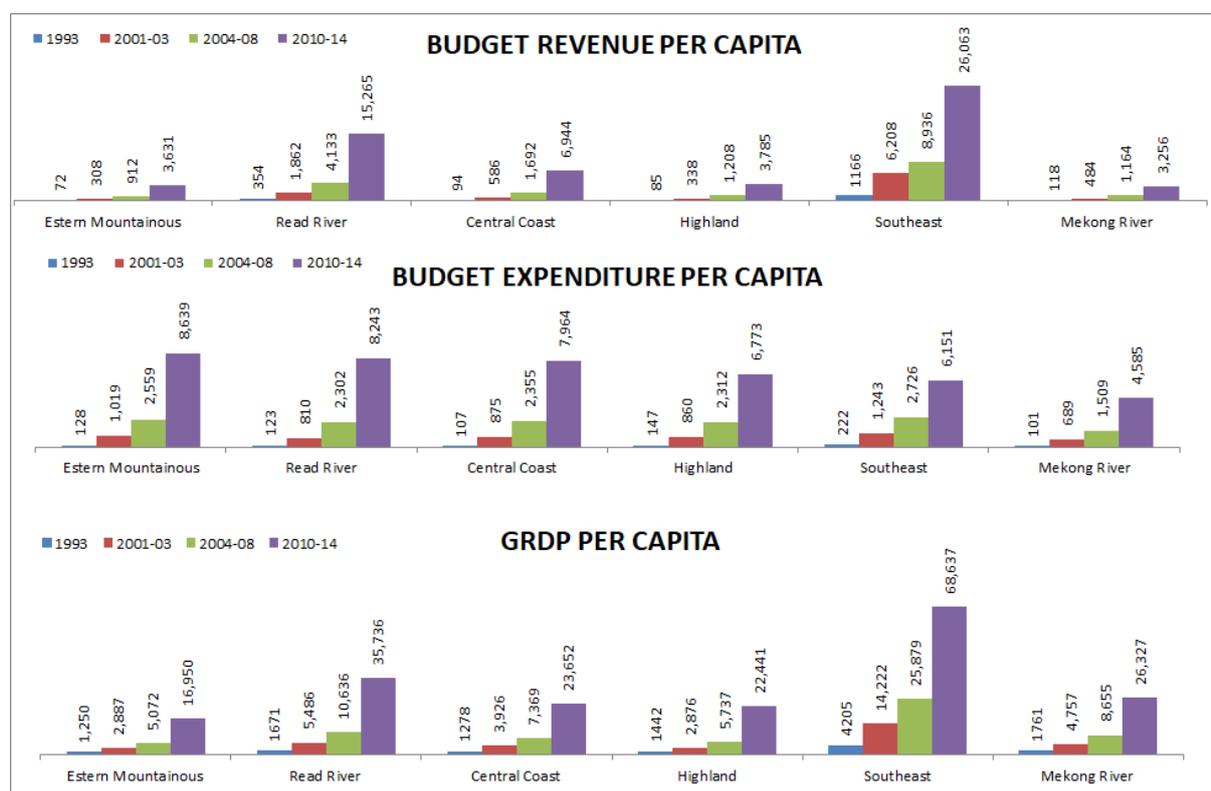
<sup>2</sup> The results of these three studies are preliminary only and could be subject to some minor biases due to the small sample size. For more reliable results, more comprehensive studies are in order.

Haughton's observation in *In Search of the Dragons' Trail: Economic Reform in Vietnam* (1994) that “Much of this allocation takes place in a subjective fashion, and is determined more by the negotiating power of the localities with the central government than by their objective needs” is still relevant today.

## 2. Inconsistency and lack of clarity in budget allocation

In terms of budget expenditure per capita, the biggest recipients are the Northern Mountains, followed by the Red River Delta, the coastal provinces, Central Highlands, the South East and Mekong Delta. It is difficult to rationalize this allocation based on any criteria other than the explanation by Jonathan Haughton. Figure 6 shows the total budget expenditure per capita of the 63 cities from 2001 to 2014. It is difficult to explain why Da Nang has the highest expenditure while An Giang’s is the lowest.

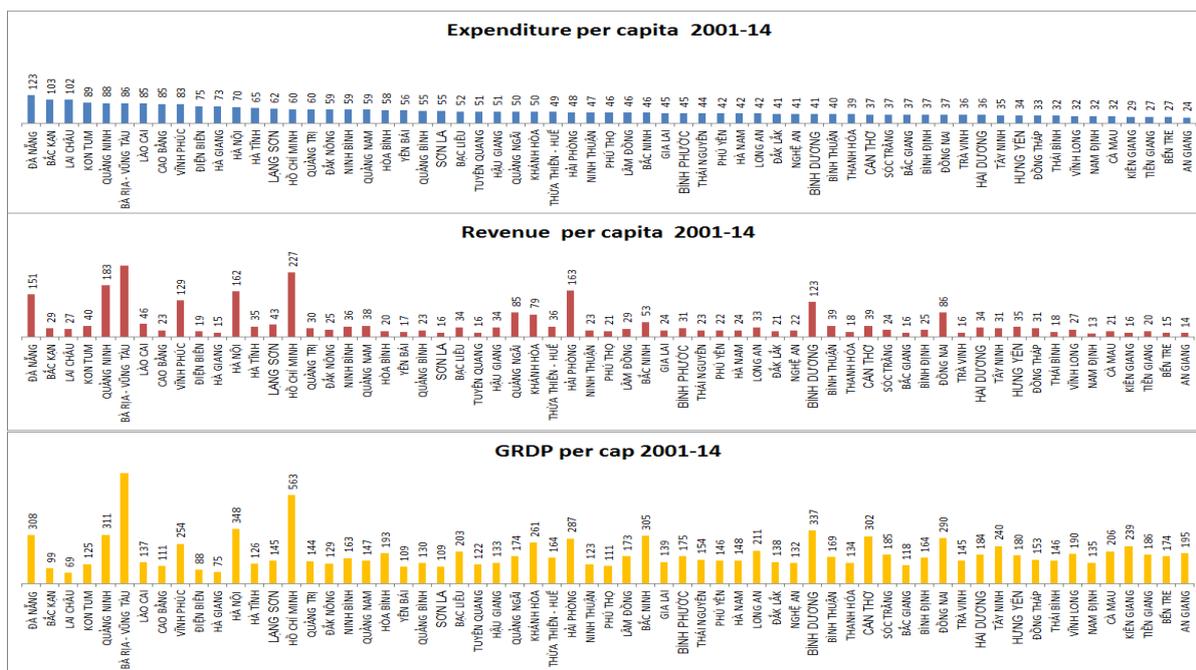
**Figure 5: Indicators on budget per capita by region**



Source: by authors from GSO and Ministry of Finance data

A more detailed analysis of Hanoi (including 10 localities) and HCMC (including 8 localities) shows a sharp contrast between the two cities. In the 2001-2014 period, Hanoi was allocated a budget equal to 18.5% of GDP and its per capita expenditure at 2010 constant prices was 55 million VND while the same figures for HCMC was 8.7% and 49 million, respectively.

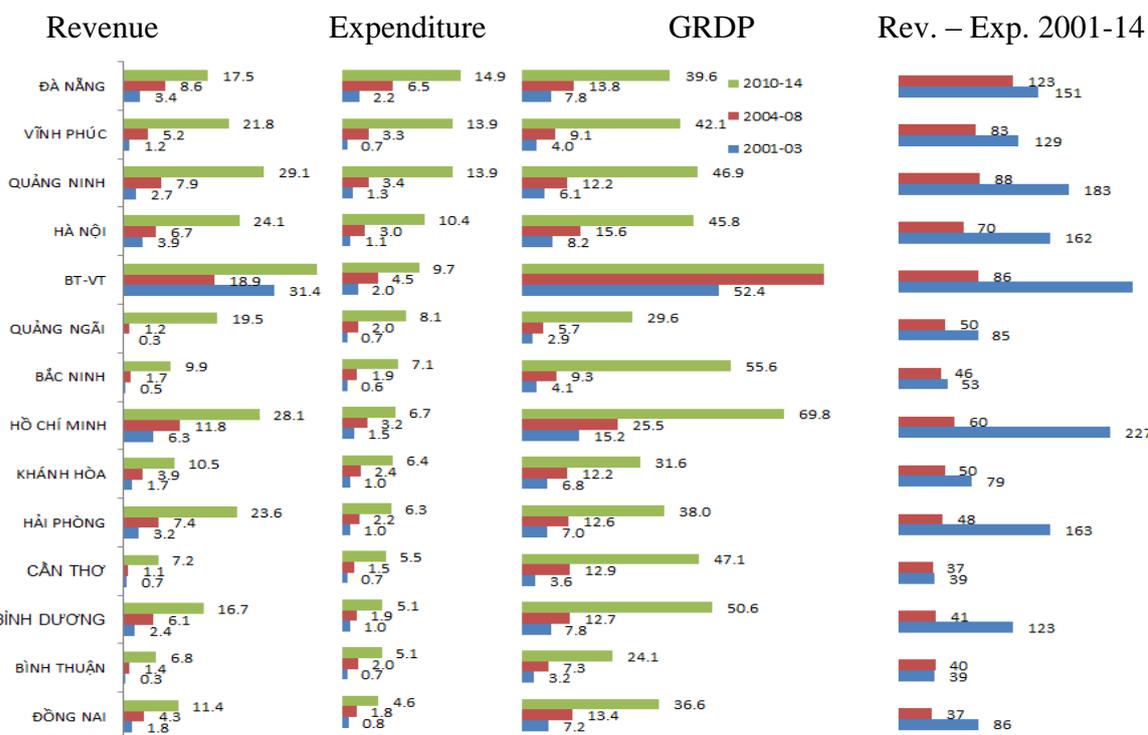
**Figure 6: Revenue, Expenditure and GRDP per capita in 2010-price, 2001-14\***



\*data excludes 2009 due to big gap compared to other years

Source: Compiled by authors from GSO and Ministry of Finance data

**Figure 7: Revenue, Expenditure and GRDP per capita (Million VND)\***



\*data excludes 2009 due to big gap compared to other years even from the same source of MoF

Source: Compiled by authors from GSO and Ministry of Finance data

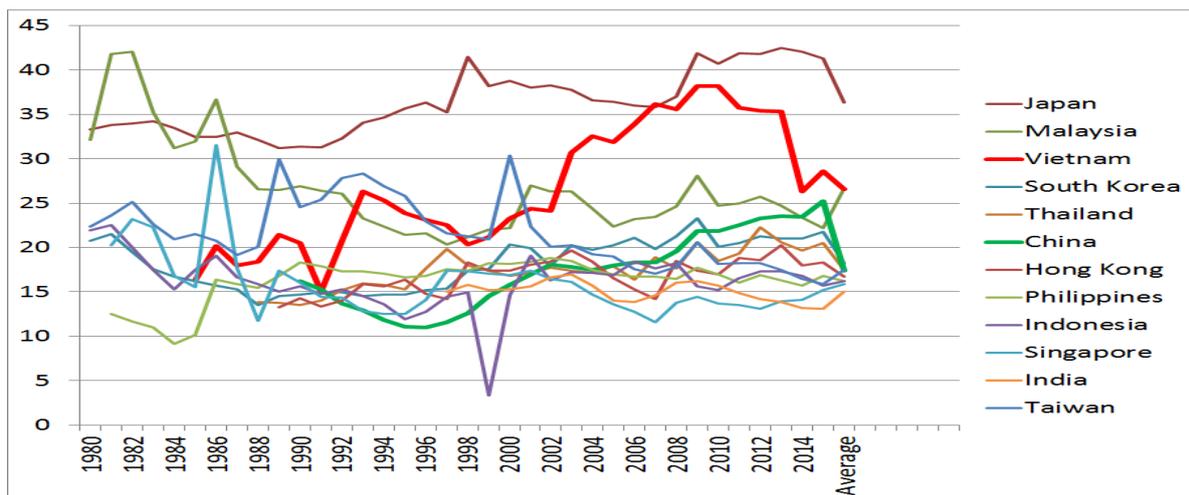
If we examine cities with budget surpluses for 2010-2014, we cannot find any clear principle of budget allocation. The first thing that strikes us is the breath-taking transformation of Da Nang over the past two decades due to the decisive role of its budget. Its average expenditure is twice as high as that of HCMC and nearly 1.5 times higher than that of Quang Ninh. The budget expenditures of Hanoi and HCMC are both low, but HCMC's is much lower. All the administrative sub-units throughout HCMC area, with the exception of BRVT, have very low per capita expenditures. This explains why HCMC infrastructure has become overloaded due to its inadequate budget.

Besides budget allocations from the state, municipalities throughout Vietnam also receive state funding (under the national investment programs) and ODA. However, the share in the national investment programs of the HCMC metropolitan area in general, and that of HCMC in particular, is quite modest. Of the 700 km of expressways built in the country, only about 100 km are in the HCMC area, while the majority are in the vicinity of Hanoi.

### 3. BUDGET CONSTRAINTS IN HCMC

Compared to other countries in the region, Vietnam has had a high level of budget expenditure as a percentage of GDP in recent years. In particular, the period 1990-2015 averages up to 28% -- 1.5 to 2 times higher than that of most other countries. Specifically, the equivalent figure in China is only 17.8%.

**Figure 8: Spending to GDP in Asia**



Source: Economist Intelligence Unit

However, the allocation of funds for key cities shows a sharp contrast. Regionally, Beijing and Shanghai are the fastest growing cities and they are almost catching up with other leading cities, especially in terms of infrastructure. There are many success factors to this, but a very important one is the budget.

Ever since China's opening up its economy, budget allocations for its two major cities have always been unstintingly large (per capita figures are often twice as high as the national

average) compared to the rest of the country (except Tibet). On average, from 1997 up to now, total budget expenditures for Beijing and Shanghai in GRDP terms have been 15.9% and 16.4%, respectively. This ratio has, in fact, increased from around 10% twenty years ago to over 20% today. The equivalent figures for Hanoi and HCMC for the 2001-2014 period are 20% and 10.7%, respectively, while the average figure for the rest of the country is as high as 32.5% of GDP. In recent years, these two cities have been subject to significant budget cuts, especially HCMC, where its share of the national budget expenditure has returned to its early 1990s level of less than 6% (Figure 9), although Vietnam's budget expenditure still averages about 25% of GDP.

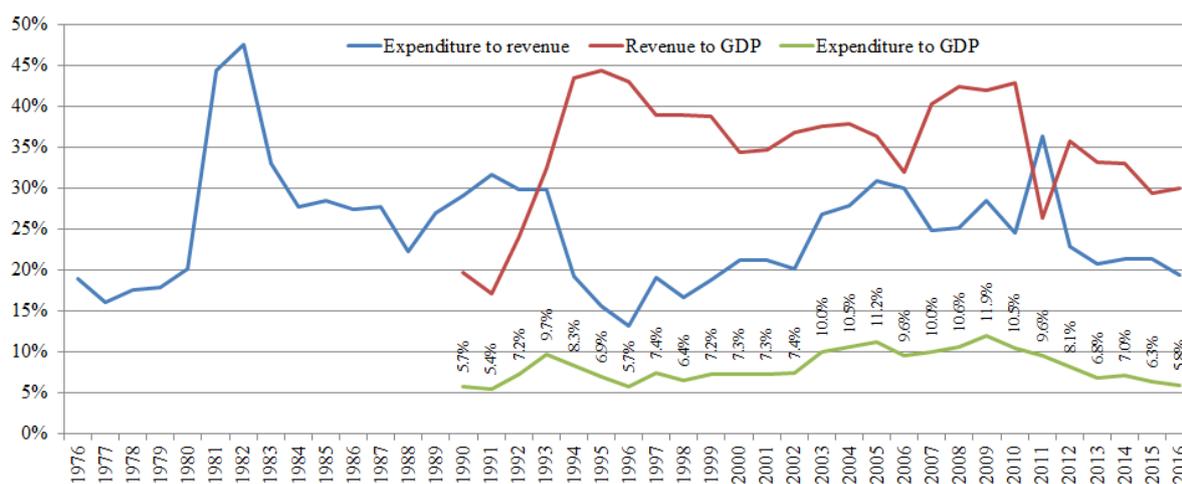
**Table 4: Selected indicators on spending of Asian cities**

City	Total Exp. (USD billion)	Per capita (USD)		Spending to GDP (%)	
		City	Country	City	Country
Tokyo	117.3	8,754	15,125	13.3%	41.8%
Singapore	42.3	7,692	7,692	14.2%	14.2%
Hong Kong	55.9	7,651	7,229	18.0%	18.0%
Seoul	34.6	3,600	5,886	11.1%	21.0%
Beijing	74.2	3,447	1,824	21.2%	23.8%
Shanghai	80.7	3,327	1,824	20.9%	23.8%
Jakarta	5.8	588	590	3.9%	16.8%
Hanoi	4.2	569	698	15.6%	34.0%
HCMC	2.9	358	698	6.5%	34.0%
Mumbai	4.3	348	208	na	13.2%
Delhi	5.7	291	208	7.0%	13.2%
Bangkok	1.6	287	1,175	1.4%	19.7%
Manila	2.1	165	450	1.9%	15.6%

*Source:* Compiled by authors from cities' data

The budget figures for other cities in the region shows a stark difference. The top-ranking cities in competitiveness and livability have noticeably higher budget expenditures than the rest. Barring Singapore and Hong Kong, two exceptional cases, the national budget share of Seoul and Tokyo are always in the double digits. At the opposite end, cities like Bangkok, Jakarta and Manila are having a hard time dealing with serious issues because their budgets are barely enough to meet their recurrent expenditure needs. Of the remaining cities, only Hanoi has a budget share (relative to GRDP) comparable to the group of successful countries. However, this figure seems to follow a downward curve. For HCMC, it needs to increase its expenditure share further. Otherwise, it will inevitably go down the path of those struggling cities.

**Figure 9: Expenditure to Revenue, and GRDP in HCMC**



Source: Compiled by authors from official statistics

The government-issued Decree 48/2017 creates some room for maneuver, but it is basically still a straitjacket HCMC is forced to put on. The city is allowed to run a budget deficit, but it is not specified by how much. However, with a budget estimate of VND63 trillion in 2017, a 5% budget deficit, as is normally allowed, comes to only about VND3 trillion. The decree stipulates that the city’s total outstanding loans must not exceed 70% of the budget share allocated to it. Given the projected budget for HCMC being only 60 trillion in 2017, the total loans it can incur is only about 42 trillion. Assuming that it could increase the loans by 15% per annum, the outstanding loans to 2025 will be around VND128 trillion, a modest amount compared to its need to mobilize VND14,000 trillion for 2016- 2025, as estimated in HCMC Master Plan for Socio-Economic Development through 2020, with a vision to 2025. 128 trillion VND is less than 10% of the city’s demand for loans in the same period.

#### 4. The role of state funding in infrastructure development

Every country has its own ways of mobilizing resources to build its infrastructure. However, the commonality among all countries that have successfully tackled this task is state funding. The U.S highway system has played a very significant role in the socio-economic development of the US as a nation. The main source of funding for this project is the fuel tax. The Federal-Aid Highway Act of 1956 stipulates a gas tax of three cents per gallon, the total revenue of which amounts to about 18 percent of U.S fuel prices. The end result is a highly effective highway system across the U.S. Revenues from the gas tax account for only a modest part of the total cost. Japan, Korea, Singapore, and Taiwan also build their infrastructure, especially transport infrastructure, using the state budget. Most recently, China has built and is continuing to build a modern infrastructure system with funds mainly from the national budget.

Many countries have successfully developed their infrastructure by using public funds plus contributions from the private sector. The crackdown on corruption and effective use of state funds have helped many countries to create top-class infrastructure. One example is the construction of the subway system in megacities in some Northeast and Southeast Asian countries, including Korea, Hong Kong, Japan, Taiwan, Singapore, and China. Except Hong

Kong, all these countries primarily rely on the budget funds to build their subway systems and they have been successful. Some cities in Southeast Asia, typically Bangkok, Manila and Jakarta, rely on ODA or public-private partnership. As a result, none of them enjoy an efficient public transport system.

ODA loans are a very expensive source and also subject to many constraints and conditions imposed by donor countries. The problems with this source of funding have been detailed by Acemoglu and Robinson in their 2012 study *Why Nation States Failed*. For example, estimates by certain people responsible for executing the subway system projects in Vietnam's two major metropolitan areas show ODA can push the cost to a very high level. The same thing has happened to many other ODA projects.

Regardless of the source of funding, infrastructure projects are ultimately built with public money or paid for by public taxes. Judging by the public reaction to a few recent cases, a proposal to hike gasoline tax and to use the received revenues to finance infrastructure projects is likely to create a public outrage. However, it is worth bearing in mind that gasoline prices in Vietnam are still below the world's average.<sup>3</sup>

The analysis above shows that HCMC in particular, and HCMC metropolitan area in general, are currently placed at considerable disadvantage in terms of budget allocation. The city has explored ways to raise funds from the private sector or employed other creative tools to attract investment capital, such as the PPP model specifically structured as a BOT or BT project.

However, these options have limited value and they are unlikely to produce important breakthroughs, especially since investment in priority public projects or public works, such as public transport system, does not generate direct profits for investors.

#### **4. The problems with the PPP (public-private partnership) model**

Recently, the public-private partnership (PPP) model gets a lot of mention in Vietnam, raising expectations about possible breakthroughs in mobilizing investment for infrastructure projects. However, judging by international experience, the PPP model plays a very limited role in the development of infrastructure in many countries. For example, during the 2001-2011 period, Asia-Pacific countries could raise less than 200 billion VND under the PPP model, accounting for about only 10% of the total investment in infrastructure. Moreover, the PPP model, if not carefully designed and supported by well-performing institutions, would easily cause problems and great disappointment to the public.

The model was particularly popular in the UK under Prime Minister Margaret Thatcher in the 1980s and in Latin America in the 1990s. However, after the initial period of high expectations and enthusiasm came great disappointment. The quality of services provided in many cases not

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<sup>3</sup> According to Global Petrol Prices, the world average gasoline price on 29 June, 2015 was 1.12 USD per liter and Vietnam's gas price was 0.98 USD. Studies on the economics of transportation show that the effective price of gasoline (removing the negative externalities from gasoline consumption) has to be twice the world's current average price. At present, Norway is the only country to have followed this policy. Despite being a global leading oil producer, the gasoline price in Norway remain the highest in the world (2.02 USD per liter).

only does not improve but also creates a lot of trouble and waste. As a result, in many countries the process has been reversed, prompting the state to step in to nationalize or revoke the contracts. This movement towards the PPP model has been particularly strong in some Latin American countries in recent years. Taken to extremes, it has proved to be detrimental to the development process. However, there are countries where effective PPP projects are implemented, as in the case of Chile. Here, the implementation of PPP projects is a transparent and truly competitive process.

**Figure 10:** Transport investment under PPP in Asia Pacific



Source: UNESCAP (2013)

A study by Vickram Cuttaree (2008) identifies nine success factors for PPP projects, including: i) careful planning, ii) rigorous estimation of costs and revenues, iii) user willingness to pay and effective media campaign, iv) employing PPP specialists to conduct feasibility studies, v) compliance with terms of contract, vi) strong legal framework and effective institutions, vii) strong institutions with adequate resources, viii) competitive and transparent bidding process, and ix) flexibility in management and minimization of macroeconomic risks (stable macro environment). To be able to secure all these nine factors is not easy for Vietnam in the current context. As a result, Vietnam should be careful about the multiplication or mass deployment of this model.

## 5. Using land value as an incentive for infrastructure investment

Using land as a source of funding for infrastructure projects is a common practice in the world. Although land tenure varies from country to country (as well as among cities), governments (central and local) are often able to use techniques to recoup part of the value added accrued to the beneficiaries of infrastructure investments to recover part or all of the costs of infrastructure investments. At present, there are two popular models. In a land acquisition model, the government assumes the responsibility of building the infrastructure itself, then sell the excess land or call for private sector participation. In the non-acquisition model, the government will build the infrastructure and levy some taxes or charges on the beneficiaries of the infrastructure

to recover the costs of the investment. The characteristics of each type will be described in detail in the next section.

## **6. Urban Development Corporation Model**

Urban Development Corporation (UDC) is currently a very popular model in the world. UDCs are organizations that double both as a business and a development agency with the authority and capacity to mobilize resources to execute urban development projects. Although there are variations in how this model is applied in different parts of the world, they all share a common formula or common points for success. UDCs are vested with planning and land development powers from the government and are supervised by a government-approved management board. UDCs finance their development projects through a mixture of state funding, land sales and other sources. While significantly supported by the government, UDCs remain autonomous and employ a corporate management structure. The fusion of government backing and corporate management assures both long-term stability and efficiency, thus attracting private investment. When attracting private investment and developing the land, UDCs can impose higher standards for sustainable development, an area that is often neglected by the private sector.

HCMC Financial Investment Company (HFIC), originally called HCMC Investment Fund for Urban Development (HIFU), is created after the urban infrastructure development fund model quite popular in the world. This agency plays a critical role in mobilizing capital for urban infrastructure development in many cities. However, due to the many constraints it is placed under, HFIC has a very modest role to play. For a long period of time, it operates essentially as a municipal regulatory and fund-distributing agency for certain programs and special projects, rather than as a real financial development organization. By 2016, the value of its assets is only 16 trillion VND and the capital mobilized since its foundation is only a couple of dozens of trillion VND, a very modest figure, compared to the city's GRDP of up to one thousand trillion VND.

The role of Tan Thuan Industrial Promotion Company (IPC) in connection with the development of Saigon South in HCMC is an insightful experience. Ho Chi Minh City only contributed a piece of land that no one at the time thought was suitable for the project. After two decades, it has become a stylish and model urban area in Vietnam. The resulting revenues, including taxes and returns from capital contributions, amounts to about \$1 billion for the government. There are several key factors to the success of this project. Firstly, there was a strong consensus in support of the project, from the central to local leadership. Second, the role of those directly implementing the project. Third, the capacity and good will of the project's partners. In fact, the project gave quite a push to the development of South Saigon. IPC has all the essential markings of an urban infrastructure development company like many others in the world. Its greatest value is the pioneering and innovative ability needed to develop infrastructure for HCMC. Unfortunately, this value has not been fully tapped and developed further. Currently, IPC seems to be viewed only as an ordinary business, the city's "goose that laid the golden eggs." IPC was established very early in HCMC, but what IPC has achieved is much more modest compared to what Becamex has done in Binh Duong.

## 7. Summary

This part focuses on five issues. *First*, international experience shows that successful countries rely on budget funds to build their infrastructure systems, especially transport infrastructure. *Second*, some of the problems with the current allocation of budgets can be summarized as the tendency to use state budgets more as a tool to dispense favor or to curry favor than to achieve efficiency. This has created a situation in which many projects were funded and implemented, regardless of their usefulness to the public or cost-effectiveness, as long as a local government can manage to “milk” the “cash cow” that is the national budget. *Third*, be cautious with the PPP model and do not raise our expectations too high. *Fourth*, HCMC should consider alternative ways to use land as an additional source of funding for infrastructure development. *Fifth*, it is necessary to consider the urban development company as a viable model that can be multiplied.

## IV. BOTTLENECKS TO HUMAN CAPITAL

### 1. Introduction

The bottleneck to human resources is identified as one of the three major bottlenecks facing Vietnam today besides institutional and infrastructure ones. On the surface, Ho Chi Minh City seems less constrained by the human resource bottleneck than other regions in the country, thanks to its ability to attract the best employees in the country. The city’s objectives, however, can neither be the same as nor comparable to other provinces’ and regions’. Having been the leading, the most dynamic and most developed city in the country, Ho Chi Minh City now should be able to take its place next to other cities in Southeast Asia and in the world. To accomplish such an ambitious vision, HCMC human resources, assumedly of the highest caliber in Vietnam, seem not sufficient to put Ho Chi Minh City on par with other large cities. The competition for human resources now, especially skilled ones, is no longer between regions in a country but rather between countries and big cities. In that race, Ho Chi Minh City is in a less than favorable, not to say disadvantageous, position.

The city’s authority has also recognized the bottlenecks to its existing human resources. Specifically,

*“The quality of human resources has not met the current requirements for development and international integration. The administration, management, policy promulgation, organization of high-quality human resource training programs, and implementation of policies on attracting, retaining talents and training experts and high-tech workforce are insufficient; the policies and programs for vocational training have yet to keep up with the need to improve labor productivity, quality of growth and economic competitiveness; the quality of government officials, civil servants, and public employees has yet to meet the requirements of state administration and administrative reform efficiently.”<sup>4</sup>*

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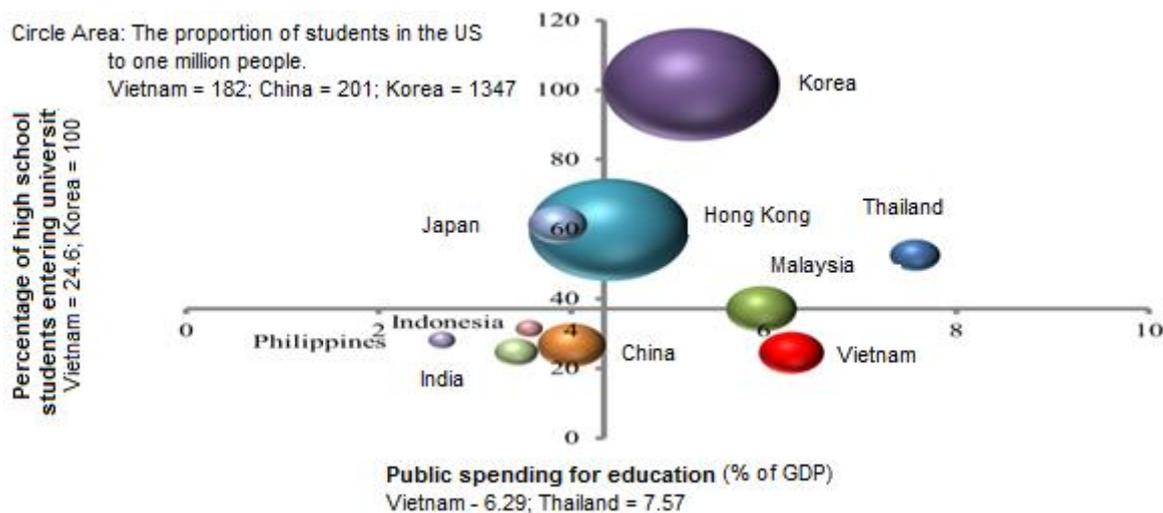
<sup>4</sup> Action Plan No. 19-CTrHĐ/TU promulgated on 31 Oct 2016 by Ho Chi Minh City’s Party Committee on Implementation of the City’s 10th Party Congress Resolution on HCMC Human Resources Development Scheme for 2016-2020.

An action plan to enhance the human capital quality in 2016-20 has been adopted by the Ho Chi Minh City Party Committee, in which relatively ambitious yet highly ambiguous and seemingly unattainable objectives and solutions are suggested. The reason is mainly due to the lack of a clear-cut delineation between the role of the (state) government role and that of entities in the (market) economy. As it is, the city launched the *HCMC Human Resources Development Scheme for 2011-15*, one of its six breakthrough programs in 2011-15, which after 5 years of implementation failed to deliver any breakthroughs in human resources. That a number of ideas and solutions in the Human Resources Development Scheme for 2016-20 are not so dissimilar from its predecessors gives us reason to believe in a similar outcome.

## **2. The context of Ho Chi Minh City's competition for human resources against other cities in the region**

HCMC efforts to compete for human resources and Vietnam's high-quality K-12 education programs are insufficient to help the city compete with and beat other countries in the region. Its less inclusive institutional environment, its less friendly and cooperative working environment, and less ideal living conditions compared with the cities in the region make Ho Chi Minh City an unattractive venue to talented and world-class professionals. Now that the ASEAN Economic Community (AEC) has been established, the city is facing new opportunities and challenges in the race for brain power with other economies in the region. The shortage of a skilled workforce has prevented HCMC from upgrading its industry. Now with the establishment of AEC, HCMC has the opportunities to enhance its productivity and international competitiveness. On the other hand, the challenges Ho Chi Minh City has to face are not to be belittled. The city will have to compete not only with other regions in Vietnam but also with other regional cities for human resources. It stands to reason that the capability of other cities in the region to capture high-quality human resources surpasses that of Vietnam's cities. The freedom of movement of human resources in AEC, especially skilled human resources in many fields and areas, of which Ho Chi Minh is in great need, has evidently posed many challenges to HCMC authority.

### **Figure 11: Selected Indicators on Education**



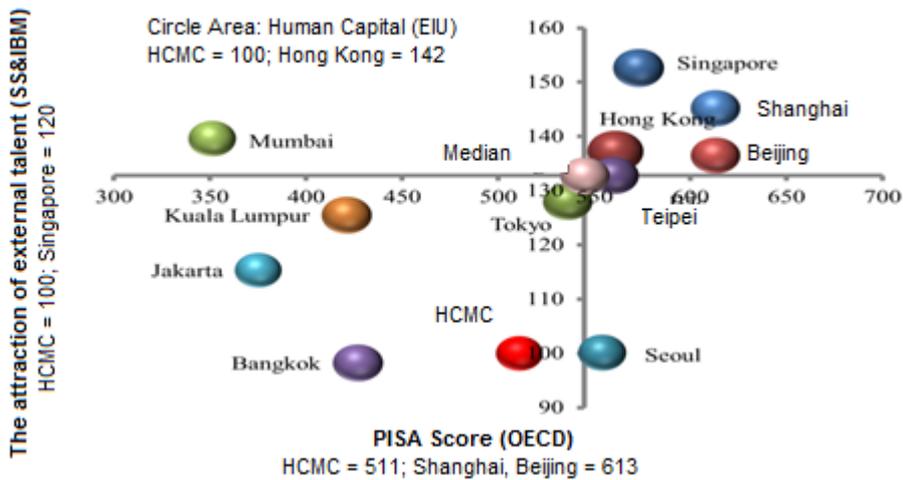
Source: Calculated and compiled by authors.

It is worth pointing out that the starting point for developing human capital in HCMC and Vietnam does not differ much from that of other countries. Specifically, HCMC 15-year-old students' performance in the aptitude test (OECD PISA) put it among the group of developed cities and far above many others. Additionally, the share of public spending on education in Vietnam is among the highest in the region (only lower than that of Thailand), and the proportion of Vietnamese students studying in the United States is also in the second highest group, alongside China and Malaysia. The percentage of Vietnamese high-school graduates going to college, however, is the lowest among the cities surveyed (Figure 11). It is striking that the outcomes are entirely different, as analyzed below.

The *EIU human capital index* is measured by the increase in the skilled workforce and the accessibility to high-quality health care and education, making a city an attractive venue to do business in. The quality of public health and education is instrumental in increasing the city's productivity and economic growth and ultimately its competitiveness. Judged on these integrated metrics, Ho Chi Minh City is generally surpassed by other cities. However, it is worth noting that spending on education as analyzed above and spending on public health in Vietnam generally, and in Ho Chi Minh City particularly, are among the highest. According to World Bank statistics, health spending in Vietnam in 2012 as a percentage of GDP was 6.6%, comparable to the group of high-income countries in the region, ranking third in all the countries and economies surveyed, and higher than all countries in Southeast Asia. The number of doctors per 10,000 people in Ho Chi Minh City is 14.5 and 12.2 in Vietnam generally.<sup>5</sup> These figures are much higher for Vietnam than other Southeast Asian countries. The most positive result is Vietnam's life expectancy, at 75.6, only lower than that of high-income countries in the region and even higher than that of China.

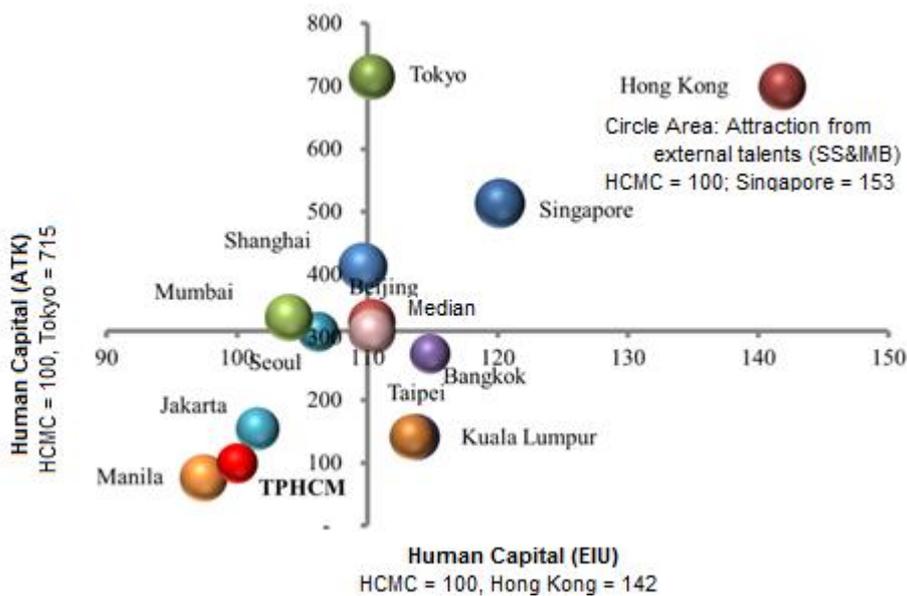
**Figure 12:** Human Resource Input-Output Reference

<sup>5</sup> According to Vietnam's statistics, the desired number of doctors per patients until 2020 is 10 doctors for every 10,000 patients. There could be a disparity in statistical criteria. For the sake of comparison, we would use the WB statistics.



Source: Calculated and compiled by authors.

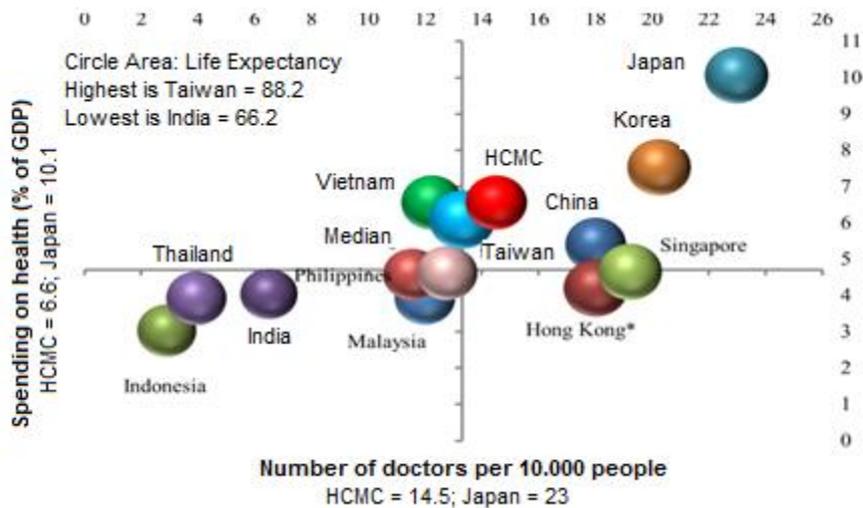
Figure 13: Human Capital



Source: calculated and compiled by authors

The ATK human capital index considers the city's ability to attract talents based on such metrics as the number of foreign expatriates, the quality of universities, the number of international schools, the international student population and the percentage of people with a college degree. Ho Chi Minh City performance on these metrics is only better than Manila. It has no university or research institute that ranks highly regionally, and even less so internationally. But as Vietnam enjoys a geographical advantage, at least relative to other Southeast Asian countries, it is important and quite possible to concentrate on developing some universities or research institutes that achieve high rankings regionally and internationally.

**Figure 14:** Basic indicators on health spending



*Note: Because there is no data on life expectancy and health spending (% GDP) in HCMC, the national level is used instead.*

*Source: Compiled by the authors from WB data and others*

*SS-IBM's talent acquisition* is measured by the presence of scientific research and development personnel, and experienced personnel in specialized areas. In general, there is no significant difference among the selected cities in their ability to attract talents from outside of the city. In other words, Asian cities ranked very low in their ability to attract talent from outside, except Hong Kong and Singapore.

### 3. The mismatch between supply and demand of workforce

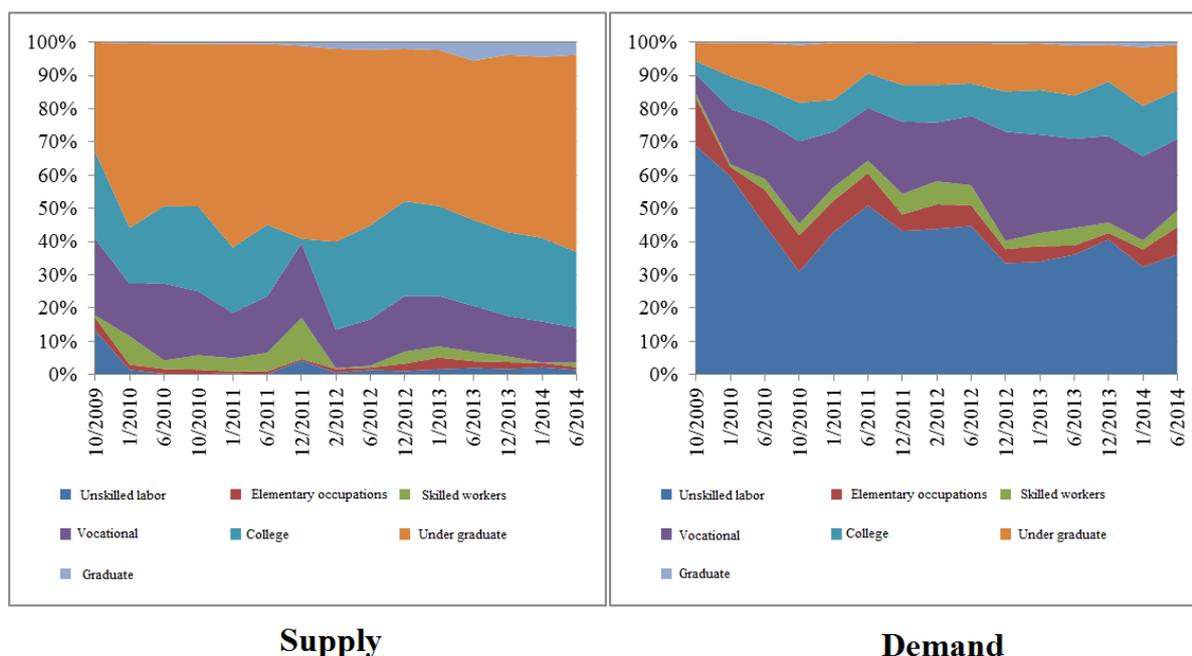
The mismatch between labor supply and demand in Ho Chi Minh City is a serious problem (Figure 15). While most of the workforce in Ho Chi Minh City hold bachelor's or associate's degrees, it is unskilled and intermediate labor that is in high demand.

This highlights two basic issues. First, the outputs of universities and colleges do not match the market demand. While demand in the labor market has changed, following changes in industrial structure, and required high-quality workforce, training programs in HCMC higher education remain unchanged and unsuited to the market demand. Second, the aim of focusing on high value-added and knowledge-based industries has not been achieved, both in terms of the demand and supply of the labor market. However, universities do not simply respond passively to the needs of the labor market. It can also play a role in spearheading the economic restructuring process, shifting the local investment structure and positioning the economy's production in the global value chain. For instance, once some universities are able to supply a highly skilled workforce that can compete regionally in a certain field, such as engineering, information technology, or business management, Vietnam and Ho Chi Minh City will have

an advantage in attracting investors into these industries, and thus shifting the economic structure in the desired direction.

Unfortunately, universities in Vietnam generally, and Ho Chi Minh City specifically, play a very limited role in leading the economic restructuring process, transforming the investment structure and upgrading the economic production. The passivity and the inertia of the old-fashioned thinking are the biggest obstacles to these tasks. The situation is likely to stay unchanged unless efforts are made to reform the general education system, particularly its higher education programs, and develop and restructure its economy.

**Figure 15:** Supply and demand of human resource index by tertiary level in HCMC



Source: Compiled from FALMI data

From 2011 to 2015, Ho Chi Minh City developed and implemented the *Human Resources Development Program*, one of the city’s six breakthrough programs. The municipal government focused on investing in groups that play a decisive role in producing a breakthrough in human resource and economic development for the city. Priority was then given to human resources development for high-tech and high-value industries, such as information technology, electricity and electronics. The city also set a number of targets for 2020, such as training half a million mid-level technical staff, 80% of the workforce, and 100% of employees in the four key public industries and nine key services. The results of these program, however, have been very modest.

#### 4. Rethinking the role of education

As analyzed above, to have a qualified workforce, to actively restructure and shape the economy and investments, the general education system, especially the secondary and higher

education programs, plays a vital role. Training a labor force for the market does not mean letting the tail wagging the dog. It means staying one step ahead, to actively shape the labor market in accordance with the objectives of shifting economic structure, investment, and production. This, however, does not allow education to become romanticized, or to be divorced from reality; it must be closely linked to the practical conditions of HCMC, i.e., its advantages or competitive factors, such as its institutions and business environment, hard infrastructure, and potential industry clusters. Whatever the approach, the training of a quality human resource does not start with higher education. While higher education lays a firm foundation for work ethics and adaptability skill to the labor market, k-12 programs provide students with a strong academic foundation and a solid cognitive toolkit. Depending on the comparative context, HCMC must determine the place and capacity of its education and training system appropriately.

HCMC's general education leads the country in all main indicators. According to HCMC Department of Education and Training, there are more than 700 pre-schools, 470 elementary schools, 243 junior high schools, 150 high schools employing more than 75 thousand teachers. In addition, there are more than 500 continuing education centers, foreign language and IT centers, providing instructions to more than half a million learners every year. To date, HCMC is one of the few places in the country to maintain universal primary education for all children of the primary school age, and universal secondary education in accordance with the city's own standards. Although HCMC public school system is not highly ranked compared to those in Hanoi, its private schools, especially international schools, are greatly valued.

An education system's competitiveness lies in its higher education. Registering 40% of the nation's college students and lecturers, this is one of the few areas that Ho Chi Minh City falls behind Hanoi. However, compared with other cities, Ho Chi Minh City is still head and shoulder above them. In 2010, the city had 75 higher education institutions (not including schools specializing in security service, national defense, and their affiliated campuses), of which 57 are public institutions (76%) and 18 non-public institutions (24%); as a whole, these schools take up 18% of the total number of universities and colleges in the country. The number of college students in the City in 2010 was 441,000, or 20% of the country's college student population. The total number of lecturers was 13,800, accounting for 23% of the total number of lecturers in the country (HIDS 2012).

However, the biggest problem facing Ho Chi Minh City's higher education in particular, and Vietnam's in general, is the rote learning method, the emphasis on theory and the lack of high-ranking universities or research institutions (at least within the region). Moreover, college admission rate among high school graduates is still too low compared with that of other countries or cities in the region. As a result, HCMC needs to raise both the quantity as well as the quality of its higher education, understanding this is a very important foundation on which a high-quality human resource is developed.

## **5. Human resource training: Lessons from the Higher Engineering Education Alliance Program (HEEAP)<sup>6</sup>**

Since 2001, USAID, Arizona State University's Ira A. Fulton School of Engineering and Intel has cooperated with the Ministry of Education and Training (MOET), Ministry of Labor, Invalids and Social Affairs (MOLISA) and many top-rated universities and technical colleges of Vietnam to introduce new training methods in technical courses, changing the whole process from a passive, theory-based method to a more applied, hands-on approach. HEEAP's main goal is to train and develop university lecturers through workshops and exchange of experiences. Until now, more than 5000 lecturers from Vietnam have been trained at various HEEAP's in-country workshops and conferences abroad as part of the program.

Since 2012, HEEAP has expanded its scope to include Vocational and University Leadership and Innovation Institute (VULII). The expanded program is designed for college administrators and aims to strengthen their institutional capacity as well as their strategic planning skills. To date, this extension of the highly successful HEEAP has trained more than 1,000 lecturers through many workshops.

HEEAP is viewed as a typical example of the PPP model in education. This model did not come from an arbitrary decision of the state, but was a response to the market's signals. First and foremost, the program originated from Intel's demand for a high-quality technical staff. What is important is that during the recruitment and employment process, Intel recognized its ability to contribute to innovating the instructional methods to produce high-quality human resources for Vietnam. This was implemented through cooperation with a prestigious technological institution in the USA, namely Arizona State University. Not only that, Intel also has the ability to access and secure grants from the U.S government through USAID. The government of Ho Chi Minh City, through the Board of Directors of Saigon Hi-tech Park, also contributed resources to this initiative. This program is clearly a Public-Private Partnership model in education, bringing benefits to all parties involved and for the whole economy of Vietnam.

The success of this model is a testament to an approach to human resource training based on market signals, which in this case is Intel's unmet demand for high-quality human resources at that time. Intel could not just sit and wait for Vietnamese universities' vague reform programs to bear fruit. With expertise and knowledge about the demands for a competent and highly-skilled labor force, especially as a direct beneficiary, Intel has played an active role in bringing together the government of Ho Chi Minh City, the U.S Government and its training partner, the Arizona State University. Not only Intel but also all the parties involved benefited from this program, including the workers. This is the reason why the model is always administered and operated efficiently in a manner that makes Intel proud. The government of Ho Chi Minh City can adopt and multiply this model for its other human resources improvement programs in the city.

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<sup>6</sup> The section is primarily taken from "Report on the Impact of Intel after Ten Years of Investment in Vietnam, 2006-2016" by a Fulbright research team.

## 6. Summary

If one hopes to find a “magic bullet,” then it must be a solution to the question of human capital. An abundant workforce made up of diverse human resources from other provinces and regions is no longer HCMC’s sole advantage. Instead, high quality human resource and high-productivity are the requirements HCMC has to meet if it is to upgrade its economy. In a society desiring wealth and an economy wanting prosperity, the key to satisfying its desire and want is its stellar productivity growth. It would be difficult for HCMC to achieve that kind of growth without talented individuals, a labor force of high caliber comparable to the best in other economies and other cities in the region.

## V. BOTTLENECKS TO INDUSTRIAL AND SERVICE DEVELOPMENT

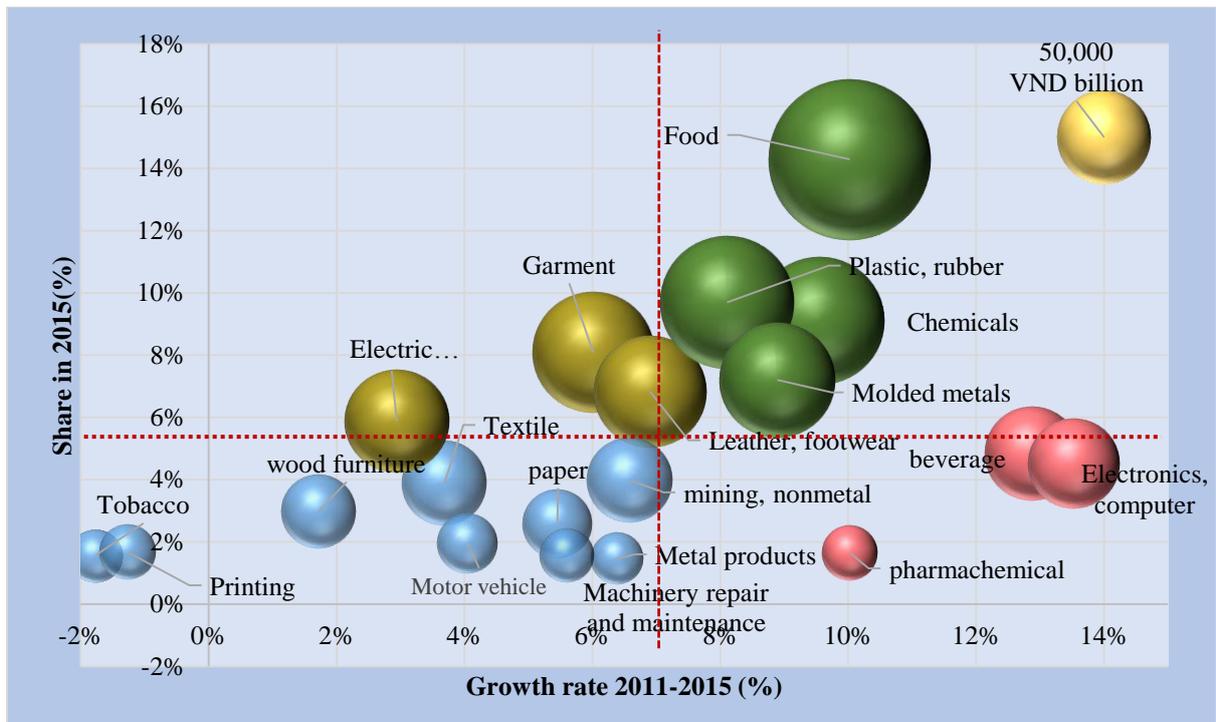
### 1. Background

Industry and service play a decisive role in HCMC economic growth, both accounting for as much as 99 % of its GRDP. For the past five years, the city’s economic structure has experienced a distinctive transformation. Specifically, while the share of industry and service remained virtually unchanged from 2000 to 2010, the 2010-2015 period saw a fall in the share of industry from 45.3% to 39.6%, and an increase in that of service from 53.5% to 59.4%. The city's economic prospect, therefore, depends on the growth rate of the high-quality and high value-added industrial and service sectors. However, a closer examination of the composition and added value of these industries and services reveals their limited competitiveness. Due to the limited data available on the city's service industry, this part is devoted chiefly to analyzing the manufacturing, processing industry, but the results are, in certain aspects, also reflective of the situation of the service industry as a whole.

### 2. Some weaknesses in HCMC industrial policy

Figure 16 shows that between 2011 and 2015, food, rubber-plastic, chemical and precast metal production, four of the pivotal local industries, record the highest growth rate and the largest shares. The two areas with a large share in GRDP but declining growth rates (below the industry’s average growth rate) are the textile and footwear industries. Posting a high growth rate despite a modest share (under 5%) are the beverage and electronics & computer engineering sectors.

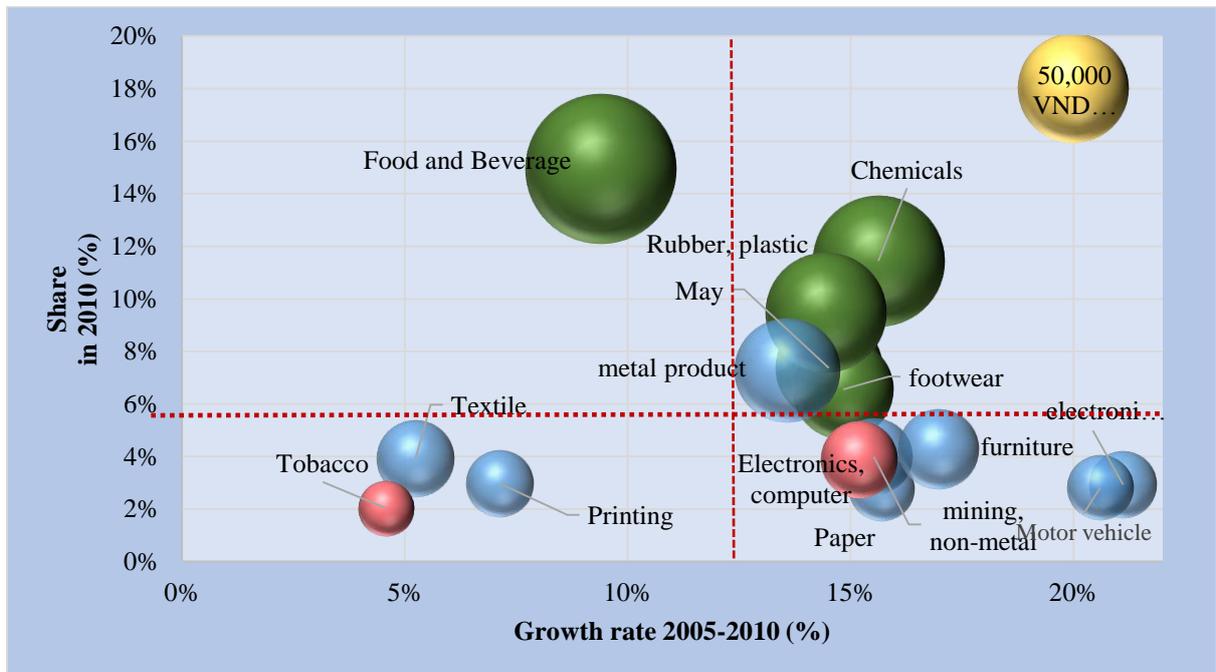
**Figure 16.** Growth rate and shares of manufacturing in HCMC (2011-2015)



Source: Calculated by authors from HCMC statistics yearbook

A comparison of the composition and share of the industries between the 2011-2015 (Figure 16) and 2005-2010 periods (Figure 17) indicates that there were significant changes in HCMC manufacturing and processing industries (Table 5).

**Figure 17.** Growth rate and shares of manufacturing in HCMC (2005-2010)



Source: Calculated by authors from HCMC statistics yearbook

**Table 5.** Changes in manufacturing in 2005-2010 vs. 2011-2015

<b>Grow</b>	<b>Stable</b>	<b>Reduce</b>
<ul style="list-style-type: none"> <li>• <u>Electronics - computer</u></li> <li>• <u>Food processing</u></li> <li>• Beverage</li> <li>• Medicine – pharma chemical</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Chemicals</u></li> <li>• <u>Rubber - plastic</u></li> <li>• <u>Metal products</u></li> <li>• Textile</li> <li>• Non-metal mining</li> </ul>	<ul style="list-style-type: none"> <li>• Garment</li> <li>• Footwear</li> <li>• Wood/furniture</li> <li>• Tobacco</li> <li>• Electric appliance</li> <li>• Motor vehicle</li> <li>• Printing, publishing</li> </ul>

Bearing in mind the results in Table 5 and the list of four key industries of the city, we arrive at two important conclusions. First, supposedly the critical industries of HCMC, the chemical, rubber and plastic, and machinery industries could only maintain their leading position (in terms of growth rates and share relative to the entire manufacturing and processing industries) but showed no remarkable development. Second, while not listed among the key industries, the beverage and medicine & pharmaceutical chemistry sectors grew very rapidly and were beginning to account for a relatively substantial industrial share.

### **3. Low added value: the Achilles’ heel of Ho Chi Minh City industries**

Our analysis in this part has pointed out some problems in the city’s industrial structure policy. However, the biggest problem with the policy lies not in the structure, but in the competitiveness. Most of the city’s industrial production, whether in the textile, clothing, electronics, food or medicine sectors, have been contract-based processing and yields very low value added. Evidence for this can be seen in the garment and electronics industries. The former, once leading the city in industrial growth, has been on a downward trend, while the latter, despite its not very high industrial share, records a growth rate in industrial productive value that is twice as high as the average of the manufacturing and processing sectors.

#### ***3.1 Processing in garment industry: low value and low value added***

HCMC garment industry began to take off after the introduction of Vietnam Business Law in 1999 and the signing of the bilateral trade agreement with the United States in 2000. From 2005 to 2010, the garment sector was responsible for 7.4% of the productive value of the manufacturing and processing industries, and had a growth rate up to 14.5% per year. However, between 2011 and 2015, although its share was still a significant 8.1%, its growth rate decreased to 6.0% per year. There are many causes of the decline, the most fundamental of which is that the source of its potential growth (i.e. low-cost processing) is being dried up, while the city has not been able to upgrade the sector.

**Figure 18.** Cluster Map of Garment and Textile in HCMC



Color notation:

Very weak	Weak	Average	Strong	Very strong

Sources: IPP and CIEM (2013)

More than three years ago, a study was done by the Fulbright Economics Teaching Program (FETP) on the competitiveness of the garment industry cluster of Ho Chi Minh City, Binh Duong and Dong Nai Province. One of its main conclusions is that:

*the garment industry cluster is created but not fully developed, its competitiveness is limited and unsustainable. In general, its most distinctive competitiveness is in the processing stage, mainly the CMT business, while its most serious weakness lies in the upstream and downstream sectors and the supporting industries. Furthermore, the linkage and cooperation between the garment industry cluster and its related sectors/clusters and supportive-cooperative institutions have been very weak and ineffective. These factors have impeded and will continue to impede the industrial upgrading of the cluster, and thus the enhancement of the industry's competitiveness.*

The limited competitiveness of the garment industry cluster above can equally apply to the garment sector of Ho Chi Minh City, as summarized in Figure 18.

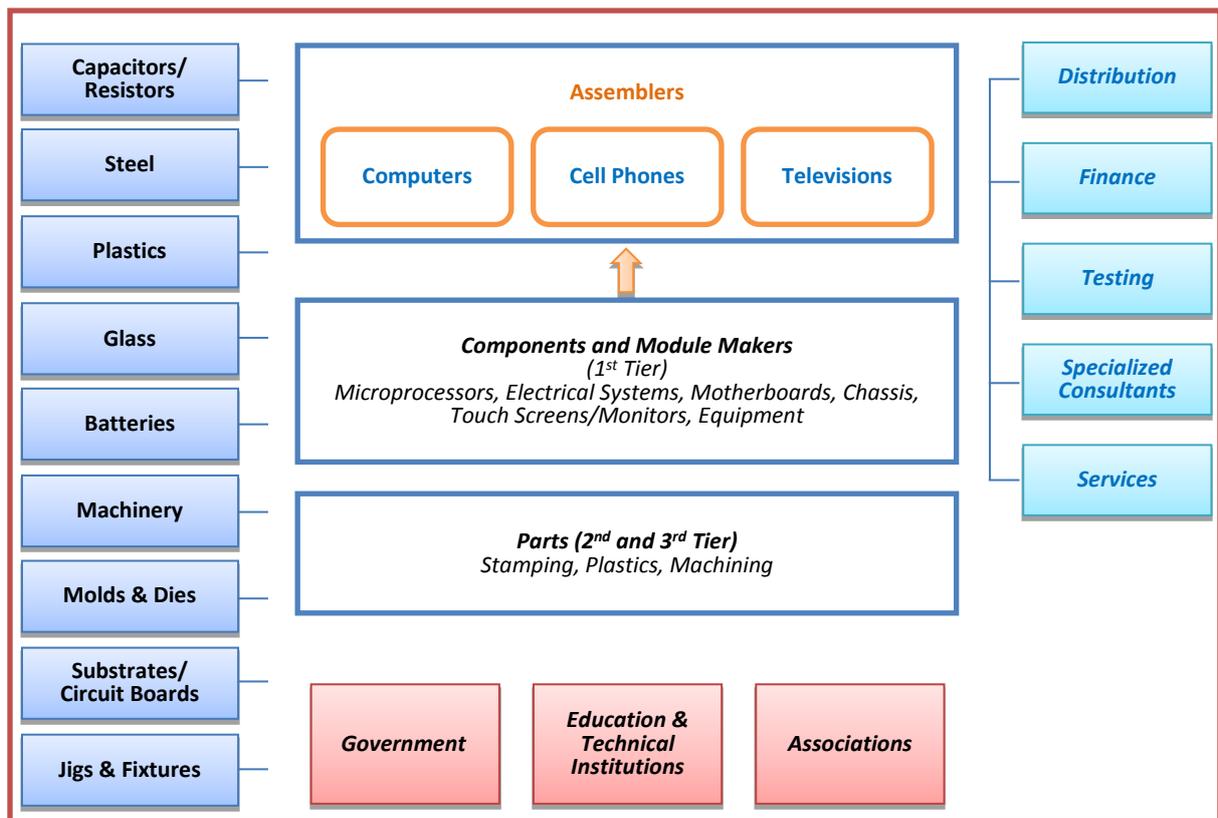
*An important lesson to be drawn from the garment industry case is that it is necessary to constantly upgrade the industry, that is, move up the value chain and expand the potential of the industry cluster. It is unwise to continuing to rely on low value-added processing, or focusing nearly exclusively on a single stage in the value chain that brings the lowest value added.*

Therefore, from a public policy perspective, the range of efforts to develop the garment industry or any other sectors consists not simply in policy formulation, for which the government is responsible, or business activities, which are performed by the business sector, but also a wide variety of closely related activities like education and training, scientific research, finance and banking, infrastructure, logistics, and the distribution system. In other words, the development of an industry requires an all-encompassing perspective since increasing the competitiveness of any industry necessitates effecting progress on a great number of dissimilar fronts. Consequently, *the current approach to industrial strategy and policy in Ho Chi Minh City, which focusses its attention solely on industry and industrial products, is not the right approach and needs to be replaced by an industry cluster approach.*

### ***3.2 Electronics: Contractual processing, yielding high value but low value added***

HCMC industry performs processing work not only in low-tech sectors like the garment industry, but also in high-tech ones. A case in point is Intel. Eleven years after its presence in Vietnam and seven years after its first computer chip was produced here, its only activity has been assembly, test and manufacturing (ATM). Additionally, the original expectation of the city that Intel would give a powerful boost to the development of local electronics industry, or ideally, become the nucleus of this industry, has never materialized. Truth be told, the responsibility for this failure rests not with Intel but with the city's industrial strategy and policy. Metaphorically speaking, Intel sailed a ship across the ocean to dock at Vietnam, but policy flaws and management incompetence have regrettably kept Vietnam from boarding the vessel.

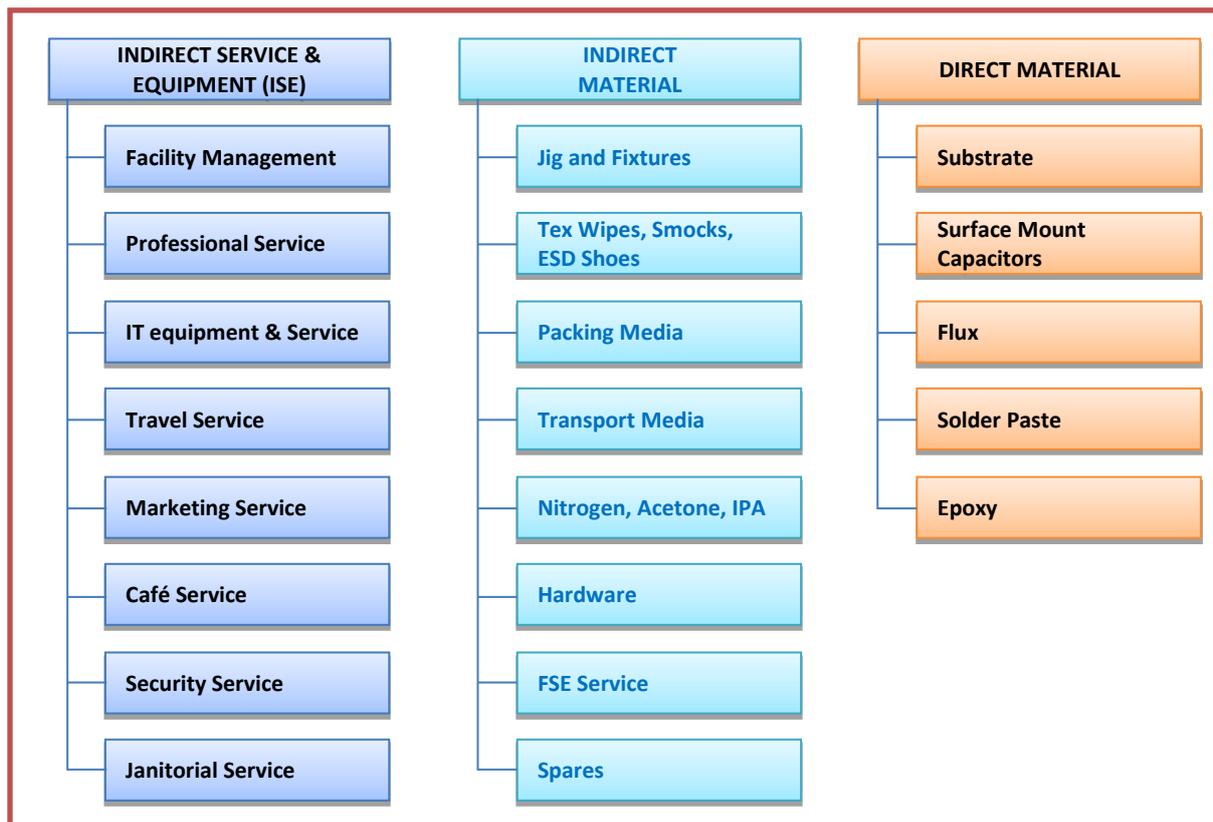
**Figure 19.** The Electronics Cluster in Vietnam as Envisioned by Intel



Sources: Steve Megli, Vice President, Technology Manufacturing Group, Intel Corporation, “Growing the High Tech Industry In Vietnam”, A presentation to the Vietnam Executive Leadership Program (VELP) at Harvard Kennedy School, November 2008.

Figure 19 shows a diagram of Ho Chi Minh City electronics industry from Intel's angle of vision, according to which Intel as a microchip producer lies at the core of an industry cluster, which also includes other makers of level-I electronic equipment and modules. For a fully-evolved industry cluster, there must exist many other components surrounding the core, such as suppliers of level-II and -III components, supporting industries, related services, coordinative institutions, and of course, the indispensable role of the government.

**Figure 20.** Intel ATM Materials Supply Overview



Source: Intel Products Vietnam

Comparing Intel’s vision with the reality shows the city's electronics industry cluster is a bit immature, a bit primitive to say the least. According to a research in 2017 by FETP, “Intel’s activities in Vietnam have primarily involved processing and assembly, with no sign of forthcoming research and development activities. Its products are primarily intended for export, being produced within a virtually closed production cycle that constitutes Intel’s own value chain.” The implication of this is that Intel's spillover effects, especially in linking with domestic businesses and bringing them into its value chain, are very modest.

Figure 20 describes different stages in a supply chain for an Intel ATM factory in Ho Chi Minh City. Here, Vietnamese producers can neither be involved in providing machines, which come from North America, Eastern Europe and the Middle East, nor become suppliers of direct materials, typically imported from North America and Asia. They can only supply some indirect materials, such as boxes, accessories, chemicals, frames, jigs, active materials, and promotional gifts; and some on-site services (seasonal work, meals, and security). As a result, Vietnamese providers account for a mere 3% of the entire production value accrued to Intel.

## **VI. INSTITUTIONAL BOTTLENECK AND URBAN GOVERNANCE DEVELOPMENT**

### **1. Background**

Against the backdrop of a global trend towards decentralization, for the last thirty years, local governments in Vietnam, noticeably Hanoi and HCMC, have enjoyed considerable and increasing decentralization in governance. Local governance and scope of public services are gradually expanded, first through specific policies designed for Hanoi<sup>7</sup>, HCMC,<sup>8</sup> Hai Phong, Danang, Cần Thơ,<sup>9</sup> for the three special economic zones currently under construction,<sup>10</sup> and finally through the general policies for the remaining provinces.<sup>11</sup> In general, decentralization can be viewed as a social process that unfolds in at least four dimensions: economic, administrative, fiscal, and political. Developing specific policies and mechanisms for HCMC is part of the decentralization trend. Since mid-2000s, there have been many policy discussions to propose “specific policies and mechanisms for HCMC,” drawing much attention from the Party, the government, the academia as well as public opinion. Theories of decentralization or models of urban self-government have been widely discussed, but decentralization has so far not yet produced concrete results for HCMC.

### **2. Institutional bottlenecks constraining HCMC’s autonomy**

From the perspective of local governments, an institution is a set of behavior, law, customs, habits, both formal and informal, that define one’s relationships with the central government, with neighboring provinces and cities, with the political system, government organizations, businesses and local inhabitants. As far formal institutions go, the relationship between HCMC and the central government is defined within the framework of the Constitution 2013, the Local Government Organization Law 2015, and the Budget Law 2015. These documents are written to provide guiding principles, set the direction, and can be liberally interpreted. In our judgment, they provide a wide enough legal framework, without the need for major modification, within which HCMC can actively lobby for policies that increase its autonomy.

### **Figure 21: Three Critical Layers of Governance**

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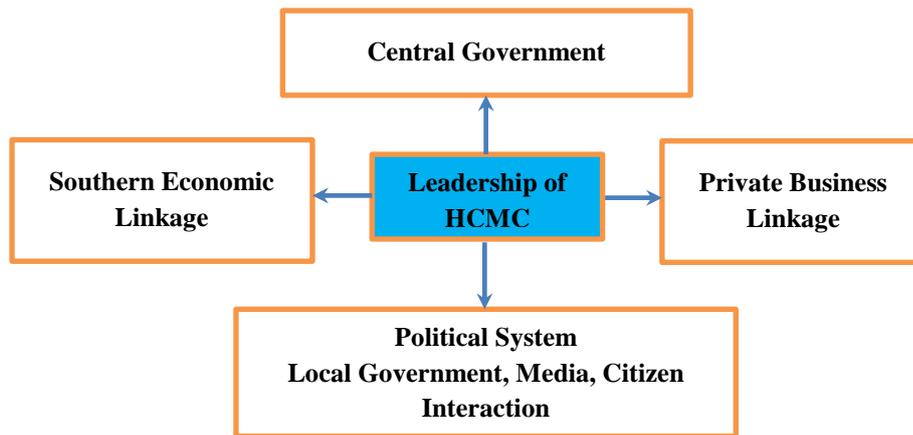
<sup>7</sup> Law on the capital, promulgated on 21 Oct, 2012, effective from 1 July, 2013.

<sup>8</sup> A specific financial-fiscal policy for HCMC is stated in Decree No. 124/2004/NĐ-CP and Decree No. 61/2014/NĐ-CP 19/06/2014.

<sup>9</sup> Usually adopted in Government decrees on specific financial-fiscal policy.

<sup>10</sup> The government’s Law on Special Administrative-Economic Unit is being drafted. The concept “Special Administrative-Economic Unit” is recognized in the Constitution 2013. The Ministry of Planning & Investment and the Judicial Ministry are drafting the law.

<sup>11</sup> Other provinces can still appeal for exemptions through discrete administrative decisions by the government, and ad hoc policy by ministries and central agencies.



Source: Compiled by authors.

A tentative assessment, made on the results of many studies that have been published, suggests most political statements contained in the Politburo's Conclusion 16-NQ/TW dated 10 August 2012, have not yet been followed. Power remains largely centralized, and HCMC still cannot access any special policies and mechanisms. There are many explanations for why specific policies and mechanisms for HCMC have not materialized, although they were promised by the Party and Government in official documents. Using the ROCCIPI method to analyze the unwillingness and unpreparedness to decentralize power produces the following observations:

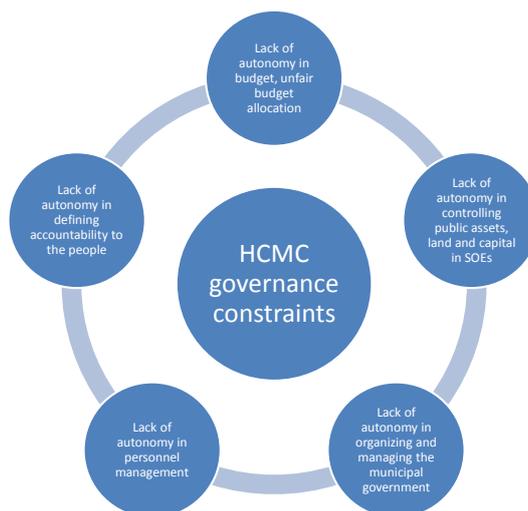
- **R [Rule]:** *Political proclamation is one thing; the reality of government policies, laws and regulations is another.* From budget allocation, public finance management, public administration, personnel policy, to other sectoral policies, regulations in these areas have not followed the directives to decentralize policy-making power and increase autonomy for HCMC. The interaction between the central and local governments is still governed by extra-legal practices, habits and unwritten rules.
- **O [Opportunity]:** *The existing hierarchy of power distribution gives the central authority power to control and intervene when needed, but also gives local officials the excuse to evade responsibility and curtail their duty.* This may not be contributive to the development of HCMC, nor to the future of the whole city, but at present it is a convenient mechanism that places considerable power at the discretion of both local and central incumbent officials, allowing them to strike deals, on a case by case basis.
- **C [Capacity]:** *Capacity levels of central and local governments may not measure up to the demands of decentralization.* Central officials need skills, vision, and a fresh mindset to manage megacities that are more prosperous and more autonomous. Local officials, on the other hand, must also upgrade their skills and capacity to be able to exercise greater autonomy.
- **C [Communication]:** *Ineffective communication can inadvertently give local governments elsewhere in the country the impression that HCMC is favored, thus raising obstacles to the adoption of decentralization policies.* Other localities, especially poor ones, also have

channels of their own to exert influence on the central government. If they do not support the decentralization process for HCMC, they may voice their opposition to it.

- **I [Interest]:** In the long-term interests of HCMC people, the centralization of power and the constraints on local autonomy will only stifle the city's development. But as we have pointed out, *the existing power-distributing arrangement can be a safe choice and a beneficial tool for central and local officials*. The less transparent and less clear-cut the mechanism for power distribution, the more officials at all levels can evade accountability.
- **P [Procedure]:** Any special policies or mechanisms that delegate broad powers of policy making to HCMC will have to be adopted through certain legal procedures and recognized in legal documents. There are obviously many formal and informal elements to this process. Only a clear understanding of the process of law and policy discussion in Vietnam's political system can help HCMC successfully lobby for this.
- **I ["Ideology"]:** A strong decentralization of power to HCMC, even according to special mechanisms that are not bound within the current legal and policy framework, may not yet reach a wide consensus among central leaders, leaders in HCMC and other places. Besides the issue of entrenched interests, insufficient knowledge of the decentralization process, fears of the risk of political fragmentation, localism, and doubts about the benefits of piloting new models have made decision-makers at central level hesitant to accept bold proposals from HCMC.

*The role of individual leaders and informal institutions:* In terms of political leadership, local leaders play an enormous role in the process of lobbying for decentralization. They provide the consensus, the motivation, the leadership, and can use all their political influence to convince the central government. In other words, whether HCMC can acquire a special status, more prominent than any others, significantly depends on the determination and the ability of its leaders to forge alliances and exert their power and influence politically and institutionally.

**Figure 22.** Constraints to HCMC autonomy



*Source:* by authors.

*Administrative discretion and operational flexibility:* In terms of professional expertise and mid-level leadership, all negotiations between the central government and HCMC on planning, budgeting, getting approval and dealing with supervisory issues are significantly influenced by the personal relationships between HCMC leaders and their counterparts in central ministries. In their capacity as administrative officials, these individuals use their discretionary powers to influence significantly each decentralization decision. Central officials have the incentives and interests to perpetuate a system in which the separation of powers between central and local governments is less than well-defined, for this helps reinforce their discretionary power. Personal connections and influence help to get the work done more conveniently through a multitude of informal channels -- muddy, unstable, unpredictable and far from transparent though these channels may be.

*A symbiotic ecosystem of benefit-sharing institutions:* Political, economic and legal institutions, together with political, corporate and social organizations in Vietnam, all exist in a symbiotic ecosystem, a community of interest that protects and benefits each other, politically and economically. An increase of autonomy in one's place means a loss of power in another. All institutional reforms, large or small, in the government, will meet with resistance, if they upset this symbiotic ecosystem. The foot-dragging and irresolution of the central government in handing over more autonomy to HCMC, in drawing well-defined boundaries between the two levels of governance, probably stem from the concerns outlined above.

### **3. Summary**

We stress that there are already enough political commitment and legal grounds to accord HCMC more autonomy, even giving it power to operate outside the legal framework, but this exists only in theory, not in practice. Political, administrative, budgetary, and economic powers

are still concentrated in the central government. HCMC has not been given the power of self-governance, not allowed to retain a fair share of its tax revenues for its own development, and has no autonomy in building up a government befitting its status as a megacity. Administrative decentralization policies for HCMC are the right step in the right direction but not enough, there needs to be concrete and clear-cut mechanisms to decentralize power to HCMC, helping it to be truly self-governing and self-responsible in exercising its authority.

## **PART III - CONCLUSION AND POLICY RECOMMENDATIONS**

### **A. Defining vision**

1. Competitiveness and livability are two universal criteria to benchmark and compare cities around the world. No one wants to live in or visit a place that is featureless and lack of identity. This perspective looks at HCMC as a magnet of talents and cultures where traditional values and feature richness must be elevated in urban development.
2. This report proposes two targets for the city. By 2025, also the 50th anniversary of the country unification, HCMC will have mirrored other mid-ranking cities in the region in terms of basic infrastructure and competitiveness. By 2045 - the centennial anniversary of Vietnam's independence - HCMC will have joined the competitive and livable city club.
3. The city should benchmark itself beyond Vietnam and against regional cities regarding competitiveness and livability. Thus, HCMC needs to view the 12 cities in the region as its *competitors* and consider local governments in the Southeast and Mekong Delta regions as its strategic *partners* in promoting the competitiveness of the greater HCMC region.

### **B. Urban planning, development of transport infrastructure and provision of public service**

1. City planning needs to be changed to the core, from administrative and formality-based to more integrated and strategic approach. Only then planning would become a useful and systematic tool for administering and managing priorities and resource allocation that helps the city realize its strategic goals and meet the changing environment.
2. More focus should be put on devising breakthrough programs on transport infrastructure, refining and developing a city that relies on mass transit as its core transport; generating a spatial structure that is smart, efficient, competitive and livable.
3. The city needs to make detailed study and assessment of urban service provision in new urban area, especially learning from the Phu My Hung experience, and find ways to socialize the provisions of public services that fit demand of each residential segment.
4. Recommendations should be made to the central government to decentralize and delegate HCMC in accordance with the Constitution, the Law on Government Organization, and the Law on Local Government Organization, specifically:
  - a. The city can reorganize its administrative arrangement to serve its own urban planning and management purposes.
  - b. The city can pro-actively carries out congestion solutions such as limiting traffic in the city center, curbing registration of vehicles, imposing congestion fees.

- c. The city requests permission from the central government to conduct land value capture experiments during transition such as property tax, development rights and betterment levies. These are popular local financing tools that are not yet existent in Vietnam. They constitute a promising and stable source of retained revenue for the city once in place.
- d. The City requests the central government for permission to pilot a special administrative area in Thu Thiem to experiment with modern public service delivery practices. Based on that model, HCMC could propose to the central government to allow it to retain a higher percentage of revenues from these special administrative areas. If this is allowed, the city can, within its administrative boundaries, execute policies to increase revenues in special administrative areas and increase expenditures on “interlinking” infrastructure works.

### **C. Promoting regional institution initiatives**

1. Institutions that promote the linking of HCMC to the eastern and western provinces are beyond the scope of this study. However, HCMC policies should strategically and actively promote the linkages between HCMC and the economically dynamic, fast-growth areas of the South. In addition to the fact that resources will be effectively allocated through regional linkages, various issues about planning, environmental protection, human resources, transport, and crime prevention in HCMC will not be solved effectively without the collaboration with the regional provinces.
2. There are usually two approaches to the promotion of regional linkages. The first approach involves re-centralizing functions that have been decentralized to the provinces discretely and irrationally, and delegating the centralized authority to regional institutions to execute state management functions. For example, functions such as regional transport planning, river and seaport management, environment management (in the river basin) must be given to the regional institutions with full authority to handle.
3. Under the second approach, pressure from local voters and the scarcity of resources will be used to force local governments to make efficient use of their resources. For example, voluntary mergers among more than 20 radio and television stations in the South will take place if they have to operate under market forces. Similarly, cultural and sporting facilities, cartographic companies, asset valuation and auction firms, water supply and sewerage utilities, waste treatment companies, and many others are capable of providing public services to neighboring provinces in need if some market-based horizontal integration mechanisms are in place. This linkage will occur naturally as local governments work to within their limited resources.
4. The city must be allowed to pilot policies on decentralizing state management, establishing single-tier urban government, promoting administrative reform, and increasing local authorities’ accountability. These policies give priority to: i)

empowering HCMC authorities in land administration and administration of businesses, ii) piloting the decentralization of state management under the single-tier metropolitan government model, iii) forming a stable and long-term alliance between strategic investors and public entrepreneurs, iv) piloting an increase in accountability and the promotion of administrative reform.

#### **D. Prudent implementation of the PPP model**

1. Given the shortfall in the city's financial resource, PPP seems to be an attractive alternative. However, this financing mechanism can be risky and troublesome. The City needs to conduct a thorough assessment of existing PPP projects to learn from their experience and make sure external references are drawn for successful models.
2. The City should take full advantage of its existing financial organizations. The urban development company and the special fund-raising agency for urban development have been implemented in HCMC. However, the results fell short of the expectations. CII or IPC are the city's capable pioneers in infrastructure development, and HFIC is an organization innovative in financing mobilization. Therefore, these organizations and companies should be granted with appropriate autonomy and mechanisms so that they can operate to their full capacity, and actively find their own ways to cooperate with one another in the development of HCMC infrastructure.

#### **E. Mobilization and allocation of resources and budget**

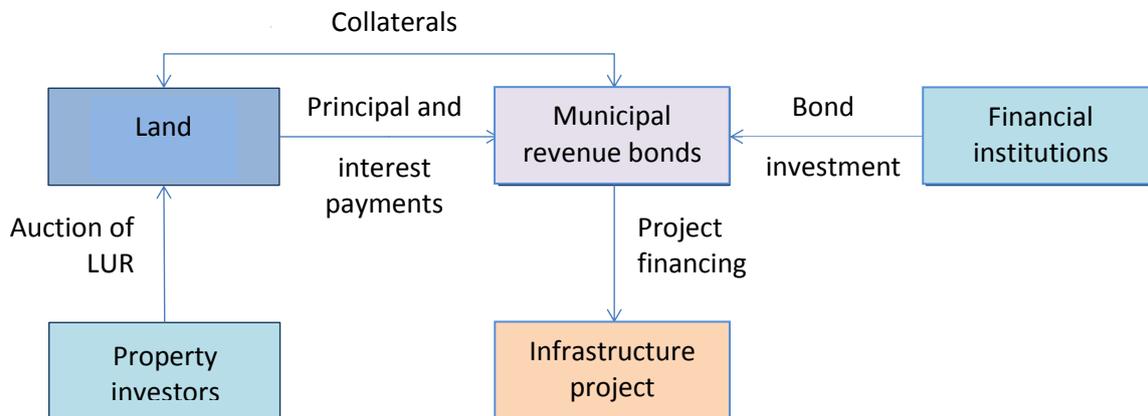
1. Resolution No. 16 / NQ-TW should be implemented properly and equitably by assigning HCMC a fair share of funds and resources it deserves. When a fairer share of fund fails to realize, an increase in autonomy can be asked where breakthrough policies will be experimented to generate new drives for the City's development.
2. A significant and sustainable local revenue source is property tax which is levied on real estate, including land, houses and apartments. The City can propose to the central government for the right piloting this property tax.
3. HCMC is said to have the highest number of state-owned villas and townhouses in the country. These housing units should be inventoried and evaluated for their efficient use. The municipal authority should be allowed to auction the properties that are not needed and inefficiently used.
4. While mobilizing additional resources, HCMC has to find ways to promote better use of public property and improve investment efficiency.
5. In terms of spending, discretion is needed for the city to carry out its spending obligations, it must have the flexibility in allocating payroll, administrative and staffing expenditure toward an efficient and lower use of regular expenditure.

6. Budgeting process needs to be rearranged for transparency, allowing public debate on the impact of the budgeting criteria, and incorporating more public involvement and feedback into the budgeting process.
7. Proceeds from divestiture of capital under the city’s management should be a source of financing to HFIC, which will then be used as seed money to mobilize new funding for infrastructure development.

**F. Capital mobilization for infrastructure investment in HCMC**

1. The city should ask for infrastructure to be funded in full or in part by municipal revenue bonds (or shortly project bonds) issued by the People's Committee of HCMC. Project bonds are secured by land-use rights (LUR) of clearly defined public land. When the project is about to be completed, the LUR will be auctioned. The proceeds will be used to repay principal and interest on the bonds.

**Figure 23. Financing Infrastructure by project bond with LUR as collateral**



Project bond financing will ensure principles of value maximization, improved efficiency, and financial guarantee. Since the local government bonds are secured by the value of LUR, they are not guaranteed by the state budget and therefore should not be counted as public debt. This can be approved and integrated into policies and mechanism package to HCMC without changing existing regulations.

The public land will be utilized at a price reflecting the market value to the benefit of the people, investors, and government. Applying this mechanism will overcome many weaknesses of the BT contract (land exchange for infrastructure where the land valuation is not based on the market price and/or the investor’s financial capacity is not secured).

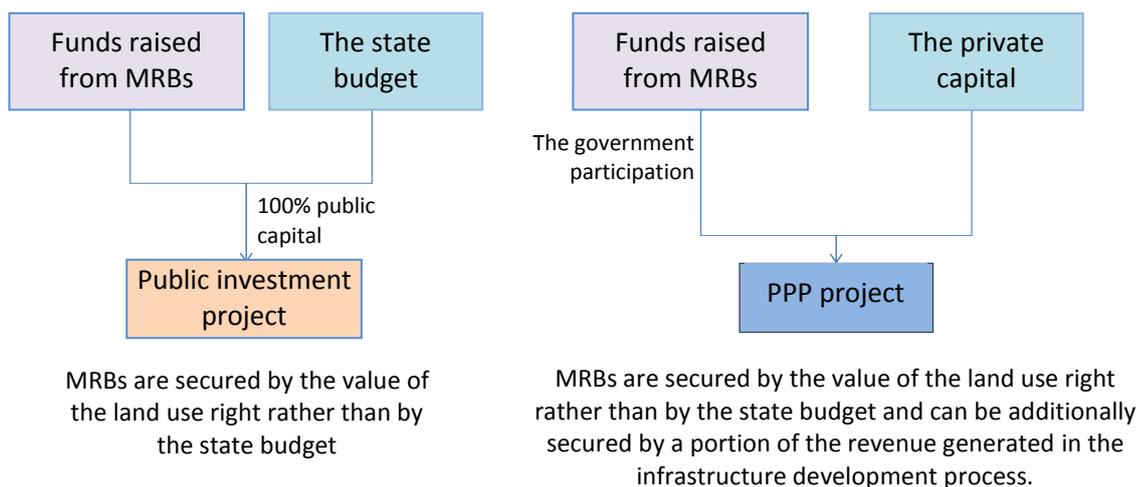
This mechanism also provides the right incentives for the project participants, which are the most important factor to improve investment efficiency. On the public side, this mechanism helps save financial costs. Firstly, the financial resources come from an increase in land value thanks to the positive impacts of the infrastructure project. Second, the interest payments are limited to the construction period, which is also the term of the project bond, rather than the life cycle of the project. On the business and investment side, efficiency comes from connecting

the investors' core competencies to the right activity in the project. Enterprises that have the best capacity for infrastructure construction will participate in construction tenders. Real estate businesses/investors who have the best capacity to develop land associated with the project will be bidding to buy LUR. Financial institutions will be bidding to buy project bond when they are issued on the primary financial market and then on the secondary market.

2. Ensuring this mechanism requires transparency and competitive pressure based on market signals. Project bonds are not secured by the state budget nor accounted in local liability (limited to 60% of the local shared revenue). Of course, the credit risk of bonds will be higher and the yields of bonds required by investors will also be higher when collaterals are the value of land use rights.
3. This mechanism can be flexibly applied to both pure public investment and PPP projects (Figure 24). For pure public investment projects, the entire investment is the state capital. The funds raised from project bonds can be 100% or part of the total project investment. In the case of partial funding, the rest will come from the state budget.

For PPP projects, capital raised from MRBs represents the part for which the government participates in the project. The remaining funds are equity contributed by private investors and loans from financial institutions.

**Figure 24. Project bond financing applied to public investment and PPP projects**



4. *Impact fees*: When an investor in an urban area causes additionally infrastructure congestion and the government has to invest more to increase the capacity of the infrastructure, the investor is required to pay a substantial portion of the additional investment costs.
5. *Betterment levies*: Betterment levies are also a form of mobilization of resources for infrastructure investment from properly and sufficiently exploiting the increased value of land thanks to the infrastructure. When the government invests in infrastructure, organizations and individuals who own land use rights naturally benefit from the increased

value of their land. So, the betterment fee is levied on these subjects at a value equal to the portion of the added value that they enjoy.

6. *Development rights*: When there is almost reliable information that the government will invest in infrastructure that connects and supports a new city, many investors will compete for a project investment license (mostly the real estate projects of housing, office and commercial building, but there may also be other service projects) in the metropolitan area. According to this proposal, these investors must contribute part of the cost of infrastructure construction in the region to have the right to develop their projects.

Given the above considerations, this recommendation should be considered for pilot implementation in a large infrastructure investment program. For instance, the HCMC metro system. If the metro is close to or within a new urban project, the City can negotiate with existing investors, especially the potential investors that they will be granted an investment license if they agree to contribute financially to a certain percentage of the project.

7. This mechanism should be called a “financial contribution” by the developers of infrastructure as their projects benefit from increased land value once the infrastructure is in place, rather than calling it an official fee (which in the future may be feasible if it is part of a proposed law amendment or supplementation).

## **G. Human resources development**

1. Review and re-evaluate generally and completely the Action Plan No. 19-CTrHD / TU dated 31/10/2016 of the HCMC Party Committee on the implementation of the Resolution of the Tenth Party Congress of the City's Tenth Program to improve the quality of human resources in the period 2016-2020 ranging from the perspective and approach to the criteria, targets, and solutions.
2. Rethink the role of the government in the education system, changing from management thinking to constructive thinking, encouraging and promoting academic freedom, thought, and expression, being the catalyst for critical debate, critical thinking, and intellectual testing.
3. Remove barriers, reducing transaction costs in the labor market, making the labor market more dynamic and efficient, thereby enabling human resources to be used more effectively. The effective labor market is also a channel for job selection, career orientation and training programs for colleges and universities.
4. Increase the public expenditures and devoting more resources (such as land, credit) for education. Increasing resources is important but using resources more effectively is more important. Educational spending and investment policies must be leveraged rather than given to non-motivated beneficiaries and being segmented.

5. Expand international cooperation programs with reputable universities in other countries, especially USA, UK, France, Germany, Japan...; requiring for upgrading advanced training programs associated with practical needs; applying academic, university governance standards, and international standardized educational accreditation.
6. Apply the public-private partnerships in education whereby the HCMC government should learn and replicate the Intel's HEEAP Initiative in the area of human resource training associated with the market and the demand for labors by businesses, on the basis of promoting the role and motivation of the stakeholders, in which the HCMC government plays the active role and is the supportive partner in terms of policy and supplying major resources.
7. Stronger incentives should be in place to attract talented foreign scientists, excellent Vietnamese students, and excelling or retired Vietnamese living and working overseas as well as international experts who come to Vietnam to do research, consult, and teach part- or full-time; also encourage international enrollment in some disciplines to attract international students to study in Vietnam. There are cases in reality when international students start up their own businesses where they studied.
8. Promote the formation of large regional and international research centers whose outputs are not only scientific research findings but also expertise and interactions with spillover effects from working in professional research environment.

Restructure incentives to encourage civil servants to take the responsibility to carrying out his or her duties; recruitment, employment, remuneration, and appointment should be transparent, competitive and merit-based.

9. Create open policy on attracting and bringing talents into the public sector; facilitating and empowering gifted people to develop their true capacity instead of isolating and wasting their talents.
10. Apply compensation mechanisms and incentive system based on competency and performance to stimulate productivity, creativity, risk taking, and accountability; Change the current leadership planning approach without destroying self-motivation and aspiration by creating equal opportunities for all, and ensuring transparent and accountable staffing policies.
11. Create a good living environment to attract talent people to HCMC; providing an enabling administration to attract good people to come and live in HCMC.
12. The AEC opens up the opportunity for HCMC to attract high-level human resources in a number of areas. This may be a threat from certain perspectives, but it generally creates competition, screening the best from the mediocre, and bringing many benefits to the economy. Institutional reforms towards inclusion, building a friendly and cooperative working environment, creating a living environment of high quality etc. are

all critical to HCMC if it wants to advance in the competition for brainpower against other cities.

## **H. Industrial policy**

1. Services and manufacturing are the backbone of HCMC economy. Best effort should be made to develop and upgrade these two industries as they will play decisive role in the city's economic prospects.
2. In the future, manufacturing will decline while services taking an increasing role. The city needs to be prepared and gets ready for this structural transformation.
3. The preconditions for high value-added industry and service development are skilled labor, quality infrastructure, open business climate, and all above, the local economic and governance institutions that are business friendly.
4. In the short to medium term, the city is still relying on labor-intensive industries such as footwear and apparel for job creation. It is important, however, to keep in mind that these industries will face enormous risks. The first risk is automation; the second is the "processing trap"; the third is the "low-tech trap"; and the fourth is that these industries can be footloose and tend to move to places where costs are cheap. (The move of Intel's plants from Costa Rica to Vietnam is visible.)
5. In the long run, the advantage of cheap labor can hardly sustain, otherwise it is still undesirable. Correlation between cost and value added creation is more important to competitiveness in the long-run, rather than low or high costs alone. How things are produced (with high or low value added) is more important than what things are made (with low-tech or high-tech). High value added, not low cost, should be the target of the City's businesses.
6. Industry and service policies are following sectorial approach – i.e., the selection of four key industries and nine key service sectors. This should be replaced by the cluster approach (see more about the later in the Appendix).
7. Industry and service policies should not be "picking the winner" as they currently do, but should be "backing the winner." As analyzed, in the 2011-2015 period, out of four key industries only electronics and foodstuffs were gaining ground in the city, while the other two industries - plastics chemicals and mechanics – were mediocre compared to the entire manufacturing sector. Meanwhile, another two rapid growing sectors, namely pharmaceuticals-pharma chemistry and beverages, were not targeted.

## **I. Strategies to strongly promote stronger decentralization to HCMC**

HCMC may selectively choose strategies to lobby for stronger decentralization from the central to the local level. Decentralization is a process of transferring power that often takes

place in parallel with the ongoing social awareness. It takes time, needs opportunity and persistent mobilization, and should therefore be promoted from different angles.

- the autonomy to establish more business registration offices which operate like a revenue-generating units, and gradually separating from the People's Committee.
- the right to actively support and promote alliances of business associations operating in the City.
- the right to launch initiatives to promote competition, better protection of intellectual property rights, creating forums for dialogue between employers, workers, and authorities.
- the right to take measures to improve tax administration and collection in the City.
- the authority to improve performance of the local court system and law enforcement towards transparent delivery of public services to businesses and citizens.
- Socialization policies in HCMC: careful reviews are needed to providing opportunities for private sector participation in public service delivery with government supervision.
- Autonomy in personnel policy: HCMC must have the autonomy in recruiting, evaluating, and paying the public sector (competing for talent, evaluating staff based on performance).
- Piloting human resource recruitment procedures that are competitive in agencies under the People's Committee and the newly established urban areas.
- Where and when it is feasible, HCMC proactively applies the experience of the private sector to reform wage policies in the public sector and takes the initiative in organizing competitive and open recruitment exams for potential civil servants.

#### **J. Promoting government accountability to the people**

1. *Establish transparency and accountability:* HCMC has the autonomy in promoting transparent government, ensuring the right of people to know, voice, and participate, promoting effective dialogue channels, monitoring and establishing accountability in local governance.
2. *Promote accountability to the people:* The HCMC government should consider promoting greater transparency in the administration, defining the political accountability of civil servants and elected representatives toward their voters, evaluating civil servants performance using appropriate methods, creating more channels for political monitoring and competition.

3. Promote an early and substantive involvement of the People's Council in the entire budgeting process (participating in critical debate during budgeting, questioning and monitoring performance, and imposing budget disciplines);
4. Promote the supervisory role of the People's Councils in controlling public investment and assets; the People's Councils should be involved in discussion and decision-making on regulations governing the local state firm management, strategic decisions, and the use of proceeds from SOEs equitization;
5. Organize more regular hearings, promoting local policy feedback, increasing transparency and facilitating people to attend hearings chaired by committees of the People's Council;
6. Enforce regular meetings with voters, evaluating elected representatives based on their serving of the constituency, and organizing voter polls on the performance of representatives.

#### **K. Proactively pilot some political reforms**

1. Combine positions of Party Chief and Chairman of People's Council into one.
2. Rationalize functions of the Inspection Committee, the Inspectorate, the Internal Affairs Committee; these functions can be merged into one agency.
3. Consider piloting political reforms that provide access to information, the right to form associations, the right of consultation.
4. Ask for the autonomy to promulgate and enforce policies that promote the transparency among local governments, for example:
  - Promote the right to knowing and consultation of elected representatives, political organizations, associations and people's representatives about all policies and decisions of the municipal government;
  - Provide the opportunity for the people to voice their critical thinking; create debate channels, and explain policy options;
  - Ensure administrative complaining process, giving people the right to lodge complaints and denunciations, initiate lawsuits against administrative decisions that violate their individual rights;
  - Ensure people's right of access to information; give priority to the provision of information at the lowest cost, and simplest procedures; for example, the administrative procedures that are part of daily live such as planning, land, education, and health;
  - Consider the segmentation of public services that separates free and standard public services to the mass from those fee-bases services that meet the demand of those

who can pay. For example, to register a vehicle, an individual or business may choose the standard service or value-added one with additional cost. These regulations must be transparent and all additional service charges must contribute to local budgets.