Project 30:
A Revolution in Vietnamese Governance?

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Nearly a quarter century after the Vietnamese government implemented a series of liberal reforms known collectively as doi moi ("renovation"), nothing has come to symbolize the country's economic transformation better than the traffic across Vietnam's largest metropolitan area: Ho Chi Minh City. Quiet streets have transformed into bustling thoroughfares, where countless motorbike drivers weave between lanes, challenge oncoming cars and buses, and maneuver around pedestrians as though they were pieces on a giant chess board. From the sidewalk, the system looks and sounds absolutely exhilarating. But once inside, a new driver feels trapped in a wild and unpredictable environment.

This image can be accurately applied to Vietnam's economy. "In the early 1990s, everyone complained that Vietnam was a desert," remembers Fred Burke, a principal at Baker & McKenzie, the first international law firm to establish offices in Vietnam, and a resident of Ho Chi Minh City since 1994. "Now, everyone says it's a jungle!" Mr. Burke is also a founding member of the American Chamber of Commerce in Vietnam (AmCham), and his comments are emblematic of the simultaneous optimism and growing frustration among business leaders and multinational corporations in one of Southeast Asia's most promising emerging markets.[1]

Despite consistently strong returns over the past two decades, systemically insufficient infrastructure, pervasive corruption, and convoluted administrative procedures in Vietnam's economy are troubling to investors and would-be investors. But it is clear that Communist Party leaders, who, like their Chinese counterparts, derive much of their preeminent domestic political authority from their consistent ability to deliver economic prosperity to Vietnamese citizens, also recognize the problem. The government, in collaboration with domestic and foreign partners, has developed a comprehensive streamlining and reform plan known as Project 30 to address these issues.

In the 35 years since the country came under unified Communist control, Vietnam has, through gradual economic reform, transformed its destitute, dysfunctional, and stagnant centrally-planned economy into a thriving, multi-sector, emerging market. As the country has integrated itself deeper into the international system, Vietnam has benefited immensely from commercial relationships with (and direct assistance from) developed countries including its former military adversary, the United States. Speaking at a recent summit with Southeast Asian leaders in Hanoi, Secretary of State Hillary Clinton proudly declared that Vietnam and the United States had "learned to see each other not as former enemies but as friends." America is now the largest importer of Vietnamese goods as well as the largest foreign investor in the Vietnamese economy, and Hanoi and Washington are working closely to complete the Trans-Pacific Partnership, a multilateral trade agreement that advocates hope will become the most comprehensive commercial accord connecting North America, South America and Asia.

While American business leaders in Vietnam welcome these developments, they and their counterparts from other developed countries emphasize that the investment environment not only remains challenging and restrictive, but is also becoming increasingly cumbersome. The business community's message is simple yet demanding: if Vietnam wants to become a mature, internationally competitive economy, the government needs to bring the business environment in-line with international benchmarks. On May 28, at a meeting between the American Chamber of Commerce in Vietnam and the U.S. Department of Commerce, American investors urged Washington to put more pressure on Hanoi to expand market access for American exporters, streamline administrative procedures, and liberalize restrictions on trade and distribution activities.

The Communist Party leadership, which has grown younger and more liberal-minded over the 25 years following doi moi, recognizes that these concerns threaten to dampen foreign investment, which remains the lifeblood of economic development. The current Prime Minister, Nguyen Tan Dung, who promised to "pull the country out of backwardness" when he took office in 2007, has brought the challenges facing foreign investors to the forefront of his domestic agenda, promising to improve Vietnam's physical infrastructure, enhance human resources, and simplify administrative procedures.

As the youngest person ever to occupy Vietnam's highest political office (and the first to have been born after the August Revolution of 1945), Prime Minister Dung brought an impressive set of credentials to his current position. As governor of the State Bank of Vietnam, he and his mentor, former Prime Minister Phan Van Khai, moved the 2001 U.S.-Vietnam Bilateral Trade Agreement through a divided Politburo over objections from several prominent and conservative Communist Party veterans. As Deputy Prime Minister, Dung amassed international support behind Vietnam's bid to join the World Trade Organization. And as Prime Minister, he has managed to preserve Vietnam's attractiveness to foreign investors despite spiraling inflation in 2007 and the international financial crisis of 2008 and 2009.

One challenge facing domestic and foreign businesses is Vietnam's notoriously convoluted bureaucracy. According to the World Bank's 2010 Doing Business report, which assesses business conditions across the global economy, it takes, on average, 94 days and 12 administrative procedures to start a business in Vietnam – considerably longer and more cumbersome than other Asian economies. Prime Minister Dung realizes that this systemic red tape fosters corruption, inhibits the delivery of essential goods and services, and slows the disbursement of investment capital (thereby limiting job creation).

"Administrative procedures remain troublesome and complicated, causing missed investment opportunities and hindering production capacity," Prime Minister Dung has declared. "If administrative procedures remain complex, incomprehensible and difficult to implement, they will become barriers to economic and social development."

While his predecessors portrayed the doi moi reform package as a way to alleviate widespread postwar poverty, Prime Minister Dung has marketed administrative reform as a step towards creating a modern, internationally competitive central State. Government officials say the Prime Minister's reform strategy, which coincides with other ongoing initiatives to streamline the government, represents the most ambitious and comprehensive approach to administrative reform a Vietnamese executive has ever undertaken.

"The Government has never, in the 65 years since Vietnam obtained its independence, been so determined to push for administrative procedure reform," said Nguyen Minh Man, a deputy director in Vietnam's Office of Government (similar to the American Office of Management and Budget).

In articulating his new approach, Prime Minister Dung outlined four critical obstacles that needed to be overcome in order to create (in his words) a "democratic, clean, strong, professional, effective and efficient administration which centers on the people and enterprises."

· Administrative procedures "remain cumbersome, overlapping, contradictory and unreasonable."

· The business environment contains several "hindrances and obstacles to production."

· Administrative forms and application dossiers "lack consistency" and contain "many irrational provisions, causing troubles to individuals, organizations and enterprises."

· The central government lacks a mechanism to monitor and control new administrative procedures, and to ensure their consistency with existing regulations.

Originally developed by economist Ngo Hai Phan, the plan known as "Project 30" (because it aims to reduce compliance costs for businesses and citizens by 30 percent), aspires to create a simpler, more efficient, and more transparent administrative system. Now in its third and final year, Project 30 has been welcomed across Vietnamese society and by Vietnam's development partners as a promising and ambitious solution to a longstanding set of structural impediments.

"Project 30 is the best thing to come along in a long time," said Binh Nguyen, an AmCham board member who established FedEx in Vietnam in 1994 and now serves as the company's director for the entire Indochina region. "It will make a historic contribution." Dr. Jim Winkler, the USAID/Vietnam Competitiveness Initiative Project Director helping to implement Project 30, agrees that "Project 30 is a precedent-setter. It's about supporting Vietnamese regulators as they work to improve the quality of regulation. They are now asking essential questions: What are the problems we're trying to solve? What are the costs and benefits? What are we trying to regulate?"[2]

Prime Minister Dung approved Project 30 in January 2007. Working with the USAID Vietnam Competitiveness Initiative and drawing from international experience on best methods and institutional reforms, Dr. Phan and Nguyen Minh Man developed an institutional architecture to implement Project 30. Prime Minister Dung and Minister Phuc approved their plans, and phase one began in January 2008.

Inventory : During the first phase (which took place between January 2008 and June 2009) hundreds of civil servants representing every level of the government created the first ever comprehensive inventory of administrative procedures, which was made into a searchable electronic database and posted to the government website.[3] Almost 6,000 administrative procedures were added to the database, which allows users to locate every administrative procedure and download printable versions of every administrative form.

Review: During the second phase (which took place between June 2009 and May 2010) a "Special Task Force" consisting of government officials and chaired by Dr. Phan, engaged government officials, citizens, non-governmental organizations and business associations in a sweeping review of the entire administrative procedure database. Prime Minister Dung and Minister Phuc emphasized that the review would only be successful if the business community and civil society helped the Special Task Force identify problematic administrative procedures. To this end, the government created dossiers designed to enable business associations, citizens, and individual enterprises to (a) identify problematic administrative procedures; (b) explain why those procedures were unnecessary, unreasonable, overly expensive, or inconsistent with existing regulations, and; (c) recommend solutions – typically, abolishment or revision – which would make the process simpler and more efficient.

Even though some business leaders were skeptical of the government's commitment to the reform process or worried that speaking out could invite political retribution, most harnessed the opportunity to voice their criticisms. AmCham, the European Chamber of Commerce (EuroCham), the Korea Trade Investment Promotion Agency (KOTRA), the International Finance Corporation (IFC), and thirteen domestic Vietnamese business associations participated in the review process, gathering and synthesizing perspectives on the business environment, developing recommendations to simplify troublesome administrative procedures, and discussing solutions with their government counterparts.[4] They divided themselves into eleven working groups[5] (one for each sector of the domestic economy), and organized weekly meetings to develop satisfactory solutions to the administrative challenges companies in their sector faced. The meetings featured such vigorous and constructive dialogue that Vietnam Investment Television, the leading financial news station, set aside time each week to broadcast certain segments.

After several months of working group meetings, the Special Task Force collected all the review dossiers and began meeting with officials from Ministries and other State agencies to transform the feedback into a package of administrative reforms. The idea was to take the practical problems identified by citizens, business leaders, and individual companies, consider the solutions proposed by the working groups, and see whether the resultant reforms were consistent with the underlying principles Vietnamese regulators wanted to protect. Reviewers were frequently summoned to meetings with government counterparts to defend their recommendations and discuss potential solutions. Based on these discussions and its own independent analysis, the Special Task Force created a package of administrative reforms which it presented to Prime Minister Dung for his approval.

Implementation: Implementation of the final phase of Project 30 began in early June 2010, when Prime Minister Dung approved a pilot package consisting of 258 administrative reforms under Resolution No. 25/NQ-CP. According to Jim Winkler, 5,500 additional administrative procedures came under review after the initial pilot package was implemented. Ministries and State agencies now have five months to implement the reforms, which are expected to produce more than $300 million a year in savings for businesses and citizens. Prime Minister Dung is expected to issue a second reform package within the next few months, and the corresponding reforms will need to be implemented by the end of this year.

The business community responded to Resolution No. 25 with a mixture of excitement and skepticism. Even though EuroCham, AmCham, and a number of other international business associations hailed the reform package as “historic,” others doubted the government’s commitment to long-term administrative simplification. Indeed, because there is no binding mechanism requiring Ministries and State agencies to adopt the administrative reforms outlined in Resolution No. 25, the administration has had to rely on an unconventional combination of political pressure and public outreach to coax the government into implementing the reforms. Some also lack faith in the basic motivation for the reforms. “Each Ministry and agency has to be aware that this project is very important,” Minister Phuc said in mid-June. “It will not only bring us great benefits financially, but more importantly, it will create trust among people and businesses in the Government.”

Skeptics also point to a similar campaign launched in 2000 by former Prime Minister Phan Van Khai to eliminate "baby permits" – unnecessary licenses which were allowing corrupt bureaucrats to manipulate investors. Even though many Vietnamese officials consider the program a success, business leaders doubt that the program produced any lasting impact on the business environment. The government "removed all these 'baby permits' and said everything was going to be better but the red tape kept coming," remembers one lawyer who participated in the "baby permits" campaign as well as Project 30. "Now, they're doing it all again."

These concerns notwithstanding, given the time, resources, and political capital Prime Minister Dung has invested in Project 30, it is unlikely that the officials tasked with implementing the reforms would jeopardize their political careers by impeding the Prime Minister's agenda – especially so close to the upcoming Party Congress, scheduled to take place in January 2011. The real question in the minds of business leaders is whether Project 30 will foster the sort of psychological and institutional changes needed to renovate Vietnam's regulatory architecture and institutionalize a more efficient system.

"The best thing that could come out of Project 30 is a body that evaluates regulation on an ongoing basis," Fred Burke emphasizes. "There should be regulatory impact assessments, consultation with the right kinds of people, and a set of basic principles that the government has to stick to" in formulating new regulations.

Minister Phuc and Prime Minister Dung have tried to respond to these wishes and maintain the momentum driving reform by pressuring regulators to implement Resolution No. 25 and introducing a new centralized body called the Administrative Procedure Control Agency (APCA). Similar to the Office of Regulatory and Information Affairs in the United States, the APCA will monitor and assess new reforms and determine, through analysis conducted by experts familiar with international best practices, whether they conform to the principles of reasonableness, necessity, and consistency that were employed during the review process.

Through Project 30, Prime Minister Dung has created conditions that can allow a modern regulatory system to emerge and replace the one predicated on factional rivalries and ideological dogmatism. It will take years to see whether such a system materializes, but if Vietnam maintains the progress-oriented attitude that has characterized the post-doi moi era, it may be able to emerge from its self-constructed jungle of corruption and administrative procedures to provide a welcoming and world-class environment for trade and investment.

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[1] According to the Economist Intelligence Unit, the value of industrial output grew by more than 13% year on year in the first six months of 2010, and the foreign-invested sector posted growth of 17%.

[2] The U.S. Agency for International Development has been supporting regulatory reform in Vietnam through the USAID's Vietnam Competitiveness Initiative since 2004. The project is implemented by Development Alternatives, Inc. (DAI).

[3] http://www.thutuchanhchinh.vn/

[4] The American business community produced more than 100 recommendations, targeting more than 250 troublesome procedures.

[5] These included: Advertising, Banking & Finance, Commerce & Distribution, Trade & Customs, Justice, Pharmaceuticals, Land & Construction, Intellectual Property & Telecommunications, Labor & Employment, Tax, and Investment.