

Michael Kokalari, CFA
Chief Economist

Vietnam's New Government Finalized

On Monday, April 5th, the selections of Vietnam's key, "four pillars" leadership positions were finalized, including the Communist Party of Vietnam's (CPV) General Secretary, Prime Minister, President, and Chairman of the National Assembly. On April 8th, Vietnam's 480-member National Assembly finished voting to select 14 remaining, senior government positions, including a new Minister of Finance, and Minister of Industry and Trade. With those roles filled, Vietnam's new government officially started its 5-year term today.

Mr Nguyen Phu Trong	General Secretary	✓	Re-elected for a third term in late January
Mr Pham Minh Chinh	Prime Minister	✓	Widely regarded as being very pro-business
Mr Nguyen Xuan Phuc	President	✓	Served as Vietnam's Prime Minister for the past five years
Mr Vuong Dinh Hue	Chair of the National Assembly	✓	Has a strong background in economics, including a previous stint as Vietnam's Finance Minister

We expect the new government to continue the economic policies of the previous five years, given the effectiveness of those policies in fostering growth and stability. The three main things we believe investors need to know about the new government are:

- 1) **Pro-Business:** Prime Minister Chinh is widely credited for vastly improving the economic prospects of Quang Ninh province when he was its leader in 2011-2015. He accomplished this by closely cooperating with private businesses and has a track record of working with the private sector. Chinh has excellent relationships in the Vietnamese business community.
- 2) **Faster Infrastructure Development:** Quang Ninh province's infrastructure improved dramatically under Chinh's leadership because he championed Public Private-Sector Partnerships (PPP) to accelerate infrastructure development. One notable example was the development of the Van Don Airport in just two years! Van Don is Vietnam's first airport to be owned by the private sector, and PM Chinh launched a similar PPP initiative to develop a new airport in Quang Tri province on his first day in office this week.
- 3) **Foreign-Investor Friendly:** At Vietnam's Communist Party Congress earlier this year, officials set a goal for Vietnam to become a high-income country by 2045, in part by significantly increasing the economic contribution of the manufacturing sector (currently ~20%/GDP). Senior policymakers identified "high-quality" foreign direct investment¹ (FDI) as a key element to achieve these goals and repeatedly reiterate their desire to attract foreign investment.

Finally, while an improvement in the pace of infrastructure development, and continued investor-friendly policies seem certain, the prospects for SOE reform and privatization are less clear. Privatizations stalled starting in mid-2018 for a variety of reasons. The previous Government overhauled some regulations to resolve certain technical issues², but we believe more work is needed before there is a significant resumption of privatization.

¹ Politburo Resolution #50 discusses *High Quality FDI*, which has been reported as excluding FDI projects that excessively pollute the environment, and/or entail the use of outdated technology

² One roadblock is the need for clearer guidelines clarifying land ownership by State Owned Enterprises

Additional Comments on Vietnam's New Government

- Expectations are high that Prime Minister Chinh will accelerate Vietnam's infrastructure development, given his successful track record as Secretary of the Quang Ninh Provincial Party Committee, where he vastly expanded the province's road infrastructure. Quang Ninh now has over 200km of highways, equivalent to about 10% of all the highways in Vietnam.
- Further to that last point, we expect Chinh to push for significant progress in the development of the North-South Highway and HCMC's new airport.³ Vietnam's infrastructure spending increased by 35% last year to USD20 billion (or ~7%/GDP), and the government has the capacity to borrow⁴ and spend more on infrastructure, but Prime Minister Chinh's successful PPP experiences make it likely that more private sector money will help to accelerate Vietnam's infrastructure development going forward.
- It was widely reported in the international media that PM Chinh spent most of his career from 1987-2011 in the Ministry of Public Security, and was appointed Deputy Minister of Public Security in 2010. However, his tenure as the head of Quang Ninh, during which the province grew by over 9% annually⁵ (at a time when Vietnam's GDP was growing by ~5%), plus Chinh's most recent position as head of the Party's Organization Committee, should be of more interest to investors, in our opinion.
- Further to that last point, Prime Minister Chinh gave a speech to Vietnam's National Assembly, in which he said his administration would focus on "*continuing with economic reforms, developing the digital economy and focusing on solving difficulties for industries and businesses*". His previous role as head of the Party's powerful Organization Committee will help him solve difficulties for businesses, because that position entailed him making personnel decisions in local Governments throughout Vietnam. Consequently, Chinh has a strong network of loyal local Government officials, who he can directly engage to help solve businesses' problems at the local level.
- General Secretary Trong's re-election to a third term makes him the longest serving General Secretary of Vietnam's Communist Party since Le Duan (1960-86). Also, his re-election entailed a special dispensation from the Party's 65 year old retirement age, because Trong is 77 (note that President Phuc, who is 66 also needed to secure a dispensation in order to assume the President's position). Trong had some health issues during his last term (during which he also held the position of President), so his re-election was somewhat unexpected.
- National Assembly Chairman Hue was previously an economics professor and served as Deputy Prime Minister for Economic Affairs in the previous government. For that reason, we view his appointment – as well as those of several other technocrats – as a clear indicator of the continued importance that the government puts on maintaining a stable and growing economy, especially as some observers believe that Hue is being groomed to assume a higher government position in the future.

³ The North-South Highway will eventually connect Hanoi and Can Tho city, south of HCMC - but construction has been plagued by slow progress for years. Similarly, construction of HCMC's new Long Thanh airport started this year, more than five years behind schedule.

⁴ Vietnam's Government Debt-to-GDP ratio is currently 44%, according to the IMF. Note that the IMF is leading an effort to help Vietnam's General Statistics Office (GSO) restate the value of Vietnam's GDP by a factor of about 1.25x by recording economic activity not currently captured in the official statistics (the GSO is likely to formally restate Vietnam's GDP at the end of 2021, but the IMF already started using the restated GDP figures – including in the above-mentioned 44%/GDP Government Debt ratio).

⁵ Quang Ninh's economy continued to grow at a double-digit pace in 2016-19