

Recommendations for Vietnam's Economy in the Era of International Economic Integration

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Abstract – Participating in Free Trade Agreements (FTA), especially Vietnam - Europe Union and Trans-Pacific Partnership Agreement (TPP), has provided a significant opportunity for Vietnam's economy in international integration, cooperation and development. In fact, the international integration process might create both chances and challenges for any nations. Therefore, Vietnam should have a comprehensive set of particular, appropriate and active solutions when taking part in this process. The paper will focus on assessing the integration process in Vietnam from 1995 until now in order to determine both achievements as well as existing problems within this period. Based on these discussions, some solutions to improve the national economic situation will be suggested.

Keywords – International Economic Integration, Vietnam Economy, Economic Opportunities and Challenges.

I. DEFINITION OF INTERNATIONAL ECONOMIC INTEGRATION

The term "international integration" has become more and more common-used in recent years. There are various approaches might be used to developing a specific concept of international integration. However, "international integration" can be generally understood as the process by which countries carry out cooperative activities based on the concepts of sharing benefits, goals, values, resources and powers under international laws and agreements (Robson, 1998).

In the concept of international integration, economic integration can be understood in simplest way that is the cohesion within different national economies (Rittberger, 2012). Under this concept, international economic integration has been executed for thousands of years along with the development of humanity. For example, the Roman Empire expanded their transportation and production networks all over occupied territories while imposed Roman currency on all colonies. In 1960, Bela Balassa suggested that international economic integration is the institutional link between different national economies. This process is the chain of activities in terms of simultaneously carrying out two tasks: on the one hand synchronizing the domestic economy and market to the regional and global markets through openness and liberalization efforts; on the other hand, participating and contributing to the building of regional and global economic institutions (Balassa, 1961).

Therefore, "international economic integration" can be understood as the synchronization of a country's economy to regional and global economic cooperation organizations. In which, all members are related to each other according to the general principles and regulations. International

economic integration plays a critical role for all parties involved in creating the premise for economic growth, allocating social resources, changing economic structure, expanding markets, attracting investment capital and raising the competitiveness in the international market (Jovanovic, 2006).

II. OVERVIEW OF THE INTERNATIONAL ECONOMIC INTEGRATION IN VIETNAM

Over the last few years, Vietnam has vigorously deployed the process of international economic integration with the region and the world. The beginning of this process was the accessing into ASEAN in 1995 and then becoming the official membership of the World Trade Organization (WTO) in 2011. With these milestones, Vietnam has marked the ambition of comprehensive integration with the international economy (Griffin, 2016).

In fact, Vietnam has been actively negotiating and signing new FTAs with several partners in the recent years. At the moment, Vietnam has joined 12 FTAs with 56 countries and economies all over the world, including the Vietnam-EU FTA and the Trans-Pacific Partnership (TPP) for instance. These are new generation FTAs with many broad commitments and an extensive cooperation. Apart from commitments on trade and services liberalization, participating countries are also committed to other fields.

As a member of international economic organizations, Viet Nam has made continuous efforts to seriously implement its commitments and actively participate in all activities of these organizations. The process of international economic integration in Vietnam from 1995 to now could be marked by the below milestones.

First of all, Vietnam has participated in the ASEAN Free Trade Area (AFTA) that was established by the Common Effective Preferential Tariff Agreement of 1996, and the ASEAN Investment Area (AIA) in 1998 that later replaced by the ASEAN Comprehensive Investment in ASEAN (ACIA). After that, the ASEAN-China Free Trade Area (ACFTA), ASEAN-Korea and the ASEAN-Australia Free Trade Area were established in the following years. On November 22, 2015, ASEAN leaders signed the Declaration on the Establishment of the ASEAN Community, of which the ASEAN Economic Community was officially opened on December 31, 2015. After more than 20 years of joining the Association of Southeast Asian Nations (1995-2016), Vietnam has been developing comprehensively and gradually, fulfilling its commitments to strengthening integration, promoting regional cooperation with other ASEAN countries, enhancing its position in regional and world forums, and actively participating in bilateral and regional cooperation

frameworks (Jandl, 2013).

Secondly, Vietnam has become the member of Asia-Pacific Economic Cooperation (APEC) since 1998. Since then, all collective action and annual national action programs, the government has seriously implemented trade facilitation and investment plans. In addition, Vietnam also has played a significant administrative role in important working groups of APEC related to medical, e-commerce or emergency response programs.

Thirdly, on November 07, 2006, Vietnam officially became a member of the World Trade Organization (WTO). Since WTO accession, in order to meet the promised conditions, Vietnam has had to reform a lot of trade policies in accordance with the trend of transparency and liberalization. Furthermore, Viet Nam has also actively participated in WTO's negotiation programs related to agriculture, industries, intellectual property, fisheries subsidies and other support programs and then adjusted and improved the domestic policies in these fields.

Last but not least, Vietnam has also independently signed other international economic agreements such as the Vietnam - Japan Economic Partnership Agreement (2008), the Vietnam - Chile Free Trade Agreement (2011) (Mongay, 2011). Furthermore, Vietnam is in the process of negotiating a free trade relationship with a number of partners such as the Eurasian Customs Union (including Russia, Belarus and Kazakhstan) or Turkey. Lately, Vietnam has officially joined Trans-Pacific Strategic Economic Partnership Agreement (TPP).

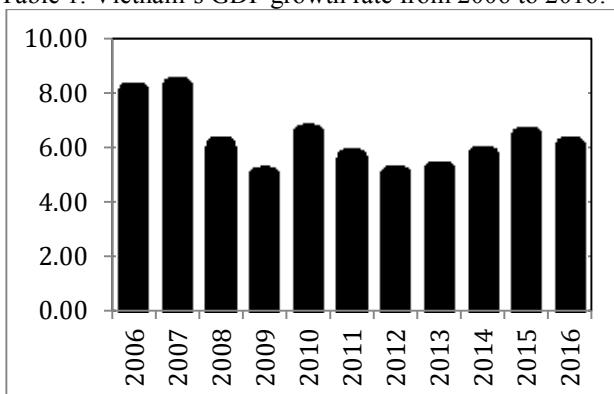
III. ASSESSMENT ON INTERNATIONAL ECONOMIC INTEGRATION PROCESS OF VIETNAM IN RECENT YEARS

Achievements:

Over the last ten years, Vietnam has taken firm steps and initially achieved encouraging results in the process of international economic integration. Vietnam has expanded its economic relations with many countries and regions and has become a member of many key economic and trade organizations. As a result, many significant economic results have been achieved.

Firstly, GDP growth rate in the last 10 years should be mentioned as below:

Table 1. Vietnam's GDP growth rate from 2006 to 2016.



Source: General Statistics Office of Vietnam (2016)

The average annual GDP growth rate of Vietnam in the period 1986-1990 was only 4.4% per year but the period 1991-2001 results reached 7.34%. Especially, after joining the WTO, Vietnam has still maintained a high growth rate. In 2007, GDP growth rate reached 8.48% per year (the highest level in comparison with 11 years ago). However, due to the fluctuation of the world economy in 2008, the average GDP growth rate in 2008-2013 has dropped to 5.6% per year. However, after 2013, Vietnam's economy has begun to recover and reached GDP growth rate of 6.68% per year by 2015 (the highest level in 2011-2015 period). Although Vietnam's GDP growth rate is still low compared to Singapore or South Korea, in comparison to other South East Asia countries, this is still an encouraging result (General Statistics Office of Vietnam, 2016).

Secondly, in parallel with the economic restructuring, labor force participation in agricultural production in Vietnam has been declined significantly while the number of labor in the industrial; construction and service sectors have been gradually increased. During the 1990s, most of Vietnam's human resource focused on agriculture (about 70% of the total labor force). However, by 2016, this figure is only about 41.9%. Meanwhile, the employment rate in other sectors has increased significantly as follows:

Table 2. Employment rates in industries of Vietnam

Industries	2000	2005	2010	2016
Agriculture	68.2%	56%	50%	41.9%
Industry and Construction	12.1%	17.9%	24%	24.7%
Services	19.7%	26.1%	26%	33.4%
Total	100%	100%	100%	100%

Source: General Statistics Office of Vietnam (2016)

Thirdly, active participation in international economic integration has helped Vietnam's export activities dramatically grow in scale and change in structure. Vietnam's export turnover from 1986 to 2013 has rocketed since the beginning of "renovation program" (167.5 times after 27 years) while the contribution of exports in total annual GDP also increased significantly.

From a trade deficit nation, Vietnam took advantage of the opportunity to integrate gradually to improve national trade balance. The structure of export products has changed positively while exports have been developed and the market share has been growing. At the end of 2013, Vietnamese export products have reached 220 countries and territories. In 2013, Vietnam surplus was only 9 million USD but this figure is more than 2 billion USD in 2014 and nearly 2.7 billion USD in 2016. Moreover, service exports in Vietnam are growing steadily with the growth rate of over 10% per year for many years.

Fourthly, Import turnover in Vietnam in the period 1986-2016 also achieved remarkable result:

Table 3. Import turnover in Vietnam from 1986 to 2016

Year	Import turnover (Million USD)
1986	1866.4
1996	11,143.6
2013	131,300
2016	135,600

Source: General Statistics Office of Vietnam (2016)

After 10 years of renovation, in 1996, import turnover of Vietnam has increased by 9 times compared to 1986 and continues to increase for many next years. By 2016, the total import turnover reached 135.6 billion USD as an increase of 1.8% from 131.3 billion USD in 2015.

According to the statistics of Vietnam Ministry of Planning and Investment, the proportion of FDI/GDP of Vietnam from 1992 to 2016 has been increasing significantly:

Table 4. FDI/GDP in Vietnam

Year	FDI/GDP
1992	2
2000	12.7
2006	16.98
2011	18.97
2016	20

Source: General Statistics Office of Vietnam (2016)

Since the Foreign Investment Law was issued, Foreign Direct Investment (FDI) inflows have had a strong impact on the Vietnam's economy. FDI has brought a large amount of capital to boost economic growth; facilitate the transfer of technology; speed up the economic restructuring process; create many jobs; and expand the integration with international economic markets for Vietnam. Among the top 1000 corporate income taxpayers in Vietnam, more than 30% are FDI enterprises with nearly \$ 1 billion of income tax contributed to the State budget. Export production from FDI sector has also surpassed the domestic sector, accounting for 67% of total export turnover of Vietnam in 2016.

Problems:

The first thing that should be mentioned is the government effectiveness in Vietnam have not been met the requirements of the national development. In fact, the economic policies have not been able to fully take advantage of the opportunities offered by economic international integration.

According Worldwide Governance Indicators Project of World Bank (2016) it can be seen that the quality of government effectiveness of Vietnam in recent years has not changed significantly. Compared with 12 East Asian countries, institutional quality in Vietnam stands near the bottom of the table.

Table 5. Government effectiveness of Asian countries and territories in 2015

Countries and territories	Efficiency of the government	Quality of public policies	Law Compliance	Corruption control
Cambodia	-0.82	-0.35	-0.79	-0.91
China	-0.03	-0.31	-0.26	-0.35
Hong Kong	1.83	1.93	1.64	1.73
Indonesia	-0.24	-0.20	-0.55	-0.62
South Korea	1.32	1.08	0.94	0.75
Laos	-0.66	-0.75	-0.57	-0.70
Malaysia	1.10	0.71	0.49	0.45
Philippines	0.09	-0.07	-0.43	-0.40
Singapore	2.27	1.96	1.84	2.18
Taiwan	1.19	1.14	1.10	0.88
Thailand	0.23	0.26	-0.10	-0.23
Vietnam	-0.3	-0.6	-0.47	-0.53

Source: World Bank (2016)

Given the current quality of the economic legal framework, this might be a major barrier to economic development in the context of international integration. In addition, we should mention the lack of uniformity in the legal system in Vietnam. This has been causing many obstacles to socio-economic development; challenging investors, especially foreign ones, to expand their economic activities in Vietnam.

Second, although Vietnam's economy has made remarkable progress in recent years, it is still lack of key spearhead economic sectors that are able to strongly compete in the international market. If Vietnam wants to be capable of dominating the regional and world markets within certain products, it is necessary to clearly identify appropriate key sectors for the whole economy. For example, advanced processing industry should be focused instead of mining and preliminary processing. However, the fact shows that the business force in Vietnam willing to participate in this field is still very limited. Most of the manufacturing and processing industries in Vietnam are dominated by FDI enterprises. From 2012 to the present, domestic enterprises usually only contribute about 44.2% of national export value while the larger proportion is provided by FDI enterprises.

Third, economic growth in Vietnam has not made much contribution from labor productivity but mainly from the low cost of credit and labor. In theory, economic growth in every nation should be based on factors such as: labor productivity, capital efficiency, capital and labor resources. However, economic growth in Vietnam in the past few years has mainly relied on cheap credit and human resources instead of improving labor productivity. At the present, Vietnam's labor productivity is estimated to be twice as Laos's but only one twentieth as Singapore's.

On the other hand, when considering the capital and labor factors, this is still not a positive factor promoting the process of economic development in Vietnam. The reason is that most of Vietnamese enterprises are lack of capital as well as access to capital. Moreover, these enterprises usually have relatively small capital. As a result, a relatively small share of equity in business capital leads to high financial costs. In addition, small and medium-sized Vietnamese enterprises often find it difficult to access loans. In terms of low-cost labor force, in fact, the low cost is caused by the limited quality of Vietnam's human resources. According to General Statistics Office of Vietnam, the majority of the workforce in Viet Nam is unskilled and untrained, accounting for 81% of the labor force. Therefore, if there is no plan to increase labor productivity, the current economic growth in Vietnam cannot be sustained.

Finally, administrative procedures in Vietnam are still inadequate and creating many obstacles to national development. It can be seen that the implementation of administrative reform is relatively slow compared with the process of economic growth. Many administrative procedures are still complex, inconsistent, and not clear. Therefore, the promotion of proper administrative reform will be the necessary impetus for the economy in this period of international integration.

IV. RECOMMENDATIONS

Thanks to the international economic integration process, in the coming time, Vietnam will have many opportunities to boost up economic growth. However, these opportunities also come with many challenges. Based on the remaining issues mentioned above, the article suggests that Vietnam should study and implement the below solutions.

First of all, the Government of Vietnam needs to improve the quality of legal regulations to fully implement its commitments; maintain the investment and business environment; and ensure the effectiveness and stability of economic development. To improve the quality of legal documents, Vietnam should take into account the recommendations of international organizations as well as other countries. The establishment of the document should ensure the following points:

- Ensuring uniformity, consistency and feasibility to create a legal framework for economic activities;
- Demonstrating transparency by improving consultation of relevant individuals and organizations as well as developing better consultative approaches for ministries and sectors; transparently publicizing and standardizing documents in accordance with international standards;
- Synchronizing the evaluation and monitoring process of public economic policies;
- Renovating the process of developing and promulgating policies to improve the quality of the administrative system; eliminating unnecessary regulations to reduce waste of national resources;
- Strengthening the ability to control corruption: Develop a set of operating principles of the administrative system in the orientation of providing more publicity and transparency; encouraging private enterprises to participate in the supervision, prevention and fight process against corruption; intensifying the inspection and supervision activities.

Secondly, it is necessary to determine the national key economic sectors and focus resources on them for better competition in the regional and worldwide markets. Initially, the state needs to loosen the source of loans for enterprises operating in the key economic sectors. Obviously, one of the most effective methods is providing more preferential credit packages for these businesses. Especially, it is necessary to allocate adequate capital to "processing" and "manufacturing" enterprises that have been identified as spearheads for Vietnam's economic development in the coming period.

Thirdly, the productivity should be chosen as the main engine for the national economic development in Vietnam. At the present time, improving the quality of human resources and technological innovation might be the most effective way to increase labor productivity. The human resources of Vietnam should be focused on strengthening the training associated with practical skills, especially production techniques. Vocational workers should be focused and accounted for the largest share of the labor force. In addition, there should be a national plan to improve the sense of discipline of Vietnamese workers that is a

significant disadvantage in competition with other nations. In terms of technological innovation, investment should be focused on technologies in key industries to avoid irrelevant investments. Both State-owned and private enterprises should make small divergent investments to reduce depreciation costs. Moreover, the technology of production is constantly updated, thus the breakdown of the line for investment will be more flexible in approaching new technologies than working with a large investments from the very beginning.

V. CONCLUSION

In conclusion, the international economic integration will continue to open more and more new opportunities for the development of Vietnam. However, if Vietnam does not have a rational development strategy to improve its competitiveness, domestic enterprises will gradually lose market share, not only in the international market but also in the domestic market. Therefore, the renovation of the economic system and state management system in a synchronous and rational manner is an urgent requirement in the coming time for the whole nation.

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