

# International Economic Integration and Institutional Reforms - Vietnam Experiences in Meeting WTO and ASEAN Commitments

**Vo Tri Thanh**  
**Central Institute for Economic Management (CIEM)**  
**([votrithanh@mpi.gov.vn](mailto:votrithanh@mpi.gov.vn))**

**Hanoi, 29 February 2012**



“The rejection of central planning by so many countries in 1989 represents one of the truly extraordinary events in the history of economics. But the transition to the market also presents economists with formidable challenges because the path has never been trod before” **(Jeffries 1993)**

There is now consensus about the ‘nuts and bolts’ of transition, which encompasses three sets of reforms: liberalization and stabilization; institutional changes that support market exchange and shape ownership; and the establishment of social programs to ease the pain of transition **(World Bank 1996)**

*Reform is basically of political economics, much as a “mirror” reflecting the changes in the way of thoughts of policy-makers. **The following is some key terms used by VN for characterizing the economy***

- “Subsidized and bureaucratic centrally-planned economy” (before Doimoi in 1986)
- “Multi-component commodity production economy” (1986 -1989)
- “Market-oriented economy under state management” (during 1990s)
- “Market economy by socialism orientation” (After 2000)

# Outline of Presentation

- ❑ **VN *Doi Moi* (Renovation) & International Economic Integration**
- ❑ **VN Integration and Institutional and Regulatory Reforms**
  - **Meeting ASEAN Commitments**
  - **WTO Accession and Implementation of Commitments**
- ❑ **Lessons Can Be Learnt**

# VN *Doi Moi* & Integration

- ❑ **Up to 1980:** a centrally planned economy + relatively autarkic economy
- ❑ **1980-85:** Some bottom-up (“fence breaking”) reforms, but the failure of “price-salary-money reform” in 1985 → crisis
- ❑ **1986:** *Doi Moi* began (recognition of “multi-components” economy + Continuation of reform in agriculture + SOE’s autonomy)
- ❑ **Since 1989:** Market – oriented reforms + Trade liberalization and integration (EU: 1992; VN-US relation normalizations 1994; ASEAN: 1995; APEC: 1998)
- ❑ **1996-99:** Slowdown of the reform process
- ❑ **2000 - 11**
  - Stronger commitments to further reforms, but with uneven implementation
  - VN-US BTA; AFTA fulfillment; WTO accession, ASEAN+1 – FTA,..
  - Party Congress IX (2001), X (2006) and XI (2011): SEDS 2011-2020; decision for restructuring the economy; deeper international integration (New wave of reforms/Renovation ?)

□ **VN economic reform and development is a story of both success and “stagger” / mistakes**

- ***Achievements quite impressive:*** from a low income to a (low-) middle income economy; more industrialized and open; significant poverty reduction
- ***... but not outstanding:*** Low quality of growth (inefficient SOE sector and public investment; high business costs; distorted production factor markets; limited spill-over from FDI); weak position in the global/regional value chains; “chronic” macroeconomic instability; widening income/asset gap; polluted and deteriorated environment

**Key question:** *Can VN achieve sustainable development (and avoid falling into “low cost labour trap” / “trade liberalization trap” in long run?*

❑ **Nature of Doi Moi:** To enlarge both sets of (economic) choices by people and the country's (people's and institutional) capability to exploit benefits from the newer choices

❑ **The major reform dimensions** (Domestic reforms + Integration)

➤ Market-oriented reforms (price liberalization; ownership & rights of doing business; SOE reform,..)

➤ Macroeconomic and social stabilization

➤ "Open door" policy and international economic integration

▪ Trade liberalization (Tariff & NTB reduction; Tariff harmonization;...)

▪ Regional integration, agreements with key trading partners and WTO accession

▪ Improvement of business environment for attracting FDI (and other capital flows)

- ❑ **In general, institutional reform is the key.** Institutions (“rules of game”/Regulations; Organizations; Implementation mechanisms and enforcement) do matter for growth and sustainable development.
- ❑ **Three pillars in SEDS 2011-2020** (By 2020 VN will basically become a modern-oriented industrialized country): *Economic institutional reforms*; (Hard and soft) infrastructure development; HR development. **VN 2030 Report (+ 3 others:** Urbanization (agricultural dev’t and migration); Rational use of natural resources and environmental protection; Development of a sustainable and effective social safety nets)
- ❑ So far institutions have been improved but remaining weak in terms of
  - transparency and accountability of administration
  - policy predictability and enforcement
  - effectiveness of policy reviewing mechanisms/institutions

# VN Integration & Institutional Reforms

- ❑ Trade liberalization and integration is viewed as institutional changes and reform
- ❑ Domestic reforms and integration reinforce each other (dynamic causality)
- ❑ Empirical evidences, perception of business community and people, and reality (economic and social life) are major test for effectiveness of reforms and international intergration
- ❑ All reforms should be in the context of comprehensive, relevant *economic* and *political reforms* and *deepening international economic integration* (WTO; ASEAN integration (esp. AEC by 2015); East Asia integration and ASEAN +; strategic/key economic partners (Forms of the bilateral cooperation can go beyond the economic, trade, and investment arrangements))



# Meeting ASEAN Commitments

## □ Vietnam's view of ASEAN integration and the AEC

- Joining ASEAN (July 1995) and participating in the ASEAN integration has been in line with VN's reforms. VN has committed to be a proactive and responsible for ASEAN integration and the AEC establishment
- Significance of ASEAN integration and the AEC for VN:
  - Having more favourable conditions for development (regional stability, resource mobilization and efficient allocation, cooperation)
  - A contribution to narrowing intra-ASEAN development gap.
  - As a hub for VN trade and investment (while improving competitiveness)
  - *In terms of institutional reforms*: A stepping-stone to the wider liberalization and economic integration; Reinforce better changes through *implementation of ASEAN concrete commitments and AEC Blueprint* (trade, investment and services liberalization; facilitation measures; NSW; Standards & Conformance; MRAs; SME dev't;...); Strengthening bargaining power & greater sense of community.

## ❑ **Implementation of commitments**

- Preliminary assessments (“ERIA Study to further improve AEC Scorecard – Phase II”, Sep 2011): There are progress towards the AEC but several “AEC Target – Reality Gaps” are still quite significant and vary substantially among the members
- In general, VN has implemented seriously international (WTO, ASEAN,..) commitments, though facing several challenges as other ASEAN countries → there exists a room for further meaningful liberalization (Murray *et al*/2009)
- Still some problems with specific issues, *e.g.* Schedule for tariff reduction of some petroleum items; Participation in Self-recognition of Origin (experimental) Program; the 8th package for services liberalization
- VN firms’ participation: ASEAN became a key trading and investment partner + More active participation in (EA) production networks. But the rate of Form-D (certificate of origin) use increased, but remaining low (below 20% in 2010 compared to 8% in 2007)

## ❑ **Some remarks from stakeholder consultation**

- Views of business community/associations: They seem not to have much information on the Blueprint, except the becoming of AEC by 2015 and that the advocacy for the implementation of the ASEAN Blueprints in VN has not been strong enough.
- Institutional arrangement at the Government level seems to be weak. One profound issue is the lack of HR and finance allocated for implementing the commitments (One agency has to often engage in different agreements with different responsibility). Another is the weak collaboration among different stakeholders

- Regulatory frameworks have gradually been revised during integration process, but revising regulatory frameworks is only very first step.
- The policy should serve to broaden the choices available for firms, rather than putting too much concern about any harm that the regional economic integration process may do to them.
- There has been arising the need for continuous support/assistance from more advanced economies in narrowing down the gap and in implementing the international agreements

# WTO Accession and Implementation of Commitments

## □ Views of WTO for institutional reform

- WTO commitments will be the basis for regional and bilateral relations (at a higher level of liberalization).
- Implementation of WTO accession commitments is not only the “obligation”, but also to ensure that the economy operates effectively and competitively and hence, establishes international credibility/confidence in VN reform (
- Integration & WTO accession also aim to realize the country’s stand and the world dynamics, through which the country’s development orientation is identified more properly (The world has had substantial changes as compared to the 1990s).

## ❑ **Impacts on Economic Institutions**

- The interaction between Doi Moi, domestic economic reforms and integration/WTO accession became more apparent (2005-06: 27 new Laws, including (common) Investment Law and (unified) Enterprise Law, were approved)
- Gov't machinery somehow improved (Number of Ministries and the like reduced from 26 to 22)
- Administrative reform and “one stop-shop” mechanism continued to be implemented (Comprehensive Program on Simplification of Administrative Procedures 2007-10; PM's Decision 93/2007/QD-TTg June 2008)
- But decision of the functions of various ministries progressed slowly. Reorganization of provincial authorities (departments) was delayed until Jan 2008 → Effectiveness of central and local authorities was negatively affected

- Somehow problem of VN not yet recognized as a market economy also has created pressure on institutional reform in VN
  - US and EU criteria for an economy viewed as a market economy
  - The way of assessing VN economy (Doi Moi process; 1. Role of Gov't; 2. Business environment; 3. Firms' (SOE) management system; 4. Property rights and mechanism for firms' bankruptcy; 5. Investment climate; 6. Land related issues; 7. Labor market and wages; 8. Financial and banking system; 9. Money & exchange rate.

## ❑ Existing problems

- Low quality of legal frameworks and regulations leading to different ways of interpretations and discretionary applications
- Law and regulation enforcement has been slowly improved (Weaknesses in implementation coordination, accountability, and implementation of court decisions)
- Legal documents under Law have been often issued late and in many cases contradictory
- Information dissemination has been often not on time and updated. There is also a lack of legal and material responsibilities for rách nhiệm vật chất, pháp lý đối với thông tin sai
- Nhận thức và thói quen xã hội chưa phù hợp với việc xây dựng một nhà nước pháp quyền; thiếu luật sư, thẩm phán được đào tạo cơ bản.
- Thủ tục hành chính còn nặng nề. Điều tra doanh nghiệp 2009, hiệu quả dịch vụ hành chính là một trong năm lĩnh vực bị đánh giá thấp nhất



- ❑ **New way for WTO implementation:** Party Resolution (No 08-NQ/TW), Gov't Action Plan (Resolution 16/2007/NQ-CP), and ministry/provincial Action Plans + Donors' support (*Beyond WTO Program*) + Independent High Level Advisory Group

### ***Strengths of Action Plans:***

- Clearer directions for reform
- Comprehensiveness (Incl. information dissemination + training, Institutions, competitiveness, investment efficiency, HR development, competitiveness, agriculture and rural development, social safety net, and sustainable development)
- Relative compliance with the functions of ministries and local authorities
- Advantages and disadvantages of localities (in provincial APs) understood and taken into account
- Some provincial APs have new ideas for break-through development

### ***Weaknesses of the Action Plans:***

- All ministry/provincial APs submitted not on time. Several APs were of formality (Inherent problems of nearly all previous APs)
- APs to spread out with lack of priorities/urgent tasks.
- Cross-cutting issues (linkages by sector and by region) poorly handled
- Weak voice/lack of voice of business community
- Monitoring, supervision and necessary adjustments of APs poorly addressed
- Lack of conditions/resources for implementation

# Lessons Can Be Learnt

1. The combination of integration commitments (ASEAN, WTO,...) to promote the establishment and refinement of the market economy status is an essentially important element to create trust and development potentials and Vietnam's economic reform, which contributes to enhance internal strength and investment (especially FDI), to develop business, to expand foreign market and to better explore the domestic market.

*International integration is very a necessary, but not sufficient conditions for sustainable development*

2. The comparative advantage (non-dynamic) of the country is best expressed upon deep integration. More importantly, the dynamic comparative advantage is only present thanks to competition, utilization of economies of scale and FDI (on the basis of recovering weaknesses in institution, infrastructure, human resource and proper bilateral, regional and global linkages/connectivity).

*Strategy for VN firms: While fully utilizing the traditional/static comparative advantages, it is essential for VN to move up along the value chain by:*

- Diversifying/differentiating export products and strengthening non-price competitiveness
- Attracting efficient FDI/strategic partners
- Improving labor & management skills

3. If there is a lack of (pro-)active preparation and relevant policies, the deeper integration may go along with macro-economic instabilities and greater social inequality

*Dealing with macroeconomic instability and social issues (widening income/asset gap; emerging middle class; activity of vested groups,..) is a multi-dimensional (economic, financial, social, political) exercise*

## ❑ **What other things should policy makers take into account?**

- It is very risky if not follow closely the reality (information getting, analyzing, and sharing!)
- Specific policy option can have unwanted/side effects (➔ How to support vulnerable and to overcome vested groups)
- Both “dosages” of and coordination between macro-policies (monetary, fiscal, exchange rate policies) and between macro- policies and micro-measures (e.g. to support SMEs and vulnerable/poor groups)
- Public communication: Transparency and accountability of policy makers for having public confidence and consensus ➔ right time for policy implementation
- Role of policy reviewing mechanisms/institutions (Information and policy analysis, including policy choices and their impacts; forecasts and warnings; cost-benefit analysis of large scale public projects;...). They should be independent, transparent with the wide-economy vision and professionalism)

***THANK YOU!***