

# Country Report **16**

## Vietnam Country Report

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# Vietnam

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## **Vietnam's economic reform and integration**

The apparent failure of the centrally-planned economic system necessitated Vietnam to launch economic reforms. The economic reform initiated in 1986-1988 has been a process characterized by gradualism. This approach can avoid the crisis/collapse of an economy while gradually gaining confidence in and support for reform. Also, since 1989, the reform has been in conjunction with macroeconomic reforms and the opening of the economy. Vietnam could not have succeeded without trade liberalization and economic integration. The international economic integration should be undertaken within this comprehensive domestic reform framework.

There is now a consensus that the achievements in Vietnam can be attributed to four key factors: (1) the acknowledgment of the right of private business and establishment of institutions for market transactions; (2) the market-oriented reforms (especially in terms of price liberalization and structural reforms); (3) the opening (mostly in terms of trade and FDI) and integration of the economy into the regional and world economy; and (4) the sustained macroeconomic and social stability.

However, there is also a consensus that the process of economic reforms and Doi Moi (Reform) in Vietnam have been complicated and unsmooth. The effective reforms require both political will, changes in the way of thinking and policy decisions reflecting the dynamics of real life.

The development objectives of Vietnam are to sustain high economic growth, to escape the status of a poor country by 2010, and to accelerate the industrialization and modernization process so that by 2020 Vietnam will basically become “a modern-oriented industrialized country.” For Vietnam's further development, the following challenges for reform are identified.

- Aim for a decisive institutional reform. That is, the (still) state-led economic institutions need to change into efficiency-enhancing institutions with more people participation.
- Develop the private sector and attract efficient FDI. With the nontariff barriers to

be removed, the further tariff reduction and substantial uniformity in tariff structure will be an effective way for Vietnam to reduce/eliminate anti-export bias.

- Find out how to effectively coordinate integration with its ongoing structural reforms.
- Identify an appropriate integration roadmap, especially in the context of the “spaghetti-bowl” syndrome of proliferation of regional and bilateral FTAs. This is necessary for Vietnam to effectively reap the benefits from trade creation, rather than trade diversion, and to support its domestic economic reforms.
- Gain benefits from the emergence of China as a regional manufacturing and investment hub as well as from joining the regional production network.
- Last but not least, confront social costs and build a social consensus during the inevitable reform and integration process.

### **Comprehensive roadmap for East Asian economic integration and narrowing development gaps: Some ideas**

To develop a roadmap for East Asian economic integration, the most essential thing is to have a comprehensive analysis/assessment of the key factors such as vision, strategic objectives and contents, socio-economic impacts, implementation method, including risks/difficulties, and supervision.

Cambodia, Laos, Myanmar, and Vietnam, four newer members of ASEAN, see deeper regional economic integration as a necessary and unavoidable process that would bring about benefits as well as challenges to them. A key question for the CLMV is how they can catch up with more advanced economies in the region given their limited resources. Moreover, to a significant extent, the CLMV themselves are also individually different in terms of the pace of reforms and international integration as well as socio-economic performance. Therefore, it is not easy to generalize any proposition or conclusion for the CLMV as a whole.

External assistance for the newer members needs to cover institutional building. Institutions do matter for economic growth and sustainable development. Also, trade liberalization and integration can be viewed as institutional changes and reform. An exchange program on building market institutions can play a role in creating more appropriate institutions for individual economies, especially those in transition. This would make a positive contribution to the process of building political convergence in East Asia.

There are many constraints in developing effective and efficient cooperation among the CLMV countries. This would include limitations in both human and financial

resources as well as a small domestic market size. Moreover, the CLMV have similar comparative advantages and their trade structure is more competitive than complementary. This would provide limited business opportunities and therefore, an effective cooperation among the CLMV should include both other countries and international donors.

There are four “I” gaps that should be considered in the analytical framework when dealing with the development gap issues in the ASEAN community building. The four “I” gaps include the income gap, the infrastructure gap, the integration gap, and the institutional gap. Toward this end, future policy actions should:

- Consider the objective of “bridging the development gaps in ASEAN” as core mission to any community-building strategy in the region.
- Make sure the four “I” gaps are embedded in future action toward an AEC.
- To sustainably bridge the development gaps in ASEAN; the most vulnerable must be prioritized in getting better access to the four “I”s.

Vietnam sets a good example of how a low-income transition economy could succeed in its development as well as in regional cooperation and integration. Vietnam may also serve as a good “bridge” for a better mutual understanding between the newer and older members in ASEAN.

### **The role of ERIA**

The ERIA can also have a significant contribution to the process of building East Asian community if it could realize the following missions:

- To have policy-oriented studies with rigorous analyses and high credibility;
- To be a “good and close bridge” (mechanism) for dialogues between ASEAN Secretariat, East Asian policymakers, business communities, and economic researchers (in and outside of the region);
- To be a “regional hub” for capacity building, especially for the CLMV.

The research agenda for the ERIA should follow closely the pillars in the roadmap toward the AEC (i.e., deepening regional integration; narrowing development gaps; and sustaining development). To be practical, the research projects conducted by the ERIA need not only contain rigorous economic analyses/arguments, but also take into account the social and institutional issues.