



International Economics

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**RETROSPECTIVE ANALYSIS
OF THE PROCESS OF VIETNAM'S
INTERNATIONAL ECONOMIC
INTEGRATION**

Abstract

The article is devoted to thorough examination and evaluation of the process of Vietnam's international economic integration from the XIXth century until the present time. Based on Vietnam's experience, the author elaborates conditions necessary for effective integration of the national economy into the world economy.

Key words:

diversification of foreign economic relations, «Doi moi» economic policy, open economy principles, trade liberalization, Vietnam's international economic cooperation

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There are no doubts today that the process of international economic integration and globalization is unavoidable and, moreover, necessary for the prosperity and development of any country's economy. The question of initiating and adjusting the country's integration policy for secure and effective participation in this process is the only disputable one. Vietnam is one example of it.

In fact, the country joined the integration process in the XIXth century when being one of the colonies of the French empire. As an independent state, Vietnam was the member of the Council of Mutual Economic Assistance (CMEA) under the aegis of the USSR.

However, these unions didn't provide appreciable economic results. By the time of the CMEA's disintegration, Vietnam's economy encountered a deep crisis, while the society was completely confused. To overcome the problems and achieve new objectives, the government restructured its economic and integration policy on the basis of previous «bitter» experience. Presently, Vietnam is an official member of ASEAN, Asia-Europe Meeting and Asian Pacific Economic Cooperation. Besides, the negotiations concerning joining the WTO are about to be completed. A few scientific works have been dedicated to the long-lasting process of Vietnam economy's integration into the world market (here, the historical aspect of economic integration is implied). These are mainly the handbooks issued by well-known Vietnamese economists – Chu Tuan Kap, Ngo Kuang Suan, Ngo Van Diem, Din Suan Li, as well as the works by Chin Kuak Tuan, Fan Chan Siong, Le Dang Zuan. Regretfully, the analogous works can not be found in the world and the Ukrainian scientific literature.

Therefore, we believe that this subject is worth of a special article that would cast some light on the complex and very interesting process of Vietnam's economic integration into the world economy.

Economic Cooperation of the Colonial Vietnam before 1986

For many centuries before the French conquest, Vietnam had remained an authoritarian state without external relations worthy of note. Economic cooperation of that period had been restricted to a limited number of trade operations with neighbouring countries which owned a well-developed fleet – China, India, Japan – and some Western countries. The greatest trade centres were ports Fo Hien (XIV–XVI), Kin Ki (i. e. Thang Long), Yfi Yan (XVI–XIX) Saigon – Sa Din (XVIII–XIX). The main goods of exchange were textiles, silk, salt, spices, rare forest and agricultural products. It was the only form of the country's foreign

economic activity. During that period, Vietnam neither joined nor signed any international agreements on cooperation and trade.

After colonization of Indo-China, which included Vietnam, Laos and Kampuchea, the main objective of the French policy was to unite these countries into an integral economic system to satisfy the imperial invasive interests. Vietnam's territory was divided into three parts with different levels of autonomy. All the laws and economic policies were created under the French protection.

France accounted for more than 80 per cent of Indo-China's exports in the sphere of trade. The major export group encompassed agricultural goods (rice, potato, rubber) and raw materials (wolfram, aluminium, copper, etc.). Both Vietnam's and Indo-China's agriculture were completely subjugated to French demands. At the same time, Indo-China was the metropolis' export market for industrially processed goods. For realization of these goods, France established very low tariffs not only in Indo-China, but also in all its other colonies.

What concerns investments, Indo-China was open to all French investors, but unavailable for the investors from other countries. French investments were directed at construction of transport infrastructure (railroads, ground ways, drainage systems, bridges, ports, airports, power stations, etc.), mining industry (coal, apatite, wolfram, copper, aluminium, etc.), and some plants producing weapons and tar for military purposes. However, no one was interested in the development of the local economy.

Despite availability of domestic currency (Indo-China's dong), France kept the strategy of monetary and financial policy under total control. Indo-China's dong depended on French franc and was freely convertible into it, though could not convert into any other foreign currency. Labour migration between Indo-China and France as well as other French colonies was relatively free [3: 31].

Thus, during French colonization, Vietnam' economy was integrated into the Indo-China economic zone which, in its turn, belonged to the economic system of French colonies. This fact presumes that the economies of Vietnam, Laos and Kampuchea were highly integrated (in the form similar to economic community). Moreover, Indo-China's economy as a whole and Vietnam's economy in particular were integrated into a broader economic system of the empire of French colonies (they may be regarded as a regional association resembling a common market).

Nevertheless, this union was not the real integration since the participating countries had no option and acted according to the «forced rules» imposed by France. In fact, Indo-China's economy was the open economy within the closed market of French colonies. The trade was mostly bilateral, between Indo-China and France, and unjust since it was to the advantage of the metropolis only.

Although the Indo-China's market was unified, the unification did not contribute much to attraction of foreign investments; neither had it increased the competitiveness of the economy. Internal unification only facilitated the more ef-

fective use of the local economy by France. During that period France, as well as other empires, implemented the model of import substitution, strict policy of protectionism and dumping prices export stimulation. As a result, Vietnam's economy developed disproportionately, ineffectively and slowly.

After liberation from the French yoke in 1945, Vietnam became independent *de jure*. However, *de facto* the war lasted until 1975, when the North and the South of the country united. The real peace having been established, Vietnam could proceed to construction of the national economic system.

In 1976, the IVth Congress of the Communist Party proclaimed the course at social and economic development of Vietnam. The major objectives of the course were the following:

- transformation of small industries into large ones;
- industrialization focused on the development of heavy industry;
- establishment of optimal balance in the development of agriculture, light and heavy industries [4: 67–68].

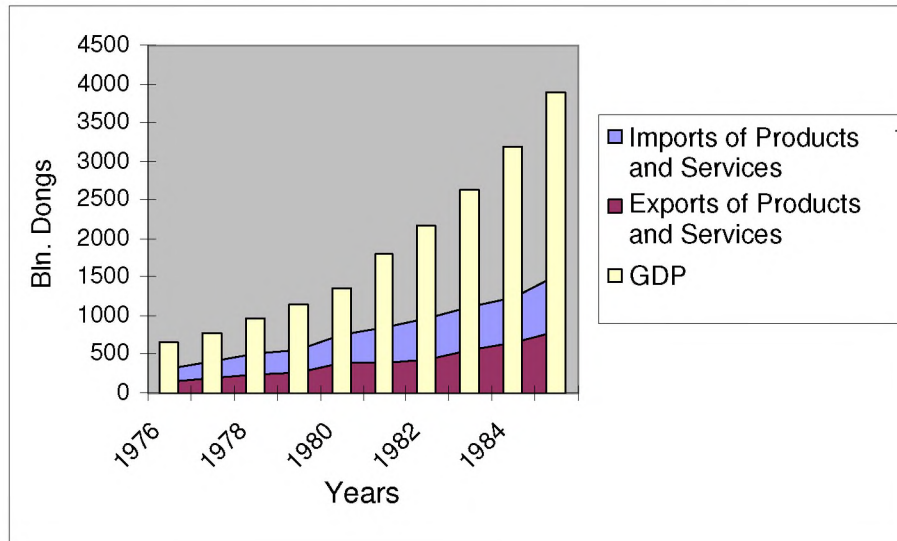
In realizing this strategy, the government proceeded to reformation of the capitalist structure of the South of the economy and introduced the central-planning model of economic development. By 1976, Vietnam had about 40 trade partners, but in fact, its foreign economic policy mainly depended on the cooperation with the socialist countries (more than 80 per cent of trade turnover was associated with these countries). The export structure mostly encompassed raw materials (coal, chrome, aluminium, etc.), agricultural, forest and sea products (timber, rubber, tea, rice, coffee, alcohol drinks, peanuts, canned fruits and vegetables, pineapples, bananas, oranges, lemons, frozen fish and shrimps), production of light industry (wool carpets, foot-wear, clothes, etc.). The structure of imports included machinery and equipment, vehicles, ferrous and non-ferrous metals, oil products, different types of coal, fertilizers, cotton, textiles, medicines, food and other consumer goods.

Investments came to Vietnam from the Soviet Union, the socialist countries of Eastern Europe, Japan, and some countries of North-Western Europe, mostly in the form of non-repayable aid and long-term loans with very low interest rate or even without it.

An important step on the way to economic integration was the Vietnamese government's decision to join the CMEA in 1978. Vietnam participated practically in all departments, conferences and agreements of the CMEA: General agreement on cooperation in development of international flights, mutual use of the system of reservation and sales of tickets for international flights, and organization of united international flights; General agreement on mail and facsimile connection; General agreement on mutual assistance in geophysical explorations; Agreement on multilateral payments using transferable ruble; and Participation in establishment of the International Bank of Economic Cooperation, etc.

Figure 1.

Basic Indicators of Vietnamese Economy in 1976–1985.



Source: International Financial Statistics Yearbook 2001.

However, the effectiveness of Vietnam's participation in the CMEA was restricted owing to a number of reasons stemming from the very creation of this organization. First, foreign trade flows within the CMEA were barter-based or grounded on mutual state planned deliveries, ignoring market regulations. By eliminating private enterprise and imposing centralized management in the CMEA countries, Soviet strategists deprived them of the core of successful integration – the possibility to develop direct international economic relations on the level of primary agents of economic life. By spreading deep down and broad-wise, these relations provide merging of national economies on the level of their root system, thus converting integration into self-depending and irrevocable process [1: 98]. Second, the CMEA had no special budget for financing various projects and cooperation programmes. Funds were allocated according to the bilateral «request-consent-to-aid» principle. Third, the strategic objective of principal decisions and 'rules of the game' was serving the policy of the USSR and its race with the USA. Fourth, the USSR was the driver of the CMEA, but its economic potential was restricted, especially in late 70-s, when a number of new problems arose in the country.

During the long period of participation in the CMEA, Vietnam received orders to grow subtropical agricultural products – coffee, cashew, etc. – for export

to Eastern Europe, but this did not help the country to develop its own production potential because of the above-mentioned difficulties. On the other hand, Vietnam proposed many projects on construction of industrial units, but they were mostly ignored by the CMEA.

Before joining the CMEA, Vietnam inherited from the Saigon government the membership in the World Bank (WB) since August 9, 1976, and the International Monetary Fund (IMF) since September 20, 1976. In 1976–1979, the IMF allocated to Vietnam about \$198 million for covering the deficit of payments balance, while the WB allocated \$60 million for the implementation of Sau Tieng hydroelectric project. The relations with the WB were practically frozen in 1979–1984, and since January 1985, the IMF has also suspended the issue of credits to Vietnam.

In September 1977, Vietnam became the 149th competent member of UNO. This fact was of crucial importance for the country. During 10 years, Vietnam received \$500 million of non-repayable aid from intergovernmental organizations of the UN system. With the US embargo in effect, the aid was very significant. This particularly concerns the humanitarian programs and common educational projects, which provide Vietnamese specialists in science and management with knowledge of new advanced technologies, practical training, etc. This factor remained an important precondition for the country's renovation and intensive economic integration for decades.

Thus, if compared to the previous period, Vietnam's international economic relations in 1976–1985 showed new features.

First, the number of trade partners and the scope of foreign trade significantly increased.

Second, though socialist countries remained the main economic partners, some capitalist states established relations with Vietnam.

Third, along with bilateral relations, Vietnam started participating in multilateral forms of cooperation: CMEA, IMF, IB, UNO and its intergovernmental organizations.

Fourth, foreign economic activity acquired new characteristics. Along with international trade, Vietnam cooperated in finance and banking (Agreement on mutual payments within the CMEA), in the sphere of services (General agreement on cooperation in the development of international flights, mutual use of the system of ticket reservation and sales, and organization of united international flights in the CMEA), as well as in the export of manpower and exchange of science specialists.

However, despite endeavours aimed at proliferation of international economic cooperation and participation in economic agreements of the socialist countries, the economic results during 1976–1985 were not too impressive. The reasons to it were the following:

First, the system of economic and foreign policy was inadequate and had numerous objective problems. The centralized and bureaucratic type of economy was forcibly imposed in the country, ignoring market rules and laws. This couldn't create necessary conditions for the intensive development of foreign economic relations and expanded participation in the world and regional markets.

Second, the procrastinated centrally planned economic management, errors and drawbacks in organization resulted in a severe and prolonged crisis. Since 1979, the trade deficit has increased sharply – total exports in 1979 were equal to 250 million rubles only, whereas imports increased to 1,450 million rubles. This tendency somewhat decreased in 1980, 1981 and 1982 [10:47]. GDP has annually decreased since 1978 (1979 – 20 per cent, 1980 – 1.4 per cent). The agriculture has also been in decline (1979 – 4.7 per cent, 1980 – 10.3 per cent), which made the government to import about 1.5 tons of food products every year.

The credit burden also aggravated the situation. Loans and foreign aid accounted for 38.2 per cent of the budgetary revenues and equalled to 61.9 per cent of total national income. By 1985, the external debt made up 8.5 billion rubles and 1.9 billion dollars. Backward production was unable to satisfy domestic consumer demand, while continuous money printing for financing state expenditures resulted in the hyperinflationary peak in 1986, when inflation reached 774.7 per cent [9:7].

Third, the unfavourable international political and economic situation: the antagonism of opposing political systems (the USSR and socialist countries vs. the USA and Western states); deterioration of China-Vietnam relations since 1977; political isolation and imposition of embargo by the USA and Western Europe, as well as by China and ASEAN, after Vietnamese troops entered Kampuchea in 1979; economic problems of the USSR and Eastern Europe in the conditions of global economic crisis in the early 80-s.

Summing up the aforesaid, we can conclude that in 1975-1985 Vietnam, as an independent and united state, concentrated its efforts on stirring up international economic cooperation.

However, these efforts failed to give the expected results. Furthermore, they could not prevent the crisis tendency in the economy owing to negative impact of the planned and central-bureaucratic economic regulation, as well as continuation and expansion of the «cold war» in South-Eastern Asia.

Thus, to overcome problems and proceeding from the economic and political situation in the country, the government was forced to take a decision of economic reform. The new policy «Doi moi» («Renovation») was initiated in 1986.

The Process of Economic Renovation, Openness and International Integration Since 1986

As it was mentioned above, in the early 80-s Vietnam got into a lasting period of depression, with low and unstable production growth, high inflation rate owing to the system of bureaucratic and central-planned economic management. The analysis of the situation showed that the mechanism of centralized planning which was crucial for the maximum mobilization of material and labour resources during the liberation war and reunification, ceased to meet new requirements and tasks. Practice proved that previous forms and methods of economic management were not only ineffective, but became a real hindrance in the way of further development.

The program of economic renovation, adopted at the VIth Congress of Vietnamese Communist Party, opened the way for transformation of Vietnam from the planned economy into the socially-oriented market economy. Alternations in the domestic economic strategy were accompanied by political and foreign economic reorientation. Since the VIIth Congress of the Party in 1991, when principles of multi-lateralization and diversification of international relations were proclaimed, Vietnam has intensified its own interstate activity by making its economy open for integration into the world and regional market. This step was a new landmark in the development of the economy and international economic integration in particular.

The Congress' resolution contained basic postulates of the foreign economic policy associated with the intensification of export and import activity, unification of foreign currency regulation, effective use of foreign aid and long-term loans, stimulation of the flow of direct foreign investments, cooperation in manpower exports, as well as development of different spheres of services, such as tourism, international transportation, provision of sea vessels and aircraft. Presently, all the countries of the world are Vietnam's strategic partners, irrespective of their political ideologies.

The first five years of «Doi moi» policy (1986–1990) were directed at the unilateral opening of the economy for integration purposes. While realizing the policy, the government took a number of important reformist decisions:

- gradual abolition of price subsidizing;
- encouragement of management development and forms of property for the release of production forces;
- renovation of fiscal and monetary activity, annulling of the double price regime;

- state industrial enterprises were granted rights to self-dependent production management, trading and keeping enterprise records; privileges were gradually cancelled; the number of political edicts, which interfered in production activity, decreased; expansion of production by other than state economic agents was stimulated for involving funds for industrial development;
- adoption of the Law on foreign investments granting favourable conditions for investors.

Due to the aforesaid, positive tendencies began to show in the economy, though they were not appreciable (See Table 1)¹.

The VIIth Party Congress proclaimed the strategy of state construction in the transition period and the strategy of social and economic development and stabilization till 2000 (1991–2000). In fact, the course of the development of multi-structural economy with socialist orientation, on the basis of market mechanism managed by the state, was adopted. The Congress documents stated the fundamentals of Vietnam's international economic integration – «expansion, multilateralization, diversification of foreign economic relations based on the principle of independence, equality and mutual benefit». Furthermore, in the IIIrd National Assembly in June 1992, the government determined the main task of integration policy, which included «establishing relations with international fiscal and monetary institutions, such as IMF, WB, Asian Development Bank (ADB) and so on, expanding relations with cooperation organizations in the Asia-Pacific region» [5:119]. Pursuing the strategy, Vietnam negotiated with the IMF on past due loans. In October 1993, after 15 years of intermission, credit relations with the IMF, IB and ADB were renewed.

On October 17, 1994, Vietnam applied for joining ASEAN and became an official member on July 28, 1995. Since January 1, 1996, the country has begun to carry out obligations on the formation of ASEAN – AFTA (AFTA – ASEAN Free Trade Agreement). Participation in the AFTA agreement proved to be a powerful driver of the process of international economic integration. Vietnam took part in such an agreement in accordance with general world trade regulations.

Carrying out obligations on liberalization of trade relations based on approved graph and principles of mutuality showed Vietnam striving for integration and became a turning point on its way to international integration.

In December 1994, Vietnam applied for joining the WTO. According to the organization's rules, Vietnam has to carry out a durable negotiation process and gradually change its legislation in compliance with the principles of multilateral agreements. Furthermore, Vietnam has to take responsibility of decreasing trade barriers and regulating control measures for the liberalization of the home market with respect to foreign goods and services, in exchange for granting the

¹All macroeconomic indices from 1986 to 2004 are presented in Table 1.

most-favoured-nation treatment by the other member states of the WTO. Since 1995, Vietnam has passed 10 rounds of negotiations, and it is expected to become an official member by the end of this year or in the middle of 2006. The decision on participation in the WTO is fundamental for determining the further strategy of integration policy.

Table 1.

GDP Growth and Its Structure (%)

Year	Growth Rate (Comparative Prices)				Structure (Real Prices)			
	Total	Agriculture, Forestry and Sea Industry	Manufacturing and Construction	Services	Total	Agriculture, Forestry and Sea Industry	Manufacturing and Construction	Services
1986	2.84	2.99	10.84	-2.27	100	38.06	28.88	33.06
1987	3.63	-1.14	8.46	4.57	100	40.56	28.36	31.08
1988	6.01	3.65	5	8.77	100	46.3	23.96	29.74
1989	4.68	7	-2.59	7.86	100	42.07	22.94	34.99
1990	5.09	1	2.27	10.19	100	38.74	22.67	38.59
1991	5.81	2.18	7.71	7.38	100	40.49	23.79	35.72
1992	8.7	6.88	12.79	7.58	100	33.94	27.26	38.8
1993	8.08	3.28	12.62	8.64	100	29.87	28.9	41.23
1994	8.83	3.37	13.39	9.56	100	27.43	28.87	43.7
1995	9.54	4.8	13.6	9.83	100	27.18	28.76	44.06
1996	9.34	4.4	14.46	8.8	100	27.76	29.73	42.51
1997	8.15	4.33	12.62	7.14	100	25.77	32.08	42.15
1998	5.76	3.53	8.33	5.08	100	25.78	32.49	41.73
1999	4.77	5.23	7.68	2.25	100	25.43	34.49	40.08
2000	6.79	4.63	10.07	5.32	100	24.53	36.73	38.74
2001	6.89	2.98	10.39	6.1	100	23.25	38.12	38.63
2002	7.04	4.06	9.44	6.54	100	22.99	38.55	38.46
2003	7	3.2	-	6.6	100	-	-	-
2004	7.7	-	-	-	100	-	41	-
2005*	7.63	4.32	9.5	7.6	100	-	-	-

Sources: Data of State Statistics Committee, Department of Multilateral Cooperation of the Ministry of Foreign Affairs of Vietnam, 2004–2005.

* First six months of 2005.

The IXth Party Congress in April 2001 adopted the Strategy of social and economic development for 2001–2010 and the Directions of social and economic development for 2001–2005. The major objective of the Strategy is transformation of Vietnam from the agricultural into the modern industrial state. To achieve this, it is necessary to accomplish the plan of macroeconomic indices for 2001–2010 (see Table 2).

Table 2.

Macroeconomic Indicators for 2001–2010
(in Comparison with 1990-s)*

Indicators	Planned Average Annual Increase, 2001–2010 (%)	Real Average Annual Increase, 1990–2000 (%)
GDP increase	7–8	
Manufacturing and Construction	10	11.2
Agriculture, Forestry and Sea Products	4	4.2
Services	7	7.2
Export Receipts	14	20.5
Export of Industrial Goods	18.5	28.2
GDP per capita	5.8	6.0
Manpower	2.4	2.8

Note: * Real increase is used.

Source: Vietnam Development Report: Vietnam 2010: Entering the 21st Century, 2000.

While analyzing the data in Table 1 for 2001–2004, we conclude that the needed indices were achieved due to economic development. Provided the development rate is maintained, Vietnam is likely to transform into the modern industrial state by the end of 2010.

Along with the development of international and regional economic integration, Vietnam's economic policy and management strategy has become more precise. It is evident that economic development, as well as participation in cooperation projects, international and regional economic, and trade and other agreements, are crucial for the increase of the overall power and authority of the country on the world stage. However, the fact is that increased cooperation is associated with tough international competition. Proceeding from this, the principles of building the open economy, multilateral and diverse foreign economic relations, export orientation combined with import substitution of goods, which can be more effectively produced within the country, the maximum use of foreign capital, technology and participation in the world market, have been asserted. This also concerns the expansion of international relations and the sphere of co-

operation, strengthening both bilateral and multilateral cooperation, international and regional organizations on the basis of respecting independence, sovereignty and territorial integrity, as well as non-intervention into internal affairs, equality and mutual benefit [6: 120].

Thus, during 18 years of restructuring, Vietnam has made a tremendous leap forward in the development of the country. Despite the difficulties and periods of recession, in 18 years Vietnam has doubled its GDP. The average increase of GDP is 7% per year. By October 2005, the scope of direct foreign investment reached \$55 billion. According to the IMF assessment, the PPP-based per capita income constituted \$2,490 in 2003 [8].

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