EE361/EE363 ECONOMICS OF CLMV COUNTRIES
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Vietnam's remarkable achievements through trade liberalization and WTO

GROUP #3

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Comprehensive and well-written. Some area need more elaborate/ discussions. Also pls. include some graphs / charts / tables or other data to support the narrative / writeup.

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Overview

Vietnam is the country located in south-east asia, has a total population of 96 million people (as of 2019) and its capital city is Hanoi. This country has some story to tell about its economic development in the past few decades, especially the major development of vietnam economies by joining the World Trade Organization (WTO) in 2007.

pls. elaborate a bit on some of the geography and socio economic indicators

This report will be considering Vietnam's background as well as Vietnam's history in either country's overall aspect and each interested individual sectors and also the history of Vietnam's trade liberalization. The report also includes related graphs and datas that are relevant to the study and analysis, which also refers to the index such as economic indicator, social indicator, sector indicator, etc. in order to visualize the overall changes of those aspects over time.

More importantly, this report will focus on how trade liberalization, especially joining the World Trade Organization (WTO), have affected the overall economies of vietnam, in addition, we also include the analysis of the impact of trade liberalization on interested individual sectors.

The rationale behind the selected topics is that our group wants to learn more about the effect of trade liberalization that Vietnam has joined, how does it contributed to the overall economy of the country as well as each sectors individually, moreover, we want to know how the trade liberalization have improved the well being of the people in the country, also, how it improves the economic situation of Vietnam from the undeveloped country into developing country.

good overview and explanation of the topic probably could expand in some of the paragraph

please provide page numbers

Key issues and challenges

Through trade liberalization and accession to the World Trade Organization, Vietnam has created remarkable achievement. Vietnam's economy has been rapidly driven since the country entered the international market while becoming a WTO member in 2007 even further stimulates Vietnam's economy.

During the long process before ~~the~~ its entry, Vietnam needed to reduce its tariff taxes to follow the rules of WTO. This reduces the government income. In return, the accession to WTO brings better access to the international market, especially the market of WTO members; moreover, it brings the opportunity to international trade. Cling et al. (2008) stated that Vietnam received a higher export quota of textiles and apparels since the beginning of 2007. Besides, it is stated that Vietnam had the highest export growth rate while 50 percent of exports are manufacturing products. Ni (2016) investigated the effect of Vietnam's WTO accession on the trades with partners around the world. It is found that after becoming a member in 2007, there were 28 percent increase in trade volume with the new partners who were formerly unsatisfied with the tax rate. This can be concluded that the WTO accession could generate the positive impact on Vietnam's economy in terms of trade volume.

In addition, the accession to WTO attracts more foreign direct investment to the country. Foreign direct investment or FDI is crucial to Vietnam's economic growth. Since FDI inflows bring the resources such as capital and technology, the country could be able to increase productivity and increase production efficiency (Nguyen, 2020). FDI inflows also benefit the country in terms of developing human resources, developing the financial sector, and creating employment. The accession to WTO improves the business environment of Vietnam which could attract foreign investors and thus foreign direct investment was expected to increase. The result of WTO accession that could bring more FDI is confirmed by Nguyen (2020) who reported that as a result of WTO accession, the registered FDI inflows skyrocketed in the year of 2008 which is one year after the entry. The number of FDI inflows is reported to be three times higher than 2006 and seven times higher than 2005. In addition, it is stated that Vietnam could attract big corporate investors such as Microsoft and Samsung for the first time.

The growth in the economy in Vietnam shows an increase in employment rate in all categories of population. However, around 80 percent of the workforce are unskilled workers, some 15 percent are the group of semi skilled workers remaining for the skilled workers just only 5 percent according to the VHLSS. This data tries to show that the labor market is still so far from natural level (full employment) although the rate of unemployment is remarkably low. Hence, a shock in labor demand from a rise in domestic consumption and more demand for exports can be gained without facing a strong increase in unit labor costs. The change in the sector that employed workers is also noticeable. Cling et al. (2009) also discussed that there is a reallocation of labour. Based on the simulation, it is found that labor is reallocated to the textile sector due to the reduction of tariff and increase in export demand for textile.

A Sharp drop in poverty is also observed as a higher level of underemployment emphasizes the drop in poverty. While there is a reduction in poverty in urban areas, poverty remains high for the population living in rural areas. This brings the inequality between the two areas but in a way better than those happening in China. ~~Fast~~ Rapid economic growth from trade liberalization reduces the poverty rate in Vietnam, especially in an urban area since the overall real wage was increasing. Cling et al. (2009) stated that as a consequence of trade liberalization, there is a positive impact on the real wage and the quantity of labour employed. It is found that the real wage increased after the accession to WTO while the magnitude of impact varies between the type of labour and the area they live. The result shows that trade liberalization benefits urban semi-skilled and unskilled female laborers the most with the highest wage growth. As laborers receive higher wage rates, the level of poverty reduces significantly, especially in urban areas of Vietnam.

On the other hand, the trade liberalization and accession to WTO also bring the challenges to overcome. Looking at the social issue arising from the accession to WTO, Vietnam is facing ~~the~~ rising inequality between urban and rural areas. Cling et al. (2009) stated that there was sharply rising inequality between urban and rural areas in Vietnam despite the reduction of poverty. It is found that the income gap between people living in urban and rural areas is rising since the growth of income in urban areas is higher than rural areas. Even though inequality is not a new issue in Vietnam, rising inequality is the huge social challenge arising after international trade that needs to be considered. In addition, the better access to the international market means that producers in Vietnam are facing challenges since the market becomes more competitive, especially the agriculture products from Vietnam. Though the agricultural sector has become less important to the country's GDP, it is the main industry of Vietnam. According to Dung and Jenicek (2008), it is stated that Vietnam's agricultural sector has low productivity and high cost of production. Therefore, the agricultural products from Vietnam are less competitive in the world market. So, the competitiveness of domestic products is another challenge that the Vietnamese government needs to consider and overcome.

pls provide graphs / tables / charts or data that could support the write-up

Government/State Strategies, Policies and Legislation

Vietnam applied for the World trade organization in 1995, and after 12 years of negotiation, and Vietnam became an official member of the organization in 2007. With the trend of world market and economic performance, many countries around the world shift their focus toward more open economies and introduce foreign direct investment to their countries. These changes established many free trade areas in the world, and Vietnam also signed several Free trade agreements. With this reason, Vietnam has shifted their economics towards a more open economy and involves more in international economics. It also develops many sectors such as the domestic sector, trade, agricultural sector and labour market in Vietnam.

Firstly, economic integration activities create such a huge macroeconomic impact to Vietnam in many aspects such as labour, production, trade and regulation. Foreign buyer's sourcing decisions are based on supply chain distance, final distance, production cost, especially labour costs. Wages of the labour can directly impact the buyer's decision because the lower average cost leads to higher margin in business. Fortunately, Vietnam has high labour productivity with a middle literacy rate. Vietnam also has lower wages compared to China. Therefore, global buyers saw this opportunity to utilize their production cost and shift their production base to Vietnam instead. Moreover, with the favorable government policies in Vietnam, it helps manufacturing companies to run their business with strong insurance such as granting corporate income tax (CIT) incentives.

Probably would 'indicate specific policies /strategies undertaken by gov't to address challgs /issues.

Secondly, with higher economic integration, many countries came to Vietnam to invest in their business, including the automobile industry. This will increase the number of foreign competitors for domestic firms. Some of the domestic firms are unable to compete with new competitors because they lag in technological advancement and capital investment. Hence, Vietnam's government encourages the domestic reform process. Vietnam has tried to promote their infant industry such as the automobile industry, one of the important industries for their GDP that is mostly dominated by state-owned enterprises. In order to protect this industry and help domestic manufacturers, the government applied many policies such as high tariff protection policy and import quotas to help local manufacture compete with the foreign firms. As a result, the import in the automobile industry in the United States has declined as mutual tariffs were implemented.

As a result of joining WTO, many sectors in Vietnam have liberalized including the financial market. To support foreign firms in a rapid expansion period, Vietnam has changed some of their financial policies in order to remove entry barriers for foreign firms to invest more in Vietnam. One of the policies that is worth considering is forign firm ownership's policy in Vietnam. Initially, Vietnam was a state-owned enterprise with control of the government, but since then the country has been liberalized which led to policy implications that support more global investors in the country. For instance, express delivery service has allowed foreign ownership up to 100 percent. However, there are still some sectors that Vietnam is strictly restricted such as telecommunication, broadcasting and film industry. Therefore, foreign enterprises will be managed under several limitations if they own business in these sub-sectors.

In addition, Vietnam has executed several economic laws to support socialist-oriented marketing mechanisms and improve their management institutions in accordance with WTO regulation. These will improve Vietnam's business environment and attract more foreign investment into their country along with protecting domestic firms in the country at the same time.

such as?

The Role of Various Development Actors

The World Trade Organization (WTO) is the only global international organization dealing with trade rules between nations to ensure that trade flows smoothly, predictably, and freely. The primary purpose of the WTO is to open trade for the benefit of all. Besides operating a global trade rules system, it also acts as a forum for negotiating trade agreements, settles trade disputes between its members, and supports developing countries' needs.

The role of the government is to prepare, sustain, and ensure the efficiency of trade liberalization. Trade liberalization is the removal or deduction of restrictions or barriers on the free exchange of goods and services between nations. Since the introduction of doi moi in 1986, progress to reform trade has been impressive. The Vietnamese government had relaxed many restrictions, allowing more firms to engage in trade. The government introduced trade policies, instruments, and tariffs with a gradual reduction in import barriers and improvement in export incentives. Moreover, it also liberalized the foreign exchange regime. However, to further enhance trade liberalization, the government should invest in improving trade-related infrastructure.

Vietnamese enterprises' role in trade liberalization is to be active, competitive to survive in the global market. Vietnam's accession to WTO put competitive pressure on enterprises in the country; however, it also helped domestic enterprises grow stronger. Luong Van Tu, Former Deputy Minister of Industry, stated that many firms have proactively sought markets and boost linkages with foreign partners to promote exports. Also, Tran Dang Phuc, the Chairman of the Board of Directors of Tien Phong Plastic Joint Stock Company, said to integrate deeper into the international market, domestic businesses need to draw up investment strategies, develop brand names, competitive edge, and production equipment while applying energy-saving and environmentally friendly technologies.

Households are one of the essential players in the economy. They are not only the final consumers of goods and services produced by the firm, creating demand in the market, but they are also the people who contribute their force to the firm as supply factors of production. Moreover, the earning households that households receive could use to boost the economy through their spending. Therefore, it's reasonable to study the impact of trade liberalization and WTO on this crucial sector.

According to Statista, In 2019, more than half of the Vietnamese population still live in a rural area, working in the agricultural sector. Agriculture represented 14% of GDP and employed 36% of the total workforce in 2020, and rice is still one of the main crops(World Bank). Seshan's study about the effects on poverty and income distribution of national and international market integrational in Vietnam's rice and fertilizer market between 1993 and 1998 found that Vietnam's Agricultural trade reform did not significantly improve overall household welfare, nor decline in poverty over this period. However, the liberalization exercise can explain about half of the reduction in poverty incidence among farm households. Besides, liberalization did not exacerbate income inequality; it only slightly increased inequality of farm income. Holdings of farmland differentiated the distribution of gains; households with more lands tend to enjoy a higher welfare rise. Liberalization also generates gains for rural households across the income distribution, particularly the poor, at urban households' expense. The poor rural households in North Vietnam were better off with higher real income and welfare rising, while the poor urban households were worse off with the higher rice price.

The World Trade Organization enables to cut households' living costs and enhance living standards as its global system lower trade barriers through negotiation and operations under the principle of non-discrimination, leading to lower cost of production and lower prices of finished goods and services, allowing households to enjoy a lower cost of living. Nevertheless, according to WTO, if reform in the developed world raises wold prices, consumer/households in the poorer countries like Vietnam may suffer, but their farmers receive more realistic prices, encouraging them to produce more and improving supplies in the countries

Lesson Learned

Vietnam has successfully transitioned from a centrally planned to market-based economy. As Vietnam joined the world trade organization, foreign direct investment has become an important part of Vietnam's economic growth. It has benefits in many sectors such as financial and human capital. With cooperation between all sectors, Vietnam's government, household, as well as other development sectors, maintain to put effort on their work. It will improve the country's economy further.

The role of government has done a nice job by joining the world trade organization and other free-trade agreements which allowed its capital to move around and increase capital inflow to the country. It also lowers households' living costs and intensifies their living standard because of lower price of product from lower production costs. Moreover, the government should support and encourage its citizens to have higher education and provide sufficient jobs for them when they graduate. As well as improving and building more

Since the agricultural sector employed approximately half of Vietnam's labor force and generated 14% of GDP, by improving agricultural technologies, knowledge, and giving price incentive farm products to increase farmer productivity and accelerate output growth. When farmers can produce enough agricultural products to meet the rising demand due to rapid urbanization. Rules and regulations that Vietnam established which support socialist-oriented marketing mechanisms helped protect domestic firms' benefits along with attracting international investors. It should put some budget towards research and development to ensure that rules and regulation will protect and Vietnamese from others and make sure that it does not contradict with any other laws.

For the household, Vietnameses can carry on with their hard work to create sufficient supply for the world market and get money to make adequate money to have a good living standard for the family and use the money to stimulate the economy. Households with higher education tend to have better jobs, health, incomes, and an older mortality age. People with good health are likely to have higher productivity.

The manufacturing sector has to compete with both domestic and international companies. They require strengthening the core value, improve quality of product, lower the production costs, and increase worker efficiency and productivity.

Conclusion

From the study and analysis, we found that initially, Vietnam is a state-owned enterprises economy until the trade liberalization called " Doi Moi Reform" comes along in 1986; it has changed the overall Vietnamese economy structure into an open market; furthermore, the joining of World Trade Organization (WTO) of Vietnam is considered to be revolutionary of economies in Vietnam. To illustrate, it is found that Vietnam's economy has been driven through trade liberalization after becoming a member of WTO in 2007. Trade volume and FDI inflows were sharply increasing. Plus, the poverty rate was continuously decreasing as a result of the rising real wage rate in Vietnam.

However, before the perfect implementation of the new system, Vietnam had faced many challenges arising after entering WTO, such as rising inequality and competitiveness of domestic firms. Vietnam's domestic players have difficulties adapting themselves to the world market in many dimensions. To alleviate the impacts, Vietnamese government implemented several policies such as increased tariffs in the protected industry and encouraged Vietnamese to consume domestic products. However, Vietnam also attracts global investors by liberalizing their financial market, especially in the credit market.

The key success behind remarkable achievement in high and sustainable economic growth is the collaboration among all sectors in the economy, since each sector has a specific role in economic development, not only the government but also household and private sectors. All of the development actors need to contribute to create and maintain the productivity and efficiency of economic development.

In conclusion, the economic development of Vietnam has been considered to be successful, but what lies beyond those remarkable achievements is the hard work, adaptation and the contribution of all development actors among various sectors within the country.

good !

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