

Outstanding Impacts of International Economic Interaction on Vietnam's Economy

Ngô Thanh Phong

(Department of Economics and Law, Tien Giang University, Vietnam)

Abstract: In the context of international integration and globalization, Vietnam has been integrating more and more deeply into the world economy. Vietnam has signed many free trade agreements with countries and regions in the world, helping Vietnam have more opportunities to develop the country, but also poses great challenges for the economy. This article reviews outstanding achievements while pointing out challenges in Vietnam's international economic integration in recent years and proposing some recommendations to help Vietnam integrate and develop more in the coming time.

Key words: integration, international economy, globalization, Vietnam

JEL code: F15

1. Introduction

Along with the trend of globalization, under the enormous impact of the science-technology revolution, all countries must participate in the process of international integration and international integration becomes an inevitable trend. International economic integration has been a major and consistent policy of the Communist Party and State of Vietnam over the past decades. In order for the country to develop faster and more sustainably, integrating with other countries and regions in the world is both an objective requirement and a existential need of the countries. Over the past years, Vietnam has been actively integrating and has made great achievements, people's lives have been constantly improved, socio-political stability, attracting more external resources along with domestic resources, has contributed to creating a new driving force to promote national development. However, the integration process also poses many problems and challenges that Vietnam needs to face when the international environment is volatile, fast and complicated, where cooperation and competition are always interwoven with each other and there are many changes, requiring Vietnam to change faster and compete more strongly. The article will systematize Vietnam's international economic integration process, summarizing achievements, challenges are posing, at the same time proposing recommendations to help Vietnam integrate more deeply into the global economy.

2. Literature Review

Globalization, international economic integration and trade liberalization have been and are outstanding

trends of the contemporary world economy. In line with that trend, from 1986 up to now, Vietnam has carried out the renovation and accelerated international economic integration with the motto “diversify and multilateral foreign relations”. Vietnam always implements the foreign policy of independence, peace, cooperation and development consistently; foreign policy of openness, multilateralization, diversification of international relations, proactive and active integration into the international economy, at the same time expanding international cooperation in many fields. Vietnam is a friend and reliable partner of countries in the international community, actively participating in international and regional cooperation.

The basic guidelines on international economic integration have been mentioned in many important resolutions and directives of the Party and State, particularly in Resolution No. 22-NQ/TW dated April 10, 2013 of the Politburo (Session XI) on international integration, in which international economic integration is determined as the focus, integration in other fields must facilitate economic integration and the Conference Resolution No. 06-NQ/TW dated November 5, 2016 of the Fourth Conference of the Party Central Committee (Session XII) on effectively implementing the process of international economic integration, maintaining political stability-society in the context of Vietnam joining the new generation free trade agreements (FTAs).

On that basis, ministries, branches and localities have developed and issued programs and actions suitable to the functions, tasks and characteristics of each ministry, branch or locality and widely deployed with various forms; Strengthen the effective implementation of FTAs that Vietnam has signed, contributing to rapid and sustainable development of Vietnam's economy.

3. Case Study

Implementing proactive and active international integration, over the past years, Vietnam's international integration process has reached a new height. The process of international economic integration has made an important contribution to raising the position and strength of Vietnam in socio-economic development and increasing people's income; create pressure and conditions to positively improve economic institutions; efforts to improve competitiveness of countries, businesses and products. However, the integration process also brings many challenges to the Vietnamese economy.

3.1 Achievements in International Economic Integration of Vietnam

3.1.1 Expanding Export Markets

One of the great achievements in Vietnam's international economic integration in recent years is the expansion of export markets, on the basis of removing tariff barriers and removing technical barriers, helping to increase the value of Vietnam's exports of goods and services.

International economic integration contributes to the expansion of import and export markets, promoting an increase in import and export turnover and improving Vietnam's trade balance during the past time, from a country having a trade deficit has become a country with a consecutive surplus in recent years. With rich resources, abundant and cheap labor, along with socio-political stability has helped the export value of goods and services of Vietnam continuously grow both in scale and in growth rate, accounting for a higher and higher proportion of the total domestic product. This is shown more clearly through Figure 1.

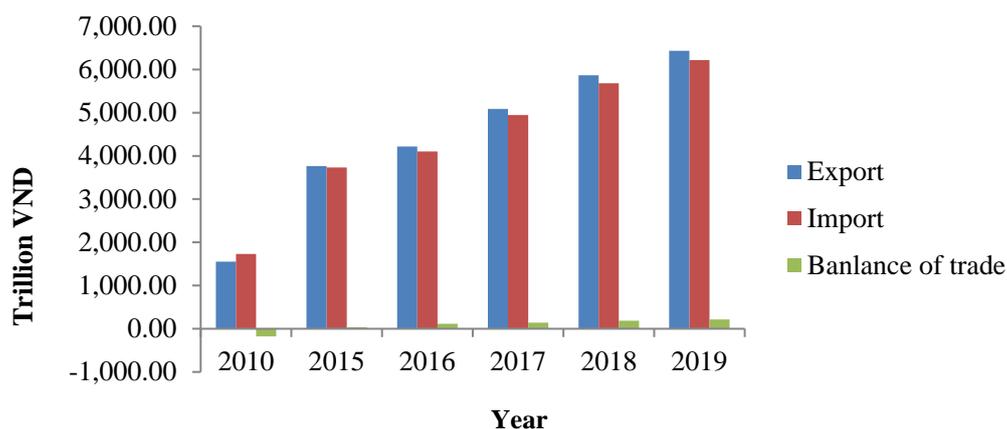


Figure 1 Export, Import and Balance of Vietnam Over The Years

In addition to helping Vietnam improve the trade balance, international economic interaction also contributes to raising the proportion of good and services export in the total domestic product.

Table 1 Ratio of Exports of Goods and Services to Gross Domestic Product (Current Prices)

Year	2010	2015	2016	2017	2018	2019
The ratio of exports of goods and services to the total domestic product (%)	72.00	89.78	93.62	101.59	105.83	108.48

Source: author's aggregate calculation from the Statistical Yearbook 2019, p. 105.

In all markets where Vietnam has a free trade agreement, good growth has been recorded, with the export share in key markets confirmed. Export growth in many markets reached double digits, such as exports to China reached 41.2 billion USD, up 16.6% compared to 2017; export to ASEAN market reached 24.74 billion USD, up 13.9%; exports to Japan reached 18.85 billion USD, up 11.8%; export to South Korea reached 18.2 billion USD, up 22.8% (Vietnam export and import report 2018, p. 13). Expanding export markets not only helps to increase the value of exports, but also serves as a premise for Vietnam to restructure its export markets in a more balanced direction, avoiding the fact that exports are too dependent on some markets because there are fluctuations in these countries' markets, it will greatly affect Vietnam's exports.

3.1.2 Increasing Foreign Investment Capital

Attracting foreign direct investment is one of the great achievements of international economic integration. Since the Law on Attracting Foreign Investment was enacted (1987), along with the implementation of commitments in international economic integration, the foreign investment attraction in Vietnam has continuously increased, both in number country involved in investment, number of projects and size of capital. Along with that, the opportunity to receive technology, management experience allowing Vietnamese businesses to participate in global production chains will also increase, contributing to the socio-economic development of Vietnam in the last year.

In 2010, there were 1,237 foreign investment projects in Vietnam with disbursed capital of about 11 billion USD. By 2019, Vietnam attracted 3,386 investment projects from many countries and territories, with the total disbursed capital is 20.5 billion USD. Achieving this result, showing the confidence of foreign investors in the investment environment in Vietnam, confidence in policies and consistent lines and implementation of international economic integration commitments of Vietnam.

Table 2 Foreign Investment Capital Into Vietnam Over The Years

Year	Project number	Total registered capital (Million USD)	Total realized capital (Million USD)
2010	1,237	19,886.8	11,000.3
2015	2,120	24,115.0	14,500.0
2016	2,613	26,890.5	15,800.0
2017	2,741	37,100.6	17,500.0
2018	3,147	36,368.6	19,100.0
2019	3,386	37,835.7	20,500.0

Source: *Statistical Yearbook 2019*, p. 160.

3.1.3 Promote Economic Growth, Create Jobs

International economic integration contributes to promoting Vietnam's economic growth when the foreign-invested sector's gross domestic product has continuously increased in recent years and it has an increasingly high proportion in the structure of gross domestic product, contributing to change economic structure in a positive direction.

Increasing international economic interaction helps Vietnam attract more FDI enterprises, the contribution structure of FDI enterprises has continuously increased in the total domestic product and contribute to promoting economic growth for Vietnam, as shown in Figure 2.

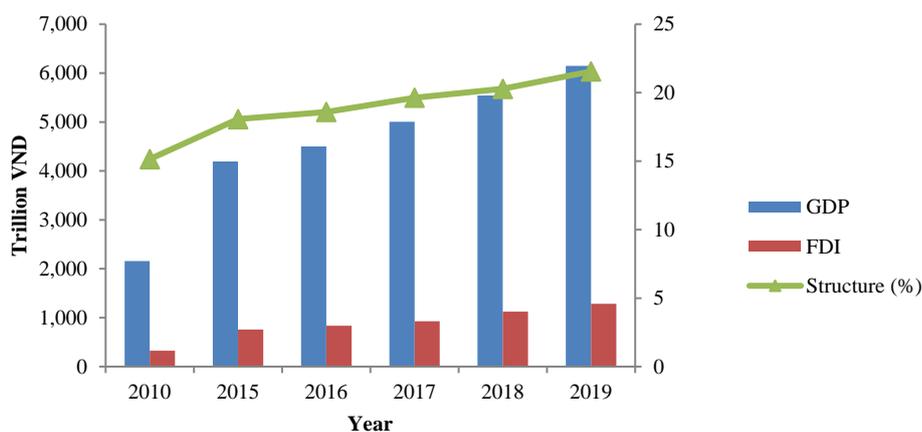


Figure 2 Structure of FDI Firms Contributing to Gross Domestic Product

In addition to the international economic integration contributing to promoting economic growth, international economic integration also creates jobs for a part of Vietnam's labor force. In 2010, foreign-invested enterprises created 2,156 of jobs for employees, and by 2019, 5,281 were solved.

On the basis of creating more and more jobs, the employment contribution structure of FDI enterprise has always increased in recent years. In 2010, foreign-invested enterprises created 22.13% of jobs for employees, and by 2019, 32.93% were solved, contributing to creating jobs and improving average income.

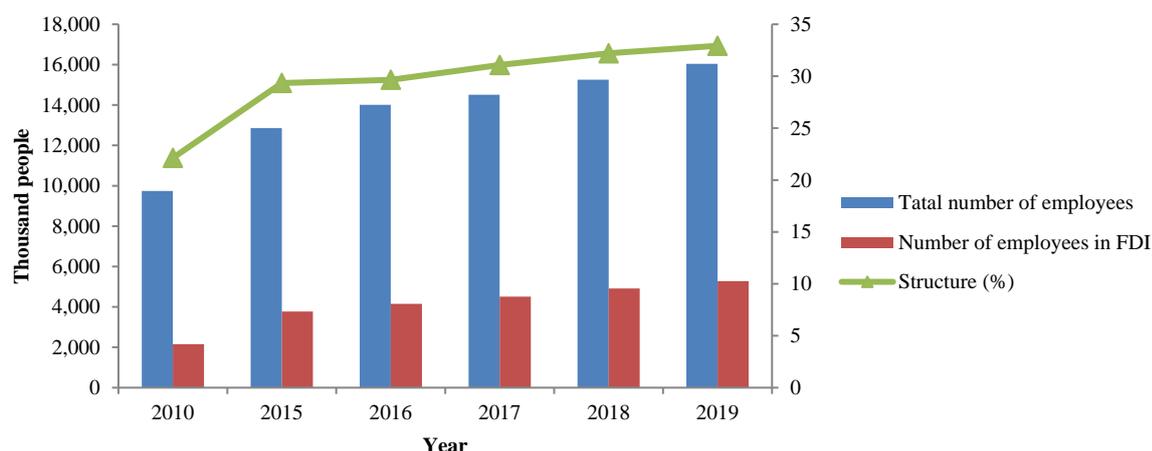


Figure 3 Structure of Labor Working for FDI Enterprises

Not only is an important resource contributing to accelerating the development of the economy, adding significant capital for growth, transferring technology, enhancing export capacity, creating more jobs, FDI also has an important role in enhancing the competitiveness of domestic enterprises.

In addition deeper international economic integration contributes to making Vietnam an important “link” in the network of economic links with the world’s leading economies; at the same time, creating new dynamics and new “pressure” to strongly promote the improvement of the socialist-oriented market-oriented economic institutions associated with the innovation of growth models and economic restructuring. The legal environment, economic policy, and domestic management mechanism have been reformed towards becoming more and more consistent with the commitments of high standards in FTAs and becoming more and more transparent, creating an investment environment, and domestic business is becoming more and more open, approaching the high international standards of the region and the world.

3.2 Challenges for Vietnam When Integrating Into the International Economy

3.2.1 The National Competitiveness and the Competitiveness of Enterprises Are Still Low

Although the national competitiveness and competitiveness of domestic enterprises have been improved, they are still low compared to other countries in the region. The Business Environment Report 2018 published by the World Bank: Vietnam ranked 69/190 economies, with 66.77/100 points, down 1 level compared to 2017 (68/190 economies, with score is 67.93/100 points). Vietnam is considered to be an economy with many reforms in the business environment. However, the investment environment in Vietnam is still less competitive compared to other countries in the region such as Singapore, Malaysia, Brunei and Thailand.

According to the 2017 Economic Census of the General Statistics Office, although the number of businesses in our country is quite large, the whole country has nearly 517,900 enterprises in operation, but most are small and medium enterprises, accounting for 98.1%. Most of the small and medium enterprises have low technical and technical level, thus they are not able to participate in the global value chain, mainly outsourcing for foreign enterprises, has not created prestigious Vietnamese brands in the international market.

Table 3 Ranking of Business Environment by Countries in 2018

Economy	Ranking	Favorable business environment score (0-100)		Number of reforms	
		DB2018	DB2019	DB2018	DB2019
Brunei	55	70.18	72.03	8	3
Campodia	138	54.39	54.80	0	1
Indonesia	73	66.54	67.96	7	3
Laos	154	51.15	49.07	0	1
Malaisia	15	78.03	80.60	2	6
Myanma	171	44.21	44.72	2	2
Philippines	124	56.32	57.68	2	3
Singapore	2	84.97	85.24	2	2
Thailand	27	77.39	78.45	8	4
East Siberia	178	39.89	41.60	0	0
Vietnam	69	66.77	68.36	5	3

Source: *Business Environment Report 2018*.

Vietnam's exports in the past period have not yet developed sustainably. The added value of exported goods is still low because it mainly relies on exploiting factors of natural conditions and cheap labor; raw and preliminary processed goods. Most of the exported goods are raw and preliminary products. Processed industrial goods are mainly outsourcing, assembling, etc., reflecting a low-level economy, mainly exploiting resources and cheap labor. These advantages are facing fierce competition from countries in the region. This puts Vietnamese enterprises in the danger of not being able to compete with foreign enterprises, and there is a potential risk of failure in the domestic market.

3.2.2 Regarding Stepping Up Institutional Reform

The domestic economic institutional reform has not yet met and kept up with the requirements of the implementation of commitments to international economic integration. Accelerating the process of negotiation, signing and implementation of international commitments has not created pressure on domestic innovation, especially in economic institutions and administrative reform. Although there are many policies and laws to integrate and implement commitments within the WTO framework and join FTAs, there is a lack of specific and effective policies to implement major undertakings and tasks promote internal resources, develop domestic enterprises. Policy adjustments to implement commitments to international economic integration are in many cases lack of initiative and synchronism. The finalization of the legal framework has not proactively taken a step new opportunities as well as have comprehensive specific support solutions, take advantage of WTO provisions and commitments to business integration to increase competitiveness, minimize risks and negative impacts.

The key point of institutional reform is economic socialist oriented market economy with participatory regulation government's. Therefore, it is necessary to quickly perfect the legal systems measures for the State to effectively intervene market does not impede market development.

4. Conclusion and Recommendation

4.1 Conclusion

Over the past years, Vietnam's international economic integration has reached a new height, making an important contribution to socio-economic development and enhancement of national competitiveness. Although

the world and regional economic situation has complicated and unpredictable developments, Vietnam still persists in the policy of comprehensive international economic integration and considers international economic integration and liberalization trade is an inevitable and objective trend. However, in the process of international economic integration, Vietnam also poses many difficulties and challenges, if Vietnamese enterprises fail to take advantage of opportunities to overcome those difficulties and challenges, Vietnamese enterprises not only did not dominate the regional market but also lost the domestic market because enterprises and multinational corporations penetrated the domestic market.

4.2 Recommendation

4.2.1 Improve National Competitiveness

Focusing on improving the business environment and enhancing national competitiveness is a key solution to economic development and realizing opportunities of international economic integration, creating a strong driving force for development, type of business in the direction of dynamism, innovation and creativity. Accordingly, Vietnam should continue to promote the improvement of business and competition institutions, create favorable conditions for businesses to develop healthy, minimize informal transaction costs, enhance publicity and transparency transparency, strengthening anti-corruption in the economy. In addition, Vietnam needs to increase facilitation for access to and development of resource and market factors, focusing on development of access to capital and financial markets, labor and labor markets, infrastructure, focusing on improving productivity and efficiency towards the application of science and technology, innovation and creativity in all fields of the economy.

4.2.2 Complete the System of Mechanisms and Policies on International Interaction

Quickly complete the system of mechanisms and policies on international integration, first of all to integrate into the international economy in a comprehensive and synchronous manner on the basis of compliance with the Constitution, the laws of the State and the Party's foreign policy; adjust and completely supplement international integration policies to suit the country's development practice and international commitments; to attach importance to enhancing national competitiveness through promoting the improvement of the institution of a socialist-oriented market economy, with a focus on creating a favorable and equal business environment for all organizations and enterprises anticipate in production and business development; developing synchronous and modern infrastructure; create mechanisms and policies to encourage organizations and enterprises to invest in scientific research, technological innovation and human resource training.

4.2.3 Organize the Effective Implementation of International Economic Integration Commitments

Ministries, sectors, localities, associations and businesses need to actively improve their understanding and effectively apply laws and regulations on economics, trade as well as practices of foreign markets, especially the market already has an FTA with Vietnam. Focus on effectively implementing undertakings, policies and action programs on international economic integration, focusing on improving comprehensively capacity to implement international economic integration commitments. Link the full implementation of commitments on international economic integration with the process of reviewing, supplementing and perfecting domestic laws and institutions, harmonizing Vietnam's laws with international commitments; promptly evaluate arising problems and propose solutions to remove, help businesses participate in international economic integration and create all favorable conditions for businesses to grow.

References

- Party Central Executive Committee (2007). Resolution No. 8-NQ/TW, February 5, 2007, promulgating a number of major undertakings and policies for a fast and sustainable economic development when Vietnam is a member of the World Trade Organization.
- Party Central Executive Committee (2016). Resolution No. 05-NQ/TW, November 1, 2016 on a number of major guidelines and policies to continue to renew the growth model, improve growth quality, labor productivity, and competitiveness of the economy Economy.
- Party Central Executive Committee (2016). Resolution No. 06-NQ/TW, November 5, 2016 on the effective implementation of international economic integration, maintaining socio-political stability in the context of our country's participation in the new generation of freedom trade agreements.
- Politburo (2013). Resolution No. 22-NQ/TW, April 10, 2013 on international integration.
- Ministry of Industry and Trade (2019). *Vietnam Import and Export Report 2018*.
- Communist Party of Vietnam. Resolution of the *6th National Congress of Delegates*, IX, X, XI, XII.
- World Bank (2019). *Business Environment Report 2018*.
- General Statistics Office (2017). *Results of the Economic Survey in 2017*.
- General Statistics Office (2019). *Statistical Yearbook Summary 2019*.