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REPORT – EIAS Briefing Seminar 25 Years of Economic Reform in Vietnam

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Vietnam is an emerging economic power in South-East Asia and an important member of the Association of South-East Asian Nations (ASEAN). Despite Vietnam's long period as a French dependency (from 1858 to 1945) and the prolonged subsequent wars (the Indo-China War up to 1954 and the Vietnam War until 1975), Vietnam, during the past two decades, has made remarkable economic progress, largely as a result of its economic reforms, which began to be introduced in 1986. To achieve a better understanding of the scope and successes of this economic reform in Vietnam, a Briefing Seminar on '25 Years of Economic Reform in Vietnam' was organised at the European Institute for Asian Studies (EIAS) on 11th October, 2011.

This Seminar was jointly organised by EIAS and the Embassy of the Socialist Republic of Vietnam in Brussels on the occasion of the visit of H.E. Dr. Cao Viet Sinh, Permanent Deputy Minister at Vietnam's Ministry of Planning and Investment (MPI), Member of the Civil Affairs Committee of the MPI and Member of the Executive Board of the Party Committee of the MPI. The other speakers were H.E. Mr Pham Sahn Chau, Ambassador Extraordinary and Plenipotentiary of the Socialist Republic of Vietnam in the Kingdom of Belgium, Luxembourg and the European Communities, Mr. Philippe Van Amersfoort, Deputy Head of the South-East Asia Division, Asia Department, in the European External Action Service (EEAS) and Mr. Jean Louis Petit, Former Head of the Economic and Cooperation Division at the Belgian Embassy in Vietnam. The event was chaired by Mr David Fouquet, Senior Associate of EIAS.

Following the Geneva Accords of 1954, Vietnam had been divided into a Communist-ruled North and a pro-Western South and the country was only formally reunited in 1976, the year after the Vietnam War ended. The war had caused the loss of 1.5 million Vietnamese lives, both military and civilian, and untold economic damage and was brought to an end with the victory of the North and the defeat of the South. The reunited country was called the Socialist Republic of Vietnam and was admitted as a member of the United Nations in 1977. Thereafter, the northern model of a centrally planned economy was imposed on the South and Vietnam became a member of the Soviet-led COMECON in 1978. Afterwards, from 1980 until 1987, there were some efforts to modify the nation's planned economy, such as some micro reforms and price adjustments, in 1980-81 and 1987-88, and a price-salary-money reform in 1985. However, the main result was a severe decline in the economy of the South and the exodus of a million mainly economic refugees, particularly the "Boat People", many possessing crucial skills, which only weakened the economy further. Moreover, Vietnam's military occupation of Cambodia, in 1979, which brought to an end the brutal rule of the Khmer Rouge, both led to a short but costly border war with China that year and also isolated Vietnam from its neighbours in South-East Asia, at least until Vietnam's withdrawal from Cambodia, in 1989. Both the United States and the then European Community supported the ASEAN position. During this time, Vietnam's only important friends were the Soviet Union (until its collapse in 1991) and, to a lesser extent, India.

The turning point in the history of Vietnam's economic development was the adoption of the policy of '*Đổi Mới*', an economic reform campaign launched at the Sixth Congress of the Communist Party of Vietnam, in 1986. This comprehensive renovation remarkably changed the Government's way of thinking with regard to institutionalising policy-making processes and policy implementation.



However, real radical and comprehensive reform packages, which began in March 1989, led to major changes in the economic fundamentals in Vietnam. In part, this was due to Communist Party leaders from the South gaining influence over economic policy. These included Nguyen Van Linh, who was appointed as Party General Secretary, in 1986, and Vo Van Kiet, who became Prime Minister in 1991, being succeeded by another southerner, Phan Van Khai, who was Prime Minister from 1997 to 2006.

The country then experienced a growing economy, due largely to the successful renovation policy, until 1997-1998, when the process was slowed down as a result of the Asian Financial Crisis. During the years from 2000 to 2006, Vietnam recovered from this downturn. Despite uneven implementation, there were strong commitments to further economic reform. In 2007, Vietnam scored a major economic success when the country was admitted to the World Trade Organisation (WTO). Since then, Vietnam has been trying to boost its economy further and respect its commitments to the WTO.

There have been a number of major landmarks and socio-economic achievements during the quarter century since the launch of 'Đổi Mới' in 1986. These are as follows;

- **Recognising private ownership and the right to undertake business:** One of the most remarkable landmarks has been the opening-up of markets for all business entities. This included allowing all businesses, and not only to state-owned enterprises (SOEs), trading rights, and abolishing different treatment accorded to SOEs and non-state enterprises, as well as simplifying procedures for business registration and operations and improving and simplifying customs procedures.

Hence, Vietnam allowed the economic sector the rights of trading and ownership, with no discrimination between the public and private sectors. Vietnam has also been trying to provide incentives for enterprises to make business. Moreover, Vietnam allowed non-state sectors the right to engage in industrial production, as well as transferring production to private ownership and forbidding any new nationalization of businesses in private ownership. This major landmark has played a big role in attracting Foreign Direct Investment (FDI).

By the late 1990's, it has been estimated that more than 30,000 private businesses had been created, while, by 2003, a quarter of Vietnam's industrial output was already coming from the private sector.

- **Setting up market institutions:** In order to lay down the conditions for a market economy, important legal reforms were introduced in the following areas.
 - **Land:** The new land law was approved in 1987. It recognised private land-use rights, which were subsequently expanded by amendments adopted in 1993, 1998 and 2001 and by a new law adopted in 2003. The essence of the new land law is to grant to the private sector rights to own, transfer, inherit and mortgage land. These new rights have provided the basic conditions necessary for developing a real estate market in Vietnam.
 - **Monetary and capital markets:** In the area of the capital market, the main reform was in the banking system, where a monopoly banking system was replaced by a two-tier system, which came into operation in 1990. Later, in 1995, a bond market for



short-term loans and a bidding market for treasury bills were established. A stock market in Vietnam started functioning in 2000. Foreign banks and other financial institutions were gradually allowed to operate from 1997 onwards. Nowadays, there are around 100 banks operating in Vietnam. A money market was also gradually established, examples being the inter-bank market on domestic currency, in 1993, and the inter-bank market on foreign currencies, in 1994.

- **Labour market:** Labour codes were approved in 1994 and then were largely amended in 2002. These labour codes give legal recognition to the labour market and set up a legal framework for its functioning. The amendment in 2002 also regulates additional issues, including the export of labour and foreign workers engaged in Vietnam, disputes and conciliation between employers and their employees, as well as more detailed provisions regarding social security responsibilities.
- **Other market institutions:** The government of Vietnam also passed a number of laws, in order to facilitate and boost the market economy. Several important commercial and investment laws, that were passed after the launch of *Đổi Mới*, include:
 - **Commercial Codes:** approved in 1997 and amended in 2005
 - **Competition Law:** approved in 2004 and enacted in 2005
 - **Bankruptcy Law:** approved in 1993 and, later, in 2004, replaced by the new Bankruptcy Law
 - **Law on Environmental Protection :** approved in December 2005 and enacted in July 2006
 - **Approval of 27 new laws to fulfil requirements of the WTO working party**
 - **FDI Law:** the first FDI law was approved in 1987 and was amended in 1990. The most recent FDI law was approved in 1996 and was amended in 2000.
 - **Law on Private Domestic Investment:** approved in 1994 and amended in 1998.
 - **Common Investment Law:** enacted on July 1st, 2006 to unify FDI law with the law on private domestic investment.
- **Restructuring SOEs:** Regarding the sector of state-owned enterprises (SOEs), the number of these declined dramatically after the launch of *Đổi Mới*. From 1990 to 1994, the number of state-owned businesses and companies dropped from 12,000 to 6,300. Later, in the period 2001 to 2005, 3,572 out of 5,355 state-owned enterprises were restructured, 2,378 of which were structured through the creation of equity. Since the introduction of the Law on Enterprises, in 2005, the number of fully state-owned enterprises has declined to 1,206 companies. In addition, more than 900 of these have been transformed into limited companies, while the other 300 enterprises will now have to be transformed either into limited companies or companies based on equity or simply be sold off.

One of the greatest achievements of Vietnam is the country's presence in international markets. In the past two decades, following the implementation of *Đổi Mới* (and the withdrawal from Cambodia), Vietnam has gradually and increasingly become integrated into the international community. In 1992, Vietnam signed an agreement on trade in textiles with the then European Community, which was followed by the conclusion of a Framework Cooperation Agreement, in 1995. The same year (indeed later in the same month), Vietnam became a member of ASEAN and



committed itself to fulfil, by 2006, the requirements under the ASEAN Free Trade Agreement (AFTA) of 1992. In 1998, Vietnam also became a member of APEC (Asia-Pacific Economic Cooperation). After that, in 2000, Vietnam signed the Bilateral Trade Agreement with the United States and developed permanent trade relations with the United States in 2007. The greatest success was achieved in January, 2007, when Vietnam became a member of the World Trade Organisation (WTO). This opening up of Vietnam's economy to the international trading system much more than compensated for the loss of its earlier trade with the members of COMECON (dissolved in 1991), which, in the 1980s, had accounted for 70% of Vietnam's total trade.

Recently, Vietnam has been very active in the Asia-Pacific region. In the past decade, as part of ASEAN, Vietnam has concluded a number of trade agreements with partners in the region, namely the ASEAN-China Free Trade Agreement (FTA) in 2004, the ASEAN-Japan Comprehensive Economic Partnership in 2003, the ASEAN-Korea FTA in 2005, the ASEAN-Japan FTA in 2008, the ASEAN-Australia and New Zealand FTA in 2009, and the ASEAN-India FTA in 2010. Up to now, Vietnam has entered into about 100 bilateral trade arrangements and 50 investment protection agreements. Currently, Vietnam has trade relations with 224 countries and territories. Moreover, at the moment, there are several more bilateral trade agreements, such as those with the EU and Chile, under discussion.

During the twenty-five years of implementing *Đổi Mới*, Vietnam's annual economic growth rate has remained at about 7 to 8 percent, enabling Vietnam's GDP, which was 3.5 billion US\$ in 1990, to grow to 31.2 billion US\$ in 2000 and to 102 billion US\$ in 2010. During the 1980s, Vietnam was among the world's poorest countries. After the launch of *Đổi Mới*, Vietnam managed to escape from the group of low-income countries and entered the group of middle-income countries, in 1999. The total poverty incidence in Vietnam has declined from approximately 70%, at the end of the 1980s, to 58% in 1993, to 37% in 1998, and further to only 10.6% in 2010.

Since the launch of *Đổi Mới*, the economy has become more industrialised. Economic growth in the country has been led mainly by industry and the service sector. The contribution of the agricultural sector has shrunk from around 40% of GDP in 1990 to just short of 20% in 2010, although the average growth rate of the agricultural sector over the last two decades remains at about 3.84% annually. This shows that, while the economy is becoming increasingly industrialised, the country's agricultural sector keeps on growing in a sustainable manner.

In the area of foreign direct investment (FDI), Vietnam has become a safe and attractive destination for foreign investors. Since the country's accession to the WTO, in 2007, Vietnam has experienced a booming FDI inflow. The registered capital increased sharply from 4.5 billion US\$ in 2004 to 21.3 billion US\$ in 2007 and to more than 71.6 billion US\$ in 2008. Although Vietnam was adversely affected by the global recession in 2009, the FDI registered to Vietnam still remains at a relatively high level, i.e. 21.48 billion US\$ in 2009 and 18.6 billion US\$ in 2010.

With regard to international trade, Vietnam has also made remarkable achievements. Exports went up dramatically, from 2.64% of GDP in 1990 to 40.13% in 1995 and to almost 77% of GDP in 2010. Meanwhile, imports rose from 2% of GDP to 50.45% in 1995 and to around 84.6% in 2010. The total trade in 2010 reached 157 billion US\$, equivalent to 1.5 times the total GDP. Vietnam's economy has quickly become integrated into the world economy in both depth and breadth. Vietnam is now an active partner in international economic cooperation.



Vietnam remains important for the EU, as the EU is following a global strategy. Both the EU and Vietnam are emerging political powers, sharing the same values of effective multilateralism. Currently, Vietnam enjoys the status of an important player in South-East Asia, particularly as a member of ASEAN, and acting as a bridge between the least and the most developed countries of the region. As a country with a rapidly growing population (currently estimated at over 87 million out of a total for the ten ASEAN countries of 587 million: the comparable figure for the 27-member EU is just over 500 million), Vietnam is bound to play a more important regional role. Moreover, Vietnam's foreign policy favours a major presence of the EU in the region, to act as a counterbalance to other big players, regarding both economic and security issues. More political engagement by the EU in the region would be welcomed.

For the EU, trade interests in Vietnam are very important, since the country's productivity is growing faster than in the other ASEAN countries. Even if the EU's policies towards Vietnam have lacked a certain consistency in the past few years, the EU is keen to underpin the process of economic reform in Vietnam. At the moment, the EU is the most important investor in Vietnam. In 2010, a new partnership between the EU and Vietnam was launched to shape a new form of relationship that would go beyond simple trade agendas. It is also important to acknowledge that Vietnam is no longer an aid-dependent but is now a trade-dependent country. Even though Vietnam is one of the EU's important trading partners (its 36th largest worldwide and 5th largest among the ASEAN-10) and the EU is one of the most important investors in Vietnam, trade between the two has yet to reach its full potential. Thus, the initiative to negotiate an FTA between the EU and Vietnam is a win-win strategy for both partners. In short, developing deeper relations with Vietnam is strategically important for the EU.

However, Vietnam still has to overcome some remaining macroeconomic challenges. Although Vietnam currently enjoys its status as a middle-income country, it is important for Vietnam not to be caught in this middle-income trap. For Vietnam to achieve further growth, the country should replace its current approach of merely diversifying its production with a greater focus on industrial specialisation, as well as replacing its emphasis on accumulation with innovation, in order to move up the value chain. Other important challenges that should be taken into account are the need to improve good governance, the issue of tackling corruption and the need to strengthen the rule of law, in order to provide and secure a predictable business environment for investors. The last important challenge for Vietnam is to attempt to address the adjustment cost of this new economic model and to make sure that the benefits from economic growth are distributed to every sector of society.

Furthermore, to understand Vietnam better, one should bear in mind that Vietnam is a complex combination of diversity. One thing to be understood is the Vietnamese tradition: Confucianism is still at the root of its society and still influences the process of decision-making. Another aspect is maintaining the balance between equality and inequality in Vietnamese society. The role of the state is extremely important in Vietnam. Different levels of authority are involved in decision-making, which often leads to delays. This is one of the biggest challenges for European companies when they try to start up their business in Vietnam.

Three further remarks were made. Firstly, the process of economic reform in Vietnam has been a time consuming process. The first step required for Vietnam to overcome this is to change the nation's mentality, whose mindset is still largely driven by old ideology. The government needs to opt for a gradual approach. Therefore, the path of economic reform has not only been long but sometimes also painful. Secondly, in the past two decades, Vietnam made great achievements in the area of foreign relations. Twenty years ago, Vietnam was a member of COMECON and was



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otherwise almost completely isolated but, nowadays, everything has changed. At present, Vietnam is enjoying good relations with the rest of the world. The country also has a desire to be an active and responsible member of the international community, especially to participate in UN peace-keeping operations. Lastly, concerning Vietnam's relations with the EU, there are two important facts to keep in mind. First, in 1992 and 1995, before joining ASEAN, Vietnam signed trade agreements with the EU. Vietnam is now enjoying strong relations with many EU Member States. Secondly, and as a result of this, Vietnam has been able to utilise the EU as a springboard to enter the wider international community. Maintaining good relations with the EU is, therefore, the privilege of Vietnam's foreign policy. Moreover, the EU is one of only seven of Vietnam's strategic partners.

In conclusion, while Vietnam has achieved remarkable progress during its 25 years of implementing '*Đổi Mới*', there is still room for further achievement and for remaining challenges to be overcome. As regards Vietnam's relations with the EU, while these are currently very good, the development of a greater level of partnership would enable these relations to reach their full potential.