Summary of the Ph. D. Thesis

TRADE POLICY REFORM AND EXTERNAL INTEGRATION OF VIETNAM
IN AN UNCERTAIN ECONOMIC ENVIRONMENT

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The foreign trade policy reform, along with the liberalization in foreign investment, has been the central feature of the ‘open door policy’ of Vietnam since that was launched as a part of the DOIMOI. A gradual process of liberalization in external trade regime has been implemented during the last 20 years and Vietnam has integrated step-by-step into the regional and the world economic system.

As a result of series of the economic reforms and trade liberalization, foreign trade performance of Vietnam so far has demonstrated an outstanding record. The annual average growth rates of both exports and imports had been maintained at a pace of about 30 percent, overwhelming most of neighbor economies. The share of foreign trade in total GDP expanded from the level of about 20 percent in 1990 to the astonishing level of more than 110 percent in 2004. The values of both her exports and imports, in term of the U.S. dollars, expanded approximately tenfold within the period from 1990 up to 2004.

All the efforts have been made since the ‘open door policy’ proved that trade liberalization, in fact, smooths the transition of the Vietnamese economy to adapt the market mechanism. In order to maintain the high economic growth pace and continue the transition process, Vietnamese government has facilitated the pace of trade reform by actively engaging in many external commitments such as those made under AFTA as well as WTO. At the same time, there exists a growing concern within Vietnamese policy-makers whether the expected economic impacts of those liberalization packages are genuinely favorable under the frameworks of AFTA and WTO.

This study on trade policy reform of Vietnam has been carried out with three major objectives. The first objective is to study the process of trade policy reform since it was launched as an essential part of the comprehensive socio-economic renovation of Vietnam in the late 1980s. The distinguished feature of the approach in this study is that
it does not focus on reviewing the policy reforms process but rather concentrates on studying the outcomes of that policy reform. In other words, the study made efforts to investigate the level of openness to foreign trade of Vietnam economy as a result of those policy reforms in the last decade by using alternative analytical frameworks.

The second objective is to explore the structural characteristics of external trade of Vietnam, especially the changing pattern of exports and imports. The special attention has been paid on investigating empirically the major factors contributing to the outstanding export success of Vietnam during 1990s. This serves as a special case of successful reform among many unsuccessful attempts at trade liberalization in the developing world and some lessons could be drawn for other policy trials. Furthermore, the empirical results of this study provide policy makers a clearer information about the main factors contributed to export growth of the country and recommend what policy should be taken in priority to retain the rate of export growth in the next development stage. Particularly, the special attention is paid on the impacts of exchange rate risk on export growth of the country, which become an increasing influenced factor as Vietnam integrates further into the uncertain world economic system.

The third major objective of this study focuses on the participation of Vietnam in regional and multilateral trading agreements. Particularly, it manages to provide as precise as possible the prospective impacts of implementing those trade liberalization packages as a member of those free trade agreements. Quantitative analysis by employing well-developed sophisticated model is required to get such precise information. In much more important fashion, this study goes further step to make prediction about the possible negative impacts of the policy reform and to explore the mechanism of the process in order to recommend appropriate policies to respond to those unexpected impacts. That could play a vital role in ensuring the positive outcomes
for any policy reform.

The thesis consists of seven chapters and is organized as follows:

In the first chapter, the backgrounds of the study are laid down. This is followed by the literature reviews and objective statement.

Chapter 2 summarizes the major components of the trade policy reform packages of Vietnam since the introduction of the DOI MOI. The chapter concentrates on evaluating the magnitude and extent of the openness of foreign trade regime of Vietnam after more than a decade of transition and gradual liberalization using alternative approaches.

Chapter 3 presents the performance of external trade of Vietnam in the last decade to clarify the changing of trade pattern of the country. In the second part, an empirical study is conducted to explore the determinants of the outstanding export growth of Vietnam during the 1990s.

Chapter 4 investigates the relationship between exchange rate risk of Vietnamese Dong and export growth of Vietnam during the time when a forward market for foreign exchange transactions has not been established.

In chapter 5, the study concentrates on a quantitative analysis about the economic impacts of Vietnam’s accession into the ASEAN free trade area applying the GTAP model – a comparative static multi-region, multi-sector computable general equilibrium model – taken into account the economic structural characteristics of Vietnam at the moment.

In chapter 6, a methodology of incorporating the changing of country risk into GTAP analytical framework is presented and applied for the case of Vietnam’s integration into the regional economy.

Chapter 7 presents the main concluding remarks, policy implications and some
open topics for future research.

The study comes to some primary conclusions as follows:

During the last 20 years, it is witnessed a fundamental change in Vietnam’s foreign trade regime toward liberalization, that is consistent with the transition of domestic economy. As an initial important step of transition, market-oriented trade policy instruments were introduced to replace the prior foreign trade management system applied during the centrally planning era. Foreign trade area has been gradually opened to all economic sectors, including private and foreign related entities.

However, most of the reforms in foreign trade area of Vietnam during the 1990s have been conducted in unilateral basic. Although Vietnam has been a member of the ASEAN Free Trade Area (AFTA) since 1995, most of the commitments on trade liberalization with partner countries were only started from the beginning of 2003. That allowed the country to adopt a dual strategy of export promotion and import substitution. While exportable sectors have been almost liberalized, the importable sectors still get strong protections from the government against foreign competition. A complicated trade management system has been adopted, including high import tariff and non-tariff barriers, to protect infant domestic manufacturers from foreign competitors.

The progresses in foreign trade policy reforms in the recent year of Vietnam reflect the commitment of the government to further open up the economy and integrate into the regional and world market. The results of this study suggest that the integration of Vietnam into ASEAN Free Trade Area creates almost fruitful impacts on economic growth of Vietnam. Further, the quantitative results of the study also points out some important conditional factors to retain the positive impacts of trade liberalization and economic integration, especially the stability of macroeconomic environment, or level of country risk, during the liberalization period.
As a consequence of the trade policy reform, foreign trade has become a significant component of the Vietnamese economy. From a comparative point of view, foreign trade growth of Vietnam during the 1990s outperformed most of the countries in Southeast Asian region. Particularly, during the 1990s, it is clearly shown a fundamental change in foreign trade pattern of Vietnam, both in terms of market and merchandise structures, reflecting the restructuring of the domestic industrial structure. Especially, the outstanding export success of Vietnam, which contributes to maintaining the sustainable economic growth of Vietnam, has drawn a great deal of attention of development economists. The empirical results of this study suggest that in order to maintain that high rate of growth, Vietnam should promote the reforms in domestic economy to raise the international competitiveness of Vietnam’s products as well as accelerate the process of economic integration to help Vietnam exporters to get further access to international markets. Furthermore, the government also needs to initiate and develop number of modern market-oriented instruments to promote exports, such as forward market for foreign exchange transactions to protect the exporters against exchange rate risks, especially when Vietnam fully integrated into the international financial and currency systems.

The fast pace of implementation of trade reform of Vietnam in recent years is raising new challenges. The biggest challenge is the coordination of reform in foreign trade area with other domestic structural reforms. Faster liberalization of trade regime may soon conflict with the slower pace of implementation of other reforms including restructuring of State-Owned Enterprises, State owned Commercial Banks and tax administration system.

As a whole, number of studies has been carried out to study the process of economic transition and trade reform in Vietnam so far. This study explores the trade
policy reform and external integration of Vietnam since the lunching of DOIMOI by
different approaches. Firstly, in order to evaluate the magnitude of the openness of
Vietnam’s foreign trade regime special attentions has been paid on the outcomes of the
reform, the criteria is the level of foreign trade in total GDP, which was adjusted by the
characteristics of economic structure of Vietnam, to evaluate the actual level of foreign
trade openness of Vietnam as a results of trade policy reform and trade liberalization
during the 1990s.

Secondly, the determinants of the outstanding export success of Vietnam during
the 1990s have also been explored empirically. Those contribute to answer to the
question of what are the main and underlying factors to that high export growth of
Vietnam, empirically and comprehensively. Both domestic and external factors have
been analyzed to clarify the issue.

Thirdly, for the first time, the impacts of exchange rate risk on export
performance of Vietnam have been discussed empirically. It is well-known that
exchange rate risk is an important factor negatively affects on the level of exports of a
country, especially developing countries, where forward exchange market is usually has
not well developed. That is also confirmed by the empirical results in this study for the
case of Vietnam as a transition economy. The study found that there is a statistically
significant relationship between exchange rate risk and export growth in Vietnam. In the
future, until a forward market for foreign exchange transaction to be established in
Vietnam, the exchange rate uncertainty or exchange rate risk will continue to be a
considerable factor negatively affect on export performance of the country. Vietnam
continues its process of integration into an increasingly uncertain and changing world
economic system also means that exchange rate risk will become a day-to-day uncertain
factor affecting decision-making process of exporters and ultimately influence on the
total export level of the country.

Fourthly, in order to provide reliable information concerning the impacts Vietnam’s integration into the regional and world economic system, previous studies have utilized number of modern and well-developed general equilibrium models to conduct quantitative evaluations. However, the problem is that assumptions which imposed in those well-developed models those are only consistent with the economic structure of developed countries. Those disadvantages make the quantitative results of estimation of previous studies less precise. Taking into account the current economic structure of Vietnam as a transition economy, where state-owned enterprise sector made up an important share of the economy, this study relax the assumption of profit-maximization firm in the applied model. The quantitative results of estimation in this study, as a result, being more appropriate for the real economic condition of Vietnam. In contrast to private enterprises, the standard industrial organization economics suggests that the state-owned business institutions are rather sluggish, or less responsive, particularly in developing countries with socialist tradition, even to the profit maximizing incentives.

Finally, the study has applied a technical method to predict the impacts of changing country risk ratio of Vietnam on the outcomes of trade liberalization package made under the CEPT scheme of AFTA agreement. It is generally agreed that external integration into the regional and world economic system promotes the long term economic growth however in short term the policy reform usually creates shocks to the economy and in many cases require the appropriate policy responses from the government to absorb the negative impacts of such shocks on the economy.