

# Economic intergration and globalization



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Globalization is the buzzword of today. The economies of the world are being increasingly integrated. Mobile phones and Internet have brought people closer. The world is becoming a smaller place. Goods, which were once confined to western countries, are available across the globe. Work can be outsourced to any part of the world that has an Internet connection. Because of improvements in traffic infrastructure one is able to reach one's destination in a relatively short span of time.

Economic integration is tendentious indispensableness in the world, especially the third world. Because it's a powerful force for raising the incomes of poor countries. Global economic integration has been going on for a long time, but its pace has accelerated in past decade. Several large developing countries have opened up to trade and investment, and they are growing well faster for a brief period. Vietnam is not also standing outside the flows of age. Before the programme of " renovation" in 1986, Vietnam is one of the poorest economies in Asia. In response to this worsening crisis, Vietnam launched an important step with highly controlled economy was thrown wide open and market led-policies were introduced. By many actions including: devaluing the exchange rate, trade liberalization, increasing interest above the rate of inflation, decontrolling the prices of food and most other commodities, abolition of trade restrictions on inter-provincial trade, diversification of ownership and the abolition of employment limits on private enterprises. We known that, this reform would effect both direct and linkage on employment, wage levels, equity, environment, social welfare,... However, in this topic we will be mention elements that impact on Vietnam economy. Higher growth that accompanies globalization in developing

countries not only generally benefits poor countries but also carried bad effects for economy. We will commend two aspects of this problem, that is: globalization is better or worse for Vietnam economy.

## **Discuss and evidence**

### **How do we understand about Globalization and Liberalization ?**

Globalization is a process of economic and social unification of the world through voluntary adoption of interlinked economic and social systems by all countries. The firms operate on global strategies and form alliances with firms from other nations in order to be competitive in international market. With economic globalization has changed completely and export led growth biased towards industrial products based on competitive advantages. Through open market, many countries could approach sources such as: foreign capital, modern technology, labor migration.

Liberalization is referring to a shift towards open market operations from regulated market environment. Liberalization of domestic economies is an essential pre-requisite in becoming internationally competitive and surviving international competitive.

Globalization and liberalization have become major driving forces behind high growth sectors of world economy. To gain from international interactions an economy must be sufficiently flexible to respond to changes in environment both at national and international level.

## **Some highlight points of Vietnam Economy**

Not getting advantages compared to other countries of the world, since Vietnam has had a turbulent history. Primarily with Socialism economic and not pass Capitalism, Vietnam towards market economy. Globalization has become a key objective on the Vietnamese government agenda, and it brings many significant benefits since 1986 (renovation).

Vietnam is one of the most densely populated Asian economies with high level of poverty. Its total land area is about 329600 Sq. Km and administrative it consists of 7 regions and 53 provinces. Among these regions the poorest is the North Central region (south of the Red River delta down to Hue) and the nest poorest is Northern Uplands (the mountainous area north-west of Hanoi). For other regions (the Central Highlands, Red River Delta, Central Coast, and Mekong Delta) also stand relatively below the national poverty line with the Southeast region having the lowest poverty (WB, 1995). Vietnam has a strong resource: fertile soil, a long coastline, major inland waterways, irrigation, forests, mineral deposits, coal, oil, natural gas, iron ore, bauxite copper, chrome, gold and rare earths. In spite of having low per capita income, Vietnam has a high level of literacy (88 percent) and the workforce is noted for its dexterity. These factors should encourage foreign investors and support the export-led growth drive.

The structure of GDP by type ownership will be analyzed Table 1.

Table 1. The structure of GDP by type of ownership (@ current market prices %)

Sector

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1990 1994

State Non-state State Non-state

Agriculture, forestry, 2. 9 97. 1 2. 9 97. 1

fishery

Industry 62. 8 37. 2 65. 2 34. 8

Services 44. 2 55. 8 48. 1 51. 9

Total 32. 5 67. 5 40. 2 59. 8

Source: Statistical Year Book, SPH (1994)

The table clearly indicates the dominance of the state sector in industry (65. 2%), and relative significance of non-sector in agriculture (97. 1%) and service sectors (51. 9%). The industrial sector comprises of a large scale, centrally managed state owned enterprises and non-state enterprises.

## **The changing prominent economy features after Vietnam takes part in the globalization and liberalization:**

### **Employment**

The labor Vietnam's market has varied about size and volume, since we carried out reform policy. The Vietnamese government's policy is to promote export of labor and up to 1990 the government was directly involved in signing foreign employment contracts. Now, this function is performed by licensed firms and their activities are being regulated by the government. The benefits from this policy are the increment incomes, increment skills,...

The rate of growth of employment in Vietnam is larger than the rate of growth of labor force per annum. The difference can be explained by new additions to the unemployed reserve, and it has been estimated to be around one million per annum. In additions continuous retrenchment programmes, demobilization of soldiers and returning migrants and refugees have further added to the number of unemployed in labor market. Therefore, the creation of job opportunities is a challenge that has to be addressed by the on going globalization and liberalization programmes in Vietnam.

The officially approved foreign direct investment sector of Vietnam's government has been growing with the expansion in foreign direct investment. That's reason why have significant incremental both direct and indirect employment opportunities. Enterprises funded by foreign direct investment will need to grow rapidly and expand scale enterprises. There are increasing the demand of labor force in Vietnam, as the result create job opportunities and reduce unemployment rates.

The non-state sector too will have to expand to take up the slack in employment created by retrenchment and military demobilization. This includes the dominant household sector, as well as those involved in self-employment, micro enterprises, medium scale enterprises and large scale enterprises.

The rural and urban unemployment in Vietnam is presented in Table 2. The high level of unemployment and underemployment in rural areas has resulted in out-migration from rural sectors to urban centers and fragmented information estimate this number to be around 1 million per annum.

Table 2: Rural and urban unemployment (in millions)

	Urban	Rural	Total
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1988	0.37	1.40	1.77
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1991	0.33	1.23	1.56
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1993	0.32	1.06	1.38
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Source: Statistical Year Book, SPH (1994).

The reform policies of government on employment that response to domestic liberalization takes advantage for foreign and private firms such as: elimination of subsidies to state enterprises; reduction of implicit subsidies on interest payments, and moving from soft budget constraints to binding budget constraints. Those reforms encouraged the private sector investment more, multiplier effect and employment creation. This trend of greater non-state sector employment will continue fuelled both the strengthening of market forces.

However, globalization is reason that makes bad effect to labor force. That is brain drain phenomenon in our countries. Many employees, who have well skill, find jobs abroad to get high income. The managers and technical staff are not active, dynamic or flexible as in market economies owing to their long period of employment in a centrally controlled subsidy based economic system. Hence the most important factor needed to obtain full benefits from market reform policies is the development of management and technical skills of policy makers, administrators, entrepreneurs, managers, technical

staff and workers. This fact needs to be recognized by the existing universities and vocational training institutions in order to meet the challenges of globalization and liberalization. The government must use fiscal incentives to actively promote human resource development programmes within private enterprise, as well as train its own decision makers. Foreign donor agencies should also play an important role in supporting vocational training schemes since the cost of such training is currently often beyond the individual, the production unit, and even the state.

## **Technology**

Vietnam had spent most of time in war. The results that Vietnam economy after war had a large distance compare to world economy. Therefore, we had just inherited technology form another countries. After the renovation (1986), we had accelerated the pace in technology through out direct foreign investment. To expand scale enterprises and get higher profit, the multi enterprises and non-state enterprises must use or import new technology to produce high quality products. Typically, there have make over technology between foreign and domestic company in industry sectors. The percent rate of growth takes place not only in heavy industry but also in light industry in recent years.

Agricultural has dominant role played in Vietnam. Thanks for improving and advantage in technology, the output of product agricultural increase rapidly. The agricultural sector rice is the main crop and it has been identified as one of the high potential growth sectors in Vietnam. At the end of the collectivization era (in 1989) Vietnam was a net importer of rice and today it

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is the world's third largest rice exporter. Other agricultural sub-sectors (food crops, livestock, marine products and non-food crops) are also expected to perform well in respond to changes in land tenure, provision of extension services, better technology and input and output prices determined by market forces.

Table 3: Role of agriculture in exports

Unit 1990 1992 1994

Total exports US\$ Mn. 2404 2580 3600

Agricultural products US\$ Mn. 910 968 1320

Fishery US\$ Mn. 239 307 480

Share of agriculture & forestry % 37. 8 37. 5 33. 0

Share of agriculture, forestry & % 44. 6 49. 5 50. 0

fishery

Source: Lam (1995)

## Capital

Prior to the introduction of innovation, Vietnam was closed to foreign investors. In the 1980s, only around 10% of domestic production was exported and the growth of exports was only 3. 5% per annum between 1977 and 1988 (World Bank, 1990). Following the trend of world economy, Vietnam became much more integrated with global economy. There has also been a reorientation of trade, with the East Asian economies becoming the

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country's major trading partners during the 1990s. The OECD countries (including Japan and the Republic of Korea) also became increasingly important markets for Vietnamese exports during the 1990s.

As can be seen from Figure 1, the trade openness of the economy rose sharply in the late 1980s and then continued to grow rapidly throughout the 1990s. The growth of cumulative FDI was nearly 80% by the year 2010.

Financial system of Vietnam after renovation is better than. Series of domestic and foreign banking, securities companies are established in recent years. This channel supplies huge funds for the market and creates trade environment actively.

## Foreign trade

The process of globalization and liberalization gave many changes in foreign sector of Vietnam economy. Let's we see below table:

Table 3. International trade (US \$ Mn)

Commodity group 1985 1990 1992 1993

**Total exports 698. 5 2404. 0 2580. 7 2985. 2**

Heavy industrial products & 62. 9 616. 9 954. 8 1014. 0

minerals

Light industrial & 235. 5 635. 8 349. 5 526. 5

handicraft

Agricultural products 274. 2 783. 2 827. 6 919. 7

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Forest products 40. 5 126. 5 140. 8 97. 5

Aquatic products 82. 6 239. 1 307. 7 427. 2

Others 2. 7 2. 4 0. 3 0. 2

**Total imports 1857. 4 2752. 4 2540. 8 3924. 0**

Mean of production 1586. 6 2342. 6 2119. 8 3311. 2

Complete & petrolic 422. 6 439. 0 175. 0 287. 7

equipment

Machinery 156. 8 179. 4 216. 2 634. 6

Instrument & accessories 108. 9 134. 5 155. 9 -

Fuels, raw material 898. 3 1589. 6 1572. 7 2388. 9

Consumer goods 270. 8 409. 8 420. 9 612. 8

Food 83. 0 46. 1 53. 9 53. 5

Food stuffs 24. 2 68. 2 86. 2 152. 3

Med goods 25. 2 41. 0 61. 4 86. 0

Source: Statistical Year Book, SPH (1994)

The growth in exports since 1989 has been striking, from US\$698. 5 mn in 1985 to US\$2404 mn in 1190, US\$2581 mn in and risen sharply to nearly US\$3000 mn in 1993. This is a significant improvement in exports both in terms of volume and value. In addition to high growth, the export sector has

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also demonstrated a high degree of dynamism. For example, primary exports have already diversified into other product such as coal, coffee and marine products. Base on its factor endowments Vietnam's export sector has also expanded into labor intensive manufactured goods where Vietnam has greater potential for gradual build-up of manufactured exports. Foreign investment is other important area which responded positively to liberalized foreign investment policies. Vietnam's huge potential market, low labor costs, hardworking and relatively well educated workforce and raw materials have been identified as key determinants of its level of foreign direct investment.

## **Equity**

Despite high growth rates and an optimistic outlook regarding future growth and development, GDP per capital remains at a very low level (at \$249. 6 in 1995), constraining individual's consumption, saving and investment as well as public expenditure due to low tax revenues. Per capita calorie per day is low at 2075. Striking success in controlling inflation that had been three digit (400% in 1988) at a single digit level (5. 3% in 1993) improved welfare by significant increasing real income and consumption level.

In Vietnam 81% of population is rural, and poverty is concentrated mainly in rural areas. The presence of a dominant rural sector is one of the most important structural features of Vietnam. Based on relatively labor intensive technologies, rural economies generally exhibit a significant degree of self-sufficiency and more resilient to change. With decollectivization of agricultural, the household has emerged as the basic production unit in Vietnam agricultural production system. Growth in agriculture activities

should also promote small scale trading and craft activities, and strengthen the local market channels of an emerging market system.

Figure 2: Poverty reduction in Bangladesh, India, Uganda, Vietnam, and China closely related to growth

Figure 2 shows five poor countries that have benefited from faster growth, and each case significant poverty reduction has gone hand-in-hand with faster growth. Vietnam attained 7.5 GDP per capita growth rate, and poverty reduction increased significant in period 1992-1998.

In the other hand, globalization has also generated serious international opposition over concerns that it creates increased inequality and environmental degradation. Global integration can have adverse on health as well. The adverse effects originate most clearly as side-effects of travel and migration, though trade in food and other products can spread disease as well. AIDS, H1N1, H5N1 are dramatic examples in recent time of deadly disease spread through travel and migration. They can completely cut itself off from contact with any other humans, but the real do not like that.

Globalization is synonymical that almost nations choose to have some interaction- trade, travel, investment with the world.

Like nearly all countries in the world Vietnam also meet many problems in the integration processes. To illustrate for this master, we can mention about H1N1 disease. It causes bad consequences for our countries. That are, the hundreds of people died by this disaster, disorderliness in work place specially where have many foreigners or nearly state airport.

We know that internet is a good tool for us to connect with outside world, but its development can be harm for society in the aspects of ethics if we use for wrong purposes. The younger generation of Vietnam is very actively, enthusiastically, intellectual; and they integrate with outside world quickly. So, global integration is not only an opportunity, but also challenge with them.

For economic aspect, while it is true that globalization encourages free trade among countries, there are also negative consequences. Many poor countries have to accept globalization to let the foreign businesses investors from larger countries come to take advantage of the lower wage rate and their natural resources. However, for a long time this advantage will be negative significance for the economic of poor countries. Lower wage rate is synonym with lower household income, so expenditures and saving are lower than develop countries. The economy is not enough capital for reproduction or improving technology in the future. Poor countries will fumble to find the solution between labor, capital, and technology. While rich countries take available huge financial, they just need few labors but attain high productivity. More over, natural resources are limited, foreign firms invest with Vietnam and exploit our resources for their producing processes. Consequence, natural resources and environment of us will destroy rapidly. That is not expected far-sights for any nations when integrate the economy world. As the results, global integration brings many benefits to rich countries than poor countries.

The main export of poorer countries is usually agricultural goods, but larger countries often subsidize their farmers. It causes the inequality in trade. In <https://assignbuster.com/economic-intergration-and-globalization/>

addition, reducing tax sometime just bring the benefit for rich countries than for developing countries like Vietnam. Reducing tax help foreign investors increase their profits and the part of those will be transferred out of our country. The government of poor countries will suffer heavy loss of budget. Therefore, the rich are getting richer and the poor become poorer.

Another bad consequence is the increasing inflation rate. An example to make it clearer is the inflation in Zimbabwe in 2008. Going with super inflation rate, world financial crisis is a serious problem of all countries. Up to 80% of global wealth had been destroyed by the global financial crisis in little less than a year and a half , that need to be solved as soon as possible. You can imagine 20 billion dollar Zimbabwe only exchange 1 USA, but in black market 90 billion exchange 1 USA. As for VN, in 2009, GDP growth of VN is 5.2%, this is lowest rate during the last 10 years. However, in situation regressing economic world, this growth is a very big success. The problem between interest and inflation make always challenging authorities of Vietnam.

Globalization has led to compare between firms all over the world. Many enterprises ignore safety standards to produce cheap goods. In recent years, China emerges as a typically phenomenon economy. To pursue the high profit, many domestic firms of China produce products with bad quality. China is a big neighbor of our country, so we import many goods from China. In all of those, foods occupy not small in the Vietnam's market. It's very dangerous for us if we consume them. More over, it influences directly framers in domestic because they can not compare with their prices.

**Conclusion:**

Globalization is seen to lie in the standardization of production technologies, and capabilities world-wide and in the increasing exposure of all states to a common set of practical problems and competitive economic pressures.

Countries in South East Asia have actively participated in global trade and finances to exploit their dynamic comparative advantage and this has been pivotal in their development policies over a long period.

The advantages of membership in ASEAN can further be strengthened by bilateral trade, tax and training treaties with member countries. Linking up in this manner with its counterparts in the Asian region can be viewed as an important step in the process of globalization and liberalization, as the Asian region has already been identified as the ‘super growth sector’ of the world economy. Likewise, the lifting of the economic embargo by the USA now opens up both a new funding source and a vast new market.

In short, the impacts of globalization and liberalization to Vietnam have both positive and negative in all of economy fields. In the labor market, there have significant changing both quantity and quality. The population increases to adapt the high demand of the labor market. The expanding of non-state sector and foreign direct investment create job opportunities lead to reducing the unemployment rate. The technology and capital aspects for Vietnam economy, globalization brings many benefits for us. It presents by improving in technology and development of financial market. Vietnam forwards industrialization and modernize in all fields. Productivity and quality of products increase significance, especially in agricultural field.



Globalization is the process of growing integration of economies and societies around the world. Globalization is not only a tendency any more but also a fact. We can understand it as a process by which people around the world are gathering into a single society and function together. In this process, there is combination of economic, technological, socio-cultural and political forces. In most cases, however, Globalization refers to economic globalization through trade, foreign direct investment, capital flows, migration, and the spread of technology. For this field, the principle of globalization bases on the combination of economic theory about free markets, reducing barriers in exchanging and trading goods that makes the specialization in export-import.

Globalization is very important for any country that does not want to be lost in such everyday changing world. Globalization look like a horse, we must learn how to ride it, or accept to run on bare feet in the race. It can be a good chance for development and prosperity of your country, but also can be harmful when you do not take advantages of positive effects, and have good policies to avoid and solve problems arising out from negative effects of globalization. We also need to improve our knowledge, experiment, languages, ethics... to join in general tendency of society, government and global economics efficiently.