

# The globalization of the vietnamese economy economics essay



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There are many definitions of globalization. However, it's hard to get an exact definition about this term and following definition can be considered as good as core content what this term covers : " Globalization describes a process by which regional economies, societies, and cultures have become integrated through a globe-spanning network of communication and trade. The term is sometimes used to refer specifically to economic globalization: the integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology. However, globalization is usually recognized as being driven by a combination of economic, technological, socio-cultural, political and biological factors". In this document we would like to focus on economic globalization and what is its effect to our Vietnamese economy. Nowadays there are two opposite points of view of globalization. No matter what globalization is the objective trend and Vietnam can not help to engaging this circle. Although there are many advantages and disadvantages that Vietnamese economy faces when entering globalization, Vietnamese economy will be better if we have ability to overcome obstacles, catch opportunities in economic development.

Now, antiglobalizers' claim is that globalization is making the rich richer and the poor poorer. They also give concept of the convex and concave in the flat word that implies the gap between the rich and the poor, the rich country and the poor country. Those who are dubious of the benefits of globalization point out that poverty have remained high in Africa or somewhere and unequal ownership of the world's property. For instant, between 1981 and 2001 the fraction of Africans living below the international

poverty line increased from 42 to 47 percent and that 20% of the world population living in the highest income countries accounts for 86% of global GDP, 20% of the poorest population accounts for only 1%. However, poverty and a gap between the poor and the rich appeared from ancient time but only entering globalization this matter is concentrated much more. It's actually not surprising with given data of unequal ownership of property. For long time, Pareto has also found out the principle of 80-20 in life. Each person own different property that reflects their ability and results from their spending time, mental and physical power as well in working. Besides, instability or failure in political regimes of African countries mainly reduced their extent of globalization, limited trade or economic development and caused poverty as it scared off many foreign investors and traders. Thus, globalization restriction itself increases poverty. In contrast, on the basis of household survey data collected by different agencies, the World Bank estimates the fraction of the population in developing countries whose living level falls below the \$1 a day poverty line remaining not so much. By this measure, extreme poverty is declining in the aggregate. The trend is particularly pronounced in East, South and Southeast Asia. Poverty has declined sharply in China, India and Indonesia, countries that have been characterized by massive rural poverty in long time and that together account for about half the total population of developing countries. Between 1981 and 2001 the percentage of rural people living on less than \$1 a day decreased from 79 to 27 percent in China, 63 to 42 percent in India, and 55 to 11 percent in Indonesia. If we look at the overall development progression of the international economy, the revolution of science and technology plays major role in promoting the global process of the world economy and rapid

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increasing of world income. From the eleventh century to the sixteenth century, the world's annual income has increased slightly, but from the sixteenth century to the nineteenth century it has increased by around 50%. Then, in a century (1850 - 1950) it has increased 3 times. And just in the last half twentieth century (1950 - 2000) it rose more than 3 times.

For Vietnam, from exhausted economy in 1985, we have implemented economy reform. We have restructured our economy, allowing private sector to expand production and construction of capital mobilization channels.

Besides, we started on implementing policy of opening our economy to the world. This is very important turn point to lift Vietnam up from poverty and risk of leaving backward to get achievements as today. In the past 25 years, Vietnam's GDP from less than \$ 20 billion was up to 85 billion U. S. dollars, exports from 1 or \$ 2 billion to 64 billion U. S. dollars, foreign investment from nothing to 98 billion dollars, which made over 40 billion dollars. These figures point out that our economy is better on the way to globalization integration.

Above result is driven thanks to globalization integration. This process promotes law of comparative advantage: the citizens of each nation can gain by spending more time and resources doing those things where they have a relative advantage and then for trade . When trading partners use more of their time and resources producing things they do best, they can produce a larger joint output, which provide the source for mutual gain. This is the most benefit that globalization can bring to partners and economy. Besides, international trade also enables specialization and improvement to enhance productivity and GDP in the aggregate.

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We say that globalization is an objective trend because driving force promotes globalization is the development of productive forces, which are constantly growing. This is the general rule for all time, all social regimes. Back to history in feudal society, production forces were very low and had not enough wealth to ensure the minimum demand of the people. The factors of production process and the market were also limited in the countries of lords.

When first industrial Revolution took place, the productive forces got higher development and feudal relations of production can not be catch up well with the development of productive forces. Then the bourgeois revolution has overthrown feudalism. Capitalism was born, first in Europe, was breaking down barriers set up by the lords and has formed a national market.

However, as mentioned above, productive forces are constantly growing, the national market also can not meet demands for development of productive forces. And so, the bourgeoisie launched wars of invading colonies. Actually, the war also is to search the market: the market of raw materials, the labor market and product market. Both the first and second world wars are the wars of invading and dividing the market as well. Meanwhile, the achievements of the revolution in technology and especially information technology in the late 20th century has accelerated the development of productive forces, taken human society from industrial society to post-industrial and information society, given a birth to knowledge economy. This evolution set out requirements to expand the market to a new level. Since then, term of " economic globalization" appears. The process of globalization today is launched by the developed countries behind which are the

transnational corporations, primarily for the benefit of the countries, these groups.

We wonder if there is any contradiction here when we said that economic globalization is launched by capitalist countries primarily for their sake but it has attracted more and more countries participating, including both developing and least developed countries. In this era, when the factors of production has been internationalized deeply, no country can achieve high economic growth to shorten the development gap without involving in this process of globalization which is always associated with economic restructuring of each country. That explains why the World Trade Organization (WTO) – the basic institutions of globalization – including more than 150 member economies, accounting for more than 97% of GDP and 95% of global trade.

Content of globalization is reflected in the WTO Agreement on opening markets. Accordingly, the country involved in this organization to open its domestic market for member countries in both trade in goods, services and investment.

To open markets for trade in goods, countries are to remove non-tariff barrier, to reduce import duty based on route as result of agreement, to allow goods circulate freely from one country to another without any restrictions.

To open the service market, each country must accept the member countries to provide services for legal entities and natural persons in its area under methods indicated in the agreements.

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To open market investment, requirements are set for country to open its domestic market for foreign investors to invest in country without investment restrictions, except those related fields of national security, traditional culture of the nation. However, many countries, especially developing countries, looking to build their own industries have reached agreements only on investment issues related to trade. For all that, in fact those countries continue accelerating economic reforms, improving the investment environment, creating a competitive market to attract investment.

When integrating globalization and opening the markets, each member of the WTO must comply with the rules:

(1) non-discrimination: Do not discriminate goods between other countries as well as between enterprises of this country with other countries on business tax policy, commodity and service prices, market integration measures (known as the principle of most favored nation - MFN). Do not discriminate goods and businesses between this country with other countries (known as the principle of national treatment - NT).

(2) To implement transparency in public policy mechanisms in order that all traders, people have rights and opportunities for equal access to information and conditions in the business.

(3) To protect intellectual property rights. The obligation to protect intellectual property rights are specified in the Agreement on intellectual property issues related to trade (TRIPS).

(4) To comply with the mechanism of the WTO dispute settlement and arbitration of international tribunals established by this organization.

In addition, member countries must also comply with other agreements of the World Trade Organization.

### **Globalization integration creates new opportunities and new challenges.**

Globalization promotes the economic structure movement from country to country and expands trade between countries, and thereby promotes economic growth of each country. There are many opportunities for Vietnam when integrating globalization. There is a huge market for consuming Vietnamese products and investment capital flow from foreign investors, development aid of countries and international financial institutions like the World Bank (WB), International Monetary Fund (IMF), Asian Development Bank (ADB)...; as well as importation of modern technologies and management through investment projects.

One of the major benefits in joining the WTO is the export of Vietnam to the WTO member countries faces fewer barriers, including lower tariffs. U. S. and EU lift quota for our textiles and garments (about 15% of exports of Vietnam). This is important because textiles and garments is the second major export of Vietnam ranking after crude oil. The problem is that this will help Vietnam have equal standing with other WTO members which have enjoyed mechanism of free quota from 2005. Besides, other key exporting agricultural products such as rice, coffee, pepper ...or industrial crops like



natural rubber have chance to reach new markets including member countries of WTO.

Another fundamental benefit in joining WTO is increasing confidence of foreign investors who come from countries all over the world, demonstrate their growing confidence to Vietnam. Investment capital flow into Vietnam is increasing year by year . This trend will continue when many foreign companies are considering that Vietnam is safe and advantageous for investment.

The market opening commitments of Vietnam - the conditions for WTO membership - will be the factors attracting more investors looking for opportunities in Vietnam.

Through foreign corporations' investment projects in Vietnam under joint-venture company or BOT we have chance to approach and receive new technology or get much knowledge and modern management from the parties. This is very important when we pursue to innovate in technology and management to get higher productivity and quality of product.

Development aid of countries and international financial institutions like the World Bank (WB), International Monetary Fund (IMF), Asian Development Bank (ADB), Japanese ODA... contribute much on Vietnamese economy restructuring over last years. Foreign loan from financial institutions helped Vietnam overcome infrastructure, the field that is under-evaluated . Besides, these institutions also help us improve management method in many fields of economy, especially in finance system to support to overall economy and gradually enhance competition ability of Vietnam in attracting investment for <https://assignbuster.com/the-globalization-of-the-vietnamese-economy-economics-essay/>

development. Moreover, we should include non-refundable official development assistance (ODA) projects set in Vietnam by Japan and some other countries in the fields of education, health care, transport, agro-fisheries and the environment. It additionally contributes to development of the whole economy. For example; in 1992, Japan began resuming non-refundable aid to Vietnam. By the end of 2009, at least 382 projects had been implemented worth US\$27. 5 million.

Along with these opportunities our country's economy, enterprises of our country also face to major challenges.

The first is the fierce competition due to the barrier removed, as well as following most favored nation treatment and national treatment. Thus, our products have to compete equally the other products not only on the world market but also on the domestic market while our products are considered low quality, high cost and low competition ability.

The second is non tariff barriers which are related to technical standard limit applied to products imported to other countries. This technical standard is also issued by those countries to require higher quality on imports . Thus, this barrier is actually an obstacle to our exports. Now some our agricultural products imported to the EU, U. S or Japan are required HACCP or GAP certificates and so on. Hundreds of tons of shrimp shipped to Japan were obligated to return Vietnam due to excess antibiotic.

The third, when following the principle of most favored nation – MFN or the principle of national treatment – NT we suppose to get equal treatment in member countries like we treat them in our country. However, in some cases <https://assignbuster.com/the-globalization-of-the-vietnamese-economy-economics-essay/>

we get another barrier. Along with the expansion of trade in recent years, businesses which are in the leading export industry of Vietnam have continuously faced with the anti-dumping lawsuits. During the time between year of 1994 and 2000 it had four cases, whereas since 2000 there have been available for more than 20 cases. The important cases are related to the European Union (EU) and United States.

The majority of Vietnam enterprises were concluded dumping and imposed a high anti-dumping tax rates. The lawsuit with the U. S. on catfish, basa and shrimp made thousands of farming households fallen into debt already. Leather shoes lawsuit with the EU made hundreds of workers lost their jobs and impacted on the lives of nearly a million workers in the footwear industry, where 80% of them are women.

Reason given is that Vietnam is non-market economy, so the EU, the United States and other countries decide to impose regulations on non-market economy of Vietnam. Under a bilateral agreement with the United States, Vietnam has to accept a non-market economy within the maximum 12 years after WTO accession. The imposition of this is extremely absurd because of only reason of that U. S. fears exports of Vietnam which will significantly increase in their market like China's exports and that applying regulations on non-market economies is to facilitate their businesses easily win lawsuits on dumping and impose a levy on sales value for enterprises of Vietnam. WTO forced countries to cut tariffs and non tariff barriers, so protection measures as anti-dumping tariff is applied regularly. Before 1995 when the WTO was officially established, the number of antidumping cases was only 100

lawsuits, whereas since 1996 lawsuits have been up to 300 cases a year.  
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## **Difficulties and given solutions to improve competitiveness ability of Vietnam economy:**

Typically the industry is still mainly preliminary processing, with low added value and also dependent on imported inputs. Category of goods is also monotonous and not yet high quality. All of those made competitiveness of Vietnamese products is weak. Besides, institutional weaknesses, low level of infrastructure, lack of skill in human resources are the bottlenecks that inhibit the process of international economic integration and increasing rapid growth, qualified and sustainable development as well.

Necessary measures are suggested to develop our economy as follows;

First, market mechanism establishment is to ensure the rational allocation of resources. This required that subsidies, monopolies are eliminated; inputs and outputs of producing goods or providing services (capital, raw materials, energy, labor, human resources, technology...) must be decided by the market, minimizing the interference of state or distorting trade. Market mechanism always requires transparency for all subjects to have equal chance in receiving information, getting access to resources and participating market which encourages competition.

Second, choosing growth model today is to create competitive commercial products or services that can occupy the stages with high added value in the global value chain. This is required to identify and make use of the comparative advantage, economies of scale in conformity with market size.

Third, concentrate on developing human resources: Creating labor market with high quality to take advantage and exploit the rapid growth of science - <https://assignbuster.com/the-globalization-of-the-vietnamese-economy-economics-essay/>

technology because production process is now internationalized more deeply with transnational corporations' production moved offshore to where there is low cost. During this moving they move capital and production technology but the workforce must be taken locally. If we do not have high quality human resources with low cost we can not attract investment in sectors with high technology content, high added value in the global value chain. Human resources is a long-term competitive advantage that our country have potential. The important thing is socialization of education, education reform to get higher quality of human resources.

Fourth, development of infrastructure, energy: The weak infrastructure badly affects the speed and quality of growth. While circulation of goods including export and domestic consumption increases on average 20% per year, the ability of some main roads and sea ports are very limited. This causes increasing transport costs, reduces ability of competitiveness of export goods. Lack of electricity is also a serious challenge to production and investment attraction. This situation is also due to investment mechanism and inefficient resource allocation.

Fifth, vigorously develop science and technology: Market mechanisms and competition promote business and technology innovation to enhance productivity, quality and cost reduction. However, the State needs to develop technology market to facilitate business in choosing modern technology. The State should have policies to encourage enterprises to get technological innovation and application of technical advances, strengthen import modern technology going together with development of technologies created inside the country.

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Sixth, as a member of WTO, Vietnam will have to deal with the increase of anti-dumping lawsuits. The tribunal's decision will certainly not be beneficial to Vietnam and the anti-dumping tariffs at incongruous higher level will be imposed on Vietnamese goods following regulation of non-market economy. However, Vietnam could have been efforts to reduce inequity and its impact. It is essential to have a good team of lawyers specializing in anti-dumping case. Also, there should be coordination among departments to provide training and knowledge to businesses about law of the anti-dumping tariff of countries, especially for the United States and EU, and lawsuit procedure for businesses follow. An early warning system should be built into the network of trade and the State also notes building a mechanism for emergency assistance for victims who are workers in the industry imposed anti-dumping tariff.

Seventh, now we face to many non-tariff barriers, so to avoid this we need standardize our product quality to conform to world standards. We also always improve and upgrade existing quality management system to meet importers' requirements such as HACCP for food or fisheries, GMP for pharmaceutical products or GAP for agricultural products, etc.

In conclusion, globalization is objective trend and it brings many advantages and disadvantages. However if countries know how to make use of those advantages and enhance their own comparative advantages, they will succeed in developing their economy. Thus, Vietnam should engage in this trend, catch up opportunities; recognize advantages and disadvantages to plan economy in better direction.

That requires not only the product itself must have high quality, low cost which is mainly due to production technology, level of business management but also enterprises should have the ability to organize the market, good after sales service, brand building for products to reach consumers. By that way, companies bring products to consumers and are able to expand business. However, the competitiveness of a business depends greatly on the cost of inputs depending on the mechanism of macro policy, on public services which the State provides. All these factors make social transaction costs of enterprises. The greater social transaction costs, the smaller competitiveness of businesses is. Thus, the State is responsible for rational organization to reduce this cost and enhance enterprises' competitiveness ability. Then, competitiveness is now considered at national competitiveness level.