

International Economic Integration & Institutional Reforms: The Case of Vietnam

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Outline of Presentation

- **30 Years of Doi Moi (*Renovation since 1986*) & International Integration**
- **VN Integration & Institutional Reform**
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 - **WTO Accession and Implementation**
 - **FTAs as a Catalyst for Institutional Reforms**
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VN: 30 Years of Doi Moi and Integration

Impressive achievements

- VN became a (low-) middle income (GDP/pc 1990: <USD 100; 2017: USD 2450 GSO-WB poverty incidence 1993: 57%; 2017: 5%)
- VN became more industrialized (Agriculture share of GDP 1991: 41%; 2017: 14%)
- VN became a very open economy (Economic openness 2017: $(X+M)/GDP=180\%$; FDI sector: 22% GDP; 75% export value; 21% of total investment)

... but not outstanding : Still low quality of growth (inefficient SOE sector and public investment; high business costs; distorted production factor markets); limited spill -over from FDI ; weak position in the global/regional value chains; widening income/asset gap; polluted and deteriorated environment

■ **Key challenges:** How can VN get out of “low cost labour trap” and lay down fundamental foundations for overcoming “middle-income trap”?

How can VN achieve (rather) high economic growth while ensuring social and environmental sustainability?

■ **Nature of Doi Moi:** To enlarge both sets of (economic) choices by people and the country’s (people’s and institutional) capability to exploit benefits from the newer choices

■ **The major reform dimensions** (Domestic reforms + Integration)

➤ Market-oriented reforms (price liberalization; ownership & rights of doing business; SOE reform,..)

➤ Macroeconomic and social stabilization

➤ “Open door” policy and international economic integration (Trade liberalization; WTO accession; Regional integration/FTAs with key trading partners)

- **In general, institutional reform is the key.** Institutions (“rules of game”/Regulations; Organizations; Implementation mechanisms and enforcement) do matter for growth and sustainable development.
- VN has shifted from a CPE to market-oriented economy. But institutions remain weak in terms of transparency and accountability, predictability, and enforcement
- **Three pillars in SEDS 2011-2020:** *Institutional reforms*, (Hard and soft) infrastructure development; HR development.
- **VN 2035 Report (WB & MPI):** *To build modern institutions* (fully comprehensive market economy + a transparent and accountable State/Gov’t)

VN Integration & Institutional Reform

- All reforms should be in the context of comprehensive, relevant *economic* and *political reforms* and *deepening international economic integration* (WTO; East Asia integration (AEC; ASEAN +1 & + 6 FTAs; Other FTAs (CPTPP; VN-EU FTA,..) and Cooperation with key partners

Key Integration Milestones	Status
AFTA (ATIGA) (then AFAS; AIA/ACIA, AEC)	Signed in 1992 (ASEAN -6); participated in 1995
<i>Vietnam - US BTA</i>	<i>Signed in 2000 and implemented in 2001.</i>
ASEAN – China FTA	Signed in 2004
ASEAN – Korea FTA	Signed in 2006; (Thailand signed in 2009)
<i>WTO</i>	<i>Accession in 2007</i>
ASEAN – Japan CEP	Signed in 2008
Vietnam – Japan CEP	Signed in 2008
ASEAN – India CEP	Signed in 2009
ASEAN -Australia - New Zealand ECP	Signed in 2009
Vietnam – Chile FTA	Signed in 2011
Trans - Pacific Partnership (TPP)	Negotiation concluded in 2015; not realized (CPTPP signed in 3/2018)
Vietnam – European Union (EU) FTA	Negotiation concluded in 2015
Partnership (RCEP) (ASEAN+ 6)	Negotiation in progress
Vietnam-European Free Trade Association	Negotiation in progress
Vietnam – Korea FTA	Signed in 2015
Vietnam - Eurasian Economic Union FTA	Signed in 2015
ASEAN - Hong Kong FTA	Signed in 2017

Meeting ASEAN Commitments

- Joining ASEAN (July 1995). Significance of ASEAN integration and the AEC for VN:
 - Having more favourable conditions for development (regional stability, resource mobilization and efficient allocation, cooperation)
 - A contribution to narrowing intra-ASEAN development gap.
 - As a hub for VN trade and investment (while improving competitiveness)
 - *In terms of institutional reforms*: A stepping-stone to the wider liberalization and economic integration; Reinforce better changes through *implementation of ASEAN concrete commitments and AEC Blueprint* (trade, investment and services liberalization; facilitation measures; NSW; Standards & Conformance; MRAs; SME dev't;...); Strengthening bargaining power & greater sense of community.

Case 1: ASEAN National Single Window

- Developed in 2005; deeply and widely implemented during 2013-2015.
- Technical infrastructure of key NSW functions have been planned and developed;
- Steering Committee: Headed by Prime Minister, leading by Ministry of Finance (General Department of Customs) and with the involvement of various government agencies;
- Technical connection between three core OGAs (MOF, MOT and MOIT) on 26 Feb 2014 → simplification and harmonization of 18 procedures; Following stage: connecting three more OGAs (MARD, MOH and MONRE)
- Reinforced by *Resolution 19* (2014/2015/2016)

■ Results

- NSW: Established in 2015 + Experimental connection with NSW of some ASEAN members in earlier 2016
- Application of e-customs at almost customs offices; nearly 100% of total export-import enterprises participating in the e-customs; Reducing “paper” documents, time for clearance of goods (only 5-10 minutes for green channel); Reducing cost of compliance (1/3) through the simplification/elimination of several procedures

■ Problems

- The difference/gap in applying ICT among OGAs;
- The coordination among different OGAs in a comprehensive national single window
- The existing inconsistency and desynchronized in the policies and regulatory framework, particularly in licence, quarantine, standard and conformity, ...
- Limited human capacity in specific fields such as valuation, risk management, informatics technology,...

WTO Accession and Implementation

■ Views of WTO for institutional reform

- WTO commitments are the basis for integration at a higher level of liberalization.
- Implementation of WTO accession commitments is not only the “obligation”, but also to ensure that the economy operates effectively and competitively and hence, establishes international credibility/confidence in VN reform
- Integration & WTO accession also aim to realize the country’s stand and the world dynamics, through which the country’s development orientation is identified more properly (The world has had substantial changes as compared to the 1990s).

■ **Impacts on institutional changes**

- The interaction between Doi Moi, domestic reforms and integration/WTO accession became more apparent (2005-06: 27 new Laws, including (common) Investment Law and (unified) Enterprise Law, were approved)
- Gov't machinery somehow improved (Number of Ministries and the like reduced from 26 to 22)
- Administrative reform and “one stop-shop” mechanism continued to be implemented (Comprehensive Program on Simplification of Administrative Procedures 2007-10; Decision of Prime Minister 07/QD-TTg June 2008)
Recognition that integration cannot work without administrative reforms
- But decision of the functions of various ministries progressed slowly.
Reorganization of provincial authorities (departments) was delayed until Jan 2008 → Effectiveness of central and local authorities was negatively affected

Case 2: Project 30 (2010)

■ Key features

- Objectives: simpler, more efficient, and more transparent administrative system
 - Simplify at least 30% of administrative procedures and reduce administrative costs by at least 30% (the name **Resolution 30**)
 - Reduce the implementation gap in the domestic regulatory system with WTO and international trade agreements through the establishment of a modern and better regulatory system
- Methodology: Regulatory guillotine initiative (Inventory; Self-Review; Review by Special Task Force + participation of stakeholders; Recommendations: keeping intact, simplifying or abolishing; June 2010: a pilot package; Late 2010: to simplify more than 4,700 existing administrative procedures)

■ Results

- Database of over 5K administrative procedures;
- Early reduction of administrative burdens for business and citizens.
 - Eg: Invoicing procedures: reforms save costs for business of around USD 20 mil./year
 - Tax declaration and collections; savings of USD 50 mil./year
- Enhance confidence to investors in Vietnam's business environment → supportive to economic integration process

■ Problems

- Lack of necessary feedback from business community (Top-down rather than bottom-up)
- Focus just on procedure simplification rather than administration reforms and capacity improvement

FTAs as a Catalyst for Institutional Reform

■ Rational for joining FTAs

- Easier access to major markets + Expansion of exports & economic activities
- Expansion of investment (especially FDI)
- A pressure/catalyst for institutional reforms & improvement of business environment (Esp. CPTPP & VN-EU FTA)
- Geo-political considerations (TPP offers an environment to test Vietnam's capacity in handling and advancing, both economically and institutionally, through the complexities in relation with the key partners)
- Despite challenges and several technical issues, the commitments under FTAs, especially CPTPP & VN-EU FTA, basically consistent with the reforms VN would like to and/or should follow in her new stage of development). Some recent observations:

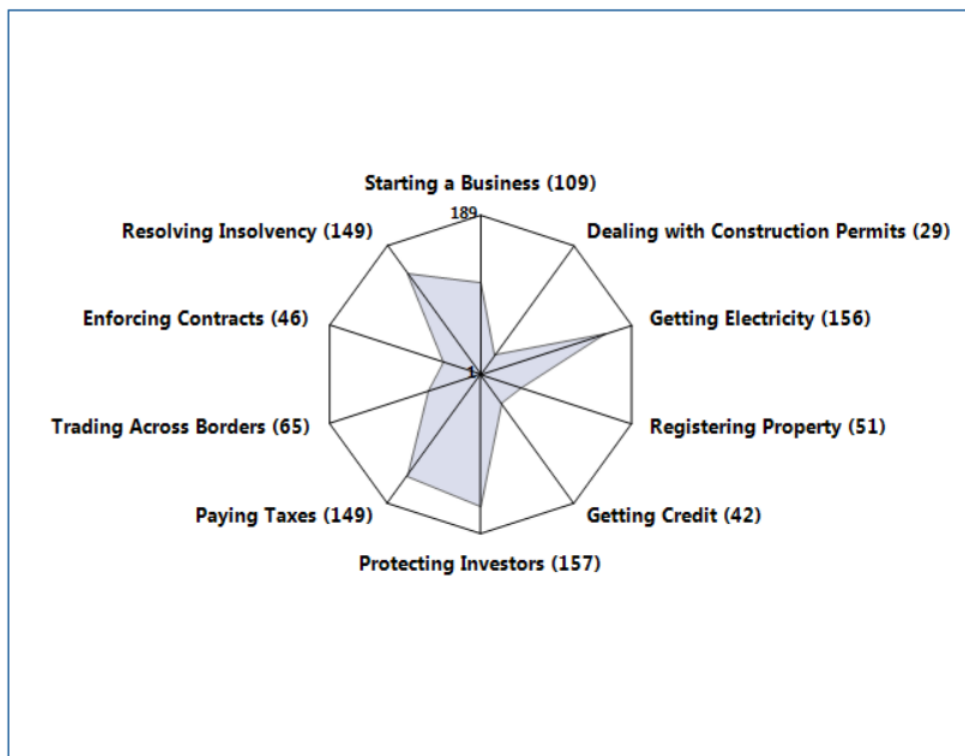
- Changes & dev't of legal framework (Law of Enterprises; Law of Investment; Law of Public Investment; Law of Gov't Procurement; Decree on PPP,...)
- Efforts to improve business environment (Resolution 19, Resolution 35)
- Attempts to restructure SOE, banking, and public investment sectors

Case 3: Resolution 19 (2014)

- *Before 2014*: Slow economic growth (a reason: slow reforms of microeconomic foundations) + Pressure from FTAs. Simplification of administrative procedures is necessary (*But not without good regulatory management, among other*)

Vietnam's Doing Business 2014

- Vietnam Doing Business 2014 ranking: 99/189
- Improvement (compared to 2013): Trading across border (2013: 66) and Resolving Insolvency (2013: 150)
- Distance to frontier 2014: 61.13 (2013: 60.44)



Source: Doing Business database.

■ **Key features**

- Simplify procedures and time costs in various areas (starting businesses, paying taxes, getting electricity, trading across borders, etc.);
- Self-assessment of legitimacy of regulations/procedures + adoption of internationally comparable indicators (Then target: Average of ASEAN-4)
- Fundamental changes compared with mid-2000s (when WB indicators were considered a kind of misleading)

■ **Early results**

- Abolition of 5 procedures, shortening of time for business regulations ; shortening time to pay taxes and get credit
- Nullifying requirement, procedures and costs for supplementing and adjusting business registration
- Freedom to do business: enhanced and facilitated

■ **Problems**

- Existing gap between reality & “announcements” by authorities. A need for strengthening supervision over and responsibility of authorities
- Lack of necessary (accompanied) administration reforms
- Resolution was being repeated and strengthened with follow-up Resolution 19 (*the same name*) in 2015, 2016, 2017 & 2018

Lessons Learnt

Common lessons

- Trade liberalization and integration should be viewed as institutional changes and reform. Domestic reforms and integration reinforce each other (dynamic causality)
- Empirical evidences, perception of business community and people, and reality (economic and social life) are major test for effectiveness of reforms and international integration

Key lessons for specific institutional reforms

- Political commitment is critical (Commitment by leader(s) is needed)
- Simple goals and adherence to international standards/best practices are essential (Self-assessment in regulatory management simply not enough)
- Building awareness for officials responsible for handling administrative procedures is key
- Active involvement of stakeholders should be welcome + sharing of information (comments, feedbacks and transparency) and effective communication are highly complementary
- Reforms need a sound institutional structure with sufficient capacity; and thus, an on-going process
- Regulatory reforms are not resource-demanding (*Even at the hand of developing countries like Vietnam*)
- The selection of right partnership in terms of technological advancement (e.g. Japanese funded VNACCS/VSIC program for customs modernization) and capacity building is crucial.

THANK YOU!