

# WHAT TO DO IN THE COMING YEARS TO INTEGRATE INTO THE WORLD ECONOMY

by Dr. NGUYỄN VĂN TRINH

**B**enefits and unfavorable effects caused by the globalization on the world and Vietnamese economies have been discussed by too many economists and experts to name here. The problem is what Vietnam should do to make the best use of opportunities and overcome challenges to ensure fast and sustainable development for its people. In this article, we want to

employ huge sources of foreign capital in various forms (FDI, ODA, immigrant remittances, etc.) In the past 13 years after the Foreign Investment Law was promulgated, some US\$20 billion have flowed into Vietnam. However, the inflow of capital has started to slow down recently. In the years 2002-2007, Vietnam needs a gross investment of US\$60 billion to gain a growth

nam is considered as one of Southeast Asian countries with good security. But this doesn't mean that investors from home and abroad will put all of their money in businesses in Vietnam regardless of slow improvements in its business climate. To achieve this aim, Vietnam has to deal with the following problems.

Firstly, Vietnam has to accelerate the economic re-

economic ones. That is why they tried their best to maintain the mechanism of granting business and other licenses regardless of the Companies Law. A Competition Law has been discussed and drafted many times without success because the vested interests want to ensure monopoly for certain state-owned companies in certain industries. Without an anti-trust and

deal with problems with the business climate that affect both foreign and domestic investment. An economy could only integrate proactively into the world economy when it develops strongly and independently. In its turn, the active integration provides a basis for independent development.

One of benefits the globalization brings about is an opportunity to em-

ploy huge sources of foreign capital in various forms (FDI, ODA, immigrant remittances, etc.) In the past 13 years after the Foreign Investment Law was promulgated, some US\$20 billion have flowed into Vietnam. However, the inflow of capital has started to slow down recently. In the years 2002-2007, Vietnam needs a gross investment of US\$60 billion to gain a growth

rate of 7.0% a year. It plans to mobilize some US\$40 billion from internal sources and the rest from external ones. How can this target be met when the business climate isn't improved?

In recent years, Vietnam has tried its best to improve its investment climate but it is not attractive enough in the eyes of investors. After the September 11 disaster, Viet-

nam is considered as one of Southeast Asian countries with good security. But this doesn't mean that investors from home and abroad will put all of their money in businesses in Vietnam regardless of slow improvements in its business climate. To achieve this aim, Vietnam has to deal with the following problems.

Firstly, Vietnam has to accelerate the economic reform with a view to developing the market economy and encouraging competition. In Vietnam the concept of the invisible hand of the market is new to administrators although Vietnam has tried to develop the market economy for years. This reflects in daily operation of governmental bodies that still believe that they could control all human activities including

competition law, it will be difficult to speed up the international integration because the basis of the globalization is the trade liberalization. Of course, Vietnam couldn't enter foreign markets when it refuses to open its own market.

Many people are of the opinion that the state monopoly is necessary in some key industries such as energy, telecommunica-

tions, transport, banking, insurance and auditing. It is worth noting that ensuring the monopoly for state-owned companies isn't the only way to make them play well the leading role in the economy because they are only part of the state economy. On the other hand, the best way for them to play the leading role is "to lead the way to application of technological advances, improvement in productivity; quality and socioeconomic efficiency; and respect for law" as suggested by 9<sup>th</sup> VCP National Congress. To achieve this aim, it is wise to let state-owned companies compete fairly against their rivals from other sectors. Therefore it's necessary to open markets monopolized by state-owned companies with a view to helping market forces work at full stretch and the Government could regulate them by using macroeconomic instruments. In its turn the well-developed market will provide a basis for successful integration when local companies that survive competition are strong enough to deal with foreign counterparts.

Formation of state-run groups or corporations operating as private ones when the competition isn't keen enough will lead to bad consequences and unfavorable effects on the development of the market economy. Experience from South Korea and Japan verifies this argument. When the economy was in recession the public sector became a burden to the national budget because of poor performance of state-owned companies, the Japanese government decided to close 19 companies and privatize 45 ones. The Japanese government spends some US\$40 billion subsidizing state-owned companies every year and made plan to reduce it to US\$8 billion in 2002. In South Korea, such chaebols as Hyundai and Daewoo

have suffered losses for years and run into debt. The South Korean government has decided to stop subsidizing them, and as a result Daewoo had to declare bankrupt and thousands of workers became jobless when the company was reformed before selling to foreign companies. So Vietnam must decide if the model of groups is necessary and suitable to its conditions or not.

The Taiwanese development model is also worth studying. The Taiwanese success is based on the development of small and medium enterprises. At present, these enterprises represent 96% of the number of companies and Taiwan has just joined WTO along with China. In the 1977 financial crisis, Taiwan suffered less damage than South Korea and Japan did. In my opinion, Vietnam had better build a level playing field by refraining from forming big groups of companies regardless of whether they are owned by the state or private persons. The Government should prevent the development of unfair competition and formation of monopolies.

Secondly, the private sector should be developed because it is an active sector and could play an important role in the integration process.

Realities in foreign economies show that the private sector can gain high productivity, quickly adjust to changes in the market and create a lot of new jobs. In recent years, the private sector in Vietnam have received encouragement from the Government and made good progress. In 2001 for example, privately-run industrial production rose by 20.8% in comparison with 13.6% by the public sector and 15.7% by the foreign one.

But there is no denying that proper attention hasn't been paid to the private sector when policies

and mechanisms were made with the result that it accounted for about 23% of the GDP in the past few years. As for the official view of this sector, the 9<sup>th</sup> VCP National Congress affirmed that the private sector could exist and develop for long but in fact not all governmental bodies adopted this view. In daily business the private sector is treated unfavorably. Preferential treatment is still given to the public sector in all aspects. In doing business, private organizations are prevented from entering certain industries controlled by state-owned counterparts. Private companies find it difficult to get access to formal sources of credit, especially low-interest loans. When using land, they have to pay higher rental than the state-owned ones do. Taxes and fees imposed on the private sector are still very high.

The slow development of the private sector is partly due to the red tape. When the Government decides to give some favorable treatment to the private sector, it's hard for private companies to enjoy this because corrupt and bureaucratic officials always want them to pay for it. Many companies had to break the law and were tried for this practice. Such companies of this kind as Epco and Minh Phung were ready to bribe bank officials to secure enormous bank loans at short notice.

In the coming years, the Government should create all necessary conditions for the healthy and smooth development of this sector and allow it to enjoy the same treatment as the public one. In addition, the administrative reform should be accelerated, the army of civil servants must be trained in both techniques and ethics in preparation for the international integration.

Thirdly, the law system must be perfected according to international practices and law documents must be available for everybody, especially for businesspersons.

In the past, the dissemination of law and law enforcement in Vietnam are badly done. Most companies tend to settle disputes out of court. It is understandable because the Vietnamese system of law is imperfect and changing while law enforcement agencies usually apply and interpret law at will making the public and business circle lose their confidence in the law, and as a result, foreign investors also couldn't feel sure about their investments.

When we fail to study and enforce our laws we couldn't study and observe foreign laws and public international law. In Vietnam, the production of fake goods and knock-off is widespread causing a lot of losses for honest businesspersons. Consumers' interests aren't protected when they suffer damage because of these fake goods.

Smuggling and tax evasion are also common. Many smuggling networks brought to court recently had relations with officials of law enforcement agencies. Even state-owned companies or ones run by the armed forces also engaged in smuggling activities. These deeds prevent Vietnamese companies from doing business according to law in foreign countries. If the situation isn't improved, Vietnamese companies can't integrate into the world market because of their habit of doing things without respect for law.

The present situation forces the Government to restore discipline and proper enforcement of law, and perfect the law system before thinking of the tasks of attracting more foreign investment and integrating into the world economy. ■