

How to Finish Soon 12 Years of Non-Market Economy

by Ass. Prof., Dr. TRẦN NGỌC THO



After accession to the WTO, Vietnam is considered as a non-market economy for 12 years (compared with 15 years for China), how dear is the price for this treatment? Because of similarities between the two countries, it will be useful to study Chinese behavior after joining the WTO to draw necessary lessons for Vietnam.

1. It's dangerous to follow the Chinese model

Six years after its accession to the WTO and in spite of its economic achievements, China still fails to persuade the U.S. and the EU to recognize it as a market economy before the duration set for it. Its public sector still plays the leading role, the intellectual property rights are not observed as committed; support for the agriculture still exists in certain forms, transparency is not ensured, discrimination is not totally removed; and the RMB is undervalued. And as a result,

China faces some 20 dumping lawsuits every year.

It's difficult for outsiders to determine whether this price is dear or not because China has cleverly put itself in a position to interpret WTO rules their own way. They are proactive in working out their moves when the game is to their advantage. As for China, an emerging superpower, all arguments about market or non-market economy; or progress and backwardness are not as important as its controversial argument maintaining that "we do so because of our people's interest" – an argument of the strong. Perhaps this attitude makes the U.S. – another superpower – has refused Chinese petition for recognition of its market economy, and it did so certainly because of its people's interest, too.

What can Vietnam learn from the Chinese way of playing the WTO game? Is Vietnam in a position to play the game? Let's look

at what moves Vietnam is preparing for its WTO game.

The most important issue is the fact that the leading role is still officially assigned to the public sector. As for the Vietnamese people, the concept of the leading role played by the public sector (officially affirmed in the 10th VCP Congress documents) is not as important as what is happening. Policies adopted in the past few years and in years to come show that it is the private sector that acts as the dynamic of economic growth. However, this doesn't mean that the fullest attention by the Government is paid to this sector. Everybody can see that the Government still gives much preferential treatment to the public sector, for example, from the fact that it has injected more money to state-owned groups by issuing government bonds on foreign stock exchanges and turning the fund it raised into loans for these groups.

It seems that the act of signaling left but turning right by the ruling class is not less difficult to guess than the Chinese one. May it turn left, or turn right, or go around without finding an exit? There is no definite answer.

Whatever the situation is, the wisest approach is to work out one's own game instead of playing the game in the Chinese way and getting discrimination against the non-market economy for 12 years, which may damage the ambitious development plans in the coming years. Such a superpower as China may do what it wants but Vietnam is certainly denied such a move.

To a certain extent, the Vietnamese government has taken measure to finish soon the 12-year period of non-market economy by reducing its intervention in the economy. Of course, it's easier said than done. The problem with Vietnam today

is the situation in which local governments may ignore orders from the central one. That is why 2007 is named as the year of administrative reform in an effort to accelerate the economic growth and remove the control over state-owned companies by governing ministries.

2. The biggest risk: super-ministries and super-groups

For the time being, Vietnam must solve a lot of problem cleverly to finish soon the 12- year period under the non-market status. One of them is the formation of enormous super-ministries or super-groups. This is also a threat to China because it is the reason why the U.S. and the EU have brought China to the WTO court.

The public opinion shows worries about possibility of concentrate too many institutions, such as the State Commission of Securities, Investment and State Capital Corporation, and Bank for Development of Vietnam in the hand of the Ministry of Finance. This scheme is likely to violate principles of a level playing ground suggested by the WTO to its prospective members. The State Commission of Securities or its equivalents, for example, in many other countries is usually an independent organization that is free from political interventions by high-ranking officials. Its independence is much needed for ensuring fair and just behavior. It may be under a ministry – such as the Ministry of Finance in Thailand – but it is not allowed to act as a player and a referee at the same time.

In Vietnam, on the other hand, the Investment and State Capital Corporation, a kind of super company under the Ministry of Finance, is allowed to raise funds from the stock market. This means that the Ministry of Finance is the governing body of

both State Commission of Securities and this Corporation that is allowed to invest in the stock market. This Corporation can certainly get inside information and therefore, it can make huge profit from the stock market if it wants to do so. It's worth recalling that the WTO principles require equal access to the market for all entities, including both foreign and local ones.

The Ministry of Finance is also careless when it has borrowed US\$750 million for Vinashin and made plan to issue one billion dollars worth of bonds on foreign stock exchanges on behalf of three state-owned companies. If the government keeps doing so, Vietnam can hardly become a market economy within 12 years as expected, because the government intervention is one of criteria for determining a market economy.

The Ministry of Finance also runs the Bank for Development of Vietnam. If this bank uses the public fund to supply soft loans or credit guarantees to local companies, especially the state-owned ones, it will meet with protest and retaliation from foreign banks.

These facts show that the monetary, financial and banking services seem to be well under control of the Super Ministry of Finance. It's also worth remembering that the widespread corruption originates from and over-concentration of power.

3. Not only an economic, but also a political, problem

When trying to finish soon the 12-year non-market economic status, the government should pay special attention to hot politico-economic issues relating to this status instead of dealing with it as a pure economic and theoretical issue because this status is more often considered as a political than an economic decision.

The first aspect is the property ownership, especially the intellectual property. Many foreign investors show no trust in the Vietnamese courts in judging commercial disputes and they like to have them settled in a third-party country, such as Singapore for example.

The financial and banking sector is very famous for its being slow to reform. The absolute dominance of state-owned commercial banks, in spite of efforts to reform by the central government, is the greatest obstacle to the effort to finish the non-market economic status. In addition, it's worth mentioning schemes to upgrade and expand many state-owned groups, which easily lead to corruption whose negative effects must be identified exactly because it has a lot of things to do with government's impacts on allocation of resource – a criterion for deciding on anti-dumping measures.

When the non-market economic status is finished is not determined by pieces of evidence because they are usually not as important as negotiations. This means that Vietnam has to not only show determination to develop the market economy, but also try to solve such hot issues as corruption and administrative reform. Vietnam can't claim to be a market economy when the corruption is widespread (criteria for assessing the economic freedom index is based on the argument that the higher the economic freedom, the lower the degree of corruption), therefore the Vietnamese government should pay more attention to "systematic" and "organizational" issues. By showing sincerity, practical actions, determination and diplomatic campaigns, Vietnam may finish soon its 12-year period of non-market economic status, thereby avoiding paying too dear prices for miscalculated efforts and policies. ■