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Vietnam in ASEAN:

International and Economic Transformation

Vietnam v ASEAN: Mezinárodní a Ekonomická Transformace

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AFFIRMATION

I hereby declare that the following dissertation is my own work; I used exclusively the sources and literature indicated in the text. All used sources are included in the bibliography. I give my consent to Metropolitan University Prague to make this dissertation available in the Jiří Hájek Specialized Library so that it can be used for study purposes under the copyright act.

In Prague, 10 June 2017

Yanina Lyushyna

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List of Acronyms

ACD	Asian Cooperation Dialogue
ACEC	ASEAN-India Comprehensive Economic Cooperation
ACEGEC	ASEAN-China Expert Group on Economic Cooperation
ACFTA	ASEAN-China Free Trade Agreement
ACMCM	ASEAN-China Maritime Consultation Mechanism
ACMECS	Ayeyawady-Chao Praya-Mekong Economic Cooperation Strategy
ACMF	ASEAN Capital Markets Forum
ACU	Asian Currency Union
ADB	Asian Development Bank
ADBI	Asian Development Bank Institute
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Trade in Services
AFTA	ASEAN Free Trade Agreement
AFTA	ASEAN Free Trade Area
AHRD	ASEAN Human Rights Declaration
AI	ASEAN Integration
AIA	ASEAN investment area
AMF	Asian Monetary Fund
APSC	ASEAN Political-Security Community
APT	ASEAN plus Tree
ARF	ASEAN Regional Forum
ASA	ASEAN Swap Arrangement
ASEAN	Association of South East Asian Nations
BTA	bilateral trade agreement
CEPEA	Comprehensive Economic Partnership of East Asia
CEPT	Common Effective Preferential Tariffs
CIEM	Central Institute for Economic Management
CMI	Chiang Mai Initiative
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CPV	Communist Part of Viet Nam

EAEG	East Asian Economic group
EAS	East Asia Summit
EPA	Economic Partnership Agreement
EPZs	Export Processing Zones
FDI	foreign direct investment
GDP	gross domestic product
GPRGS	Comprehensive strategy for growth and poverty reduction
GSO	Government Statistical Office
HCMC	Ho Chi Ming City
IPR	Intellectual Property Rights
NTBs	Non-Tariff Barriers
NTT	New Trade Theory
PTGs	Preferential Trade groupings
RCEP	Regional Comprehensive Economic Partnership
RTA	Regional Trade Agreement
SBV	State Bank of Viet Nam
SEDP	Socio-Economic Development Plan
SEDS	Socio-Economic Development Strategy
SOCB	State-owned commercial bank
SOE's	state-owned enterprises
SRV	Socialist Republic of Viet Nam
TIFs	Trade and Investment Framework Agreements
USBTA	United States (Viet Nam) Bilateral Trade Agreement
VCP	Viet Nam Communist Party
VLSS	Viet Nam Living Standards Survey
VND	Vietnam Dong
WTO	World Trade Organization

0. INTRODUCTION

Designing a new world order in the 21st century is an important objective for many academics, economists, and politicians. Under the guise of specialisation, only the countries, which have the potentiality to perform strong economically, will be able to face globalisation and claim some position in the world economy in the new millennium. Vietnam, which for many years had existed in the shadow of international economics and did not have a stable political and social situation, is one of the examples. Since 1975, the end of the war in Vietnam, the country has again become a visible player in the international arena. Several decades ago, the emerging nation moved into the category of fast-growing middle-income countries. The globalisation of the world economy has created a whole new series of obstacles for states and national economies. Like any country, searching for its place in the international community and defining its role in world economic relations and world politics, Vietnam has to make important strategic and tactical decisions. However, not in the military sense, but rather for the creation of an environment for economic growth and building society where people are joyful and in peace “dân yên vui”¹. In these circumstances, it is important to evaluate the capabilities of the principle players in the world globalisation process. This paper focuses on Vietnam in the context of its relations with the regional community Association of Southeast Asian Nations (ASEAN).

After the Vietnam War in 1975, Vietnam was facing a difficult situation, where poor socio-economic reality and poverty reduction were the main challenges for the society. The Communist Party of Vietnam (CPV) had to make a rapid decision to reform the economy and end the political isolation of the country. Since the adoption of the so-called renovation policy Doi Moi in 1986, the country experienced extraordinary growth in a traditional comparative sense. The Doi Moi reforms provoked a desire for profit, which at the same time created a suspicion that wealth could be a threat to traditional Vietnamese morality. In close cooperation with the neighbouring countries, including socio-economic changes, a new foreign policy was introduced.

International experience has shown that even the largest powers with abundant natural and human resources, cannot thrive effectively without full participation in the global integration process. If economies remain isolated, the state loses significant advantages with regards to the international division of labour and the expansion of international specialisation. Because of the influence of technological progress, the unique understanding of the rule of law and radical changes of the modern world, Southeast Asia developed rapidly under these particularly favourable conditions over the last

¹ Thang, Tran Phuc. "Political Philosophy in the period of building an Independent and Self-Determined Vietnamese Feudal Nation." *Center for Vietnamese Philosophy, Culture & Society*. Temple University. Accessed 2015-09-22. http://www.temple.edu/vietnamese_center/handbook/triet_hoc_chinh_tri_english.html

decade. Under the international integration processes, each country confronts an important and complex task: to ensure the development of economies through foreign relations, to maintain its independent political status, security, stability and economic performance. Any state, solving its internal and external challenges is guided by internationally accepted rules of dialogue, decisions and the recommendations of the UN and other international organisations. This fully applies to Vietnam, which has been a member of the UN since 1977, a member of international and regional organisations, and in particular, within the Association of Southeast Asian Nations (ASEAN). Vietnam seeks to fulfil its international obligations. Additionally, transformation in Vietnam is a subject of close studies in political, socio-economic, and international integration fields.

The central hypothesis of this thesis is the argument that the best model for the development of Vietnam is the model tested in the countries of Southeast Asia. There are certain similarities of the initial situation between these countries and Vietnam. First, Vietnam historically had a chance to learn and apply the development and successful experiences from its neighbours. Second, the countries of Southeast Asia have achieved significant economic success with a combination of two key factors: the successful market economy and political stability. In this sense, the experience of Vietnam, where the socialist superstructure and the political leadership of the Communist Party remains and long-term economic reforms associated with the transition to a market economy, is unique.

This dissertation has several purposes. Firstly, to investigate a new dimension of global order and the impact of globalisation and its regional manifestations. Secondly, to provide detailed information on the evolving political and economic situation in Vietnam during the period of recovery from the neocolonialist war, so-called “development with Socialist orientation” and to evaluate the conceptual and institutional frameworks of the specific areas within ASEAN. More specifically, to identify the role of regional cooperation from three aspects: political-security, economic and social-cultural. The analysis covers the period from 1986, when Communist Party of Vietnam (CPV) promoted renovation policy (Doi Moi), till its current development – following strategic decision making about the future direction of the country.

The theoretical boundary of this work is mainly represented by two approaches of international relations: one is a new global politics - regionalism, another one is a traditional, realist approach, which is state-centric. The aim of this dissertation is to analyse the circumstances that contributed to the new principles of distribution in the global political economy and initiated the process of building a regional regime.

The goal of the paper will be achieved by describing and analysing the most important aspects of Vietnam’s integration within ASEAN. These objectives will be attained by using a political-economical approach to determine the role and place of Vietnam in the modern world structure.

Furthermore, this dissertation aims to prove how specific implementations of policies, as well as effective mobilisation, have played a key role in the development of Vietnam. This research is relevant in light of significant anniversaries celebrated in Vietnam in 2015. 125 years had passed since the “Father of the Nation” Ho Chi Ming was born. 70 years ago, in 1945, the Democratic Republic of Vietnam was founded. In 1975, 40 years ago North Vietnam won the war and finally, in 1995, Vietnam chose to join the regional block ASEAN in order to diversify its international relations.

Methodologically, this paper will use the Integrated Impact Assessment² (IIA), which will combine, interpret and communicate knowledge in the cause-effect chain, involving statistical data, presentation of action plans and legislation actions. By applying Impact Assessment, this paper aims to answer the following questions: (1) What is the Vietnamese government trying to achieve in the framework of ASEAN? (2) Will ASEAN be able to rely on the support of Vietnam? (3) Will Vietnam be able to shape its future?

The Article 1 of the 1946 Constitution states: “*Viet Nam is a democratic republic. All power of the county belongs to the Vietnamese people, regardless of race, gender, wealth, class or religion*”. It is noteworthy that the 1946 Constitution was written during the French presence in the country. It was the first democratic constitution in the history of the country, and “*well suited to the situation and the revolutionary task of the era*”³. After the liberation of the North in 1954, the development of socialism began. According to the geographic and economic situation, the author emphasises to which extent the model offered in the neighbouring Indonesia, could be used for testing the political organisation in Vietnam. The mobilisation model or a model of “*guided democracy*”⁴ of society⁵, as opposed to a liberal model emerges out of different paradigms of development. Around 1992, a new theory of a social, law-governed state of the people, by the people and for the people, was formed.

This dissertation is divided into two parts. The first part introduces the development of theoretical concepts of the international political economy, globalisation, and the concept of regionalism in Southeast Asia. This section contains general characteristics of the globalisation of regional integration as a trend in the international political economy. Also included is an analysis of the political theories of the ASEAN organisation with an emphasis on understanding the political situation and its relationship to socio-economic transformation of the community.

² Impact Assessment Guideline, SEC (2009)92, (EC 2009)

³ SIDEL, Mark. *The constitution of Vietnam: a contextual analysis*. Oxford: Hart, 2009.

⁴ Name given by Indonesian President Soekarno. During his time the political situation has been characterized by the decline of the parties and parliamentary institutions, the rise of army, the growing power of the Communist party. Guided democracy is closer to Netherlands-Indies than to European institutions.

⁵ LEV, Daniel S. *The transition to guided democracy: Indonesian politics, 1957-1959*. [New ed.]. Jakarta: Equinox Publishing, 2009.

The second part of the paper will offer an analysis of the integration of Vietnam into ASEAN from an economic perspective. It also puts a brief overview of the industrialisation and rapid economic growth, which transformed Vietnam to a modern, urban and industrialised country. Additionally, in this paper, models will be presented for reforming the Vietnamese economy. Included in this section will be a short description of the macroeconomic situation in Vietnam in these last ten years. The paper seeks to explain Vietnam's standing in the regional organisation ASEAN and the possible future developments of socio-economic spheres in the country.

The author used the documentary sources and literature in English, Russian and Czech languages for this paper. For a better understanding of the evolutionary process of the views and key policy issues by the government, the author studied materials of the Congress of the Communist Party of Vietnam starting from 1977. The laws passed by the National Assembly of Vietnam (foreign investment law, the law on state enterprises, the law on private and joint-stock enterprises), policy updates, governmental and non-governmental publications have been used. The framework of the political policies analysis was based on the new application of geopolitics regarding the economy, which is called "geo-economy." This paper will also analyse the "developmentalist model", originating in Japan and adopted by ASEAN states, Japanese miracle and the MITI book⁶ by Chalmers Johnson, and the extent to which it influenced the reform of the Vietnamese economy.

This paper also relied on English sources: Robert Keohane, Joseph Nye, Robert Cox, Robert Scalapino, Friedrich List, Friedrich Hayek, Michael Plummer, Akaha Tsuneo, Sanchita Basu Das, Gyula Csurgni, Mary Farrell, Hettne Bjorn, Lawrence Woods, Daniel Dreyker, Christopher Dent, Ahmed Sadiq, Janos Konrai, Tan Tai Yong, John Ravenhill, Chalmers Johnson, Charles Sackrey, Robert O'Brien, Vuong Quan Hoang and many others. Most of these authors reflected the need to boost the market reforms in Vietnam and were strong supporters of the initiation to the process of regional trade and economic cooperation for the industrialisation and modernization of Vietnam.

The first comprehensive analyses of security integration in the Asia-Pacific region were two books, "Constructing a security community in Southeast Asia" and "Asia-Pacific security cooperation: national interests and regional order" by Amitav Acharya, which provides a critical understanding of the global political and security interaction. The works of the former Prime Minister of Malaysia, Mahathir Mohamad and the memoirs of the senior minister of the government of Singapore, Lee Kuan Yew were also considered for this paper. Both are the leaders of the two neighbouring ASEAN countries, even so, often give diametrically opposite interpretations of the causes of the financial crisis of 1997/98. American political scientist Samuel Huntington's book, "The Clash of Civilisations and

⁶ JOHNSON, Chalmers. *MITI and the Japanese miracle; the growth of industrial policy, 1925-1975*. [Reprinted]. Stanford: Stanford University Press, 1985.

the restructuring of the world order", was also considered, though his conclusions are difficult to accept.

In this dissertation for the analysis of the economy and foreign economic relations, the statistical materials and official documents from ASEAN have been used. Primary sources are the official records of the ASEAN Secretariat. Also, the author relied on the study of policy documents of the Communist Party of Vietnam (CPV congresses decisions, resolutions of the CPV Central Committee plenums), Vietnam government regulations, and decisions made at summits and ministries. Another useful source for this paper was a book "Vietnam: History, politics, economics," by Russian authors PhD candidate would like to highlight a book Galina Yaskina and Lyudmila Anosova, published on the 55-year anniversary of the August Revolution in Vietnam.

Reports and statistics of international economic organisations additionally were also studied, such as those by IMF, WTO, UNCTAD, the World Bank. Valuable information was obtained from the reference and periodical literature published in Vietnam and other countries. A lot has been written on the implementation of the declared policy of VI Congress of the CPV update on Vietnam's foreign economic ties, participation in the activities of international and regional organisations and the investment policy of the Government published in recent years in Vietnam. One of these works is a collective work, prepared by a large group of Vietnamese experts under the general editorship by United Nations Development Programme and Ministry of Planning and Investment "Support for Formulation of Socio-Economic Development Strategy (SEDS) 2011-2020", and "Vietnam's Socio-Economic Development Strategy, 2011-2020". All of which this paper will use in the discussion of globalisation and regionalization in Vietnam.

I. INTERNATIONAL POLITICAL ECONOMY AND GEO-ECONOMICS

The international political economy is a relatively modern concept. Sometimes called the new political economics, yet still maintains the neo-classical traditions of economics.⁷ Political economy is often regarded as a sub-field of political science. It is the study of how politics and economics relate, for example, according to a report by The World Economic Forum, geopolitical competition is reshaping the global economy and unravelling global power relationship and governance. Competing trade regimes are replacing military alliances.⁸ Often, the terms political economy and economics are used interchangeably, especially when used in politics. Nevertheless, researchers of Institutionalism or Economic Sociology criticise “neo-classical political economy”.⁹

The majority of financial interests are the driving force for the decision-making processes in society or science of “*choice under scarcity*”, as one can decide the best array of materials goods which could be attained from efficient allocation of limited resources and productive capacities. Under this perspective, markets are determined, by what Adam Smith has coined, *The Invisible Hand*, where everything produced is consumed. In the competitive economy, explained by the theory of *general equilibrium* (Leon Walras, Vilfredo Pareto), the economy leans towards marginal utility or an increase of satisfaction in the society.¹⁰ Even considering perfect achievement of all conditions, by the removal of government interference in all markets (liberalism) and with massive support from a variety of mathematical models, economic theory ignores the historical experience of the different institutional histories and is insufficient in explaining or predicting the way the economy functions in real-life circumstances.¹¹

At present, there exist many interpretations of a Marxist political economy. The *superstructure* determines the mode of the production or in other words *social relation requires an examination of legal institutions and indeed forms of consciousness*.¹² A useful example of the Marxist political economy can be found in Elson’s interpretation of “Market Socialism or Socialism of the Market,” by which he stresses that by “making the exchanges in the economy perfectly transparent society could be

⁷ MANICAS, Peter. Political Economy: A Brief Overview.

⁸ Geo-economics: Seven Challenges to Globalization. Available at: <https://www.weforum.org/reports/geo-economics-seven-challenges-globalization>

⁹ Ibidem

¹⁰ MANICAS, Peter. Political Economy: A Brief Overview.

¹¹ Ibidem

¹² Ibidem

reached.”¹³ To explain the global and economic transformation of Vietnam as a part of ASEAN, in regards to the community building processes, relying solely on economic theory is insufficient.

The most important question for the international political economy is the interaction between internal and international factors influencing economic policy¹⁴, and consequently, what are the interactive effects of the economic model and institutions on the society and social development¹⁵. International political economy (IPE) started to appear as a sub-field of International Relations in the mid-1970’s. The main issues concerned by the policy are the impacts of transnational corporations, international finance, international trade, the interaction of economic and political phenomena across state borders and inter-state development. For the analyses of the phenomena in the IPE, two main variables are used: (1) activities: production (process of creating goods and services), trade, finance, and war, and (2) institutions: state (political community for human organization) and world order (principles and rules for interactions at the global level), technology and ideas, interaction between humans and their natural environment. Governments evaluate how the international economy affects national interests, institutions, and information, and then reflects on the national interests. On the one hand, international economics may influence the foreign policy of the state in two ways. The first approach views the global economy as operating on the precedence of national socio-economic and political actors—leading to new preferences or changes in domestic policy behaviour. On the other hand, events in the world economy and national institutions have an impact, such as globalisation, on the democratic structure of the welfare state.

International institutions affect national information and institutional conditions that support relationships between producers and exporters. Mobilisation occurs without the participation of the government in foreign trade. International factors influence the national political economy by restricting national institutions, mobilisation of the informational environment and changing the preferred system or replacing domestic policies. The second approach assumes that the national government stands between national and international issues. Over the past fifteen years, activities at the national levels have had an increasing impact on the international environment. Future development of state institutions, such as political parties, the judicial system, and central banks, will contribute to the emergence of more demanding domestic interests. Future international relations will require a more sophisticated approach to solving complex problems.

¹³ Cited in MANICAS, Peter. *Political Economy: A Brief Overview*.

¹⁴ FRIEDEN, Jeffry, Martin, Lisa. *International political economy: global and domestic interactions*. (n.ed.) Accessed 2015-05-22. <http://scholar.harvard.edu/files/jfrieden/files/stateofdiscipline.pdf>

¹⁵ SACKREY, Charles, Hans Jensen, and Geoffrey Schneider. *Introduction to political economy*. Seventh edition. 2013. p. 4

The historical perspective of the international political economy categorising the processes of the last two centuries into three ways. The 19th century was named as a *European Century*, characterised by mercantilism: economic nationalism, state-based economy, power politics, zero-sum game (Alexander Hamilton, Friedrich List). The following colonial movements have expanded the European political form of state, as well as European beliefs and lifestyles. After the 19th century, the Industrial Revolution, which had been initiated by Great Britain and Europe, spread across the world. The United States of America become the economic leader of the world after World War II. For this reason, the 20th century is called an *American Century* distinguished by liberalism (conditions for cooperation), positive-sum game, dependence, transnationalism, government non-interference and free-trade (Adam Smith, David Ricardo, John Maynard Keynes, Friedrich A. Hayek, Robert Keohane, William M. Landes, Robert Cox). The last century is identified predominantly through transnationalism. Transnationalism prioritises the global relationship over of the relations of the national states (Bertrand Badie). The role of the non-state actors in the context of theories of realism and neorealism was analysed by Josef Nye, Keohane, James Rosenau.¹⁶

The second half of the 20th century demonstrated an acceleration of processes distinct from the previous forms of globalisation and led to the creation of a functional space with autonomous methodology at the global level. These changes are based on technological revolutions (infrastructure, IT, telecommunications), which enabled the enormous development of new networks, with specific hierarchises--binding the centres of the world economy (megacities). The 21st century is perceived as an *Asian Century*, depicted by market socialism, liberal institutionalism (Keohane, Nye), historical materialism (Karl Marx, Friedrich Engels, Robert Cox¹⁷). In the previous century, Western success was accidental and temporary, supported by force and expropriation¹⁸. Now, the international relationship model is referred to as a comprehensive interdependence which is based on social, political, and economic elements, leading to the reduction of autonomy, particularly in regards to regional sovereignty.

Woodrow Wilson, disagreed with Tomas Hobbes' claim of "power politics," by asserting that international law and institutions have no strong trust in authority politics.¹⁹ The competition among sovereign states to protect citizens against the rules which could be enforced against their will and wars are no more irrelevant in the interdependent world. The core idea of the trade promotion is that

¹⁶ KEOHANE, Robert O, and Joseph S. NYE. 1972. *Transnational relations and world politics*. Cambridge, Mass.: Harvard University Press.

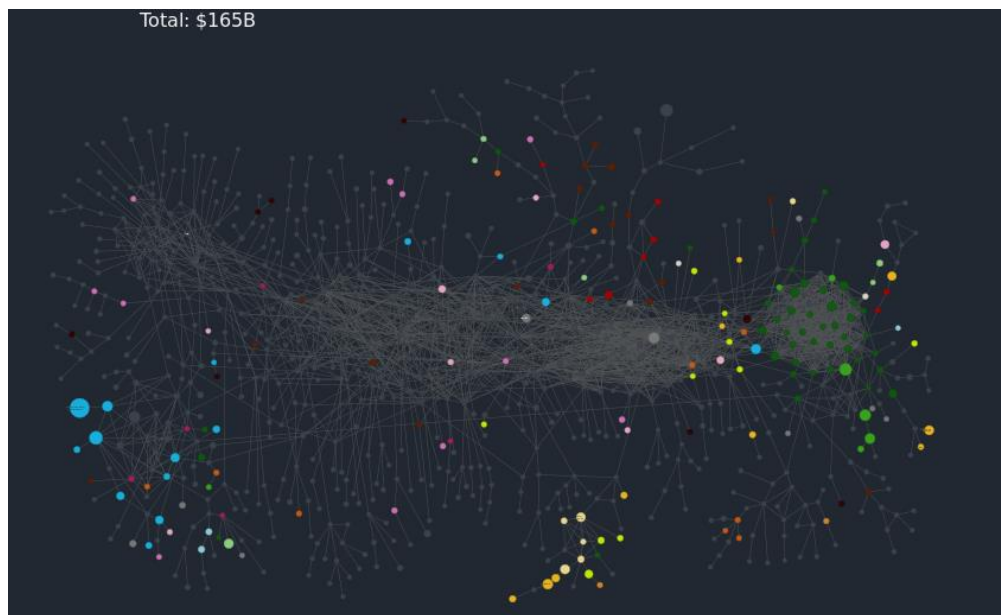
¹⁷ COX, Robert W, and Michael G Schechter. 2002. *The political economy of a plural world: critical reflections on power, morals and civilization*. New York: Routledge.

¹⁸ O'BRIEN, R., Marc W. 2008. *Global political economy: evolution and dynamics*. 2nd ed. New York: Palgrave Macmillan.

¹⁹ THORSEN, Niels. *The political thought of Woodrow Wilson, 1875-1910*.

peace is more conducive to trade than war. In contrast, the French vision (George Scelle, Emile Durkheim) of international relations, based on the different perception of the international society²⁰, sees authority as less efficient than the concept of solidarity and social integration. Society would collapse without a minimal degree of social inclusion. Therefore, the international system is fragile because it is not integrated enough, and there is a risk of conflict or collapse.²¹ The core idea of the international integrations processes could be demonstrated by some indexes of the complexity of economics, human development and others (for example see Chart 1: Economic Complexity of Vietnam).²²

Figure 1: Economic Complexity of Vietnam



Source: The Observatory of Economic Complexity [online]. Available at http://atlas.media.mit.edu/en/profile/country/vnm/#Product_Space

After WWII, the world went through three main critical moments: global interconnectedness (globalisation), crises of the states, and the collapse of bipolarity. The bipolar system is an international political configuration that characterised the Cold War. Two poles were represented by two states: the United States and USSR. Other countries aligned themselves with either side by pledging their resources and ideological orientations. After the end of the bipolar period, the configuration of global politics around the single U.S. pole has been defined as unipolar, or as multipolar due to the multiplication of smaller groups. Consequently, contemporary global politics are concentrated around major cities, which continuously interact and compete leading to a new political order.

²⁰ SCELLE George, Presentation de Carlo Santulli. *Précis de droit des gens: principes et systématique*.

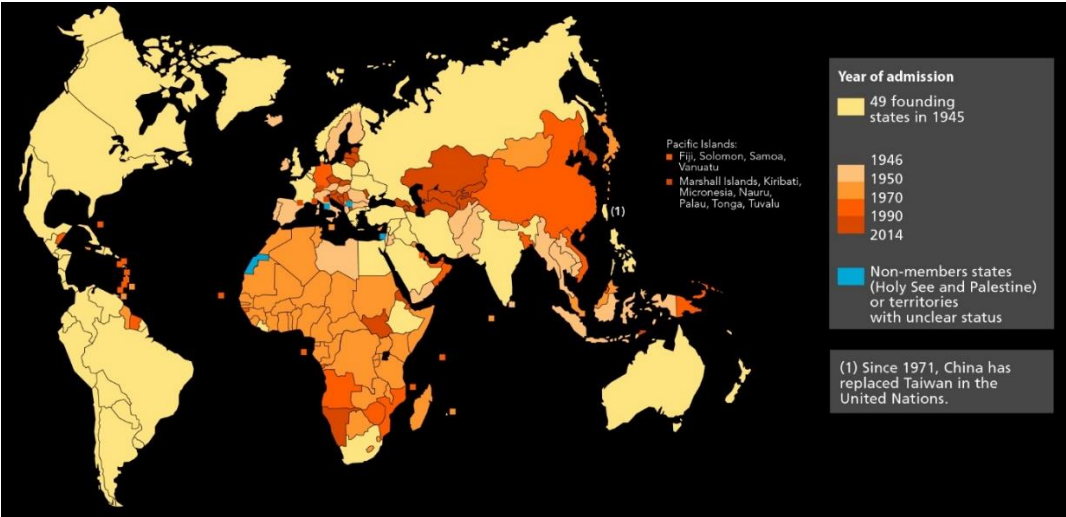
²¹ DURKHEIM Emile., W.D. HALLS (transl.). *The division of labour in society*.

²² A network connecting products. The fact that, in 2012 Vietnam exported 258 products, indicating the share of global exports is larger than what would be presumed from the size of its economy.

In the new political order, globalisation brought different types of transformation. Firstly, the inclusion of the states in the same system, which integrates all people, societies, traditions under the United Nations Organization (UN). This push towards inclusion could also be referred as multilateralism. Multilateralism is defined as a form of international cooperation, which involves more than two states seeks to construct recognised international order.

In this new world order, multilateralism manifests many forms through summits, conferences, negotiations, discussions or intergovernmental organisations, at Universal (various UN branches) or regional level (ASEAN). International institutions have been developed during the 19th century to form an inter-state cooperation in different fields, such as infrastructure, and is created through treaties, chapters, and statuses. The institutions that arise out of the market-oriented multilateralism of international relations intend to ensure monetary stability, fixed exchange rate (The International Monetary Fund, IMF) and to make available the foreign aid in the context of post-war reconstruction (World Bank, WB).

Figure 2: UN Membership (1945-2014)



Source: Source: United Nations, www.un.org/en/members

The U.S. and industrialised nations hold the dominant position in these organisations. The U.S presence in the Asian region was indicated in Johnson Doctrine for Asia, “Grandiose vision of the “Great Society” many facets of regionalism (association of nations, regional organisations, and cooperation). Thus, the concept of regionalism in areas outside Europe emerged as one of his administration’s most serious commitments in its efforts to build a stable world order. “²³ In the case of Vietnam, during his speech in Baltimore April 7, 1965, Lyndon B. Johnson declared, “To point out to the American public and the world that the United States was doing a great deal in the midst of a war

²³ Hideki Kan - 九州大学 (KYUSHU UNIVERSITY, <http://catalog.lib.kyushu-u.ac.jp/handle/2324/2162/KJ00000724250-00001.pdf> (accessed March 29, 2017). DIEN, 1999, p. 148

to build a new Vietnam.” By analysing U.S. economic aids in Asia starting in 60’s, it seems that certain line of foreign policies was being used as instruments to reinforce regionalism.²⁴

Four essentials for peace in Asia: First is the determination of the United States to meet our obligations in Asia as a Pacific Power. The second essential for peace in Asia is ...to prove to aggressive nations that the use of force to conquer others is a losing game...The third essential is the building of political and economic strength among the Nations of free Asia... [the fourth essential is that] a peaceful mainland China is central to a peaceful Asia.²⁵

The United States had an interest in regionalism in Southeast Asia for several reasons. Most of the multilateral lending institutions (MLI) provided finance for infrastructure, later in industrial and agricultural projects. Following the end of the Vietnam War, the Nixon Doctrine was to assure that the U.S. position was no longer a military position in the region, though it was still indirectly political. This was done by establishing special funds and strengthening the Asian Development Bank (ADB), so it could better deal with Asia’s current development problems and future needs. Loans provided through ADB, payable in U.S. dollars only could be used for the procurement of American products and services. President Nixon stated: “Taking money from the United States represented a collapse of Communist principle. More important, our aid would inevitably give us increasing leverage with Hanoi as the North Vietnamese people began to taste the fruits of peace for the first time in twenty-five years.”²⁶ Additionally, Secretary of the Treasury George P. Schultz, in his testimony to the House of Representatives Committee on Banking and Currency in November 1973 proclaimed:

Our relationship with developing countries is important to the United States economically and politically. The developing countries provided a 14.6 billion dollars market in 1972 for the U.S. goods and services; perhaps more important, they provided us with one-third of our raw material imports; it makes good sense for us to utilise such proven vehicles such as the international development lending institutions, for aiding the growth of nationals that are at the same time such important sources and markets for us.

This statement by Nixon and Schultz demonstrates the recent shift in contemporary International Political Economy as consolidation, integration, expansion.²⁷ Contemporary IPE evidently is in search of various systems for the recovery from the crisis. Who is the historical subject, which will be able to create a new regime? If the previous system was about the control of capital, the current system is now about creating control over information. We can assume that these priorities will continue to evolve and change as globalisation continues to bring different macro-regions in contact with each other.

The post-capitalist system needs a new type of industrialisation. The West is not a clear intellectual leader and has recently showed the loss of its monopoly in the area of intellectual leadership. That is why more dynamic regions and nations have to be taken into consideration.

²⁴ DIEN, 1999, p. 165

²⁵ JOHNSON, Lyndon B. *Speech on U.S. Foreign Policy in Asia: July 12, 1966* [online]. Available at: <http://millercenter.org/president/speeches/speech-4038>

²⁶ Recalling the Paris Agreement and in particular the question of economic aid, Richard Nixon, January 1973

²⁷ CONNORS, Michael Kelly, Remy Davison, and Jorn Dosch. *The new global politics of the Asia-Pacific*. New York: Routledge Curzon, 2004. p. 17

International relations theory as a fundamental notion must be reinvented; international areas must be reshaped, and a new approach must be created. Challenges are presented in the following areas whereby social issues are the major international focus. Starvation, health conditions and the environment are a primary concerns followed by competition, which is unproductive, rather cooperation. Thirdly, meeting and solving new kinds of international violence. And finally, to deal with global issues through an approach of multilateralism. Only multilateral, global interventions are possible given the context of increasing globalisation and the appearance of new powers and local actors, which requires a willingness to solve problems of all different natures. The result of this active intervention of external forces in the local situation is turning Southeast Asia into a climate characterised by high dynamics and numerous challenges.

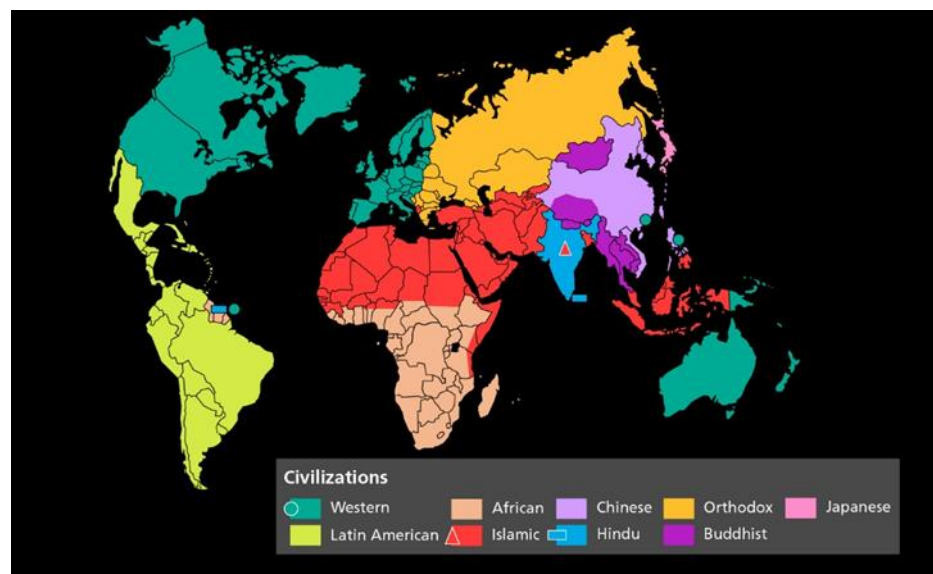
1.1 GLOBALIZATION IN SOUTHEAST ASIA

The world of today is much more complex, has more perspectives, and it also has a new vision of space and territory. Nowadays, a new dimension of a rapidly changing global contexts requires a new conceptualization, demanding us to reconsider traditional understandings of territorial sovereignty that existed previously. In order to have a comprehensive theory of this new world structure, it is necessary to apply transdisciplinary knowledge – taking into account economies, politics, history, sociology, law, geography, anthropology etc.

Almost certainly, globalisation is a transformation of the world order and a creation of a new one, which undermines traditional IR concepts. Globalization results in a series of contradictions contesting conceptual vision: (1) Disputes between power and integration, where power is the main constant in the traditional international order, in comparison with integration, which is the consequence of interdependence; (2) Negation between authority and powerlessness, in which the present world order powers are losing their effectiveness; (3) Challenges in the context of coexistence, which is coming from traditional concepts of sovereignty, and relationship as the central notion of the world order; (4) Differentiation between dimension of globalization, market and free trade; (5) Opposition to global laws and a fragmented order. Globalisation does not represent a union of the world. It also intensifies a kind of fragmentation, resulting in a growing number of local or regional powers. Often it has been referred to as “universalization, internationalisation, Westernization, Americanization or

liberalisation.”²⁸ On the other hand, globalisation is not merely about internationalisation but includes various actors, not only states. Universalization or westernisation does not represent the liberalisation process because it does not take into account social dynamics. Globalisation also strengthens a creation of new global interactions and leads to the undermining of traditional cultures.²⁹ Samuel Huntington’s book “Clash of Civilisations and the restructuring of the world order” gives priority to the perspectives of Western civilisations over the majority non-western civilisations. The Soviet Union in its time served as a balancing power, “In the arrangement of the new world order, the United States probably will never abandon the fight for global leadership. Nevertheless, in many different aspects, the system (political, economic and social) has its limits.”³⁰

Figure 3: The Clash of Civilisations by Samuel Huntington



Source: Map was a coloured and adopted version of the original map published in the book of Samuel Huntington “The Clash of Civilisations” by Science-Po Atelier de cartographic, 2009

Other transformations lie in the area of communication, where global communication systems are challenging the traditional understanding of state territory. In the realist approach, the state is a base for IR and also for the conventional interpretation of politics through the legitimacy of the state and its territory (Max Weber). However, this legitimacy seems to be irrelevant in the contemporary global context. With the global communication revolution, new technologies have changed the conventional understanding of space and time and necessitate new types of governments.

²⁸ CONNORS, Michael Kelly, Remy Davison, and Jorn Dosch. The new global politics of the Asia-Pacific. New York: RoutledgeCurzon, 2004. p. 181

²⁹ HUNTINGTON, Samuel P. The clash of civilizations and the remaking of world order. 1st ed. New York: Touchstone book, 1997

³⁰ PAN, Dawei. China, Russia, USA: The End of History has not come yet: Китай, Россия, США: Конец истории пока не наступил [online].

The third transformation was caused by the growing number of non-state actors (economic, religion, cultural and so on) and their proliferation beyond state borders. The fourth type of transformation is about the dependence of nation states and the questioning of their sovereignty. Nation state sovereignty is questioned by the market, communication, transnational relation, growing non-traditional security and political issues. This crisis of the state's legitimacy can be primarily observed in developing countries. The fact that decolonization was not managed adequately could be understood by the examination of failed states. Other types of state crises can be seen in developed countries, mainly in financial, social and security uncertainties. Also, after the end of the competition in the bipolar world order, the world does not have a clear structure to identify an "enemy", which means a more decentralised vision of war.

Earlier, it was accepted to study the world as an aggregate of nation states. The concept of territory as a national delineation is just one of many notions of territory. For a period, border lines were sufficient for territorial sovereignty. Territory could be seen as a fundamental social structural element of the world order and as a political instrument, which nowadays is insufficient for taking into account global diversity. First, conflict is related to territorial disputes, visible by various conflicts with defining borderline for the region and tribes and nomadic systems are not properly fitting into the territorial limits. Territorialisation of IR plays an essential role in the construction of national identity and can be divided into two types: whether the territory shapes nations, or if the nation, defined as a culture, shapes territory. The idea of territory is challenged, and the question is if borders are adequate. In political science, "end of territory" (Bertrand Badie) or "deterritorialization" (Gilles Deleuze, Félix Guattari), refers to the re-examination of the political order based on the geographically defined area.

Connors et. al. assets, "globalisation relates to the intensification of interconnectedness between a varied array of human activities".³¹ From this economic point of view, globalisation is understood as the development of international economic integration, which alters the choices of national governments. The main international elements of the world economy are international trade, foreign direct investments and financial markets specifically in regards to Gross Domestic Product (GDP). Globalisation also affects the creation of complex societies and the retreat of local politics because of the growing role of economic actors, and the tendency to focus on technology rather than values. Globalisation has been mainly analysed through realist, liberal, and Neo-Marxist perspectives. The realist approach is more suitable for geopolitical studies. In order to understand geo-economic dynamics, a liberal economic lens is most relevant.

³¹ CONNORS, Michael Kelly, Remy Davison, and Jorn Dosch. *The new global politics of the Asia-Pacific*. New York: RoutledgeCurzon, 2004. p. 181

The discipline was born in the post-Cold War era, from the work of American strategist Edward Luttwak³². Geopolitics, which is pertinent to the distribution of power, in regard to economic systems, is called *geo-economy*. Both geopolitics and geoeconomics can explain a new balance of power in Asian regionalism, although, both are not comprehensive.

In general, regional Asian economic integration is market-driven, shaped by competitiveness, cost reductive, market demand, and influenced by globalisation. Japan has had an impact in the region through Japanese capital, technology, and financial transfers. The Chinese diaspora has also influenced the region throughout Southeast Asia. East Asian business conglomerates, i.e. large multinationals and production chains also have had an impact in the area. However, after decades of regional grouping, countries are focusing on self-determination and initiatives to diversify local economies.

The third, neo-Marxist approach is accompanying international political economy discourses. At the same time, local responses to the changing global economic climate, in turn, have an impact on the systematic analysis of the global institutions and systems.

Global reversal points, events, and trends are changing towards something incognito for the world. Continuous transformation of the economy, socio-demographic, political and geopolitical issues during the next decade will shape the future³³.

Examples of global phenomena advocate for an entirely new theory for understanding the development of the radically new situation in the world is required³⁴. Remy Davison argues:

The global means actor (states, firms, networks, organizations) conceiving of the world in spatially and geographically scaled proportions....and to a combination of forces (international capital, non-state actors, global communications, technology), the state has arguably become more porous, less autonomous and susceptible to infiltration by non-state actors. Consequently, the state has increasingly been compelled to accommodate the forces of globalisation, to the detriment of its policy-making autonomy.³⁵

The function of non-state actors, such as transnational corporations and social movements is stronger than the previous concentration of interstate activity. Developed countries are recommending, and subsequently forcing, developing countries to implement a variety of tools for socio-economic improvement. In the process of adapting policies recommended by developed countries, developing countries fail to provide adequate support for those in poverty and socially weaker populations sometimes, though some in the region have intentions for enrichment. For a stable socio-economic situation, basic human needs should be met to enable people to overcome persistent concerns of their existence. The economic situation requires new approaches to economic and social policies in every country and on the international stage, "We need a new kind of globalisation, fairer globalisation, globalisation with a human face. The benefits of economic growth should be distributed

³² Ó TUATHAIL, Gearóid. "The geopolitics reader." In *The geopolitics reader*, edited by Toal, Gerard, Simon Dalby, and Paul Routledge. New York: Routledge, 1998. Accessed 2015-06-30

³³ GUILLEN, Mauro F, and Emilio Ontiveros Baeza. 2007. *Global turning points: understanding the challenges for business in the 21st century*. Cambridge [England]: Cambridge University Press, 2012. p. 2

³⁴ SPARKS, Colin. *Globalization, development and the mass media*. London: SAGE. p. 147

³⁵ CONNORS, Michael Kelly, Remy Davison, and Jorn Dosch. 2004. *The new global politics of the Asia-Pacific*. p. 177

equitably....capitalism without regulation; capitalism is dead”³⁶. Globalisation with socialist characteristics, in which teamwork and communication are used in conjunction with independent economic regulations, have been a way Southeast Asia has mitigated the adverse effects of capitalism.

1.2 IR THEORY OF THE SOUTHEAST ASIAN REGIONALISM

The primary methodology used in the study of in international (super) social fields is called *efficient cooperation systems*. This concept has been employed in international relations by various theoretical approaches (mainly realist, liberal, and constructivist) since the end of the 1970s. According to Stephen Krasner, “international regimes refer to a set of implicit or explicit principles, norms, rules, and decision-making procedures around which actors’ expectations converge in a given issue-area”³⁷. These actions and tools may be institutionalised or not (intergovernmental organisations), and incorporate state and non-state actors (NGOs, firms, experts) in sectorial areas of international cooperation (trade, finance, health, environment, human rights, security issues). Recently a new set of methodologies was named as post-modernist by Aleksandr Dugin. This period is manifesting itself in total crises – economic, political, and cultural. Crises could stimulate the collapsing social structure, including the political system.³⁸ Consequently, it is important to observe this transitional phase – from the modern era to post-modern. Similar tendencies are taking part in the Southeast Asian region.

Pro-West and pro-market development in Thailand, Malaysia, Singapore, Indonesia, and the Philippines emerged for economic reasons in 1967 and were united by the Preferential Trade Grouping (PTG) in ASEAN. Later the association added political integration to its focus and facilitated security alignments,³⁹ to engender regional stability. This regional integration mechanism, demonstrated in Southeast Asia⁴⁰, is one of the examples of regionalism named by institutional constructivism. The ASEAN founding chapter explains, “United by mutual desire and collective will to live to in a region of lasting peace, security and stability, sustained economic growth, shared prosperity and social progress”⁴¹ as the goal of the organisation. After the loss of the U.S. supported regimes in Saigon, Phnom Penh and Vientiane, ASEAN without entering the military competition with Vietnam,

³⁶ "SARKOZY Nicolas, (French): « Le capitalisme sans règles, ce sera la mort du capitalisme. » Accessed 2015-06-05. <http://www.publicsenat.fr/lcp/politique/nicolas-sarkozy-capitalisme-sans-regles-sera-mort-capitalisme-8086>

³⁷ KRASNER, Stephen D. International regimes. ps. 1-22

³⁸ ALEKSANROV, Anton. "Postmodern Policy as Political Simulation: Metamorphosis Post-Politics." In Accessed 2015-12-09. <http://against-postmodern.org/aleksandrov-politika-postmoderna-kak-simulyatsiya-politicheskogo>

³⁹ SOESASTRO, Edited by Karl D. Jackson and M. Hadi. *ASEAN security and economic development*. Berkeley, Calif: Institute of East Asian Studies, University of California, Berkeley, 1984.

⁴⁰ PLUMMER, Michael G. *ASEAN and the Theory of Regional Economic Integration*, Vol. 14, No. 2 (1997). p. 202-214.

⁴¹ The ASEAN Charter.

neutralised the instabilities on the Thai-Kampuchean border; producing a new regional political balance.⁴²

To explain the evolution of the processes of regionalization in Southeast Asia in general, the theory of International Political Economy (IPE) is invaluable. Through this theory, the region is analysed from geographical, historical, political - diplomatic, economic, and socio-cultural perspectives. Amako considered the idea of the “Asian Union”, whereby Asia is understood as a geographic concept, value system, cultural characteristics, a goal and a methodology. Mori interprets the Asian region as a mythic symbol of dynamic space, an identity, and a construct⁴³. However, the distribution of power in the region is most often analysed through a realist, liberal or constructivist political approach.

Realist power politics can explain the Asia-Pacific region, where the balance of authority and a particular motion or trigger shaped prevailing political attitudes or external behavioural policy. These power dynamics are on the rise in China, alongside U.S. hegemony and security issues. Political - Security challenges in ASEAN were mostly resolved through peaceful negotiations, such as power shifting in conflicts. For example, the South China Sea disputes; intra-ASEAN arms race; domestic instability in Thailand, Indonesia, Philippines all have demonstrated how negotiations can be a useful tool for settling disputes. Following challenges in peace negotiations in the region exacerbated transnational non-traditional security threats. These threats manifested as slowed progress toward regional integration; separatist movements; energy security; human trafficking. To solve these issues, the participation of other global powers in the Asia-Pacific region is required. President Johnson, in his speech on July 12, 1966, articulated essential goals for the U.S. foreign policy in the Asia-Pacific region,

“The U.S. obligation in Asia as a Pacific power has to be accomplished, to prove to the aggressive nations that the use of force is a losing game, reconciliation between the nations, peaceful China is central to a peaceful Asia.”

Johnson’s belief in the power of American influence put too much faith in the realist approach as seen in “Pacific Era”⁴⁴ foreign policy. Traditional interpretations of security in international relations belongs to classical realism, which views “physical threats, especially military, as particularly dangerous to political independence, territorial integrity, and the sovereignty of the state in the

⁴² SOESASTRO, Edited by Karl D. Jackson and M. Hadi. *ASEAN security and economic development*.

⁴³ Cited in DENT, Christopher M. 2008. *China, Japan and regional leadership in East Asia*. Northampton, MA: Edward Elgar.

⁴⁴ “Lyndon B. Johnson: Speech of U.S. Foreign Policy in Asia, July 12, 1966”. Online. *Miller Center*. Charlottesville: University of Virginia. <http://millercenter.org/president/speeches/speech-4038>.

international system and the various means to counter the threats”⁴⁵. Consequently, the state can be characterised as a source and a target of threats.

The structure of regionalism in Southeast Asian is working towards greater coherence within a specific international region regarding economics, social and political realms. According to the neorealist perspective, states still define their interest concerning their position of power but are more willing to establish alliances to promote regional stability. The states may try to form alliances with other countries or balance the potential rise of leadership to prevent an increase in the hegemonic position of the single national state. Therefore the actions of states are determined by the structure of the International System and by norms and national identities.

Under the neorealist perspective, regional integration is an attempt to balance the power of major state or coalition of countries from becoming hegemonic within the super social system. Taking ASEAN as an example, cooperation among states from the realist approach is unlikely, but it can be seen as an effort to strengthen the states’ positions and as a mechanism to balance global relationship. The formation of regional integration is predominantly focused on economic integration to increase the collective power and to strengthen their influence on the global level. The rise of China’s power, “A peaceful mainland China is central to a peaceful Asia”⁴⁶ and has led to the creation of ASEAN regional integration scheme.⁴⁷

The theory of liberalism stands primarily on values such as identity, liberty, political freedom, and equality. Liberalism provides a theoretical explanation in which primacy is given to the individual, and the state’s role is only intermediary. Liberalisation of the economy, based on the market and free enterprise, views governmental intervention as an obstacle to competition.

Generally, in times of peace, liberalism focuses on cooperation between competing powers. For example, according to republican liberalism, democracies are believed to be more peaceful than non-democracies. Democratic peace theory presumes that war between two democratic states is impossible. In comparison, sociological liberalism emphasises that national interests and behaviours affect transnational attitudes, and conversely, political liberalism focuses on individual liberty, political rights, equality and human freedom.

The principle liberalist vision states that the economy should be as free as possible from political interference, the only exception is when the economy is in crisis. Economic liberalism focuses on markets, trade and non-interference. Therefore, neo-classical economics (comparative advantage

⁴⁵ AKAHA, Tsuneo. 2012. *An Institutional Approach to Security in East Asia: From the Perspective of Neoliberalism*.

⁴⁶ “Lyndon B. Johnson: Speech of U.S. Foreign Policy in Asia, July 12, 1966”. Online. Miller Center. Charlottesville: University of Virginia. Available at: <http://millercenter.org/president/speeches/speech-4038>.

⁴⁷ MIN-HYUNG, Kim. Theorizing ASEAN Integration, Vol. 35, No. 3, pp. 407-435. *Asian Perspective: Regional Relationships in Central, Southeast, and South Asia* [online]. July-September 2011(Vol. 35, No. 3). [cit. 2016-06-02]. Available at: <http://journals.riener.com/doi/abs/10.5555/0258-9184-35.3.407?journalCode=aspr>, p. 412

theory) argues peace is possible by combining state interests and the economic monopoly of the bourgeoisie. Neoliberal institutionalism was created through the adoption of liberalism by IR institutions. World politics and transnational alliances shape the priorities of state governments and the practice of foreign policy. International bodies in neoliberalism create a framework for cooperative behaviour, and is a foundation for sustainable peace between small countries, providing a wealthy and dense network. The liberal institutionalism approach commonly used to describe Asian regionalism, emphasises economic dependence and cooperation, shared institutional framework alliances, free trade area and a common market. All these factors lead to greater reliance. However, though interdependency creates economic benefits, it represents challenges for the state. Such achievements of economic globalisation are called as Edward Luttwak has articulated, [a] “grammar of commerce but the logic of war.”⁴⁸

As a reaction to neorealism and neoliberalism, constructivist theory criticises some of its core assumptions, while also offering an alternative explanation for traditional international principles. According to the constructivist approach, the existence of knowledge is not independent of interpretation. The socially constructed reality influences our understanding of the world. Intersubjective factors, including ideas, culture and identities, play an influential role in foreign policy interactions. For example, the notion of an “enemy” of the state is less about a tangible, particular enemy and more about the state's need for an idea of the enemy, as a unifying force. States engender the patterns of socialisation and institutionalisation - shaping the behaviour of the masses. Constructivism understands shared values and norms as the foundation of cooperation and peaceful relations among states.

Furthermore, states are transforming political communities through encouraging belonging in institutions, adherence to certain values and norms that support democracy, the rule of law and human rights. Constructivism also has an impact on the transformation of forms of state behaviour and allows a much deeper influence of norms which are shaping International Relations. In the case of Southeast Asian, the region and region political manifestations, could not be explained purely through the traditional theories of IR. One example is the attempt to explain the post-imperial and postcolonial societies of South Asia, known as subaltern studies, as a new narrative of history.

For example, the establishment of ASEAN as a regional organisation was a success regarding rapid economic growth, infrastructure, and human security indicators⁴⁹ due to the cooperation between cultural norms and political structuralising. Common shared factors for regional cooperation that the

⁴⁸ Geo-economics: Seven Challenges to Globalization [online]. Available at: http://www3.weforum.org/docs/WEF_Geo-economics_7_Challenges_Globalization_2015_report.pdf. p. 4

⁴⁹ COHEN, Craig, and Josiane Gabel. *Global flashpoints 2015: crisis and opportunity*. Center for Strategic & International Studies. Washington DC: Rowman & Littlefield, 2015.

countries agreed upon are were the following: ethical, linguistic, cultural, social, and historical uniformity. Thus, Asian ethics have the following characteristics which have deeply influenced Asian identities and political structure: Confucianism and social harmony; the firm position of the family in the society. Authority is given to the state rather than private decision-making and society avoids conflicts by sacrificing individual interests for the collective good.⁵⁰ The consensus is preferred over confrontation or competition⁵¹; Respect for age, authority and hierarchy; The vital importance of emphasis on personal relationship, rejection of “western” preoccupations with individualism and human rights. Consequently, Southeast Asian regionalism should not be subjected to traditional western criteria of what constitutes a legitimate political economy. As Sri Mulyani Indrawati pointed out, in the case of Asia Pacific announces:

In its new role in the world, it needs to ensure that the rules of the game are developed within countries, across the region — and the world — rather than unilaterally by one leader, one nation or one group of regional powers. This will ensure ongoing success for the Asia Pacific, with positive spillovers for the rest of the world⁵².

In the process of strong globalisation, collective efforts will secure progress. According to Indrawati, three things should be done: (1) broaden and deepen regional cooperation; (2) look inwards and make governments more efficient and more transparent; (3) share lessons to help address global challenges.⁵³

1.3 PROCESS OF INTEGRATION ON THE REGIONAL LEVEL

After the Second World War, issues with protection and the prevention of future military conflicts in Europe were also one of the principal concerns in the Asia - Pacific region. Most of the security bilateral and multilateral agreements were initiated by the US, which guaranteed military assistance to the nations in the area.⁵⁴ First, the Philippines agreed to the Mutual Defence Treaty in August 1951, and till 1992, the Philippines allowed the US to use Clark Field Air Force Base and the Subic Naval Base in exchange for military assistance. Other bilateral agreements were signed between the U.S. and Japan (1951), the Republic of China (Taiwan) in 1951, which terminated in 1980, and with Thailand in 1962. Military security multilateralism in Asia began with the Southeast Asia Treaty Organization

⁵⁰ MIN-hyung, Kim. “Theorizing Asean Integration, Vol. 35, No. 3, Pp. 407-435.”. Online. *Asian Perspective: Regional Relationships in Central, Southeast, And South Asia* July-September 2011 (Vol. 35, No. 3): pp. 407-435. Available at: <http://journals.riener.com/doi/abs/10.5555/0258-9184-35.3.407?journalCode=aspr>.

⁵¹ Katsumata, Hiro. "WHY IS ASEAN DIPLOMACY CHANGING? From “Non-Interference” to “Open and Frank Discussions”." *Asian Survey* 44, no. 2 (2004): 237-54. [online]. Available at: <http://www.jstor.org/stable/10.1525/as.2004.44.2.237>

⁵² INDRAWATI, Sri Mulyani. "Who sets the rules of the game in Asia?" *EastAsiaForum*. Accessed 2015-09-22. Available at: <http://www.eastasiaforum.org/2015/06/28/who-sets-the-rules-of-the-game-in-asia/>

⁵³ Ibidem.

⁵⁴ BEESON, Mark. "East Asian Regionalism and the End of the Asia-Pacific: After American Hegemony." Accessed 2015-08-07. Available at: <http://japanfocus.org/-Mark-Beeson/3008/article.pdf>

(SEATO) and the signing of the Manila Pact mutual defence treaty, on September 8, 1954, which lasted until June 30, 1977. The agreement was made between 8 members: Australia, France, New Zealand, Pakistan, the Philippines, Thailand, the United Kingdom and the United States. The Republic of Vietnam, Cambodia and Laos received an observer status. Because of the emerging tendency towards international communism in the Soviet Union, the People's Republic of China and North Vietnam (Democratic Republic of Vietnam), the U.S. was committed to strengthening the strategic and territorial arrangement in Vietnam to prevent further spread of communism. The agreement formalised the U.S allegiance to Southeast Asia, but still was unable to gain more multilateral support and therefore was unsuccessful during the Vietnam War. The SEATO nations that contributed troops to Vietnam were Australia, New Zealand, and Thailand. The foreign minister of Thailand proposed the following solution in 1967:

Thanat Khoman of Thailand: "At the banquet marking the reconciliation between the three disputants, I broached the idea of forming another organisation for regional cooperation with Adam Malik. Malik agreed without hesitation but asked for time to talk with his government and also to normalise relations with Malaysia now that the confrontation was over. Meanwhile, the Thai Foreign Office prepared a draft charter of the new institution. Within a few months, everything was ready. I, therefore, invited the two former members of the Association of Southeast Asia (ASA), Malaysia and the Philippines, and Indonesia, a key member, to a meeting in Bangkok. Also, Singapore sent S. Rajaratnam, then Foreign Minister, to see me about joining the new set-up. Although the new organisation was planned to comprise only the ASA members plus Indonesia, Singapore's request was favourably considered."⁵⁵

In the same decade, internal relationships intensified, and the world was increasingly becoming more globalised. However, the trend towards European integration was being questioned as a response to the changing global climate. This process of globalisation is a new phenomenon across international, political, and economic spheres. The year 1970 represented a crucial time where the world was affected by a variety of critical events: oil crises, the rise of multinational companies, especially in communication and the Vietnam War. At that time, debates revolved around the following topics: the growth of international flows of goods, financial capital across national frontiers, and the increasing number of non-governmental organisations. These organisations include, but are not limited to; the International institutionalisation of Bretton-Wood system, the World Bank (WB), the International Monetary Fund (IMF), also Asian Development Bank (ADB) and the General Agreement on Tariffs and Trade (GATT). Though globalisation developed towards further interdependence, events such as the oil crisis of 1973-1974 sparked questions regarding the consequences of global reliance and how to achieve cooperation and coordination among countries. Furthermore, the global financial situation changed drastically with the disintegration of the gold standard. This situation

⁵⁵ History: The Founding of ASEAN. The ASEAN organization [online]. Available at: <http://www.asean.org/index.php/asean/about-asean/history>

caused a shift toward trade protectionism, liberalisation, closer integration, and more complex transnational relations. In the same decade, interstate relationships intensified.

In the 1974 paper, *Mankind at the Turning point: The Second Report to the Club of Rome*⁵⁶, the author claimed: “the world is at the end of an era of independence”. The emerging world order challenged the normal state of affairs, creating a world which must be viewed as a global system of interdependent nations and regions. “The Ten regional model”, explained in *Mankind at the Turning point: The Second Report to the Club of Rome*, examined the new regime of the international division of labour and proposed an answer to the nature of the crises: a multiplicity of specialisation. This specialization model divides the world into three blocks, comprising of: West (North and South America), Central (Europe, Africa, Middle East) and East (Asia - Pacific).

Interdependent regional systems symbolise the model of the global system, and these sub-systems are themselves represented by comprehensive characteristics.⁵⁷ The core objective according to the text is, “the establishment of larger communities of nations in the developing world to create a better balance of political and economic power, as well as cultural influence within the world regions”.⁵⁸ This global economic movement came from the East and was influenced mostly by economic factors from Asian countries, for example, Japan, South Korea and Taiwan, China, Singapore, Philippines, Thailand, and also brought about a new type of regionalism - economic regionalism. This new regionalism sought to protect sovereign states in the increasingly unstable world, especially in Southeast Asian. This kind of integration was mostly promoted by economic and social actors, and by non-state actors in Asia who wanted to establish a new Asian order. Research on regional integration from the late 1980s has identified two methods of transformation: transformation which occurs through mandates from national to regional levels, and transformation which occurs from the regional to the global levels.⁵⁹ Kenichi Ohmae emphasised the influence of the region for local governments, which are shaped by the economic and social dynamics of the area and could potentially overcome traditional organisation based on territory and borders⁶⁰ Additionally, Robert Scalapino analysed the transformation of Asian geography and argued the fundamental role of natural economic territories.⁶¹

⁵⁶ MESAROVIĆ, Mihajlo D., and Eduard PESTEL. 1974. *Mankind at The Turning Point: The Second Report To The Club Of Rome*. New York: Dutton. <http://aei.pitt.edu/42190/1/A6277res.pdf>.

⁵⁷ Ibidem. p. 2-3

⁵⁸ Ibidem. p. 3

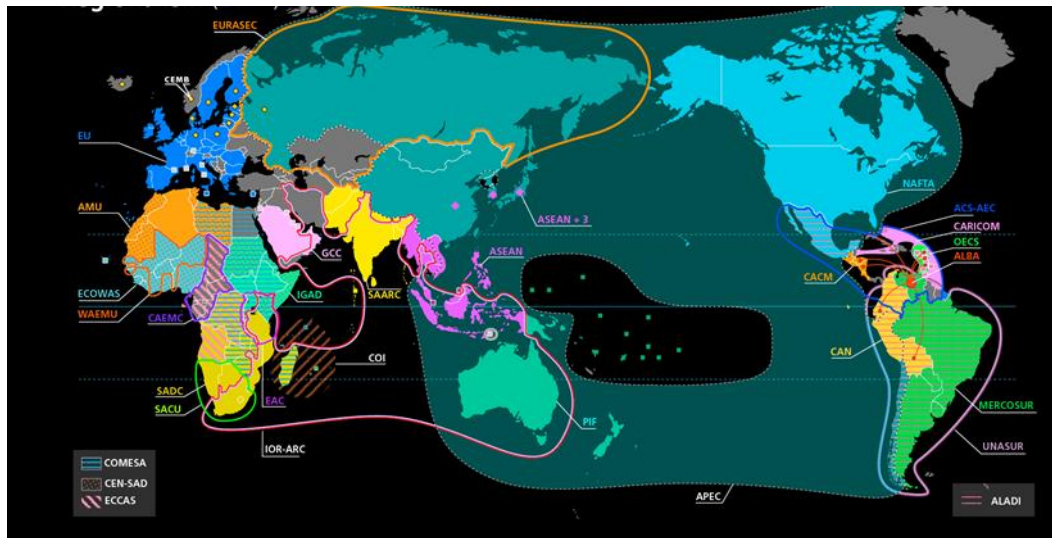
⁵⁹ O'BRIEN, Robert, and Marc Williams. 2008. *Global political economy: evolution and dynamics*. 2nd ed. New York: Palgrave Macmillan. p. 33

⁶⁰ OHMAE, Kenichi. 1992. *The borderless world: power and strategy in the global marketplace*. Fontana ed. London: Fontana.

⁶¹ SCALAPINO, Robert A. 1989. *The politics of development: perspectives on twentieth-century Asia*. Cambridge, Mass.: Harvard University Press.

On August 8, 1967, foreign ministers from Indonesia, Malaysia, the Philippines, Singapore, and Thailand signed a founding document. The paper was the basis for an association for regional cooperation among the countries of Southeast Asia known as ASEAN or the Bangkok Declaration. This document made the case for the need for economic, political and cultural co-operation and exchange. The agreement established a structure for peace and progress, and a new operational regional organisation initiated and ran by Asians themselves.⁶²

Figure 4: Regionalism, 2014



Source: Accessed from Sciences – Po, atelier cartographic, available at <https://www.coursera.org/learn/global-studies/lecture/HqLTv/traditional-regionalism>

To better understand the development of the ASEAN integration process, the development context must be divided into two main periods: Cold War and post-Cold War era. The goals during the Cold War period were influenced by the need for cooperation especially in regards to defence, while also maintaining political independence. Following 1975, the communist North Vietnam induced an ideological threat to the region and most likely contributed to the strengthening of ASEAN. During the Bali conference in 1976 leaders signed the Treaty of Amity and Cooperation (TAC). This treaty established guidelines for management of intra-regional relations, including mechanisms for conflict resolution.⁶³

The purposes of establishing cooperation were the following: to contain the spread of communism, to promote regional peace and stability, to strengthen US leadership and to balance power within the region. Cooperation was achieved by establishing regional collective identity whereby individual countries felt invested in the security and stability of the area, regardless of political borders. Additionally, fundamental principles of cooperation, under the treaty, were

⁶² CONNORS, M. K., DAVISON R., DOSCH J. 2003. The new global politics of the Asia Pacific. p. 124

⁶³ Ibidem, p. 124

articulated – giving structure to this new relational endeavour. These principles included: non-interference in internal affairs, peaceful settlement of regional disputes, adherence to the treaty, and utilisation of diplomatic strategies based on consultation and consensus. However, regional cooperation was not without challenges, and it was often difficult to balance relevant regional issues, while at the same time maintaining global peace and security.

The strategic diplomatic approach, demonstrated by ASEAN leaders, became known as “ASEAN Way.” The ASEAN Way⁶⁴ of diplomacy in Southeast Asia comprises of six norms: sovereign equality, the non-recourse to use of force and the peaceful settlement of conflict, non-interference and non-involvement of ASEAN to address the unresolved bilateral conflict between members, mutual respect and tolerance⁶⁵. Multilateralism over unilateralism as a management principle incorporates diversity (linguistic, cultural, religious and ethnic) and allows various groups to co-exist within the same state and to function as communities.⁶⁶ Nevertheless, as Jorn Dosch noted, “norms in international relations are never static and the ‘ASEAN way’ is no exception.”⁶⁷

In contrast to the EU, ASEAN is a regulation-based organisation, where states are the mediators, not decision makers. The EU, however, is a mostly rule-based organisation (for more comparison see Table 1), whereby the laws of the EU supersede national laws. The main purpose of the ASEAN strategy is to facilitate cooperation rather than create any binding rules.

ASEAN leaders have shared the view that their national development required a regional international order in which the balance of power would operate, and alternations in the distribution of power would occur peacefully and within an international context of negotiated neutrality. ... In general, the clear structure of bipolarity and East-West confrontation served ASEAN well. ... Uncertainties concerning the new regional political-security architecture arose in the wake of the Cold War, including: shifting power relativities between the major states; the gradual rise of a multi-polar security environment with the major Asian powers playing a larger role; significant increases in military capabilities and local defence industries; the possibility of ethnic and national tensions, economic rivalry, disappointing aspirations for prosperity and religious or racial conflict.⁶⁸

For example, variations in diversity, political, economic, social and cultural realms are accepted under the ASEAN cooperation and this variation provides a safeguard against homogenising tendencies. In order to pursue deeper economic integration, regional heterogeneity served as a check against Indonesia’s ability to unilaterally impose norms and mechanism on other members.

⁶⁴ CABALLERO-ANTHONY, Mely. 2005. Regional security in Southeast Asia: beyond the ASEAN way. Singapore: Institute of Southeast Asian Studies. p. 2-5

⁶⁵ HAACKE, Jürgen. 2003. ASEAN's diplomatic and security culture: origins, development and prospects. First published. New York: Routledge, xiv, 290, p. 1

⁶⁶ Espace mondial, a French vision of Global studies. 2015. Coursera.org [online]. Sciences Po [cit. 2015-12-10]. Available at: <https://www.coursera.org/learn/global-studies/>

⁶⁷ CONNORS, M. K., DAVISON R., DOSCH J. The new global politics of the Asia Pacific. p. 132

⁶⁸ Ibidem, p. 125

Table 1: Regionalism in Europe and East Asia compared

	European Community/European Union	ASEAN
<u>Motivation and Aims</u>	<ul style="list-style-type: none"> West integration (during the Cold War as a contribution towards building a bulwark vis-a-vis the Soviet bloc) 	<ul style="list-style-type: none"> Neutrality (during Cold War)
<i>What goals should be reached or supported?</i>	<ul style="list-style-type: none"> Co-operation among former adversaries (Germany and France, for example) and the thereby contributing to the creation of a stable and peaceful regional order 	<ul style="list-style-type: none"> Co-operation among former adversaries (Indonesia and Malaysia, for example) as a means of establishing regional stability and prosperity
	<ul style="list-style-type: none"> Prosperity through means of economic integration 	<ul style="list-style-type: none"> Conflict management through regular meetings Economic prosperity
<u>Actors</u>	<ul style="list-style-type: none"> Industrialized nations Democracies 	<ul style="list-style-type: none"> Medium and small powers Mostly NICs but also developing nations
<i>What characterized the member states?</i>	<ul style="list-style-type: none"> Despite obvious national differences, members states are homogeneous in many respects (similar political systems, common cultural traditions, shared historic experiences) 	<ul style="list-style-type: none"> Mostly young nation states in different stages of nation building Overall very heterogeneous actors spectrum (different stages of economic development; different political systems; ethnic and religious differences)
<u>Integration</u>	<ul style="list-style-type: none"> All-embracing economic and political integration 	<ul style="list-style-type: none"> Free Trade Area and, although very vaguely so far, gradual development towards an Economic Community
<i>How far has institutional evolution gone?</i>	<ul style="list-style-type: none"> 'Supranationality' - member states have transferred national sovereignty in key policy areas to central institutions, most importantly the European Commission in Brussels 	<ul style="list-style-type: none"> Sovereignty rests with the member states*
<u>External Federator</u>	<ul style="list-style-type: none"> Communism (during the Cold War) 	<ul style="list-style-type: none"> Communism (during the Cold War)
<i>Which outside forces/actors have had a uniting effect?</i>	<ul style="list-style-type: none"> United States 	
<u>Decision Making</u>	<ul style="list-style-type: none"> Various procedures: consensus and in most instances majority vote 	<ul style="list-style-type: none"> Constitutional and consensus (with some flexibility: ASEAN-X) Non-interference in member states' internal affairs (although this approach seems to be gradually changing)
<i>What are the rulers?</i>		

Source: Retrieved from CONNORS, M., Davison, R., & Dosch, J. (2012). The new global politics of the Asia Pacific. (2nd ed., x, 274 p.) New York: Routledge. p. 135

The global environment changed drastically following the end of the Cold War, resulting in the push toward liberalisation and economic homogenization. Similarly, the post-Cold War era affected the Asia – Pacific region through regional economic integration, global and security cooperation. Liberalisation processes sought to connect the world through capitalism and democracy. Under globalisation, nations needed to solve new threats as a result of an increasingly connected world, such as infectious diseases, increased movement across borders, and transnational criminal activities.

The increase in transnational exchanges is one contributing factor in the heightened relevance of security (traditional safety and non-traditional security). However, ASEAN has taken a unique approach to post-Cold War security in the Asian region (the U.S., China, Japan, ASEAN, India, and Russia). This approach is understood as a strategy of “engagement” and “containment”. The interconnectedness of ASEAN interests underlies the harmonisation of its member states’ foreign policy and its ability to express itself with one voice on international issues. Integration among ASEAN members relies on the principle of soft balancing, whereby diplomacy and negotiation are favoured

over obligation. Therefore, within the context of economic necessity and security preferences, ideological differences are not as relevant to ASEAN members.

Mostly, supranational cooperation at the regional level operates through a variety of mechanisms (free exchange zones and free trade agreements, common markets, customs and monetary unions), all of which are implemented beyond the nation-state boundary. These actors assemble space between national states and a world governance in the super social system, simultaneously playing a mediatory role in the middle of regional and trans-regional groups.

The third type of regionalism is based on interregional relations or trans-regionalism in which regions compete between each other. Integration is thereby based on the incorporation of foreigners in the host society, under the guise of multiculturalism. The present process of globalisation connects, different socio-political economies while preserving wealth and social stratification. This system creates and reproduces a deficit position of social integration at the global level. Key challenges for the interregional relationship are: Rising and declining powers, development of new arms in the context of new technologies, resurgent nationalism, territorial disputes (Asia-Pacific regional, bilateral-multilateral, new banks) resource competition, complex alliance arrangement, economic integration and competition. In this situation, ASEAN needs to strengthen its position in the Asia-Pacific area and reduce the risk of becoming a victim of power rivalries.⁶⁹ Missing elements necessary for efficacy are the absence of a clear objective, a shared vision, strong political motivation and support.

1.4 ASEAN COMMUNITIES

Common factors that all countries, which decided to integrate, share are ethics, linguistic, cultural, social, and historical uniformity. In order to create successful regional cooperation is also necessary to have collective historical memory. For example, many common factors of regionalism in the Asia-pacific are having a shared institutional framework alliance, agreement, free trade area, a common market.

The ASEAN Communities cover a total 20 areas of cooperation divided into three areas: political-security, economic, social-cultural; and comprise of 57 bodies, one summit, 14 ministerial meetings, and 19 senior meetings. Till 2016, Southeast Asia was mainly affected by the American process of globalisation, the rise of China and its global projects, and the China - Japan rivalry in their historical

⁶⁹ CONNORS, M. K., DAVISON R., DOSCH J. The new global politics of the Asia Pacific. p. 121

interests in the region. Today, the U.S. is no longer an essential country and has become less relevant in Southeast Asia.

1.5 VIETNAM IN SOUTHEAST ASIAN REGIONAL ORGANIZATION

The regionalization of the divisions of the global economy does not contradict globalisation and represents an answer to present challenges. Major global and regional comprehensive development trends, to some extent, may shape situations in different countries. Like the processes in Europe, America, and the former Soviet Union, regional consolidation also took place in Southeast Asia. Economic development mostly stimulated integrational processes in Southeast Asia and consequently affected the world's political and social axes. From the Vietnamese perspective, the main objective was to engender closer integration and to harmonise its interests and interests of other ASEAN countries.

In the study of traditional international relations, the primary focus is how players interact on the global stage. While Vietnam is a conventional state actor, ASEAN is a non-state actor⁷⁰. According to the IR system, states are the only legitimate players and they are legitimised by principles of sovereignty and power; and are self-interested. However, new concepts of international relations are changing the direction towards new and unconventional strategies. Moreover, issues of sovereignty are increasingly becoming blurrier, though sovereignty remains a critical issue. For this reason, international relations can be understood as an interrelated two-level game. The first level is conceived of between non-state actors or other regional organisations and nation states. The second one focuses on the competition at the state level. In the first level, a state in the process of integration at the regional stage has to be a source of identity for the community of citizens. Also, the nation state has to promote its national identity, which is potentially problematic for a region of multiple identities. Both levels have differing strategies, instruments and processes. The principal question for Vietnam is how to combine a multiplicity of goals and values into the coexisting union and avoid the tensions between actors at various levels. Currently, as with ASEAN, Vietnam is in search of tools for harmonisation and cooperation among players in multidimensional international relations. Therefore, Vietnam is facing both favourable and adverse consequences of harmonisation with other nations in the ASEAN community. Within the framework of ASEAN, Vietnam has a stable position, although, within its economic practices, there are numerous problematic issues.

⁷⁰ For example, more information related non-state actors could be found in: REINALDA, Bob. The Ashgate research companion to non-state actors.

Regarding an approach to the development of the integration process of ASEAN, we can note the following: ASEAN significantly upgraded over the past decade due to the expansion of the regional union. Decisions taken by the five founding members of the ASEAN are in need of substantial modernization, taking into account changes in the world economic situation. However, the expansion of ASEAN significantly increased the aggregate capacity of the organisation, making it a full-scale regional formation where decision-making becomes even more complex. The trend of the growing ASEAN influence in the Asia-Pacific region inevitably requires strengthening ASEAN to improve the mechanisms of cooperation within the organisation, as it has occurred in recent years. At the present stage of economic cooperation, ASEAN has become the dominant player. On average, the ASEAN regional growth exceeded the overall economic expectations in the world for almost the entire history of the organisation and emerged as newly industrialised countries. Essentially unifying the economy, ASEAN occupied a leading position in the world in the export of electronics and home appliances. Additionally, growth in industrial and agricultural products, as well as in the service sector has demonstrated exceptional results. Furthermore, there has been dynamic development in the last decade, within the economic and foreign relations sectors of Vietnam.

For nearly forty years of ASEAN history, the political realm has dominated the institutional organisation of the region. Only in the last 10-20 years have the issues of economic cooperation received a higher priority. The full economic integration of ASEAN began in 1993 when the countries of Southeast Asia started to liberalise foreign relations and initiated the formation of the ASEAN Free Trade Area (AFTA). For Vietnam, the creation of a free trade area in ASEAN meant a breakthrough in economic development. Vietnam achieved high growth rates in GDP, second in this area only to China. The benefits of cooperating with ASEAN countries include the utilisation of natural resources, large labour force and an industrious ideology. However, the realisation of these benefits is largely based on the efficient interaction between Vietnam and ASEAN countries through mutually agreed actions. As long as they are reduced to the sphere of foreign trade and attracting foreign investment, ASEAN cannot invest in the potential of local and regional joint projects in infrastructure (transport, communications, telecommunications), and tourism.

For many years, Vietnamese foreign policy has been guided by the proclamation “friends everywhere”, encouraging the expansion of trade partners. Vietnam's import requirements remain the same, but it is imperative to adjust the development of import in the substitutional industries, through the widening of cooperation with other countries in ASEAN. The leaders of the member associations aimed to enhance intra-regional trade in goods and services, to expand and diversify trade, and, with increasing mutual trade, improve the competitiveness of their economies. Therefore, they implemented

an expansive foreign exchange through the framework of ASEAN—creating a large - scale-free trade zone.

The establishment of the ASEAN Free Trade Area (AFTA) agreement was also intended to facilitate the consolidation of political factions. However, the creation of a free trade zone has become a complicated problem. Another important task of the ASEAN countries, including Vietnam, was to attract foreign investment in an increasingly competitive environment in China and the Southeast Asian region. Here it should be noted that the present stage of harmonisation requires not only focus on economic conditions but also a prioritization social and political circumstances as well. The increasingly important role of intra-ASEAN countries in the investment field may be noted in following examples:

1. Vietnam has achieved significant success in attracting foreign investment in the country's economy. The state is considered to be quite promising and reliable for the interests of foreign investors. In the framework of ASEAN-Vietnam still lags behind the leading countries in the level of foreign investment activity, and in GDP.

2. In the sub-region "Indochina", Vietnam is seen by outside investors and members of the association as the most attractive target for mutually beneficial investment cooperation, while Laos, Cambodia and Myanmar are still viewed as countries in need, not only in their economy but also politically.

3. Vietnam has significant reserves of mineral resources, especially oil and gas, as well as labour resources with relatively low average wage levels, giving the country competitive advantages in attracting foreign investment and production. However, there is an imbalance between the articulated investment plans of the country's leadership (by industry) and the actual inflow of foreign investment.

The delayed establishment of Vietnam's oil and gas processing base, badly needed for the needs of its industrial development, has slowed the realisation of many projects. ASEAN's organisational influence, as a non-state actor, is growing. Because of the challenges of balancing multiple identities and perspectives within ASEAN, Vietnam's attempts at unilateral decision-making within international relations are limited. This obstacle could potentially intensify political debates inside Vietnam.

Presently, a new global dynamic has emerged though the following examples: ASEAN is overcoming traditional interpretations of borders and is increasingly diminishing the role of national state sovereignty. The relationship among member states is more liberalised and is more independent from the national support, which was a core component of traditional state IR and which was an explicit precondition of national sovereignty. Due to the abolishment of the traditional conceptions of borders and territory, new kinds of interactions are released from traditional dynamics, leading to a

decrease in the capacity of state-centric politics and state enterprises. Globally, non-state actors, such as political or economic, are changing the rules and conditions of current interactions in the international politico-economic arena. At a certain point, during the second financial crisis, ASEAN was unable to protect their enterprises in the domestic market. Most of the successful companies were operating on an international scale. To survive and prosper, it is not enough to occupy a strong position in a country or region, nations must also strive for growth and continued development.

The non-state and transnational actors are constantly creating new types of relations or networks, which thrive in informal dimensions, though often have a much stronger influence over society than formal relations. Hence, two main consequences have emerged: national states can only maintain control if they adapt by cooperating with other regional actors and this new kind of cooperation between regional actors will be influential in promoting their autonomy in the global arena and emancipation from the supervision of the national state.

Until the end of 2016, the entire Asia-Pacific region was affected by global players such as the United States and China. These two main forces are fighting for influence in this part of the world: Beijing and Washington, in the context of the finalisation of a multi-polar world. Due to the stagnation of the Doha round, the World Trade Organization (WTO) lost its status as the universal negotiating platform for the development of global trade rules.⁷¹ Consequently, the regional trade associations are gaining more influence in aspects of future development in the region. Until recently, all G20 summits were an exhibition of achievements of Anglo-Saxon globalisation projects, of the so-called "Washington Consensus". Several years ago, the nature of the summits changed, and they began to resemble geopolitical games in which different projects competed for the primary influence of globalisation. These developments have caused a dilution of Anglo-Saxon influence. At the same time, the Sino-Russian project of globalisation, consisting of the "New Silk Road" and the Eurasian Economic Community (EAEC), constantly acquires new transport corridors, new investments, new plans, new financial institutions, as the BRICS New Development Bank, and also the Asian Infrastructure Investment Bank.⁷² Additionally, China has launched a new engine in the world trade economy.

Another ongoing tendency occurring is the increasing militarization of the region. A new military alliance was created between Japan and the US in 2015. The Japanese defence system has an aim to protect its allies from potential opponents. For the first time since WWII, the Japanese government

⁷¹ Informal meeting of BRICS leaders. In: *Official Internet resources of the President of Russia* [online]. 2016 [accessed June 12, 2016]. Available at: <http://en.kremlin.ru/events/president/news/52819>

⁷² JING, Gu. *China's New Silk Road to International Development Cooperation* [online]. 2016 [accessed June 6, 2017]. Available at: <https://spp.ceu.edu/article/2016-03-25/chinas-new-silk-road-international-development-cooperation>. School of Public Policy.

approved a high budget for peacekeeping operations around the world. Vietnam in 2015 made some statements about the intention to develop militarily, particularly naval cooperation with Washington. Another regional player, Indonesia, also indicated that they have plans to acquire several submarines made by Russia, to strengthen its military presence. The leadership in Thailand voiced similar intentions. To a large extent, this is due to the unresolved conflict⁷³ regarding the ownership of the Spratlys islands in the South China Sea.

In addition to the significant political and security-related challenges facing the ASEAN states, they must also come to terms with other evolving economic challenges. The CEE economies continue to rival the Southeast Asian NICs in both international markets and in their ability to attract inward investment. Closer to home, the ASEAN economies must also consider how to respond to the potential trade and investment diversionary effects of a booming China, as well as the new source of commercial opportunities it presents. The ASEAN states must achieve a balancing act between creating AFTA while ascribing to APEC's open regionalism principle.

According to the politico – economic model (different from geo-economics), economic, financial and, simultaneously, legislative instruments have substantial importance. Among Southeast Asian countries, foreign policy objectives are often supported by economic powers. Emerging nations, which are weak in military capabilities, could be targeted by economic sanctions by the major power or powers. Economic sanctions and restrictions are tools of geo-economics, supported by financial incentives, trade regimes, the use of export credits, aids and other forms of financial instruments. According to the logic of “economic warfare”, Vietnam relies heavily on the economic impact of its much larger neighbour, China, and its geo-economic decisions. To a similar extent also, other ASEAN countries have this dependence.

For instance, consider Chinese economic implications in the region of Southeast Asia for last ten years. China was strongly in support of the Regional Comprehensive Economic Partnership, contrary to the US-led Trans-Pacific Partnership.⁷⁴ In this way, the position of China and other Asian economies is becoming more complex. The situation in the Asian region is strongly influenced by the fast-growing amount of financial capital, advances in science and technology. These political impacts have not been without their accompanying economic success. Economic circumstances are requiring structuralization of the global financial regulations. Consequently, powerful nations will dominate the evolving multipolar world.

⁷³ South-Eastern Asia and Pacific: Trends and Forecast for 2016. In: *Katehon* [online]. 2016 [accessed January 12, 2017]. Available at: <http://katehon.com/article/south-eastern-asia-and-pacific-trends-and-forecast-2016>

⁷⁴ *Geo-economics: Seven Challenges to Globalization* [online]. Available at: http://www3.weforum.org/docs/WEF_Geo-economics_7_Challenges_Globalization_2015_report.pdf.

The global economy will confront numerous difficulties and instabilities. Global issues, for instance, financial, food and energy security, climate changes, rising sea water levels, natural disasters and epidemics will also continue to create complicated situations.⁷⁵ The struggle for peace, national independence, welfare, democracy and social progress must continue to advance despite continuing class and racial conflicts. The Asia-Pacific region is one of the main ⁷⁶regions demonstrating dynamic development, nevertheless, territorial, sea and island challenges will remain. Vietnam has entered the new strategic phase of its evolution in the global context. This new phase is very dynamic, fast-changing, represents advantages, opportunities, and simultaneously, challenges.

⁷⁵ *The strong process of globalization combining with scientific and technological* [online]. Available at: <https://www.coursehero.com/file/p3emb1e/The-strong-process-of-globalization-combining-with-scientific-and-technological/>

⁷⁶ *Resolution of the 11th Party National Congress* [online]. Communist Party of Vietnam, 2011 [cit. 2016-05-30]. Available at: <http://www.solidnet.org/vietnam-communist-party-of-vietnam/cp-of-vietnam-resolution-of-the-11th-party-national-congress.pdf>

II. INTEGRATION COURSE OF MARKET ECONOMY WITH A SOCIALIST ORIENTATION

2.1 THE SOCIO – ECONOMIC REFORMATION AND INTEGRATION PROCESS IN VIETNAM WITHIN ASEAN

The achievements and experiences of the 30-year renewal process from 1986 to 2015⁷⁷ in Vietnam have created a more *secure* position and increased stability for the country. The next five years will see the Vietnamese economy continue after the recession. The state aims to implement more bilateral and multilateral free trade agreements, overcome shortcomings and weaknesses in the fields of socio-economics, culture, Party and administrative system building. However, it will face many complex and major challenges that cannot be ignored. Despite these positive signs, Vietnam is at risk of lagging behind in economic development with other countries in the region and the world. One key factor is increased corruption within Vietnam's Communist party, whereby members⁷⁸ are involved in bureaucratic corruption and waste — lowering the people's confidence in the Party and the State. Western powers have continued to criticise Vietnam because of its lack of liberal democracy. These criticisms are legitimised under the guise of valuing so-called “democracy” and “human rights”⁷⁹.

Vietnam did implement many liberal reforms and the positive results of these reforms led to the modernization of the economy. However, such reforms caused a sharp reduction in aid and reduced trade with former partners in the socialist world after the disintegration of Soviet Union. Vietnam and its co-members from ASEAN became more independent from western economies following the regional financial crisis. For example, Southeast Asian economies have created their own financial mechanisms and formulated a more solidified regional foreign policy. Therefore, Vietnam has proven its ability to respond to crises by implementing flexible macroeconomic strategies.

Though the Party of Vietnam has been successful in many of its reforms, CPV has faced various challenges related to implementing market-based reforms and crafting policies to justify such reforms within the Party's market socialist ideology.⁸⁰ The Vietnamese government has used ownership of companies and economic mechanisms to promote their strategic goals. As a result of the continual implementation of market socialist theories, Vietnam formed a dynamic, mixed economy with the

⁷⁷ *Resolution of the 11th Party National Congress* [online]. Communist Party of Vietnam, 2011 [cit. 2016-05-30]. Available at: <http://www.solidnet.org/vietnam-communist-party-of-vietnam/cp-of-vietnam-resolution-of-the-11th-party-national-congress.pdf>

⁷⁸ Ibidem

⁷⁹ Ibidem

⁸⁰ PARKER, Stephen. Vietnam's Road to International Economic Integration with a Socialist Orientation: Are WTO Accession and Market Socialism Compatible? In Kornai, János, and Yingyi Qian. 2009. *Market and Socialism: In the Light of the Experiences of China and Vietnam*. IEA Conference Volume, no. 146. New York: Palgrave Macmillan.

state, cooperative, local, and capitalist property with significant foreign capital. In recent years, the planned economy is still the basis of domestic and foreign policy.

From the late 1980s, Vietnam gradually liberalised market and domestic investment conditions. This dual approach required reforms for the import substitution sector and promoted export sectors simultaneously. The Foreign Investment Law (FIL), in 1987, allowed 100 % foreign ownership of companies, except for joint venture. Foreign investors received many different incentives, such as customs duty in export processing zones and various tax exemptions, to encourage foreign investments. After 1998, the licensing requirements for importing and exporting had been reduced. Additionally, as a part of an IMF/World Bank loan program BTA and WTO requirements, quantitative barriers were removed, foreign investors received generous tax incentives, and export taxes were largely eliminated.

The Investment Law from 2005 further liberalised investment registration procedures. At the same time, Vietnam still, to some degree, adheres to the ideological foundations of its policies of the previous period – a combination of socialism within the market, while preserving the leading role of the state apparatus. Vietnam has gradually rethought its theoretical foundations and has more critically assessed the practical results of the changes taking place under the influence of the outside world. These assessments have manifested in the formation of national economic policy, leading to a path of maintaining high growth rates, increasing internal and external competitiveness, economic adaptation mechanisms to market conditions of an open economy and the liberalisation of foreign relations.

With the development of globalisation, combined with regional initiatives, Vietnam and Southeast Asia emerged onto the global economy with dynamic structures and methods of regional economic integration. This allowed for the ability to determine the participation of Vietnam in this process and to imagine the positive and negative consequences for the economy, following the liberalisation of the regional market. In the context of regional cooperation the principal developments were the following: the evolution of the conceptual and institutional framework; increased capacity for production, whereby Vietnam has become one of the main producers; recent development of the service sector; adjusted investments and foreign trade policies in the context of a single market space in the region of Southeast Asia.

With the achievement of the main objectives of the economic development strategy (sustainable GDP growth, increasing foreign trade, an increase in living standards of the population) Vietnam was able to participate actively in international and regional integration as a full member ASEAN. Integration into ASEAN has created new conditions, which actively influenced economic and foreign trade in Vietnam.

These steps were a departure from the rigid protectionism of communist policy. The liberalisation of foreign trade prepared the country's acceptance by the WTO and participation in APEC, to establish economic dialogue with the rest of the world. APEC is important for Vietnam because APEC countries are major trading and investment partners of Vietnam. They account for 62% of exports and 81% of the country's imports and 70% of accumulated FDI. So as to enact continued compliance with global economic powers, starting in the 2000s, Vietnam adopted the set of policies for their development strategy, in which the top priority is sustainable development.

Nevertheless, according to analysts:

Decreased import taxes under a free trade agreement among Southeast Asian countries are putting Vietnamese manufacturers at a competitive disadvantage. As a result, imports from ASEAN members countries into Vietnam have soared, but the country's exports to the regional market are declining, leaving local firms struggling in their territory. Vietnamese manufacturers struggle not only to boost exports but also to compete with ASEAN goods, especially electronics and food, in the local market.⁸¹

Though liberalisation promised a robust economy in exchange for decreased regionalism and sovereignty, Vietnam has seen an increase in their imports and a reduction in exports. Moreover, countries united together to solve the ecological problems in different spheres: economic, social and politics and global politics. It turns out the strategy of "four-DE". The fact that the de-industrialization - only one aspect of "climate process"; other – de-population, the decline in population - refers to a reduction in the number of children. Moreover, sovereign nation - a common measure of loss as a result of all this, leading countries to lose their state sovereignty gradually.

Vietnam is testing a new market model of economic development for the active participation in regional and global economic cooperation. Development and systematization of the conceptual representations in respect of World practice the principles and mechanisms of regulation and organization of cooperation in the framework of ASEAN (the relationship between the state protectionism and competition, the possibility of increasing the investment component, market liberalization, harmonization of the economic foundations of foreign trade and industry interaction through harmonization of national and regional interests.

2.2 INTERPRETATION OF SOCIALISM AND CAPITALISM

Firstly, it is necessary to identify certain differences in the definitions of capital, capitalism and socialism; following with an interpretation of the Vietnamese economic pattern. Classical economists explain capital as raw materials and wages. In the 21st century, there exist many analyses of capitalism

⁸¹ Free trade area tax obligations hurting Vietnam producers. Available at: <http://vietnamese-law-consultancy.com/english/content/browse.php?action=shownews&category=&id=46&topicid=479>.

in its present stages, and its influences on the universal scale. Furthermore, capitalism demonstrates the possibility of capital inversion, i.e. under certain circumstances, the rate of return will reach such a level that the firms switch from more to less capital-intensive methods of production.⁸² One of the descriptions given by George Soros: “The development of a global economy has not been matched by the development of a global society. The basic unit of political and social life remains the nation-state. Global financial markets are largely beyond the control of national or international authorities”⁸³, clearly supports the idea that the present phase of capitalism, in general, is evidently in crisis. Marxist economists see capital as a mode of production. According to the theories presented by Cambridge⁸⁴, there is no existence of a functional correlation between the rate of profit, and the capital intensity of the economy.

Janos Konrai⁸⁵ elaborated on ideas of capitalism and presented five interpretations of socialism. The first interpretation comes from Marx’s statement: “public ownership is more productive than private production”. Followed with, “market combined with private ownership of property means anarchy and waste”, and on the political level: “bourgeois democracy” cannot be appreciated, only the “dictatorship of proletariat” for an indefinite period can be accepted. The second analysis of socialism is based on Oscar Lange’s model of “market socialism”, which relies on the general equilibrium of *Theory of Walras*, that is a theory of determination of equilibrium on prices of goods and services, as well as of the balance of interest rates⁸⁶. More accurately, “the central planning board determines the equilibrium prices of consumption and production goods by a method of trial and error” as suggested by Taylor (1929). Moreover, Lange posits (1938): “The administration of the socialist economy would assign provisional values to the factors of production.” The danger for socialism could represent “bureaucratization of economic life.”⁸⁷

The third concept is based on Lenin’s interpretation of classical socialism. Three characteristics are presented: the political structure features the unshared power of the Communist Party; public ownership is the dominant form of the ownership of property, and the market is suppressed and replaced by the predominance of central management, or bureaucratic coordination⁸⁸. In the twentieth century, one-third of the world’s population was practising Lenin’s type of socialism: the political and economic system characterised by central planning, public ownership, and the monopoly power of the

⁸² BOTHAMLEY, Jennifer. 1993. *Dictionary of Theories*. Gale Research International Limited. p. 73-74

⁸³ SOROS, George. c1998. *The crisis of global capitalism: open society endangered*. New York: Public Affairs. p. xx.

⁸⁴ HARCOURT, G. *Some Cambridge controversies in the theory of capital*. Cambridge [Eng.]: University Press, 1972.

⁸⁵ KONRAI, J., Yingyi Q. ed. 2009. *Market and socialism: in the light of the experiences of China and Vietnam*. 1st pub. Basingstoke: Palgrave Macmillan.

⁸⁶ RICHTER, Rudolf. 1991. "A Socialist Market Economy- Can it work?" Working Papers in Economics E-91-4

⁸⁷ Ibidem.

⁸⁸ KONRAI, J., Yingyi Q. ed. *Market and socialism: in the light of the experiences of China and Vietnam*. p. 15

Communist Party.⁸⁹ After the collapse of the USSR, the Soviet type of socialism, with some alterations, remains only in certain countries.

The fourth concept of socialism is the social democratic theory, used in some Western countries, as articulated by Konrai: “By the social democrats, parliamentary democracy is accepted with a combination of private ownership. The market is the manager of economic activities and power of the state is used for income redistribution in reason to create a welfare state”⁹⁰.

The fifth type of socialism is the one currently exercised in China and Vietnam. Flourishing private ownership represents a contradiction, where the market is becoming the primary coordination mechanism for resource allocation, and does not manage the welfare state⁹¹. The growth of the market economy, with a socialist orientation, has a historical background. In Vietnamese socialism, instead of public ownership, the private sector can grow quickly and produces a larger part of the GDP, though the Communist single-party rule is still kept in power. While the political power remains under the total control of one party, strategic centres are under the state supervision, and utility production is under private ownership, which utilises a neoliberal model.

2.3 MODELS FOR REFORMING VIETNAMESE ECONOMY

The study of the current situation in Vietnam is inseparable from the analysis of the renovation policy (Doi Moi), which in recent years has had a dominant influence on the evolution of all spheres of society. Since the official announcement of Doi Moi at the VI Congress of the Communist Party of Vietnam in December 1986, the country has entered a new stage of socio-economic development. The essence of the new policy lies in the intentional combination of economic development (private, corporate, individual, cooperative and others forms of business)⁹² and political stability in the management of the state-to- market mechanisms of the economy. The chosen strategy can be described as the path of development from the strictly ideological Soviet-type “perestroika”, to the rational developmentalist model typical for Japan⁹³.

After the 1980s the Soviet Union and other socialist countries in Europe underwent fundamental change, whereby the ruling Communist parties were pushed away from power. Contrastly, the

⁸⁹ KONRAI, J., Yingyi Q. ed. *Market and socialism: in the light of the experiences of China and Vietnam*. p. 15

⁹⁰ Ibidem, p. 19

⁹¹ Ibidem.

⁹² SIDEL, Mark. 2009. *The constitution of Vietnam: a contextual analysis*. Oxford: Hart..p. 83

⁹³ JOHNSON, Chalmers. 1985. *MITI and the Japanese miracle; the growth of industrial policy, 1925-1975*. Stanford: Stanford University Press.

Communist Party of Vietnam maintained a hold on political power due to their ability to create conditions which improved social peace and stability. While most socialist regimes in Europe were in crises, and with the Soviet Union divided, Vietnam came out of the protracted crisis and entered a period of economic growth. According to Konrai et al., the Communist Party has to, “explore the balance between different powers and various doctrines to find its route to the creation of the prosperous, freedom, democratic society living in national harmony, equality, and called socialism.”⁹⁴

Paralleling “classical socialism”, the “Japanese miracle” was accepted as an example of a more efficient and relevant model of socialism in Asia. This model was named by Rostow “development theory”, which was described in the following way: “the industrialised nations represent the most advanced arrangement of society, and other countries are categorised regarding their approximation to this model.”⁹⁵ The theory was based on Rostow’s model of development (1960), which aimed to interrupt the cycle of poverty and to progress through five successive stages. States may be judged as more or less developed, and their determination should be directed towards approaching the “developed” model in their political, social, and economic institutions.⁹⁶ According to Rostow’s model, development requires extensive investment in capital.

Development policy in Japan, in the early 1950’s, was characterised in two stages: (1) boosting import-export; (2) implementing industrial rationalisation, which contained the Foreign Capital Law and Antimonopoly Law. The reforms of the tax system, which include industrial growth and the creation of Industrial Rationalization Council (composed originally of 45 committees and 81 subcommittees), was applied to every industry sector in the country⁹⁷. Japanese academics have described the economy of Japan, from 1925 until 1975, as “state monopoly capitalism”, where “state supplies capital or other funds to industry and determines policy objectives”.⁹⁸ The outcome was a reform of “scientific management”, the institutionalisation of the lifetime employment system, and raising the productivity of workers.

The idea of quality control, in combination with the measurement of productivity, adopted from the United States, ironically, caused the Japanese to export some of the ideas back to the USA. In 1953, the new “Okano Plan” was introduced. The formal title of the plan was *On Making Japanese Economy Independent*, and thus the main effort was based on export expansion. The minister emphasised that it was time to restore economic ties with Southeast Asia, to rationalise the tax system,

⁹⁴ KONRAI, János, and Yingyi Qian. 2009. *Market and socialism: in the light of the experiences of China and Vietnam*. New York: Palgrave Macmillan.

⁹⁵ ROSTOW, W. W. 1990. *The Stages of Economic Growth: A Non-Communist Manifesto*. 3rd ed. New York: Cambridge University Press.

⁹⁶ BOTHAMLEY, Jennifer. 1993. *Dictionary of Theories*. Gale Research International Limited. p. 146

⁹⁷ JOHNSON, C. *MITI and the Japanese miracle: The growth of industrial policy, 1925-1975*. p. 21

⁹⁸ JOHNSON, C. *MITI and the Japanese miracle: The growth of industrial policy, 1925-1975*. p. 211

and to develop import-substitution industries⁹⁹. In 1954, the *Outline of the New International Trade and Industry Policy* was presented. However, it was primarily an upgraded Okano Plan. During the following years, former Japanese MITI (Ministry of International Trade and Industry) was required to implement different laws and policies, the key features of which were the eminent institutional arrangement, export promotion, and national consumer revolution. In 1960, the Asian Economic Research Institute was created. It was concerned with the studies of markets in underdeveloped countries, and in the following year, 1961, the Overseas Economic Cooperation Fund was established - the objective of which was to pay out foreign aid.

The effectiveness of economic growth in Japan was partially due to the prioritisation of economic development. Three efforts were implemented as ways to promote economic growth: stability, state control, and cooperation. Values of self-control or self-restriction were promoted to achieve development goals, whereby the state licenses and approves of private enterprises. Moreover, state control refers to an attempt to separate management from ownership and to put management under state supervision. In this context, cooperation is based on the government-business relationship, or rather, that of public-private collaboration. This relationship between government and business is difficult to achieve and maintain in the capitalist developmentalist state¹⁰⁰.

Northeast and Southeast Asia also adopted this developmental model. The primary difference of political governance in a capitalist state and the developmentalist state is that the latter ignores the nonstrategic sectors of society while managing the strategic areas. In the Northeast Asian model, investment in education, technology, infrastructure and industry improvement were prioritised. Differences between capitalist and developmentalist models are in the way they use state guidelines and market performance. In the Southeast Asian capitalist model, there was no clear division between economic and political power. In contrast, Northeast Asian countries conducted political reforms to strengthen “social beneficial or constructive public good” – known as inclusive institutionalism¹⁰¹. In the Southeast Asian development model (SEADM) (exclusive) institutions to managed the macroeconomic instability exists. However, issues of equity and justice were neglected¹⁰², while still struggling to overcome the middle-income trap. In Vietnam, reforms towards participatory institutional governance had already been implemented, as in the Northeast Asian model.¹⁰³

⁹⁹ JOHNSON, C. *MITI and the Japanese miracle: The growth of industrial policy, 1925-1975*. p. 228

¹⁰⁰ JOHNSON, C. *MITI and the Japanese miracle: The growth of industrial policy, 1925-1975*. p, ps. 310-312

¹⁰¹ ACEMOGLU, Daron, and James A ROBINSON. 2012. *Why Nations Fail: The Origins of Power, Prosperity, And Poverty*. 1st paperback ed. New York: Crown Business.

¹⁰² HIGGOTT, Richard A., and Helen E. S. Nesadurai. 2002. “Rethinking the Southeast Asian Development Model: Bringing Ethical and Governance Question In”. *Asean Economic Bulletin* Apr. 2002 (Vol 19, no. 1): 27-39. p. 27

¹⁰³ DAPICE, David. “Choosing Success: The Lessons of East and Southeast Asia, and Vietnam’s Future”. Online. Edited by Ben WILKINSON. *Harvard Vietnam Program* January 2008. Cambridge: ASIA PROGRAMS. http://ash.harvard.edu/files/choosing_success.pdf. p. 9

For a long time, the Vietnamese leadership has searched for possibilities for economic and social improvements, primarily influenced by the rapid evolution in the international arena. The Harvard Vietnam Program compiled a sequence of strategy papers, one of which recommended that “Vietnam must continually reassess its positions in light of rapidly changing trends in foreign investment, financial markets, technology, and demography.”¹⁰⁴ Apart from the above, an increase in foreign investment in any developing country can lead towards economic vulnerability and weaken national control over economic development.

The Chinese model of strengthening central control also was attempted in Vietnam:

There is no single, clear module of the Chinese model. In his time, Zhu Rongji, as an answer to serious challenges, introduced comprehensive reforms to support local governments and to stimulate State-owned Enterprises (SOEs) to have more competitive qualities at the domestic and international market. During the time of Hu Jintao and Wen Jiabao, stable inflation and juncture with WTO, there were not intensive market reforms, but still with the decisive position of the market economy was created. In the last five years, China is moving toward a more open society with a stronger connection between society and the party, by opening the party and state for wider participation. At the same time, Xi Jinping started an anticorruption campaign, in an attempt to restrain and regulate the party.¹⁰⁵

On the road to achieve economic goals, the Vietnamese government is liberalising private businesses. Nevertheless, to ensure social stability and national sovereignty, strategic industries should be under state ownership. Moreover, Vietnam will possibly benefit from a unified central government, which will allow for the pursuit of a top-down development strategy. Additionally, the country faces other challenges:

The globalisation of production, de-integration of most major industries and the spread of global supply chains across countries mean that the challenge of industrialisation has become more complex than it was in the 1960s and 1970s, complicating the task of industrial policymaking.¹⁰⁶

Besides economic and institutional models, globalisation and an open social system created the possibility of global connectedness of the Vietnamese population. In combination with many different social factors, a Harvard Kennedy School paper recommends: “Vietnam will need to introduce institutional reforms oriented toward inclusive governance sooner than its East Asian predecessors did.”¹⁰⁷ Additionally, Vietnam is challenged by four critical tasks: an economic deficit, the Chinese effect (the influence of the Chinese economy in the region), reduced Party-state authority and

¹⁰⁴ DAPICE, David. “Choosing Success: The Lessons of East and Southeast Asia and Vietnam’s Future”. Online. Edited by Ben WILKINSON. *Harvard Vietnam Program* January 2008. Cambridge: ASIA PROGRAMS. http://ash.harvard.edu/files/choosing_success.pdf.

¹⁰⁵ Economy, Elizabeth C. "China's Imperial President: Xi Jinping Tightens His Grip." *Foreign Affairs* Nov/Dec 2014, Volume 96, n. 6. Accessed 2015-11-26. <https://www.foreignaffairs.com/articles/china/2014-10-20/chinas-imperial-president>

¹⁰⁶ VELP 2015 Policy Discussion Paper: “*Institutional Reform - From Vision to Reality*”. 2015. Online. Harvard Kennedy School, 32. http://ash.harvard.edu/files/ash/files/2015.04.05-velp_2015_framework_paper-e.pdf?m=1432840877. p. 9

¹⁰⁷ VELP 2015 Policy Discussion Paper: “*Institutional Reform - From Vision to Reality*”. 2015. Online. Harvard Kennedy School, 32. http://ash.harvard.edu/files/ash/files/2015.04.05-velp_2015_framework_paper-e.pdf?m=1432840877. p. 10

increased public expectancies. In the next decade, the Vietnamese government will need to shape the future development of the country amidst global influences and challenges.

2.4 DIRECTION OF ECONOMIC AND SOCIAL REFORMS

During the period from 1945 until 1953, the Government of the Democratic Republic of Vietnam (DRV) implemented changes in the hopes of achieving “a society of prosperity, equality and fraternity”¹⁰⁸. In addition to these changes, the Soviet-style socialism was also applied. This included land reforms (*cai cach ruong dat*), collectivization of farmers into agricultural cooperatives in rural and urban regions, and the confiscation and partial nationalisation of private sector industries. The program was known as Socialist Reconstruction¹⁰⁹, and with the First Five-Year Plan (1961-1965) the Party became the most significant cooperative producer. During a deep economic and social crisis that started in 1975, intellectual activities and professional services were viewed as non-productive and parasitic activities. Only manual work was considered honourable.¹¹⁰ Therefore, the country sought to shift its economy from socialist reconstruction to socio-economic development.

During the Second Five-year Plan (1976-1980), a three-year transitional period for nationalisation and agricultural collectivization was initiated. Reformation of socio-economic development in Vietnam was conducted in several stages, through the Postwar and the Social Development periods. The postwar period comprised of a closed-economy “subsidy” regime (1975-1988) and policies that encouraged entrepreneurial endeavours (1986 – 1994). After the war, the Communist Party of Vietnam (CPV) replaced the centrally - planned economy with a socialist market model based on the concept of a multi-sectoral economy and liberal policies.

The period between 1979 -1986 was characterised by adjusting the CPV towards market-oriented economic reforms: a shift towards more pragmatic and market-friendly economic policies.¹¹¹ Growth was based on the southern part of the country’s industrial capacity. However, by 1981, the rate of increase had reversed and turned negative.¹¹² In this period, the first Five-year Plan was transformed,

¹⁰⁸ KONRAI, János, and Yingyi Qian. 2009. *Market and socialism: in the light of the experiences of China and Vietnam*. New York: Palgrave Macmillan. p. 162

¹⁰⁹ Ibidem. p. 167

¹¹⁰ Ibidem. p. 170

¹¹¹ PARKER Stephen. 2009. Vietnam’s Road to International Economic Integration with a socialist Orientation: Are WTO Accession and Market Socialism Compatible in KONRAI, János, and Yingyi Qian. *Market and socialism: in the light of the experiences of China and Vietnam*. New York: Palgrave Macmillan. p. 199

¹¹² SASGES, Gerard, and Scott Cheshier. "Competing legacies: rupture and continuity in Vietnamese political economy." *South East Asia Research* vol. 20, issue 1 (2012-03-01): 5-33. Accessed 2016-02-17. <http://openurl.ingenta.com/content/xref?genre=article&issn=0967-828X&volume=20&issue=1&spage=5>, p. 13

and state - owned enterprises (SOE) (liberalisation) was implemented at all levels of government. The social planning sector relied, first on centrally planned companies, and later, on corporatized businesses to aid with economic recovery. The government also relied on access to state resources and political protectionism - creating a pattern of state-centered enlargement.

After the failure of the five-year plan on the collectivization of agriculture and industry in 1985, the economy was struggling with hyperinflation of 775 % in 1986, shortages of essential and consumer goods, poverty, industrial stagnation, and an increase in external debt.¹¹³ The president of Vietnam and general secretary of the Communist Party of Vietnam (CPV) Truong Chinh proposed a program of broad reforms and presented them during the 6th CPV Congress in December 1986.¹¹⁴ In the following period from 1986 to 1989, the CPV officially committed to an ongoing implementation of the Doi Moi reforms in all spheres of Vietnamese society.

Table 2: The Doi Moi Reforms

<p>External liberalisation measures:</p> <ul style="list-style-type: none"> - Unification and massive devaluation (by 90%) of the exchange rate - Liberalisation of controls on retention of foreign exchange by exporting firms - Trade liberalisation: reduction of tariff barriers and quantitative restrictions - Foreign trade reforms: state and private companies have easier access to imports and more incentive to export - Foreign Investment Law to attract foreign investment
<p>Anti-inflation measures:</p> <ul style="list-style-type: none"> - Introduction of positive real rates of interest - Budget tightening and greater fiscal discipline - Credit restraint
<p>Rural reforms:</p> <ul style="list-style-type: none"> - De-collectivization of agriculture - Return to self-managed family farms - Long-term leases granted to farmers - De-collectivization of agriculture - Return to self-managed family farms - Long-term leases granted to farmers
<p>Pro-market measures:</p> <ul style="list-style-type: none"> - Price liberalisation: virtual elimination of price controls - Removal of the two-tier price system - Imported intermediate materials valued at market price - Encouraging private sector development: new laws are defining the rights and obligations of companies and private enterprises
<p>State-owned enterprises (SOE) reforms:</p> <ul style="list-style-type: none"> - Hardened budget constraints; SOEs placed on self-financing banking - Drastic reduction of subsidies; easy access to cheap credit ended - Decentralisation of decision-making and increased management autonomy
<p>Banking reforms:</p> <ul style="list-style-type: none"> - Separation of central banking from commercial banking - Diversification of institutions and ownership - Foreign participation permitted - Greater autonomy and independence

¹¹³ Cited in VUONG, Quan Hoang. 2014. "Vietnam's Political Economy in Transition (1986-2016)". Online. In Stratfor. <https://www.stratfor.com/the-hub/vietnams-political-economy-transition-1986-2016>. p. 2

¹¹⁴ Ibidem. p. 2

Legal reforms:

- Law on Private Business and Law on Companies approved in December 1990
- Foreign Investment Law amended in 1990
- Law on Central Bank, state-owned banks and credit institutions approved in 1990
- 1992 Constitution officially recognised a multi-sector economy
- Property rights strengthened with the amendment of the Land Law in 1993
- Bankruptcy Law, Labour Code and Law to Promote Domestic Investment enacted in 1994
- Civil Code and Commercial law in 1995

Source: Packard, Le Anh Tu. 2006. *Gender Dimensions Of Viet Nam's Comprehensive Macroeconomic And Structural Reform Policies*. Geneva: UNRISD. p. 19

The implementation of Doi Moi helped to reverse the devastated economy into progressive development rapidly. To clearly see the success of the Vietnamese economy it is important to examine the mechanisms of implementation of these reforms. The substantial Doi Moi reforms were still limited to economic development in Vietnam, in contrast to the more comprehensive implementations that contributed to prosperous neighbouring countries. After the Asian economic crisis, further recovery was imperative. During this time, the Party took sweeping pro-market measures by implementing a multi-sectoral economy¹¹⁵, and actively engaged in the fight against corruption. The problems of poor agricultural production were recognised as a mass collectivization scarcity. Also, in the same period, the Law on Encouraging Foreign Investment (1987) was adopted, which later, in 1994, affected the growth of FDI by 10 %.¹¹⁶ Ultimately, the Postwar period can be characterized as the first phase of liberalisation, whereby Doi Moi I., as a policy of renewal, initiated vigorous reforms,

...almost complete price liberalization; large devaluation and unification of the exchange rate; increases in interest rates to positive levels in real terms; substantial reduction in subsidies to the SOE sector; agricultural reforms through replacement of cooperatives by households as the basic decision-making unit in production, and security of tenure for farming families; encouragement of the domestic private sector and foreign direct investment (FDI); removal of domestic trade barriers and creation of a more open economy.¹¹⁷

Over the next fifteen years, Vietnam liberalised and decentralised international trading and investment activities.¹¹⁸ Reforms adopted in the 1990s were related mostly to regional and global integration. Beginning in 1995, Vietnam was accepted into the World Trade Organization (WTO). Therefore, Vietnam's transformation can be understood as occurring in three dimensions: from war to peace, from centrally planned to market socialism, and from certain isolation to international integration.

¹¹⁵ Cited in VUONG, Quan Hoang. 2014. "Vietnam's Political Economy in Transition (1986-2016)". Online. In Stratfor. <https://www.stratfor.com/the-hub/vietnams-political-economy-transition-1986-2016>. p. 2

¹¹⁶ Ibidem.

¹¹⁷ THAHN, Vo Tri. 2009. Economic Reforms in Vietnam: What Lessons can be learned? In Kornai, János, and Yingyi Qian. *Market and socialism: in the light of the experiences of China and Vietnam*. New York: Palgrave Macmillan. p. 185

¹¹⁸ PARKER Stephen. 2009. Vietnam's Road to International Economic Integration with a socialist Orientation: Are WTO Accession and Market Socialism Compatible in KONRAI, János, and Yingyi Qian. *Market and socialism: in the light of the experiences of China and Vietnam*. New York: Palgrave Macmillan. p. 199

From 1990 to 1997, national policy discussions were suspended, but the country made a breakthrough in economic development – achieving high rates of economic growth and multilateral foreign investment – improving people's lives. Prime Minister Vo Van Kiet continued to promote a policy of expanding diplomatic and trade relations within the region and around the world.

The second liberalisation phase, from 1994 – 2000, is sometimes referred to as *reform uncertainty*, because of the implications of the disintegration of the Soviet Union - a main supporter of Vietnam at the time. It became apparent that to maintain the high growth rate, further reforms were required. These reforms needed to address the massive trade deficit, heavy reliance on imports, dong depreciation, inflation, slower growth, and unemployment. Some of the main challenges to reform were the state-owned enterprises (SOEs) and the financial sector.

The majority of SOE's were facing low profitability and were forced to borrow capital from other state enterprises, from the domestic banking sector, and from the international market.¹¹⁹ The share of industrial output by the public sector and the contribution to industrial growth decreased by 23.00 % between 1990 to 1997.¹²⁰ The financial sector, represented mostly by the banking system, was affected negatively by the SOE's performance. More than 75 % of assets and credits belonged to the four largest state-owned banks, and their decisions had not only economic but also political implications, in which the absence of experience with market-based financial transactions was notable.¹²¹ The trade deficit was another problem from 1991 to 1996 (15 % of GDP). Imports grew faster than exports (annual rate was 30 %). Moreover, the Asian financial crisis in 1997 affected current account deficits, lowered export growth and exacerbated the balance of payment pressure, dong depreciation, inflation, slower growth, and unemployment in Vietnam. The solutions for the balance-of-payment crisis were to implement quantitative restrictions, temporary import prohibitions, and import substitution. The Private Enterprise Law (Dec. 12th, 1990 amended on June 22nd, 1994)¹²² was passed to maintain limits on foreign investment. Furthermore, foreign direct investment activities were regulated by the following: Law on Organizations (Sep. 30, 1992), followed by Law on Foreign Investment in Vietnam (Nov. 12, 1996), Decree no. 10/1998/ND-CP (Jan. 23, 1998) that was to encourage and guarantee FDI activities, Decision No. 53/1999/QĐ-TTg (Mar.26, 1999)¹²³.

¹¹⁹ KOKKO, Ari. "Vietnam: Ready for Doi Moi II?". Online. *ASEAN Economic Bulletin* 1998 (Vol. 15, No. 3). ProQuest Research Library: 319-327.

¹²⁰ DAOKUI LI, David, WANG, Yijiang. "Market Socialism in China and Vietnam" in Kornai, János, and Yingyi Qian. 2009. *Market and Socialism: In the Light of The Experiences of China and Vietnam*. Iea Conference Volume (Palgrave Macmillan (Firm)), no. 146. New York: Palgrave Macmillan. p. 240-241

¹²¹ KOKKO, Ari. "Vietnam: Ready for Doi Moi II?". Online. *ASEAN Economic Bulletin* 1998 (Vol. 15, No. 3). ProQuest Research Library: 319-327.

¹²² Law on Private Enterprises "Vietnam: Laws by Type". 2015. Online. In *Doing Business: Measuring Business Regulations*. World Bank Group. <http://www.doingbusiness.org/law-library/vietnam#Tab2>.

¹²³ "Vietnamese Law Consultants". 1998. Online. Law Office of Hai Ha & Partners. <http://vietnamese-law-consultancy.com/english/content/browse.php?action=shownews&category=&id=52&topicid=758>

Additionally, the CPV intensified reforms by adopted the Enterprise Law in 1999, which stimulated the domestic private sector to become a leading force in economic development¹²⁴. In 2000, the New Enterprises Law was implemented; registering private enterprises to assist the creation of public goods and utilities. Between 2000 and June of 2004, 90,000 private companies were registered, stabilising internal markets. To increase stability and reduce poverty, some agricultural reforms were implemented, as they were the primary supply of income for the majority of the population.

Given these challenges, Vietnam decided to reevaluate its identity, relinquish its protectionism and integrate with the rest of the world. Thus, since July 1995, Vietnam entered international trade agreements and became a full member of ASEAN and implemented additional reforms under Doi Moi II in 1997¹²⁵. Furthermore, Vietnam joined the Asia-Pacific Economic Co-operation (APEC) in 1998. Under the inspiration of crafting a new identity, Vietnam entered into a third phase of liberalisation.

This third process of liberalisation engendered new reform momentum or economic boom and re-envisioned cultural values between 2000 – 2006. At the 9th National Congress, the Central Committee presented the Strategy for Socio-Economic Development (2001-2010). This top-most political development document of Vietnam¹²⁶ was essential in planning sectoral strategies and socio-economic development affected by global incentives under the UN. Efforts towards sustainable development were executed corresponding to these political objectives and western ideological standpoints. In general, processes of globalisation are characterised by the multiplicity of interdependent relationships, embedded in a context of economic, political and social networks.

Vietnam's new identity was predominantly affected by economic globalisation, though political, environmental and social influences were unavoidable, given the increasingly globalised and interdependent world. These new global values required an articulation of a future direction that was both economically and environmentally sustainable. For this purpose, the theory of sustainable development was advocated in the Brundtland Report "Our Common Future" (UN) in 1987.

The concept of sustainable development provides a framework for the integration of ... development strategies - the term 'development' being used here in its broadest sense. The word is often taken to refer to the processes of economic and social change in the Third World. However, the integration of environment and development is required in all countries, rich and poor. The pursuit of sustainable development requires changes in the domestic and international policies of every nation.¹²⁷

¹²⁴ "VELP 2015 Policy Discussion Paper: Institutional Reform - From Vision to Reality". 2015. Online. Harvard Kennedy School, 32. http://ash.harvard.edu/files/ash/files/2015.04.05-velp_2015_framework_paper-e.pdf?m=1432840877.

¹²⁵ Ibidem.

¹²⁶ "Vietnam's Socio-Economic Development Strategy for the Period Of 2011-2020: Vietnam Government". 2000. Online. 24. <http://www.economica.vn/Portals/0/MauBieu/1d3f7ee0400e42152bdcaa439bf62686.pdf>.

¹²⁷ United Nations. 1987. "Report of The World Commission on Environment and Development: Our Common Future". Online. In *Document A/42/427*, 300. UN, Secretary-General. <http://www.un-documents.net/our-common-future.pdf>. p. 38

According to the report, economic growth should take into account the concept of ecological balance with stronger social equity. The idea of sustainable development ideology is incompatible with development as currently practised in Vietnam. The next global meeting resulted in the Copenhagen Declaration on Social Development from 1995 which articulates a standard of sustainable growth, social development, and the environment. Financing of sustainable development is proposed to be carried out by establishing global taxes. The market officially proclaimed a way to force payment for "the real environmental cost".¹²⁸ The environmental issue is one of the main challenges for socio-economic development in Vietnam today.

During the Social-economic Development Strategy, from 2001 to 2010, Vietnam was affected by many negative impacts of two financial-economic crises in the region and the world."¹²⁹ Deep reforms attempted to gain international market access within the global political economy of the 2000s. The challenge for the Communist Party of Vietnam (CPV) was to implement systematic reforms, and then to articulate a political strategy to reconcile it within the Party's market socialist ideology.¹³⁰ After twenty years of Doi Moi policies, in 2006, the country terminated negotiations with WTO to become a member of the global trade. Vietnam's integration into the regional Free Trade Area legitimised Vietnam as an active participant in the world economy under the Permanent Normal Trade Relations.¹³¹ Their new development model (fusion of global connectivity and implementation of institutional changes) will be required for the maintenance of stable political interactions and economic prosperity.

In 2002 a "Comprehensive strategy for growth and poverty reduction" (GPRGS) was prepared. Aligned with national level development goals, it represents a vision of transition towards a market economy with a socialist orientation into a particular socio - economic development action plan. Commitments were presented under the comprehensive list. The IMF and WB financially supported the project.¹³² The high-level Steering Committee, consisting of two working level internal-ministerial groups, was assigned to supervise and implement specific items on the Watchlist. The Vietnam - U.S.

¹²⁸ PAVLENKO, Vladimir. 2011. "What is Behind the Myths of "Sustainable Development"". Online. In Regnum (news agency). <http://regnum.ru/news/polit/1475915.html>.

¹²⁹ *Vietnam's Social-Economic Development Strategy for The Period Of 2011-2020*. Vietnam Government. <http://www.economica.vn/Portals/0/MauBieu/1d3f7ee0400e42152bdcaa439bf62686.pdf>. p. 1

¹³⁰ PARKER Stephen. Vietnam's Road to International Economic Integration with a socialist Orientation: Are WTO Accession and Market Socialism Compatible in KONRAI, János, and Yingyi Qian. *Market and socialism: in the light of the experiences of China and Vietnam*. New York: Palgrave Macmillan, 2009. p. 206

¹³¹ Kirkpatrick, Colin. 2010. *Managing Risk and Attaining Equitable Growth: Research Topic, Global and Regional Economic Development Trends and Their Major Impacts On Vietnam's Economy In The Next Decade*. Project, support for formulation of socio-economic development strategy (SEDS) 2011-2020. Hanoi, Vietnam: The Asia Foundation. <https://asiafoundation.org/resources/pdfs/VNManagingrisk.pdf>. p. 1

¹³² "Vietnam Delivering on its Promise: Development Report 2003". 2002. Online. In *Report No. 25050-Vn*, 133. Poverty Reduction and Economic Management Unit: World Bank. <http://siteresources.worldbank.org/INTVIETNAM/Resources/VDR03.pdf>.

Bilateral Trade Agreement (BTA) was signed in July 2000, effective from Dec. 2001, with commitments of fulfilling the WTO standards (Nov. 2006) such as trading rights, tariffs, intellectual property rights, quantitative restrictions, liberalisation (in some service sectors), trade-related investment measures, and more transparency. Nevertheless, during the Five –Year Import-Export program (2001-2005)¹³³, quantitative restrictions on exports were implemented.

According to Vietnam’s government, during the socio-economic development strategy period from 2001 to 2010, the country overcame many “difficulties and challenges, the especially negative impact of two financial-economic crises in the region and the world.”¹³⁴ A trade policy roadmap for the period 2001-2005 was announced under the Decision 46/2001/QD-TTg from April 2001¹³⁵. New regulations for the reform of state-owned enterprises were presented in 2002¹³⁶. Specifically, these were related to the producers and suppliers of raw materials in agriculture, forestry and aquaculture enterprises from the Ministry of Finance. Advances were made in technology, market access, and managerial skills. New institutions for a market economy and banking sector were created to deliver a functioning market economy. After 2007, the Vietnamese economy was influenced by a spill-over effect of the global financial crisis, which caused high inflation, a budget deficit, and declining foreign exchange reserves. The problems in the banking, and other essential industries of the country had their origins in the financial mechanisms that had not been sufficiently developed.

During the 11th Congress of the Vietnam Communist Party, it was decided to “continue the promoting (of) industrialisation and modernization, developing fast and sustainably; upholding the whole population strength, building up the country to be an industrial one with a socialist orientation.”¹³⁷ On this occasion, the Socio-economic Development Strategy (2011-2020) was also presented. This document discussed the national situation and issues within an international context and the challenges in these settings. Facing international and domestic difficulties and tasks, especially those posed by the global financial crisis and economic downturn, the Party was satisfied with the results of the socio-economic development program. It was announced that:

The people’s living conditions saw improvements while socio-economic stability maintained; national defence and security strengthened, independence, sovereignty, territorial integrity safeguarded, external activities

¹³³ Major Contents of the 2005 Socio-economic development tasks. “Vietnamese Law Consultants”. 2004. Online. Law Office of Hai Ha & Partners. <http://vietnamese-law-consultancy.com/>.

¹³⁴ *Vietnam's Social-Economic Development Strategy for the period of 2011-2020*. Vietnam Government. <http://www.economica.vn/Portals/0/MauBieu/1d3f7ee0400e42152bdcaa439bf62686.pdf>. p. 1

¹³⁵ Trade Policy in “Vietnamese Law Consultants”. 1998. Online. Law Office of Hai Ha & Partners. <http://vietnamese-law-consultancy.com/english/content/browse.php?action=shownews&category=&id=45&topicid=150>

¹³⁶ “Vietnam Delivering on its Promise: Development Report 2003”. 2002. Online. In *Report No. 25050-Vn*, 133. Poverty Reduction and Economic Management Unit: World Bank. p. 25

¹³⁷ *Vietnam's Social-Economic Development Strategy for the Period of 2011-2020*. Vietnam Government. <http://www.economica.vn/Portals/0/MauBieu/1d3f7ee0400e42152bdcaa439bf62686.pdf>.

expanded and international position and prestige enhanced; democracy and national unity promoted, and Party-building work and the political system attained positive progress.¹³⁸

This Socio-economic Development Strategy, for the period of 2011-2020, was introduced under the objective of “promoting industrialisation and modernization, developing fast and sustainably with a socialist orientation.”¹³⁹ Principal targets for 2020: to double the GDP per capita as compared to 2010; to reduce consumption of energy per GDP by 1.5 to 2% per year; to establish modern economic structures; to lessen the intensity of greenhouse gas emissions by 8-10%; to improve the efficiency of using natural resources. Also, environmental degradation was to be addressed to create conditions to switch to a green economy gradually. Vietnam, until today, has not shifted to an entirely open economy, but it has established a key series of reforms: liberalisation and stabilisation, institutional adjustments for trade transformation, the influence of privatisation and the establishment of social programs.¹⁴⁰

For 2030, targets are the following: reduction of the total greenhouse gas emissions by at least 2% per year, improvement of natural capital for basic standards of clean and green technology. By 2050, the Green Economic Development is to be mainstreamed. However, several tasks were not fulfilled in some areas. The economy has yet developed poorly regarding efficiency and competitiveness, and with slow economic restructuring towards industrialisation and modernization. “Weaknesses and shortcomings remain in education, training, science, technology, socio-culture and environmental protection; bureaucracy, corruption, waste, crime”, moral and lifestyle degradation have still not been prevented.¹⁴¹ As of today, the following strategy was constructed to ameliorate areas where central planning had failed: reduction of restrictions, liberalisation of prices, the creation of private enterprises, and allowing for the equal access to credit.¹⁴²

Key areas of development are concerned with the comprehensive renovation of the country’s economy and politics to building up a socialist Vietnam with a more intensive integration into the world. Strategic objectives in economic, cultural, societal and environmental development consist of

¹³⁸ CP of Vietnam, Resolution of the 11th Party National Congress, <http://www.solidnet.org/vietnam-communist-party-of-vietnam/cp-of-vietnam-resolut> (accessed May 31, 2016).

¹³⁹ Vietnam’s Socio-Economic Development Strategy for the period of 2011-2020. 2010. Online. Hanoi, Vietnam: Economica Vietnam. <http://www.economica.vn/Portals/0/MauBieu/1d3f7ee0400e42152bdcaa439bf62686.pdf>, p. 1

¹⁴⁰ THAHN, Vo Tri. Economic Reforms in Vietnam: What Lessons can be Learnt? In Kornai, János, and Yingyi Qian. *Market and socialism: in the light of the experiences of China and Vietnam*. New York: Palgrave Macmillan, 2009. p. 182

¹⁴¹ CP of Vietnam, Resolution of the 11th Party National Congress, <http://www.solidnet.org/vietnam-communist-party-of-vietnam/cp-of-vietnam-resolut> (accessed May 31, 2016).

¹⁴² MISHRA, Deepak. 2011. “Vietnam Development Report 2012: Market Economy for a Middle-Income Vietnam”. Online. In. PREM Sector Department (EASPR): The World Bank. http://web.worldbank.org/external/default/main?pagePK=51187349&piPK=51189435&theSitePK=387565&menuPK=64187510&searchMenuPK=387593&theSitePK=387565&entityID=000333037_20111213003843&searchMenuPK=387593&theSitePK=387565.

innovation of a growth model and restructuring the economy, development of the agricultural industry towards a more modern industry, effectiveness, and sustainability. Service industries, such as infrastructure, especially transportation infrastructure, and the development of regions, should be pursued. New urban and rural areas should be built. Other areas of development are cultural and social fields, the quality of healthcare, human resources, science, and technology, environment, sovereignty, territorial unification, integration and improving the position of Vietnam in the international arena. Economic institutions, the quality of human resource, and infrastructure are still weak.

The primary imperative for Vietnam today consists of stabilisation of the macro economy and renovation of the models for growth.¹⁴³ Legal provisions for effective implementation “inspection and supervision (of) the compliance of planning schemes in ministries, agencies, and localities, especially the combined planning of zones, sectors and areas was complete and submitted to the National Assembly under the Law on Planning.”¹⁴⁴ The main tasks and solutions are guiding and directing the implementation of the Socio-economic development strategy with the support of the State budget plan in 2016¹⁴⁵. Delegates of the Party presented Congress with documents which outlined the country development orientation for the new phase.

To become a modern industrialised economy by 2020, the Party emphasised the need to strengthen national unity, to accelerate the growth of the economy in a comprehensive way and invest in democracy, justice, education, and steady advance towards socialism.¹⁴⁶ Between January 20 – 28, 2016, the 12th National Party Congress (NPC) occurred under the “Solidarity, Democracy, Discipline and Renovation”. A Political Report provided during the Congress emphasised the necessity to continue reforming the growth model, restructuring the economy, perfecting the institutions and developing a social-oriented market economy.¹⁴⁷ The theme of the 12th Congress was: “Promoting the building of a strong Party, the strength of the entire nation and socialist democracy, accelerate reforms comprehensively and maintain a peaceful, stable environment, to make Vietnam a modern

¹⁴³ CP of Vietnam, Resolution of the 11th Party National Congress, <http://www.solidnet.org/vietnam-communist-party-of-vietnam/cp-of-vietnam-resolut> (accessed May 30, 2016).

¹⁴⁴ Major tasks and solutions guiding implementation of 2016. <https://www.vietmaz.com/2016/02/major-tasks-and-solutions-guiding-implementation> (accessed May 31, 2016).

¹⁴⁵ “Resolution No. 01/NQ-CP: On Major Tasks and Solutions Guiding and Directing the Implementation Of The Socio-Economic Development Plan And The State Budget Plan In 2016”. 2016. Online. *Ministry of Planning and Investment: Legal Normative Documents*. Hanoi. January 07. <http://vbqpl.mpi.gov.vn/en-us/Pages/default.aspx?itemId=7135ac92-ad87-4fe9-8c8d-f4181e3e03aa&list=documentDetail>.

¹⁴⁶ CPV. “CP of Vietnam: Resolution of the 11th Party National Congress”. Online. 2011. Communist Party of Vietnam. In. <http://www.solidnet.org/vietnam-communist-party-of-vietnam/cp-of-vietnam-resolution-of-the-11th-party-national-congress.pdf>.

¹⁴⁷ ANH, Kiet. 2016. “IMF: Vietnam Reaped the Fruits in Economy”. Online. In *Talkvietnam.com*. Hanoi Times. <http://www.talkvietnam.com/2016/04/imf-vietnam-reaped-the-fruits-in-economy/>.

industrialised country”.¹⁴⁸ Moreover, during the meeting of Congress, delegates focused on reviewing the implementation of the Resolution of the 11th National Party Congress and the three decades of Doi Moi (Reform); and setting up orientations, goals, missions and measures for national development and defence until 2020.¹⁴⁹ Representatives were discussing the 11th Party Central Committee's political report, as it was achieved in the previous periods. Moreover, the outcomes of the socio-economic development achievement, from 2011 to 2015, were defined and the tasks for the 2016 – 2020 period were set¹⁵⁰ and submitted to National Assembly in the 14th National Assembly.

According to the Party Resolution, the expectations are: GDP per capita projected to reach 3,500 USD by 2020 from 2,019 USD in 2015; the level of unemployment in urban areas below 4 % to be covered by public health insurance; more than 90 % of the population will have access to clean water. Another task is related to the efficient political system and ideology. The Party aims to maintain an environment of peace and stability, approving the development, as well as furthering relationships with other countries for productive international integration.¹⁵¹ The economy's competitiveness and labour productivity are expected to be supported by ASEAN Economic Community (AEC), starting in 2015, and other international trade agreements, such as Trans – Pacific Partnership (TPP).¹⁵² The Communist Party recognised the need for new momentum in the economic and social reform in parallel with deeper international cooperation. Therefore, the government applied a new approach to interpret and employ fundamental market mechanisms under state management with social orientation.¹⁵³

Following the foundation of ASEAN as a politico-economic institution, which influenced the processes in the global world, mainly in Asia, opened researcher's enormous possibilities in studying regionalism as a phenomenon of globalisation, specifically for the neoliberal, neorealist, and constructivists. In the time of globalisation and regionalization, membership in ASEAN and other global organisations, had to help to develop the economy. The international competition stimulated efficient resource management. After accepting the CEPT Agreement, Vietnam participated in other areas of ASEAN economic cooperation, such as intellectual property, services, industrial

¹⁴⁸ “Viet Nam: Communist Party Holds 12Th National Congress”. 2016. Online. In: vietnamnews.vn. <https://rtuc.wordpress.com/2016/02/06/viet-nam/>.

¹⁴⁹ 12th National Party Congress officially commences. 2016. <http://www.vietnambreakingnews.com/2016/01/12th-national-party-congress-official>.

¹⁵⁰ 12th National Party Congress: 12Th National Party Congress to Officially Commence on Jan.21. 2016. Online. *Vietnamplus, Vietnam News Agency (VNA)*. <http://en.vietnamplus.vn/12th-national-party-congress-to-officially-commence-on-jan21/87913.vnp>.

¹⁵¹ “Vietnam Targets High Growth to 2020”. Online. In *Economica Vietnam*. Hanoi, Vietnam. 2016. [http://www.economica.vn/News-](http://www.economica.vn/News-Details/tabid/162/newid/OL6638H3511T963768/topic/H18T12161192222296/language/en-US/Default.aspx)

[Details/tabid/162/newid/OL6638H3511T963768/topic/H18T12161192222296/language/en-US/Default.aspx](http://www.economica.vn/News-Details/tabid/162/newid/OL6638H3511T963768/topic/H18T12161192222296/language/en-US/Default.aspx).

¹⁵² Ibidem.

¹⁵³ THAHN, Vo Tri. Economic Reforms in Vietnam: What Lessons can be learnt? In Kornai, János, and Yingyi Qian. *Market and socialism: in the light of the experiences of China and Vietnam*. New York: Palgrave Macmillan, 2009. p. 191-192

collaboration, and foreign investment. Participation in AFTA leading to the implementation of collective norms and standards in international trade.

The Vietnamese development model still has potential to incorporate non-dominant development ideologically, because of its relative newness. Protection of socialism, in combination with liberal nationalism, certain aspects of realism and selection of the best parts from conservatism, could offer an adversarial form of nationalist and collectivist governmental regulation with stimulation of individual development of physical and spiritual character.

2.5 THE MACROECONOMIC SITUATION IN VIETNAM

Current economic theories can be divided into two categories. The first one is about the industrial society trying to find answers to the question such as: How do private entrepreneurs legally generate a profit? This model is mostly represented by economic clerks in the liberal systems. The second category uses the economy in the context of non-economic goals (financial masters in the social model). In the case of Vietnam, previously stated models are mixed. The Communist Party of Vietnam (CPV) is trying to maintain its governance and to achieve macroeconomic stability. However, at the same time, market globalisation has a stronger influence on the financial, economic and social processes in the country.

The macroeconomic situation in any state is referred to as the distribution structure of all goods. Goods in the country can be understood as industrial, services, production and human resources. One of the main macroeconomic indicators of the distribution of social benefits is tax revenue, which is primarily used for creating public benefits and consumption. Growth potential is crucial for the stimulation of domestic demand and improving the quality of life. Macroeconomic impacts of distribution are analysed by the way in which goods are dispersed in the economic system. The primary objectives of the macro stability are to determine how system practices the division of wealth in the country for the people. The state economic model can be evaluated according to the structure of the distribution of wealth. A significant share in the structure of macro balance credits a private ownership of investment in the liberal capitalist model.

The public investment and human capital in the socio-cultural sphere benefit national production in the form of consolidated revenues of the national budget. Moreover, tools of macro-balance are to develop an approach to optimal distribution of wealth among the subject's socialist and liberal economies to solve practical problems. The relation between growth and structure of macro-balance is used to determine the level of investment of fixed capital required for economic recovery. Macro-

balance can demonstrate the ineffectiveness of the science of classical liberalism that suggests capitalist maximisation of profit (by reducing costs through a reduction in labour costs) for successful development. The state, on the other hand, provides optimal distribution in this model of a socially oriented state, respective of the highly sophisticated labour population.

Macroeconomic data, based on statistics is used to characterise financial and economic realities. Two interrelated, associated processes, for instance, manage the volume of payments in the circulation. The volume controls currency capability (the level of prices proportional to the amount of money) with a certain speed of payments on the whole (for sectors and regions). Processes generate a “financial climate” with all administrative independent economic entities acting on the principle of self-sufficiency. At the micro level, the managing is based on self-sufficiency that requires two different functions. The primary function is to contain analytical variables (financial climate, production market, components, labour, services, salary for production, and development of the economic strategy with anticipated mistakes in the management of maximising profitability). The secondary function is the development of comprehensive programs implemented through strategies of enterprises. To achieve the stated approaches, the following requirement should be prepared: development of the new products, preparation of the technical and technological base of the production and to support the operation, training for production, advertising among potential clients, and accounting to identify opportunities for improvements of the accepted programs.

In the global economy, there are main international components: international trade, foreign direct investment, and financial markets. Those factors, jointly, have a relation to the GDP and implications on society. In analysing the world economy, one may face a statistical problem. Wide-ranging data has been calculated in different ways, and with a different purpose. Still, the best measure of the output of goods and services in society is Gross Domestic Product (GDP).

The GDP in Vietnam was 186.20 billion US dollars in 2014 (see Chart 1.). In total, the GDP of Vietnam represents 0.30 % of the world economy and averaged 55.42 billion USD from 1985 until 2014, reaching a maximum of 186.20 billion USD in 2014 and a minimum of 6.30 billion USD in 1989.¹⁵⁴ Primary targets during the 2011 – 2015 period were to achieve economic growth between 7 and 7.5 % annually. Industrial and construction value growth were projected to rise between 7.8 and 8 %, while agricultural growth was to increase 2.6 - 3 %. Agriculture was set to make up 17-18 % of the gross domestic product (GDP); the industry-construction sector, 41-42 %; and services, 41-42 %. Hi-tech products were expected to account for 35 % of GDP. The average results, especially from the last couple of years did not satisfy the expectations from 11th Party Congress.

¹⁵⁴ The World Bank reports GDP in Vietnam is reported by the General Statistics Office of Vietnam – retreated from Trading Economics [online]. <http://www.tradingeconomics.com/vietnam/gdp>

Chart 1: Vietnam's GDP, 2006-2016



The GDP in Vietnam increased 5.46 % year-to-year three months before March 2016, slowing from 7 % growth in the previous period and 6.12 % in the same quarter last year, as per earliest estimates. The unfavourable weather conditions harmed the agricultural sector in 2014, and low oil prices caused a loss in state income by 53.00 %. In comparison with the third quarter of 2015, the same period of the previous year's GDP expanded 6.80 %. GDP Annual Growth Rate averaged 6.49 % from 2000 until 2015, reaching a maximum of 8.48 % in the last quarter of 2007, and a minimum of 3.12 % in the first quarter of 2009.¹⁵⁵

Chart 2: Vietnam's GDP annual growth rate, 2006-2016



The GDP per capita in Vietnam was last noted at 1,077.91 USD in 2014 – equivalent to 9.00 % of the world's average. From 1984 until 2014, GDP per capita in Vietnam was close to 562.33 USD, reaching the highest position at the level of 1,077.91 USD in 2014 and the lowest of 262.95 USD in 1984.¹⁵⁶

¹⁵⁵ GDP Annual Growth Rate in Vietnam is reported by the General Statistics Office of Vietnam – retreated from Trading Economics [online]. <http://www.tradingeconomics.com/vietnam/gdp-growth-annual>

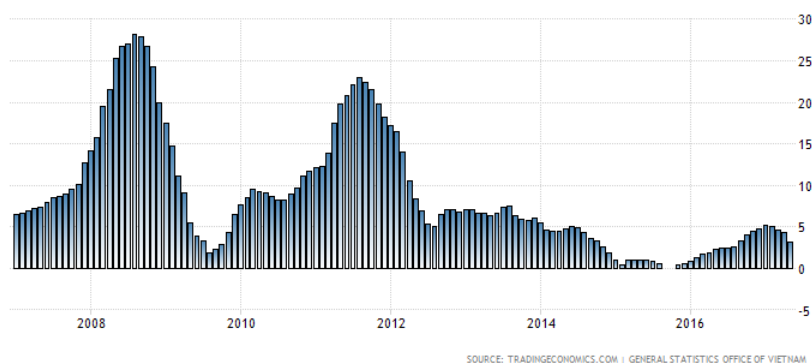
¹⁵⁶ GDP per capita in Vietnam is reported by the World Bank - retreated from Trading Economics [online]. <http://www.tradingeconomics.com/vietnam/gdp-per-capita>

Chart 3: Vietnam's GDP per capita, 2006-2016, in a million USD



In March 2016, consumer prices in Vietnam increased to 1.69 % from 1.27 % in February, which was the highest since December 2014. The inflation rate was recorded at 0.00 % in October of 2015. On average, it was 6.81 % from 1996 until 2016, when in August of 2008, it reached its maximum of 28.24 % and a minimum of -2.60 % in July of 2000.¹⁵⁷

Chart 4: Vietnam's inflation rate, 2006-2016



Unemployment in Vietnam in the last quarter of 2015 declined to 2.31 %, from 2.44 % in the first six months of the same year. An average value, from 1998 until 2015, of the Unemployment rate in Vietnam, was 2.40 %, with the highest position of 4.50 % in the fourth quarter of 1998, and the lowest of 1.81 % in the last quarter of 2012.¹⁵⁸

Chart 5: Vietnam's unemployment rate 2006-2016, percent

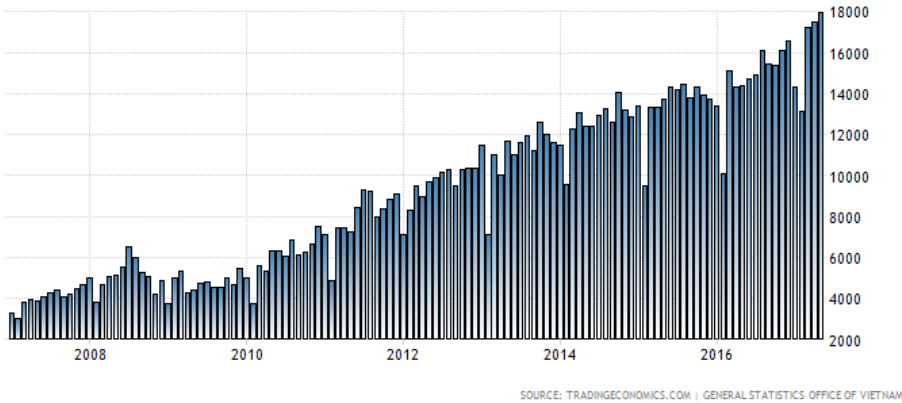


¹⁵⁷ Inflation Rate in Vietnam is reported by the General Statistics Office of Vietnam – retreated from Trading Economics [online]. <http://www.tradingeconomics.com/vietnam/inflation-cpi>

¹⁵⁸ Unemployment Rate in Vietnam is reported by the General Statistics Office of Vietnam – retreated from Trading Economics [online]. <http://www.tradingeconomics.com/vietnam/unemployment-rate>

In March 2016 exports increased to 14200 USD million¹⁵⁹ from 10099 USD million in February of 2016. In June 2015, exports were 14300 USD million, which were maximum in the history. Averaged Vietnamese exports were 4479 USD million from 1990 until 2015, recording minimum of 537 USD million in February of 1997.¹⁶⁰ Export prices in Vietnam remained unchanged, at 97.60 Index Points (IPs) in 2013, from 97.60 IPs in 2013. Averaged 104.21 IPs from 1991 until 2013, reaching a maximum of 124.80 IPs in 2008, and a minimum of 88.10 IPs in 2009.¹⁶¹ In 2013, Vietnam exported 14500 USD million (33rd largest exporter in the world). Main export commodities in 2013 were broadcasting equipment (16.00 %), followed by computers (5.36 %).

Chart 6: Vietnam's exports, 2006-2016, USD million



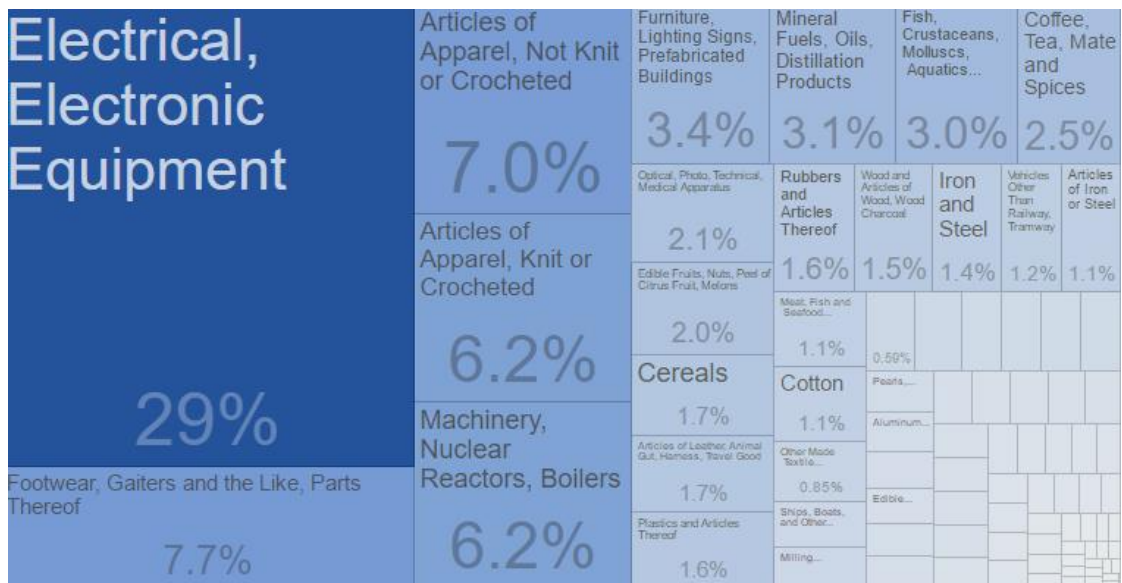
Vietnam’s exports have doubled in the last five years. This was caused by a minimum competitive salary and low costs of utilities, which boosted FDI in the manufacturing sector. Main export commodities are telephones and spare parts, textiles, electronics, computers and components, shoes and footwear and other machinery, equipment, tools and spare parts. Vietnam has substantial comparative advantages in the traditional labor-intensive production of clothing and footwear (see Figure 3). Diversification occurs in relatively new export productions such as electrical appliances, plastic products, and toys.

¹⁵⁹ According the British English numbering

¹⁶⁰ Exports in Vietnam is reported by the General Statistics Office of Vietnam – retreated from Trading Economics [online]. <http://www.tradingeconomics.com/vietnam/exports>

¹⁶¹ Trading Economics [online]. <http://www.tradingeconomics.com/vietnam/export-prices>

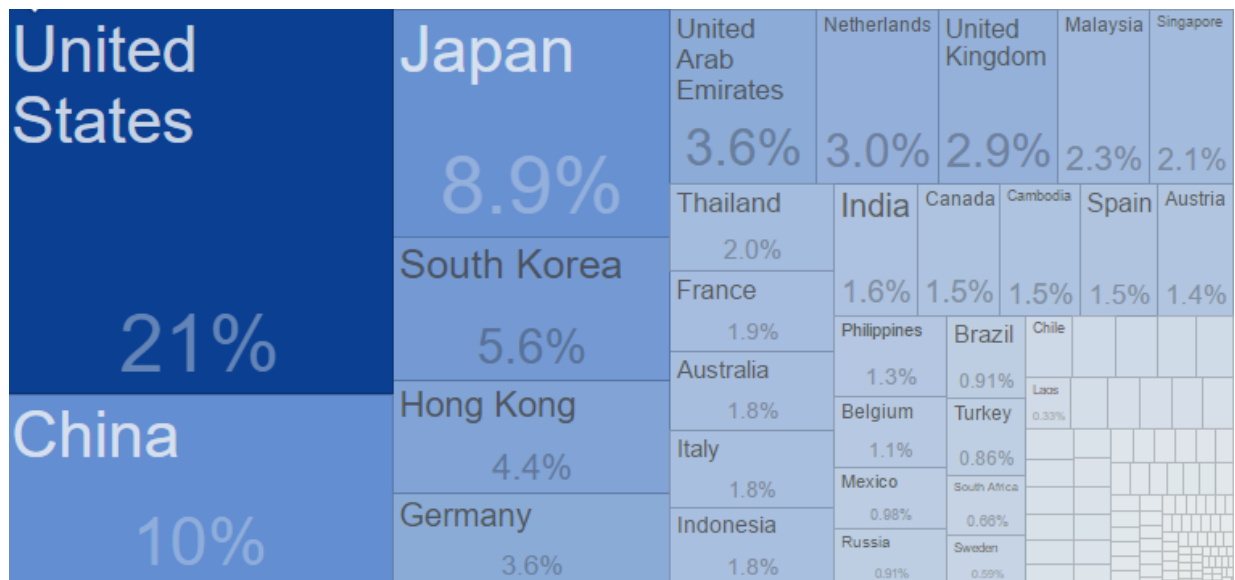
Figure 5: Export commodities, 2015



Source: Tradingeconomics. [online]. Available at: <https://tradingeconomics.com/vietnam/exports-by-category>

Principal export partners are the U.S. (21.00 % in 2015, but by 2013 it was 24500 USD million), China (10.00 % in 2015 and 14300 USD million in 2013) and Japan (8.90 % in 2015 and, 13800 USD million in 2013). Other destinations include South Korea (5.60 % in 2015 and 7040 USD million in 2013), Hong Kong (4.40 % in 2015) and Germany (3.60 % in 2015 and 6930 USD million in 2013).

Figure 6: Export destinations, 2015

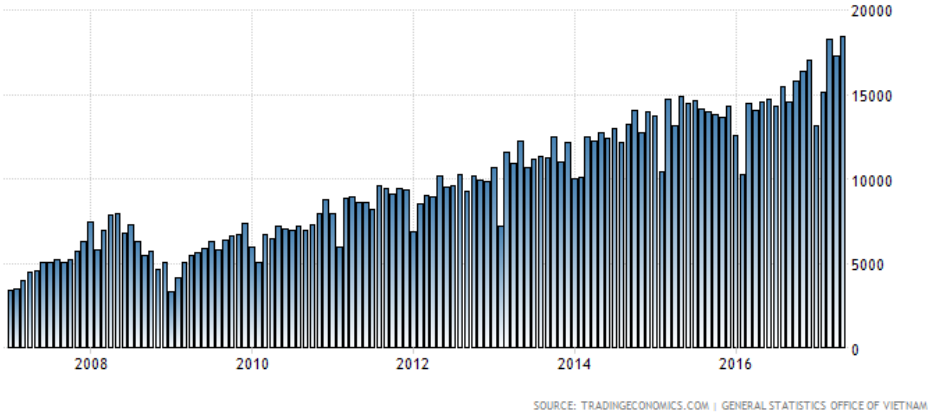


Source: Tradingeconomics. [online]. Available at: <https://tradingeconomics.com/vietnam/exports-by-country>

Imports in Vietnam increased to 14100 million USD in March, from 10290 million USD in February of 2016. In June 2015, this increased to 15000 million USD, from 14940 million USD in

May of 2015. Averaged 5377.85 million USD from 1990 until 2016, touching a maximum of 14938 million USD in May of 2015, and a minimum of 740 million USD in February of 1999.¹⁶²

Chart 7: Vietnam's import 2006 - 2016, USD million



In 2016, Vietnam’s main imports are electrical equipment (25.00 %), machinery, nuclear reactors and boilers (13.00 % of the total shipments) and plastic articles (6.00 %). Others include: iron (5.30 %), fuels (4.8 %) and vehicles (3.30 %).¹⁶³

Figure 7: Main Import Commodities, 2015

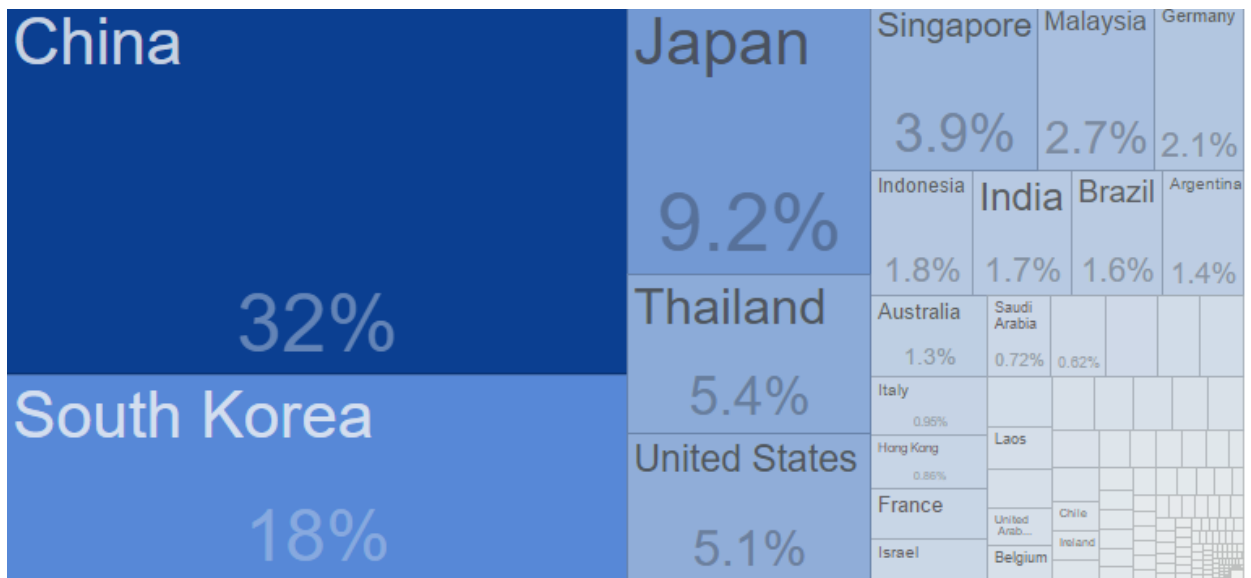
Electrical, Electronic Equipment 25%	Plastics and Articles Thereof	6.0%	Articles of Iron or Steel	2.3%	Optical, Photo, Technical, Medical Apparatus	2.2%	Knitted or Crocheted Fabric	2.1%	Cotton	2.1%	Residues, Wastes of Food Industry, Animal...	2.0%
	Iron and...	5.3%	Manmade Staple Fibers	1.8%	Wood and Articles of Wood, Wood Charcoal	1.3%	Manmade Filaments	1.3%	Paper and Paperboard, Articles of Pulp, Paper and Board	1.2%	Copper and Articles Thereof	1.1%
			Aluminum and Articles Thereof	1.6%	Rubbers and Articles Thereof	0.97%		0.63%	Special Woven oc...	0.57%	0.57%	0.56%
	Mineral Fuels, Oils, Distillation Products	4.8%	Organic...	1.5%	Aircraft, Spacecraft	0.95%		0.47%				
			Pharmaceutical Products	1.5%	Edible Fruits, Nuts, Peel of...	0.90%	Animal...					
			Cereals	1.4%	Fertilizers	0.87%			Salt...			
	Vehicles Other Than Railway, Tramway	3.3%	Miscellaneous Chemical Products	1.3%	Tanning...	0.68%	Essential...					

Source: Tradingeconomics. [online]. Available at: <https://tradingeconomics.com/vietnam/imports-by-category>

Main import partners in 2015 were China (32.00 % of the total imports) and Korea (18.00 %). Others included Japan (9.00 %), Thailand (5.40 %) and the U.S. (5.10 %).¹⁶⁴

¹⁶² Imports in Vietnam is reported by the General Statistics Office of Vietnam and provided by Trading Economics - was last updated on April of 2016 [online]. <http://www.tradingeconomics.com/vietnam/imports>
¹⁶³ Imports in Vietnam is reported by the General Statistics Office of Vietnam and provided by Trading Economics - was last updated on April of 2016 [online]. <http://www.tradingeconomics.com/vietnam/imports>
¹⁶⁴ Ibidem.

Figure 8: Import origins, 2015



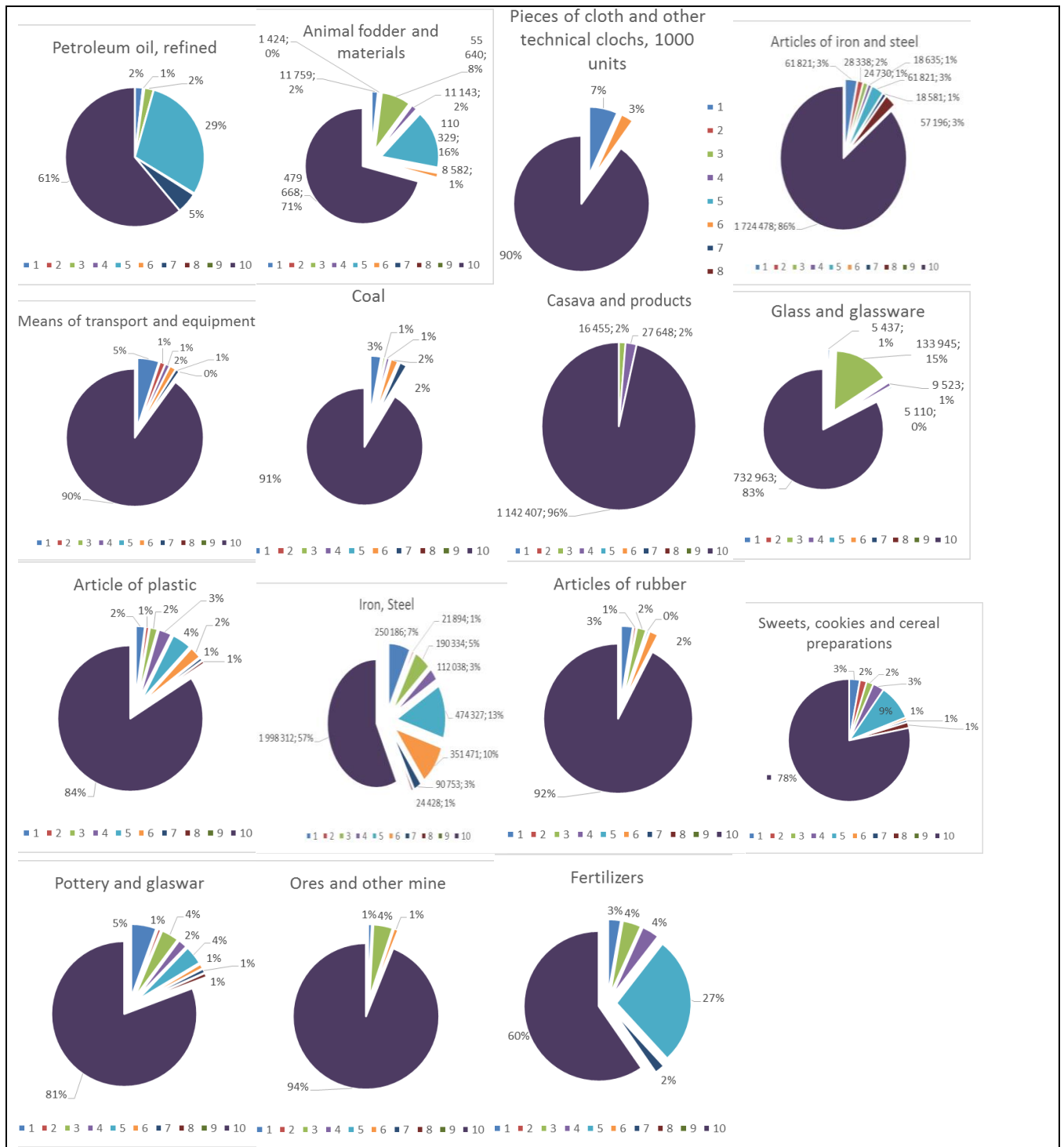
Source: Tradingeconomics. [online]. Available at: <https://tradingeconomics.com/vietnam/imports-by-country>

Import Prices in Vietnam increased to 98.95 Index Points (IP) in 2014 from 97.60 IP in 2013, averaging 102.60 IP from 1991 until 2013, reaching a maximum of 120.20 IP in 2011 and a minimum of 88.40 IP in 2009.¹⁶⁵ By the first quarter of 2016, Vietnam recorded a trade surplus of 100 million USD in comparison with trade deficit 700 million USD in June of 2015. Averaging -433.80 million USD from 1990 until 2015, reaching a maximum of 1444 million USD in January of 2014, and a minimum -3888 million USD in December of 1996.¹⁶⁶

¹⁶⁵ Import Prices in Vietnam is reported by the General Statistics Office of Vietnam and retreated from Trading Economics [online]. <http://www.tradingeconomics.com/vietnam/import-prices>

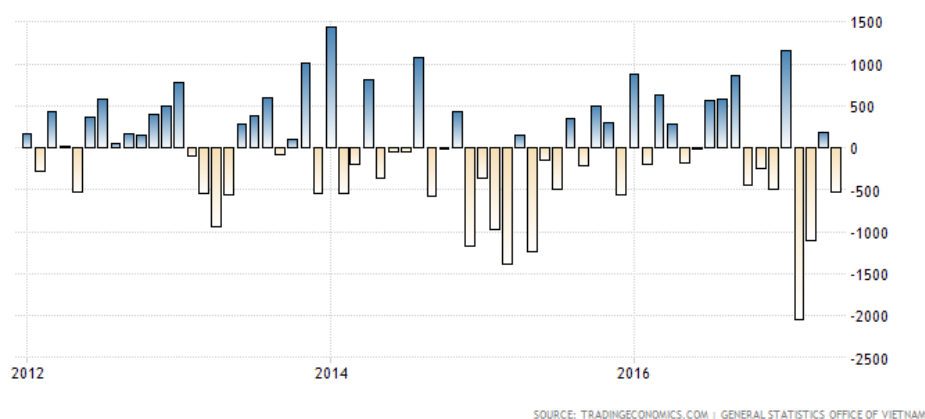
¹⁶⁶ Balance of Trade in Vietnam is reported by the General Statistics Office of Vietnam and retreated from Trading Economics [online]. <http://www.tradingeconomics.com/vietnam/balance-of-trade>

Chart 8: Exports from Vietnam of some main goods to ASEAN in 2014



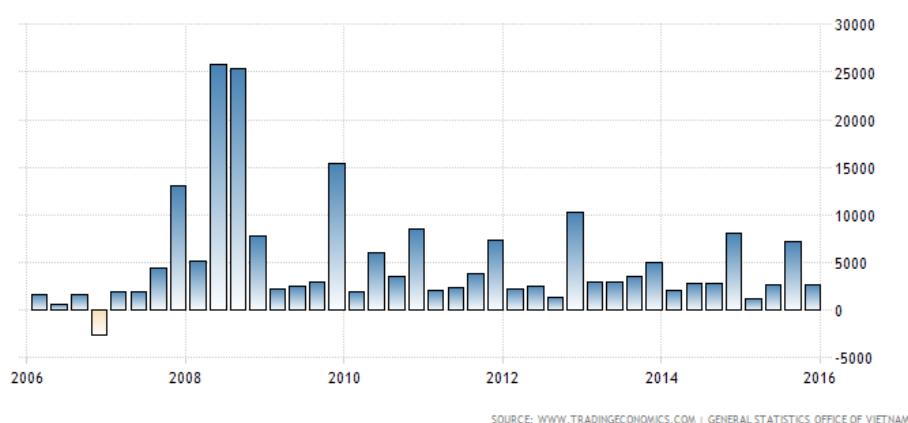
Note: 1. Thai., 2. Sing., 3. Malay., 4. Philip., 5. Camb., 6. Indon., 7. Lao PDR, 8. Myanmar, 9. Brunei, 10. Total.
Source: Vietnam Statistics

Chart 9: Vietnam balance of trade 2006-2016, USD million



Foreign Direct Investment (FDI) in the last three months of 2015 increased to 2622.50 million USD. In the third quarter of 2015, it rose to 7199 million USD, from 2622.50 million USD in the second quarter of 2015. In 2015, FDI rose 17.40 % to 14500 million USD. South Korea, by a unit of Samsung Electronics, was the biggest investor, with 3000 million USD for display module production. Malaysia confirmed 2.4 billion USD for coal power plant to be built by Janakuasa. Foreign Direct Investment in Vietnam had averaged 3668.20 million USD from 2001 until 2015, reaching a maximum of 25790.92 million USD in the second quarter of 2008, and with a minimum of -2649.50 million USD in the fourth quarter of 2006.¹⁶⁷ According to Reuters, in 2015, Vietnam has received 9650 million USD (8.40 % expand) of foreign direct investment, mostly from the manufacturing sector. Liberal reforms intensify capital markets by low-cost manufacturing prices (mainly for cell phones, televisions, footwear, and garments).¹⁶⁸

Chart 10: Vietnam's Foreign Direct Investment 2006 – 2016, USD million



¹⁶⁷ Foreign Direct Investment in Vietnam is reported by the General Statistics Office of Vietnam. Retreated from Trading Economics [online]. <http://www.tradingeconomics.com/vietnam/foreign-direct-investment>

¹⁶⁸ MING, Ho Binh. 2015. "Update 1-Vietnam's FDI Inflow Hits Record High So Far In 2015". Online. In. Reuters. <http://www.reuters.com/>.

FDI in manufacturing was 70.00 % of the total 84800 million brought to Vietnam between January 2011 and August 2015. In the period of January – September 2015, investments grew 44.50 % (11030 million USD). One of the major projects of investment was the Duyen Hai 2 thermal power plant 2.4 billion USD.¹⁶⁹ Another trend from 1995 was that most FDI was concentrated in labour – intensive industry, especially for industrial production (35.50 %), and at the same time, it accounts for only a minimal share of employment (about 400,000 jobs from 40 million).¹⁷⁰ From September 2015, Vietnam cut off the 49.00 % foreign ownership restraint on many companies; still, some sectors remain restricted like the banking area that is normalised by single ownership rules limiting 30 % of international participation. All other equities will have no boundaries unless the enterprises could constrain them.¹⁷¹ Executive Order No. (EO) 184, in May 2015, provided the 10th Regular FINL that left unchanged the list of domestic activities and sectors restricted to foreign participation, as laid out by the former EO 98 of Oct. 29, 2012.¹⁷²

The Central Bank of Vietnam issued five to fifteen years' bonds in 2015, with the profitability of 5.10 % to 6.90 % (the lowest levels since 2010), according to the data from the Hanoi Stock Exchange.¹⁷³ It sold only 12.00 % of the 3 trillion dong of debt offered in September 2015. The revenue from Vietnam's five-year bonds has risen 47 basis points, to 6.70 % this year, having fallen from levels exceeding 13.00 % in 2011.¹⁷⁴ During 2015, Vietnam had sold only about half of the offered bonds. "The State Treasury sold only 96.47 trillion Dongs (4300 million USD) of debt in 2015, 38.00 % of its 250 trillion Dongs full-year goal."¹⁷⁵ It was planned to promote economic growth by spending on infrastructure (funds for transport are estimated at 48000 million USD in 2016), hydropower and health care, in total, budget deficit targeted 5 % of GDP.

External Debt in Vietnam declined to 45243 million USD in 2013, from 59133 million USD in 2012. The foreign debt in Vietnam averaged 24714.76 million USD from 1985 until 2013, reaching an all-time high of 59133 million USD in 2012, and the lowest of 10345 million USD in 1985. According

¹⁶⁹ Trading economics. [online]. Available at: <https://tradingeconomics.com/>

¹⁷⁰ PARKER, Stephen. "Vietnam's Road to International Economic Integration" in Kornai, János, and Yingyi Qian. 2009. *Market and Socialism: In the Light of the Experiences of China and Vietnam*. Iea Conference Volume (Palgrave Macmillan (Firm)), no. 146. New York: Palgrave Macmillan. ps. 212-213

¹⁷¹ MAGTURO, Daphne J. Vietnam worries business, but not gov't [online].

¹⁷² PAREDES, Ducky. 2015. "Vietnam Moves Ahead of Rp". Online. In. European Chamber of Commerce of the Philippines. http://www.eccp.com/articles-page.php?category=2&article_id=1495.

¹⁷³ NGUYEN, Giang. 2015. "Vietnam Refusal to Budge on Bond Yields Puts Growth Plan at Risk". Online. In *Bloomberg*. <https://www.bloomberg.com/news/articles/2015-09-28/vietnam-refusal-to-budge-on-bond-yields-puts-growth-plan-at-risk>.

¹⁷⁴ Vietnam bond stance puts growth goals at risk [online]. Available at:

<http://www.bworldonline.com/content.php?section=Finance&title=vietnam-bond-stance-puts-growth-goals-at-risk&id=116039>.

¹⁷⁵ NGUYEN, Giang. 2015. "Vietnam Refusal to Budge on Bond Yields Puts Growth Plan at Risk". Online. In *Bloomberg*. <https://www.bloomberg.com/news/articles/2015-09-28/vietnam-refusal-to-budge-on-bond-yields-puts-growth-plan-at-risk>.

to Trading Economics global models, external debt is expected to be 18852.75 million USD by the end of first six months in 2016. In the long-term, the trend will be 51244.22 million USD in 2020.¹⁷⁶

Chart 11: Vietnam's total external debt, 2006 - 2016



The USD/VND traded at 21590 VND in April of 2016. The Vietnamese Dong averaged 18355.70 from 2003 until 2015, reaching a maximum of 22546.50 in August 2015, and a minimum of 15002 in December 2003.¹⁷⁷ The Vietnamese Dong is expected to exchange at 22861.00 by the end of the second quarter of 2016. The dong is estimated to advance about 20171.00 in 2020, 16809.00 in 2030, and 11206.00 in 2050, according to econometric models, and analysts' expectations provided by trading economics.¹⁷⁸

Chart 12: Vietnamese Dong, 2006 - 2016



The number of employed persons from 2013 to 2014, in Vietnam, increased to 52.74 million (maximum until 2014) from 52.21 million. From 1982 to 2014 the averaged number of employed people was 36.93 million, with a minimum of 23.50 million in 1982.¹⁷⁹

¹⁷⁶ External Debt in Vietnam is reported by the Asian Development Bank. Retreated from Trading Economics [online]. <http://www.tradingeconomics.com/vietnam/external-debt>

¹⁷⁷ Currency in Vietnam is reported by the General Statistics Office of Vietnam. Retreated from Trading Economics Trading Economics [online]. <http://www.tradingeconomics.com/vietnam/currency>

¹⁷⁸ Currency forecast in Vietnam is reported by the General Statistics Office of Vietnam. Retreated from Trading Economics Trading Economics [online]. <http://www.tradingeconomics.com/vietnam/currency/forecast>

¹⁷⁹ Workers in Vietnam is reported by the General Statistics Office of Vietnam. Retreated from <http://www.tradingeconomics.com/vietnam/employed-persons>

Chart 13: Vietnam persons employed, million



According to the report,¹⁸⁰ the number of tourists travelling to Vietnam increased to 649.10 thousand in October, from 626.30 thousand persons in September of 2015. The number of visitors who travelled to Vietnam from 2015 until 2016 was around 633.86 thousand persons, reaching an all-time high of 833.60 thousand persons in February of 2016, and a record low of 529.40 thousand persons in June of 2015.

Chart 14: Vietnam tourist arrivals



2.5.1 VIETNAM RANKING BY THE GLOBAL COMPETITIVENESS REPORT

The Global Competitiveness Report (GCI) ranks 140 economies, is published by the World Economic Forum and is one of the most important rating agencies to compare competitiveness. GCI is based on 12 pillars that divide the economy into three types: factors-driven, efficiency-driven and innovation-driven. The first group of the cornerstones, 1-4, falls into subclasses names as basic requirements. The pillars are institutions, infrastructure, macroeconomic environment, health and primary education.

1) Institutions. The legislative system, which, based on interactions of the state, enterprises and individuals, may help to make a profit. Access to the government itself, bureaucracy, corruption,

¹⁸⁰ General Statistics Office of Vietnam, Trading Economics [online]. <http://www.tradingeconomics.com/vietnam/tourist-arrivals>

barriers of business, and a low level of transparency on government contracts play a significant role, especially in times of economic crisis.

2) Infrastructure. Extensive and efficient infrastructure is a critical determinant of the effective operation of an economy. Well-developed infrastructure reduces the distance of the regions, integrates the internal market and connects with other countries or regions. It is necessary to mention electricity and the telecommunications network. Frequent interruptions of the power supply can disrupt production, and the quality of the telecommunication network accelerates the flow of information.

3) Macroeconomic Environment. The stability of the macroeconomic development of the economy is essential for business and competitiveness. The fiscal deficit limits the government's ability to respond to the economic cycle and invest in the promotion of competitiveness. The growth of the economy in a long-term, the stable macroeconomic environment is crucial.

4) Health and primary education. The healthy workforce is essential for productivity and competitiveness in the economy. Sick workers cannot work to the best capacity, and their absence increases costs for companies. Equally important is the role of education. Basic education enhances the efficiency of each employee. Higher education should multiply the adaptation to more complex work processes and techniques, which promotes innovative thinking. The second group of pillars according to the GCI maximises efficiency, which includes 5-10 defining pillars: higher education and training, efficient distribution of goods, financial market development, labour market efficiency, technological readiness and market size.

5) Higher education and training. The globalised economy needs countries that educate workers at the highest level. Thus, professional workers can respond to changes and shifts in the economy immediately and quickly adapt to the environment. Training is the process of maintaining and increasing productivity in workers, which is less expensive than hiring new employees.

6) Efficiency market products and services. Economies with efficient product markets produce the right mix of goods and services, which is suited to a particular state of supply and demand. The proper environment for the exchange of goods requires low obstacles for business activities by the government.

7) The efficiency of the labour market. Efficiency and flexibility in the workforce are crucial for the productivity of the economy because of the need to efficiently allocate of production factors. Employment must be sufficiently flexible in allowing the shifting of workers from one economic activity to another, at the lowest cost, and as quickly as possible.

8) The development of the financial market. The economic crisis has underlined the critical role of a well-functioning financial sector for economic activity. The financial sector should allocate household savings and funding from abroad to produce the highest profits. The economy needs a

sophisticated financial market that can provide investment from the private sector, fund types of credit from the banking system, proven, well-regulated and secured transactions, and other derivative financial instruments or products. The financial market is unable to perform the previously mentioned functions when the banking system is not credible and transparent.

9) Technological readiness. This pillar measures how the economy can adapt to existing technology under industries' intensification of the productivity, and to improve efficiency and innovation by offering information and communication technology in the production processes.

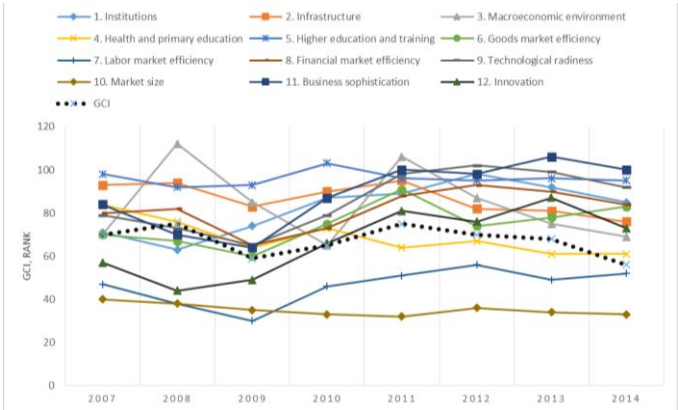
10) The size of the market. Market size has certainly extended a positive effect on economic growth, particularly for countries with a small domestic market. For example, removing trade barriers and harmonising standards in the European Union contributed to export growth in the region. Many obstacles in a genuinely single market persist (in market services) and lead to borders impacts. The third group of innovative and sophisticated factors is represented by two pillars, business sophistication, and innovation.

11) Business Sophistication. It is certain that sophisticated business practices facilitate greater efficiency of the production of goods and services. Two elements are closely linked: the quality of the overall business network of the state, and the quality of individual operations and strategies of companies. If businesses or suppliers of certain sectors linked to geographically proximate groups, efficiency are increased, there is more free space for innovation processes, and there is a reduction of barriers for new firms. Individual strategies and operations of companies, such as branding, marketing, distribution, advanced manufacturing processes and production of innovative products, bring improvement to all sectors of the economy.

12) Innovation may arise from new technological or non-technological knowledge. The last pillar focuses on technological innovation. Although we can achieve significant revenue by improving the quality of institutions, building infrastructure, and improving macroeconomic stability or human capital, there is still a diminishing return. The long-term standard of living requirements can significantly increase technological innovation. Innovation is important for countries to generate higher added value. Less developed countries can continue to implement existing technology, but for the developed countries it is not sufficient with existing technology to increase productivity. Businesses in developed countries must design and develop precision products and processes that are closer to activities with added value. Such progressive environments need support from the public and private sectors, which includes sufficient investment in research and development, the presence of academic institutions at a high level, that can create new technology and extensive cooperation between universities and industries in research and technological development.

The Global Competitiveness Report for 2015-2016, for Vietnam, moved to the 56th position in comparison with previous years, where it scored 4.30 points out of 7, like from 2014-2015. The Competitiveness Index averaged 4.16 points from 2007 until 2016, reaching a high of 4.30 points in 2016, with a record low of 4.02 points in 2010. The World Economic Forum reports the Competitiveness Index in Vietnam. Key indicators of advancement were: the macroeconomic environment (69th, up 19 positions), improvements in the quality of transport and energy infrastructure, advances in the real market efficiency pillar (83rd, down 9), lower trade barriers and a lighter tax rate on businesses. Regarding market size, Vietnam has a ranking of 33 - the highest level on the competitiveness index. However, the financial market development is still fragile (93rd, down five stages); the technological readiness of the country needs improvement. Currently, it is 92nd; improvements were in the ten stages, influenced by slow adaptation of technology. However, the country entered into the post-industrial stage of development, which is characterised by technological development and innovation. The most challenging factors for doing business are access to financing, policy instability, inadequately educated workforce, weak work ethic in the labour force, corruption, and inadequate supply of infrastructure and so on. ¹⁸¹

Chart 15: Global Competitiveness Index for Vietnam, 2007-2014



Source: World Economic Forum, Global Competitiveness Index, from 2007 to 2014

¹⁸¹Schwab, Klaus, and Xavier Sala-i-Martin. "Global Competitiveness Report 2015-16: GCI Report 2015-16." In 2015. Accessed 2015-11-04. http://www3.weforum.org/docs/gcr/2015-2016/Global_Compititiveness_Report_2015-2016.pdf p. 366-367

III. CONCLUSION

This paper attempts to give an appropriate evaluation of the management of the super social systems. Analyses of these processes from global, regional and domestic, in this case, Vietnamese, perspectives reveal the maturation of the new global policy. The impact of globalisation and regionalization has served as a method of evaluation of the formation of development strategies in Southeast Asian countries. The subject of research is the accurate summary of areas of adaptation to the conditions of developing regional cooperation and the formation of complex processes of harmonisation of Vietnamese interests within the ASEAN Community.

Also, it is critical to address the complex problems associated with the implementation of reforming policies, which helped Vietnam emerge out of crises, maintain the social and political stability under industrialisation, modernization and globalisation. The main challenge for Vietnam remains the development of the socio-cultural sphere and to protect their national identity. Particularly, major achievements were reached by optimising the interests of the country to enhance its global competitiveness and improve socio-economic development. The country has accomplished an evolution of conceptual and institutional frameworks in specific areas of cooperation within ASEAN. The basic aspect of modern economic development, through the adoption of market economic principles in Vietnam, is the active participation in regional integration processes. This full process has been an attempt for Vietnam to identify its place in the in the super social system.

In 1975, post-War Vietnam faced a difficult situation. The main challenges for the society were poor socio-economic conditions and poverty reduction. The Communist party had to make decisive decisions amidst the process of reforming the economy and eliminating political isolation. Ever since the implementation of the Doi Moi policy, the country has experienced extraordinary growth in a traditional comparative sense. Doi Moi provoked the desire for profit. However, it simultaneously created suspicions that wealth could be a threat to traditional Vietnamese morality. The country represents an extraordinary example of the peaceful combination of Buddhist philosophy and market socialism. The end of the Cold War was an important turning point in international politics. Hanoi opted for a new foreign policy as a part of the renovation process. Integration into ASEAN was a natural outcome of the process of globalisation.

Industrialisation and rapid economic growth transformed many countries from peasant societies to modern, urban and industrial countries. These forces of change have significantly influenced the political systems in the region, such as, how groups and individuals take part in politics and the extent to which political institutions are characteristic of the communities they govern. As such, an analysis

of political systems in the region, with an emphasis on understanding political change and its relationship to socio-economic transformation, is imperative for comprehending such changes. These changes are outcomes of globalisation projects. Globalisation is an objective process and consists of the concentration of the productive forces on the planet. The mechanisms of management of these processes of globalisation are in crisis, instead of the whole of globalisation. With the intention to identify the mechanisms of management, the international political economic approach was used to examine the process of socio-economic transformation in Vietnam. In contrast, the geopolitical approach, by its nature, is unable to represent the global situation accurately and does not have tools to explain this new phenomenon.

The international political economic approach articulates three mechanisms of regionalisation: Traditional (interstates or intergovernmental grouping); neo-regionalism or open regionalism, which is more decentralised; interregional relations or trans-regionalism, in which regions are competing between each other. The concept of regionalization takes root in The new global system of the international division of labour: ten-regional model.

As an alternative to pro-western "Pax-Americana", the Chinese management mechanism of development affects the new international economy. In contrast to a capitalist management perspective, socialism does not mean poverty. The new development model, practised in China and Vietnam, delivers infrastructure with integration and unification, allowing for the protection of national character. Traditional Chinese soft approach aims to have a moderate, peaceful growth of high quality. It does not support standard solutions for different situations. It is pragmatic and ideological simultaneously, reflecting the ancient Chinese philosophy. The best way is to modernise by a gradual evolution, which can be metaphorically likened to move the stones across the river, as opposed to one immediate jump.

In the case of Southeast Asia, the socialist approach fused with the Developmental State strategy. This strategy is an approach, where the government is intimately involved in macro and micro-economic planning and management to achieve steady economic growth, while production and public utilities were given to the private sphere. At the beginning of the 21st century, Vietnam shifted to a new market model of economic development and the active participation in regional and global economic cooperation. Globalisation has an impact on the ASEAN financial system and the performance of their currencies. Another challenge for ASEAN governments was to protect their enterprises from internal markets. New types of complex regional networks of non-state and transnational actors threaten the local sovereignty and traditional relationships between the state and society. The globalisation of regional economic integration has become a trend in the development of the international political economy, whereby Free Trade Agreements have been the most common manifestation of it. This

integration allows members of the region to eliminate all tariff and non-tariff trade barriers virtually and will influence international trade flows, the allocation of resources change the pattern of the international industrial division.

Within the ASEAN community, Vietnam has changed to harmonise with new economic policies and strategies. This has created economic opportunities, bilateral and multilateral partnerships - optimising the interests of the country to enhance its global competitiveness and achieve the main targets of socio-economic development. The integrated mechanisms combine a planned economy and market planning mechanisms (centralised planning of long-term development in combination with market self-regulation). Consequently, Vietnam and ASEAN countries are the main sectors of production. Southeast Asia represents a new core of the world economy that will continue to grow and increase its influence in the global economy. The main trends and characteristics of the economy of Vietnam, at the present stage, is the deepening of regional cooperation with the aim to enhance its global competitiveness and achieve the main targets of socio-economic development.

As a consequence of a profound transformation of world politics and a sharp decline in the predictability, there has been new formations of centres of power. The East has been considered to the antithesis of the West, whereby the dominance of tradition, especially historically, politically - have influenced a more hierarchical and socially-minded society. However, with accelerated modernization and economic growth, the impact of globalisation has made the border between East and West much more porous. Therefore, what is the East now? What are the common trends that characterise its development? Is there a synthesis of traditional and modern? Can the East be seen as an alternative to the West? ASEAN has demonstrated its ability to balance and to serve as a bridge between political, economic and social norms of two giants: East and West.

In the economic context, ASEAN has encouraged strong investment and integrated the markets gradually, believing that economic prosperity will lead to other realms of prosperity. As a platform, ASEAN regional comprehensive partnership, put together all "ASEAN plus" under one group of investment. Key challenges for ASEAN are middle-income track, political reforms, foreign investment for technology and infrastructure, and finally, more transparency and transformation in trade. To boost inter-regional trade (only 25 \% among each other), Vietnam should shift export efforts toward ASEAN rather than with other APEC members. An addition challenge for ASEAN is to develop a government reform system to manage its problems efficiently and internally.

As multipolar world structure, systems are still fractured, and there is not a cohesive multilateral system to maintain balance. Though until recently, there has been an absence of effective systems and institutions, ASEAN has provided a source of structure in the midst of cultural and economic uncertainty. ASEAN's cooperation strategy has two key components. Firstly, ASEAN is seeking to

extend agreements among its members through the development of an ‘ASEAN Community’ with three inter-related elements: economic, political-security and socio-cultural. Secondly, ASEAN is striving to consolidate its position at the centre of cooperation in East Asia overall.

While it appears that a compromise has been reached in this initial stage of the transition to a new global system, future conflicts and contradictions seem to be inevitable. Assuming that in the previous system power came from the control of capital, then there is a current political, economical system failure. The complex analysis shows that the current world capitalist class is split into regional parts. The West is not the undisputed ideological leader. The post-capitalist system will need a new informational and technological industrialisation. In this stage of changes and adaptations, there are still uncertainties regarding the subject who will be able to lead the transition to a new system.

This paper presents analyses of the current political- security, economic and social situations in Southeast Asia, rather than policy advice or an action plan for global strategy. Vietnam is unique in that the socialist superstructure and the political leadership of the Communist Party remain key players in the creation of long-term economic reforms associated with the transition to a market economy. Current challenges for Vietnam are the formation of a new foreign policy, which is more appropriate for confronting an unpredictable global political economy. Creation of objectives for Vietnam will require more comprehensive analyses of the future configuration of power in the region.

The central hypothesis of this thesis is the argument that the best model for the development of Vietnam is the model tested in the countries of Southeast Asia. There are certain similarities of the earliest situation between these countries and Vietnam. First, Vietnam historically had a chance to learn and apply the development and successful experiences from its neighbours. Second, the countries of Southeast Asia have achieved significant economic success with a combination of key factors: the successful market economy and political stability.

This dissertation has several purposes. Firstly, to investigate a new dimension of global order and the impact of globalisation and its regional manifestations. Secondly, to provide detailed information on the evolving political and economic situation in Vietnam during the period of recovery from the neocolonialist war, so-called “development with Socialist orientation” and to evaluate the conceptual and institutional frameworks of the specific areas within ASEAN. More specifically, to identify the role of regional cooperation from three aspects: political-security, economic and social-cultural. The analysis covers the period from 1986, when Communist Party of Vietnam (CPV) promoted renovation policy (Doi Moi), till the current development – following strategic decision making about the future direction of the country. Though Vietnam’s fate is ultimately inconclusive, its unique approach to development and progress offer a potential model for other countries in the region.

Figure 9: Map of Vietnam

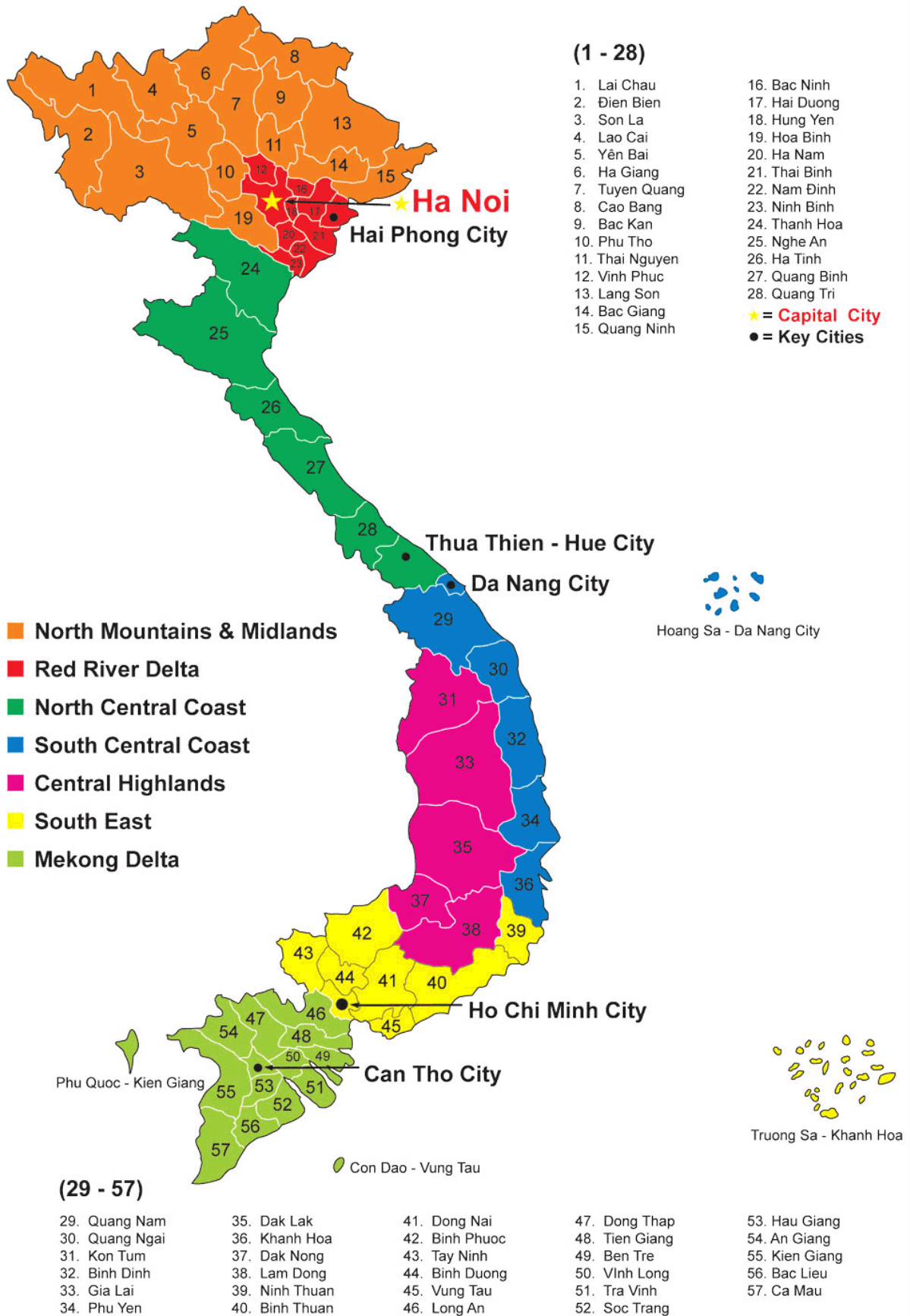


Figure 10: Vietnamese National Assembled (1986)



Source: (Assoc. Prof., Dr. Nguyen Trong Phuc 2013)

The 6th National Congress of the Communist Party of Vietnam decided the line of Doi Moi (innovation), continuing to build socialism towards the target of: “A prosperous people, a powerful country, an equal and civilized society” (1986)

Photo: VNA

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Abstract

This paper seeks to understand the mechanisms of the transformation of the Vietnamese political economy in the context of global politics. After the War in 1975, Vietnam faced a difficult situation in which improving socio-economic reality and poverty reduction were the main challenges for the nation. The Communist party needed to make a rapid decision in the process of reforming the economy and eliminating political isolation. Since the adoption of the renovation policy, Doi Moi the country experienced extraordinary growth through the traditional comparative lens.

Hanoi opted for a new foreign policy as a part of the renewal process. Integration into ASEAN was a natural outcome of the process of globalisation. As a result, ASEAN played a central role in ensuring peace and stability in the regional order, political independence and regime survival in Vietnam. Vietnam has entered a new strategic phase of its development in a global context. This new phase is very dynamic and fast-changing, representing advantages, opportunities and, simultaneous, challenges.

This thesis demonstrates the following: Firstly, why traditional IR theories no longer serve to explain the processes of global transformation; Secondly, why the agenda of a multipolar world structure promising solution to the global crises; Thirdly, what role ASEAN has played in stabilising the situation in the region. Moreover, finally, how Vietnam has served as an example country as articulated through the socio-political (economic) model.

Keywords: Global political economy, Globalization, Regionalization, Vietnam, ASEAN, Market socialism, AFTA

Abstrakt

Táto diplomová práca poukazuje na mechanizmy transformácie vietnamskej politickej ekonomiky v kontextu globálnej politiky. Po válce v roce 1975 se Vietnam potýkal s obtížnou situací, kdy zlepšení socioekonomické reality a snižování chudoby byly pro vládu hlavními výzvami. Komunistická strana potřebovala rychlé rozhodnutí v procesu obnovy hospodářství a eliminace politické izolace. Od přijetí rekonstrukční politiky Doi Moi země zaznamenala výjimečný růst prostřednictvím tradičních ekonomických vlastností.

Hanoi se rozhodl pro novou zahraniční politiku jako součást procesu renovace. Integrace do ASEAN byla přirozeným výsledkem procesu globalizace. Důsledkem je, že ASEAN hrál ústřední roli při zajišťování míru a stability v regionu, politické nezávislosti a přežití režimu ve Vietnamu. Vietnam vstoupil do nové strategické fáze svého vývoje v celosvětovém kontextu. Tato nová fáze je velmi dynamická a rychle se měnící, což představuje výhody, příležitosti a současné výzvy.

Tato práce prokazuje následující hypotézy: za prvé, proč tradiční IR teorie již neslouží k vysvětlení procesů globální transformace; za druhé, proč agenda multipolární světové struktury slibuje řešení globálních krizí; za třetí, jakou roli hraje ASEAN při stabilizaci situace v regionu. Vcelku, Vietnam sloužil jako ukázková země, která je regulována prostřednictvím sociálně-politického (ekonomického) modelu.

Klíčová slova: Globální politická ekonomie, Globalizace, Regionalizace, Vietnam, ASEAN, Tržní socialismus, AFTA