

VIETNAM'S CHALLENGES IN ACHIEVING SUSTAINABLE DEVELOPMENT AND INTEGRATION INTO THE GLOBAL ECONOMY

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THE GLOBAL CONTEXT

- LAST 50 YEARS HAS SHOWN THAT DEVELOPMENT IS POSSIBLE
 - Remarkable Success of the Countries of East Asia
- BUT NOT INEVITABLE
 - Failures in much of the rest of the world
 - Especially Africa
 - And Latin America

THE GLOBAL CONTEXT

- **LATIN AMERICA IS THE REGION THAT FOLLOWED MOST CLOSELY THE PRESCRIPTIONS OF THE WASHINGTON CONSENSUS (IMF)**
 - Focusing on Stabilization, Privatization, and Liberalization
 - Growth was just over half of what it was in earlier decades
 - Last half decade has seen declining per capita income
 - And what little growth has gone mostly to the people at the top
- **EAST ASIA FOLLOWED MARKEDLY DIFFERENT MODEL**
 - Government has an important role
 - Key is getting the balance right (both in direct activities and regulation) and improving the efficiency and efficacy of public sector
 - Emphasis on social justice, not just economic efficiency

ELEMENTS OF THE EAST ASIA MIRACLE

- **INDUSTRIAL POLICIES**
 - NOT JUST PICKING WINNERS
 - BUT IDENTIFYING AREAS WITH 'SPILLOVERS' (EXTERNALITIES), LONG RUN POTENTIAL
 - EXPORT PROMOTION
- **EDUCATION**
- **PROMOTING SAVINGS**
- **GOOD FINANCIAL INSTITUTIONS TO ENSURE SAVINGS WERE INVESTED WELL**
- **EMPHASIS ON ENSURING BENEFITS OF GROWTH WERE SHARED EQUITABLY**

EAST ASIA MIRACLE

- MANAGED TO SUSTAIN GROWTH OVER LONG PERIOD OF TIME
- BY CHANGING AND ADAPTING POLICIES TO CHANGING CIRCUMSTANCES
- CONTROVERSIAL INTERPRETATIONS OF EAST ASIA CRISIS AND RAPID RECOVERY
 - Pushed liberalization (especially capital market liberalization) too fast,
 - Without adequate adaptation of the rest of the economic system
- CURRENT CHALLENGES
 - Promoting domestic demand
 - Ensuring sustainability

EXPERIENCES LED TO NEW THINKING IN DEVELOPMENT

- END OF WASHINGTON CONSENSUS
 - Or even Washington Consensus “plus”
 - Though one still gets some W.C. advice from international financial institutions
- Today, there is no consensus
 - Except that the Washington consensus is neither necessary nor sufficient for successful development
 - Even if each of its policies made sense for particular countries at particular times
 - That any future consensus cannot be *made just in Washington*
 - And will have to allow for greater adaptation to the circumstances of countries

NEW THINKING IN DEVELOPMENT

- RECOGNITION THAT CAPITAL MARKET LIBERALIZATION HAS NOT LED TO FASTER GROWTH, BUT HAS LED TO MORE INSTABILITY (POVERTY)
- RECOGNITION THAT FINANCIAL SERVICE LIBERALIZATION MAY HAVE ADVERSE EFFECT ON ECONOMIC GROWTH
 - Lack of capital for small and medium sized domestic enterprises

NEW THINKING IN DEVELOPMENT

- TRADE LIBERALIZATION HAS HAD AMBIGUOUS EFFECTS
 - Depends on whether job growth has matched job loss from liberalization
 - Depends critically on pace and pattern of liberalization
 - At the very least, trade liberalization does not ensure growth
 - Mexico after NAFTA has grown slowly, real wages have fallen
 - Partly because of NAFTA
 - Partly because, in spite of name, NAFTA was not really free trade agreement (agriculture, non-tariff barriers)
 - **No systematic relationship between trade liberalization and economic growth**
- RECOGNITION OF HYPOCRISY OF ADVANCED INDUSTRIAL COUNTRIES
 - Symbolized by position on agriculture
 - But going well beyond
 - Uruguay Round actually made poorest countries of world worse off

VIETNAM

- HAS HAD REMARKABLE SUCCESS OVER PAST FIFTEEN YEARS
- CHALLENGE IS HOW TO MAKE THAT GROWTH SUSTAINABLE
 - SUSTAINED GROWTH
 - ENVIRONMENTALLY SUSTAINABLE
 - SOCIALLY SUSTAINABLE
- KEY PART OF THAT WILL DEPEND ON HOW AND HOW WELL VIETNAM RESPONDS TO CHALLENGES OF INTEGRATING INTO THE GLOBAL ECONOMY

ENVIRONMENTAL SUSTAINABILITY

- VIETNAM WILL BE ENTERING A STAGE OF ITS DEVELOPMENT WHERE THERE WILL BE LARGE DEMANDS ON THE ENVIRONMENT
- UNLESS IT TAKES INTO ACCOUNT ENVIRONMENTAL IMPACTS OF ITS POLICIES THE EFFECTS COULD BE DISASTROUS AND GROWTH WILL NOT BE SUSTAINABLE
- KEY PART IS TO ENSURE THE DEVELOPMENT OF LIVABLE CITIES
 - WITH PARKS AND PUBLIC TRANSPORTATION SYSTEMS
 - CITY PLANNING
 - LESS COSTLY TO PUT INTO PLACE NOW THAN LATER

INTEGRATION INTO GLOBAL ECONOMY

KEY CHALLENGES

- ADAPTING TO CHANGING GLOBAL TRADE ENVIRONMENT
- MAKING TRADE GLOBALIZATION WORK
- BARGAINING TOUGH

ADAPTING TO CHANGING GLOBAL TRADE ENVIRONMENT

- CHINA IS BECOMING DOMINANT MANUFACTURING ECONOMY
 - Other economies must find distinct product niches
 - And develop ways of interacting with China
- END OF MFA AGREEMENT (Textile quotas)
 - Market will be more competitive
 - No inevitable comparative or absolute advantage for China (not high technology, not large returns to scale, etc.)
- LIBERALIZATION OF FINANCIAL SERVICES
 - International banks may have advantages in terms of providing sense of security
 - Will present especial problem in countries where domestic banking sector has problem (e.g. non-performing loans)
 - And where domestic banks have played a role of 'bailing out' state owned enterprises
 - Hidden financial services tax used to finance state owned enterprises
 - But foreign banks will not be paying hidden tax
 - Further enhancing their competitive advance

MAKING TRADE GLOBALIZATION WORK

- GENERAL PRINCIPLES
 - Diversification
 - Thinking about *dynamic* comparative advantage, not just static comparative advantage
 - Finding Niches
 - Especially quality
 - Looking for stages in production process
 - Recognizing that most trade occurs between countries with similar economic endowments
 - Sensitive to anomalies in tariff structures
 - Quotas on sugar; but not on candy
 - Think about strategy alliances
 - Trade with Mexico as a channel for entering into U.S. market

MAKING TRADE GLOBALIZATION WORK

- FINANCIAL SERVICES
 - PARTICULAR IMPORTANT BECAUSE CREDIT IS ESSENTIAL FOR GROWTH OF PRIVATE SECTOR
 - FEAR THAT FOREIGN FINANCIAL FIRMS WILL NOT LEND SUFFICIENTLY TO SMALL AND MEDIUM SIZE DOMESTIC ENTERPRISES
 - FOREIGN BANKS ARE IN AN INFORMATIONAL DISADVANTAGED POSITION
 - RESPONSE: “CRA” (COMMUNITY REINVESTMENT ACT) REQUIREMENTS, REQUIRING ALL BANKS TO LEND CERTAIN FRACTION OF PORTFOLIO TO SME’S
 - CREATES A MORE LEVEL PLAYING FIELD
 - PROMOTES DEVELOPMENT

MAKING TRADE GLOBALIZATION WORK

- INTELLECTUAL PROPERTY RIGHTS
 - Recent call by WIPO for a development oriented intellectual property regime
 - Recognition that Uruguay Round TRIPS agreement was not balanced
 - U.S. Pharmaceutical and Media interests dominated
 - At expense of developing countries
 - Health needs
 - Development objectives
 - And even research community in U.S. and elsewhere
 - Knowledge most important input into research
 - Makes access to knowledge more difficult
 - Important to formulate and implement right intellectual property regime
 - And not sign new agreements that further tilt the balance in the wrong direction

BARGAINING TOUGH

- RECOGNIZE THAT FREE TRADE AGREEMENTS ONLY PROVIDE BARGAINING FRAMEWORK, NOT TRUE FREE TRADE AGREEMENTS
 - NON-TARIFF BARRIERS
 - AGRICULTURE
- MORE RECENTLY, FREE TRADE AGREEMENTS HAVE IMPOSED ADDITIONAL CONDITIONS WHICH IMPAIR DEVELOPMENT
 - INTELLECTUAL PROPERTY AGREEMENTS
 - MAKING ACCESS TO DRUGS MORE DIFFICULT
 - AND POSSIBLY IMPEDING DEVELOPMENT ITSELF
 - FORCING CAPITAL MARKET LIBERALIZATION
 - DISADVANTAGES TERMS IN TELECOMMUNICATIONS
 - OTHER INTRUSIONS INTO NATIONAL SOVEREIGNTY

BARGAINING TOUGH

- MUST RECOGNIZE THAT POSITION OF ADVANCED INDUSTRIAL COUNTRIES AND ESPECIALLY U.S. IS NOT BASED ON PRINCIPLES, BUT ON ADVANCING ITS OWN COMMERCIAL AND FINANCIAL INTERESTS— IN SPITE OF RHETORIC
 - Reflected in unbalanced agenda and outcomes of Uruguay Round
 - Reflected in unbalanced agenda of so-called Development Round
 - Commonwealth/IPD Report: Does not even deserve to be called a Development Round
 - A True Development Round would look markedly different

BASIC LESSON

- NO AGREEMENT IS BETTER THAN A BAD AGREEMENT
- THOUGH ACCESSION TO WTO IS IMPORTANT
 - PROVIDES AN ELEMENT OF INTERNATIONAL RULE OF LAW
 - EVEN IF NOT TOTALLY FAIR
 - CIRCUMSCRIBES 'BAD' BEHAVIOR BY US, OTHERS
 - COTTON, STEEL

Other elements of Success

- Trade liberalization is no guarantee for success
- Trade policy an important element of success, but not the only element
- Trade liberalization raises some important problems that need to be dealt with

SOCIAL SUSTAINABILITY

- THE PROCESS OF TRANSITION TO A MARKET ECONOMY TYPICALLY IS ACCOMPANIED BY INCREASING INEQUALITY
- THE PROCESS OF TRADE LIBERALIZATION/GLOBALIZATION IS TYPICALLY ACCOMPANIED BY INCREASING INEQUALITY
 - Both in developed and less developed countries
 - Contrary to what had been expected; standard theory had predicted that demand for 'unskilled workers' in developing countries would increase
 - Scarcity value of skills increases with globalization
 - Especially as it is accompanied by upgrading of product quality

GLOBALIZATION AND TRANSITION

- GLOBALIZATION AND TRANSITION INCREASE NEED FOR REDISTRIBUTIVE PROGRAMS
- BUT OFTEN LEAD TO LESS SCOPE FOR REDISTRIBUTIVE PROGRAMS
 - TRANSITION LEADS TO SHIFTING REDISTRIBUTIVE PROGRAMS AWAY FROM ENTERPRISE, EVEN BEFORE PRIVATIZATION, AS A RESULT OF PRESSURE FROM COMPETITION
 - BUT DEMAND FOR DEVELOPMENT FUNDS MAKES OPPORTUNITY COST OF SOCIAL SAFETY NET EXPENDITURES VERY HIGH
 - AND PRESSURE FROM INTERNATIONAL FINANCIAL INSTITUTIONS FOR PRIVATIZATION, INDIVIDUAL ACCOUNTS DISCOURAGES CREATION OF EFFECTIVE REDISTRIBUTIVE SAFETY NET

GLOBALIZATION AND TRANSITION

- UNLESS POLICIES ARE PUT INTO PLACE TO ADDRESS PROBLEMS OF GROWING INEQUALITY, SOCIAL TENSIONS MAY RISE, AND GROWTH MAY NOT BE SOCIALLY SUSTAINABLE

OTHER ELEMENTS OF SUCCESS

- FINANCIAL MARKETS
 - Brains of economy
 - Allocate scarce capital
 - Successful countries have managed to allocate scarce capital well
 - And provide capital to new enterprises
 - Including SME's

FINANCIAL MARKETS

- BANKS
 - Major source of funding for new investment in all countries
 - But especially important in developing countries (where security markets are weak)
 - Vietnamese banks have local information and are more subject to guidance in development objectives
 - U.S. growth was based on local banks
 - Financial Services Liberalization may put local banks at a disadvantage unless CRA requirements are imposed
 - But important to ensure Vietnamese banks are on sound financial basis
 - Not used for 'hidden subsidy' for SOE's

FINANCIAL MARKETS

- Security Markets
 - Have distinct advantages in risk spreading
 - But suffer from problems of asymmetric information even in developed countries
 - Exemplified by corporate scandals in U.S. during the 90s
 - Problems worse in developing countries
 - Important to put into place good security and corporate governance laws
 - But also important to recognize that security markets are likely to play limited role going forward

OTHER ELEMENTS OF SUCCESS

- DECENTRALIZATION
 - Can be an important tool for improving public sector performance
 - Greater accountability, with closer monitoring at local level
 - Improved information, with those at local level knowing more about true development needs and opportunities
 - Competition among localities can be a spur to growth
 - And experimentation at local level can provide valuable information about best development strategies

DECENTRALIZATION

- **BUT...**
 - Separation between funding and expenditures may weaken sense of accountability
 - Control systems may be weaker to develop and implement at local level
 - And there may be 'capacity' problems
 - Number of people understanding development strategies, importance of control mechanisms, etc.
- **NEED FOR FLEXIBLE, MIXED SYSTEM, WITH CHECKS AND BALANCES**
 - With, for instance, degree of decentralization differing across areas, changing over time

CONCLUSIONS

- **VIETNAM CAN ACHIEVE SUSTAINABLE DEVELOPMENT**
 - ECONOMICALLY SUSTAINABLE
 - ENVIRONMENTALLY SUSTAINABLE
 - SOCIALLY SUSTAINABLE
- **AND SUCCESSFULLY INTEGRATE INTO GLOBAL ECONOMY**
- **BUT DOING SO WILL REQUIRE NOT ONLY TAKING ADVANTAGES OF THE OPPORTUNITIES BUT ADDRESSING SOME OF THE CHALLENGES POSED BY GLOBALIZATION AND TRANSITION**

CONCLUSIONS

- IT WILL REQUIRE TAKING TO HEART SOME OF THE LESSONS OF SUCCESS AND FAILURE IN OTHER DEVELOPING COUNTRIES
 - Including the failure of the Washington Consensus Policies
 - Distinguishing rhetoric of liberalization from reality
- WHAT IS AT STAKE IS NOT ONLY THE ABILITY TO SUSTAIN RAPID ECONOMIC GROWTH
- BUT ALSO THE NATURE OF VIETNAMESE SOCIETY FOR GENERATIONS TO COME