Revista de Economía Mundial
ISSN: 1576-0162
rem@uhu.es
Sociedad de Economía Mundial
España

Olivié, Iliana; Steinberg, Federico
Vietnam Goes Western: A Political Economy Analysis Of Vietnam's Accession to the WTO
Revista de Economía Mundial, núm. 36, enero-abril, 2014, pp. 239-256
Sociedad de Economía Mundial
Madrid, España

ISSN: 1576-0162

Vietnam Goes Western: A Political Economy Analysis of Vietnam's Accession to the WTO

Vietnam se occidentaliza: Un análisis de economía política de la adhesión de Vietnam a la OMC

Iliana Olivié
Complutense University of Madrid and Elcano Royal Institute
iolivie@rielcano.org

Federico Steinberg
Autónoma University of Madrid and Elcano Royal Institute
fsteinberg@rielcano.org

Recibido: septiembre de 2013; aceptado: enero de 2014

Abstract[1]

This paper explores the reasons and motivations for Vietnam's entry into the World Trade Organization (WTO) in 2007. On the basis of in-depth, semi-structured interviews with elites, secondary sources, and official documents, we point to the relevance of political economy considerations in this decision. In particular, Vietnamese authorities used WTO accession as an instrument to lock-in internal structural reforms, signal political stability to trade partners, and secure market access to Western consumer markets. Accession comes after a qualitative change in the export pattern (increased added value) that also meant new trade partners, mostly Western partners. Therefore, we interpret WTO accession as the final step of a wider process of economic and trade "Westernization".

Keywords: Political Economy; Development; Trade; WTO; Vietnam.

[1] Funding: 2nd Collaboration Agreement between the Spanish Ministry of Foreign Affairs and the Elcano Royal Institute for the period 2007-08.

Acknowledgements: The authors are grateful for financial support received from the Spanish Ministry of Foreign Affairs and Cooperation in carrying out this research project. This paper was presented at SASE 23rd Annual Conference, Transformations of Contemporary Capitalism: Actors, Institutions, Processes (Madrid, June 2011). The authors thank other members of the panel, and referees for this publication, for useful comments and suggestions.

RESUMEN

Este artículo explora las razones que llevaron a Vietnam a entrar en la Organización Mundial del Comercio (OMC) en 2007. Sobre la base de entrevistas semi-estructuradas con élites políticas y económicas, fuentes secundarias y documentos oficiales, se argumenta que las consideraciones de economía política fueron clave en esta decisión. En particular, las autoridades vietnamitas utilizaron la adhesión a la OMC para consolidar reformas estructurales internas, subrayar su estabilidad política ante sus socios comerciales y asegurar el acceso de sus productos a los mercados de los países occidentales. La adhesión llega tras un cambio cualitativo en las las exportaciones (con creciente valor añadido) que significó también nuevos socios comerciales (occidentales). Así, se interpreta adhesión a la OMC como el paso final de un proceso más amplio de "occidentalización" económica.

Palabras clave: Economía política; Desarrollo; Comercio; OMC; Vietnam.

JEL Classification: F13, F53, F63, P11, P16.

1. Introduction

On January 11th, 2007, Vietnam became the 150th member of the World Trade Organization (WTO). This was another key step in the *doi moi* process that begun in 1986 with the aim of developing the East Asian country economically and socially. The process of structural change that Vietnamese authorities were seeking was to be achieved through different measures, which included the integration of Vietnam into the global economy.

Over the past 20 years, Vietnam has shown an economic strength that is both stunning and out of the ordinary for developing countries, even those in Asia. Rich in natural resources, Vietnam has nonetheless managed to escape the so-called resource curse, or paradox of plenty, that has afflicted many countries in Latin America and sub-Saharan Africa. Despite being a leader in exports of raw materials such as coffee and rice, it has carried out a process of structural change led by a labor-intensive non-durable consumer goods industry. At the same time, all this growth has led not only to a deep process of economic development, but also to sustained improvement in social indicators, such as a huge reduction in the poverty level. This has made for unquestioned progress in Vietnam's pursuit of the Millennium Development Goals and in other development indicators (McCargo, 2004; Kokko, 2006; Beresford, 2008; Vu, 2010; Gainsborough, 2010; Cuong, 2011).

As has been the case with several of Asia's most dynamic economies, one of the foundations of Vietnam's strategy is in its dealings with the outside world. Export growth and the attraction of Foreign Direct Investment (FDI) have been fundamental parts of the country's process of structural change. In this regard, Vietnam has formally joined the world economic system by signing economic and trade agreements with the European Union and the United States. Eventually, as part of this development strategy and trade policy, it also became a member of the WTO.

The economic consequences of Vietnam's accession to the WTO (more than six years ago) have already been studied, though not extensively. These studies include analyses of impacts on household income, inequality, and output (Nguyen and Heo, 2009), of exports, imports, and FDI (Hanh, 2011), and of the outlook for/performance of multinational companies (Shieh and Wu, 2012).

However, the reasons behind why Vietnamese authorities decided to adhere to the international organization seem to be under-studied, or taken for granted. This article is an attempt to partially fill this vacuum.

There is an extensive literature on the economic reasons for a country to liberalize its trade and/or to adhere to a free trade space or agreement. Most of it is built on the basis of standard trade theory: trade openness will lead to specialization and allow countries to reap the benefits of economies of scale; that is, higher efficiency will lead to growth and development. At the same time, cheaper imports will benefit both consumers and firms that are integrated into global value chains. Our argument, meanwhile, is that elements of political economy –such as locking-in internal reforms, or sending signals of stability and commitment to economic liberalization to international markets, and to trade and financial partners– seem better suited to explaining the particular case of Vietnam's adherence to the WTO, taking account the pros and cons for the Vietnamese economy of becoming part of the WTO.

More precisely, our hypothesis is that one of the chief reasons that Vietnamese authorities decided to join this trade organization stemmed from a combination of (i) signaling stability to new trade partners; (ii) locking-in reforms; and (iii) seeking better guarantees of access to new markets. Moreover, all these might be seen as responding to a wider process of the economic and trade 'Westernization' of Vietnam. In short, as part of the success of the *doi moi* process, added-value output and exports were increased, driving a substantive change in trading partners, from other Asians to Westerners. New partners also meant new rules of the game. Therefore, Vietnam signed trade agreements with the European Union and the United States, but also sought a more far-reaching Western institutional umbrella through WTO accession.

In order to test our hypothesis, which is effectively a qualitative assessment of particular political choices, we agreed on the need to go beyond traditional positivist and quantitative methods of analysis, and instead to seek qualitative answers to a qualitative problem determined by notions of political strategies and power. Hence we decided to use in-depth semi-structured elite interviews (Aberbach and Rockman 2002; Dexter, 2006) to understand how Vietnamese elites interpret the country's policy choices regarding economic openness. The interview material is complemented by scholarly secondary sources and official documents, when available, in order to triangulate the evidence. As with all qualitative research done with a reduced number of interviews, we should highlight here that our results are only exploratory, and not conclusive. Nonetheless, since the literature has hitherto not been able to address this issue, we think that our approach provides original insights to the debate.

In April and May of 2008, 15 interviews were held in Hanoi with Vietnamese government officials at the ministries of planning and investment, industry, trade, finance, and foreign affairs, and with staff at the Vietnamese delegations of multilateral organizations. These included the World Bank, the Asian Development Bank, the European Commission, and the United Nations Development Program. We also received input from NGOs involved in development issues, as well as experts in the field, on the development prospects for Vietnam. Some subjects were interviewed again in June of 2009, in order to update data, opinions, and information. Once the elites agreed to be interviewed, the conversations were usually insightful and friendly. None of the interviews lasted less than 30 minutes, while the average duration was one hour, meaning that in general the interviews were sufficiently in-depth to grasp the perceptions of the interviewee.

The article is organized as follows. The next section explores the theoretical literature on international trade in order to identify the main motives for a country to liberalize its current account and/or join an international trade organization or agreement. Economic but also political economy motives are surveyed. Section 3 explores the particular case of Vietnam adhering the WTO: it assesses the country's trade policy and performance as elements of the development model and process, and it details the motives behind Vietnam's accession. The final section presents a reflection on the consequences for Vietnam's development strategy of its entry into the WTO, as well as the implications of our research for the overall development debate.

2. Why do countries liberalize trade and join the WTO?

Trade policy has historically been an important element in a country's development strategy. For the last two centuries, an ongoing theoretical debate has divided supporters of free trade from those who argue for selective protectionism.[2] This theoretical debate has never been completely settled because national experiences diverge widely, and because most cross-country empirical studies have failed to establish a clear link between trade liberalization and economic growth (Rodriguez and Rodrik, 2000).

Moreover, since countries can liberalize trade unilaterally, or enter preferential or multilateral trade agreements, there is an extensive literature that underscores the advantages and challenges associated with each alternative. In practice, countries find it more useful to liberalize trade bilaterally, regionally, or multilaterally than to do so unilaterally. This is because a principal reason for liberalizing trade is for a country to gain access to foreign markets, and market access is generally granted on a reciprocal basis.

In this section, we critically review these theories and show that political economy explanations provide a better account of why countries liberalize trade and join multilateral trade institutions than narrow economic theories are able to do.

[2] It would be impossible to reference all the literature that has covered the free trade versus protectionism debate over the years. For highlights of a few examples, see Bhagwati (1988) and Irwin (1996).

2.1. Economic arguments

The benefits of trade liberalization were first identified in classical trade theory, which attempted to reject the mercantilist view in which power and plenty depended primarily upon exports. The Ricardian model of comparative advantage and its neoclassical ramifications (Hechscker-Ohlin and specific-factors models) emphasized the static gains from trade, mainly cheaper imports, which allowed consumers to increase their utility and businesses to reduce their production costs. In addition, the new trade theory introduced economies of scale and product variety to the rationale for trade openness. In doing so, these models also showed how exports can be welfare enhancing.

In fact, the importance of exports for productivity growth in particular, and for economic development in general, has also been underscored by scholars who argued that industrial policy and the selective protection of infant industries is key to promoting industrialization and economic growth (Prebisch, 1950; Singer, 1950; Chang, 2002; Hausmann and Rodrik, 2003). Moreover, the theory of strategic trade policy (Brander and Spencer, 1983) –derived from the new trade theory– showed how in imperfectly competitive markets with positive externalities, countries can gain by promoting and subsidizing exports in high value-added sectors. All these theories have the common feature of going beyond the static gains from trade. They point out that dynamic gains from trade, particularly those associated with increased competition and technology transfer, provide the most important rationale for trade openness in the long run. However, they also advocate for gradual and strategic openness, not plain liberalization. Finally, the importance of exports has also been corroborated by recent historical evidence, especially from the Asian economies that have followed an export-led growth strategy (Authors, 2004).

The empirical method of accounting for the effects of trade liberalization is through Computable General Equilibrium Models (CGEMs). However, these models have a number of methodological shortcomings associated with their restrictive assumptions. Specifically, they tend to underestimate gains from trade because they do not accurately capture dynamic trade effects, which are virtually impossible to measure. In fact, as we will see in the next section when we analyze the Vietnamese case, the results from CGEMs are seldom a decisive factor that leads to trade liberalization. Rather, once a government takes the political decision to open its economy, it uses CGEMs to provide a justification for the decision.

Economic theory has also provided a rationale for why countries join trade agreements. As Bagwell and Staiger (2002) show, trade agreements allow countries to avoid the negative externalities that other countries could potentially impose on them by shifting the terms of trade in their favor. However, as Ethier (2004) has argued, this elegant model provides only a partial explanation for preferential or multilateral trade agreements, because most of these do not forbid *all* the instruments that could potentially shift terms-of-trade (e.g., they may allow export taxes). As Hoekman and Kosteki (2010:38) put it: "although the terms-of-trade (...) framework is elegant and generates important insights into the factors that will support trade agreements, it is too abstract to help understand the actual process of multilateral cooperation on trade. The genesis of the GATT reveals rather unambiguously that terms-of-trade considerations did not drive negotiations or determine the final outcome. In practice, the political economy-based frameworks provide greater insights into the design and mechanics of cooperation in the GATT/WTO." We now turn to these political economic arguments.

2.2. Political economy arguments

The political economy approach provides key insights for understanding trade policy outcomes, as well as for explaining why countries join trade agreements. Bringing domestic and international political considerations into the picture is a useful complement to the more narrow economic theories discussed above. As Grossman and Helpman (2002) show, trade policy outcomes crucially depend on political economy factors, because governments that seek reelection (or whose goal is to stay in power in authoritarian regimes) will maximize a utility function that includes both welfare and campaign contributions, which are a way to model lobbying activities. Their approach is useful to predict protectionist patterns, but it can also be applied to explaining why export-oriented sectors can act as a counterbalance to import-competing industries, thus facilitating trade liberalization.

Ethier (2004) also explores the incentives faced by governments and provides a theory of 'political externalities' that helps explain why countries join trade agreements. He argues that governments are reluctant to liberalize trade unilaterally, because doing so could damage certain domestic constituencies that compete directly with imports. However, reciprocity provides a solution: if foreign governments do liberalize their trade, the export-oriented sector will gain, thus shifting the balance of political support in favor of trade liberalization. Hence reciprocity is the key factor in generating political externalities because liberalization in one country facilitates openness in another, and vice-versa. In addition, Ethier's (2004) theory provides a justification for gradual liberalization, a feature observed in most developing countries, including Vietnam (Ljungreen, 1993; Authors, 2004). Gradual reform spread over time generates high levels of political support and is more sustainable than 'shock therapy'.

Countries can also decide to join trade agreements as an instrument for locking in internal economic reforms and for sending signals to international economic actors. Hudec (1987) and Finger (2008) show that trade agreements can help developing countries to credibly sustain trade and other economic reforms that might otherwise be politically unacceptable due to the opposition of powerful domestic constituencies.[3] Since international trade agreements can

[3] See Staiger and Tabellini (1987) and Maggi and Rodriguez-Claire (1998) for formal political economy models of trade agreements that support this hypothesis.

serve as rules that bind certain policies and reduce government discretion (and also policy space), they can also make it more difficult to reverse economic reforms, and they can also serve to justify specific reforms that produce painful short-term adjustment costs on society. Moreover, as Maggi (1999) shows, joining the WTO tends to work better for locking in internal reforms than would a web of bilateral trade agreements, which facilitate the verification of trade violations and promote multilateral trade negotiations.

Finally, the international political economy literature on international regimes (Krasner, 1983; Keohane, 1984) shows that joining an international trade agreement such as the WTO reduces a country's transactions costs, facilitates among countries the exchange of economic policy commitments, and allows each country to monitor and predict the behaviour of others. In sum, by creating a more predictable environment and incorporating sanctions, international regimes allow countries to escape the prisoner's dilemma of international economic cooperation.

3. Why did Vietnam join the WTO?

3.1. Trade as a major component of the development strategy

Like several of its neighbors, for the past 25 years Vietnam has been conducting a development strategy of which external trade is a key element (Authors, 2004; Kokko, 2006; Abbott *et al.*, 2008; Masina, 2009; Gainsborough, 2004), and development strategies adopted in national congresses of the communist party have given high priority to economic external relations.

For instance, in the strategy for the period 2001-10, which was approved at the 9th National Congress of the Communist Party of Vietnam and meant to be implemented into two five-year plans (2001-05 and 2006-10), the importance given to trade was paramount. The paper for the 2006-10 period in particular established three main goals: (i) on the economic front – growth, industrialization, external opening, and a balanced budget; (ii) in the social arena – poverty reduction, employment, and education; and (iii) regarding environment – reforestation, improved access to drinking water, and a more intensive use of clean technologies (SVR, 2006). Thus, international trade was established as a major development objective during the period of accession and adaptation of Vietnam to the WTO.

In that sense, one of the main goals was to change –or to keep changing– Vietnam's export pattern, increasing the share of products with a greater technological component while at the same time reducing the proportion of more basic products. To achieve this, several measures affecting both exports and imports were considered necessary.

For exports, the plan sought (i) a gradual cut in exports of raw materials (crude oil or coal, for instance) and of agricultural goods, along with (ii) an improvement in the quality and/or degree of processing of traditional export products. With regard to (iii) manufactured goods, the country was set to maintain exports of key products, such as clothing or shoes, meanwhile expanding into exports of shipbuilding, mechanical and electrical products, and handicrafts. At the same time, (iv) the quality of Vietnamese footwear was slated to improve, in order to export to new markets in Japan, the United States, or the European Union. There was a requirement for (v) innovation in exports of wood furniture, and the productive sector was encouraged to increase exports of other decorative products (ceramics, porcelain, bamboo). Exports of (vi) electronic and computer-related goods and software were also expected to increase.

As for imports, the main goal was to control the trade deficit and to give priority to imports of materials, equipment, and technology, while limiting imports of products that might take the place of local goods.

To sum up in the area of trade, during the period of its entry into the WTO, Vietnam was pursuing a continuation of structural change, as well as a change in its export pattern, gradually raising the proportion of goods with high added-value and technological content –meaning a greater role for the manufacturing sector, at the expense of the primary sector– while adapting imports to this structural change. In order to move production from non-durable consumer goods such as shoes to durable goods like furniture, the government adopted various trade and industrial measures that featured protection of certain key industries, selective attraction of FDI under strict government supervision, and stimulus for exports that would produce revenue to finance the development process. As in other countries in the region, the close links between government and industry were instrumental in implementing the strategy (Gainsborough, 2010).

3.2. Changes in the trade pattern: Vietnam goes Western

The *doi moi* process, taken as a whole, might be said to have an uneven record. For instance, as in China, spectacular reductions in poverty have been accompanied by increased income inequality (Cuong, 2011). Nevertheless, as regards structural change and the export pattern, these reforms were a success and yielded the expected results: despite a resilient trade deficit, exports boomed, and there was a technological scaling-up. By the end of the 2000s, Vietnam's export pattern was quite different from the 'classic' pattern exhibited by developing countries, and yet very similar to that seen in Asian economies, which have shown greater dynamism over the past few decades. Exports of non-durable consumer goods dominated, and those of durable consumer goods were on the rise, while imports concentrated around equipment and inputs.

At very low levels just 25 years ago, Vietnam's foreign trade has been particularly dynamic since the mid-1990s. According to WTO data, between 1995 –the year when Vietnamese trade definitively takes off– and 2006 –the year before accession to the WTO– exports of goods and services grew sixfold, and imports fivefold (Graph 1). Structurally, these data reflect Vietnam's industrial and trade policy: support for exports has translated successfully into an export increase, while measures to encourage the manufacturing industry have led inexorably to a greater technological dependence on other countries, and therefore to more expensive and diverse imports. The worsening of the trade deficit over the past five years is probably explained by the current global economic crisis, and perhaps by the WTO adherence itself.

Graph 1. Vietnam's foreign trade (millions of current US$)

* Note that due to lack of data, 1986-1989 reflect merchandise trade only.
Source: WTO database online and authors' calculations.

Although impressive, the explosion in both imports and exports has not been the most important trend in Vietnamese foreign trade. Over the past two and a half decades, Vietnam has radically changed the substance of what it trades, and with whom.

According to the WTO, of the nearly 55 billion dollars in exports that Vietnam posted in 2007, nearly 89% was merchandise. The situation with imports is similar: in that same year, 10% corresponded to services, and more than 90% were of goods. In other words, Vietnam's current foreign trade mainly involves goods. Furthermore, and also according to the WTO, manufacturing accounts for more than 53% of total exports; even though Vietnam is a major exporter of oil –and a leader in markets for raw materials such as rubber, coffee, or rice (EIU, 2006)– the process of structural change and productive diversification can be seen in its foreign trade.

The ranking of Vietnam's top trading partners has changed in recent years, stemming from policies of increased openness and structural change, but also due to external factors such as the Asian crises of the late 1990s, or the recession of 2001. In the 1990s, the main destinations for Vietnamese exports were Asia's top consuming countries: the Four Dragons (Hong Kong, Singapore, South Korea, and Taiwan) and Japan. However, as Vietnam diversified its exports, they began to head toward Western Europe, the United States, Australia, and China.

In fact, according to data from EIU (2006), the United States went from receiving just over 7% of all Vietnamese exports in 2001 to more than 20% in 2005. Thus, according to WTO data, by the time it began its accession to that international organization, Vietnam's main trading partners were China, Singapore, Taiwan, Japan, and South Korea (as import sources), and the United States, the European Union (EU27), Japan, Australia, and China (as export destinations).

The simple explanation for this shift is that the financial crisis that erupted in Thailand in 1997 and that affected the entire region –except, perhaps, China– led to a drop in consumption that forced a greater focusing of Vietnamese exports into new consumption markets. However, there may be other long-term factors, as the features of trade with Asian countries might be quite different from those with Western countries. Probably the process of structural change and the technological upgrading of output and exports also implied new partners, and the market for durable consumption goods is much wider in Western countries than in the Asian region.

This reasoning becomes evident if we follow the government's trade strategy from the beginning of the *doi moi*. Although the bilateral trade agreement with the United States was signed as late as 2000, the first European trade agreement was signed in 1992 (Table 1). In other words, given such a process of economic development, the Vietnamese communist party must have known that sooner or later it would have to turn West.

Table 1. Vietnam's key trade agreements and reforms

1986	*Doi Moi*
1988	Import tariffs introduced
1989	Market-oriented reforms, unified exchange rate, 'state monopoly of foreign trade' eliminated
1990	Export processing zones established
1991	Law on import and export duties – established preferential tariffs
1992	European Union trade agreement
1995	WTO accession working party established Joined ASEAN (Association of South East Asian Nations)
1997	Reduced requirements on firms to enter foreign trade
1998	Joined APEC (Asia-Pacific Economic Cooperation)
1999	Most-favoured-nation agreement with Japan
2000	United States bilateral trade agreement signed
2001	CEPT (Common Effective Preferential Tariff) / AFTA (ASEAN Free Trade Agreement) implementation begins New trade policy roadmap, most quantitative restrictions removed
2002	ASEAN China free trade area Implementation of United States bilateral trade agreement begins
2003	ASEAN Japan comprehensive economic partnership
2004	European Union – Vietnam bilateral agreement on WTO accession Competition law
2005	29 new or amended laws on commerce and trade
2006	Final bilateral agreements for WTO accession reached CEPT/AFTA implementation to be completed
2007	WTO accession

Source: Abbott et al. (2008).

In the decade preceding its WTO accession, Vietnam had sought to formalize its trade relations by signing agreements with its main new partners, and by joining and participating actively in regional and international trade organizations. In 2001, Vietnam signed a bilateral trade accord with the United States that lowered the average tariff on Vietnamese products from 40% to just 3-4%. Its impact was immediate: in 2002, Vietnamese exports to the United States more than doubled. In fact, EIU (2006) explains Vietnam's export strength in the late 2000s by citing its renewed access to the U.S. market. In terms of access to the European market, apart from the cooperation agreement signed in 1995, Vietnam (like many developing countries) further benefited from the GSP regime (Generalized System of Preferences); a new agreement was reached in 2004 that eliminated all quantitative restrictions (as of 1 January 2005) on access to the European market for Vietnamese products. At the regional level, Vietnam became part of ASEAN. According to a representative of the Ministry of Foreign Affairs interviewed in 2008, this regional agreement had at that time advanced more in the safety and social pillars, with economic progress lagging behind. In any case, the highlight of Vietnam's trade policy was probably its membership in the WTO, beginning on 11 January 2007.

As early as 1986, Vietnamese authorities had chosen a path that would eventually take them toward consistent change in the composition of the GDP and the export pattern. This new pattern would inevitably lead to a shift in trading partners, and would imply new rules of the game. From our point of view, Vietnam's adherence to the WTO was mainly an institutional step toward this Westernization of external trade.

3.3. Pros and cons of Vietnam's access to the WTO

So, regarding trade, the success of the *doi moi* strategy resulted in products of greater added value being sold to new Western markets as a consequence of a highly interventionist industrial and trade policy.

In explaining the accession of Vietnam to the WTO, purely economic arguments such as an increase in trade or the reduction of import prices do not seem to be a key explanatory factor and/or do not show the whole picture: accession to this particular organization could pose a threat to the abovementioned strategy. Moreover, multilateral trade liberalization might reasonably be expected to have negative impacts in sensitive sectors of the economy, particularly non-competitive agriculture, which accounts for over 60% of GDP. Therefore, Vietnamese authorities probably did not have a CGEM in mind when starting accession negotiations to the WTO. This was corroborated in our field work.

What about political economy arguments?

According to most of the elites interviewed, joining the WTO was a way to send a clear signal –at the national, regional, and international levels– that the economic reforms which began more than twenty years before were irreversible. Moreover, some interviewees mentioned that this strategy of locking-in reforms, which also signaled to foreign investors that Vietnamese authorities were willing to play by the strictest rules of the game in the global economy (those of the WTO), was similar to what China had done six years earlier, when it joined the multilateral trading system in 2001.[4] In fact, for one member of the World Bank delegation in Hanoi, joining the WTO was a logical step in the development strategy implemented since the 1980s; it was a way to consolidate Vietnam's incorporation into the global economy, a key element in the national development model.

In addition, joining the WTO was a way to establish an external imperative for certain domestic reforms, which were considered crucial by some sectors of the Government but which faced major resistance and pressure from other sectors – including within the same Government. This is the case, according to a representative from the Asian Development Bank, with the reform of state-owned companies. In general, competitiveness and productivity among state-owned companies are mediocre, but they wield considerable political power and account for a large part of national production (Beresford, 2008).

A second rationale that emerged in our field work was that joining the WTO would guarantee access to the world's main markets at the consumer level. Until very recently, maintaining high export volume was a top driver in Vietnam's continuous posting of double-digit growth. However, as with other developing countries in recent decades, Vietnam began to encounter restrictions on its products at some major export destinations and had no institutional tools with which to respond. Vietnamese exports had risen so dramatically that some importing countries saw them as a threat to domestic production. This phenomenon mirrored what had happened over the four previous decades, when the dynamism of cheap labor-intensive exports from emerging Asian economies triggered protectionist reactions in the West.

Several interviewees referred to this threat, citing in particular the Agreement on Textiles and Clothing, which replaced the Multi-fiber Accord in 1995. The new agreement called for an end in 2005 to importers establishing contingents for particular products or discriminating against source countries. When that deadline arrived, both the United States and the European Union adopted measures to avoid –or to delay for as long as possible– the removal of trade-protection measures. Nonetheless, WTO membership was meant to: give greater guarantees of access to important export destinations; limit the possibility of trading partners arbitrarily erecting trade barriers; and (in more general terms) allow for the expansion of markets at a global level, beyond bilateral or regional trade accords.

So dealing with new partners also meant, for Vietnamese authorities, dealing with new rules. Therefore a second reason for joining the WTO may have

[4] See Prime (2002) for an alalysis of the process that led China to join the WTO.

been access to markets. Vietnam was probably not seeking to enter new markets, but rather to guarantee access to old ones under a common institutional umbrella. This strategy is consistent with the literature on international regimes, discussed above, according to which countries join international institutions to reduce transactions costs, to make international economic relations more predictable, to reduce the incentives for cheating by trading partners and, in the case of the WTO, to use the institutional umbrella of the dispute settlement mechanism to confront protectionist threats.

In sum, our field work seems to suggest that political economy considerations were an important explanatory factor in the decision to join the WTO. In particular, our field work indicates that locking-in structural reforms, sending a signal to investors to increase confidence, and securing access to Western consumer markets in an increasingly protectionist environment appear to be key goals pursued by the Vietnamese government through WTO accession.

However, Vietnam's membership in the WTO has also brought about a series of problems or challenges which the government had not anticipated, according to several people interviewed for this study. First of all, regarding market access, some of Vietnam's trading partners began to complain to the WTO that the country was not a 'market economy', and this allegation could be used as a tool in favor of trade barriers in countries that buy Vietnamese exports. Further, as a WTO member, the Vietnamese government was now in a position where it had to press the European Union for maintenance of its GSP status. This led to a second problem, of a more general nature, having to do with the Vietnamese government's ability to 'digest' and finance reforms stemming from its entry into the WTO.

Indeed, Vietnam's entry into the WTO has involved a series of reforms, both before and after joining, in many areas beyond those strictly involving trade. Some of the industrial and trade policy measures applied in Vietnam like export credits or tax breaks for exporters are not allowed by the WTO (Chaponnière *et al.*, 2008). Some reforms undertaken prior to entry included a review of export subsidies, requirements for local components in production, and the granting of national treatment to foreign investment: the reformed business law now gives Vietnamese and foreign companies the same rights. Other rules that have been revised (or are in the process of being revised) have to do with corruption, bankruptcy, trade, intellectual property, and the tendering of offers for government contracts. Furthermore, in order to be recognized as a 'market economy', Vietnam would have to deepen reforms to its government and state-owned companies. Other requirements over the mid-term include financial reforms, such as greater openness to foreign commercial banks.

Therefore, rather than to gain access to over 100 new export markets, on the basis of a strictly economic rationale, it could be said that Vietnam adhered to the WTO in order to maintain its access to its new Western trade partners and to lock-in domestic reforms. This is a consequence of the *doi moi* itself: economic development was conceived as a process of structural change. New outputs and exports needed new buyers – something that inevitably led to greater involvement with Western countries and, therefore, new rules of the game, despite the risks involved.

4. Conclusions

As we have indicated, there was a kind of contradiction –as regards growth and openness– in the Vietnamese development strategy that could potentially undercut the whole process. In the mid-1980s, the Asian country gambled on very active trade and industrial policies in order to promote growth and structural change. And the gamble worked, but it also implied new markets for exports, and new institutional arrangements. Because the WTO aims to promote free trade and free markets, joining the organization would immediately raise tensions between the conditions of access and membership and the maintenance of high levels of economic intervention, which were inconsistent with WTO rules.

There are a variety of opinions as to whether the reforms triggered by WTO accession will encourage or limit the process of economic and social development in Vietnam. This debate –part of a broader debate on the role of the State in development models, and on the successes and failures of active industrial and trade policies– also came up during the interviews conducted in Hanoi in the preparation of this study. Aside from the issue of whether the benefits outweigh the costs of joining the WTO, what is clear is that the country faces the prospect of eliminating or transforming some of the economic policy measures which have been key to the economic and social development strategy undertaken 20 years ago. Specifically, Vietnam's policy space has been significantly reduced by WTO regulation.[5] For this and other reasons, the country has had to rethink its development strategy over the medium and long term, meaning that the ownership of its development strategy could also be undermined.

Along with some of the persons interviewed for this paper, one joint analysis by donor countries of Vietnam's development strategy (DA, 2006) holds that, in reality, the WTO requires the reformulation or redesign of trade and industrial support measures, but not their complete elimination. This study argues that WTO rules have sufficient built-in flexibility to allow for some policy space in the implementation of industrial policies. Were this not the case, it would be virtually impossible for the WTO to embrace such a diversity of member states with so wide a variety of economic systems and societal preferences. But this ties into the problem of the ability of the Vietnamese government, and of the country in general, to operate in this new economic environment, as stated by a wide diversity of those interviewed, from NGO representatives to the Administration itself. In order to carry out the process of adaptation, Viet-

[5] See Wade (2003) for a discussion of how WTO rules limit policy space for developing countries. See Gainsborough (2010) for a discussion of the challenges facing Vietnam.

nam will require technicians, lawyers, and economists with a deep knowledge of the country's economic structure, the global economic and trading system, and the workings of the WTO. As Vietnamese government representatives have made clear, the country does not have such necessary human resources at this point.[6]

In fact the literature on the current consequences of Vietnam's accession to the WTO highlights various downsides. For instance, according to Hanh (2011), there may have been no direct and positive effect on exports following WTO membership, contrary to what Abbott et al. (2008) predicted. If anything, exports may have increased indirectly, as a consequence of higher FDI flows. Moreover, higher imports seem to have resulted. However, it should be taken into account that Vietnam acceded the WTO just two years prior to the onset of the global economic and financial crisis, which has been impacting on Vietnam's macroeconomic indicators at almost every level.

References

Abbott, P., J. Bentzen and F. Tarp (2009): "Trade and Development: Lessons from Vietnam's Past Trade Agreements", *World Development* 37 (2), 341-353.

Aberbach, J. D. and B. A. Rockman (2002): "Conducting and Coding Elite Interviews", *Science and Politics* 35 (4), 673-676.

Bagwell, K. and R. Staiger (2002): *The Economics of the World Trading System*, MIT Press, Cambridge.

Beresford, M. (2008): "*Doi Moi* in Review: The Challenges of Building Market Socialism in Vietnam", *Journal of Contemporary Asia* 38 (2), 221-243.

Bhagwati, J. (1988): *Protectionism*, MIT Press, Cambridge.

Brander, J. and B. Spencer (1983): "International R&D Rivalry and Industrial Strategy", *Review of Economic Studies* 50, 707-722.

Chang, H. (2002): *Kicking Away the Ladder. Development Strategy in Historical Perspective*, Anthem Press, London.

Chaponnière, J., J. Cling and B. Zhou (2008): "Vietnam Following in China's Footsteps: The Third Wave of Emerging Asia Economies", *WIDER Research Paper* 2008/84, September.

Cuong, N. V. (2011): "Can Vietnam Achieve the Millennium Development Goal on Poverty Reduction in High Inflation and Economic Stagnation?", *Developing Economies* 49 (3), 297-320.

DA (2006): "Aiming High. Vietnam Development Report 2007", Joint Donor Report to the Vietnam Consultative Group Meeting, Hanoi, December.

Dexter, L. A. (2006): *Elite and Specialised Interviewing*, ECPR Press, Colchester (UK).

[6] Vietnam is not the only country facing this challenge. Stiglitz and Charlton (2004) have documented the financial and technical problems faced by some developing countries following the Uruguay Round, when they were compelled to adapt their domestic legal and institutional systems to WTO requirements.

EIU (2006): *Vietnam Country Profile 2006*, Economist Intelligence Unit, London.

Ethier, W. J. (2004): "Political Externalities, Nondiscrimination, and a Multilateral World", *Review of International Economics* 12 (3), 303–320.

Finger, J. M. (2008): "Developing Countries in the WTO System: Applying Robert Hudec's Analysis to the Doha Round", *World Economy* 31(7), 887-904.

Gainsborough, M. (2004): "Key issues in the political economy of post doi-moi Vietnam", in *Rethinking Vietnam*, Edited by Duncan McCargo, pp 40-53. Routledge Curzon, London.

Gainsborough, M. (2010): *Vietnam: Rethinking the State*, Zed Books.

Grossman, G. and E. Helpman (2002): *Interest Groups and Trade Policy*, Princeton University Press, Princeton.

Hanh, P. (2011): "Does the WTO Accession Matter for the Dynamics of Foreign Direct Investment and Trade? Vietnam's New Evidence", *Economics of Transition* 19 (2), 255-285.

Haussman, R. and Dd Rodrik (2003): "Economic development as self-discovery", *Journal of Development Economics* 72(2), 603-633.

Hoekman, M. B. and M. M. Kostecki (2010): *The Political Economy of the World Trading System: The WTO and Beyond*, Oxford University Press.

Hudec, R. (1987): *Developing Countries in the GATT Legal System*, Gower Publishing Company Limited, London.

Irwin, D. (1996): *Against the tide: An Intellectual History of Free Trade*, Princeton University Press, Princeton.

Keohane, R. (1984): *After Hegemony: Cooperation and Discord in the World Political Economy*, Princeton University Press, Princeton.

Krasner, S. (editor) (1983): *International Regimes,* Cornell University Press, Ithaca, New York.

Kokko, A., T. T. Thang, L. T. Forsberg and V. X. Nguyet-Hong (2006): "The Harmonization of Aid and Trade Policies: The Case of Vietnam", document presented at *OECD Policy Dialogue with Non-Members on Aid for Trade: From Policy to Practice*, OECD and Gulf Organization for Industrial Consulting, Doha (Qatar), 6-7 November.

Ljunggren, B. (Ed.) (1993): The Challenge of Reform in Indochina, Harvard Institute for International Development, Harvard University, Boston, MA.

Maggi, G. (1999): "The Role of Multilateral Institutions in International Trade Cooperation", *American Economic Review* 89, 190-214.

Maggi, G. and A. Rodriguez-Clare (1998): "The Value of Trade Agreements in the Presence of Political Pressures", Journal of Political Economy 106(3), 574-601.

Masina, P. (2009): *Vietnam's development strategies*, Routledge, London.

McCargo, D., (Ed.) (2004): *Rethinking Vietnam*, Routledge Curzon, London

Nguyen, K. D. and Y. Heo (2009): "Impacts of Trade Liberalisation Commitments on the Vietnamese Economy: A CGE Approach", *World Economy* 32 (4), 606-628.

Prebisch, R. (1950): *The Economic Development of Latin America and its Principal Problems,* United Nations, New York.

Prime, P. B. (2002): “China joins the WTO: How, Why and What Now?”, *Business* Economics 37 (2), 26-32.

Rodríguez, F. and D. Rodrik (2000): “Trade Policy and Economic Growth: A Skeptic’s Guide to the Cross-National Evidence”, in Bernanke, B. and K. Rogoff, *NBER Macroeconomics Annual*, vol. 15, MIT Press, Cambridge.

Shieh, B. and T. Wu (2012): “Equity-based Entry Modes of the Greater Chinese Economic Area’s Foreign Direct Investments in Vietnam”, *International Business Review* 21 (3): 508-517.

Singer, H. W. (1950): “U.S. Foreign Investment in Underdeveloped Areas: The Distribution of Gains Between Investing and Borrowing Countries”, *American Economic Review, Papers and Proceedings* 40, 473-485.

Staiger, R. and G. Tabellini (1999): “Do GATT Rules Help Governments Make Domestic Commitments?”, *Economics and Politics* 11(2), 109-144.

Stiglitz, J. and A. Charlton (2004): “The Development Round of Trade Negotiations in the Aftermath of Cancun”, Report for the Secretariat of the Commonwealth, “Initiative for Policy Dialogue”.

SRV (2006): *The Five Year Socio-Economic Development Plan 2006-2010*, Socialist Republic of Vietnam, July.

Vu, T. (2010): *Paths to Development in Asia: South Korea, Vietnam, China and Indonesia*, Cambridge University Press, Cambridge.

Wade, R. (2003): “What strategies are viable for developing countries today? The World Trade Organization and the shrinking of development space”, *Review of International Political Economy* 10(4), 621-644.