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**ENHANCING THE COMPETITIVENS OF VIETNAMESE INDUSTRY
THROUGH TRADE LIBERALIZATION**

by

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A paper submitted to the Faculty of the Naval War College in partial satisfaction of the requirements of the Department of Joint Military Operations.

The contents of this paper reflect my own personal views and are not necessarily endorsed by the Naval War College or the Department of the Navy.

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ABSTRACT

Enhancing the Competitiveness of Vietnamese Industry through Trade Liberalization

The Socialist Republic of Vietnam has made great strides in liberalizing trade and implementing market reforms since implementing the Doi Moi policy in 1986. The recent global recession has led to slower growth and tougher competition in the global market and Vietnamese industry has found itself hampered by its inability to compete. Vietnam must continue to take steps to lower barriers to international trade and investment in order to continue the thriving economic growth experienced since the advent of the Doi Moi policy. Implementing trade liberalization to promote growth represents the best defense against a possible threat to domestic tranquility and communist party power. Three complementary steps can be taken to continue the process of successful trade liberalization initiated by Doi Moi. First, reform State Owned Enterprises (SOEs) and improve their efficiency, second, attract more Foreign Direct Investment (FDI) to grow the non-state sector, third, seek implementation of the Trans Pacific Partnership (TPP). Each of these measures is advantageous on its own, but the benefits are also mutually reinforcing.

ENHANCING THE COMPETITIVENESS OF VIETNAMESE INDUSTRY
THROUGH TRADE LIBERALIZATION

Equitable and sustainable growth depends on the Government implementing far-reaching structural reforms in a timely manner, especially those aimed at addressing systemic risks faced by the financial sector, improving the operational framework of trade-related sectors, and intensifying SOE restructuring. These and related reforms, including regulatory reforms and trade liberalization in certain sectors, would improve resource allocation, thereby raising Total Factor Productivity and consequently competitiveness, as well as increasing the flexibility of the economy and its ability to attract foreign investment. Therefore, a key challenge for Viet Nam is to prioritize trade and trade-related policies conducive to the attainment of these objectives within a stable, transparent, and predictable policy framework.

From: World Trade Organization
Trade Policy Review of Vietnam
Report by the Secretariat¹
13 August 2013

INTRODUCTION

The Socialist Republic of Vietnam has made great strides in the last three decades repairing and growing an economic and industrial base which was destroyed by decades of conflict and ineffective government policies. In 1986, the passage of the Doi Moi policy represented a turning point as the Vietnamese Communist Party (VCP) chose to pursue a path which led to the transformation of the country into a modern industrialized economy with strong international trade relationships. This “renovation” and other market reforms that followed led to strong economic growth and a rapid expansion of trade. At the Asia-Pacific Economic Cooperation (APEC) Leaders’ Summit in 2011, President Truong Tan Sang said “Doi Moi also helps ensure social progress and justice, hunger eradication and

alleviation, and improvement in social welfare.” These successes have been instrumental in the VCP’s ability to maintain a stable position in charge of the country.

The recent global recession has led to slower growth and tougher competition in the global market and Vietnamese industry has found itself hampered by its inability to compete. Protective policies and trade barriers meant to protect Vietnamese industry from outside competition have instead led to the growth of inefficiency and corruption. President Sang has declared his long term goals, “to achieve intensive and comprehensive international integration and to ensure the effectiveness and competitiveness of the economy.” Vietnam must continue to take steps to lower barriers to international trade and investment in order to continue the thriving economic growth experienced since the advent of the Doi Moi policy.

Implementing trade liberalization to promote growth represents the best defense against a possible threat to domestic tranquility and communist party power. Three complementary steps can be taken to continue the process of successful trade liberalization initiated by Doi Moi. First, improving the efficiency of State Owned Enterprises (SOEs), which control the majority of productive capacity, will allow them to produce more at lower cost making them competitive in the global market. Second, attracting more Foreign Direct Investment (FDI) will grow the highly productive private sector and ensure that it remains globally competitive. Finally, implementation of the Trans Pacific Partnership (TPP) will lower barriers to trade throughout the Pacific region and provide a larger market for the increased Vietnamese productive capacity to supply. Each of these measures is advantageous on its own, but the benefits are also mutually reinforcing.

BACKGROUND: ECONOMIC DEVELOPMENT SINCE DOI MOI

Prior to the implementation of the Doi Moi policy, the VCP pursued strict communist ideology through policies to collectivize land ownership and repress private businesses which resulted in economic isolation, poverty and near famine.² In 1986, the VCP acknowledged the failure of these policies and at the 6th Party Congress implemented the pragmatic Doi Moi reforms which encourage a more market oriented approach.³ They reduced central planning, gave farmers control over their land, cut subsidies to SOEs and allowed FDI.⁴ The reforms paved a path to achieving various milestones on the road to becoming a successful socialist-oriented market economy. Vietnam joined the Association of Southeast Asian Nations (ASEAN) in 1995, created a stock market to trade privately owned equity in 2000 and was granted accession to the World Trade Organization (WTO) in 2007.⁵ Perhaps most important to an export oriented economy, it achieved Permanent Normal Trade Relations (PNTR) status with the United States, the largest importer of Vietnamese goods, in 2007.^{6,7}

Trade liberalization transformed Vietnam from an inward looking country that could not produce enough food to feed its own citizen to a lower-middle income country that is a net exporter of food and one of the fastest growing economies in the region.⁸ International trade and low labor costs have led to an export oriented economy which averaged economic growth of 7.5% up until 2008.⁹ It has been designated a “Lower-Middle Income” country as defined by World Bank since 2009.¹⁰

Despite its previous success, the environment has become more challenging under the stress of the global economic slowdown of 2008-2009. Since then real GDP growth has slowed and now averages less than 5%. Economic analysis indicates that the country needs to sustain at least 7% growth for the foreseeable future to maintain domestic stability and

create enough jobs for the growing population.¹¹ The slowdown has brought problems to the surface which were previously masked by the rapid rate of expansion. In trying to maintain control the VCP has struggled to stimulate growth while still controlling inflation.¹² Planned economic reform efforts have slowed or stalled and the VCP has clamped down on civil liberties, reversing a previously positive trend.¹³

SECTION 1: IMPROVING STATE OWNED ENTERPRISES

Maximizing economic growth depends on getting the most out of the productive capacity resident in a country. In Vietnam, the vast majority of productive assets are owned and controlled by State Owned Enterprises (SOEs), therefore the state owned sector must play a major role in growth of the economy. As one would expect in a country dominated by communist ideology, SOEs are in command of industries that are essential to controlling the country including: electricity, water supply, petroleum production and mining.¹⁴ Non-state entities are prohibited from investing in other sectors where competition with SOEs could drive more efficient resource allocation.¹⁵

Reform of the SOE sector has been widely recognized as necessary for Vietnam's continued success. In August 2013, the WTO completed its first Trade Policy Review of Vietnam and identified SOEs as a main area for improvement. The Review recognized the lag between legislation and implementation of reform in the state owned sector and noted, "This situation runs the risk of negatively affecting the overall business environment in Vietnam and thereby hindering its future economic development."¹⁶ The government recognizes this and Deputy Finance Minister Truong Chi Trung has publicly identified SOE restructuring as one of the "most crucial and urgent tasks."¹⁷

The primary reform effort is the equitization of the SOEs so that partial ownership may be sold as shares on the open market. Enterprises and subsidiaries invested in areas not necessary for state political control may be sold off entirely. The Enterprise Law passed in 2005 required that all SOEs be structured as joint stock companies or single owner limited liability companies by 2010. The number of SOEs under 100% state ownership has been reduced from over 12,000 in 1992 to 1,309 in 2011.¹⁸ This effort was progressing well and gathering momentum up until 2008, but it slowed dramatically under the impact of the global economic slowdown.¹⁹ Government approved reform plans that now call for the equitization of 900 SOEs in the 2012-2015 timeframe are largely stalled.²⁰ These plans called for 93 SOEs to be equitized in 2012, but only 12 actually were.²¹

Less progress toward improving growth has actually been made than might appear from the preceding numbers. The number of SOEs equitized overstates the amount of productive capacity actually transferred to non-state ownership. In many respects Vietnam followed the Chinese model of “release the small, keep the big.”²² It began with privatization of the smallest enterprises first, beginning with small farms and sole proprietorships before moving onto medium and large scale businesses. In the larger businesses, the state retains a controlling stake in the ownership. This is a logical way to proceed, but it means that only 15% of state ownership has actually been transferred.²³ The remaining SOEs have grown in scale by creating numerous subsidiaries invested in non-core areas.

Improving efficiency is one of the most compelling reasons to equitize SOEs and diversify their ownership. SOEs have been shown to be much less efficient at using the resources they control than other sectors, indicating that there is room to grow productivity

through improved efficiency. SOEs control 70% of fixed assets in the country, receive 60% of bank lending but generate only 27% of the country's GDP.^{24,25} This indicates that other sectors are generating at least twice the production from their available resources and that resources are not being allocated efficiently by market forces. The dual purpose of SOEs to both produce products and facilitate political control may never allow them to reach productive parity with the private sector, but this drawback reinforces the importance of limiting state ownership to only what is needed for effective control of the country.

Attracting new partners by selling shares on the open market requires that market forces be allowed to determine realistic valuations. The internal operations of the companies must be sufficiently transparent to allow accurate valuations. Once market forces begin determining the valuations, then they can only be improved by making the enterprises more efficient and effective at allocating capital only to the most productive and profitable projects. These pressures force a disciplined approach to investing capital and squeeze out opportunities for capital to be diverted toward corruption.

A lack of transparency and accountability has resulted in inefficiency and corruption. As SOEs enjoyed preferential access to state controlled lending, they became too diversified and invested heavily in non-core areas particularly in real estate at the height of its overvaluation. The government implicitly acknowledges the problem of SOE inefficiency by publishing criticism in state controlled media. In Viet-My, the state sanctioned Vietnam-USA magazine, the Executive Director of Amcham Hanoi, Adam Sitkoff criticizes, "This misallocation of resources continues at a time when Vietnam needs to be making wiser decisions about capital outlays and business strategies."²⁶

The quintessential example of problems in the SOE sector is the bankruptcy of the shipbuilding conglomerate Vinashin. It created more than 200 subsidiaries using easily obtained credit to expand into real estate, stock-broking and other risky non-core areas. Corrupt officials then used these companies to benefit friends and relatives.²⁷ In 2010, it could no longer hide its insolvency and defaulted on a loan to Credit Suisse, causing a downgrade of Vietnam's sovereign debt.²⁸ Due to the lack of transparency into the finances, it is difficult to determine how many other SOEs are hiding losses and would already be insolvent if not for state support.

Corruption is one major force inhibiting SOE reform. Those benefiting from corruption realize that efficient enterprises cannot tolerate the drain of corruption, and they will be forced out. Unrealized losses on bad investments are another major obstacle preventing equitization today. Government policy criminalizes selling assets at a loss as "destroying state assets," therefore managers feel forced to hold onto bad investments and not report their true value.²⁹ This prohibits proper valuation in the marketplace, and makes attracting outside investors difficult. Recognizing losses will clear the way for more transparency and create a more level playing field for outside owners by allowing compliance with international accounting and financial reporting standards.³⁰ Vietnam should look to the experiences of the Organisation for Economic Co-operation and Development (OECD) member countries for best practices in privatizing large complex state companies. In the 1990s, privatization was a part of economic reforms in many OECD countries and resulted in increases in real output, profitability and efficiency.³¹

Many of those privatized OECD firms are now competitors and investors in Vietnam today. Improvement in the SOE sector is not the only component to GDP growth, foreign

investment is already funding the most productive areas of industry and increasing it can be the quickest source of additional production.

SECTION 2: INCREASING FOREIGN INVESTMENT

Increasing Foreign Direct Investment can make the next greatest contribution to economic growth after SOE reform. Attracting foreign investment complements the SOE reform process, since the sale of SOE shares to foreign investors is a necessary outcome of successful reform. As mentioned above, the non-state assets in Vietnam are contributing to GDP at twice the rate of state owned assets. This non-state sector consists of domestic private ownership and foreign ownership, including foreign individuals, firms and other countries. Vietnam's lower-middle income status means that there is limited domestic private wealth not already invested in the country, therefore an increase in the flow of FDI offers the greatest potential for growth in the near term.

The Doi Moi reform opened Vietnam to FDI in 1987 with the initial *Law on Foreign Investment* and further liberalization was enacted in 2006 with the *New Investment Law*.³² FDI inflow steadily increased from 2002 to 2007, peaking at \$6.74 billion before declining with the global economic slowdown to \$4.5 billion in 2009.³³ Relative to other countries, Vietnam's attractiveness for FDI improved until recently. It ranked as high as 12th worldwide in the A.T. Kearney FDI Confidence Index in 2011, but has since dropped out of the rankings which only cover the top 25 countries.^{34,35} It has also fallen in each of the last three years on the World Economic Forum's Global Competitive Index (GCI), ranking 75th in the 2012-2013 ranking.³⁶

Investor confidence has waned in recent years due to public finances strained by SOE bad debt, currency depreciation and bouts with high inflation.³⁷ Access to bank financing has dried up for private investors because the state owned banks have too much of their capital already loaned to SOEs, of which at least 8.6% are non-performing loans.³⁸ The government is working on creating an assets management company, the State Capital Investment Corporation (SCIC), to buy up bad debts from the banks. This could help with restoring growth in the private sector as well as moving SOE equitization forward.

Rising prices, slowing economic growth and reluctance of foreign investors threaten to push Vietnam into the Middle Income Trap. This trap occurs when increasing urbanization and industrialization drive wages higher faster than productivity can increase in labor intensive, export dependent industries.³⁹ This makes exports less competitive and foreign investment seeks out less developed countries. The WTO Review of Vietnam noted, “Its international competitiveness seems to have come under threat in recent years. More specifically, notwithstanding rising labour productivity, the contribution of total factor productivity to the growth of Viet Nam's factor-driven economy appears to have collapsed.”⁴⁰ Total factor productivity refers to the ability to increase productivity. In a factor driven economy, this can be achieved by shifting workers from less productive agriculture sectors to more productive manufacturing sectors which leverage existing technology. As fewer workers are available to shift sectors, companies must invest in developing higher skilled jobs that can improve productivity through innovation and efficiency improvements.

Intel has recently invested in a \$1 billion plant which is training new workers in computer technology, creating the higher skilled jobs needed.⁴¹ But these types of

investments are slowing as companies do not have the confidence in the government's ability to implement effective liberalization reforms. Policy making in Vietnam is limited to government stakeholder input and therefore is not developing plans that answer the concerns of the business community.⁴² International investors require greater transparency in financial reporting to make investment decisions, but plans to bring accounting standards into compliance with the International Financial Report Standards have been delayed until 2020.⁴³ Investor Kenneth Atkinson of Grant Thornton-Vietnam notes that unwieldy bureaucratic procedures deter or unnecessarily slow investment.⁴⁴ For example, the land use rights used in an existing business often resides with the individual owning the business rather than with the business enterprise. A transfer of the rights must take place before outside investors can invest, but there is no established process for completing these types of relatively simple transactions.⁴⁵

An increasing flow of FDI is needed to continue the development of Vietnamese industry to support an economic transition from lower-middle income to upper-middle income and eventually upper income status. In order to avoid the middle income trap and restore investor confidence, Vietnam should revise its policy formulation process to ensure that business stake holder interests are sufficiently represented to counter the interests of SOEs and corruption which currently dominate the system.⁴⁶ This will encourage creating an environment competitive in the global market, attractive to FDI and capable of providing the sustained growth needed to ensure political stability.

The growing productive capacity of both state and non-state enterprises cannot rely solely on limited domestic or regional markets. To maximize the value of their growth, both

must have access to the broadest possible global markets with the lowest possible trade barriers.

SECTION 3: CONCLUDING THE TRANS PACIFIC PARTNERSHIP FREE TRADE AGREEMENT

Liberalizing trade through the Trans Pacific Partnership (TPP) represents Vietnam's best opportunity to open up broader markets to its goods. Vietnam's dependence on a high rate of trade integration, measured at 135 percent of GDP in 2008, requires that export and imports continue to grow at more than 10% annually.⁴⁷ The TPP is a Free Trade Agreement (FTA) among 12 countries throughout the Pacific which represent 40% of the global economy and one third of global trade.⁴⁸ In addition to Vietnam, the parties are: Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, Japan and the United States.⁴⁹ Notably, China is not a party to the TPP. Vietnam already has regional trade agreements in place with Australia, Brunei, Japan, Malaysia, New Zealand and Singapore, but it does not currently have an FTA with the United States. There have been 19 rounds of negotiation as of October 2013, with a goal of agreeing on the text of the partnership by the end of the year, but achieving that seems unlikely.⁵⁰

Vietnam stands to recognize significantly more benefits than the other partners in the TPP. It is the second smallest nation by GDP, only Brunei is smaller, and it has the third least trade with the United States, ahead of only Brunei and New Zealand.⁵¹ It also has the highest average applied tariffs on imports of all the partners, a measure of the barriers to trade.⁵² Economists at the Peterson Institute predict, "Small countries and those with large initial barriers would gain the most."⁵³ They predict Vietnam to receive the largest proportional gains from TPP implementation, expecting it to account for a 14% increase in

income by 2025.⁵⁴ The downside to this situation is that Vietnam has some of the least leverage to drive the terms of the negotiations and force them to a successful conclusion. It must do what it can to alleviate its own obstacles and wait for the larger countries to sort out their differences.

There are several areas of disagreement specifically between the U.S. and Vietnam that are currently obstacles to concluding negotiations. The U.S. still classifies Vietnam as a “non-market economy” and wants regulations to make SOEs more responsive to market forces. Political opposition to Vietnam’s inclusion in the TPP centers on a recent trend of increasing human rights abuses and concerns that a lack of labor rights supports low wages allowing Vietnamese textiles to compete unfairly with U.S. and other developed nations’ textiles.^{55,56} Finally, U.S. industry has concerns over the theft of intellectual property, counterfeiting and internet piracy.⁵⁷ Committing to correcting these problem areas would mean giving up some political control, but the positive economic benefits and stability of returning to 7% growth in GDP would more than make up for these losses.

Vietnam also has some reluctance of its own. In addition to the opposition from those who would lose out in SOE reform, there are specific concerns over requirements to import fiber and raw materials for textiles from other TPP partners, rather than from China, driving up costs in textile production.⁵⁸ This could result in possible layoffs and dissatisfaction in the important textile sector. However, Vietnam will also gain by enjoying better trade terms with the U.S. than China, its primary rival in the textile export market.⁵⁹

Vietnam has other avenues to pursue market expansion and trade liberalization, but the TPP seems to be the most promising. Since 2008, Vietnam has sought to become eligible for the U.S. Generalized System of Preferences (GSP) program which is designed to

stimulate exports in developing countries. This effort has largely been sidelined by the priority that the U.S. places on the TPP. There is also another major regional trade initiative called the Regional Comprehensive Economic Partnership (RCEP) which includes China but excludes the U.S.⁶⁰ The competing TPP and RCEP agreements create a difficult choice for Vietnam. China is its largest trading partner providing major imports of raw materials, while the U.S. is the largest buyer of Vietnamese exports.^{61,62} Vietnam must also choose between perceived regional aggression by China and suspicions of an unstated U.S. goal to force out communism.⁶³ The balance weighs in favor of the TPP which better supports the larger goals of better international integration through market reforms. Finally, there is the option of waiting for the WTO to achieve a global grand bargain on free trade through its Doha Round, but the glacial pace of these negotiations would mean preparing for a very long wait.⁶⁴

The increased competition which free trade will bring to Vietnamese industry will ultimately help by forcing it to become more efficient, more transparent and better at allocating resources. Trade barriers that continue to protect existing industry simply allow inefficiency and corruption to survive. The proposed TPP rules on transparency, equal treatment for SOEs and protection of intellectual property are in line with the reforms that the government has been struggling to implement. This represents an opportunity to employ what political scientists call a “boomerang effect.” Reformers in the Party can portray the needed reforms as a price imposed by the international community to partake in the benefits of trade rather than making reform a domestic initiative against entrenched interests and corruption.⁶⁵

Liberalizing trade is a crucial component to growing the market for Vietnamese goods thereby allowing it to sustain a high rate of economic growth. The TPP is currently

the most viable and advantageous path toward trade liberalization. It also has a complementary effect of encouraging reforms in SOE and FDI regulations because industry must strive to remain globally competitive.

SECTION 4: LIBERALIZING UNDER COMMUNIST PARTY CONTROL

Each of these measures to liberalize trade and encourage outside investment and competition requires that the government give up some of its positive control over domestic resources and cede it to market forces. This transfer of power may not come naturally to conservative Party members who subscribe to the communist ideals of a single party government and centralized control to maximize benefits. One can easily understand their concern that these measures may threaten the communist party's hold on power. This could lead to the reversal of recent policy reforms and reversion to protectionist trade policies. The slow equitization of SOEs could be a sign of reluctance and lack of conviction by the government, rather than bureaucracy and difficulty unwinding bad investments. Similarly, the recent crackdown on dissidents is likely the government trying to strengthen its positive control over the population as worsening conditions caused by market forces lead to increased dissent. The number of prosecutions of dissidents has increased significantly from 2012 to 2013 for crimes such as “conducting propaganda against the state” and “attempting to overthrow the government.”⁶⁶

The VCP should resist these inclinations toward repression and look to both China and Singapore as models. Single party governments maintain a stable hold on power in both countries while managing strong market driven economies. They bracket Vietnam in size, with Singapore being much smaller and compact and China being much larger in all respects,

so Vietnam may need to choose selectively from each model. In Singapore, the People's Action Party relies on continued economic prosperity to justify its continued single party rule. China succeeds by deliberately making the government the partner of choice for business owners looking to grow their businesses, instead of being perceived as an unnecessary bureaucratic hindrance. Close interaction between business interests and the party-state results in familiarity, trust and dialogue which align investor interests with those of the party-state. This relationship is referred to as "thick embeddedness" which creates "instrumental ties and affective links to the agents and institutions of the party-state."⁶⁷ This relationship is most effective during periods of high growth when an expanding economy allows the party-state to act as a benefactor to most capital holders by facilitating access to growing slices of the market. Once growth slows, the government may find itself arbitrating over the distribution of more limited resources, but the VCP may be able to avoid that role as long as there is still plenty of opportunity for growth toward middle and upper income status.

CONCLUSION

Vietnam must continue the trend toward trade liberalization that began with the Doi Moi policies. This will provide the highest level of sustainable growth. Economists estimate that the economy must resume a growth rate of about 7% to maintain social stability and create opportunities for the young and growing workforce.⁶⁸ Vietnam can boost its productivity in two ways, first by reforming the SOEs to limit their scope and improve their efficiency, and second, by growing the non-state sector with increased foreign investment. Offering the output of this increased productivity for sale on the global market will allow it to be sold at the highest value. Joining the WTO in 2007 was an important first step. The TPP

now offers an important near term opportunity to further open up trade with 40% of the global economy.⁶⁹

Both Vietnam and the international community as a whole will gain from continued strong economic growth and an increasing flow of Vietnamese goods in international trade. The TPP is expected have positive economic impacts for all participants and benefit Vietnam the most with an estimated 14% boost to GDP by 2025.⁷⁰ Opening up to trade by voluntarily complying with TPP and WTO mandates exposes Vietnamese industry to intense competition, but global trade in competitive markets has proven to be the only way to generate sustained growth sufficient to propel developing countries from poverty toward wealth and prosperity.⁷¹ A prosperous and financially secure population will have fewer grievances with the government, allowing the government to feel secure enough to relax repressive controls leading to the elimination of even more grievances. This virtuous cycle begins with allowing market forces to direct labor and resources to where they can be most productive. Openly and actively liberalizing trade is the best policy for the VCP to retain the support of the Vietnamese people and maintain stable political control.

RECOMMENDATIONS

Toward these ends, the government of Vietnam should work to implement the recommendations below and seek engagement with those members of the international community who can assist in the implementation.

- *Reduce the role of SOEs in Vietnamese industry to the minimum necessary to provide government services and maintain sufficient state control.* Divest subsidiaries and entire enterprises that are not involved in these core functions. Continue the effort to offer joint

stock in SOEs for sale at market determined prices. The requirement to attract outside investors through the joint stock company structure will force these enterprises be competitive within their industries through higher efficiency and less tolerance for corruption. A reduction in the scale and scope of the SOEs will allow for closer scrutiny and better management of the remaining enterprises.

- *Bring business governance and reporting practices in line with global standards to better attract FDI.* Increased transparency will increase trust and confidence in the value of Vietnamese enterprises. Adjusting accounting standards to converge with IFRS will create confidence in financial analysis and allow for global comparisons.

- *Vietnam should pursue the implementation of the TPP at the earliest possible date.* This requires working proactively to resolve those issues specific to Vietnam which are still obstacles to final agreement on the partnership. This effort must include making substantial and public efforts to improve its record on protecting the civil liberties of its population and strengthening the enforcement of contractual obligations and intellectual property rights. The government must also resolve its own concerns over opening up its textile industry to global competition by creating domestic social support programs which mitigate the negative impacts on textile workers without violating free trade rules.

Each of these steps is beneficial on its own, but the benefits complement each other, magnifying their impact when implemented together. These complementary effects are essential to the continued growth and prosperity in the Socialist Republic of Vietnam.

NOTES

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