

Economic Effect of Globalization in Developing Countries:

An Analysis of Vietnam and China

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Introduction

In past decades, globalization was heralded as the ticket for developing countries to boost the growth of their national economies and thereby improve the living standards of their respective citizens. However, in more recent years globalization has come under greater economic scrutiny due to distributional, social, and cultural effects. Should developing countries attempt to globalize and what might they learn from the experiences of other developing countries who have already attempted global market integration? To answer this question, this paper examines and discusses the economic effects of two cases in East Asia.

First, however, we must examine what economic theory predicts of globalization. How is globalization beneficial or harmful and to whom?

Globalization: Pros

- Increased national income through comparative advantage
- access to global capital
- spread of technology
- opportunities for individuals
- spread of human rights

Globalization: Cons

- weakens the position of those lacking skill or capital
- economic openness can not be managed by poor weak states
- leads to exploitation of works in poorer countries
- global capital markets are destabilizing
- loss of cultural integrity

- national economic autonomy is undermined or destroyed by open capital markets and flexible exchange rates
- weaker countries must accept the rules of the game set by the rich

With these considerations in mind, we now examine the impact of globalization on Vietnam and China.

Case Study #1: Vietnam's Post-War Economic Development

The Vietnam War (1955-1975) left the economy of Vietnam in a state of shambles. Not only did the country carry the burden of heavy war damage, but the institutional structures which came into power failed to properly prioritize its focuses and help Vietnam's economy quickly recover. In 1986 however, Vietnam's economy took a major turn when it transformed from the formerly "centrally planned Stalinist command economy" to a "market economy with socialist direction." Though Vietnam's economy has recently made progress to improve international trade and relations, many challenges still lay ahead for the impoverished country. Furthermore, the recent economic progress from globalization has only strengthened the position and legitimacy of the of the communist party.

Historical Perspective.

Vietnam's economic development after the war can be categorized into two main time periods: the centrally planned economy (1975-1980) and Doi Moi (1986–Present). The centrally planned economy, represented as the Democratic Republic of Vietnam or DRV model, applied a neo-Stalinist approach to economic development. Used by North Vietnam before the war, this economic concept was applied to the entire country after its unification in 1975. However, the DRV model's goal of "producing the factors of production" led to aggregated shortages, chronic fiscal deficits, and large dependency on imports to complement the established capital.¹

Since Vietnam was (and is) primarily agricultural, economic policy following the war should have focused on economic recovery, improving the deficient areas of labor

¹ Lynden, Todd. Post War Development in Vietnam. <http://www.usask.ca/economics/sej-3rd/Lynden.htm>. 1.

skills, and agricultural and consumer goods production.² Instead, the centrally planned economy focused on modern industry and central capacity. In keeping with the centrally planned economy's goal of profit maximization, firms were encouraged to increase volume of production. To gear firms toward factor utilization, the government created a profit plan determining output composition, and covered any losses through subsidies.

Indeed, some manufacturing industries grew. Other industries however stagnated, specifically in electric power and cement production. Food output decreased as a result of a reduction in labor input. The government had assumed that all industries had constant returns to scale, such that by increasing capital stock, a proportionate rise in output occur, thus increasing economic growth. This assumption proved incorrect, and very costly to the economy. Agriculture in Vietnam lacked specialization, and the lack of technology in the agriculture industry implied little division of labor, which was necessary for economies of scale. Though new technologies were supplied to agriculture, laborers lacked sufficient training to use the new technology, and thus proved ineffective.

Despite government efforts to import thousands of tons of food, famine and poverty still struck the nation. Vietnam's poverty paved the way for foreign aid. Foreign aid however, lead to large increases in national debt and further increases in capital, which in turn required large amounts of labor to achieve an output increases.³ The decrease in agricultural emphasis coupled with the failing economy created a suffering situation in which average food per capita (measured in rice) reached only 300kg/year. The country

² Thang, Bui Tat. "After the War: 25 Years of Economic Development in Vietnam." NIRA Review. 2000 Spr. 1

³ Llynden, Todd.

was starving as export turnover could only account for one-third of import turnover, and gross foreign trade turnover averaged a mere US\$1.7 billion per year.⁴

The centrally planned economy did not take into account the people's personal interests, as individuals had little motivation to increase production. Economic momentum died. Living conditions in Vietnam went from poor to worse. Total income per month approximated 537 dong. Of that, 521 dong represented total expenditure, 80 percent of which was spent on food.⁵ The first five years after the war saw average GNP growth at half of population growth, and national income at one-fifth.⁶ Even ten years after the war's end, the economic status of Vietnam remained essentially unchanged.

The move to globalize became necessary before the entire country was to starve. Globalization held many advantages. Trade promotes innovation and productivity, with a large world market providing more incentive to innovate than smaller domestic markets. The fastest-growing developing countries in the past two decades have been those that succeeded in generating new export growth.⁷

Critics however claim that globalization increases inequality, despite growth. In addition, globalization would lead to increased wages paid to working children, thus increasing child labor. However, empirical evidence suggests otherwise. Evidence strongly shows that growing countries actually have reduced poverty levels. Furthermore, rising domestic rice prices as a result of market integration would also increase household income. Families would then substitute this income towards income that would have been brought in by the children, and child labor is thus reduced.⁸

⁴ Thang, Bui Tat. 2

⁵ Fforde, Adam and Suzanne H. Paine. The Limits of National Liberation. New York: Croom Helm. 1987.

⁶ Ibid. 2

⁷ McKenzie, David. "Globalization." Lecture 16. Economics 118. 4 Mar 03.

⁸ McKenzie, David. "Cashews and Rice-Globalization in Practice." Lecture 17. Economics 118. 6 Mar 03.

Acknowledging that the centrally planned economy had failed, the Vietnamese Communist Party's Sixth National Congress outlined major policies to aim Vietnam towards a more open, market-based, global economy. Known as Doi Moi, these policies included:

- Payment of wage and salaries on a straight cash basis.
- Pricing of inputs to state enterprises on the basis of costs.
- Permission for private employers to employ up to ten workers.
- Abolition of internal customs check points.
- A Revised Foreign Investment Law.
- Virtual decollectivization of agriculture.
- Elimination of virtually all direct subsidies and price controls.
- Increased autonomy for enterprise managers.
- Devaluation of the currency to market rates.
- Elimination of the State's monopoly in foreign trade.
- Provision for foreign participation in banking.
- Reduced restrictions on private enterprises.
- Creation of export processing zones for 100% foreign-owned enterprises.
- Legislation on shareholding corporations.
- Dismantling of major elements of central planning and bureaucracy.
- A 15% reduction in the government workforce.

- A return to former owners or their heirs of businesses in the south that were nationalized in 1975.⁹

These policies were designed to stimulate the development of private organizations, individuals, and economic sectors, in addition to integration with world and regional economies. Thus, trade and foreign direct investment were encouraged. Though many of these policies were not actually implemented or adhered to, the result was still a rapidly growing economy overcoming previous years of economic stagnation.

The first five years after Doi Moi, economic growth remained slow, with a GDP growth rate of 4.5% and inflation of 260.2%. The next five years however showed marked improvement, with GDP growth averaging 8.9% and the population growth rate 4.2% lower than the GDP growth rate (see Table 1). Inflation fell as a result of the currency being exposed to the market exchange rates (see Table 4), and overall poverty was greatly reduced and by 1996, per-capita GDP was 1.6 times that of 1985.¹⁰

Many factors contributed to this high rate of economic growth during this time period. As much as \$2 billion a year or 5-10% of GDP was received as capital inflows from foreign private investment. In 1997, aid grew to be \$1 billion in disbursements, and oil output and exports grew to \$1.4 billion by 1997, nearly double that of 1992. Foreign direct investment grew steadily and played a significant role in the growth of Vietnam's economy (see table 9). On the agricultural front, growth reached 4-5% a year and Vietnam became a major exporter of rice and coffee.¹¹ Indeed, Vietnam became one of the big three

⁹ Watkins, Thayer. "Vietnam's Doi Moi Program." San Jose State University Economics Department. <http://www.sjsu.edu/faculty/watkins/vietnam.htm>

¹⁰ Thang, Bui Tat. 3

¹¹ Dapice, David O. "An Overview of the Vietnamese Economy after The Asian Crisis." Center for Business and Government, Harvard University. 1

global rice exporters along with Thailand and the U.S.¹² Overall exports rose from \$2 billion to \$9 billion in the period from 1991 to 1997.¹³

However, the Asian crisis that hit in 1997 had a profound effect on the Vietnamese economy. Due to a limited availability of hard currency, the Vietnamese government limited the convertibility of dong into dollars. With little success coming from previous investments and a tendency for delays, new investors were deterred by the lack of near-term profitability in their investments. As a result, licensed foreign investment fell from 8.6 billion to 1.6 billion. GDP growth from 1998-1999 was estimated at only 4%.¹⁴ Government data would suggest higher numbers for growth, but this is most likely a result of the government promoting stability, mitigating high growth rates and inflating recessions. China has done similar adjustments to its numbers over the same time period to suggest stability in its economy.¹⁵

Vietnam and ASEAN.

Vietnam joined the Association of South East Asian Nations (ASEAN) in 1995 to accelerate economic growth, social progress, cultural development in the region, promote regional peace and stability, and promote active collaboration and mutual assistance on matters of common interest in the economic social, cultural, technical, scientific, and administrative fields. In 1992, the ASEAN Free Trade Agreement (AFTA) was passed to

¹² Thang, Bui Tat. 4

¹³ Dapice, David O. 1

¹⁴ Dapice, David O. 2

¹⁵ Clifford, Mark L. "How Fast is China Really Growing?" BusinessWeek. 10 Mar 03. 65

increase the ASEAN region's competitive advantage as a single production unit by reducing tariff rates on intra-ASEAN trade to less than 5% within 15 years.¹⁶

As a result of joining AFTA late, Vietnam was allowed to phase down tariffs on ASEAN imports over a great period of time.

	GDP 1998	Average Annual Growth rate 1990-1998	GDP per Capita 1998	Populati on 1998	Imports 1998	Exports 1998	Openness Index	Arable Land 1994-1996	Adjusted Enrollment ratio of Secondary Education 1997
	(\$ billion)	(%)	(\$)	(mil.)	(\$ mil.)	(\$ mil.)	%	(hectares per capita)	(%)
Cambodia	2.9	5.5	279	10.7	660	330	34.14	0.37	38.8
Indonesia	94.2	5.8	972	206.3	27,420	48,840	80.95	0.09	56.1
Lao PDR	1.3	6.7	421	5.2	648	359	77.46	0.17	63.4
Malaysia	72.5	7.7	4,251	21.4	58,540	73,275	181.8	0.09	64.0
Myanmar	n.a	6.3	n.a	44.5	2,053	866	n.a	0.22	54.2
Philippines	65.1	3.3	1,092	72.9	31,960	29,330	94.15	0.07	77.8
Singapore	84.4	8.0	31,139	3.5	101,496	109,846	250.4	0.00	75.6
Thailand	111.3	7.4	2,593	60.3	41,800	53,575	85.69	0.29	47.6
Vietnam	27.2	8.6	331	77.6	11,015	9,338	74.82	0.07	55.1
Total	458.9			502.4	275,592	325,759			

Source: UNDP, Human Development Report 2000; World Bank, World Development Indicators 1999-2000.

Joining ASEAN provided Vietnam's exporters with new opportunities and valuable experience in foreign markets, experience which will help Vietnam secure itself in the global trading system with eventual accession to the WTO.¹⁷ AFTA commitments however, present Vietnam with the challenge of reducing tariffs or maintaining import duties while introducing other taxation systems as well as pushing exports with a high revealed comparative advantage.¹⁸

Vietnam's role and future in ASEAN and AFTA remains uncertain. Several studies have been done to review effects of AFTA on Vietnamese trade. Analysis from Comparative Advantage (RCA) and Export Similarity (ES) suggest that AFTA has been successful in promoting Vietnam's agriculture and aqua-culture as a result of increased

¹⁶ Nguyen, Trung Tien. "Vietnam's trade liberalisation in the context of ASEAN and AFTA." No. 36. Jan 02. 3

¹⁷ Ibid. 26

¹⁸ Ibid. 10

access to the ASEAN market.¹⁹ However results from the Gravity Model, which predicts trade between two countries through a regression based on their size (GNP, population, land area) and transaction costs (distance, cultural similarities, adjacency), reflect that the trading effects committed to by Vietnam from AFTA as being relatively small.²⁰

Several reasons have been asserted for the small effect. The first is that substantial amounts of trade take place between Vietnam and non-ASEAN nations such as the EU, United States, Japan, Korea, Taiwan, Hong Kong, and China. Since Vietnam is open to these countries, trade diversion becomes difficult. With already low average tariff rates, additional tariff reductions under AFTA leads to minimal trade increases with ASEAN nations. Lastly, with the United States-Vietnam bilateral trade agreement in September 2001, bilateral trade between the two countries will double to nearly US \$1 billion, further reducing Vietnam-ASEAN trade.²¹

The future of Vietnam-ASEAN trade remains unclear. According to the government, US \$7.1 were registered in two way trade between Vietnam and ASEAN in 2000. Another \$50 million came in as foreign investments. The government asserts that Vietnam has attached great importance to accelerating economic cooperation with ASEAN and carried out commitments over investment, services, e-SEAN, expanding markets, and bolstering regional relations and integration.²² Yet Vietnam's industry structure does not create a solid foundation for the future export economy. The high protection in industries such as consumer goods, sugar, fertilizer, and beverages, suggests inefficiency and high costs for the economy in the future. Non-tariff barriers remain strong despite commitments

¹⁹ Nguyen, Trung Tien. 26

²⁰ Ibid. 11

²¹ Ibid. 26

²² Communist Part of Vietnam. "Vietnam to Boost Economic Co-Operation with ASEAN, ASEM: Trade Minister." Vietnam News. 10 Sept 01.

to lower them, and continue to support an import substitution strategy to promote non-tradable goods production.²³

The Future of Vietnam's Economic Growth:

Since Doi Moi, Vietnam has shown an upward trend in overall growth despite the Asian crisis. The agricultural sector has remained steady since the mid 1990s, growing from an average of 2.8% (1986-1990) to 4.3% (1991-1998). Coffee output went from 102,000 tons in 1991 to 420,000 tons in 1997. Rice output increased from 17 to 30 million tons from 1988 to 1998. Aquaculture was also an increasing industry, passing 500,000 hecta in 1998.²⁴

In 1999, Vietnam's total exports grew 23.4%., nearly 70% of that is accounted for in oil export value growth and 16.3% for non-oil exports. This rate is impressive when compared with other countries in the region (see Table 7). Non-oil export growth in 1999 can be explained by three main sectors: garments, footwear, and seafood, which grew at rates 29.3%, 39.1%, and 16.3% respectfully in 1999. Of the 23.4% increase in export growth, half can be attributed to exports to China, Australia, and Japan. 70% of non-oil export growth can be attributed to expanding exports to Japan, China, Laos, and Korea as well as the European countries of Belgium, UK, Germany, and France while non-oil exports to Singapore and Hong Kong declined around 30% in both countries.²⁵

Despite promising numbers, Vietnam's economic future remains uncertain. There is much evidence to support projections that Vietnam will grow as quickly as it did in the

²³ Nguyen, Trung Tien. 27

²⁴ Tran, Thi Ben. "Implications of the Crisis for Transition Economics: Vietnam." University of Economics-HCM City. <http://econ.tu.ac.th/iccg/papers/tranthib.doc>

²⁵ World Bank. "Vietnam: Export Performance in 1999 and Beyond." http://www.worldbank.org.vn/data_pub/reports/Bank1/rep15/export11.htm

1990s. A recently signed trade pact with the U.S. as well as Vietnam's recent involvement with ASEAN opens up new export opportunities. Trade between China and Vietnam has seen steady growth with both countries undergoing reform and opening. From 1991 to 2001, trade between China and Vietnam has grown nearly 100 times, and China is a major investor in Vietnam. With China agreeing to AFTA conditions with ASEAN, economic momentum should increase in all countries involved.²⁶

Competition will likely arise in high priced industries of the economy either from AFTA tariff cuts or smuggled goods. If in the long term, the government is able to shrink the inefficient sectors and improve banking and capital markets, Vietnam has huge potential for growth. However, given the current government and economic structure, such changes seem doubtful in the short-term.²⁷

On the other hand, a lack of adequate jobs in the agricultural sector is likely to slow down agricultural growth and output. Restrictions on private domestic firms lead to a weak domestic private sector (see table 2). The government is reluctant to allow private firms to compete with state-owned enterprises, though such a condition is necessary for growth.²⁸. With the internet becoming a larger player in global success everyday, Vietnam remains a step behind as a result of government restrictions, high costs, slow speeds, and firewalls to check and censor content. Furthermore, an extremely high marginal tax rate encourages labor to work abroad.

The communist party of Vietnam claims insightful planning in its past actions, and asserts that present policies will bring Vietnam into true market integration with increased growth. They forecast a very positive economic outlook and suggest all efforts are being

²⁶ "China, Vietnam See Surge in Bilateral Trade." http://ce.cei.gov.cn/enev/new_g1/f400glq0.htm

²⁷ Dapice, David O. 2

²⁸ Ibid. 3

made to increase national welfare. Thus, as Vietnam's economic situation improves, so does the strength of the communist party in rule. With the current institutional structures and regulations in place, Vietnam's economic future remains hopeful but nonetheless questionable.

Case Study #2: Domestic Sovereignty and China's Economic Reform (Post Mao Era)

Our previous section used the example of Vietnam to address the fears concerning the economic effects that globalization in a developing country and demonstrated how enormous, positive economic growth can occur through rapid globalization. We now turn to address the criticism that globalization deteriorates the sovereignty of states in developing countries. This belief surrounds three main fears: 1) that globalization renders states helpless in controlling transborder movements, 2) that national economic autonomy is undermined or destroyed by open capital markets and flexible exchange rates, and 3) that weaker countries in a global community of unequally powerful states are forced to accept the rules set by the rich.²⁹ We will begin this discussion by first asserting how China, like Vietnam, has managed to develop economically in recent decades, in accordance with our previous conclusion that the economic benefits can (but are not always) tied closely to globalization.

More importantly, however, this section will emphasize that these developments did *not* deteriorate the power of the Chinese government—that globalization did not diminish the ability of the Chinese Communist Party (CCP) which effectively runs the government to determine and execute domestic policy. This analysis will focus on how the CCP chose to implement these reforms to head off a pending economic breakdown, how these reforms resolved the problems created by a dysfunctional communist system. We will then look to more recent developments, namely the impact of the East Asian Economic Crises and how the CCP has elected to stave off the economic stagnation faced in the global community by *further* integration, namely by joining the WTO in 2001. We conclude that the CCP has used these gains from globalization in the past to promote its own legitimacy and power,

²⁹ Grieco, Joseph and John Ikenberry. State Power and World Markets. p.12-13.

and furthermore looks to use globalization again to strengthen its reputation and lead China to continued growth.

China: Back in Business but out of Power?

Like Vietnam, China has also rapidly developed through privatization and globalization under the leadership of a single-party, communist government. Reforms in China began in 1978, after the death of Mao Zedong, who as the father of communist China maintained the importance of ideology as a key to China’s development. Under the guidance of Deng XiaoPing, however, who later informed the Chinese populace that “to be rich is glorious,” China developed at unprecedented rates.³⁰ As shown in the graph below, GDP growth in China was negative in 1976, but shortly after jumped to 7% and then onwards to rates over 10%—very high rates even when compared to other rapidly developing state.

China’s GDP Growth Rates (annual percent increase)³¹

Year	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
GDP Growth Rate	-1.6	7.6	11.7	7.6	7.8	5.2	9.3	11.1	15.3	13.2

Year	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP Growth Rate	8.5	11.5	11.3	4.2	4.2	9.1	14.1	13.1	12.6	9.0

Year	1996	1997	1998	1999	2000
GDP Growth Rate	9.6	8.8	7.8	7.1	8.0

³⁰ Saich, Tony. *Governance and Politics in China*. p.24-25.

³¹ Table A.8. “GDP Growth.” http://www.ier.hit-u.ac.jp/COE/Japanese/online_data/china/tablea8.htm

According to statements issued by the Chinese Communist party itself, China has relied on international flows of capital, competition due to more efficient int'l producers, and international markets for manufactured goods to make this transition to a market economy successful. By 1987 the value of Chinese exports was already at \$40 billion per year, which then grew to \$183 billion by 1997. This is effectively a rate of 16.5% per year, faster than GDP growth. Foreign direct investment inflows also soared, from \$3-4 billion annually in the late 1980s to \$45 billion in 1997.³²

We must remember that these changes were implemented by a communist party, and that such developments flew in the face of former party rhetoric that promoted China's self-reliance and denied the value of increased interaction from so-called greedy, capitalist Western nations. The 1.25 billion people that reside within the borders of the world's largest communist nation still follow the leadership of a single party that once determined everything in their daily lives: who produced, what was produced, when things were produced, how much each person received of the produced goods, and what each person had to give up. A party that once tried to preserve the cultural sanctity and economic growth by sealing itself off from the rest of the world now takes extra measures to encourage foreign direct investment in China, even offering tax-free zones for multinationals in specified urban areas.³³

Does the transition to some very capitalistic policies signify that the CCP has been forced to relinquish some policy control at the hands of globalization? While relinquishing its control of the market and the capital flows would suggest that the CCP has lost some sovereignty, these reforms were implemented by the CCP as a way of solving the economic

³² *The Economist*, Survey: Globalisation "Grinding the Poor", September 27, 2001.

³³ Saich. p.42,44-45.

crises that were destroying the party's legitimacy.³⁴ Like Vietnam, stagnated growth and dismal living standards in China forced the communist party to make drastic changes. Average GDP per capita was \$850 dollars in 1976, ie 1/19 of US per capita GDP, compared to 1995, where GDP per capita had quadrupled to \$3,700, or 1/6 of US GDP per capita that year. Only through these economic developments was the leadership able to settle political unrest and maintain CCP control.³⁵

Globalization and China's Rural Villages

First, what were the problems that the CCP faced and how did turning towards globalization help maintain the party's control? In contrast to Vietnam, China had emphasized the development of its agricultural sector. The reasons for failure were similar however: lack of incentives, lack of innovation, regions unsuited to agriculture (in the case of China) were still forced to produce grain, and prices weren't set at efficient levels. When profits are diffuse while costs are concentrated, the result is that people will try to free ride off the work of others. In any given populace the overall consequence is stagnated production.³⁶

This lack of incentives combined with increasingly burdensome fees charged by local governments resulting in a tremendous surge of discontent among China's peasants. As farmers began to starve, they also began to protest, and as news of riots reached Beijing with more and more frequency the CCP realized that it wanted to maintain any sort of control, it could no longer try to regulate food production.³⁷ By being responsible for both

³⁴ Saich. p.52, 54.

³⁵ *The Economist*

³⁶ Grieco, p.97-100.

³⁷ Oi, Jean. Rural China Takes Off. p.52.

the distribution of food and price-setting, the CCP set itself up to be blamed for China's economic demise and thereby also set its own death sentence. To head off a revolution, China's leaders turned to an economic system that did work: capitalism. While this change can be viewed as the CCP losing control of rural China and giving up a degree of control, it was moreover a change that allowed the CCP to more effectively govern the nation, instead of trying to control too much.³⁸

As a result of the CCP's understanding that a communist system simply could not sustain itself, in 1978 China began the process of decollectivization in its rural areas. This process entailed the division of land into small plots that would be given to each family, which now whole villages as the new unit of production. However, one must note that these parcels of land were not considered property owned by these families; in accordance to communist ideology the land was state-owned, and its division and redivisions were still under CCP control. This aspect of the reforms maintains the notion that the CCP was not entirely giving up control—it chose to change the unit of account, and then to have the villagers themselves find capital, markets, and be responsible for determining who, how much, and through what means to produce.³⁹ Those villages that were more efficient at agriculture continued to produce grain, and those that were able to start enterprises did that. Consequently, China's rural areas developed rapidly. Since the villages were left w/out the government to rely on, they had to figure out where their resources could be best utilized—and so many developed the enterprises producing things like chopsticks, cigarettes, cups, basic electrical components, etc. These village enterprises have become more and more reliant upon international markets to buy their goods. Without the demand for goods

³⁸ Saich, p.29.

³⁹ Oi. p.195

supplied by now domestic *and* international markets, china would not have been able to grow at such incredible rates.⁴⁰

Managing Worker Unrest in the Urban Sector

In urban areas where life centered around state owned enterprises (SOEs), worker unrest was also growing. The communist government could no longer provide urban workers everything from the food and housing to medical care, child care, and social security that they were promised and still break even. The government had to give up some of its responsibility and allow some of the state owned enterprises to either go under or to be privatized, either by wealthier Chinese or by international investors.⁴¹ Many SOEs failed due to problems that confronted the rural sector: lack of incentive to work hard, inefficient allocation of capital, and inefficient price/wage determination. Privatization and globalization fixed the incentive problem by forcing the workers to earn income according to effort, while the increase in competition provided further impetus to boost efficiency and effort. Poor management was also improved at the hands of former managers, who were previously hindered by the less-informed directives of government officials.⁴²

Problems in the urban sector were unique in the enormity of the loans that had accrued and the tremendous amount of capital was needed to resuscitate business. Unlike rural areas that focused on agriculture, the government could not parcel out a piece of land to each urban worker as a source of income and security.⁴³ International sources of capital through investment and bank loans have thus been especially crucial to the urban sector, in

⁴⁰ Oi. p.191-194

⁴¹ Saich. p.61-62

⁴² Saich. p.64.

⁴³ White, Tyrene. China Briefing 2000: The Continuing Transformation. p.142.

addition to providing markets for goods, new forms of technology and the drive to increase efficiency. Areas that were particularly open to international investment and privatization such as Shanghai and Beijing have developed the fastest. While the increase in competition has led many of the SOEs to shut down, and therefore many of the workers to lose their jobs and their security, these losses have been offset by job creation due to the increase in foreign direct investment and financial flows. If the CCP had not resorted to opening its capital markets and increasing trade, the urban sectors as well as the rural areas would have fallen into further decline.⁴⁴

In summary, the CCP did not lose power during the reforms of the 1980s and 1990; instead the reforms helped the CCP salvage what control was left and since then maintained, if not boosted, its legitimacy. And of course, the same arguments can also be applied to the VCP.

The East Asian Financial Crisis and Greater Integration

The East Asian Financial Crisis which began with a crisis of the Thai baht and then rippled out to affect economies throughout the world has produced many critics of globalization, who blame over-integration of international financial markets for the aggravated, extensive impact. China, however, has not responded to the economic downturn and potential for greater destabilization with the knee-jerk reaction to increase protection of domestic industries and financial sectors. Instead, China has opted to once again turn to *further* integration to revive economic development.⁴⁵ According to recent government reports, China's new economic paradigm focuses on efficiency gains instead of

⁴⁴ White, p. 176-178

⁴⁵ Stiglitz, p.89-91.

the accumulation more capital, which has diminishing marginal returns and therefore limited potential for increasing growth. To boost efficiency, China is again focusing globalization to provide the competition, technological advancements and continued source of capital it seeks.⁴⁶

We now emphasize that the CCP is pursuing policy that it believes will improve the Chinese economy in the long run, despite short run unemployment and social displacement. To meet its national goals, in 2001 China took a major step in joining the World Trade Organization. By doing so, the CCP risked domestic insurgency on bets that the efficiency gains will, given enough time, also recoup current losses and once again reconfirm the CCP's legitimacy as a ruling party with vision and leadership ability. This commitment to further globalization despite resistance by vested interests demonstrates that the CCP has not lost sovereignty over domestic control.⁴⁷

To demonstrate how entry into WTO affects trade between China and other nations, below are highlights from the bilateral agreement between the US and China:

- Agricultural tariffs fall to average of 17.5% by 2004, liberalizes imports of major agricultural commodities, import and distribution rights granted to foreigners
- Average tariff on industrial products falls to 9.4% by 2005; including elimination of all tariffs on high-technology products; auto tariffs fall from 80-100% to 25% by 2006
- Eliminates import quotas and licensing requirements by 2005
- Grants import and distribution rights to foreign corporations, allows them to set up wholly-owned distribution, sales (including retail), shipping, and service networks over a three year phase-in period

⁴⁶ Lardy, Nicholas. "Permanent Normal Trade Relations for China." <http://www.brook.edu/dybdocroot/comm/policybriefs/pb058/pb58.htm>

⁴⁷ "WTO Entry Boosts China's Economy." <http://www.china.org.cn/english/49058.htm>

- Financial services - banking, insurance, and securities - increased access phased in over five years, culminating in full market access in all activities and regions, and national treatment for foreign banks; minority ownership in domestic securities firms and most insurance business
- Telecom - ends ban on foreign investment; allows 50% ownership in value added (internet) and paging services within two years after accession; 49% ownership in mobile telecom, domestic and international services phased in over five to six years
- Other services - increased market access for professional services, including accounting, consulting, engineering, medical, and information technology
- Commits China to implement and enforce international standards on protection of intellectual property; provides for increased access and distribution rights for motion pictures, music, and software
- United States agrees to extend China PNTR as a WTO member, phase out quotas on imports of Chinese textiles and apparel by 2004 (all other sectors already are fully open as a part of annual extension of NTR⁴⁸)

So far, the results according to national indicators have shown these developments in the past couple years have been fairly successful. While the GDP growth rates of most major economies are in the low single digits, China has managed to sustain a growth rate of 7.9% in 2002—higher than its own target of 7%. As for trade, while global business has stagnated to a 1% increase in 2002, China's trade soared by 20%, with exports far

⁴⁸ Lardy. <http://www.brook.edu/dybdocroot/comm/policybriefs/pb058/pb58.htm>

outstripping imports.⁴⁹ China has been pumping goods into the world market: it now makes half of the world's cameras, a third of the world's air conditioners and about a quarter of all washing machines and fridges, according to the well-reputed weekly economic digest *Far Eastern Economic Review*. In foreign direct investment China's share grew 10% in 2000, while halved in the rest of the world, and after entry into WTO has risen over 20%.

These gains, however, have not come without cost to the CCP. These glowing statistics mask serious structural problems: growing pains due to uneven development in both urban and rural areas due to jobs lost on account of price competition and inefficient producers thus losing their livelihoods. In recognition of these costs, China's government released a report warning of "massive grievances" over economic and ethnic conflicts due to its entry into the WTO. Titled "2000-2001 China Investigation Report: Research into Contradictions Among The People Under New Conditions," the report openly warns of rising anger over heavy taxes and gaps in wealth. Open admission is made of the likelihood of protests, particularly in rural areas where income growth has been stalled and a large number of workers are migrating to cities in search of work.⁵⁰ In urban areas, unemployment has increased as the WTO entry has forced faster-paced reform of state firms and a banking system still mired in bad loans. While the reforms have brought the desired efficiency gains to Chinese businesses, these gains have cost millions of workers at these state owned enterprises their jobs and forced. These workers must now find themselves new jobs—a

⁴⁹ Hennock, Mary. "China's economic gatekeeper steps down."
<http://news.bbc.co.uk/2/low/business/2411327.stm>

⁵⁰ "Chinese study warns of WTO unrest." <http://www.cnn.com/2001/WORLD/asiapcf/east/06/05/china.report>

burden formerly unheard of during the era of the “iron rice bowl” that existed prior to the reforms of these last two decades.⁵¹

This section concludes by noting that the CCP has consistently cited the gains from globalization in promoting its popular image and to convince the Chinese populace that it is making wise policy decisions. Government reports, propaganda, and government sponsored magazine and news articles often cite the latest growth figures and state how a given policy change has yielded significant benefits, thanks to the wise governance of the CCP. Despite the opposition of vested interests, the party continues to lead--not follow--its nation down a path towards greater integration.

⁵¹ Eckholm, Erik. “China’s Inner Circle Reveals Big Unrest.”
<http://www.uyghuramerican.org/researchanalysis/NYTJun3.html>

Conclusion

The economic impact of globalization in Vietnam and China demonstrate that globalization can be beneficial to the growth of developing countries and can furthermore enhance the sovereignty of domestic governments. While globalization can and does have negative side effects—some multinationals do exploit their workers, domestic institutions will face more risk from capital flows, and the threat of social instability may rise—the gains to trade are nonetheless supported by the majority of cross-country empirical data. While the manner in which developing countries can best utilize international capital and markets should remain an issue of concern and further study, the claim that globalization is merely a source of problems is unjustified given the analysis of Vietnam and China.

Appendix.

Table 1: Annual growth rates of GDP, Agriculture, Industry and Service Sector during 1986-1998 (percentage)

Year	86	87	88	89	90
GDP Growth	2.3	3.6	6.0	4.7	5.1
Agriculture	2.4	-0.5	3.9	6.8	1.6
Industry & Construction	10.3	9.2	5.3	-2.8	2.9
Service	-2.8	5.3	9.1	7.6	10.8

Year	91	92	93	94	95	96	97	98
GDP Growth	6.0	8.6	8.1	8.8	9.5	9.3	8.1	5.8
Agriculture	2.2	7.1	3.8	3.9	4.8	4.4	4.3	2.7
Industry & Construction	9.1	14.0	13.1	14.0	13.6	14.5	12.6	10.3
Service	8.3	7.0	9.2	10.2	10.0	9.3	8.3	

Source: GSO 1997,1998.

Table 2: Structure of Industrial Gross Output by Economic Sector (at constant 1994 prices)

Unit: percentage

	1995	1996	1997	1998
Total	100	100	100	100
1- Domestic sector	74.9	73.3	71	68.2
State owned enterprises	50.3	49.3	48	46.2
Non state enterprises	24.6	24	23.1	22
2- Foreign invested sector	25	26.7	28.9	31.8

Source: GSO 1998

Table 3: Share in GDP of main sectors (Percentage)

Year	90	91	92	93	94	95	96	97
Agriculture	31.5	39.5	33.9	29.9	28.7	27.5	27.2	26.2
Industry	23.9	24.8	27.3	28.9	29.6	30.1	30.7	31.2
Services	38.6	35.7	38.8	41.2	41.6	42.4	42.1	42.6

Source: GSO 1997

Table 4: Inflation Rates (1986- 1999)

	1986	1988	1991	1992	1993	1994	1995	1996	1997	1998	Aug.99
Inflation Rate (%)	775	394	67.5	17.5	5.2	14.4	12.7	4.5	3.6	9.2	0.8

Source: WB 1995, VN Economic Times 98, GSO 98, The Saigon Times weekly, Sep.99

Table 5: Growth Rate of Foreign Trade (1990-1998) in Percentage

Year	Total	Export	Import
1990	123.5	114.3	107.3
1991	85.8	86.8	84.9
1992	115.7	123.7	108.7
1993	134.9	115.7	154.4
1994	143	135.8	148.5
1995	137.7	134.4	140
1996	135.2	133.2	136.6
1997	112.9	126.6	104
1998	100,4	101.9	99.2

Source:GSO 1998

Table 6: Main Markets of Vietnam's Export

	1995		1996		1997	
	Export Value (\$m)	Share (%)	Export Value (\$m)	Share (%)	Export Value (\$m)	Share (%)
Total	5448,9	100	7255,9	100	9185,0	100
Asia	3945	72.39	5254	72.41	6017,1	65.5
Japan	1461	26.8	1546,4	21.31	1675,4	18.2
Singapore	689,8	12.7	1290	17.77	1215,9	13.2
Taiwan	439,4	8	539,9	7.4	814,5	8.9
China	361	6	340,2	4.7	474,1	5.2
Hongkong	256,7	4.7	311,2	4.2	430,7	4.7
S. Korea	235,3	4.3	558,3	7.6	417	4.6
Thailand	101,3	2	107,4	1.4	235,3	2.6
Europe	982,8	18	1172,1	16.2	2207,6	24
Russia	80,8	1.5	84,7	1.2	124,6	1.4
United Kingdom	74,6	1.4	125,1	1.7	265,2	2.9
Germany	218	4	228	3.1	411,4	4.5
Netherlands	79,7	1.5	147,4	2	266,8	2.9
France	169,1	3.1	145	2	238,1	2.6
Switzerland	61,8	1.1	151,8	2	331,9	3.6
America	238.3	4.4	299.5	4.1	426.1	4.6
USA	169,7	3.1	204,2	2.8	291,5	3.2
Australia and Ocean	56.9	1	72.9	1	254.9	2.7
Australia	55,3	1	64,8	1	230,4	2.5

Source: GSO 1998

Table 7: Export Growth in 1999 for Asian countries.

	Export Growth in 1999 (%)
Thailand	7.4
Malaysia	15.3
Indonesia	0.6
Republic of Korea	11.9
Philippines	18.6
China	6.0
Vietnam	23.4
<i>Vietnam non-oil</i>	<i>16.3</i>

Source: Asia Pacific Quarterly Update, 21 March, 2000 and General Statistical Office (GSO)

Table 8: Vietnam's Export Structure 1990-1997 (Percentage)

	1990	1991	1992	1993	1994	1995	1996	1997
Primary Products (0-4)	88.7	83.8	73.7	65.4	62.4	65.1	63.3	63.3
Manufacture (5-8)	10.4	16.2	26	34.2	37.1	34.6	36.4	36.7
Chemicals (5)	0.3	0.2	0.6	0.5	0.4	0.5	0.4	na
Resource based (6)	5.0	5.0	5.7	6.2	6.2	6.4	7.1	na
Machinery & Transport (7) Equipment	0.4	0.3	0.7	2.0	1.3	1.4	1.5	na
Miscellaneous (8)	4.7	10.6	19.0	25.5	29.2	31.2	31.7	na
Textiles & Garment	-	9.6	9.9	10.7	13.2	15.6	15.9	16.5
Footwear	0.7	0.6	0.8	2.2	2.8	5.4	7.3	10.6
Unclassified	0.9	0.1	0.7	0.5	0.5	0.3	0.3	0
US\$ million	1,282	1,650	2,227	3,130	4,187	5,449	7,255	9,185

Source: For 90-96: from Athukorala 1998, for 1998: Statistical Yearbook 1998.

Table 9: Foreign Direct Investment Inflow in Vietnam (1988-1998)

Year	No. Of Projects	Registered Capital (US\$mil.)	Growth Rate Rate (%)	Implemented Capital (US\$ mil.)	Impl. Cap./ Reg. Cap. (%)
1988	37	371.8		49	13
1989	68	582.5	56.6	130	22.3
1990	108	839.0	44	220	26.2
1991	151	1322.3	57.5	221	16.7
1992	197	2165.0	63.7	398	18.3
1993	269	2900.0	33.9	1106	38.1
1994	343	3765.6	29.8	1952	51.8
1995	370	6530.8	73.4	2652	40.6
1996	325	8497.3	30.1	2371	27.9
1997	345	4649.1	-45.3	2800	62.7
1998	275	3897.4	-16.1	n.a	n.a
1988-98	2488	35520.9			

Source: Statistical Yearbook 1998, Vietnam Economic News No. 3,4,5 of 1998

Table 10: Foreign Direct Investment(1988-1998), by kind of economic activities.

	No. Of Projects	Registered Capital (mil. USD)	Share (%)
Total	2488	35520.9	100
Agriculture, forestry & fishery	352	1614.9	4.5
Industry	1208	13418.2	37.7
of which oil and gas industry	43	2969	8.4
Construction	258	4394.2	12.4
Hotel, Tourism	194	4664.1	13.1
Transport, Communication	134	3280.1	9.2
Finance & Banking	28	193.1	0.5
Other	317	7956.3	22.4

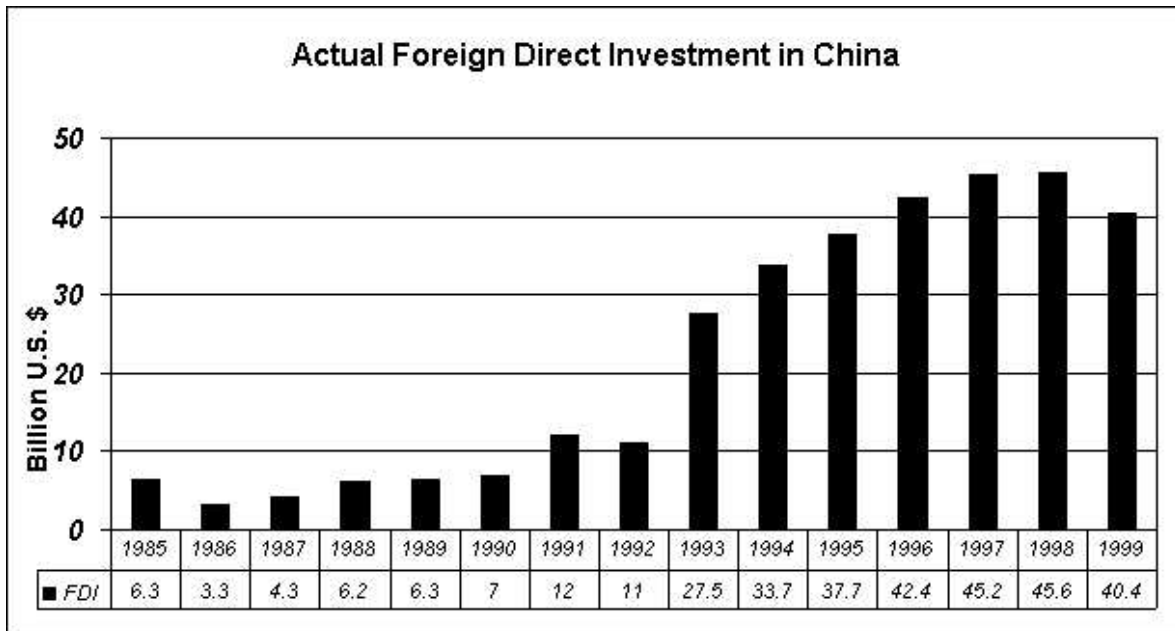
Source: GSO 1998

Table 11: Foreign Direct Investment(1988-1998) by Counterparts (Top Ten)

	No. Of Projects	Registered Capital (mil.USD)	Share (%)
Total	2488	35520.9	
Singapore	221	5713.1	16
Taiwan	427	4415.9	12.4
Hongkong	289	3570.9	10
Japan	256	3299.1	9.2
S. Korea	236	2973.7	8.3
France	136	1832.8	5.1
British Virgin Inlands	76	1710.7	4.8
Russia	60	1498.4	4.2
USA	91	1189.7	3.3
United Kingdom	33	1160.7	3.2

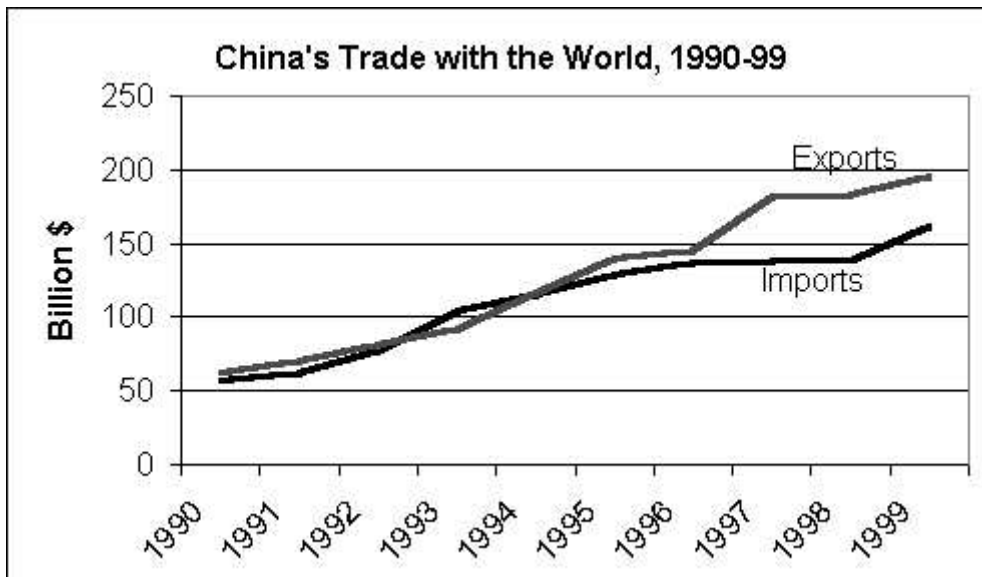
Source: GSO 1998

Table 12:



Source: "China Statistical Yearbook 1999; Agence France Presse, 13 March 2000.

Table 13:



Source: "PRC General Administration of Customs," China's Custom Statistics

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