



# The Key Influencing Factors of Vietnam's Economic Integration into the Global Economy

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## Abstract

*This article examines the key factors, influencing Vietnam's international economic integration, tracing its journey from the Renovation (Doi Moi) reforms to becoming an important player in the global economy. Key domestic reforms, such as equitization (privatization), deregulation, and infrastructure development, have laid the foundation for Vietnam's rapid growth. The country's active participation in international trade agreements, including the WTO and recent free trade agreements has opened significant opportunities for export and import, enabling a deeper economic integration process. Foreign direct investment has played a crucial role in the expansion of Vietnam's manufacturing sector, contributing to its industrial growth, improvement of managerial skills, and technology transfer. Geopolitical shifts, stemmed from the U.S.-China trade war, the Covid-19 pandemic, and geopolitical tensions have also accelerated supply chain realignment, benefiting Vietnam. Despite its integration progress, Vietnam faces multifaceted challenges such as environmental degradation, labor rights issues, and infrastructure gaps. The article emphasizes that addressing these obstacles will be critical for Vietnam to sustain its economic momentum and deepen its global integration in the coming years.*

**Keywords:** Doi Moi, Geopolitical, Economic integration, Influencing factor, Vietnam.

## Introduction

Vietnam's path to international economic integration has been marked by substantial progress, beginning with its cautious reforms in the late 1980s under the *Doi Moi* (Renovation) policy. These reforms shifted the country from a centrally planned economy towards a more market-oriented system, laying the foundation for its growing presence in the global market. The government has actively pursued policies to liberalize trade, promote private enterprise, and attract foreign direct investment (FDI), which has been essential for Vietnam's rapid economic growth. Over the years, Vietnam has signed numerous free trade agreements and joined international organizations like the World Trade Organization (WTO), especially new-generation FTAs, further enhancing its trade relations with developed countries. The country's strategic geographic position in Southeast Asia has also been a key asset in integrating into global supply chains. Vietnam has become a leading exporter of electronics, textiles, and agricultural products, benefiting from the relocation of manufacturing due to rising costs in other countries like China.

However, this integration process has not been without challenges. Vietnam faces environmental degradation from rapid industrialization, labor market issues, and uneven regional development. Additionally, while the country has made strides in regulatory reform, the slow implementation of policies and infrastructure bottlenecks continue to pose challenges. Despite these hurdles, Vietnam's dynamic economy and proactive approach to trade and investment reforms have positioned it as an emerging player in the global economy.

This article explores the key factors influencing Vietnam's economic integration, including domestic reforms, international trade agreements, foreign direct investment, geopolitical shifts, and challenges like environmental concerns and labor issues. These factors will be analyzed using relevant data, charts, and statistics to clarify Vietnam's evolving role in the global economy.

## 1. Literature review

During the 1970s and 1980s, a significant spatial transformation occurred in Western countries with the rise of global cities, also known as world cities, which became hubs of political and economic power (Friedmann and Wolff, 2017). These cities evolved within a "core-periphery" framework, reflecting the changing spatial division of labor and economic restructuring. Core cities emerged as central nodes in the global economy, concentrating political influence, financial control, and capital accumulation. Known as global cities, they played a critical role in the global political and economic landscape. Foreign direct investment (FDI) was a key driver of this development, enabling the relocation of specific industries, mainly manufacturing, to peripheral regions while consolidating financial and management activities in the core cities (Beaverstock *et al.*, 1999). This spatial realignment

allowed global cities to become the primary centers for decision-making, finance, and corporate control, further strengthening their status as "capital capitals" within the global economy. FDI not only facilitated economic shifts but also reinforced the dominance of these cities in the broader global economic system, shaping the modern urban hierarchy.

Global cities are hubs for advanced producer services, deeply embedded within international economic networks. These cities facilitate the global flow of capital and expertise, connecting various regions of the world. In recent decades, Asian corporations have emerged as significant investors in other parts of Asia, capitalizing on regional opportunities. A vital example of this trend is the manufacturing sector, where companies seek offshore production in lower-cost locations to enhance their competitiveness. A notable case is China, where FDI has played a crucial role in transforming its urban landscape. Since the reform and opening-up policy initiated in 1978, Chinese cities have experienced remarkable growth in both population and economic output. The influx of FDI has spurred this development, with global capital flowing into China's expanding industries. As a result, Chinese cities have become focal points for economic modernization and international integration, attracting investment and fostering urbanization at an unprecedented pace. This process reflects broader regional dynamics in Asia, where corporate investment reshapes cities and economies. Many Chinese cities and their surrounding regions have undergone swift transformation due to the influx of FDI, initially concentrated in the manufacturing sector (Wu and Radbone, 2005).

Economic integration, along with efforts to reform the investment and business environment and enhance the competitiveness of the economy, is gradually affirming Vietnam's rightful position on the global stage and in the eyes of investors. Vietnam has also been actively involved in various financial and economic organizations and trade agreements. Moreover, Vietnam continues to negotiate comprehensive partnerships in the region, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). It should be noted that around 60 economies worldwide have negotiated Free Trade Agreements (FTAs) with Vietnam, including major trading partners that account for approximately 90% of the country's trade (Tien, 2018a; Tien, 2018b; Davis, 2011).

## **2. Results and discussion**

### ***2.1. The main influencing factors of Vietnam's integration process***

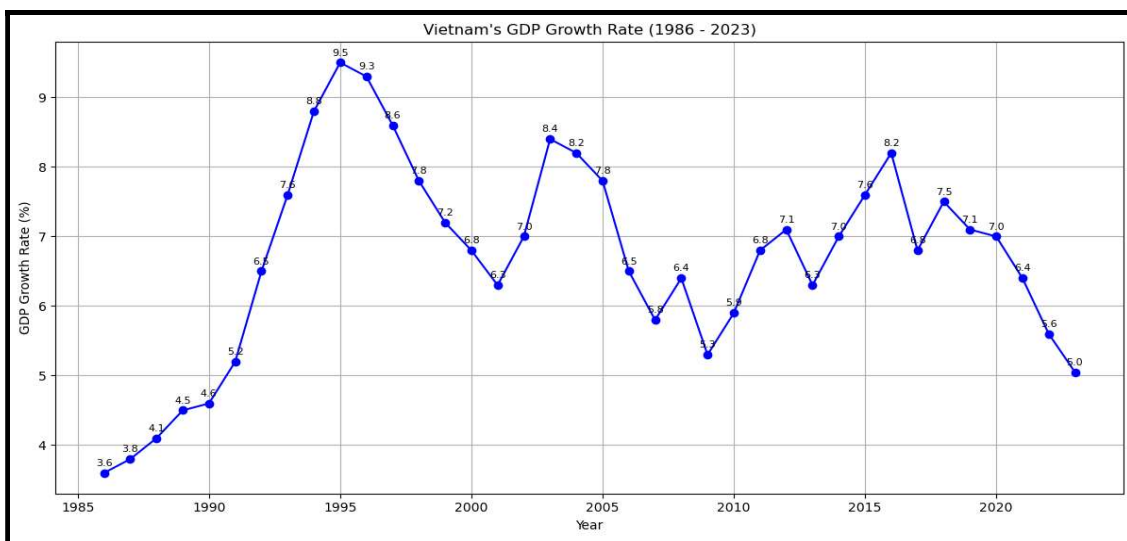
#### *Domestic economic reforms and liberalization*

Vietnam's remarkable economic transformation can be traced back to the pivotal Đổi Mới reforms of 1986, which marked the country's transition from a centrally planned economy to a more market-oriented system. These reforms were instrumental in opening Vietnam's economy to the global stage and fostering a more competitive business environment. Over the past few decades, Vietnam has undergone significant changes through

market-oriented policies aimed at liberalizing trade, improving its business/investment climate, and attracting foreign direct investment (FDI). As a result, the country has experienced rapid economic growth and is now recognized as one of the fastest-growing economies in Southeast Asia.

Vietnam’s GDP growth rate has averaged 6-7% annually over the past two decades, showing consistent economic expansion. As illustrated in Figure 1, Vietnam’s GDP in 2022 reached USD 408 billion, up from USD 31 billion in 2000.

**Figure 1: Vietnam's GDP growth rate (1986-2023)**



Source: Vietnam’s General Statistical Office (GSO).

One of the critical elements of Vietnam’s transformation has been the government’s progressive privatization and deregulation of state-owned enterprises (SOEs). Initially, SOEs dominated the economy, but under *Doi Moi*, many were privatized, allowing private enterprises and foreign investors to take a more significant role in the economy. By promoting transparency in business processes and simplifying regulations, the Vietnamese government has made it easier for both domestic and international companies to operate. These steps have encouraged the inflow of foreign capital, which has played a crucial role in modernizing various sectors of the economy, from manufacturing to services.

Another critical aspect of Vietnam’s economic overhaul has been the stabilization of its currency. The State Bank of Vietnam, the country’s central bank, has focused on maintaining stable inflation and exchange rates. This monetary stability has created a predictable and attractive environment for foreign investors. By ensuring that inflation remains in check and the currency remains stable, the government has built investor confidence, reduced the risks associated with doing business in Vietnam, and enhanced the country’s economic stability.

Infrastructure development has also been at the heart of Vietnam's economic reform. Recently, the government has directed massive investments towards improving transportation networks, telecommunications, and energy infrastructure. These investments are crucial to boosting Vietnam's productivity and competitiveness. Upgraded highways, ports, airports, and railways have made moving goods and services across the country and beyond its borders easier, facilitating trade with international partners. Telecommunications improvements have also supported the rise of Vietnam's digital economy, which is becoming a growing sector for domestic growth and international business. Furthermore, investments in energy infrastructure, particularly renewable energy, have helped Vietnam reduce its reliance on traditional fossil fuels while ensuring that industries have the power to continue expanding.

These domestic reforms have transformed Vietnam into a dynamic, fast-growing economy. The country has balanced the challenges of transitioning from a socialist to a market-based economy while maintaining social stability. As a result, Vietnam has emerged as a critical player in global manufacturing and trade. Its success is not only a testament to the effectiveness of the *Doi Moi* reforms but also reflects the government's continued commitment to improving the business environment and promoting economic growth.

#### *Participation in international trade agreements*

Vietnam's commitment to international trade agreements has played a crucial role in its successful economic integration into the global market. Vietnam has embraced globalization over the past few decades and has proactively and actively integrated into the global economy, signing 16 Free Trade Agreements (FTAs) with key international partners. These include recent agreements with big developed countries, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Vietnam-European Union FTA (EVFTA) and Regional Comprehensive Economic Partnership (RCEP).

One of the most significant milestones in Vietnam's economic integration came in 2007 when it joined the World Trade Organization (WTO). This membership marked Vietnam's formal entry into the global trading system, significantly enhancing its economic prospects. WTO membership gave Vietnam more significant access to larger international markets, helping reduce trade barriers and lowering tariffs on Vietnamese goods. Additionally, it encouraged Vietnam to reform its domestic legal and regulatory frameworks to comply with international trade standards, improving the overall business environment. WTO membership has since expanded critical Vietnamese exports, such as textiles, seafood, and electronics, into markets like the United States, Europe, and Asia.

In 2018, Vietnam took another significant step forward by joining its first new-generation FTA - the CPTPP. The FTA is one of the world's most important multilateral trade agreements, including countries like Japan, Canada, Australia, and Mexico. This agreement eliminates 98% of tariffs on goods traded between its member countries, creating substantial export opportunities for Vietnam. By joining the CPTPP, Vietnam secured a competitive edge in international markets, especially for its manufacturing sectors, such as electronics, garments, and footwear. Furthermore, the CPTPP has helped Vietnam diversify its trade partnerships beyond its traditional reliance on the United States and China, reducing vulnerability to shifts in global trade dynamics.

Another pivotal agreement that has boosted Vietnam's international economic integration is its second new-generation FTA - EVFTA, which came into effect in 2020. The EVFTA is one of the most ambitious and comprehensive trade agreements the European Union has signed with a developing country. It aims to reduce and eventually eliminate tariffs on a wide range of goods traded between Vietnam and the EU. This agreement mainly benefits Vietnam's key export industries, including garments, textiles, electronics, and agricultural products such as coffee and seafood. The EVFTA is expected to increase bilateral trade and provide Vietnamese businesses with improved access to the lucrative European market while offering European investors better conditions in Vietnam. The agreement also aligns with Vietnam's broader goals of deepening its economic ties with developed economies.

The above-mentioned strategic and determined moves during the economic integration process have promoted the market-oriented efforts and opened domestic market for Vietnam's economic partners, therefore, strengthens the country's economic integration process. The government's focus on expanding international partnerships demonstrates Vietnam's commitment to becoming a more influential player in global trade and economic integration, positioning itself for sustainable growth in the future.

By signing numerous free trade agreements, both bilaterally and multilaterally, the country has dramatically expanded its access to global markets, fostering economic growth and diversification. These trade agreements have opened doors for Vietnam to export its goods and services and attracted foreign investments, helping to modernize its industrial base and strengthen its position in global value chains.

In addition to these significant trade agreements, Vietnam continues actively negotiating and participating in various regional and global trade initiatives. Its involvement in these agreements demonstrates the country's determination to integrate further into the global economy and remain competitive in international markets. Vietnam has set itself on a path toward sustained economic growth and modernization by lowering trade barriers, increasing market access, and attracting foreign investment.

Moreover, the benefits of these trade agreements are not limited to large-scale industries. In Vietnam, small- and medium-sized enterprises (SMEs) also benefit from improved access to international markets, enhanced supply chains, and more significant opportunities to participate in global trade. The government's proactive approach to supporting local businesses to adapt to international trade standards through regulatory reforms and capacity-building programs has further strengthened the domestic economy.

In conclusion, Vietnam's strategy of engaging in international trade agreements has been a cornerstone of its economic development. Through its participation in critical agreements like the WTO, CPTPP, and EVFTA, Vietnam has effectively integrated into the global economy, expanded its market reach, and diversified its trade partnerships. As a result, Vietnam is now well-positioned as a critical player in the worldwide trading system, with promising prospects for continued economic growth and development in the years to come.

Vietnam's trade balance has transformed remarkably in recent years. The country recorded frequently a trade surplus in many years, particularly with developed countries, reflecting its growing export base. Table 1 below shows Vietnam's export and import data in selected years from 2010 to 2023.

**Table 1: Vietnam's Trade performance (2010-2023)**

Year	Exports (USD billion)	Imports (USD billion)	Trade balance (USD billion)
2010	72.2	84.8	-12.6
2015	162.0	165.5	-3.5
2020	281.5	262.7	+19.93
2022	336.3	317.0	+12.14
2023	354.67	327.5	+28.01

Source: GSO.

#### *Geopolitical shifts and supply chain realignments*

In general, Vietnam has significantly benefited from recent geopolitical shifts, most notably due to the U.S.-China trade war, the global Covid-19 pandemic, and geopolitical tensions recently. These significant factors have accelerated the relocation of global supply chains as businesses seek to diversify their manufacturing operations away from China. The reasons for this shift are multifaceted, but Vietnam has emerged as a good alternative for many multinational companies. Factors such as competitive labor costs, a stable political environment, and geographic proximity to China have positioned Vietnam as a strategic hub for manufacturing.

The U.S.-China trade war began escalating in 2018 and has been a significant catalyst for change. As tariffs between the world's two largest economies increased, many companies found it too costly to continue manufacturing in China. Sectors like electronics, apparel, and footwear, which are highly dependent on low-cost labor and global export markets, were particularly affected. In response, numerous firms began shifting production to other countries, and Vietnam quickly became one of the top destinations. Its competitive wages, generally lower than in China, combined with strong government support for foreign investment, have made Vietnam a preferred choice for companies seeking to minimize their exposure to trade tensions between the U.S. and China.

Beyond the trade war, the Covid-19 pandemic further emphasized the importance of supply chain diversification. When the pandemic disrupted global trade in early 2020, many businesses realized the risks of overreliance on a single country for manufacturing. The pandemic outbreak in China, the world's largest manufacturer, caused massive delays in production and shipping, leading companies to reconsider their dependence on Chinese factories. This global crisis opened the door for countries like Vietnam to showcase their resilience. Vietnam's relatively successful handling of the pandemic and its strong public health response and effective containment measures allowed businesses to continue operating in the country with minimal disruption.

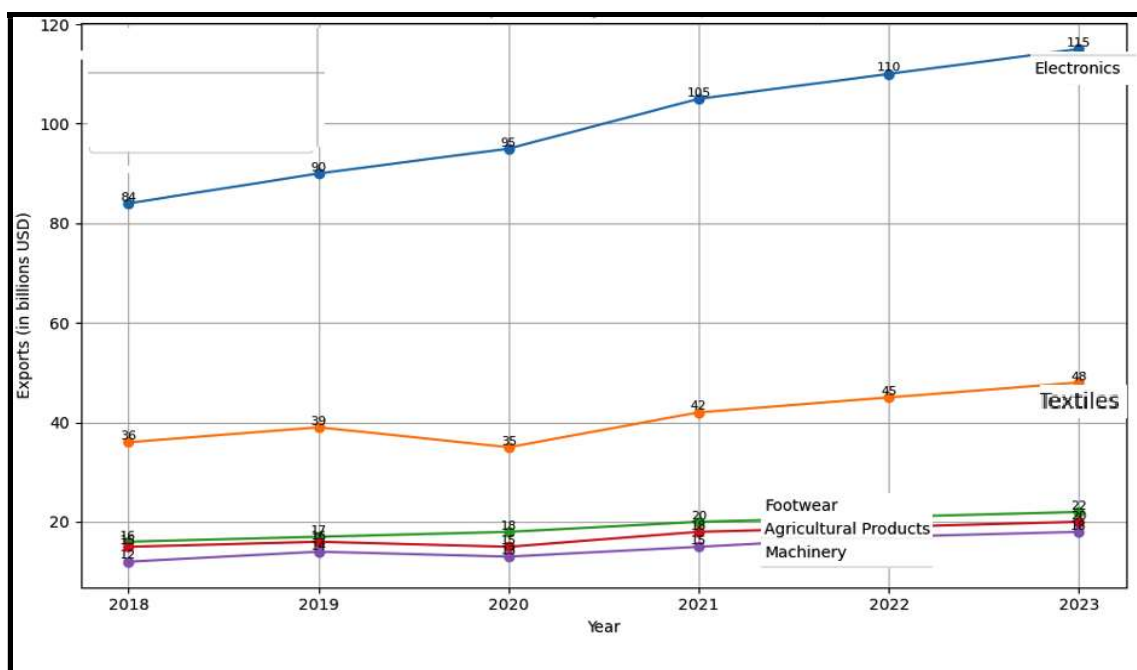
Vietnam's growing infrastructure is also critical in its attractiveness as a manufacturing hub. Over the past two decades, the Vietnamese government has heavily invested in improving the country's transportation and logistics networks. Modern highways, ports, and airports can now support large-scale manufacturing and exports, making it easier for companies to move goods in and out of the country. Furthermore, Vietnam's proximity to China offers a logistical advantage. Businesses that need to maintain some operations in China can easily coordinate production between their Chinese and Vietnamese facilities.

Vietnam's workforce also offers a unique advantage. While labor costs are lower than those in China, the country has a young and increasingly skilled workforce. Over the years, Vietnam has significantly improved education and vocational training, equipping its labor force with the skills necessary to handle more complex manufacturing processes. This has allowed Vietnam to move up the value chain from essential assembly work to more sophisticated electronics and automotive parts production.

The country's political stability is another critical asset. Unlike some other Southeast Asian nations, Vietnam has maintained a consistent and predictable political environment. Its government is highly focused on economic growth and industrial development, providing a stable framework for foreign companies. Additionally, Vietnam has a strong track record of supporting FDI through various incentives, such as tax breaks and favorable business conditions.

Since 2018, over 60 multinational companies have moved part of their production network to Vietnam, with electronics and textiles being the primary sectors benefited. Figure 2 highlights the rise in exports of essential products like electronics, footwear, and apparel, which have benefited from this realignment.

**Figure 2: Vietnam exports of key products (2018-2023)**



Source: GSO.

## 2.2. Challenges for Vietnam's economic integration

Vietnam's path toward integrating into the global economy has been marked by remarkable progress, yet several significant challenges impede its development. These obstacles, rooted in environmental, social, and policy issues, pose substantial risks to the country's long-term growth and stability, even the pace of the integration period. Among the most pressing concerns are those related to the environment. Vietnam's rapid industrialization, while driving economic expansion, has led to considerable environmental degradation. Pollution, particularly rising air and water contamination, is one of the most visible signs of this transformation. Exploiting natural resources necessary for industrial growth has simultaneously led to resource depletion, further damaging the country's ecological balance.

Additionally, climate change presents a looming threat to Vietnam's future, especially considering its heavy dependence on agriculture. As sea levels rise and weather

patterns grow more unpredictable, coastal areas are particularly at risk of flooding and erosion, endangering farmers' livelihoods and the country's food security. These environmental challenges disrupt daily life and impose significant economic costs on the nation, requiring more focused mitigation and adaptation strategies.

Labor and social issues further complicate Vietnam's growth trajectory. Despite improvements over the years, labor rights in specific sectors, such as textiles and electronics, remain an area of concern. Workers in these industries often face brutal working conditions characterized by low wages, long hours, and inadequate safety protections. These conditions have sparked frequent labor disputes and strikes, highlighting the need for stronger protections and more equitable labor practices to attract more FDI, especially from developed countries. The issue of income inequality has widened as economic growth has concentrated wealth in urban areas, leaving many rural communities behind. This growing disparity between urban and rural populations threatens social cohesion and could lead to further unrest if not properly addressed.

On the policy front, several gaps hinder the effective implementation of reforms needed to support Vietnam's evolving economy. While the government has made substantial efforts to accelerate domestic reforms to liberalize the market and improve business regulations, the pace of these reforms has often been slow. This sluggishness in enacting and enforcing regulatory changes creates uncertainty for businesses, particularly foreign investors, who may hesitate to commit to long-term projects in unpredictable policy environments. Moreover, bureaucratic inefficiencies continue to bog down progress, making it difficult for businesses to navigate the regulatory landscape.

Infrastructure development, another critical component of Vietnam's economic integration, has also struggled to keep pace with the country's rapid growth. Although the government has made significant investments in transport and logistics infrastructure, these efforts have not been sufficient to meet the demands of a fast-expanding economy. Bottlenecks in transportation networks, particularly in major cities like Hanoi and Ho Chi Minh City, hamper the movement of goods and people, leading to inefficiencies that reduce the country's competitiveness on the global stage. The lack of adequate infrastructure stifles trade and makes it harder for businesses to operate efficiently, further limiting Vietnam's economic potential.

In conclusion, while Vietnam has made impressive strides in integrating into the global economy, it must confront these multifaceted challenges to sustain its growth.

Addressing environmental degradation, improving labor conditions, reducing income inequality, and accelerating policy reforms are critical to ensuring that Vietnam remains competitive in the global market. At the same time, the government must prioritize infrastructure development to support the country's future economic ambitions. By tackling these issues head-on, Vietnam can continue its trajectory of financial success while fostering a more sustainable and inclusive future for all its citizens.

### 3. Conclusion

Vietnam's integration into the global economy has been an extraordinary journey, marked by significant transformation over the past few decades. The country's robust commitment to domestic reforms, which started with the *Doi Moi* reforms in the late 1980s, has laid the foundation for its impressive economic rise. Vietnam's proactive engagement in international trade agreements, such as its membership in the WTO and the signing of crucial trade deals like the CPTPP, the EVFTA, and RCEP has further solidified its role as a sizable player in global trade. Additionally, Vietnam has become an attractive FDI destination, particularly in manufacturing, electronics, and, more recently, high-tech sectors. The influx of foreign capital and technology has bolstered Vietnam's industrial output and positioned it as a link in global supply chains.

However, Vietnam's journey towards deeper economic integration is not without challenges. The rapid pace of industrialization has led to environmental degradation, particularly in terms of air and water pollution, deforestation, and challenges related to climate change. Social issues, including labor rights and income inequality, have also emerged as growing concerns that require attention. Moreover, the country's infrastructure, though much improved, still struggles to keep pace with the demands of its fast-growing economy, particularly in transportation and energy. Vietnam's ability to maintain its momentum will depend on effectively addressing these issues while attracting investment and participating in global trade.

Geopolitical changes, such as the U.S.-China trade war and the ongoing realignment of global supply chains, present both opportunities and risks for Vietnam. The country is well-positioned to capitalize on these shifts, with many companies looking to diversify their production bases away from China. However, Vietnam should balance these opportunities with the need for sustainable growth and resilience. As long as Vietnam remains committed to addressing its internal challenges such as environmental protection, infrastructure development, and social equity, while leveraging its strengths, it will likely continue its ascent in the global economy, reinforcing its reputation as one of Asia's most dynamic and promising economies.

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