

*THE TRANSFORMATION OF VIETNAMESE
TRADE POLICY*

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DECLARATION

I declare that this thesis is the product of my own original research, and contains no material which has been accepted as part of the requirements of any other degree at any other university, or any material previously published or written by another person except where due reference is made.

Chu Minh Thao

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Abstract

This thesis explores Vietnam's trade policymaking to generate insights into the factors driving the country's process of trade liberalization since the 1980s. Vietnam provides an important case for the study of the politics of trade policy, as its rapid transformation from isolation to active trade player has been one of the most dramatic of any country. As a developing country, such trade agreements require costly and highly politically sensitive policy reforms. Moreover, as a country with a one-party socialist political system, its capacity to engage with the capitalist global and regional trade regimes is less than for many of its peers. This situation raises questions about how and why Vietnam has so rapidly adopted a strategy of aggressive trade liberalization through bilateral, regional and global trade agreements?

Previous scholarly research on Vietnam's trade policy reforms tends to emphasize economic rationales, such as expanding exports and/or attracting inward foreign investment. While these factors are certainly pertinent, they ignore a wider range of transformations within Vietnam that have reconfigured how it engages with the global economy. This study goes beyond economic factors to explore how changes in the actors, interests, ideas, and institutions of Vietnam's trade policymaking have led to its distinctive type of trade reforms.

Using case study and interview methods, the thesis examines Vietnam's domestic trade reforms and participation in key international trade agreements. The study argues that the Communist Party of Vietnam (CPV) and the state took the lead role to advocate for international trade agreements. Underlying these reforms were transformation within the CPV and state, through which a new diplomatic and economic reform mindset and arose over groups opposing trade policy on the ground of potential economic and political risks. Such transformations were facilitated through more pluralistic and inclusive processes within the CPV, and the relations between the party-state and interest groups, contributing to enabling the country's transformation into an active trade policy player.

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Abbreviations

ADB	Asian Development Bank
AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Agreement
AKFTA	ASEAN-South Korea FTA
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BTA	Bilateral Trade Agreement
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CPV	Communist Party of Vietnam
EU	European Union
EVFTA	EU-Vietnam FTA
FAV	Fertilizer Associations of Vietnam
FDI	Foreign Direct Investment
FIEs	Foreign-Invested Enterprises
FVPOC	Former Vietnamese Prisoners of Conscience
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Products
GoV	Government of Vietnam
GPA	Government Procurement Agreement
IMF	International Monetary Fund
IPR	Intellectual Property Right

LEFASO	Vietnam Leather, Footwear and Handbag Association
MFN	Most Favoured Nations
MOFA	Ministry of Foreign Affairs
MOIT	Ministry of Industry and Trade
NATO	North Atlantic Treaty Organization
NCIEC	National Committee for International Economic Cooperation
NGOs	Non-government organizations
NT	National Treatment
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
RCEP	Regional Comprehensive Economic Partnership
ROOs	Rules of Origin
SOEs	State owned enterprises
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
TPP	Trans-Pacific Partnership
TRQ	Tariff Rate Quota
US	United States
VASEP	Vietnam Association of Seafood Exporters and Producers
VCCI	Vietnam Chamber of Commerce and Industry
VINASME	Vietnam Association of Small and Medium Size Enterprises
VINATEX	Vietnam National Textile and Garment Group
VITAS	Vietnam Textile and Garment Association
VTA	Vietnam Textile Association

WTO	World Trade Organization
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Chapter 1: Introduction

1.1 The research topic

Since the end of the Cold War, Vietnam has engaged in a rapid trade liberalization process by participating in bilateral, multilateral, and regional trade agreements. This process has radically transformed Vietnam's approach to international trade, which prior to this time was protectionist and focused on trade relations only with its peers in the socialist bloc. Domestically, the participation in various trade agreements has contributed to the country's economic reform process, which sought to transform Vietnam's economy from central planning to a market-based economic system. Externally, these trade agreements have also facilitated Vietnam's transformation into an engaged player, actively participating in the process of reshaping the global and regional trade architecture.

During this period, Vietnam has sought membership in an impressive number of international trade agreements. Following membership of the Association of Southeast Asian Nations (ASEAN) in 1995, it joined the ASEAN Free Trade Agreement (AFTA). It then played a role in the 'ASEAN Plus One' FTAs made with China in 2002, Japan in 2003, India in 2010, South Korea in 2006, and Australia and New Zealand in 2010. Vietnam joined the World Trade Organization (WTO) in 2007, for the first time becoming a fully-fledged member of the global trade system. Vietnam has since negotiated FTAs with extra-regional trade partners such as the European Union, and the Customs Union of Belarus, Kazakhstan and Russia. Finally, Vietnam surprised observers by becoming one of the very few developing economies to announce that it would participate in negotiations for the Trans-Pacific Partnership (TPP) agreement in 2010.¹ After decades of Cold War isolation, Vietnam has quickly become one of the most active trade players in the global economy.

¹ The TPP was suspended in February 2017 due to the US's withdrawal. It was replaced by the

This dramatic transformation in Vietnam's engagement with the global trade system raises a number of questions. First, its path towards trade liberalization has been varied: slow and comparatively cautious in the first decade of its economic reforms before becoming significantly more ambitious in the 2000s. This step-wise change in trade policy requires explanation. Second, Vietnam provides an instructive case study for exploring the politics of trade policymaking in a developing country transitioning from a socialist to a market-based economic system. Why, given these barriers, did it emerge as such an active participant in a trading system dominated by developed, Western, and capitalist economies? Third, in comparison with other major players in the global trade system – such as the EU, United States or China – there are comparatively few scholarly studies regarding the domestic political economy of Vietnam's trade reforms. How have its unique political, economic, and institutional attributes shaped the way it engages in trade policymaking? In answering this question, this study will enrich the current literature on trade policymaking, which is dominated by conceptual and theoretical approaches built on the experience of Western liberal democracies.

Thus, this thesis seeks to explain Vietnam's trade policy choices relating to its participation in international trade agreements. Like other countries, the recent evolution of Vietnam's trade policy reflects a compromise and balance between domestic and international imperatives. Understanding the dynamics that motivated, enabled, and constrained the process of trade liberalization is fundamental to understanding this evolution. The thesis argues that the path of Vietnam's trade liberalization was primarily determined by how the CPV and the state transformed their world-views and refining their interests supporting for joining international trade agreements, overcoming constraints against trade agreements. Changes toward more pluralistic and inclusive political and social processes and relations within the CPV and between the party-state and various interests have enabled the country's transformation into an active trade policy player. The study seeks to enrich the literature relating to trade policymaking by contributing an analysis of the Vietnamese case, exploring the processes through which Vietnam's trade decisions were made and identifying the key actors, interests, ideas and their interaction that impacted on trade policy outcomes.

1.2 Explaining Vietnam's trade policy choices

Participation in bilateral and regional FTAs is a strategy used by many developing economies to promote economic growth and development. However, making the right choice of which partners to negotiate with, at what time, and with what liberalization commitments, is a complicated and difficult task. Various considerations – not all economic – often weigh upon governments' decisions to launch and conclude negotiations on trade agreements. For example, diplomatic and geopolitical considerations may be the basis for a decision to launch negotiations with a particular partner, yet successfully concluding and implementing them might require the presence of more economic rationales such as market access, economic stimulus, and improving competitiveness (World Economic Forum 2014). For this reason, trade negotiations often take many years and considerable diplomatic effort to complete, and some often fail entirely.

For developing and transitional economies like Vietnam, the process of participating in trade negotiations is even more challenging. Given its comparatively lower level of economic development, Vietnam must make major concessions when negotiating with developed economies. It has been required to comply with increasingly complicated trade policy standards, such as the extensive conditions required for access to the WTO, or the high-standard liberalization commitments demanded by the US in the TPP. In addition, trade policymaking has become more complicated with its inclusion of 'non-trade' issues such as labor standards, environmental protection, and government procurement. Managing these issues necessitates brokering consensus among a wider range of domestic actors than tariff reductions alone would require. As a result, Vietnam's decisions on how to participate in its recent trade agreements have been far from straightforward. They have involved long processes of negotiation amongst domestic interest groups and a diverse range of international trading partners.

This thesis seeks to answer the question: **What explains Vietnam's trade policy choices in relation to its participation in international trade agreements?** Subsidiary research questions include:

1. How do we describe and explain the preferences of Vietnam's key trade policy actors?

2. How and why have the institutions (mechanisms, procedures, and processes) of trade policymaking developed as Vietnam has participated in an increasing number of international trade agreements?
3. How have institutions, interests, and ideas interacted, and in what ways do they explain Vietnam's trade policy decisions?

Vietnam's recent emergence as an active player in the global and regional trading systems has attracted the attention of both the scholarly and policy communities. Typically, these analyses identify a range of conventional economic motives – such as integration into the world economy, supporting domestic reforms, increased market access and foreign investment, and trade promotion – as the key drivers of Vietnam's trade reforms. However, this thesis argues that a wider range of political-economy drivers is relevant to an explanation of recent changes in Vietnamese trade policy. This is because the process of making choices is not static but dynamic, and is influenced by a range of political 'pull' and 'push' factors. Therefore, the study argues that a broad set of complex political economy factors, including the country's changing internal and external political, economic, and social contexts, drives trade policymaking in Vietnam. There is a harmonization of different interests and ideas, which results in great changes in terms of institutional, economic, and political aspects.

1.3 Theorizing the trade policymaking process

The existing scholarly literature on trade policymaking provides various theories and approaches to explain the factors that structure government's trade strategies. This literature consists of four distinct, but inter-connected, theoretical approaches: state-based, societal, ideational, and institutional approaches.

The *state-based* approach to trade policymaking considers the state – an organization comprised of executives, which make national policies - as a unitary and rational actor. It assumes that states aim to maximize their power (realist theory) and/or wealth and efficiency (neoliberal institutionalist theory). This approach has some explanatory utility in the case of state-socialist Vietnam as it presumes that the state is relatively free of the influence of domestic society and instead calibrates its trade policy to address international

conditions and considerations. However, as will be demonstrated in the Vietnamese case, this approach arguably over-emphasizes the extent of state autonomy even in a single party system and thus fails sufficiently to consider the influence of societal, and domestic political and economic pressures.

The *societal approach* looks instead at domestic dimensions. While it also focuses on the role of the state in trade policymaking, it drops the assumption that the state is a unitary actor. It explains trade policy decisions as the result of competition amongst different societal groups with divergent interests. One example is the Heckscher-Ohlin model of trade liberalization, which predicts that the owners of abundant factors of production prefer trade liberalization (typically labour in developing economies, capital in developed economies), while the owners of scarce factors of production favour protection instead. The Ricardo-Viner model offers an alternative explanation, with the assumption that the import-competing industries prefer protection, while the export-oriented industries favor liberalization. Depending on the relative political power of these societal groups (in terms of access to and influence over the state), they are able to shape national trade policy in favour of these underlying interests. This approach is applicable to Vietnam's trade policymaking given the increasing role of the private sector as an important actor. However, an overemphasis on societal actors fails to capture the nature of Vietnam's domestic political system, which has been predominantly controlled by the CPV with limited space for the articulation of independent societal interests.

The *institutional approach* argues that domestic actors have competing trade policy preferences, but focuses on the effects of the domestic institutional setting as the explanatory variable. This approach emphasizes the importance of the structures, rules, procedures, and organizations that frame power and the interaction between the state and the society. For example, an institutional approach has been used to explain differences in trade policy between the United States and European Union (EU), attributing them to domestic institutional differences where the US Congress imposes far more constraints on the executive than those faced by their EU counterparts (Bievre and Dur 2005, Leeg 2018). However, the institutional approach can overemphasize the role of processes and procedures while underplaying the agency of actors in articulating their preferences into policy. Thus, relying solely on an institutional perspective may fail to fully explain trade

policy in Vietnam, where other factors such as socialist ideologies also shape policy outcomes.

Finally, the *ideational approach* explains trade policy in terms of economic ideas and ideologies. It argues that ideas about economic policy are a fundamental determinant of trade policy preferences as they determine what policies key actors consider normatively appropriate. Examples of such ideas are the theories of the ‘developmental state’ and doctrines of ‘infant industry protection’ as well as neoliberal arguments relating to the benefits of free markets to unlock comparative advantage. The ideational approach is, therefore, relevant for explaining Vietnam’s trade policymaking as it connects the beliefs of key actors to their interests in and attitudes towards trade liberalization. However, by ignoring the power configurations that allow actors to express these ideas and the political institutions that shape their interaction, it also provides an arguably incomplete account of the trade policymaking process.

This thesis argues that using the state-centred approach provides the greatest explanation power in accounting for trade reform in Vietnam. This is because it emphasizes particular variables, namely state actors, and their unique and changing political objectives, which have been especially prominent drivers of Vietnam’s trade policymaking in recent decades. Therefore, with the aim of exploring Vietnam’s trade reforms, this study seeks to understand the role of various actors and their preferences as well as their interaction in Vietnam’s political and economic context and institutional setting, and in the fast changing regional and global context. The choice to adopt the state-centered approach is informed by the specifics of the case itself. In Vietnam, trade policymaking is a result of the interplay of various institutions within and beyond the state and their interests and ideas. This application of the state-centered approach does not mean that the institutions, ideas, and societal actors do not have influence on trade policymaking. However, they are less prominent in Vietnam, and when they do find expression tend to be channeled through and shaped by the role of state elites with mediate them into the policy-making process.

The framework first considers the internal institutional settings of the state. The institutions help to explain the rules of policymaking and the role of the different players that influence trade preferences through agenda-setting, channeling information and making final decisions. Secondly, the framework considers the role of key actors within the state and

society. Although the leading forces in trade policymaking within the state are the central bureaucracy and the Communist Party of Vietnam, a policy is effective only when it gains the support from, and achieves consensus amongst, the wider range of societal actors engaged in trade activities. Thirdly, the framework takes into account the beliefs, worldviews and economic ideologies of these key actors. By joining external trade agreements, new economic ideas have been introduced into the Vietnamese political system, which has had to be made compatible with the maintenance of a socialist political system in which the party plays a pre-eminent role.

1.4 Methodology

1.4.1 Data collection and analysis

The thesis aims to explain the factors that influenced the preferences of Vietnamese policymakers with respect to participating in international trade agreements by employing a qualitative methodology. Primary research material was derived from data collected from in-depth, one-on-one semi-structured interviews and telephone interviews between 2014 and 2018. The interviewees were drawn from the public sector, i.e. middle to high-ranking officials of the government (former deputy prime minister, vice ministers, deputy director generals, officials, government's experts) who had participated in the policymaking or trade agreement negotiation process. Other interviewees were non-state actors such as members of business associations, academics, and university, staffs of state-owned enterprises, and international experts. These respondents were identified and contacted through various means such as Facebook, email, phone calls, websites and personal contacts. The collected information from interviewees was subsequently triangulated and crosschecked with secondary resources. The list of interviewees and forms of interviewees is in the Appendix.

Interviews were designed to elicit answers to the following questions:

1. What principles, agendas and interests informed Vietnam's decisions to join international trade agreements?
2. What procedures were involved in decision-making on participation in particular trade agreements and what approaches were adopted during the negotiations?

3. What was the role, interests, ideas of different actors – including the communist party, state, i.e. policy makers and central bureaucracy, National Assembly and key societal stakeholders – in trade policymaking, and how did they interact?
4. Given this interaction, how was the final position of the government reached on key issues in the various negotiations (for example, agricultural trade liberalization and SOEs reform)?

As international trade agreements are treaty negotiations, they are by their nature closed and secretive processes. There is no publicly available documentation on the internal dynamics of these negotiations from any of the involved parties. For this reason, the conduct of interviews with key participants provided an invaluable source of information to process-trace the trade policymaking process both domestically and internationally. The interviews conducted with key policymakers were based on personal trust and recommendations from high-ranking people, and thus revealed views that have not been recorded before. However, as the interviewees normally know their ‘own story’ - i.e. one aspect of the whole complex trade policymaking mechanism, their individual views - do not necessarily reflect a complete picture. Therefore, this limit is supplemented by general literature about movements and characteristics of policymaking in Vietnam. The information and materials collected through interviews and other primary or secondary resources are analyzed to create the main policymaking themes in line with key variables.

The data are supplemented by analysis of other primary sources (such as leaders’ speeches, government documents, and statistics), as well as secondary sources drawn from the scholarly and policy literature on Vietnam’s trade reforms. Various types of documents are analysed, including the formal documents issued by the CPV; government resolutions, policies, plans, decisions, and circulars; speeches, press releases, and radio and television program scripts of government officials; organizational and institutional reports; newspaper archives; and various public records. These documents are used to explore the contextual factors, ideas, and practices relating to trade policymaking.

Secondary sources of documents are also utilized, including journal articles, and research and studies of different ministries. The data from the document analysis as primary resources and secondary sources are reviewed, analyzed and used as excerpts or as quotations. This material supports and provides sources of evidence for the main ideas of

the study. In addition, the documents are also used to explore the contextual factors, ideas, and practices relating to trade policymaking.

1.4.2 Case study

Vietnam is an important and illustrative case study of the reconfiguration of relationships amongst trade policy actors. The bulk of the trade policymaking literature focuses on the experience of Western countries (i.e., developed, liberal democracies), while the process in transitional economies and non-liberal democracies (of which Vietnam is both) has not been given adequate attention. For example, the Western-focused literature often treats the state as a unitary actor that makes national trade policy (Krasner 1976, Hansen and Park 1995) and views the interaction of competing societal groups for influence over state decisions as the mechanism that explains differential (e.g. more of less protectionist) policy outcomes (Bhagwati 1988, Baldwin 1993, Meyerson 2003). This explanatory approach might be successful in Western country contexts where business groups have the capacity to influence trade decisions and policymaking institutions are designed to facilitate their involvement. However, in non-Western contexts where the constellation of actors and institutions is different, we might expect different policymaking processes to occur.

Therefore, it is beneficial to develop case studies of trade policymaking in non-Western countries with different political and economic settings in order to examine how these lead to an understanding of different processes and outcomes. Vietnam is an ideal case to test these analytical tools because of a number of specific features. First, Vietnam is a developing economy at a much lower level of development compared with other key players in the global trade system. Secondly, the state socialism that characterizes Vietnam is different from that of the Western countries, which are generally characterized by multi-party political regimes. Thirdly, it has been demonstrated to be a very aggressive trade liberalizer, making it somewhat unique amongst developing countries. The processes revealed in Vietnam's trade policy transformation can meaningfully contribute to the international trade policymaking literature through their addition of a non-Western country.

A case study approach is used to temporally organise the empirical research on trade policymaking in Vietnam. Accordingly, the thesis analyses the trade policymaking debate with detailed case studies of two of Vietnam's most important external trade agreements:

the WTO and TPP. These cases are salient for the following reasons. First, these cases together reflect a historical process, with negotiation of Vietnam's WTO accession lasting from 1996-2007 and of the TPP from 2010 to 2016. The WTO accession reflects Vietnam's efforts to enlarge its trade relationships at the global level. Meanwhile, the TPP agreement marked an important change in Vietnam's trade policy towards intensive trade liberalization.

Second, these cases were selected due to the variety and interactions of new ideas, interests and institutions that emerge due to high requirements from the WTO or the TPP. The WTO changed the nature of trade policymaking substantively, as it involved complex negotiations with different trade partners. In addition, the WTO accession required tariff reductions for all tariff lines and for Vietnam to open previously closed areas such as telecommunications, and banking and finance for the first time. Although Vietnam had previously made concessions in the AFTA and ASEAN-centred FTAs, WTO accession cemented these changes at the global level, making trade policy more liberalization-oriented. Similarly, the TPP eliminated both tariff and non-tariff barriers, and reform in new areas such as government procurement, labour standards and financial services. Geopolitically, the TPP reflected Vietnam's ambitious goals to participate in the process of reshaping the political, economic, and trade architecture of the Asia Pacific by setting new global trade rules. Given such strategic political and economic importance, the TPP marked a transition in Vietnam's trade strategy toward expanding trade policymaking to cover security and foreign policy interests.

Third, these cases were selected due to the accessibility to relevant documents and rich information adequate for the analysis, though the trade policymaking is still a black box. For the WTO, it is possible to approach the witnesses, i.e. those directly involve in the trade negotiations and policymakers. Meanwhile, large and updated information about the TPP is available in the mass media, because it attracts special interests and expectations from the public as well as relevant stakeholders. Thus, both WTO and TPP cases were selected due to the availability of information, data, and diversity of the variables of ideas, interests and institutions for exploration of the interaction among them that drive the policy change.

The study of Vietnam's WTO accession and TPP contributes to answering the primary question of the thesis by confirming the key explanatory factors identified in the

synthesizing approach: interests, ideas, institutions, and actors. Both the WTO and TPP cases confirmed that the reasons for joining these trade agreements could not be explained exclusively by consideration of economic interests alone. In this respect, the cases contribute to answering the primary question of the thesis about how Vietnam makes trade policy. First, they help to clarify the most important actors in trade policymaking as well as their interests and ideas in the WTO and the TPP. Secondly, the findings in the WTO and TPP case studies show that to meet the high requirements of the WTO and TPP, Vietnam's trade policymaking greatly changed in terms of ideas, interests, and institutions in favour of liberalization, against a background of a transitional and low-level developing economy. Based on these case studies, the thesis argues that Vietnam's trade policymaking is characterized by internal consensus, compromise and concession to reach a harmonization of diverse interests even though it is a single party regime. The case studies reveal the flexibility of state – the policymakers and central bureaucracies - in integrating new ideas and its adaptability to both internal and external demands, which facilitated significant international trade policy choices.

The author makes all translations of original Vietnamese language sources unless stated otherwise.

1.5 Scholarly contribution

This thesis makes two major contributions to the literature on trade policymaking. First, it is one of few studies that focus on the domestic policymaking of Vietnam's participation in the global trade system. The empirical case studies on Vietnam's WTO accession and involvement in the TPP negotiations illustrate the changing dynamics of the country's trade policymaking process. Specifically, the thesis argues that while the pre-eminent role of the state – both as an array of institutions and as decision-making structure - persists despite recent liberalizing reforms in Vietnam, its approach to trade policy is increasingly influenced by input from, and the interests of, private societal actors. Second, the thesis contributes to broader scholarly debates on the political determinants of trade policy decisions. Most existing scholarship in this area focuses on the experience of developed Western liberal democracies, which this thesis complements by analyzing a developing transitional economy. The case study of Vietnam reveals that the determinants of trade

policymaking are quite different to those found in its Western counterparts. For example, the transformation of the state's ideas regarding the role of liberalization in economic development played an especially prominent role. Security and geo-economic factors were also salient in a way not often seen in developed countries. For example in the case of Japan, an advanced economy that participated in the TPP, Japan wished to strengthen ties with the United States and coping with China, balancing the two giants given their competition in defining the global and regional economic order (Davis 2017, Katada 2018).

To meet this end, the study develops an analytical framework that considers how the ideas, interests and institutional environment of key trade policy actors shape their interactions with each other and ultimately determines policy outcomes. Despite the centralization of trade policymaking, the state is considered as an array of different actors that compete to influence the final policy outcomes in their favor. Hence, the study will identify how the relevant stakeholders shaped their trade policy positions and what accounted for their particular policy choices. The study will pay special attention to the underlying interests, ideas, and institutions that provided stakeholders with power to influence trade policymaking. Also moving beyond the state, the study looks deeper into the interactions between the state and society to understand how the state responded to diverse interests within society in order to reach a balanced outcome that provoked no demonstrations or political opposition. Thus, the state-centered and institutional, ideational, and societal approaches are all incorporated into this analytical framework.

In addition, this study aims to make a substantial and original contribution to knowledge about trade policy decision-making in Vietnam. How can a country with a state-socialist political regime and lower level of development overcome the challenges of integrating itself into the global economy? What factors have driven Vietnam to emerge as a new player that participates in the process of reshaping the political, economic, security and trade architecture of the Asia Pacific? The current literature does not provide a comprehensive understanding of the motivations underlying policy decisions relating to participation in trade agreements by non-Western countries. Therefore, the thesis positions itself as one of the few studies that provides an in-depth understanding of how these dynamics played out in this specific context.

1.6 Structure of the thesis

The thesis adopts the following structure to analyze Vietnam's trade policymaking process. Chapter 2 lays out the analytical framework for studying Vietnam's international trade policymaking. It first provides a literature review of existing theories and approaches in order to provide theoretical background, followed by a review of the Vietnamese trade policymaking literature. The chapter then proposes the state-centered approach for analysing trade policymaking, providing an explanation of the role of individual variables. The chapter argues that the study of trade policymaking should consider key actors, interests, ideas, and institutions in a given historical context, political regime, and development level.

Chapter 3 discusses the historical and policy context of Vietnam's participation in various regional free trade agreements and its accession to the WTO, including the process of transition from a centrally planned economy to a socialist-oriented market economy, its trade regime and trade patterns, trade policy reforms, and trade strategy focussing on both export orientation and import-substitution. The chapter also discusses the international economic and political context of Vietnam's international and regional trade integration and external pressures from other trading partners such as the United States. It argues that Vietnam's trade liberalization policy did not comprise a singular decision. Rather the policy was an outcome of the transformation of key actors, most prominently the CPV and central bureaucracies, in terms of their ideas, interests, and institutional settings. This was a response to the changing global and regional political economy and pressing domestic economic demands.

Chapters 4 and 5 provide an in-depth examination of Vietnam's international trade policymaking processes and the role of state and society institutions within it. Chapter 4 focuses on state actors, studying the role of the political leadership in making international trade policy and the struggle to transform their ideas in regard to participating in a regional and world trading system, and the role of bureaucratic actors. Chapter 5 examines the role of societal actors -- principally, though not exclusively, the business community -- to determine the extent of their influence on trade policymaking. The chapter also discusses

how interaction between the state and society influenced international trade policy decisions.

Chapters 6 and 7 provide case studies of Vietnam's WTO accession and membership of the TPP. The case studies of the WTO and TPP illustrate the prior analysis of policymaking processes in concrete cases of trade agreement negotiation. The leadership of the CPV was decisive in making the decisions in favour of international economic integration and trade liberalization. The transformation of the CPV's ideas in terms of international economic integration and domestic demands for economic development were key to reshaping institutions. The WTO accession saw the adoption of more participatory policymaking processes and the TPP negotiations saw this trajectory extended with greater engagement between state and societal actors.

The conclusion provides a discussion on the findings of the two case studies and summarises the answers to the research questions of the thesis. It argues that the drivers of Vietnam's process towards becoming a more active trade player and its participation in regional and international trade agreements were multi-fold. First, the CPV leadership was critical in setting a clear and long-term vision for international economic integration. This integration process began with unilateral reforms and proceeded through increasingly more ambitious efforts in bilateral and regional FTAs before culminating in Vietnam's WTO accession and participation in the TPP. Second, the dominant interests reflected in this process were the overall long-term strategic interests of the leadership in (a) integrating Vietnam with the world and (b) promoting national economic development. Third, this ambitious vision was realised by instituting a new and more flexible trade policymaking structure, albeit still under the leadership of the CPV. These processes were made possible as national interests, ideas, and institutions were reshaped as part of the learning process of market opening and as a result of the expansion in trade relations both regionally and globally.

Chapter 2: Theories of trade policymaking and analytical framework

2.1 Introduction

This chapter contributes to the overall thesis by providing a literature review of relevant studies on the politics of trade policy, and uses this to build an analytical framework for understanding the politics of Vietnam's trade policymaking. It reviews the four scholarly approaches to trade policy formation – comprising the state-, society-, ideas- and institutions-centered accounts – each of which provides an explanation for the domestic sources of a country's trade policy decision. The chapter argues that among these four approaches, the state-centered approach is more compelling than others for explaining contemporary Vietnamese trade policymaking. As the state has played a crucial shaping role over Vietnam's trade policy making, the thesis therefore applies the state-centered approach for understanding Vietnam's trade policymaking.

The chapter proceeds as follows: Firstly, it reviews the key features of the existing trade policy literature, outlining the state-, society-, ideas- and institutions-based theories. These approaches each identify a distinct set of political factors that influence trade policymaking. Secondly, it reviews the literature on Vietnam's trade policymaking, connecting it to the broader literature of which it is a part. Finally, the chapter attempts to show how the state-centered approach can be applied to explain Vietnam's trade policymaking.

2.2 Theoretical explanations of trade policymaking

This section examines the literature on factors that influence international trade policy preferences. There is a rich literature in the general field of foreign policymaking that addresses how international trade policy is made and which factors play the most important

role. This literature is dominated by four distinct conceptual frameworks: a state-centred approach, a societal approach, an ideas-based approach, and an institution-focused approach. Each of these approaches provides a different explanation of trade policy outcomes by identifying the principal drivers of governments' trade policy decisions.

2.2.1 The state-centred approach

The state-centred approach argues that the state is the primary unit that influences the trade policymaking goals of national decision makers. The interests of states are varied but the principal state interests “affected by the structure of international trade [are]...the aggregate of national income, social stability, political power, and economic growth” (Krasner 1976). Different national agendas are identified: while realist international relations (IR) theories focus on states' maximizing power capabilities, neoliberal institutionalists emphasize state interests in increasing wealth and efficiency (Capling and Low 2010) and neoclassical trade theory pays attention to states' aggregating economic utility (Krasner 1976). In addition, states deal with national concerns such as the trade deficit and other countries' protectionist policies (Hansen and Park 1995). In some cases, the state can intervene for the sake of the development of strategically important industrial sectors (Oatley 2014).

The main assumptions of the state-centred approach focus on the roles of the state and the relationship between political institutions and societal interests. The first assumption is that states promote the national interest through trade instruments such as tariffs, protection and subsidies rather than the interests of particular interest groups. The second assumption is that governments make trade policy decisions in a way that is largely independent of the demands of interest groups.

Accordingly, the state is conceptualised as the central actor shaping and making trade policy. This does not mean that the state is the *only* important actor but that state officials, politicians, and administrators are the central actors setting trade policy directions (Goldstein 1988). The state-centred approach argues that trade policy reflects the goals of these state officials who pursue autonomous goals (Meyerson 2003).

The state is also seen as an organizational structure staffed by executive officials who shape strategic policy (Ikenberry 1986). As Goldstein argues, the state-centred approach “focuses

on institutional structures of the state and the capacities of political and administrative officials who occupy positions within it” (Goldstein 1988). This approach argues that the trade policy responses of countries are different because of differences in the domestic structures of foreign economic policymaking: the instruments used by state officials, the extent to which states and societies are centralized, and the autonomy of the state from society (Katzenstein 1977).

Neorealist IR theory considers trade policy as a component of overall foreign policy. Structuralists argue that the relative power of the nation in the international context determines whether it follows liberalization or protectionism. Nations with preponderant power are likely to pursue liberal or open trade: for instance the United States created the liberal trade regime after the World War II. Meanwhile, less powerful nations may resort to protectionism. For example, when US hegemonic power declines, it resorts to protectionism (Krasner 1976, David 1988).

In this way, the state’s ability to determine trade policy outcomes is a function of its capacity, autonomy, power, and resources to define national goals and tasks, and shape political behaviour and decision-making free of societal pressures. The state’s strength relating to trade policymaking is defined as the degree to which national policymakers are insulated from domestic interest groups. It is thus on the basis of the states’ relative power vis-à-vis societal forces that the state decides its stance on trade. In addition, domestic institutional relationships and the capacity of political and administrative officials also contribute to the state’s influence on foreign economic policy (Goldstein 1988).

2.2.2 The society-centred approach

A society-centred approach views trade policy as the product of competition amongst societal forces – economic structures, social classes, or key economic interest groups (Meyerson 2003). The society-centred approach argues that governments have no intrinsically independent trade policy objectives and thus it is interest groups that use the lobbying process to set policy objectives (Bhagwati 1988). Trade policy outcomes are explained as the result of the competitive interplay between organized societal interests and political institutions. As all trade policy decisions have distributional consequences for economic interest groups, the winners and losers from different policy choices compete to

advance and defend their economic interests (Baldwin 1993). For example, it is argued that governments join preferential trade agreement on the basis of key interest groups' fear of 'trade diversion' resulting from the agreements of other countries (Baldwin 1993). Similarly, tariff policy is explained as a result of the political influence of interest groups, with more politically-powerful industries being able to seek tariff protection from the government (Hansen and Park 1995).

The society-centred approach deploys economic models to identify distinct types of interests groups and classifies each as having distinct (and competing) trade policy preferences. The factor model, so-called the Heckscher-Ohlin model, argues that trade policy is influenced by those who own factors of production: i.e., labour and capital, which prefer low tariffs and trade liberalization. In contrast, those with scarce factors of production, who would be under serious competition from imports, support trade protection. The Stolper-Samuelson theorem, which focuses on factor price equalization, argues that "an increase in the relative price of a commodity will bring about a more than proportionate increase in the price of the corresponding intensive factor" (Chipman 1969). This theorem predicts that actors who are the abundant 'factor' in an economy prefer liberal trade policies while scarce 'factors' prefer protectionist trade policies (Oatley 2014).

Instead of focussing on factors, an alternative Ricardo-Viner model emphasizes the importance of whether industries are export-oriented or import-competing. The model posits that import-competing industries prefer to organize themselves to delay or oppose trade liberalization to prevent income losses. Yet, export-oriented industries drive the government towards an open market because their income will increase. The literature also incorporates not only industry but also firm levels. The preferences of industries can shift depending on the benefits they get from trade policy. For instance, firms support liberalization if they have international connections (Milner 1988), access to technology (Yeaple 2005), while the least productive firms tend to be import-competing (Melitz 2003). These arguments are mainly drawn from the US case (Aklin, Arias et al. 2015).

The society-centred approach is largely influenced by a form of 'elite theory', which argues that policy reflects the preferences of the dominant group or class in society (Goldstein 1988). This argument suggests that it is the preferences of powerful social interests that are

carried into effect by public officials and agencies, and thus determine public policy. Economic reforms may be driven by economic conditions, but their success or failure will depend on the power balance of pro and anti-groups, such as vested interested groups, public interest groups, or corporate lobby groups (Trowbridge 2001).

2.2.3 The ideas-focused approach

The ideas-focused approach shifts the explanatory emphasis from *interests* (whether those of the state or key societal groups) to the realm of *ideas*. It identifies how ideas, as causal connections between interests and policies, influence trade policymaking (Benjamin J. Cohen and Lipson 1999). Here, ideas are understood generally as culture, worldviews, and shared belief systems including normative and causal beliefs (Goldstein 1988, Keohane and Goldstein 1993). These ideational constructs affect politics by acting as roadmaps towards objectives and for change, suggesting how to address or challenge problems (Beland and Cox 2011).

In addition, ideas also act as a guide for coordination in strategic interactions. Once integrated into institutions, ideas can constrain policy choices (Goldstein 1988). For example, to meet the objectives of enhancing competitiveness and welfare, policymakers can choose between either offering protection to help firms restructure or competition to improve firms' performance, defend infant industries, and protect domestic labour (Borras and Goldstein 1987, Benjamin J. Cohen and Lipson 1999). Various ideas are found to be important to trade: for example, protection, liberalization (Meyerson 2003), the developmental state, protection of infant industries, the worldview of policymakers, or new ideas such as human welfare (Capling and Low 2010). The ideas emerge as important when outcomes and interests are vague to be identified (Blyth 2002).

The ideas-focused approach can impact on trade outcomes in three ways. First, ideas help to shape the most pressing issues that turn into problems to be addressed during the agenda-setting phase of trade policymaking. Secondly, ideas can be in the form of economic assumptions that legitimize or challenge current policies dealing with economic challenges over time (Hall 1993). For example, ideas such as mercantilism influenced the European economic system in the 19th century. In addition, ideas of specialization and trade-based comparative advantage were the core of the economic liberal theory advanced by Adam

Smith and David Ricardo and therefore influenced the trade regime in the post-war period (Woods 1995). Ideas again played a role when the neoliberal paradigm became dominant in the world's political and economic systems in the 20th century (Lieberman 2002). Thirdly, ideas can be a tool for agents to challenge existing institutional arrangements and patterns of distribution (Blyth 2002).

The process of policy paradigm change depends on “significant shifts in the locus of authority of policy” (Hall 1993). This is because the policy paradigm is institutionally embedded, and hence changing ideas could risk changing the actors who are institutionally privileged. Thus, ideational changes can be brought about by the formulation of a new political coalition, or by institutional changes (Hall 1993). In other ways, certain ideas are often promoted by advocacy groups who aim to achieve the objective of ‘doing good’ together with ‘doing well’ (Hardin 2004). Examples include non-government organizations (NGOs) in the fields of human immunodeficiency virus (HIV) medicines, environmental causes, and human rights. Ideas can also originate from patterns of nationalism and national identities. Nationalism uses “national identity” to achieve social purposes even if economic benefits have to be sacrificed. Nationalism can be manifested in different forms such as national culture and tradition. These different forms are able to liberalize trade policy as was the case in the Northeast Asian countries following their industrialization strategies, or to be more protective of agriculture in Europe as a result of ‘cultural sovereignty’ (Helleiner and Pickel 2005).

In short, ideas influence trade policymaking by shaping the evolution of policy over time, conditioning the action of leaders, building political and economic policy programs, and setting the rules of the game (Goldstein 1988). Ideas are successfully adopted in trade policymaking via networks’ abilities to create and make the most of political opportunities, constructing a problem, mobilizing a coalition and grafting agendas into the policy debate.

2.2.4 The institutions-centred approach

Finally, an institution-centred approach focuses on the relationship between institutions and trade policy. According to institutionalists, the role of institutions is important because they provide a mechanism for aggregating preferences in society and help to determine the influence that political actors exert on trade policy (March and Olsen 1989). Institutions at

the national level include formal rules of the game, including the polity, bureaucracy, judiciary, party systems, rules of electoral competition, parliaments, and constitutions (Bell and Head 1994, Fenna 1998). At the international level, institutions include regimes (such as the World Trade Organization) that influence trade policymaking by setting international rules, processes, and mechanisms (Myerson 1997), thereby allocating responsibilities and relationships shaping and influencing political actors' behaviours, power and preferences (Hall 1986, Levi 1990).

Cross-country variations in trade policy are attributed to the way in which different national political institutions aggregate these preferences in support of openness or protection. By focusing on formal organizational structures, trade policy preferences are attributed to the division of power within the government, for example, one branch prevailing over another, viz., congress over the executive or the bureaucracy that can protect sectors under its regulation. The mechanisms of policy influence can also operate through electoral systems, whose design often allows certain groups veto powers (McGillivray and Smith 1997) (Mansfield, Milner et al. 2007), which can delay the ratification and signing of the trade agreements (Frye and Mansfield 2003). Another institutional factor that influences trade policymaking is the combination of regime type and political fragmentation. Scholars argue that trade liberalization can occur in an autocracy with high fragmentation and in a democracy with low fragmentation (Frye and Mansfield 2003).

The debate over the relationship between institutional inclusiveness and trade openness is at the centre of classical liberalism (Oneal and Russett 2001). Institutionalists argue that institutions can constrain or empower specific groups to influence trade policymaking by providing them with either more favourable access or by insulating them from policymakers (Baldwin 1985, Haggard 1988, Keohane and Goldstein 1993). For instance, liberalization in the 1980s and 1990s gave rise to the positive relationship between regime type and trade policy. Studies suggest that democratic political systems are more likely to engage in trade liberalization than authoritarian ones as the improvements to economic welfare it creates can be used by political elites as a vote-gathering strategy (Garrett 2000). Democratic countries also tend to rely less on tariffs and more on non-tariff barriers when they choose to protect industries, as complex non-tariff barriers are less easily challenged by opposing interest groups compared to high-visibility tariff measures (Kono 2000).

By contrast, this positive relationship is challenged by the case of China as simultaneously a global economic player and authoritarian political system. Thus, another argument emerges, claiming that institutions promote free trade if they insulate policymakers, who favour openness, from interest groups that favour protection. On the other hand, democracy can empower coalitions that oppose free trade. Another reason for this negative relationship between democracy and trade liberalization is the short-term disadvantages of liberalization (such as job losses) that impose political costs in democratic systems, while autocracies can accelerate liberalization for long-term benefit because they are not under vote pressures (Haggard and Webb 1994, Milner 1999).

In addition to hard rules and procedures, the new institutionalism also emphasizes the role of informal conventions, for example codes, customs, norms, and traditions (North 1990, Williamson 2000). These informal institutions can influence trade policy by providing sets of shared meanings and cognitive frames (Fligstein 2001, Hall and Talyer 1996). In this way, informal institutions are used to make sense of certain situations, which in turn influence policy preferences. Hence, informal institutions shape how problems are perceived, and the solutions sought (Weber and Ann 2006).

2.2.5 The limits of the theoretical debate

The aforementioned literature is characterised by a debate over which factors have the most influence on trade policy decisions (Oatley 2014). The state-centred approach gives a predominant role to the state, while the society-centred approach attaches importance to interest groups. The ideas-based approach emphasizes the role of ideas in shaping the preferences of state and societal actors, while the institutional approach considers the organizational structures and rules that govern their interaction.

The focus on different factors is a result of the key assumptions of these theories. The traditional state-centred approach assumes that national policymakers make policy largely *independently* of the narrow self-interests of domestic interest groups. Conversely, the society-centred approach assumes the opposite: that trade policy is a *direct result* of policymakers' responses to interest group demands. The institutional approach, on the other hand, argues that trade policy choices are explained by the institutional contexts that shape the interests of, and structure of relationships between, the actors that influence policy

outcomes. Lastly, the ideas-based approach seeks to explain trade policy choices and preferences based on ideology, for example, the notion that either protectionism or market liberalization represents the optimal trade policy.

Table 2-1: Main theoretical approaches to explaining trade policy

	State-centred approach	Society-centred approach	Ideas Approach	Institutional approach
Key actors/factors	State agencies	Societal actors	Economic ideologies	Institutional factors
Key assumptions	National policymakers make policy to advance their own interests, (for example, power, welfare) independently of interest groups.	Politicians respond to societal actors' demands	Ideas influence trade policymaking by shaping the evolution of policy over time, conditioning the action of leaders, and building the political and economic program	Institutions aggregate preferences and set the rules and mechanisms for influencing policymakers' trade policy preferences

Each approach has its own weaknesses when explaining trade policy. This is a function of over-emphasizing a single explanatory variable. For instance, the state-centric approach is widely criticised for ignoring the role of the decision-making process, failing to explain domestic political pressures and interest group competition, and “neglecting state-society relations crucial to domestic trade preference formation” (Kunkel 1998). The state-centred approach is also criticized on the grounds of “divergences in state-society preferences”, which could limit the state’s capacity to make autonomous decisions (Lake and Frieden 2000).

The society-centred approach has attracted its own criticisms. First, it ignores the role of the state and political institutions that influence the extent of society's influence over state decisions. For social forces to influence state decisions, some mechanisms for articulating interest group demands in the policymaking process must first exist (Oatley 2014). Secondly, for certain cases it is impossible to explain trade policy outcomes as the result of which and how a certain group gains power and wins (Oatley 2014).

The ideas-focused approach fails to explain why the same economic ideas, such as neoliberalism, result in different policy outcomes in different countries (Hall 1993). It also fails to explain how systemic constraints or considerations are transformed into policy preferences (Capling and Low 2010). Pluralists and rational choice scholars see a limited role for ideas because to change an idea into policy, ideas must link up with politics, which involves the mobilisation of power.

The institutional approach fails to explain why similar political systems produce different policies (Ehrlich 2007). Conversely, it cannot explain why presidential and parliamentary systems share the same trade policies and why in the same country there are differences in terms of protection across sectors (Walter, Sen et al. 2009). It also fails to explain substantive choices and how policymakers set the agenda (Beland 2005). In addition, the institutional approach ignores cause and effect relationships, and the goals and desires of actors and hence fails to identify how their interests change and evolve. This approach also obscures the links among institutions, policy formation processes, and outcomes.

Despite their weaknesses, all these approaches still offer utility in explaining trade policy. Individually, each tends to focus on one specific aspect of trade policy rather than considering the different variables in relation to one another. To be sure, the theoretical debate does not entirely ignore relationships among ideas, interests, institutions, actors, and trade policy, but the literature is unclear about the role of each variable in relation to others. In particular, what is missing is any systematic consideration of the way that interrelationships among variables are mediated by specific historical, developmental, and political regime contexts. Such considerations are essential to understanding how and why relationships among different variables play out differently from country to country, especially if we want to develop a theoretical approach with universal application capable

of traversing radically different economic and political systems. Moreover, these theories all display a bias towards explaining the trade policymaking process in developed economies. The aforementioned scholarship is principally built on observations and case studies drawing on the United States, the European Union, and industrialized developed countries.

- For example, the state-based approach was built to explain the shift from protectionism to liberal trade policies after the Second World War in the United States and Europe (Lake and Frieden 2000).
- The society-centred approach emerged from the studies of the socio-economic and political changes with the emergence of the global corporations that strongly advocated trade liberalization in industrial capitalist nations during the same period (Bhagwati 1988, Meyerson 2003).
- The institutional approach was developed to understand trade policymaking in liberal democratic countries, which are characterised by political competition within electoral systems and clearly defined bureaucratic structures for policymaking (Hall 1986, Levi 1990, Bell and Head 1994, Fenna 1998)
- Similarly, the ideational approach was promoted, as reflected by the emergence of neoliberalism - a purely Western idea for a capitalist economy - as a dominant factor in explaining trade policymaking (Lieberman 2002).

In short, these theories face explanatory difficulties when deployed on their own. They focus on one set of factors by ignoring other relevant ones, and do not explore the ways in which different sets of factors may interact. Moreover, there is clearly a conceptual bias towards explaining trade policymaking in *Western developed and democratic countries* rather than on a global scale where a more diverse array of political and economic institutions comes into play. These explanatory limitations are brought into relief when the experience of trade policy reform in Vietnam is considered.

2.3 Scholarly accounts of Vietnam's trade policymaking

2.3.1 Vietnam's trade policymaking – current research and debates

The politics of Vietnam's international trade policy has attracted scholarly attention and various explanations of its reform trajectory have been offered. Considerable attention has been devoted to analyzing the role of the state, with the focus on the role of the communist party and the state.

Scholars have examined changes within the state in adapting to globalization and associated domestic demands for reform. Pre-reform state was characterized by a highly centralized decision making system controlled by a narrow political elite, limited consultation with the society. The state-society relationship was made through party-controlled mass organizations representing various social sectors such as farmers, women and youth. Thayer calls such a system in the 1990s as “mono-organizational socialism” (Carlyle 1995, p. 26). The post-reform state was instead characterized by a more scattered decision-making. This balanced a plurality of interests - including new business interests, some of which loosely connected to the state - and diverse social interests demonstrated by diverse perspectives in the media, and those of non-government organizations and non-state individuals and groups (Gainsborough 2010). The state changed its form and operation towards reducing its “centralized control over the national economy” and controlled the speed of joining the globalisation rather than being influenced by external forces (Dixon and Kilgour 2002, p.601).

The strategic, political, and economic regime security interests of the state have been considered the main driving force of Vietnam's international economic integration policy. The most important objective has been facilitating the acquisition of capital, markets and technology from foreign trading partners. Some scholars have focused on the role of the CPV which is viewed as exercising power over state and society (L.Vuving 2006). For instance, internal conflict within the CPV was said to have caused the delay in the bilateral trade agreement with the United States (Thayer 2008). In addition, the reforms consequent upon WTO accession were influenced by the struggle between reformers and conservatives, and between pragmatists and conservatives (Sherman 2012). Thus, most scholars

researching Vietnam's integration have paid attention to the significant role of the state, especially the CPV, in driving the Vietnam's integration.

Discussing the state-society relationship, scholars point out several new features. The first is the phenomenon of state corporatism or mobilization corporatism, i.e. societal organizations and institutions dominated by the state give no influence on the political system (Phong 2009, Pham 2013). Second, the government offices turn to enmesh political and economic interests, by managing and owning enterprises (Kerkvliet 2001). The international scholars note the emerging political and economic forces that shape the contemporary Vietnam (Thaveeporn 1996, p.43), i.e. the SOEs, which share closely inter-related interests with the state, act as a main player of the state economy to compete with multinational corporations and also serve as a political foundation for building a socialist-oriented market economy. As a result, the state, through the SOEs, functions as a player within the economy, while at the same time it implements the state management functions of maintaining the macro-economic stability. Such a political and economic relationship has provided SOEs stronger political power and priority comparatively to workers in the policy-making mechanism (Beeson and Pham 2012). As one of the consequences of such relationship, Gainsborough (2010) also points out that newly emerging business elite representing new business interests emerge from the existing system, are related to the current political elite.

While the state-centered approach dominates Vietnam's literature of reforms, others have used an ideas-based lens to explain changes in policy. Specifically, these studies have looked to Vietnam's ideological shift to liberate production forces according to the 6th Plenum of the 4th Party Central Committee, Directive 100-CT-TW of the Party Secretariat in 1981 (Vu 2014), and the need to recover from the economic recession during the reform period from a centrally planned economy to 'socialist-oriented market economy' to explain how its economic policy had changed. Because the conservatives hesitated to accelerate the partial reforms launched in 1986, protectionism was dominant before the Asian financial crisis of 1998. This was because of their concern that accelerating reform could result in internal instability and risk the agricultural sector's failing in global competition (Beeson and Pham 2012).

Shifting from protectionism in the 1990s to liberalization in the 2000s can be attributed to the leaders' changing ideas about global integration. The emergence of such ideas was facilitated by policymakers' continued efforts to overcome the protracted crisis lasting from the economic shocks in the 1980s, the end of Cold War and the realization of the costs of delaying liberalization. For instance, the economy would face more stringent conditions gaining WTO accession if this were delayed. In addition, more benefits could be realised: for example, increased transparency, strengthening the legal framework, and creating a competitive market (Elliott 2012). Social goals that were beyond material interests also prevailed such as building socialism and maintaining political stability and legitimacy (Elliott 2012). However, there were few studies that analysed how such ideas transformed and impacted on trade policymaking to assist Vietnam's negotiation of new trade agreements.

The society-centred approach has also been used to make sense of the constellation of interest groups influencing Vietnamese trade policy. The interest groups typically found in Western parliamentary democracies, are not present in the Vietnamese context. Rather, groups in Vietnam encompassed party members, government officials, farmers, workers, and SOE managers and advisers who influenced policy in informal ways. They influenced policy by interacting with the economic context to produce political action (Fforde and Beresford 1997). More specifically, WTO accession was much resisted by both the government's functional agencies and the SOEs, which relied heavily on the CPV for speeding up the negotiations (Fforde and Beresford 1997).

While the general relationship between business associations and the state has been a topic of analysis (Pham 2013), very few studies focused on the state-society relationship with respect to participating in international trade agreements. A Vietnam Chamber of Commerce and Industry (VCCI) study in 2010 was one of the first of its kind. Some of its findings revealed business associations' limited participation in the trade policymaking process owing to their limited awareness of the significance of their participation and lack of exchange of information regarding the negotiations (Stromseth 2003, Dao, Nguyen et al. 2013, Nguyen 2014). The VCCI also claimed that while firms participated in providing comments in regard to domestic policies, they had a limited role in and influence on international trade policymaking (VCCI 2010). However, the study does not explain why, if

firms had only a limited impact on international trade policymaking, international trade policy was made, and by whom, and what the driving factors were. In addition, the study was carried out in 2010 before Vietnam joined various new-generation FTAs, and hence the state-society relationship needed to be updated. In contrast, other analysts recognized the increasing role and influence of civic associations as intermediaries between the state and society as well as the new institutional dynamics resulting from trade liberalization and the state's recognition of the private sector's role (VCCI 2010).

Finally, some analysts have adopted an institutional approach to explain the continued economic development in Vietnam. Scholars generally agree that because of the insulation of the state from society, particularly the companies and industrial sector, the state, especially the bureaucracy, can make policy without facing the opposition of capitalist groups (Nguyen 2014). The state was able to maintain autonomy in making policy despite strong linkages with business. On the other hand, some other scholars argue that the state favours business elites' interests in making the law while small-scale entrepreneurs face more obstacles in making their voice heard (Masina 2006).

Despite insulation of the state from the society, the state still had to make and was bound by new institutions, as new market economy needed institutions and formal rules to facilitate development. While the formal institutions for market development were not yet developed, informal institutions such as social norms, practices and behaviours were the guiding principles in the socio-economic relationships (Gillespie 2008). These informal rules were gradually constructed to be formal, which then serve as the basis for the executive, legislature, judiciary and bureaucracy and determines the level of economic activity. For Vietnam's economic growth, there was not a systematic strategy for sustained growth or liberalization of markets. Instead, pieces of new law were established to encourage investment in human capital and technology such as Law on Investment in 2000, or Land Law for property rights in 1993 or Constitutions 1992, and Enterprise Law 2005 laying the foundation for private sector development. These laws have together created a more predictable business environment, facilitating the private sector development as well as increased foreign investment.

In short, the previous research on Vietnam has predominantly focused on explaining the driving forces behind Vietnam's economic reforms. In particular, the focus has been on changes in the state's role (following a state-based approach and the rise of civic associations in response to trade liberalization in line with the societal approach). In the case of domestic trade, scholars have focused on the interaction between the various interests of groups in society within an evolving context, which has produced political change (Vo and Nguyen 2006). However, little attention has been given to the impact of other factors, particularly ideas and institutions, on international trade policymaking. In other words, the analysis of Vietnam's trade policymaking by considering the role of the state, particularly the transformation of state's ideas, interests in relative to the non-state actors and its impacts on the trade policy has not yet been explored.

2.3.2 The limits of existing empirical studies

As shown from the literature review above, Vietnam's trade policymaking has been largely ignored in studies of trade politics and processes. Certainly, the politics of trade in Vietnam has not been deeply investigated. While the trade policymaking literature has established four clear approaches for analysing trade policymaking, to the extent that there has been any analysis of Vietnam, it has mainly been limited to assessing the impact of trade agreements rather than focusing on the trade policymaking process.

Importantly, this omission may in part be a product of the limitations of the existing frameworks: namely, the state-centred approach, societal approach, and the ideas-based and institutional approaches. For example, the state-centred approach argues that the government functions as a unitary rational actor in achieving its objectives such as increasing national wealth, power, and economic efficiency (Fforde and Beresford 1997). This approach ignores the fact that the state can be comprised of different constituencies and interest groups, that can compete either to maintain the status quo or push for changes. Given Vietnam context, with the dominant power of the Communist Party of Vietnam and state agencies in the political system, the state-centred approach, then should be expanded to analyse the interaction among state's constituencies that influence the trade policymaking. Here, the state is neither an autonomous nor a unitary actor. Conflict of interest within the most important organ of trade policymaking did exist and influenced

trade policy. In some extreme cases, it caused a delay in the signing of a trade agreement such as the BTA (Capling and Low 2010). Thus, even a one-party state can have a complex of dynamic interests that greatly impact on the path of trade policy.

The societal approach equipped with the argument that trade policy is a result of competition amongst domestic economic actors – firms, producer groups, trade unions and consumers (CRS Report for Congress 2002) – could not be applied to Vietnam’s case. This was because the private sector in Vietnam, though it developed dramatically as a result of the opening of the economy, had not gained enough economic and political power to influence trade policy in its favour. The societal approach has been more effective in explaining trade policy in developed liberal democracies countries where the private sector has developed into a strong political force that can influence policy. Hence, the analysis of trade policy from the study of influence of societal actors could not provide a full understanding of Vietnam’s trade policymaking.

Next, over-emphasising the role of ideas, as suggested by the ideas-focused approach, neglects the role of material interests. For instance, Vietnam emerged to be more pragmatic, giving more weight to economic and political interests that emerged in the context of Vietnam during the post-Cold War period. In addition, there was less chance for Western economic theories such as neoliberalism to drive trade policymaking increasingly in the direction of trade liberalization because this Western idea was not powerful enough in Vietnam’s political and cultural context (Capling and Low 2010). Moreover, the ideational approach also failed to explain how systemic constraints or considerations could be transformed into policy preferences (Gainsborough 2010).

Lastly, the institutional approach argues that the organization of the political system influences the power of actors who shape policy outcomes (Capling and Low 2010). Trade policy changes in line with changes in the power of actors within the political system. For example, whether more power is given to the executive is influenced by the voting system. In Vietnam, the communist party and the state have maintained supreme power for decades, unchallenged either by votes or opposition parties, yet it has been able to transform trade policy to become an active trade player. Despite institutional inertia, the policy was

sufficiently flexible to adapt to changing circumstances. This odd relationship between institutions and trade policy in the Vietnamese case challenges the institutional approach.

These approaches also fail to take into account Vietnam's historical context, level of economic development, political institutions and political processes, which are significantly different from the case studies in the trade policymaking literature, which are based on Western political institutions such as pluralistic party systems separation of powers and constitutional governments with checks and balances. Moreover, in terms of economics, Vietnam's level of economic development is comparatively lower than most of its trading partners, which generates fewer trade choices at the same time as requiring a finely-tuned balance between promoting economic development and avoiding economic instability and chaos. The historical context can thus be decisive as Vietnam is a transitional economy and a laggard in comparison with other countries in terms of trade liberalization, which provides a different set of trade choices.

Similarly, in terms of economic setting, the nature of Vietnam's transitional economy distinguishes it from Western countries on which the prevailing scholarly theorization of trade policy is fundamentally grounded. While developed liberal economies have strong private sectors, Vietnam's economy is in transition from a centrally planned economy to a socialist-oriented market economy. The private sector, although it has developed, has not yet gained strong enough economic power to generate political power to influence trade policy on a par with that of its trading partners.

Hence, based on the above observations, the thesis posits a need to review the way theories and approaches have been applied to explain trade policymaking. Because of theoretical and empirical gaps, there is a good reason to argue that it is necessary to reorient the direction of research by building an analytical and conceptual framework suitable for different circumstances. Such a framework should be universally applicable to different political and economic settings, regardless whether they are liberal market economies or socialist market economies. In addition, the framework should investigate the circumstances in which particular factors become dominant and how their interaction influences trade policy.

2.4 An approach to analyzing Vietnam's trade policymaking

As mentioned in Chapter 1, the central puzzle of the thesis is the speed of Vietnam's trade policy, within which a radical shift in perspective and policy settings took place. Given Vietnam's context, the state approach is the most compelling one to explain the case of Vietnam's trade politics, as this approach highlights the prominent role of the state – both as an actor and organizational structure.

The state approach is relevant to provide an understanding to the Vietnam's trade politics because the statist accounts for and explains the changes of individuals and structures within the state, which are identified by other ideas and institutional approaches. The statist approach “emphasizes the explanation of institutional and organization factors, and/or the influence of changing outlooks, personnel and ideologies” (Capling and Low 2010). For the relevance in relation to the institutions, the political regime, as seen by the statist, acts a variable that convey the influence of the social and economic factors on the policy outcomes of states (Krasner 1982). Together with government officials, the state structures hence play an important role in shaping the trade policy. As such, under the overall state-centered approach, the institutional, interests and ideational aspects should be considered due to their importance in feeding inputs into the state's policy process.

Meanwhile, other approaches may not provide sufficient account for Vietnam's trade policymaking. For example, the societal approach may not provide full understanding of Vietnam trade policymaking as the social actors, in Vietnam society, such as academics, enterprises, non-government organizations have been relatively isolated from the policymaking system, despite their increased voice and engagement with the state. Societal actors have not built up sufficient leverage within the policymaking system to decisively shape decisions. The ideational approach seems not be able to applicable to explain Vietnam trade policymaking as the economic theories or ideologies of liberalization have not been comprehended by the policymakers or non-state actors. Similarly, the institutional approach, with the same CPV-controlled political system, could not explain sufficiently the changes in trade policy.

Going further the state-centered approach, this thesis goes deeper to see the emerging external and internal political and economic forces that shape the state's interests and ideas.

A focus on analysing the state contributes to understanding Vietnam's trade policy in some respects. First, it illuminates the internal system of the state, i.e. the key institutions and organization structure within the state. Second, it also documents the external relationships of the state, particularly the institutional settings for interaction between the state and non-state actors. These assumptions are built on the basis of the fact that although the state interacts with other stakeholders for input information and support, it is the state, within its independent capacity, who is the final decision makers. Thus the state holds the supreme authority, ownership and autonomy to make its policy.

Ideas, interests and institutions within the state: As we assume the most important factor of the trade policymaking being the state, then how should we understand what drives the state's behaviours and processes in framing and implementing trade policy? The foremost factor is the state's changing perceptions and material interests, in other words: *What does the state want?* - in trade policymaking. A combination of material and non-material interests drive these policy preferences. For state actors, the key state's ideas are those regarding worldviews, self-identification and image, norms, and culture, to economic/trade ideas such as protectionism, traditional mercantilism, and free trade. These mind-sets determine the state's trade preferences with respect to trade policy. Proximate policymakers change policy perspectives as they became engaged in the process of negotiating complex trade deals. Then the question dig deeper by examination of when, how, and which ideas become significant enough to influence trade policy preferences. In answering these questions, the conditions and circumstances that maintain old ideas and give rise to new ideas are examined.

Given the context of Vietnam during its reforms, the framework allows for analysis of how state actors transform their worldviews, the self-identification, and their approach to how socialism adapts to the changing context of trade policy. Thus, the study will consider the transformation of the ideas of domestic actors by locating and identifying prominent ideas in international trade policy, and analyze how these ideas are embedded in the policymaking process and its related elements.

In addition to the ideational variables, material interests also drive actors. Yet, as these interests are rarely perfectly aligned amongst the involved groups, some kind of

harmonization between the competing interests of the state and societal actors is required through the policymaking process. State interests tend to be national concerns such as economic growth and maximizing political power, national income, and social stability. They may also include more political elements such as the popular legitimacy of political regimes (in both democracies and autocracies) or the protection of politically connected sectoral interests.

The thesis also delves deeper by assessing the role of institutions within the state. This thesis does not adopt the view, common to some – but not all – state-centric analyses, that the state not as a unitary actor. Rather, it conceptualizes the state as an array of various institutions, and emphasizes the role of the institutional structure to explain the institutional reasons for the power of certain actors within this assemblage. The consideration of the institutions is in line with the state-centered approach emphasizing the institutional aspects, as it considers the state as both an agent and a structure for channeling access to the society and the “institutions of government” (Cotton 1991, p.8). The institutions, both as social factors and organization, domestic structures are essential for understanding trade policymaking as they shape the interaction among actors.

The state, in the context of Vietnam’s trade policymaking, is comprised of key institutions. These are the central government, i.e. policymakers and central policy bureaucracies, comprising the Prime Minister’s office, the ministries and committees, who initiate, negotiate, and implement the trade agreements. The political system also includes the National Assembly, which ratifies the trade agreements. The state implements the policy under the instruction of the Communist Party of Vietnam particularly the Politburo, i.e. the top political leaders, who make final decisions. In regards to the relationship between the party and state, the party system penetrates to the state system, however the latter tends to be autonomy from the first (Katzenstein 1977). The party-state is also a term used in Vietnam to imply the state being dominated by the communist party, in which the party leads, and the state implements. The government institutions include the formal bureaucratic settings and informal norms, rules and practices.

The state institutions are not homogenous entities. They often have different points of views within themselves, especially the “elite” groups, such as the central bureaucracies.

While the top political leadership may concern about national interests, regime maintenance and legitimacy, the central bureaucracy may care about maintaining their political interests of autonomy, authority and power, and their economic interests of state business interests, for examples SOEs (London 2014, p.7). The thesis assumes that these institutions gradually transform their ideas and interests to flexibly adapt to internal and external requirements for reforms.

In addition to the formal institutions, the thesis also considers the informal rules as policymakers take advantages of the prevailing non-written rules to influence the trade policy. This is possible that the non-written rules may have prevailed from time to time as majority of rules and processes were not fully formulated, reflecting the will of politically influential policymakers. In addition, facing new trade issues, new institutions and institutional processes were formed to facilitate the domestic arrangements and coordination of trade negotiations, which in turn influence the power and interests of relevant stakeholders. Hence, the issue of institutional formations/ processes, frame-setting in the policy process will be taken into account..

The institutions influences trade policymaking through various mechanisms such as aggregating preferences, shaping the rules of the game for how actors interact, structuring the distribution of power, and transmitting influence in terms of agenda-setting and trade policy choice, setting the institutional resources available for policymakers (Gainsborough 2010). The thesis will look at how institutions transform in a way that harmonizes with a particular institutional legacy as well as new institutions that help to shape trade preferences are incorporated.

The institution-building efforts within the state were then an integral part of transitional economy like Vietnam, which in turns shapes trade policy. Joining new trade agreements, institutions are subject to transformation processes so they can fit to new trade preferences caused by new requirements. How the institutional changes are explained by the neo-institutional theory which would point to the circumstances of institutional change by emphasizing importance of networks and communities, learning, emulation and standardization, producing a potential for global convergence. The thesis, thus, will look at

the overall interests of state, institutions within the state before articulating and assembling the partial insights to account for the whole.

Ideas, interests of non-state actors

The thesis further argues that the state must be considered not solely as a set of institutions and actors, but in the broader context of its relationships with non-state actors. The state thus acts not only as a 'supplier' of policy by providing the institutional structure within which national and social interests are combined and compromised, but also a 'commander' that requests societal actors to comply with rules and to adapt to changes in external circumstances. This reflects the fact that though the state is dominant in trade policymaking, there is a tendency that the central bureaucracies' authority and autonomy was diminished upon participation in the trade policymaking, while creating more policy room for non-state actors and increasing interaction between the state and society. Those changes, in Vietnam case, were due to Vietnam's reforms to open more policy space for non-state actors. In the relationship with non-state actors, the state is referred as the general political authority.

Societal actors may include the business community, think tanks and mass media, which act as one of the 'sources' of trade policy preferences. In Vietnam's case, the business community includes foreign invested groups, current and equitized State-owned enterprises groups, export groups, import-dependent groups, import-competing groups and business associations, i.e. the 'elite' groups in the society. They act as both 'demanders' of policy change and as 'suppliers' of input information and expert consultation to trade policymakers, as a way of influencing trade policy in favor of their interests.

The material interests of societal groups can potentially divide in many ways. They may split along class lines (as per the Stolper-Samuelson theorem), factor lines (according to Heckscher-Ohlin model) or exporting/importing industry (according to the Ricardo-Viner model). From the perspective of trade policy preferences, different agents may have different views on international trade policy options, i.e., support, oppose or be cautious about the partner selection, and the sequence, scope, nature and depth of the trade agreements. Each group has their own rationale to justify their trade policy positions on the

basis of national interests, self-interests, or sectoral interests. Thus, dealing with these competing interests will influence the outcomes of trade policy.

Thus, within the state and society, although the government officials or even the public do not officially state their policy lines to be “reformer” or “conservatives”, these terms refer to the politician’s beliefs, supporting or delaying the liberalization process, which were formed based on their interests. Different types of actors will have different interests and ideas, and policy preferences, depending on their roles in the policy process. For instance:

- Industry bosses will have material interests that may lead them to seek protection;
- Bureaucratic agencies will have clients and may have stakes in some of these industries; while they also develop ‘developmental lines’ within the confines of the arenas of bureaucratic politics;
- Central agencies may develop over-arching perspectives in line with national indicators of ‘success’ or ‘progress’ or may be overall regime stability, or policy coherence.

These interests and ideas thus together shape the positions of the extent of supporting or delaying the trade reform. Their stances can alter over time: due to redefinition of their perceptions and interests and changes in external circumstances, or new institutions set up to facilitate or constrain the trade liberalization.

What is required is an explanatory account of the conditions in which societal actors can emerge as important and influence the trade policy. The thesis argues that trade policymaking is mainly influenced by competition among these actors as they strive to ensure their trade preferences are embedded in government policy. It assumes that certain groups within the state could exert greater policy pressures by cooperation and establishment of close relationship with societal actors that share similar interests and ideas. On the other hand, the state could compromise, outlaw or isolate those groups sharing different interests and ideas with them. The patterns of inclusion and exclusion in the trade policymaking are analyzed to demonstrate the cooperation/non-cooperation behaviors between the state and societal actors.

Interplay processes: The final step of applying the state approach to the thesis is to look at the interplay of interests, ideas and institutions that shape the choices of the state as the

final decision makers. The approach is predicated on the argument that trade policy results not from interests, ideas, actors, *or* institutions alone, but rather *the complex interaction* of these variables.

For example, new *ideas* influence the preferences by embedding into institutions and lead to institutional changes, which are then operationalized by state and societal actors (Skocpol 1985, Myerson 1996). This process might equally work in reverse, with actors advocating institutional changes, which then lead to the emergence of new ideational constructs. Such institutional and ideational changes lead to changes of interest power, which together result in policy change (Jessica C Shearer, Abelson et al. 2016). In other words, the influence of interests on policy is constrained by institutions, which distribute power among actors. On the other hand, new *interests* are introduced either by old or new actors due to new context and changes of actors' perceptions of interests, leading to reshaping the balance of power and institutions and hence triggering the policy change. The new trade agreements require new *rules*, encouraging the emergence of new actors and interests and ideas. It is also widely recognized that the relationship among these variables, especially between ideas and interests are hard to untangle (Beland 2016). Or, indeed, in any number of complex formats any of the variables could, in certain specific contexts, function as an 'independent variable' that catalyzes changes in the others.

There is no theoretical or a priori ground for assuming one to be the principal explanatory factor, which is instead an empirical question. The emergence of a dominant factor in relation to others depends on the historical context, the level of economic development, and the nature of the regime. Key socio-economic features of the context and their influence on the views and interests of relevant actors and institutions can be identified to reveal the origin, underlying cause, and dynamics of trade policy.

Thus, the state-centered approach, when married together with mid-level theories like state corporatism and regime legitimacy, offer clear explanatory advantages in comparison with the societal, ideas, and institutional approaches. The rise of state corporatism in Vietnam explains the relationship between the state and interests groups, in which the "state controlled and managed interests groups" (Jeong 1997). In general, the regime legitimacy is sourced from charismatic, traditional and rational – legal, while in Vietnam it is explained

to include charismatic leadership, rule of law, constitutionalism (Thayer 2009). These mid-level theories reveal insights to the domestic politics within the state.

With respect to the society-centred approaches, the state-centered approach recognizes that it is the state that in the dominant position within the relationship with the non-state actors shapes the trade policymaking in Vietnam. It also overcomes the weakness of the ideas approach by showing that not only non-material but also material conditions can explain the shift toward greater trade liberalization. Finally, the approach is not constrained by the hard rules and the principled beliefs of the institutions approach, enabling a more in-depth examination of the interaction of actors, interests and ideas. This is especially important in Vietnam's trade policy context where new institutions and rules were being formed for a socialist-oriented market economy. Instead of relying on fixed relationships among the variables as set by existing theories and approaches, the framework thus facilitates an investigation of the diversified and complicated relationships in the trade policymaking process.

2.5 Conclusion

This chapter has provided a literature review of theories and approaches to the study of trade policymaking, which serves as a basis for building an analytical framework for the thesis. The extant literature on trade policymaking is based on a debate among four competing approaches, principally the state-centred, society-centred, ideas-based and institutional approaches. These approaches each assume the one of these four factors influences trade policymaking, i.e., the state, societal actors, ideas, and institutions. Given the prominent role of the state in Vietnam, this chapter proposes to undertake the state-centered approach for comprehensive assessment of the domestic actors involved, their ideas and interests, and the institutions of trade policymaking, with the aim of generating a broad understanding of Vietnam's trade policymaking.

This approach is suitable for a case study of Vietnam for a number of reasons. First, the thesis views the Vietnamese state not as a unitary actor but as comprised of various agents, including, for instance, the central bureaucracies that greatly influence trade policy. The central leadership of the Communist Party is at the highest level of policymaking, provides

leadership for not only the national development strategy but also for integration policy. The central bureaucracies, for their part, are tasked with initiating, negotiating, and implementing trade policy. Yet, they are influenced by vested interest groups that are either linked to their management interests or in society. These interest groups seek to influence trade policymaking in line with their perceptions and interests. Secondly, societal actors, though still passive, have gradually raised their voices to demand that policymakers make decisions in their favour. Societal actors are in the process of struggling to secure political power. Thirdly, institutions are important because they act as channels for interaction among domestic actors, and decide the extent of influence of different domestic actors on trade policymaking. This approach also incorporates changes in the ideas, interests, and power of domestic actors and the institutions that structure their relationships.

The following chapters will examine the transformation of the role of the state and societal actors, followed by a detailed discussion of Vietnam's WTO accession and TPP participation before a final discussion and conclusion.

Chapter 3: **The political economy of Vietnam's trade policy transformation**

3.1 Introduction

This chapter provides an overview of the historical development of Vietnam's trade policy. The process began with unilateral domestic trade reforms designed to facilitate a more open business environment in the 1980s. It progressed through narrow geographically-based trade agreements through the ASEAN-centred FTAs in the 1990s before participation in a global and broadly based agreement through membership in the WTO in the early 2000s. Compared with its peers in the developing world, Vietnam was initially isolated and took a cautious approach to trade liberalization but by the end of the period it had transformed into a very active player by participating in high-standard trade agreements such as the TPP and the EU-Vietnam FTA.

This process raises several questions: What factors led Vietnam to undertake such a dramatic change in its trade policy orientation? How did key domestic political and economic actors engage and in what ways did they influence the development of trade policy? The chapter argues that Vietnam undertook such dramatic change by a set of continuous transformation of the state's redefinition of interests and ideas of which the economic development were the first and foremost objectives of the country. This redefinition of the state's interests was driven by the need to overcome domestic economic crisis, and facilitated by the state's changing their world-view that the world shifted to focus on economic development, open trade and liberalization.

Since the 1980s, both the Vietnamese political economy and the international political economy have witnessed remarkable change. The Vietnamese economy carried out the first

economic reforms, namely, the Doi Moi initiated in 1986, which marked an historic shift from central planning to a market-based economic system. This change was in line with a broader trend marked by the end of Cold War, in which many current and former Communist countries adopted market-based economic reforms. Vietnam's economy began a period of high-speed growth, averaging of 8% during the 2000s, and became a lower middle-income country by reaching the US\$1000 GDP per capita in 2010 according to the International Monetary Fund – IMF's classification. During this period, Vietnam's economy also became far more economically integrated with others. This economic transformation was made possible by a dramatic change in the orientation of Vietnamese trade policy.

3.2 Unilateral domestic trade openness: 1986 to 1994

Vietnam carried out unilateral trade openness in the 1980s as an integral part of the Doi Moi economic renovation. One of the main aims of Doi Moi was to shift from a centrally planned economy to socialist-oriented economy. Accordingly, a relatively open economy policy was implemented. Various trade measures were carried out to meet this objective. First, institutional rules were dramatically transformed with the state removing its monopoly over foreign trade in 1988. This policy was in line with the abandonment of central planning and the adoption of a 'socialist-oriented' market economy, which led to the removal of the state's monopoly over industries.

Secondly, a series of trade reforms was implemented to expand foreign trade activities. Most goods were allowed to be imported and exported with the exception of a small number of strategic goods on a 'forbidden list' such as fuel, steel, fertilizer, crude oil, and rice (GoV 1998). In addition, a number of non-trade barriers such as tariff quotas and import quotas were gradually removed. To restrict the import of consumer goods, Vietnam applied high duties, and to attract capital and investment goods, it applied low tariffs (Schmidt 2004). To accelerate access to foreign markets, export quotas were eliminated in 1995 for all commodities except rice. The reforms were, therefore, partial with a focus more on expanding overseas markets while continuing to protect the domestic market. The

country gave priority to exports to encourage production and investment, and to attract foreign capital to facilitate the import of machinery for domestic production (CPV 2006).

Unilateral trade reforms took root as a result of both domestic economic stress and changing external circumstances. Firstly, the impetus for removing the state's monopoly over the role of the private sector arose from the failure of the centrally planned economic model to distribute resources effectively, and to exploit and develop the potential capacity of the economy (MOIT 2016). This agenda received the strong support of the party and its leadership, which was especially important during the critical transition from a centrally planned to a market economic system (Nguyen 2006).

Secondly, the change in Vietnam's foreign trade policy was facilitated by the end of the Cold War, which launched an era of peaceful coexistence and economic development. In addition to the positive external context, the collapse of the Union of Soviet Socialist Republics (USSR) caused the loss of Vietnam's main export market and source of economic aid, creating an urgent need for new export markets and trading partners. In that context, the party issued the resolution of the seventh National Congress in 1991 to adopt a formal foreign policy of friendliness with all countries. For the first time, an international economic integration policy was established - upgrading from the previously simple international cooperation policy - which aimed to resolve Vietnam's economic and political isolation.

Unilateral trade reforms, together with the Doi Moi reforms, contributed to the emergence of high-speed growth. Exports immediately increased six-fold, from US\$2.9 million in 1986 to US\$13.6 million in 1995 (Customs Online 2014). The open economy policy resulted in a wave of foreign direct investment (FDI), which increased more than twenty-fold from US\$1.6 billion (1988-1990) to US\$28.3 billion (1991-1996) (Foreign Investment Agency 2008). The annual rate of increase in Gross Domestic Product (GDP) rose from 4.4% from 1986 to 1990 to 8.2% between 1991 and 1995 (Nguyen 2006). In addition, exports expanded from a very few products to include a range of processed primary products, such as rubber, cashew nuts and coffee, and labor-intensive manufactures (Dollar 1996). Thus, the open economy policy brought unprecedented economic achievements for Vietnam. This policy was significant in suppressing opposition from conservative political

forces hostile to reform and confirming the value of the state's policy shift towards integrating with the world.

These reforms resulted in new trading relationships. In 1986, trading partner priorities focused on the socialist community, with the Soviet Union the leading country (CPV 2006). Following the end of the Cold War, Vietnam's expanding trade relations with more countries were supported by a foreign policy of diversification and multi-lateralization and a posture of friendship with all countries. Vietnam aimed to link its domestic market with international markets by participating in the international division of labour (CPV 2006). In 1992, Vietnam signed textile trade agreement with the EU. By 1993, two-thirds of Vietnam's exports were to countries in the Organization for Economic Cooperation and Development (OECD), and two-thirds of its imports came from the Asian region - including the Association of Southeast Asian Nations (ASEAN), South Korea, Taiwan and Hong Kong - as a result of economic complementarity between Vietnam and these countries (Dollar 1996). Vietnam's dramatic trade reforms thus diversified its export and import sources.

Internally, unilateral trade openness resulted in a state's reshaping of the balance of power amongst domestic actors with a reduction in the number of SOEs and the creation of new political forces, i.e., the private sector and foreign investors. SOEs generally supported liberalization because the old economic model constrained their behavior and the autonomy of their investment decisions. They no longer relied on central planning for materials and capital, which was increasingly constrained by the reduction in aid from the Soviet Union and socialist countries (MOIT 2016). On the other hand, certain SOEs wanted to hold on to the state's support and avoid competition. The state itself continued to protect the SOEs, especially strategic domestic industries, by restricting imports (Riedel and Turley 1999). The SOEs maintained their important role and power in the economy in general, and in foreign trade in particular (Dollar 1996). In the 1986-1991 period, SOEs accounted for 96.6 per cent of import/export value (Pham and Vuong 2009).

The nature of the economic renovation policy was initially focused on agriculture and the attraction of FDI, rather than resource reallocation away from the SOEs (Tran 2013). Moreover, Vietnam maintained its socialist ideology through the so-called 'socialist

oriented market economy'. This ideology placed the SOEs in a prominent economic position, while only the non-strategic areas were open to private sector competition. Hence, the state was able to maintain their control - economically, politically, and ideologically – through the SOEs, while at the same mobilizing investment and growth in other economic sectors.

Second, in addition to the removal of the state's monopoly over foreign trade, the private sector comprising formal private enterprises and informal household sector was created a policy space for emerging to play a more dynamic role, though still moderate. The private enterprises expanded from about 5000 registered companies (1992) to more than 40,000 (1999), contributed 43% of export growth (1999) (Steer and Taussig 2002, Schaumburg-Muller 2005). Most SOEs focused more on capital-intensive activities for domestic markets, did not expand in number, and paid less attention on export market (Steer and Taussig 2002). Foreign trade was facilitated by ideological change, which acknowledged the importance of the private sector, enabling for the first time a legitimate and active private sector. This transformation initially commenced with the state's adoption of the 'multi-sectoral economy' in 1986 (CPV 2006). In 1991, private sectors were licensed to engage directly in export and import activities. By 1998, the state removed foreign trade licenses and allowed all non-state economic firms to carry out import-export activities. The number of firms involved in foreign trade activities increased from 40 state units specializing in foreign trade (1986) to 270 in 1990, and 20,000 private sector firms by the end of 2005 (Pham and Vuong 2009). As a result, the non-state sector was encouraged to get involved in foreign trade, although the main export actors were the SOEs.

Although the nascent private sector would take some time to develop and become an influential player in the policymaking process, this period marked an important starting point for the private sector to evolve after years of constraints. The private sector was mainly comprised of small and medium enterprises, while the larger ones were mainly SOEs or foreign-owned enterprises (Hakkala and Kokko 2007). The private sector now had a relative increase in their voice, role, and power in trade policymaking. This initial result was modest, but more importantly, it opened a new path for the development of non-state economic actors in the foreign trade arena and a starting point for further trade liberalization.

Accompanying trade liberalization was liberalization of investment, which encouraged the emergence of new political forces in trade areas, i.e., foreign investors. To meet domestic demand for capital, technology, management, and export market expertise, the first Law on Direct Investment was issued in 1987. It was a highly liberal foreign investment law designed to attract foreign enterprises to do business in Vietnam's market by permitting the establishment of 100 per cent foreign owned enterprises (National Assembly 1987). While principally designed as an investment regulation, the law also included several trade provisions, including incentive schemes such as preferential tax and financial measures for export businesses (Gates and Truong 1995).

With the removal of the state's monopoly over trade activities, the authority of the state was significantly weakened in comparison with that during the central planning period. Administrative measures for state intervention in trade activities were removed, including import quotas and export subsidies. In particular, the Ministry of Trade's role was greatly diminished, as the authority to export and import commodities progressively devolved to businesses, both private and state-owned. Despite this, the CPV's overall legitimacy and prominent position expanded owing to the economic recovery and achievements following the economic crisis in the 1980s and 1990s.

Despite their dramatic impact, Vietnam's initial trade reforms were only partial. The state preferred a slow and gradual process of unilateral liberalization rather than a 'big-bang' adoption of laissez faire, liberal capitalism – as had occurred in the former Soviet Union and which was suggested by the World Bank and the IMF (Hayton 2010). The reason for the partial and slow progress of unilateral international trade liberalization was tensions and hesitation among the actors involved and between the need to protect certain domestic sectors and the broader agenda of market-based economy policy. Hence, unilateral liberalization was a learning and experimental process geared to avoiding domestic opposition.

Policymakers mainly followed the import substitution policy (1986 to 1996), export-stimulating with protectionism for some industries (1996-2007) (Nguyen 2018). This export-oriented policy was outlined in the document of the National Congress VII in 1991, which explained that “the strategy is strongly oriented toward exports replacing imports by

domestically produced products, and enhancing competitiveness in the domestic, regional, and international markets” (The 7th VCP National Congress 1991). Vietnam learned from the newly industrialized countries in East Asia by adopting a development strategy that had been successful based on attracting foreign investment and developing export-oriented industries (Tran 2009). Exports were the core objective of foreign trade (rather than increasing all trade generally), with special attention paid to the export of labor-intensive processed products in which Vietnam had a comparative advantage (Politburo 1996). However, Vietnam did not abandon import-substitution. Before 1986, trade served the inward-oriented development strategy by importing goods and exporting what the domestic economy did not use (Norlund, Gates et al. 1995). After 1986, the import-substitution industrialization policy continued to be applied to the development of the infant industries such as the steel, automotive, and electrical product industries, i.e. certain protectionism applied for infant manufacturing and heavy industries.

In addition, the partial approach reflected the gradual process of change in ideology. This ideational change occurred in specific areas such as removing monopolies and export restrictions rather than a comprehensive change that included full trade liberalization. This partial ideological change was acceptable because it did not change the fundamental principles of socialism, i.e., the public ownership of the means of production and distribution according to labor productivity. Rather the process focused more on operational principles, i.e., removal of the central monopoly on foreign trade (Fforde and Beresford 1997).

In summary, during the early period of reform, it was the domestic demands for recovery from the economic crisis as well as the changes in the international system with the end of the Cold War that moved the policy focus to liberalization and integration into the world market. During this period, the process of liberalization saw new non-state groups emerge as political forces that were expected to have increasing influence on trade policy, i.e., the private sector and foreign enterprises. Although it would take time for these new forces to influence trade policymaking, this period opened a new era for their development.

In addition, this period opened new choices for Vietnam in terms of the trading partners, trade growth, and the extent of trade liberalization. Compared to the previously limited

trading partners amongst socialist countries, Vietnam had more opportunity to trade with all countries and to expand its exports and attract investment. Thus, Vietnam moved gradually from isolated country to active trade player. The following sections will continue to discuss the leadership's motivation in joining regional and global trade agreements as part of the continued effort towards trade liberalization in new trade areas.

3.3 The Bilateral Trade Agreement with the United States, 2000

Trade liberalization was advanced by the implementation of newly signed trade agreements. The most important one was the Bilateral Trade Agreement (BTA) with the United States in 2000 undertaken as a part of the bilateral normalization process between the two countries.

The BTA marked a new phase in Vietnam's trade policy. From previously being based on partial trade liberalization through the removal of export restrictions, the BTA opened a new chapter in the liberalization of imports. New trade rules such as the 'most favoured nation' (MFN) and 'national treatment' (NT) principles were applied, setting up a level playing field between domestic and foreign firms. Many import restrictions were removed, for instance, reducing tariffs on goods, and non-tariff barriers for services (Manyin 2001). New regulatory approaches were integrated into domestic regulations, such as permits for licensed domestic enterprises to export and import in 1998 (GoV 1998). Thus, although the tariff lines subject to tariff removal in the US BTA were limited, the economy was genuinely 'opened to trade' for the first time, exposing Vietnam's firms to full competition with the foreign firms in the United States.

Domestically, how was a political consensus reached for undertaking the BTA with the United States? Here an analysis of the interests, ideas, and institutions of relevant actors is useful. Vietnam's economy witnessed robust economic growth as a result of the economic renovations in the 1980s and early 1990s. It was then thought that the next step to help Vietnam prosper was to reconnect with the United States, economically and politically, in a way similar to the strategies adopted by other countries in East Asia that had adopted export-oriented industrialisation strategies targeting the US market (Damond 2013). Located in a dynamic economic region, Vietnam hoped to become an 'Asian tiger' similar

to its neighbors. This goal, together with economic goals such as attracting US capital and managerial and technological expertise were the main motivating factors underlying the BTA. The opportunities for market access were huge given the prospect of the United States dropping its high import tariff of 50%-90% down to the more normal rate (averaging 4%) given to other countries (Damond 2013). The relationship with the United States was seen as a decisive factor in integrating the Vietnamese economy with the world because the United States possessed significant economic influence in the international system. The BTA was also seen as a strategic step in preparing Vietnam for WTO accession, thus constituting a major preparation for the country's long-term plan. Although the potential economic benefits were huge, however, there were some concerns were expressed by business and government officials regarding Vietnamese companies lack of experience when accessing the US market (Riedel and Parker 2003).

Political considerations were also important in the signing of the BTA. It was not the first of its kind to be signed by the United States and former communist countries. However, the BTA with the United States required a determination to overcome Vietnamese suspicions of regime overthrow or economic sanctions by the United States. Before signing the BTA, the Vietnamese government had to handle implicit and explicit opposition from within and outside the party. In fact, the BTA was delayed for a year owing to opposition views in 1999-2000 (Manyin 2001). This opposition came principally from high-ranking officials of the CPV Central Commission of Foreign Relations and the Ministry of Public Security who were concerned about the possibility of US intervention in Vietnam's domestic affairs.² Despite the internal party politics, however, the BTA was signed owing to a final consensus and determination among the party's leadership in support of a vital national interest, i.e., national economic development. This move clearly demonstrated that pragmatic political and economic interests, rather than socialist ideology, were the dominant concern for trade policymakers.

In addition, the BTA was the first trade agreement in which the Western approach to trade liberalization was institutionalized in Vietnam's domestic trade regulation system. Through the BTA, Vietnamese decision-makers for the first time became familiar with trade

² Interview with diplomatic official of the Vietnam Embassy to Algeria, through Skype in 2017.

concepts and rules used in the WTO and realized the need to apply these rules if Vietnam were going to properly integrate with the global trade system (Buckley, Io et al. 2008). New terms such as the ‘national treatment’ principle were adopted and new trade ideas, such as allowing foreigners and domestic firms to do business in areas that were competitive with the SOEs, were considered. These contributed to the transformation from a planned to a market-based economic system (Damond 2013). This learning process lasted beyond the signing of the BTA as the United States organized the ‘Support for Trade Acceleration Project’ to explain and guide Vietnamese policymakers on how to implement the BTA (Burghardt 2003). Hence, the BTA rules were not only developed out of a need to meet domestic economic demands but also part of a process of institutional learning.

The BTA thus demonstrated the transformation of the interests, ideas, and institutions of relevant actors that enabled Vietnam to normalize trade with the most powerful and largest economy in the world. Once the relationship with the United States was initiated, relationships with other countries and regions could also be accelerated, facilitating the international economic integration and trade liberalization process.

3.4 Regional trade agreements: 1995 to present

Following the same broad trend of opening and integrating with the world, Vietnam began joining regional trade agreements in the 1990s. The first FTA was the ASEAN Free Trade Agreement (AFTA) signed in 1995 as a condition of Vietnam’s ASEAN membership. Its purpose was to integrate the markets of ASEAN members by reducing the intra-group tariff to 0-5 per cent (with the exception of some sensitive sectors) (ASEAN 2018). Thus, while the headline tariff cuts were significant, AFTA left room for developing countries such as Vietnam to continue protecting many sectors through the use of ‘exclusion lists’. For instance, in Vietnam’s AFTA exclusive list, there were 424 items, many of which were included for national defense and the state budget, price control, and macro-economic regulation purposes (Customs Online 2005). The Vietnamese sectors listed as sensitive included food products such as rice, fruit, and sugar.

There were multiple reasons for Vietnam’s shift from unilateral trade liberalization to a negotiation-based approach to regional trade agreements such as AFTA. First, joining

AFTA - as one of the conditions for becoming an ASEAN member – was clearly a foreign policy move. Vietnam’s participation in ASEAN was part of its broader foreign policy of diversification and multi-lateralization, and building a peaceful environment for economic development. This foreign policy move aimed to improve the hitherto frozen relationships with its neighbors, to consolidate trust and strengthen relationships with other ASEAN members, and to build ASEAN as a strong regional organization. The Vietnamese leadership was unprepared and not initially aware that AFTA was a condition of becoming an ASEAN member and so was dependent on guidance and support from other ASEAN member to understand AFTA.³

Secondly, while strategic and foreign policy objectives were decisive factors in Vietnam’s decision to participate in AFTA, economic interests were nonetheless important for how it was implemented. AFTA implementation was of overall benefit to the Vietnamese economy as well as strengthening the leaders’ confidence to continue the international economic integration policy.⁴ AFTA supported Vietnam’s aim of developing new export markets, which served as a means for economic recovery after the crisis of the 1980s and 1990s. From a trade perspective, the leaders looked for new markets for exports such as rice, rubber, coffee, wood, and fisheries in the context of a narrowing down of traditional markets as a result of the political and economic crisis in the Soviet Union and in Eastern Europe (Council of Ministers 1991). In addition, the country could expect to attract more investment and promote trade with ASEAN members (Tongzon 1999).

The process of joining AFTA was politically challenging as it created division amongst Vietnam’s leaders. Some of them had suspicions about ASEAN’s orientation, arguing that as many ASEAN members were US allies, the organization functioned as a ‘disguised NATO’ in Southeast Asia. Economically, the government was also concerned about Vietnam’s low level of development and wanted to delay the process of economic liberalization.⁵ In addition, AFTA raised concerns among businesses, which worried about their weak competitiveness owing to their lack of capital, technology, infrastructure, and

³ Interview with official from the Ministry of Foreign Affairs in 2015.

⁴ Interview with official from the Diplomatic Academy of Vietnam in 2015.

⁵ Interview with diplomatic official of the Vietnam Embassy to Algeria, through Skype in 2017.

knowledge relating to international trade rules (Frost 1995). Thus, as Vietnam's first ever FTA, AFTA caused many concerns for policymakers.

In dealing with these concerns, Vietnam's trade policy regime underwent relatively few changes (Elliott 2012). It comprised a non-transparent system of complex and highly discretionary non-tariff barriers - such as quotas, customs surcharges, import licenses, and 'flexible' tariff structures - resulting in a high effective rate of protection of 30-60% (Tongzon 1999). Fearing external pressures on domestic firms, the government used import taxes of 15 per cent when non-tariff barriers were dismantled and special sales taxes for products such as cars and beverages (Dollar 1996). In addition, Vietnam expanded its export volume in exchange for imports from ASEAN (Vo 2001).

AFTA's tariff reductions were structured around an inclusion list that included many products not produced in Vietnam (which had relatively low tariffs); a temporary exclusion list including domestically produced items; and a general exception list including strongly protected products such as fuel, broadcasting and cigarettes. Such an approach was viewed as the outcome of the state's desire to continue protection for some of the key economic lobby groups (Schmidt 2004). In addition, as the first Vietnamese FTA, AFTA allowed a lot of 'room to move' for a developing economy like Vietnam. Under AFTA, Vietnam only had to meet all the obligations imposed by the Common Effective Preferential Tariff (CEPT) by 2006 while other ASEAN members had to implement them in 2003 (ASEAN 2018). Hence, AFTA could not have a short-term negative impact because of the delayed tariff reduction schedule.

In this process, there was evident conflict between Vietnam's foreign trade policy (that was moving towards further trade liberalization) and domestic policy considerations (which, by requiring protection for key interest groups, could hold back the process). However, these concerns dissipated during the AFTA implementation process, with many exceptions and exclusions, and so did not cause serious negative impacts on the economy or key interest groups.⁶

In addition to AFTA, Vietnam also deepened regional integration via ASEAN's network of 'Plus One' FTAs with regional economies:

⁶ Interview with official from the Ministry of Foreign Affairs in 2015.

- ASEAN-China Free Trade Agreement - effective for Vietnam in 2010;
- ASEAN-Republic of Korea Free Trade Agreement in 2007;
- ASEAN-Japan FTA in 2008,
- ASEAN-India FTA in 2010;
- ASEAN-New Zealand-Australia FTA in 2010.
- Regional Comprehensive Economic Partnership (in the process of negotiation).

Table 3-1: Vietnam's membership in key international trade agreements, 2018

Name of agreement	Start of negotiations	Signing	Entry into force
Bilateral agreements			
Vietnam-US Bilateral Trade Agreement	6/1996	7/2000	12/2001
Regional agreements (extension of AFTA to include ASEAN's trade partners)			
ASEAN Free Trade Agreement	1995	1995	1996
ASEAN-China Framework Agreement on Comprehensive Economic Cooperation (ACFTA)	2002	1/2004	2005
ASEAN-South Korea FTA	2005	2006	2007
ASEAN-Japan Framework Agreement on Comprehensive Economic Partnership (AJCEP)	2003	4/2008	12/2008
ASEAN-India Comprehensive Economic Cooperation Agreement (AICECA)	2003	2003	2010
ASEAN-India Trade in Goods Agreement (AITIG)	2003	2009	6/2010
ASEAN-Australia-New Zealand FTA	2004	2/2009	2010
Multilateral agreements			
World Trade Organization	1995	2006	2007
Bilateral and multilateral FTAs			
Vietnam-Japan Economic Partnership Agreement	2007	2008	1/1/2009
Vietnam-Chile FTA	2008	2011	1/1/2014
Vietnam-South Korea FTA	2012	5/5/2015	20/12/2015
Vietnam-Eurasian Economic Union FTA	2013	5/2015	5/10/2016
Trans-Pacific Partnership	2010	4/2/2016	Collapsed
Comprehensive and Progressive Agreement for Trans-Pacific Partnership	2017	8/3/2018	30/12/2018
Vietnam-European Union FTA (EVFTA)	6/2012	12/2015	Not yet effective
Regional Comprehensive Economic Partnership	8/2012	Being negotiated	

ASEAN - Hongkong	2014	Being negotiated
Vietnam-Israel FTA	2015	Being negotiated

Source: Asia Regional Integration Center, Tracking Asian Integration, available at <http://aric.adb.org/fta-country>, accessed on 3/5/2018.

Vietnam’s ASEAN-based FTA commitments caused pressures mainly in relation to the trade in goods rather than the institutional reforms seen in the case of the US BTA and later its WTO accession. Tariff removal was highly variable, with rates as high as 98.1% in the ASEAN-AU-NZ FTA and as low as 80.87% in the ASEAN-India FTA. Vietnam’s average level of tariff liberalization in the ASEAN-centered FTAs was 89.5% (Fukunaga and Isono 2013). The schedule for full implementation of these FTAs was 2015-2021, which gave Vietnam an exceptionally long lead-time to adjust to these commitments. The ASEAN Plus One FTAs were also criticized as being very weak because many sensitive sectors were exempt (e.g. agriculture and finance), rules of origin were restrictive, and low tariff liberalization overall did not go very far (Fukunaga and Isono 2013).

Nonetheless, the ASEAN-centered FTAs were important insofar as they contributed to building the ‘ASEAN Economic Community’ (AEC) project (ASEAN 2008, Gaston and Khalid 2010) for ASEAN’s development. This project aimed to achieve a single market and production base, a competitive economic region, equitable economic development, and integration into the global economy (ASEAN 2008). As part of its commitment to the AEC, Vietnam agreed to eliminate most tariffs by 2018. In addition, ASEAN and its FTA partners have been negotiating a Regional Comprehensive Economic Partnership (RCEP) since 2013. This is an attempt to ‘multilateralise’ the network by combining the six FTAs into a single agreement (Fukunaga and Isono 2013). To expand the network further, ASEAN negotiated an FTA with Hong Kong and discussed the possibility of FTAs with Canada and the European Economic Community in 2017.

Vietnam was an active supporter of ASEAN’s regional trade agreements. For political reasons, Vietnam had a strong interest in building a well-institutionalized ASEAN. ASEAN shares many of Vietnam’s foreign policy interests: i.e., to maintain neutrality, to balance

powers, and to increase ASEAN's role in mediating the great powers (Bowles 2002, Lee 2016). For economic reasons, Vietnam was able to access regional markets through preferential treatment while still being able to protect sensitive domestic sectors. This was a preparatory step for Vietnam actively to select suitable trade partners to sign other bilateral and multilateral FTAs (Le 2012). Moreover, Vietnam, together with Laos, Cambodia and Myanmar, was given preferential treatment compared to other ASEAN members. For example, they were given a longer tariff removal schedule and more flexible and lower levels of tariff liberalization. Vietnam was permitted to implement the FTAs with a tariff line of 0% for around 90% of goods in 2015, while other ASEAN-China Free Trade Agreement members such as China implemented about 95% of tariff lines in 2010 (Ministry of Finance 2015).

On the other hand, in addition to the potential benefits, Vietnam is at risk of facing negative impacts from the ASEAN-centered FTAs. For example, if the RCEP is successfully implemented, Vietnam could face competition from China with respect to market access to Japan and South Korea and trade diversion away from Vietnam (Dordi, Nguyen et al. 2015). At a sectoral level, tariffs are expected to be removed for the most protected areas, such as agriculture, textiles and garments, and autos, along with the possible risk of reduced exports of pork, chicken, and beef (Dordi, Nguyen et al. 2015). Vietnam's competitiveness is weaker than other countries in the region, especially compared with China and other ASEAN members, even in the most competitive export sectors such as textiles and garments, and footwear (Ho 2012). Owing to the above concerns, Vietnam has continued to maintain high protection in sectors, such as services, using tariffs, non-tariff trade barriers and FDI restrictions (Sally and Sen 2005).

In short, Vietnam's regional trade agreements have been driven by multiple factors. They were initially motivated by the leadership's determination to break down Vietnam's isolation by establishing normal relationships with neighbors and by transforming its predominant posture in the region from one of hostility to friendship. Then, economic considerations came to the fore as trade relationships with ASEAN greatly benefited Vietnam's economy. Domestically, the regional trade agreements required political compromises: first to overcome the suspicious attitude of some parts of the leadership and then to overcome conflict between domestic policy focused on protection of the domestic

market and international economic integration policy. These differences created pull and push pressures that made the trade liberalization process gradual and uneven.

3.5 Multilateral trade agreements and WTO accession, 1995-2007

In 1995, Vietnam applied for WTO membership, and a short time after that, to be an observer of GATT. The WTO accession was a great leap forward for Vietnam's trade liberalization. While the ASEAN FTAs focused on trade in goods by reducing tariffs, the WTO required far more in terms of institutional reform. Moreover, while the FTAs were all at the regional level, the WTO opened Vietnam to a large global marketplace.

The decision to join the WTO was a multi-factoral: it was first part of Vietnam's foreign policy of international cooperation, while also being designed to gain the advantage of foreign investment for development and also to serve the national strategy of industrialization and modernization (CPV Central Committee 1997). The decision contributed to the foreign policy of normalizing and improving relationships with major countries and important international organizations. It was part of a larger effort to join the world through membership of international organizations such as the Asia-Pacific Economic Cooperation (APEC) in 1998.

WTO accession was strongly supported on strategic, political, and economic grounds. The leadership expected to it to help expand exports and enhance the country's position in the international economy. Consequently, they expected fast, sustainable, and effective economic development. Other anticipated benefits were institutional reform to help create a fair business and investment environment, which was expected to attract foreign investment and promote domestic investment, thus creating new production and export capacities. It was also hoped that Vietnam would gain recognition of its economy as equal to others by providing access to the WTO's dispute settlement system and rules (Agroinfo News 2006). This policy was in line with and assisted domestic demands to shift to an export-oriented policy in combination with the import-substitution policy (Prime Minister 2000).

Although there was no formal feasibility study for the costs and benefits for WTO accession, there were concerns that made the negotiations challenging. The most prominent issue was a dilemma where, on one hand, Vietnam wanted to undertake global-level

economic integration while, on the other hand, it faced severe difficulties caused by its weak competitiveness, weak public officials and small domestic firms compared to global partners. The country had a hard choice balancing between WTO trade liberalization requirements, such as tariff reduction and removing subsidies, and protection required by the majority of state and non-state enterprises. Hence, the trade-offs regarding WTO accession involved a trade-off between multilateral trade liberalization and the cost of reducing the protection for weak domestic firms. This trade-off had not been posed in such stark terms by the relatively lower-standard AFTA, ASEAN, and US BTA. Additionally, there was a large gap between Vietnam's domestic trade laws and WTO rules as well as the high costs of the institutional reforms necessary to comply with WTO requirements. Vietnam's weak institutional and staff capacity and concerns regarding loss of the state's authority, autonomy, and management power, and economic interests, made the WTO accession Vietnam's most difficult trade reform to that point.

Compounding matters, negotiation of WTO accession was not on a reciprocal basis like FTAs but required Vietnam to accept WTO members' requests through complex bilateral and multilateral negotiations. The application process therefore created huge challenges for Vietnam's trade policymaking. Policymakers had to deal with new, comprehensive, and complicated trade issues and negotiations that required professionalism and expertise beyond their previous experience in international trade negotiations. The WTO accession ultimately required 28 rounds of bilateral and multilateral negotiations, each of which included new international trade rules with which the Vietnamese were unfamiliar. Moreover, the commitments were made under heavy pressure from external partners, which generated internal opposition that delayed the process of accession. Thus, Vietnam's trade policymaking had to be significantly adapted and develop a newfound level of flexibility to meet these challenges.

Trade policymaking during the WTO accession displayed both continuity and change adjusting to these new challenges. Continuity was the paramount role of the communist party-state: relatively closed and limited consultations between the government and private sectors and policymaking undertaken with relatively low levels of transparency. In addition, there was a lack of interest in, capacity to deal with, and knowledge of the complicated WTO rules in the private sector. Nonetheless, major changes also occurred.

These included the emergence of new trade actors within the state, a mixture of top down and bottom-up approaches to identifying interests, and new procedures and institutions set up for internal coordination. The central bureaucracy decided between ‘defensive’ (to be protected) and ‘offensive’ (seeking liberalization) sectors depending on their compatibility with national political and economic interests. Such decisions were made without much transparency and influence from the private sector, reflecting the discretionary power of the bureaucrats. However, to access the large benefits of joining the world’s largest trade organization, Vietnamese trade policymaking had to transform its institutions to become more participatory and harmonize different interests and considerations.

3.6 Bilateral and Mega-Regional FTAs: 2007 to present

Vietnam’s trade reforms underwent yet another new radical change when it started to join various FTAs following WTO accession, most remarkably the new generation of FTAs that emerged in Asia during the mid-2000s. Vietnam attempted to start negotiations for bilateral FTAs with Japan in 2007, Chile in 2008, the European Union in 2012, the Regional Comprehensive Economic Partnership (RCEP) in 2013, the Eurasian Economic Union in 2013, and with eleven other countries in the Asia Pacific region through the Trans-Pacific Partnership (TPP) in 2010. Among these partners, the United States (in the TPP) and the EU were Vietnam’s largest and second largest export markets respectively. Export growth to these two markets had increased 400% in 7 years from 2003 to 2010 on the back of market access negotiated through WTO accession and the US BTA (Le 2012).

This new generation of FTAs had very different characteristics to the ASEAN-centred FTAs of the previous decade. First, while the ASEAN-centred FTAs were narrow, simple, and weakly liberalising, mega-regional FTAs such as the TPP required comprehensive and highly liberalized level commitments. These FTAs covered many new trade issues such as labour standards and intellectual property rights. Secondly, the new generation FTAs required trade policy reforms in the direction of greater transparency and liberalization, building a legal system, and institutional reforms in line with international standards (Department of Commerce 2011). It was expected that these FTAs would prepare Vietnam

for new development opportunities in the form of the 'Free Trade Area of the Asia-Pacific' (FTAAP), an FTA ultimately planned for the 21 APEC economies.

Vietnamese participation in these high standard FTAs was made possible by a number of factors including international pressure as well as the country's domestic economic conditions. First, despite protectionism emerging in the world in the aftermath of the global financial crisis and economic recession, Vietnam's leaders recognized the need to push ahead with liberalization in order to deepen the integration process and attract FDI to increase the economy's competitiveness (Le 2012). Like all its previous trade reforms, Vietnam's FTA strategy was expected to expand domestic and external markets for the development of production and exports, enhancing the quality and effectiveness of investment attraction, and facilitating domestic restructuring (Congthuongbentre 2012). In addition, the FTAs could contribute to restructuring and diversifying Vietnam's exports, building market-based institutions for economic development, and enhancing Vietnam's capacity to respond to changes in the global economy (Congthuongbentre 2012).

Secondly, an FTA strategy was needed to meet domestic demands for development and reform. The FTA policy supported domestic economic policy, which focused on export-oriented industrialization for the 10-year period 2011-2020 (Le 2012). Domestic institutional reforms that would be facilitated by these FTAs are considered key for improving the business and legal environment as it regulates new trade issues, such as government procurement, investor protection, and ensuring legal transparency.

Thirdly, in terms of coverage, the FTAs aimed to diversify Vietnam's trading partners. They were intended to catalyse an expansion beyond the traditional neighboring region of East Asia, which at the time dominated Vietnam's trade. In 2017, ASEAN, China, Japan, and South Korea accounted for 81.9 per cent of total imports and 52.3 per cent of total exports owing to low transport costs because of geographical proximity (Customs Online 2018). The leadership considered such economic dependence not only as an opportunity but also a risk given complicated and fast-changing regional political and economic context. Economically, fluctuations in these markets could cause growth reduction, reduced input for production, workers' income and trade, and balance of trade and payment. Politically, trade could also be used to create political pressure. For instance, in retaliation for

Vietnam's request to remove an oil drilling rig (HD-981) from Vietnam's exclusive economic zone in 2014, China requested its SOEs to stop doing business in Vietnam (Nguyen and Ngo 2014). The CPV Central Committee promulgated Resolution No 06 dated 5/11/2016 to speed up the process of diversification and multi-lateralization of economic relationships to ensure economic self-reliance (Central Committee of the Communist Party of Vietnam 2016). Thus, if in the 1990s, the diversification policy aimed to break from political and economic isolation, in the 2000s, this policy emphasized avoiding excessive concentration in one region for both political and economic stability purposes.

Fourthly, instead of being subject to external pressures from trading partners - as seen in the WTO accession, AFTA and the ASEAN-centred FTAs - Vietnam could be more autonomous in selecting its trading partners and be in a better position to negotiate successfully to advance both its strategic political and economic interests. Vietnam has signed FTAs with those countries that supply important goods and investment and which have large trade with Vietnam, such as South Korea and Japan. FTAs with these countries offer a higher trade liberalization rate compared with the ASEAN ones, providing more market access than reliance on the ASEAN FTA network offers. Vietnam's FTAs also focussed on major trading partners and developed economies such as the EU and the United States where Vietnam's products were competitive, high-value added and could achieve high rates of growth. In addition, Vietnam signed FTAs with potential and traditional markets such as Russia, Eastern Europe, Africa, and Latin America (Le 2012). Thus, thanks to increased economic capacity, Vietnam was in a better position to participate actively in FTAs.

The choices to enter a FTA with a country were also based on consideration of Vietnam's geopolitical interests. Vietnam attached importance to countries in G7⁷, the five permanent members of the UN Security Council,⁸ and members of the G20,⁹ which accounts for about 85 per cent of gross world product and 80 per cent of world trade) (Nguyen 2011).

⁷ The G7 is an informal bloc of industrialized democracies – Canada, France, Germany, Italy, Japan, the United Kingdom and the US.

⁸ Interview with official from the Ministry of Foreign Affairs in 2016.

⁹ An international forum for the governments and central bank governors from 20 major economies, founded in 1999.

Maintaining strong economic relations with these major developed countries would assist Vietnam to build ties with economies that exercised strong political and economic power globally. In total, Vietnam has 15 completed and on-going FTA negotiations with 58 countries, out of which 17 belong to the G20, and all members of the G7.¹⁰ The FTAs are a means to strengthening relationships and serve security interests by enhancing economic security, diversifying markets, and implementing foreign policy by balancing major powers.

Despite potential economic benefits, however, the negotiation of the FTAs has threatened to exert potentially negative economic impacts on the Vietnamese economy. While the earlier FTAs raised concerns relating to conventional trade barriers such as tariffs and quotas, the new FTAs would impose high reform costs relating to domestic regulatory and institutional systems such as requirements for intellectual property rights and environmental standards. Recent studies carried out by domestic and international research institutes and scholars have expressed concerns about the risk of failure and bankruptcy because of weakness in Vietnam's traditional sectors (Nguyen and Nguyen 2014, Pham, Trinh et al. 2016). For instance, agricultural products such as pork and chicken, vulnerable groups such rural farmers, and weak manufacturing firms would face much stiffer competition than previously. The institutional requirements of the FTAs could increase the adjustment costs for both the government and firms. Overcoming these challenges and taking advantage of opportunities would again prove politically challenging.

Like the WTO accession, the signing of new generation FTAs required significant institutional changes as well as creating 'winners' and 'losers', which caused internal conflicts of interest. For some sectoral and industry interests, the FTAs were expected to bring many benefits. For example, exporters such as the fishery associations were expected to obtain an advantage over their trade competitors owing to reduced tariff rates in the FTAs.¹¹ Yet, certain industries could face difficulties arising from participation in a FTA. Even within the agriculture sector, the horticultural and livestock industries would be under pressure from competition from imports from the United States or Australia.

¹⁰ Interview with official from the Ministry of Foreign Affairs in 2016.

¹¹ Interview with official from the VASEP in 2016.

The government's strategy to reach a compromise between these conflicting domestic economic interests was varied. Its positions in the trade negotiations were directed toward selective protection. This policy took the form of 'infant industry protection', where domestic sectors that were weak but had potential for development and competitiveness in the future were prioritized (Prime Minister 2015). However, the business community perceived the government's trade strategy to be uneven: willing to liberalize in some previously sensitive areas such as agriculture, forestry, and fisheries, while others received ongoing protection (VCCI 2015). The most protected products were salt, sugar, eggs, and cigarettes, which remained subject to tariff quotas. The extent of ongoing protectionism was, therefore, quite significant, owing to the careful and cautious behavior and attitude of the top leadership of the CPV and the state.

3.7 Conclusion

This chapter has presented a historical sketch of the process of progressive yet ultimately dramatic trade liberalization in Vietnam, identifying the ideas and interests that underlay its trade choices. The chapter has shown that Vietnam's trade policy underwent transformation from an isolated trade actor to an active trade player, initially via unilateral reforms then through participation in the ASEAN-based regional agreement, global engagement via the WTO and then more assertive negotiations for high-standard regional agreements. This shift towards a liberalised trade policy framework was the result of a set of strategic calculations in which the state balanced difficult choices around costs and benefits. Where there was expected vulnerability in the face of external competitive pressures and/or risks of losing state authority and autonomy, it engaged in only limited liberalization. However, it also attached importance to the opportunities to transform Vietnam's economic structure, improve the business environment, augment the country's competitiveness, and secure access to large regional and global markets. These trade-offs occurred at every step of the process, where advantages were seized and disadvantages had to be politically managed. There was also a distributional politics within Vietnam to be managed, as liberalization created winners and losers whose needs had to be balanced.

Vietnam's move from an isolated trade player to accelerated liberalization and active player in negotiating trade agreements requires more detailed explanation. What were the trade policy preferences of the key domestic actors? How were certain groups able to shape policymaking in their favor? How did the distinct constellation of interests, ideas, and institutions influence the shallow but progressive process of liberalization and policy reform? The following chapters present answers to these questions in greater detail by analysing the domestic politics of competition among relevant actors for influence, and the interests and ideas behind their behaviours. The next chapter examines the communist party-state and its roles as the key actor promoting the trade liberalization process.

Chapter 4: **The role of the state in Vietnam's trade policymaking**

4.1 Introduction

This chapter begins the system analysis of development of Vietnam's trade policy processes looking at the role and influence of the most important actor, the state. Given Vietnam, a socialist-communist country starting to join the capitalist crafted trade agreements, a number of questions are raised: How have state policymaking processes evolved as Vietnam has moved towards a more open trade policy? What were the key ideas and interests of state actors and how did these shape trade policymaking processes? How have different factions of the state adopted different positions and how has conflict and compromise between these outcomes? Specifically which actors brought distributive conflicts and how the communist party handled pressures of interests groups given Vietnam's intensive trade agreements?

The chapter argues that despite the varied interests of Vietnamese state actors, national economic development was the dominant interest underlying trade reform and prevailed over institutional goals and sectoral interests. The CPV and government leadership's consistent approach to trade liberalization pushed the country toward deepening integration with the region and global economy. While Vietnamese trade policy showed continuity in the prominent role of the CPV, several reforms to policymaking processes necessitated by the liberalization process impacted on how the party approached trade agreements. First, the state became relatively more pluralistic, with an increasing number of agencies and organizations involved owing to the expanding number of issues associated with trade

agreements. This emerging pluralism diffused power amongst state actors, reducing the monopoly power of the Ministry of Trade while increasing the role of relevant ministries and agencies, which gained opportunities to become involved in the policymaking process. An increasing number of new reformed minded coalitions comprising of CPV and government leaders and bureaucrats hence was facilitated to emerge during the process of negotiation of trade agreements due to their change of perceptions about diplomatic and economic benefits from the open economy policy.

At the same time, weak internal coordination amongst government agencies resulted in fragmented policymaking. This situation created opportunities for the protection of politically powerful interest groups, resulting in internal divisions within the state in terms of policy preferences. Third, bureaucratic agencies increased their influence relative to party bodies because they possessed the technical capacities required to manage complex trade negotiations. Fourth, the state's ideas and interests changed from placing top priority on political and foreign policy interests towards more weight being given to economic considerations. The chapter begins by describing the institutional setting within the state before analysing the transformation of the state's interests and ideas. Finally, the chapter discusses the contestation between competing interest groups on trade policy issues.

4.2 Institutional arrangements for Vietnamese trade policymaking

The institutional arrangements for Vietnam's trade policymaking have displayed both continuity and transformation in facilitating the move towards trade liberalization. While the role of the CPV has remained paramount, there have been changes in the institutions of trade policymaking. The predominantly top-down structure has shifted to a mixture of top-down and bottom-up along with a transition from a state monopoly over policymaking to a more participatory and pluralistic setup.

The most significant characteristic of Vietnam's political regime has been, and remains, the paramount role of the CPV, which has maintained control since the establishment of the country in 1945. The CPV's National Congress is the most important political institution, laying out strategic directions for the country's development in general and for international trade in particular. Within the CPV, the Standing Committee and the Politburo members,

elected by the National Congress every five years, represent the ‘core’ of party decision-making (Government Online News 2017). The Politburo is tasked with deciding the guidelines shaping all issues relating to foreign policy and is responsible to the Central Committee in that task (CPV 2011). For example, the Politburo and the Central Committee ratified the resolution approving the signing of important trade agreements such as the WTO and the TPP, before submitting these to the National Assembly for ratification (Inter-sector Steering Committee on International Economic Integration 2015). As such, decisions relating to international trade agreements are made at the central level under the close supervision of the top leadership of the CPV.

Another significant characteristic of the policymaking process is the principle of ‘democratic centralism’ (CPV 2011), which mandates consensus rather than majoritarian decision-making. Inside the Politburo, this rule is applied such that group consensus must be reached before a final decision is made, which is achieved through free discussion. In situations when one or more members of the Politburo dissent from a proposal, consensus mechanisms often require further study to be carried out.¹² The principle of a collective approach combined with personal responsibility to the leadership is a core value of the CPV and is designed to ensure that no single figure becomes dominant in political decision-making.

One of the important implications of the supreme role of the communist party is the degree of consistency in policymaking that it has produced. The economic policy trajectory has consistently moved towards greater openness and economic integration since the ‘Doi Moi’ economic renovation policy of 1986. With the long-term goal of economic development, the leadership has successfully maintained this policy agenda for three decades. In addition, the economic achievements that resulted from opening markets ensured that the party remained committed to regional and global integration at an accelerating pace in recent years as reflected in the WTO accession, ASEAN-centred FTAs and new generation FTAs.

With the removal of the state’s monopoly over trade and the expanding and increasingly complicated issues covered by trade agreements, trade policymaking has also no longer

¹² Interview with official from the Diplomatic Academy of Vietnam in 2015.

been controlled exclusively by the Ministry of Trade.¹³ Rather it is now made with the involvement of a large number of relevant ministries and agencies although the Ministry of Trade remains the principal bureaucratic agency and plays a leading role in coordinating with other ministries and agencies. The Ministry is authorized by the Prime Minister to initiate, carry out studies, make proposals for negotiations, and sign bilateral, multilateral, and regional trade agreements (GoV 2012). In particular, the Ministry is also tasked with consulting the relevant ministries about negotiations for trade agreements. For instance, in preparing proposals for trade negotiation, the Ministry has to consult the different views of concerned agencies before submitting them to the Prime Minister. While the head of trade delegations is the Vice-Minister of Trade, other members are normally the deputy heads of the international cooperation departments of relevant agencies.

Each relevant ministry is responsible for elements of the negotiation pertinent to their administrative jurisdiction and expertise. For instance, the Ministry of Planning and Investment is in charge of issues relating to the services trade, the Ministry of Finance is in charge of tariff concessions, while the Ministry of Industry and Trade (merging former Ministry of Trade and Ministry of Industry in 2009) is responsible for not only exports and imports but also consolidation of sector negotiation plans as well as taking primary responsibility for the conduct of negotiations. The Ministry of Foreign Affairs is concerned with strategic and political considerations including evaluations of the conformity of the treaty with national interests and foreign policy. The Ministry of Justice provides legal opinions (National Assembly 2006). Finally, depending on the coverage of the proposed trade agreement, the relevant agencies may include the Ministry of Planning and Investment, the Ministry of Agriculture and Rural Development, and the Ministry of Labor, Invalids and Social Affairs. The three key ministries that are always consulted are the Ministry of Foreign Affairs, the Ministry of Public Security, and the Ministry of National Defense.¹⁴ Trade policymaking through this consultation process ensures conformity of trade policy with broad policy direction and introduces ‘bureaucratic pluralism’ into the CPV’s single party system.

¹³ The Ministry of Trade was merged with the Ministry of Industry and renamed the Ministry of Industry and Trade (MOIT) in 2009.

¹⁴ Interview with official from the Diplomatic Academy of Vietnam in 2015.

When disagreements occur among government agencies, the Prime Minister consults different agencies for solutions. Until agreement is reached, the official communist party sections of the recommending agency submit the proposal to the Politburo for consideration. The Politburo can organize a meeting with relevant ministries to listen to the latter's explanations, on which the Political Bureau members will then discuss. In such meetings, the role of the Prime Minister is equal to that of other Political Bureau members.¹⁵ Thus, the central party channel exercises close supervision and leadership over the executive branch regarding the trade policymaking process during the processes of initiation, proposal, planning and negotiation of trade agreements.

¹⁵ Interview with official from the Diplomatic Academy of Vietnam in 2015.

Table 4-1: Responsibilities of relevant ministries/agencies for trade agreement negotiation and implementation

Relevant ministries/agencies	Roles and responsibilities
1. Decision to start negotiation	The President or the Government (to be directed by the Standing Committee of the National Assembly/National Assembly)
2. Negotiation	The Government
Ministry of Industry and Trade	Chair, coordinate to prepare negotiation plans covering all areas and to negotiate trade-related services. A Deputy Trade minister heads the trade negotiations, while a trade director-general level will act as deputy head.
Ministry of Foreign Affairs	A director-general level will act as deputy head of trade negotiation; also manages political and diplomatic issues
Ministry of Planning and Investment	Negotiation of investment issues and investment-related disputes
Ministry Science and Technology	Negotiation of intellectual property issues
Ministry of Communication and Information	Negotiation of telecommunication and postal services regulations
Ministry of Tourism	Negotiation of tourism services
Ministry of Finance	Tariff reductions
Ministry of Agriculture and Rural Development	Negotiation of agricultural issues and sanitary and phytosanitary (SPS) regulations
Ministry of Labour, Invalids and Social Affairs	Labour, movement of natural persons
Ministry of Natural Resource and Environment	Environmental issues
Ministry of Culture, Sports and Tourism	Copyright
State Bank of Vietnam	Financial services
Ministry of National Defence and Ministry of Public Security	Goods and services relating to national defence and security
3. Signing and approval	By the President or the Prime Minister
Rectification	By the National Assembly in case of conflict with current legal documents or not provided in any legal documents
4. Implementation	The Government

Source: Compiled by author from the Law on signing, accession and implementation of International Treaty 2005; Decision no 30/2003/QĐ-TTg dated 21/2/2003 issued Working Regulations of the Government negotiation delegation on international trade and economics and the VCCI's study on Solutions to strengthen effective enterprise consultation in FTA's negotiations (Vietnam Chamber of Commerce and Industry 2014).

Third, to facilitate the negotiation of trade agreements, both the party leadership and the involved ministries have improved their technical capacity in trade negotiations. During its negotiations for AFTA and WTO membership, the Vietnamese government did not have access to high-capacity trade advisors because of a lack of domestic knowledge of international trade rules and practices.¹⁶ Its trade negotiators were trained in socialist countries and thus mainly had experience in handling socialist, rather than market-based, trade agreements (Tran, Vu et al. 2015). The complex nature of trade issues forced the bureaucracies to invest in technical capacity, opening opportunities for younger, Western-educated government staff and academics to be involved in policymaking. The result was an improved understanding of the negotiation and implementation of trade agreements. This was particularly catalyzed by the complex WTO accession process and regional FTAs. Thus, the shifting character of the trade bureaucracy toward technocrats helped to narrow the knowledge gap between Vietnam and its trading partners, increasing its capacity to engage in making new trade agreements (Palmujoki 2007).

Fourth, new state institutions were established to facilitate trade policymaking. The first working groups were established to conduct feasibility studies for FTAs, including the Vietnam-South Korea FTA in 2009, the TPP in 2010, and the Vietnam-European Free Trade Association (EFTA) in 2011 (Vietnam - Member States of the European Free Trade Association 2011). These feasibility studies reviewed bilateral trade and investment relationships between Vietnam and its trading partners, analyzed the agreements' strength, weaknesses, opportunities, and challenges (SWOT), and proposed areas for discussion and consideration upon mutual agreement to negotiate an FTA. Because of confidentiality reasons that might have affected the negotiation process, the feasibility study of the TPP was not disclosed to the public, but those for the Vietnam-EFTA and Vietnam-South Korea FTA were published. These studies were also provided to the partner governments for consideration and direction (Vietnam - Member States of the European Free Trade Association 2011). Technical studies were also carried out by academics using computable general equilibrium (CGE) models. These studies enhanced the policymakers' knowledge

¹⁶ Interview with official from the Ministry of Foreign Affairs in 2015.

of the potential pros and cons of trade agreements and were used for an impact analysis of both the Vietnam-EU FTA (Philip, Laurenza et al. 2011) and the Regional Comprehensive Economic Partnership (RCEP) on Vietnam's economy (Dordi, Nguyen et al. 2015). These studies reflected an institutional improvement compared with the poor information available during AFTA and BTA negotiations in 1990s.

Despite these improvements, some traditional institutional settings created constraints on concluding trade agreements. First, because of technical limitations in the feasibility studies, negotiators struggled to quantify the potential benefits or losses from particular aspects of the agreements. For example, during the WTO accession there was a lack of quantitative studies that provided a full analysis of costs and benefits and recommendations for the extent of concessions. Hence, policymakers had to make qualitative and informal assessments which, according to Vietnam's chief BTA trade negotiators, were of a very provisional nature (Viet 2005). Thus, policymakers were sometimes required to make commitments with only a partial knowledge of their impacts. These institutional capacity constraints, which were more pronounced for Vietnam than its (typically developed country) partners, posed a major challenge to its effective participation in trade negotiations.

Secondly, there was a lack of coordination between the external trade negotiators who took the initiative for negotiating trade agreements, and domestic trade regulators (Thanhnie Daily 2015), which resulted in delayed trade liberalization. While the trade negotiators actively committed to high standards in an increasing number of trade agreements, the domestic trade regulators proved relatively slower in adopting market-based rules and reforms. The slow adoption of market reforms domestically was caused by local and sectoral interests, and protection of individuals and agencies within the state's mechanism according to National Assembly delegates in the National Assembly hearings with the ministers in 2016 (Nguyen 2016).

The role of Vietnam's National Assembly was also important in the law-making required to implement trade agreements domestically. Article 83 of the Constitution provides that the National Assembly decides basic external and internal policies, and ratifies or nullifies international treaties (Vietnam Constitution 2001). The National Assembly was thus

required to ratify trade agreements that mandated changes to the legal system, such as the bilateral agreement with the United States and the WTO accession package and the TPP. The National Assembly Foreign Affairs Committee and National Assembly delegates, based on the government's statements and feasibility studies, would investigate, examine, verify and query the relevant ministries and agencies about particular trade agreements (Vietnamnet News 2018).

Nonetheless, the National Assembly's role is different from that of the US Congress, which is constitutionally tasked with legislative responsibility for implementing trade agreements. Unlike in the United States, in Vietnam, political authority is centralized in the CPV, which then delegates decisions to state bodies. Supreme power over trade agreements rests with the Politburo, while the Prime Minister and the Government only have responsibility for negotiating and implementing trade agreements following its instruction, while the National Assembly ratifies the agreements.

The National Assembly was mainly involved in amendment and ratification of domestic laws and international trade agreements. It took only two weeks for the protocol of access to the WTO to be ratified by the National Assembly on 29/11/2006 (National Assembly 2006) since the Government's submission of the statement on 15/11/2006 (GoV 2006), which ostensibly was supposed to consult with and consider possible negative impacts for relevant stakeholders. Such an approval process is dramatically quicker, and less rigorous, than in other countries. For example, it took almost four years for South Korean lawmakers to approve in 2011 the free trade agreement concluded with the U.S in 2007 (voanews 2011). During this period of consideration, the National Assembly considered various aspects of the FTA, and dealt with protests, and opposition parties.

The interaction between the government and academics, international organizations and trading partners contributed to an acceleration in the process of trade liberalization. Access to new trade policy knowledge occurred by learning lessons and experiences from other countries, advisors from think tanks, and experimentation by government officials. Vietnamese officials also drew on experience from the newly industrialized countries in East Asia in relation to, for example, the promotion of foreign investment and the adoption of export-oriented strategies (G.Tarr 2009). The policy to join certain trade agreements

could not be made on the basis of economic modelling and feasibility studies alone (as in Western countries) because of a domestic lack of technical skills and knowledge. Instead, studies of how other countries with similar political and economic systems (such as China) or geographical proximity (such as the ASEAN states) engaged in trade liberalization were a major source of knowledge for Vietnamese policymakers. China's WTO accession was an especially pertinent example for Vietnam. Immediately following its WTO accession, investment flows surged into China's economy, helping to promote trade liberalization and creating a political consensus for further economic integration with Western countries. China's experience was viewed by Vietnamese policymakers as one that the country could successfully emulate (Nguyen 2005).

In sum, the institutional settings for trade policymaking in Vietnam evolved and gradually transformed from a top-down approach, during the period of central planning, to a system that combined top-down control from the CPV with the bottom-up participation by involved stakeholders. While these bottom-up mechanisms are yet to grow to the levels seen in developed countries, they mark a major shift in how Vietnamese trade policy had operated in comparison with only a few decades earlier. These institutional transformations enabled policymakers to implement the trade liberalization process flexibly.

4.3 Ideas and ideologies underlying the state's approach to trade policy

Alongside these institutional reforms, the trade policy ideas and interests of the state similarly evolved. The most significant was a change in the CPV's worldview of Vietnam's position in the regional and global economies, which led to a repositioning of international trade policy as a core element of the national development agenda.

External changes in the international system initially drove the leadership to focus on economic development and favor trade liberalization. The CPV leadership was sensitive to world geopolitical and geo-economic trends of the time. During the 1990s, they realized that economic openness and globalization had become a dominant global trend, and that trade agreements had become a key requirement for success in the global economy. Vietnam was fortunately located in the most dynamic economic region in the world, with a

rising China and Asian tigers such as Hong Kong, Taiwan and South Korea having recently experienced periods of high-speed growth and industrialization. The success of Vietnam's neighbors was based on an economic model where exports and foreign investments were used as the engine of economic development, which Vietnamese elites sought to emulate by adopting their own liberalizing reforms. This was reflected in the strong emphasis on improving exports as the core goal of foreign economic policy, and on attracting foreign investment and official development assistance (ODA). The 'open door' policy would create a growth model based on the export of natural resources, low-cost labor-based processing industries, and a lasting role for SOEs (Dang 2012).

When the Soviet Union was dissolved in 1991, Vietnam's economy was badly damaged first by economic collapse of its main (socialist) trade partners and the drying-up of aid, which was compounded by the trade embargo imposed by the United States until 1994. In its wake, the CPV leadership identified an urgent need to re-establish relationships with the non-socialist world and to develop new markets to replace those lost with the collapse of the Soviet Union. Trade liberalization began to be viewed as a part of an overall 'open door' foreign economic policy, which included an openness to foreign investment and participation in multilateral economic institutions such as the World Bank and Asian Development Bank (Party's Central Executive Committee 1992). Vietnam's efforts to join the international economic system saw it subsequently apply for membership of ASEAN, APEC, and the WTO.

As the influence of an increasing number of international and regional linkages mounted, in 1996 Vietnam initiated, and then gradually developed, a formal international economic integration policy. The CPV assessed the importance of globalization as "*an objective trend, attracting an increasing number of participating countries, having both negative and positive aspects, containing both cooperation and struggle aspects*" (The 8th VCP National Congress 1996). This policy explicitly recognised that economic isolation was not a viable option for a small and developing economy and advocated an export-oriented and open economic system that could benefit from integration with regional and global partners (The 8th VCP National Congress 1996). The international economic integration policy gradually expanded in its geographic scope: from a focus on regional integration through AFTA and ASEAN-centred FTAs in the early 1990s to the global level with WTO accession in 2007.

Together with these changing perspectives about the world, the leaders reinterpreted socialist ideology to adapt to the new requirements of international economic integration. First, a doctrine known as ‘*new international economic thinking*’ emerged as an adaptation to new trading relationships. Foreign Minister Nguyen Co Thach advocated the principle of coexistence between capitalist and socialist systems (Porter 1990). This approach differed from the previous view of capitalist countries as the enemy and the capitalist international system an object of struggle. Secondly, the market economy was explained not as a product of capitalism but rather as a feature of any commodity-based economy, which could co-exist with different political regimes including socialist ones. Accordingly, the state’s ownership over the means of production transformed, allowing different types of ownership beyond the state and facilitating the development of the private sector.

As stated in the 6th VCP National Congress in 1986, this change in the socialist ideology led to the establishment of a “socialist-oriented multi-sectorial economy under the state’s management and party’s leadership” (CPV 2006), which laid the foundation for the development of the socialist-market economy. This economic model operates in line with market economy rules and ensures a socialist orientation in keeping with each phase of national development, as explained by the former Trade Minister Truong Dinh Tuyen (Truong 2015). Although this view continued to emphasize the role of the state and the party in the economy, it opened a new path for economic growth and private sector development.

This discursive shift was instrumental in enabling the CPV to overcome ideological difficulties posed by the transition to participation in the global capitalist system. It also facilitated economic cooperation with major powers like the United States that had previously been considered as capitalist and imperialist enemies. In addition, it facilitated the acceptance of international trade rules such as the national treatment principle, and hence for the first time allowed for the legal protection of some rights for foreign investors. Thus, ideological changes facilitated Vietnam’s international economic integration process and particularly its participation in trade agreements.

In practice, however, the new market-based economic system had to be implemented in a way compatible with the maintenance of state socialism and CPV rule. State-owned

economic sectors were to continue playing a major role in achieving socialist objectives, economic autonomy and the country's independence (The 11th CPV National Congress 2011). With a view to building SOEs so as to be competitive with foreign multinational corporations, the CPV leadership merged many SOEs to establish 10 'state economic corporations' on a pilot basis in 2009. These corporations were in the key sectors such as energy, telecommunications, coal, mineral resources, finance and insurance, textiles and garments, rubber, and oil (GoV 2009).

More specifically, it is the CPV that wished to maintain and promote its communist ideology and regime interests, especially during the period of international economic integration with the capitalist world. Accordingly, the Prime Minister was expected to build strong SOEs, economic corporations/groups of the economy, similar to South Korea's Chaebol, which received government's intervention and support and drove the national economic development. But in Vietnam case, these economic groups were run by the state. The state mobilized and distributed rich financial, land, management, and human resources to the SOEs, and state's economic groups, while the private sector were in their own nascent development process. Such a development of the state economy would build the socialism because the formulation of the state capitalist comprises $\frac{3}{4}$ of the socialism, according the interpretation of V.I. Lenin's philosophy by the Vice Chairman of the National Assembly who is also a member of the Central Committee of the CPV (Phung 2018). Hence, the prominent role of the state in Vietnam is in line with the state theory that argues that the state is "the principal agents" and creates necessary conditions for "global capital accumulation" (Barrow 2005). Thus, the maintenance of socialism alongside engagement in global capitalist markets reflected an ongoing desire for autonomy and the state's prominent role in making international trade policy.

4.4 Changing state interests and preferences

International trade policy was also sensitive to the domestic political concerns of the state. The state's interests refer to economic development and foreign policy objectives as well as political stability and regime legitimacy of the CPV. These interests have transformed and

emerged as dominant from time to time depending on the change in the CPV leaders' awareness of domestic demands as well as the historical context.

- *Economic interests:* Similar to other developing countries, Vietnam wanted to leverage opportunities from foreign markets to promote industrialization and growth (Luu 2012). According to the CPV, the objectives of liberalization were to “expand markets, take advantage of capital, technology, management knowledge to accelerate modernization, industrialization in the socialist direction” (Politburo 2001). An open economy was expected to create new opportunities, diversify markets with high preferential treatments, enable deeper participation in global production networks and supply chains, contribute comprehensively to domestic reforms, reduce the processing sector of the economy, and shape rules to protect national interests (Central Committee of the Communist Party of Vietnam 2016).
- *Motivating domestic economic restructuring and transformation in Vietnam's growth model:* Although economic liberalization was initiated and proactively implemented by the government, policymakers acknowledged that integration with the world economy acted as a lever for reform. This thinking and interest emerged as a result of the negotiation of trade agreements, especially the WTO accession negotiations. Policymakers realized that meeting the WTO's transparency requirements for management institutions contributed to improving the business environment (Nguyen 2005, Nguyen 2006). Trade agreements set high demands for not only domestic firms but also the government, especially in terms of improving competitiveness. Meeting these demands required the government to implement institutional reforms. Thus, international economic integration acted as motivation for economic reforms and growth promotion for a self-reliant economy (QDND 2017).
- *Foreign policy objectives:* In 1991, the Vietnamese government shifted from a socialist-focused to a multilateral foreign policy in order to build a self-reliant economy and independent foreign policy following the collapse of the Soviet Union (The 7th VCP National Congress 1991). Trade agreements played a major role in this agenda as a means to strengthen broader diplomatic relationships with partner countries. Indeed, many of Vietnam's FTA partners have been close political allies.

It was the first Southeast Asian country to sign an FTA with the Eurasian Economic Union (EAEU) in 2015, which was built on its longstanding strategic relationship with Russia. Vietnam has also sought to build links to the United States (via the TPP), the EU, South Korea and Japan (through bilateral FTAs), and with Southeast Asian partners (through AFTA and RCEP). Indeed, in some cases foreign policy interests prevailed over economic considerations. For example, the FTAs with Chile and Turkey have few economic benefits because of low trade volumes but were seen as a way to cement important diplomatic relationships (Cassing, Trewin et al. 2010). In this way, trade reform also functioned as a part of foreign policy, enhancing Vietnam's role and position in the world arena by strengthening relationships with major powers and economies.

- *Regime legitimacy*: Regime legitimacy is one of the interests that the CPV pursues through its economy liberalization efforts. The high-speed growth achieved by the newly opened economy rather than pure reliance on the political ideology of socialism was considered a way to build regime legitimacy. This objective was gained by ensuring Vietnam did not lag economically compared to other regional countries and allowing the party thus to claim legitimacy as a developmental actor (The Communist Party of Vietnam 2007). This logic first emerged when the CPV carried out the Doi Moi economic renovation in 1986 when regime legitimacy was at risk given internal economic crises (Keough 2016). The comprehensive and deepening trade liberalization in the following decades continued to strengthen regime legitimacy owing to high economic growth resulting from trade and investment openness. Thus, the communist party state was able to respond in a politically effective self-interested way to the rise of globalization.

In many cases, the political and economic motives behind Vietnam's trade reforms have tended to coincide. However, in some instances reforms were driven principally by political objectives, while in other cases economic concerns have been paramount. These competing interests needed to be balanced. For example, joining AFTA was a compulsory condition for Vietnam to become an ASEAN member, which was a strategically important step in implementing its post-Cold War foreign policy. But at the same time the economic interests in AFTA participation were unclear as this was the first time Vietnam had joined a regional

FTA. As a result, leaders were hesitant to make strong commitments in AFTA – despite the foreign policy motives for doing so – which slowed its trade reform process.¹⁷ Similarly, the decision to access the WTO was driven primarily by the strategic and political interest in becoming a member of a world trade forum. Indeed, its economic rationale was contested owing to the perception that Vietnamese firms might lose out because of their comparatively low levels of competitiveness.¹⁸

In sum, the transformation of the state's interests greatly influenced trade policymaking. First, the national interest with respect to trade changed from prioritizing security in a Cold War context to national economic development in the context of globalization. This change was stimulated by the domestic economic crisis of the late 1980s until mid-1990s. The external environment also facilitated the change. War morphed into peace and the economic development, and international trade rules guided the direction of national economic reforms. This change was further consolidated by Vietnam's successful economic achievements as reflected in the high GDP growth rate of almost 9% from 1993-1997 (Belser 2016). Since this time, decisions to join trade agreements have attached continually increasing importance to economic considerations, such as market access, attracting FDI, and facilitating domestic economic reforms for national development. Thus, the efforts to close the development gap by trading with the major economies and the world have stimulated and sustained the trade liberalization process.

4.5 Trade policy debates between competing groups within the state

Vietnam's trade liberalization process opened up the policymaking process to a much wider range of state agencies. Moreover, the uneven distributional impacts of liberalization meant that there were major differences between the interests of these agencies. Although the overall economic impact of trade liberalization was positive, the underlying reason for Vietnam's adoption of a gradual approach to liberalization was the need to balance the interests of different actors within the state to avoid the emergence of concerted opposition to the reform program.

¹⁷ Interview with diplomatic official of the Vietnam Embassy to Algeria, through Skype in 2017.

¹⁸ Interview with official from the Diplomatic Academy of Vietnam in 2015.

Internal divisions within the state played a prominent role in shaping the development of trade policy. Broadly speaking, the state was in transitional period with a mix of different attitudes. While the national leaders are keen on reforms and open trade policy, the lower level bureaucrats (directors and deputy directors) are more diversified with quick, slow and reluctant adapters. The underlying issues that influenced the positions of these groups were the impact of trade liberalization on their authority, power, ideas, mind-set, preferences and interests and the legacy of command and control political system and practices.

The central CPV and government leadership which, adopting a whole-of-country and strategic view, were committed to what they perceived to be the national interest in trade reform (i.e., economic and geopolitical benefits from opening the market and integrating into the global economy). They were confident that national economic performance as well as the competitiveness of national and domestic enterprises could be increased through this process (Vuong 2016). The leaders' attitude was important for several 'breakthrough' trade policy decisions such as joining the TPP and the WTO. The determination to reform moved up a level when the 12th CPV National Congress in 2016 launched the second economic renovation (the first one was initiated in 1986). This reform set a target of building the institutions of the socialist-oriented market economy up to the universal standard of a modern and internationally integrated market economy by 2020 (The 12th CPV National Congress 2016).

As such, the CPV and government leaders played a key role in moving trade policy towards liberalization by integrating and implementing the international trade rules and ideas, agreed during external trade negotiations, into domestic policy regimes. Once institutions associated with these external commitments were established, it would prove difficult for domestic opponents to resist the direction of reform. For example, it would prove very costly to overturn commitments made in Vietnam's bilateral and regional FTAs because these treaty commitments were enforced by international law. Vietnam could be subject to international trade dispute settlement processes if it failed to follow the committed provisions, particularly those of the WTO. By establishing legal commitments externally and new institutions internally, the reform efforts of the CPV leadership were able to 'lock-in' liberalizing reforms in the face of opposition.

On the other hand, a certain groups of government agencies tasked with responsibility for certain sectors or functions (Pham 2013) – were more concerned with their sectoral interests. Politically, this included ensuring their autonomy and authority in areas under their jurisdiction, which was critical in shaping their attitude towards trade liberalization. For example, the reduction in non-tariff barriers such as import licenses, import quotas, or subsidies for exporters would directly harm the enterprises for which line ministries were responsible. Moreover, the capacity for line ministries to engage in regulation was also reduced owing to provisions such as national treatment and investor-state dispute settlement (ISDS) that allows foreign firms to challenge regulatory decisions through international arbitration.

The question of whether these constraints constituted a ‘loss’ of state autonomy or not depended on how a particular part of the bureaucracy defined the scope of state functions. While international trade rules facilitate trade by limiting some forms of state intervention in the market (most notably, but not exclusively, the application of tariff protection), Vietnamese bureaucratic agencies could still intervene in markets in other domains. They could create institutional constraints such as administrative red tape and distribution of resources in preferential ways through the control of SOEs. As a result, many ministry-linked firms, particularly large SOEs in sectors considered ‘strategic’, continued to receive resources from their line ministries on a privileged rather than a competitive basis. Some reform-minded figures, like the former Trade Minister Truong Dinh Tuyen, were sensitive to these problems and believed there was a need to transform the role of the state toward facilitating the market rather than clinging to older forms of state control. He argued, “it is a concern that the role of the state could be diminished, but that’s not true. The state has to change from commanding to facilitating development” (ThanhNien Daily 2015).

State-related institutional reforms were also delayed because government staff lacked an understanding of how to build a modern market economy (ThanhNien Daily 2015). The head of the Central Institute of Economic Management stated that many officials still did not fully trust market mechanisms despite several decades of reform. This situation made Vietnam different from most members of the OECD whose governments generally believed in the market’s effectiveness in mobilizing and distributing economic resources (VnEconomy News 2015). The lack of a fundamental consensus regarding the market

mechanism created invisible constraints on trade liberalization as many officials were reluctant to implement reforms fully (Do 2016).

In addition, the interests of bureaucracy-linked firms, predominantly large SOEs, heavily influenced the views of the ministries that managed them. Some SOEs were resistant to trade liberalization and preferred to maintain the status quo, in which they benefited from incentives, rather than reforming to compete fairly with the private sector. As a result, various forms of SOE protection were maintained for both ideological and economic reasons. Ideologically, the SOEs played ‘the mainstream role’ in the economy to keep socialism (The 11th VCP National Congress 2011). Economically, the SOEs represented the interests of relevant executive agencies that owned the SOEs (Vu 2014).

In response, the state, more particularly the relevant ministries, protected the SOEs during the WTO accession (Pham 2013). It formed ‘State Economic Groups’ that were assembled by merging existing SOEs into larger and better-resourced groupings. These mergers were undertaken to ensure that the SOEs would be able to compete with foreign firms on a more equal footing following liberalizing reforms. Two prominent examples were the Vietnam Electricity Group and Vietnam Airlines, which accounted for 37 per cent and 80 per cent respectively of market share in their industries (Vu 2014). Thus, while the private sector received minimal protection in response to external commitments, due to lack of close interests with relevant groups within the state, the SOEs were considered key actors that needed to be strengthened to be competitive following liberalization.

In addition to state’s protection on the ground of improving competitiveness, furthermore to the protection of politicians, officials, who had interest and connections with the equitized state companies due to their profits earned from the latter’s equitization (Gainsborough 2010). This comes from the fact that, despite conflict of interests, the government officials and politicians or their relatives bought the shares of the equitized SOEs and hence had direct ownership and relations with the equitized SOEs. This situation takes roots from the equitization process of the SOEs. Similar to China, instead of privatization of SOEs, Vietnam’s state continued to equitize and controlled the SOEs with a controlling ownership of 50% or more of authorized capital and sold the remaining part to the private sector to mobilize the private sector’s fund (saigondautu.com.vn 2018). However, the selling process

was not transparent with leaders of the former SOEs buying the SOEs' assets with undervalued price. The state equitization process was very slow with only about 92% of total SOEs being equitized and only 10% of state capital being replaced by the private sector since 1992 (saigondautu.com.vn 2018). This new state business and the formulation of equitized SOEs has become a new way for the groups within the state to pursue their interests.

From an ideological perspective, certain government agencies, especially the Ministry of Public Security or Ministry of National Defence, opposed reform on the grounds of national security. Their opposition was especially apparent when Vietnam started cooperation with the United States, given the country's longstanding animosity following the war. The implementation of the BTA with the United States was delayed for one year from 1999 to 2000 because of the concerns of the Ministry of Public Security – responsible for national security issues – about the possibility of the political regime being overthrown.¹⁹ These ideological concerns diminished by the time of the WTO accession as years of political stability and economic growth since the implementation of BTA in particular, and economic reforms in general, reduced such concerns.²⁰

In addition, the government agencies were successful in protecting many import-substituting industries in the trade agreements on the grounds of facilitating the development of infant industries. These industries were included in Vietnam's general exception and temporary exclusion lists in AFTA, and accounted for 41 per cent of items in the reduction schedule in 1998 (Pham 2004). Protection in the form of long-term implementation schedules was also used. For example, in Vietnam's WTO accession protocol, it was only after 12 years that agreed tariff cuts would fully take effect (VCCI 2009). Other protection methods such as import quotas and licenses continued in areas of political sensitivity (Pham 2004).

From an institutional perspective, the hesitant behavior of the ministries and line agencies could also in part be attributed to their weak technical capacity. Despite the central government's explanation of the opportunities and challenges arising from participation in trade agreements or the WTO (GoV 2006), and feasibility studies and economic models

¹⁹ Interview with diplomatic official of the Vietnam Embassy to Algeria, through Skype in 2017.

²⁰ Interview with diplomatic official of the Vietnam Embassy to Algeria, through Skype in 2017.

that supported trade liberalization, the costs and benefits of joining a trade agreement were complex and difficult to measure. As Chi Lan, an advisor to the then-Prime Minister, reported in 2005, this led to much uncertainty about the desirability of particular commitments within the trade agreements (Nguoiladong News 2005).

The central government used various methods to strike a compromise between these protectionist interests and its desire to move towards a liberalized trade regime. Policymakers adopted a gradual and slow approach to reform, a key element of which was long-term tariff removal schedules (see Table 4-2 below). The shortest time for implementation in Vietnam's FTAs was 11 years, while the longest time was 21 years in the case of the Vietnam-Japan Economic Partnership Agreement (VJEPA). This strategy gave affected firms, and their supporting ministries, a very long grace period within which to adjust to the gradual loss of tariff protection.

Table 4-2: Tariff removal schedules in Vietnam’s FTAs

	Effective year	End of the schedule	Years to complete	Tariff elimination rate at full implementation
1. ATIGA	1999	2018	19	98%
2. ASEAN - China FTA	2005	2018	13	90%
3. ASEAN - Korea FTA	2007	2018	11	86%
4. ASEAN - Australia - New Zealand FTA	2009	2020	11	90%
5. ASEAN - India FTA	2010	2020	11	78%
6. ASEAN - Japan CEP	2008	2025	17	87%
7. Vietnam - Japan EPA	2009	2026	17	92%
8. Vietnam - China FTA	2014	2030	16	89%
9. Vietnam - Korea FTA	2016	2031	14	88%
10. VN-EAEU FTA	2016	2027	11	88%
11. ASEAN FTA	1999	2018	19	97%
12. Vietnam - Chile	2031	2016	15	89%
13. Vietnam – Custom Union	2027	2016	11	90%
14. Vietnam-EUFTA	Not yet signed			99%

Source: Nguyen, D. T., T. T.H. Nguyen, Ken Itakura, Nguyen Thi Linh Nga and T. T. Nguyen (2015). The impacts of TPP and AEC on the Vietnamese Economy: Macroeconomic Aspects and the case of Livestock Sector. Hanoi, VEPR.

This gradual approach allowed reform-minded negotiators to complete deals with trade partners while assuaging the concerns of the cautious views. After a gradual phase-in period, policymakers expected that protected domestic sectors would progressively become competitive without major economic adjustment costs. In addition, as argued by the Director-General of the International Cooperation Department of the Ministry of Finance,

long schedules for tariff removal reduced concerns about state budget revenue (tapchitaichinh 2015). The gradual approach allowed Vietnam to confidently join AFTA and the WTO while managing various concerns.

Thus, similar to Stiglitz' assessment regarding the economic role of the state that state can not only maintain but also can be used to restrict competition, Vietnam's state had great influence to accelerate and at the same time can be used to restrict the process of joining the international trade agreement (Stiglitz 2003). The final state's positions depended on the extents of influences of different groups within the party-state. While the central leadership of the party and the state generally supported the trade liberalization, certain constraints relating to narrow ministerial interests and coalition between the relevant ministries and SOEs constrained the scope and pace of this process. Yet despite the variance in interests, the most important national interest relating to economic development and growth ultimately prevailed over other narrow institutional or sectoral interests, and this contributed to harmonization of interests in the long run.

4.6 Conclusion

This chapter has reviewed the role of the state in Vietnam's trade policymaking during the period of its economic opening. Some persistent characteristics remained unchanged, while certain transformations were made to adapt to new external and internal demands. The most important feature was the paramount role of the CPV in providing a strategic direction for the country's international economic integration policy. This policy was consistently maintained, albeit with adjustments over time, to cope with both advantageous and disadvantageous external circumstances. Importantly, the centralization of state power and the supreme role of the CPV were instrumental in creating a consensus in support of liberalization. In addition, the CPV and central state agencies transformed their interests and ideas towards prioritizing economic over geopolitical interests when deciding trade policy.

Many changes to the trade policymaking process occurred as a result. First, policymaking gradually became more pluralistic, with the range of agencies involved in the process expanding. Bureaucratic actors increased their role as the state's monopoly over foreign

trade policy was removed and there was a high demand for professional and technical capacity to deal with the comprehensive and complex nature of the trade issues involved. Secondly, new institutions were set up to facilitate the negotiation of trade agreements such as the working groups for FTA feasibility studies. Thirdly, institutional and professional constraints were gradually reduced as bureaucrats gained experience through multiple external trade negotiations. The initial transformation of ideas and interests catalyzed a change in the institutions. In turn, these new institutional arrangements allowed a compromise between reforming and cautious views, which enabled the successful implementation of liberalizing reforms.

Most importantly, the dramatic reorientation of Vietnam's trade policy was enabled by the leading role of the CPV. The international trade policy process in Vietnam continues to be based around a political system in which the party and state make the majority of decisions and societal input is relatively limited. Indeed, the pace of trade policy reform was itself a result of diversified views within state, with a neutralized point of view to slow the process to assuage the concerns of weak competitiveness and shock therapy. Although many studies point out that democracies are more open to trade liberalization (Oneal and Russett 2001), Vietnam has successfully made the transition to an open and liberalized trade policy regime with a state-controlled and market-driven economy. The above discussion also highlights the fact that despite centralization and the one-party system, trade liberalization was able to engender a more pluralistic policy-determination process.

Chapter 5: **The role of societal actors in Vietnam's trade policymaking**

5.1 Introduction

This chapter investigates the role of societal actors in Vietnam's trade policymaking and their influence on trade policies and outcomes. The differential preferences of these actors are explored as the mechanisms by which they contributed to policymaking in the context of Vietnam's changing approach to trade. The chapter analyses the political settlements, which identify informal rules, the power relations, as well as the patterns of inclusion and exclusion underlying the state-society relationship. It investigates the extent to which societal actors exercised influence on international trade policy choices by looking at factors such as representation, ideas, and institutions, and what strategies society actors employed for influencing the trade policymaking process.

The chapter contributes to the understanding of Vietnam's trade liberalization policy by explaining domestic politics relating to the *demand side*. It reviews the transformation of ways in which societal actors' became involved in the trade policy process and explains the origin of societal actors' trade preferences and how the government responded to them as reflected in trade policy choices. The chapter argues that while it is a common perception that the Vietnamese state dominates the trade policymaking, liberalizing reforms nonetheless opened institutional space for societal actors to gain greater access to and exercise influence over the policymaking process. This analysis serves as a general introduction to the additional case studies in Chapters 5 and 6, which assess the specific experiences of Vietnam's WTO accession and its involvement in the TPP agreement.

5.2 The transformation of the nature of state-society relationship

In regards to the general state-society relationship, it has been widely recognized by the scholars that the state-society relationship in Vietnam is intermingled, as the distinction between the state and society is not clearly defined (H.K.Heng 2004). This is reflected by the fact that in each major social sector, the state establishes, organizes and runs the mass organizations such as women, youth, workers, which is called the phenomenon of state corporatism (Kerkvliet 2001). In the international trade field, VCCI is one of such state's hybrid-organizations, serving the state's interests more than business community's interests. Such nature of the relationship is, explained by Thayer, a feature of mono-organizational socialism (H.K.Heng 2004 citing Carlyle Thayer 1992).

In addition to the state corporatism, the state-society relationship was asymmetric with more weight given to the state business due to the nature of state capitalism and less to private sector development. The party accepts the state capitalism, which is seen as a combination of state and private sector in a transitional period for more effective and dynamic use of resources (Phung 2018). However, foreign scholars see the state capitalism as a way for the state to capture partly rents through SOEs regarding, for instance, export activities (Christine and Vlad 2018). With the new definition of the SOEs with the state's ownership being 100% (Enterprise Law in 2014) rather than 50% (Enterprise Law in 2005) of the total capital and the equitization and restructure of SOEs, the number of SOEs dropped from 5,000 (2001) to below 1,000 (2017) (Ven.vn 2017). Such definition causes concerns the private sector's independence from the state and real meaning of the private sector in Vietnam. The remaining SOEs continued to enjoy state's protection of the interests of the SOEs, in fact the state's business interests, such as tariffs, local content policy, import restrictions applied for industries such as motorcycle until WTO accession in 2007 (Lim 2018). On the other hand, the state only can utilize the SOEs as their instruments for political and economic purposes in the areas that these SOEs can play a leading role in the industries, such as the telecommunications with state's monopoly, textile-garment with "substantial private sector participation with some large-scale SOEs" (Christine and Vlad 2018).

Beside the close relationships with the state, the SOEs also link with its industrial associations. For instance, the General Director of the Vietnam National Textile and Garment Group (VINATEX) - the biggest SOE in the textiles and garments sector - was also the Vice-Chairman of the Vietnam Textile and Garment Association (VITAS), whose relationship with the state was in indirect forms (Fujita 2017). The equitized firms, on the other hand, continue to maintain their personal relationships with the state for their influence on policy. The SOEs further strengthen its power by establishment its mutually beneficial relationship with foreign directed investment enterprises to establish joint venture partners in strategic areas that have close relationships with the state (Lim 2018).

In addition to state capitalism, the crony capitalism aiming at protecting crony relations also emerged to be persistent characteristic of the state-business relationship (Christine and Tarko 2018). The term ‘crony capitalism’ was officially mentioned in the World Bank for the first time in their report for Vietnam 2035, although the crony relationships have existed since the centrally planned economy (Cao, Demombynes et al. 2016). The situation has become prominent with commercialized relationship between interests groups among the equitized SOEs, private enterprises, FDI groups and government officials for the biased distribution of resources. For instance, the crony capitalism is evident in sectors such as motorcycle where the FDI enterprises are dominant and private sector developed well, and the SOEs withdraw their roles (Christine and Vlad 2018). According to a joint report of the World Bank and the Government Inspectorate of Vietnam in 2016, 50% of businesses view that the procurement process was favoritism given to relatives, while 38% assumed there was bribery, and only 36% viewed the process to be transparent and impartial (World Bank and The Government Inspectorate of Vietnam 2016). In the same report, 100% of firms and citizens in bottom performing provinces consider state connections as key to business (World Bank and The Government Inspectorate of Vietnam 2016).

Such relationships distort the market, inhibit the fair competition and fairness of business environment and public interests “compromised by the private interests of public officials” (World Bank and The Government Inspectorate of Vietnam 2016), eroding trust, and in the worst case, social instability. In regards to terms of international trade agreements, the firms can use the favoritism to lobby for protection (Tran 2018).

While fully appreciating this intermingled and biased state-society relationship in the 2000s, this thesis also acknowledges certain improvements in this unique relationship due to Vietnam's participation in the trade agreements. It admits that the roles of organizations controlled by the government such as those for women, youth and farmers regarding participation in the policymaking are unchanged overtime. However, certain changes were seen with more space being given by the state to the non-state actors as the non-government organizations support and cover areas that are insufficiently provided by the government (H.K.Heng 2004). With liberalizing economic reforms and the development of the private sector, the number and diversity of economic actors in Vietnam multiplied, creating new opportunities for non-state actors to engage with the trade policymaking process. New trade policy constituencies beyond the state emerged from the liberalization process, of which the business community was one of the newest. Thus, the business sectors seem to have more policy space and autonomy for development than the civil society, especially in the areas that are almost private such as agricultural sector. Meanwhile the business sectors are accounted for more than 50% of valued added in service sector, while contributing to a declining share of less than 30% value-added in industrial sector (Riedel and Tran 1997)

Vietnam's successful implementation of trade liberalization also required that state agencies have greater and deeper interaction with societal actors when formulating trade policy. During this period, Vietnam signed many external trade agreements and joined both regional (AFTA) and global (WTO) trade organizations. Societal actors performed an important role in these processes by contributing to trade policymaking. Their influence on trade policymaking was dependent on various factors including the institutions that governed interaction between the state and society, the perspectives of the state and society about their roles, and the capacity of societal actors to influence the state.

Societal actors increased their involvement in the policymaking process after Vietnam signed its first major external trade agreement - AFTA - in 1995. Interaction between the societal actors and the state began to change around this time. Where it had previously been based on limited state-society exchange and a relative lack of interest among societal actors themselves, mechanisms for formalized interactions between the two sides were gradually put in place. Yet, as late as the WTO accession in 2007, the state's engagement with societal actors remained largely top-down. Trade policymakers consulted far more widely

than they had done in the pre-reform period but limited such consultation to relevant ministries, agencies, research institutes, and SOEs under the control and management of the government (VCCI 2012). The consultations were made internally within the bureaucracies, i.e., the relevant ministries and agencies, provincial departments, and amongst trade negotiators. Externally, a limited number of enterprises and business associations were selected by policymakers to collect information and data regarding the development situation in the relevant sector.²¹ This ‘selective’ approach focused on consultation with favoured (and state-linked) groups rather than following a systematic and structured consultation process that drew in the wide range of (often non-state-linked) economic interest groups.

The domestic process behind Vietnam’s WTO accession is a good example of this institutional arrangement. Initially, the business community showed little interest in general trade policy matters or in the specific challenges posed by WTO accession, which was reflected in very limited attendance at WTO accession workshops, seminars, and training courses organized by the government.²² This meant that it was the government’s officials and bureaucracies that primarily had to determine Vietnam’s interests and approach to WTO negotiations,²³ in a large part because the capacity of sectoral business associations was too weak to provide useful information and recommendations (Hoang and Pham 2015). Hence, as late as 2007, the government was relatively isolated from the business community despite contacts between the state and society.

The trade policy making opened more space, still not satisfied, for private sector’s participation in the policy process. This is reflected through a tendency of contrasting bottom-up and demand-driven approach to trade policy consultation gradually which emerged after WTO accession although the processes involved remained quite different from what can be observed in Western countries. An official consultation mechanism was set up in 2012, with the government delegating consultation tasks to the VCCI (Congthuongbentre 2012). The VCCI had been established in 1963 as a government agency, with the initial functions of exploring and expanding international markets and

²¹ Interview with official from the Ministry of Foreign Affairs in 2015.

²² Interview with official from the Ministry of Foreign Affairs in 2015.

²³ Interview with official from the Ministry of Foreign Affairs in 2015.

attracting foreign investment (even from those countries with which Vietnam did not have diplomatic relationships). In 1993, the VCCI was separated from the state and became an independent organization, and has since performed both the ‘traditional’ policy tasks of consulting and advising the government on investment and trade issues and the new task of representing the business community and its interests in the policymaking process (VCCI 2013). The delegation of the trade policy consultation function to the VCCI reveals that both the state and the private sector recognized the contribution that business groups could make when deciding international trade commitments, and hence the need for them to have a more formal institutional role in the policymaking process.

Since then, the VCCI has conducted various activities that have contributed to international trade policymaking. For example, they have carried out lobbying activities in relation to the TPP and EU-Vietnam FTA as well as other FTAs (VCCI 2015, VCCI - TrungtamWTO 2015). They have also completed studies on the possible impacts, opportunities and challenges of various trade agreements for particular sectors and for the whole economy. These studies have generated recommendations for policymakers negotiating Vietnam’s FTAs. The VCCI has argued for pursuing FTAs with major markets where Vietnam faced high tariffs but could expect to be competitive in export sectors, which would maximize the long-term benefits for the economy (VCCI 2012). Significantly, the VCCI has also opposed some trade initiatives. For example, it expressed concern that a proposed FTA with South Korea could increase the trade deficit and that it was better to utilize the ASEAN-South Korea FTA (AKFTA) for trade with that country (VCCI 2012). In these ways, the VCCI functioned as an institution representing business interests within the trade policymaking process.

Various types of informal interactions also diversified the channels of state-business relations. Besides the VCCI which, despite its relative autonomy, is not yet seen as a social actor, other sectoral associations of the private sector such as the Vietnam Association of Seafood Exporters and Producers (VASEP) and the Vietnam Leather, Footwear, and Handbag Association (LEFASO), Vietnam Private Entrepreneurs Association, Vietnam Small and Medium Enterprise Associations were established and increased interaction with the state. The interactions took place in the form of lobbying activities such as seminars, meetings, and workshops (VCCI 2013). Informal personal interactions were also utilized as

former SOE leaders and retired government officials joined the business associations, soon accounting for the majority of these business associations' leaders (Pham 2013).

On the other hand, the VCCI and business associations are not the only channels for the government to interact with the business community. Since 2000, the government has created more means of inclusion, for example, organization of direct dialogues with firms. The highest level is that between the Prime Minister and firms through Vietnam Business Forum organized twice a year. The Prime Minister Nguyen Xuan Phuc chaired the business forum for direct dialogue with enterprises, met with multinational corporations, some of which attracted nearly 2000 leaders of enterprises, discussing their needs relative not only to trade agreements in 2017 (Vnexpress 2017). The next level is between relevant ministries and firms, for instance the Ministry of Industry and Trade, on itself, or in corporation with foreign donor-funded projects, for example, the European Union – funded Multilateral Trade Assistance project have organized many seminars and workshops for relevant businesses to update information and get recommendations for negotiation of trade agreements. The last level is between the provincial authorities and firms (Vo and Nguyen 2006). The information collected from these levels serves as one of input sources collected for the central government's policy. Such seminars open more space for the voices of small and medium enterprises to be heard regarding policy formulation.

In addition, a series of debates on trade have taken place in the mass media in recent years with the participation of chief trade negotiators or negotiation members, which aimed at not only directing but also gaining the support of the public (Pham 2015). These debates covered both generic topics (such as the introduction of economic integration opportunities) as well as challenges for specific areas such as Rules of Origin (ROOs), Sanitary and Phytosanitary Measures (SPS), Technical Barrier to Trade (TBT) and Intellectual Property Rights (IPRs). This form of public-domain discussion on trade policy issues was a new development in Vietnam, reflecting a greater degree of consultation and information flow than in previous phases of economic reform.

Several factors accounted for such state's opening space and private sector's contained participation. First, from the state side, state agencies became aware of the importance of business sector in the economy in general and participation for the effective negotiation and

implementation of international trade commitments in particular. This is reflected by the Ministry of Planning and Investment's plan for private sector development to increase the private sector's contribution to the GDP from 40% to 50% (2020) and 60-65% by 2035 (Ven.vn 2017). Policymakers realized that the business associations' role was essential because trade was increasingly being conducted by the private sector rather than by the SOEs (Vietnam Packaging Association 2006). Vietnam's increasingly complicated trade agreements (particularly bilateral FTAs and the recent TPP) also mandated greater societal involvement. The state lacked the resources, including financial and human resources, to effectively collect, analyse, and communicate with a large range of stakeholders as well as to represent, negotiate, and implement commitments in multilateral negotiations (VanGrasstek 2008).

However, the CPV's points of views regarding the importance of the private sector were changing in a very slow and delayed manner. In general understanding, the term 'private sector' is comprised of individual business, household business and small and medium enterprises together accounting for about 40% of GDP in 2017 (Phan 2018). Initially, the 'private sector' was not named and hidden in the so-called 'multi-stakeholder economic model' in 1986 Doi Moi. It took almost more than thirty years for the Party to recognize the private sector as the core force to build a market economy with fully institutionalized and protected property rights, rights to business freedom by individual and organizations, as reflected in the CPV's Resolution No. 10-NQ/TW in 2017 (Communist Party of Vietnam 2017).

In line with the CPV's resolution, the government issued the directive to emphasize the core role of the enterprises, and instruct the whole system to partner, support, listen and response to enterprises' requirements during the negotiation and implementation of FTAs in 2018 (vneconomy.vn 2017). The government considers the enterprises as partners rather than subject of control, as explained by the economist advisors to the government (vneconomy.vn 2017). This change of thinking continues to promote the developmental state model launched by the new government under the new Prime Minister Nguyen Xuan Phuc in 2016. Accordingly, the developmental state reduces its intervene in the market, but facilitates the private sector's development, as defined by the Prime Minister Nguyen Xuan Phuc (vneconomy.vn 2017).

Reasons for such a change in 2017 were due to increasing public debt and budget deficit while national infrastructure requires large amount of money for investment that needs the involvement of private sector (doanhnhansaigon.vn 2017). Although the idea of changing from regulatory state to developmental state was initially raised by the former Prime Minister Nguyen Tan Dung in 2014 in preparation for the political report of the CPV's 11th National Congress, it was not supported by the CPV at that time, reflecting the delay within the thinking of the CPV to accept new state's functions (vneconomy.vn 2017).

Second, from the society side, private sector enterprises also changed their attitude during the liberalizing reforms: from one of initially little interest to an increasing awareness of and capacity and preparation for participation in various FTAs. According to a survey carried out by the PACE Business School in 2015, the awareness of surveyed businesses of the ASEAN Economic Community (AEC), TPP and WTO agreements was 43.2 per cent, 59.1 per cent and 66.6 per cent respectively (PACE Business School 2015). In 2016, a survey of 1500 enterprises carried by the VCCI showed that 88 per cent of enterprises had plans to increase production capacity to take advantage of FTAs like the TPP and the EVFTA (VCCI 2016). Enterprises also became more prepared for agreements such as the TPP agreement and EVFTA thanks to their improved awareness relating to the opportunities for expansion these FTAs might offer (Truong 2016).

Increasing private sector engagement, as well as its more general expansion as a result of the liberalizing reforms, catalyzed a change in the state's attitude towards private sector from closed to more participatory trade policy making. The number of private sector enterprises increased more than 10 times in about 15 years, from about 35,000 enterprises in 2000 to nearly 700,000 in 2017, accounting for about 40 percent to Vietnam's GDP (Pham 2016, Ven.vn 2017). This private sector development was a product of the transformation from central economic planning to a multi-sector economic model based on multiple types of ownership. The Enterprise Law issued in 1999, and the revised version issued in 2014, further facilitated the development of the Vietnamese private sector.

The private sector had some more voice as the SOEs gradually lost the state's support due to the emerging private large conglomerates which gained the state's attention (Pincus 2015). The reason for the attention was because the largest private businesses focus mainly

in the manufacturing, processing sectors, service sectors such finance, banking, insurance, information and communication, which are also the priority areas of the government's economic restructure policy. This emerging business class shared great interests with reform-minded bureaucrats, which could formulate a coalition to push for reforms and open economy policy towards fair trade environment. The private sector then contributes to changing the mind-set of the government officials in terms their contribution to the national development. For examples, creation of jobs, mobilization of labour forces and finances from citizen and businesses for the national development while the state retreats its role and withdraws capital from business to focus more on creating favourable environment for businesses (vov.vn 2018).

In addition, the state's support to the SOEs somehow restrained due to the international trade commitments, such as the non-discrimination rules in the WTO. Although the state co-optation still exists, the state's direct intervention in the industry is dramatically reduced, according to the state's policy of equitization of SOEs. This trend would be further accelerated in recent international trade agreements such as the TPP (then CPTPP) where the SOEs has increasingly become one of developed countries' key targets of negotiation to break the unfair trade, reduce the state's subsidies and support. As such, the international trade agreements facilitate the domestic markets move toward fairer trade rules, equality among different enterprises, regardless international or domestic.

However, there were only a few sectoral associations that had sufficient resources to represent the voices and interests of their members, carry out studies, provide information to members, and access policymakers so as to influence trade outcomes (baophapluat 2017). Moreover, many business associations were not effective in representing their members' interests in the trade policymaking process. About 83 per cent of the associations' staff were current or former government officials who lacked experience in the private sector (MOIT 2015). Their knowledge and preferences might, therefore, not always align with the enterprises they ostensibly represented. Moreover, many associations - particularly the farmers' and women's union - were considered to not be genuine societal organizations independent of the state because a lot of their funding and staff were typically provided by the government (Ferrington 2007).

Indeed, the VCCI and most of the large sectoral associations were sometimes considered as a ‘hand of the government’ itself. This assessment was made because their institutional role required them to advocate for and disseminate government policy amongst their members (baophapluat 2017) rather than representing the interests of these members (Ngoc 2010). Even some associations with complete financial independence from the government have been observed to function largely along the same lines as government agencies (baophapluat 2017).

Despite these capacity limitations, a group of industry associations have since emerged that have at least some effectiveness in representing private sector interests in the trade policy process. Vietnam had 450 registered business associations across all industries by 2014 (Nguyen 2015). Some of the more prominent bodies such as the Vietnam Textile Association (VTA) (VCCI-TrungtamWTO 2011) and the Fertilizer Associations of Vietnam (FAV) were active in providing timely information about the market, the contents of signed agreements, and preparations that members should undertake (Vu and Le 2016). The Vietnam Association of Seafood Exporters and Producers (VASEP) also performed a major role because it was in charge of representing members in anti-dumping cases (Dau, Pham et al. 2012). In this business association, the interests and voices of all members were equal regardless of the size of the members and hence VASEP became a reliable association from which members could seek assistance.²⁴ The level of activity of the associations was sometimes due to the close connections between their leaders and policymakers.

In short, the nature of state-society relationship regarding participating in trade agreements has witnessed certain continuity and changes. The types of hybrid organizations such as VCCI for business’s interests or Vietnam General Confederation of Labour for workers’ interests (as explained in the Chapter on participation in the TPP) for containing private sector’s participation are continuing features of a socialist country like Vietnam. Although the state’s intervention in the economy has been remarkably reduced by the state, but it still maintains its management capacity over the society in general and private sector in

²⁴ Interview with official from the VASEP in 2016.

particular while at the same time opens policy space for the latter's development as both share benefits of economic prosperity.

Though the political settlements have provided more space for both the state and society participation through contextual and informal rules, the final decision makers, again, remain with the central government. This increased inclusion in the process of decision-making does not guarantee the fair and inclusive distributional incomes for the enterprises, where certain groups enjoy more access to political and economic resources. The patterns of inclusion in the decision-making are based on a selective incorporation of first of all some key groups, business associations, or leading corporations rather than mass enterprises, especially small and medium enterprises. As it is implicit that the state has contacted with few 'elites', those highly organized groups and business associations, rather than scattered small and medium groups. Personal relationships rather than impersonal ones influence the bureaucratic culture. This could result in the free trade agreements' benefits distributed to mainly some key exporters rather than the mass. However, the change toward a participatory approach in policy-making, which is not the exclusive domain for the state, is remarkable as it opens a new trend in the bilateral relationship, in line with a new spirit of creating a new wave of building a start-up nation, with government's facilitation for start-up enterprises.

5.3 The trade policy preferences of Vietnamese businesses

The changes in the pattern of interaction between the state and the business community in Vietnam's trade policymaking pose important politico-economic questions. First, which business groups benefited and which were harmed by the state's liberalizing reforms? Secondly, how did winners and losers push for policies that benefited their interests? Thirdly, how did the state balance between these competing sectoral interests?

All of Vietnam's trade reforms produced asymmetric distributional outcomes: benefiting firms, which enjoyed new trade opportunities, while harming those who lost access to protective mechanisms. These distributional outcomes forced both potential winners and losers to be more active in influencing trade policy in favour of their interests. Distributional politics first emerged during negotiations for the Bilateral Trade Agreement

(BTA) with the United States in 2001 as this was the first agreement that required Vietnam to make significant tariff reforms (Coello, Fall et al. 2010).

Political contestation between winners and losers of trade reform became increasingly tense with Vietnam's participation in the much more demanding WTO accession and subsequent bilateral FTAs. As Vietnam was a labour-abundant country, the least competitive sectors exposed to tough competition were capital- and technology-intensive industries such as the automotive, telecommunications, finance, and banking sectors as well as import-competing sectors such as livestock and some other agricultural sectors. The winners were predominantly exporters, of which Foreign-Invested Enterprises (FIEs) accounted for the majority of export values, and heavily protected firms in the petroleum, electricity, mining and financial sectors, which were mainly SOEs. In this way, patterns of winners and losers were not only determined by industry sector but also by political strength.

At the aggregate level, Vietnamese businesses supported membership of the WTO and participation in FTAs. For example, support for the EVFTA was 97 per cent of all surveyed firms in 2012 (VCCI 2012). According to the US-based Edelman's survey, 93 per cent of enterprises and 96 per cent of consumers also supported the TPP and believed that it would provide benefits for Vietnam's economy (Vneconomy News 2015). About 53 per cent of enterprises reported that the EVFTA would positively impact on their business (Dau 2016). America's Pew Research Center provided a similar result, reporting that 89 per cent of Vietnamese surveyed in 2015 described the TPP as a beneficial agreement (PewResearch 2015). These were remarkable levels of public support for FTAs considering that only 49 per cent of Americans shared the same view of the TPP (PewResearch 2015).

These high levels of public support were predictable because FTAs were widely expected to generate positive benefits for participating economies (VCCI 2012). Amongst businesses, the reasons for their support were varied. According to a PACE Institute of Management survey, businesses expected, first, export and market expansion (37 per cent), secondly, opportunities for cooperation and business (24.6 per cent), and thirdly, progress towards development and international and regional integration (23.8 per cent) (VCCI and World Bank 2015). This high level of support from business enabled the government to engage more easily in FTA negotiations than in other countries where domestic views were

more polarised. This made trade politics in Vietnam different from that of Western countries where there were demonstrations and protests against the TPP, such as in Australia, Chile, New Zealand, and the United States (Cormack 2015, McGee 2016, RT News 2016, Telsur News 2018), and leaders had to overcome political opposition in order to get trade agreements signed. In contrast, Vietnam demonstrated consolidated societal views about the benefits of international trade integration.

These benefits included lower tariffs, which would result in market access opportunities relative to competitors; institutional reforms and reform of domestic enterprises; and opportunities to access technology and management skills. Consumers and import-using industries had more opportunities to buy cheaper goods and inputs. Indeed, enterprises declared support for liberalization not only for imports that Vietnam needed such as high technology, but also for benefits for less competitive services such as logistics and port services, or sensitive services such as telecommunication and education (VCCI 2012). Since 2012, the groups benefiting from trade liberalization have urged the government to accelerate the reform process.

5.3.1 The proponents of trade liberalization

Regarding the trade liberalization issue, there were two types of groups that the government had to deal with: proponents and opponents. As in Japan, interest groups supported or opposed trade liberalization on the basis of the distributional effects of international trade agreements (Mulgan and Honma 2015). In general, supporters were the import-dependent groups, which relied on imports for their production, while export-dependent groups expected to improve market access as a result of trade agreements. Export-dependent groups were the driver of Vietnamese growth. In the 2017, phones and accessories, electronics products and accessories, textiles and garments, footwear, steel, and fish products were Vietnam's key exports (Customs Online 2017). The increasing number of export sectors was a major change compared to the era before economic renovation, when natural resources accounted for 74 per cent of total exports (Doan 2007).

These 'winners' had a range of interests in trade reform. First, FTAs could help them to expand export markets as a result of tariff reduction by their main trading partners (Truong 2016). Key export sectors such as textiles and garments, fishery products, and footwear

could exploit their competitive advantage in foreign markets, particularly leveraging Vietnam's natural resources and low-cost labor force (VCCI 2012). They were also more competitive when compared with other regional countries - particularly China - by virtue of their inclusion in global and regional trade architectures.²⁵

Secondly, the business community broadly agreed with the government's moves towards signing FTAs in order to diversify import markets and avoiding a concentration on low quality and unstable import and export markets such as China (VCCI 2012). This concern was related to China's unpredictable trade policy changes, such as restrictions on key imports from Vietnam from 2011 onwards including rubber, agricultural products, mineral products, and fisheries, causing difficulties for domestic exporters (tienphong 2012). Indeed, China was Vietnam's key trade partner, with imports of US\$25 billion accounting for 23.4 per cent of total import, and export of US\$11 billion, accounting for 11.3 per cent of total exports in 2011 (Customs News 2012). As the Director-General of the Vietnam Institute of Economics warned, Vietnam's dependence on the China's economy meant its slowing rate of economic growth could create difficulties for Vietnam (Customs News 2015).

Thirdly, with the more recent 'new generation' FTAs, the business community saw an opportunity to improve the regulatory environment and secure sustainable economic development. These FTAs covered non-trade issues such as the environment, competitiveness, and labour, where Vietnam had not yet engaged in systematic reform. The VCCI argued that the new generation FTAs could facilitate access to clean and high technology from developed countries, attract foreign investment in production and services, and improve the business and investment environment (VCCI 2012). These benefits were considered the long-term counterparts to the short-term interests of the export and import, and services trades (VCCI 2012).

Fourthly, FTAs could facilitate the development of market-economy institutions including greater transparency, a level playing field amongst enterprises, and a favorable business environment for private sector development. Specifically, these agreements asked for the removal of maximum-level tariffs, or for very short schedules for tariff removal, simple or

²⁵ Interview with official from the VASEP in 2016.

flexible rules on product origin, liberalization of services trades, reduction of requirements for service suppliers, removal or minimization of technical barriers and other barriers, and equal treatment for both imports and domestic goods (Vietnam Chamber of Commerce and Industry 2010).

Finally, export-competitive sectors benefited from better treatment in foreign markets. While many countries confirmed their recognition of Vietnam's market economy, some countries such as the United States and the EU still considered Vietnam as a non-market economy. Its non-market economy status could be a major trade barrier: for example, the United States applied anti-dumping tariffs on Vietnam's catfish based on this criterion in 2003 (Brambilla, Porto et al. 2012). Recognition of market-economy status became one of the important political and economic issues that the government negotiated.

In addition to domestic enterprises, FIEs also emerged as strong advocates for trade reforms as an important group of major beneficiaries. They enjoyed an average annual growth rate of 24.4 per cent over the 2006-2016 decade and their share of exports rose from 37 per cent in 2006 to more than 71.5 per cent by 2016 (vnmedia 2017). Following WTO accession, the FIEs focused on steel, electronics, and high technology products, all of which were export-oriented. The FIEs were the principal driver of Vietnam's most recent trade successes (Dinh, Eckardt et al. 2016).

The contribution of the FIEs to the economy was directly enabled by trade reform. They were initially promoted by the unilateral trade liberalization policy during the early stages of the reform process. Then in the 2000s, the government opened up the domestic market by gradually removing import quotas during the WTO accession. The FIEs were also an important beneficiary of the new-generation FTAs, with the higher requirement for investor protection compared with those in the WTO. For instance, in Article 12.4 of the revised Law on Investment in 2005, the state allowed for dispute settlement through various methods other than Vietnam's Court of Arbitration. However, the domestic regulations did not allow foreign investors the right to sue state agencies on matters relating to investment in the EVFTA (VCCI 2016).

Import-dependent groups were also major supporters of trade liberalization in order to reduce import tariffs on materials needed for their business. Import-dependent industries

were those industries that depended on imported machinery, raw materials and intermediate goods for production (Hakkala, Kang et al. 2001). These industries accounted for 91.4 per cent of total imports in 2017 (tapchitaichinh 2018). For instance, the plastics industry imported more than 80 percent of its inputs. Some export industries such as cashew nuts, fisheries, textiles and garments also imported 86 percent of their inputs (bacongthuong 2018). These industries stood to gain considerably via reduced import tariffs.

5.3.2 The opponents of trade liberalization

On the other side of the policy debate were opposing groups largely drawn from industries and sectors exposed to economic risks from trade liberalization. The government's strategy of responding to different industries depended mainly on the relative importance of particular industries to its overall national development strategy. Accordingly, the state supported claims for protection from the most sensitive sectors. It also protected the important import-substitution industries such as iron and steel, paper, chemical fertilizers, cement, oil products, automotive, and some construction materials and agricultural products such as sugar. The government also supported uncompetitive sectors such as livestock, medical services, and financial services on which trade agreements with countries like Australia and the United States would have a negative impact.

Indeed, the state's first priority was to protect the most sensitive sectors in the economy. In its FTAs from AFTA onwards, processed food, alcoholic beverages, petroleum products, cement, plastic products, automotive accessories, and machinery all benefited from very long implementation periods for tariff reduction. The most protected products were eggs, tobacco, cigarettes, petroleum, automotive tires, construction steel, and types of automotive, and accessories (Truong, Vo et al. 2011). This 'sensitive list' accounted for about 5-7 per cent of the total tariff lines in the case of the ASEAN Trade in Goods Agreement (ATIGA).

In addition, non-tariff barriers for imports were set up to protect weak domestic industries. For example, during the WTO accession negotiations, Deputy Prime Minister Vu Khoan instructed the Ministry of Public Security to build technical requirements to limit the entry

of imported high capacity motorbikes, such as the age of drivers, and pollution.²⁶ Policymakers also imposed restrictions on foreign pharmacy companies opening retail shops in Vietnam.²⁷ Nonetheless, these sensitive lists were still subject to gradual tariff removal - in the case of AFTA, in exchange for accelerating Vietnam's electronics exports to ASEAN countries (baodautu 2016, Huu 2016).

Other highly protected industries were those classified as either import-substituting or infant industries, such as the petroleum, steel, and automobile sectors. Protective measures were implemented through tariffs and long schedules for removing tariff rates. For instance, the tariff on automobiles was initially very high (100 percent in 1991), and it took nearly twenty years to drop to 0% by 2018 in line with Vietnam's AFTA commitments. The import-substitution industries were included in Vietnam's 'general exception' and 'temporary exclusion' lists in AFTA and accounted for 41 per cent of items in Vietnam's AFTA schedule in 1998 (Pham 2004).

According to the Minister for Trade, ongoing protection of these industries was essential for building a self-reliant and strong economy (Huu 2016). The Prime Minister asserted that an underlying reason for the protection policy was to assist different sectors' gradual improvement in competitiveness in domestic markets before expansion into foreign markets; supporting nascent industries; and protecting the interests of important domestic manufacturers and consumers (Prime Minister 2008). The government made tariff decisions based on ministries and agencies' calculation of the strength, weakness, and potential loss of market share of each sector and commodity.²⁸

5.3.3 Excluded groups in trade policymaking

Although trade policymaking shifted towards a more participatory and inclusive model, there were certain groups that remain excluded. The political settlements set rules for the exclusion of certain groups on the grounds of threat to country or regime. These groups were, for example, the Former Vietnamese Prisoners of Conscience which was comprised of former prisoners of conscience and human right defenders outlawed by the government

²⁶ Interview with official from the Diplomatic Academy of Vietnam in 2015.

²⁷ Interview with official from the Diplomatic Academy of Vietnam in 2015.

²⁸ Interview with official from the Ministry of Foreign Affairs in 2015.

for being reactionary against the regime. Different from the businesses that focussed on material interests, these groups focused more on non-material interests, i.e., human rights issues, particularly labour conditions and the freedom of association in relation to the free trade agreements. These groups strongly supported the FTAs on the grounds that they could contribute to improving human rights owing to high-standard rules such as the requirement for freedom of association.

These groups used various methods for influencing the government. They called upon the government through the mass media (mainly websites and Facebook) to consider workers' conditions and their right of association as well as the need for corporate social responsibility.²⁹ As these groups were not legally recognized by the government, they tended to use various indirect methods to influence the government, one of which was cooperation with foreign authorities such as the United States and EU.³⁰ They acted as sources of information regarding the lack of enforcement of human rights in Vietnam, which was otherwise not available in the official mass media.

Vietnam's trading partners considered pressure from human rights groups as a bargaining card to be used to push it to remove duties on highly protected and high labour cost domestic goods (Sicurelli 2015). For example, in the EU-Vietnam FTA, International Labour Organization-derived labour provisions were included in the Trade and Sustainable Development chapter, and in the TPP, labour provisions were handled in a dedicated labour chapter. Under pressure from European NGOs, the European Commission carried out a human rights impact in the ex-post impact assessment of the EU-Vietnam FTA (Russell 2018). In this way, foreign governments used human rights - a non-trade issue - for political purposes during the negotiations.

5.4 Explaining the differential influence of competing societal interest groups

While access to the trade policymaking process for societal interest groups increased, not all groups enjoyed equal access. The principal beneficiaries were large and politically well-

²⁹ Interview with a FVPOC member in 2018

³⁰ Interview with a FVPOC member in 2018

connected businesses, particularly SOEs, equitized firms and FIEs. These groups had preferential access owing to the government's prioritization of them: for SOEs to develop heavy and import-substitution industries and for FIEs to attract foreign investment. These groups had hidden interests with the state, and so the statements about their positions and interests are not public. However, the state's protection for these groups is reflected in the process of negotiation of trade agreements through the terms proposed by Vietnam's negotiator's position (as analyzed by the example of Viettel – Vietnam Telecommunication in the Chapter 7 negotiation of the TPP). The SOEs have long benefited from the privileges and preferential access to the leaders as well as other business conditions such as land, credit despite of long-term efforts for reform and equitization of SOEs. In that situation, the state shares the business interests with the SOEs, equitized firms. In other words, this reflects the situation of state capitalism or state corporatism where the state protects its own business interests through the SOEs.

On the other hand, smaller domestic businesses had far less access to trade policymaking for various reasons. First, the private business sector was in an inferior position to influence trade policymaking because it was largely considered by the state as an information provider. In exchange, firms' requests for information such as the progress of FTA negotiations and specific sectoral schedules for tariff removal were not fulfilled by state agencies (baocongthuong 2015). The state tended only to provide general accounts of economic integration³¹ or summaries (rather than the full content) of chapters of trade agreements under negotiation (Truong 2016). In addition, the state showed less interest in considering firms' comments or feedback because the government viewed this information as biased and based on their own sectional interests rather than the national interest (Dao, Nguyen et al. 2013). As explained by the Chairman of the VCCI in 2010, the government's consultation with the business community was more for procedural and formalistic purposes (taichinhdientu 2010). State consultation with societal actors was a means to mobilize business associations for the state's interest rather than for the benefit of private interests.

³¹ Interview with official from the Diplomatic Academy of Vietnam in 2015.

Such an inferior position was determined in part by political culture where the general idea was that the state should give administrative orders and domestic firms should simply follow the state's guidance (Nguyen 2015). The negotiation and signing of trade agreements was seen as mainly as a task for the state as in the case, for example, the negotiation of Vietnam's WTO accession (Dang 2006). Indeed, it was sometimes the policymakers who instructed the enterprises to push for protection of their sectors. For example, the former Vice-Minister of Trade suggested that the Petrolimex Company should open as many petrol stations as possible before he made a commitment to open the retail sector to foreign competition (Tran, Vu et al. 2015). This was a legacy from the previous centrally planned economy in which enterprises complied with the state's policy rather than actively participating in the policy formulation process (Dwight Perkins, David Dapice et al. 2013).

Secondly, the majority of private sector firms, about 98 per cent of which were small and medium enterprises and their trade associations, lacked sufficient capacity to contribute to trade policymaking. Trade negotiators were sceptical about the capacity of business associations, particularly their knowledge of complicated Western trade issues in the WTO, as only a few policymakers (many of which were Soviet-trained economists) had sufficient understanding of these issues.³² Some interview respondents reported that most business associations were weak in this respect, with the exception of a small number such as those in the textiles and garments sector (Hoang and Pham 2015).

The private sector also had little precise information about how the policymaking process functioned. Companies were particularly confused about the shared responsibilities of different ministries for trade policy. For example, negotiations in the lumber sector concerned three ministries: the Ministry of Agriculture and Rural Development was responsible for plantations while the Ministry of Industry and Trade was responsible for the sale of wood and the Ministry of Finance had jurisdiction over tariff removal as part of the market-opening process (VCCI 2010). It was unclear to firms which of these bodies they should seek engagement with. In addition, the SMEs still lack of detailed understandings about the FTAs and could not foresee the short-term impacts of FTAs and lack of resources

³² Interview with official from the Diplomatic Academy of Vietnam in 2015.

to carry out studies, strategy and plan for effective participation and rely more on the state authorities (Bnews.vn 2018).

Thirdly, firms and trade associations did not coordinate with each other during their lobbying efforts. In an interview, the VASEP revealed that the organization did not cooperate with the VCCI in relation to lobbying activities.³³ The representative of the Vietnam Small and Medium Size Enterprises (VINASME) explained the lack of cooperation between their associations and the VCCI was due to their assessment that the VCCI was seen as an extended hand of government. In their view, it was focused on disseminating the government's policy rather than representing the interests of enterprises.³⁴ This answer makes sense because the VCCI used to be a state organization before becoming independent. Yet, the VCCI was still considered important enough by the government to act as a coordinator for communication channels between the state and the business sector. In that context, VINASME had to invite foreign experts to organize workshops for its members in order to understand and improve their advocacy activities with the government.

5.5 Conclusion

This chapter has reviewed the transformation in the role, interests and impact of societal actors in relation to trade policymaking in Vietnam during the reform period. It argues that societal actors made increasing, if still somewhat limited, contributions to trade policymaking. Their changing interests and the growing importance of their role have been the principal factors driving increased levels of engagement.

The findings demonstrate that the changes have been dramatic. First, a meaningful state-society relationship was institutionalized with the establishment of informal and formal channels of communication, which culminated in the VCCI's adopting a formal position in the trade policymaking system in 2012. Second, firms changed their approach from relative disengagement to one actively expressing their interests through the mass media, workshops, seminars, and via their sectoral business associations. Third, societal actors

³³ Interview with official from the VASEP in 2016.

³⁴ Interview with official from the VINASME in 2010.

improved their capacity to engage with the policymaking process both in terms of developing an understanding of complex international trade rules as well as through methods systematically to make input into policy decisions.

This transformation not primarily driven by the societal actors themselves but rather by the state's changing view of and approach to how trade policy should be made. State agencies realized the importance of the business community's participation in increasingly complex trade agreements and the need to engage with views from enterprises for effective decision-making. As new channels for societal engagement were opened, Vietnam's trade policy process acquired a significant and clearly defined place for business associations.

However, despite the reduction in political distance between the state and societal actors, the latter still considered themselves as marginalized. Business associations perceived their concerns to be *secondary* as the state continued to control information regarding trade agreement negotiations and outcomes. A lack of transparency and communication remained obstacles in the state-society relationship relating to trade policy. These obstacles resulted from the institutional legacy of the former central planning mechanisms. The state still retained a tight monopoly over trade policy authority and managed enterprises in a way that it saw fit. This reflected the fact that state agencies continued to be the dominant decision-makers in Vietnamese trade and, despite their increasing role, societal actors had a long way to go before becoming a powerful force.

Additionally, contestation amongst interest groups with respect to influencing trade policymaking intensified. These contests pitted pro-liberalization groups against those seeking to ensure on-going protection. Importantly, groups from both sides of this divide were successful in influencing policy outcomes. For example, export sectors such as fisheries, textiles, garments and footwear all supported (and benefited from) liberalization while some opposing groups like those in the steel, automotive and sugar industries successfully lobbied for on-going protection. SOEs also received protection during the liberalization process reflecting their status as a special interest group within Vietnam's socialist system led by the CPV. In this way, compromises were struck in which some within both the supporter and opponent groups received the policy treatment they lobbied for.

Therefore, the relative success of interest groups' ability to shape policymaking largely depended on their political positions and connections with Vietnam's political institutions. Unlike in developed countries, the private sector has little political influence in Vietnam. Hence, their involvement in policymaking was limited to providing information about the practical situation facing their sectors. In contrast, SOEs were able to exert significant influence on government positions on trade policy issues owing to their political connections with state agencies. FIEs became influencers when they established joint ventures with the SOEs and expanded to operate in targeted export-oriented industries such as electronics, accessories, garments and textiles. The FIEs, as drivers of the Vietnamese growth model, thus also became one of the government's preferred targets in its international trade agreements.

By providing this analysis of the role of societal actors, this chapter has developed an understanding of the *demand* side of trade policy in Vietnam, which complements the *supply side* analysis of state actors in the previous chapter. The next two chapters will combine the supply and demand side analyses in two case studies of important Vietnamese trade agreements: WTO accession and membership of the TPP.

Chapter 6: **Case Study 1: Vietnam's accession to the World Trade Organization**

6.1 Introduction

World Trade Organization (WTO) accession was one of Vietnam's most important international trade policy decisions, marking its full integration into the global economy. It was also a long and difficult process for Vietnamese trade policymakers, requiring the involvement of a wide range of actors and harmonization of their different interests. This chapter seeks to identify the actors involved, their trade preferences, and how they interacted to shape Vietnam's WTO accession.

The chapter contributes to the thesis by providing empirical insights into trade policymaking regarding Vietnam's WTO accession. The chapter reviews the transformation of the trade policymaking process, which facilitated WTO accession, and explains this transformation by identifying the changing preferences of the relevant actors and how these preferences influenced WTO negotiation outcomes. It argues that the politics of WTO accession were the result of interaction between domestic and international politics, which shaped the process and trade preferences of relevant actors and vice versa. Despite the strong political commitment of the leaders, the complexity of interests and ideas of relevant actors, both domestic and international, created roadblocks to the accession process. Internally, the process of transformation and harmonization of different interests and ideas over the pace, scope, and extent of WTO accession – which drew in both state and non-state actors, and pitted reformers against conservative forces – complicated Vietnam's negotiating position. Externally, its position as a latecomer meant that other WTO members insisted on applying 'WTO Plus' requirements to its accession package, which imposed very high adjustment costs on the Vietnamese political economy.

6.2 A summary of Vietnam's WTO accession process

The WTO is the pre-eminent institution in the global trade system and the only international trade regime with a genuinely global reach. Its principal functions include acting as a forum for negotiation of multilateral trade rules, settling trade disputes amongst its members in a transparent and rules-based manner, and supporting developing countries' efforts to participate in the international trade system (WTO 1996). It rules - as codified in the *General Agreement on Tariffs and Trade* (GATT) (1947, updated in 1994) - set disciplines for members in the areas of tariffs, the application of subsidies, and non-tariff barriers such as quotas, export/import licensing, national treatment, and sanitary and phytosanitary (SPS) measures. The WTO also has additional agreements that regulate 'behind-the-border' issues such as intellectual property rights, investment and competition policy (WTO 1996).

WTO accession requires prospective member states to accept the WTO's existing set of multilateral agreements (principally, although not exclusively, the GATT) as well as to negotiate an individual set of accession requirements with the existing membership through a working parties process. Four major phases need to be completed. The first step includes a request for membership and establishment of a working party. The next step is a fact-finding stage that requires the applicant to submit a 'Memorandum on the Foreign Trade Regime' and other documentation as requested by existing members. The negotiation stage covers multilateral negotiations on rules, plurilateral negotiations on agricultural support and export subsidies, and bilateral negotiations on market access for goods and services. The final steps include procedures for the acceptance by at least two-thirds of the WTO membership and implementation by the applicant (WTO 1996).

Vietnam's WTO accession process lasted 12 years. It began in 1994 when Vietnam first applied for GATT observer status, and then made a full membership application in 1995. In the same year, a Working Group comprising 28 members was set up to examine Vietnam's application (WTO 2017). In 1996, Vietnam started the process by providing the memorandum on trade policy, which was the same year that Vietnam started to negotiate the bilateral trade agreement (BTA) with the United States. Vietnam completed the trade policy transparency phase through a series of multilateral meetings between 1998 and 2000,

by responding to 2600 different policy queries from existing WTO members (vietstock.vn 2007). Then, Vietnam completed bilateral negotiations for market access with 28 countries and territories between 2002 and 2006; and 14 multilateral negotiations regarding institutional issues and trade policy between 1998 and 2006. In July 2006, Vietnam consolidated the outcomes of these processes, negotiated outstanding issues, and prepared a report for the Working Group to submit to the WTO for consideration. On 11 January 2007, Vietnam officially became a WTO member (Ministry of Finance 2011).

Table 6-1: Stages in Vietnam’s WTO accession

Phase 1		Application for WTO membership and policy transparency
1/1/1995		Vietnam applied for WTO membership
31/1/1995		WTO’s working group for Vietnam was established comprising 28 countries and territories
7/1998-2000	Policy transparency	Vietnam sent trade policy MOU, answering 2600 questions for policies relating to areas such as IPR, tax, investment, agriculture, trade in goods, and trade in services.
Phase 2		Negotiation for membership
4/2002 to 2006	Market opening	The first meeting based on the first offer was in late 2001
1998-2006		Multilateral negotiations
2000-2006		Bilateral negotiations: removal of non-tariff barriers and tariff reductions Comply with WTO agreements regarding market opening
2004		Completed bilateral negotiations with the EU
2006		Completed bilateral negotiation with the United States
2007		Became a full WTO member

Source: Ministry of Finance. *Landmarks of Vietnam’s WTO accessio*, available at www.mof.gov.vn, retrieved on 4/5/2018.

The nature of the WTO accession was radically different from Vietnam’s previous trade agreements.

- First, the other regional trade agreements that Vietnam had previously negotiated (such as AFTA and the BTA with the United States), were narrower in terms of sectoral coverage. The WTO required ‘most-favoured-nation’ (MFN)-based liberalization, which imposed far more comprehensive requirements on trade policies and institutions, levels of market access, and compliance with the WTO’s dispute settlement mechanism (DSM). In addition, WTO accession created pressures for institutional reforms and opening both services and goods markets, and required deeper tariff removal than any of Vietnam’s prior trade agreements (Perkins, Dapice et al. 2013, Truong 2013).
- Secondly, the WTO negotiation process was more complex than for FTAs because it included requirements relating to domestic trade practices before moving onto bilateral and multilateral market access talks. It took Vietnam seven years, from 1995 to 2002, to finish the first phase of answering the members’ queries about its trade regime. For the second phase from 2002 to 2007, Vietnam concluded 28 bilateral negotiations and multilateral negotiations.
- Thirdly, negotiation for WTO accession was not performed on a reciprocal basis like FTAs. WTO accession requires the applicant’s compliance with existing WTO rules and any additional requirements imposed by the incumbent members. Hence, as a latecomer, Vietnam was in a weaker bargaining position (Baccini, Impullitti et al. 2015).

Thus, WTO accession was the most complex and lengthy trade negotiation ever undertaken by Vietnamese officials.

As a developing and socialist economy, Vietnam faced more difficulties than other WTO applicants. WTO accession imposed tremendous economic, political and institutional challenges for a country in its position. First, it was hard for Vietnam as a late-developing country to be competitive with the WTO members, particularly as it faced high demands from these members. Its weak economic capacity exerted constraints on moving towards a market economy-based WTO trading system and on its ability to comply with the same rules as developed countries followed (Perkins, Dapice et al. 2013, Nguyen, Nguyen et al. 2015).

Institutional challenges were also significant. Vietnam could face six challenges such as rules of origin in the textiles and apparel sector, competition in both domestic and foreign agricultural markets, intellectual property rights (IPRs), reform of SOEs, reforms in its legal system, and labour standards requirements (Nguyen, Nguyen et al. 2015). These challenges emerged because Vietnam's trade institutions were in a transitional phase between the previous centrally-planned and a market-based economic system, requiring extensive legal reforms to narrow the gap with the institutions required to meet WTO regulations. There were many laws and regulations that did not exist in Vietnam, for instance, anti-dumping laws, and some laws existed but were inadequate such as intellectual property right laws (Nghia 2003).

In addition, in the policymakers' view, Vietnam was required to go beyond the standard WTO agreements by undertaking so-called 'WTO-Plus' commitments, which were typical for transitional economies. For example, Vietnam was requested to carry out the privatization and equitization of the SOEs, although these types of commitments were not covered by the GATT/WTO Agreements (WTO 2006). These requirements served to introduce ambiguity and unpredictability into the negotiation process.

From a practical perspective, Vietnam also lacked trade negotiators and experts who were familiar with WTO practices. Vietnam's officials would first have to *learn*, and only then could they begin to *assess* and *implement* new trade rules such as the removal of import/export business licenses, the removal of quotas and qualitative restrictions on imports (Minh and Ngoc 2016). This 'learning by doing' approach would challenge the capacity of Vietnam's limited number of trade officials and greatly slow the negotiation process.

These challenges made the WTO negotiation a complicated process. It was not simply a trade process but a political negotiation process simultaneously occurring at both the international and domestic level. Domestic negotiations for tradeoffs among different sectors to reach a balanced approach, also had to be decided. The WTO required significant domestic regulatory reforms that shifted the balance of benefits and costs to different actors and sectors, igniting competition amongst different interests.

Vietnam made significant concessions to join the WTO, including institutional reforms towards greater openness, transparency, and fairness. For *market access in goods*, it agreed to reduce the average tariff from 17.4 per cent to 13.4 per cent during a 5-7 year period for 10600 tariff lines (VCCI-TrungtamWTO 2010). For *market access in services*, the country agreed to liberalize a number of previously monopolized service sectors such as banking, financial services, telecommunication and distribution services (Vo 2005). Moreover, Vietnam agreed to eliminate all types of *subsidies*, for instance export subsidies for agricultural goods (GoV 2006). In line with WTO regulations, the country implemented the necessary *institutional reforms* by revising hundreds of laws and regulations, including Intellectual Property Rights and issued new regulatory rules for the first time, such as the Competition Law. Vietnam also agreed that WTO members would apply non-market economy (NME) rules to it for up to 12 years after accession.

The above concessions were a result of a balance struck between the push of strategic interests and the pull of domestic interests, as well as the balance between Vietnam's offensive and defensive interests. While the strategic benefits of WTO membership were comprehensive, covering national development and integration, Vietnam's offensive and defensive interests were narrower and sectorally focused. Its offensive interests were the gains that Vietnam expected to make, such as market access for key exports such as textiles, garments, and electronics. Its defensive interests were those sectors that Vietnam wished to continue to protect such as the uncompetitive beef, chicken, automobiles and services industries (Truong, Vo et al. 2011). What follows is a discussion of the domestic policymaking process and negotiations that helps to provide an understanding of the political economy of Vietnam's position regarding WTO accession.

6.3 Why did the central leadership start WTO negotiations?

The central leadership sought WTO membership for a number of strategic reasons. First, WTO accession was a part of a broader strategic policy of reconnecting Vietnam with the world, strengthening the country's position in the international arena (The 8th VCP National Congress 1996), and improving the country's image of as a friendly, reliable partner of the international community (Prime Minister 2006). The reasons for this

reconnection to the world needed to be understood in its unique historical context. Economically, the country was isolated because of the 19-year US trade embargo from 1979-1994. This situation generated a need to reconnect with the world to exploit economic development opportunities. Such thinking was further encouraged when the leadership recognized that global politics were moving away from ideological rivalry and towards peaceful coexistence focusing on economic development. Hence, strategic political interests drove the WTO accession as it was in line with the CPV's consistent global integration policy.³⁵

Secondly, the WTO accession reflected Vietnam's political determination to implement economic renovation and reform (GoV 2006). The WTO accession was a continuation of the economic reform program launched in 1986, which aimed to transform the centrally planned economy into a market-based one. The WTO's institutional requirements, such as MFN and transparency commitments, could act as levers to facilitate domestic economic reform. Many of Vietnam's economic institutions in the early 2000s still reflected the former central planning system, which was not compatible with the standards required by the WTO. As such, Vietnam had for the first time to incorporate WTO principles into its domestic legal regime, including behind-the-border issues such as intellectual property rights. Such institutional reforms required by the WTO reinforced the leadership's determination to reform institutional legacies and set up new market-based institutions (Pham 2012).

Thirdly, the WTO was expected to provide an opportunity for Vietnam to exploit its comparative advantage in global trade, increase its competitiveness, and facilitate participation in the international division of labor (GoV 2006). In particular, it was expected to facilitate non-discriminatory MFN-based market access to the key export markets in Western countries and create a regulatory environment that would attract foreign and domestic investment. Moreover, it was expected to improve access to technology, modern management methods, equipment imports, and cheaper and diversified goods. A market economy mechanism would align domestic economic institutions with the rest of the world, enhancing competitive advantages (Politburo 2001).

³⁵ Interview with diplomatic official of the Vietnam Embassy to Algeria, through Skype in 2017.

Fourthly, Vietnam sought to protect its domestic enterprises against trade disputes through access to the WTO's Dispute Settlement Mechanism (DSM) (GoV 2006, GoV 2006, Prime Minister Nguyen Tan Dung 2006, Vu 2012). Before the WTO accession, investigating authorities from importing countries could apply anti-dumping duties against Vietnam without recourse to independent review. Without access to an independent tribunal to hear these cases, the resulting decisions were perceived to be biased against Vietnam's firms. The WTO dispute settlement mechanism would provide a level playing field for such trade disputes and Vietnamese enterprises could rely on the government to defend them through the WTO DSM (Dinh and Nguyen 2015).

Because of the strategic significance of WTO membership, the CPV - especially the National Congress, and the Politburo - paid a special attention to the process. The Politburo issued Resolution No. 07/NQ-TW in 2001 to confirm the party's commitment to begin the WTO accession process. This high-level resolution helped to avoid delay for reasons such as domestic suspicion of threats to the regime, which had delayed the BTA with the United States two years earlier.³⁶ The top party leaders' support for WTO accession remained unchanged throughout the entire accession process.

6.4 The law-making role of the legislature

The National Assembly also contributed to policymaking on WTO accession. Its role was principally the ratification of the huge number of laws that were required to achieve compliance with WTO regulatory provisions. Its role expanded further with the replacement of the government's administrative commands by laws and regulations to set up a rule-based market economy. The National Assembly's primary contribution was a large and comprehensive review and revision of Vietnam's laws relevant to the WTO. On average, it normally passed about 10-15 laws per year but this increased to 20-30 laws during the peak of the accession reforms in 2005-2006 in addition to the amendment of many existing laws. The National Assembly approved 29 important laws in total to facilitate WTO membership including laws relating to trade, investment, corporations, customs, banking, insurance and taxation (MOFA 1995). In this way, the National

³⁶ Interview with diplomatic official of the Vietnam Embassy to Algeria, through Skype in 2017.

Assembly acted as a supporter to the WTO negotiations rather than as a political obstruction.

Despite this change, the National Assembly was secondary to the government in terms of influencing trade policymaking. Two reasons accounted for this:

- First, Vietnam's political system is characterized by the leadership of the CPV over state organs in contrast to some Western countries (such as the United States) where legislatures have power over trade policy. Thus, the National Assembly, 90 per cent of which is comprised of CPV members, shared the same political views as the executive branch.
- Secondly, National Assembly members worked on a part-time basis and their capacity to make judgments on complicated issues such as the WTO was limited. The process of WTO accession was complex and time-consuming. It required staff to be professionally trained in economics as postgraduates from foreign institutions and to understand international trade rules so as to draft new domestic laws. The shortage of such individuals was one of the National Assembly's difficulties and contributed to a delay in the process of law-making to meet WTO requirements.

As a result, the National Assembly was primarily focused on ratification, rather than decision-making itself, and was principally a facilitator of the negotiation process. This is in stark contrast to other countries – particularly the Congress in the United States (O'Halloran 1996) – where the legislature regulates and imposes constraints on how the executive can engage in external trade agreements.

6.5 The negotiation approach of the central bureaucracy

6.5.1 The objectives of the central bureaucracy

In addition to the party's central leadership, the central bureaucracy's interests greatly impacted on WTO policymaking. This was because these state organs were directly responsible for the WTO accession in bilateral and multilateral negotiations. Their negotiation positions depended on their perception of their ability to balance the costs and

benefits of WTO commitments in the sectors for which they were responsible. The reactions of different ministries were, therefore, varied:

- Some ministries used available methods of protection, such as increasing tariffs to protect domestic products, as a defensive measure. In agriculture, for example, tariffs were defensively increased from 17.7 per cent in 1996 to 27.1 per cent in 2004 before dropping back down to 21 per cent as the final tariff cut under the agreed WTO package (Bridonneau 2014). With such a tariff, agricultural bureaucrats were confident that farmers would not face bankruptcy owing to these protective steps combined with comprehensive agriculture reforms (Agroinfo News 2007).
- Other ministries took a more positive approach to trade liberalization. For example, the Ministry of Industry and Trade, especially its leaders, supported strong reforms and therefore undertook early action for trade liberalization (Perkins, Dapice et al. 2013).
- Being reformers, the relevant ministries could be cautious of possible negative impacts and prepared appropriate measures. For instance, during the negotiations on WTO accession, the Ministry of Finance was concerned with the reduced state budget revenue owing to tariff reductions, which resulted in very careful management of the tariff reduction schedule (Song 2015).

The ability of ministries to engage in these behaviors was due to the fact that they retained vast discretionary power over policies in their relevant sectors, enabling a flexible approach to adjusting domestic laws and policy in line with WTO rules.³⁷ The leadership's 'room to move' in this regard was greater than was typical in Western liberal democracies where leaders are directly constrained by legislatures and indirectly restricted by stakeholders and public opinion.

In addition to the discretionary power that facilitated policymaking and institutional reforms, ministries had to balance defensive and offensive interests. In regard to defensive interests, they hesitated to open up 100 per cent of the market as requested by WTO members, which showed a continuation of the cautious position displayed in the AFTA and

³⁷ Interview with diplomatic official of the Vietnam Embassy to Algeria, through Skype in 2015.

ASEAN negotiations. For example, Vietnam was under pressure from the United States to open the telecommunications sector by 100 per cent. However, representatives of the telecommunications sector claimed that it could only accept 49 per cent foreign ownership. The WTO's position regarding the telecommunications sector was in line with the Telecommunication ministry's integration roadmap that included two phases: the first phase until 2005 was for domestic competition and the second phase was for opening the market to foreign competition (Dinh 2004).

Similarly, final agreements between Vietnam and the United States involved Vietnam's allowing foreign banks to hold 30 per cent of its domestic joint-stock commercial banks and opening its insurance and stock markets (VCCI-Trung tam WTO 2010). The country set out quantitative restrictions on foreign investment by requesting joint ventures with local partners, such as advertising services, or foreign ownership caps in sectors such as freight transportation services or telecommunications (Amcham EU 2014). The commitments to open these sectors together with conditions for opening insurance and stock markets were agreed in exchange for removing the textiles and garments quota, which protected the second largest export sector.

Protectionist pressures largely arose from sectors linked with bureaucracy-managed SOEs (Baccini, Impullitti et al. 2015). WTO members, especially the United States, were concerned about the monopoly powers of the SOEs and the support that the government provided them. Members made several requests: (1) the elimination of SOEs' monopolies and subsidies (2) that reforms should require SOEs to do business based on commercial considerations; and (3) the inclusion of SOE privatization in the WTO accession (all despite the fact the WTO does not have specific regulations for SOEs!) (Tuoitre Online 2006). In response to these demands, the state accelerated SOE reform by 'equitizing' (i.e., partial privatization) some of them and removing WTO prohibited subsidies while simultaneously taking advantage of WTO-permitted preferential and protective treatment for SOEs. Nonetheless, the sectors dominated by SOEs were able to enjoy higher barriers and longer tariff removal schedules than other sectors dominated by the private firms (Baccini, Impullitti et al. 2015).

The government also protected domestic market-oriented industries, such as the automotive sector, on the grounds of infant industry support. Such industries were perceived as being in need of protection owing to the fact that they were heavily dependent on state support: the contribution of state subsidies to the sector accounted for nearly 73 percent of their value-added (James Riedel and Tran 1997). The Ministry of Industry and Trade protected these industries via a long transition period, for instance, the tariff for cars with engines with capacities of 2500 cc dropped from 90 per cent to 52 per cent over 12 years (VCCI-TrungtamWTO 2010). In addition, the state protected sectors that were critical to the economy in order to shield them from competition. According to the Trade Minister (Central Committee of the Communist Party 2007), these sectors were services and energy industries such as petrochemicals, ship-building, securities, banking, energy supply, mining and civil aviation, distribution, and logistics (Flint 2011).

In short, bureaucratic agencies had their own agendas for WTO accession and an institutional position that allowed them to shape the process in ways they favoured. The ministries' direct involvement in the negotiation process allowed them to protect their own sectors and the SOEs under their management. Pluralistic policymaking was a new characteristic that made international trade policymaking more transparent and democratic with the participation of various stakeholders. The harmonization of diversified interests resulted in a more balanced approach to WTO policy. Different institutions and agencies had the chance to raise their voice to protect their sectoral interests and hence policymaking processes were influenced by both protectionist and open market viewpoints.

6.5.2 Internal coordination mechanisms for WTO negotiations

Inter-ministerial coordination for the negotiation of WTO accession was facilitated by the establishment of a negotiation delegation chaired by the Ministry of Industry and Trade (MOIT) in coordination with relevant ministries and agencies. After collecting individual plans from relevant ministries, MOIT consolidated and submitted the overall negotiation plans to the Politburo and the Government for consideration and approval. Most of the time, the Government accepted the negotiation plans proposed by the chief negotiator.

However, there were times when the plans failed when presented to external actors because of the high demands from the WTO members.³⁸

Internal coordination for the negotiation of WTO accession progressively changed from loose to tight cooperation among ministries. Coordination in the beginning phase of the negotiations was weak for several reasons. First, the capacity of government staff to deal with complicated WTO trade issues was weak and many officials were unfamiliar with provisions in some service sectors (Phan 2006). This weak capacity posed a barrier to making timely analyses of the costs and benefits of responses to partners' demands and hence resulted in slow responses during negotiations. It could take a month for the relevant ministry to provide feedback regarding negotiation terms, another month for the MOIT to consolidate, and another month to submit the response to the government.³⁹

Secondly, different ministry representatives had opportunities to express their views before and during negotiations, which were sometimes not fully acknowledged by the coordinator. Bureaucratic coordination was fragmented with each institution having its own voice and authority in their sectors, which limited the coordination with others. As former Minister Truong Dinh Tuyen explained, the chief negotiator did not always know all of the negotiation plans prepared by the relevant state agencies (Vnexpress Online News 2005).

In the last two years before accession, the government established a special mechanism for fast-tracking decision-making designed to overcome these shortcomings and better manage negotiations with difficult and highly demanding trade partners. The Prime Minister assigned a special envoy - the so-called "Mr. WTO", Minister of Trade Truong Dinh Tuyen – to become directly involved in negotiations with the United States. Such a decision expanded the minister's authority to finish the negotiations early with the United States, Vietnam's most difficult and complicated partner, in May 2006, paving the way for conclusion of WTO accession (Nguyen 2018).

In its final stage, WTO accession was also accelerated by the involvement of key political figures and reformers, such as the Deputy Prime Minister Vu Khoan. The Minister of MOIT could directly call the Deputy Prime Minister to ask for direction and approval of

³⁸ Interview with an official of the Ministry of Foreign Affairs - through telephone in 2017.

³⁹ Interview with an official of the Ministry of Foreign Affairs - through telephone in 2017.

specific decisions. For complicated issues, the Deputy Prime Minister would convene meetings with the ministers of relevant sectors, bypassing slower bureaucratic channels. In this way, WTO negotiation was a dual process, with domestic and international negotiations occurring simultaneously over the same issues (VTV 2017). The special attention from the high-ranking officials accelerated the negotiation process as a result of the concerted effort to overcome the fragmentation of trade policymaking.

Finally, the stability of the political regime offered benefits in terms of consistent trade policy. During the 11 years of WTO negotiation, there were only three ministers of trade. This low rate of leadership change resulted in stability and consistency within WTO policymaking. In addition, the leadership was all reform-orientated and strongly committed to completing the negotiations (VTV 2017). Thus, the institutional procedures and processes for WTO accession were changed to accelerate the negotiations. These changes were possible because of the political determination and commitment of the leadership towards completing the lengthy negotiation process.

6.5.3 Central bureaucracy's flexibility in the WTO negotiations

Having been driven by the above-mentioned interests and facilitated by the described internal coordination, the central bureaucracy went through tough time and lengthened WTO negotiations, which forced them to be flexible and compromise to reach the deal. There are various reasons for such difficult negotiations, which were mainly due to big gap between Vietnam's economic systems with that of the WTO members. Such a gap required the leaders' dramatic changes of their mind-set, redefinition of their interests, balancing various interests, and transformation of institutional mechanisms against the WTO requirements.

In the beginning of the WTO negotiations, the process was slow. Firstly, the lengthened process of the WTO negotiations was mainly because it took nearly seven years just to answer the WTO members' queries regarding aspects of Vietnam's foreign trade regime.⁴⁰ In addition, Vietnam's trade negotiators found WTO issues alien in comparison with the socialist trading system to which they were accustomed. The limited knowledge and understanding of the Soviet Union-trained government officials who were only familiar

⁴⁰ Interview with official from the Ministry of Foreign Affairs in 2015.

with previous trade agreements and practices with socialist countries resulted in limited awareness of issues associated with WTO accession. Weak English literacy and academic capacity to carry out economic studies to analyze the impact of the WTO accession also limited negotiation capacity.⁴¹

From 2001 onwards, with the emergence of a new top leadership group established at the 9th CPV's National Congress, a second generation of WTO trade negotiators replaced the first one. The second generation comprised younger officials who had received post-graduate and/or professional training in developed countries such as Australia, New Zealand, Japan, and Singapore. This generation contributed greatly to the acceleration in WTO accession because they were young, enthusiastic, open-minded, and equipped with English literacy and knowledge about international trade (Luong 2017). Policymakers also received advice from international experts supported by the World Bank and the EU. These new technocrats carried out sectoral studies, undertook field trips to learn WTO-related experiences from other countries such as China, and received technical assistance funded by international organizations such as the World Bank, Asian Development Bank, and AusAID (Auffret 2003). The negotiation for WTO accession thus facilitated the process of 'turning politicians into technocrats' as they had to acquire knowledge about complicated WTO rules and issues.

Secondly, the hesitate attitude of the party and government leaders was attributable to their concerns about the effect meeting with the WTO high requirements from trade partners could have in terms of any unexpected negative impacts on the economy. According to Deputy Prime Minister Vu Khoan, this 'learning-by-doing' process' was the reason behind Vietnam's gradualist approach to the WTO accession as well as its initial reluctance to engage in high-level tariff reduction (Vietnamnet News 2005). The bureaucracy took a conservative attitude to prevent the bankruptcy of firms, which could be beyond the state's control and have unexpected consequences (Xuan 2002). The former chief trade negotiator of the BTA in 1997 explained that the Vietnamese government initially claimed the country should be categorized as a 'least developed country' and might, therefore, only have to accept WTO trade rules fully by 2020 (Huynh 2011).

⁴¹ Interview with official from the Ministry of Foreign Affairs in 2015.

In 2003, just one year after the first bilateral negotiations began, Vietnamese negotiators were under both external and domestic pressures to accelerate the process. Externally, the negotiators were set with a target of completing the negotiations before the next WTO Round was completed (the Doha Round, at the time expected for 2004) in order to avoid the possible higher standards that it may deliver. As Deputy Prime Minister Nguyen Manh Cam argued at the time, the Doha Round was expected to result in higher market access, less protection, and more policy transparency requirements, making it an imperative for Vietnam to accede under the easier Uruguay Round rules (Nghia 2002).

On the other hand, quickly acceding to partner demands to complete before Doha might result in bigger concessions being made. Because the negotiators wanted to accelerate the WTO accession rather than to delay it, they had to accept many trade-offs in certain sectors, such as opening a range of service sectors at the behest of the EU (Truong 2013). For instance, in the two years following the WTO accession, the telecommunications sector was open to 100 per cent foreign-owned enterprises to provide registered services. This open commitment was possible because the telecommunications ministry was aware of the need for trade liberalization for the sector's development, both from a business standpoint and as a state administrator. The leaders of the state-owned post and telecommunications corporations, who were the former Minister and Vice Minister of the Ministry, learned from foreign experts from the telecommunications sector in Germany, France and Italy. This experience helped them to adopt a less conservative and defensive approach to the concessions required by the WTO, and to view them instead as an opportunity to enact reforms (Vietnamnet News 2016). At the same time, some sectors would be less protected on WTO accession. For instance, in 2002, Vietnam continued to provide export subsidies for rice, coffee, pork, canned fruit, and vegetables as well as privileges for SOEs (Nghia 2002). Early WTO accession also meant the end of these subsidies. Hence, domestically, the government was under pressure to broker domestic consensus among different interest groups relatively quickly.

The party and government leaders were determined to move forward, thanks to the transformation in their view of Vietnam's position in the global economy. Hitherto a relatively isolated economy, Vietnam had approached sectoral development policies on the basis of the requirements of its own economy. However, in the case of cooperating with

other countries through accession to the WTO, the country had to accept integration and competition, identify and concentrate on sectors with comparative advantage, and to some extent relinquish its weakly competitive sectors, facilitating the development of other economic sectors (Pham 2012).

In addition, using the WTO accession requirements as effective leverage to balance conflicting interests, the leaders committed to changing laws to create a level playing field among enterprises, reducing the SOEs' monopolies, subsidies, power, and role in the economy as well as credit from state-owned commercial banks by mandating that the SOEs conduct business following commercial criteria (Goh 2006). According to the Vice-Minister of the Telecommunications Ministry, the removal of the SOE monopoly could create motivation for social development, positively impacting on consumers' interests, and eliminating red tape that threatened the development of the sectors as well as the economy as a whole (Vietnamnet News 2014). The party and government leaders were then determined to implement the WTO's basic trade liberalization rules and to adapt domestic economic rules to international economic standards and rules so that the country could integrate with the region and the world (Dinh, Le et al. 2006). As Deputy Prime Minister Vu Khoan argued, state officials realized that maintaining protection stagnated the economy, and vice versa (Vietbao News 2006).

The increasing professionalism gained through the WTO negotiations also contributed to changing the state's thinking about trade liberalization. The hesitant approach gradually gave way to a more confident posture as negotiations progressed. This thinking was influenced by the exchanges of ideas and the conduct of negotiations with trading partners. In addition, various seminars and studies were carried out. The World Bank organized the first seminar on the potential impact of the WTO on Vietnam's economy in 2004, although this was too late in the final stage of negotiations to warn the government about possible risks. The seminar included the dissemination of fifteen internationally-authored studies and two nationally-authored studies from the Central Institute for Economic Management (Pham 2012). The study of the Central Institute for Economic Management in 2004 analyzed the impact assessment of the WTO accession on jobs, wages and human resources development (CIEM 2004).

Despite the above changes in the thinking, in practice, the state still faced difficulties in balancing the various interests involved in these trade-offs. There was no overall international economic integration strategy that laid out specific plans and the timing for reducing and removing tariffs to open sectors in varying degrees in bilateral, regional, and global trade agreements (Ngo 2000). The studies focused more on a few aspects rather than providing an overall assessment of trade-offs among different sectors. The government lacked the ability to identify the positive and negative impacts on a sectoral basis; nor did they have a mechanism for building an overall strategy of balancing different interests, which would guide which sectors were to be prioritized and which were to be ‘sacrificed’.⁴² Hence, the relevant ministers negotiated trade-offs not on the basis of these *technical* studies but rather through direct *political* negotiation with each other (VTV 2017). Hence, decisions were based more on the subjective assessment of the ministers for the potential overall impact of WTO accession rather than detailed evidence-based studies about the potential impacts of WTO accession on specific sectors.

Facing high-pressure demands from the WTO members, the target of completing accession negotiations by 2005 could not be achieved partly because of a lack of reliable technical studies that could have facilitated the negotiations to move faster (Viet 2005). Instances for such tough trade partners’ requirements were relating to transparency, labour standards, non-market economy status, agriculture export subsidies, life insurance, ceiling for foreign ownership in banks, and services (Luong 2007).

In many instances, the trade negotiators had to compromise and strictly followed the WTO rules. For example, the US requested Vietnam to remove government’s subsidies provided for the textile and garment sector, which was regulated in the Decision no. 55 in 2001 regarding domestic support for domestic businesses and production of textile and garment for export by 2010. The government considered the garment and textile as the key industrial sector for export, not only to create jobs for the society but also to firmly integrate to the world and region’s economy. The government also set the state economy to play the key and leading role in the sector development while encouraging participation of all economic sectors and foreign investors (Prime Minister 2001). The government finally

⁴² Interview with diplomatic official of the Vietnam Embassy to Algeria, through Skype in 2017.

had to give up all types of support or subsidies that were not in compliance with the WTO rules as requested by WTO members.

Underlying such government's moves was the domestic debate. In 2005 the Deputy Prime Minister Vu Khoan stated that the country could only accept accession conditions that were possible to implement and that it was impossible to join the WTO without "all costs" fully evaluated because the economy could "collapse" (Thanhnie Daily 2005). However, he was criticized by academics about the vague term 'all costs', which were yet to be fully specified and analyzed (Viet 2005). Some elements of the leadership were cautious about the timing and the extent of commitments for accession. They were concerned that Vietnam should join the WTO only when Vietnam was well prepared in order to avoid unexpected compliance and implementation costs. They argued that if trade liberalization accelerated too quickly, domestic sectors could be harmed.⁴³ In particular, there were concerns about negative impacts such as a decline in national security, regime instability, weak competitiveness, an increasing unemployment rate, farmers' losses, bankruptcies, and removal of import licenses for automotives (Xuan 2002).

The negotiations were finally pushed across the line in 2006 when regional leaders participating in the APEC Summit in Hanoi explicitly dealt with the issue of Vietnam's WTO accession negotiations (VTV 2017). The whole Vietnamese political system, especially the leaders actively involved in political and diplomatic activities to enhance bilateral relationships with WTO members, were involved in these talks and lead-up activities designed to support them. The President and Prime Minister conducted many official visits to address obstacles with trade partners. For example, Prime Minister Phan Van Khai conducted official visits to the United States in 2005; President Tran Duc Luong visited Brazil, Chile, and Argentina in 2004; and the Chairman of the National Assembly visited the WTO office in 2005 and expressed Vietnam's high political will and commitment to WTO accession (Ngo 2017). These visits contributed to a consolidation of the WTO members' belief that Vietnam was serious about improving its legal system, which contributed to the completion of the multilateral negotiation round, which was formally ended in 2006 (Ngo 2017).

⁴³ Interview with diplomatic official of the Vietnam Embassy to Algeria, through Skype in 2017.

In short, WTO accession was made possible by the transformation of trade policy institutions that facilitated internal coordination amongst the Vietnamese bureaucratic agencies. In addition, the party and government leaders had transformed their thinking and interests, viewing trade liberalization (rather than protection) as a tool for fostering new development opportunities. However, this thinking only gradually took hold as it was constrained by ideas of the economy's weak competitiveness that forced policymakers to make careful moves. Thus, WTO policymaking was strongly influenced by the transformation in policymakers' ideas and interests, and in the institutions of trade policymaking.

6.6 The WTO trade preferences of societal actors

In general, enterprises supported WTO accession despite their lack of competitiveness. According to a survey carried out by the Economic Institute in 2003, about 70 per cent of enterprises wanted to join the WTO while 30 per cent were hesitant about the pressures of competition (Vietnamnet News 2003). The main reasons for support included expectation of new opportunities for development, including increased exports, attraction of foreign investment, fair treatment in partner markets (54%), and access to the WTO dispute settlement mechanism (34%) (Nguyen 2003).

Other reasons for the private sector's support were the potential benefits from the WTO accession. Indeed, WTO accession was a catalyst for major changes for Vietnamese businesses, especially the nascent private sector. The most important benefit was the improved business environment in Vietnam owing to the reduction in tariffs, elimination of non-tariff barriers, subsidies, quotas, licenses, and increased market access. New trade rules established a more transparent and fair environment, aiding the formation of new business groups. Exporting firms also benefited considerably with increased market access to important foreign markets and greater opportunities to attract investment (VCCI 2009). Similarly, import-dependent firms benefited from WTO accession owing to reduced tariffs, particularly on imported machinery, equipment, and materials.

Equally significant was the fact this changed business environment could reduce the power of previously protected groups, particularly incumbent SOEs. These firms would be subject

to competitive pressures owing to the removal of state support such as subsidies, qualitative restrictions on imports, high tariffs, and information gained from their informal relationship with the state (VCCI 2009). The removal of preferential treatment and protection was expected either to encourage the sectors to grow or to restructure into new activities. For an example of the latter, some sectors previously monopolized by the state – such as the telecommunications sector - would be able to expand into both the domestic market and global markets.

In addition to the supporters, certain groups expressed their concerns, as WTO accession was a mixed development for the private business sector. Many firms, especially those in weakly competitive sectors such as some agriculture sectors were concerned about how competitive they were in international markets as they were typically the weakest businesses in terms of financial and technological capacity. With the exception of some key agricultural export sectors such as rice and coffee, agriculture was largely organized along traditional lines with rural farmers comprising one of the most economically vulnerable sectors in the Vietnamese economy. These weak agriculture industries faced more challenges compared to other sectors because of both domestic and external difficulties:

- Many agricultural products, covering 500 tariff lines in the livestock, dairy, tropical fruit, and processed foods sectors, were subject to tariff reductions (VCCI 2009). For example, the tariff for beef and pork was cut from 20 per cent and 30 per cent respectively at the time of accession to 14 per cent and 15 per cent after 5 years (Tran 2009). This was the best negotiation result that Vietnam could achieve given demands to cut these tariffs to 0-5 per cent from Australia, Canada, and New Zealand (Tuoitre Online 2006). Meanwhile, Vietnam was successful in maintaining the same level of protection for 535 tariff lines (VCCI 2009), including live animals, rice, tea, and food sectors (VCCI - TrungtamWTO 2010).
- Many agricultural sectors such as cane sugar and maize also faced competition from imports that were subsidized by developed economies (OXFAM International 2004). Overall, farmers in the OECD countries received annual support government averaging at US\$273 billion during the period of 2003-2005 (Tran 2009).

Similar to the banking and finance sectors, Vietnam's agriculture sectors were not internationally competitive but, unlike banking and finance, they had little political power to influence the government because of a lack of political links to the government. While some agricultural associations were active, such as the Vietnam Cashew Association, Vietnam Association of Seafood Exporters and Producers, and Vietnam National Textile and Apparel Association, the majority was comparatively weak. As former Deputy Prime Minister Vu Khoan argued, they operated less as professional associations to advocate for business than as administrative organizations (Vietbao News 2006). The broader Farmers Union similarly operated more like a state organ than as a representative association, as reflected in the Prime Minister's decision in 2011 to assign policymaking tasks to the Union (Prime Minister 2011). As a result, the sector relied mainly on experts from the Ministry of Agriculture and Rural Development to speak for their interests during WTO accession decision-making.⁴⁴

Surprisingly, opening the agricultural sector did not receive support from international NGOs such as OXFAM. OXFAM was not supportive of the government's initial offer for an agricultural tariff of 25.3 per cent and publicly argued that this would create risks for rural livelihoods (OXFAM International 2004). Despite domestic opposition, the 25.3 per cent offer had to be reduced to 20 per cent by the end of negotiations under pressure from WTO members (VCCI 2015). Instead of tariffs, the government continued to rely on tariff quotas and safeguard measures, especially for pork, beef and poultry, despite the working group members' request to Vietnam not to apply these measures (OXFAM International 2004). However, WTO restrictions applied to these safeguards were limited, with tariff quotas only applicable for sugar, eggs, tobacco leaves and salt. This trade-off was necessary to obtain quota removals from WTO partners in the textiles, garments, rice, coffee, and pepper, and fruit sectors. In this way, the leadership accepted losses in certain areas as trade-offs for gains in others. It believed that competition could help enterprises learn to cope with new challenges and hence opportunities would prevail over challenges.⁴⁵

⁴⁴ Interview with official from the WTO negotiation delegation in 2016.

⁴⁵ Interview with official from the Ministry of Foreign Affairs in 2015.

6.7 Patterns of interaction between state and societal actors

As WTO accession greatly impacted on societal actors, it is important to evaluate their role in the policymaking process. Few business associations with some input from non-governmental organizations (NGOs) as well, were among the main societal actors that engaged with the WTO accession process. To what extent did societal actors engage with policymaking in order to shape it towards their interests? Although they generally support the WTO accession, they - especially the private business sectors - had limits in direct influence on WTO policymaking despite the fact they were the main stakeholders. In WTO policymaking, the communist party and government acted as decision-makers and agenda-setters for international trade. On the other hand, societal actors, principally businesses, acted as consultation and information providers. This relationship was therefore, distinctly asymmetric, and worked in favour of the state's interests and ideas.

While the government secured strong support from the public for accession, the participation of societal actors in WTO policymaking was limited. The leaders recognized the need to provide information that could impact on key interest groups and to consult with enterprises and business associations in order to create a consensus for the agreed reforms (National Assembly 2006). In addition, central policymakers and state research institutes had close contacts and consulted with business associations and farmers through various visits and direct interviews, and were, therefore, aware of the difficulties as well as the demands of the sectors in regard to the WTO negotiations (Tran, Vu et al. 2015). However, what they could obtain from the business associations was limited. According to statistics provided by the Statistics Department of Ho Chi Minh City, about 97 per cent of enterprises had little or very little information about WTO accession (Dantri News 2005).

The limited influence of societal actors on WTO policymaking was due to two principal factors. *First*, from an institutional perspective, there were no formal mechanisms for consultation between the state and society in regard to WTO accession. This institutional shortfall resulted in ad hoc consultation on the basis of requests from the government. There were only a few business associations who had access to policymakers such as the

Vietnam Textile and Garment Association.⁴⁶ These sectors were able to attract the attention of policymakers because of their large quantities of exports.

Secondly, the legacy of the command and control economy, top-down approach in trade policymaking since the centrally planned economy continued to shadow the WTO trade policymaking and hence limited the societal actors' role. From the negotiators' perspective, the accession process was too complicated for the negotiators to consult with enterprises due to the WTO's coverage of large ranges of issues and technical capacity restraints of both the government and enterprises, as explained by former Minister of Trade Truong Dinh Tuyen (Vietnamnet News 2007).

From the societal actors' perspective, businesses and academics criticized the government for keeping information about the WTO negotiation confidential. It was difficult for businesses, intellectuals, and academics to follow the process because of a lack of available information, except for government consultations with major interest groups such as textiles associations and footwear associations (Pham 2012). Only these associations managed to access the trade negotiators.⁴⁷ Even personal contacts between the Vice-Chairwoman of the VCCI and trade minister and chief trade negotiators could not assist in obtaining information regarding the obstacles in the WTO negotiations (Pham 2012). Moreover, enterprises could not be sure whether their recommendations were taken into consideration by negotiators (VCCI 2013). The interest groups that had a better relationship with the government had a higher chance of getting their voices heard to protect their interests. In addition, companies continued to rely on the state's protection as an institutional legacy of the centrally planned economy where the state supported firms (Pham 2012).

In short, the business community played only a secondary role in WTO policymaking. Instead of actively exploring the new 'offensive' opportunities that WTO membership would offer, its approach focussed on 'defensive' efforts to maintain as much protection as possible. This attitude created domestic pressure for protection against the external pressures for market opening.

⁴⁶ Interview with official from the Ministry of Foreign Affairs in 2015.

⁴⁷ Interview with official from the Ministry of Foreign Affairs in 2015.

6.8 Conclusion

This chapter has explained the process of Vietnam's trade policymaking during its WTO accession. As the WTO had comprehensive requirements for both bilateral and multilateral trade negotiations, Vietnam's existing trade policymaking approaches were adapted to fit with the new external requirements. The analysis shows that WTO policy was a result of balancing between strategic push factors (predominantly decided and influenced by the leadership of the party-state) and domestic pull factors (relating to concerns about the uncompetitive economy). The compromises struck between these different objectives were a product of the ideas, interests, and institutions of involved actors.

The key features of Vietnam's WTO trade policymaking were, therefore, the following. First, the role of the central leadership was essential in providing a strategic push for openness as this group was the most committed to the importance of WTO accession and they were in a strong political position to provide strategic direction. The party-state initiated and drove the process of negotiation whereas societal actors played only a secondary role that had a limited impact on the WTO policymaking mechanisms.

However, important changes occurred in the realm of ideas about trade policy as Vietnam accepted the international trade rules mandated by the WTO. These included accepting the MFN and NT principles, significant removal of both tariff and non-tariff barriers, and opening some new sectors in services such as logistic services for the first time. In addition, the WTO rules for transparency created new opportunities for public participation. The WTO was a part of an overall strategy for international economic integration through a foreign policy strategy of diversification and multilateralization.

The extent of the leadership's determination was reflected in the length of the negotiations. The WTO accession process generated anxieties amongst involved interest groups and the state itself. These concerns resulted in hesitation to remove tariffs or to open critical and sensitive areas. Other constraints related to the protection of the beneficiaries of the old economic system, particularly the SOEs. The concessions and compromises required saw the negotiators adopt more reform-minded positions than Vietnam had taken in any of its previous trade agreements. While accession was not completed as expected in 2005 because

of domestic concerns, efforts from the leadership to build a consensus ensured that they were finalized only one year later in 2006.

The WTO policymaking process thus became more pluralistic with the involvement of an increasing number of stakeholders in the decision-making process. Pluralistic policymaking supported more inclusive policymaking, which contributed to the success of the negotiation process. This new development was a step forward compared to the previous phase of Vietnam's trade reform in which the state had a monopoly of trade policymaking and sought little input from non-state actors. At the same time, the role of the central bureaucracies (beyond the trade ministry) was also enhanced because of the complex nature of the WTO accession. Accession required the involvement of various stakeholders, including different ministries, agencies, and academic experts. In addition, the complicated nature of the WTO rules required professionalism and technical expertise from staff. Accordingly, different ministries and agencies had the opportunity to influence trade policymaking by bringing their preferences and interests into the process.

WTO accession was also influenced by certain factors. First, trade policymaking coordination was fragmented within the state, and between the state and society, contributing to delays in the process. Policymakers perceived the WTO accession as a complicated process, and hence, consultations were difficult. Secondly, the enterprises were inactive because of a lack of information, professionalism, and technical knowledge. Thirdly, there was a lack of coordination as demonstrated by the delayed communications among ministries owing to the weak capacity of the staff and the low level of enthusiasm of the relevant agencies, which delayed the process of negotiation. The situation changed with the completion of hundreds of negotiation rounds in the final stages of negotiation.

The above discussion has demonstrated that policymakers had a mix of motivations, which shaped Vietnam's position in the WTO accession process. While being pulled by the strategic significance of the WTO accession, the process was also pulled by concerns relating to the uncompetitiveness of domestic sectors. Significantly, there were concerns for the sectors at risk of failure or sectors that were core economic pillars, which were supported by the relevant ministries and SOEs. Generally, the state's approach was balanced. Trade liberalization through WTO accession prevented any chance of returning to

a protectionism approach, and hence laying a foundation for further trade liberalization in later years, as seen in Vietnam's participation in the TPP.

Chapter 7: **Case Study 2: Vietnam's participation in the Trans-Pacific Partnership**

7.1 Introduction

Vietnam's participation in the TPP was its most important trade policy decision in the post-WTO accession phase. While WTO accession represented Vietnam's most comprehensive reforms, the TPP, as a regional FTA, required an even higher standard of reforms. Participating in the TPP reflected the growing ambition of the Vietnamese government to engage in trade liberalization despite the many economic and political difficulties that would have been faced to close the gap between Vietnam and the other TPP members. Vietnam's TPP policy hence raises a research puzzle regarding the reasons underlying Vietnam's moves. How can we explain such a radical decision by a developing country such as Vietnam? Why did the leadership decide to make a serious decision to join the TPP despite differences between Vietnam and the other TPP members in terms of level of development and competitiveness, geographical location, and political regime? As the TPP would have set very high standards that could have generated opposition and debate, how was it possible for Vietnam's leaders to harmonize differences among relevant domestic actors?

This chapter argues that TPP policy was driven by the leadership's determination to accelerate international economic integration. Similar to the WTO accession, TPP policymaking was characterized by the supreme leadership of the CPV and the central bureaucracy. In addition, trade policymaking was more flexible and adaptable in meeting the TPP's high demands owing to the state's transformation of its ideas and interests. Moreover, the trade policy process was more participatory with greater involvement of

societal actors, although still limited. The chapter begins with an explanation of the state's overall interests that drove Vietnam's decision to join the TPP. It follows with an exploration of how Vietnam approached the TPP. Finally, it discusses domestic politics by identifying the transformation in the central bureaucracy's thinking and positions as well as the impact of different interest groups.

7.2 Background to the TPP: A high-standard regional FTA

The TPP began life in 2005 as a 'mini-FTA' among four relatively disparate countries: New Zealand, Chile, Singapore and Brunei. While small, the agreement attracted the attention of the United States, which began a process of starting negotiations for an expanded agreement with greater regional impact (USTR 2008). Negotiations for the expanded agreement would eventually grow to include 12 countries including Australia, New Zealand, Japan, Canada, Malaysia, Vietnam, Mexico, Brunei, Singapore, the United States, Chile, and Peru.

The TPP had several unique characteristics in comparison with traditional FTAs in the Asia Pacific. First, when the United States decided to join the TPP agreement in 2009, it upgraded it to an FTA with several key features. These were "comprehensive market access", a "regional approach to commitments", "addressing new trade challenges", "inclusive trade" and a "platform for regional integration" (USTR 2015). It covered not only in traditional areas of tariffs and quotas but also so-called 'WTO Plus' areas such as investment, services, intellectual property rights, environmental standards, labour rights, and investor state dispute settlement. Secondly, the TPP's ambitious aims were to set a higher standard for FTAs, greatly contributing to regional economic integration (Wilson 2016) and shaping the emerging order and trade architecture in the Asia Pacific. As a mega-regional trade agreement, the TPP was expected to serve as an alternative to the Doha Round agenda and overcome challenges caused by the "spaghetti bowl" effect of regional FTAs (Inu Barbee and Lester 2014). Thirdly, the TPP was attractive not only because of its trade ambitions but also because of its geopolitical significance given the broader picture of strategic competition among major powers in the Asia-Pacific region. The TPP was considered an economic wing in the US strategy of 'rebalancing' towards Asia and as a

counterweight to China, which would maintain the United States' position as the region's leading economic power.

At the invitation of the United States, Vietnam announced that it would join the TPP negotiations in November 2010 after acting as an associated member since March 2010 (MOIT 2012). The negotiations went through more than 30 technical sessions and 10 ministerial-level sessions. By October 2015, negotiations for the agreement had been completed (MOIT 2015) and it was officially signed in 2016.

However, the agreement could not be implemented because the United States formally withdrew right after the new President Trump's inauguration (USTR 2017). Such a withdrawal was due to Trump's concerns of negative impacts of the TPP on the US's economy, particularly the potential loss of millions of jobs in the United States. Despite the trends of anti-globalization and protectionism, the remaining 11 members of the TPP were determined to renegotiate the TPP with a new name – the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) under the leading of the Japan, and finally signed the agreement in early 2018. By November 2018, 7 countries had ratified the CPTPP (Mexico, Japan, Singapore, Canada, Australia, New Zealand, Vietnam). The signing and ratification of the CPTPP for its effectiveness in 2019 demonstrated the role and voice of the small and medium countries in the Asia Pacific region in shaping the regional economic and trade architecture by their consistent support for the multilateral free trading system and globalization.

TPP membership presented several challenges for the Vietnamese government. The most challenging issue was the large development gap between Vietnam and the TPP members. Even with six developing country members, the TPP was a 'developed country'-style agreement that included WTO Plus regulatory provisions suited to developed economy interests. Vietnam had until this time largely been in 'global' (WTO) or 'developing' country (AFTA) type agreements. Vietnamese firms would face significantly higher levels competition from multinational corporations than in any of its previous trade agreements, especially in government procurement. Other required reforms relating to rules of origin for the apparel and textiles sector, intellectual property, SOE reforms, labour standards and legal reforms promised to be very costly for Vietnam (Hoang 2014). Politically, it faced

difficulties in terms of its major power relationships as China interpreted the TPP as a means for the United States to lure Vietnam and other Asian countries into an anti-China economic bloc (Naughton, Kroeber et al. 2015).

One advantage of the TPP was that it was negotiated on the basis of reciprocity. Unlike the WTO accession negotiations in which Vietnam had to accept the requirements of the WTO members, TPP negotiations involved the reciprocal exchange of trade preferences. The results of the TPP negotiations were a product of bargaining (trade-offs?) among Vietnam's various offensive and defensive interests.

In addition, Vietnam could greatly benefit from the TPP owing to its high liberalization commitments. To achieve the objective of ensuring comprehensive market access, TPP members committed to tariff removal for 78-95 per cent of product lines at the time of the agreement's ratification, which would rise to 97-100 per cent by the end of the implementation schedule (see table below). Tariffs for many of Vietnam's key exports would drop to 0 per cent in major markets, particularly for agricultural products, fishery products, textiles and garments, footwear, furniture, and electronics. Vietnam committed to removing 100 per cent of tariff lines according to an 11-year tariff removal gradual schedule (Ministry of Finance 2015). Moreover, the country would improve its attractiveness to large foreign investments owing to its comparative advantage in terms of cheap labour costs (Duong and Tran 2016).

Table 7-1: Tariff elimination applied by TPP partners for Vietnam

	Tariff elimination on entry-into-force	Tariff elimination by full implementation
TPP as a whole	78-95%	97-100%
Canada	94.9%	96.3% in 4 years
United States		Almost 100% in 15 years
Japan	86%	95.6% in 11 years
Mexico	77.2%	98% in 10 years
Peru	80.7%	99.4% in 17 years
Vietnam	65.8%	97.8% in 11 years
Australia	93%	100% in 4 years
New Zealand	94.6%	100% in 7 years
Singapore	100%	
Malaysia	84.7%	99.9% in 11 years
Chile	95.1%	99.9% in 8 years
Brunei	92%	100% in 11 years

Source: Ministry of Finance. *Summary of tariff commitments in the TPP*, retrieved 18/2/2018, available at <http://trungtamwto.vn/tin-tuc/tom-tat-cam-ket-thue-quan-trong-tpp-thong-cao-bao-chi-cua-bo-tai-chinh>

In exchange for these benefits, Vietnam had to open domestic markets for TPP members and therefore would be subject to extraordinary competitive pressures (Duong and Tran 2016). For example, Vietnam would open its stock market and new service sectors such as trans-border investment portfolio management services, consultation services, and financial data processing. The TPP required Vietnam to make liberalizing reforms in new areas such as government procurement and financial services by reducing tariff and non-tariff barriers to eliminate behind-the-border protection. Vietnam would also need to comply with a demanding set of investment protections backed up by an ISDS mechanism (Ministry of

Finance 2015). Other policy reforms in trade-related areas were also required. For example, the TPP contained a labour chapter that required extensive reforms for Vietnam's labour regime. In these ways, the TPP offered both very large benefits for Vietnam in comparison with its previous trade reforms but would also impose very high demands. This situation would require Vietnamese policymakers to consider complex trade-offs between its offensive and defensive trade interests. The next section discusses how state and non-state actors balanced these trade-offs during the TPP negotiating process.

7.3 The party-state

7.3.1 The essential role of the Communist Party of Vietnam

Owing to the TPP's strategic significance, the CPV's Politburo paid special attention to the TPP negotiations (and CPTPP later). The Politburo closely supervised, set out major principles and objectives and handled any issues arising from the TPP negotiations and received regular reports from the government to ensure party leadership approval prior to submission for National Assembly ratification (Central Committee of the Communist Party of Vietnam 2016). According to the instruction of the Politburo, the Government Caucus Commission of the Communist Party prepared and reported the Politburo the result of negotiation of the TPP agreement for instructions, which in turn submitted to the 14th Plenary Session of the 11th Central Committee of the Communist Party of Vietnam in 2016. The Committee discussed the result of negotiation, overall impacts, including those on national security and politics, opportunities and challenges, remedial solutions, and passed the signing of TPP for submission to the National Assembly's ratification (Nguoilaodong 2016).

The communist party maintained its consistent policy of supporting the TPP, which was made on the basis of the interests of promoting the regime legitimacy. Accordingly, the TPP has become an effective tool for the party to maintain the economic performance-based regime legitimacy due to its potential strategic economic interests. The strategic economic growth itself is also one of the state's interests.

Indeed, the TPP was very promising in terms of economic interests. The Prime Minister Nguyen Tan Dung identified three principal benefits from participating in the TPP: market

access and attraction of foreign investment, assisting domestic reforms, and advancing foreign policy interests. Firstly the TPP shared a similar economic logic to WTO accession. Specifically, this included facilitating Vietnam's comprehensive market access and investment attractiveness, ensuring mobile and free movement of goods, service, capital, and technology, and creating a non-discriminatory and fair business environment (Prime Minister Nguyen Tan Dung 2016). Vietnam was expected to increase market access and investment with TPP members because there was significant scope for exports to the TPP bloc, of which the collective GDP amounted to more than US\$20 trillion. Secondly, the TPP members were Vietnam's leading importers and included complementary economies such as the United States, Japan, and Australia (Phan 2015). This offered opportunities for market access for key exports such as textiles and garments by making use of tariff free access (Biswas 2016).

A key implication of the increased market access to TPP economies was to diversify export markets, offsetting a long-standing trade deficit problem with China and East Asia (Ministry of Planning and Investment 2010). Moreover, the quality of imports and export could be improved by expanding trade with highly developed countries such as the United States and Japan, whereby Vietnam could access technology goods (Dao, Nguyen et al. 2013). Thus, the intra-group trade liberalization among the TPP members was expected to promote growth, create jobs, and increase income as a result of the free movement of goods, services, capital and technology (Prime Minister Nguyen Tan Dung 2016).

Secondly, similar to other FTAs, the TPP was expected to create external pressure to leverage further domestic reforms. As argued by the Prime Minister in his New Year message of 2014, these reforms were needed in order to create a new impetus behind development (Prime Minister Nguyen Tan Dung 2014). TPP policy was in line with both 'traditional' development thinking of building a market mechanism as well as being compatible with 'new' development thinking of inclusive, green and sustainable development (Vo 2014). The TPP was expected to create a more favourable business environment as it would promote more extensive and intensive market opening of the trade in goods, services, investment, intellectual property rights and government procurement to create fair competition and a transparent business environment (Prime Minister Nguyen Tan Dung 2016).

Thirdly, in line with the foreign policy objective of enhancing the country's position in the regional and global architecture, Vietnam's leaders also believed that it could improve its international status by participating in the TPP (The Office of the Government 2016). The chief TPP negotiator stated that Vietnam's membership of the TPP would signal a message and a positive image to the international community that it was both a dynamic and active player through its commitments to a higher level of trade liberalization (Ngoc 2016).

The CPV's TPP policy is also driven by the advantages that Vietnam could also gain from playing the role of an important player in the regional trade architecture. Including the TPP it would become one of the few economies that had FTAs with the world's largest economies including ASEAN, the United States, the EU, China, Japan, Canada, Australia, and Russia (Minh and Ngoc 2016). This status would make the country an especially attractive destination for investors. The aim was to turn Vietnam into a significant part of the global trade network covering world's leading economies and to position itself better in global value chains (Herr, Schewisshelm et al. 2016).

At the same time, Vietnam's leaders were ambitious about its opportunity to participate in formulating new trade rules to reshape the regional and world trade architecture. Participating in the TPP could give Vietnam a say in making trade rules it considered fair and beneficial for developing economies, and thus protect its unique trade interests. This ambitious objective could only be achieved through the TPP not through bilateral FTAs, which mainly focused on bilateral market access swaps rather than setting new trade rules at the regional level. Participation in the TPP thus demonstrated a transformation of Vietnam's trade outlook in which, for the first time, the country had ambitions to *formulate* rather than just *accept* rules set by developed countries. One particular example of such rule-making leadership was Vietnam's advocacy of the so-called 'yarn forward' rules of origin arrangements for garments and textiles (Nguyen 2011).

In addition to the economic performance, the legitimacy of the party's TPP policy was rationalized on the basis of its unique geopolitical, foreign policy and security aspects. The Central Committee of the Party stated that being one of the first participating members of the TPP would confirm Vietnam's important role in regional geopolitics (Central Committee of the Communist Party of Vietnam 2016). Indeed, through the TPP, Vietnam

hoped to balance its relationship with the region's major powers, given the strategic competition for power between rising and declining powers in the Asia-Pacific region (Wethington and Manning 2015). The TPP helped Vietnam to take advantage of the American presence as a political and economic heavyweight that was strong enough to counter China. This was especially important given Vietnam's economic dependence on China, which had become increasingly assertive in the South China Sea dispute. Economically, the strengthening economic relationship with the United States could help to strengthen the bilateral relationship and cover the heavy trade deficit with traditional markets, especially China.

Indeed, these non-economic aspects of the TPP loomed large in Vietnam's decision to join the bloc. Increasing engagement with the United States and other countries in the region was a key objective of Vietnam's foreign policy of 'internationalizing' the South China Sea dispute, which was designed to help manage security tensions with China. Policymakers believed the US presence in the TPP would change the regional strategic context owing to its strategic, political and economic weight. Besides, the relationship with the United States was so important that it could greatly influence relationships with other countries, especially US allies such as Japan, Australia and South Korea. Thus, the TPP combined dual economic and strategic objectives in a way that no other Vietnamese trade agreement had hitherto done.

In addition, the TPP was also important because it became a standard template that would serve as a foundation for Vietnam's future FTAs. The Ministry of Justice reported that because of the MFN principle, some of Vietnam's TPP commitments could be applied to already signed FTAs with 40 other countries including the EU, ASEAN and Russia (Vietnam Government Portal News 2016).

On the other hand, one of the most important concerns for the party is to ensure that the TPP members respect the regime. As in the BTA negotiations, the state needed trading partners to express respect for the CPV regime before being prepared to accept this measure. It ultimately fell to the Prime Minister to confirm officially that the TPP respected the political regime of each member and excluded matters relating to national defense and security (Prime Minister Nguyen Tan Dung 2016). Policymakers made commitments on

purely commercial grounds and wherever possible avoided elements that could negatively impact on political stability. This practice reflected leaders' unchanged concerns regarding political regime survival in the future.

The party was also concerned with TPP terms that, in the party's views, could cause potential risks regarding the regime maintenance such as the free association right to workers. The labour rights issue attracted the most contending views as it related to concerns about the stability of the CPV regime. At the time of TPP negotiations began, the government-controlled Vietnam's General Confederation of Labor (VGCL) and its local branches were the only lawful social political organizations in charge of labor and trade union issues. The leadership thought that the establishment of independent, grassroots trade union organizations should not be encouraged and the trade unions' job of protecting workers should be placed under the leadership of the communist party, which was provided in Article 13, Constitution in 2013 (National Assembly 2013). This was because they were afraid that freedom of association would be abused and would expand from trade unions to political areas. An interview with an official from the Diplomatic Academy of Vietnam notes that in a worst-case scenario, this might ultimately result in a plural party system, which conflicted with the political ideas of a single, communist ruling party.⁴⁸

The labour rights provisions in the TPP were also relevant to the wider issue of human rights in general, which have been among the most sensitive political issues in the relationship between the United States and Vietnam. Although human rights are not trade issues, the US government, lobbied by a group of radical Democrats in Congress, saw the TPP as a mechanism for disseminating US values of democracy and human rights. This raised the possibility of Vietnamese leaders interpreting this as a part of an attempt to change the political regime in Vietnam. They were opposed to any intention to use human rights to intervene Vietnam's internal affairs. To overcome this mistrust, the first visit of the General Secretary of the Communist Party to the United States in 2015 was regarded as reflecting US respect for Vietnam's political regime according to the chairman of the CPV's Commission for Foreign Relations (Hoang 2015). This visit laid an important

⁴⁸ Interview with official from the Diplomatic Academy of Vietnam in 2015

bilateral political foundation between the two countries as well as building mutual trust to overcome difficult issues in the TPP, including labour rights issues.

The party leadership already recognized the inefficiency of the VGCL in handling labour problems. Some 4922 spontaneous strikes had occurred during the period of the first Labor Code operating between 1995 and 2012 (Quoc 2013). The number of disputes was expected to increase as a result of increasingly complicated industrial relations in a market economy. The new economic situation required changes in old institutions characterized by the centralized power of the VGCL. As a result, the party leadership, while very cautious about labour issues in the TPP, was nonetheless willing to consider what were clearly necessary domestic reforms.

Several options were outlined including the establishment of many independent trade unions/workers' organizations, improving labour laws and regulations, and/or improving the VGCL together with the establishment of independent trade unions (Mai 2016). Some scholars contended that enterprises exporting to the United States had already met US requirements including those about trade unions. This was because in exporting to the United States, Vietnamese contractors had to comply with orders from US firms, such as Nike and Adidas, which applied US requirements relating to labour standards. As a result, Vietnam needed only to make commitments for labour reform in traded-sectors. However, some government officials were concerned about the very thin line between traded sectors and the rest of the economy, making it politically infeasible to reform labour standards in some sectors and not others.⁴⁹ Although the VGCL participated directly in the TPP negotiations to protect their monopoly interests, it had to accept institutional changes in line with a more competitive environment.

In the end, Vietnam and the United States came to a bilateral solution to the labor issue in 2015 under which grass-roots labor unions could choose to establish their organization without prior authorization and register with the VGCL or a competent government body in order to operate (Damond 2013). A five-year schedule was permitted as a transitional period in Vietnam's case only, which would help Vietnam to improve domestic laws and organizational mechanisms. After five years, workers could establish regional or sectoral

⁴⁹ Interview with official of the Diplomatic Academy of Vietnam in 2015

trade unions based on previous grass-roots organizations. These changes were not only due to negotiating pressure from the TPP but also to the leadership's realization that the VGCL should face competition rather hold on their monopoly status in order to improve its capacity.

Thus, the regime legitimacy interests backed up with potential strategic political, economic benefits of the TPP have been the main basis for CPV's strong and consistent support. Such top party leaders' political will and support for the TPP together with their close supervision were among the most important factors for speeding up the TPP negotiations.

7.3.2 The role of the National Assembly

The role of the National Assembly in the TPP negotiation was similar to its role in the WTO accession, namely, limited to discussion with voters, internal discussion and debate, and ratification of required laws. Because of the confidentiality nature of the TPP negotiations, the interaction between the executive agencies and the legislative branch was limited, which from time to time caused frustration amongst parliamentary members. The members of the National Assembly publicly stated that their only source of information about the TPP was the mass media, which was unofficial and which provided conflicting views. They requested the government to report to the National Assembly about the signing, organization and implementation of the TPP (Chi 2015). The government therefore consulted regularly with the committees of the National Assembly, as related by the Vice-Trade Minister (Nguoilaodong News 2015).

7.3.3 The central bureaucracy's views regarding the TPP

While the Politburo is the final decision maker of the TPP from strategic points of view, the government, particularly the executives including the Prime Minister, and leaders of the relevant ministries, similar to the WTO negotiations, was directly responsible for instructions for the negotiations of the TPP. At the lower level, the bureaucracies, including the relevant ministries, carried out 30 technical sessions and 10 ministerial-level sessions during the more than five years of negotiations before conclusion of the TPP in 2016 (The 14th Plenary Session of the 11th Central Committee of the Communist Party of Vietnam 2016). The middle and low-ranking officials at the ministries participated in collecting

information, drafting and formulating the policy. Hence, the TPP trade policymaking involved with the bureaucrats, executives and leadership. Given this context, how central bureaucracy viewed the TPP greatly influenced the process of negotiation of the TPP and the TPP trade policymaking.

In reaching the TPP agreement, the central bureaucracy displayed both continuity and transformation in its trade policy thinking toward trade liberalization. First, the central bureaucracy applied a quick approach to the TPP negotiation. Vietnam was still a relatively closed economy compared to several developed TPP members, as many goods had comparatively higher MFN tariffs and were still going through long schedules of tariff removal. To meet TPP requirements, Vietnam had to change from a ‘slow’ approach used previously in the ASEAN-centered FTAs to a ‘quick’ approach with much shorter (at most, 11-year) implementation schedules. For the previous ASEAN+1 FTAs, Vietnam faced tariff elimination requirements below 90 per cent of all tariff lines (Mireya Solis 2017). By entering a trade agreement comprised of highly liberalized and developed-member countries such as Australia, Singapore, and New Zealand, Vietnam committed to achieve a high level of trade liberalization (97.8 per cent in 11 years). This level was much higher than that of the Vietnam-Japan FTA in which Vietnam committed to 75.2 per cent (Nguyen and Tran 2017).

Second, the central bureaucracy accepted a larger coverage of the TPP commitments compared to other previous FTAs. Instead of the narrow approach in the ASEAN-centered FTAs that focused mainly on goods, the TPP was more comprehensive in covering both goods and services, and border and behind-the-border areas. These areas, often known as ‘WTO Plus’ commitments, included SOEs, intellectual property, government procurement, ISDS, and labour and environment conditions (Tran 2014). As part of the enforceability of higher and stronger commitments in labor and the environment, the TPP also included stronger dispute settlement mechanisms, which linked Vietnam’s commitments on labour issues to many of the commercial benefits (Jean and Lefebvre 2015). Regarding rules of origin, Vietnam accepted the TPP’s self-certification of origin mechanism that would apply for both importers and exporters, whereas its previous ASEAN commitments only applied this to exporters (Staples, Le et al. 2017). In addition, Vietnam opened new areas, especially in financial services such as cross-border investment advice and portfolio

management services and services in support of cross-border proprietary trading or client's account trading, and cross-border processing of financial data (Vietbao News 2006).

Moreover, policymakers for the first time had to digest some new approaches to making trade agreements. One example was the 'negative list' approach to reform commitments that required states to ask for sectoral opt-outs to provisions. Although the TPP's negative list approach saved negotiation resources by not requiring sector-by-sector calculations, it also promised a much higher level of trade liberalization. In addition, it was less restrictive than the positive list approach in which countries listed the products and services on which they agreed to lower tariffs. Vietnam's trade negotiators were more familiar with the positive approach adopted in previous negotiations such as the WTO and the FTAs between ASEAN and partners. The negative list approach in the TPP posed new challenges for trade negotiators because they could not know exactly what they had committed to and committed away, especially in areas that were fast developing and changing such as service sectors. Despite some initial difficulties, however, the negative list approach was expanded for inclusion even in domestic law-making in the National Assembly, which was required to implement TPP commitments (Nguyen 2014). Hence, participating in the TPP reflected Vietnam's commitments to experiment with new approaches to liberalization compared to what had come before.

The inherent 'bargain' underlying the TPP involved developed economies offering market access opportunities for developing country members, such as Vietnam, in exchange for developing countries adopting developed countries' preferred set of regulatory rules for 'behind the border issues'. As a result, Vietnamese trade policymakers had no choice but to adapt flexibly to new ideas about the scope of trade liberalization and to compromise in new trade areas such as investment rules, intellectual property rights, labour standards, and investor-state dispute settlement (Faux 2016). Some of these new trade areas were difficult because they highlighted differences amongst political systems, institutions, practices, and values amongst the TPP members (Hoang 2014).

Some scholars believed that the authoritarian and statist approach in countries such as China could not be reconciled with the liberal and rules-based trade system Western countries favoured (Wethington and Manning 2015). Vietnam – a country that shared many

political system similarities with China – faced major challenges in negotiating these areas. For example, the TPP could risk diversion from the socialist market economy by demanding SOE reforms, or create risks to the government in case of investor-state dispute settlement, or have negative impacts for the regime and thus political stability if Western labour rights standards were applied. To deal with these new requirements, the state had to balance domestic and international pressures.

Similar to previous FTAs such as the EU-Vietnam FTA, the central bureaucracy recognized that they could be beneficial from TPP which could exert positive pressures to create a more favourable business environment and improve institutional quality (Prime Minister Nguyen Tan Dung 2016). The Communist Party viewed the institutional reforms toward socialist-oriented market economy that empower the people and enterprises as the key for building market economy by 2020 according to common standards of integrated and modern economies (Nhandan.com.vn 2017). This perception was influenced by the World Bank, which recommended that the country could avoid middle-income traps provided that the country build a competitive private sector in a lead, and the TPP offers “a real opportunity to carry out many demanding and politically sensitive reforms” (Cao, Demombynes et al. 2016). In this connection, the TPP was seen to leverage further domestic institutional reforms of domestic law to build a market economy, such as accelerating SOEs reform, creating a fair competitive environment among enterprises.

However, the central bureaucracy acknowledged that they had to deal with various TPP provisions that caused great concerns, pressures and challenges for the central bureaucracy as they targeted, challenged and weakened the state’s authority, national jurisdiction and the national legislation (Bui and tran 2017). For instance, the TPP required the latter to accept a higher level of rights and protection for investors such as the Investment and Investor-state Dispute Settlement (ISDS). The TPP was the first FTA that requested an ISDS mechanism to enforce investment rules, which allowed foreign investors to challenge host states in international tribunals in cases where they could argue that their rights were breached by the state, for instance state’s preferential treatments to the domestic enterprises. The dispute settlement mechanism would operate on the basis of International Center for Settlement of Investment Disputes (ICSID) principles.

The study of the Hanoi University of Foreign Trade recommended that the state should reserve such commitment because Vietnam did not have the institutional means to defend itself effectively in ISDS cases (Hoang 2014). Meanwhile domestic enterprises considered it as another form of protection for foreign-invested firms, as it granted them additional legal rights not available to domestic firms. They recommended that tight conditions for the submission of claims be imposed to minimize the risk of cases being brought by foreign multinationals (VCCI 2012).

Yet, the Vietnamese leadership viewed the ISDS differently as they viewed ISDS as an additional pressure to create a better business environment with more transparent law and regulations, despite concerns of a threat against national sovereignty and autonomy. Vietnam was willing to agree to the ISDS mechanism in the TPP despite the risks of being legally challenged at international arbitration by foreign investors (VCCI 2015). Domestically, the government issued Decision No. 04/2014/QĐ-TTĐ dated 14/1/2014 on coordination mechanism for international investment dispute resolution, as a step for preparation for participation in the TPP. Accordingly, the government prepared a coordination mechanism among state agencies, relevant organization and individuals to cooperate with foreign tribunals in case of international investment disputes (Prime Minister 2014). In addition, the government prepared a group of expert and lawyers for such disputes.

Central bureaucrats' business interests - state owned enterprises – the vested group impacted most by the TPP

While the central bureaucrats were well aware of the importance to join the TPP for opportunities of economic development, they were also keen on protecting their own business interests, as reflected in the efforts in protection of the SOEs' interests. This thinking was demonstrated through the government's negotiation of the SOEs chapter and Government Procurement chapter.

While SOEs were a sensitive issue that was not mentioned in Vietnam's ASEAN-based FTAs, the TPP was unique in that it contained a dedicated chapter on SOEs. These were one of the main targets of developed country TPP members to create fair trade rules and hence SOEs were amongst the first issues discussed in the negotiations (Central Committee

of the Communist Party of Vietnam 2016). One of the noticeable and new commitments was the transparency rule, which required governments to provide additional information about ownership, control, and non-commercial assistance given to SOEs on the request of other TPP members. As a VCCI representative indicated, this was especially significant given that Vietnam's list of SOEs had never been publicly revealed before (Hoang 2016). It also required that state subsidies should not be excessive or cause adverse effects to the interests of other TPP parties (USTR 2015). Hence, these requirements from the TPP members directly reduce the privileged positions of the vested groups – the SOEs. As explained in the chapters earlier, the SOEs enjoy special positions that can have direct impact on the government, as the line ministries were both managers and owners of the SOEs.

The SOE commitments were possible as they were in line with Vietnam's policy at the time of gradually eliminating preferential treatment for SOEs (Prime Minister Nguyen Tan Dung 2016). As explained by the Deputy Trade Minister Tran Quoc Khanh, by the time of the TPP negotiations, the state had changed its thinking and agreed that less competitive, ineffective, and highly protected sectors should now be subject to competition, even SOEs (Vo 2005). In this way, the TPP commitments created new pressure to accelerate SOEs reforms that were already underway, and would, therefore, encourage private sector development.

Despite overall support for the SOEs commitments in general, trade negotiators still attempted to protect the SOEs such as Viettel Telecom, Vietnam Post and Telecommunications (VNPT), and Vietnam Petro. During negotiations they sought to exclude these SOEs under the negative list rule on the grounds that they operated for national defense and security purposes. However, the TPP partners rejected this claim. As explained by a representative of the Ministry of Industry and Trade, this was because Viettel had become one of the top 10 telecommunication groups in the world and was, therefore, not a national security enterprise and should be subject to transparency requirements for commercial activities (Ngoc 2016, Ngoc 2016).

This disagreement was due to the differences in approach amongst the relevant parties. The SOEs were targeted aggressively by the United States during negotiations on the grounds

that it wanted to prevent what it labelled ‘state capitalism’ (European Center for International Political Economy 2015) and to open up these sectors for its multinational corporations. Meanwhile, the underlying reason for Vietnam’s protection of SOEs was the SOEs’ continued role as a tool for the state to implement its economic regulatory and market stability functions, despite the SOEs’ lower efficiency when compared with the private sector (rfa 2013).

Ultimately, a compromise between these positions was found in which Vietnam was allowed to apply certain exceptions for its SOEs under the negative-list approach. For example, the TPP excluded SOEs activities that might cause adverse effects on the investment business of non-TPP members and those activities relating to national defense and security measures, and emergency measures for implementing state functions. In addition, Vietnam (with Brunei and Malaysia) secured a provision that the rules would only apply to SOEs with a turnover of more than SDR500 million a year, which compared with an SDR200 million threshold for other TPP members (Hoang 2016). Translating this into the domestic system, a revenue threshold was set up with those SOEs with an annual revenue below VND 16 trillion were exempted from most of the TPP obligations, which resulted in very few Vietnam’s SOEs being subject to the rules.

Government Procurement:

Another difficult issue that related to the state business interests, or vested groups – the SOEs was government procurement, which took six years to complete negotiation. In the TPP negotiations, the term ‘government procurement’ was relatively new to the Vietnamese government, including both policymakers and National Assembly members, as Vietnam had only the one ‘Bidding Law’ of 2005 in place. In practice, government procurement in Vietnam covered government, SOEs and investment projects where the government provided most of the funding (Nguyen 2012). Hence, government procurement in the TPP promised great change for domestic market regulations and the state’s role as an economic actor.

With transparent and open procurement rules, the SOEs – which had previously enjoyed direct contracting from the government - would face direct competition with international companies for the first time. Academics in Vietnam adopted a supportive view, seeing the

benefits of government procurement commitments in the TPP for the public investment system by increasing the transparency, which would serve as a preparatory step for Vietnam to join the WTO's Government Procurement Agreement (Hoang 2014). Scholars recommended that commitments be negotiated so as to exploit Vietnam's status as a developing economy by requesting a transitional period from three to five years, exemptions for the Ministry of Public Security and the Ministry of National Defence for security reasons, and exemptions for local authorities because of limited capacity for implementation (Hoang 2014). However, the strongest constraint came from the government agencies themselves. As explained by the Director-General of the Public Procurement Agency, this agency were hesitant to follow the transparency and information disclosure rules (Trung 2016).

The policymakers shared the same view that government procurement rules could help to address a lack of transparency in domestic economic activities, particularly relating to the implementation of the Procurement Law (tienphong 2016) and corruption in public investment projects (Dang 2013). The public would also benefit from more competitive prices and better quality goods by increasing the domestic competitiveness using external pressures to change the domestic environment, as stated by the head of the government procurement division of the TPP delegation (Nguyen 2012). The Deputy Minister of Industry and Trade Tran Trong Khanh explained that the government had to balance different views. For instance, some views that because government procurements use the people's money or people's tax contribution, the government should give priorities to domestic goods and domestic enterprises or the government should use money in the most effective way (VTV 2016).

The trade negotiators were only able to balance these issues by securing a relatively long schedule for reform, to avoid a sudden shock for the economy, limiting the rules to goods and services procured only by central authorities and obtaining exemptions for provincial authorities because of their limited technical capacity. The head of the government procurement division of the TPP delegation explained that this type of schedule helped domestic firms by allowing time for their increasing competitiveness rather than depending on 'personal relationships' and 'reliance' on the government (Bich 2015). However, the final position of the Prime Minister was to narrow the areas being hold by the SOEs to open

more market space for private sector's participation as reflected in the Prime Minister's Directive in 2017 (Prime Minister 2017).

The reasons for the above changes of the central bureaucracy's position, i.e. accepting harder and more open commitments in a short time are multifold. First, the institutional reforms leveraged by the TPP was in line with the government's change of thinking regarding the state's role and functions, i.e. changing from a regulatory state to developmental state. The developmental state does not act as an apparatus for domination of one class over other, but transforms to manage, serve and provide public services (Ngo and Nguyen 2017). This reflects that the central bureaucrat accepted to narrow the scope of its authority or to limit its intervention in a market economy, which is suitable with the developed countries' economy models, facilitating Vietnam's economic integration and doing business with them. Thus, the central bureaucracy has to place the overall benefits for the country over their own interests of maintaining the authority and power.

Secondly, despite strong motivations for negotiation, the process was under pressure because of the high demands from the other TPP members, especially the United States, while Vietnam was one of only a small number of developing economies that joined the TPP negotiations in 2010. During the process of negotiations, the trade negotiators had to maintain a flexible and adaptable approach in order to reach a successful conclusion while maintaining a balance between external and domestic pressures.

Thus, the central bureaucracy, those directly involved in preparing, formulating and negotiating the TPP accepted to change to be more flexible to accommodate with new challenges and grasp opportunities of the TPP. While the TPP could facilitate the domestic institutional reforms to build a market economy, it also required the bureaucracy to narrow their political interests, i.e. their authority and power, limit their own vested business interests by placing the national interests as the first priority.

In short, the state, particularly, the CPV and central bureaucrats had strong interests in pursuing the TPP for the organizational benefits such as regime legitimacy. On the one hand, the TPP's beyond-the-border commitments exposed clearly the government agencies' concerns, as they required dramatic changes in the latter's thinking and interests. Thus, moving towards TPP standards as a benchmark required the transformation of the

government's redefinition of their mind-set and interests, assisting the formulation of new policy practices that encouraged greater fairness and transparency, and enhanced the business environment.

7.4 The state-society relationship

7.4.1 More involvement of the business community

A great change in the TPP negotiation in comparison with the WTO accession was a larger number of various levels of interaction between the state and society. These channels could be, for instance, the interaction between the Prime Minister, ministerial and provincial levels, party and National Assembly members with the voters, enterprises and people continued to improve the state-society relationship regarding trade policymaking. From 2010 to 2016, various international and national conferences, workshop, and seminars were organized for interaction between the relevant ministries. For instance, the Ministry of Industry and Trade met the domestic and international enterprises to explain about the TPP in terms of the impact assessment, opportunities and challenges, and recommendations to support domestic enterprises.

Hence, one of the most remarkable changes in the state-society relationship during TPP policymaking was the greater effort made by the state, mainly the government agencies, to reach out to societal actors, especially relevant business associations. For example, the representative of the Vietnam Association of Seafood Exporters and Producers (VASEP) was very complimentary about the government's efforts to reach out to enterprises. For the first time after years of international trade negotiations, trade negotiators from the Export and Import Department of the MOIT visited the VASEP office to discuss, consult and collect information regarding tariff and negotiation issues of concerns. The interpersonal networks reached new depths, such that trade negotiators could even call the business associations to consult on tariff offers for certain product categories during the negotiations.⁵⁰ In other instances, business associations followed the negotiation team and actively participated in in-depth consultation and provided advice on the sidelines of the negotiations (Dieu 2015, Minh and Ngoc 2016).

⁵⁰ Interview with official from the VASEP in 2016.

The VCCI supported the government in the TPP negotiations by undertaking technical studies and developing recommendations for negotiating points (VCCI 2015). These recommendations ranged from general approaches to specific issues including labour, investment and international investment dispute settlement, intellectual property rights, and cross-border service provisions. In general, the VCCI expressed its support for the TPP negotiation with the objective of “increasing trade liberalization, searching for new opportunities and facilitating the growth of the competitiveness of Vietnamese enterprises and the economy in global trade” (VCCI 2013). Nonetheless, the VCCI requested that the government ensure that the TPP would not only offer benefits for Vietnamese enterprises and the economy but also protect the interests of vulnerable groups such as farmers, workers, and small and medium enterprises (Nguyen, Alam et al. 2007). These recommendations were officially sent to the government and were also publicly posted on the VCCI’s website. Compared to the WTO accession, enterprises, especially the VCCI, expressed support for the TPP more publicly in the mass media.

However, despite these efforts, the VCCI and other business associations such as VASEP were not active to the point of proactive initiation of the idea of signing a certain FTA, including the TPP, with trading partners that they felt were important.⁵¹ While they were prepared to contribute to the TPP negotiations once they were underway, the decision to join the negotiations in the first place remained squarely that of the top leadership. In addition, relationships did not develop to the level where a joint drafting committee or a task force for negotiation of the TPP comprising representatives of both state agencies and societal actors was established.

Policymakers also sought public support for their decision to join the TPP. However, this was often done in ‘managed’ ways. According to a VCCI survey on enterprises’ awareness of the TPP, the state provided groups predicted to be positively impacted with more information than those groups predicted to be negatively impacted (Xuan 2016). As a result, the former tended to support the TPP, and surprisingly, domestic firms displayed stronger support compared with FDI groups (72 per cent and 67 per cent respectively in 2015) (Vov 2016). However, domestic business support for the TPP declined by 11 per cent

⁵¹ Interview with official from the VASEP in 2016.

in 2015 compared with 2014 because businesses were disappointed that the terms for SOEs would not result in bigger reforms for these enterprises (Xuan 2016).

Contributing to shaping the government's interests and ideas as presented above, foreign academics also participated in policymaking by providing various studies, serving as a source of scientific input into policymakers' decisions. According to a European study, Vietnam's GDP was expected to increase by 11 per cent by 2025 on the assumption that Vietnam's enterprises could participate in global supply chains and the Government of Vietnam could implement administrative reforms based on TPP commitments (Eurasia Group 2015). The World Bank in its Global Economic Prospects report in January 2016 claimed that Vietnam's economy could grow by 10 per cent by 2030 and exports by around 30 per cent (World Bank 2016). The TPP was expected to attract more interest than other FTAs because of the high level of trade liberalization, with tariff elimination of more than 98 per cent of tariff lines in a short schedule, facilitating potential export growth by 25.8 per cent and GDP growth by 14.27 per cent by 2025 (Petri, Plummer et al. 2011).

The CPV and government leadership shared common views with international studies supporting their TPP policy, citing the figures presented in these studies in their statements. The central bureaucrats' views of the potential economic gains were first formulated by the relevant ministries' analyses of exports and imports between Vietnam and its TPP trading partners. These analyses helped them to predict potential economic costs and benefits, and winners and losers.⁵² For instance, GDP could increase by US\$23.5 billion by 2020 and by US\$33.5 billion by 2025 as cited by the Deputy Trade Minister (Nguyen 2016). In contrast with WTO accession, the government was supported by feasibility studies done by ministry-affiliated research institutes, international studies such as quantitative assessments of TPP impacts (Petri, Plummer et al. 2011), and various academic studies such as that done by the Hanoi University of Trade (Hoang 2014).

Thus, state-society interaction during the TPP negotiations was significantly more developed compared with WTO accession, or indeed the earlier FTAs. This expanded interaction was demonstrated by the institutionalized mechanism for interaction between the state and business in 2012 and the depth of consultation relating to specific tariff lines

⁵² Interview with official from the Ministry of Foreign Affairs in 2016

and commercial interests. However, the government's reaching out to society mainly focused on business associations rather than encompassing all of society and civil society organizations. This selective approach reflected the government's privileging of business over civil society organizations. In line with the overall support for the TPP of both the business community and government agencies, other beyond-the-border trade policies elicited limited domestic opposition. The main reason was because these issues were new to trade policymakers and there was limited understanding of both the costs and benefits of implementing such reforms. Indeed, government agencies viewed these issues as external leverage for domestic reforms rather than a source of constraints.

7.4.2 Balancing competing interests

The nature and role of the state is more revealed through the state's behaviours in regards to shaping their positions given societal actors' diverse interests. As with all trade agreements, the state has to deal with the issue of balancing between interests, identifying what to protect, what to liberalize, and the extent of liberalization (Singh 2005). This section will discuss the arguments that took place between offensive and defensive interests on the TPP. Discussion of how the state harmonized different interests for different sectors in coping with external partners' demands helps to illuminate the position and thinking and the relationship between state and non-state actors, and how they managed the external pressures of the TPP together.

The government's offensive positions

As stated by the Director General of the Multilateral Trade Policy Department of the MOIT, the government was more interested in opening the market for goods while less interested in other areas such as services, investment, and government procurement (Phan 2016). This position was formulated on the ground of policymakers being informed of the possibilities of winners and losers (including vulnerable groups) through technical studies carried out by both international and national experts and academia. For instance, the 'winning' sectors, such as the textile sector was expected to increase in size by up to 20 per cent. This expected enlargement would generate considerable employment by creating approximately 250,000 jobs for every US\$1 billion of textile exports (Kinhtevadubao 2015). Exports of footwear, agricultural and aquaculture products, and furniture were also

expected to increase as a result of the elimination of high tariffs for example, 28.66 per cent for rice, 12.25 per cent for footwear, and 11.53 per cent for textiles (Phung and Nguyen 2016).

The TPP would not only expand exports of these products but it would also create competitive advantage over competitors such as China, Indonesia, the Philippines and Thailand in developed country markets such as Japan and Australia (Ministry of Industry and Trade 2015). Trade experts argued that Vietnam could benefit from rice exports to TPP economies compared with countries such as Thailand and India, Vietnam's biggest rice export competitors, which were not TPP members and which would not enjoy preferential access. In addition to Vietnam's two main rice markets (Singapore and Malaysia), there was great potential to export rice to the other nine TPP members, especially since Vietnam's rice exports accounted for only 1.6 per cent of total rice imports in these countries. Enterprises in the sector had prepared for the TPP by building a raw material zone, opening more factories, and improving rice quality (Quang and Chi 2013). However, these advantages might last only for a short time, particularly if these competitors join the TPP later as was a possibility under its accession provisions. Hence, the state strived to secure the best deal ever for these sectors for the best possible gain from the TPP in the intervening period.

The government supported certain sectors that would be most promising beneficiaries of the TPP. For instance, the textile and garments sector was expected to gain the most and, as such, was given top priority in the negotiations. The Head of the TPP negotiation delegation, Deputy Minister of Industry and Trade stated that Vietnam could not sign the TPP agreement without major gains in garments and textiles. The Vietnam Textiles and Apparel Association requested trade negotiators to take into account the interests of the sector's two million workers and enterprises (VCCI-TrungtamWTO 2011). This sector was the last, and toughest, issue in the negotiations amongst Vietnam, the United States and Mexico according to the chief Vietnamese TPP negotiator (Nguyen 2015). Vietnam could also take advantage of the fact that China, its main competitor in the sector, was not a TPP member and hence Vietnam requested a cut in the tariff from 17 per cent to 0 per cent. The United States, under the pressure of domestic textile firms, set tight conditions using the 'yarn forward' rules of origin, which meant that all products in textiles from the yarn stage

should be from a TPP member, in order to limit Vietnam's textile imports (McKissick 2013). The MOIT's view was to apply the 'cut and sew' rule instead, which provided flexible sourcing, either fabric or any origin. The reason was because Vietnam's 70 per cent of the sector's raw materials were imported mainly from non-TPP members such as China, South Korea and Taiwan. Options for Vietnam were either the 'yarn forward' rule of origin or a long tariff removal schedule of 8-10 years (VCCI-TrungtamWTO 2011).

After much internal deliberation, Vietnam's ultimate position was the adoption of the US rule of origin proposal for the short supply list covering fibers and fabrics from any country for a permanent and temporary basis, as previously applied in other US FTAs. In exchange, Vietnam was able to secure more ambitious tariff reductions. Vietnam's government was able to achieve this outcome through an intervention by the Prime Minister who worked with the US ambassador and President Obama during the ASEAN Summit in 2016 to reduce gradually about 1,000 tariff lines for textiles to 0 per cent. This tariff reduction would help the sector's growth from 7 per cent/year to 15 per cent/year and save US\$1.1 billion in duties on Vietnam's textile exports (Phan 2016). Another beneficiary would be the foreign invested enterprises in Vietnam (many of which were American-owned such as Huntsman Textile Effects!), which would benefit because they accounted for about 60-70 per cent of exports from this sector (Ho 2015).

The government's defensive positions

The government's cooperation and support for domestic enterprises is also reflected in the formulation of the government's defensive positions. In addition to the offensive interests, trade negotiators also attempted to shield the areas that would be exposed to foreign competition. The goods at risk were those where the comparative advantage of other TPP members was strong, such as dairy products, beef, poultry, steel, automotives, and paper. For negatively impacted sectors such as animal husbandry, the government recognized the possibility of losing in the domestic market once the market was open to imports because of the tariff of 0 per cent, especially in pork and chicken (Kinhtevadubao 2015).

Because of their low competitiveness, limited capacity, and poor technology, these sectors requested protection from the government. The business associations, through the VCCI, requested four options for protection: (i) application of the same tariff level as the

AANZFTA; (ii) a tariff schedule; (iii) tariff restriction quotas (TRQ);⁵³ and application of SPS and TBT measures (VITAS 2011). It was recognized that while several agricultural sectors could be negatively impacted, these effects would be concentrated in a short period of time and had a relatively limited scope (Tuoitre Online 2015)

Facing such pressures, policymakers used various methods to defend the weak sectors' interests, one of which was via a schedule for tariff removal (VTV 2013). Different schedules were applied extending over five to 11 years. Vietnam was also able to maintain tariffs from 2-40 per cent for about 70 products, most importantly coal, oil, and some mineral resources (Ministry of Finance 2017). The products most vulnerable to competition such as meat, beer and alcohol, sugar, salt, eggs, petrol, automotives, steel, and some automotive accessories also benefited from the longest (11 years) phase-in periods for tariff reduction. As argued by the Prime Minister in the report of the government to the National Assembly about the TPP, these delayed schedules gave domestic enterprises time for adjustment and restructuring, during which they could enhance productivity, efficiency, and competitiveness before facing the full force of foreign competition (Xuan 2015). In addition, the government promised to protect and provide temporary assistance for domestic industry for a fixed period of time (Do 2015).

The most heavily affected actors were animal husbandry enterprises and their trade associations, which were concerned about their lack of competitiveness compared with countries such as Australia, New Zealand, and the United States. These countries had very high standard sanitary and phytosanitary barriers, which would make it very difficult for Vietnamese exporters to exploit opportunities arising from improved market access resulting from reciprocal tariff reductions. The sector therefore requested that the government apply protection mechanisms, either by implementing a tariff rate quota (TRQ) or by applying the schedule for sensitive agricultural products that was used in the AANZFTA of 2010 between ASEAN and Australia and New Zealand (Quang and Chi 2013). The trade negotiators were successful in protecting the animal husbandry sector, especially pork and chicken, securing a 10-year phase-in period (Phan 2015). Enterprises in the animal husbandry sector also found a way out by investing in niche markets where

⁵³ Tariff rate quotas combine quotas and tariffs to restrict imports. The quantities inside a quota are charged lower import duty rates than those outside (According to the WTO's Glossary terms)

competition was less pronounced, such as by focusing on free-range chicken, high quality chicken, and high quality eggs. The Vice Chairman of the Animal Husbandry Association thus argued that the TPP could actually be beneficial as it would create pressures for the sector to reform and move up the value chain to higher value products (Ho 2015).

To deal with sceptical groups who were concerned about the possibility of an economic recession owing to the weak competitiveness of the economy, the government pointed to past successful experience with trade liberalization. Deputy Trade Minister Tran Quoc Khanh argued that no recession had ensued after signing FTAs with such major economic actors such as the United States, Canada, Australia, and New Zealand (Ho 2015). Besides, Vietnam could reap the benefits of market access gains in the United States, and as Vietnam's exports accounted for only a small proportion of the total US import bill, there would be little concern around bilateral trade balances. Overall, pro-reform policymakers were confident with the decision to join the TPP because economic studies, as well as past achievements, proved that trade liberalization contributed to national growth and development through the process of international economic integration.

In short, the government achieved a successful balance between offensive and defensive interests in the negotiation of the TPP. The government was able to promote the offensive interests of key sectors such as aquaculture, agricultural products, and textiles and garments by achieving tariff elimination for these sectors at the time of TPP implementation. In addition, the government was able to protect defensive sectors achieving by certain exceptions and ensuring a reasonable trade-off between winners and losers.

7.5 Conclusion

Through the TPP process, Vietnam's trade policymaking accelerated its longstanding development towards a more participatory and reform-oriented approach. This development was reflected in the continuing transformation of the role of key actors, their ideas, and interests, and in changing institutions. For example, trade policymaking witnessed the continuation of dynamics that would help the country adapt to the new requirements of the distinctive TPP. A mixture of top-down and bottom-up approaches developed during the WTO accession process remained the principal policymaking mechanism. The Communist

Party continued to act as the primary guide for TPP strategy, particularly as it became involved in sensitive issues that could not be dealt with by bureaucratic agencies alone. Indeed, the role of the CPV was strengthened in relative terms given the need to manage the broader range of strategic, political and security interests in the TPP. The central bureaucracy focussed on the economic aspects of the TPP agenda and shaped public opinion through the mass media and organized communication with societal actors. Ministry-linked interests groups also continued to play a decisive role in the country's positions in TPP negotiations. SOEs were especially prominent here. They sought protection on the grounds of national defence and security concerns in areas such as telecommunications and national energy security.

Despite these institutional continuities, however, the tendency towards a more participatory approach to trade policymaking (which began with the WTO accession) continued. For the first time, trade policymaking was based on scientific information and inputs from not only government-affiliated research institutes but also the universities, business associations and firms. Non-state actors increased their influence because trade policymakers were increasingly sensitive to the importance of consultation with societal actors. However, the government remained the key actor that initiated, negotiated and made the final decisions relating to the TPP.

Secondly, the TPP saw a transformation in the state's ideas and interests with respect to trade. Externally, the CPV recognized the changing regional context with increasing strategic competition between the United States and China, which was now impacting on the Asia-Pacific trade architecture. Economically, the region was moving towards a new phase of economic development facilitated by service sectors, information technology and the digital economy. Given this changing trade policy agenda, the state began moves towards a higher, 'WTO-Plus' level of trade liberalization. As a corollary, the state had to accept that further opening to competition from developed economies and their firms, rather than prioritizing protection for weak sectors, would be required. The state also had to cope with new challenges that could risk the stability of the political regime, such as labour rights and the digital economy, which had not hitherto been part of Vietnam's trade reforms.

In addition, the TPP required Vietnamese policymakers to balance a much wider set of considerations than before. As the TPP was not limited to trade issues and involved institutional and geopolitical factors as well, it was much more than simply an economically-oriented agreement. The economic rationale for the TPP was broadly similar to other agreements and entailed, for example, increased market access, foreign investment, and the facilitation of domestic reforms. However, its geopolitical aspects made it different from other FTAs as it was seen as a way for Vietnam to implement its ‘balancing’ foreign policy by entering into a trade agreement with the United States. These ideas and interests meant that the TPP was both an economic and geostrategic imperative for Vietnam.

Despite these benefits, negotiating membership of the TPP required Vietnam to internalize much higher reform costs than its previous agreements. Ministry-linked interest groups continued to impact on the country’s positions in the TPP negotiations in order to protect their interests. The state had to accept high costs from the institutional, economic, and political reforms demanded by the other TPP members. However, despite the costs, the huge economic and strategic benefits on offer saw the central leadership pushing ahead with the deal. Such active moves marked a new phase in Vietnamese trade policymaking where ‘offensive’ interests for the first time trumped ‘defensive’ needs to protect sensitive sectors. In this way, the successful negotiation of the TPP was possibly due to the political consensus within the political system and especially strong political will of the leadership for reform and trade liberalization and the improved capacity and better cooperation between government officials and business associations.

Chapter 8: **Conclusion**

8.1 Introduction

This thesis has sought to explain Vietnam's transformation from a closed and protectionist state to a liberalizing and active trade policy player. It has traced changes in the trade policymaking process during this transition, first thematically and then via case studies of Vietnam's WTO accession and participation in the TPP agreement. The thesis has mapped how transformations in four variables – trade policy actors, ideas, interests, and the institution that mediate their relationships – have driven this transformation. The chapter concludes by bringing together the analysis of these four variables to explain the overall trajectory of Vietnam's trade policy reforms. It argues that Vietnam's move to trade liberalization was the result of compromise and a harmonization of differences among key domestic actors arising from the transformation of their ideas via interactions structured by the unique institutions of the Vietnamese political system.

The thesis shows that most important factor in Vietnamese trade policymaking is the role of the CPV and the institutional arrangements for state policymaking that its prominent political role has created. However, the thesis moved beyond state-focused analysis: rather than considering the state as a monolithic actor, it instead analyzed the key players within and beyond the state. This approach identified these players, showing that the emerging role of this broad range of actors was the result of the expansion in complicated trade issues and the enhanced awareness of the policymakers of the role of firms. The interplay between these state and societal actors, in a reforming ideological and institutional climate, provided the mechanism through which Vietnam's progressive trade liberalization process was successfully negotiated.

The chapter begins by summarizing the principal empirical findings of the thesis and then identifies the causal drivers that have shaped Vietnam's trade policy choices. The last part

discusses the theoretical and empirical contributions of the thesis to an explanation of the dynamics of trade reform, particularly in developing and non-Western countries. The aim of this concluding chapter is not only to provide a summary of factors that shaped the process of Vietnam's trade opening, but also to identify the theoretical and empirical implications of the Vietnamese case for the study of trade policymaking in other countries.

8.2 Empirical findings on Vietnamese trade policymaking

8.2.1 The role of domestic interest groups

The first research question of this thesis is how have domestic actors influenced trade policymaking? The findings show that trade policy strategy is mainly attributable to the determination and the political will of the leadership of the CPV while technical aspects were more the responsibility of the central bureaucracy. The CPV was the group that adopted a general strategy of international economic integration as well as taking specific steps for implementing this strategy such as joining AFTA, the ASEAN-centered FTAs, and pursuing WTO accession. The initial decision to transition from being closed to an active trade player was primarily the decision of the CPV. Similarly, the idea of furthering trade liberalization by participating in high standard agreements such as the TPP was not driven by the demand of societal groups but rather by the top leadership's desire to increase competitiveness for national economic development. The CPV leadership was supported by new pro-trade constituencies within the bureaucracy, which emerged out of the expansion of technical issues covered in the trade agreements. These groups contributed to shaping Vietnam's participation in trade agreements by providing expert skills, knowledge, and consultation abilities.

As such, societal interest groups were typically absent from the policymaking system when the initial decisions on *whether* to enter particular trade agreements were made. However, once these initial decisions were made and Vietnam needed to make policy regarding *how* to negotiate and implement these agreements, the involvement of societal actors increased dramatically. For example, the state began systematic consultation with business associations for detailed information regarding tariff lines and the impact of proposed tariff

cuts resulting from TPP implementation.⁵⁴ This improved interaction was an unprecedented change that had not happened prior to the commencement, or during the early years, of trade reforms. It reveals a fundamental transformation in Vietnam's approach to trade policymaking where state actors have moved closer to, and directly engaged with, societal actors during the negotiation and implementation phases. However, this process was still far removed from the assumptions of the (Western-centric) societal-based approach to trade policy, which explains state decisions simply as an aggregation of societal preferences. While societal interests were able to play a role in the policymaking process for the first time during the negotiations, it ultimately remained the CPV and its agendas that set high-level strategy regarding which trade agreements should be entered into in the first place.

During Vietnam's trade policy reforms, several institutional changes were made to ensure the flexibility required to adapt to changing circumstances. This transformation principally took the form of expanding the suite of trade policymaking actors, bringing in new players from both within and outside the state apparatus. First, within the state, trade policy decision-making was expanded to include an increasing number of ministries and agencies of relevance beyond dedicated trade bureaucrats. This expansion was due to the increased complexity of Vietnam's new trade agreements, which required greater technical skill and professionalism than the small top leadership group possessed on its own. While the power to make strategic policy remained with the CPV top leadership, the central bureaucracies were empowered to provide professional consultation, assist with the negotiations for, and draw plans for the implementation of, complex trade agreements. These bureaucracies, which were equipped with improved technical expertise regarding international trade law and negotiations, helped to reduce the knowledge gap between (the formerly command) Vietnamese economy and its market economy trade partners.

Second, outside the state, trade policy networks were expanded to include societal actors, most significantly the business community, first by informal and ad hoc contacts and then by institutionalized mechanisms. The number of societal groups involved in trade policymaking increased and their trade preferences also changed, influencing the path and extent of trade liberalization. This improved participation was the result of the state's

⁵⁴ Interview with official of the VASEP in 2016

economic liberalization, which opened up space for the private sector's development, as well as the demands from the private sector for a greater voice in trade policymaking.

The key societal interest groups for Vietnamese trade policy were the SOEs, new foreign-investment enterprises, and the nascent domestic private sector. As a result of the bureaucratic control of policymaking, the ministry-linked interest groups such as the SOEs tended to have a better relationship and access to policymakers than private sector firms. The SOEs had direct linkages and shared interests with both the central and local authorities and continued to hold a privileged position in the Vietnamese political and economic systems. Foreign-investment enterprises also received preferential treatment and had better access to trade policymaking. For example, sectors such as the automotive industries managed to secure very high tariff protection despite external commitments, and enjoyed long lead-in times for tariff removal where it occurred. In contrast, nearly 98 per cent of private sector firms were small and medium enterprises with diverse interests. These enterprises were weak in terms of financial, human and technical resources, and lacked the political capital to coordinate amongst themselves or to make effective representations to policymakers. Thus, Vietnamese state agencies involved in trade policy remained relatively insulated from private sector interests when compared to the prominent role of corporate lobby groups in Western countries.

Of course, given the initially highly protected nature of the Vietnamese economy, several groups were reluctant to embark on reform. Joining international trade agreements required accepting and integrating international rules into domestic legislation, which constrained the state's ability to protect some interest groups. For example, an implication of the WTO's national treatment principle was that policy could not discriminate between different enterprises: either between domestic and foreign-owned, or private and state-owned, firms. This meant that liberalization carried distributional outcomes under which some groups benefited while others were harmed. However, owing to CPV control of the Vietnamese political system, certain 'losers' were unable to engage in much political resistance. The state was relatively unconstrained by domestic veto players, a situation quite different from that found in many Western economies. Therefore, despite conflict between the interests of protectionist and liberalization groups, successful and smooth trade reforms were made possible by the ongoing prominence of the CPV.

8.2.2 The transformation of trade policy interests and ideas

The second research question of the thesis explored how the ideas and interests underlying actors' preferences influenced trade policymaking. The analysis of Vietnam's trade policymaking reveals that both material and ideational considerations were influential in leading to the adoption of the reform and trade liberalization.

Changes in the ideas regarding the appropriate form of trade policy for Vietnam were an important determinant in several ways. First, the CPV leadership's ideas about the country itself, particularly its view of the international system and Vietnam's perceived place in it, shaped trade policymaking. Policymakers shifted from an autarchic approach in the 1980s to a progressively more liberal approach from the early 1990s onwards owing to increasing engagement with trends in the global trade architecture. These included the emergence of regional and bilateral FTAs alongside the opportunities offered by membership of the WTO following its creation in 1994. Recognizing global economic trends such as the interdependence of economies, the emergence of trade agreements and the development of globalized industries, the CPV leadership decided that Vietnam's best position in the world would be one in which it moved from isolation to active participation. This awareness contributed to the creation of a consensus in favour of international economic integration that would pave the way for the challenging domestic reforms required for membership of global, regional and bilateral trade agreements.

Secondly, state elites recognized the importance of transforming its relationship with the 'capitalist' world from one of antagonism and resistance to one of peaceful coexistence. This ideological shift reflected the end of the Cold War and the emergence of new attitudes - both in the West and the East - regarding the relationship between capitalist and socialist systems. In doing so the leaders also adjusted their own ideas regarding socialism within Vietnam during the process of opening the market. Similar to China (but different to the 'shock therapy' reforms in the former Soviet Union), the state *adjusted* (but did not *abandon*) the socialist orientation in the trade liberalization process by building a 'socialist-oriented multi-sectoral economy' under the state's management and the party's leadership. One of the methods for such an economy was to protect the interests of SOEs in key sectors

during the negotiations. Importantly, the trade negotiating position was thus influenced by the ideas of maintaining state control over key sectors.

Thirdly, the national leaders transformed their economic ideology regarding national development strategy. Protectionist ideas were gradually replaced by pro-liberalization thinking, which facilitated the development of various sectors by encouraging engagement with the global economy through trade and foreign investment links. In addition, economic integration and upgrading the domestic economy by moving towards international standards and rules became a clear direction for the state. The process of transformation in such thinking was supported by the learning process of trade policymakers through contacts and negotiation with pro-trade external partners as well as via enhanced understanding and capacity amongst Vietnamese trade bureaucrats.

Similar transformations were also seen in the outlook of both public and private trade policy actors. For the CPV leadership, the ‘public’ interest was the promotion of the national interest, while its ‘private’ interest was regime survival. Pursuing trade liberalization by participating in the WTO and various FTAs suited both these agendas. Initially, political considerations were paramount and were evident in the decisions to join AFTA and the WTO accession during the 1990s. These agreements were important in ensuring that Vietnam was an active participant in key regional and global economic institutions, putting the country on a politically equal footing with its peers and building and strengthening diplomatic relations with them. Foreign policy objectives – such as balancing Vietnam’s position between the regional superpowers China and the United States – became important in the 2000s. This balancing approach was especially evident with respect to the United States as the desire to build economic ties with the world’s largest power emerged as one of the primary reasons Vietnam joined the high-cost TPP negotiations. In this way, the interests of the state in relation to trade liberalization adapted to new geopolitical developments at the regional and global levels.

The economic interests of Vietnam gradually gained more weight in trade policy largely because of the big opportunities that participation in trade agreements offered for domestic economic development and growth. These opportunities included attracting foreign investment, increasing market access for Vietnam’s goods abroad, and the generation of

external leverage to push forward domestic economic reforms. The CPV leadership's decision to sign bilateral and multilateral FTAs with key trading partners before eventually seeking membership in the WTO was rationalised by these expected economic benefits. They were realized and the liberalization path was reinforced by the positive economic development and high GDP growth rate from 1986 onwards. That this high growth period continued despite the Asian financial crisis of 1998 and the global financial crisis of 2008 was testament to the success of the strategy. Such economic achievements consolidated the leadership's confidence in their national development strategy based on global economic integration.

Similarly, the party-state's 'private' interests influenced trade policymaking. For instance, the state had to balance and harmonize concerns about political stability and the regime legitimacy of the CPV alongside the country's economic development interests. In addition, sectional interests including concern about loss of autonomy acted as one of the factors that shaped the attitude of government officials. These interests also framed the debates between the reformers who wanted to build new institutions which were more transparent and responsive to economic and societal needs; and the conservatives who wanted slower reforms in order to maintain their privileges.

Besides the state as the primary actor in trade policymaking, society actors, mainly the business community, gradually emerged as an important actor. With the increasing number of private firms as a result of liberalizing economic reforms, the business community's attitude towards trade policy changed from non-interest to active participation in the policymaking process. These transformations, though slow and limited, opened a new, independent political space and set the path for more active involvement of societal actors in policymaking.

This new phase in the involvement of societal actors was different in Vietnam compared with other countries as the societal actors played a secondary role. New interest groups emerged and supported the trade agreements because they were able to expand their export activities and new opportunities in overseas markets. At the same time, a large number of businesses, mainly small and medium enterprises, faced difficulties in competing against foreign products and continued to rely on the government's support for survival and

development. Being in an early phase of development, the political capacity of business associations was yet to consolidate, which was reflected in the fact that they had little ability to resist or protest against major trade reforms, which in certain situations threatened their interests. Thus, the thesis concludes that Vietnam, despite being a socialist regime, managed to open an independent political space, though in a selective and limited manner, for instrumental reasons.

8.2.3 The transformation of trade policy institutions

The third research question of the thesis asked how Vietnam's distinctive trade policy institutions influenced its reform path. Here, it is evident that continuity in some institutional elements, alongside the transformation of others, played a key role in policy change. First, the institutional framework of the Vietnamese political system put the CPV at the apex of all trade policy decisions. The party-state was the final decision-maker of a general strategy for international economic integration, which involved moving from a closed and autarchic system to an open and liberal trade policy approach, and also of decisions about which trade partners and organizations Vietnam would negotiate with. As a result, agenda setting for trade reform crucially depended on the top-down instruction and political will of the CPV leadership. This longstanding characteristic of Vietnamese politics had not changed since the establishment of the country since 1945. It also made the Vietnamese experience quite different from that of Western countries where different political parties periodically formed government, leading to partisan-induced changes in the direction of trade policymaking (Oatley 1999). By adopting and consistently following a policy of international economic integration, the paramount role of the CPV ensured continuity and long-term coherence in Vietnam's three-decade trade policy reform process.

Secondly, and within the broad directional guidelines laid out by the CPV leadership, state bureaucratic agencies were the major policymaking institution. The central bureaucracy shaped the content of trade policy by initiating and promoting proposals, managing the negotiations and implementing trade agreements. The Ministry of Industry and Trade aggregated input from relevant ministries and agencies, interest groups and societal actors in order to prepare trade negotiation plans with market access requests; brokered transition packages to protect the strategic or weakly competitive sectors; and led the reform of

domestic legal practices to reduce the gaps between Vietnam and its trading partners. Thus, the executive branch of the state had great technical power to undertake negotiations and implementation plans, complementing the agenda-setting role of the CPV leadership. Indeed, by deciding whether to consult with societal actors (and if so, which ones), it was able to set the pace and shape of how policymaking was ‘opened’ to non-state actors.

But despite the continuity seen in the paramount role of the CPV and central bureaucracies, institutional transformation occurred with an expanding set of involved actors. As Vietnam’s external trade commitments became progressively more complicated and comprehensive, the policymaking process gradually became more open. Within the state apparatus itself, the number of involved ministries and agencies increased in response to the number of trade issues covered by the external agreements. Trade policy was no longer the exclusive authority of the Ministry of Industry and Trade. The Ministry was reduced to a coordinating role and had to seek input and cooperation from various relevant ministries and agencies, resulting in a decentralization of power within the state itself. This institutional transformation was consistent with findings from the literature on other developing economies, which argues that as participation in trade agreements expands, a wider set of governmental actors become involved in trade policymaking, reducing the monopoly held by the trade ministries (Capling and Low 2010).

However, while there was a demand for coordination capacity to deal with complex trade issues, trade policymaking was fragmented as reflected in weak internal coordination both within the state, among societal actors, and between the state and society. The coordination within the state was weak because of lack of communication and negotiation mechanisms. The trade negotiation delegations were required to seek permission from higher-level officials because of their limited authority to make decisions over the extent of trade liberalization or the issues for inclusion. For instance, the textiles and intellectual property rights issues in the TPP negotiations needed direction from the minister level or the Prime Minister level. A fast track was created to facilitate the WTO accession with the involvement of the Minister of Trade as a special envoy of the Prime Minister, who could call directly to the Deputy Prime Minister for consultation. If needed, the Deputy Prime Minister could call a meeting with only ministers of relevant ministries to discuss trade-off plans (VTV 2017).

Thirdly, the expansion in the number of involved actors was not limited to state agencies but also saw an increased involvement from societal actors. The state-society relationship was institutionalized for the first time, with regulations in 2012 requiring state agencies to consult with societal actors, particularly the VCCI (Prime Minister 2012). The information provided by scholars and business associations (such as studies, seminars and workshops) as well as personal contacts served as important input when policymakers prepared negotiation plans. An implication of the prevailing bureaucratic dominance was that these interactions remained somewhat informal and ad hoc, and societal actors required personal connections to be able to participate fully and effectively.

Moreover, many societal groups remained poorly organized, and hence under-represented, in the trade policymaking system. The most active business associations were mainly those relating to the key exports such as coffee, textiles and garments, and fisheries because of strong financial capacity and cooperation among members. The increased involvement of more societal actors contributed to a transformation in trade policymaking from secrecy to transparency and a degree (if imperfect) of inclusiveness. However, societal actors' roles remain limited in comparison to patterns in Western countries. They did not initiate proposals to negotiate FTAs with certain trade partners (which remained the preserve of the CPV leadership); nor did they shape the agenda for trade policymaking through electoral politics. Their principal mechanism for influence was the provision of information and analysis to policymakers about the expected positive and negative impacts of the trade agreements that the CPV leadership had initiated. This was because many organized societal groups – such as farmers' unions, and women's unions – were either partly backed by the state financially or were subject to political control and not independent of the state (ADB 2011). They therefore acted as extensions of the state, disseminating and developing policies and mobilizing people rather than representing the interests of enterprises. The business associations, although financially autonomous and not directly under the state's management, were closely linked with state policy functions and also acted as an extension of state agencies (baophapluat 2017). Only a few business associations, especially those representing exporting groups, were independently oriented owing to their technical and financial capacity and strong economic motivations. In addition, businesses were diversified, fragmented and had no connections with each other to coordinate activities. As

a result, they were unable to create linkages and connections to lobby for influence over trade policymaking.

Indeed, policymakers actively discriminated between different societal groups during the trade reform process as a political strategy to manage support for its policies. Despite an outward appearance of increased participation and improved access to information, the Vietnamese government provided more information to liberalization-supporting groups (such as export associations) and less to negatively impacted businesses (as seen in TPP trade policymaking). Hence, while reform enabled greater participation by some societal groups (although not others), the paramount position of the CPV and central bureaucracy, and their capability to decide *who was consulted*, remained largely intact.

Finally, the improved capacity of state and societal actors supported trade liberalization. The Vietnamese state was only capable of negotiating and implementing a large number of trade agreements by developing in-house capacity to negotiate complex deals, which was particularly evident in the WTO accession and TPP processes. The capacity of staff was developed through sequential negotiations that progressively increased in difficulty, which provided a learning opportunity for trade bureaucrats to develop expertise. The promotion of staff and the low level of turnover greatly contributed to the stable and consistent trajectory of trade liberalization policy. The government-affiliated research institutes enhanced their capacity by learning and carrying out feasibility studies for new generation FTAs. Similarly, businesses were exposed to the rigors of competition in open international markets. Their competitiveness increased as reflected in a growing number of enterprises engaged in exports and imports, from 52200 firms in 2013 (Customs Online 2014) to 73170 firms in 2016 (Customs Online 2017). These firms progressively transformed their trade preferences from protectionism to liberalization.

Despite these transformations in the institutions of trade policymaking, the dominance of the bureaucracy remained marked and insulation between the state and societal actors persisted. Thus, Vietnam's trade reforms need principally to be attributed to the transformation in the key domestic actors' – most importantly, the CPV's - ideas and interests regarding trade policy.

The discussion and findings above have demonstrated the interplay among the four variables that together help to explain Vietnam's trade reform trajectory. The critical factor was the CPV, which started to change its worldview and formulated new ideas about integration with the world as a socialist-oriented market economy driven by the political and economic interests of national development. Once liberalisation had commenced, incorporating new international trade ideas through trade agreements encouraged and leveraged pro-trade institutional reforms and policy changes. As a consequence, institutional reform catalysed the development of new interests and relationships among key actors.

8.3 Implications of the Vietnamese case for understanding trade policymaking

The thesis confirms the utility of an analytical framework that explains trade policy reform as the interaction of a complex set of actors, interests, ideas, and institutions. To reach a consensus for trade liberalization in general, and completely successful negotiations for international trade agreements in particular, the involved actors in Vietnamese trade policymaking had to overcome institutional constraints and diversified interests through cooperation and negotiation of mutually-agreed reforms.

The scholarly literature on trade policymaking consists of competing approaches with each making distinct arguments and assumptions in order to explain trade policymaking. The state-centered approach focuses on the role of the state, assuming it to be the pre-eminent trade policy actor. The society-centered approach emphasizes the role of societal actors with the assumption that trade policy is a result of interest groups' competition for influence. The institutional approach suggests that trade policy is a result of the institutions that structure the power of actors who influence the policy. At the same time, the ideas approach focuses on the role of ideas, which are roadmaps or economic theories such as liberalization or protectionism.

The case of Vietnam demonstrates that the state-centered approach, when extended to consider the state as an array of institutions that interact with societal actors, provides the best account of the politics of trade policy reform in Vietnam. The empirical analysis in this

thesis shows that Vietnam's trade reform resulted from transformations in the state and societal actors, manifested in terms of their new ideas, interests, and institutions. Of course, the relative contribution of these factors in Vietnam's trade reform was not perfectly equal. The state and its ideas played a primary, agenda-setting, role; societal actors played a secondary and supportive role; and where institutional change occurred it was largely reactive to demands from state actors. Yet, it is the co-occurrence of all these factors that explains Vietnam's unique trade policy reform trajectory, which cannot be accounted for by any of these factors alone.

In addition, the thesis shares the same findings as earlier literature, which argued that the Vietnamese private sector had limited policy influence because of its weak coordination and fragmentation. Vietnam's case shows that societal actors are not automatically influential in trade policymaking. Even following many years of liberalization and institutional reform, the private sector still needs to develop significantly more technical and political capacity before it can perform this role. In this regard, the Vietnam case reveals the limitations of the society-centered approach outside the Western context by showing that in certain contexts the influence of societal actors over trade policy can be low. Nonetheless, while Vietnam's societal actors remain less influential than state actors, the observed trend is that they are progressively acquiring the capacity to exert influence, albeit from a very low base. Coordination and cooperation among enterprises also depend on the degree of mutual interest amongst them, which could be further facilitated by linkages and connections in the value and production chains that are still missing or weak amongst domestic enterprises.

The thesis also shows that instead of following an approach that focuses on a single explanatory factor, there is utility in an approach to trade policy that (a) looks at a range of factors but also (b) explores the interaction between them. Indeed, the latter interactive aspect is shown to be especially important in the Vietnamese case. For example, the role of societal actors depended critically on state decisions to facilitate their involvement while the role of institutions was transformed by state-initiated bureaucratic reforms. These interactive effects are entirely missed by explanatory approaches that prioritize one explanatory factor over another. Such an approach is also useful in predicting the future direction of trade policymaking. Over the long term, the CPV leadership will maintain its

consistent position of an open international economic integration policy as one of the core means for promoting economic development. The ongoing priorities of the state are the evident promotion of trade liberalization within the WTO, the consolidation of linkages within ASEAN, and proactive participation in new generation FTAs (Congthuongbentre 2012). In addition, for the state, trade is not only a matter of economic considerations but also security, national defense, social and cultural considerations (Ministry of Planning and Investment 2011). This development is leading to a situation where trade policy is becoming more complex as economic interests are interwoven and interact with security, national defense, and social and culture concerns.

Though this thesis empirically focuses on the Vietnamese case, it also offers broader implications and lessons regarding for the scholarly understanding of trade policymaking in countries that are not Western liberal democracies. As demonstrated earlier, existing trade policy theories are principally developed on the basis of the experience of Western countries and, as a result, struggle to offer explanatory purchase when applied to different national contexts. The proposed framework for analysing Vietnam's trade policymaking advanced in this thesis helps address this problem by providing an explanatory model that is not premised on political, economic or institutional configurations found in Western countries. Indeed, it could potentially offer significant utility for understanding trade policymaking in comparable cases of 'transitional' economies' such as China, Myanmar, Cambodia and Eastern European countries.

First, the explanatory variables of the framework are not derived solely from the experience of Western countries. Rather than assuming a particular set of configurations for trade policy actors and their relationships, it poses four explanatory variables - the type of actors, their interests, their ideas, and the institutions that govern their interactions - in context-agnostic terms. No *a priori* assumptions of how these variables might look are made. The questions that this framework generates thus allows exploration of which factors influence trade policymaking in a way that can capture the diversity and difference found in transitional economies and non-liberal democracies. In addition, this approach helps to understand how the dynamic interaction of these four factors influences trade policymaking rather than asserting the dominance of one factor over others. It reveals that the incentives created by one factor shape the formulation of other factors and vice versa. The interplay

amongst these factors generates the forces for the creation of a dynamic policy cycle. Hence, this framework adds value to current approaches by allowing an opportunity to reevaluate them in a new context of transitional economies and non-Western democracies engaged in trade liberalization.

Secondly, the empirical evidence from the thesis has explored new findings relating to the transformation of trade policymaking in transitional economies like Vietnam. This shows that the liberalization process is often radically different from that in Western countries. In the Vietnamese case, one of the major features was not simply the reform of trade policy itself but a broader reconfiguration of the constellation of actors involved in the process and the institutions that govern their interaction. Vietnam demonstrates the possibility of variation not only in trade policy outcomes but also in the political processes that determine these. Only by adopting an approach that does not make *a priori* assumptions regarding the factors driving trade policy can such ‘systems’ transformations be identified. Such transformations have shown that under the impact of a new context of increased integration through comprehensive trade agreements, trade policymaking can be increasingly influenced by the complexities of interests and ideas of key actors within the changing institutions.

Thirdly, the approach offers a new perspective on the likelihood of non-Western countries engaging in ambitious trade liberalization initiatives. Trade policy approaches based on the Western experience would expect only modest trade reforms by a country like Vietnam with a one party-dominated political system, historical antagonisms with the West, and lack of input from societal actors. Given these factors, it might be expected that there would be relatively little internal pressure or external appetite for liberalization. Yet the reconfiguration of Vietnam’s trade policy processes and institutions defied this expectation. Internally, the state proved to be more responsive to different interest groups of various backgrounds, opening space for pro-liberalisation voices from both state and societal actors. Externally, the state has managed to harmonize their diversified values, interests, and standards for cooperation with other countries for mutual benefit, regardless of different political and economic settings. These changes occurred in the context of the increasing number of FTAs among countries, which encouraged the interweaving of political, economic and social interests and values. This outcome challenges perspectives

that view non-Western countries as politically- and institutionally-limited in their capacity for trade reform relative to their Western peers. In short, the theoretical and empirical implications of the synthesizing approach support the need to continue to utilize such a framework to enrich the trade policymaking literature in non-Western liberal democracies.

8.4 Conclusion

Vietnam's trade reform, and its success in negotiating international trade agreements, was the result of the decisive leadership role of state actors. It was in the interest of the regime and CPV leadership to maintain political legitimacy by adopting trade reforms as an important way to promote economic development, industrialization and growth. Liberalization helped to secure access to key foreign markets for Vietnamese exports, while bringing in foreign investment, technology and managerial skills. These interests led the CPV leadership to transition progressively from a closed and protectionist, to a liberalising and active, trade policy position from the mid-1990s onwards. However, to some extent this transformation remains an on-going process. Despite clear moves towards the partial pluralisation of trade policymaking, the CPV and state agencies are still the dominant forces, while the influence and capacity of societal actors remain embryonic.

The application of the proposed framework to the case of Vietnam's trade policymaking confirms that it makes a useful contribution to trade policymaking literature. The main argument of this framework is that the four variables - the key actors including the state and society, ideas, interests, and institutions and their interplay - have explanatory utility in the study of trade policymaking. The extent to which these four variables influence trade policymaking depends on the political regime, historical contexts and developmental level.

The findings from the study about international trade policymaking reflect a larger picture of the contested politics of reforming Vietnam. Though the top leadership repeatedly expressed an intention for economic opening and institutional reform, the process has proved to be slow. The internal institutional structure for interaction and coordination of bureaucracies was the key determinant of the pace and scale of economic reform. Within the state, internal coordination amongst the ministries remains weak, and failure to cope with an increasing number of complicated issues and actors hampers effective

policymaking. These institutional shortcomings have at times, and will likely continue to, facilitate the emergence of protectionist interests that delay or stop reform efforts. For instance, ministries that are concerned about a loss of authority and power over sectors and SOEs that were previously under their control may stall or veto further reform efforts. Though societal actors are more empowered than at any time in the past, they are still weak and are yet to exercise any agenda-setting influence on trade policymaking. Hence, the main constraints on trade liberalization rest mainly within the state's weak coordination structures, which create the emergence of protectionist interests and weaken interaction with important societal stakeholders.

In short, Vietnam's trade policymaking has undergone transformation as part of process of integration with the world. Most remarkable has been the role of the Vietnamese state, which has been able consistently and successfully to advance trade liberalization for several decades. Trade agreements were made possible thanks to the cooperation of the leaders as reform-minded officials (VTV 2017). This characteristic was especially evident amongst the top CPV leadership who continued to argue for trade opening as a national development strategy and the leading ministries benefited most from trade liberalization. Only a small number of ministries hesitated to engage in further trade reform, typically those that had protected sectors and firms under their management. Because of the paramount authority of the CPV, the national leadership had the flexibility and policy space to create new laws and rules or change these to meet the demands of external trading partners, such as in relation to the WTO or high-standard trade agreements such as the TPP.

Appendix: List of interviewees

No	Date of Interview	Location of Interview	Position
2010			
1	2010	Hanoi (personal meeting)	Official of Vietnam Small and Medium Enterprises Association (VINASME)
2015			
2	25/12/2015	Hanoi (personal meeting)	Deputy Director General of the Multilateral Economic Cooperation Department - MOFA
3	29/12/2015	Hanoi (personal meeting)	Director of the Centre for Integration and Development, Diplomatic Academy of Vietnam, MOFA
4	31/12/2015	Hanoi (personal meeting)	Official - American Department – Ministry of Foreign Affairs (MOFA)
5	12/2015	Hanoi (personal meeting)	Chief editor of the International Studies Review
6	15/1/2015	Hanoi (personal meeting)	Hanoi National University, School of Economics, Director of Vietnam Institute for Economic and Policy Research (VEPR)
7	12/2015	Hanoi	Deputy Director General of Institute of Economics, Vietnam Academy of Social Sciences
8	12/2015	Hanoi (personal meeting)	Deputy Director General of Central Institute for Economic Management (CIEM)
9	11/1/2015	Hanoi (personal meeting)	Former Vice Minister of Ministry of Industry and Trade (MOIT), former Chief negotiator of the Government delegation relating to international economic-trade (1999-2007) AFTA, ASEM, APEC, BTA
10	21/1/2015	Hanoi (personal meeting)	President of the Diplomatic Academy of Vietnam-MOFA

11	28/1/2015	Hanoi	Former Deputy Prime Minister – Former Trade Minister
12	1/2015	Hanoi (personal meeting)	Foreign donor – MUTRAP IV Team leader
13	1/2015	Hanoi (personal meeting)	Financial official of the Northern Food Corporation
2016			
14	3/1/2016	Hanoi (personal meeting)	Deputy General Secretary of Vietnam Association of Seafood Exporters and Producers (VASEP)
15	11/1/2016	Hanoi (personal meeting)	Former member of Vietnam's WTO negotiation delegation
16	1/2016	Hanoi	Deputy Director General of Economic Affairs Department - MOFA
2017			
17	1/2017	Hanoi (through telephone)	Official - Multilateral Economic Cooperation Department - MOFA
18	19/2/2017	Perth (through Skype)	Vietnam's Ambassador to Algeria, Former Deputy Director General of the Vietnam's Foreign Policy Strategic Studies Institute, MOFA
2018			
19	19/1/2018	Perth (through Facebook chat)	Former Vietnam's Foreign Policy lecturer of the Diplomatic Academy of Vietnam
20	1/3/2018	Perth (through Facebook chat)	Member of the Former Vietnamese Prisoners of Conscience

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