Vietnam's economic situation in the context of integration into AEC

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ABSTRACT: The study shows the development of Vietnamese economy during the period of 2011-2015 and the first 9 months of 2016. Analysis indicates a prosperous economic context in 2015, which then slows down in 2016. Determinants contributing to the growth of Vietnamese economy are also speculated. Factors such as capital and labor productivity are what the development is depending on, regardless of some slight improvements. The development rate in general comparing other countries in the region is still modest, with unstable macro economic factors and high public debt. Among AEC countries, Vietnam ranks 6th for GDP, attracts 19% FDI from the region, but has a trade deficit of over 5 billions USD within ASEAN each year. The analysis also states the opportunities and challenges for Vietnam when integrating into AEC. Possible solutions have been suggested by this study for Vietnam to overcome the circumstances and achieve development goals in upcoming years.

KEYWORDS: Vietnam's economy, AEC.

JEL CLASSIFICATION: E61 . E65 . F13 . F15 . F41 . F51 . F55 . L50 . O53.

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1. Introduction

More than 30 years of implementing the policy of renovation, opening up the economy, international integration, Vietnam's economic growth rate has kept high. The average GDP growth rate of Vietnam for the period 1990-2010 is about 7.4% per annum. However, due to the impact of the world financial crisis in 2008, with a slow recovery, although in 2015, the growth rate has recovered to 6.68%, in the period 2011-2015, the average economic growth rate Vietnam is only 5.9% per year (GSO, 2016). Due to the long period of economic reform with high economic growth rate, while the population growth rate was controlled, has led to an increase in GDP per capita. If Vietnam's GDP per capita was only over 100USD in 1990, then it has reached 1,047USD in 2008 and 2,109USD in 2015 (GSO, 2016). With this income level, Viet Nam emerges from the poorer group of countries (the lowest income countries) in 2008, marking the milestone in the development of Vietnam's economy from the lowest income country to the least developed country. Mid-income countries (group two of the four groups of countries according to World Bank's income classifications). Vietnam's economy in 2015 has made positive changes in the context that the world's economy is slowly recovering. It can be said that these achievements are due to the fact that Vietnam has a proper economic policy and Vietnam's economy is increasingly integrated into the world economy. In particular, on the 22 November 2015, at the 27th ASEAN Summit, ASEAN leaders signed the Kuala Lumpur Declaration on the establishment of the ASEAN Economic Community (AEC). The establishment of the ASEAN Economic Community aims to bring ASEAN into a single market and production base, contributing to enhancing ASEAN's competitiveness with five key factors: free movement of goods, services, skilled labor, and more flexible flow of capital and investment flows. In that context, Vietnam set a growth rate of 6.7% for 2016. Will Vietnam achieve this growth target? Would joining into the AEC bring any opportunities and challenges for Vietnam? What are the solutions for Vietnam to seize the opportunity, overcome the challenges to achieve the target?

This paper will answer the above questions by analyzing the achievements of the Vietnam's economy over the past 5 years (2011-2015) and the nine months of 2016, especially the position of Vietnam's economy in the ASEAN Economic Community (AEC), and the opportunities and challenges in the context of being a member of the AEC.

2. Theoretical background and methodology

The study will use economic growth and structure shifts indicators, as well as determinants on supply and demand (capital, labor, trade), and macroeconomic variables (inflation, exchange rate, public debt) affecting on growth. In particular, to identify Vietnam's position in the ASEAN Economic Community, the paper will examine Vietnam's economic indicators in comparison with those of other members in ASEAN Economic Community (AEC).

The indicators analyzed in this study are the GDP, the GDP per capita; GDP growth, economic structure shift by sector; supply and demand determinants and macro economic indicators affecting economic growth and development include inputs factors (capital - investment, labor); and output factors (trade balance - export and import); inflation, public debt, exchange rate.

This paper approaches qualitative research through the analysis of descriptive statistics and comparisons. Data sources used in the study are mainly secondary data taken from Vietnam Statistical Yearbook in the period (1911-2015) and the first 9 months of 2016 and some results of previous studies from various sources.

3. The development of Vietnam's economy in 2011-2016 and the affecting factors

3.1. Economic development

• ***Growth.*** In the context of the slow recovery of the world economy with potential instability, Vietnam's economy in the first 9 months of 2016 continues to see positive changes from the broad recovery in 2015. In 2015, Vietnam has the highest GDP growth rate over the past five years, low inflation, and this is also the year marking Vietnam's active integration (with the conclusion of the negotiations of the TPP Agreement, the FTA with the EU, the Republic of Korea, Vietnam signed a series of other bilateral agreements and the establishment of the ASEAN Economic Community. In the first 9 months of 2016, GDP growth is slower than the figure in 2015, and is estimated to increase 5.93% over the same period last year, lower than the growth rate of the first 9 months of 2015 (6.53%) (GSO, 2016). The government budget deficit for the first nine months of 2016 is VND 154.2 trillion. Inflation has increased but remains low, basically, the average inflation in 9 months of 2016 increases by 1.81% compared to the same period of 2015. Vietnam's macroeconomic indicators for 2010-2015 and 9 months of 2016 is shown in Table 1. The Government has set a target for growth of 6.7% in 2016 and is approved by the National Assembly, however, the growth rate of 9 months of 2016 only reached 5.93% and the estimated figure for the full year can only reach 6.3% (GSO, 2016). Thus, the growth target was not achieved. The main reason was due to the impact of climate change, agriculture-forestry-fishery sectors having a slow growth, especially, in the first 6 months of 2016. This region, for the first time after years, witnessed a negative growth, while the mining industry also had a negative figure.

Table 1: Vietnam's development indicators for 2011-2015 and 9 months of 2016

Indicators	2011	2012	2013	2014	2015	9 months of 2016*
GDP growth (%)	6.24	5.25	5.42	5.98	6.68	5.93
CPI (%)	18.58	9.21	6.04	1.84	0.63	1.81
Investment (% of GDP)	36.4	33.5	30.4	30.1	32.6	33.1
Government budget deficit (% of GDP)	4.90	4.80	5.30	5.30	5.00	5.08
Trade Balance (billion USD)	-9.8	0.75	0.10	2.1	-3.17	2.76
Public debt (% of GDP)	54.9	55.7	56	65.2	61.3	62*

*Source: GSO (2016), * Estimation.*

• ***Average income per capita.*** According to the World Bank (WB) classification, Vietnam is now a low-income country with a GDP per capita of US$2,109 in 2015. By purchasing power parity, Vietnam's GDP per capita is estimated at US$5,600 by 2015, still below the average per capita GDP of the low-income group (US$5,752 in 2014), and only about half of the average for developing countries in East Asia and the Pacific (with a GDP per capita of US$11,374 in 2014), according to World Bank database (2015).

• ***The shift of economic structure.*** The shift of economic structure by sector depends on the growth of sectors. In an 5.93% increase of the economy in the first 9 months of 2016, agriculture, forestry and fishery increased by 0.65% - the lowest increase over the same period in the last 6 years, contributing 0, 11 percentage points to the general increase; the industrial and construction sector increased by 7.50%, contributing 2.52 percentage points; the service sector increased by 6.66%, contributing 2.55 percentage points (GSO, 2016). The structure of the economy in 2016 continues to move sharply than in 2015, but in general, the shift of economic structure by sector is slow, structure I - agriculture - forestry - fishery still accounts high proportion; processing industry and service sectors also do not move much. Among these, the agriculture, forestry and fisheries

Table 2: GDP growth rate and sectoral shift in GDP in 2014, 2015 and 9 months of 2016

Sector	Growth rate over the previous year (%)			Economic structure (%)		
	9 months of 2014	9 months of 2015	9 months of 2016	2014	2015	9 months of 2016
Agriculture, forestry and fishery	2.94	2.08	0.65	17.70	17.00	15.54
Industry and construction	5.75	9.72	7.50	33.21	33.25	32.48
Service	5.94	6.10	6.66	39.04	39.73	41.8
Product tax minus product subsidies	7.55	5.52	6.45	10.05	10.02	10.18
Total	5.53	6.53	5.93	*100*	*100*	*100*

*Source: GSO (2016), * Estimation.*

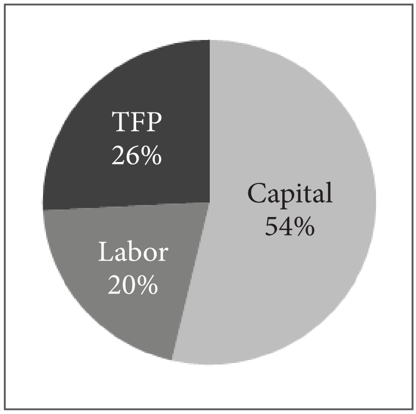
sector accounts for 15.54%; the industry and construction sector accounts for 32.48%; service sector accounts for 41.8% (Table 2).

• ***Total Factor Productivity (TFP).*** It can be said, despite the slowdown growth due to the impact of the global economic crisis, the model of economic growth of Vietnam is somewhat improved. As a result, the total factor productivity factor (TFP) was higher than the labor factor (26% versus 20%), which still dominates the contribution to Vietnam's economic growth (54%) (Figure 1). Compared with the period before 2011, TFP increased over 6 percentage points (from nearly 20% in 2007 to 2010, up to 26% at the moment) (GSO, 2016).

3.2. Factors affecting economic growth

• ***Development Investment.*** Investment is a major contributing factor to Vietnam's current economic growth. Total social investment implemented in 9 months of 2016 at current prices is estimated at VND 1006.9 trillion, increasing 9.6% over the same period of last year and with the proportion of 33.1% of GDP, including: public sector capital reached 378.8 trillion VND, accounting for 37.6% of total capital, an increase of 7.2% over the same period last year; non-public sector reached 387.7 trillion VND, accounting for 38.5% and increasing by 10.1%; Foreign direct investment (FDI) reaches VND 240.4 trillion, accounting for 23.9% and rising by 12.6% (Table 3). Thus, the rate and

Figure 1: Contribution of factors to GDP growth in 2011-2015



Source: Central Executive Committee, Draft Report on the Five-year Socio-Economic Development Plan 2011-2015 and the Five-Year Socio-Economic Development Plan 2016-2020.

Table 3: Development of social investment capital for the 9 months of 2014, 2015 and 2016 (at current prices)

	9 months of 2014	9 months of 2015	9 months of 2016
Total	110.9	109.6	109.6
Public sector	111.5	106.6	107.2
Non-public sector	113.3	111.0	110.1
Foreign invested sector	106.3	112.4	112.6

Source: GSO (2016).

structure of investment by the non-public and FDI sectors tend to increase and become more dominant than the public sector. This is a positive trend.

• ***Labor and productivity.*** The number of laborors aged 15 and over working in economic sectors in the 9 months to 2016 is estimated at 53.27 million people and is estimated at 52.9 million people in 2015, an increase of 142 thousands over 2014. Regional labor force adjustment in 2015 and 2016 is not significantly different from the previous year; most of the labor force is concentrated in agriculture, forestry, and fisheries with 44.3% of the labor force; the industry and construction sector accounts for 22.9%; service sector accounts for 32.8% (GSO, 2016). According to statistics of the General Statistics Office (2015), the proportion of trained laborors in 2015, though increasing compared to the previous year, is still low, estimated at 21.9% of which, the number of trained labors in urban areas is 38.3%; of rural area reaches 13.9%. The unemployment rate for working-age people in 2015 is 2.31% (the figures in 2013 and 2014 is 2.18% and 2.10%). Despite the low unemployment rate, the unstable or inadequate employment rate is high.

The productivity of the entire economy in 2015 at current prices is estimated at VND79.3 million/ labor (US$3,657/labor) (Institute of Productivity, 2015). Calculated at constant prices in 2010, the productivity of the whole economy in 2015 is estimated to increase by 6.4% compared to that of the year 2014. Labor productivity of Vietnam in the past time has improved significantly in the direction of gradual increase over the years, the average period of 2006-2015 witnesses an increase by 3.9% per year, of which, in the period 2006-2010, the increased is 3.4% per year; in the period of 2011-2015, the increase is 4.2% per year, contributing to narrowing the relative gap to the productivity of ASEAN countries. However, the low proportion of trained workers is still the obstacle to increasing labor productivity and competitiveness of Vietnam compared to other countries in the region.

• ***Macroeconomic factors***

Inflation index. Controlling inflation has always been one of the prime targets of the government to stabilize the macro economy. The basic inflation[1] in October 2016 increases 1.86% over the same period last year, 0.07% higher than the figure in the previous month. The average basic inflation[2] in the first 10 months of 2016 is 1.82% higher than that of the same period in 2015. The average CPI in the first nine months of 2016 is 2.07% higher than the average for the same period of 2015, a 0.74% increase over the same period last year, but much lower than the 9-month average CPI of some recent years and still within the 5% target set by the Congress Assembly (Figure 2). Stable inflation will improve the investment environment and attract investment to boost economic growth.

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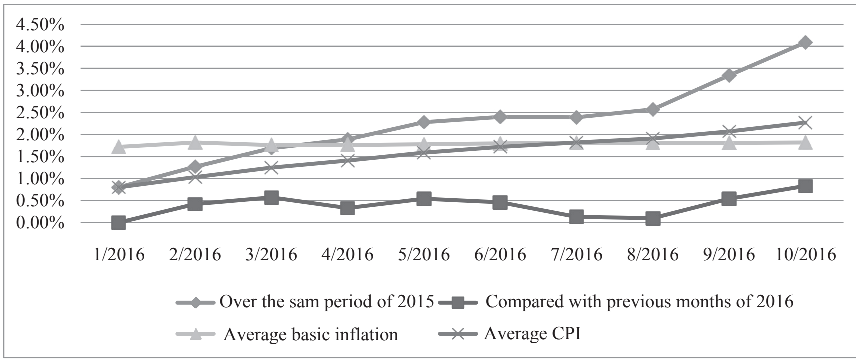
[1] *Basic inflation according to the CPI exclusion measure (excluding: food, energy and commodities managed by the government: health and education services) (CPIxFEAHE).*

[2] *The average CPI of nine months over the same period in the following years is as follows: increasing by 22.76% in 2008; increasing by 7.64% 2009; increasing by 8.64% in 2010; increasing by 18.16% in 2011; increasing by 9.96% in 2012; increasing by 6.83% in 2013; increasing by 4.61% in 2014.*

Figure 2: CPI in 2016

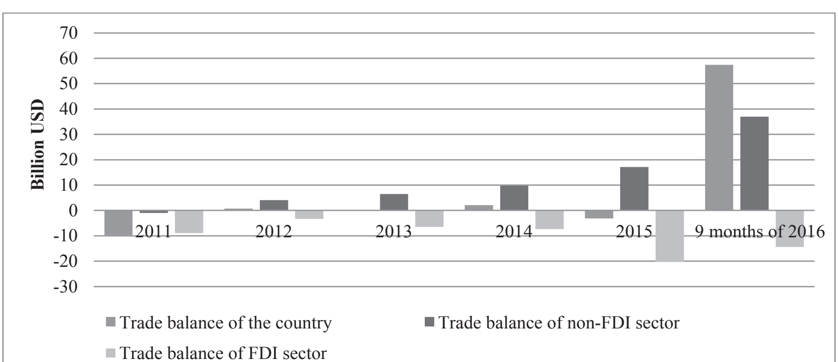


Source: Compiled by authors from GSO (2016).

Balance of trade. Vietnam's trade balance in the first 9 months of 2016 has shown signs of improvement. In the first 9 months, Vietnam had a trade surplus of US$57.4 billion, out of trade deficit in 2015 (with a trade deficit of US$3.17 billions).

However, the trade deficit of the domestic sector remained unchanged, with the trade deficit of US $ 14.4 billion, while the FDI sector has a surplus of 37 billions. In terms of the type of domestic and foreign enterprises, the FDI sector has a trade surplus from 2012 onwards, while non-FDI sector (domestic enterprises) continuously witness a trade deficit with increasing quantities. This shows that the situation of the trade deficit in the domestic sector has a negative effect on the capital growth, whereas the FDI sector has a high trade surplus which supports the positive trade balance and contributes to economic growth.

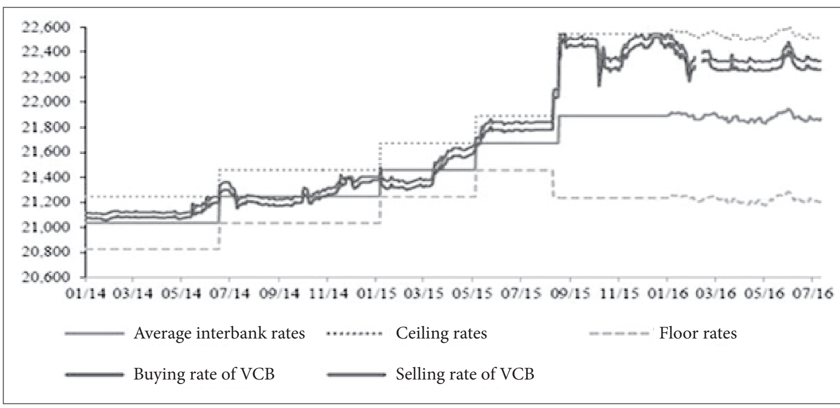
Figure 3: Vietnam's trade balance from 2011 untill 9 months of 2016



Source: GSO (2011-2016).

Exchange rate. In order to boost exports, also has devalued the VND against the US dollar three times in 2015, with the adjustment of the exchange rate band of 1% each. Throughout 2015, VND has depreciated by about 5% against the US dollar. In the first half of 2016, the USD/VND exchange rate and the foreign exchange market were generally stable, with only a few warming periods but not lasting. The ceiling exchange rate in many commercial banks is currently around 22,330-22,340 VND/USD, decreasing about 200 VND (-1%) compared to that in the end of 2015 (Figure 4). Price index's stability has a positive impact on the business environment and trade balance.

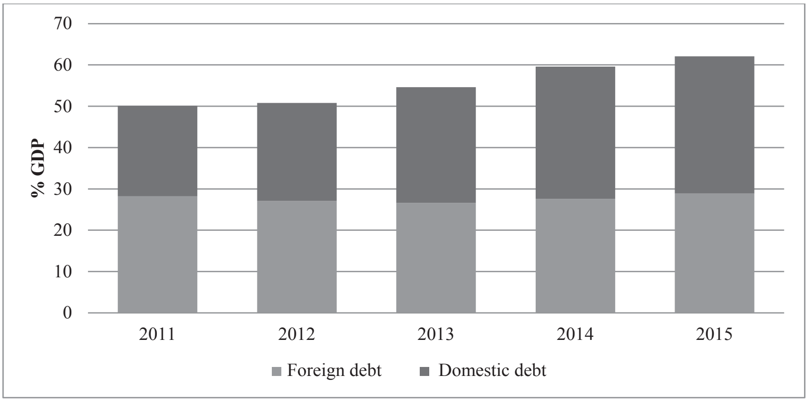
Figure 4: The VND against the USD



Source: Asian Development Bank (2016).

Public debt and foreign debt. Efforts to control budget deficit have achieved very limited results in the past year. In the first nine months of 2016, the budget deficit was estimated at VND154.2 billion (of which total government budget revenue and expenditure are estimated at VND665.2 trillion and VND819.4 trillion respectively from the beginning of the year to 15th September 2016 at), accounts for about 5.08% of GDP. In 2015, the budget deficit is about 5.4% of GDP, slightly less than the rate of 5.7% in 2014. In 2015, budget revenue increases by about 10% and would grow faster if there is no decline in oil prices and reduction of corporate income tax. Government spending increases by 7.3%. Public debt includes government guaranteed debt is approximately 62% of GDP, within the safe limits set by the public debt ceiling / GDP ratio of 65% set by the Ministry of Finance (Figure 5). Increasing public debt leads to the pressure

Figure 5: Public debt (% of GDP) in 2011-2015



Source: ADB (2016).

on the balance of payments due to repayment of both principal and debt would increase the deficit. This will adversely affect inflation and economic growth.

4. The position of the Vietnam's economy among the AEC's economies

• ***Economic size (GDP).*** The economic development of ASEAN countries has a huge difference. The GDP of six ASEAN countries called ASEAN-6 includes Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand is 10 times on average compared with the GDP of the other four countries, called CLMV, including Cambodia, Laos, Myanmar and Vietnam. Indonesia is the country with the largest GDP in the block with US$857.7 billion, which is eight times larger than the country with the smallest GDP, Laos, with US$12.6 billion (Table 4).

• ***FDI attraction.*** In the period 2011-2015, the situation of FDI attraction of Vietnam is quite stable compared to other countries in ASEAN. During the last five years, when the major economies of the region witnessed rapid growth of FDI inflows, the average growth rate of Vietnam was 12%. In 2015, Vietnam attracts US$11.8 billion in foreign capital, a 28% higher than that in 2014, accounting for 9.8% of total investment in the region, less than the figures of Singapore ($ 65.26 billion) and Indonesia $ 15.51 billion).

Inline with the block, the proportion of investment capital from ASEAN countries to Vietnam only accounts for an average of less than 20% of the total

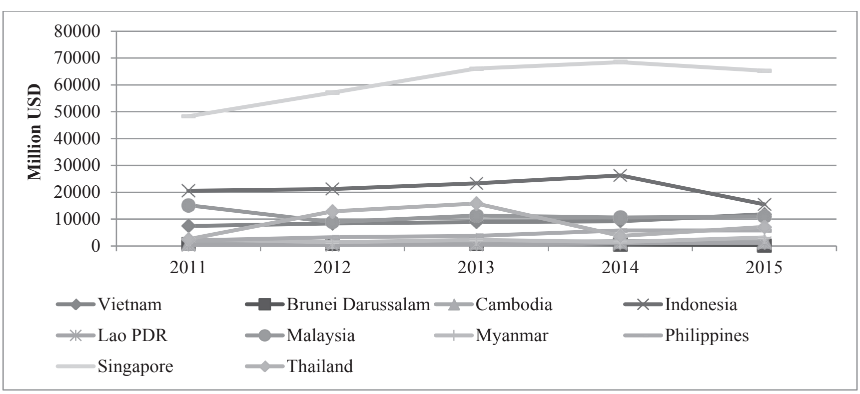
Table 4: GDP of ASEAN countries at current prices

Unit: USD million

Countries	2011	2012	2013	2014	2015	Rank 2015
Brunei	16.691,4	16.969,7	18.100,4	17.096,0	12.909,0	9
Cambodia	12.803,9	14.027,0	15.221,4	16.771,4	18.463,0	8
Indonesia	846.522,6	874.638,9	904.691,9	889.057,8	857.603,3	1
Lao PDR	8.060,6	9.398,3	10.771,3	11.853,1	12.639,3	10
Malaysia	298.141,8	314.895,1	322.224,5	337.497,1	294.389,6	3
Myanmar	56.502,0	60.281,7	61.863,8	65.750,4	65.391,8	7
Philippines	224.107,8	250.603,0	268.883,1	285.108,3	289.502,8	5
Singapore	275.198,9	289.274,2	300.288,5	305.777,5	291.937,6	4
Thailand	370.722,0	397.494,8	420.156,8	404.280,3	395.726,3	2
Viet Nam	135.541,1	155.820,0	171.219,3	186.223,6	193.406,7	6
ASEAN	2.244.292,1	2.383.402,7	2.493.421,0	2.519.415,6	2.431.969,5	
ASEAN-6	2.031.384,5	2.143.875,7	2.234.345,2	2.238.817,0	2.142.068,7	
CLMV	212.907,6	239.527,0	259.075,8	280.598,6	289.900,8	

Source: ASEAN Finance and Macro-economic Surveillance Unit Database (2016).

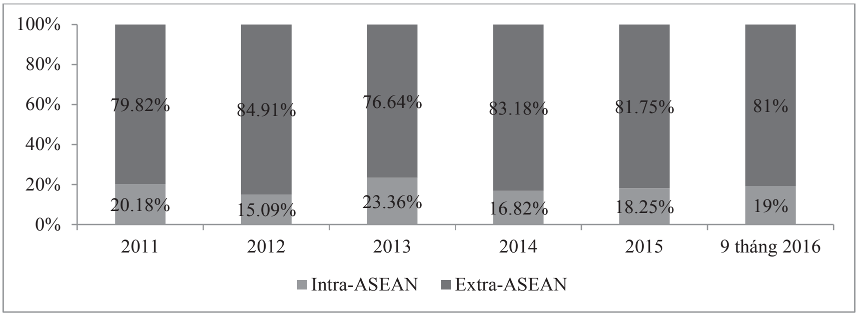
Figure 6: FDI attraction of ASEAN countries in 2011-2015



Source: World Development Indicators (2016).

investment capital that Vietnam has attracted since 2011. Until September 2016, ASEAN accounted for 19.16% of FDI investment in Vietnam, an increase of 18.25% compared with that in 2015. Up to September 2016, 65 countries and territories have investment projects in Vietnam, of which South Korea leads with

Figure 7: Proportion of FDI attraction of Vietnam from ASEAN countries from 2011 untill 9 months of 2016



Source: Author's calculations based on data from the ASEAN Secretariat - ASEAN FDI Database, ASEAN Foreign Direct Investment Statistics Database, Ministry of Planning and Investment (2011-2016).

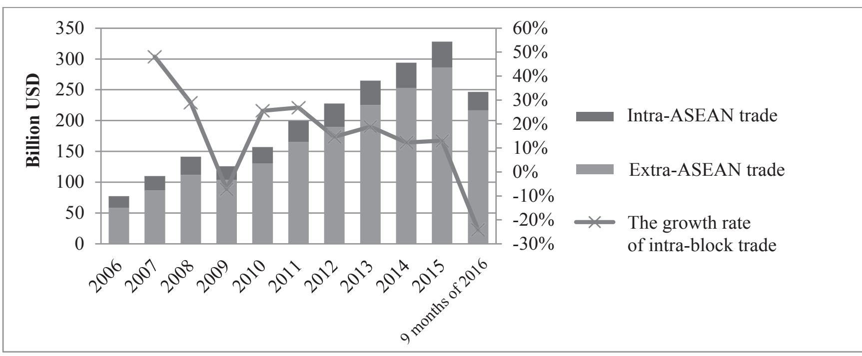
the total new and additional registered capital investment of US$5.58 billions, accounting for 34% of total investment in Vietnam. Singapore ranks the second with total new and additional registered capital of US$1.84 billions, accounting for 11.5% of total registered capital. Investors in the AEC such as Thailand, Malaysia, and the Philippines are almost unchanged from the previous year, with capital amount below $ 0.4 billion, accounting for less than 3% of investment in Vietnam till September 2016.

The sector attracting many projects of ASEAN investors is the processing and manufacturing industry, accounting for 38% of the total number of projects and 40% of the total investment, of which the electricity and electronic sector plays an important role with most of the capital comes from Singapore, Thailand, and Malaysia. Real estate business is the second sector attracting investment capital from ASEAN countries, with the average project size is about US$167 millions/project, accounting for 30.4% of total investment. Major real estate investors are mainly from Singapore, Malaysia, and Brunei. Subsequently, textiles are also one of the areas attracting ASEAN countries, with major investors coming from Singapore, Thailand and Brunei, most of the projects in this sector are small (about US$6 millions/project).

• ***Exports and imports revenue and trade balance between Vietnam and ASEAN.*** Vietnam's trade value with other ASEAN countries accounted for 12.06% of total trade value, while most of Vietnam trading activities is with the rest of the world. In addition, the growth rate of Vietnam's trading within intra-block has tended to decrease from 2011 up to now, which reduce to 24% compared to that in 2015.

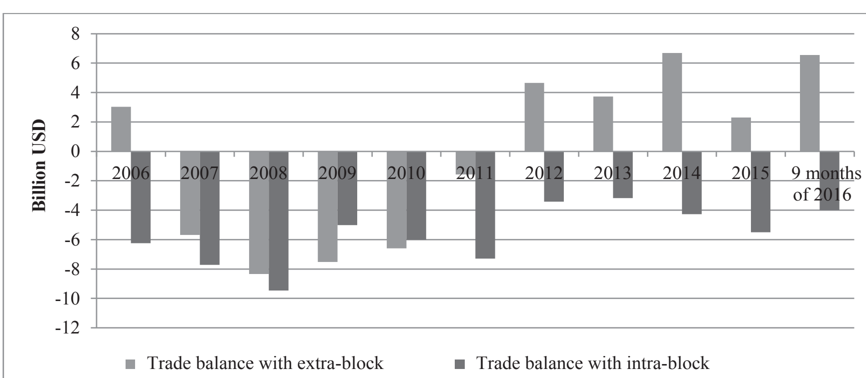
In the period of 2006 up to now, Vietnam has always had a trade deficit with ASEAN countries and the deficit is on the rise from 2012 to present. In 2015, Vietnam has a trade deficit of US$5.5 billions with the intra-block. Up to September 2016, Vietnam's trade deficit with ASEAN countries is US$4.4 billions, of which export turnover reached 12.65 billion USD, import turnover from other countries in the region reached US$17.06 billions. Vietnam had the largest trade deficit from Thailand (US$3.45 billions), followed by Singapore (US$1.87 billions) and Malaysia (US$1.38 billions).

Figure 8: Vietnam's trade with ASEAN



Source: ASEAN Trade Statistics Database and GSO (2006-2016).

Figure 9: Vietnam's trade balance with ASEAN



Source: ASEAN Trade Statistics Database and GSO (2006-2016).

In previous years, among ASEAN countries, Vietnam had trade deficits with countries like Brunei, Laos, Malaysia, Singapore, and Thailand. In contrast, Vietnam has trade surpluses with Cambodia, Indonesia, Myanmar and the Philippines. Up to September 2016, Vietnam has had a trade deficit with Indonesia for the first time since 2011. Thailand, Singapore, and Cambodia are large trading partners, with an annual trade balance of over US$1 billion. It is noteworthy that Vietnam's trade with ASEAN countries is almost falling, the trade balance has not changed positively, while the trade deficit from Malaysia has increased significantly since 2014.

Table 5: Vietnam's trade balance with ASEAN countries

Unit: *million USD*

Countries	2010	2011	2012	2013	2014	2015	9 months of 2016
Brunei	4.23	-173.82	-593.68	-589.45	-68.50	-22.51	-26.26
Cambodia	1275.05	1977.23	2344.30	2422.40	2041.33	1462.37	1067.93
Indonesia	-475.77	111.35	110.19	79.35	393.30	108.98	-62.97
Laos PDR	-93.32	-185.92	-23.31	-210.19	-330.88	-53.91	84.31
Malaysia	-1320.27	-1087.31	1083.63	821.59	-262.56	-616.68	-1380.32
Myanmar	-53.30	-2.34	8.34	104.33	211.08	322.38	286.80
Philippines	1006.08	730.17	906.94	742.14	1645.50	1113.81	940.35
Singapore	-3480.97	-4097.94	-3424.42	-3648.79	-4185.94	-2754.13	-1867.80
Thailand	-2918.30	-4598.33	-3858.10	-2598.84	-3351.33	-5107.48	-3449.09

Source: General Department of Customs (2010-2016).

By analyzing the intra-block's trade situation, the trend of direct intra-block's investment and analyzing specific data of Vietnam, it can be seen that the level of economic integration of ASEAN is still very low. According to international analysts, after becoming a legal entity by the end of 2015, the AEC has to go a long way to becoming a completely and efficiently economic community. The problem remains that ASEAN is a mix of countries with different levels of economic development as well as different political regimes. Overcoming this difference to build a unified community is a difficult and time-consuming undertaking. Establishing the ASEAN Community is not just about achieving a goal but also the beginning of a new integration process.

As for Vietnam, the establishment of the ASEAN Economic Community will bring both opportunities and challenges for the economic development of the country. On the opportunity aspect, the AEC will help goods, capital and labor flow more freely among the countries in the bloc, thus facilitating trade development, attracting investment and talented people and having conditions to reform institutions and policies. However, the trade between Vietnam and ASEAN countries is still quite bleak. Specifically, the proportion of trade between Vietnam and the intra-regional is low (nearly 13%), while the growth rate of trade tends to decrease continuously, the proportion of investment capital from other countries in the block to Vietnam is less than 20%, the trade deficit between Vietnam and other countries in the bloc is increasing, and so is the gap in GDP per capita between Vietnam and ASEAN-6 countries. These signals indicate that if Vietnam does not prepare carefully when the market of the bloc starts to open, Vietnam will be at greater risk of trade deficits from intra-ASEAN and its FTA partners. Regarding the tendency of attracting investment capital, since the end of 2015 up to now, the investment trend of the countries in the region into Vietnam has insignificant change and the current investment capital mainly flows into labor-intensive, outsourcing, and real estate, these are the areas that contribute low added value to the economy.

5. Assessment of the benefits and challenges of Vietnam in the process of integration and access to the AEC

The regional integration process of the AEC has had a number of important implications for beneficiaries such as the tariffs on intra-ASEAN have almost been eliminated and tariffs with other countries have been reduced; regional trade is facilitated by the establishment of the ASEAN free trade area, the customs transit system and the national "one door" mechanism; trade in services has been liberalized and FDI has been boosted. According to World Bank experts, the following three areas are important to promoting global trade and value chain (GVC) opportunities: (i) improving connectivity and facilitating trade; (ii) consolidating and developing service sector; (Iii) addressing the business environment of the domestic private sector. Future trade agreements promise significant growth opportunities. Integration is a part of the global value chain that remains an important means of benefiting from exports, potentially leading to long-term economic growth in Vietnam.

Integration, however, also poses many challenges, namely increasing the competitive pressures of Vietnam's small-scale enterprises, as well as Vietnam's external risks (such as the world financial crisis reduced the market share and investment ...). When joining the AEC with severe competition from AEC members, some sectors of Vietnam will face difficulties, possibly in the early stages. The most difficult sectors are mainly agricultural products such as livestock, food processing, sugar, fresh fruits and processed fruit, forestry, wood processing and some service products, because there are many countries in the AEC community that produce the same products with higher productivity, higher price competitiveness and higher quality than those of Vietnam. The big challenge is that, when joining the AEC, Vietnam must increase its capital reserves to upgrade its infrastructure and remove bottlenecks to promote long-term competition. The challenge of opening up the labor market also creates competitive employment pressures for Vietnamese labors whose quality of human resources remains low.

The fact is that by integration, Vietnam has attracted many FDI enterprises and these enterprises play an important role in the growth of export and economy of Vietnam. However, the spillover effects (technology and know-how) of FDI enterprises to Vietnamese domestic firms are limited, so Vietnam has not exploited more of the benefits from the FDI sectors. FDI enterprises are mainly independent and less associated with local firms in Vietnam. This is also the reason why Vietnam's domestic private sector is slow to innovate in technology and management capacity.

As stated above, in trade relations with ASEAN countries over the past years, Vietnam has gradually increased in value but reduced in market share. This means that many other ASEAN countries also increased in terms of trade volume and higher than Vietnam. On the other hand, the value of Vietnam's imports from the ASEAN bloc is higher than the value of Vietnam's exports to these countries. This is also one of the pressures to change Vietnam's trade balance in ASEAN when joining the AEC.

6. Some solutions for Vietnam to seize opportunities, overcome challenges to achieve the objectives of 2016 and the following years.

First, enhancing the competitiveness of the domestic sector to overcome the challenges of integration. Accordingly, the government should create conditions for the private sector to improve competitiveness, productivity and efficiency. The majority of Vietnamese enterprises are small in size, so the government needs to have supportive policies in place for small and medium private enterprises to improve productivity and efficiency. The government should only support the enterprises by liberating its production forces or, in other words, loosening regulations, securing market liberalization such as land markets, capital markets, technology markets and labor market. That means removing unnecessary regulations for people and businesses so that they can easily access markets. The government can support the domestic private sector, mainly small and medium enterprises (SMEs), by improving the environment (creating a friendly business environment), helping to solve the problems of enterprises, in particular, the improvement of regulations to support the business associations of small and medium enterprises. Helping strengthen the business capacity of small and medium enterprises by raising awareness and understanding of SMEs about AEC and the impacts of joining the AEC and other Free Trade Agreements; assisting in the training of business managers, support young entrepreneurs in start-up knowledge, as well as supporting market information through business portals and supporting the access to new markets. The government can also assist SMEs with access to financial resources such as the expansion of a guaranteed credit system, support for stimulus programs, syndicated loans, etc. The government can be a bridge to create conditions for domestic private enterprises to connect with FDI enterprises and get experience in technology transfer activities, business initiatives, etc.

Second, improve market institutions, restructure state-owned enterprises (SOEs) to meet integration requirements. Continuing to renovate economic policies, reform the public sector in the direction of only holding some key industries, reducing the scale, re-evaluating the model of SOEs, developing the domestic private sector, as well as the combination of domestic and foreign sources, leading to the integration but still maintaining the sovereignty in economic development - considering integration as a supporting factor for internal development. SOE reform is to ensure equitable business, reduce direct government intervention in the economy, and enhance competitiveness for integration.

In order to continue the reform, the restructuring of the SOEs **should continue to be oriented, shrinking (avoiding spreading) the areas where the government needs to invest.**

The policy of equitization and diversification the ownership of SOEs is a right direction, consistent with the direction of ownership transformation to form community ownership based on different specific owners. In the restructuring process, there will be different scenarios, the government will still hold controlling stakes in some enterprises of some sectors, or will divest in some enterprises of some industries for other development goals that can bring higher economic and social benefits, such as increased infrastructure investment without private participation, repayment to reduce debt instead of increasing debt when there is a risk of threshold exceeding for public debt.

Third, enhancing the government's management and operation efficiency to ensure the integration requirements. The effectiveness of government's management in the market economy in our country must be demonstrated by the following tools: (i) continuing to improve the legal system to create a legal framework for all economic and social relations, regulating the subject matter of economic activities; (Ii) renewing of planning content and methodology from distribution function to forecasting, planning, information and balance functions; (Iii) intervening and regulating the "invisible hand" of the market economy through economic leverage policies, of which the most important are national financial, credit, currency and banking policies. These are the most vital and sensitive areas of the market economy; (Iv) the government's intervening in the direct market with its own products and services, especially those of public goods and services that create a good investment environment to attract both foreign and domestic private investment.

Fourth, promoting the process of shift in the economic structure by sector and intra-industry sectors to improve productivity, efficiency, and competitiveness in integration. Shifting economic structure toward creating higher social productivity, ensuring sustainable development on the basis of the industrial layout of urbanized areas but still ensuring the ecological environment, shortening the rich and poor gap between regions and population.

In order to compete with AEC countries, especially in the agricultural sector, the government needs to support farmers to increase agricultural productivity which is still very low. Solution to increase agricultural productivity are to shift the economic structure - shifting the structure of the agricultural and rural economy, reducing population and labor in agriculture, shifting agricultural labor to industrial and service sectors. To do so, it is needed to invest deeply in rural infrastructure, in the development of economic sectors in order to speed up the process of development and shifting the rural socio-economic structure.

Fifth, developing the technology market, attracting technological transferring projects to enhance competitiveness in integration. Technology development solutions involve the formation of information systems and technology assessment consultancies connected to regional and international systems in this area in order to provide services (according to the market mechanism) to secure marketing information on technology and to be able to effectively advise enterprises in need. The next is the construction of industrial parks and applying the mode of leasing - buying with the deferred payment - with reasonable conditions for domestic investors.

Strengthening the research and development potential and technical services in an effective manner to support the import of technology from abroad. Supporting for production facilities (as an independent entrepreneur) of all economic sectors in technology renewal and technological transfer from abroad. Diversifying forms of mobilizing capital for scientific and technological development. Specifically, the government can set up funds to support the development of science and technology, non-bank credit to expand the loans to enterprises, especially SMEs to renovate equipment. Attracting international funds for science and technology projects including grants or loans from financial institutions such as the World Bank, the Asian Development Bank, Bilateral ODA funding...

Sixth, continuing education reforming and training to improve the quality of human resources to meet integration. When joining the AEC, the labor markets of the ASEAN countries are connected, and Vietnam's labor will also be competing with foreign workers. In order to compete, the quality of human resources in Vietnam must be improved and enhanced.

Seventh, finalization fiscal policy and stabilization monetary policy. The government's goal is to keep budget deficit for the period 2016-2020 on average of lower than 4.5% per year under the new Budget Law, keeping public debt lower than 65% of GDP. To control the level of overspending, reducing public debt, it is essential to reduce expenditures and increase revenues. Increasing revenues in the context of integration is difficult due to import-export tax cuts, so it can only be improved by tax reforms that increase revenues from direct taxes. The solution for expenditure reduction is restructuring expenditures associated with the reform of the government administration. To control public debt, it is needed to consider debt restructuring, limiting or reducing ineffective investment projects.

Solutions to promoting the banking and monetary policy reform, flexibly adjusting the interest rate and exchange rate policies in order to stabilize the exchange rates and interest rates in order to help macroeconomic management and macroeconomic stability is quite essential. Under conditions of integration, financial liberalization may have external risks from international markets. Therefore, the relevant macro-regulatory committees must develop scenarios to deal with situations that may occur in the international and regional markets that may affect the financial markets of Vietnam.

The group of solutions proposed above is aimed to improve the competitiveness of enterprises as well as national competitiveness in the context of integration, because improving market economy institutions, administrative reform and macro stability is to help businesses reducing costs and transaction time, accessing new markets, and enhancing competitiveness in the context of joining the ASEAN Economic Community AEC and implementing the commitments of international integration. On the other hand, as a member of the AEC, Vietnam's enterprises will also have the opportunity to cooperate with their counterparts in the AEC to compete on the international markets. Together with the competition and development, enterprises would contribute to the country's economic growth and sustainable development target.

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