

# Exploring the Role of International Organizations in the Development of Developing Countries, A Case Study of Vietnam

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**Abstract.** Vietnam is considered an important emerging economy in Southeast Asia. After its domestic reform in 1986 (Doi Moi), it continuously deepened its integration into the world economy and achieved great economic development. This paper takes neoliberalism and neorealism as theoretical approaches to analyze two international organizations, the World Trade Organization (WTO) and the Asian Infrastructure Investment Bank (AIIB). Specifically, the analysis focuses on how International Organizations (IOs) affect the course of development in Vietnam. This study aims to provide some references for Vietnam's future economic development and how to seek further development in international organizations. This study finds that by joining WTO, Vietnam achieved remarkable economic growth through trade liberalization. Most importantly, Vietnam gained the ability to negotiate problems on an equal basis with developed countries through the dispute settlement mechanism provided by WTO. The AIIB, on the other hand, gives Vietnam good access to infrastructure loans, but it also raises concerns about Vietnam's balance of power and security in the region. Due to the complexity of the impact of IOs on Vietnam's development, Vietnam needs to optimize its economic structure and relevant institutions rationally and make decisions to balance diverse interests to achieve long-term development and better face possible external crises. Further studies could be conducted on how Vietnam and other developing countries could balance their interests and promote development within IOs.

**Keywords:** International Organizations; Vietnam, Development; Neorealism; Neoliberalism.

## 1. Introduction

During the 1980s, Vietnam faced economic stagnation due to policies of concentrated production and banned private businesses. To overcome these challenges, the Vietnamese Communist Party adopted the Renovation (Doi Moi) in 1986 and particularly the market-oriented reforms in 1989, which has contributed to Vietnam's GDP growth, export growth, foreign investment attraction by permitting private business and efforts to open up the economy and integrate into the world system [1-2]. Vietnam's accession to the World Trade Organization (WTO) in 2007 was an essential step in Doi Moi for Vietnam's economic structural change [3]. Indeed, Vietnam has become one of Southeast Asia's most powerful emerging economies and a participant in many multilateral international organizations (IOs) [4]. Many studies have been conducted to study the benefits of joining the WTO and other international organizations for Vietnam's further liberalization and achieving great economic success. However, most of these studies focus on economic achievements, while few analyze opportunities and challenges that Vietnam, as a developing country, may encounter in IOs from multiple perspectives. This paper aims to analyze the role of international organizations in the development process of developing countries, which may have both positive and negative aspects. Starting from the theoretical perspectives of neoliberalism and neorealism and taking Vietnam as a typical example of a developing country, this paper further discusses how divergence of views about IOs fit the role IOs play in the development of Vietnam. While some argue IOs as independent international relations actors promoting cooperation (in line with neoliberalism), others may consider it a gladiatorial arena (neorealist view) in which countries maximize their interests. This paper fills the research gap on the special significance of international organizations to developing countries and puts forward some suggestions for developing countries about how to balance domestic and international interests and get development under the IOs system.

The WTO and the AIIB are taken as examples of IOs in this research as the WTO accession is regarded as an important step in Vietnam's economic development, and AIIB, a newly emerging regional multilateral organization led by China, is supposed to have a complex impact on Vietnam due to historical and geopolitical reasons [4-5]. Created in 1995, the WTO is the successor to the General Agreement on Tariffs and Trade (GATT), which was established in the wake of the Second World War. It takes the principle of non-discrimination and market liberalism as its two fundamental principles, takes the rules created through inter-governmental consultation as the basis, and ensures compliance through the dispute settlement mechanism. Its specification of international trade relations is regarded as an important prerequisite for the remarkable growth of world trade in the past 70 years [6]. The AIIB, on the other hand, is considered a tool for China to promote regional economization (especially in Southeast Asian countries) by investing in the infrastructure of its member countries under the framework of the Belt and Road Initiative [5]. This paper will take these two international organizations as cases to analyze the diverse roles of IOs in Vietnam's development process and give suggestions for Vietnam's further development.

## 2. Literature review

### 2.1 Neorealism

Neo-realism, also named structural realism, is a theory that emphasizes the structure of an international system and its significant impact on shaping states' behavior, with leading theorists like Kenneth Waltz [7]. It recognizes many assumptions of traditional realism. For example, neorealism admits the essential role of power as a tool for statecraft and agrees that balance of power is the primary mechanism to achieve order in an anarchy system. However, there are also many differences between neorealism and classical realism. Firstly, while realism emphasizes the role of the action and interaction of states to explain international politics from bottom to up, neorealists would argue that despite the importance of states, the structure also has a significant impact. It is explained by Waltz that the structure is defined by an anarchic international system and the power distribution among numerous units (which refers to states as functionally similar actors). Secondly, the views of Realists and neorealists on power also differ. For realist scholars, military power is the most important thing to enhance national influence and profit. Different from that, neorealism believes that power is not only military power and the ability to control other countries with it but also a combined ability that determines the position of a country in the international system and thus shapes its behavior. To neorealism, the distribution of power and its dynamics help explain the international structure, and the balance of power helps to maintain stability within the structure as states would pursue to maintain their position in the system. Finally, neorealism also disagrees with realism about how the state reacts to the anarchy condition. According to realism, anarchy is a condition of the international system, and states react to it depending on their internal situation, like domestic politics and leadership. However, neorealism considers anarchy as a fundamental precondition of the international system and argues that states will struggle to maintain their position within the system. Therefore, neorealism will claim that states differ in their foreign policies due to their different capabilities or power [8].

Neorealism's concern about the balance of power is also reflected in its emphasis on relative gains. It considers international institutions as the arena of power relations and argues that the design of institutions would reflect the international distribution of power [7].

### 2.2 Neoliberalism

While neorealism emphasizes military security and war issues, neoliberalism pays attention to cooperation and the international political economy. It was generated in the 1970s when the international environment showed an increasing trend of globalization and interdependences. Neoliberalism agrees with many of the assumptions of neorealism. However, it argued that instead of overemphasizing conflicts and competition (neorealism), states should take the chances for cooperation even in an anarchic international system. Neoliberalism considers institutions as

mediators in the system to help states overcome the dilemma of mistrust and misinformation, thus, promoting cooperation. Some basic assumption of neoliberalism includes:

- States are key actors in the international system but not the only important one.
- Cooperation is not guaranteed, but in the area of mutual benefit, the state may agree to transfer resources and loyalty to the Institutions which helps secure the states' international interests.
- States achieve absolute gains by cooperation, and the biggest challenge for cooperation is cheating and non-compliance by states.

According to neoliberalism, four mechanisms of international institutions and regimes enhance intrastate cooperation. The first is the shadow of the future, which means states may choose not to cheat for the sake of long-term benefits. It argues that states will care about their reputations for the possibility of benefiting from future cooperation. Also, institutions connect states in various issue areas with rules, which means states may not cheat in one area for fear of retribution from the victim in another issue area. Thirdly, institutions also provide states with more information which helps to catch cheaters and release signs of possible defections so that states could take advanced protection. Finally, institutions could reduce the transactional costs of states as countries do not need to negotiate and police each agreement independently [7-8].

There are lots of debate between neoliberalism and neorealism on the impact of international institutions. While neoliberals argue that institutions can help states achieve cooperation in an anarchic international system, neorealists consider institutions just instruments of statecraft, meaning IOs are just arenas for states to pursue power and relative gains [7-8]. The next part of this paper will discuss how IOs like the WTO and AIIB work in developing countries like Vietnam from these two theoretical methods.

### **3. IOs' impact on Vietnam from the perspective of two theories**

#### **3.1 Vietnam and the WTO from neoliberalism and neorealism**

After 12 years of negotiation, Vietnam ratified its membership agreement and thus officially became the 150th member of the WTO in 2007. Accession to the WTO had a significant impact on the liberalization process of Vietnam, and, in fact, enhanced Vietnam's economic efficiency and contribute to its economic development [9].

In line with the views of neoliberal scholars, accession to the WTO helps Vietnam to enhance cooperation with other members and, thus, achieve mutual benefits and absolute gains. Standing from standard trade theory, after joining the WTO, free trade would contribute to specialization so that states could use their comparative advantage to enlarge their economy and enhance economic efficiency [3]. In practice, accession to the WTO had attracted much foreign investment to Vietnam and significantly increased its trade volume [10]. In fact, in 2015, Vietnam's GDP exceeded \$193.6 billion, compared to only \$6.47 billion in 1990. In addition, Vietnam has become one of the largest exporters of rice and cashews in the world [11].

However, some scholars have expressed concern about Vietnam's ability to achieve long-term economic growth due to its less competitive economic structure. It is argued that although Vietnam was likely to utilize comparative advantages and gain economic development by joining the WTO, this may be detrimental to the long-term interests of Vietnam. While Vietnam relied on the specialization of traditionally advantageous industries which are often low income and low productivity, it was difficult to create domestic productive capacity and high-technology/wage employment. Also, the basis of narrow development is not conducive to the development of long-term [2]. Furthermore, while deeply integrated into the global economy, Vietnam may encounter challenges that include falling into a low-cost labor trap and being more vulnerable to external crises [10]. While the liberalization rules of the WTO indeed brought advantages to Vietnam's economic development, as a less developing country, Vietnam cannot ignore the threats it might face.

The accession to WTO not only increases Vietnam's trade but, more importantly, provides a third-party unified dispute settlement mechanism for developing countries like Vietnam, which is relatively

weak in bilateral negotiations with developed countries. Developing countries are thought to be at a disadvantage in negotiations with more powerful rivals because they lack negotiating leverage. This is because its small market size makes its retaliatory measures against rivals negligible, but themselves are vulnerable to rivals' retaliatory [12]. However, this weakness of a small-size economy can be alleviated under IOs' intervention. For example, the dispute settlement mechanism of the WTO helped Vietnam to settle its dispute with the US concerning catfish. Due to the huge export volume of aquatic products from Vietnam to the United States, which hurt the interests of the local aquaculture industry in the United States, the United States introduced an anti-dumping act against Vietnam in 2004, adding high trade barriers to aquatic products from Vietnam. Before Vietnam joined the WTO, it could only try to fight the high tariffs imposed by the US through bilateral negotiations. Vietnam could not successfully challenge the Antidumping Bureau's decision on Vietnamese catfish until it negotiated with the US under multilateral institutions through the dispute settlement mechanism provided by the WTO after its accession [13]. Fortunately for Vietnam, the WTO provides an opportunity for fair negotiation and a solid legal basis for the United States to assess whether Vietnam has engaged in dumping sufficient for the United States to take justifiable defense against the assessment criteria set by WTO rules [12]. After the mediation of the WTO, Vietnam and the US have successfully achieved mutual agreements on the issue that the United States imposed anti-dumping duties on Vietnamese seafood, which was complained about by Vietnam to the WTO in 2010 [14].

### **3.2 Vietnam and the AIIB from neoliberalism and neorealism**

The AIIB is a China-led institution established in 2015 to promote infrastructure investment and economic development in the Asia-Pacific region. It provides preferential loans to member countries, develops infrastructure construction, and promotes regional economic cooperation and development. As an international organization dominated by China, it is claimed that AIIB will achieve efficient operation and become an effective capital mobilization tool for China to imply its Belt and Road Initiative. AIIB is also considered a financial project of China to show its strength and seek economic benefits, which has a profound impact on the world order [11, 15].

For Vietnam, joining the AIIB is a good opportunity to develop its economy and enhance its international status. First, AIIB provides Vietnam with more opportunities to obtain funds for socio-economic development, especially for infrastructure construction, which will also benefit Vietnam's economic and trade development. While the amount of funds provided for infrastructure construction in the ASEAN region is far short of demand, the enormous funding breach forces ASEAN members to seek external sources of funds. It is in Vietnam's interest to develop infrastructure through financial assistance from China. In fact, with China's financial support, Vietnam can gain advantages in numerous projects, including 24 road projects, three railway projects, one seaport, and tourism development and educational exchanges. In addition, it also brings great diplomatic significance to enhance Vietnam's international status as it is the first time for Vietnam to participate in establishing a bank of regional and even global significance as a founding country [11].

However, in addition to the advantages that the AIIB may bring to Vietnam, Vietnam still faces many concerns when considering the balance of power and security issues in the region. China, the central founding member of the AIIB, has complicated diplomatic relations with Vietnam. As friendly neighbors, China and Vietnam have a series of cooperation. However, Vietnam and China also face a series of diplomatic tensions. Historically, though, Vietnam and China have restored full diplomatic relations since 1991, ending animosity since a bloody border war in 1979. However, there is still a solid anti-China sentiment among Vietnamese people which has led to instability of cooperation, for example, the anti-China protests triggered by nationalist sentiment in 2014. In addition, Vietnam's territorial dispute with China over the South China Sea is another obstacle to cooperation due to the two countries' adjacent borders. Also, from the perspective of regional power balance and security, Vietnam, as China's rival in Southeast Asia, strongly opposes China's expansionism and hegemonic status in Southeast Asia [11].

From a neorealist perspective, the state is concerned not only with economic interests but mostly with relative gains in the system and the balance of power within the region to ensure its security. Given all these concerns, Vietnam's strategic considerations about the China-led AIIB may involve not only absolute gains, but also relative gains with China and an emphasis on security issues. Firstly, the further rise of China and the expansion of its regional influence could cause concern for Vietnam as a neighbor. Although the AIIB has brought many absolute gains to Vietnam, the benefits of a series of China-led regional programs such as the Belt and Road Initiative and AIIB will be tilted to China and bring relative gains to China. In addition, according to AIIB's voting system based on GDP, China's GDP size makes it the largest shareholder, accounting for 26.63% of the share, which may lead to an unfair decision-making process in practice [16]. Also, from a neorealism perspective, economics and security cannot be discussed separately. Infrastructure connectivity projects may lead to changes in power relations in the region, and the China-led economic and security order will affect the balance of power in the region, which may cause Vietnam to worry about security issues [16-17]. In fact, in line with the neorealist consideration of the balance of power and economic security issues within the system, Vietnam has taken a series of measures to reduce its economic dependence on China and to try to balance regional power. While China is Vietnam's largest trading partner and the bilateral trade income between China and Vietnam accounted for 19.66% of Vietnam's total income in 2016, Vietnam's economic dependence on China is great, and the possible increase in bilateral trade brought by AIIB will lead to further expansion of Vietnam's trade deficit with China. Vietnam is seeking more diversified FTA partnerships to prevent over-reliance on China for economic and loan investment. For example, Vietnam's attempt to join the TPP and its efforts to build strategic diplomatic relations with the US reflects Vietnam's appeal to balance China economically and politically in Asia [11].

#### 4. Conclusion

The influence of international organizations on Vietnam's development process is complex and multifaceted. From a neoliberal perspective, Keohane emphasizes that free markets bring developing countries absolute economic benefits by exploiting comparative advantages to expand exports, as well as the coordinating role of IOs as a neutral institution promoting cooperation between countries. Evidence that supports neoliberalism's argument can be found in the interaction between Vietnam and the WTO. Vietnam has made great achievements in export and foreign investment attraction after it acceded to the WTO, which can be proved by its GDP and employment growth, and poverty rate decline. Vietnam has become one of the important emerging economies in Southeast Asia and the world trading system. The trade dispute settlement system provided by the WTO also provides an important platform and clearly defined rules for developing countries like Vietnam to negotiate disputes with more developed countries on an equal footing. While the participation of international organizations has benefited to Vietnam's development, there are also some potential challenges and concerns. While joining AIIB can bring Vietnamese infrastructure funding sources and the rise of international reputation, neorealism will emphasize that AIIB is a China-leading institution that serves China's interests more and may weaken the relative interests of Vietnam. It may also lead to a further rise in China, the imbalance of the region's power, and a security dilemma. As Vietnam continues to integrate into the global economy deeply, it also faces a series of challenges, such as its vulnerability to external crises and reliance on low-end manufacturing in export while neglecting the development of medium and high-end manufacturing. It is suggested that Vietnam should adjust its domestic economic structure, promote self-sufficiency in basic consumer goods and invest more resources and training in medium and high-end industries to move up the position in the Global Value Chain. Also, Vietnam should actively develop multilateral relations to balance its pursuit of economic and security interests in international organizations such as the AIIB. Vietnam is suggested to promote diplomatic exchanges with multiple regional organizations or countries such as ASEAN to alleviate the security concerns that may arise from the continuing rising of China, a neighboring country of Vietnam.

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