

VIET NAM*

Introduction

1. State directions and general progress of international integration

As part of the reformation process (*Doi moi*), Viet Nam set out directives for multilateralism and the diversification of external relations, marking the beginning of the international economic integration process of the country.

The Report on Socio-economic Development Strategy for 2001-2010 states “Viet Nam will continue to expand its external economic relations in a more multilateral and diversified manner. It will actively participate in the process of international economic integration in a way that is relevant to its current level of development while ensuring the fulfillment of its bilateral and multilateral commitments under the ASEAN Free Trade Area (AFTA), Asia-Pacific Economic Forum (APEC) and Viet Nam-United States Bilateral Trade Agreement as well as the promotion of its accession to the WTO”.

More recently, Resolution No. 07/NQ/TW on international integration reaffirmed that: “Viet Nam will actively participate in international economic integration by attracting foreign capital, technology and managerial skills to promote the process of industrialization and modernization, and realize the general objectives of a rich people, a strong country, and an equitable, democratic and civilized society”.¹⁷⁸

So far, Viet Nam has achieved considerable progress along its integration path. The country resumed relations with the International Monetary Fund and the World Bank in 1992. It became a member of the Association of South East Asia Nations (ASEAN) on 25 July 1995, and began fulfilling its obligations as an AFTA member from 1 January 1996. Viet Nam has also been a member of the Asia-Europe Meeting (ASEM) since March 1996, and has participated in APEC since November 1998. On 13 July 2000, the Viet Nam-United States Bilateral Trade Agreement was officially signed. Viet Nam has diplomatic relations with 168 countries and economic relations with 150 countries. It has signed over 80 bilateral trade agreements, 40 bilateral investment agreements and 40 agreements on avoidance of double taxation.

2. Process of accession to the World Trade Organization

Currently, Viet Nam is actively engaging in accession negotiations to WTO. In January 1995, Viet Nam officially applied for membership and became an observer at

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¹⁷⁸ Resolution No. 07/NQ/TW, 27 November 2001, Politburo on International Economic Integration, Hanoi.

WTO. The Working Party on Viet Nam's accession to WTO has organized six sessions, with the main objective of making its economic and trade policy transparent to WTO members. Viet Nam has concluded the transparency stage and is in the early stage of negotiations on market access commitments. To date, Viet Nam has responded to over 1,700 questions from the Working Party members.

In addition, during the accession process, a number of official documents have been completed to make domestic regulations transparent and emphasize the determination of Viet Nam to join WTO. The documents include action plans to implement WTO Agreements, notifications on domestic policies and offers on goods and services.

3. Organizational mechanism involved in the accession work

Economic integration has been recognized as one of the major tasks facing the whole country in the *Doi moi* process. As a result, the Government has carefully built and structured a systematic mechanism to assist in achieving this goal as explained below.

(a) National Committee on International Economic Cooperation

The National Committee on International Economic Cooperation (NCIEC) assists the Government in formulating strategies for external economic relation and cooperation, and maintains overall management of economic integration matters. It is also responsible for assisting the Government in guiding ministries and other relevant State bodies in adjusting existing regulations so that they conform to the principles and requirements of international treaties or organizations. Another function of NCIEC is to communicate with different social groups on integration-related issues.

NCIEC comprises representatives from several ministries, the most important of which is the Ministry of Trade (MOT). The NCIEC office is maintained at MOT.

(b) Ministry of Trade

MOT is the principal authorized agency involved in WTO accession negotiations. It is responsible for drafting and submitting all accession strategies and plans to the government. The Multilateral Trade Policy Department, among other MOT departments, was especially set up to assist the Minister of Trade with integration policies and WTO accession negotiations.

(c) Government negotiating delegation

The government negotiating delegation comprises representatives at the departmental level from the ministries and agencies concerned.

(d) Line ministries

Each ministry concerned has a specific group of personnel to deal with accession matters. Their function is to contribute ideas and arguments from their professional points of view either to MOT or to the government negotiating delegation.

A. Process of policy reform for World Trade Organization membership

1. Changes in the ownership system

Viet Nam has been changing from a centrally planned economy to a market-based economy. National Assembly Resolution No. 51/2001/QH10 of 25 December 2001 on the amendment of, and supplement to the 1992 Constitution recognized six economic components (or types of economic ownership) as equal before the law. These are the State sector, collective sector, private individuals and household sector, private capitalist sector, State capitalist sector and foreign investment sector. All enterprises operating legally on the territory of Viet Nam and under the laws of Viet Nam were recognized and protected by law¹⁷⁹ (including protection against nationalization).

Including in the stimulating progress made regarding the ownership system was the successful change of control and ownership in the State-owned sector, which was aimed at improving competitiveness and creating more favourable market economy conditions. Encouraging measures have also been applied to increasing ownership in the foreign investment sector and developing a new type of ownership in the form of cooperatives.

Since 1991, the State sector has been undergoing restructuring and reorganization on a market orientation basis. As of August 2002, Viet Nam had equitably transformed the ownership of 985 enterprises. In addition, the Government issued Decree No. 103/1999/ND-CP on 10 September 1999 on the assignment, sale, contracting out and leasing State-owned enterprises. The Law on Enterprises, promulgated on 12 June 1999, governs limited liability companies, joint-stock companies, partnerships and private companies. As for private companies alone, about 62,300 companies have been established under this law.

Foreign investors are allowed to participate in the equitability process by purchasing shares in State-owned enterprises in sectors identified in the Prime Minister's Decision No. 145/1999/QD-TTg of 28 June 1999. Recently, the Ministry of Planning and Investment promulgated Decision 260/2002/QD-BKH promulgating a list of sectors in which foreign investors can purchase shares in non-state-owned enterprises in accordance with the law on the promotion of domestic investment. The total value of shares sold to foreigners may not exceed 30 per cent of a company's registered capital.

With the increasing number of market participants, this process is highly relevant to WTO accession in the sense that it offers more opportunities for the development of a competitive environment and a market-based economy.

¹⁷⁹ Vietnamese laws do not recognize private ownership of land, forests and water resources, but they do recognize the right to use these resources. Long-term land-use rights of farmers, including the transfer of land-use rights, have been recognized by the State since 1988. Viet Nam recognizes the ownership to fixed assets (except land) of foreigners during their residency in the country.

2. Trade policies

(a) *Improved mechanism for trading rights*

Previously, only enterprises that held licences issued by MOT were allowed to engage in direct import or export activities.¹⁸⁰ The licensing requirement was then abolished by virtue of Government Decree No. 57/1998/ND-CP, 31 July 1998, and the working capital requirement for trading enterprises was no longer effective. Since 1 September 1998, all wholly Vietnamese-owned enterprises – irrespective of the ownership structure, nature (trading or manufacturing) and size of capital – have been allowed to import and export goods.¹⁸¹ Except in the case of those on the prohibited lists, the Government does not limit or intervene in the scope of business chosen by enterprises.

Decree No. 24/2000/ND-CP of 31 July 2000 allowed foreign investment enterprises and business cooperation parties not only to export directly or authorize their agents to export their products, but also to make purchases directly in the Vietnamese market for export or export processing (except for prohibited exports or certain exports specified by MOT for specified periods).

(b) *Other improvements in trade policies*

The Government has also taken the following steps towards an improved legal framework and WTO-consistent trade policies:

- (a) Technical barriers to trade. Viet Nam is currently completing the legal framework covering this area in an effort to further facilitate trade and comply with the WTO Agreement on Technical Barriers to Trade,¹⁸²
- (b) Customs valuation. Viet Nam is drafting legislation based on the principles of the Agreement as well as introducing measures to combat commercial fraud and transfer pricing. In addition, a Working Group has been established to promote implementation of the Agreement. Currently, Viet Nam is implementing the Agreement on a pilot basis for goods imported from ASEAN countries under the ASEAN Common Effective Preferential Tariff (CEPT) Programme;
- (c) TRIPs measures. As far as intellectual property rights are concerned, Viet Nam's legal framework is reasonably adequate. An action plan for the implementation of the TRIPs Agreement has already been prepared

¹⁸⁰ Decree No. 64/HDBT, 10 June 1989.

¹⁸¹ Decree No. 44/2001/ND-CP, 2 August 2001 on amending some Articles of Decree No. 57/1998/ND-CP.

¹⁸² The legal framework for standardization, metrology and quality control comprised the Ordinance on Metrology No. 16/1999/PL-UBTVQH10, 6 October 1999 and the Ordinance on Goods Quality No. 18/1999/PL-UBTVQH10, 24 December 1999, and their implementing legal documents.

for review by WTO members and it has been a party to many international Conventions;¹⁸³

- (d) Trade defence measures. Recognizing the importance of trade defence measures (especially anti-dumping, countervailing and safeguard measures) in international trade, Viet Nam is in the process of building the legal framework for introducing such measures.

3. Investment policies

Viet Nam applies a wide range of incentives to attract foreign investment. These incentive policies include (a) giving priority to projects in agriculture and consumer goods production, (b) encouraging export-oriented production, (c) special incentives for investment in disadvantaged regions and (d) encouraging investment in labour-intensive sectors.

According to the Law on Amendments and Supplements to some Articles in the Law on Foreign Investment of 9 June 2000 as well as its guiding legal documents, the following additional incentives are being offered to attract greater foreign investment:

- (a) Flexible regulations of establishment. Enterprises with foreign investment are permitted to change the form of investment, and divide, consolidate or merge with other enterprises. Existing joint ventures are allowed to transform into wholly-owned foreign capital enterprises under certain conditions. In addition, there is no obligation to form a joint venture with a local partner. Foreign investors are entitled to make their own choice from three forms of investment set forth by the Law on Foreign Investment in Viet Nam;
- (b) Reducing the administrative burden. The duration for investment licensing was cut from 60 working days to 45 working days for projects under the category of appraisal and issuance of investment licences, and to 30 working days for projects under the category of registration for investment licences;
- (c) Expanded control over the use of foreign exchange. The ratio of revenue in foreign currency to be surrendered by enterprises with foreign investment has been reduced from 70 to 30 per cent. Such enterprises, particularly large-scale businesses, are allowed to open an account at an overseas bank if approved by the State Bank of Viet Nam;
- (d) Movement of business people. Viet Nam has greatly simplified procedures related to granting visas (i.e., a reduction of the waiting period and the simplification of application procedures). Viet Nam is also planning to participate in the APEC Business Travel Card scheme that allows free movement of business people in the APEC community;

¹⁸³ These include the Paris Convention for the Protection of Industrial Property (the Paris Convention) and the Madrid Agreement on International Registration of Marks (the Madrid Agreement), the Convention establishing WIPO in 1976 and the Patent Cooperation Treaty (PCT) of March 1993.

- (e) Other preferential conditions. Viet Nam protects industrial property rights and guarantees the lawful interests of foreign investors in technology transfer activities. Enterprises with foreign investment are permitted to mortgage assets associated with land and the value of land-use rights in order to secure loans at a credit institution permitted to operate in Viet Nam.

4. Economic reform in other related sectors

(a) Monetary and foreign exchange policies

The State Bank of Viet Nam regulates the money supply to control inflation and facilitate economic growth using various flexible policy instruments such as refinancing, reserve requirements, interest rates, foreign exchange rates, open market operations and other supplementary instruments. Since 1997, the bank has applied a uniform rediscount rate for all commercial banks since 1997. Credit policy focuses on increased lending to the private sector, especially farm households, and expanding the portion of mid- to long-term lending. In the State sector, lending is only extended to profit-making enterprises.

In 1989, Viet Nam replaced a fixed exchange rate system with a flexible exchange rate mechanism. Foreign exchange transaction centres have been operating since the end of 1991, and an inter-bank currency market for commercial banks was established in 1993. The State Bank of Viet Nam monitors the balance-of-payments and foreign exchange reserves position of the country and only intervenes in the market when necessary. The State Bank of Viet Nam also sets the average transaction exchange rate of the Vietnamese dong against the US dollar on a daily basis in the inter-bank foreign currency market.

(b) Tax policy

With regard to tax policy, recent tax reform focused on streamlining the tax rate structure, non-discrimination, broadening the tax base, improved tax administration and the introduction of value-added tax (VAT) to replace a turnover tax.

The major remaining taxes levied in Viet Nam are corporate income tax, agricultural land-use tax, a tax on the transfer of land-use rights, a natural resources tax (royalties), a land and housing tax, (personal) income tax, VAT, a special consumption tax (excise tax), and import and export duties. In addition, the Government levies some fiscal charges such as land rent, usage fee for government-owned capital, a business licensing tax, a property registration fee and a transportation fee.

B. Prospects and challenges posed by the accession process

1. Potential impact of WTO membership on national economic performance

(a) Prospects

Viet Nam's decision to integrate with the regional and international economies is aimed at achieving rapid and sustainable development. As a result, the expectations with regard to the potential benefits to be gained from joining WTO are quite high and include:

(i) Expanded markets and increased exports

Throughout its history, GATT/WTO has completed eight rounds of negotiations with considerably liberalized terms and conditions for trade in both goods and services. Commitments made by each WTO member are to be applied on an MFN basis to all other members. These commitments include the removal of non-tariff measures, tariff binding at low levels, tariff reductions and other commitments to make each country's trade policies more transparent and liberalized.

Given its natural endowments and cheap labour costs, Viet Nam can take advantage of all of these commitments once it becomes a member of WTO. In particular, it can expect to benefit in those areas of comparative advantage such as agricultural products and textiles. In this particular regard, WTO is pursuing the removal of trade barriers in these areas in order to protect the interests of many exporting countries. Under the Agreement on Textiles and Clothing (ATC), members are required to completely remove quantitative restrictions to the trading of these products by the end of 2004. Thus, if Viet Nam is already a member, at that time all quotas currently applied to Viet Nam's exported textiles and garments will be removed. In agriculture, WTO members have made commitments to reduce trade barriers and subsidies even further. This is also expected to be of great benefit to an agricultural exporting country such as Viet Nam.

Another prospect is that the concessions made are more equitable than those made under bilateral trade agreements, which may be associated with conditions unrelated to trade, such as human rights, labour standards and environmental requirements etc. This can occur when an agreement is concluded between a developing or less developed country with a developed country that is dominant in international trade. Therefore, if concessions are already made under WTO terms and conditions, Viet Nam may avoid any likely disadvantaged positions that might result from bilateral trade agreements.

Given the above points, membership in WTO may allow Viet Nam to take advantage of market access concessions. This would create favourable conditions for Vietnamese products to penetrate international markets, thus enhancing the country's production and exports, expanding its markets and increasing its export earnings (see annex tables 1 and 2).

(ii) *Improving domestic competitiveness and accelerating the restructuring process*

Previously, domestic enterprises had a competitive edge over foreign producers mostly because they were protected. Even among domestic enterprises, competition was limited because state-owned enterprises had more privileges than those in the non-state sectors as the former had easier access to production inputs (such as land and capital) and were even supported throughout the production process.

With a lower level of protection by tariff and non-tariff measures, competition will increase in the domestic market. Higher competition will also lead to restructuring and self-improvement of domestic enterprises (both state-owned and others) in achieving higher productivity and competitiveness. At the same time, greater access to modern technology and more reasonable input sources will provide domestic manufacturers with more opportunities to improve efficiency. However, this prospect can only be realized on the condition that solutions are found and considerable resources are spent on restructuring the national economy. This is discussed in more detail in subsection 1 (b) below.

(iii) *More favourable legal system for trading activities, and protecting enterprises with equitable tools for solving international trade disputes*

In the process of joining WTO, Viet Nam has to make all its trade-related policies transparent and submit plans for gradually making them consistent with WTO principles. Throughout this process, the legislative framework of Viet Nam will become more apparent and consistent with international practices, thus creating a favourable business environment and healthy competition as well as encouraging trade, investment and other forms of cooperation with the international community.

Viet Nam will, as a WTO member, be in a better position to defend its interests on the international scene. Currently, importing countries tend to reinforce the use of sanitary standards or allegations of price dumping in order to protect the interests of domestic producers. Exports of shrimp and gas lighters to the European Union, frozen fish fillets to the United States and garlic and waterproof footwear to Canada have already suffered from trade barriers of this type. If Viet Nam were already a member of WTO, it could have taken advantage of the available dispute settlement mechanism to protect the legitimate interests of its domestic enterprises.

(b) *Challenges*

The implementation of international trade commitments during the process of international economic integration, while offering many important advantages, will expose domestic enterprises and the national economy to considerable challenges.

This fierce competition comes as the result of tariff binding¹⁸⁴ and tariff cuts.¹⁸⁵ At the same time, acceding countries have to commit to removing non-tariff barriers and realigning export subsidies. In addition, there is a tendency for most recent acceding countries to enter sectoral arrangements, that is, to cut their tariffs down to zero for the whole sector. Actually, all participated in the Information Technology Agreement (ITA).

As a developing country at a low level of development, Viet Nam is facing many difficulties and challenges, which include legislative framework and human resources. These challenges could be perceived during the accession process.

(i) *Combined pressures from domestic industries a major challenge in the accession process*

The country is in transition from a centrally planned to a market-based economy and, therefore, the competitiveness of many domestic industries as well as the national economy as a whole is still limited. However, integration requires the country to make tough commitments. During this process, many domestic industries may find that under the pressure of competition they are unable to adjust by the time these commitments become effective. This could happen if the relationship between integration and the present level of national economic development is not properly settled. Consequently, the result may be very costly, both in economic and social terms, and a certain level of protection may be necessary.

Opening the domestic market to competition requires not only the restructuring and improvement of each industry involved but also the restructuring of the national economy. In other words, this process requires a new economic structure with a view to making the best use of the comparative advantages. In the long term, when natural advantages play decreasing roles in the global production chain, the value created by industries based on these advantages will also decrease. Therefore, the long-term challenge is whether the country can identify potential areas where it can maintain and enhance its competitiveness.

The challenge of competition has already affected the negotiation process. More liberalized policies and further commitments have not received support from the domestic industries of Viet Nam. The Government is in the difficult position of having to decide which sectors to engage, and when and how, in the process. As a result, the decision to move forward faster in the negotiations in WTO depends very much on

¹⁸⁴ It is evident from the Protocols of Accession that past entries have seen almost no unbound tariff lines. The number of individually bound tariff items for non-agricultural products are (the figures in parenthesis are the total number of tariff items): Albania, 8,459 (of 8,459); Croatia, 6,469 (of 6,469); Estonia, 5,328 (of 5,328); Georgia, 5,206 (of 5,206); Jordan, 5,896 (of 5,896); Kyrgyzstan, 6,068 (of 6,068); Latvia, 4,564 (of 4,564); and Oman, (4,858 (of 4,858)). The situation concerning agricultural products is analogous.

¹⁸⁵ The key demand by current WTO members has been that acceding economies bind their tariffs for industrial goods at roughly double the average rate for Organization for Economic Co-operation and Development countries, which would imply an import-weighted average of bound rates of no more than 10 per cent.

internal considerations and negotiations, which, in turn, will require much time and expertise to analyse the situation and explore appropriate solutions.

(ii) *Existing economic legislative framework needs to be more efficient and consistent with international regulations*

Despite positive efforts to complete the existing trade and economic legislative framework, many steps remain to be taken. Corresponding to any steps taken towards more liberalized trade and investment policies, many laws and regulations need to be adjusted in order to meet international standards. One example is the time span between promulgating legal documents and when they come into effect; this needs to be long enough (depending on the type of legal documents) to ensure transparency for all parties concerned. Another example is that the Government has to make reasonable adjustments to related policies in order to support the removal of non-tariff measures.

The economic and trade legal framework is still not comprehensive enough to cover new issues arising as part of the process of renovation and economic integration. Such issues include competition policy, trade and environment, e-commerce, intellectual property rights and trade defence tool. As mentioned above, some positive progress has been made but the way ahead is very long. Implementing the new policies and measures once they are in place will not only require practical knowledge but also a great deal of resources.

(iii) *Limited human resources proven to be a long-term challenge*

Human resources are an important factor and containing great challenges for the process of integration. Vietnamese personnel are generally limited in international experience, economic knowledge, foreign languages and especially negotiation skills. This will create considerable difficulties for Viet Nam as it enters the stage of substantial negotiations.

As a factor of cross-cutting importance, human resources are required for ensuring that all stages and areas involved in WTO accession contribute to the general objective. During the accession stage, human resources will be required for analysing, recommending an approach to making commitments or formulating certain action plans, or participating in direct negotiations. After acceding, human resources will remain an important factor in the implementation of the country's commitments as well as in helping the domestic business community to adapt to international markets.

In view of the crucial role that human resources will play, the challenge that is facing Viet Nam is enormous. Therefore, human resources should be given priority on the national strategic agenda.

(iv) *Impact on the national balance of payments*

After accession to WTO, trade will become more liberal. While imports may increase at a very high rate, it may take more time for exports to reach the same level. This situation will lead to deficits in the national balance of payments after accession and will require the country to adopt flexible monetary and fiscal policies in order to

cope with such a situation. This is a common concern of all developing countries and Viet Nam is no exception. Although not directly affected by the region's 1997 economic crisis, Viet Nam has experienced a trade deficit for many years.

2. Particular implications for foreign direct investment

Traditionally, foreign investors have come to Viet Nam mainly for its cheap labour or natural resources. However, it is recognized that these two traditional factors are now losing their positions in the consideration of foreign investors. This is one reason why foreign investors in Viet Nam are now paying more attention to service industries where they can be more competitive in the domestic market, rather than to production and manufacturing where the traditional advantages are declining. Another interesting aspect is that previous traditional foreign investors in Viet Nam were mainly from the same region, with the leading role being played by countries/ areas such as Malaysia, Singapore and Taiwan Province of China. However, more developed countries such as Japan, the Republic of Korea and the United States as well as the European Union are playing an increasingly active investment role, and services are becoming more important in the eyes of these newcomers.

Recognizing the importance of foreign investment to the development of the national economy (see annex figure), Viet Nam has taken considerable steps towards ensuring a favourable environment. However, the implications of WTO accession for FDI should be looked at from a more subjective perspective, with the above features and trends in mind.

First, the opening of the market in goods has combined implications. On the one hand, it means that foreign investors have more market opportunities. Those investors based in Viet Nam will benefit from freer and more secure access to other markets while taking the traditional advantage of labour, land, and other natural resources in Viet Nam. These are practical considerations in the case of foreign investors who locate their plants in Viet Nam to produce textiles, footwear or other labour-intensive products. On the other hand, competition will increase in the domestic market with the easier entry of imported goods. In this regard, investors will have to consider not only the traditional advantages, but also many other factors related to the domestic market, in order to ensure that they have a certain competitive edge over imported goods. In this difficult situation, the Government will have to create additional favorable conditions to attract and assist foreign investors.

In addition, the opening of service markets will attract more foreign investors. During the negotiations, Viet Nam will gradually have to open its service markets by removing restrictive regulations related to market access and national treatment. This process will eventually lead to the increasing presence of foreign service providers in many potential markets such as banking, insurance, security and tourism.

Another prospect is that WTO accession will direct foreign investment objectives in one way or another. In the context of a protected economy, investors often enter for the benefits of the domestic market as they are protected. However, after accession to WTO, they will certainly turn to investing in areas with high export potential. This

will have a positive implication for FDI in the sense that investors will have to rely on their own competitiveness, as well as on the national conditions that are increasingly required to be more conducive to investment.

Finally, the accession process is expected to bring about a transparent and legal environment, removing any measures that are unnecessarily hindering trade and investment. This will contribute to creating a promising overall climate for foreign investment. Generally, investment is expected to increase in the long term as a result of trade openness and policy reforms. However, this situation will not come about naturally; instead, it will require concerted actions from the government side.

3. Costs and benefits to the business community

From the above analysis of the impact of WTO accession on trade and investment, the general benefits likely to be enjoyed by the business community can be summarized as:

- (a) Increasing market opportunities. As trade barriers are removed, domestic enterprises will either be able to export at more competitive prices or choose more cost-saving inputs for their production;
- (b) Equal opportunities and a fair environment for development. This is especially important for private or small and medium-sized enterprises that have not received equal treatment with big market players such as state-owned or foreign invested enterprises;
- (c) Pressure both on state-owned and non-state enterprises to restructure and make improvements, which should be deemed as a benefit from the development perspective;
- (d) An expected increase, or greater efficiency, in foreign investment, which will at the same time bring in the technology and skills needed to develop domestic counterparts.

However, it is important not to be too optimistic and overlook the related costs and challenges, which mostly arise from the fierce competition that the domestic business community will have to face, both inside and outside the country, such as:

- (a) The threat to many enterprises of being forced out of business due to weak competitiveness. Restructuring to become more competitive requires a great deal of investment in terms of capital, technology and human resources;
- (b) Difficulties for domestic enterprises in developing their market niches abroad due to limited capacity and understanding about markets. Most private enterprises had paid little or no attention to foreign markets until recently. Those enterprises that have gained a footing in international markets usually export through intermediary partners. One of the difficulties is that their foreign clients find them to be insufficiently reliable. In addition, with limited capital, they are unable to provide favourable terms

of payment or carry out detailed market research. When most of the visible barriers are gradually removed, the above difficulties may create invisible barriers to accessing foreign markets;

- (c) On entering international trade, Vietnamese enterprises are prone to many trade disputes in which they are usually in a weaker position. There might be two possible causes. First, they may not be professional enough to avoid violating rules and practices commonly applied in international trade, or to protect themselves from being challenged by their trading partners. Second, their foreign competitors might be receiving government support (for example, subsidies), thus adversely affecting exports by Vietnamese businesses. This situation requires enterprises to be familiar with any rules or practices applied in international trade, and for the Government to develop a specific mechanism to protect them.

4. Social impacts of WTO accession

Trade liberalization in the WTO accession process tends to ensure higher efficiency and more sustained economic growth. This will, in turn, have an impact on the wider community – the development and prosperity of which are the key objectives of accession. The direct effects may arise from reduced tariff revenue, competition and economic restructure. Consequently, these will give rise to indirect effects on many other social aspects. The general impact may eventually be optimistic but, in the short term, challenges often prevail.

(a) Higher benefits to consumers

Liberalized trade opens the door to production at low cost (as the result of improvement against competition) and cheaper imports. Consumers (both enterprises and consumers) are the direct beneficiaries of this process. They can spend their money on a wider range of goods and services at lower prices. On the other hand, consumers also gain access to products and services of higher quality and safety levels. Together with overall economic growth, better consumer benefits will contribute to higher living standards and the development of the country as a whole.

(b) Impact on employment

Trade liberalization may have a combined effect on the employment issues. Employment may rise due to increased investment and production. However, it may also decrease as a result of administrative reform, restructuring in many industries, the closure of loss-making enterprises or an increasing abundance of unskilled workers. In the case of Viet Nam, with roughly 67.3 per cent¹⁸⁶ of the population working directly in the agricultural sector, the immediate effect could be more on the negative side.

¹⁸⁶ MOLISA and General Statistical Office, Statistical Yearbook 2000.

In addition, there remains the challenge of finding a solution for workers made redundant during the restructuring of domestic industries in the move towards higher growth. The workforce structure will be altered, particularly with regard to the movement of labour to industries that are more competitive. It will also be necessary to prepare for deeper divisions of labour whereby each worker is required to take up a specialized position and achieve higher productivity.

(c) *Impact on various social groups*

The definition of different social groups may be referred to as the combination of all groups having vested interests in the progress of trade liberalization and economic development. These groups include farmers, industrial workers, small children and the elderly, the poor, people in rural and mountainous areas, disadvantaged people etc. The channel of impact is felt mainly through possible reductions in budget income (as the result of tariff cuts), which may lead to lower spending on certain social welfare programmes (such as education, healthcare, charity work and other activities of a public service nature). The resulting pressure is often higher for those groups that have traditionally been protected by the State.

The impact on different social groups may also result from economic restructuring and the reallocation of production. This will affect their jobs, assets and lives in general, and will eventually lead to one group gaining a more advantaged position or vice versa.

(d) *Impact on poverty reduction*

Trade liberalization is likely to be associated with reduced poverty in the long term because of its link to economic growth, and through that to poverty reduction. In the short to medium term, trade liberalization will reduce the cost of the consumption basket of the poor, thus having a positive impact on poverty. It may also lead to increased wages and employment for the poor who work in those sectors that develop as a result of liberalization.

The prospect of investment is also positive aspect for poverty reduction in the sense that it may lead to many new investment areas¹⁸⁷ and complexes, thus creating more jobs and changing the living conditions of the poor in many difficult areas.

C. Recommendation

In view of the prospects and challenges of trade liberalization as well as its various impacts on different groups in the national economy, some key recommendations on pushing ahead with the current process of negotiations and maintaining long-term development objectives are given below.

¹⁸⁷ The Government, through land-use and other incentive policies, encourages investors to locate in rural, mountainous or other remote areas.

- Always ensure a logical, sound basis for making a decision. In the context of the current negotiations, further commitments should be supported by a cost-benefit analysis and careful research on the competitiveness of different industries. Priorities should be identified for the various industries and measures to be taken, so that a clear-cut approach can be prepared for the upcoming negotiations. To this end, cooperation with independent research institutions will be necessary. This recommendation is relevant to move faster forward in negotiations.
- The restructuring of domestic industries is of particular importance to the efforts to adapt to competition pressure resulting from trade liberalization. There are two perspectives in this regard. In the short to medium term, a shift is required from inefficient to more efficient industries (which can utilize the country's advantages of cheap labour and natural resources) in order to become more competitive. In the long term, the value-added from these available inputs will decrease and give way to highly skilled labour or high-tech input. As a result, it will be necessary to identify and develop certain areas of comparative advantages.
- Human resources are of a crosscutting nature, meaning that they are vital to all stages of negotiations and subsequent development. Therefore, importance should be attached to the human resources aspect. Many elements are required from human resources, including a good knowledge of multilateral trade, smart negotiating skills, professional expertise in different areas, fluency in foreign languages and familiarity with international law.
- The Government should put in place some supporting policies for domestic enterprises that are challenged by trade liberalization. These policies could include:
 - (a) Implementation of new trade tools such as anti-dumping, countervailing and safeguard measures in order to protect domestic enterprises from unfair practices;
 - (b) Encouraging trade promotion activities to help enterprises gain easier access to foreign markets;
 - (c) The provision of equal access to resources (such as information, capital and land) by small and medium-sized enterprises.
- Communicating with the business community and different social groups is very important in two ways. First, it ensures people are well aware of the costs and benefits of WTO accession and prepares them for its future impact. The business sector needs to understand how the process will affect them in order to make appropriate improvements. Individuals need to know in what ways their lives will be affected and how they can readjust to the situation (i.e., undergo training or move to another sector that is safer in terms of employment opportunities). Another aspect is that

good communication offers an opportunity for all parties concerned to contribute their ideas and expertise to the process.

- One point that should be noted is that non-governmental organizations such as the Viet Nam Chamber of Commerce and Industry, consumer associations and many professional associations can play important roles in communicating with society. This is because their opinions are more objective and relevant, and therefore, more easily accepted by the target audience. For this reason, non-governmental organizations should, to the extent necessary, be engaged in the process.
- More effort should be made to complete the restructuring of the legal system in a more WTO-consistent manner. This major task includes the adjustment of existing legal documents and the introduction of new ones. This will require not only considerable resources and a master action plan for the present, but also relevant implementation capacity in the future.
- Due to limited available resources, especially financial and human resources, international assistance is of great importance to Viet Nam in carrying out the process of economic development, particularly WTO negotiations. Therefore, the following recommendations are made with regard to regional cooperation.
- Regional cooperation should focus on exploring ways to help countries in their accession process, especially less-developed countries and countries in transition, so that they can make commitments that are relevant to their particular social and economic conditions.
- Human resources should be developed, with the focus on capacity-building for government officials directly involved in accession negotiations as well as those engaged in the formulation and implementation of policies and international commitments.
- Domestic policies should be adapted to become more WTO-consistent. This issue is more country-specific and a substantial survey should be made of each country's situation.
- Support should be provided to countries in accession in exploring solutions to employment issues, the reduction of social gaps and the minimization of the negative impacts of international integration.
- The interests of the business community should be protected by maintaining regional forums/dialogue between governments and enterprises. This will allow governments to remain aware of the challenges faced by enterprises as well as find suitable solutions.
- The understanding and capacity of the business community needs to be improved through, for example, communications/outreach activities on integration and market access. These types of activities will assist enterprises to better adapt to the new competition environment.

Annex
COUNTRY STATISTICS

Annex table 1. Engines of growth

Sector	Growth rate (percentage)				
	1998	1999	2000	2001	2002 ^a
Total industrial output	12.5	11.6	17.5	14.2	14.4
State	7.7	5.4	13.2	12.7	11.9
Private	7.5	10.9	19.2	20.3	19.3
Foreign investment	24.4	21.0	21.8	12.1	14.7
Total agricultural output	4.9	7.4	7.5	4.7	5.0
Agriculture	5.7	7.3	5.4	2.6	4.5
Forestry	-3.5	7.0	7.9	-0.9	0.2
Fisheries	3.5	7.9	19.3	17.4	8.1
Services ^b	5.1	2.3	5.3	6.1	6.2

Source: General Statistical Office.

^a Estimated.

^b The figures for services are based on value-added.

Annex table 2. Contribution to export earnings

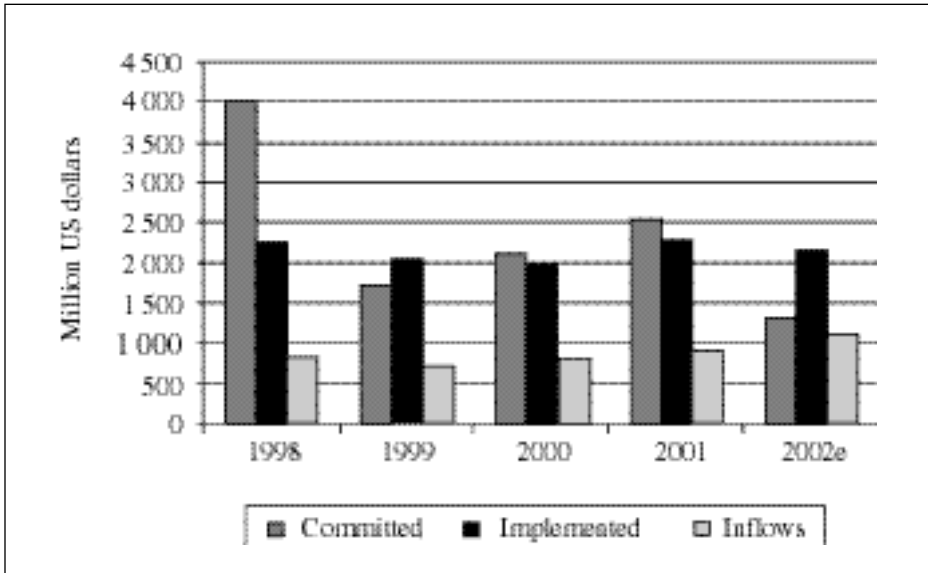
Category	Growth rate (percentage)					Value ^a (US\$ million)
	1998	1999	2000	2001	2002 ^a	2002 ^a
Crude oil	-12.8	69.7	67.5	-10.8	-0.5	3 110
Non-oil	4.8	16.3	16.1	8.7	9.2	12 990
Agricultural products	8.4	5.6	-9.8	-5.1	7.1	2 009
Seafood	4.8	16.3	55.5	20.2	15.3	2 050
Mining products	-8.3	-5.2	2.7	3.1	14.7	130
Garments	0.2	29.3	8.3	4.4	31.6	2 600
Footwear	3.7	39.1	5.2	6.5	11.6	1 740
Electronics	n.a.	23.5	33.8	-23.9	-16.1	500
Handicrafts and fine arts	-8.4	51.3	40.8	-0.7	34.0	315
Other	2.8	5.8	31.3	25.5	-3.2	3 647
Total exports	2.1	23.4	25.4	4.0	7.0	16 100

Sources: General Statistical Office, and Ministry of Trade estimates.

^a Estimated.

n.a. Not available.

Annex figure: Foreign investment



Sources: Ministry of Planning and Investment, and World Bank estimates.

^a Estimated.

Note: "Committed" refers to registration of projects by foreigner investors; "Implemented" is estimated according to the aggregate disbursement schedules of the projects, including equity and loan components; and "Inflows" are estimated based on average shares of foreign and domestic equity investors and lenders as well as on information about major project disbursements General Meeting.

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