



VIETNAM: THE LITTLE ASIAN TIGER SETS ITS SIGHTS ON THE WORLD TRADE ORGANIZATION

KAI BURMEISTER

In brief

- Vietnam, subscribing to an export-driven growth strategy, has set its sights on full membership in the World Trade Organization (WTO) by 2005.
- Apart from crude oil, Vietnam's successful export goods include agricultural products such as rice and coffee, aquacultural produce, and textiles and footwear.
- Vietnam's trade structure is that of a classic developing country. The country imports higher-grade goods and primary products for its export industry, exporting labor-intensive goods and agricultural produce.
- At present Vietnam is engaged in the phase of bi- and multilateral negotiations on market access; capacity deficits are making themselves felt.
- The WTO accession process has forced Vietnam to embark on a comprehensive course of restructuring both government and the economy, a process which has involved closure of obsolete state-owned enterprises and creation of new FDI-financed businesses.
- This restructuring process will entail growing unemployment and increasing labor conflicts. Labor unions are therefore faced with the challenge of developing into a capable and active representative of the interests of the working population.

The overall economic picture

With its annual per capita income of US\$ 410, Vietnam is one of the world's poorest countries. In recent years, however, the country has consistently achieved high economic growth rates of around 8% p.a. This success is due largely to disproportionately high growth rates in the export sector. This is remarkable in view of the fact that until 1990 Vietnam's foreign trade was



largely geared to other COMECON countries. The first steps toward opening up the economy were initiated in 1986, with the

start of the so-called „Doi Moi phase“, the goal of which is to restructure the country's centrally managed planned economy with the aim of developing a „socialist-type market economy“.

The decisive factor for Vietnam's development is agriculture, and some 80% of the population live in the countryside. A large majority of the working population is either self-employed or active in cooperatives in the agricultural sector. Private companies and especially FDI-financed companies in other sectors have thus far played only a limited, albeit increasingly important, role.

In recent years Vietnam has become increasingly integrated in world trade. This is illustrated both

by its negotiations on accession to the WTO and its membership in ASEAN/AFTA and by its Bilateral Trade Agreement (BTA) with the USA, which came into effect in 2001 and is based on WTO regulations. The AFTA agreement requires Vietnam to reduce, by 2006, both import taxes and all nontariff barriers to trade with other ASEAN countries.

Vietnam's most important import partners are China, Japan, Singapore, Taiwan, and South Korea. While most of its imports stem from the Southeast Asia region, its exports are focused principally on countries outside the region. Crude oil is Vietnam's most important export good, and textiles, footwear, agricultural and aquacultural products continue to play a significant role. Its important imports include machinery, fuels, intermediate inputs like steel and plastics, as well as fertilizers, pharmaceuticals, and chemical products. Vietnam also imports a significant share of the input materials it needs to manufacture clothing and footwear. This clearly illustrates the fact that Vietnam's trade structure is that of a classic developing country: it imports higher-grade goods and inputs for its export industry, exporting labor-intensive and agricultural products.

Status of Vietnam's WTO accession negotiations

Vietnam is set to join the WTO in January 2005, and its main aim is to finalize an agreement by the end of the Doha Round. Following completion of the first phase of accession talks, Vietnam now finds itself in the difficult phase of bi- and multilateral market access negotiations with 25 other countries. Vietnam has clearly indicated that its goal is to reach accords based on the BTA and its ASEAN obligations. Financial services and telecommunications are seen as particularly sensitive areas involved in opening the country's markets. Many WTO members have criticized Vietnam for submitting inadequate offers on opening its markets as well as for pursuing an intransparent information policy.

Individual export markets

Agriculture: Vietnam's average growth rate in the agricultural sector has been approx. 4% p.a., a figure distinctly below the rate for the country's

overall economy. At the same time, agriculture has been increasingly geared to exports (2002: US\$ 2.8 billion); indeed, Vietnam is presently the world's leading exporter of coffee and rice. Despite these successes, agricultural productivity has as a whole remained low. The reasons for this are inadequate landholdings per family - 0.5 hectares on average - infrastructure deficits, and a lack of downstream production stages. Efforts are being undertaken here to increase the share of higher-grade agricultural products, to develop production stages downstream of crop cultivation, such as the manufacture of instant coffee.

Vietnam's current agricultural policy will have to be modified in many respects before the country joins the WTO. Following accession, export subsidies will generally no longer be an option, and the country will instead have to look to the „green box“ for new opportunities (investment in infrastructure, promotion of technical development, and the like).

Textiles: Vietnam's textile industry, which includes some 750 companies and provides employment for some roughly 500,000 persons, is focused primarily on exports to the US, the EU, and Japan. In 2002 Vietnam exported textiles worth a total of US\$ 2.7 billion; this represents an increase of 36% on the previous year.

There are, however, limits to such above-average growth, particularly as far as the US market is concerned. A BTA-based textile agreement was signed with the US which permits Vietnam, as of May 1, 2003, to export US\$ 1.7 billion in textiles p.a. to the US.¹ Within the Vietnamese textile industry there is strong competition for export licenses. 51 companies recently lost their export licenses due to irregularities in their export practices. Vitas, the Vietnam Textile and Apparel Association, has criticized the current allocation of quotas, noting that contingents have been spread across too many different businesses. Vitas is seeking above all to strengthen the hand of large companies. Outside observers and US importers, on the other hand, have come out in favor of a general relaxation of restrictions.

¹ This contingent then rises annually for individual product groups at an annual rate of between 2% and 7%.

Fish/ Seafood: Fish and aquacultural products are Vietnam's third most important export good. In addition to its traditional fishing industry, Vietnam has massively expanded its artificial aquacultures, in particular in shrimp farming. The two most important export markets are the USA and Japan, followed by China/Hong Kong and the EU. In many cases, however, trade relations are marred by conflict.

One conflict-laden issue is, for instance, Vietnam's export of catfish to the US. In 2001 catfish farmers from the Mississippi Delta were successful in their attempts to prevent from Vietnamese catfish being designated as such, and catfish from Vietnam may now be sold in the US only under the name of the related species 'tra' or 'basa'. American producers had begun to feel threatened by the rise in imports and argued that Vietnam was illicitly subsidizing them. However, they failed to furnish any further substantiation of this allegation. In the meantime, the import duties on catfish from Vietnam have been raised, with the result that catfish exports to the USA have stagnated.

Exports to the EU are limited due to strict regulations on residual antibiotics; in the Japanese market Vietnam is forced to compete with China.

Social consequences

Vietnam is prepared embark on a course of internal public- and private-sector reform in order to achieve its proclaimed goals of greater international integration and WTO membership. While greater economic integration presents chances, it also entails the risk that Vietnam will become more vulnerable to external shocks and find itself exposed to the vagaries of world economic cycles. The internal reforms being conducted in parallel to the WTO accession negotiations will mean job losses, in particular in state-owned enterprises² and in large segments of the agricultural sector. Development in the agricultural sector, marked as it is by growing exports and declining employment opportunities, appears contradictory. Nevertheless, this parallel

² The state-owned enterprises are currently in the midst of a massive process of change. By 2005 several hundred enterprises are set to be closed or privatized.

development of growing exports on the one hand and job losses due to restructuring on the other is one that can be observed in the agricultural sector. Chinese experiences also provide empirical support for the assumption of negative impacts on the rural population. Chen/Ravallion have noted that private urban households have profited from WTO membership, whereas private rural households have suffered a tangible deterioration in their living standards.³

The debate in Vietnam on WTO accession has not lost sight of these negative social impacts, and the result has been calls for an improved system of social security. Vietnam does have certain types of social security, but these are underdeveloped or concentrated on a small number of population groups. The present system of social security does not yet cover the large number of people employed in the domestic or informal sectors or in agriculture. The agency responsible, the Ministry of Labor, Invalids and Social Affairs (MOLISA), is for this reason actively working to strengthening the country's social security systems. An increase in labor conflicts concerning working hours and pay can be observed in export-oriented industries in particular. The labor unions are therefore faced with some new tasks, one of which is to cast off their role as an arm of the Party and become an active and competent representative of concrete worker interests.

Outlook

Vietnam's top priority is accession to the WTO. The challenge is not only accession itself but also the need for reform of administrations and state-owned enterprises, strengthening of the private sector, development of a binding legal framework, and mitigation of social impacts. The intention is to achieve the necessary economic growth by boosting the country's export capacity, cashing in on the comparative advantage of low labor costs.

Vietnam has no alternative to greater economic integration. However, the experiences of many Latin American countries show that there is no generally valid formula stating that „increased

³ Chen/Ravallion, Household welfare impacts of China's accession to the WTO, Beijing 2002.

world market orientation = prosperity". Apart from the issue of WTO membership, Vietnam is going to have to address the question of the coordinative role which the state will have to assume in the future. For example, a large number of exporting companies have often been quick to boost their output by underbidding their competitors. In its day-to-day business the export sector suffers from its no more than marginal knowledge of the economic affairs of and contract law valid in the countries to which it exports. Moreover, the strong emphasis placed on trade and exports generally creates the impression that the country's economic-policy strategy is paying too little attention to the production side of the equation as well as to the domestic market.

Accession to the WTO and the negotiations involved call for considerable thought as to trade strategies, at both the technical and the political level. As has been the case with other countries negotiating for accession, Vietnam's negotiating capacity has proven to be limited. Vietnam is faced with a dilemma here: on the one hand, WTO membership is desired as soon as possible, on the other hand, speed could result in a lack of thoroughness.

Exports have risen above all in the clothing, footwear, and agricultural sectors. In this connection Vietnam stresses the production of higher-grade goods and the development of higher-value-added production stages. Whether or not Vietnam will be able to pursue a successful medium-term path term with these export products will also depend on external factors such as price trends in world markets, the nature of competition from other countries, and the degree of protectionism adopted by importing countries. The disputes with the USA over catfish and textile quotas clearly indicate that external trade relations will not be free of conflict in the future.

The issue of possible social impacts of WTO membership and the domestic reforms currently being conducted parallel to the negotiations is being addressed in Vietnam. Unemployment, particularly in agriculture, is to be expected despite recent export successes, since the majority of the population work in this sector. It is not yet possible, however, to predict the extent

to which it will prove possible to cushion the social impacts for the population, and especially the rural population. Nevertheless, Vietnam on its own will be unable to cope with the need to compensate for the anticipated social impacts; the WTO and the countries of the North will also have to bear a share of responsibility here.

Table: Economic performance according to sector

GDP by sector:	1997	2001
GDP per capita	342	410
GDP (in US\$ mio.)	25824	32300
Agriculture, forestry, fisheries	6247	7627
Agriculture and forestry	5464	6517
Fisheries	783	1110
Industry	7775	12219
Industry	6189	10391
Construction	1586	1828
Services	10218	12453
Trade	3781	4526
Real Estate	1190	1439
Transport and communication	960	1295
Tourism	870	1054
Education	871	1099
Health	259	424

Source: Vietnam Economic Times, June 2003, p. 47

Author: Kai Burmeister (Diplom in economics) absolved an internship with the Friedrich-Ebert-Foundation in Hanoi / Vietnam in the fall of 2003, where he worked on Vietnam's export economy and projected accession to the WTO.

References

- Chen, S. / M. Ravallion, Household welfare impacts of China's accession to the WTO, Beijing 2002
- Dieu Ha, Vietnam's trade relation with some key markets, in: Vietnam Economic Review (August 2003), pp. 31-33
- Dan Tuan Anh, Measures to Enhance Competitiveness of Vietnam's Textile and Garments on World Market, in: Vietnam Economic Review (May 2003), pp. 33-35
- Friedrich-Ebert-Stiftung / Central Institute for Economic Management, Soziale Auswirkungen des WTO-Beitritts – Konferenz 12.-13. Mai 2003, Konferenzreader, Hanoi 2003
- Ho Chi Minh National Political Academy, Economic Globalization and Vietnam's policy on international economic integration (Summary Report), Hanoi 2002

Mai Thanh, Vietnamese Businesses and Vietnamese Government's Commitments to AFTA, in: Vietnam Economic Review (June 2003), pp. 21-25

Nguyen Thi Thom, Enhancing the Efficiency of Human Resources in Vietnam, in: Vietnam Economic Review (August 2003), pp. 15-19

Statistical Yearbook 2002, Hanoi 2003

Vietnam Economic Times, Material issue, Supplement Issue 114, pp. 24-25

Vietnam News, US Quota system needs reworking, 25th August 2003, p. 16