

POLITECNICO DI MILANO



**MASTER OF MANAGEMENT, ECONOMICS AND
INDUSTRIAL ENGINEERING**

MASTER THESIS

**THE WTO ACCESSION'S IMPACTS ON
VIETNAM EXPORTS AND FOREIGN DIRECT
INVESTMENTS**

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List of Abbreviations

AANZFTA	ASEAN-Australia-New Zealand Free Trade Agreement	MNRE	Ministry of Natural Resource and Environment
ACFTA	ASEAN-China Free Trade Agreement	MPI	Ministry of Planning and Investment
AFTA	Asian Free Trade Area	NT	National Treatment
AJCEP	ASEAN-Japan Comprehensive Economic Partnership Agreement	ODA	Official Development Assistance
AKFTA	ASEAN-Korea Free Trade Agreement	TBT	Technical Barriers to Trade
ASEAN	Association of Southeast Asian Nations	TRIPS	Trade-Related Aspects of Intellectual Property Rights
BMI	Business Monitor International	UNDP	United Nation Development Programme
CEPT	Agreement on Common Effective Preferential Tariffs	US(A)	The United States (of America)
EU	The European Union	USBTA	United States-Vietnam Bilateral Trade Agreement
FDI	Foreign Direct Investment	VASS	Vietnam Academy for Social Science
FOB	Free on Board	VCA	Agreement on Customs Valuation
FTA	Free Trade Agreement	VCCI	Vietnam Chamber of Commerce and Industry
GATS	General Agreement on Trade in Services	VINATEX	Vietnam National Textile and Garment Group
GATT	General Agreement on Tariffs and Trade	VITAS	Vietnam Textile and Apparel Association Vietnam-Japan Comprehensive Economic Partnership Agreement
GDP	Gross Domestic Products	VJCEP	Vietnam-Japan Comprehensive Economic Partnership Agreement
GSP	Generalized System of Preferences	VJEPA	Vietnam-Japan Economic Partnership Agreement
MARD	Ministry of Agriculture and Rural Development	VNFU	Vietnam Farmers' Union
MFA	Multi-Fiber Arrangement	WTO	World Trade Organization
MFN	Most Favored Nations		

ABSTRACT

After a long time preparing and negotiating, Viet Nam has finally ratified its membership agreement and officially became WTO's 150th member on 11 January, 2007. This special event brought together with it two ways of thinking. Firstly, joining WTO would give Viet Nam a precious opportunity to access the global market. Moreover, when Viet Nam becomes an open market to other countries, it also attracts more foreign investment into Viet Nam because it is seen as a potential market. Therefore, the economy in Viet Nam would be boosted rapidly. However, there are always two sides of a matter. Joining WTO means Viet Nam will be exposed to a new environment which has both opportunities and threats.

Vietnam's export revenues have rapidly increased since WTO accession. Export revenues increased by 21.3% and 29.5% in 2007 and 2008, respectively. The most benefit industries are labor-intensive industries, such as garment, leather shoes etc. Garment is predicted to gain the highest growth rate in exports thanks to WTO accession, increased by 37.8% compared to the case if Vietnam was not WTO membership. Garment and leather shoes witnessed the strongest export increase but they also had highest value of import due to WTO accession.

Became WTO's member also bring a lot of FDI to Viet Nam. FDI in Viet Nam were USD 21 billion and USD 71 billion in 2007 and 2008, respectively, marking a significant increase compared to that in 2006 (USD 12 billion). Even in 2009, Viet Nam was still a bright point for FDI regardless of economic crisis. The FDI performance has reflected the government efforts in creating an attractive business - investment environment, in line with WTO commitments. Vietnam's business and investment environment has continuously improved and are highly appreciated by international community.

1. INTRODUCTION

On 11th January 2007, Vietnam officially became a member of the World Trade Organization (WTO). This accession came some 20 years after the *Doi Moi* (“Innovation”) launch, which marked a milestone of Vietnam’s international economic integration and openness process. Since Vietnam’s WTO accession, together with socio-economic achievements, a number of risk and unstable factors have exposed. During 2007-2009, in the circumstances of high economic growth rate, export increase and loads of FDI inflows, Vietnam’s economy has been under pressure of high inflation, high trade deficit, low economic growth quality, inequality rising, etc. Moreover, internal weaknesses in the economy have also exposed.

The WTO accession’s impacts on Vietnam’s socio-economic development have always been a complex debate. They include short-term, long-term, measurable direct, and/ or non-measurable indirect impacts. This report consists of three main parts; in which, the first part reconsiders the context of Vietnam to access the WTO stepping in 2007; the second part focuses on assessing the WTO accession’s impacts on the Vietnam socio-economic development which consists of both aspects of impacts- positive and drawbacks; the final part analyzes in details the impacts of WTO accession on important industries in Vietnam.

2. VIETNAM CONTEXT TO ACCESS THE WTO (JANUARY 2007)

Over the last two decades, Vietnam has implemented a program of reforms that has dramatically changed the way its economy operates and led to its accession to the World Trade Organization (WTO) at the beginning of 2007 (Chaponnière, Cling and Bin, 2007). These reforms have made some major socio-economic influences briefly described in this section: rapid economic growth resulting in a drastic reduction of poverty along with a certain rise in inequalities; growing integration into the world economy via a new export development strategy; and a big growth in foreign direct investment flows, which have increased with WTO membership.

2.1. Rapid economic growth and drastic reduction of poverty

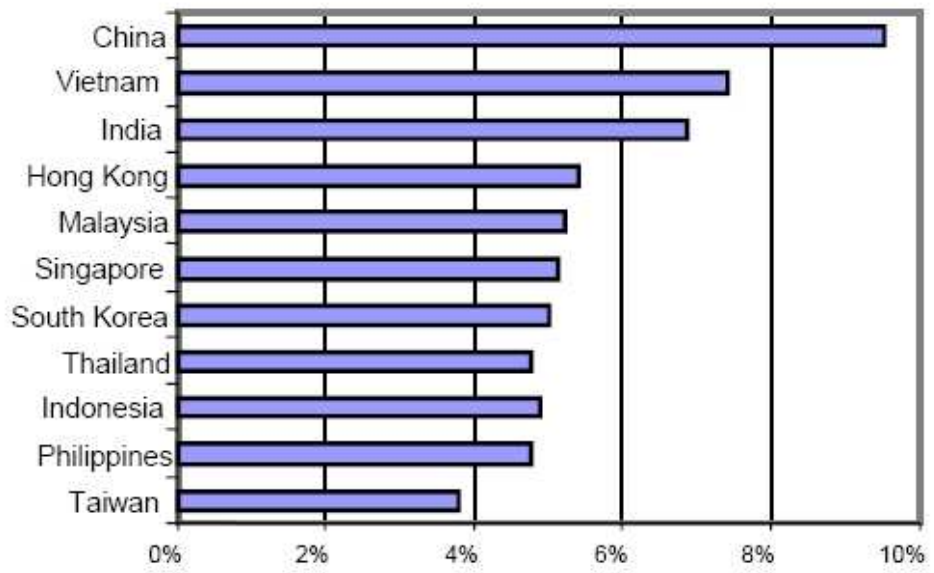
After the war time, followed by economic recession and shortages, the 1986 launch of *Doi Moi* marked the beginning of a phase of continuous growth for the Vietnamese economy, one of the fastest growing economies in the world along with China. This growth generated a sharp rise in the socio-economic indicators and a drastic reduction of poverty. Yet this improvement is unevenly distributed among the regions and different population groups.

The positive change of Vietnam since the Doi Moi launch

Since the beginning of the 1990s, Vietnam's GDP growth has hovered around 8% per year (a performance similar to China, with a growth rate of some 9% per year over the same period). The Vietnamese economy posts the highest growth in Asia after China (Figure 1).

This rapid growth is driven by the program of economic reforms launched in late 1986 under the name of *Doi Moi*. The adoption of this program, coming a few years after the launch of a similar program by China (1978), entailed the definition of the “socialist-oriented market economy” concept. Radical measures were steadily introduced over the years that followed:

- De-collectivization of agriculture and the abolition of price controls;
- Creation of a private sector made up of small and medium-sized enterprises;
- Partial dismantlement of the centrally planned economy;
- External liberalization with tariff reduction and the abolition of the State monopoly in foreign trade.



Source: Chaponnière, Cling and Bin (2007).

Figure 1: Average GDP growth rate (2000-2007) in %

A chain of trade agreements

Since lifting the US trade embargo in 1993, Vietnam has resumed relations with the international community (return of international aid) and signed a number of trade agreements that have stepped up its process of economic growth and international integration launched with *Doi Moi*:

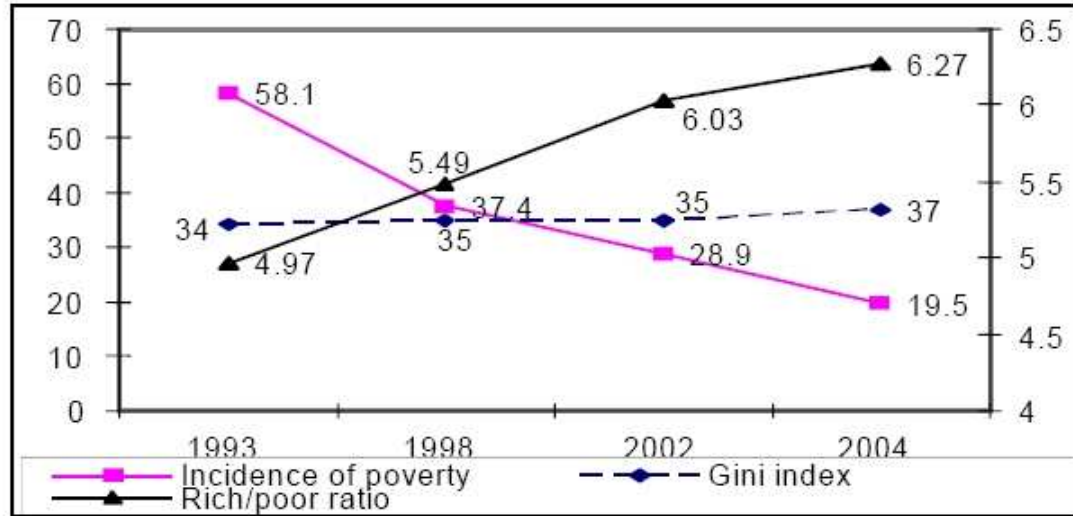
- Following its membership of ASEAN2 (1997), tariffs on imports from ASEAN countries were gradually reduced and have stood at less than 5% within the Asian Free Trade Area (AFTA) since 2006. The other ASEAN members have also applied this tariff reduction to exports of Vietnamese products, improving access to their markets. The ASEAN-China Free Trade Agreement (ACFTA) signed in 2004 brought further tariff reductions in trade with China (already applied, in particular, to certain agricultural products);
- In 2000, Vietnam signed the United States-Vietnam Bilateral Trade Agreement (USBTA). This agreement opened the door for Vietnamese products to enter the American market (nevertheless subject to quotas). Vietnamese exports to the American market were granted most-favored-nation (MFN) status under this treaty in 2002, and average tariffs on Vietnamese products fell from around 40% to 3%–4%. In return, Vietnam reduced its tariffs on imports from the United States and made a number of commitments to open up to American investors (see below);

- At the beginning of 2007, Vietnam joined the WTO following ten years of negotiations and exactly 20 years (to the nearest month) after the adoption of *Doi Moi*. As a member of the WTO, Vietnam now benefits from most-favored-nation (MFN) status in all the member countries (which also means an end to quotas on its exports) and must, for its part, apply all the WTO rules. Accession to the WTO is therefore something of an endorsement of a long process of reform and integration into the world economy.

A drastic reduction of poverty

The strong economic growth posted by the Vietnamese economy has sent poverty rates tumbling since the 1990s (Figure 2). The overall monetary poverty rate has been slashed by two-thirds since 1993 from 58.1% to 19.5% in 2004 (VASS, 2006).

At the same time, there has been an upturn in inequalities, despite less marked than in China. The country's Gini index rose from 0.34 to 0.37 from 1993 to 2004. Yet the appraisal of inequality dynamics in Vietnam over the last decade remains a subject for debate. Although the Gini index has not risen substantially, other indicators point to a sharp increase in inequality pressures. For example, the inter-quintile ratio (ratio between the population's richest and poorest quintiles) rose from 4.97 to 6.27 over the same period, reflecting the emergence of an upper middle class concentrated in the cities. Moreover, analyses of the change in non-monetary welfare and health indicators (childhood malnutrition) reveal an increase in inequalities (Moser *et al.*, 2005; Tran *et al.*, 2003). One of the purposes of this study is to take a more detailed look at the issue of trade-policy-related inequalities.



Source: VASS, 2006; our own calculations.

Figure 2: Growth in poverty and inequalities (1993-2004)

The human development indicators (health, education, etc.) have also evolved in a highly positive manner. With a rate of nearly 100% of pupils finishing primary school and a 75.8% rate of enrolment in secondary education, Vietnam is way ahead of all the other countries with comparable levels of development. The same holds true for life expectancy, which stood at 68 years for men and 73 years for women in 2005.

At regional level, highly contrasting poverty trends are found (Table 1). In the region of Ho Chi Minh City (South-East) and, to a lesser extent, in the Red River Delta (Hanoi), monetary poverty has virtually disappeared and food poverty (generally called “extreme poverty” in the international reports) has been all but wiped out. However, certain regions have benefited less from the widespread reduction in poverty. In the North-West, in particular, overall poverty and food poverty have barely decreased and remain very high.

Table 1: Growth in poverty by region (%)

	1993	1998	2002	2004
Overall poverty rate	58.1	37.4	28.9	19.5
North-East	86.1	62.0	38.4	29.4
North-West	81.0	73.4	68.0	58.6
Red River Delta	62.7	29.3	22.4	12.1
North Central Coast	74.5	48.1	43.9	31.9
South Central Coast	47.2	34.5	25.2	19.0
Central Highlands	70.0	52.4	51.8	33.1
South-East	37.0	12.2	10.6	5.4
Mekong River Delta	47.1	36.9	23.4	19.5
Food poverty rate	24.9	15.0	9.9	6.9
North-East	29.6	17.6	14.1	9.4
North-West	26.2	22.1	28.1	21.8
Red River Delta	24.2	8.5	6.5	4.6
North Central Coast	35.5	19.0	17.3	12.2
South Central Coast	22.8	15.9	10.7	7.6
Central Highlands	32.0	31.5	17.0	12.3
South-East	11.7	5.0	3.2	1.8
Mekong River Delta	17.7	11.3	7.6	5.2

Source: GSO; our own calculations.

Table interpretation:

- Overall poverty: in 2004, an individual was considered to be poor (“overall poverty”) if his annual expenditure was less than 11 US dollars per month (173,000 Dong), defined as the monetary poverty line.
- Food poverty: this is defined based on the sum of money required to buy a basket of food to provide an intake of 2,100 calories/day, evaluated at 10 US dollars per month (160,000 Dong) in 2004. Overall poverty covers, in addition, non-food goods considered to be basic needs.

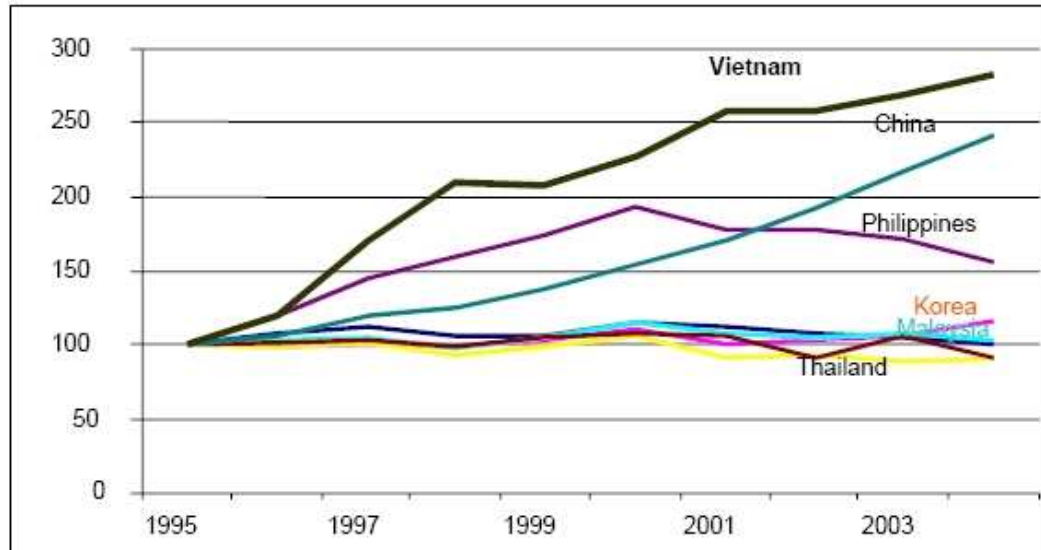
2.2. Export development strategy

Since the launch of *Doi Moi* and in keeping with the East Asian “dragons”, Vietnam has conducted a trade policy that combines an export-based growth strategy underpinned by various subsidies (creation of export processing zones, in particular) with an import-replacement strategy (Vanzetti *et al.*, 2006). This has helped Vietnam create an automotive industry (mainly motorcycles), become the world number two exporter of rice, number one in Robusta coffee, etc.

Outstanding growth in exports

Growth in Vietnamese exports has been close on 20% per year in value terms since the mid-1980s, placing the country ahead of even China (approximately 15% per year). Vietnam’s competitiveness has benefited from the fall in the US dollar since 2003, insofar as the national currency is implicitly anchored to the US dollar.

This growth has led Vietnam to post the highest increase in world market share of all the Asian countries (Figure 3). It has tripled since 1995. Nevertheless, Vietnam remains a small exporter in global terms with just 0.3% of all world exports (as opposed to 1% for Thailand for example).

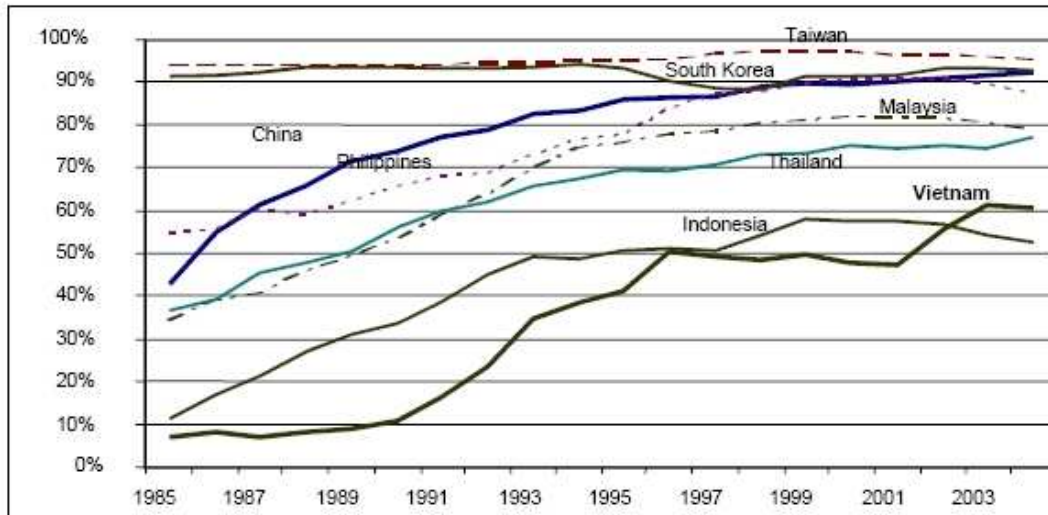


Source: Chaponnière, Cling and Bin (2007) based on CEPII/Chelem.

Figure 3: Growth in the market shares of Asian exporters
(Base 100 = 1995)

At the same time, the structure of exports has changed enormously in recent years. Since 2002, manufactured goods have accounted for the majority of exports (Figure 4). These are mainly textile and apparel products, but also increasingly electronic products.

The level of 50% industrial exports in total exports was attained by the Philippines in 1984, China in 1986, Thailand and Malaysia in 1989, and Indonesia in 1995. The fact that Vietnam is an oil exporter (approximately 20% of total exports) tends to reduce its share of finished goods. Nevertheless, the share of crude oil exports is set to fall in coming years following current construction of several refineries to meet domestic consumption demand.



Source: Chaponnière, Cling and Bin (2007) based on CEPII/Chelem.

Figure 4: Share of manufactured goods in total exports (%)

The structure of Vietnamese exports and the growing weight of textiles and apparel are characteristic of a developing country in the early stages of its industrialization process (VTAS, 2006). Even before joining the WTO, Vietnam benefited from the EU's lifting of quotas on textiles and apparel from Asian countries at the beginning of 2005. Despite competition from China, it has become the world number six exporter in these products³ (number five if Hong Kong is grouped together with China), with exports quadrupling from 2001 (on the eve of the USBTA) to 2006 (Table 2). In 2007, the lifting of quotas still imposed by the United States will foster the continuation of, if not rise in this growth.

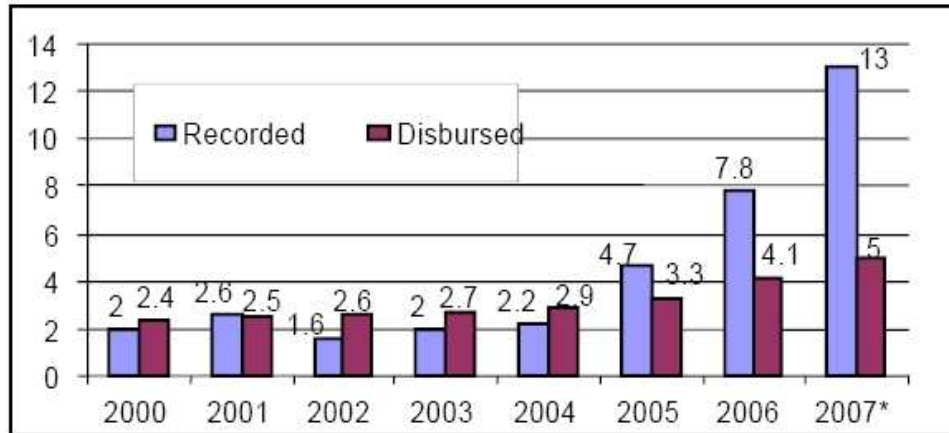
Table 2: Apparel exports from the leading suppliers to the EU, United States and Japan
(millions of US dollars and %)

	2001	2002	2003	2004	2005	2006	Change 2006/01 (%)	Market share (2006)
1. China								
<u>Total</u>	<u>28069</u>	<u>29098</u>	<u>35254</u>	<u>41869</u>	<u>55315</u>	<u>62476</u>	<u>+122.6</u>	
EU	7486	8810	11578	14322	21092	23934	+219.7	31.4%
USA	6416	7070	8667	10685	16774	19865	+209.6	27.1%
Japan	14167	13218	15009	16862	17448	18678	+131.8	83.4%
2. Bangladesh								
<u>Total</u>	<u>4471</u>	<u>4359</u>	<u>5302</u>	<u>6518</u>	<u>6686</u>	<u>8636</u>	<u>+93.2</u>	
EU	2527	2583	3515	4621	4400	5811	+130.0	7.6%
USA	1929	1757	1759	1871	2268	2808	+45.6	3.8%
Japan	15	18	28	26	18	18	+20.0	0.0%
3. India								
<u>Total</u>	<u>3862</u>	<u>4208</u>	<u>4839</u>	<u>5443</u>	<u>7233</u>	<u>8229</u>	<u>+113.1</u>	
EU	1979	2186	2688	3079	4028	4824	+143.8	6.3%
USA	1774	1939	2059	2256	3064	3235	+82.4	4.4%
Japan	109	83	92	107	141	171	+56.9	0.2%
4. Hong Kong								
<u>Total</u>	<u>4382</u>	<u>6129</u>	<u>6131</u>	<u>6354</u>	<u>5672</u>	<u>6052</u>	<u>+38.1</u>	
EU	2328	2208	2379	2440	2121	3200	+37.5	4.2%
USA	1994	3873	3708	3863	3507	2799	+40.4	3.8%
Japan	60	48	44	51	45	53	-11.7	0.2%
5. Indonesia								
<u>Total</u>	<u>4016</u>	<u>3590</u>	<u>3815</u>	<u>4169</u>	<u>4476</u>	<u>5613</u>	<u>+39.8</u>	
EU	1607	1391	1537	1662	1492	1812	+12.8	2.4%
USA	2203	2050	2153	2390	2868	3666	+66.4	5.0%
Japan	205	149	125	117	115	135	-34.1	0.2%
6. Vietnam								
<u>Total</u>	<u>1261</u>	<u>1988</u>	<u>3413</u>	<u>3839</u>	<u>4110</u>	<u>5052</u>	<u>+300.6</u>	
EU	689	656	591	788	857	1285	+86.5	1.7%
USA	47	873	2337	2503	2664	3152	+6606.4	4.3%
Japan	525	459	484	548	588	616	+17.3	0.8%

Sources: Chaponnière, Cling and Bin (2007) based on CEPII/Chelem.

2.3. The big growth in foreign investments

Although financial liberalization has been gradual and relatively modest, Vietnam has received considerable foreign direct investment inflows. FDI has increased since 2005, nearing 15 billion US dollars in approved investment in 2007 (Figure 5). Direct investment inflows recorded in the balance of payments data came to some two billion US dollars per year through to 2005, the last year for which such data is available. They have probably also posted the same growth as the sum of investment projects. The five leading investors, which are all Asian (Singapore, Taiwan, Japan, Korea and Hong Kong), account for nearly two-thirds of the investments made since 1988.



Source: MPI; our own calculations.

*: Forecast

Interpretation of the chart: On average, approximately half of the planned investment (recorded) was actually disbursed, given that the implementation of the major projects is spread over a number of years. During a project growth period, the gap between recorded and disbursed investment automatically widens due to the implementation lead times.

Figure 5: Annual total of foreign direct investment projects (2000-2007)
(Billions of US dollars)

Half of the investment is directed at the manufacturing industry (cumulative flows). The (offshore) oil sector has received slightly less than one-quarter of the investment inflows disbursed in recent years and the tourism sector is the third leading sector for substantial investment inflows.

The large contribution of foreign investment to exports

Firms with foreign holdings make a decisive contribution to export buoyancy (Table 3). They make the majority (56%) of total exports and 48% of exports excluding oil. All oil production and exports are in partnership with foreign oil groups.

Table 3: Share of foreign firms in exports in 2007*
(Amount and growth rate)

Type of firm/sector	Amount (millions of US dollars)	Total	Growth rate 2007/06
Domestic firms	20,086	43.8%	24.7%
Firms with foreign holdings	25,839	56.2%	15.9%
- Crude oil	7,594	16.5%	-11.3%
- Others	18,245	39.7%	32.8%
Total exports	45,925	100.0%	19.6%
Total exports ex. crude oil	38,331	83.5%	25.6%

Source: MPI; our own calculations.

*: First eight months of the year

Most of the foreign investments are attracted to the two leading economic regions of the country

Foreign investment is highly concentrated geographically speaking (Table 4). Ho Chi Minh City and its surrounding areas receive nearly two-thirds of all FDI while the Red River Delta (Hanoi and its areas) receives over one-quarter. The country's two leading economic regions attract some 90% of foreign investment whereas only 41% of the population lives in these regions. This concentration is reflected by some profound imbalances and a factor in the large flows of domestic migration by Vietnamese workers.

Table 4: Destination of foreign investment projects in Vietnam by province, excluding oil (1988-2007)

%	Projects	Actual	Population
HCMC and surrounding area	<u>61.2</u>	<u>63.6</u>	<u>19.1</u>
- South-East (HCMC)	58.7	60.2	15.3
- Mekong River Delta (Long An + Tien Giang only)	2.5	3.4	3.8
Red River Delta	<u>28.3</u>	<u>27.5</u>	<u>22.0</u>
Total above	<u>89.5</u>	<u>91.1</u>	<u>41.1</u>
Rest of the country	10.5	8.9	58.9

Source: MPI; our own calculations.

In this section, Vietnam's WTO accession is placed in the context of the country's economic performance in recent years and the social repercussions of this performance, along with the trade policies conducted since the launch of *Doi Moi*.

3. ASSESSING IMPACTS OF THE WTO ACCESSION ON VIETNAM SOCIO-ECONOMY

3.1. Positive impacts of the WTO accession on Vietnam's socio-economy

3.1.1. Exports

The increase in export revenues is the main sign illustrating one of the WTO accession's impacts on the economy. Vietnam's export revenues have rapidly increased since WTO accession. Export revenues increased by 21.3% and 29.5% in 2007 and 2008, respectively. The export

performance in 2007 shows that even in the first year WTO membership, Vietnam took opportunities to increase export scale as well as to diversify product line and export markets. In 2008, Vietnam's export markets were opened to 150 nations and territories. In 2009, due to the world economic crisis, export revenues dropped by 9%. This decline results from the price reduction, not from the quantity reduction. Being affected by the world economic crisis, almost all Vietnam's trade partners, namely the US, EU, Japan witnessed the minus growth rate; therefore, their demand for import have reduced, thus, leading to the decline in Vietnam's export revenues.

Many arguments show that the export declines due to Vietnam's deep integration into the world economy. However, it is clear that without integration, Vietnam would face many difficulties in terms of tax rate and quota, etc. In 2008 - 2009, on average, export revenues gained USD 150 billion per year, equivalent to more than 160% of GDP.

The most benefit industries are labor-intensive industries, such as garment, leather shoes, and electronics. Garment is predicted to gain the highest growth rate in exports thanks to WTO accession, increased by 37.8% compared to the case if Vietnam was not WTO membership. Garment and leather shoes witnessed the strongest export increase but they also had highest value of import due to WTO accession. Thanks to WTO accession, Vietnam has strengthened its position in the traditional markets and expanded to other market.

Therefore, WTO accession has strong impacts on exports of some production industries in Vietnam and it also makes increases in imports of all kinds of commodities. On the one hand, Vietnamese consumers have more chances to use cheaper and higher quality goods; on the other hand, it warns the greater competition in all production areas in Vietnam.

In fact, the export growth rate of 2007 and 2008 (excluding 2009 because in 2009, export growth rate was minus), averagely, was only 25.27%, not much higher than 22.63% of two year "pre-WTO accession (2005 and 2006). This illustrates the low increase if comparing with China's export after WTO accession. In other words, Vietnam's export has not much improved after becoming a WTO member.

In summary, since joining the WTO, Vietnam's export has remained increasing trend but it has also exposed the vulnerabilities to outside shocks and the world price changes, etc. The competitive advantages of some product lines may be reduced because of difficulties in both export activities and production. The export structure has slowly changed to reduce the material or cheap labor-intensive export products and to increase manufacturing and high-tech commodities.

3.1.2. Foreign Investments

Being a WTO member, Vietnam has become an attractive destination for foreign investors. In 2006, Foreign Direct Investment (FDI) commitments were USD 12 billion. This number increased to USD 21 billion and USD 71 billion in 2007 and 2008, respectively. In 2009, due to the world economic crisis, the volume of FDI commitments reduced. In the context of the global financial crisis and recession, when domestic production faced many difficulties, the attraction and disbursement of FDI still was a bright point in the whole picture of Vietnam's economy. Statistically, in 2009, registered FDI was USD 21.4 billion, equivalent the registered and additional FDI of 2007, a year before crisis.

Since joining the WTO, total registered FDI into Vietnam attained more than USD 114 billion, 4.5 times higher than the target set for the period of 5 years (2006-2010). According to Foreign Investment Department (MPI), counting to 2009, there were around 11,000 FDI projects from 89 nations and territories invested in 18/21 industries. In addition to capital, foreign investors have brought modern technologies, advanced management methods to Vietnam, creating favorable conditions for human resource development. In terms of FDI disbursement, some years after WTO accession, total implemented FDI attained USD 29.5 billion, higher than the target of the five year 2006-2010. The FDI performance has reflected the government efforts in creating an attractive business - investment environment, in line with WTO commitments. Vietnam's business and investment environment has continuously improved and are highly appreciated by international community. The decentralization in issuing investment certificate and FDI management makes investment management organs in all levels more active in attracting and managing FDI by reducing administrative procedures, creating favorable conditions, etc.

3.2. Some drawbacks after Vietnam joins the WTO and lesson learnt

After joining the WTO, inadequacies are unavoidable. The issue is how to recognize and to adjust them. There are some inadequacies regarding international economic integration via WTO accession.

Drawbacks

3.2.1. Policies

Over the past years, the policy making has become more transparency but the unpredictability and the “shock” of policies remain problems. This is a weakness of the policy making process. The difficulties in foreseeing policies will erode the people’s belief. For example, in the agricultural area, the sudden cut-off of import tax and the lack of technical barrier made imported meat flood Vietnam’s market in 2009, negative affecting domestic production, especially affecting the domestic fowls breeding households and farms in the rural areas. Only after the press circles speak up, functional organs hasten to readjust the tax rate. This illustrates that the state offices are embarrassed during integration, both in adjusting the tax rate and in designing technical barriers. This problem should be improved.

3.2.2. Lack of inter-ministerial collaboration

The procedural problem in issuing policies is the lack of inter-ministerial collaboration, which together renders approved policies ineffective and even not implementable. There is a big gap between the fact and the policies, lack of the professionalism, transparency and ability to explain while the motivational mechanism (in terms of salary, bonus, etc.) remains distorted. The collaboration among ministries in foreign relationship activities is not close and consistent.

This illustrates the fact that Vietnam has not well prepared for integration process.

3.2.3. Low competitiveness of nation, enterprises and products

National, enterprises’ and products’ competitiveness is low and has slowly improved compared to other countries in the region. Some areas, such as human resource training, infrastructure, institutional capacity and technology are at low standard; thus, limiting the competitiveness in all level. The export products’ competitiveness is low due to heavily depending on processing and exploiting natural materials. Over the past years, Vietnam has only taken comparative advantages for development, not competitive advantages. The increase in export values in 2008 thanked to the increase in the world prices. Recently, many enterprises have not taken

opportunities brought by WTO accession. Moreover, Vietnam's enterprises are facing the lack of capital, human resource; low productivities and efficiency; and relatively high investment costs. Profit ratio has declined trend. Another weakness is the lack of linkages among enterprises. The biggest challenge for Vietnam is to design development mechanism and means for supporting SMEs to become strong and competitive enterprises.

In addition, since being a WTO membership, Vietnam's enterprises have to face with the implementation of intellectual property right, of trade-mark regulations and commodity origins, etc. Although non-tariff barriers were cut off, we still face with ever-increasing sophisticated technical barriers under separated regulations of some countries.

3.2.4. Inadequacies in FDI attraction

Beside the positive impacts of WTO accession on FDI, there are many negative impacts and challenges. Over the past years, many provincial governments view that having large amount of FDI capital will stimulate the provincial economic development. Therefore, many industrial zones and processing parks have been built to attract FDI without social and environmental considerations. As a consequence, FDI attraction and implementation have affected the sustainable development target. In some provinces, they attract FDI for their economic development in all costs without any consideration of negative aspects. The serious problems relate to allow foreigners rent the forests, particularly in watershed forest. Such activities will cause many serious problems for Vietnam, in terms of social security, environment, and national security. Recently, the government has assigned Ministry of Planning and Investment, Ministry of Agriculture and Rural Development, Ministry of Natural Resource and Environment and other related ministries to establish a working group to review, examine and evaluate the issuance of investment certificates and implementation of foreign investment projects in forestry and fishery areas. Provincial governments are required to stop issuing new investment certificates in these areas.

Moreover, when being a WTO membership, the increase in FDI projects leads to the situation that agricultural land are collected for building industrial parks. As a consequence, many households lose their part or whole means of production, they meet many difficulties in finding new jobs and income; and then, they immigrate from rural to urban areas to find jobs, leading to the overloaded of infrastructure and basic services in some big cities.

However, FDI environment is evaluated as less attractive compared to some countries in the region and in the world due to high investment costs, lack of financial and banking system, inadequacies in after-registration, in tax policies, etc. This is a challenge for Vietnam to design a competitive FDI attraction strategy.

3.2.5. Difficulties in agricultural sector

Over the past three years, there was no sudden change in the export of agricultural, forest and fishery commodities. Although the export revenue increased compared to the year 2006, the growth rate was lower than the general growth rate of export of the country as a whole, except for coffee. It can be concluded that the implementation of WTO commitments has not impacted on the export of Vietnam's agricultural commodities.

In addition, the policy on investment in agriculture has been changed but total investment still lower than 10% of agricultural values as committed by Vietnam when accessing WTO. In 2007 and 2008, state budget investment in agricultural areas accounted for only 8% while FDI projects were insignificant. In 2007, there were only 16 registered FDI projects with total capital of USD 58.6 million and 2008; total capital of FDI in agricultural sector was only USD 260 million. For the period of 1988-2008, there were only 966 FDI projects in agricultural and rural development with total registered capital of USD 4.7 billion, accounting for only 10% of the project number and 3.3% of total registered capital of the country as a whole.

ODA capital for agriculture is very low. Therefore, technical infrastructure is still limited; it does not meet the development requirements of high quality products with low costs.

Another problem is the slow and inaccurate provision of market information and the world price forecast by functional agencies, causing damages for the country in general and for the farmers in particular. In addition, the inadequacies in implementing WTO commitments relating to export and import of agricultural commodities make farmers more difficulties.

Furthermore, many weaknesses and limitations of agriculture and farmers have also been exposed. Farmers lack knowledge and professional skills. Production technology is small and backward, increasing the production costs compared to other countries.

3.2.6. Rising social inequality

WTO accession and in-depth international integration stimulate the economic growth. The high economic growth makes many changes in social aspect, including the rise on social inequality. These problems result from the differentiation in FDI among regions/ provinces; differences in job and income opportunities; and the differences in terms of power, social capital, human capital and material capital. Farmers who lack or lose cultivated land, vulnerable to natural calamity, diseases, ethnic people in remote areas, free migrators in urban areas, the poor, and disabilities, etc. are vulnerable group. Rising social inequality mainly results from the concentration of all resources, such as FDI, ODA, state budget and the development of private sector in important economic regions. Although having many social policies, namely job creation, basic social service provision, etc. to surmount the inequality, there is not enough resources for limit the rising social inequality.

Lesson learnt

From the aforementioned analysis of positive and negative, direct and indirect impacts of WTO integration, in order to improve quality of growth and ensure sustainable development, some priorities for development should be selected. In coming year, the government and enterprises should focus on the following issues.

1. It can be seen that the important impact of Vietnam's WTO accession is the increase in the economy's efficiency through effective resource redistribution under the market economic rule. Therefore, the government should stimulate the economic reform towards the market mechanism; simultaneously, continue to improve the regulatory system in compliance with WTO commitments.
2. Changing economic growth model which mainly depends on exploiting and exporting natural materials, raw materials into the model which focuses on developing technology, exporting manufactured products. Vietnam should continue to maintain its competitive advantages in the existing major export sectors like footwear, garments and textiles, agricultural resource manufactures and agricultural commodities at least in the medium term. The country needs to increase the knowledge-based contribution for higher added values in its export products and improve its position in the regional and global value chain. This in turn requires more investment in human resource, capital and technology. Otherwise, Vietnam will still lag

behind in the increasing global competition and find it hard to improve its position in the world. Therefore, the government should extend its supports and incentives which conform to international practices and WTO rules, focusing on specific areas such as training, trade promotion, and provision of market and product information, R&D, technology transfer.

3. If the export growth rate of garments and textiles and footwear to the United States and other developed market increases as predicted, the threat may be trade conflict through anti-dumping lawsuits. Upon WTO accession, Vietnam has been accepted as a “non-market economy” for maximum of 12 years or no later than December 31, 2018. As long as Vietnam is considered as “nonmarket economy”, it could be subject to unfavorable conditions in terms of anti-dumping and anti-subsidy lawsuits. Therefore, the government should continue to stimulate the reform in order to be accepted as a market economy by major Vietnam’s trade partners. Up to now, there are 26 countries accepting Vietnam as the market economy. Being accepted a market economy will create more conditions for Vietnam’s export enterprises to improve their defense ability when facing the anti-dumping lawsuits.
4. Human resource development should be considered as a basic and long-term strength, aiming at having 100% of trained labor, meeting the recruitment requirements, and then, improving the labor income. Thereby, in addition to upgrade the professional training system to regional level, it is necessary to mobilize more resources for building additional training units and readjusting labor structure towards the economic restructuring.
5. Being a WTO membership, Vietnam has to face with the increase of imported goods into Vietnam’s market. To cope with this situation, the government should consider the application of supporting measures which are allowed by WTO for the most affected sectors. For example, market protection measures may be replaced for other measures required in anti-dumping and anti-subsidy investigations. In order to apply these measures, the government should issue domestic regulations which comply with WTO rules, as a legal foundation for applying these measures.
6. Improving the competitiveness of the economy by strengthening the domestic economic and administrative reform, investing in advanced equipments and technologies, exploiting advantage sectors. Improving the inter-ministerial collaboration and capacity in the international integration process, focusing especially on forecast activities. Effective implementation requires close collaboration between the government and business association in information provision and trade promotion. In fact, majority of export

enterprises still lack experiences and financial capacity to collect information and undertake large-scale trade promotion, particularly in foreign markets. Such assistances of the government and associations will help enterprises to reduce costs and mitigate risks in export activities.

4. IMPACTS ANALYSIS BY INDUSTRY

4.1. Garment and Textiles

After Vietnam's accession to the WTO in January 2007 and strongly increasing exports hereafter, its textile and garment industry, the country's largest foreign currency earner, struggled in 2009. Vietnam was not able to reach its target of garment and textile exports of USD9.5 billion. Revenue in 2009, according to VITAS (Vietnam Textile and Apparel Association, a non-governmental and non-profit organization representing the interests of textile and apparel firms in Vietnam) was USD9.1 billion, the same as in 2008.

Contrary to the general trend in exports, the domestic demand for garments rose. The campaign for Vietnamese people to buy domestic products supported domestic sales of Vietnamese garment and fashion, especially in rural areas. After joining the WTO, most companies concentrated on exports and tended to neglect the domestic market. This has changed, the biggest company in the garment and textile sector (Vietnam National Textile and Garment Group, VINATEX), with a workforce of 120,000, increased its domestic turnover by 26% year-on-year.

The whole workforce in this sector is more than 2 million, with high numbers still working for state-owned or partly state-owned enterprises. However, the number of private owned enterprises is increasing (be it through domestic or via foreign direct investment). Most enterprises are located in the South-East (58%) and in the Red River Delta (27%) of Vietnam.

4.1.1. Overview

Domestic/ Import market

By 2009, Vietnam's population of about 86million with an annual growth rate of 1.2% rendered the domestic market more important for Vietnam's garment and textile producers. Thus,

companies recognized the importance of the domestic market when exports were shrinking at the beginning of 2009. Domestic year-on-year sales increased by 20% in 2009. Increasing salaries and improving living standards made the Vietnamese market more attractive for domestic as well as foreign enterprises.

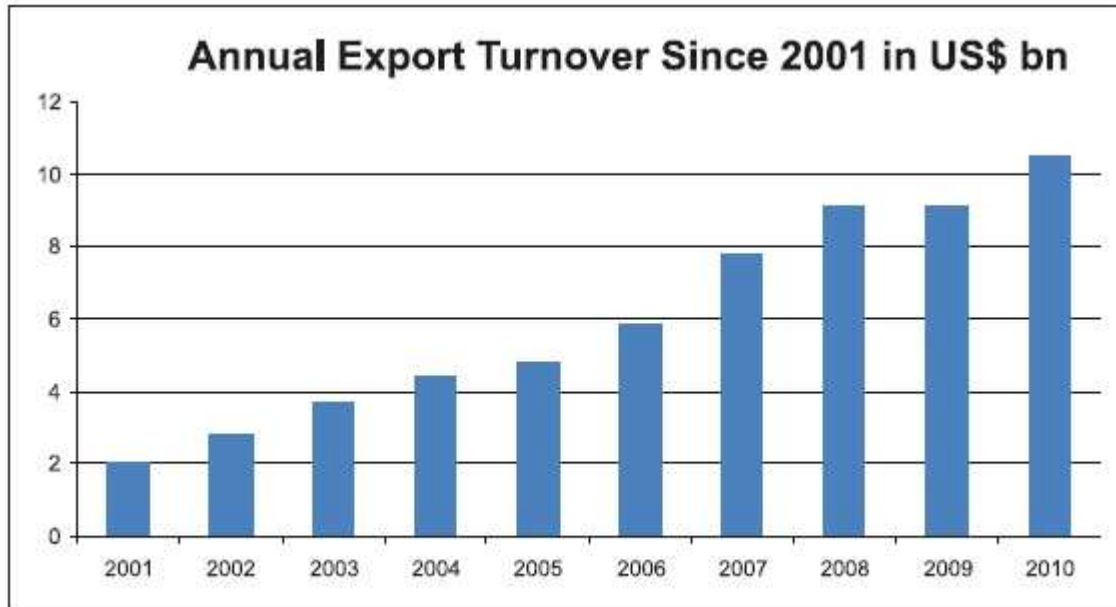
The vast growth of VINATEX is partly based on a new domestic distribution system, established in Spring 2009, with 55 supermarkets and 20 fashion shops in 22 cities and provinces.

Imports of material and accessories reached USD6.5 billion in 2009, whereas Vietnam imported material and accessories worth of USD7 billion in 2008. Most raw materials are produced abroad.

Overseas/ Export markets

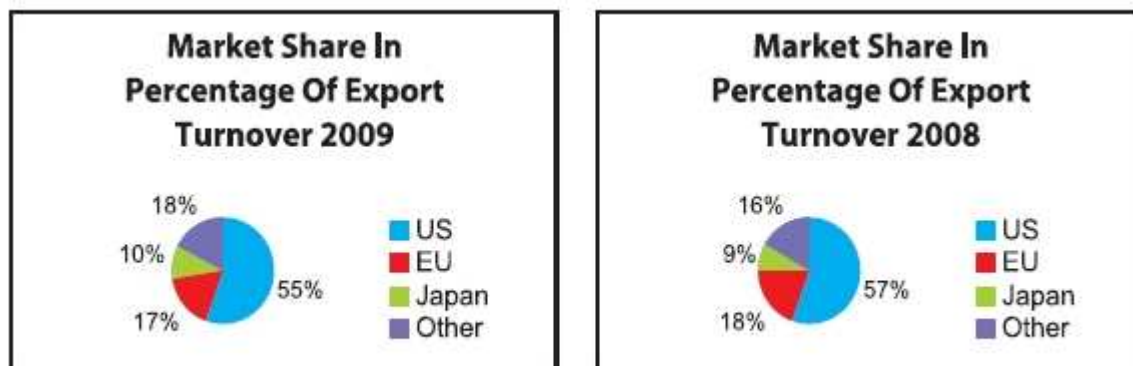
2009 began rather unfavorably for Vietnam's garment and textile exporters. Exports went down by 4.7% in the first half of 2009, compared to the first half of 2008, to USD4 billion. The performance for the second half improved so that the export volume for 2009 as a whole was almost the same as in 2008. Companies with strong exports to the US and Europe faced challenges because exports to the bulk purchaser USA (-2.4%) and EU (-4.5%) declined. With a demand of nearly USD5 billion, the US market remains the biggest for Vietnamese exporters. Many apparel and textile exporters were trying to enter markets in the Middle East, Africa and Eastern Europe to avoid dependencies on the US and Western Europe as well as to offset the shortfalls in turnover. Additionally, Japan has become increasingly important as an export market. Vietnamese exports to Japan increased by 16.3% to USD0.95 billion – one reason being the bilateral trade agreement between the two countries with preferential treatment on export taxes on garments.

Whereas the exports of cheap and moderately priced garments were growing (export share of 75% in 2009), the consumption of expensive garments fell remarkably. The global economic crisis has had a considerable effect on Vietnam's luxury garment products. In general the export prices of garments declined by 15% in 2009 compared to 2008.



Source: VITAS, 2010's turnover is estimated

Figure 6: Annual Export Turnover



Source: Vitas and handbook 2008

Figure 7: Market Share in % of Export Turnover

4.1.2. Impacts of WTO and other free trade agreements on the garment sector

The World Trade Organization (WTO) is an international organization dealing with problems related to trade regulations among the economies. WTO is based on the agreements negotiated and approved by its members. WTO's objective is to assist manufacturers, exporters and importers through reduction of barriers to commercial exchanges among nations. The result is that international economic environment will be less distorted by one or more nations' laws and

regulations and that economic value and prosperity will increase for every party. Not only does WTO support trade liberalization it also supports, in some particular cases, the keeping of trade barriers to protect domestic consumers and environment or to avoid the spreading of epidemic diseases, etc.

WTO agreements are often very complicated and lengthy because there are many regulations on legal problems related to different issues such as agriculture, garment, banking, telecommunications, government procurements, industrial and food hygiene standards, intellectual property, etc. However, all these agreement are placed on simple principle basis. These principles are the basis for multilateral commercial exchanges.

First, commercial activities are free from unequal treatment. This principle is based on two main backbones of Most Favored Nation (MFN) and National Treatment (NT). MFN requires the nations offer indiscriminate treatment to partner economies. In other words, if a nation offers a special treatment to a partner (e.g. lower tax) it also has to offer this same priority to the other WTO members. This principle is very important and is described in the first Article of the General Agreement on Tariffs and Trade (GATT), and in the General Agreement on Trade in Services (GATS). However, MFN is not applied in some cases (under very strict regulations), e.g. when member nations participate in free trade agreements or a nation offers priority to the members being developing countries, etc. While NT requires member nations to treat import goods equally to home-made goods, at least it must be after a foreign good entering the market. This NT principle is also applied to domestic and foreign services, trading rights and copyrights and patents. This principle is presented in all three main agreements of WTO (GATT, GATS, and TRIPS). It is noted that NT is only applied after a product, service or intellectual property has entered the market.

Second is the progressive encouragement of commercial liberalization through negotiation. Reduction of trade barriers (imported tax, quota, etc.) is one of the most practical methods to promote commercial exchanges. Since it was started, GATT has passed 8 negotiation rounds. The 9th round – Doha development agenda – is under progress. In the earlier stages, the negotiation rounds focused on import tax reduction. Until the middle of 1990s, industrial countries had reduced import tax on industrial products to lower than 4%. From 1980s, the negotiation rounds also focused on non-tariff barriers toward commerce and other sectors of services and intellectual property. Market-opening progress may bring a lot of benefits but it also

requires suitable adjustments. WTO agreements allow member countries to make progressive adjustment toward increasing trade liberalization.

Third, commercial policy must be easy to anticipate through valid and obvious commitments. In fact, commitment of not raising trade barriers is also as important as reducing trade barriers because this commitment helps enterprises to be more confident in future opportunities. Stability and anticipation of policy changes will encourage investment; create jobs while consumers benefit from the competition (goods become cheaper and diversified). The multilateral trading system itself reflects efforts of the governments in establishing more stable and anticipatory business environment. In the framework of WTO, when the members agree to open market for imported goods and services, they have to make valid commitments. Related to traded goods, valid commitment may appear in the form of ceiling tariff rates. A nation can change this commitment during its negotiation with other trading partners. Moreover, WTO also improves the stability and anticipation by not supporting to the use of quota and requires clarification and disclosure of trade regulations.

Forth, WTO regulation system impulses equal competition. Although it supports the reduction of trade barriers, WTO still allow taxation and, in some cases, other protection forms. Thus, WTO regulation system tends to open and fair competition without distorting the markets. Anti-dumping and subsidy regulations also allow governments to react by applying higher import tax to compensate for unequal trade. Other agreements on agriculture, intellectual property, services, etc also protect equal competition.

Fifth, WTO regulation system encourages economic development and improvement. By encouraging open and fair trade, WTO regulations help to distribute resources more effectively for economic development. While the developing countries need a flexible time frame to implement the agreements, this regulation allows special supports and exception for the developing economies. Since the Uruguay round, many developing countries have changed to market economies and carried out trade liberalization programs. The role of the developing countries in the negotiation rounds, especial the Doha round, has been increased obviously by their voices and influences in the negotiation progress. At the end of the Uruguay round, the developing countries should have completed almost of the obligations as developed countries. However, the agreements have offered them some more time to make institutional adjustments due to some WTO articles.

There are some agreements of WTO regulating garment sector. *First*, GATT (1994), signed in 1994, includes of general regulation on MFN treatment toward goods exchanges including garment. According to this, garment product of a WTO member country exporting to another WTO member's market may receive the best treatment (e.g. on import tax) that the latter is applying to other members of WTO.

Second, Agreement on Technical Barriers to Trade (TBT) may impact garment sector. This agreement is to guarantee that regulations, standards, inspection procedures and certification will not create unnecessary obstacles in commercial activities. In the past few years, WTO member countries have applied a lot of regulations and technical standards in order to ensure goods quality and satisfy increasing requirements of local consumers or encourage modern societies to consume eco-friendly products. However, these are also the excuses for excessive technical barriers. Satisfaction of technical standards in export markets costs manufacturers a big sum and reduces competitiveness of manufacturers.

Third, regulations of goods origin also impact on market access of garment products. These regulations are related to the criteria of goods origin traceability. According to the Agreement on Principles of Origins, the members of WTO must guarantee that origins regulations are released and complied obviously without obstructing or distorting international commercial activities under systematic, adequate and legal management. For long term, this agreement aims at harmonized regulations on original principles of WTO members, except for some regulations of some trade preferential agreements (e.g. free trade agreement). All countries agreed that harmonization of these regulations will improve international trade. The original principles are applied in order to implement trading patterns and policies as anti-dumping, defensive methods, etc.; identifying whether an imported product can enjoy MFN treatment or trade priority only; commercial statistics; applying regulations of labeling; and support to government procurements. However, these regulations are sometimes applied unreasonably for the purpose of trade protection. This is the reason for which this agreement also impacts on garment sector.

Forth, customs valuation is another factor. Customs valuation is a procedure to identify taxable value of imported goods. For importers, this is very important because it decides the tax rate to be applied. If the tax rate is calculated based on certain percentages of customs value, then the customs valuation may have impact on the tax rate applied for the imported goods. The Agreement on Customs Valuation (VCA) of WTO aims at an equal, synchronized and neutral

goods valuation system for customs purposes. Since the Uruguay round, this Agreement has been replaced by the Agreement on Implementation of Article VII of GATT 1994, and only applies for valuation of imported goods which will be applied percentage imported tax. Accordingly, customs value is mostly based on contract price – often listed in the invoices- with some adjustment mentioned in Article VIII. Six valuation methods are: (1) transaction value; (2) transaction value of similar products; (3) transaction value of identical products; (4) deduction; (5) computed method; (6) fall-back method.

Currently, most of Vietnamese garment enterprises are doing processing therefore they have not been aware of the impacts of this Agreement. However, as our enterprises are making great efforts to sell products on FOB terms, understanding this Agreement will help them to take advantages of this method to improve the competitiveness of Vietnam's export garment in the world market.

Another factor can impact the garment sector under WTO commitments is regulations of abrogating import quota on garment products after the Agreement on Textiles and Clothing (ATC) expired at the end of 2004. Previously, from 1974-1994, according to the Multi-Fiber Arrangement (MFA), import quota on garment products were negotiated bilaterally between WTO's members, then, import of garment products were not totally regulated by GATT. From 1995-2004, ATC was implemented as a tool for a transition period which helped to bring garment products into the trade liberalization process following GATT 1994. Since 01/01/2005, garment products exported to a WTO member country is no longer imposed quota. As Vietnam participated in WTO, it will no longer face quota problem when exporting garment products. This brings more opportunities to compete more equally, at least on the legal aspect, with other garment exporting countries like India, Bangladesh, China, etc.

Besides, garment sector is also governed by other regulations of WTO such as disputes resolution and defense. If a member country is alleged of violating any commitments, other members can apply multilateral disputes resolution mechanism instead of carrying out unilateral act. Since the Uruguay round, disputes resolution process has been improved with specific steps. Regulations on deadline for dispute resolution are also more specific while the timeframe for the steps are more flexible. However, concerned countries may carry out negotiation themselves to deal with the problems. Defensive mechanism also allows application of immediate safeguard measures toward imported goods. Then, a member can temporarily limit import of a certain

product if a domestic industry is threatened or at risk because of the increase in the volume of that imported product. In fact, this method is not used very often because the governments refer to bilateral negotiation to persuade their trading partners to voluntarily cut down its export volume.

Benefits and Obligations of Vietnamese garment sector after WTO accession

Benefits

After participating in WTO, Vietnam's garment sector will receive equal treatments as with other WTO members.

- Vietnam garment products exported to a WTO member country will receive MFN treatment that the country is offering other WTO members.
- After entering into a WTO country's market, Vietnamese garment products will not be treated differently from local products.
- In case of commercial disputes, Vietnamese garment products may be protected by dispute resolution mechanism of WTO.
- In case of threats to local market, Vietnamese garment sector may be protected by temporary safeguard mechanism.
- After participating in WTO, Vietnamese garment products will no longer be imposed quota when entering into other member's markets.
- Vietnamese garment sector may benefit from foreign investment, new technologies and management skills.
- The participation of Vietnam in WTO proved that our efforts in economic reform and development are recognized by the international community and this is the basis for Vietnam to participate more broadly and deeply in trade liberalization process.

As mentioned above, after participating in WTO, Vietnam is also committed to other agreements such as VJCEP, AANZFTA and AJCEP. These agreements provide garment enterprises with more opportunities to access new markets.

Obligations

There are a lot of obligations that Vietnam has to implement. *First*, domestic garment protection must be removed. Before participating in WTO, import tax for clothing of Vietnam was 50%, for fabrics 40%, for fiber 20%. After participating in WTO, all must be reduced by 2/3 to meet the international commitments. This is the chance for Chinese products to penetrate into Vietnamese market and it is obvious that competition from Chinese fabrics and clothing will increase.

Second, Human resources will be divided. Labor cost will increase and competition in attracting labor will be more critical. *Third*, there will be more foreign investors to invest in this sector, thus competition against Vietnamese enterprises will increase.

Table 5: Committed import tax (average) after participating in WTO

HS chapter	Ceiling tariff rates after participation	Final ceiling tariff rates
50	9.77	9.77
51	7.73	7.73
52	9.50	9.50
53	5.66	5.66
54	9.05	9.05
55	8.77	8.77
56	10.32	10.32
57	12.00	12.00
58	12.00	12.00
59	11.15	10.89
60	12.00	12.00
61	19.92	19.92
62	19.80	19.80
63	14.70	14.60

Source: Calculation by consultant team using WTO data

Table 5 presents Vietnamese import tariff rates imposed on garment products under HS code system. According to this, most of the ceiling tariff rates will reduce immediately after Vietnam has participated in WTO and will not be reduced following a time scale. This is because the

post-WTO ceiling tariff rates and the final ceiling tax rates are quite the same. There are only 5 items being under reduction which are 59112000 (from 10% to 8% by 2009), 59119010 (from 10% to 5% by 2010), 59119090 (from 10% to 5% by 2010), 63079010 (from 15% to 10% by 2009), and 63079020 (from 15% to 10% by 2009). By participating in WTO, Vietnam also has to commit not to apply import quotas to restrict garment import.

Commitments to reduce import tax on garment products will reduce protection for garment sector. Table 6 presents estimated actual protection level – increase of added value of the sector in case of protection compared with that in protection-free situation. Actual protection level of the garment sectors increased in the period of 2008-2010, before decreasing continuously until 2020. The protection level for clothing is maintained stably since Vietnam’s participation in WTO. For carpets and other kinds of floor coverings and embroideries, actual protection rate increased from 2007 to 2010, before decreasing from 2015-2020. Fiber products are no longer be protected by tariffs barrier, this is shown by protection rate lower than 0 in the period of 2007-2020.

Table 6: Real protected rate of garment sectors (%)

	2006	2007	2008	2009	2010	2015	2020
Garments	124.71	34.06	34.74	35.28	35.61	33.31	28.59
Fibers	4.00	-4.97	-4.46	-4.06	-3.81	-3.10	-2.66
Clothing	135.70	58.02	58.44	57.72	57.48	58.26	57.83
Woven carpets	56.00	25.02	25.22	25.38	25.47	19.81	20.32
Embroideries (except for carpets)	62.33	17.44	17.69	17.90	18.05	16.03	16.31

Source: Pham Van Ha (2007).

As mentioned, the participation of Vietnam in different FTAs – most of them are multilateral agreements in the framework of ASEAN – have deep impact on the garment sector. According to these agreements, the most influential commitment to the garment sector is the commitment on tariffs.

According to Decision No. 36/2008/QĐ-BTC dated 12/06/2008 on promulgation of preferential import tariff pursuant to Agreement on Common Effective Preferential Tariffs (CEPT) in the period of 2008-2013, the tax rate that Vietnam offers ASEAN countries is only 0% or 5%. This is a big challenge to domestic manufacturers because this tax rate will make imported products

from ASEAN cheaper on the one hand. On the other hand, free trade agreements like AKFTA and AJCEP will make it easier for Vietnamese enterprises to import materials and accessories from ASEAN countries and take advantages of rules of common origin under these agreements.

The preferential tariffs for AKFTA that Vietnam has recently promulgated for the period of 2009-2011 are 3%, 5%, 8% and 12% for textile products and 20% for garments and clothing (according to Decision No. 112/2008/QĐ-BTC dated 01/12/2008).

It can be said that Vietnam has made big efforts in trade liberalization process through its commitments under WTO and FTAs, which is reflecting good prospects for the economy. What matters is that bound tariffs are promulgated with a disclosure time-frame. However, these commitments are pursuant to different frameworks and have different regulations. Expected impacts of specific commitments depend on the market that enterprises intend to access.

4.1.3. Vietnam's garment exports: Current situation and prospect

Importance of garment sector for Vietnam's export after its WTO accession

Vietnam's garment sector has made remarkable achievements in the past few years. Export of garments also has a significant growth. Total export value increased from USD1.15 billion in 1996 to nearly USD 2 billion in 200, USD 7.8 billion in 2007 and about USD9.1 billion in 2008 (Table 7). In October 2009, despite the global financial crisis and economic recession, garment exports still amounted to USD7.5 billion, showing a slight fall by 1.5% as compared with the same period of 2008. Export value has been increasing rapidly since 2002 with annual average growth rate of 22% per annum (2002-2008).

By far, US market has seen the highest export growth rate for Vietnamese garment, especially since 2002 thanks to the Vietnam – US bilateral trade agreement. In 2002 only, export value of Vietnam's garments to US market increased 21 times to over USD950 million, compared with only USD45 million in 2001. Since 2002, garment export value to US market has been increasing quickly, reaching nearly USD2 billion in 2003 and USD3.8 billion in 2007.

The US market share in total garment export value of Vietnam also increased from 34.6% in 2002 to 50.7% in 2007. Other main markets for Vietnam's garment are Japan and EU. EU market export value increased stably from USD225 million in 1996 to USD1.6 billion in 2007.

While exporting to Japan seems more difficult the export value keeps increasing from USD250 million to USD620 million in 2000, then decreasing to USD514 million in 2003 before bouncing back continuously to USD800 million in 2007. These three main markets totally take more than 81% of total garment export value of Vietnam, a bit lower than that of 85.9% in 2004.

Promoting new market access also contributed to the development of garment sector. From 2000 to 2006, garment sector has created jobs for about 600,000 people. Calculated on the price of 1994 as the base year, from 2000 to 2008, output value of garment sector increased 2.7 times from about VND10,040 billion to over VND26,950 billion. Clothing industry even achieved a higher growth, from VND6,040 billion to about VND26,620 billion (on the same price level of 1994) over the same period.

However, supply of garment materials and accessories depend heavily on imports because the textile industry has not met requirements of the garment industry both in quality and quantity. In other words, linkages in the garment sector are not strong enough. The garment sector is driving for an import-substitution scenario. However, large-scale production has been still under-developed. Most of garment products are for export but manufacturers depend heavily on imported materials.

Export value of garment in 2000-2003 was even lower than import value of materials and accessories and only gained the balance in recent years (Table 7). This is because garment sector produced for both domestic and export markets. Therefore, imported materials accounted for a bigger share of total value. In turn, this factor exerts negative impact on the foreign exchange balance of the garment sector.

Table 7: Garment export 2000-2008

Unit: Mil USD

	2000	2001	2002	2003	2004	2005	2006	2007	2008
<i>Import</i>									
Cotton	90.4	115.4	111.6	105.4	190.2	167.21	219.0	268	468
Fiber	237.3	228.4	272.6	317.5	338.8	339.59	544.6	744	788
Fabrics	761.3	880.2	1,523.1	1,805.4	1,926.7	2,398.96	2,984.0	3,980	4,454

Accessories and machines	1,194.7	1,397.9	1,513.4	1,825.9	1,724.3	1774.2	1,952.0	2,152	2,376
Total (excluding chemicals and dyes)	2,283.7	2,621.9	3,420.7	4,054.2	4,180.0	4,679.96	5,699.6	7,144	8,086
<i>Export turnover</i>	<i>1,891.9</i>	<i>1,975.4</i>	<i>2,732.0</i>	<i>3,609.1</i>	<i>4,385.6</i>	<i>4,838.4</i>	<i>5,834.0</i>	<i>7,794</i>	<i>9,082</i>

Source: Data from investment promotion material for garment sector.

The financial crisis and global economic recess have reduced considerably demand for Vietnamese garment products. Although there are many adjustments made, the target of USD9.5 billion in export value in 2009 seemed very difficult.

With the US market, the biggest market accounting for more than 55% export value of Vietnam garment sector, enterprises have cooperated with importers to make reasonable price adjustments while keeping the same quality of products and services. Thank to this effort, in 2008, Vietnam's garments exported to the US market gained over USD5.1 billion, an increase by 15% compared with 2007. In the first 9 months of 2009, garment imports of the US decreased by 12.7% and that from most of the big exporters decreased (Hong Kong by 21%, Indonesia by 2.9%, Thailand by 25.6%, and India by 7.7%). At the same time, imports of garment from Vietnam still increased by 18% in volume and only reduced by 4.5% in value.

With EU market, sharing about 20% of export value of Vietnam's garments, the enterprises have made improvement in product quality and extension in support services to the importers as well as conformed new rules on customer safety. The result is that export value of the first 9 months of 2009 gained about USD1.25 billion, falling by only 3.5% while total import value to this market decreased by 11% as compared with the same period of previous year.

With Japan market, the third largest export market of Vietnam's garments, through VJEPA, the enterprises have strengthened trade and investment promotion activities with Japanese partners. As a result, export turnover to this market increased continuously (12% in 2008 and 15.3% in the

first nine months of 2009). This is a very impressive achievement while Japanese economy is still being hit seriously by the global economic recession.

Furthermore, the enterprises have made efforts in new market promotion. In the first nine months of 2009, Vietnam's garment export to Korea has increased by 50%, to Saudi Arabia by 23%, to Switzerland by 12.7%, and to ASEAN by 7.8%.

In the domestic market, many enterprises have changed their strategies to provide better products and services to consumers. Measures carried out include greater investment in market and trend research, more focus on fashion design and development of new products, re-organization of production lines, sales promotions in big cities in parallel with sales promotions in rural areas to showcase brands and company's prestige. These measures reflect the enterprises' efforts in implementing sector development strategy toward domestic market in the time of economic crisis.

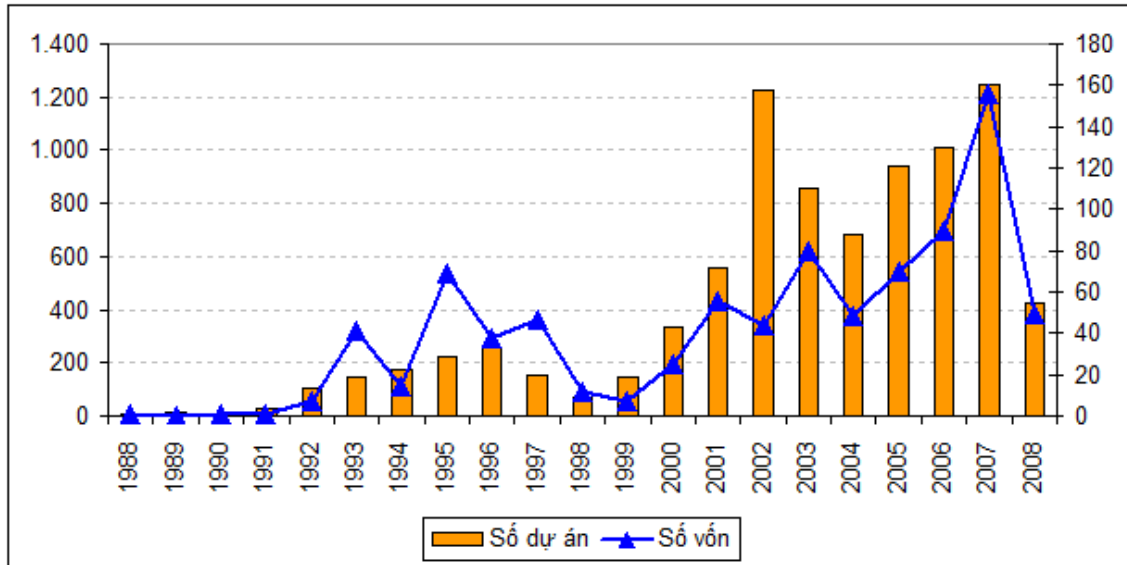
4.1.4. Analysis of Vietnam's garment sector (SWOT analysis)

Vietnam's garment sector can take advantage of its *strengths*. Firstly, garment equipments have been innovated and modernized in 90% of the factories. Product quality has been improved and accepted in strict markets like US, EU and Japan.

Moreover, garment enterprises have built up close relationships with importers and many big retailers in the world. Vietnamese garments are also highly considered for reasonable cost and skilful labor.

Finally, Vietnam is mostly rated by its political stability which is an attractive factor to foreign investors. The active participation of Vietnam in the world and regional economy also paves the way for new market access. Foreign direct investment to Vietnam kept increasing from 2000 to 2007 and only reduced slightly in 2008.

Capital
Project



Source: VITAS.

Figure 8: FDI in garment sector: number of projects and invested capital (mil USD) from 1988-2008

Apart from that, Vietnam's garment sector still has some *weaknesses*. Export garments are mostly done under processing contracts; design work has not been developed; the number of FOB contract remains still very small; and production effectiveness is still low.

Meanwhile, textile and support industries are still weak, not relevant to the development of the garment industry. Support industries do not supply sufficient materials for garment production, therefore added value is low. In addition, production value of the textile industry is always lower than that of the garment. As a result, garment industry is depending very much on imported materials and accessories.

Furthermore, most of garment and textile enterprises are small and medium-sized and their ability to mobilize capital is limited. Therefore, they have difficulties in innovating and modernizing new technologies. Because of small-scale production, these enterprises cannot operate productively and can only supply to certain markets. When the market goes down, garment enterprises always have problems when changing traditional business practices or turning to new markets. Difficulties are also seen in turning back to domestic market when the main markets of US and EU are in recession.

Moreover, technical management of Vietnamese enterprises is also weak, lacking occupational training. Productivity is rather low while product types are popular and undiversified. Marketing ability is limited. Most of the enterprises neither have their own brands nor a long term development strategy.

In the current situation, garment sector can still take advantages of some *opportunities*. World's garment production is gradually moved to the developing countries including Vietnam. This brings Vietnamese enterprises the opportunities to approach investment capital, new technologies and equipments as well as management skills from the developed countries.

Vietnam's textile and garment industry had a good start in 2010 and obtained long-term orders in January, especially from the US and Japan. Sales increased and investments in new factories were planned (and partially realized). Companies seemed ready to invest in market research activities in order to find out more about customers' tastes and expectations.

VINATEX pledged USD61 million to generate technological progress and to add value to its products. All companies engaged in the garments and textiles sector seek to reduce production costs by reorganizing structures as well as by implementing new technologies. Vietnam is about to build up more domestic cotton plantations to become increasingly independent from cotton prices abroad.

Exports and domestic sales are expected to increase significantly over the next years. Experts predict export revenues of USD10.5 billion for 2010 (and, by 2015, between USD16-18 billion).

The Vietnamese government has set an annual export growth target for the coming decade of 15%. VINATEX's export target for 2010 is to gain around USD1.9 billion, i.e. an increase of 12%. Other companies have similar targets.

In addition, Vietnam's integration into the world and regional economy makes it easier for garment products to access new markets. Vietnam has become a member of WTO as well as signatory to important bilateral and multilateral free trade agreements (e.g. VJEPA, ACFTA, AKFTA, ASEAN-Australia- New Zealand, etc).

Vietnam's commitments on economic reform and development have great attractions to the investors and create opportunities to open new markets and business relationships. Furthermore,

domestic market with more than 84 million people is a great potential for both investors and businesses.

However, Vietnam garment sector is still faced with big *challenges (threats)*. On the one hand, Vietnam's garment sector started low while support industries have not been developed. Most of materials and accessories are imported. Processing contracts are still prevalent due to limited competitiveness of the enterprises.

On the other hand, legal environment is still not adequate. Legal documents are under completion while policy-making and trade promotion people are not well-trained, especially in professional skills and foreign languages.

In main export markets, there are also a lot of technical barriers such as hygiene and safety requirements, environment standards, social responsibilities and anti-dumping rules to protect their home production. Most of Vietnamese enterprises are small- and medium-sized enterprises and do not have sufficient capacity to pursue anti-dumping proceedings. Failing the proceedings costs them a lot from trade disputes. On top of that, trade barriers are more frequently used in one or another form, especially in the time of financial crisis and global economic recession.

4.1.5. Assessment of Vietnam's potentials in garment exports

Vietnam's garments have big potentials for export:

Young population provides an abundant labor force while labor cost increases at a slower pace than the growth of garment sector;

- Vietnam has a favorable investment environment with a high potential for development. Therefore, it has great attraction to foreign investors and business partners;
- Moreover, Vietnam is integrating quickly into the world and regional economy, thus opening new markets for Vietnam's export goods, particularly garment products.

Currently, according to a report of Business Monitor International (BMI) in 7/2009, Vietnam's garment sector is having a good prospect. This is a noticeable assessment because, at that time, there was no clear signal of economic recovery in Vietnam.

Some other assessments of Vietnam's garment sector are presented in Table 8. Accordingly, garment industry's prospect is a bit brighter than the textile industry because of bigger scale,

higher flexibility and more alternatives even in economic recession (e.g. development of new export markets).

Value addition of the garment sector is forecasted to increase continuously in the period of 2011-2013, despite the fall by 3.0% and 0.9% in 2009 and 2010 respectively. This is a good signal because growth rate of the sector over the period of 2011-2013 will be expected to stay lower than the average growth of 2003-2008 (11.9%). Due to its slower growth than that of GDP, garment's added-value as a percentage of GDP in the period of 2009-2013 will be lower than that of the period of 2006-2008 (Table 8).

Similarly, added value of the textile industry also will decrease slightly from USD403 million in 2008 to about USD391 million and over USD387 million in 2009-2010 respectively, before moving up to about USD500 million in 2013.

Table 8: Indexes and Vietnam's garment export-import forecast for 2006-2013

Production	2006	2007	2008	2009	2010	2011	2012	2013
Added value, mil.USD	3.205.5	3.899.6	5.136.8	4.789.3	4.764.5	5.721.1	6.847.6	7.759.3
Added value, % of GDP	5.3	5.5	5.7	5.2	4.9	5.0	5.0	5.1
Added value growth, %	13.2	13.5	9.2	-3.0	-0.9	9.8	9.2	9.0
Textile added value, mil.USD	325.0	368.9	402.8	390.7	387.2	423.2	460.0	499.2
International trading								
Textiles export turnover, mil USD	1,058.0	1,352.0	1,690.0	1,318.2	1,453.5	1,598.8	1,742.7	1,912.7
Textiles import turnover, mil.USD	3,988.0	4,940.0	5,874.8	4,699.8	5,056.9	5,166.8	4,990.7	5,096.5
Textile trade balance, mil. USD	-2,930.0	-3,588.0	-4,184.8	-3,381.6	-3,603.4	-3,568.0	-3,247.9	-3,183.8
Garment export turnover, mil. USD	5,579.0	7,186.0	9,054.4	7,424.6	8,335.4	8,898.6	8,929.0	9,505.3
Garment import turnover, mil.USD	271.0	426.0	449.8	337.3	379.8	414.0	451.3	497.3

Garment trade balance, mil. USD	5,308.0	6,760.0	8,604.6	7,087.2	7,955.6	8,484.6	8,477.7	9,008.0
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Source: BMI (7/2009).

Despite the fall in added value, export turnover of garments and textiles only decreased in 2009 and will increase again in the period of 2010-2013. According to BMI (2009), textile export turnover will increase from USD1.3 billion in 2009 to USD1.9 billion in 2013 on an annual average growth rate of 9.8% per year. Meanwhile, garment export turnover will also increase from USD7.4 billion in 2009 to USD9.5 billion in 2013.

However, there are still problems to consider. Firstly, textile trade runs a big deficit although this deficit decreased sharply in 2009 and was expected to decrease in the period of 2011-2013 (Table 8). This means that garment industry will still have to depend on imported materials to serve its export orders. The trend on imported materials for garment production is presented in Table 9.

Table 9: Demand for garment and textile materials (incl. accessories) in the period of 2005-2020

Commodity	Unit	2005			2010			2020		
		Capacity (C)	Demand (D)	Import (I)	C	D	I	C	D	I
Cotton	1,000 tons	11	165	154	20	255	235	60	430	370
Man-made fibers	1,000 tons		140	140	260	220		600	370	
Yarn and filament	1,000 tons	260	510	250	350	790	440	650	1.350	700
Fabrics	million sq.meters	618	2,280	1,662	1,000	3,525	2,525	2,000	5,950	3,950

Source: Embassy of Denmark in Hanoi

In normal economic conditions, material for garment sector is not a very serious issue. However, in the time of economic crisis, when export orders reduce sharply and garment enterprises have to turn back to domestic market, the dependence on imported materials will impact export business as well as create difficulties in earning foreign exchanges to pay for the imported materials.

4.1.6. Current Issues

Limited added-value of export products.

This is so because export products have low quality and poor diversification. Innovative technologies, management skills, design and marketing knowledge have not been extensively applied. Most of the enterprises are now doing processing contracts. In case of FOB contracts, the enterprises mostly use designs provided by the importers. In this market, competition is very severe while prices are often very low. Moreover, the heavy dependence on imported materials also overwhelms the added value of export products.

Difficulties in access to loans

Many companies, especially the medium and small companies, do not have enough money to expand production or invest in new modern technologies as well as in human resource development while facing difficulties in getting credits from commercial banks. This is because most of the enterprises do not have a specific and feasible development strategy while borrowing procedures of the banks are still very complicated and sometimes confusing.

Weak competitiveness on production cost.

Vietnam's export competitiveness is limited because of high production cost due to two main reasons: (1) unit cost of labor is still high because of low productivity and (2) other additional costs, e.g. import of materials and transportation. Moreover, there is a shortage of skilled and well-trained laborers, making the cost of this kind of labor higher than the average in the region.

The garment enterprises also have high production cost because of insufficient infrastructures and services. Power supply is still unstable which results in direct impact of high power cost and indirect impact of power cut without notice. These problems are causing a big loss to the

enterprises. Although cheaper and more competitive, the telecommunication facilities still need to be improved. In the past few years, Vietnam garment sector had to face the problem of high production cost because of high inflation rate which is always higher than the average in other Asian countries). In addition, transportation cost in Vietnam is often 20% higher than in Thailand and China (Freudenberg 2005).

Inadequate knowledge of foreign markets and international commercial and non-commercial issues.

Many companies want to export to US and EU but they do not have enough knowledge of these markets and often have to go through intermediaries. Currently, with Vietnam integrating deeply in the international trading system, the enterprises are provided with more opportunities to access new markets. However, information of international markets and technical barriers is not sufficient and/or the enterprises have not techniques to collect and process market information effectively.

Inadequate facilities for trading in general and garment trading in particular.

Administrative formalities in Viet Nam have been remarkably improved. However, they are still troublesome for the enterprises. Although import procedures also have been simplified to support the supply of materials for export production, they are still complicated. According to the survey (Vo Tri Thanh *et al.*, 2007) on export enterprises to EU market, 50% of the enterprises had difficulties in accessing information of new regulations and policies while 64% of the enterprises said that administrative formalities are still complicated and time-consuming.

Support activities to the enterprises are weak and ineffective. According to this survey, 44% of the enterprises claimed that some authorities are still bureaucratic and trouble-making. In fact, the shortage of skilled and well-trained staffs (both skilled workers and management staffs) and complicated administrative regulations are still big obstacles to the operation of enterprises.

Vietnam's trade policies quickly changed and difficult to anticipate.

This is not really a big problem for the garment sector because import tariffs on these products have not been changed much (except for 2006 when Vietnam promulgated new preferential import tariffs prior to its WTO accession). The main challenge is that Vietnam is joining ever more free trade agreements with different markets. However, our enterprises have problems when assessing the benefits from each of the markets and not every enterprise is able to supply

to more than one certain market. Moreover, extra costs (including market research and approach, etc) may also cause difficulties to the operation of the sector.

Vietnamese enterprises still suffer from non-market regulations and constraints in main export markets.

Vietnam is considered as non-market economy. When anticipating possible injury to domestic production from imports, governments of the countries being Vietnam's big export markets may impose some protective measures to make it difficult for Vietnamese products to enter the market. Non-market status regulations imposed by the host country bring big advantages for foreign competitors in the anti-dumping proceedings and high anti-dumping taxes will be applied to Vietnam enterprises.

Specifically, the US and EU's anti-dumping laws prescribe to apply market-economy conditions to non-market economies to make judgments on anti-dumping cases and then apply anti-dumping taxes. However, this method is not based on actual production cost and domestic retail price in the concerned country but using production cost and retail price in other market-economy as a benchmark. As a result, domestic retail prices in the so-called non-market economies are often much higher than real prices, therefore these countries are likely to be imposed high rate of anti-dumping taxes.

Currently, Vietnam is negotiating with our partners to grant Vietnam the market –economy status. However, the enterprises have to be aware of this problem until we receive the official recognition of market-economy status from main export markets.

In the time of financial crisis and global economic recession, new protectionism is often carried out.

This tendency is especially obvious while most of the main export markets of Vietnam are suffering from trade deficits with developing countries like Vietnam and China.

Even when financial crisis and economic recession was not existent, the US still made a good anti-dumping supervision on Vietnam garments. This limited Vietnamese enterprises' abilities to access the US market and discouraged investment from our enterprises. Although the Government and VITAS have made a lot of efforts to explain, clarify and persuade the US customers to place orders in Vietnam, some of them still withdrew their orders and moved to

other countries. Moreover, this supervision put constraints on Vietnamese and foreign enterprises and keep them from investing in the garment sector.

Garment quotas on Chinese export to the US and EU has been removed since 2008.

This brings China better opportunities to access big markets. With bigger market shares, Chinese garments exported to EU and US will have better prospects and the pressure of competition will be harder on Vietnamese garment exporters. At the same time, the US is forecasted to import more garment products from the Bengalese region. This shows that market shares for developing countries with low production costs will be increased in the US.

Enterprises do not have sufficient experience in building and promoting their brands in foreign markets

Branding is implemented particularly based on the policy of individual enterprises and not organized professionally (except for some big companies). This situation requires more active role of the VITAS in providing consultancy services on branding in Vietnam. Moreover, Vietnamese enterprises have not much information and experience in brand- building and brand protection in foreign markets. This will be another disadvantage for the enterprises when a brand dispute occurs in a foreign market.

Protection mechanism based on value chain provides more preferences to garment products than textiles.

This is illustrated by unsuitable textile tariffs while the dependence on import material is causing difficulties to the enterprises. Firstly, fluctuations in material price in the world market may impact production cost and profits of the enterprises. Secondly, enterprises may have difficulties in finding hard foreign currencies to make payment for imported materials, especially when Vietnam runs a serious trade deficit.

Investment barriers toward garment enterprises.

Despite of the garment sector development strategy to 2010 and Circular No. 106/2001/TT-BTC by Ministry of Finance, the enterprises still have troubles in making investments. First, they are facing difficulties in finding production premises. Then, some textile manufacturers are facing strict requirements on environment protection (e.g. waste water treatment) and even when they meet all these requirements they are still not encouraged to invest.

Unreasonable labor and salary policies of Vietnam.

For example, basic salary is increased by executive orders rather than based on the increase of productivity. This in turn increases labor costs incurred by the enterprises which are using a lot of workers. Regulations on extra working-time also increase the cost born by the enterprises while not creating any motivation for the labor to increase productivity. Many illegal strikes are still happening without any punishment (or the enterprises do not dare to punish because they still need labor for the signed contracts).

Garment enterprises still have difficulties in accessing business support services.

On the one hand, these services are not fully developed and very expensive. On the other hand, enterprises themselves are not used to buying these services. That is why the enterprises often have difficulties when accessing a new export market which has different business culture from Vietnam.

For example, the enterprises only hire legal consultants when business disputes occur instead of employing them from the beginning of business establishment in order to meet the requirements of export markets. As a result, the enterprises often fall in commercial disputes. With limited capacity, Vietnamese enterprises often lose the proceedings. In other cases, branding services are also not well developed and the enterprises have to learn and do branding themselves.

Currently, according to WTO commitments, Vietnam has allowed foreign business service companies to operate in Vietnam. This is a good opportunity for Vietnamese enterprises to take advantages of these services.

In general, Vietnamese enterprises still have to face with many problems in export development in order to get benefits from WTO and FTA accession. The problems not only come from unsuitable policy environment but also from the enterprises themselves. These problems must be quickly and absolutely solved so that garment enterprises can really benefit from the process of trade liberalization in which Vietnam is integrating deeply. Dealing with these problems is not the responsibility of the Government or VITAS or any particular enterprise but requires a good coordination and efforts of all sides.

4.1.7. Actions plan

Undertakings by the Government

In order to have a stable environment for investment and implementation of business strategies, one of the needed conditions is an effective and transparent legal environment. In general, changes of trade policies need to be publicized and explanatory.

Specifically, changes of trade policies in accordance with the commitments under WTO and/or FTAs should be obviously public in terms of contents and validity. These substantive matters have to be guaranteed without sudden changes. A fixed agenda will make policies more reliable and the enterprises feel more secure to develop and carry out long-term business strategies.

With export-oriented policy, Vietnam needs suitable measures to improve competitiveness at national and enterprise level in order to reduce trade deficit and eliminate the pressure in foreign exchange market.

Besides, the Government should also simplify administrative procedures for the enterprises. Especially, customs formalities also need to be streamlined and more convenient for the enterprises in trading in general and in garment export in particular. One should note that administrative improvement does not only mean the “one gate” process or anti-corruption but a professional, intact, understandable and offers best conditions to the enterprise to minimize their costs.

Concerning the garment sector, the Government should set up a more suitable encouragement mechanism. Currently, tariff barriers are quite clear. However, tariffs and other technical barriers need to be frequently supervised in order to provide sufficient protection to the enterprises, making it easy for the sector’s development without violating any international commitments. Information of tariffs and other commercial tools in the garment sector of Vietnam and trading partners should be provided efficiently in the best access way. The Government should also improve policy research activities to help the enterprises enhance their competitiveness and positioning in the regional value chain. The overseas network of trade representatives should pay particular attention to trade promotion as well as collect and provide useful market information to domestic enterprises.

All the enterprises are looking forward to having a real innovative business environment (including simplified formalities and procedures) and favorable access to the resources (e.g.

skilled labors, capital and business premises). WTO still allow some governmental supports in which training, trade promotion, product and market information and technology transfer are the most relevant to the enterprises.

In order to have better access to some key export markets, the Ministry of Industry and Trade has offered some solutions. With US markets, Vietnam continues to complete two-way management system between the Ministry of Industry and Trade and the General Department of Customs and deploy roving inspection groups. On the other hand, the Government should work with export companies, especially the big ones in order to improve their production capacities to actively set up suitable export promotion plan. Relevant authorities should negotiate with US partners so that they will not apply supervisory mechanism to Vietnam's export garments.

With the EU market, it is noticeable that EU has removed garment export quotas for China since 2008 which impacts seriously Vietnam's export of garments. Therefore, this factor need to be considered for Vietnam's garment export in EU in order to help the enterprises re-identify export products and strengthen their competitiveness.

With Japan, the relevant authorities should coordinate with Japanese partners to support garment material and accessories exchange centers, upgrade training centers and improve international cooperation for this sector in order to supply sufficient materials and skilled labors as well as high-quality designs and technical staffs to the sector.

Undertakings by VITAS

VITAS needs to keep close contacts with the overseas trade counselors to do good trade promotion function, helping the enterprises to access export markets. Cooperating with regional and international occupational and social associations to maintain reliable and multi-aspects information system is also a requirement. Business advocacy to the policy makers is needed to create more favorable environment for the enterprises and products when accessing international markets. In order to perform this function effectively, VITAS should coordinate with the relevant authorities to get updated information of trade policies, technical standard requirements, etc... to propagate to the enterprises.

In order to have practical and successful FTA negotiations, there should be discussions with the enterprises during the preparatory process. On the one hand, with a great number of garment and textile enterprises, it is impossible to discuss with all of them. On the other hand, if the

discussions are made with only some big enterprises this will mislead the negotiation. That is why VITAS is required to collect all the information and requirements of the enterprises to present to the negotiation mission as well as update the enterprises with the results after a complete negotiation.

Undertakings by the enterprises

The Vietnamese enterprises should promote export of traditional products with efforts to diversify and improve non-price competitiveness. This is the strategy of taking advantages of “existing” strengths to prepare for a new competition. Export garments can still take advantages of low labor cost to compete in international markets and the EU. The export promotion of traditional product must go along with elimination of potential risks. Specifically, the enterprises have to accept and improve their adaptation to technical barriers in the developed markets. Instead of waiting for changes, the enterprises need to be more active to control their products from the beginning. Policy and market information provided by the Government and VITAS will be the basis for them to keep control of the production. Especially, the enterprises should quickly catch up with market access opportunities while Vietnam is under FTA negotiations.

In long term, the enterprises should be aware that only diversification of products and strong non-price competition can assure a sustainable export trend. In fact, this is the process of adding value to export products through investments in human, capital and technological areas. This may take time but should be carried out immediately with specific action plans. Export competitiveness can only be strengthened if the enterprises judge themselves correctly, thus making efforts to learn from competition, establishing relationships and deeply understanding the markets.

The first thing to be understood should be the General System of Preferences (GSP), anti-dumping regulations and non-tariffs barriers of the markets, especially standard requirements. Second is the access to reliable information sources and learning from the past experience of Vietnam and other countries. Finally, it is the characteristics of large importing markets, especially EU, US and Japan where there are huge volumes of purchase, diversified tastes, typical population structure and clear market segments, etc.

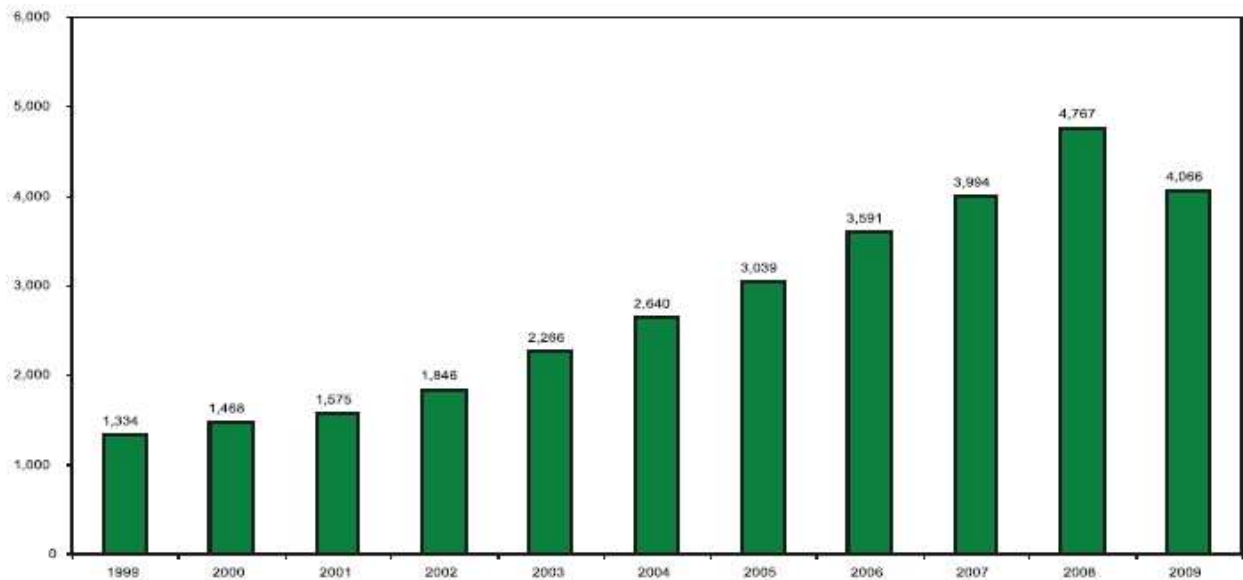
For example, with Japan, in order to enjoy import tax of 0% pursuant to VJEP, Vietnamese enterprises have to use domestic materials or materials imported from Japan or ASEAN countries. According to Decision No.36/2008/QĐ-BTC on preferential import taxes following

Agreement on Common Effective Preferential Tariff (CEPT) for 2008-2013, import taxes for garment materials and accessories range from 0% to 5%. Besides, the enterprises should coordinate with relevant authorities to perform trade promotion activities in Japan.

4.2. Footwear

4.2.1. Overview

Vietnam's footwear industry has been growing since the mid-nineties and has gained the role of one of major foreign currency earner for the country, reaching a record export value of USD4.97 billion in 2008. This continuous positive trend came to a halt in 2009, when Vietnam shipped USD4.02 billion worth of footwear, a decline of around 15% on the previous year. The slowdown in demand for Vietnam's manufactured goods, including footwear, on the most important world markets is perhaps due to the effects of the global economic crisis, which hit its peak in mid 2009.



Source: General Department of Vietnam Customs/LEFASO

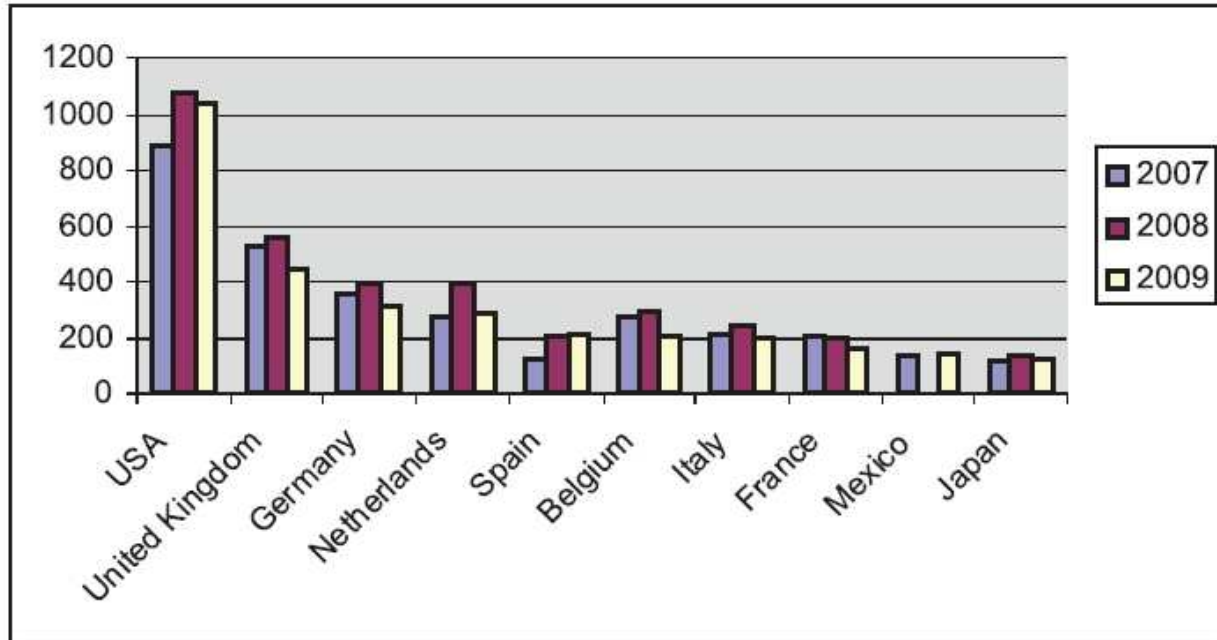
Figure 9: Vietnamese Footwear Export Turnover 1999-2009 (million USD)

On the other hand, it is now expected that the improved conditions of the world economy will lead to an increase in the footwear export in the year 2010. In the first two months of 2010 exports were up to 10% over the same period 2009.

Production of three quarters of the exported footwear is concentrated in the three Southern provinces of Ho Chi Minh City, Dong Nai, and Binh Duong, which are the key supply hubs where the largest share of manufacturing companies in the sector is located. The industry is strongly export-oriented and export volume accounts for most of the total output. According to the Vietnam Leather and Footwear Association, Vietnam currently ranks fourth in the world among footwear manufacturers.

Most Vietnamese enterprises operate on processing contracts, while foreign partners provide materials and designs and market the finished products. About 80% of materials and other inputs need to be imported. Foreign-owned enterprises, mainly from Taiwan and Korea, account for more than half of the total export turnover. The high value added stages of the supply chain are managed by foreign partners, while Vietnam hosts the processing stages where cheap labor represents the main advantage.

In 2009, the EU retained its position as the main market for made-in-Vietnam footwear. However the ratio of export to the EU of total footwear export value has been continuously declining from almost three quarters of the total in 2001, to less than a half in 2009, as a result of increased diversification of markets. Among EU Member States, the United Kingdom, Germany, the Netherlands, Spain, Belgium, Italy and France are the main importers of Vietnamese shoes. The US is the single largest importer of footwear from Vietnam, accounting for 25% of export value (it was 22.5% in 2008) and over USD1 billion in turnover (small decrease compared to the previous year).



Source: LEFASO

Figure 10: Top ten export markets 2009 (million USD)

Following European Commission proceedings that found evidence of unfair competitive practices and injury to the European industry, the EU imposed from 6 October 2006 antidumping duties for two years on certain footwear with leather upper produced in Vietnam and China (Oxfam International 2005). In the case of Vietnam, duties were set at a level of 10%. After an expiry review launched by the Commission in 2008, new investigations on existing conditions and business practices in Vietnam were carried out. At the end of the review process, in December 2009, a fifteen month extension of the application of antidumping duties was agreed. According to Eurostat figures, about 30% of all Vietnamese footwear exports to the EU are affected by the duties.

Since 1st January 2009, Vietnam's footwear exports to the EU lost the benefit of preferential treatment under the Generalized System of Preferences (GSP). Figures had demonstrated the reduced dependence of footwear (below 50% of total GSP covered exports) of Vietnamese origin to the EU, and thus Vietnam's success in diversifying exports.

4.2.2. Opportunities and challenges

Vietnam has proved itself mainly due to low labor cost as one of the most attractive locations for the production of low-value added shoes for export, through assembling imported components. Vietnam positions itself as a main source of moderately and competitively priced products even while cooperation with foreign partners has brought about an improvement in the quality level of production and manufacturing skills.

A relevant obstacle faced by Vietnamese footwear industry is the low supply of locally produced high-quality leather, canvas, PVC, and other materials used in the industrial process, which must be imported from foreign markets. This reliance on imported materials leads to higher production costs and has made Vietnam's footwear industry an important market for the producers of these materials, mainly from China, South Korea, Japan, and also EU. It is to be noticed that rising labor cost faced by local companies could be an issue in the forthcoming months, since the hike in salaries which took place both for state employees and private and foreign companies could potentially cause a decrease in competitiveness of Vietnamese made footwear.

The European machinery industry, despite strong Asian competition, has seized an opportunities over the past years, as efforts have been made by local and foreign-invested footwear companies in order to expand and upgrade production lines, adapting to technological change, growing competition, demand from foreign partners to improve quality. In response to the challenges of the market, it is expected that the footwear industry will increasingly try to penetrate new export markets and in order to reach that goal, will continue the process of upgrading of production lines by procuring modern imported equipment.

4.2.3. Actions plan

In order to increase the competitiveness of Vietnam's footwear industry compared to other low labor cost countries, there is an urgent need to promote exchanges of experiences, knowhow and technologies to address the traditional weaknesses of the Vietnamese footwear industry such as:

- Poor technical skills of the local management and workers
- Poor capacities in the fields of design and marketing
- Need to import most of materials and inputs

A stronger trade promotion activity in different markets and increased presence of Vietnamese companies in specialized international fairs is necessary. Moreover, favorable conditions should

be created to attract investment in the production of needed materials and tanneries. As a final consideration, which generally applies to all industrial sectors of the Country, Vietnam's authorities should keep a strong focus on the development of infrastructures, such as roads and seaports, in order to meet the requirements of its export-oriented industries.

4.3. Fisheries

Year 2009 was perhaps the biggest test to date for Vietnam's Fisheries sector. A global financial crisis, new international regulations and aquatic product quality issues all had an effect. However, despite a drop in export turnover Vietnam consolidated its position as a major seafood exporting country and is now ranked 5th worldwide.

Fish and shellfish production in 2009 increased 4% from 4.58 to 4.78 million tons (2.51 million tons from aquaculture and 2.27 million tons from capture fisheries – marine and inland combined).

In terms of value the total fisheries exports amounted to USD4.2 billion, a drop of USD300 million, 6.6% down on 2008 export turnover figures.

As with previous years the main export earner was shrimp with a total of around 209,000 tons worth USD1.68 billion, an increase of 9% by volume and 3% of value.

Pangasius exports reached 607,665 tons, worth close to USD1.34 billion, a decrease of 5% and 8% in terms of volume and export value respectively when compared to 2008.

Dried fish products saw the greatest increase: volume up 31% and value up to 10%, whereas squid saw the greatest drop in both volume (-11%) and value (-14%). The volume of tuna exported increased by 6% yet the value declined 4% mainly due to quality issues.

Increase in aquaculture production shows the trend of aquatic products coming mainly from culture systems rather than from capture.

4.4. Agriculture

Vietnam is an agricultural country, farmers occupy about 80% of its population, and agricultural labor force represents over 70% social labor force. Vietnam Farmers' Union, with over 8 million members, is a broad socio-political organization that represents the Vietnamese peasantry. The Union represents and defends the legal rights and benefits of farmers, and motivates, organize, assists the farmer movements for socio-economic development, thus making contribution to improving the material and spiritual life of farmers, ensuring the security, social safety and order in rural areas.

Since 1996, under the leadership of the Party, Vietnam has been implementing the economic renovation which considered agriculture as a break-through and the rural areas as a key foundation. After 17 years of renovation, Vietnam economy has obtained very important achievements, particularly in agriculture and especially food production has satisfied domestic need, ensured national food storage and continuous rice export with the highest amount of 4,5 million tons in 1999 and 3 - 3,7 million tons in other years; the poverty rate dropped from over 70% in mid 80s down to 29% in 2002 (according to the report on human development made by UNDP on 08/7/2003); the rural infrastructure in terms of traffic, irrigation, culture, education has been considerably improved; the material and spiritual life of farmers has been enhanced,... These achievements are partly attributed to the important contribution from the peasantry and Vietnam Farmers' Union.

However, in the trend of economic integration on a broad scale, the demands for raising competitiveness are drastically higher, the implementation of commitments to integration is tougher and tougher, while the agricultural development in our country, given its important achievements, is still somewhat far from satisfactory as attention was mainly paid to organization of production rather than to the market, i.e. to supply stimulus rather than to demand stimulus. Consequently, products are available, but their circulation, preservation, processing and consumption are far from satisfactory. Quality of the goods is not high and their competitiveness is low. In the context of globalization and economic integration, Vietnam economy in general, agriculture, farmers and Vietnam Farmers' Union in particular not only has more favorable opportunities in terms of market, technology, capital, but only have to face many difficulties and challenges as follows:

Challenges for Agriculture

- Generally speaking, in modern economy, the importance of such traditional competitive advantages as natural resources, cheap labor is declining while knowledge, technology and skills are factors that decide successes in commodity markets. Looking at those decisive factors in the commodity markets including agricultural commodities it is obvious that competitiveness of Vietnam economy is still very low and there are several points of concern.
- Planning in agricultural production has been done for several years and gained results. However, planning of production is not closely linked with processing or the market. General planning is slowly done while specific planning is far from satisfactory and full of contradictions. The disconnection in planning between productions and processing of commodity agricultural products has brought about increased spontaneity, continued over-product and deficit crisis.
- The shift of agriculture to commodity agriculture is very slowly done. Economy in rural areas is inclined to pure agriculture. In agriculture, more attention is paid to crops. Agricultural production in many areas is scattered, spontaneous and small-sized. In remote, mountainous provinces, it is heavily self-sufficient. According to planning, a number of plants have been grown in areas of specialized cultivation. While such areas are being developed for other plants, which are still few in number and small in scale and unstable. The development of cattle breeding is dependent mainly on traditional areas.

Challenges for farmers

- Farmers' household economy is mostly very small. At present, out of 13.2 million households in rural areas over 12 million are dependent on agriculture including forestry and fishery. On an average, each household has 2,5 laborers, 0,7 hectare of cultivated land, and thus there are 70 million such small-sized plots of land. Production by those households,

which is mainly small-sized, scattered and spontaneous, is a big obstacle to commodity production.

- Farmers' household economy is small-sized; production is done in a spontaneous and "everyone-for-himself" manner, several products are unbalanced in terms of demand and supply. Consequently, when there is a good crop, prices drop and products are so redundant that they are not completely consumed and the farmers suffer the losses. A part of farmers develop farms. In 2002 in the whole country there are 60.758 farms, of which 80,5% belong to farmers, production nearly spontaneous, 90% of products sold is raw materials, 60% of products sold at low prices.
- In production of commodity agricultural products along the market mechanism and trade promotion, information on markets and prices is very important. However, at present flow of information reaches farmers is too little and not in time. According to a survey by the Ministry of Agriculture and Rural Development (MARD), only 25% of farmers have access to market information through newspapers and fairs and the rest 75% do not have any idea.
- The development of science and technology for agriculture, forestry and fishery is slow. Knowledge of farmers on science and technology as well as market-oriented commodity production is inadequate, for example sowing rice seed too closely, using too much chemical fertilizers, and especially using carelessly pesticides with a big amount. The use of anti-biotic is also high, so it affects the quality of export and makes it difficult to maintain prestige in business.
- Labor in the countryside is mostly rudimentary. Only about 10 % got some training. They work from experience and there is a great lack of job opportunities. They have low income; therefore the living standards of households have not greatly improved.
- Farmers are lacking a lot of capital for intensive cultivation and production expansion. At present, there is at least 50% farming households lacking of capital. While there is surplus of labor force in agriculture sector, the absorption of agricultural labor force into non-agricultural sectors is low.

Processing agricultural products

At present, in our country, there are more than 600.000 units processing products of agriculture, forestry and fishery. The value is fairly good compared with the total value of the whole

industry: Processed commodity agricultural products meet the growing demands and tastes of the consumers both domestically and abroad. Several of those products are well accepted by the market in other countries.

However, in the process of the integration into global economy particularly at a time when Vietnam is going to join WTO commodity agricultural products particularly processed commodity agricultural products will have to face big challenges and hard competition as follows:

- Opening up the domestic market including the issuance of ceiling tariffs for all agricultural products, removing all non-tariffs measures;
- As the for export support: listing all the measures of support for exports, committing to cut and to remove all kinds of support for direct exports;
- When being a member of WTO, the Government's direct support policy for agricultural products will be restricted and reduced. Vietnam agriculture will confront many burning challenges. Many farmers and enterprises will have to compete very hard with high quality and low-priced imports from other countries. Some products of low competitiveness will be reduced. A number of processing enterprises that suffer from constant losses may be closed and farmers have to reduce production scale of some products.
- In the world trade, Vietnam is still weak in seizing quickly and timely information on the market, prices and trade rules of other countries. According to VCCI's survey, 31% of enterprises do not know about the process of Vietnam joining WTO, 45% do not have any plan to prepare for joining it, over 90% of small and medium-sized enterprises lack experience in international trade and are foreign to business practices and legal system in trading with other countries.
- The percentage of processed agricultural products compared with the total yield is very small, for example, sugar cane 68%, tea 35%, fruit and vegetable 5%, meat 1%. Processing factories use mostly backward technology of 20 years ago.
- For many processed agricultural products and food of Vietnam, the food safety is not ensured due to the high level of residue of chemicals, insecticide and anti-biotic affecting the quality while WTO has high standards on exports of processed agricultural products and permits countries to get samples for check-up before importing the goods. Those standards will have strong impact on our weaknesses of Vietnam.

- In relative competition on world's allotment of labor, if efforts are not made to rapidly advance forward Vietnam will just be a country that makes and supplies crude products, consumes too much natural resources, labor force, pollutes the environment while surplus value and profit are low. Consequently, farmers' income is low and our economy is getting further behind which makes it difficult to accelerate national industrialization and modernization.
- The collaboration and cooperation between farmers and enterprises in production, processing and sale of agricultural products is progressive. However, the implementation of product selling contracts between farmers and enterprises is not so much smooth due to many subjective and objective reasons.
- Many cooperative groups are established, but on the spontaneous basis, small-scaled, and do not have fund or capital, so their support to households of commodity production is not considerable. The operational effectiveness of cooperatives including reformed cooperatives and newly established ones according to the new cooperative law is low, especially in helping farmers sell products most of cooperatives are not involved in, so the role of cooperative is still dim.
- The present situation shows that the market and price of agricultural products, handicraft products and services is floating, farmer households have to make their efforts on their own. This is again a considerable challenge for Vietnam when it joins WTO.

The first challenge for agriculture is the one for agricultural products produced by farmers in terms of quantity, quality, food safety and hygiene, production costs, etc. Therefore, Vietnam farmers' Union will pay much attention to this area and confirms its role and position with both consciousness and responsibility in helping farmers to overcome the challenges by the following activities:

- Disseminating and propagandizing information to farmers in order to raise awareness of farmers on opportunities and challenges for agriculture and farmers when Vietnam joins WTO, and based on the awareness, they can take advantage of opportunities, and overcome challenges.
- Motivating, organizing and facilitating farmers in production development, changing the structure of agricultural production of their families based on local plans. Much attention

should be paid to intensive cultivation in order to increase production, quality and reduce production costs.

- Pushing up the stimulation movement of farmers good in production and business, considering it as central focus to create many outstanding farmers and exemplary models. The Farmers' Union from central down to grass-root level has to be active in this area and motivate each outstanding farmer and exemplary model to help some poor families. Each group, branch of VNFU member at grass-root level has to work out plan, specific measures to help poor households to advance.
- The farmers' Union at all level has to take initiatives in collaboration with scientific and technical institutions to transfer scientific and technical progresses to and provide vocational training for farmers in order to help them in production development, producing products with high quality, low production costs, competitive in domestic market and in WTO trade framework.
- The Union continues to develop the collaboration with Bank for Agriculture, Social Policy Bank in order to improve procedures, increase loan sizes, number of borrowers, especially poor farmers, farmers in remote and ethnic minority areas, policy preferential families for production development.
- Vietnam farmers' Union will pay much attention to selling agricultural products for farmers. The Government has made a decision on this issue. The Union will take initiative in linking 4 partners: farmers, scientists, entrepreneurs and the State in order to solve difficulties and enable farmers to sell their agricultural products.

In order to bring into full play the potentials and strength of the country in general, of the agriculture and the countryside in particular as well as to make use of opportunities, at the same time to overcome difficulties and challenges brought by economic integration and joining WTO, Vietnam Farmers' Union would like to make some following proposals:

- Vietnam Farmers' Union has asked the Government to issue more active and synchronic policies to push up development of agriculture and to produce products that can meet the requirements of market within WTO trade framework. These policies include: The Government should support research and development work, push up the agricultural extension program, the rural development program, and support the food security program,

the poor and the program on alleviation of natural disaster consequences, emergency assistance, price subsidy of inputs and seedlings at a permitted extent.

- It is necessary to strengthen the information activities on mass media, through conferences, workshops, training courses, etc. so that the staff and farmers understand better possible impacts on rural areas, agriculture and farmers when Vietnam integrates into the world economy and joins WTO, based on these, there will be better preparations, better adaptation, and more efficient production and business.
- All levels and sectors should strengthen the information and education activities for the staff, businessmen and farmers to be, on one hand active in the application of scientific and technical progresses, advanced technology, to be dynamic and creative in production and business, on the other hand to bring into full play the community, cultural, social characteristics in economic development.
- Vietnam farmers' Union expects and calls on International organizations, nongovernmental organizations, farmers' organizations from other countries and regions to provide more practical support in terms of experiences, materials, finances for the peasantry and Vietnam Farmers' Union.

Vietnam Farmers' Union believes that under the leadership of the Communist Party of Vietnam, with the right policy of renovation, door-opening and integration, the great efforts made by various sectors and levels in general, by the peasantry and Vietnam Farmers' Union in particular, Vietnam will make use of opportunities, competitive advantages, internal strengths to overcome difficulties and challenges brought in by economic integration, and will integrate effectively and realize successfully the objective of a strong country, rich people, fair, democratic and civilized society.

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6. APPENDICES

APPENDIX A – Commitments made by Vietnam in the context of WTO accession

Source: Vietnam Development Report 2007 (ADB et al., 2006)

Tariff reductions. Tariffs to fall from their current level of 17.4% to a final bound of 13.4%. Agricultural tariffs to decline from 23.5% to 21%.

Trading rights. All foreign firms and individuals to be able to import and export, except on items subject to state trading. Importers can choose their domestic distributors. No minimum capital requirements for firms engaging in trading activity. Transition period up to January 2009 for foreigners for pharmaceutical products considered essential to human life and other products considered sensitive to public morals or public order. Transition period up to January 2011 for foreigners for rice.

State trading enterprises. Manufactured tobacco products; culturally sensitive products such as newspapers, journals and audiovisual materials; and petroleum and aircraft which are considered natural monopolies.

Excise duties. Within three years, a single rate will apply for all forms of beer (draught, fresh, bottled and canned) and a single rate for all spirits containing 20% alcohol or more.

Tariff rate quotas. Tariff rate quotas (TRQs) to apply to eggs, un-manufactured tobacco, sugar and salt. Quota volumes increase 5% annually.

Quantitative restrictions. Import bans on cigarettes, cigars, large motorcycles and used cars to be abolished. Production quotas (including imports) for cigarettes and manufactured tobacco.

Export restrictions. Export controls on rice for food security reasons. Controls on wood products and minerals for environmental reasons and to prevent illegal exploitation.

Standards. Comply with TBT (Technical Barriers to Trade) and SPS (Sanitary and Phytosanitary) agreements upon accession.

Agricultural subsidies. “Amber box” or supports that have direct impact on prices or quantities of 3.96 trillion Dong in addition to the *de minimis* allowance to developing countries of up to 10% of the value of domestic agricultural production.

Subsidies and countervailing measures. Comply with the Agreement on Subsidies and Countervailing Measures (ASCM) upon accession. Subsidies in the form of investment incentives contingent upon exports to be phased out over five years.

Incentive mechanisms. Comply with Trade-Related Investment Measures (TRIMS) upon accession. Preferential state credit and import tariffs contingent upon localization ratios to be abolished.

Intellectual property. Comply with Trade-Related Intellectual Property Rights (TRIPS) upon accession.

Information Technology (IT). International technology agreement. Agreement signed. Around 330 lines on IT products to be reduced to zero mostly over 3-5 years, but some after seven years.