VIETNAM'S TRADE POLICY: EVOLUTION, PROBLEMS AND PROSPECT

By

Do Thi Thuy Huong

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Professor Dukgeun Ahn

ABSTRACT

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Policy of trade is one of the most important economic policies. A wrong policy of trade would not create a propitious environment of trade; thus failing to lead to a high a sustainable growth. Liberalization of trade is now the general issue of the world. The economic successes in the recent decades were also linked with the policy of trade liberalization. No nation in the world, which is opposed to trade liberalization, has obtained economic achievements. It is also evidenced by Vietnam's more than ten years of renovation (1986 – 2000). The policy of trade is of decisive significance to all nations in general, and to Vietnam in particular. Realities of the world have shown that the trend of trade liberalization is a necessary trend that every country has to take into account in the process of their policy formation. Vietnam is also conscious of this objective development trend. The question is how to take up this trend in an effective and appropriate manner in Vietnam. There is no simple question, which can find a ready answer within a short time. Vietnam will have to study the experience of other countries, analyzing its own conditions and resources, work out policies and put them to practical test and to readjust them in conformity with realities. During over more than 10 years of renovation, Vietnam have obtained considerable fruitful results in this direction, and it is a belief that in the coming future, Vietnam will be able to do much more trade liberalization with even greater successes.

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LIST OF ABBREVIATIONS

AIPO	ASEAN Inter-Parliament Organization
AFTA	ASEAN Free Trade Area
ASEAN	Association of South East Asian Nations
APEC	Asia-Pacific Economic Cooperation Council
CEPT	ASEAN's Common Effective Preferential Tariff
CPV	Communist Party of Vietnam
EU	European Union
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
HS	Harmonized System
ISO	International Standard Organization
MFN	Most Favored Nation
NAFTA	North America Free Trade Agreement
NIEs	Newly Industrial Economies
NTB	Non-tariff barriers
QRs	Quantity Restrictions
SITC	Statistical International Trading Classification
SGP	System of General Preference
UNCTAD	United Nations Conference on Trade and Development
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization

Introduction

Experience of dynamically developing economies show that in each period of economic growth, trade policy is used as an instrument for the optimum allocation of resources among nations as well as each nation. In Vietnam, the development of trade policy is closely connected with the process of switching from central planning to a market economy and the attempt to work out one's own path of industrialization. Therefore, it is easy to understand the inconsistencies and, in some cases, contradictions within policies and between policies and their actual implementation. Yet, what consistent is Vietnam's basic trends – the switch to market economy and the integration into regional and world economy.

In this work, the thesis would tend to analyze the changes in Vietnam's policy of trade during the course of renovation, and point to achievements, the problems, and the approaches for redressing them. Thus, the thesis will have three chapters. The first chapter will discuss on the trade policy evolution within the period of "Doi moi" policy (from 1986 to 2000) with analyzes on its problems and prospects. The second chapter will describe the process of trade policy making in Vietnam and how they are implemented. The final chapter will take a detailed look at the regional and global trade integration for Vietnam now and its prosperity in the future. Beside those three chapters, the conclusion remark will summarize the key issues of the thesis and give some achievement of the foreign policy and external economic relation of Vietnam in the year 2000 and beyond.

Chapter I

EVOLUTION OF TRADE POLICY IN VIETNAM

This chapter will analyze the contents and orientations of Vietnam's trade policy, with special emphasis on foreign trade policy. In the first section of the chapter, a presentation is made on the background of Vietnam's trade policy, that is, the changes in internal and external conditions as well as the trade reforms over the past 10 years. Thereafter, the writing will focus on various aspect of Vietnam's trade policy, such as the market policy, the commodity policy, the tariff and quotas policy, the changes in regulations that make it possible to expand the scope of actors in trade activities and also the actual situation of Vietnam's foreign trade and its objectives up to the year 2000 and the major measure designed to achieve them. All of those issues will be presented gradually under the following sub-titles:

1.1. General background of the Vietnam's economy (regarding the changes in internal and external conditions along with the trade reforms over the past 10 years)

1.2. Tariffs and trade regulations

1.3. Policy on products

1.4. Market policy: actual situation of Vietnam's foreign trade and its prospect

1.1. GENERAL BACKGROUND OF THE VIETNAM'S ECONOMY

In analyzing Vietnam's trade policy, it is necessary to review the general background of the economy over the recent years of reform. Instead of making a comprehensive analysis of Vietnam's economy, the paper would like to confine to three issues, which are related to the subject:

1. The process of shifting to market economy
2. Orientation in industrialization
3. Changes in external conditions

1.1.1. The process of shifting to market economy

The economic reforms in Vietnam started in late 1980s. At the VIth National Congress of the Communist Party of Vietnam (CPV) in 1986, they were developed into an economic renovation of the country's mode of thinking and perception. It has been followed by a number of radical, profound and simultaneous reforms in all fields of Vietnam's socio-economic life. Although carried out in an unfavorable international context, the economic reforms have recorded important achievements to contribute to the growth of the Vietnam's economy and people's living standards. They have got Vietnam out of a protracted socio-economic crisis and enabled it to integrate into this region and the world in general. These achievements reaffirm the soundness of the "Doi moi" (renovation) policy, marking the shift to a market-oriented economy irreversible. The policy focus on giving greater autonomy to state enterprises in production and business activities, on allowing non-state economic components to engage in production and business, on energetically using financial and monetary instruments for macro-regulation of the economy, on price liberalization, and so on.

Following the Party's VI Congress, the Government promulgated a series of policies designed to commercialize the economy. Decision No. 217/HDBT dated November 14, 1987 reflected most clearly this shift as it affirmed the objective unity of the whole social market and attempted to link production with the market and to enforce business accounting. However, from 1986 to 1988, central planning still basically prevailed in the economy. State enterprises did not have enough powers to take the necessary initiative in production and business, while the private sector developed spontaneously and was not given the necessary guarantees by the Vietnam's laws and policies. The state still held the monopoly in foreign trade while the internal market was in disorder, as strikingly evidenced by galloping inflation.

1989 is a memorable milestone of renovation. The 6th Congress Plenum of the CPV (VIth Convocation) marketed a basic shift in the thinking and economic viewpoint: regarding the market throughout the country as a unified entity, working out economic policies with due account taken of market relations. Following the 6th Plenum, the Government issued a series of documents designed to concretize these viewpoints. These major changes were subsequently incorporated in the Resolutions of the VII CPV National Congress and the Law on Companies, which confirm the legitimacy of the market economy based on diversified forms of ownership.

Major renovation measures were implemented (price liberalization, one single rate of exchange, reforming the banking system, reforming the state enterprises, developing the household economy in agriculture, elimination of state monopoly in economic activities…). which contributed to high growth rates and the emerging basic features of a market economy.

It can be said that a basic different with the situation in eastern Europe during that time (1989-1990) lies in the fact that Vietnam's shift to a market economy took place in the context of political stability which was also reflected in the renovation of trade policy: the process of trade liberalization was always associated with the regulatory role of the state and was closely linked to social policies. But it must be recognized that as the market economy was still in the formative stage, its various factors and institutions were not yet firmly established and this did hinder to some extent the elaboration and implementation of the new outward-oriented trade policy. Indeed, trade liberalization requires a comprehensive readjustment of state macro-economic policies, ranging from structure, finances, balances of payment to exchange rate, interest rates…

1.1.2. Orientations on industrialization and economic restructuring

The trade policy of a country depends substantially on its industrial policy and orientations on economic restructuring. Until the mid-80s, Vietnam still followed the USSR model of industrialization, which involved the establishment of a closed economic structure based on heavy industry and which, naturally, required an inward-oriented trade policy under state control, a centralized regulatory mechanism, and state monopoly in foreign trade.

The shift to a market economy is connected to and required a reorientation in the economic structures and in the industrialization policy. As an indication of the shift, 3 economic programs (production of food and foodstuff, production of consumer goods, production of export goods) were put forth in 1988, which proceeded from the demands of the economy and its available resources, and from the viewpoints, which regarded export as instrumental in promoting economic growth and in creating the prerequisites for industrialization in the subsequent stage. Thereafter, the VIIth National Congress of the CPV put forth a program on economic restructuring which involved a vigorous development of the mining industry and, in particular, oil and gas, agriculture and forestry in conjunction with processing industries, consumer industries and selected development of heavy industry and infrastructure. This new shift did positively contribute to the reduction of imbalances in demand and supply of goods in the domestic market, and to the production of considerable volume of export goods on the basic of the existing resources of the country, that is labor and natural resources. This also brought about notable changes in the economic structure. While recording growth in absolute terms, the share of agriculture and forestry in the GDP decreased from 38.7% (in 1990) to 27.2% (in 1995). Meanwhile, the share of industry and construction went up from 22.7% to 30.3% and service from 38.6% to 42.5% during the same period. Vietnam's economy could growth thanks both to the demand of the domestic market (greatly increased investments, including foreign investments) and foreign markets (vigorous increase in the export of raw materials and fuels and primary goods). The growth made it possible for the economy to come out of the crisis and enter a new period of development with focus on industrialization and modernization. Key economic programs for the 1996-2000 period and beyond cover industrial and infrastructure development, development of science and technology, environmental protection, services, foreign economic relations, development of various regions in the country, socioeconomic development of the mountainous regions, eradication of hunger and alleviation of poverty, solution of social problems. The overall objective is to achieve an average annual growth rate of 9 – 10% and to double per capita national income by the year 2000 as compared with 1990, to bring about a basic change in the economic structures, and to ensure sustainable economic development. Very important changes have taken place in the perception of industrialization: export-oriented industrialization is regarded as the basic orientation, which must be coupled with the production of goods for which the country has ample capacity. In other words, Vietnam is moving toward an open-door and export-oriented economy with a view to making optimum use of the country's comparative advantages.

1.1.3 Changing external conditions

Most rapid changes took place in the international relations over the past decade. The world economy became greatly globalized with the emergence of a world-wide production network, mobility of capital, technology, goods, services and information, which had a considerable impact on multilateral trade institution, in every region and country. The Uruguay Round ended with the establishment of the World Trade Organization (WTO), a step ahead in the process of world trade liberalization. Scores of trade and economic groupings – EU, NAFTA, APEC, AFTA and others – have emerged, reflecting a strong trend of regionalization, which is also an inevitable step in the process of globalization. In these conditions, all countries, developing or developed, must seriously readjust their trade policy. Developing countries, like Vietnam, are entering into the stage of industrialization must earnestly examine such issues as liberalization protectionism, selection of structures, and others, which are quite different from issues facing them in the past. Many trade theories in the past are no longer relevant to the elaboration of the trade policy in the present conditions. Researchers and policy makers must face such questions as: what are the comparative advantages of a country? Should they go through a period of import substitution before embarking on the export-oriented strategy? What harm may trade liberalization do to developing countries and how to cope with it?

Vietnam's position in the world has basically improved over the recent years: normalization of relations with China and the US, entry into ASEAN, establishment of diplomatic relations and development of economic relations with almost all countries in the world. There will be deeper analysis on the Vietnam's trade external relation in the Chapter 3 of the thesis.

After outlining the changes in Vietnam's economy and in the international environment, it is time to analyze the specific issue of Vietnam's trade policy in order to show the evolution of Vietnam's viewpoints on trade policy and the impact of such an evolution on its trade and the problems that must be addressed.

1.2. TARIFF AND TRADE REGULATIONS

Reforms in Vietnam's trade policy, which took place in the context of renovation, started with the relaxation of a number of trade regulations to be followed by the elimination of state monopoly in foreign trade and thereafter by the elaboration of appropriate institutions for an open-door economy.

1.2.1 Right to participate in export and import trade

Until 1988, Vietnam's trade regulations were based on the principles of state monopoly in foreign trade with the Ministry of Foreign Trade – and subsequently, the Ministry of Foreign Economic Regulations – performing all export and import activities. The Ministry of Foreign Trade allocated export and import quotas to state production and business units.

The relaxation of trade regulations started with the permission given to a number of enterprises and business organizations and provinces to directly engage in export and import trade. In the earlier years, these units had to obtain permits from the Government and the quantity of goods exported and imported by them was quite limited. This, along with regulations on pricing exchange rate and allocation of quotas…resulted in trade being both strictly controlled and allowed to grow in a disorderly and spontaneous manner, thus reducing the efficiency of the Government' s regulatory role and distorting the supply and demand relationship in exports and imports.

Over the recent years, the Vietnamese Government has continued to deregulate foreign trade by allowing an increasingly bigger number of enterprises and economic organizations to take part in trade activities and, in particular, allowing the emergence of organizations which specialize in exports and imports trade. The latter must abide a number of conditions and must obtain the permits of the Ministry of Trade in accordance with Regulation No.296/TMDC/XNK dated April 9, 1992 of the same Ministry. This regulation divided the export and import organizations into 2 categories with different requirements:

- The first category comprises production units which meet the following conditions: they must be established in keeping with the law, must engage in trading goods mentioned in the registration certificate issued at the time when they were set up and must undertake to do business in keeping with the law, the international agreements to which Vietnam is party, and international practice.

- The second category comprises trading, service units or units, which are engage both in trading and service. In addition to the conditions applied to the first category, the units belonging to the second category must have a working capital, as part of the prescribed capital and not including borrowed capital, amounting to a minimum of 200,000USD – in Vietnam Dong or in USD, at the moment of registration for exports and imports trade.

By December 31, 1994 there were in Vie tnam 3,257 trading business registered with the State Economic Arbitration Board and dealing with 55 categories of goods, and 1,244 businesses, which were given permits for exports and imports trade with private traders accounting for 13%[1]. In addition, 1,372 foreign joint ventures were allowed to directly export their products and import raw materials and other necessary inputs for their production and business activities. July 1998 is a great turning point of trade liberation for all economic sectors in Vietnam. All economic organization, including private sector, have full right to participate into import and export activities directly without any specific requirement on their working capital as set forth in the trade regulation 1992 of the country. The year 200 is the first year Vietnam started implement the Law on Enterprises, together with the administration reforms in trading activities, which created a "booming" number of newly establishment of more than 13,500 enterprises with the registered capital more than VND 13,000 billion (equivalent to US$ 1billion).

[1] Annual Statistical Report – Year 1994

The expansion of the list of production and business units allowed them to take part in exports and imports trade is indeed a step forward in deregulation, but this has not yet resulted in a complete break with the former. These trading organizations are still bound to the Ministry of Trade. Therefore, it would be necessary in the future to allow all production units to participate in foreign trade activities on an equal basis.

1.2.2 Tariffs

Tariffs are on the basic instruments of trade policy and are designed to readjust the relationship between the domestic and international markets. Vietnam's Law on Export and Import Taxes was promulgated in December 1991 and was amended in 1993. Over the recent years, tariffs have been used as instruments for managing exports and imports, for developing and protecting the domestic market and for enhancing the efficiency of foreign economic relations.

In working out the export and import taxes, Vietnam proceeded from the following guiding principles:

- to preserve its scare resources, and to limit the export of strategic goods;
- to give appropriate protection to domestic production;
- to guarantee state budget revenues;
- to regulate consumption with respect to luxury goods, which have a bearing on social affairs, culture and national security.

The schedule of export taxes has only one common column for all exporters (dealing with 58 categories of goods). The majority of Vietnam's export goods are subjected to tax rate of 0 – 5%. The average tax rate of export goods is 14% and only metal scrap is subjected to the tax rate of 45%.

The import taxes comprise 28 rates applicable to nearly 3,500 categories of goods (classified into 4 digits and 6 digits).

The highest tax rate is 100% (old clothes and garments) and the lowest tax rate is 0% (applied to almost all items belonging raw materials used in production, machinery and equipment).

Table 1: Vietnam' s Import Taxes

0 – 5%		6% – 10%		11% - 20%		21% - 60%		61% - 100%	
Number of items of goods	Ratios %	Number of items of goods	Ratios %	Number of items of goods	Ratios %	Number of items of goods	Ratios %	Number of items of goods	Ratio s %
1,705	53.1	299	9.3	546	17	546	17	25	0.78

Source: Ministry of Finance, The Table of Import Taxes, 1996

The average tax rate applied to some main categories of import goods:

- Motorcars, motorcycles:	55%
- Liquors:	60%
- Beer:	50%
- Petroleum. Oil, lubricants:	55%
- Air-conditioners, refrigerators:	40%
- Household electric equipment and appliances:	30%
- Cement:	5%
- Plastic, paper and rubber:	30%
- Iron and steel:	10%

Thus, the tax system has been simplified and the tax ceiling with respect to main imports has gone down from 200% (previous ceiling) to 60% (present ceiling). Goods to which 0–5% tax rate is applied, account for 53.1% of all imports, while only 0.78% of imports are subjected to tax rate of over 60%. Yet, in terms of value, the majority of goods are subjected to high tax rates. The average tax rate applied to 9 main import items is 33.5%.

In addition, preferential tax rate is also applied, Article 4 of the Law on Export and Import Taxes stipulated that for the imports and exports covered by the international agreements to which Vietnam is a signatory or party, they shall be subjected to such tariffs as are stipulated by these international agreements. Article 9 of the same Law provides that the Vietnamese Government can apply preferential tax rates – lower than the usual tax rates – with margin up to 50% concerning goods from a certain foreign country. Such preferential tax rates are provided for in a bilateral agreement between Vietnam and EU and in Vietnam' s program for participation in ASEAN' s Common Effective Preferential Tariff (CEPT).

With a view to encouraging exports, Vietnam has provided tax exemptions to the import of raw material, fuels, equipments, which serve export industries (for instance, textile and garment). The Law on Export and Import Taxes also provides for the refund of import tax with respect to products, which are imported for subcontracting purposes and production of export goods by Vietnamese businesses.

In spite of considerable reforms over the recent period, Vietnam's tariff system still remain quite complicated and are not in line with international practice. First of all, the tax are too widely expanded with too many tax rates. This is not only complicates the allocation of capital sources which may find their way into inefficient spheres, the numerous differences between various tax rates may reduce the regulatory effects of the tariff. Secondly, too many categories of goods are subjected to tax rates below 5%, thus reducing budget revenues. Meanwhile, a number of consumer goods, which Vietnam has not been able to produce or to produce inadequate quantity, are hit by too high tax rates, resulting in further stimulating smuggling. High tax rates have been applied to a number of goods mainly because of their functions and use, with no account taken of the nature of the goods.

Therefore, the tariff system of Vietnam must continue to be streamlined along the line of further simplification, distinction between value added tax and special consumption tax, lowering the high tax rates with respect to a number of goods while broadening the list of preferential taxes in order to prevent it from being turned into an instrument for tax evasion.

1.2.3 Non-tariff barrier

For the purpose of regulation trade, the Vietnamese Government, in addition to the above tariff policy, has also applied a series of non-tariff measures, which involve reduction of the number of goods items, quotas, permits, and technical criteria…

Restriction in number of goods items and quotas are reflected in regulation on exported and imported goods. The Prime Minister approves, on an annual basic, the list of goods to be exported and imported, with a view to ensuring the major balances in the national economy, protecting domestic production. Under the regulations, exported and imported goods are classified into 4 groups:

1. The goods, the export and import of which is prohibited for the purpose of ensuring social security, health protection, preservation of valuable natural resources and environmental protection.
2. Goods, which have a bearing on the major balances of the national economy. In 1996, they include petroleum, oil and lubricants, fertilizers, sugar, construction steel and cement. The Government lays downs the volume of permitted imports with respect to these goods and allocates the import quotas. 40% to 60% of the volume of the above goods are imported by state corporations. In addition, the Government also specified the volume of imported consumer goods, which must account for no more than 20% of the value of annual total exports.
3. Goods, managed by special state agencies: minerals, fauna and flora, pharmaceuticals and addictive products, certain health care equipment, rare aqua products, aqua products for breeding purposes, radio broadcasting equipment, receivers and transmitters, telephone exchanges and other exchanges, cultural publications, special printing equipment, and specialized equipment and machinery for the banking line. These are the exports and imports subjected to the permission of the line ministries.
4. Goods controlled by the means of quotas. At present, quotas have been applied to 2 categories of goods: rice (about 2 million tons) and garments to be exported to EU and Canada in keeping with the agreements concluded

between the Government of Vietnam and the above countries. With respect to rice, export quotas are allocated to 15 Vietnamese export enterprises. Export quotas on garments, which are required by EU countries and Canada are mainly allocated to garment producing units.

5. Current export and imports are all commodities, which do not belong to the above- mentioned groups and are regulated by the tariff system.

This shows that most of Vietnam's main imports are regulated by rather strict regulation. For example, cars and motorcycles have seen their imports tariffs reduced to 55% but are further subjected to 100% special consumption tax and 4 – 10% turnover tax, and quantitative restrictions (20,000 motorcars and 35,000 motorcycles for 1996).

Export and import permits: The issuance of export and import permits has undergone considerable improvements. From 1996, Vietnam has done away with import permits with respect to a majority of imports, the few remaining ones being subjected to import permits given by the Ministry of Trade.

Except for export goods, which are subjected to quotas and the management by specialized agencies, the others can be exported without permits, and their exporters have only to submit declarations to the customs authorities for perusal and approval.

Technical regulations

In 1990, Vietnam promulgated a Degree on the standards of goods. So far, over 5,000 different standards have been issued and steps have been taken to systematize and standardize in keeping with I.S.O standards. Imports are subjected to animal and vegetal quarantine inspection in keeping with regulations issued on November 27, 1993 according to which all means of transports, animal and vegetal imports must be duly inspected to prevent possible damage to the country' s biological and ecological environment.

The technical standards and the quarantine inspections are necessary steps, which are in no way connected with protectionism. Further, they also show that Vietnam is coming closer to international practice.

All the above shows that Vietnam has made substantial efforts in order to move toward more open trade. Naturally, the implementation of these regulations is no simple matter and would depend to a great extent on the structure and activities of the trade machinery, which would be the subject of more detailed discussion.

1.3. POLICY ON PRODUCTS

An important component of the trade policy is to determine the structure of export and import goods. Historical evidences show that success of failure of an economic development strategy is closely connected with the policy on products. As generally defined, the policy on products involved the concretization of the country' s comparative advantages in world trade. The flexibility in changing the structure of export and import goods reflects the reactions of a country to its changing comparative advantages. Except for countries, which are rich in valuable raw materials such as oil, developing countries, which are successful in economic development, are those, which have been able to shift from export of primary products to export of manufactured goods. According to SITC (Statistical International Trading Classification) classification system, the process of industrialization is also the process of shifting in the structure of export goods, involving the gradually decrease ratio of the first group of products (foods, foodstuff, beverages, raw materials and minerals) and the gradually increased ratio of the second group of products (processed products) and finally a switch to the third group of products (chemicals, machinery and equipment, mean of transports). The structural change in imports involved first an increased ratio of group 1 and 3, then a decreased ratio of group 2 and 3, and finally, at a highly developed stage, an increased ratio of group 2 and 3.

Thus, in order to work out a strategy of products, it is important to find out: in which stage of the industrialization process Vietnam is now in and which would be the next stage.

To this end, the chapter musts, first of all, examine the change in the structure of Vietnam's exports and imports over the past more than 10 years, a period in which Vietnam's trade policy was designed to diversify exports, to make the most of the export potential of its traditional goods and to find goods, which may have high export value.

Table 2 shows that during the 1986 – 1991, there was a steadily rising ratio of the first group of products and a continuously decreased ratio of the second and third group of products. This structure underwent a change from 1992. Yet, a closer look shows that out of the 10 key exports of Vietnam (crude oil, garments, aquaculture products, rice, footwear, coal, coffee, rubber, cashew nuts, and groundnuts), crude oil and rice sometimes accounted for 70% of the total value of exports. By 1992, while the share of the first group of products went down to 76.7% as against 84.4% in 1991, crude oil and rice still accounted for 50% of total exports.

A positive structural change has been witnessed. From 1993 till now, manufactured goods – mainly garments and aqua-products – have accounted for nearly 30% of Vietnam's export.

Table 2: Structure of Vietnam's exports and imports, 1986-1995

YEAR	FIRST GROUP OF PRODUCTS		SECOND GROUP OF PRODUCTS		THIRD GROUP OF PRODUCTS	
	Exports (%)	Imports (%)	Exports (%)	Imports (%)	Exports (%)	Imports (%)
1986	68.8	57.0	28.7	8.3	2.5	34.7
1987	69.3	58.7	28.3	10.6	2.4	30.7
1988	69.1	56.2	28.4	9.0	2.5	34.8
1989	70.0	59.0	28.2	7.5	1.8	33.5
1990	71.3	59.2	27.9	13.4	0.8	27.4
1991	84.4	32.7	13.1	15.5	2.1	51.8
1992	76.7	30.0	21.9	18.8	1.4	52.0
1993	74.1	19.2	25.0	23.2	0.9	57.6
1994	65.0	13.0	30.0	27.0	5.0	60.0

Source: Direction of development of export markets 1996-2000, Ministry of Planning and Investment, Hanoi July 1996.

The changes in the structure of imports over the past 10 years reflect Vietnam's policy of economic readjustments. During this period, particularly in the early 1990s, Vietnam restricted the import of consumer goods as well as machinery and equipment due to the reduction in major projects from 1988 to 1990, and gave priority to the import of raw materials and spare parts for the purpose of promoting production. As a result, the share of the third group of products decreased from 34.7%

(1986) to 27.4% (1990), but the joint ratio of the first and third group rose from 9% during the 1986-1990 period to about 80% during the 1991-1995 period. The increased ratio of the second and third group from the early 1990s is connected with the rising FDI flow as enterprises with foreign invested capital are given preferential treatment in the import of machinery, equipment and spare parts.

A preliminary analysis of the changes in the structure of Vietnam's exports and imports leads to the conclusion that Vietnam's economy has started to enter into the stage of export-oriented industrialization based on certain comparative advantages in natural resources and labor-intensive manufacturing industries.

Plans on the structure of exports and imports during the 1996 – 2020 period

During the 1996-2020 period Vietnam will promote industrialization and modernization, with an export-oriented industrialization policy, which should make the most of the advantages of international and regional division of labor. The trade policy in general and, in particular, the policy on products must be based on the restructuring of the world and regional economy and the projected growth rate of Vietnam during the period.

Now, the paper examine 3 plans worked out by the Institute of Development Strategy under Ministry of planning and Investments, on the basis of the economic growth objectives set out by the Government and the 1996-2000 five-year trade program of the Ministry of Trade.

Plan 1: *GDP Growth Rate 10%*

Export and import growth rate of 23% as is at present

Table 3:

Unit: (%)

RATIO	1996-2000	2001-2010	2011-2020
Exports			
- First group of products	20.0	20.0	20.0
- Second group of products	55.0	45.0	25.0
- Third group of products	25.0	35.0	55.0
Imports			
- First group of products	11.0	10.0	15.0
- Second group of products	23.0	18.0	20.0
- Third group of products	66.0	72.0	65.0

Plan 2: *High and stable growth*
GDP growth rate 11%
Growth rate of exports (and imports) 25%

Table 4

RATIO	1995	1996-2000	2001-2010	2011-2020
Exports				
- First group of products	65.0	30.0	20.0	20.0
- Second group of products	30.0	45.0	30.0	20.0
- Third group of products	5.0	25.0	50.0	60.0
Imports				
- First group of products	13.0	10.0	10.0	15.0
- Second group of products	27.0	20.0	15.0	20.0
- Third group of products	60.0	70.0	75.0	65.0

Plan 3: *High but Less Stable Growth*
GDP growth rate 12%
Export (and imports) growth rate: 27%

Table 5

RATIO	1995	1996-2000	2001-2010	2011-2020
Exports				
- First group of products	65.0	20.0	20.0	20.0
- Second group of products	30.0	40.0	25.0	20.0
- Third group of products	5.0	40.0	55.0	60.0
Imports				
- First group of products	13.0	10.0	10.0	15.0
- Second group of products	27.0	18.0	13.0	20.0
- Third group of products	60.0	72.0	77.0	65.0

Of these 3 plans, the third plan is the least realistic because maintaining an annual growth rate of 12% for 25 years in a row is something extremely difficult and would require greatly increased exports, which must mainly comprises chemicals, machinery, equipment and means of transports items about which Vietnam has the least comparative advantage.

The first two plans are relatively feasible and are closed to the two plans set forth by the Ministry of Trade. The first plan projected total exports worth 45 billion USD for the 1996-2000 period and per capita export level of 170 USD, with export growth relying mainly on chemicals, machinery, and transport equipment.

From 2000 to 2020, total import turnover for the first five- year period would reach 54-55 billion USD. The first plan envisage an average annual growth rate of 10.7% for the 1996-2000 period and doubling the per capita GPD by the year 2000 as compared with 1990.

According to the second plan, total export turnover during the 1996-2000 period would reach 54 billion USD, with annual per capita exports amounting to 220USD (that is 3.6 times as compared with the 1991-1995 period) an export growth rate of 27% per annum, total import turnover reaching 60-61 billion USD, and GDP growing by 11% per annum. In terms of structure of exports, group 2 and 3 must account for 70% of total exports value during the 1996-2000 period and 80% of the same during the 2001-2020 period, with growth 2 achieving a more rapid growth than group 3.

The key exports of Vietnam during the 1996-2000 period are crude, oil, garment, aqua-products, rice, coffee, leather goods and footwear, coal, rubber, electronic, computer science and telecommunication products, and natural. These 10 key exports, which are projected to account for 70% of Vietnam's total export value during the 1996-2000 period, would make it possible to achieve the full potential of the existing comparative advantages of the country and ensure the positive restructuring of its economy and trade. In the long term, this restructuring should create the conditions for Vietnam to exploit the new comparative advantage arising from the economic restructuring in the region and in the Vietnam's own economy. But that would be no simple choice, which involves both risks and the possibilities to catch up with other countries. The policy on products must be designed both to take advantage of any narrow opening in the world market and to enter into fields that would provide us with a strong competitive advantage, as illustrated by the experience of NIES, of Malaysia and Thailand. These countries have fully exploited the openings created by Japan's restructuring by vigorously developing the branches, where Japan has lost its advantage while striving to develop high-tech industries, which are the key components of developed economies. In the present-day conditions of rapid globalization of production, such as strategy on products is highly feasible. In view of this strategy, the long-term competitive advantage of Vietnam lies both in a qualified labor force and a competent contingent of intellectual workers, as products that would create Vietnam's comparative advantage in the future are not only labor-intensive ones but also intellect-intensive ones. It goes without saying that the strategy on products is inseparable from the market strategy.

1.4. MARKET POLICY

Until the end of the 1980s, former USSR and East European states were Vietnam's main trading partners, which accounted for about 75-80% of Vietnam's total foreign trade. Indeed, for many decades, Vietnam's market policy was designed to expand and strengthen relations with its traditional partners. The collapse of the socialist system impelled Vietnam to find new markets.

With its new policy of diversifying foreign economic relations, Vietnam now has trade relations with 105 countries and has concluded bilateral trade agreements with 68 countries, yet, in practice, Vietnam's foreign trade is still mainly confined to a number of partners.

Table 6 shows Vietnam's directional changes in foreign trade markets during the 1990-1996 period with contradictory changes in position between European and Asian partners in their trade relations with Vietnam, changes which demonstrate considerable flexibility in Vietnam's foreign trade following the events in Eastern Europe and the former USSR. Indeed, the ratio of former East European socialist countries in Vietnam's exports decreased from 45% (1990) to 3% (1994) and in Vietnam's imports from 52% (1990) to 7% (1994). In the mean time, the share of Asian countries in Vietnam's exports rose from 43% to 75% and in Vietnam's imports from 37% to 75%. Vietnam's foreign trade relations with other areas of the world are still limited.

Table 6: Changes in Vietnam's export and import markets

Year / Territories	Exports					Imports				
	' 90	' 91	' 92	' 93	' 94	' 90	' 91	' 92	' 93	' 94
Asia:	**43.3**	**77.0**	**74.0**	**73.0**	**75.0**	**37.0**	**61.0**	**65.0**	**63.0**	**75.0**
1. Southeast Asia	15.0	25.0	22.0	21.0	22.9	20.0	35.0	38.0	45.0	32.03
2. ASEAN	13.0	24.6	21.5	13.0	21.7	19.0	34.0	37.0	43.0	30.0
3. NIEs *	21.0	36.0	30.0	260	26.0	29.0	48.0	49.0	66.0	49.0
4. Japan	14.0	34.0	32.0	32.0	30.0	6.0	7.0	9.0	16.0	11.0
5. South Korea	1.1	2.5	3.6	4.6	2.2	2.0	7.0	8.0	12.0	14.0
6. China	0.3	0.1	4.0	5.0	7.6	0.1	0.8	1.2	3.0	3.0
Europe	**51.0**	**17.0**	**15.0**	**14.0**	**14.5**	**59.0**	**31.0**	**18.0**	**17.0**	**20.0**
East Europe	45.0	11.0	5.0	6.0	3.0	52.0	18.0	6.0	4.0	7.0
West Europe	6.0	6.0	10.0	8.0	10.9	7.0	13.0	12.0	13.0	11.0
America	0.7	3.0	1.0	1.4	3.4	0.4	0.4	1.0	0.4	1.0
Africa	0.2	0.6	1.0	2.0	1.2	0.3	0.2	0.2	0.0	0.0
Australia	0.3	0.3	1.0	2.0	1.2	0.3	0.4	0.8	1.0	1.0
No national origin	4.7	4.7	0.8	9.4	5.4	3.0	7.0	15.0	18.6	3.0

Source: *Ministry of Trade, Date on ASEAn countries; Statistical Publishing House, 1996*
** Including Singapore*

A closer look at Vietnam's foreign trade markets over the recent period shows that Japan and the NIEs (including Singapore) are Vietnam's main partners, which account for nearly 80% of the country's foreign trade turnover.

Japan accounts for over 30% of Vietnam's exports and about 10% of its imports. On the contrary, Singapore accounts for nearly 30% of Vietnam's total imports and only over 10% of its exports. This illustrates quite clearly the structural complementariness of Asian economies through international trade. Since the bulk of goods, imported by Vietnam from Singapore, is produced by Japanese companies, one can understand the surplus trade which Vietnam enjoys with Japan nowadays.

From July 1995, Vietnam is an official member of ASEAN and it has joined the Common Effective Preferential Tariffs (CEPT), which is designed to turn ASEAN Free Trade Areas (AFTA) in to a reality by the year 2006. All this gives Vietnam a market, with a population of over 400 million, which accounts for nearly one-third of

Vietnam annual foreign trade. Yet, to Vietnam and all other ASEAN members, AFTA is not the only and ultimate objective. Trade liberalization within ASEAN’s framework is a necessary step, which is linked to the process of trade liberalization within the framework of APEC and the whole world. Therefore, joining AFTA does not mean that Vietnam’s markets are confined to this area alone. In trying to achieve the highest efficiency for its participation in AFTA, it is Vietnam’s hope to enhance its volume of foreign trade rather than changing ASEAN’s ratio in its foreign trade. Of course, Vietnam can only achieve these results if along with the trade liberalization within ASEAN’s framework. It also endeavors to develop other markets, of which most important are those in developed countries.

At present, Japan is the biggest trade partner of Vietnam. Accounting for about 30% of Vietnam’s exports and 10% of its imports. Japan mainly imports from Vietnam raw materials and crude oil. The ratio of Vietnam – Japan trade may decrease as and when Vietnam can further expand its foreign trade and change the structure of its exports. In order to maintain and expand it share of the Japanese market, Vietnam must vigorously increase the export of manufactured products, which Japan needs: aqua-products, garments, consumer goods, which do not require sophisticated technology …Japan’ rising imports and the changing consumption taste and patterns of its people are creating new opportunities for various countries in the region, including Vietnam, to penetrate Japan’s market.

Other Northeast Asian countries, NIEs, Russian Federation, China constitute a large market for Vietnam over the recent years. Vietnam’s exports to South Korea, Taiwan, Hong Kong are usually 2-3 times bigger than two-way trade volume between

Vietnam and EU. It is noteworthy that Vietnam's exports are precisely the goods, which many of their exports can easily penetrate the Vietnamese market on account of their suitability in terms of prices and technological level. The shift of the NIEs to capital-intensive and high-tech industries is creating new openings for Vietnam's exports, not only in their domestic markets but also to foreign markets where similar goods of theirs did have a share.

The United State is a potentially important trade partner not only because of the size of its markets but also because of US trade regulations and the US role in the world economy, which can be quite helpful to developing economies. Especially the Vietnam-US trade relations have just formed by the Bilateral Trade Agreement between Vietnam and US on the July 2000, Vietnam can now enjoy the status of the most favored nation and the System of General Preference (SGP), which the United State gives through the Agreement.

Finally, in working out the market orientation for Vietnam's foreign trade, Vietnam must, in terms of diversification, select key markets, which should be instrumental in contributing to most positive economic restructuring and in making it possible for Vietnam to give full play to its present comparative advantages and acquire other comparative advantages in the future.

Conclusion

Vietnam has, over the past 10 years, made great efforts to reform its trade system and has achieved a most outstanding success in making its economy more adapted to the internal economic changes and to the changes in the world economic environment.

One-sided dependence on the former USSR and the Eastern European countries has been replaced by a multilateral trade system and integration into the economy of the world and the Asia-Pacific region.

Obviously, these reforms have not encompassed all that must be done in order to establish an open market economy. Not all the policies have been implemented smoothly. The following chapter will focus its analysis on other aspect of the trade policy making which has only received a fleeting reference in this chapter.

Chapter II

TRADE POLICY MAKING AND IMPLEMENTING MACHINERY IN VIETNAM

The recent years have witnessed numerous changes in Vietnam's trade in terms of management and character of trade activities. For example, at present, state trading units do not merely receive and execute orders form own survival: they must, among other things, preserve and increase their capital, and must work out their own business plans …In addition to the state trading network, a network of private and foreign traders, has also emerged, with resulting competition. Vietnam' entry into AFTA, since 1995, is a turning point in the development of Vietnam's trade. Therefore, the work of management, particularly the trade management machinery, has undergone major changes designed to make this machinery better adapted to the changing trade context. These changes can be regarded as the economic achievement of renovation.

However, the cement "hot fever" (price explosion) in the early months of 1993, 1994 and 1995, followed by the cement "cold fever" (plummeting prices and sluggish sales) has negatively affected both investors and traders. Complaints about the complex and cumbersome procedures and corruption connected with the application for business permits, and monopoly powers in some fields of exports and imports etc. are causing chronic headaches to policy makers, managing official, and businessmen.. in the field of trade.

This chapter is trying to describe a machine comprising all agents connected with the formation and implementation of trade policies in Vietnam. In this context, trade activities are understood as those taking place in the process of circulation of goods, outside the realm of production, and involving both internal and foreign trade. In terms of time, the chapter covers the period from 1986 (starting point of "Doi moi" policy) onto present.

2.1. THE MINISTRY OF TRADE AND ITS FUNCTIONS

Prior to 1990, regulating the circulation of goods inside the country and in trading relations with foreign countries fell within the responsibility of 3 ministries: the Ministry of Foreign Economic Relations, which dealt with foreign trade, the Ministry of Materials, which was in charge of the purchase and distribution of means production to various economic branches, and the Ministry of Trade, which regulated the trading of consumer goods in the internal market. As a result of the shift of the centrally planned economy to the market economy under state regulation, trade management work has been reorganized and concentrated into the hands of a single agency. Early in July 1990, the National Assembly of Vietnam issued a "Resolution approving the Resolutions of the Council of State on the organization and personnel of the Council of Ministers", as well as Resolution No. 244 NQ/HDNN dated March 31, 1990 of the Council of State on the "establishment of the Ministry of Trade based on the merger of the Ministry of Foreign Economic Relations, the Ministry of Trade and the Ministry of Materials, which would enforce unified state management over all trade and service activities"[2]. On November 9, 1990 the Council of Ministers promulgated Decree No, 387-HDBT providing for the functions, tasks, powers and

[2] Nhandan Daily, July 7, 1990

organization of the Ministry of Trade. On December 4, 1993 this Decree, was replaced by Decree No. 95-CP of the Government,[3] stipulating the functions, tasks and powers of the Ministry of Trade. The new Decree also stipulates that the Ministry of Trade comprises as number of enterprises operating directly under its direction, but as different from the former Decree, makes no mentions of the task and function of formulating long-term, short-term strategies, development plans and major balances in the field of trade, which are entrusted to the Ministry of Planning and Investments where a Trade Department is in charge of this question.

Under the new Decree, the basic function of the Ministry of Trade is to "enforce state management over trade activities", to "work out and submit to the Government for adoption and promulgation, and to issue within its powers, the regulations on the management of export and imports activities", to "provide professional guidance and direction to local state trade management agencies".

Thus, in accordance with the latest Government Decree, trade strategy planning is entrusted to the Ministry of Planning and Investments, while the Ministry of Trade is in charge of administrative and functional management the Ministry of Trade issues business permits to various trading units and individual traders, allocates and grants export and import quotas, provided guidance on the implementation of Government trade policies and issues its own regulations concerning various trade activities, directly manages state trading units under it, and appoint their directors etc…

[3] Formerly the "Council of Ministers"

The merger of 3 ministries and the subsequent emergence of one single ministry enforcing a unified trade management is indeed a big step forward in Vietnams' administrative reforms. On the one hand, this creates the conditions for a unified state management over trade and enhances our management capacity with respect to our developing and diversified trade activities. On the other, this reflects the determination of the CPV and the Government of Vietnam to continue economic reforms and shift the subsidy-based, centrally planned and bureaucratically managed economy to a multi-sector market economy regulated by the state. This is also an effort designed to create a favorable environment for attracting both domestic and foreign investments.

In accordance with the relevant regulations on functions and powers, the Ministry of Trade is entitles to issue regulations on trade activities, which makes it possible for it to timely enforce policies designed to encourage trade activities, thus contributing an important part to the achievements in the field of trade over the recent years. Yet, some less-than-well-considered policies have created obstacles to trade, as is the case with Circular No. 03 TM/XNK. Following a Government decision to the effect that consumer imports should not exceed 20% of the exports value of each year, the Ministry of Trade issued Circular 03, which enjoyed on all those units which were interested in importing consumer goods to submit their proposed export volumes which would serve as the basic for the Ministry of Trade to approve the import figures that would be allocated to each of them for the same year. Yet, a number of exporters were not engaged in imports, and therefore it would be impossible for importers to apply for import permits. As a result, they had to seek the assistance and cooperation from export units in order to obtain quotas for the import of consumer goods. The same Circular also gave trouble to the tourist industry, which was not regarded as an exporter and therefore was not allowed to import "consumer goods", the bulk of which indeed constituted "capital goods" for the same industry. Thus, no clear distinction was made between consumer goods destined for people' consumption and consumer foods destined for investments. As a result, consignments of goods imported by the tourist industry were held up in Customs border posts and many of these had to be returned to the foreign exporters.

The Trade ministry's superior authorities consist of the National Assembly, the Government and the Prime Minister. They decide and promulgate at the highest macro level the development strategy and major policies relating to trade. The Ministry of Trade, in accordance with the powers given to it and the above strategies and major policies, issues concrete policies and regulations designed to regulate trade activities.

Diagram No. 1 shows the competent bodies, which have powers in deciding trade strategies and policies

2.2. EXPORT AND IMPORT MANAGEMENT ENTRUSTED TO VARIOUS BRANCHES

Article 6 of the Prime Minister's Decision No. 864/TTg dated December 30, 1995 stipulates as follows: "With respect to items that are contained in the list of goods managed by specialized branches, the Customs services will conduct export and import procedures as and when the enterprises concerned will have had correctly implemented the regulations and instructions of the branches which are engaged in the management of such goods”. What is the meaning of exports and imports to be managed by various specialized branches? This refers to a number of goods the export and import of which are not managed by the Ministry of Trade but by other ministries, which perform this duty in coordination and in consultation with the Ministry of Trade. In accordance with Government Decree No. 89-CP dated December 15, 1995, about 9 ministries are entitled to exercise management over the export and import of a number of goods and products:

1. The Ministry of Industry: mineral, scrap metals (ferrous and non ferrous).
2. The Ministry of Agriculture and Rural Development: forest animals, technology on the processing of wood and forestry products, processed wood and related products, animals breeds and vegetal strains, and animal feed.
3. The Ministry of Health: import of medicines and pharmaceutical materials, medical machinery and equipment.
4. The Ministry of Finances: foreign assistance goods and materials.
5. The Ministry of Aqua-products: strains and juveniles of aqua-products, valuable aqua-products, medicines and feeds for aquaculture.
6. The Ministry of Culture and Information: cultural products
7. The State Bank issues decision on the export and import of pearls, gems, precious metal, jewels, gold and silver and metallic coins…
8. The General Department of Postal Services: postal and communications equipment.
9. The Ministry of Defense: weapons, military equipment and other materials required for national defense.

Thus, in addition to the Ministry of Trade, which is in charge of overall trade management, nine other ministries also have managerial power over the export and import of goods and products related to their respective branch of activities, as has been specified. Diagram No. 2 gives a rough idea about this new division of labor.

In accordance with the above mentioned decision, export and import enterprises do not have to apply to the Ministry of Trade for the import of goods that fall under the jurisdiction of the above 9 agencies. Yet, the Ministry of Trade and these agencies act in coordination in issuing specific instructions, guidance and circulars. The enterprises, which wish to import export a certain commodity must study the general regulation issued by the Ministry of Trade and the joint regulation issued by the Ministry of Trade and each of the agencies concerned.

2.2.1 Functional Ministries

This part is going to deal with the functions and role of agencies, which are indirectly managing trade activities, which means functional management.

The Ministry of Finances studies and submits proposals to the Government and National Assembly on tax policies with respect to all trade activities. As is known, taxes are directly connected with budget revenues, which are indeed an important objective of the taxation policies, but also exert an important influence on trade business, The point that must be addressed in this chapter is not the taxation question but the role of the Ministry of Finances and the way it participates in the implementation of the trade policy. In addition to the formulation of taxation policies, the Ministry of Finances also has the duty to collect the taxes. And tax collection and tax collectors have an impact on trade business to some extent and even in a direct manner. By working out the tax level and collecting taxes, the Ministry of Trade exerts a considerable impact on the implementation of the trade policies.

The Price Stabilization Fund has been established thanks to super-profits earned from trade and specifically from exports. For example, in case rice or another export item experiences as substantial price rise resulting in profits, which exceed the expected figures, that excess is deducted and put into the Price Stabilization Fund. If price subsidies are necessary to support a certain export and protect the interest of the producers concerned or to stabilize its domestic price, the subsidy will be financed by the Price Stabilization Fund. Panel Members of this Fund are the appointed representatives of the Ministry of Finances, the Government Price Commission, the Ministry of Trade and other Ministries concerned. To apply for subsidies, the ministry or Government agency concerned must submit an application to the Government price Commission or the Government itself, the approval of which is a prerequisite for subsequent action to be taken by the Price Stabilization Fund panel in deciding the amount of money to be disbursed. Thereafter, the Ministry of Finances would hand over the sum to the agency concerned. Thus, the competent decision maker on the use of the Fund is the Government or its Price Commission: the Ministry of Finances keeps and disburses the Fund's money, and the members of the Fund's panel take decision over the specific amount to be given each time.

The State Bank is also an important authority, which takes part in the implementation of trade policies, with different role and methods as compared with what happened in the past. Since 1989, the State Bank has no longer merely implemented Government orders in providing loans or disbursing money for serving a specific purpose. At present, the State Bank and the commercial banks perform their own business functions. They take part in the implementation of Government trade policies mainly through the following ways:

- One, to provide guarantees to loans contracted by trade organizations, an act which is not very clearly connected with their role as participants in the implementation of trade policies. The loan guarantees which are given to major trade projects or activities and in accordance with specific requirements are only partly connected with the Bank's responsibility in implementing trade policies, but are mainly associated with the business functions of the banks, as evidenced by the fact that Banks have full authority to provide or not to provide loan guarantees. Over the recent period, trade activities have faced difficulties arising from the decisions of banks to stop giving guarantees or to reduce the number of guarantees given to loans pertaining to trade activities. Thus, in terms of their roles as participants in the implementation of trade policies, granting loans guarantees is indeed confined to cases where exits specific requirement.
- Two, providing loans with low interest rates, and the losses arising from such loans are compensated by disbursements from the price Stabilization Fund. The function reflects the participation of the banks as a contributory factor and not as the main agent in implementing the trade policies. In shorts, the role of banks in the implementation of trade policies is confined to the granting of loan guarantees according to requirements in specific cases, whereas its other activities are

business dealings, which are merely contributory to, and not mainly instrumental in, implementing trade policies.

The third diagram would show the participation of functional agencies in the implementation of trade policies, with function as described above. As is know, the Ministry of Planning and Investments is an agency, which works out the trade strategy and plans to balance demand and supply on the market.

2.2.2 Provincial Trade department and Provincial People's Committees

Government Decree No. 95-CP dated January 15, 1994 on the function of the Ministry of Trade, stipulated that the Ministry of Trade "provides professional guidance and direction to state trade management agencies in the localities", that is, the provincial Trade Departments. Thus, the relationship between the Ministry of Trade and the provincial trade department only involve technical consultations, and not orders and instructions from a superior institution as was previously the case.

In fact, the regulatory role of the Ministry of Trade with respect to trade activities in the provinces is not confined to relations with the provincial trade departments, which are influenced directly and to a great extent, by the provincial people's committees. As a result, directing the provincial trade departments involves coordination between the Ministry of Trade and the provincial People's Committees. So far, the coordination has been less than adequate thus resulting in disorder in trade activities in the provinces, as evidenced among other things by the small-scale border trade, which is not easily amenable to control, in provinces bordering on neighbor countries.

Diagram 4 will give a comprehensive picture of the present trade management and regulatory mechanism in Vietnam. In the diagram, the dotted lines indicates the less than close relationship between the Ministry of Trade and the Provincial People' Committees and their trade departments, while the solid lines which link the Provincial People's Committees, their trade department and the trade and business organizations located in the respective provinces show the strong influence exerted by the Provincial People's Committees on the provincial trade departments and the trade and business organization located there. Thus, in addition to the National Assembly, the Government, the Prime minister, the Ministry of Trade, the functional Ministries and other relevant ministries and government agencies, the Provincial People's Committees also participate in regulating trade activities and taking decisions thereon in the territory under their respective jurisdiction.

2.2.3 State Trading Enterprises

In the past, when the subsidy-based bureaucratic management mechanism still prevailed, state trading enterprises, central or local, must strictly execute the orders and requirements of the Ministry of Trade or the provincial trade departments, At present, the survival of the state trading organizations fully depend on the market and their role has undergone considerable change. While the local sate trading organizations are still substantial part of their leadership role in regulating and managing trade activities, and as such heir role in participating in the implementation of trade policies has been affected. In other words, the control by the Ministry of Trade over the local state trading organizations, as instruments for regulating trade activities, is quite feeble. Its control over central-managed state trading organizations[4] has also undergone changes: it no longer involves mandatory orders; instead, it involves providing leadership while taking into consideration the rules of the market. For example, as and when necessary, the Ministry of Trade request state trading organizations to buy food from the peasants at a price higher than the market price, but the losses incurred in buying at higher prices is to be compensated by disbursement form the Price Stabilization Fund, disbursements which will be approved by the Government on the proposal of the Ministry of Trade. Thus, at present, the central state trading organizations perform their functions as instruments of trade management in an indirect and market oriented manner, but can perform these functions in a more concentrated manner. Further, such market regulatory activities or interventions are mainly focused on important goods such as rice, cement, petrol and lubricants, sugar, paper…and are performed as requested by the Ministry of Trade when it becomes necessary to maintain stability in the market.

2.3. PROBLEMS AND CONCLUSIONS

In the context of renovation and reforms, involving the shift from a centrally planned economy to a market economy regulated by the State, Vietnam's trade has made big advances both in scale and in methods of activities. At the central level, the merger of 3 ministries (Ministry of Material, Ministry of Internal trade, Ministry of Foreign Trade) into one single Ministry – the Ministry of Trade – for the purpose of concentrating the management of trade activities all over the country into one single agency is an important reform which has had a significance for the development of trade over the recent years.

[4] Referred to as state trading organizations under the Ministry of Trade

Yet, the operating mechanism of the machinery charged with the task of formulating and implementing trade policies is still less adequate, and as mentioned above, this has given rise to a number of problems in the filed of trade, which can be summarized as follows:

- *First*, diagram 4 show that 5 agents have the right to take decision, to directly or indirectly regulate trade activities: the National Assembly, the Government, the Prime Minster, the functional ministries, a number of ministries, branches and agencies, and the provincial people's committee. These 5 agents, including their respective integral agent, make it very difficult to clearly delimit their functions and powers. This explains why a number of decisions involve contradictions and duplication.
- *Second*, with such a model structure, it is very difficult to control the information flows inside the system and to quickly accurately pick up the information flows form the surrounding environment. The central leadership finds it difficult to receive reliable information form the leadership at the provincial level. When the agents feel they have the right to take decision they tend to capitalize on the information that comes first and is beneficial to them, and by doing so they make it impossible for the central leadership to have an accurate, fast overall picture of the market, but a distorted on instead. This is why the central leadership cannot grasp the demand in the country in order to work out a rational plan on supply. And this is an important cause behind the "cold" and "hot" fevers affecting cement, urea fertilizers, iron and steel,

sugar, paper. When plans and predictions are not accurate and timely, it is not possible to have timely and accurate reactions to the changes in the market, resulting in frequent cases of scarcity and gluts of specific goods and products. For these reasons, plans to expand production of exports in times or scarcity are not reliable, as they are biased and overestimate the degree of scarcity, and would in turn bring about oversupply or under supply.

- *Third*, in the field of management, such a model of organization makes it impossible for orders from superior institutions to be rapid and efficient. In addition, the intermediary authorities (level of authorities) would transmit and interpret the above orders to the subordinate level in a way, which accords with their interests. As such, the initial orders from the top authorities are often distorted by far. As a result, it is very difficult to put the onus on any one. It is also most difficult for the superior authorities to check and find our how their orders and demands are being implemented by their subordinates at various levels. In such a system, a top down control – an extremely important factor in management – cannot be achieved.

- *Forth*, as the situation becomes less amenable to control, the central leadership tends to adopt extreme measures, that is, in–depth interventions. When the above system gives rise to an increasing number of problems and when indirect leadership is not duly heeded by the lower levels, the authorities at the central level tend to take concrete measure which constitute direct and deep intervention into the actual situation. This is the reason behind a series of actions taken, at present, by the central authorities in a number of fields.

- *Fifth*, these in-depth interventions by the central authorities, in turn, give rise to another tendency: frequent, even yearly changes in government regulations. As new issues keep cropping up, the central authorities which as engaged in deep interventions feel that it is imperative to react by making concrete changes to the existing regulations. All this has created considerable hindrance to business activities.
- *Sixth*, a model involving many decision makers would invariably give rise to the necessity of constant coordination between various parties for taking decisions over various issues, including very small ones. This results in numerous coordination meetings and coordination papers, which are called inter-line documents of various branches and, ultimately, in contradictions and duplications in the decisions and documents themselves.

The above analysis shows that weaknesses and shortcomings in the trade management and regulatory system are important reasons behind the snags and difficulties, which have emerged in the market over recent years. This means that the solution of these difficulties cannot be achieved by means of management and regulatory system. This improvement in the management system is precisely being addressed by the administrative reforms being undertaken by the Communist Party of Vietnam with the aim of enhancing the capacity of the state machinery and its operation.

Diagram No.1. Competence bodies, which have powers in deciding trade strategies and policies

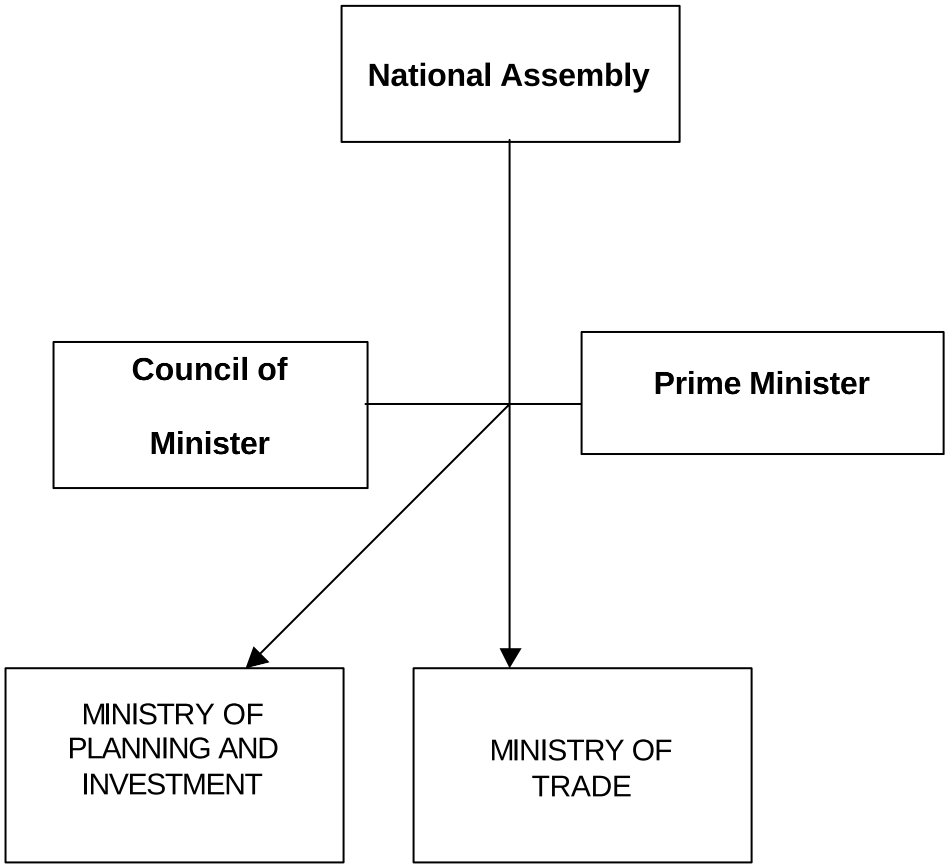


Diagram No.2 Ministries and agencies having power over the export and import of good and products related to their respective branch of activities

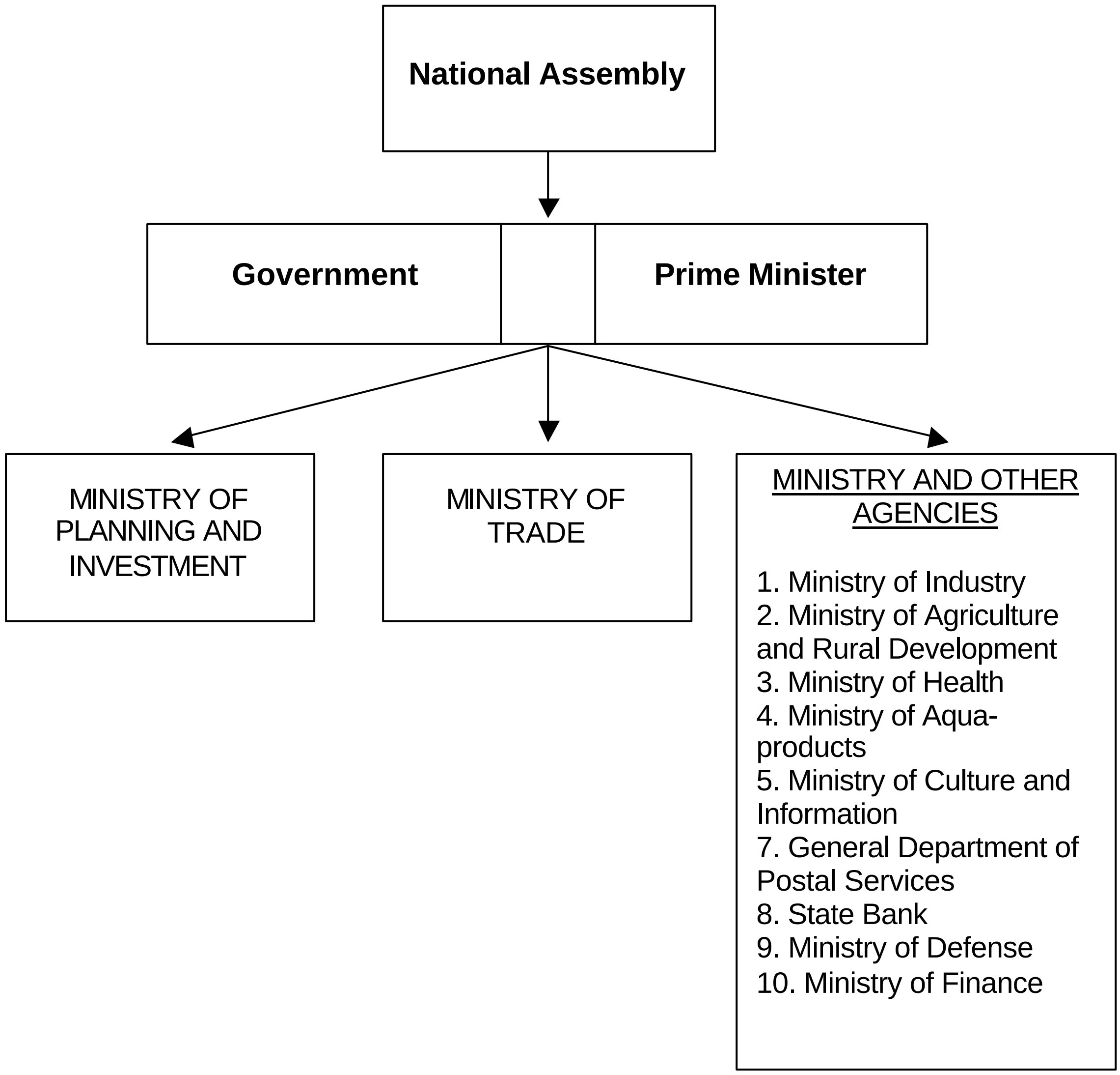


Diagram No. 3 Participation of functional agencies in the implementation of trade policies

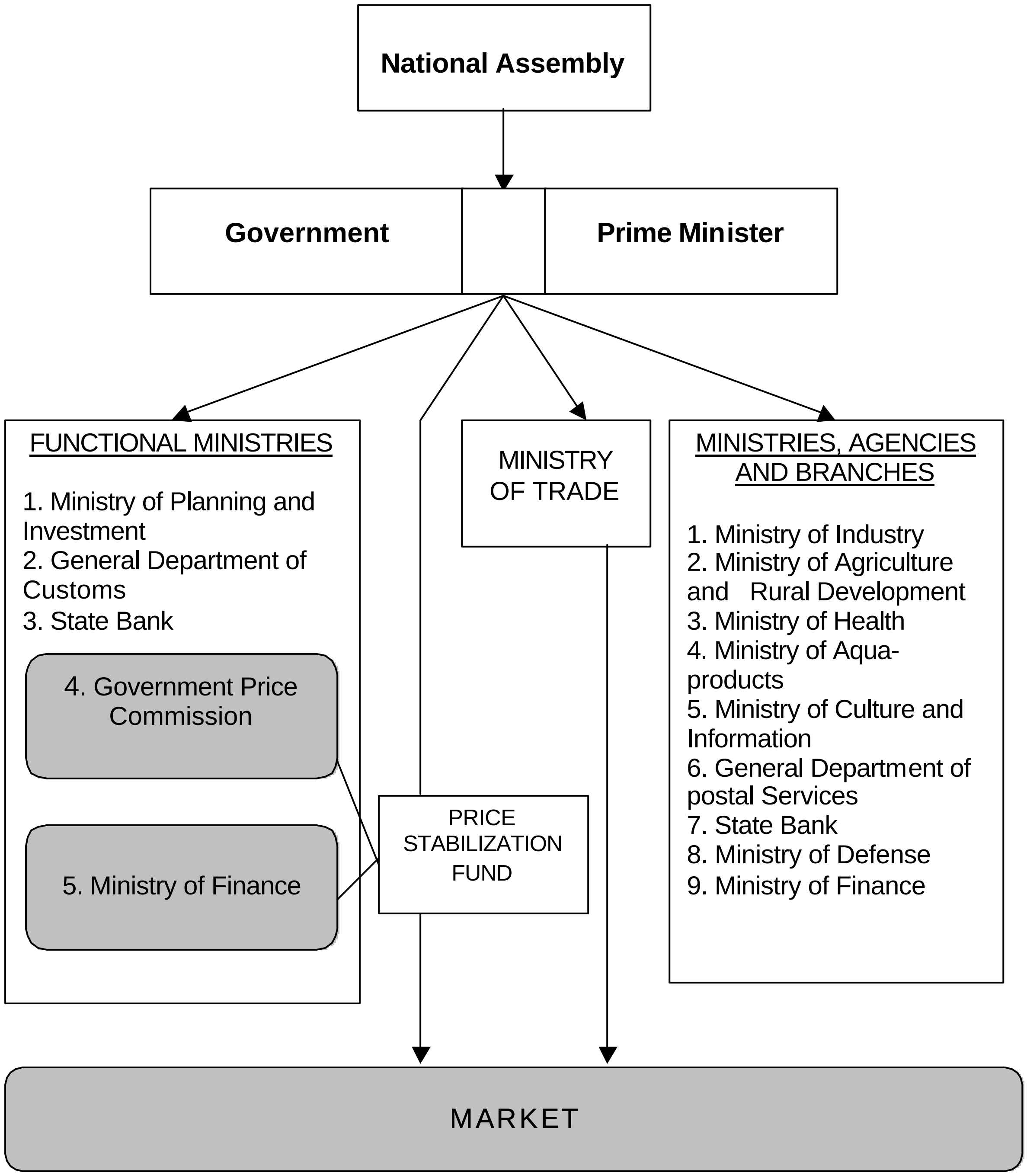
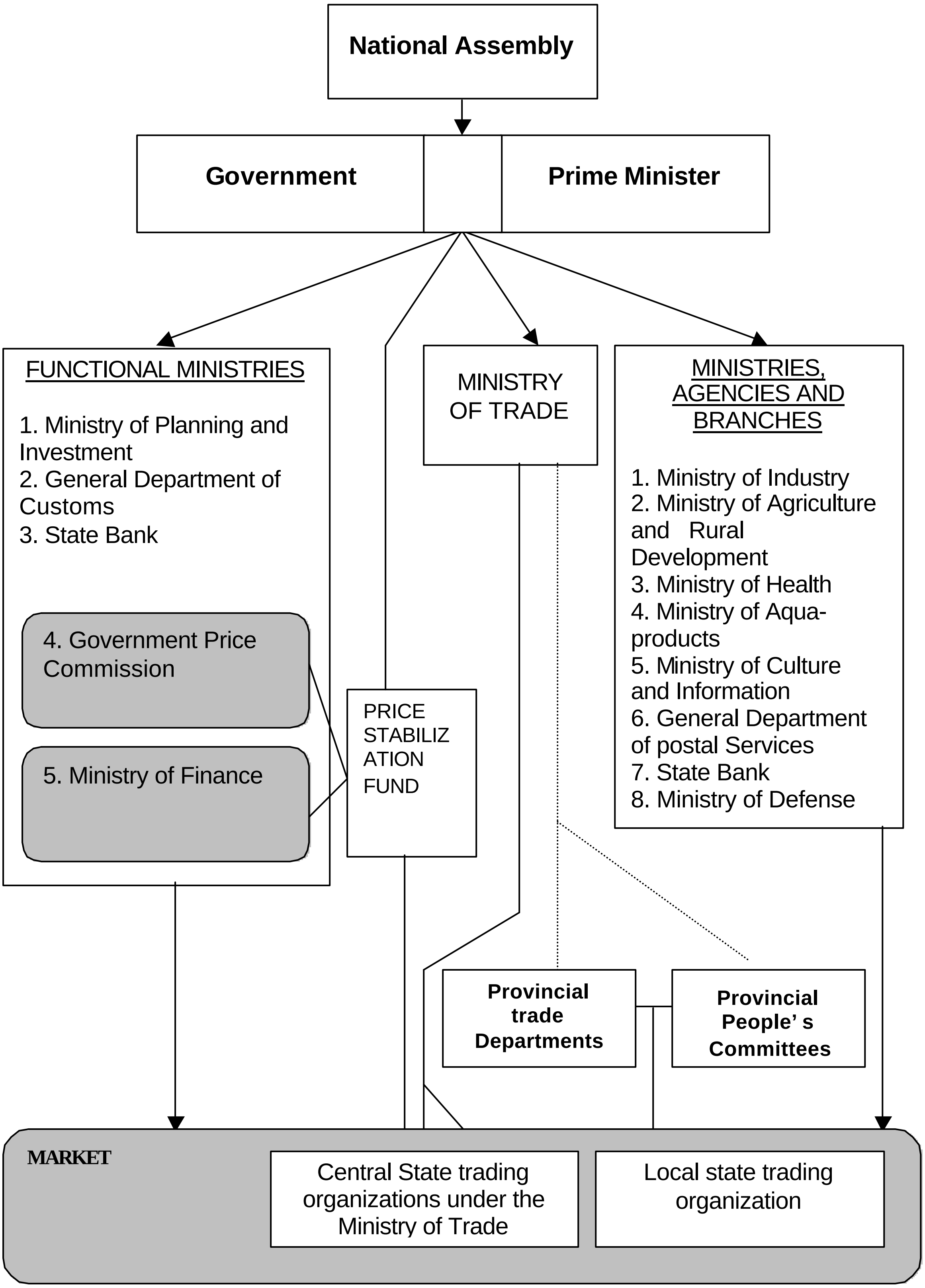


Diagram No.4 Present trade management and regulatory mechanism in Vietnam



Chapter III

VIETNAM AND THE PROCESS OF INTEGRATION WITH THE REGIONAL AND WORLD TRADE ORGANIZATION

To implement its policy of diversification, multilateralization, and integration into regional and world economy, Vietnam has taken concrete steps. In July 1995, Vietnam became the member of ASEAN, and together with other members, is taking an active part in the ASEAN Free Trade Area (AFTA) the objective of which is trade liberalization. Also in July 1995, a framework Agreement on economic cooperation was signed with the EU in order to create the legal foundation for the expansion of economic and trade relations with each member, country as well as the whole European community. As to WTO and APEC, Vietnam has dispatched notes expressing its desire to participate. For UNCTAD, the Vietnamese Government has earnestly joined in the discussion of various issues in the organization in the interests of the developing countries in particular, and the world community in general.

This chapter will focus on the process of integration into the 3 world trade organization and blocs which are drawing Vietnam's main attention: AFTA, EU and WTO.

3.1. VIETNAM AND AFTA

Within a short time of becoming ASEAN member, Vietnam started its program of action for the process of establishing AFTA – the most significant advance in intra-bloc economic cooperation since its foundation.

The AFTA process consists in:

1. Scheme of Common Effective Preferential Tariffs (CEPT);
2. Unification and acknowledgement of commodity readjustment among member countries;
3. Acceptance of each other's certificate of commodity origin;
4. Elimination of the regulations on foreign trade restriction; and
5. Undertaking of macro consultancy activities.

In this process, CEPT is considered the core, for through the enforcement of tariff reduction, and gradual removal of non-tariff barriers ..., free trade will be observed within the bloc.

3.1.1. Reality of Vietnam's Implementation of CEPT/AFTA

Compared with other ASEAN members, Vietnam's participation in CEPT was later by three years, and was thus permitted to accomplish CEPT by a later date, i.e. 2006. Of the 5 above-mentioned contents, Vietnam has started to tackle 1 and 3. Proceeding from their economic features, orientation, and prospects, the ASEAN countries put forth CEPT following thorough preparations and prudent consideration. As for Vietnam due to its time constraint (barely 4 months after joining ASEAN, o start CEPT implementation), the study of CEPT/AFTA was, in essence, just enough to observe CEPT commitments in the direction of containing to the minimum the negative effects and maximizing the positive ones. Therefore, the formation of Vietnam's program of participation in CEPT has so far been designed to avoid a harmful impact on the domestic production to gain more time for preparations against the AFTA effects, which cannot be thoroughly anticipated at this juncture. Hence, the program has been drawn up with utmost prudence.

At the Asian summit conference in Bangkok in December 1995, Vietnam submitted its program of tariff reduction, which includes the following:

- A complete exclusion list, which is made in conformity with point 9 of the CEPT agreement. The list covers the categories of commodity articles which bear on national security, people's life and health, fauna and flora, historical, archeological, and art values, and a number of commodity articles that Vietnam is importing in considerable quantities from ASEAN without a foreseeable possibility of exporting, and are being subjected to high tariff rates.
- A temporary exclusion on the basis of CEPT stipulations and the development plan towards 2010 of the domestic economic branches, with the features of Vietnamese economy taken into consideration, in order to avoid too bad an influence on budget revenue and to protect the domestic production. The list covers 1,168 commodity articles, most of which are subjected to tax rates of over 20%, and some others of under 20% but need to be protected by import taxes in the immediate, besides, there are, herein, commodities to which non-tariff measures are being applied (such as those which need permits from the line Ministries, and have to go through state examination with respect to quality, sanitation, labor safety. .). and also commodities which are going to be levied higher taxes.
- A list of unprocessed, sensitive agricultural-product commodities, which is made in reference to the list of the same kind given by the ASEAN

countries, and in view of the requirement of high protection for the production of domestic unprocessed agricultural product commodities (such as meat, poultry' eggs, fruit, paddy..).

- The list for tariff reduction covers 1,633 commodities articles, making up 50.5% of all commodities in the import-tax schedule. Most of them are being subjected to tax rates of under 20%, and some to higher tax rates, but for which Vietnam is enjoying an export advantage. By CEPT, the process of tariff reduction is carried out through two tracks, fast track and ordinary track, with respect to 15 groups of commodity articles. However, this two-track process is not mandatory to all member countries. For Vietnam, acting on its commitments, the "unilateral and voluntary" principle advanced by AFTA, and stemming from the actual situation of the country, the Government promulgated Ordinance 91/CP dated December 18, 1995 on the list of commodities covered by CEPT Agreement, of which 857 commodity articles having the present tax rates of 0% - 5% are included in the fast track for tariff reduction in 1996.

For the commodities having tax rates of over 5% in this list, the Government plans to effect tariff reduction from 1998 on, so as to ensure revenue and to assist the domestic production to some extent. In the next two years, 1996 and 1997, Vietnam included in the Agreement only those commodity articles which have tariff rates provided for by CEPT; besides, no other tariff lines will be subjected to reduction. This two-year period fits in with the process of tax reform in the country. This step is necessary to avoid too big a shortfall for the state budget, and at the same time to give the enterprises some time to make their preparations. In addition to the abovementioned program of tariff reduction, the Ministry of Finance issued a circular dated March 5, 1996, which provides guidance for the enforcement of Ordinance 91/CP. Apart from clarifying the scope for application of preferential tariff within ASEAN, the Ministry specified the ASEAN countries' organs which have the powers to issue certificates of origin and elaborated the 40% ASEAN content formula so that the domestic organs may observe correctly the Government's commitments in the execution of their tasks.

As to the requirement of eliminating the restriction of foreign trade, particularly the non- tariff barrier, Vietnam has not yet completed the list of quantity restrictions (QRs) and non-tariff barriers (NTBs) to be submitted to the AFTA Council. At present, the non-tariff barriers in Vietnam are still very simple, mainly by permits and quotas. In the meantime, these barriers in other member countries are highly diverse, intricate, and sophisticated, above all with respect to technical standards. It is now for Vietnam to take up identical barriers as are being applied in other ASEAN countries so as to meet the requirement for protection in the country and to ensure its national interest when NTBs are eliminated.

In the customs domain, the Vietnamese customs organ has joined efforts with other member countries to deal with several issues, such as switching the harmonized system of tariff schedule in ASEAN countries from 6 digits to 8 digits, setting up a harmonized system (HS) of customs evaluation for taxation, forming a HS of ASEAN customs procedures, deploying the green-channel system for a speedy completion f customs procedures with respect to products under CEPT, unifying customs declaration papers, and concluding Customs Agreements between ASEAN countries concerning law on import-export taxes, tax schedule, and customs procedures, Vietnam is faced with much difficulty in observing the contents of this cooperation. Most conspicuous is the fact that Vietnam has to adopt the HS of tariff schedule during this 1996 so that enforcement may start from 1997. This is a big volume of work which calls for a close coordination not only the tax, customs, or statistical branches, but among numerous ministries and branches concerned.

Thus, within a short period of time, Vietnam has managed to fulfill certain tasks, which testifies to its endeavors to integrate into AFTA process. Compared with other ASEAN countries when they set to implement CEPT, Vietnam's commodity list for tariff reduction represents a low ratio (50.5% against the average 85% of the ASEAN countries import tax schedule), and the schedule for tax tariff reduction is slow. Nevertheless, for a late-comer, whose development level is much lower than that of other member countries, it is almost impossible to drive the liberalization process faster. The Vietnamese Government needs more time to have a deep study of CEPT/AFTA in order to effect the necessary adjustments so that Vietnam's participation in AFTA will bring about the best results while minimizing losses.

3.1.2 AFTA's Impact on Vietnam

It is widely believed that trade liberalization is, in essence, aimed at attracting more foreign investment, on the basis of which to renew technology, and to restructure world economy and trade. But the problem is not so simple for a country like Vietnam when it takes part in CEPT/AFTA.

In Vietnam, there are three objectives, which participate in economic activities: the state, enterprises, and consumers. The reduction of tariff and elimination of non- tariff barriers oppose all the three to the "pros and cons" which are not easily foreseen both quantitatively and qualitatively. Even for the other ASEAN counties, which initiated and implemented AFTA before Vietnam, despite certain improvement seen in the data of intra-bloc trade during recent years, the impact of AFTA on each economy of the bloc continues to be studied and debated still by the local scholars.

In the case of Vietnam, participation in AFTA will, the immediate, affect the sources of revenue for the state budget; and in the long run, it will have a bearing on the country's trade structure and economic structure. The latter is, by far, more important than the former, for it concerns the choice of a structural strategy in conformity with the conditions of an economy which is no longer shielded by any trade projectionist barriers. Vietnam will, then, have to decide on the physiognomy and stance of its national economy in the context of a drastic door-opening to the Southeast Asian region. It would be unreasonable to ask for a full study, right now, of the impact of AFTA on the change of economic structure, which will only take place beyond 2006. Thus, a preliminary study of the impact of AFTA on the Vietnamese economy should be confined to three following issues:

One, sources of revenue for the state budget. In recent years, commodity imports form ASEAN into Vietnam made up nearly 30% of total import turnover. The taxes on imports from ASEAN brought to the state budget about 10,000 billion VND per year (about 8 billion USD). Based on the available data, the possibility of a decline in revenue for the state budget may be reckoned a follows: Assuming there is no change in the import turnover during the first years of CEPT implementation, and later an annual rise of 20% is seen, the revenue derived from taxes on imports from ASEAN after 2006 will not decline, but rise instead by 70 million against 1995. Thus, although tariffs are reduced, turnover goes up thanks to the elimination of trade projectionist barriers, and the sources of revenue for the state budget may not definitely risk any big shortfall.

Besides, to ensure revenue for the state budget, the Ministry of Finance and other lines concerned may conduct a reform of import taxes, separating the special consumption taxes and the value-added taxes from the present import taxes well before the execution of the tariff reduction program. When the CEPT scheme materializes, the costs of inputs for production will go down, and so will the cost price of products, which will lead to enhancing competitiveness and production capacity. As a result, revenue from turnover tax and profit tax will increase. Benefiting form preferential tariffs in ASEAN member countries, Vietnamese export-import enterprises will be able to collect more profits, which in its turn will augment revenue derived from their profit taxes for the state budget. By the above analysis, we may conclude that the enforcement of tariff reduction together with other ASEAN countries for the establishment of AFTA will not cause any big jolt to the revenue for the state budget.

Two, trade structure and domestic production branches. In theory, Vietnam's participation in AFTA would create more favorable conditions for the export of commodities to ASEAN countries, for their protectionist barriers should be minimized in tandem with Vietnam's curtailment of protectionism. For the Vietnamese businesses, ASEAN will be an adjacent market with a population of 400 million now, and 500 million in the future when ASEAN-7 becomes ASEAN-10. Such a new market of big purchasing power potential will be a stimulus for Vietnamese businesses to employ more domestic labor and resources for the development of export production.

However, there are reasons to fear that the anticipated developments may not occur the way the above arguments go. At present, import turnover from ASEAN makes up nearly one-third of total import turnover, while export turnover to ASEAN I only one-forth of total export turnover. Thus, Vietnam constantly has import surplus in its two-way trade with ASEAN. The capacity to minimize or level out import surplus in its two-way trade with ASEAN is not much promising due to its export composition. Vietnam's exports to the ASEAN market include crude oil, rice, bean, rubber, maize, cashew nuts, pepper, fresh vegetables and fruits, aquatic products, steel, timber, coal, zinc, leather, and handicraft products. Of these, only a very small proportion is eligible for preferential tariff under CEPT agreement. Notably, crude oil and unprocessed agricultural products – Vietnam's key exports – are outside of the list for tariff reduction. It is easily seen that composition of products and exports between Vietnam and several ASEAN countries do not differ much. Indonesia, Thailand and the Philippines are mighty exporters of unprocessed agricultural products. Vietnam's exports of these commodities to them are just complementary, not competitive. With this export composition, Vietnam cannot obtain much benefit from its AFTA membership, unless it successfully switches its export composition in the direction of increasing vigorously the manufactured products, which are eligible for preferential tariff in other member countries. Thus, whether or not Vietnam's export situation will change for the better depends on the Vietnamese people's endeavors rather than on its participation in CEPT/AFTA. Evidently, the countries of higher development level such as Malaysia or Singapore have better advantage, in implementation of CEPT, in expanding the market share for their goods. CEPT creates favorable conditions for them, while putting Vietnam before several big challenges.

AFTA exerts an impact on trade, and trade, in its turn, exerts an impact on the sectoral structure of domestic production. To create a competitive edge for Vietnamese commodities against other ASEAN commodities, which have better quality, pattern, and packing, Vietnamese products for export should attain regional standards, or even world standards. This depends on the ability to acquire substantial funds and modern technology. To help the export production lines to withstand the fierce competition pressure when the projectionist barriers are removed, the Vietnamese Government has specified the commodities articles to be protected, for the present, by high import taxes, and put off their inclusion in the CEPT list. Thus, the domestic manufacturers will have form 5 to 8 years for improving their technology, heightening their business efficiency, and restructuring production in the direction of tapping the preferences derived from CEPT. If he Vietnamese Government and manufacturers fail in their efforts, Vietnamese businesses will go bankrupt and Vietnamese market will fall into the hands of their neighborly rivals.

Three, impact on foreign direct investment (FDI). The most important objective of trade liberalization is to enhance ASEAN's attractiveness to foreign investment. Participating in this process, Vietnam will surely induce more FDI from within and without ASEAN.

For ASEAN investors, Vietnam will become one of the most remarkable destinations for capital movement. The propitious location as well as the easy administrative formalities will inspire the ASEAN investors to shift to Vietnam some labor-intensive production lines for which their advantages are diminishing at home. Also, for this reason, ASEAN's FDI projects have not yet tackled high-tech spheres and are mostly of medium or small scale. By February 1996, of the total 19 billion USD of foreign direct investment, ASEAN's proportion was 3.2 billion - that is about 17% in both number of projects and amount of capital.

For investors outside ASEAN, in addition to the indifferent advantages in location, workforce, and resources, the new advantages derived from AFTA will draw their further attention. The principle of 40% ASEAN originated commodity value is considered a strong incentive. Compared with other free trade blocs, this requirement is lower. So ASEAN in general, and Vietnam in particular, will have more competitiveness in inducing investment form the world capital market.

3.2 – VIETNAM AND EU

In the field of trade, Vietnam and the EU countries have long since had relations, but only in recent years did their relations to develop and expand fast. Considerable growth is seen in two-way trade between Vietnam and EU, and import-export turnover is rising steadily. EU's imports from Vietnam include garments, natural silk, agricultural products, minerals ..; and Vietnam's imports from EU include machinery, equipment, materials, chemicals, medical instruments …In 1993, EU adopted a 10-fold increase of the quota of imports from Vietnam, compared with 1992; and the two-way trade turnover was 860 million USD. This rose up to 1 billion USD (with 280 million for garments) in 1994, and 2.3 billion USD (with 350 million for garments) in 1995.

EU's trade policy towards Vietnam, as well as other Asian countries, has always been oriented to promoting trade liberalization within a multilateral framework and in respect of all the principles and commitments concerned. EU has striven to improve the conditions for the European companies to infiltrate the Vietnamese market through the channel of bilateral relations. The main activities are aimed at stimulating EU's trade with and investment in Vietnam, and also are conducted earnestly by individual EU member countries.

In this context, numerous North and West European countries have actively expanded economic-trade cooperation relations with Vietnam. Since 1992, many government and business delegations from France, Germany, Britain, Sweden, Belgium, Denmark, Finland, and EU have come to Vietnam to discuss various programs of trade and investment cooperation with Vietnam.

EU countries are strong in the manufacturing of machines and means of transport, electrical engineering, and other manufacturing industries, but due to the pricing problem and some other difficulties, the consumption of these commodities in Vietnam (and also countries in the region) is still small.

To facilitate the cooperation relations between Europe and Asia, including Vietnam, EU is conducting 268 cooperation and assistance projects within the framework of the program for development aids. For Vietnam, 36 follow-up projects were ratified in mid-1995. The program to assist Vietnam is the first big program of this type in Asia.

Vietnam and EU have signed several agreements to create a legal framework for their two-way trade activities, such as the agreement on economic-trade cooperation, the agreement on garment trade, the agreement on technical assistance to Vietnam…and recently, a highly important agreement, i.e. the framework agreement on cooperation between Vietnam and EU signed in July 1995.

3. 2.1. Framework Agreement on Vietnam-EU Cooperation

After several years of preparation and discussion, on May 31, 1995 Vietnam and EU initiated the framework agreement on Vietnam-EU cooperation, and on July 17, 1995 the agreement containing generalized provisions on Vietnam-EU relations.

The aim of the Agreement is to ensure the conditions of economic cooperation, to promote the development of Vietnamese trade and two-way commercial, to promote the development of Vietnamese trade and two-way commercial investment taking into consideration the economic situation of either side, to intensify assistance to the Vietnamese Government in its shift to market economy, and to give support in environmental amelioration and long-term use of natural resources.

The Agreement consists of 21 clauses and 3 supplements. The main clauses cover such issues as trade and investment cooperation, economic, scientific, and technological cooperation, development cooperation, environment…

Concerning trade, the Agreement confers on Vietnam the status of most favored nation (MFN), particularly the General System of Preferentials (GSP) usually reserved for developing countries. This is of great practical significance, for while Vietnam is not yet a member of WTO, Vietnam is still entitled to these preferences. The Agreement also puts forth a number of measures to facilitate trade and negotiation with the world trade organization, including the efforts to remove the obstacles, which may emerge in the process of commercial exchanges.

The Agreement points out that the two sides pledge to develop and diversify their commercial exchanges and to improve each other's market access to the maximum. At the same time, policies shall be implemented to facilitate the sales of products in each other's market. The two sides shall create favorable conditions for the import and export of their products, and agree to study ways and measures to eliminate trade barriers between them, particularly non-tariff barriers.

Besides, the Agreement makes it a point to inspire investment of mutual benefits through the creation of a favorable environment for private investment, including better conditions for capital transfer and exchange of information on investment opportunities.

The clauses on economic, scientific, and technological cooperation emphasize the contents of economic cooperation in three major domains:

- To improve Vietnam's economic environment by facilitating Vietnam's access to EU's technology.
- To create favorable conditions for contacts between businessmen, and to take measures to promote trade and direct investment.
- To intensify mutual understanding on economy, society, and culture.

By the late 1995, the Vietnamese Chamber of commerce and Industry had signed 32 letters of understanding with the organizations concerned abroad in order to promote cooperation, trade, and investment; 8 of these letters were signed with EU organizations. At present, the Vietnamese Chamber of Commerce and Industry is building a center of information data together with the francophone bloc (FFA), cooperating with the newly established trade association of foreign countries in Vietnam (including France, Britain, Switzerland), consolidating and developing the activities of its representative officers in Europe, and intensifying the activities of associations, business boards, and joint committees with European countries for the promotion of trade and investment.

Besides the Vietnam-EU framework Agreement, Vietnam has also signed several agreements on avoiding double taxation with Germany, the Netherlands, Norway and Denmark, and a number of agreements on bilateral economic cooperation with other countries.

Since September 1995, the Vietnamese ambassador, head of Vietnamese delegation at EU, has begun to take in the activities of the ASEAN Committee in Brussels within the framework of relations among the ASEAN countries themselves and between ASEAN and EU. Thus, Vietnam-EU trade relations have an additional condition to expand further, thanks to the cooperative relationship between ASEAN and EU.

3.2.2. Agreement on Garments

For Vietnamese, this is a line of fairly big potential and now in search of markets.

The agreement on garment trade between Vietnam and EU was initialed on December 15, 1992 and took effect from January 1, 1993. According to the agreement, Vietnam was entitled to export to EU 151 commodity categories, of which 46 were free, that is, not bound by quotas. In addition, there were 13 categories of subcontracting form (embroidery, lace …) amounting to hundreds of tons per year. Total quotas, by the Agreement, were 21,298 tons, worth about 450 million USD.

The agreement on garment trade between Vietnam and EU was officially signed on July 16, 1996 in Brussel. According to the Agreement, which is valid for 5 years (1993-1997), the quota of each category will have year-on-year increase of 1.5 – 2.5%. But recently, on the proposal of the Vietnamese Ministry of Trade, EU has accepted an amendment to increase the quota of 23 hot categories by 20% - 25%, to reduce the number of quota-bound categories from 105 to 54, and to double the subcontracting quota. Also, the 7 – 8% flexible shift level is raised to 10 – 15%.

These additions are estimated to increase the total output quota by 2,500 tons, equivalent to 00 million USD, or the value of total quotas into EU to 550 million USD.

The agreement on garments between Vietnam and EU has enabled Vietnam to export more and more to EU. During the 3 years (1992, 1993, 1994), the turnover of garment exports to EU rose from 130 million USD in 1992 to 249 million USD in 1993, 285 million USD in 1994, and 340 – 350 million USD in 1995. According to a joint report by the Ministry of Trade and the Ministry of Industry, the volume of garment exports to EU in the first quarter of 1996 attained 285 million USD.

The Vietnam-EU garment agreement has made a positive contribution to developing Vietnamese garment industry, bringing the Vietnamese products into EU market. Vietnamese garment goods have been exported to almost all EU countries, except Luxemburg. The principal market in the EU bloc for Vietnamese garments at present is Germany, which imports an equivalent of approximately 26 million USD (46.4%), followed by France for 8.2 million (14.6%), the Netherlands 6.4 million (11.4%), Britain 4 million (7.1%), Italy 3 million, and then Belgium, Spain, Sweden, Austria, Finland, Portugal, Ireland, and Greece. Traditional handicraft articles are freely exported to EU without quotas.

In the earlier period, quotas and commodity articles covered by the Agreement were not really consistent with the Vietnamese production capacity, but then a diversification of products was gradually taking place. Every year, more and more new commodity articles were tapped. In 1993, Vietnam was able to handle only 61 categories of the 151 in the Agreement; the figure was raised to 66 in 1994 and 75 in 1995. The reason for these low figures was partly attributable to the inadequate and obsolete equipment and technology in many production units, and also to lack of funds, which affected even the capacity to fulfill the concluded contracts of exports to the EU market. The Vietnamese Government has worked out policies of investment for the renovation of technological facilities in the garment export line so as to catch up with the modern industry. However, the investment rate is still low, and the garment units are scattered and spread thin, which does not facilitate production. Also, investment for extended reproduction should be much more heeded.

Besides, the mechanism of management over garment exports is at present cumbersome. The Government has had to set up an inter-ministerial (Trade-Light Industry) managerial apparatus, to work out regulations, and to make frequent, transparent, and fair adjustments, ensuring the interests of various economic sectors. For instance, the mechanism for handling quotas, in accordance with inter-ministerial Circular 06TM-CNN dated October 7, 1994, has undergone several adjustments as to its provisions and types of quotas.

The Ministry of Trade and the Ministry of Industry has reckoned with the possibility to let the enterprises themselves to study and sign direct contracts of export. In fact, some enterprises have directly exported their goods.

At present, garment exports to EU are still under a double management by the Ministry of Trade and the Ministry of Industry, at two degrees:

1. For the quota-bound categories, permit issued by the Ministry of Trade must be sought for the exports.

2. For the remaining categories (mentioned in supplement 1 of the Agreement), no management by quota is exercised and no export permits are needed.

On August 1, 1995, Vietnam and EU signed the necessary documents for bigger quotas and expansion of the garment market. A 25% increase was approved for 23 categories (equivalent to 2,805 tons of goods) concerning quotas for Vietnam. However, according to officials from the Ministry of Industry and the Ministry of Trade, the number of categories of exports to EU under control remains too big, compared with other regional countries (54 against 20 for Thailand, 8 for Singapore, 10 for Indonesia…).

In 1995, the Ministry of Trade issued a Protocol supplement augmenting industrial quotas (for garments) to 40% (against 30% in 1995). At the same time, Vietnam has expanded its market for EU garments. By Vietnam's new policy, garment commodities imported from EU member countries are eligible for preferential tariffs, with guidance provided by the Ministry of Finance and General Department of Customs of Vietnam. For details, the Vietnamese Government has decided to reduce taxes for 297 garment articles imported from EU. Vietnam will study EU's request for reduction of import taxes on EU garment commodities in Vietnam, on the following 5-year schedule:

- Ready-made clothing down to 30% (against 50% now)
- Clothes and other ready-made articles down to 20% (now 40%)
- Thread down to 12% (now 25%)
- Synthetic fibers down to 7% (now 10%)

In 1996, the Agreement on trade exchanges of garment goods between Vietnam and EU was officially signed in Belgium, that is, four years after being initiated. According to the Vietnamese Ministry of Trade, there are no major changes in the official Agreement compared with the one initialed in 1992.

Therefore, since the signing of the Agreement on Garment trade with EU, Vietnam has found a great market for its garment line, with a fast rising annual export turnover, increasing averagely by 14% per year. At present, garment commodities stand second among the 10 exports of biggest value of Vietnam (behind crude oil), and make up 18.9% of the total export turnover of the country. The Agreement has, thus, testified to its importance to Vietnam. But at the time of the signing of the Agreement on garments between Vietnam and EU, Vietnam was not member of the WTO, so it was not eligible for EU's preferential tariffs. Until the late 1995, after the Vietnam-EU framework Agreement was concluded, this was a big obstacle to Vietnam's exports to EU market.

Vietnam and the European Union established their diplomatic relations in November 1990. The relationship has developed through exchange of visits and dialogue between Vietnam and the European Union and between Vietnam and each EU member country. The historical tour of the European Commission headquarters in Burssels, and also France and Italy in May by Vietnamese Party leader Le Kha Phieu opened a new page in bilateral relations. The trip also showed how basic changes in relations between Vietnam the EU served the aspirations and interests of both sides and conformed with common world's trend. Meanwhile, as an ASEAN member, Vietnam has contributed to the development of relations between the two bodies by strengthening political dialogue and maintaining the high-level contact.

Trade turnover between Vietnam and the EU over the past decade has increased 17 times. According to the World Bank, the EU is Vietnam's biggest market, followed by ASEAN and Japan. In the year 2000, EU member countries accounted for 22 percent of Vietnam's total export value and nine percent of the country's total import revenue[5].

With their own efforts, Vietnam and EU member countries have enjoyed encouraging achievements in their relations over the past ten years. In preparation for the next century, both sides are developing their five-year cooperation strategy till 2005. The goal is to meet the interests of both sides and to serve the sustainable development of their relations.

3.3. VIETNAM AND WTO

Vietnam expressed its desire to join WTO in its letter to the later General Director in December 1994. Since then, the Vietnamese relevant organs ha worked on and completed a Memorandum on Vietnam's foreign trade system as well as the necessary preparations for entering into negotiations with other member countries so that Vietnam's WTO membership will materialize before long.

[5] Source: World Bank data (website)

3.3.1. The Road to WTO

Since the reunification of the country, Vietnam has conducted studies of several world organization including GATT, the predecessor of WTO, in order to succeed to the membership status of the former Saigon administration. In the early 1980s, to keep in touch with and to continue to study this organization, the representative of the Socialist Republic of Vietnam attended the plenums of GATT signatories as an unofficial observer. In March 1994, Vietnam's Minister for Trade wrote to GATT General Director, Peter Sutherland, requesting the status of full observer for Vietnam. On July 20, 1994, GATT Representative Board accepted Vietnam's request. Since then, Vietnam has had the right to attend all conferences, and be provided with the documents and information concerning the organization. In the country, late in 1994, the Government decided to set up an inter-ministerial GATT/WTO ad hoc team headed directly by the Minister of Trade. Since January 1995, the team has operated, making concrete preparation for Vietnam to join WTO early.

The GATT/WTO Secretariat has paid much attention to the case of Vietnam, a small and late-comer country, which is undergoing a process of transition. In January 1994, GATT sent the legal advisor of its General Director, Ake Linden, to Hanoi to provide information on GATT, and exchange opinions with officials of some ministries and lines concerned on the formalities of full observer status and GATT membership. After receiving Vietnam's application for membership, WTO set up a working team on admission of Vietnam into WTO, headed by Ambassador Seung Ho. In December 1995, he led a delegation of the team members in a visit to Vietnam to work with the Vietnamese inter-ministerial GATT/WTO ad hoc team on the necessary legal and technical aspects for the organization's membership.

Besides, Vietnam has been given highly effective assistance from world organizations and other governments in the study of WTO and training of Vietnamese officials.

3.3.2. Participation in WTO: Advantages and Difficulties

After the Uruguay Round multilateral trade negotiation, the World Trade Organization (WTO) was established in 1995. So far, 137 countries have joined WTO (recently Georgia became the formal WTO member on June 14, 2000)[6] representing over 90% of total world trade turnover. It is expected that in about 2 years, the number of WTO members will rise to 150 countries, that is, nearly 100% of world trade. Hence, WTO will be the common game rules of world trade biding on various countries. If Vietnam continues to stay outside the organization, it may then find itself isolated in the world trade community.

WTO promotes economic integration among countries and regions and accelerates the process of globalization of various economy, WTO member countries have utilized the organization as a tool to stabilize and to expand the market for commodities and services. Because of their poor economies, developing countries are often in a feeble position at negotiations and are incapable of resorting to retaliatory measures when they are ill-treated or discriminated against in their trade relations with developed industrialized countries. WTO is the very legal framework to support

[6] Source: WTO website: http://www.wto.org

developing countries in bilateral trade negotiations with developed countries, Therefore, once becoming WTO member, Vietnam may rely on WTO's regulations and assistance to protect its interest, and to contain possible losses in its trade relations with developed industrialized countries. At the same time, Vietnam may benefit form numerous conditions favorable to trade, such as the MFN status, and the preferences provided by the Agreement to developing countries. Apart from these advantages, the organization's membership also facilitates the expansion of market for Vietnam's commodities and services. In this organization, Vietnam will have the right to negotiate with the parties concerned and to lodge its complaint when necessary. An array of WTO rulings will provide Vietnam with the tools for self-defense and attainment of equity in world trade. WTO is a global, multilateral trade forum where Vietnam may not only negotiate for market expansion but also seek opportunities for bilateral or multilateral exchanges on key issues of the trade market and receive more assistance in technology, training, and consultancy on such issues as trade statistics, trade policies, up-to-date trade information, etc.

But besides the advantages, the organization's membership also puts Vietnam before several difficulties and challenges, which call for utmost endeavors from both the government and businesses. Competition starts to take place when Vietnam joint AFTA, and it will be even more acute in both depth and width when Vietnam joins WTO. During recent years, Vietnam's economy has obtained fast growth rates, but it remains a feeble economy, with much constraint in its capacity of production and export, and poor competitiveness in foreign markets concerning manufactured goods. These pressures will become more intense for the manufacturers when Vietnam is bound to open its domestic market to the manufactured goods and services of superior partners.

In its transition process, besides the achievements recorded, the Vietnamese economy still contains several destabilizing elements. Once Vietnam becomes WTO member, its policies cannot be arbitrarily adjusted without considering the organization's strict rulings as regards its members. The rejection formality may be resorted to, but not too often for the sake of protection (even temporarily). Moreover, Vietnam still has numerous regulations, which do not conform to those of WTO: to maintain non-tariff measures for trade protection (quotas, permits, high import taxes compared with other countries, cumbersome administrative and customs formalities hindering trade activities, and so on). And then, there is another difficulty, which is, by no means, small: Vietnam lacks a contingent of officials who have full understanding of WTO, and are sufficiently competent to take part in WTO meeting and then to report with accuracy and clarity to the Government, and to suggest appropriate measures for response.

3.3.3. Vietnam's Conditions For Joining and Capacity For Responding

Right since the early 1990s, the question of joining GATT has been raised in Vietnam and drawn the attention of many scholars and policy makers from domestic and overseas. In a seminar on GATT held in Hanoi in January 1994, the former US ambassador to GATT, Michael Samuels, said: "Vietnam's policy of reform is, in general, compatible with the essential principles of GATT. But to become a member of the organization, there is still much to be done for Vietnam to prove that it can fulfill its commitments after joining"[7]. At present, how far can Vietnam meet the economic and trade conditions required by WTO, which in the opinions of observers are even stricter than those of GATT?

The first and overwhelming condition for joining WTO is a market economy, which has been relatively fully formed and is stable. In recent years, Vietnam has shifted its centralized, subsidy-based economy to market economy. But its economy is still in the transition process and is, thus, not yet stable, while several aspects are not yet consistent with market mechanisms.

Vietnam's mechanism and policy for foreign trade management are not yet appropriate. The general trend of WTO is to substitute taxation for non-tariff measures, and to simplify the import-export formalities. So far, Vietnam's policy and mechanism of foreign trade management have changed and improved considerably. But in the process of switching the mechanism of state monopoly in foreign trade to the mechanism of multi-sector foreign trade development, the distinction between state management and business management is still ambiguous and slow in practice. Vietnam has not had an anti-dumping law, which may make it difficult for Vietnam to deal with the big foreign companies resorting to dumping, thus doing harm to the domestic production and services. Vietnam's mechanism and policy of trade still bear several traits seen in the period of state monopoly of foreign trade, such as designating the sources for import and export, import-export orientation, etc. Vietnam has given up the practice of issuing import-export permits for each dispatch, but the formalities for import and export are still intricate, and discriminatory treatment

[7] Vietnamese website: http://www.vneconomy.com.vn

remains for companies of differing economic sectors, between companies in the same economic sector, between local companies and central ones, and so on.

In Vietnam, the principle of non-discrimination between domestic goods and foreign goods is not clearly stipulated particularly in various localities.

As a developing country, Vietnam's legislation on the protection of intellectual property right remains deficient. To hold intellectual property in disregard is common practice. The violation of intellectual property right is serious, while the relevant authoritative organs haven't dealt with it property and are not strong enough to deter recurrences.

In joining WTO, Vietnam should ensure the principle of serving its own interests of socio-economic development in conformity with the common interests of all the participating parties. At present, China, Russia and Vietnam have applied for WTO membership. The organization has set up working teams to consider their applications, to conduct screening procedures, and to negotiate with the applicants, Vietnam applies for WTO membership in the context of its economic renovation, which has scored significant results, and is highly appreciated and inspired by the world community. The coming years will be a necessary span of time for Vietnam to make haste to adjust and to renovate its policy and mechanism of economic and trade management, meeting, to the maximum, the conditions of participation for the objective of stable and sustainable development, and in conformity with the world common practices. This is the very foundation for Vietnam to develop its self-confidence in integrating into WTO member community.

CONCLUDING REMARKS

Changes in trade policies have been an essential component of the "Doi moi" policy implemented by the Government of Vietnam since 1986. Over the years, most export quotas have been lifted and export taxes have been reduced to generally low levels. In addition, export activities by the private sector (both domestic and foreign) have been increasingly encouraged, thus breaking the trade monopoly of a small number of state-owned enterprises. These reforms - together with sound macroeconomic management - have led to a rapid export and import growth. . As can be seen in Table 7 between 1992 and 1997 the dollar value of imports and exports roughly quadrupled (to $11,592 million and $9,185 million respectively), raising the share of trade in GDP from 52% to 86% - a high share by international standards.

Table 7: Increased Openness

	1992	1997
Value of export (US$ million)	2,581	9,185
Value of export (US$ million)	2,540	11,592
(Export + Import)/GDP (%)	52	86

Source: General Statistical Office (GSO) and World Bank.

The structure of exports also changed. During the 1990s, Vietnam started to exploit its comparative advantage in labor-intensive manufactures. Table 8 shows that export growth was led by light manufactures, dominated by the garment and footwear sectors. Between 1992 and 1997, the share of light manufactures in total exports rose from 13% to 37% - a growing but still relatively low share compared to other countries in the region. Also remarkable, despite the shrinking share of agricultural goods in total exports, was the strong rise in the volume of rice exports. In only few years Vietnam turned from being a net rice importer into the world's second largest exporter.

Table 8: The Emerging Light Manufacturing Sector

	Share in total Export in 1992 (%)	Share in total Export in 1997 (%)
Total exports	100	100
Agriculture	50	35
Heavy industry and minerals	37	28
Light Industry	13	37
Of which:		
Textiles and garments	n.a	16
Footwear	n.a	11

Source: World Bank (1998) and General Statistical Office (GSO).

The Asian crisis has interrupted Vietnam's trade expansion. In 1998, exports increased by a sluggish 2.1 percent. Of course, this downturn in export performance was not unique to Vietnam. It was observed across Asia. What is great success, however, is the exceptional magnitude of the recovery in 1999 and in year 2000. Vietnam's exports grew by an impressive 23.4 percent and 24.1 percent[8] in 1999 and year 2000 respectively, much faster than in most other Asian countries as showed in Table 9 below

[8] Website: http://www.nhandan.org.vn Vietnam socio-economic 2000 overview

Table 9: Strong Export Growth in 1999

	Export Growth in 1999 (%)
Thailand	7.4
Malaysia	15.3
Indonesia	0.6
Republic of Korea	11.9
Philippines	18.6
China	6.0
Vietnam	23.4
Vietnam non-oil	16.3

Source: World Bank: Asia Pacific Quarterly Update, 21 March, 2000 and General Statistical Office (GSO)

Year 2000 has witnessed many advantages of positive global and regional developments, which have benefited Vietnam. Several countries have been recovering fast following the financial – economic crisis, which boost economic development and expand more outlets for Vietnam's products. Several key invested projects including foreign investment have begun to reap dividend. Product (GDP) has reached a growth rate of 6.7%, a remarkable increase from 4.8% in 1999 and 5.8% in 1998. The country's economy is being restructured positively. The implementation of a foreign policy, which is in conformity with world trends, has constantly increased Vietnam's international and regional profile and position. The outcome of official visits to Europe and the European Union by Party General Secretary Le Kha Phieu other leaders and the reception of heads of States and leaders of other countries to Vietnam as well as Vietnam's active diplomatic activities, joined by senior leaders of the State, government and National Assembly at major international conferences, have contributed constructively to peace, national independence, democracy and social progress. Vietnam's chairing of the ASEAN Standing Committee and the

ASEAN Regional Forum, successful hosting of several ASEAN conferences and accomplishing its task as ASEAN coordinator and the ASEAN Inter-Parliamentary Organization (AIPO) and dialogue partners, has asserted Vietnam' role and position in the region.

Regarding external economic activities, the State has made progress in completing legal documents to encourage external economy and to create a more flexible environment for investors. The government has held contact and dialogues on several occasions with foreign investors to remove obstacles to and create more favorable conditions for foreign investor's business and production activities in Vietnam. As a result many achievements have been made in this field. Last year's export turnover reached a high growth rate at US$1.4 billion[9], surpassing plan by 11-12%. In addition to expanding Vietnam's share in European markets, Vietnam signed the Bilateral Trade Agreement with the United State. The country attracted a great volume of credit capital, foreign direct investment and aid from countries, international organizations for national construction.

However, the global economic restoration, especially the recovery from regional countries form the economic crisis, on the one hand, exerted a positive impact on Vietnam by opening up the potential for economic co-operation, tapping resources from outside to add to inner resources into a combined strength for national construction. On the other hand, when neighboring countries have made breakthrough in international economic integration, competition will become fiercer. Vietnam will face disadvantage such as the fluctuation of prices of some major imports and exports

[9] Website: http://www.nhandan.org.vn Vietnam socio-economic 2000 overview

when the US dollar is gaining value; the difficult socio-economic situation; exports subject to strong competition while the structure and quality of Vietnam's export items remain almost unchanged; limitations in market information with imprecise forecast; trade serves unable to meet demand; trade fraudulence remaining a common problem. All these constrain are posing challenges to Vietnam's economy. Against this background, Vietnam is required to quickly motivate a breakthrough to overcome such hurdles to reach a higher plane and formulate new stature and position in international economic relations. By doing so, the country can take an initiative in the process of integrating into regional and global economies.

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