Industry and Trade

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Industrial Promotion in the New International Economic Environment

Kenichi Ohno
Asian Development Bank Institute
Pham Quang Ham
Ministry of Planning and Investment

I. New Environment Surrounding Viet Nam

The international linkages resulted from achievement of the Viet Nam's renovation (which includes the economic opening) have largely contributed into the high growth during 1993-97. The important source of growth was massive capital inflows relative to GDP in the forms of ODA and FDI. While these foreign factors led to remarkable macroeconomic achievements and great transformation of the national economy, creation of "domestic capacity" (skills, technology and organizations on the Vietnamese side) lagged far behind. But this situation was inevitable for a latecomer country that had just joined the global economic system.

In the first half of the 1990s, international economic environment was favorable for Viet Nam's development. ODA began to flow in and "Viet Nam investment boom" occurred among foreign investors. Since around 1996, however, integration with the global economy began to produce not only desirable stimuli but also constraints. The following three events are particularly noteworthy.

First, the Viet Nam investment boom had ended. FDI slowdown and property market crash were becoming apparent even before the Asian crisis (next paragraph). Early optimism about Viet Nam's investment opportunities had gradually been deflated by reality such as ambiguous laws and inadequate infrastructure. This does not mean that Viet Nam will no longer receive large amounts of FDI. But it is certain that FDI growth in the future will be more modest than previously expected in the 1996-2000 five-year plan. (However, ODA inflow is likely to continue without a significant drop.)

Second, economic activity has further been impaired by the Asian crisis. As the Viet Nam boom came to an inevitable end, the national economy was doubly hit by the onset of the regional crisis in 1997. Unlike Thailand, Korea or Indonesia, Viet Nam's currency was not directly attacked and no collapse in output occurred. Even so, exports, tourism and FDI have all been adversely affected. For a small developing country like Viet Nam, global financial instability was an "exogenous" shock and cannot be prevented by Viet Nam's efforts alone. Presumably, deep economic depression in the region is a temporary phenomenon. However, at present it is not clear how quickly or robustly the regional economy will recover.

Third, Viet Nam has accepted, or is about to accept, multiple free trade obligations. Viet Nam is already a member of AFTA and APEC and has been beginning the integrating process into WTO. These trade commitments are an important step towards fully reinserting Viet Nam into the global economy, but they also carry the risk of premature integration without due preparation. Increased foreign competition will accelerate enterprise reform and eliminate inefficient units, which is desirable. But Viet Nam is at a very early stage of economic development, and sudden and uncontrolled foreign exposure may hinder the emergence of new industries, cause unemployment and social instability, or lead to the loss of macroeconomic control.

To reduce poverty through industrialization and modernization, Viet Nam must grow rapidly for a long time. Up to now, high growth was achieved by opening the economy to foreign donors and investors. But this kind of growth is temporary and cannot lead the nation into long-term prosperity. Now the momentum for foreign-driven growth has waned and external conditions are turning less favorable.

II. Reorientation of Growth Policy

Although the high growth has gained in the last years, the started point of Viet Nam's economy are still very low, the industrial competitiveness and linkages in industries are weak, while the resources of the economy are not still fully mobilized. Thus, in light of the newly emerging external conditions, Viet Nam's growth policy must be adjusted in the following ways.

1. Improving domestic capacity

To sustain growth in the future, Viet Nam must improve domestic capacity. While improvements must be made in a large number of areas, the most crucial tasks for Viet Nam's industrialization are (i) ability to localize imported technology and improve quality; (ii) mobilization of domestic saving for productive investment; (iii) continuing development of apparent policy environment and building the policy agility, that is, ability to introduce or modify policies promptly as circumstances change; and (iv) developing the human resource with high quality for requirement of high development, especially the businessman, and the officials researching and developing policies to consult for the Government.

Domestic capacity is also the key to maintaining control (or "ownership") of the development process under external integration. In a very unstable or competitive global economy, both the government and private businesses must have the knowledge, tools and financial resources to cope with new challenges. Otherwise, external shocks may derail the development process.

This is not to deny the importance of foreign capital and technology; these will be needed for a considerable time to come. But growth must be sustained by a proper combination of domestic efforts and external impetus. In the 1990s the foreign impact was overwhelming in reshaping the national economy whereas the contribution of improved domestic capacity was relatively small. These proportions must be reversed. Domestic initiatives should become the main driving force for growth while ODA and FDI, though extremely important, should play a supporting role.

2. A comprehensive and concrete long-term development strategy

In order to strengthen domestic capacity, use limited financial sources efficiently and orchestrate the entire growth process, a comprehensive and concrete long-term development strategy is needed. Such a strategy is particularly important for:

(i) Extending the scope of growth policies to long term beyond annual plans or even the five-year plan to further more than ten-years;

(ii) Fulfilling free trade commitments effectively by maximizing merits and minimizing demerits, and seizing opportunities for temporary protection of infant industries while avoiding political capture of such protection; it is necessary to study industrial structure in a long-term vision for identifying the infant industries to foster in the future;

(iii) Ensuring consistent linkage and sequencing among different policies-including trade liberalization, industrial promotion, SOE reform, tax reform, financial sector reform, creation of securities markets, and fiscal, monetary and exchange rate policies.

The existing five-year plan is useful in painting the overall picture and indicating targets for all sectors (including agriculture and services). The proposed long-term development strategy will provide more detailed action plans for a few key industrial sectors to achieve the goals of the five-year plan. Different levels and ministries of the government should participate in its drafting process. After approval, the entire government should support its implementation as a national goal. Such strategic policy thinking was often lacking in the past.

The private sector must of course be the main engine of long-term industrial development. But at a very early stage of development, private effort must be supported by proper official visions and guidance. While bad official intervention is extremely harmful, laissez-faire policy will not lead to best outcome, either. Economic liberalization and good legal environment are important, but that alone will not ensure high-quality growth; some transitional economies have fully embraced free market principles but remain stagnant and unstable. In addition to legal and ownership reforms, the Vietnamese government should contemplate active promotion of key industries and improve management of the external integration process. The proposed development strategy can serve as an important official document for that purpose. It should be necessary to develop an institution to help the government to deploy, to adjust and direct the implementation of strategy. The strategy needs to set the stages and the implementing steps that should be concrete to mobilize resources concentrating for economic growth in coming stages.

3. Re-focussing of target industries

In the 1990s Viet Nam's industrial base moved gradually from primary commodity production to labor-intensive industries. However, this process is not yet complete. Domestic technology and capital accumulation remain very weak.

Viet Nam's industrialization strategy should be modified to reflect the prospects of less-than-expected FDI and increased foreign competition. Three types of industry should be distinguished (see below) and appropriate policies should be implemented for each type. Specifically, Viet Nam should move more slowly towards capital-intensive import-substituting industries than previously planned. Immediate national effort should be concentrated on building a broader and better light industry base-particularly in textile and garment industries and primary commodity processing.

Let us consider three generations of industries that Viet Nam is likely to have over time.

(i) First-generation industries: Raw primary commodities such as oil, rice, coffee and marine products occupy the largest share of exports today. Virtually all latecomer countries go through this stage of development (including 19th-century Japan which depended on silk exports). In addition, contract manufacturing of garments and footwear has also taken root in Viet Nam. These are first-generation industries which depend heavily on natural resource endowments or foreign technology, or both. They are easy to establish but contain little local effort or creativity. Nevertheless, primary commodity exports can generate precious foreign exchange for industrial investment; this resource should not be frittered away or captured by sectoral interests. Moreover, contract manufacturing can become a basis for the next stage of industrialization if foreign technology is successfully transferred and internalized.

(ii) Second-generation industries: Currently Viet Nam has no export industries which successfully combine the skills of Vietnamese managers, engineers and workers. Creating such homemade "second-generation" industries should be the principal goal of development strategy in the near future. Localization of skills will also strengthen Viet Nam's ability to cope with external shocks. (In the development process of Japan, cotton textile industry became a newly localized industry which dominated world markets for several decades.)

Second-generation industries must be created on the basis of already existing first-generation industries. Newly emerging industries should contribute significantly to absorbing labor (abundant resource) and-to the extent possible-using domestically available natural resources. They should also serve as a vehicle for transferring foreign technology. And they must be fostered under budget constraints and increasing international competition.

Viet Nam's dynamic comparative advantage lies in labor- and skill-intensive works that cannot be easily replaced by machinery. Dexterity and seriousness of Vietnamese workers is well known and cannot be matched by any other developing country-whether China, Thailand or Indonesia. This points to the possibility of high-value-added, made-to-order, high-quality precision manufacturing. If this domestic potentiality is combined with foreign capital and latest technology, Viet Nam can become a world's top-class producer in textile and garment, primary commodity processing, electronic parts assembly, and other light industries.

(iii) Third-generation industries: If Viet Nam succeeds in industrialization and raising living standards, the time will come when capital-intensive materials (such as paper, chemicals, steel and nonferrous metals) and industrial machinery, which are now mostly imported, will become the next target of industrial promotion. However, given the new international environment, it may take a considerable time to shift to these import-substituting industries. At present, only planning, research and pilot projects should be conducted for these industries without committing a large amount of scarce financial resources. Large-scale investment in these industries can commence when the country has accumulated sufficient capital and technology and domestic demand has become substantial. The clarification of three industrial generations for researching reflects the strategic ideas of industrial structure changes suitable to the trends as follows:

(i) Changing industrial structure from industries based on the advantages of the labor force and natural resources (especially in agriculture and fishery) to the deeper processing industries;

(ii) Developing the downstream industries to the up-stream industries in the closely and sustainable linkages;

(iii) Improving technology of industry from low level to the high level; linking closely industrial development with technological development.

However, these changes are sequence or parallel according to the concrete conditions that the economy can provide the industries to develop.

In the coming years it is necessary to concentrate to develop strongly the light industries such as garments, leather and footwear, and the processing industries. At the same time, it is also necessary to prepare conditions for developing the second and third generation industries, especially the mechanical engineering sector and electronic industries and information technology. These industries are able to attract more the skill labor forces and also create high value-added, and very important to increase the social labor productivity.

The study group has proposed seven criteria for assessing the selected industries and priority projects:

(i) Attracting more employment; at the same time it is certainly to pay attention on the increasing labor productivity.

(ii) It is able to find the input and output markets including domestic and international market; and also to favor the export strongly;

(iii) To create the industrial linkages in the global and regional integration;

(iv) To provide the effectiveness of costs;

(v) To create the technology transferring, attracting the new technology; improving the competitiveness of industry;

(vi) Securing environmental conditions, providing the sustainable development.

(vii) To have strongly impact to solve the social issues such as employment, poverty, reducing the differences in development of regions.

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Industrial Development of Viet Nam in the Context of Integration

Pham Quang Ham
Development Strategy Institute
Ministry of Planning and Investment

I. Recent Industrial Development Environment of Viet Nam

* The achievements during innovation process were gradually affecting the development of Industry. The annual growth rate of industries counting by the production value is higher than 13% in average for the period from 1995-1998. Although industrial sector in the one, which is directly, affected by the monetary crisis, during 1998 the development growth was 11.5% (while this figure in 1996 and 1997 are respectively 14.1 and 13.2%). The export value is increased for the last year. By the export value the major industrial products are; crude oil, garment; leather products; some of agricultural processed products such as coffee, rubbery, tea, marine and aquaculture products.

The major industrial products, which experienced remarkable increase, are crude oil, cement, some of agricultural manufactured products, garment and leather products.

* The share of manufacturing subsection compared with the total industrial value added is more than 80%. The manufacturing subsections maybe classified by some of the criteria's:

1. The using agricultural, forestry, aquaculture material industries has high ratio, approximate by 35% of the product value of industry. Some of exported products have developed with relatively high competitiveness: rice, coffee, marine products, and tea...

2. The labor-intensive industry (only garment and leather products occupied 12% of the industrial production value. If including the other labor-intensive subsections (food processing industry) this figure is more than 40%.

The garment and leather industries were developed by the export-oriented direction. For the last year these branches quickly developed and became the branches having highest exports value. (Having the value of 2.3 bill. USD for 1998.) In the same time create new jobs for labor throughout the localities including both urban and rural areas. The other labor-intensive industries such as car, motorbike, electronic assembly industry, (using high-tech) are on the track of development.

However, for the initial period of development the linkage between assembly industry and the manufacturing industry producing the inlanded details, had enough capacity for participating regional production network.

3. Step by step founding the high-tech industries such as electronics, informatics, and mechanics. Formulate the high tech areas in order to link the production process with R&D and human resource development.

4. The medium and small scale enterprises have relatively high contribution in the production value of the manufacture. Those are mainly private, the share of the production value of th ese enterprises is 30% of total industrial product value. So it plays important role in the in dustrial development. Government has implemented the development promoting policies. Ca rrying out the research on promoting private industrial enterprises and creation of the org anization supporting development of private sector.

* However the industrial competitiveness is still limited, some of the products can not sold even in the domestic market due to that the production cost is higher than the import price. In some of the branches, the technical capability is not fully exploited either due to insuffici ent of the material input or due to slow realization of the product. The process of producti on reorganization occurred slowly; the serious industrial reform for the loss enterprise has not been undertaken. The regional monetary crisis was affected obviously on the export of many products because of the decrease of the price. Generally talking the efficiency of the production, labor productivity are not high that is the reason of low competitiveness of ind ustry.

* Viet Nam has been joined in AFTA and signed Agreement on the implementation of tax privilege general validity CEPT up to 2006 (Decrease the tax rate to 5%). And it nowadays is on the way of commitment for joining the WTO, APEC, and the Trade Agreement between Viet Nam and USA. In this context Viet Nam has a lot of challenges. Although the tax decreasing itinerary has been prepared by the agreement with AFTA, the enterprises are li kely to wait for the state subsidy. Recently, the occasional measures are being implemented in order to protect domestic product; to adjust the phases in the trade. Liberalization which is not in contraction with the Agreement AFTA and coming to join WTO. The government i s also concerning the policies and measurements promoting the development of enterprises in the competitive environment in order to reduce their reliance on government protection.

II. Industrial Development Orientation

* The prerequisite condition for mitigating the development risk and making use of all the advantages in the integration increases the industrial competitiveness. At the same time it i s the most important measurement for efficient use of the industrial potentials, assisting th em in upgrading the productivity and efficiency of the industry and enterprises. There are t hree related factors for improving productivity quality and competitiveness:

– The sustainable macroeconomic environment with the adequate institutional framework.
– Quality of the business environment.
– Enterprises policy and capability of the enterprises acting in the market.

Regarding business environment in Viet Nam, the major issues of concern are the trade a nd investment policy, financial policy, enterprise reform, and private sector development. T he policy on business environment improvement and creation of the environment for investment was identified. The Enterprises law has been approved by the National Assembly making th e competitiveness environment used equitable for the economic sectors.

Regarding some protection measurement, the Government has identified the occasional m easures and emphasized that those measures are being implemented for certain period only. The environment for enterprises development have to be improved in order to increase their competitiveness, and avoid the reliance on the government protection.

The quality of the business environment has steadily improved. However in order to have the competitive industry, the most important issue is to improve the quality of the activities and enterprises policy, based on the innovative capability of the enterprises it comparative advantages. The continued innovation of the managial mechanism, adjustment and increasi ng the efficiency at the enterprises, particularly the state-owned enterprises are highly app reciated. The accounting activities of the state owned enterprises in order to assess their pr oduction efficiency have to be organized. The equalization has to be encouraged. Make use of all the conditions for the enterprises to act independently and their own development cap acity.

* Medium and small-scale enterprises play important role in both short-term and long-term economic development. Recently, according to the statistics, the medium small scales (the industrial enterprises having the capital up to 5 bill. VND and the number of labor less than 200) consists of 90% of the total. The industries which have biggest share of medium a nd small scale industries are food processing industry, garment and leather industry. The next to those are the mechanics, electronics, mainly the one which produce details, and ass embly industry. So develop medium and small-scale enterprises means to exploit the flexibil ity of the enterprises, to enclose the industrial competitive to create the appropriate enviro nment for FDI to develop industry. In comparison with development of large scale enterpri ses, development of the medium and small-scale one has less risk.

Within rural industry, one of the most important sectors to be developed is medium ands mall-scale enterprises which are located in the rural area and uses the agricultural products and local labor force as a production resources. Therefore, rural industry is very much aff ecting and play pivotal role for rural industrialization as well as for structural adjustment of labor, mainly shifting from agriculture to industrial and services sectors.

Recently, the government has issued number of the policies encouraging development of t he medium and small-scale enterprises. However there are some issues, which need to be de eply studied and founded in order to formulate the institutional framework for the develop ment.

1. Study on the law encouraging development of medium and small scale enterprises.
2. Formulate the organization supporting development of medium and small-scale enterprises, particularly the Government body responsibility for development of medium and small-scale enterprises.
3. Build up the credit network to support medium and small-scale enterprises in obtaining the necessary fund for their development.

* Remarkably, it is very important to have long term view on the industrial development strategy choice. Selection of the industrial strategy has the meaning of identification of the objectives and assessment of the factors influencing implementation of the strategy including the general context and policy environment.

The industrial development objectives are proposed as follows:

1. High development growth. Industry have to contribute important role in industrialization, modernization, speeding up the structural changes.
2. Speed up the rural industrialization and modernization process and by which gradually change the economic and labor structure, increasing the labor productivity and economic competitiveness.
3. Making use of the comparative advantages of the country, first of all, the labor resource.
4. Contribute the important role in economic modernization, to shorten the "gap" with the advanced countries. Upgrade the living standard; reduce the disparities between the r egions.

One of the important development directions of the industry identified in the industrial de velopment strategy is to develop export oriented industries with regional and international integration in the connection with efficient import.

In order to meet the requirement of industrialization modernization, the integration process have to be widened with higher capacity; identifying the position in the international marke t, making use of the financial flows, transferring new technology, to widen the market for our products. Integration itself will encourage the development of the domesticenterprises, adopting to the international competitive conditions to overcome the limitation of the dome stic market relating to the low level of purchase power. In order to guarantee successful in tegration is to keep independence, bringing in to play maximum internal force, in closely lin king with the increasing the competitiveness of the whole economy and of industry and ente rprises in particular. Efficiently relate the endogenous potentials and absorption of the exo genous resources.

* One of the important contents of the general integration strategy is recognition and relocation of the focus of the industry. On the basis of those, determining the agreement wi th WTO. The difficulties for definition of the agreement is recognized as the definition of th e sectors to be developed or maybe appear in the future in accordance with the national ind ustrialization strategy. According to the results of our study, 3 generations of the industrial sub-sectors have been developed. The classification of the industrial subsectors into 3 grou ps which reflect the strategic idea on industrial structure adjustment by different directions are as follows:

1. Starting from the labor intensive and natural resources (agriculture, forestry,) use to manufacturing sub-industries.
2. Shifting from backward linked non-capital intensive industries to the forward linked in the framework of sustainable industrial development.
3. Upgrading the technology applied in the industries, linking the industrial development to the development of technology.

However, the structural adjustment may occur either in order or simultaneously in accordance with detail opportunities.

For the coming period, it should be focused on the development of such industries as garment, leather; the export oriented manufacturing industries. Simultaneously to prepare the development of the second generation's and third generation's industries especially the i ndustries such as mechanics, electronics, informatics, the importance for the industrial structure in the perspectives.

The Industrial Policy Research group would like to suggest 7 criterion for selection of the priority industries.

1. Labor intensive.
2. Marketable for both input and output in terms of domestical and international, strong promotes export.
3. Creating the industrial linkages, influencing the other industrial subsector both qualitatively and quantitatively, being the important contribution in upgrading the labor productivity.
4. Having the investment sources, without government subsidy.
5. New technology transfer supporting, increasing industrial competitiveness.
6. Sustainable ecologically and environmentally.

7. Positively influencing on the social issues such as job creation, poverty alleviation, and regional equity.

To development some of the selected material production industries, first of all based on the available resources in order to supply the material input, to create the bases for development of the other industries.

Viet Nam has some of the natural resources such as oil, mineral resources with concentrated reserves serving the foundation for development of some material producing manufactures. Development of the material producing manufactures will reduce the import, but the more i mportant fact is that the internal linkages of the industry will be created, the industrial pol icies may be objectively adjusted in order to upgrade industrial competitiveness. However it requires large capital investment and high level technology. Therefore, it required being wel l prepared in many aspects, reducing the inefficient of the backward linked technology. The first and important criteria for decision making is the quality and efficiency while up to no w, it is impossible to base on the closed conceptions, although these industries are mainly i mport substitute oriented.

The development of the heavy industries in the production material area is necessary in the industrialization and modernization. However at the beginning stage, with the limitation of capital resource the selection and preparation of the appropriate stages is one of the mo st challenges.

3

Impacts of Trade Liberalization

Possibilities of Import Penetration, Price Fluctuation and Trade Diversion*

Kenichi Ohno
Asian Development Bank Institute

1. Introduction

Since January 1996, Viet Nam has been implementing the ten-year AFTA program of regional tariff reduction with the deadline of 2006. The process may be accelerated in the spirit of the ASEAN leaders' statement in December 1998.[1] The year 1999 marks the fourth year of Viet Nam's AFTA implementation. In addition to lowering regional tariffs, AFTA also calls for the removal of non-tariff barriers (NTBs) although the precise scope and procedure for this is yet to be determined.

In November 1998, Viet Nam became a full member of APEC and agreed to achieve free trade by 2020, the general deadline for less developed countries (LDCs). Viet Nam will convert to the APEC tariff system and aim for an average tariff rate of 11.9 percent, with 25 percent of commodities tax-free and another 25 percent with tariff rates of no more than 5 percent. Other APEC commitments include simplification of immigration, customs and licensing procedures, entry of legal and insurance companies from APEC member countries, among others.[2]

Furthermore, Viet Nam is likely to enter substantive negotiations for the accession to WTO in the coming years. As pre-conditions for joining WTO, Viet Nam will surely be asked to eliminate-or commit to eliminate in the reasonably near future-a large number of existing trade and investment practices which are inconsistent with the WTO principles. They include

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1 The Statement on Bold Measures by the ASEAN leaders on December 16, 1998 in Hanoi says : "The new members of ASEAN shall maximize their tariff lines between 0-5 percent by 2003 for Viet Nam and 2005 for Laos and Myanmar; and expand the number of tariff lines in the 0 percent category by 2006 for Viet Nam and by 2008 for Laos and Myanmar" (fourth paragraph). Details of accelerated tariff reduction will be embodied in the annually revised CEPT table.

2 Compared to AFTA and WTO, APEC's immediate impact is harder to assess since APEC's liberalization is based on voluntary effort and its deadline of 2020 is still remote. In the next few to several years, it is possible that APEC does not impose any significant constraints on Viet Nam's trade liberalization process once AFTA and WTO are taken into account.

import bans and quotas, export subsidies, local contents law, export-import balance requirement, and so on (see Giam-Minh paper). Accession to WTO will thus require Viet Nam to not just lower import protection but engage in a drastic transformation of the economic system.

However, even though Viet Nam is already committed to AFTA and APEC and hoping to join WTO in the not-so-distant future, careful analysis of impacts of these free trade policies on the existing and potential industries remains inadequate. Methodology for such impact analysis is not well established, either. Moreover, a comprehensive and concrete development strategy which can guide Viet Nam's industrialization under limited financial resources and pressure for international integration is also missing (see Ham-Ohno paper). As a result, Viet Nam's current CEPT schedule does not reflect a coherent development strategy and remains largely ad hoc, inconsistent, and without principle. Without clear analysis or guidance, it is also difficult to effectively negotiate admission to WTO (see Chi paper). Viet Nam's trade policy is not well integrated with other key policies such as SOE reform, FDI promotion, industrial policy, fiscal and monetary policies, and exchange rate management.

The purpose of this paper is to evaluate the impacts of free trade commitments, especially AFTA and WTO, on specific industries. A more proper evaluation would require a large amount of additional data and deeper knowledge about each affected industry, which are at present unavailable to the author. Using commodity-by-country trade data, domestic and foreign price information and other related data, we will suggest how the impacts can be analyzed. For illustration, we have chosen the cement industry. Similar but more in-depth analyses should be repeated for all industries with high development potential.

2. Effects of Free Trade on Emerging Industries

Under AFTA, Viet Nam lowers tariff barriers against ASEAN imports only, while maintaining higher tariffs against non-ASEAN imports (the latter will be governed by WTO in the future). Let us further assume that, in the process of AFTA implementation and WTO negotiation, existing NTBs are dismantled and no new NTBs are introduced to offset the effect of lower tariffs. Then, a free trade area such as AFTA will have the double effect of reducing overall import protection as well as biasing Viet Nam's trade towards regional imports. Later, WTO membership will further accelerate the movement towards global free trade based on the principles of multilateralism and nondiscrimination. As a result, the following three effects are expected to result.[3]

[3] In this paper, we examine the impacts of trade liberalization on domestic producers as our main concern is the strategy for industrial promotion. Free trade also benefits consumers through lower prices but reduces tariff revenues for the government. The standard textbook argument for free trade consists of summing up these benefits and costs to arrive at (static) economy-wide gains.

(i) Greater import penetration: as trade barriers (tariffs and NTBs) are lifted, we can generally expect an emergence of new trade activity in both directions[4] (trade creation effect). At the macro level, this implies higher export/GDP and import/GDP ratios as well as shifting compositions of exports and imports, with accompanying adjustments in domestic economic structure. At the micro level, free trade unleashes a new survival game for domestic producers under direct competition from foreign rivals. Inefficient units are eliminated and even winning enterprises are constantly challenged to improve, restructure, or merge in order to survive. This is precisely how the market mechanism works to upgrade economic structure and respond to new shocks. This positive dynamic efficiency effect however must be weighed against the risks of premature market opening, including dominance by foreign products, massive bankruptcies and unemployment, and the inability of new domestic industries to emerge under fierce foreign competition in the very early stage of economic development (see Ohno 1996).

(ii) Exposure to global price fluctuations: another effect of freer trade is greater exposure to global price movements (increased variance). Apart from price-cutting and increased foreign presence, integration with global markets means that domestic prices will become strongly synchronized with international price movements which are beyond the control of the government or domestic enterprises. However, the welfare implication of international price arbitrage cannot be ascertained a priori (it may be positive or negative). For countries that depend on a small number of primary commodity exports with unstable global prices (such as oil, rice and coffee), integration will increase the pass-through of terms-of-trade shocks to domestic producers[5] which may magnify boom-and-bust cycles, with over-investments followed by losses, exits and unemployment. In other words, domestic prices will begin to reflect international price structure but may become more volatile-with an ambiguous effect on macroeconomic instability and microeconomic inefficiency. However, greater pass-through may not always lead to increased price variability. If domestic supply and demand conditions are more volatile than in the global markets, integration tends to smooth local price fluctuations rather than aggravate them. Relative stability of domestic and international markets is an empirical issue that must be examined for each country and commodity.

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[4] Although in principle participation in AFTA should facilitate both exports and imports, Viet Nam is unlikely to enjoy a great expansion of export markets. Virtually all of Viet Nam's exports to the ASEAN area are primary commodities which are not significantly affected by AFTA (either due to exemptions or because they already carry no or low tariffs). Thus for Viet Nam the main impacts of AFTA are on the import side.

[5] A country's terms of trade is defined as the export price divided by the import price. If trade is regulated, external price shocks are absorbed by the public sector (through a web of explicit and implicit taxes and subsidies) or a segment of population with access to monopolistic rents. When trade is liberalized, these shocks are passed through (i.e., transmitted) to general producers.

(iii) Trade diversion under AFTA: with an establishment of a free trade area which discriminates between ASEAN and non-ASEAN countries, Viet Nam's imports may shift from a relatively efficient non-member country to a relatively inefficient member country. Let P_K and P_M be the export prices (in dollar) of a non-member country (say, Korea) and a member country (say, Malaysia), respectively. Furthermore, let T and t be non-AFTA and AFTA tariff rates, with $T \geqq t \geqq 0$ (in addition, we have $0.05 \geqq t \geqq 0$ by 2006). Then, trade diversion will occur if[6]

$$(1)\quad P_K < P_M \text{ and } (1+T)P_K > (1+t)P_M$$

or equivalently,

$$(2)\quad 1 < P_M/P_K < (1+T)/(1+t).$$

From the viewpoint of global economic efficiency, trade diversion is always harmful because high-cost producers replace low-cost ones. The welfare impact on Viet Nam (an individual member country) depends on the relative size of trade creation within ASEAN (positive-see above) and trade diversion (negative). By contrast, a country outside ASEAN generally loses. However, these are static conclusions. If the construction of a regional manufacturing network is deemed desirable (for example, to exploit scale merit), that should also be counted in evaluating the artificial import bias. Of course, trade diversion will not occur if WTO (rather than AFTA) is the binding constraint and multilateral and nondiscriminatory free trade is practiced.

In what follows, we will attempt to quantify some of these effects-albeit imperfectly-by using available data.

3. Trade and Tariff Data

Imports by commodity and country

In the past, Viet Nam did not publish comprehensive trade statistics classified by commodity and country. Only a small number of export and import items were reported according to a classification system incompatible with international practice. However, beginning with the 1997 data, the General Statistics Office (GSO) started to compile a much improved and harmonized system of trade statistics (see Hang paper). This new GSO trade data (dated April 15, 1999) should facilitate international comparison as well as achieve better concordance with the tariff, tax, and production data. By the time this new dataset was provided to us, however, our analysis based on the previous, less complete 1996 import data had progressed significantly and we did not have sufficient time to repeat the same analysis on the latter.

[6] See Ishikawa (1998). To be realistic, the formula must be adjusted for quality, transportation costs, and other factors.

Therefore, the results in Section 4 below reflect the 1996 data rather than the 1997 data.[7]

The 1996 trade statistics received by us (dated December 28, 1998) lists 30 major import items covering 39.5 percent of that year's total imports. This coverage is rather low but it does not affect the validity of analysis of individual industries. For each of these commodities, cif import values from 30 source countries are reported (some cells are blank, indicating no imports from that particular country). The original data, after simple relabeling and rearrangement, are shown in Table 1. A further summary of this data featuring country groups rather than individual countries, and with commodities in the descending order of import value, is presented in Table 2.[8]

Tariff tables

In January 1999, Viet Nam introduced a three tariff rate system consisting of general tariff rates, most favored nation (MFN) tariff rates, and special privilege rates (see Chi paper). In practice, however, consideration of the latter two should suffice since the first rates are not applied to any significant trading partner. For short, we shall call the second "non-AFTA rates" and the third "AFTA rates." These rates are annually revised and published. In this paper, we use tariff rate information in General Tax Office (1998) for non-AFTA rates and Ministry of Finance (1998) for AFTA rates. When these tables are updated, technique for analysis should remain basically the same.

Both the AFTA and non-AFTA tables use the HS coding system and thus permit direct comparison. We identified the corresponding HS codes for each of the 30 main import items of Viet Nam, which-with some patience-can be done fairly accurately. Each import item usually covers more than one line of HS code (see Tables 3 and 4). Among the group of lines corresponding to the 30 import commodities, 21 are exactly identical between the AFTA and non-AFTA tables and 6 are basically identical except that the non-AFTA table contains more details. For the remaining three goods, some lines were missing in the AFTA table due to items in the General Exclusion List (GEL)-refined petroleum products (line 2710), motorcycles (line 8711), and second-hand tires (line 4012).[9]

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[7] While internationally less compatible, using the 1996 trade data may also carry some merits, because it is free of the impact of the Asian crisis. The 1997 data is strongly contaminated by the Asian crisis whose effects are (it is hoped) largely temporary. In particular, regional recession and artificial price competitiveness of ASEAN4 and Korea are unlikely to persist in the future.

[8] For Brazil the sum of individual numbers exceeds the reported total. GSO is unable to identify the source of this problem. But since Brazil is a minor trading partner for Viet Nam, this should not affect the main results.

[9] I would like to thank Ms. Phan Van Trang for carefully checking the HS code lines for proper concordance and providing me a report on consistency. With GSO's new trade data beginning in 1997, both the HS and SITC classifications are available (the original data is based on the HS system)-see Hang paper.

Table 5 compares the highest, lowest, and "average" tariff rates of the AFTA and non-AFTA tables, respectively (since we do not know the actual import values for individual tariff lines, we simply calculate an unweighted average). The AFTA rates here are for the year 2006 and thus all are equal to or below 5 percent. For motorcycles, the entire category is placed under GEL so no AFTA rates are available.

4. Comparing AFTA and Non-AFTA Tariff Rates

Table 6 summarizes the results so far. It presents the AFTA and non-AFTA rates of the 30 main imports using their "averages" (for motorcycles, we assume a hypothetical AFTA rate of 5 percent by 2006), the ratio of non-AFTA and AFTA rates ($(1+T)/(1+t)$ in equation 2 above), import value in 1996, and the share of ASEAN imports. A few observations are in order.

Products with already low tariffs

Some products have very low non-AFTA tariff rates (5 percent or less) today so that trade diversion due to AFTA will be either nil or negligible. These include the following 12 items:

urea fertilizers; potassic fertilizers; ammonium sulfate fertilizers
plastic in primary forms; asphalt; medicine; insecticides; caustic soda; dyes
wheat; malt.
aluminum

Among these, wheat, malt, and aluminum are unlikely to become Viet Nam's major exports as they lack comparative advantage, now or in the future. The other goods-such as fertilizers, primary plastic, and other chemical products-are now imported with no or very low tariffs because there are few domestic producers at present who are hurt by free trade. However, if Viet Nam wishes to establish some of these industries in the future, the irreversibly low tariffs may become a serious constraint in promoting them.

Similarly, the following 4 products carry relatively low tariffs at present (between 5 and 10 percent) which must be further reduced for ASEAN imports by 2006:

iron and steel
motorcars; tractors
lubricating oil

Possibility of trade diversion

The remaining 14 items below are now protected with relatively high non-AFTA tariffs (more than 10 percent-sometimes much higher) but their ASEAN tariffs must come down to 5 percent or less by 2006:

motorcycles;[10] motor trucks
TV receivers; radio cassettes
sodium glutamate; sodium hydroxide
refined petroleum products
textile fabrics; silk, fibers and yarn; cotton
cement
tractor and car tires and tubes
wheat flour; sugar

The ratio of non-AFTA to AFTA rate is high for these items (in Table 6 bold letters indicate the ratio greater than 1.1). If AFTA tariff reduction is implemented as scheduled, and if non-AFTA tariffs remain high despite APEC and WTO, trade diversion may occur (except refined petroleum products, which are already imported mainly from ASEAN (Singapore)). As shown in equation 2 above, the necessary condition for that to happen is that the relative price of ASEAN to non-ASEAN imports is greater than one but less than the tariff differential.

Eliminating NTBs

However, the discussion above neglects NTBs. Even though nominal tariff rates are low for some products, the current practice in Viet Nam is to use import bans, quotas, and other arbitrary procedures and regulations to protect certain domestic industries, either permanently or temporarily.[11] When these NTBs are binding, the tariff tables above do not indicate the true extent of import protection. The domestic price will be insulated from, and as a result tend to be much higher than, the prevailing international price (this is also true with cement-see below).

Non-tariff trade barriers are inconsistent with WTO and must be phased out if Viet Nam is to be admitted to WTO. All existing quantitative restrictions such as bans and quotas must first be converted to transparent tariff protection ("tariffication") and then reduced over time. Institutional barriers (such as corruption, ambiguous laws, cumbersome procedures, etc.) are harder to quantify, but they too must be corrected as global integration deepens. It appears clear that Viet Nam will have less recourse to NTBs as protective measures in the

[10] Although motorcycles are currently included in GEL, we doubt if this classification continues to be accepted by other ASEAN members. Peer pressure to liberalize all manufactured trade is likely to mount. Thus we assume an AFTA rate of 5 percent for motorcycles.

[11] As of April 20, 1999 (Circular 07/1999/TT-BTM and attachments), banned imports are: weapons, ammunitions, explosives; antiques; narcotics; pornographic and reactionary publications; fireworks; cigarettes; used consumer goods; right-handed automobiles; used components of motorized vehicles; asbestos; and used combustion engines, 30HP or less (11 items). Restricted imports are: petroleum; 2- and 3-wheel motorized vehicles and CKD parts; electric fans; ceramic and granite tiles; ceramic consumer goods; plastic packages; incomplete engines and chassis of 2- and 3-wheel motorized vehicles; sodium hydroxide; bicycles; refined vegetable oil; DOP plastic; clinkers; black (portland) cement; sugar; automobiles; steel; paper; and white glass (18 items).

future. Tariffs will be the only legitimate way to protect domestic industries, but because of the multiple commitments of AFTA, APEC and WTO, their permissible levels will not be very high.

If both tariffs and NTBs are simultaneously lowered to less than 5 percent in tariff equivalent, industries which are virtually nonexistent today but may take root in the early years of the 21st century (Viet Nam's "infant industry" candidates for 2020) will face a rea l challenge. Without any possibility of temporary but significant protection, the next-stage industries with large setup costs-typically intermediate industrial inputs such as chemicals, steel, primary plastic, paper, cement, etc.-may not develop even if domestic demand rises and local technology improves sufficiently.

5. The Case of Cement

To evaluate the impacts of AFTA and WTO on specific industries, we need to know the situations surrounding the affected industry more in detail. We take up the cement industry as an illustration. It has developed to be an important domestic industry with possible competition from imports.[12] The tariff schedules for cement are shown in Table 7. However, domestic prices and imports of cement are currently tightly regulated (see also footnote 11 and the note to Table 7).

The boom-and-bust cycle of the 1990s

Viet Nam's domestic cement producers consist of three types: SOEs under Viet Nam Cement Corporation (VNCC, established in 1994 under the Ministry of Construction) with a dominant but eroding share of about 55 percent; 3 to 4 joint ventures with superior technology and a rising share of about 20-25 percent; and a large number (50 according to Ministry of Construction) of small-scale, old-technology kilns operated by local governments, military establishments, and the like. The quality of the dominant product (PC30) is low by international standards.[13] Due to lack of efficient land transportation in Viet Nam, cement is carried in bagged form (rather than in bulk) and mixed on site. Concentration of cement factories in the North explains regional price differences (the HCMC price is about 10 percent higher than the Hanoi price).

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[12] The potentiality of Viet Nam's cement industry was analyzed by Phase II Report vol. 2 (February 1998). However, important new developments since then, particularly cement glut, declining FDI and the Asian crisis, necessitate an updating of the analysis.

[13] Cement clinkers (intermediate input) and portland cement (transported in bags to be mixed on site-also called "black cement") are the main products in Viet Nam. The latter is graded as PC30, PC40, PC50, etc. with higher numbers indicating better quality. In Viet Nam, PC30 is dominant (90 percent). Chinese cement is also mostly PC30 while Thai and Korean cement has much higher quality. The minimum grade in Japan is PC60.

In the early 1990s, the very high growth of the Vietnamese economy in general and of construction in particular led to a sharp rise in cement demand, outstripping domestic supply (Table 8). Domestic use increased from 2.755 million tons in 1990 to 7.113 million tons by 1995, at the annual rate of 21 percent. Shortage and upward price pressure began to develop in 1993-94, culminating in the cement fever of the spring of 1995. At that time, the unregulated price shot up to as high as 173 USD/ton against the list price of 80-90 USD/ton. The government responded with the following measures:

- Increasing imports
- Investment in SOEs' production capacity
- Encouraging joint ventures
- Regulating cement prices

Domestic demand continued to grow in the mid 1990s, reaching 8.897 million tons in 1997. The growth rate during 1995-97 was a slower but still respectable 12 percent. Imports-mainly from Korea, Thailand, China and Singapore-continued to fill the demand-supply gap. In addition, investments by VNCC and joint ventures rose sharply under the assumption that domestic demand would grow robustly far into the future. With a lag of a few years, these investments started to add significantly to the country's production capacity.

However, around 1997, the market situation shifted as persistent shortage ended and a period of glut began. The reasons for this turnaround were: (i) the end of the Viet Nam FDI boom and real estate bubble which slowed down construction activity; (ii) the Asian crisis which depressed the Vietnamese and regional economies as well as the international price of cement; and (iii) continuation of capacity investment by VNCC and joint ventures which became unrealistic in view of (i) and (ii) above.

To cope with this sea change and to protect domestic producers, the government introduced the following measures in 1997-99:

- Banning imports (April 1997, further strengthened in 1998 and 1999) [14]
- Freezing new cement JVs for five years (December 1998) [15]
- Freezing the construction of 6 new plants under VNCC until 2000 (December 1998)
- Separating the production and marketing functions of VNCC (June 1998)
- Revising domestic demand forecasts downward

How quickly and strongly domestic and regional demand will recover is difficult to predict, but it seems safe to say that earlier investment plans based on optimistic demand projections have become totally unrealistic. In 1997, the government was aiming at the domestic capacity of 20 million tons by the year 2000 and 40-42 million tons during the period 2006-2010. These

[14] Initially, clinker imports not exceeding the previously assigned quotas continued to be permitted. However, in 1999 a general ban was imposed for the entire year except those contracted before January 15, 1999.

[15] It is reported that 100 percent FDI will continue to be allowed (Viet Nam Investment Review 29/3/99).

numbers must now be adjusted significantly downward. (The target for 2000 was later revised to 15 million tons and then to 13 million tons.)

Domestic and foreign prices

Domestic prices of cement are regulated by the Government Pricing Board, Ministry of Construction, and Ministry of Trade for the purpose of ensuring market stability (for the latest regulation, see Joint Circular No.03/1999 TTLT-BVGCP-BTM-BXD). Ceiling prices are set for the most popular variety (PC30 or PC-B) for Hanoi, HCMC and Danang markets with periodical adjustments, with which all producers including VNCC, joint ventures and small-scale producers must comply. This price control, together with the above-mentioned entry and import restrictions, effectively insulates Viet Nam's cement market from global market pressure. However, there is a call for more flexible pricing by domestic producers who are faced with market slump, over-capacity and the challenge to export (Viet Nam's cement exports have so far been negligible).

Even though the cement fever of 1995 has subsided, current domestic prices are still much higher than internationally traded prices, making Vietnamese cement externally uncompetitive. Figure 1 compares the domestic and foreign prices. In 1998, the national average retail price of PC30 bagged "black" (portland) cement was 60 USD per ton and that of PC40 was 73.8 USD per ton (GSO and Viet Nam Investment Review). By contrast, the unit value of foreign cement imported into Viet Nam was 41.5 USD per ton for those recorded by the General Department of Customs, and about 30 USD per ton for smuggled cement. Export prices obtained from source countries' customs data are also consistent with these results: the fob export unit values of Singaporean and Korean cement were 38.8 USD and 29.2 USD per ton, respectively. The export price of Thai cement was 46 USD per ton in 1997 but fell to as low as 25 USD by March 1999.

Figure 2 compares the Vietnamese domestic price and Korean export price in the last several years. The Vietnamese price is plotted with fragmentary information from various sources while the Korean price is calculated from the monthly trade statistics of the Korea Customs Office. It is clear that the Vietnamese price has been consistently much higher than the Korean price. The Korean price was quite stable around 40 USD per ton until late 1997 when the Asian crisis hit. As the won depreciated, the clinker price plunged to about 20 USD per ton and the cement price also fell to below 30 USD per ton. The decline in the Vietnamese price was also recorded in 1998 due to FDI slowdown, regional depression, or increased competition from crisis countries (such as Korea and Thailand). Relative weights of these factors cannot be ascertained without further investigation. As noted above, Viet Nam began to severely restrict and finally banned cement imports during 1997-99. Without this protection, the domestic price may have collapsed more dramatically. It is also evident that the 1995 cement fever was purely a domestic phenomenon.

Free trade in cement?

Thus cement is a heavily protected commodity in Viet Nam, not so much by tariffs but by import quotas and bans, domestic price control and investment freeze. If these tariffs and especially NTBs are to be removed in the process of implementing AFTA and negotiating WTO entry, the following consequences are predictable (from Section 2).

First, there will surely be a great penetration of imports which may drive a large part of the existing domestic production base out of business (VNCC, joint ventures and other producers) if the current price differential against foreign products is not eliminated.[16] Second, effects of external shocks such as the Asian crisis and global recession will be larger whereas the chance of purely domestic disturbances such as the cement fever of 1995 will be smaller. However, it is uncertain whether price variance will increase or decrease. Third, trade diversion is possible-imports from Korea, China and other non-ASEAN countries may be substituted by products of Thailand, Indonesia, Singapore, etc-if AFTA starts to bite while multilateral trade liberalization under WTO delays (this assumes that the import bans will be lifted soon; if not, no imports are of course possible).

Against these, and especially greater import penetration, Viet Nam has the following alternative policy options.

Option 1-if the cement industry can improve efficiency and lower costs by as much as 50 percent in the very near future, with government guidance and support if necessary, the envisaged AFTA liberalization can be implemented as scheduled and WTO negotiations can be concluded within a few years. Then Viet Nam's cement industry will be able to withstand increased foreign pressure (although many of less efficient small-scale manufacturers may not survive).

Option 2-Viet Nam can negotiate a waiver or extension of protection within the frameworks of AFTA and WTO so that liberalization of cement trade will be more gradual than other commodities. Existing NTBs must be converted to tariffs and reduced over time (say, over ten years rather than a few). The analysis of the preceding section suggests that the initial tariff (tariffication of NTBs) must be at least 50 percent if joint ventures and relatively efficient SOEs are to survive.[17] Meanwhile, enterprises must invest, merge, restructure, etc.

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16 If domestic producers now enjoy monopolistic rents (excess profits) under the protected regime, there may be room for price reduction without risking bankruptcy. But our impression is that most domestic producers are operating with slim margin of profitability.

17 In an interview conducted in June 1999, a foreign representative of one of the joint ventures in Viet Nam hoped that the current import restrictions on cement be continued in the future. Given the small domestic market, he noted that imports could easily wipe out domestic producers including his. Overall, Thai cement is most competitive while Indonesian cement excels in cost competitiveness. Korean clinkers were once relatively inexpensive but now the rest of the global cement market is also similarly depressed. He stated that a 50 percent tariff would equalize domestic and import prices, although tariffs only cannot protect domestic markets against exchange rate fluctuations. His company initially hoped to export some of its products but this has become infeasible after the recent collapse of international prices of cement.

to greatly improve efficiency before the extended deadline for free trade arrives. Whether that is possible is an open question.[18] It is also uncertain whether WTO will allow protection of cement of as high as 50 percent.

Option 3-Viet Nam can strictly implement AFTA and remove all NTBs as it joins WTO, without providing any promotion or protection to the cement industry. If the industry is incapable of reducing costs and improving quality quickly, this will probably cause massive exit of all types of domestic producers and dominance of foreign cement in the Vietnamese market. If trade negotiations and industrial policies are conducted separately, without anticipating the consequences of the one on the other, this may be the most likely result. It is unrealistic to assume that the cement industry can achieve international competitiveness within a few years without adequate government support.

The issue at hand is clear. Viet Nam's cement industry faces the problem of high cost and low quality under the increasing pressure to liberalize imports. For the moment, the industry has retreated behind WTO-inconsistent import bans, but this situation cannot be sustained forever if Viet Nam wishes to be integrated with the global economy. Viet Nam needs to design industrial promotion policy and trade liberalization policy specifically for the cement industry, which are mutually consistent, concrete, feasible, and do not violate the requirements of AFTA, APEC and WTO. At present, it is ambiguous how the Government is trying to solve this problem.

But similar challenges confront other industries as well, including steel, paper, glass, textile fiber and yarn, sugar, ceramic products, motorcycle and automobile assembly, and so on. For each of these industries, integrated industrial-cum-trade policies must be drafted, discussed, and agreed. These policies for individual industries must be combined into a comprehensive national development strategy. Only then, the Vietnamese Government can effectively negotiate for WTO accession with realistic timetables that do not seriously damage the industrial potential of the country. Also, SOE reform can proceed effectively only under the guidance of such a concrete development strategy.

[18] In an interview conducted in June 1999, a high official from Ministry of Construction felt that Viet Nam should be granted a waiver or an extension of temporary protection in cement within the framework of AFTA. According to his view, the current cost structure of VNCC is high due to interest payments on past debt and the lack of infrastructure such as ports, roads, fuel and telecommunication. In the long run, however, he remains optimistic about the potential competitiveness of Viet Nam's cement industry.

Table 1

Main Imports by Commodity and Country, 1996

No	Description	Total (million USD)	ASEAN+1: Cambodia	Laos	Indonesia	Malaysia	Philippines	Singapore	Thailand	NIEs: Hong Kong	Korea	Taiwan	Japan
1	Other items	6745.628	15.546	7.914	32.389	140.925	0.877	876.837	272.299	615.276	888.932	972.258	847.894
2	Petroleum products, refined	1143.450	0.293			0.718	0.916	916.443	32.123	6.322	40.079	16.777	20.233
3	Steel and iron	529.231	0.052		0.858	3.393	0.035	34.998	6.840	44.245	175.605	37.445	43.284
4	Motorcycles	433.667	1.269	59.931	3.142	1.575	0.025	24.539	119.422	4.314	63.086	11.931	121.315
5	Urea fertilizers	391.718			78.038	1.279	0.015	14.921		2.665	179.027	7.920	28.427
6	Plastic in primary forms	278.201			8.355	14.957	0.034	34.500	23.007	20.581	75.683	27.327	46.580
7	Textile fabrics	221.654			8.223	1.345	0.004	3.654	2.756	28.301	78.173	66.010	19.367
8	Medicament	206.537			0.412	0.728	0.009	9.470	4.838	10.471	13.886	0.556	2.841
9	Fibres	195.734			7.438	25.115	0.002	1.565	5.413	5.836	36.848	84.099	5.576
10	Insecticides and materials	124.370			0.036	2.863	0.010	9.777	5.709	3.828	5.113	7.243	25.161
11	Motor truck	118.432		0.119	0.766	0.815	0.001	1.080	0.214	21.893	51.876	1.032	18.526
12	Television receiver, including unassembled sets	113.847			0.269	1.553	0.026	26.100	1.198	2.989	55.198	0.513	25.617
13	Cement	100.916		0.126	0.181		0.010	9.657	17.383	3.168	45.043	0.402	2.590
14	Wheat flour	89.736			0.027	2.257	0.011	10.569	0.533	2.044	10.061	0.510	7.488
15	Motor car	78.840	0.700		0.021	0.017	0.002	1.999	0.939	10.775	3.094	2.412	14.505
16	Cotton	66.242			0.371					3.684	9.578	4.112	5.541
17	Aluminum	49.679			1.059	0.680	0.007	7.271	0.151	5.802	10.823	5.013	1.387
18	Tractor and car tyres and tubes	34.030			2.285		0.003	3.320	0.475	1.689	6.464	5.094	5.123
19	Sodium glutamate	31.656			4.751	1.336	0.009	8.745	0.336	0.199	1.316		1.742
20	Potassic fertilizers	29.590					0.001	1.360			14.207		0.313
21	Malt	27.542						0.298					
22	Lubricating oil	26.874				0.025	0.008	7.817	0.120	0.120	2.055	8.981	3.074
23	Sunphat amoni fertilizers	23.647									12.184		5.837
24	Asphalt	23.344					0.022	21.726	0.003			0.652	0.057
25	Dyes	17.918			0.368	0.710	0.002	2.131	0.406	0.567	0.676	2.492	3.167
26	Wheat	17.310					0.001	1.171					
27	Disodium carbonate	7.884					0.001	1.164		0.211			3.669
28	Sugar	6.097							0.376	0.368	2.222		
29	Tractors	4.068											0.047
30	Hydroxit natri NaOH	3.702						0.099		0.046	0.130		0.804
31	Radio-cassette, including unassembled sets	2.089					0.001	1.392			0.064	0.445	0.179
32	Total	11143.631	17.860	68.089	148.987	200.290	2.033	2032.599	494.539	795.391	1781.420	1263.222	1260.342

No	Description	EUROPEAN UNION+POLAND: Belgium	Denmark	France	Germany	Italy	Netherland	Poland	Spain	Sweden	UK	US	OTHER COUNTRIES: Australia	Brazil	Canada	China	India	NZ	Russia	Switzerland
1	Other items	53.654	30.680	256.144	235.602	103.100	43.160	23.775	7.327	52.941	65.333	195.430	78.960	0*	25.278	210.162	51.641	20.644	78.388	84.291
2	Petroleum products, refined			28.455								2.919				2.901			25.514	
3	Steel and iron			0.662	3.240	1.254	0.538		0.806	0.015	2.413	7.961	12.175	3.201	2.996	51.013	0.121		52.973	0.455
4	Motorcycles				0.043	0.910	0.674					0.093	0.014			0.509			2.974	
5	Urea fertilizers				6.017					4.868	5.093	6.733							6.656	1.322
6	Plastic in primary forms	0.184		0.308	4.837		0.966			0.787	0.236	0.933	2.994		0.081	1.136	0.045		0.001	
7	Textile fabrics	0.034	0.140	0.950	3.858	0.082	0.297				0.298	0.973	1.126			1.985				
8	Medicament	0.920	0.515	91.031	6.110	2.161	2.787	0.702		0.569	0.134	2.052	9.704		2.085	3.646	9.793			10.112
9	Fibres	0.053		0.779	0.249	0.027					0.638	0.996	0.382			6.256	2.875		2.335	
10	Insecticides and materials	0.102		15.346	9.714		1.445				4.785	1.006				12.887	0.457			18.772
11	Motor truck	0.040		0.081	4.958	0.572				0.048		3.081	1.440		0.278	4.103			5.732	
12	Television receiver, including unassembled sets															0.241				
13	Cement			0.025		3.168				1.192		0.004				13.248				4.102
14	Wheat flour	0.763		7.941	3.168		1.072				2.455	0.011				9.319	15.282			
15	Motor car	0.072	0.047	0.654	1.998		0.140			0.070		3.970	0.286		0.397	0.341			2.113	0.023
16	Cotton	0.765		2.728	0.745		0.125					7.765	1.374						1.455	18.491
17	Aluminum			0.148	0.979						0.368	9.292	0.622			2.434	0.590		1.018	1.084
18	Tractor and car tyres and tubes				0.054							0.007	0.023		0.050	0.835	7.600		0.989	
19	Sodium glutamate													4.717	0.000	0.000			0.000	
20	Potassic fertilizers				3.744										2.412	0.780			2.019	
21	Malt	3.359	1.027	10.662	0.630						0.813		7.516		1.483	0.000			0.000	1.002
22	Lubricating oil			0.467	0.088		0.169				0.004	2.197				0.000			0.376	
23	Sunphat amoni fertilizers															0.885			3.967	
24	Asphalt															0.208				
25	Dyes			0.385	1.099		0.009				1.111	0.368				2.213	0.045			1.639
26	Wheat												16.139							
27	Disodium carbonate				0.776											1.922				
28	Sugar													2.800		0.000				0.002
29	Tractors															0.042				
30	Hydroxit natri NaOH			0.009	0.296											1.919				
31	Radio-cassette, including unassembled sets			0.009	0.000															
32	Total	59.945	32.408	416.782	288.201	111.273	51.381	24.477	8.133	60.490	83.680	245.789	132.834	4.765	35.058	328.983	88.447	20.644	186.509	141.293

Source: Data provided by Trade and Prices Statistics Department, General Statistics Office, December 28, 1998. The original data was rearranged by Ms. Pham Van Trang.

Table 2

Sources of Main Imports, 1996

(Percent)

No	Description	ASEAN	NIEs	JAPAN	EU	US	Other	Total milionUSD
1	Petroleum products, refined	83.0	5.5	1.8	2.5	0.3	6.9	1143.450
2	Iron and steel	8.7	48.6	8.2	1.7	1.5	31.3	529.231
3	Motorcycles (including KD components)	48.4	18.3	28.0	0.4	0.0	4.9	433.667
4	Urea fertilizers	26.2	48.4	7.3	4.1	1.7	12.3	391.718
5	Plastic in primary forms	29.2	44.4	16.7	2.6	0.3	6.7	278.201
6	Textile fabrics	7.2	77.8	8.7	2.6	0.4	3.2	221.654
7	Medicine	13.8	12.1	1.4	50.8	1.0	21.0	206.537
8	Silk, fibers and yarn	20.4	64.8	2.8	0.9	0.5	10.5	195.734
9	Insecticides	14.8	13.0	20.2	25.2	0.8	25.9	124.370
10	Motor trucks	2.5	63.2	15.6	4.8	2.6	11.3	118.432
11	Television receivers (incl. KD components)	25.6	51.6	22.5	0.0	0.0	0.4	113.847
12	Cement	27.1	48.2	2.6	4.3	0.0	17.8	100.916
13	Wheat flour	14.9	14.1	8.3	17.2	0.0	45.5	89.736
14	Motorcars	4.7	20.7	18.4	3.8	5.0	47.5	78.840
15	Cotton	0.6	26.2	8.4	6.6	11.7	46.5	66.242
16	Aluminium	18.4	43.6	2.8	3.0	18.7	13.5	49.679
17	Tractor and car tyres and tubes	17.9	38.9	15.1	0.2	0.0	28.0	34.030
18	Sodium glutamate	47.9	4.8	5.5	0.0	0.0	41.8	31.656
19	Potassic fertilizers	4.6	48.0	1.1	12.7	0.0	33.7	29.590
20	Malt	1.1	0.0	0.0	59.9	0.0	39.0	27.542
21	Lubricating oil	30.2	41.5	11.4	2.7	8.2	5.9	26.874
22	Ammonium sulfate fertilizers	0.0	51.5	24.7	0.0	0.0	23.8	23.647
23	Asphalt	93.1	2.8	0.2	0.0	0.0	3.9	23.344
24	Dyes	20.2	20.8	17.7	14.5	2.1	24.7	17.918
25	Wheat	6.8	0.0	0.0	0.0	0.0	93.2	17.310
26	Caustic soda	14.8	2.7	46.5	9.8	0.0	26.2	7.884
27	Sugar	6.2	42.5	0.0	0.0	0.0	51.4	6.097
28	Tractors	0.0	0.0	1.2	0.0	0.0	98.8	4.068
29	Sodium hydroxide	2.7	4.7	21.7	8.2	0.0	62.6	3.702
30	Radio cassettes (including KD components)	66.6	24.4	8.6	0.4	0.0	0.0	2.089

Note: ASEAN includes Cambodia but excludes Singapore (included in NIEs). EU includes Poland.

Table 3
AFTA Rates (2006)

No.	Description	Lines	Tariff rates and number of lines							
1	Petroleum products, refined	2707	1%	7						
		2709	1%	1						
2	Steel and iron	7201-7229	5%	19	1%	2	0%	28		
3	Motorcycles	Not available								
4	Urea fertilizers	3102	0%	1						
5	Plastic in primary forms	3901-3914	3%	1	0%	14				
6	Textile fabrics	5007	5%	5						
		5111-5113	5%	10						
		5309-5311	5%	3						
		5407-5408	5%	2						
		5512-5516	5%	5						
		5801-6002	5%	21	1%	3	0%	2		
7	Medicament	3001-3006	5%	42	1%	1	0%	114		
8	Fibres	5002-5006	5%	4	1%	1	0%	1		
		5106-5110	5%	5						
		5301-5308	5%	9	2%	1	0%	2		
		5401-5406	5%	4	3%	1	0%	16		
		5501-5511	5%	29	0%	2				
9	Insecticides and materials	3808	1%	5	0%	6				
10	Motor truck	8704-8705	5%	23	4%	4	2%	2	0%	6
11	Television receiver including unassembled sets	8528	5%	10	4%	1	2%	1		
12	Cement	2523	5%	5						
13	Wheat flour	1101	5%	1						
14	Motorcar	8702-8703	5%	16	3%	1				
15	Cotton	5201-5212	5%	13	0%	2				
16	Aluminium	7601-7607	5%	3	3%	1	1%	1	0%	4
17	Tractor and car tyres and tubes	4011-4013	5%	19						
18	Sodium glutamate	2103	5%	1						
19	Potassic fertilizers	3104	0%	1						
20	Malt	1107	5%	1						
21	Lubricating oil	3403	5%	8						
22	Sunphat amoni fertilizers	3102	0%	1						
23	Asphalt	2714	1%	1						
24	Dyes	3203-3204	5%	1	1%	4				
25	Wheat	1001	3%	2						
26	Disodium carbon	2836	0%	1						
27	Sugar	1701-1702	5%	4	2%	7				
28	Tractors	8701	5%	6	0%	2				
		8709	1%	1						
29	Hydroxit natri NaOH	2815	1%	1						
30	Radio cassette including unassembled sets	8519	5%	3	3%	1	0%	1		

Source: Ministry of Finance, Schedule of Vietnamese Tariff Reduction to Realize ASEAN Free Trade Area (AFTA), Finance Publishing Company, February 1998 (in Vietnamese).

Table 4 Non-AFTA Rates

No	Description	Lines	Tariff rates and number of lines																									
1	Petroleum products.	2707	1%	8																								
		2709-2710	60%	5	20%	1	15%	3	10%	3																		
2	Steel and iron	7201-7229	40%	27	20%	5	15%	4	10%	21	5%	20	3%	7	1%	5	0%	134										
3	Motorcycles	8711	60%	7	55%	1	30%	1	15%	1	10%	1																
4	Urea fertilizers	3102 10 00	0%	1																								
		3102 80 00	0%	1																								
5	Plastic in primary forms	3901-3914	5%	38	3%	9	0%	73																				
6	Textile fabrics	5007	40%	3																								
		5111-5113	40%	11																								
		5309-5311	40%	7																								
		5407-5408	40%	34																								
		5512-5516	40%	68																								
		5801-6002	40%	62	30%	2	20%	4	15%	2	10%	3	5%	2	1%	3	0%	9										
7	Medicament	3001-3006	10%	39	5%	11	1%	1	0%	42																		
8	Fibres	5002-5006	15%	3	10%	2	5%	1																				
		5106-5110	20%	9																								
		5301-5308	20%	6	10%	6	5%	2	3%	4	0%	6																
		5401-5406	30%	2	10%	2	5%	2	3%	1	1%	3	0%	24														
		5501-5511	30%	5	20%	32	10%	5	5%	2	0%	5																
9	Insecticides and materials	3808	3%	3	1%	5	0%	4																				
10	Mortor truck	8704-8705	60%	4	50%	3	30%	3	20%	1	15%	1	12%	1	10%	7	7%	2	5%	1	3%	2	1%	1	0%	7		
11	Television receiver including unassembled sets	8528	50%	1	30%	1	20%	1	15%	1	5%	4	3%	1	1%	1												
12	Cement	2523	40%	5	20%	1																						
13	Wheat flour	1101 00 10	20%	1																								
14	Motor car	8702-8703	60%	20	45%	2	40%	2	30%	1	25%	1	20%	2	18%	1	12%	1	10%	1	7%	1	5%	3	3%	2	0%	1
15	Cotton	5201-5212	40%	77	30%	3	20%	46	10%	3	0%	2																
16	Aluminium	7601-7607	10%	3	3%	12	0%	7																				
17	Tractor and car tyres and tubes	4011-4013	50%	8	30%	15	5%	14																				
18	Sodium glutamate	2103 90 10	50%	1																								
19	Potassic fertilizers	3104	0%	4																								
20	Malt	1107	5%	2																								
21	Lubricating oil	3403	20%	2	10%	2	5%	6																				
22	Sunphat amoni fertilizers	3102 21 00	0%	1																								
23	Asphalt	2714	1%	2																								
24	Dyes	3203-3204	10%	1	0%	11																						
25	Wheat	1001	0%	2																								
26	Disodium carbon	2836 20 00	0%	1																								
27	Sugar	1701-1702	40%	3	30%	2	10%	2	5%	3	3%	6																
28	Tractors	8701	20%	4	5%	1	0%	5																				
		8709	3%	3																								
29	Hydroxit natri NaOH	81511-281512	15%	1	10%	1																						
30	Radio cassette including unassembled sets	8519	50%	9	7%	1	5%	1	3%	1																		

Source: General Tax Office, Export Tax Table and Preferential Import Tariff Table, Finance Publishing Company, 1998 (in Vietnamese).

Table 5

Main Imports: AFTA and Non-AFTA Tariff Rates

(In descending order of import values)

		AFTA (2006)			Non-AFTA (current)		
No.	Description	Average	High	Low	Average	High	Low
1	Petroleum products, refined	1.0%	1.0%	1.0%	20.2%	60.0%	1.0%
2	Iron and steel	3.0%	5.0%	0.0%	7.1%	40.0%	0.0%
3	Motorcycles (including KD components)	Not available			48.2%	60.0%	10.0%
4	Urea fertilizers	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
5	Plastic in primary forms	0.2%	3.0%	0.0%	1.8%	5.0%	0.0%
6	Textile fabrics	4.6%	5.0%	0.0%	36.3%	40.0%	0.0%
7	Medicine	1.3%	5.0%	0.0%	4.8%	10.0%	0.0%
8	Silk, fibers and yarn	1.7%	5.0%	0.0%	14.7%	30.0%	0.0%
9	Insecticides	0.5%	1.0%	0.0%	1.2%	3.0%	0.0%
10	Motor trucks	3.8%	5.0%	0.0%	20.8%	60.0%	0.0%
11	Television receivers (including KD components)	4.7%	5.0%	2.0%	13.9%	50.0%	1.0%
12	Cement	5.0%	5.0%	5.0%	36.7%	40.0%	20.0%
13	Wheat flour	5.0%	5.0%	5.0%	20.0%	20.0%	20.0%
14	Motorcars	4.9%	5.0%	3.0%	6.4%	60.0%	0.0%
15	Cotton	4.3%	5.0%	0.0%	31.5%	40.0%	0.0%
16	Aluminium	2.1%	5.0%	0.0%	3.0%	10.0%	0.0%
17	Tractor and car tyres and tubes	5.0%	5.0%	5.0%	24.9%	50.0%	5.0%
18	Sodium glutamate	5.0%	5.0%	5.0%	50.0%	50.0%	50.0%
19	Potassic fertilizers	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20	Malt	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
21	Lubricating oil	5.0%	5.0%	5.0%	9.0%	20.0%	5.0%
22	Ammonium sulfate fertilizers	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
23	Asphalt	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
24	Dyes	1.8%	5.0%	1.0%	0.8%	10.0%	0.0%
25	Wheat	3.0%	3.0%	3.0%	0.0%	0.0%	0.0%
26	Caustic soda	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
27	Sugar	3.1%	5.0%	2.0%	14.6%	40.0%	3.0%
28	Tractors	3.4%	5.0%	0.0%	7.2%	20.0%	0.0%
29	Sodium hydroxide	1.0%	1.0%	1.0%	12.5%	15.0%	10.0%
30	Radio cassettes (including KD components)	3.6%	5.0%	0.0%	38.8%	50.0%	3.0%

Sources: Ministry of Finance, Schedule of Vietnamese Tariff Reduction to Realize ASEAN Free Trade Area (AFTA), Finance Publishing Company, February 1998 (in Vietnamese); General Tax Office, Export Tax Table and Preferential Import Tariff Table, Finance Publishing Company, 1998 (in Vietnamese). These tables are annually revised.

Note: Average is calculated with number of subitems, not values of imports, as weights due to lack of data.

Table 6

Main Imports: Comparison of AFTA and Non-AFTA Tariff rates

(In descending order of import values)

No.	Description	AFTA (2006)	Non-AFTA (current)	Ratio Non/AFTA	96 imports (USD mil)	Of which: ASEAN
1	Petroleum products, refined	1.0%	20.2%	1.19	1143.5	83.0%
2	Iron and steel	3.0%	7.1%	1.04	529.2	8.7%
3	Motorcycles (incl. KD components)	5.0%	48.2%	1.41	433.7	48.4%
4	Urea fertilizers	0.0%	0.0%	1.00	391.7	26.2%
5	Plastic in primary forms	0.2%	1.8%	1.02	278.2	29.2%
6	Textile fabrics	4.6%	36.3%	1.30	221.7	7.2%
7	Medicine	1.3%	4.8%	1.03	206.5	13.8%
8	Silk, fibers and yarn	1.7%	14.7%	1.13	195.7	20.4%
9	Insecticides	0.5%	1.2%	1.01	124.4	14.8%
10	Motor trucks	3.8%	20.8%	1.16	118.4	2.5%
11	TV receivers (incl. KD components)	4.7%	13.9%	1.09	113.8	25.6%
12	Cement	5.0%	36.7%	1.30	100.9	27.1%
13	Wheat flour	5.0%	20.0%	1.14	89.7	14.9%
14	Motorcars	4.9%	6.4%	1.01	78.8	4.7%
15	Cotton	4.3%	31.5%	1.26	66.2	0.6%
16	Aluminium	2.1%	3.0%	1.01	49.7	18.4%
17	Tractor and car tyres and tubes	5.0%	24.9%	1.19	34.0	17.9%
18	Sodium glutamate	5.0%	50.0%	1.43	31.7	47.9%
19	Potassic fertilizers	0.0%	0.0%	1.00	29.6	4.6%
20	Malt	5.0%	5.0%	1.00	27.5	1.1%
21	Lubricating oil	5.0%	9.0%	1.04	26.9	30.2%
22	Ammonium sulfate fertilizers	0.0%	0.0%	1.00	23.6	0.0%
23	Asphalt	1.0%	1.0%	1.00	23.3	93.1%
24	Dyes	1.8%	0.8%	0.99	17.9	20.2%
25	Wheat	3.0%	0.0%	0.97	17.3	6.8%
26	Caustic soda	0.0%	0.0%	1.00	7.9	14.8%
27	Sugar	3.1%	14.6%	1.11	6.1	6.2%
28	Tractors	3.4%	7.2%	1.04	4.1	0.0%
29	Sodium hydroxide	1.0%	12.5%	1.11	3.7	2.7%
30	Radio cassettes (incl. KD components)	3.6%	38.8%	1.34	2.1	66.6%

Sources: Ministry of Finance, Schedule of Vietnamese Tariff Reduction to Realize ASEAN Free Trade Area (AFTA), Finance Publishing Company, February 1998 (in Vietnamese); General Tax Office, Export Tax Table and Preferential Import Tariff Table, Finance Publishing Company, 1998 (in Vietnamese); General Statistics Office. The tariff tables are revised annually.

Note: AFTA and non-AFTA tariff rates are averages over number of line items. The AFTA tariff on motor cycles is assumed to be 5% (not available in the original table). The ratio is calculated as the price ratio of non-ASEAN to ASEAN products assuming that cif prices are identical between the two source areas. Ratios exceeding 1.1 are shown in bold fonts. Some ratios fall short of 1 due to different weights used to calculate averages of AFTA and non-AFTA tariff rates.

Table 7

Cement: AFTA and Non-AFTA Tariff Rates

(As of 1998)

HS code	Description	Non-AFTA	AFTA (Exclusion List)					
		1998	1998		2003	2004	2005	2006
2523.10	Cement clinkers	20%	5%	...	5%	5%	5%	5%
2523.21	White cement, whether or not artificially colored	40%	15%	...	15%	15%	10%	5%
2523.29	Other portland cement	40%	15%	...	15%	15%	10%	5%
2523.30	Aluminous cement	40%	15%	...	15%	15%	10%	5%
2523.90	Other hydraulic cement	40%	15%	...	15%	15%	10%	5%

Sources: Ministry of Finance, Schedule of Vietnamese Tariff Reduction to Realize ASEAN Free Trade Area (AFTA), Finance Publishing Company, February 1998 (in Vietnamese); General Tax Office, Export Table and Preferential Import Tariff Table, Finance Publishing Company, 1998 (in Vietnamese).

Note: According to an official in Ministry of Construction, the AFTA tariff reduction program is implemented on a feasibility base; it is not necessarily binding in reality. In the cae of cement, an import ban has been in place since 1997 and is likely to be maintained into 2000. Moreover, Decree 14-1999/NDCP issued on April 23, 1999 instructed that cement be excluded from the CEPT table so that non-AFTA tariffs would apply even if the ban is lifted. Furthermore, Decision No. 38 1999/QD/BTC issued on April 3, 1999 raised the non-AFTA tariff rate for cement clinkers to 30%, despite this table.

Table 8

Cement: Demand and Supply Balance

(Unit: thousand tons)

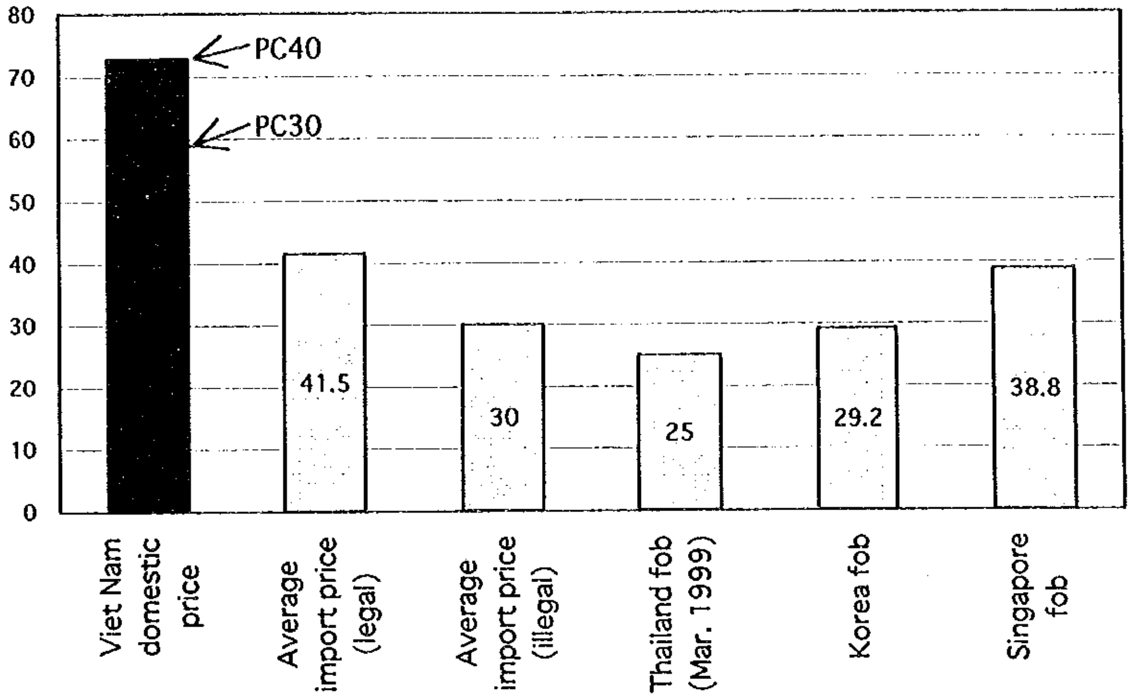
	Supply			Demand	Memorandum items		
	Domestic production	(Of which: JVs)	Cement imports	Domestic use	Domestic capacity	Stockpile	Clinker imports
1990	2534	...	221	2755		...	0
1991	3127	...	7	3134		...	12
1992	3926	...	43	3969		...	5
1993	4849	...	134	4983		...	176
1994	5371	...	571	5942		...	750
1995	5828	...	1285	7113		...	959
1996	6585	...	1650	8235		...	636
1997	8019	836	878	8897	9750	350	862
1998	10121	1927	50	10171	11250	500	786
1999f	12450		(banned)	11500			(banned)
2000f				13000			

Sources: GSO, Statistical Yearbook, various issues; recent press reports and interviews.

Notes: 1. Domestic use is derived from the sum of domestic production and cement imports.
2. Figures for 1999 and 2000 are forecasts.

Figure 1

Cement Price, 1998
(Portland cement, black, US dollar per ton)

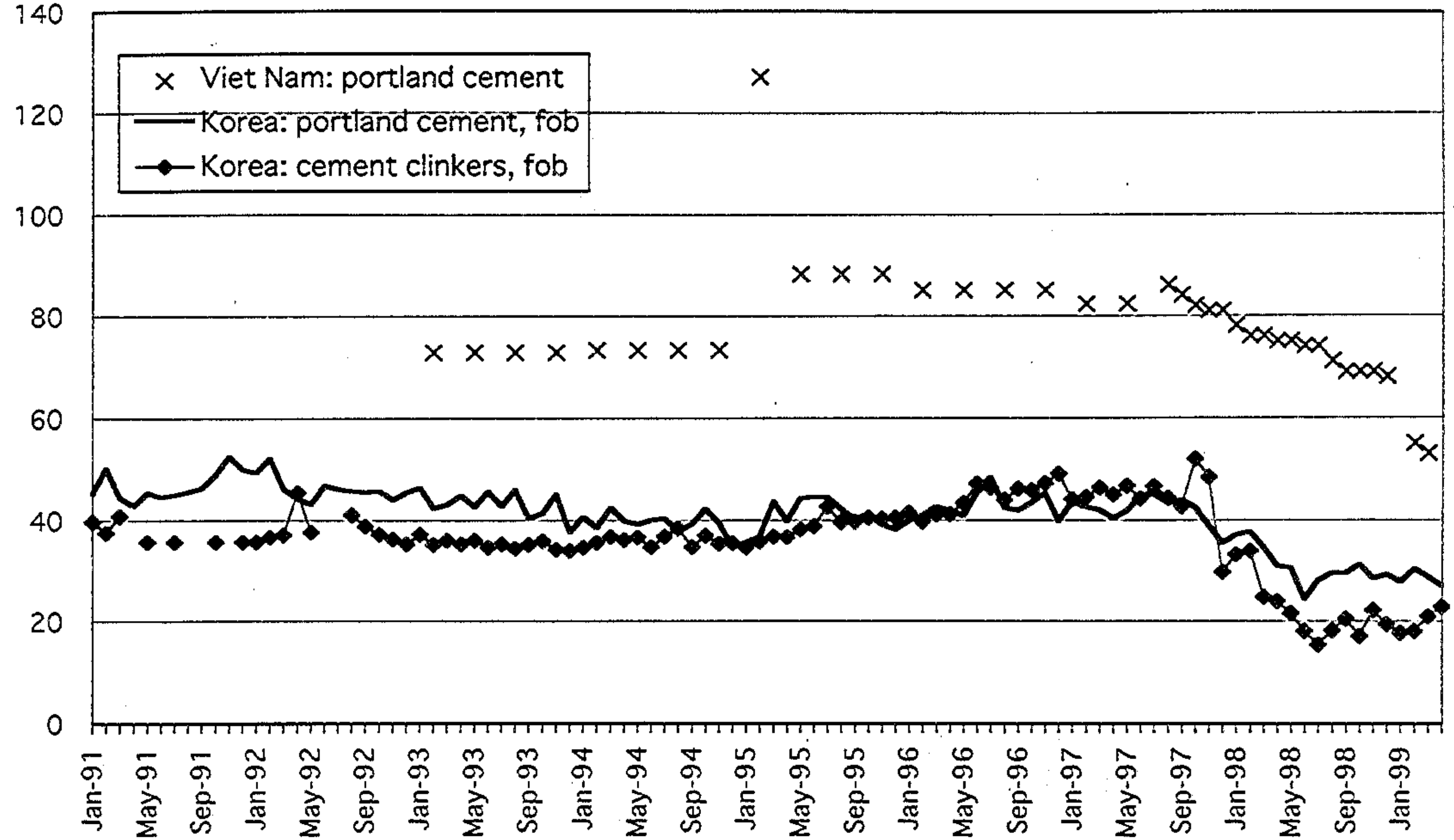


Sources: General Department of Customs, Viet Nam Cement Association, Viet Nam Investment Review, 16/11/1999; Foreign Trade Statistics of Thailand 2540:1997; Singapore Trade Statistics: Imports and Exports, Dec. 1998; Korea Statistical Yearbook of Foreign Trade, Dec.

Figure 2

Cement Prices: Viet Nam and Korea

(US dollar per ton)



Sources: for Viet Nam, GSO data (Aug 1987 to Dec 1998), interviews, press reports and authors' estimates; for Korea, Korea Customs Service, Monthly Foreign Trade Statistics vol. 2, various issues. Export value is divided by export quantity for each month. No Korean exports of cement clinkers are reported in some months in the early 1990s.

4

Analysis of Tariff Policies and the Path of Integration to AFTA, APEC and WTO-Obligations of Commitments to Trade Liberalization

Nguyen Van Chi
Ministry of Finance

I. Viet Nam's Existing Tariff System

1. Process of Formulation and Development of the Viet Nam's Tariff System

Viet Nam's tariff system was formulated in 1987 in connection with the issuing of the Law on Export - Import Tariff, Tariff on Commercial Goods. This Law is characterized by its only application to trade between Viet Nam and the Council of Mutual Economic Assistance (CMEA), the list of goods was issued in accordance with CMEA list rather than in conformity with list of Harmonized System (HS) of the World Customs Organization(WCO).

However, in 1990, the world situation changed and Viet Nam started the implementation of the opening economic policy. In parallel with the expansion of trade relations, the application of the Law on Export - Import Tariff and Tariff on Commercial Goods become inappropriate and therefore, in December 1991 the National Assembly approved new Law on Export and Import Tariff which changed substantially in comparison with the old one. New Tariff Law is applicable not only to trade commercial goods, but to all forms of exports and imports, including official exports, cross-border exports, non-commercial export and imports, goods from visits of relatives abroad. Although, Tariff rates are also changed largely by applying the Harmonized System, some groups and sub-groups are still not exactly followed the HS. State Council (presently called Standing Committee of the National Assembly) is responsible for issuing Tariff Table for commodity groups which subject to tariff (four digit level) and tariff rate span for each commodity group; Council of Ministers (the Government at present) is responsible for issuing detailed Tariff Table, including concrete tariff rates for each commodity and are responsible for revision of tariff rates within the span decided by Standing Committee of the National Assembly.

Because the Tariff is new, it has been changed, revised and amended frequently. The changes are related to tariff rates as well as commodity codes, so that it can fit to the actual development of domestic production as well as economic policies for each period. Revision and amendment of the tariff rates follow the following procedures: if revision and amendment of tariff rates within the frame approved earlier by the Standing Committee of the National Assembly, the Government will authorize Ministry of Finance to consult with and gather comments from related agencies (usually Ministry of Planning and Investment, Ministry of Trade, General Department of Customs, General Statistics Office and concerned line ministries) on the issue. After getting agreements from concerned agencies, Ministry of Finance issues the Decision on Revision and Amendment. If revision and amendment concerns the tariff rates outside of the frame approved by Standing Committee of the National Assembly, the Government has to submit the clarification to the Standing Committee of the National Assembly for approval of revision of the tariff range, which contains related commodities.

Until 1 January 1996, Viet Nam had still included revenue tax and special sale tax in import tariff. Therefore, the import tariff rates during this period were rather high, specifically in the Tariff Table there were 50 commodity items with tariff rates of over 60 percent. Highest tariff rate was 200 percent. Since 1 January 1996, in implementation of commitments to IMF, Viet Nam excluded special sale tax from import tariff. After excluding special sale tax from import tariff, the import tariff rates of import goods that applied the special sale tax reduced tremendously, the highest import tax in the Tariff Table reduced to 60 percent.

Further, since 1 January 1999, the Law on Export and Import Tariff was revised. Main revision is the shift from application of one tariff rate system to three tariff rate system, including general tariff rate, MFN tariff rates and special privilege rates, which is more suitable to international practices and which facilitates the process of international economic integration of Viet Nam. At the same time, the Tariff Table also changes from the List of 3,100 tax lines to 6,400 tax lines (detailed to 8 digits) and in general, up to 6 digits it already follows the Harmonized System of the WCO. With revision of the export, import tariff law, VAT has been applied since 1 January 1999 (applicable also to import goods) in order to replace revenue tax.

2. Existing Tariff from Integration Aspect

The assessment of Existing tariff system under integration aspect shows that the existing tariff system is just formed and developed, so some policies have temporarily characters for solving the requirements arising in the present economy. It still does not reach to the stable period and can not meet the long-term requirements of industrialization, and in general, it still does not take into account international integration direction for the following reasons:

- Tariff policies are formulated on the principle of protecting domestic production, specifically machines, equipment and important materials for production, which can not be produced domestically or can be produced only in a small quantity, are subject to low tariff rates and the products which can be produced domestically are subject to higher tariff. Therefore, almost all domestic production sectors are equally protected, meaning that if product can be produced domestically then the tariff in higher. In general, at present there have not yet been clearly trade and industrial policies expressed in tariff policies.

- From integration aspect, because only the products that can be produced domestically are subject to high tariff for protection. This means that it is difficult for the sectors emerging in the future to adjust or reduce tariff rates if Viet Nam has to make commitment with WTO on the low ceiling tariff. At present, however, there is not adequate basis for identification of exact and needed levels of obligations for these sectors because there is not clear industrialization direction for those sectors in the medium and long term future.

- From the above facts, although maximum tax rates are rather high, but the tax lines with low tariff rates (below 10 percent) account for major part regarding to tariff structure. At the same time, import foreign exchange of goods subject to tariff exemption, sub-contracting products, especially goods with tariff rates of 0 percent account for a large part. These make the weighted average of the tariff rates by trade foreign exchange of Viet Nam rather low in comparison with those of other countries in the region and not adequately reflecting the current protection of the Tariff Table. In addition to the tariff system, it must be emphasized on non-tariff measures, especially import quota, that are applied as the protection tools. This fact is difficult to Viet Nam, if Viet Nam wants to introduce a ceiling tariff rate higher than the present one and if there is no solution for transferring from non-tariff barriers to tariff barriers.

- Most of the production sectors of Viet Nam's economy have been still in the period of formulation and development under the context of dramatic changes in regional economy and increased competition in export-import and investment markets. This is the reason why the Tariff Table has to be adjusted frequently and it can not be stable for a long period to come. Tariff rates have to be adjusted to be suitable to the sector development. Therefore, if sectional development strategy is not in time formulated and the roles of different sectors are not clearly clarified and negotiations on commitments are done based on the current tariff level in the Tariff Table, its tariff rates are only suitable to the current situation, then it might lead to disadvantage to the future development.

II. Path of Integration to AFTA, APEC, WTO and Obligations of Commitments to Trade Liberalization

1. Commitments in the Framework of AFTA Implementation

1) Process of formulation of AFTA implementation path:

Viet Nam became a full member of ASEAN in July 1995 and started to implement CEPT since 1 January 1996 and will complete in 2006 (with the objective to reduce tariff rates of most commodities to 0-5 percent and remove non-tariff barriers). The participation in CEPT was certified by the Standing Committee of the National Assembly at the end of 1995 and it approved major principles for formulation of the lists of commodities included in CEPT. These lists which submitted to ASEAN in December 1995 were prepared by a inter-ministerial working group chaired by the Ministry of Finance and approved by the Government after gathering the agreements of the concerned lines ministries.

After that, in July 1997 a proposed schedule on overall tax reduction up to the year 2006 for CEPT implementation including commodities belonging to immediate tax reduction and temporary exclusion lists were formulated in order to provide direction for the issuing of legal documents annually (in form of Government decrees). These legal documents will stipulate the list of commodities (including commodities, which need to be shifted from the temporary exclusion list to reduction list) and the tax rates of Viet Nam need to be reduced according to CEPT in the relevant year. The proposed schedule also aims at providing information on the CEPT implementation plan for guiding domestic enterprises in formulation of their business strategy, formulation of appropriate production plan. This overall tax reduction schedule formulation is chaired by the Ministry of Finance with the participation and contribution from other ministries, agencies and large corporations.

2) Objectives of the policies on the formulation of CEPT list, general tax reduction schedule are as follows:

For lists of commodities, time for formulation of the lists was limited, therefore guided principle at that time was that tariff reduction schedule should be implemented strictly as stipulated in CEPT and revenue loss maximally limited and protection of domestic production ensured, and guided principles approved by the Standing Committee of the National Assembly shall be followed. The lists were formulated on the basis of the Import Tariff Table at that time. Specifically:

- The list of tariff reduction includes mainly commodities with the tariff rates below 20 percent and some commodities with tariff rates higher than 20 percent but Viet Nam has comparative advantages in exports (garments, carpets, products made of straw, grass etc.)

- List of temporary exclusion: mainly includes commodities with tariff rates above 20 percent and some of commodities with tariff rates below 20 percent but they need to be protected temporarily by tariff, or commodities which are protected by non-tariff barriers.

- List of full exclusion is formulated according to the Section 9 of the CEPT Agreement, specifically including: live animals (accept for breeding), opium and opium products, cigars, cigarettes, alcohol and beers, slag and ashes, petroleum products (except crude oil), explosives, firecrackers, old tires, telephone and telegram equipment, four wheel, vehicles of less than 16 seats, four wheel vehicles with right-hand side steering wheel weapons, army equipment, depraved publications, toxic chemicals and pharmacy, solid wastes, secondhand consumption goods etc.

- List of sensitive agricultural unprocessed products, including meat, eggs, fruits, domestic fowls, paddy etc. In general, these products are included in this group because of technical or hygiene and epidemic reasons rather than the reason for protection and tariff regime.

Schedule for overall tariff reduction up to the year of 2006: this schedule was formulated in the context of lacking sectoral development strategies, lacking of clear and concrete production structure changing direction. On the other hand, however, rules on tariff reduction of CEPT are very clear and concrete, the major concern is, therefore, the selection of sequence of commodities within each list for tariff reduction. Proposed schedule of tariff reduction is identified on the basis of classification of goods into three groups (commodities with high competitiveness, commodities with conditioned competitiveness and commodities with low competitiveness). Based on that schedule for each sector, each commodity in the list of commodities is identified. Schedule for tariff reduction for each commodity group is as follows:

- The group of commodities with high competitiveness: include those with comparative advantages in natural resources such as geological conditions, land, water surface, minerals and abundant low cost labor resource. Specifically, they comprise agro-commodities (rice, coffee, tea, cashew nut), semi-processed rubber, aqua-products, garment and textile.

  In general, the planned tariff reduction schedule for these commodities shall be put into practice in the earliest time because tariff reduction will not have great impacts on budget revenue and domestic production. This planned tariff reduction schedule for these commodities is also aimed at early taking advantage of preferences by ASEAN countries in possible areas. However, for some commodities in this commodity group, other ASEAN member countries have not yet included them into reduction tariff list and preferences have not yet existed in reality and therefore, the tariff reduction has been planned at a slower process in order to prevent negatively unpredictable impacts in the future.

- Commodity group with conditioned competitiveness: This group consists of commodities which at present meet with a lot of difficulties in competing with imported ones, but in the future they can be competitive if correct development directions and appropriate and timely assistance are available. These commodities are typically vegetable and fruit, processed food stuff, electric and electronic products, mechanical products, chemicals, cement... Tariff reduction schedule for these commodities, in general, has planned with a slower process in order to facilitate domestic enterprises to reach a certain level of development before facing competition with imports from ASEAN.

- Commodity group with low competitiveness: They are mainly capital and technology intensive industries. Competitiveness and development of the majority of these industries rely on modern technology rather than on labar and natural factors. At present, with limited capital, inefficient investment and less modern equipment, it is very hard to improve competitiveness of products. Specific commodities in this group comprise paper, steel and sugar. Tariff reduction schedule in accordance to CEPT for these commodities will be the slowest process, but measures for structural adjustment must be procceded in the earliest time. If preparation is not made for enterprises, when the state practices tariff reduction, especially abolishes protection by non-tariff measures, enterprises' dispersion in combination with many complicated socio-economic problems will be unavoidable.

3) Changes in the lists and schedule:

Among commitments made by Viet Nam under the framework of CEPT in 1 January, 1996, to date there have some changes, specifically as follows:

- Sugar was shifted from temporary exclusion list to the list of sensitive agricultural products as proposed by Viet Nam and agreed by ASEAN countries. Schedule for starting and completing tariff reduction are 2004 - 2006 and 2010 respectively.
- Viet Nam had shifted some specific commodities from full exclusion list to temporary exclusion list in order to implement agreement by ASEAN member countries on the contract of full exclusion list.
- Basically, the contents of schedule for tariff reduction have no major change compared to overall schedule for tariff reduction planned in July 1998. Annually, the Government issues list of commodities and their tax rates for CEPT implementation based on the overall schedule for tariff reduction, but there are still some contents adjusted (for being adaptable to specific conditions of the industry and commodity based on recommendations by line ministries and concerned sectors and suitable to changes in general tariff and tariff rates at the time applying CEPT as well as commodity codes and commodity description).
- The 6th ASEAN Summit held in Hanoi in December 1998 set out some contents for accelerating the implementation of AFTA. However, for Viet Nam (and other new members), the completion time of schedule for tariff reduction still remains in 2006, but maximum tariff lines with the tax rates ranging from 0-5% will be implemented by 2003 and maximum tariff lines with tax rate of 0% will be executed by the year 2006.

2. Commitments with APEC and WTO

1) Things have been done so far by Viet Nam in the process of joining WTO:

Viet Nam submitted the application form for joining WTO in January 1995. The memorandum on Viet Nam's external trade was sent to WTO Secretariat in August 1998. In the process of making policies transparent, up to December, 1998. Viet Nam answered 932 questions by WTO members and conducted two multilateral negotiations with the working team of WTO, creating preconditions for the following stage of negotiations (bilateral) on concrete commitments (including tariff and non tariff obligations, subsidies...) for opening markets.

2) Obligations of tariff commitments with WTO:

Viet Nam's offer for negotiations in the next stage on commitment levels of tariff for commodities in its concession schedule means that these commodities will be obliged (can not be withdrawn or tariff import can not be increased beyond this committed level) after this committed schedule is approved. At the same time, this obliged level means the unique barrier allowed to be used for protecting domestic producers (no NTB, no other fees or tax for protection, no other types of subsidies, except for the tariff rates negotiated and agreed in the concession schedule).

With WTO, there are three possibilities to offer for negotiations on commitments of tariff, including: (1) committed to the tax rate equal to the existing applied one; (2) committed to the tax rate lower than the existing applied one; (3) committed to the tax rate higher than the existing applied one (ceiling obligation). Commonly, other countries require that the country, which wants to join WTO, should have two first possibilities. If that country wants the ceiling obligations mentioned in the third possibility to be admitted, it necessarily prepares arguments explaining reasons for the obligations at such levels. One of the arguments for not being obliged to the present tariff rates is that the present tariff rates should be applied temporarily due to some reasons (for example the commodities now belong to the IMF's reform program, domestic market demand is temporarily low, or future potential protection demand comes from national development strategies).

Therefore, the protection demand necessary for some sectors, even infant industries/ key and sensitive sectors, need considering in details and especially it must guarantee the medium and long-term expectation For instance, in Viet Nam, very low import tariff rates (0-5%) are now imposed on the fertilizer production industry as fertilizer is the important input material to agricultural production and is only produced domestically at inconsiderable volume. If there is not a clear plan for developing this industry in a close relation with the development of petrol chemical industry to define exactly the necessary potential protection requirement for the future and the commitment on a 5% tariff obligation is based only on the current protection situation and demand, there can be no further opportunity to raise the protection level for this industry in the future given the industry development is seriously discussed (it is noted that no non-tariff measures are allowed to be taken for protection even in that situation).

3) Direction:

Until now, during the industrialization and international integration process, Viet Nam has not either completed the definition of an overall integration strategy or had an obvious and comprehensive direction of development strategies for all industries (including expanding and contracting directions, or directions defining new industries in the future, directions of key industries and fields which need potentially protecting in the future...). In such circumstances, it is very difficult to offer specific obligation commitments on the only allowed protection barriers - tariffs, especially in negotiations with WTO - which requires tariff obligations must not overcome the committed rates imposed definitely and differently on each commodity. This is the distinctive point between commercial liberalization commitments with AFTA and with WTO. It should be made used (both in terms of time and obligation levels) to carry out the industry development policies of the industrialization process.

In the situation without the above-mentioned strategic directions, one of the being considered solutions to define levels of commitments with WTO is to classify commodities, production sectors into specific levels of protection demand in order to create an overall picture of selective protection directions. This is the basis to define tariff commitments and other specific commitments (on non-tariff barriers, subsidies...) for each commodity, each industry. The difficulty in industry classification is to consider what industries may be appeared in the future. Thus, the classification needs to be carried out in consistence with orientations in the industrialization strategy and orientations on objective industries.

It is expected to divide industries into 3 categories with protection levels as follows:

Category 1 :Low level protected industries. This group can include the industries that Viet Nam has had and has a strong export position with little worry in competition; and those which are inputs for many manufacturing industries but they will not be invested focally due to impossibilities to compete with other countries.

Category 2 : Medium-level protected industries. This can include the majority of existing industries (all industries excluding categories 1 and 3); even those which have been partly invested for imported substituted objectives in the past time and some industries which have strong export position but still need subsidizing, protection some time.

Category 3 : High-level protected industries. This can consist of some conditioned competitive industries which now may not be able to have export competitiveness but will have development potential if they are protected and subsidized appropriately. These industries might be processing industries which are domestically material-based, labour-intensive and domestically high-value-added. Especially, they can be agricultural processing industries, new technology industries, would-be future-developing spearhead industries and crucial ones, which keep the national economy's development security. Perhaps, some low competitive industries which are strongly protected by tariff as well as non - tariff measures at present could be included in this category, but the protection expire must be defined clearly to avoid political-social consequences if protection is reduced abruptly.

On the basis of the 3 categories, the direction for treating the commitments involving current applied non-tariff measures (whether to leave them out or shift to import tariffs) will be specifically considered. Then specific protection levels will be directed to each industry in each category (there may have some different levels in one category) through obligation import tariff rates and expired periods for the application of these protection levels. After the agreement in defining a specific protection level for each industry, based on this the specific obligation commitment levels on tariffs will be defined for each commodity (each tax line) to offer in Viet Nam's commitment schedule for the negotiation. This will still be considered in conjunction with the principle that the lower tariff rates will be obliged for primary commodities than processed goods and materials than finished goods, but the differentials between the primary - processed group and the material - finished goods group should not be too high to lead to big distinction between nominal and actual protection levels in the tariff list.

4) For the APEC:

Commitments with this organization should be built up on the uniform rules to ensure the integration with Viet Nam's commitments on international integration, usingc ommitments with WTO as the background to solve problems. In fact, commitments with the APEC are the same as those with WTO but the implementation term can be earlier and tariff reduction rates can be larger. Protection levels like obligation commitments with WTO will be considered as starting tariff rates to reduce tariffs for the APEC at the time defined according to the specific protection direction of each industry so that tariff reduction will have been completed as requirements of APEC by the year 2020. Simultaneously, the earlier possibilities of tariff reduction for several liberalized sectors of APEC will be examined carefully when defining specific protection levels of each industry.

5

Identification of WTO Inconsistent Policies

Dao Huy Giam
Ministry of Trade
Vu Quang Minh
Office of the Government of Viet Nam

For just more than one decade (since 1986), significant steps have been made toward trade liberalization and facilitation. The accession to the WTO not only implies the acceptance of its rules but its efficiency means more that Viet Nam wants to take its own initiative to bring its trading regime in line with the world trading system, creating a fair competing environment.

It is noted that Viet Nam has been conducting a multifaceted reform which requires appropriate solutions for the implementation of the basic obligation of a member of WTO linked to a very tight timeframe for the transition, between the policies and the executing capability, the imminent commitments by the Government and role of the business community.

Such an approach will serve as a mean to assure that a strategy forms the core of the overall integration. On the other hand the coming commitments should closely refer to the rules of the multilateral trading system.

The present research paper has taken into account the moving trade policies panoply that Viet Nam has conducted during the past. Trade measures have been identified while being compared to the possible obligations of a member of WTO. Therefrom accessment will be made on the eventual requirements during accession negotiation and the possibility of maintaining or the time required for the transition of certain measures. Any measure applied for the purpose of safeguard as counter-measures to the effects of the regional crisis would have not been taken into consideration.

The compatibility and possible outcome

1. Import Ban and Quota

The Trade Law issued in May 1997 is legal base of trade activities in Viet Nam.

The Decree 57/1987/ND-CP issued in July 1998 provides clear regulation on activities relating to importation. The list of prohibited export/import and the list of conditional export/import are issued together with the Decree.

The Government issues annual decision on the regulation of the trading activities. As the current practice amendments and modifications may occur in order to adapt to the evolution of the economic situation. In that practice, an unjustified freedom in conducting trade policies makes the policy unstable.

1. 1. Prohibition

Article XI of GATT 1994 provides that members shall not apply methods of import prohibition or restriction, except those correspond to the Articles XX and XXI and a few justified specific clauses of the GATT.

Almost prohibited imports/exports that Viet Nam officially issued (Appendix 5) can be justified under Article XX and Article XXI of GATT 1994. For instance, export/import prohibition of weapons, ammunition and explosives due falls out of everyday trade field.

Import prohibition of cigarettes is consistent with Clause b of Article 20 due to health reason but it can not be justified under Article III of GATT 1994 on non-discrimination. The only possible solution consists of a transition and the introduction of temporary quota.

In fact, not only items in the list of prohibited exports/imports, but some items also can be prohibited from export/import occasionally by competent agencies so far qualified as safeguard measures. These items may be included in the list of conditional exports/imports. In 1998, they are vehicles of less than 12 seats, CKD and SKD-assembled motorbikes, papers and steel. Viet Nam says "does not to import yet" in lieu of "import prohibition". In trading terms, It brings about disadvantage for commercial business and it's difficult to justify under any Article of WTO regulation. Such measures may lead to managing certain alternatives between a transition for elimination, qualification of measures as valuable safeguard measures well established by due procedures. While safeguard can be determined, duty or surcharge as measures effecting on the price of imported goods is generally used instead of quantitative restrictions.

1. 2. Quota

Quota being non-tariff barrier cause big obstacle to trade. Policy of export/import restriction by quota is clear on official documents. Appendix A.2 of Memorandum (WT/ACC/VNM/2) presents only two quota-controlled exports including rice and textiles exported into the EU, Canada and Norway. Those are quantitative restriction imposed by WTO members on Viet Nam exports. Article 16 of Trade Law provides "to restrict import items which is produced at home and can meet demands so as to protect domestic production", but the list of quota-controlled exports/imports of the Decree 57/1998/ND/CP dated July 31, 1998 on guidance to implement Trade Law does not include quota on imports.

Quota of export rice can be justified under Clause 2(a) of Article 11: "Export prohibition or restriction temporarily is to prevent or reduce a scarce of cereal, food or other essential products for agreement-signing exporter". Even in the recent years, Viet Nam achieved remarkable progress in agriculture. Output and productivity of paddy has been increasing.

As a consequence, quota of export rice is expanded every year in order to be consistent with Viet Nam's expanding production. Quota is managed flexibly. The quantity restriction has only indicative value. Quota may be justified as a mean to supervise the balance of foods supplies from different localities, which are suffering unforseen natural calamities.

2. License

Although quota is not applied to imports but in fact, imports of several commodities, especially those in large volume, are control by non-automatic Licensing.

Article 5 of the Decree 57/1998/ND-CP provides that exports/imports are required that license be granted by Ministry of Trade or line ministries. In purpose of transparency of export/import activity, some items on the list of license-controlled goods of Ministry of Trade should be changed into quota-controlled goods because Viet Nam set tight quantity figure for these items at the beginning of each year. Contrary to the understanding of many people, the quantity for import of petrol is not only indicative but, usually the quantity indicate a minimun necessary import as key import for the smooth running of the economy.

Other measures having a QR effects should be on the elimination program, that might be gradually phased in.

2.1. Imports for Which License is Granted by the Ministry of Trade are Divided into 2 Groups:

a) Imports relating to the equilibrium of domestic production and demand:

- Petroleum;
- Fertilizer;
- Steel;
- Cement;
- Writing and printing papers of all kind;
- Construction glass;
- Raw and refine sugars;
- Spirits;

Reasons of quantitative restriction of the above items via license presented by Viet Nam can hardly be justified under WTO's requirements. With a few negotiable exceptions, the list should be gradually phased out.

b) Transportation vehicles:

- Motorbike and accessories;
- Vehicle of less than 12 seats;

The only explanation for maintaining those vehicles is the policy of controlling the intensity of urban circulation and preventing and slowing the degrading road network.

c) Items on the group a) will be import-licensed by the Ministry of Trade. They are "imports relating to the general equilibrium of the national economy" as mentioned in the Memorandum and WT/ACC/VNM/3 and qualified as "items of great demand, which can be considered as a thermometer and a psychological factor sensitive to cause price fluctuation".

Table 1 The list of conditional imports

No.	Items	Unit	1995	1996	1997	1998
1	Petroleum, except lubricants	1,000 tons	4,800	5,400	6,500	7,000
2	Urea fertilizer	1,000 tons	1,300	1,400	1,500	1,600
3	Conventional steel	ton	600,000	AAA	500,000	Non-importation of some kind of steel
4	Black cement	1,000 tons	2,200	1,400	5-700	200
5	Sugar	ton	70,000	AAA	AAA	80,000
6	Cars of all kind	unit		20,000		
7	Vehicle of less than 12 seats	unit	6,500 (1500-2000 assembled at home)	Management pursuant to regulation on consumption goods	3,000	Non-importation of ready-made vehicles
8	Truck, bus	unit		30,000		
9	Motorbike including accessories	unit	350,000	350,000	350,000	Non-importation of ready-made motorbike, 100,000 sets of CKD accessories
10	Construction glass	1,000 ㎡	no restriction	No restriction	2,000	
11	Papers including printing and writing papers	ton	no restriction	No restriction	20,000	Non-importation of newspaper printing papers, writing papers and package papers
12	Spirits					Each enterprise is permitted to import only spirit with above 300 with maximum value of USD 150,000

AAA : Quantity will be defined on the determination of market demands with a view to preventing great fluctuation.

Source : Answer 250/WT/ACC/VNM/3, the Decision 11/1998/QD-TTg

Quantitative restrictions of items in the group (a) can hardly be justified under any principles of WTO requirements such as : Article XVIII of GATT 1994 on quantitative restriction of developing countries which are difficult in payment, Article XX and Article XXI of GATT 1994 on general expectation and security reasons and Article IV of Agreement on agriculture.

We note that the spirit and rules of WTO are :

- All QRs are to be eliminated.,
- The elemination may give way to a temporary conversion into certain higher tariff or equivalence,
- Tariff quota is accepted only in agriculture,
- The maintaining of QRs can only obtained as a well-justified exception or by way of waiver, during negotiation.

2. 2. Exports/Imports Which Need License from Line Ministries in the List Approved by the Prime Minister[9].

The list of exports/imports managed by line ministries includes :

1. Export mineral, import chemical;
2. Export wild animal and plant, medicine for animal and plant protection, material to produce medicine for animal and plant protection, food and material to produce food for animals;
3. Medicine, addictive, drug and material to produce these; some kinds of machines, equipment and instruments for medical examination and treatment;
4. Precious sea-product, breed of sea-product, food and medicine for sea-product;
5. Wave-generation machine, reception and transmission equipment and television transmission equipment, switchboards;
6. Culture publications and arts managed by State, movies works, special printing equipment, videotapes;
7. Banking machine and equipment.

It is understood that the line license will not lead to quantity limitation and will be able to be justified by reasons of health and environmental protection, custom and national security. Certain measures should be separated as pure technical requirements and some as additional means associated to the designated exporter/importer.

3. Licensing Procedures

For the last two or three years, 1) Viet Nam obtained certain progress in reducing goods that are subject to non-automatic license for imports; 2) Viet Nam has significantly simplified administrative procedures relating to licensing.

However, import licensing procedures in Viet Nam are still complex, in terms of the licensing itself to some extent, but mainly of the low efficiency in custom clearance. Viet Nam has carried out important reform on export/import licensing procedures. Article 8 of the Decree 57/1998/ND-CP provides that companies from all economic sectors and established under Viet Nam laws are permitted to export/import goods within registered and licensed business lines. Individuals, family groups and cooperatives that have not enough qualification to become legal entity under Viet Nam laws are not permitted to export/import. Foreign owned enterprises must be approved plan of export/import and consumption in Viet Nam based on demand of production and business by Ministry of Trade or authorized agencies. Limit time is 10 days if Ministry approves and 15 days if authorized agencies does.

Local entrepreneurs only declare customs and do not need license, except for export/import items on the list of conditional exports/imports. When they export/import items on this list, they have to get license from competent authorities and comply with Prime Minister's annual principles. Ministry of Trade will manage and grant export/import license for them. In these cases, export/import license is non-automatic. That non-automatic licensing in many cases results in quantitative restriction.

Competent authorities regulate licensing procedures of these items. Licenses may be either automatic or non-automatic. However, regulation on import licensing procedures does not clearly show what kind they are.

Viet Nam sees the Clause 4(a) of Article 1 of Agreement on import licensing procedures as an obligation for gradual implementation. In order that Governments and entrepreneurs can access the import licensing procedures. Information and regulation on application registration, organizations and individuals' right of application registration, application receiving of administrative agencies and the list of license-controlled goods must be published. The regulation must be issued at least 21 days before it comes into effect. Any exceptions or changes of regulation on licensing procedures also must be published by same way and time as above mentioned.

Current import licensing procedures can be evaluated by import licensing procedures of fertilizer and cosmetics. Ministry of Trade licenses import of fertilizer. Cosmetics is managed and licensed by Ministry of Health.

(a) The list of license-controlled items	Fertilizer	Cosmetics *
(b) Where to receive information on the right to register application	Ministry of Trade, Export/Import Department	Ministry of Health, Pharmacy Department
(c) Administrative agency to receive application	Export/Import Department	Pharmacy Department
(d) The date and name of the publication on licensing procedures	-February 14, 1998 -The Circular 01/1998/TM/XNK of Ministry of Trade +Coming into effect from the signing date. Contrary to Clause 4(a) of Article 1:regulation on licensing procedures must be issued before 21 days from the valid date.	January 10, 1998 -Dispatch 39/QLD of Ministry of Health +The dispatch is not published on Official Gazette or Under-law Documents. Contrary to Clause 4(a) of Article 1 : All information and regulation on licensing procedures must be published. +Not to provide the valid date. It can be understood that it came into effect from the signing date. Contrary to Clause 4(a) of Article 1: regulation on licensing procedures must be issued before 21 days from the signing date.
(e) Procedures are automatic or non-automatic	Non-automatic	Non-automatic
(f) Purpose of management	Management of supply demand balance	Health protection
(g) Rules and methods of licensing procedures	- Only contact-point enterprises appointed by Government are permitted to register application of fertilizer importation. In 1998, there are 35 enterprises appointed as contact-points. -Provincial People's Committee will give Designated enterprises. -Quantity, place and time of fertilizer importation will be instructed by competent ministries. Non-State enterprises will be permitted to import fertilizer where they have some qualifications. Their application document includes: 1. Enterprise's proposal letter; 2. Balance Report 1997 which auditing agency certify on; 3. Report on domestic supplement system of fertilizer.	Only local enterprises having direct cosmetics or consumer goods export/import function are permitted to import cosmetics. a. Importation of cosmetics which is granted quality registration by Viet Nam Pharmacy Department: 1. Application on verification of health-effecting cosmetics imported into Viet Nam; 2. The list of health-effecting cosmetics imported into Viet Nam; 3. Original examination document of quality verification enclosed together each shipment. b. Importation of cosmetics which is not granted yet quality registration by Viet Nam Pharmacy Department: 1. Application on verification of health-effecting cosmetics imported into Viet Nam;

		2. The list of health-effecting cosmetics imported into Viet Nam; 3. Commitment on quality of imported cosmetics; 4. Production license(or GMP certificate) granted by foreign country's competent authority to cosmetics exporters; 5. Certificate of circulation and free selling and the list including formula and contents of cosmetics granted by foreign country's competent authority; 6. Producer's original examination document of quality verification enclosed together each shipment.
(h) Estimated time for licensing procedures	No provision +Contrary to Clause 5(f) of Article 3. The time shall not exceed 30 days in case of first come-first solved, or 60 days in case of solving at the same time.	No provision +Contrary to Clause 5(f) of Article 3. The time shall not exceed 30 days in case of first come-first solved, or 60 days in case of solving at the same time.
(I) Limit time of license validity	Unclear provision. It can be understood that it shall be 1 year (up to March 31, 1999).	Unclear provision. There may be inconsistent in the duration of license validity. Contrary to Clause 5 (g) of Article 3.
(k) To publish information on	Changes on quota are not published according to Clause 5(b) of Article 3	

*) Business export/import license on cosmetics and import quota on cosmetics granted by Ministry of Trade has been abrogated.

Comments:

– The following procedures can be barrier to trade:

+ Relating regulation and information are not quickly and clearly published according to Clause 4(a) of Article 1;

+ Relating information on quota changes are not quickly and clearly published according to Clause 5(b) of Article 3;

+ The limit time of application solving is not clearly regulated according to Clause 5(f) of Article 3.

– With regard to import licensing procedures for goods that are subject to line ministries, although quantity or value of each item is not big in comparison with items which must have license from Ministry of Trade but there is many items managed by line-management ministries. Due to management purpose is diversified, items are not accurately and fully coded yet, competent authorities' licensing management experience is low, import licensing procedures for goods that are subject to line ministries still is barrier to trade. A reduced power of Ministry of Trade on import licensing has reduced red-tape procedures causing obstacle to foreign trade. But decentralization and transferring the right to grant import license to many ministries without general overall management may not make the situation better.

– The problems now are as follows:

+ Regulations and information relating to procedures of import licensing are not promulgated clearly and timely in publications such as Official Gazette or Law Collection in accordance with Article 1, Item 4(a);

+ Terms of licenses are not stated strictly in accordance with Clause 5(g) of Article 3;

+ The time duration for approving application is not stipulated specifically in accordance with Article 3, Item 5(f).

As a matter of fact, Viet Nam's Government intends to fully observe the said import licensing procedure agreement, a timeframe should be published.

4. State Trading

The Trade Law states that "the State economic sector plays the key role" and "the State is a monopolist in trading in some certain industries, areas and lines of goods listed by the Government. With regard to the State trading, Article 10 of this Law stipulates that" The State shall invest in terms of finance, facilities and human resources to develop State trading units which trade essential goods to ensure their key role in this field".

Although the key role of the State trading is still emphasized, their real importance has reduced significantly due to the strong development of other economic sectors. The Table 2 below shows the slight decrease of export (48%, 46% and 45%) and the sharp decline of import (54%, 43% and 47%) by centrally managed enterprises over the past three years from 1994 to 1996.

Table 2 Import - Export Values of Different Sectors Classified according to the Forms of Management

Management form	1994		1995		1996	
	Export	Import	Export	Import	Export	Import
Central	48	54	46	43	45	47
Local	48	36	46	39	44	35
State trading enterprises with foreign invested capital	4	10	8	18	11	18
	100	100	100	100	100	100

Source : Statistical Yearbook 1997

Article XVII of GATT 1994 and the Memorandum of Understanding on Definition of Article XVII of GATT 1994 referred only to SOE and individuals' privileges in foreign trade, but not the State' monopoly as well as enterprises' ownership forms[11].

According to WTO' provisions, the number of state trading that must be notified to WTO and their affected scope is considerably smaller in comparison with the statistics showed in the Table 2.

State trading enterprise have certain, especially some large corporations which produce and trade items in the list of conditional export-import such as oil and gas, telecommunication, cement, paper and rice. Additionally, some certain privileges in export-import activities are given to enterprises under other economic sectors. So far, the State still uniformly carry out management of foreign trade, therefore state administrative bodies annually determine not only the amount of export and import of some items to ensure targets set out (mostly to protect some domestic industrial branches), but also interfere in the amount or time of imported goods. In fact, trading enterprises are virtually not entitled to control export and import, or to decide the amount of them in particular.

It is no doubt that during others' countries accession negotiation, some members try to abuse of their position and claim more than WTO obligations such as requirement on the acceleration of the privatisation program. Such behaviour makes confused the issue of STE with the orientation toward a market mechanism. STEs will be solved at the two following conditions: (1) Viet Nam declares that she will accept that STEs, if any, will conduct business on commercial terms and (2) she commits a clear timeframe for the enforcement.

5. Subsidy

Clause (e) of the Appendix I of the Agreement on SCM prohibits all export subsidies in forms of reduction, exemption, partial or full return, or delay payment of direct taxes or other social fees relating to exports payable by industrial or commercial entities.

Article 54 of the Decree 12/CP dated 18th February, 1997 of the Government stipulates that the profit tax rate applicable to foreign invested projects where investments are encouraged shall be as follows: 1) A rate of twenty (20) percent if export of at least fifty (50) percent of products; 2) A rate of fifteen (15) percent if export of at least eighty (80) percent of products. The profit tax at the rate of twenty-five (25) percent applicable to other projects.

Moreover, Article 56 of this Decree provides the duration and level of exemptions from and reduction of profit tax applicable to projects which produce exported goods as follows: 1) projects which export at least fifty (50) percent of products shall be exempted from profit tax for one year commencing from the time when their operations start to earn profits and shall be granted a fifty (50) percent reduction for the two subsequent years; 2) projects which export at least eighty (80) percent of products shall be exempted from profit tax for two years commencing from the time when their operations start to earn profits and shall be granted a fifty (50) percent reduction for the three subsequent years.

In order to create more attractive environment for foreign investors, especially the ones who export all their products manufactured in Viet Nam, Article 7 of the Decree 10/1998/CP enacted in early 1998 stipulates that projects which satisfy above condition shall be exempted from profit tax for four years commencing from the time when their operations start to earn profits and shall be granted a fifty (50) percent reduction for the four subsequent years.

Besides, some articles of the Law on Encouragement of Domestic Investment provided also incentives to enterprises which produce export products:

- Reduction from fifty (50) to seventy (70) percent of the rent of land-use (Article 17). Exemption from payment of land rental for a period of 3 to 6 years from the time of signing of land lease contract (Article 18.1);
- The enterprise income tax rate of twenty five (25) percent (Article 20.1); additional enterprise income tax are not paid (Article 23) and other exemption from and reduction can be enjoyable (Article 21.1);

According to Article 27 and Appendix VII of the SCM Agreement, underdeveloped and developing countries with Gross National Products (GNP) lower than 1000 USD/year are not obliged to implement Article 3.1 (a) on the subsidy of export. Other developed countries are allowed to remain the subsidized export for the period of 8 years from the time of WTO Agreement comes into effect until the end of year 2002.

Viet Nam proposed when joining the WTO to be classified as developing country with low income and listed in Appendix VII. However, whether Viet Nam is exempted from application of Article 3.1 (a) or not will depend on negotiations.

Apart from incentive policy on profit taxes, Viet Nam has also other policies to promote production of exported goods. However, some provisions of the Decision 764/QD/TTg dated 24th August, 1998 providing for the establishment of export award fund have violated the principle the WTO's subsidy. This fund is financed by the State budget. The following criteria for enterprises to receive the fund's awards may be classified as in prohibited or actionable subsidies:

(1) Producing exported products, which used the majority of local materials;
(2) Expanding markets, increasing export turnover of items encouraged;
(3) Exporting items that do not require quota with the turnover of more 50 million USD/year.

Granting award for enterprises that met the criteria (1) would violate Clause 3.1.(b), Article 3 of the Agreement on prohibiting subsidy, which is associated with using domestic import substitution products. Granting award for enterprises that met the criteria (2) and /or (3) which are yellow-light subsidies and would be subject to retaliation tax by imported country in case its own interest or third country is affected negatively according to Article 5 of the SCM Agreement.

The developing countries would not have to cancel subsidies, which have violated Article 3.1(b) for the five years from the time of the WTO coming into force. Viet Nam will not be able to apply the subsidy measures that give more incentives to using domestic materials than imported ones. A phasing-in time frame corresponding to the possible accession to WTO should be elaborate and Viet Nam should be prepared for that.

6. Technical Barriers to Trade

According to the Agreement on technical barrier to trade, the WTO's member countries must comply with the following requirements:

- Standards, guidelines and concepts of international standard organizations such as ISO, CODEX, ICE, etc. must be applied;
- Its draft process and promulgation must comply with the forms guided by the related international organizations;
- The drafting of new provisions which can be barrier to trade must be informed to the WTO's member countries in time;
- Establishing national focal point for certification, accreditation and recognition activities.

Many international researches determine that the TBT and SPS system of Viet Nam is closely consistent with the WTO requirements. For the purpose of correctly adapt to the TBT and SPS agreements, Viet Nam needs more technical assistance rather than major changes in its legislation and practice.

A strict standardisation strategy would be beneficial to Viet Nam industrial competitiveness in the future.