

The Doha Development Agenda Impacts on Trade and Poverty

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A collection of papers summarising our assessments of the principal issues of the WTO round, how the outcome might affect poverty, the progress of the negotiations, and the impact on four very different countries.

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9. Poverty impact of Doha: Vietnam

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Vietnam's trade negotiations

Vietnam is negotiating its entry to the WTO, so this paper concentrates on general questions of the relationship between trade and poverty and between a regulated international system and poverty, rather than the details of the Doha Round.

In Vietnam, it is commonly believed that by joining the WTO, Vietnam will be able to:

- gain much greater access to foreign markets with much larger export opportunities;
- attract much larger flows of quality foreign investments;
- get access to instruments for dispute settlements, the so-called 'protection against protection', which are only available for WTO members; and
- have stronger motivation for accelerating domestic reforms towards perfecting a market-based economy for the benefit of the country as the whole.

On the other hand, WTO accession also poses certain challenges. By liberalising its market, including sensitive and infant sectors, Vietnamese firms and households will face fiercer competition from foreign competitors. A number of enterprises in less competitive sectors may be forced to scale down or even close down, thus increasing short-term unemployment. Firms in service sectors may find it hard to compete with foreign firms who will have better access to Vietnamese markets. A number of agricultural sub-sectors that are currently heavily protected and do not have comparative advantage will be negatively affected. Households, including poor ones whose livelihoods heavily depend on these activities, will therefore be worse off. Sugar, corn, soybean etc. are sub-sectors perceived to be likely to be affected negatively; many poor households

in these may find it difficult to absorb the shock. Vietnam may thus face a higher level of vulnerability in product and labour markets during the transition period. The adjustment process may be painful and costly for many poor households.

During the 1990s, Vietnam took major steps in unilateral trade liberalisation as a part of a comprehensive economic reform package. In the first decade of the 21st century, Vietnam continues to have a heavy agenda on trade reform, which may have important implications for economic growth and poverty reduction. Joining the WTO in 2005 is considered by the Government of Vietnam one of its top priorities. The ratification of the Bilateral Trade Agreement, BTA, with the US, the tightening schedule for implementing existing commitments under the ASEAN Free Trade Agreement in South East Asia, AFTA, the recently restarted new round of global trade liberalisation talks under the Doha Development Agenda, and China's accession to the WTO are the events that have given Vietnam's WTO ambitions new impetus. The opportunities and challenges that becoming a WTO member presents to Vietnam must be well understood to enable the country to maximise benefits and minimise costs associated with WTO accession.

Trade and poverty

After reviewing the evidence available to date, this study has found that up to the present trade liberalisation in Vietnam has aided growth. This, in turn, has been broadly shared, resulting in rapid poverty reduction. Recent trade liberalisation therefore appears to have been beneficial to poverty reduction. However, the evidence also suggests that whether the trade-poverty linkage can continue to be favourable in the coming years very much depends on whether there are appropriate complementary policies in place, and also on whether the existing members of the

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WTO who are Vietnam's major trading partners properly take into account the current level of development and poverty situation of Vietnam in the multilateral and bilateral trade negotiations linked with Vietnam's WTO accession.

The beneficial impact on poverty of further trade liberalisation under AFTA, the US BTA and accession to the WTO may diminish rapidly, unless serious domestic market-oriented economic reforms are carried out and deepened. The effect of joining the WTO will depend on these, but also on appropriate accession conditions in terms of the level of commitments and the length of transition period. Whether WTO accession will help Vietnam to achieve faster economic growth and poverty reduction depends on whether Vietnam's trading partners work in the spirit of the development focus of the Doha Round by not imposing WTO-plus conditions which are clearly harmful to poverty reduction in Vietnam. Trading partners should be very careful when formulating their requests to Vietnam on sectors where many Vietnamese poor households work.

Sectoral and regional differences

Internally, the goods and labour markets must be integrated across regions to enable the poor who live far from ports to benefit from trade liberalisation. The weak linkages between trading sectors and the poorer parts of the country make poverty reduction from trade difficult, but a corollary is that losses are also less likely to increase poverty.

Vietnam expects to lose from the liberalisation of textiles following the end of the Multi-Fibre Arrangement, because of competition from China, but this may not have direct effects on poverty. Adequate investments should be made in the areas of hard and soft infrastructures (education, health etc.) to raise the return to international economic integration and allow the poor to participate more fully. Reforms of state owned enterprises and banks should be further accelerated to ensure macroeconomic stability, and to comply with WTO's national treatment principle. The policy and business environment needs to be made more transparent and transactions costs must be reduced by all means to enable Vietnam to attract efficient investments which are associated with new technology, managerial and international marketing skills.

Entry into the WTO

Appropriate institutions should be set up to protect the poor and the vulnerable from the negative impacts of external shocks associated with Vietnam's further integration into the world economy. In general, the transition period should be managed to maximise benefits and minimise costs, thus guaranteeing the social and political stability which is the top priority of the Government of Vietnam.

Externally, as Vietnam presents a potentially large market, there are a large number of countries that have an interest in trade negotiations linked to Vietnam's accession. Vietnam will be the WTO's 'biggest' accession country since China joined. If there is progress in the multilateral trade negotiations under the Doha Round of the WTO, with a strong development focus, this would help Vietnam to join WTO in a timely manner, with terms that are in line with Vietnam's development objectives of rapid, sustainable and equitable growth, in order to achieve the MDGs (adjusted to reflect its specific conditions) by 2015.

Vietnam sees the regulatory function of the WTO as a central advantage. It has experienced the difficulties of facing barriers to its imports in a major country without an effective institution, like the WTO dispute regime, to protect its interests.

In short, both the internal and the external conditions under which Vietnam joins the WTO, are crucial for enabling the people of Vietnam in general and the poor in particular to reap fully the benefits while minimising costs associated with multilateral trade liberalisation.

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