Vietnam

Nguyen Thang

Overseas Development Institute
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Acronyms and Abbreviations

ADB	Asian Development Bank
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
AFTA	ASEAN Free Trade Area
ATC	Agreement on Textiles and Clothing
BTA	Bilateral Trade Agreement
CEPT	Common Effective Preferential Tariff
CGE	Computable General Equilibrium (model)
CFA	Catfish Farmers of America
CIE	Center for International Economics
CIEM	Central Institute for Economic Management
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CRP	Center for Rural Progress
CV	Coefficient of Variation
DFID	Department for International Development (of the UK)
ERP	Effective Rate of Protection
EU	European Union
FDI	Foreign Direct Investment
FIE	Foreign Invested Enterprise
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GEL	General Exclusion List
GSO	General Statistics Office
GTAP	Global Trade Analyses Programme
HEPR	Hunger Eradication and Poverty Reduction
IE	Institute of Economics
IFPRI	International Food Policy and Research Institute
IL	Inclusion List
IMPR	Institute for Market and Price Research
I-PRSP	Interim Poverty Reduction Strategy Paper
MDG	Millennium Development Goal
MFN	Most Favoured Nation
MOF	Ministry of Finance
MOLISA	Ministry of Labor, Invalids and Social Affairs
MPI	Ministry of Planning and Investment
NME	Non-Market Economy (status)
NRP	Nominal Rate of Protection
NTB	Non-Tariff Barrier (to trade)
ODI	Overseas Development Institute
PSIA	Poverty and Social Impact Analysis
PSRP	Poverty Reduction Strategy Paper
QR	Quantitative Restriction

SOE	State Owned Enterprise
SPS	Sanitary and Phytosanitary Standard
TEL	Temporary Exclusion List
TRIM	Trade-Related Investment Measure
TRIPS	Trade-Related Aspects of Intellectual Property Rights
T&G	Textile and Garment
UAP	Unprocessed Agricultural Products
US	the United States
USD	US dollar
VAT	Value-Added Tax
VDG	Vietnam Development Goal
VINATEX	Vietnam General State Textile and Garment Corporation
VLSS	Vietnam Living Standard Survey
VHLSS	Vietnam Household Living Standard Survey
VND	Vietnamese Dong
WP	Working Party
WTO	World Trade Organisation

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5. The Poverty Impact of Doha: Vietnam

Nguyen Thang

Summary

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

By reviewing a large body of evidence available to date, this study has found that trade liberalisation in Vietnam up to present has aided growth, which has been in turn broadly shared, resulting in fast poverty reduction. Trade liberalisation is therefore widely believed to have been recently beneficial to poverty reduction. However, evidence also suggests that whether trade-poverty linkage can continue this favourable pattern 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 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.

There is a common opinion in Vietnam that by joining the WTO, Vietnam will be able to (i) gain much greater access to foreign markets with much larger export opportunities; (ii) attract much larger flows of quality foreign investments; (iii) get access to instruments for dispute settlements, or the so called “protection against protection”, which are only available for WTO members; and (iv) have stronger motivation for accelerating domestic reforms towards perfecting 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 those 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 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 so will be households, including poor ones whose livelihoods heavily depend on these activities. Sugar, corn, soybean etc. are those sub-sectors that are perceived to be affected negatively and quite many poor households who work there may find it difficult to absorb the shock. Vietnam may thus face higher level of vulnerability in the product and labour markets during the transition period. The adjustment process may be painful and costly for quite many poor households.

It is widely believed that further trade liberalisation under AFTA, US BTA and the upcoming WTO membership may have fast diminishing beneficial impact on poverty reduction, unless serious domestic market-oriented economic reforms are carried out and deepened on the one hand, and Vietnam's trading partners who are the current members of the WTO are willing to give Vietnam appropriate accession conditions in terms of the level of commitments and the length of transition period, on the other hand.

Internally, the goods and labour markets should be made integrated spatially to enable the poor who live far from ports to benefit from trade liberalisation. Adequate investments should be made in the areas of hard and soft infrastructures (education, health etc.) to raise the pay-off to international economic integration and allow the poor to more fully participate. SOEs and banking reforms should be further accelerated to ensure macroeconomic stability, and to comply with WTO's national treatment principle. The policy and business environment should be made more transparent and transactions costs should be reduced by all means to enable Vietnam to attract efficient investments which are associated with new technology, managerial and international marketing skills. 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 well managed to maximise benefits and minimise costs, thus guaranteeing social and political stability, which is always considered as the top priority of the Government of Vietnam.

Externally, as Viet Nam presents a potentially large market, there are a large number of countries that have interest in trade negotiations linked to Vietnam's accession. Viet Nam is probably the WTO "biggest" accession after China joined it. Whether WTO accession will help Vietnam to achieve faster economic growth and poverty reduction also very much depends on how Vietnam's trading partners really 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. In this sense, any further progress in multilateral trade negotiations under the Doha Round of the WTO with strong development focus would help Vietnam to join WTO in a timely manner, with terms and conditions that are in line with Vietnam's development objectives of rapid, sustainable and equitable growth, which will eventually help Vietnam achieve the MDGs localised to reflect its specific conditions, by 2015.

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

5.1 Introduction

In the first decade of the 21st century, Vietnam has a heavy agenda on trade reform, which may have far-reaching implications for economic growth and poverty reduction. The ratification of the Bilateral Trade Agreement with the US, the tightening schedule for implementing existing commitments under the AFTA, the recently started new round of global trade liberalization talks, China's accession to the WTO - all these events have given Vietnam's WTO ambitions new impetus. Joining WTO before the Doha Development Round concludes in 2005 is considered by the Government of Vietnam as one of its top priorities. It is clear that becoming a WTO member presents both opportunities and challenges to Vietnam.

On the one hand, joining WTO is considered to bring substantial benefits to the economy. WTO membership would provide Vietnam with greater access to the external markets. At the same time, market access and trade disputes will be governed by WTO rules, reducing the risk of Vietnamese companies facing excessively unfair treatment or discrimination in other markets. WTO membership would also lead to an increase in efficient investment, technological progress, and management and labour skills. In an open economy, businesses and people will have much more choices in accessing to consumer goods and services of higher quality at lower price. Moreover, as a member of the WTO, Vietnam shall strictly adhere to all WTO rules and ensure conformity of its domestic laws and regulations with WTO principles. The most obvious impacts will stem from the changes in the Vietnam's legal systems which are required for accession to WTO. Vietnam's policies and regulations will then become more transparent and accountable, creating a favourable and fair environment for both domestic and foreign traders and investors. All of this can help sustain economic growth and development, and thereby, make important contribution to achieving MDGs (see Appendix 1 for the Vietnam Development Goals[1]).

On the other hand, WTO accession also poses certain challenges. By liberalizing its market, including those sensitive and infant sectors, Vietnam's firms 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 hard to compete with foreign firms who will have better access to Vietnamese markets. Certain agricultural sub-sectors that are currently heavily protected and do not have comparative advantage will be negatively affected so will be households engaged in these sub-sectors. Vietnam may face certain level of vulnerability in the product and labour markets during the transition period.

[1] Vietnam Development Goals are the Vietnamese version of MDGs, which are set for the period up to 2010 only to be in line with Vietnam's 10-year socio-economic strategy 2001-2010, and also include a number of additional indicators beyond MDGs. The Government of Vietnam is gradually integrating these goals into its development plans at central and local levels.

Therefore, social and poverty impacts need to be carefully evaluated and on this basis, appropriate institutions should be set up to protect the poor and the vulnerable. In general, the transition period should be well managed to maximise benefits and minimise costs, thus guaranteeing social and political stability, which is always considered as the top priority of the Government of Vietnam.

As Vietnam is not yet a WTO member, this paper focuses in the first instance on the discussion of some key issues related to Vietnam's WTO accession, which is a top priority in the agenda of the Government of Vietnam, and their implications for economic growth and poverty reduction. The latter is interpreted in a broad sense to capture the multidimensional nature of poverty, and thus closely reflect the MDGs. It then attempts to speculate, to the extent possible, on possible impacts of the multilateral negotiations under the Doha Development Round on growth and poverty reduction. As such, the paper is structured as follows. This introductory section is followed by a brief account of economic performance in Vietnam in the last 15 years. Then the paper presents the process of trade reforms in Vietnam including unilateral, bilateral, regional and multilateral trade liberalisation over the same period. This will provide background information for the subsequent section, which will discuss what policy changes would be expected under WTO accession as compared to the status quo and what implications they will have for economic growth and poverty reduction in Vietnam. The final section will present conclusions and policy recommendations.

5.2 Economic Performance and Poverty Reduction

The microeconomic reforms combined with ensuring macroeconomic stability and opening up the economy have brought about significant positive changes in the Vietnamese economy over the past decade. During 1991-2002, Vietnam recorded the remarkable achievements in terms of GDP growth, inflation control, export expansion, and FDI attraction. Vietnam became a very open economy in terms of the ratio of trade to GDP (95% in 2001) (Table 1).

Table 1. GDP growth and official merchandise trade, 1990-2002

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP growth (%)	5.8	8.7	8.1	8.8	9.5	9.3	8.1	5.8	4.8	6.7	6.8	7.0
Inflation (%)	67.6	17.5	5.2	14.5	12.7	4.6	3.6	9.2	0.1	-0.6	0.8	4.0
FDI (US$ bill) (Commitments)	1,322	2,165	2,900	3,766	6,531	8,497	4,649	3,897	1,462	2,012	2,431	1,333
Export (US$ bill)	2,087	2,581	2,985	4,054	5,449	7,256	9,185	9,360	11,540	14,308	15,027	16,706
- % change	*-13.2*	*23.7*	*15.7*	*35.8*	*34.4*	*33.2*	*26.6*	*1.9*	*23.3*	*24.0*	*3.8*	*11.2*
- % GDP	*24.0*	*26.2*	*22.7*	*24.9*	*26.2*	*29.4*	*32.6*	*31.6*	*39.8*	*45.6*	*45.9*	*47.9*
Import (US$ bill)	2,338	2,541	3,924	5,826	8,155	11,144	11,592	11,499	11,622	15,200	16,200	19,730
- % change	*-15.1*	*8.7*	*54.4*	*48.5*	*40.0*	*36.6*	*4.0*	*-0.8*	*1.1*	*30.8*	*3.4*	*19.73*
- % GDP	*26.9*	*25.7*	*29.8*	*35.7*	*39.2*	*45.1*	*41.1*	*38.9*	*40.1*	*48.4*	*49.4*	*56.6*
Total Trade/GDP	52.9	51.9	52.4	60.6	65.4	74.6	73.7	70.5	79.9	94.0	95.0	104.6

Source: General Statistical Office (GSO)

Export performance has been exceptionally strong. Between 1991 and 2002 the dollar value of non-oil exports from Vietnam grew at an average annual rate of nearly 19 percent, double the average for developing countries as a group and twice as much as any other East Asian countries (World Bank. 2003b p.2). In real terms, Vietnam's exports grew at a rate of nearly 17 percent a year in the 1990s, significantly higher than the rate of growth in world exports.

The composition of exports has also changed rather significantly. Until 1992, Vietnam's export expansion was dominated by crude petroleum exports. Its share however declined in 2001 to only 20 percent. Non-oil exports grew fast, thanks initially to a rapid expansion in Vietnam's agricultural exports, especially rice, coffee, rubber, cashew and so on, which grew very rapidly in both volume and value (Table 2). The share of manufactures began to increase from the mid-1990s and by the turn of the 21st century, manufactured goods accounted for two-thirds of total merchandise exports (World Bank. 2003b p.5). Manufactured exports have been playing an increasingly important role, making the export structure more diversified. Manufactured exports were initially concentrated in resource-based products, especially fish, semi-processed rubber, furniture and processed foods. From the mid 1990s, standard labour-intensive goods, notably garments and footwear, started to overtake resource-based products. Component assembly began to take off only in the last couple of years, but still accounts for a small share of total manufactured exports. Strong export performance has clearly contributed to relatively fast economic growth in Vietnam over the 1990s. It is widely believed that exports constitute a major driver of economic growth in Vietnam over the last 10-15 years.

Table 2. Vietnam's Exports 1995-2001

	1995	1996	1997	1998	1999	2000	2001
Total Exports	5.449	7.256	9.185	9.360	11.540	14.308	15.027
Share of Major Export Goods							
Rice	10.6%	11.7%	9.5%	10.9%	8.9%	4.6%	3.9%
Petroleum	19.7%	18.4%	15.5%	13.2%	18.1%	24.2%	21.1%
Coal	1.6%	1.6%	1.2%	1.1%	0.8%	0.7%	0.7%
Rubber	3.5%	2.2%	2.1%	1.4%	1.3%	1.1%	1.1%
Tea	0.6%	0.4%	0.5%	0.5%	0.4%	0.5%	0.4%
Coffee	9.5%	4.6%	5.4%	6.3%	5.1%	3.5%	2.6%
Cashew Nut	2.5%	1.8%	1.5%	1.2%	1.0%	1.2%	1.0%
Black Pepper	0.0%	0.0%	0.7%	0.7%	1.2%	1.0%	0.6%
Marine Products	11.9%	8.9%	8.5%	9.2%	8.4%	10.2%	12.0%
Vegetable & Fruits			0.7%	0.6%	0.9%	1.5%	2.0%
Textiles and Garments	15.4%	15.7%	14.8%	15.5%	15.1%	13.1%	13.3%
Footwear		7.2%	10.6%	11.0%	12.1%	10.1%	10.1%
Handicraft & fine arts			1.3%	1.2%	1.5%	1.6%	1.6%

Source: General Statistical Office, Statistical Yearbook 2002, and General Department of Customs

Sectoral and employment structure has also experienced discernible changes over the 1990s (Table 3). The share of employment involved in the agricultural sector changed rather slowly, from 72.7% in 1991 to 63.1% and 62.6% in 2000 and 2001 respectively. Industrial sector, although expanding rapidly, could not result in a corresponding change in employment. In 2001, the industrial sector made up only about 13% of total employment – almost the same level as in 1991. There are a number of explanations to this "puzzle". Some believe that public investments and other incentives have been still in favour of capital-intensive sectors, where state-owned enterprises dominate (World Bank, UNDP and the Asian Development Bank 2001). Others attribute it to the nature of globalisation, which exerts huge pressures on manufacturing firms to cut cost by increasing productivity and efficiency and thereby, reducing employment elasticity of industrial production (Jenkins 2002). Unemployment and underemployment become increasingly serious problem. Every year about 1.3-1.4 million people enter the labour market. Employment creation remains one of the greatest challenges for Vietnam in the years to come.

Table 3. The sectoral and employment structure (1991-2001)

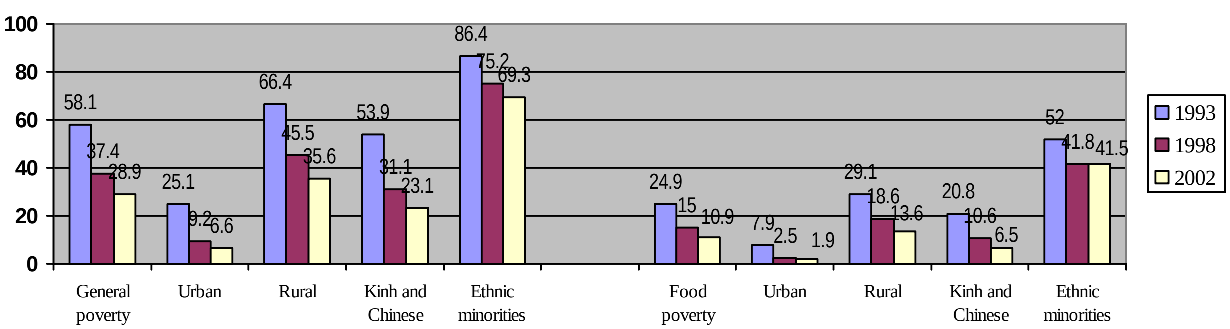
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Sectoral share (% GDP, current prices)												
Agriculture	40.5	34.9	29.1	27.4	27.2	27.8	25.8	26.0	25.4	24.6	23.7	23
Industry[a]	23.5	23.7	28.6	28.9	28.8	29.7	32.1	32.7	33.7	36.7	37.7	38.6
Manufacturing	*12.8*	*11.2*	*14.9*	*14.9*	*15.0*	*15.2*	*16.5*	*17.3*	*17.8*	*18.5*	19.6	
Services	36.0	41.4	42.3	43.7	44.1	42.5	42.2	41.3	40.7	38.7	38.6	38.4
Employment structure by economic sector (% of total employment)												
Agriculture	72.7	72.4	72.1	71.6	69.7	69.2	65.8	63.5	63.6	63.1	62.6	60.67
Industry[a]	13.2	11.3	11.3	11.4	13.2	10.9	12.4	11.9	12.5	12.2	13.1	15.13
Services	14.1	16.3	17.6	17.0	17.1	19.9	21.8	24.6	23.9	19.7	24.3	24.20

Note: a) including mining, construction, and utilities (electricity, water)
Source: Ministry of Labor, Invalids and Social Affairs (MOLISA)

Strong growth performance of the Vietnamese economy during the 1990s, coupled with modest (though steady) rising inequality (Gini rose from 0.34 in 1993 to 0.35 in 1998 and 0.37 in 2002 – World Bank 2003c p.14) has resulted in fast poverty reduction. Vietnam is one of the few countries in the world in which poverty, however measured, declined dramatically in the 1990s.

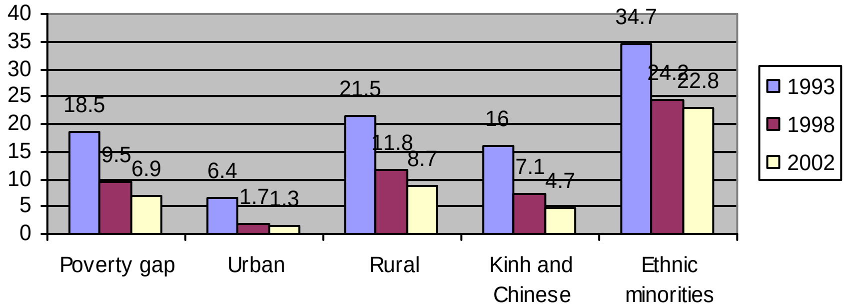
Based on the World Bank classification (World Bank 1999), the overall poverty incidence in Vietnam was reduced from 58% in 1993 to 37% in 1998 and further to 28.9% in 2002 (World Bank 2003c p.9). Both urban and rural groups experienced similar trends in poverty reduction, though rural poverty still remains high. Poverty also declined across ethnic groups, from 54 in 1993 to 31 percent in 1998 and further down to 23 percent in 2002 for the Kinh majority, but by much less for ethnic minorities, from 86 in 1993 to 75 percent in 1998 and still as high as 69 percent in 2002 (Figure 1).

Figure 1. Poverty Incidence



Source: Adapted from World Bank, 2003c, p. 9.

Figure 2. Poverty Gap



Source: Adapted from World Bank, 2003c, p. 9.

The reduction in food poverty incidence also exhibits similar pattern, though the levels were substantially lower than general poverty rates.

Poverty reduction occurred across all seven geographical regions of the country, though with different speeds (Table 4). The Red River Delta, South East and Mekong River Delta have experienced the fastest rates of poverty reduction during the period 1993-2002. The North East also showed an outstanding performance in poverty reduction in 1999-2002. These regions are also those that are better connected with world markets than the remaining parts of the country. This may provide some indication about the link between trade and poverty, although it is hard to establish rigorously causal connection.

Non-income indicators of household welfare also improved impressively. During the 1993-1998 period, primary school enrolment rates, which were high for both girls and boys, rose from eighty-seven to ninety-one percent for girls, and from eighty-six to ninety-two for boys. Lower secondary enrolment rates doubled for both girls and boys, to sixty-one and sixty-two percent, respectively. In 2002, overall enrolments rates at primary and lower secondary schools were 90 and 72 percent respectively (World Bank 2003c p.62). Malnutrition among children below the age of five remains high in relation to other child health indicators, but declined dramatically from about half the population to a third during the period 1993-1998 (World Bank 2003c pp. iii-iv), and further down to slightly above a quarter in 2002 (World Bank 2003c p. 28).

Table 4. Poverty across Regions

IN PERCENT	1993	1998	2002
Poverty rate	***58.1***	***37.4***	***28.9***
Northern Mountains	81.5	64.2	43.9
North East	86.1	62.0	38.4
North West	81.0	73.4	68.0
Red River Delta	62.7	29.3	22.4
North Central Coast	74.5	48.1	43.9
South Central Coast	47.2	34.5	25.2
Central Highlands	70.0	52.4	51.8
South East	37.0	12.2	10.6
Mekong Delta	47.1	36.9	23.4
Food poverty	***24.9***	***15.0***	***10.9***
Northern Mountains	42.3	32.4	21.1
North East	29.6	17.6	15.4
North West	26.2	22.1	46.1
Red River Delta	24.2	8.5	5.3
North Central Coast	35.5	19.0	17.5
South Central Coast	22.8	15.9	9.0
Central Highlands	32.0	31.5	29.5
South East	11.7	5.0	3.0
Mekong Delta	17.7	11.3	6.5
Poverty gap	***18.5***	***9.5***	***6.9***
Northern Mountains	29.0	18.5	12.3
North East	29.6	17.6	9.6
North West	26.2	22.1	24.1
Red River Delta	18.3	6.2	4.3
North Central Coast	24.7	11.8	10.6
South Central Coast	17.2	10.2	6.0
Central Highlands	26.3	19.1	16.7
South East	10.1	3.0	2.2
Mekong Delta	13.8	8.1	4.7

Source: World Bank 2003, p. 10.

Vietnam's strong performance in poverty reduction during the 1990s is attributed to the across-the-board economic growth, or in other words, the growth has been broadly shared among the population. Over ninety percent of poverty reduction occurred due to the rise in earnings across all sectors, and only ten percent was due to a shift from low-income sectors (e.g., agriculture) to high-wage sectors (Bales et. al 2001). The strong growth effect of poverty reduction and a crucial role of exports as a driver of economic growth imply that trade liberalisation resulting in fast export growth in the 1990s is very likely to have made a considerable contribution to poverty reduction in Vietnam during the past years.

However, poverty is still one of the most pressing problems facing Vietnam, despite its noteworthy achievements in both economic growth and poverty reduction. The poverty situation in Vietnam is still causing some serious concerns. A key question that this report wants to shed light on is whether further trade liberalisation towards a WTO membership, which Vietnam is striving hard to achieve before the Doha Round concludes, will aid economic growth and poverty reduction as it did in the past, or if there may be lower growth elasticity of poverty reduction in the future.

To answer this question, the next section will give a brief account of the process of trade liberalisation from the early 1990s up to date, and, on this basis, show what difference Vietnam's WTO accession will make in terms of policy and the business environment of the country. Based on this analysis, the subsequent sections will speculate on how WTO accession and possible outcomes of the Doha Round will affect the poverty situation in Vietnam.

5.3 Trade Liberalisation

The process of trade liberalisation in Vietnam during 1989-2003

Vietnam started to integrate into the world economy since the start of Doi Moi (renovation) in 1986. Figure 3 provides a brief history of trade reform in Vietnam for the period from 1989, when Vietnam began to open up the economy, to the present time (i.e. 2003). Trade reform has been carried out in various forms of unilateral, bilateral, regional and multilateral liberalisation. The changes as described in the upper part of the diagram reflect moves towards trade liberalisation, while changes as described in the lower part of the diagram reflect moves away from liberalising trade. The Figure shows that Vietnam has taken major steps towards trade liberalisation over the past 14-15 years and the recent World Bank report has acknowledged that the trade reform in Vietnam is on the fast track (World Bank 2002 p.14). Below is a brief account of trade liberalisation in Vietnam under various trade agreements.

<u>Regional liberalisation under the AFTA</u>

In July 1995, Vietnam became an official member of the Association of South East Asian Nations (ASEAN). ASEAN is Vietnam's most important regional forum for economic cooperation. The centrepiece of ASEAN cooperation is the ASEAN Free Trade Area (AFTA). A key aim of AFTA was to reduce tariffs to between 0 and 5 percent and to remove all other trade restrictions on virtually all commodities traded between ASEAN countries by the year 2003.

The key element of AFTA is a commitment to reduce tariffs on intra-regional trade under the Common Effective Preferential Tariff (CEPT) Scheme. The agreement to implement CEPT lays out the broad mechanism for phasing tariffs down to this target, identifying four categories of products:

- The Inclusion List (IL) includes products, whose tariffs have to be reduced to 0-5 percent by January 2003.
- The Temporary Exclusion List (TEL) consists of commodities temporarily excluded from tariff reduction. These commodities will gradually have to be included in IL in five equal installments over a period of five years from 1 January 1996 to 1 January 2000 (from 1999 to 2003 for Vietnam). Furthermore, in order to ensure an orderly tariff reduction programme it has been agreed that tariff rates should be reduced at least once every three years following entry onto the Inclusion List.
- The Unprocessed Agricultural Products (UAPs) have been categorized into their own three groups: IL, TEL, and Sensitive List (SL). Duties of IL products are to be reduced to 0-5 percent by January 2003. TEL products are required to be transferred into the IL in equal yearly installments. The CEPT tariff target of 0-5 percent by 2003 (2006 for Vietnam) will apply. Most UAPs on the Sensitive List are to be phased into the CEPT by 2010. The precise schedule for this phasing-in has still to be negotiated.

- The General Exception List (GEL) includes a set of goods to be totally excluded from the tariff-reduction exercise.

Another key characteristic of AFTA is that it is a comprehensive arrangement that addresses a range of trade issues in addition to tariffs. Its commitments and areas of cooperation include the harmonization of tariff nomenclature, custom valuation, the elimination of non-tariff barriers, the harmonization of product standards and the mutual recognition of certification of products, the removal of restrictions on foreign exchange transactions affecting goods covered by the CEPT scheme, and the elimination of barriers to foreign direct investment.

To date, Vietnam has been implementing the IL on an incremental basis. On 1 January 1996, 857 commodities were notified as on the IL. A further 640 tariff lines were notified in January 1997. The remainder of the IL was gazetted in March 1998 when CEPT rates for 1998 were identified for 1,716 tariff items. The average CEPT tariff rate on these goods in 1998 is 6.1 percent while the average rate for non-CEPT sourced imports of these goods is 7.2 percent, implying that the average preference is slightly over 1 percentage point. On 23 March 1999, the Government issued Decree No. 14/1999/ND-CP which provided for the IL to be applied in 1999. The list identified CEPT rates for 3,582 tariff items accounting for 41.3 percent of the total tariff lines of Vietnam. In 2000, Vietnam also moved another 600 tariff lines from the TEL onto the IL to increase the total items listed on the IL to almost 4,200. One year later, in 2001, the total items included in the IL increased to 5,000. During the final period from 2002 to 2006, Vietnam will transfer the last 1,200 tariff lines to the IL from the TEL.

At the end of 2001, out of the total tariff lines of 840 agricultural commodities, 626 were in the IL, 51 in the SEL, 17 in the GEL list, and the remaining (56) were in the TEL. Most of the agricultural commodities have by now already been included in the IL or their tariff rates have been reduced.

With regards to NTBs, at the beginning of each year, Vietnam issues a directive listing the quantitative restrictions that will be in place during that year. Quantitative restrictions need to be removed for a number of goods that were on Vietnam's IL submitted to ASEAN in 1995. In 2001, the government released a trade management mechanism for the period from 2001 to 2005, under which it proposed to abolish several non-tariff barriers, including the export quota on rice. Among farm commodities, sugar is the only product that still has NTBs applied to it for the entire period till 2005.

Figure 3. A Time Line of Trade Reform in Vietnam, 1989-2003

1989	Customs tariff introduced for the first time	
1990	• Special sales tax introduced • Export - import companies required to register	• Export of certain commodities limited to relevant exporters associations
1991	• Imported inputs used to produce exports exempted from duty • Export processing zones regulation introduced • Export duty on rice reduced from 10 to 1 per cent • Private companies allowed to engage in international trade	
1992	• HS system introduced • Trade agreement with EUsigned	
1993	• Export shipment licensing relaxed · Duty rebate system improved • Customs declaration form improved	
1994	• Import permits eliminated for all but 15 products · GATT observer status received · Licensing steps reduced · Export shipments relaxed	
1995	**· Joined ASEAN** • Import permits system relaxed · Import quota goods reduced to seven · Export quotas reduced to one (rice)	• Export taxes raised on 11 products
1996	· Maximum tariff reduced considerably · AFTA list promulgated · Managed import goods reduced to	
1997	**· WTO Accession process started** · Rice quotas allocated by provincial government	· Import of sugar prohibited · Temporary prohibitons imposed on consumer goods
1998	· Management of quota goods shifted to tariffs · Highest tariffs reduced substantially · Private sector exports allowed · Foreign invested enterprises allowed to export goods not in license · CEPT road map released · 3-schedule	• Partial surrender requirements imposed · Special sales tax extended
1999	· Decree 57 liberalising right to import and export issued • New tariff with smaller range and rates released · Surrender requirements reduced from 80% to 50%	· Decree 254 added to list of conditional imports
2000	**· US-VN bilateral trade agrrement signed** · Import permits system relaxed (from 20 to 12) · QR on 8 out of 19 remaining groups removed. · Trade promotion centre established · Control on FEx relaxed	
2001	· All legal entities permitted to export most goods without having obtain a special license · Quantitative restrictions multilaterally on all tariff lines of 8 groups of products removed · Foreign exchange surrender requirements reduced from 50% to 40% · 713 tariff lines moved from TEL to IL	
2002	· Foreign exchange surrender requirements reduced from 40% to 30 % · List of goods and tax rates for implementing CEPTdetailed · Implementing decision for US BTA issued **· WTO negotiation team started working session in**	
2003	· Foreign exchange surrender requirements abolished · Sixth and seventh WTO working parties conducted (May and December) · Tariff rates for implementing CEPT officially	

Source: CIE 1999, and our updates for 1999-2003

Bilateral trade liberalisation under the US BTA

The United States and Vietnam began trade negotiations immediately after the normalization of their relationship, and the first round of negotiations between the two countries was held at Hanoi in September 1996. After nine rounds of difficult negotiations, Vietnam and the US officially signed a bilateral trade agreement (BTA) in July 2000 which marked a cornerstone for the total normalization of economic and trade relations between the two countries. The BTA was then approved by the Congress and the President of the United States in October 2001 and by Vietnam's National Assembly during its session in November and December 2001.

Under its bilateral trade agreement with the United States, Vietnam has made commitments to open its domestic market to imports from the United States. Regarding tariffs, Vietnam has agreed to the reduction of tariff rates for 244 items from a total of 6,300 items in the existing Tariff Schedule. Among these, 195 items are agricultural products, which indicates that Vietnam has made more tariff-reduction commitments on agricultural produce than on non-agricultural commodities. Since Vietnam is a developing country and is in a process of economic transition, it has a delayed period of 3 to 6 years to cut tariff rates for 244 items to the committed levels.

There are also other non-tariff commitments reflected in nine annexes to the Agreement which describe Vietnam's concessions in the following areas: (a) national treatment, (b) quantitative restrictions and prohibitions on export and import (Vietnam agreed to remove all quantitative restrictions on the import of 69 agricultural products within a period of 3 to 5 years from the entry into force of the BTA. However, in the case of sugar, Vietnam can avail of a delayed period which extends up to 10 years), (c) state trading (the Government of Vietnam will adopt, upon entry into force of the agreement, general principles of non-discriminatory treatment for governmental measures affecting imports or exports of private traders for all products with the exception of a few goods of strategic importance), (d) restrictions on export and import trading rights and distribution rights, (e) tariff rates, (f) financial and communication services, (g) services, (h) investment, and (i) illustrative list of TRIMs.

Multilateral trade liberalisation under the WTO

Viet Nam applied for accession to the World Trade Organization (WTO) in January 1995 and at its meeting on 31 January 1995, the WTO General Council established a Working Party (WP) to examine the application of the Government of Viet Nam to accede to the WTO under Article XII of the Marrakesh Agreement Establishing the WTO. The Working Party on Viet Nam consists of 40 WTO members who are major trading partners of Viet Nam.

In August 1996, Viet Nam submitted a "Memorandum on Foreign Trade Regime of Viet Nam" to the WTO Secretariat for further circulation among all the members. This is a basic and first official document containing an overview of Vietnam's economic system as well as economic policies, trade in goods, trade in services, intellectual property rights etc. Based on the memorandum, the transparency period began, whereby members submitted questions in order to clarify all the areas of Viet Nam's trade regime and ensure that Viet Nam has adequate capacity to implement obligations under WTO agreements.

Viet Nam has provided responses to these questions and also submitted different documents for further clarification. During the period of 1998-2000, the WP on Viet Nam held four formal meetings in Geneva to examine preparations by Viet Nam and its conformity with the WTO rules. The fourth meeting held in November 2000 ended the transparency period and opened a new phase of accession which is commonly called as a period of substantial negotiations. During the transparency period, Viet Nam provided answers to more than 1,700 questions regarding all areas of concern to existing members of the WTO.

The new phase of accession includes making national legislation and the trade regime more consistent with the WTO rules and examination of Viet Nam's initial offers on markets access for goods and services and bilateral negotiations. In December 2001, Viet Nam submitted its "Initial Offer on Goods and Services". The tariff offer included binding of 96% of tariff lines with an average rate of 27.8%, of which agricultural products receive a protection level of 32% on average, and non-agricultural products 27.1%. The initial services offer included 9 service sectors or 78 sub-sectors. Subsequently, for the sixth and seventh Working Party, the offers were revised to 25.8% and 21% of average tariff rate respectively, together with a wider access to the services market (10 sectors and 88 sub-sectors).

Based on the offers and the progress achieved during the previous sessions, the fifth meeting (April, 2002) the sixth meeting (April, 2003) and seventh meeting (December 2003) accompanied by a series of bilateral negotiations have moved the accession forward. It is planned that the Working party will convene at least three times in 2004 to speed the accession process, which Vietnam strives hard to complete by 2005. Up to now, negotiations have progressed in a number of areas including the following:

- Vietnam conducted a series of bilateral negotiations, which have helped Viet Nam have better ideas about what WTO members are seeking, and enable Viet Nam to explain its position.
- Vietnam revised its market access offers in goods (in November 2002 and October 2003) and services (in March 2003).
- Vietnam provided full details of imports duties currently effective (i.e. an "applied tariff schedule") for the seventh working party (10 and 11 December 2003).
- Vietnam provided a document on agricultural domestic support and export subsidies despite the lack of sufficient statistics and adequate expertise.

Vietnam replied to questions, updated Viet Nam's plans for legislation adjustment, provided to the Working Party information on non-tariff measures, and action plans to implement a number of WTO agreements including: (i) progress in phasing out dual price (higher price charged foreign consumers and businesses)[2]; (ii) progress in phasing out local content policies (import tariff on motorcycles and parts that require the use of local content were abolished at the end of 2002 and Viet Nam hopes to conform completely with WTO rules by the end of 2006); (iii) efforts in complying with the intellectual property (TRIPS) agreement; (iv) a pilot project introducing WTO-based customs valuation; (v) progress in implementing the Sanitary and Phytosanitary Measures (SPS) agreement, including setting up an enquiry point by the beginning of 2006; (vi) new development in restructuring state enterprises and converting them to equity ownership, with the creation of a fund for this purpose; (vii) new investment regulations aimed at creating a level playing field for foreign businesses[3]; and (viii) Vietnam made efforts to achieve greater transparency in the promulgation of laws and legal documents.

Despite the efforts made by Vietnam, it still has a distance to go to meet its self-imposed target for WTO accession of January 2005. In the seventh Working Party, while members appreciated the positive developments in Vietnam's legislation and encouraged further efforts towards eliminating discriminatory practices that were inconsistent with national treatment and MFN principles, the negotiations on the planned transition periods for WTO compliance appear to be uneasy. This, however, does not depend on Vietnam alone, but crucially on how willing Vietnam's trading partners are to consider Vietnam as among the poorest countries and, therefore, give it more time to adjust. In this sense, Vietnam is, according to some commentators, among the biggest losers of the failure of the Cancun Ministerial Meeting in September 2003[4].

Major changes in trade regime in Vietnam

Vietnam has taken major steps in liberalizing trade and in reducing import protection. Trade reforms gained momentum between late 1980s and early 1990s, stalled during the 1995-97 period and accelerated again from 1998 onwards. By now, significant progress has been made with regards to both tariff and non-tariff barriers. This will be presented in the respective sub-sections.

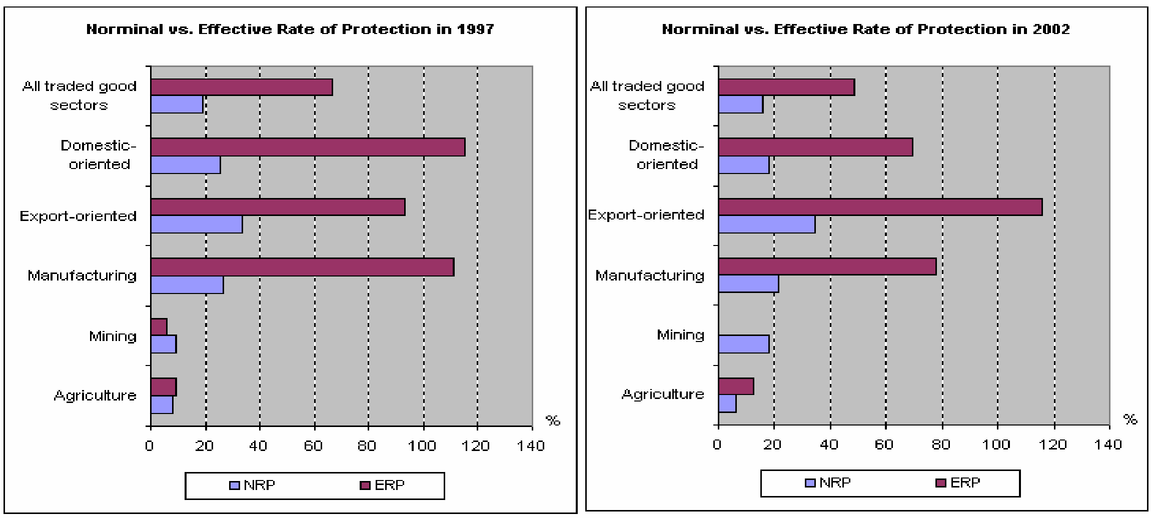
<u>Tariff protection</u>

Thanks to a series of measures taken during the past years (see Figure 3), tariff protection has fallen quite considerably. The average import tariff is down to around 16 percent in 2002, resulting in the fall in the tariffs dispersion and the overall nominal protection rate

[2] The last two remaining are electricity and domestic airfares, which will be abolished by 2005.
[3] For example since March 2003, the government has allowed up to 30% foreign ownership in Vietnamese companies, and drafted laws that would eliminate value added and excise taxes that discriminate against foreigners.
[4] If Cancun succeeded, Vietnam might have had easier conditions for joining.

(see Figure 4 for the latter). There are only 15 tariff bands now, down from 35 in 1997, and the maximum tariff rate was reduced from 200% to 120% over the same period. Only 1% of total tariff lines (i.e. 71 out of 6296 lines) have rates above 50%.[5] The dispersion in tariffs, as measured by the coefficient of variation (CV), remains high, though it has come down from 131 to 116 over the same period (World Bank 2003b p.12). However, currently applied tariffs in Vietnam are comparable to neighbouring Asian countries (see Table 5), all of whom are already members of the WTO. This may imply that Vietnam is quite well positioned to join the WTO, as well as to further reduce tariff barriers within the WTO afterwards.

Figure 4. Nominal and Effective Protection Rates by Sectors: 1997 and 2002



Source: World Bank. 2003b., p.18.

Another measure of tariff protection which is normally used to assess the degree of trade-induced distortions to business incentives is effective rate of protection. Figure 4 shows that effective rate of protection has fallen, but there are huge differences between agriculture and manufacturing in favour of the latter. Within manufacturing sectors, high tariff rates tend to favour capital-intensive industries at the expense of labour-intensive industries (Institute of Economics 2001 pp.21-22). Trade-induced biases against agriculture should thus have negative impacts on poverty reduction, as agriculture employs 69 percent of Vietnam's labour force and poverty remains a largely rural phenomenon, with 45% of the rural population living below the poverty line (World Bank 1999 p.2). This may suggest that joining the WTO and further lowering tariff barriers on manufacturing under the WTO might be beneficial to poverty reduction in Vietnam, as rural people might get more incomes from their agricultural products and pay cheaper price for manufacturing goods.

[5] These tariff rates are concentrated in three HS Chapters: HS 22 (Beverages, spirit and vinegar); HS 24: (tobacco and manufactured tobacco), HS 87 (Vehicles, other than railway).

Table 5. Nominal Tariff Rates & Dispersion in Selected East Asian Countries, 2000

	Tariff measure	All products	Primary products	Manufacturing
China	Mean	15	14	15
	CV	71	102	59
	Weighted mean	20	19	16
	Maximum	121		
Indonesia	Mean	8	7	16
	CV	128	159	119
	Weighted mean	11	5	26
	Maximum	170		
Malaysia	Mean	10	5	15
	CV	200	181	172
	Weighted mean	13	12	16
	Maximum	300		
Philippines	Mean	8	6	8
	CV	94	57	19
	Weighted mean	7	5	9
	Maximum	60		
Thailand	Mean	18	16	19
	CV	84	48	55
	Weighted mean	17	14	18
	Maximum	80		
Vietnam (2002)	Mean	16	19	14
	CV	113	124	102
	Weighted mean	15	17	13
	Maximum	120.0	120.0	50.0

Source: World Bank. 2003b, p.17.

Non-tariff measures

Non-tariff measures that have direct bearing on participation of various types of enterprises in importing include (i) non-automatic import licensing; (ii) special authority regulation. Besides, direct quantitative restrictions and foreign exchange control as key non-tariff measures in Vietnam may also considerably affect the ability of enterprises to import/export and therefore will also be discussed.

Non-automatic licensing[6]

Figure 5: Evolution of External Trade Entry Conditions in Vietnam

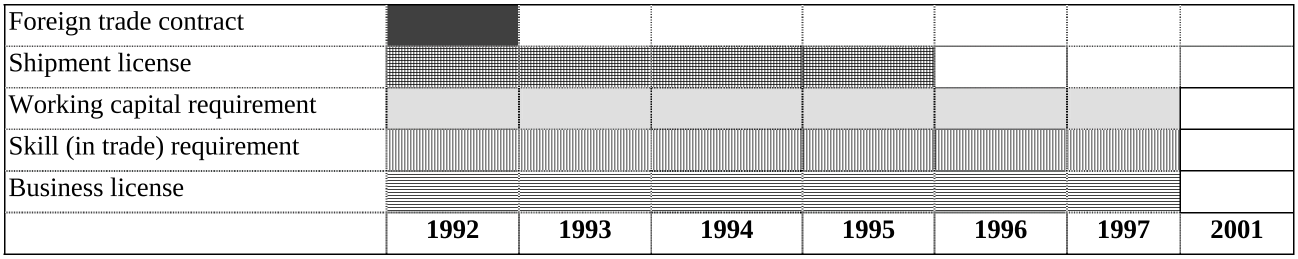


Figure 5 shows changes in the import/export licensing system in Vietnam since 1992 to 1997. Until 1998 only licensed (authorised) trading companies were allowed to engage in foreign trade. This acted as a powerful tool for preserving the privileged position of SOEs in foreign trade and limiting importation of consumer goods. Decree 57/1998/ND-CP (31 July 1998) issued by the Government has marked a significant change in terms of the entry into international trading activities. The Decree stipulates that all enterprises are allowed to trade their goods registered in business license with no need to ask for the import/export license except four groups of 'special' goods[7]. The central point of the Decree is that for goods that are not under the special regulations, domestic enterprises are encouraged to trade and what they need to have are a business license and the registration of a reference trading code to customs office. However, the business license requirement was abolished in 2000. At present, any formal (registered) enterprises that also register for foreign trade activities, can import and export goods that are not in the list of four groups of the "special" goods as mentioned above. There are no longer requirements as specified in Figure 2 (minimum working capital, skills in trade, business license). Of equal importance, there is no discrimination against domestic private and foreign invested firms. As a result, the number of enterprises registered to foreign trading activities increased very fast, from 2,400 in the early of 1998 to 10,000 in November 2000 (4,500 SOEs and 5,500 non-SOEs) and 16,200 in 2001 (World Bank 2002 p.14).

Special authority regulation

A considerable number of items still require approval from relevant ministries (e.g. pharmaceuticals, some chemicals, recording and broadcasting equipment). Access to trade for these goods is generally limited and enterprises that can participate in trade of these goods are selected in special ways, usually by nomination and approval of either Prime Minister, the line Ministries or the Provincial People's Committees. This effectively remains another tool that support SOE dominance in international trade, as

[6] Non-automatic licensing is applied to trade in general and therefore this sub-section effectively also describes export licensing.

[7] Group of commodities traded by quotas; group of prohibited commodities; group of commodities under Government management; and group of specialized management

SOEs normally have better access to the regulating agencies. By 1998 over 12% of imports (in value terms) were subject to this form of regulation (CIE 1999).

Quantitative restrictions (QRs)

Vietnam also removed QRs relatively fast on a multilateral basis (see Figure 3). At present, only petroleum products and sugar are still subject to QRs. In general most the commodities under QRs are imported by SOEs. Although the authorities have begun to allocate some import quotas in all commodities under QRs to non-state enterprises, the number of these enterprises is still small because the conditions for entry are still strict and subject to change. In other words, for imports that are regulated by QRs, SOEs clearly dominate.

De facto NTBs

In addition to the formal licensing procedures, administrative rigidities and delays in the Customs administration have continued to remain important non-tariff barriers. Firms have to spend long time on clearing Customs procedures. This is well documented in various studies (IMPR 2002; Hopkins 2002).

Rigidities and delays in customs procedures have naturally given rise to widespread use of unofficial customs fee, which is widely held to disproportionately hurt private firms by raising opportunity costs and making customs transactions more time consuming and cumbersome. Based on interviews with managers of footwear exporting companies, Boye (2002) reports that the following 'standard' unofficial fees are required to process incoming shipments: US$20 for clearing a 20 foot container, US$40 for a 40 foot container, US$ 100 late inspection fee' (Boye 2002 p.27).

Foreign exchange restrictions

From time to time import flows have also been regulated in line with government priorities through regulating the release of foreign exchange by banks for meeting import payments. For instance in late 1998, in face of the widening current account deficit following the onset of the East Asian crisis, the MPI in consultation with the Ministry of Trade and other relevant ministries, resorted to such control on imports of some groups of consumer goods. The two major instruments used were limiting foreign exchange release for imports by foreign invested enterprises to the actual amount of foreign exchange they have brought into the country in the year ("balance" their foreign exchange) and an advanced payment requirement for importing consumer goods. The foreign exchange balancing requirement for FIEs was relaxed in May 2000. From then on FIEs have been able to purchase foreign currency from domestic banks to repay loans obtained from offshore banks. Although foreign exchange control has been relaxed in recent years due to favourable balance of payments, there still exists an implicit ceiling imposed on imports of consumer goods (not exceeding 10% of total imports). It implies that whenever there is a problem with the balance of payment, access of firms, particularly domestic private enterprises, to foreign exchange will be tightened and thereby their participation in import activities will become disproportionately more limited.

Export regulations

Export licensing was previously discussed together with import licensing. In particular, by the middle of 2002, quantitative restrictions on the exports of most sectors (including export of rice, whose quota was abolished in 2001) had been eliminated. The exceptions are textiles and garments and a list of sensitive items. An increasing proportion of bilateral quotas on textile and garments is allocated through an auction process (this proportion was 25% in 2001)[8]. Importantly, the schedule to phase out quantitative restrictions was announced as part of the Five-Year Import-Export Program (2001-2005). This clearly allows the private sector to anticipate and adjust to the new trade regime. Private firms are increasing its participation in and play an increasingly important role in the export sector.

Although the government has resorted to various tax exceptions for exporters, there are generally no direct export subsidies in Vietnam. However, some rewards currently provided to exporters for penetrating into new markets may not be inconsistent with the WTO.

Import duty rebate

The duty drawback scheme in Vietnam seems to operate reasonably well. However, operation of the scheme still has left much to be desired. It is common perception that these practices provide fertile ground for corruption and favoured treatment of SOEs and well-connected firms against other firms (particularly small- and medium scale ones). Anecdotal evidence suggests that some private firms (mostly small and medium sized firms) tend to rely on SOEs for exporting their produce and for procuring imported inputs. According to a recent survey of 150 textiles and garment firms, over 40% of the responding firms imported inputs used by these firms are imported through third parties, mostly the VINATEX (the General State Textile and Garment Corporation) (IMPR 2002 p.20). WTO accession would mean lower tariffs on both inputs and outputs, and more level playing field for all types of firms and hence would reduce the severity of these problems.

Exemption from domestic taxes

Vietnam has a number of domestic taxes: licence tax, turnover tax, special sale tax, profit tax, agricultural land use tax, tax on land transfers, natural resource tax. Exporters are

[8] Export quotas to EU and recently to the US markets clearly favoured the market incumbents who normally received automatic allocation of quantities equivalent to those in previous year. However, the importance of quotas for garment exporting firms is declining in light of the phase out of the MultiFibre Agreement which will complete in 2005.

exempted from value added tax (VAT) and special sales tax. Exporters also receive preferential treatment with regards to profit tax.

With the exception of the VAT rebate, all other tax concessions are based on criteria that offer a wide range of reasons for preferential treatment and therefore leave space for discretionary decisions through tax authorities. Some firms, particularly SOEs can "negotiate" with the state about the amount of tax they will pay in a particular year. More importantly, new firms (particularly small firms) are likely to be disadvantaged when it comes to settling tax payments because their negotiation power is likely to be small.

5.4 Assessment of the likely impacts of WTO accession

This section will first make a general assessment of what changes, as compared to the status quo, would be expected in the policy and business environment, once Vietnam joins the WTO. It will then evaluate the growth and poverty impacts of such changes at both the economy-wide and sectoral levels. Impacts of the likely outcomes of the Doha Development Round will be answered wherever possible.

Opportunities and challenges associated with WTO accession: a general assessment

There was a common opinion in Vietnam that by joining the WTO, Vietnam will be able to (i) gain much greater access to foreign markets with much larger export opportunities; (ii) attract much larger flows of quality foreign investments; (iii) get access to instruments for dispute settlements, or the so called "protection against protection", which are only available for WTO members; and (iv) have stronger motivation for accelerating domestic reforms towards perfecting market-based economy for the benefit of the country as the whole.

Therefore, accession to the WTO is seen by many as a means to achieve the ambitious targets set out in the various socio-economic development programs, particularly on economic growth and poverty reduction, job creation, thanks to apparent expansion of labour-intensive export-oriented industries resulting from WTO accession.

International experiences indicate that the WTO accession process requires significant changes in the business environment which should be based largely on market principles. This is of utmost importance to the economy in transition of Vietnam. For example, The WTO national treatment rule implies the creation of a level playing field for all kinds of enterprises in broader market access, fair competition, and free market entry and exit. A unified legal system will be applied for all firms regardless of its ownership. This will imply the need to accelerate SOE and banking reforms, and private sector development. These reforms will have far-reaching implications for Vietnam.

As mentioned earlier, Vietnam has made significant progress in trade in goods. The initial goods trade offer Vietnam has made to the WTO is not much different from the status quo. Even the average tariff of 27.2% and 21% in the first and second offers respectively are much higher than the currently applied tariff of 15%. It seems that issues related to trade in goods such as the lowering of tariff and non-tariff barriers, though challenging, are not the biggest ones. AFTA and US BTA have provided a training ground for Vietnam to liberalise its trade multilaterally, as they may to certain extent represent the South-South and North-South trade liberalisation patterns. Many domestic firms have therefore already been exposed to international competition[9] and thus are more or less ready to rise to challenges and capture opportunities associated with WTO accession.

But Vietnam still lags far behind on “behind-the-border-issues”. The major challenges seem to be related to *a range of behind-the-border issues* – such as legal system, transparency in the business environment, banking and finance, other services, intellectual property rights, investment etc. Although Vietnam has already made some of these commitments under the US BTA, WTO accession is likely to mean much more. These issues should be addressed properly and in a timely manner, if Vietnam is to join the WTO in 2005, as the Government of Vietnam wishes; and, more importantly, if Vietnam is to maximise the gains and minimise costs associated with WTO accession. WTO accession helps Vietnam raise the efficiency and affordability of access to a range of infrastructure services including telecom, power, transportation etc. thanks to the decline of monopoly power through competition for and in the market, and improving the regulatory framework in the services sectors. This in turn will result in dynamic and spill-over effects to help Vietnam achieve higher growth. However, due to the lack of capacity, there is a wide range of services for which implications of commitments to be made for WTO accession and how to implement them are not adequately understood in Vietnam.

Accession to the WTO means having in place a more effective legal framework for better macro-economic management, and for firms to substantially reduce transaction costs. Independent judicial review will need to be undertaken so that uniform application of laws under the WTO principle will be able to eliminate conflicts between national laws and sub-law documents. International experiences show a massive agenda on legal review and systematization involved in removal of redundant laws and regulations as well as creation of newly relevant legislations that conform to the WTO practice. Policy making process will have to be made more transparent both internally and externally. All these will have large positive spill-over effects for poverty reduction and especially economic growth. In particular, this may provide added incentives for efforts towards achieving Goal 9 on improving governance for poverty reduction, particularly targets 2 and 3 (See Appendix 1).

Vietnam’s accession to the WTO also means the need to accelerate domestic reforms. Many commentators see WTO accession as a means to lock in the various reforms and make them time-bound. Further reform of state-owned enterprises (SOEs) would become imperative as these companies would face much fiercer competition, and due to the national treatment principle. SOE reforms help free up resources for domestic private firms, which can provide jobs for migrant workers from periphery and poorer provinces

[9] They have also been struggling with cheap smuggled goods from China, a WTO member and a Vietnam’s major trading partner.

(Weeks et. al. 2003 pp.22-23). Furthermore, I-PRSP Community Consultation in Vinhlong province in 2001 has found that SOEs were seen by poor people as urban-based, requiring highly skilled labour, and accessible mainly to those with "friends on the inside". They therefore do not hope to get a job in SOEs (CPRGS Consultation in Vinhlong Province 2002 p.2). Therefore, acceleration of SOE reform may potentially be beneficial to poverty reduction in Vietnam. Tax reform would have to be accelerated to compensate for the possible reduction in tariff revenue in the short term. The administration of the customs department would have to be upgraded to make it consistent with WTO rules. Agencies that regulate services sectors, including banking, insurance, telecom and transport sectors as well as the protection of intellectual property rights would need to be revamped to comply with WTO principles. Improving other market-based institutions such as business services providers, business associations, and further investing in human and information resources will help Vietnamese businesses raise return to their efforts.

The benefit of WTO Accession may be further understood by asking a question about the cost of Vietnam not joining the WTO, particularly in light of China becoming a WTO member recently. It is apparent that the China factor should be and will be weighted heavily by Vietnamese policy makers. China joined the WTO and took major steps in improving the legal and regulatory systems. China also went further by making draft laws available for public discussion. These changes coupled with greater market access overseas explain the recent upsurge of FDI in China, in contrast to the sluggish flow of FDI commitments in Vietnam in recent years. This provides a lot of information for thoughts on measures to increase the flow of foreign investment which is badly needed for higher economic and export growth and faster poverty reduction in Vietnam. The best response of Vietnam would be to join the WTO soon and create an environment which is as business-friendly as Chinese one.

There are, however, big challenges facing Vietnam in relation to WTO accession. First, WTO is an imperfect organisation which needs substantial and continuous improvements to make it a real organisation of equals. The disproportionately large power enjoyed by rich members induces tension in the relationship among members of this club. Smaller economies feel that they are treated in an unfair way. The non-market economy status that is often unfairly imposed on countries in transition on their accession to the WTO causes serious concern in Vietnam, as it introduces additional uncertainty in its economy. This may imply that Vietnam should not accept this status in any case. Unlike China, which is a great player in the world trading, Vietnam does not have that power to make the threat to retaliate credible. Vietnam does not have sufficient resources to succeed in dispute settlement under the WTO. The catfish incident has negatively affected the life of many poor people in Vietnam.

Second, social and poverty impacts (particularly short-run) of WTO accession also cause some concern among policy makers in Vietnam. Deepening international integration means both higher return and higher risk to businesses. The latter may be severe for the poor and the near-poor. The World Bank in Vietnam has recently launched a project to make an assessment of the poverty and social impacts of trade liberalization on rural households, but it is still too early to report any results (World Bank 2003c p. 90). Poverty and social impact analysis for WTO accession may come a bit later, when the possible outcomes of Vietnam's WTO negotiations, in terms of both the likely commitments and the length of transition period allowed, would become clearer. But some analytical work that has been done on the social impacts of labour retrenchment in the public sector (Belser and Rama 2001; Rama 2002) may provide very useful information. The Government of Vietnam has partly used the findings of that work to set up a special Social Safety Net Fund for redundant SOE workers, run by the Ministry of Finance. Similarly, WTO accession also means the need for the Government to set up appropriate institutions that help Vietnam deal with social impacts and reduce vulnerability in the commodity and labour markets. Social safety net, corporate responsibility and access to hedging instruments against commodity risk clearly play a great role to protect the poor and the vulnerable from negative effects of the integration process. All these preparations take time, while Vietnam is under huge pressure to join the WTO before the Doha Round and ATC phase-in conclude in 2005. This imposes a real challenge to Vietnam and the success will depend on *a quantum jump* in the future engagement of Vietnam and the existing WTO members (Seung Ho 2003).

Assessment of impacts of WTO accession on economic growth and poverty reduction: an economy-wide approach

There are a number of studies that use Computable General Equilibrium (CGE) Model available to evaluate the economy-wide effects of Vietnam's trade liberalisation including that under the WTO.

Le Quoc Phuong (2001) used the GTAP model to assess the economic impacts of the process of Vietnam's integration. Based on the arguments that Vietnam is currently integrating into the world economy under different trade arrangements, Phuong proposes 4 scenarios for his assessments including (i) Vietnam's unilateral integration; (ii) Vietnam joining of AFTA; (iii) Vietnam's following the requirements of APEC; and (iv) global liberal trade. Phuong finds that economic integration does have positive impacts on the Vietnam's economy (Table 6).

Table 6. Impacts of Economic Integration on Vietnam's Economy under Different Scenarios

Macro indicators	Unilateral integration	Joining AFTA	Following APEC's requirement	Global liberalization
Export	1.7%	0.4%	1.8%	3.3%
Import	8.5%	2.7%	7.8%	9.9%
BOP	- 575	- 198	-518	- 577
GDP	2.9%	1.6%	3.2%	4.0%

Source: Le Quoc Phuong 2001.

Roland-Holst *et al* (2002) used a multi-sector, dynamic applied general equilibrium model to evaluate the impacts of Vietnam's Initial Offer on the economy. They calibrate five different scenarios for Vietnam's economy during the period 2000-2020. The first scenario calibrates the Vietnam's economy for this period based upon the Business as Usual trends for productivity growth. This scenario is viewed as the baseline for the dynamic counterfactuals of five different types. The other four scenarios include (i) the country joins the WTO and honours its commitments but the domestic economy is not reformed[10]; (ii) the country joins the WTO and implements the agreed offers; (iii) the country implements the BTA with the US; (iv) capital market is liberalised. These five scenarios are run to forecast the economic growth for the period 2000-2020. The authors conclude that:

- If the country does not reform to enable domestic institutions to capture the opportunities the global economy presents, WTO accession brings about marginal contribution to the aggregate growth effects while the larger share of benefits will flow to Vietnam's trading partners. The explanation for this fact is that passive WTO-style opening of the economy only intensifies its comparative advantages in resource intensive, low-wage production (i.e. stuck in low-wage trap). Capital insufficiency further undermines Vietnam's gain from trade expansion.
- However, real GDP would nearly double in comparison with the baseline level or the WTO levels without any domestic reforms if Vietnam's Government continues a strict distinction between political and economic reform with determined economic liberalization and modernization.
- Capital market reform, both in the domestic and external markets, are can make the growth dividend 25% higher than growth dividend when the Vietnam-US BTA is signed and implemented and 250% higher than the scenario that Vietnam accedes to WTO with domestic economic reforms, and 500% higher than the baseline level or the level achieved under the scenario of WTO accession without reforms.

[10] This may look unusual, because Vietnam cannot implement commitments without substantial reforms. In addition, a major motivation of Vietnam joining the WTO is to deepen the reforms and make the various reform components time-bound. This shortcoming may arise from the nature of the Initial Offer, which has been seen by many as incomplete and inconsistent and therefore rejected by the Working Party.

While some messages, particularly the linkage and complementarities between WTO accession and domestic reforms, deserve due attention, other findings are of little relevance, as they were derived on the basis of the Initial Offer, which presents no real improvements over the status quo.

Although both studies indicate the positive growth effect of Vietnam's WTO accession, there is no indication of its poverty effect, unless economic growth has strong effect on poverty reduction as it happened in the last decade. However, it is widely believed that the current pattern of poverty reduction in Vietnam is substantially different from the past one, particularly the growth elasticity of poverty reduction should now be lower that it was before, unless specific policies to promote pro-poor growth are implemented (Weeks et. al. 2003 pp.18-19). This was confirmed by the recent poverty assessments jointly conducted by the Government of Vietnam and the donor community. If during 1993-1998, an increase in GDP per capita by one percent reduced poverty by 1.3 percentage points, during the period 1999-2002, the growth elasticity of poverty reduction is only 1.2 (World Bank 2003c p.56). However, the non-sampling errors of VHLSS 02 may be much larger than those of VLSS 98, because of much larger sample size the former (30,000) as compared to that of the latter (6,000). As a consequence, there is some doubt about the latter figure, and many people think that growth elasticity of poverty reduction during 1999-2002 may not be that large, and it may further reduce in the coming years. In short, these projections on economic growth do not allow to make inference about poverty reduction, unless they already incorporated into calculations a set of policies in favour of pro-poor growth.

A more recent economy-wide analysis of the impact of integration on poverty by the Centre for International Economics (CIE) in Canberra (CIE 2002) provides some insights into the impact of WTO accession on poverty in Vietnam. Although the report does not explicitly address WTO accession, it is quite informative with regards to speculation about the poverty impact of the WTO in Vietnam. The main reason is that this study uses CGE model to simulate a number of scenarios including the unilateral removal of all tariffs, which could be considered to be the maximum commitments under the WTO, to those commitments under the AFTA, US BTA, combination of AFTA and US BTA, MFN AFTA (i.e. AFTA concessions being extended to all Vietnam's trading partners in the world, so similar to WTO commitments with the current AFTA offer). It also simulated effects on poverty reduction of uniform productivity improvements and improvement in terms of trade (effects of other trading partners reducing their trade barriers to Vietnam's goods) - both of which are likely impacts of Vietnam joining the WTO. In short, the study provides useful information for us to speculate about the impact on poverty reduction of Vietnam's WTO accession, and of possible outcomes of the negotiations under the Doha Development Round. The poverty effects of trade liberalisation under various policy reforms that are found by this study can be seen from Table 7.

The Table shows that trade liberalisation, according to this study, has beneficial effect on poverty, which is robust across all scenarios that reflect Vietnam's trade agenda, and valid for both indicators of poverty incidence and poverty gap. Although the commitments that Vietnam is likely to take to join the WTO are unlikely to coincide with any of these scenarios, the robustness of the favourable poverty impact is striking. Moreover, as these findings provide a range of possible changes in the trade regime, and in the Vietnamese economy, they may provide some ideas about the magnitude of the poverty impact of Vietnam's WTO accession. For example, the impact under AFTA and/or US BTA may provide the lower bound of the estimates, while the impact under unilateral tariff removal may be close to the upper bound of the estimates.

Table 7. Poverty Impact of Various Scenarios of Trade Reforms

Poverty Incidence (%)						
	Vietnam		**Rural**		**Urban**	
	Food Poverty	General Poverty	Food Poverty	General Poverty	Food Poverty	General Poverty
Baseline	15	37	19	46	3	9
Unilateral Removal of Tariffs	12	33	15	40	2	7
Other Countries Tariff Reductions (Vietnam's TOT improvements) by 10%	13	33	16	41	2	7
Uniform Improvements in Productivity by 10%	9	25	11	31	1	4
MFN AFTA	14	36	18	44	2	8
US BTA	15	36	18	44	2	8
AFTA - BTA combined	14	36	18	44	2	8
Poverty Gap (%)						
	Vietnam	**Rural**	**Urban**			
Baseline	10	12	2			
Unilateral Removal of Tariffs	8	10	1			
Other Countries Tariff Reductions (Vietnam's TOT improvements) by 10%	8.3	10.3	1.4			
Uniform Improvements in Productivity by 10%	6	7	1			
MFN AFTA	9	11	2			
US BTA	9	11	2			
AFTA - BTA combined	9	11	2			

Source: Compiled from various figures in CIE 2002

A question that arises is how such an outcome is arrived at. The study points out to the sharp drop in real prices of consumption, leading to significant increase in real income for households under scenarios with Vietnam's tariff reductions. In the scenario with improvements in terms of trade due to reduction in trade barriers to Vietnamese goods in external markets, the positive nominal income effect dominate the rise in price to result in the increase in real income[11]. In the scenario with productivity improvement, the positive effect on nominal income is reinforced by favourable effect on consumption price to make the overall poverty effect the strongest among all scenarios. In turn, the productivity improvements may be the outcome of WTO accession resulting in improved productivity in all sectors, most notably service sectors, where market power enjoyed by a few giant SOEs is strongest. Productivity improvements may also be attributed to domestic reforms that Vietnam carries out independently of external forces, but to implement its own development agenda. In this sense, the proactive approach to international economic integration currently announced by Vietnam may play an important role for poverty reduction.

Although interesting and useful, the findings of this study need qualifications. First, the model assumes perfectly competitive goods market, perfect movement of labour and capital as major production factors across both sectors and geographical regions. These assumptions are clearly very restrictive and therefore the results of analysis may need to be considered as the upper bound of the positive effect. In reality, price signals cannot pass on fully to all geographical regions, due to relatively weak spatial integration of the national goods market in Vietnam. Minot and Golleti have found that "spatial market integration analysis indicates that the degree of market integration has increased somewhat since the late 1980s, but it remains weak" (Minot and Goletti 2000).

Labour rigidities are quite common in Vietnam, and labour mobility across sectors and regions is clearly far from perfect. There is evidence that the existence of some imperfections in the labour market may severely impede the ability of the poor and not allow them to adequately participate in and benefit from strong performance of export-oriented manufacturing sectors (See Box 1 in Section 4.2.3.). This again highlights the importance of domestic reforms to sweep out impediments to timely response by firms and households to changing incentives in order to augment any positive effects of trade reforms.

The study appears to follow the trade approach in CGE modelling, which assumes full employment of factors (labour and capital) and allows only for reallocation of labour between sectors to achieve allocative efficiency. For countries with high rate of unemployment and under-employment, the development approach may be more appropriate that the trade approach. Besides, the macro closure assuming savings-driven investment may need to be checked against.

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[11] See Appendix Table 1 and able 2 for information on income and consumption structures, which may help to shed light how trade-induced changes may affect household's income and consumption.

This study also keeps silent about the impacts of trade liberalisation on budget revenue[12]. Theory does not provide an unambiguous answer to this question. It is common opinion that the sequencing of trade reform would play a key role here. For example, converting non-tariff barriers into tariff and reducing high (prohibitive) tariffs would help to raise budget revenue. After reaching a certain threshold, any further tariff reduction would undermine the Government's budget with possible negative consequences on pro-poor spending. However, what the threshold is may vary across countries and is the subject of empirical investigation. One study suggests that the actual import duty ratio has behaved remarkably independent of the import-weighted average duty rate through the 1990s (Athukorala 2002 p.28). However, this evidence needs to be examined further for making firm policy recommendation.

In practice, the Government of Vietnam is still very concerned about the revenue impact of tariff reduction, given relatively high dependence of its budget on tariff revenues (Table 8). This is one of the reasons why the average tariff in the Initial Offer is much higher than the currently applied tariff.

Table 8. Budget and Export and Import Tax Revenues, 1991-2002
(% of total revenue if otherwise indicated)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total revenue (VND billion)	*10613*	*21023*	*32199*	*41439*	*53374*	*62387*	*65352*	*72965*	*78489*	*90650*	*97500*	*112420*
Total revenue (% Of GDP)	*100.0 (13.8)*	*100.0 (19.0)*	*100.0 (23.0)*	*100.0 (23.2)*	*100.0 (23.3)*	*100.0 (22.9)*	*100.0 (20.8)*	*100.0 (20.2)*	*100.0 (19.6)*	*100.0 (20.5)*	*100.0 (20.1)*	*100 (21.0)*
Domestic revenue	*95.0*	*96.0*	*96.8*	*96.8*	*97.0*	*97.5*	*96.0*	*97.1*	*97.4*	*97.7*	*98.1*	*98.2*
Trade Taxes	79.0	71.9	76.1	81.0	81.9	83.6	81.3	77.7	81.9	88.4	89.5	89.6
(Import tariffs. & Export taxes)	***10.4***	***10.4***	***19.9***	***21.8***	***24.9***	***24.2***	***20.7***	***20.4***	***18.3***	***14.8***	***16.6***	
(Oil revenue)	***18.3***	***20.2***	***15.9***	***12.1***	***11.4***	***11.7***	***13.55***	***11.8***	***15.9***	***25.9***	***24.1***	
Fee	13.8	16.2	9.4	9.7	12.2	11.2	11.6	13.9	13.2	8.0	6.0	
Current grants	*5.0*	*4.0*	*3.2*	*3.2*	*3.0*	*2.5*	*4.0*	*2.9*	*2.6*	*2.3*	*1.9*	*1.8*

Source: Ministry of Finance

Table 9 presents an assessment by some other studies of the changes in total budget revenue under AFTA and VN-US BTA in both short run and long run. Although the net effect on budget revenue is negative, the magnitude is quite small.

[12] Other CGE models often assume fixed budget deficit and therefore any tariff reductions have to be compensated by raising other taxes.

Table 9. Prediction on the Changes in Total Budget Revenue

Source	Total value (VND bill)	SR impact (VND bill)	Change (%)	LR impact (VND bill)	Change (%)
Under AFTA					
Trade taxes	13760	11695	-15.01	11880	-13.66
Other taxes and fees	64990	65580	0.91	66345	2.08
Total tax & fee revenue	78750	77275	-1.87	78225	-0.67
Under VN-US BTA					
Trade taxes	15030	14806	-1.49	14828	-1.34
Other taxes and fees	74147	74178	0.04	74078	-0.09
Total tax and fee revenue	89177	88984	-0.22	88906	-0.30

Source: Beard, J. 2001; Do Duc Minh and Pham Van Ha 2001.

Assessment of impacts of WTO accession on economic growth and poverty reduction: a sectoral approach

This section will look at the impacts of Vietnam's WTO accession, and different proposals that are being suggested in the negotiations under the Doha Round on agriculture and textile and garment industries, in which many poor people work.

<u>Vietnam's WTO accession and agriculture</u>

Agriculture employs 69 percent of Vietnam's labour force and thus provides food and social security for the majority of the population. Despite the gradual decline in its relative share to the country's total GDP, agriculture remains an important contributor to the national economy (about one quarter) and exports earnings (more than one third). Agriculture is the major productive activity for the overwhelming majority of the poor. Therefore, it is important to understand what implications Vietnam's accession to the WTO would have for its agricultural sector.

Under the WTO, Vietnam will be required to convert all its non-tariff restrictions on agricultural imports (such as its sugar import restrictions) into tariffs. Vietnam's trading partners will seek not only complete and bound tariffication but also a lowering (albeit staged over several years) of the tariff bindings, particularly in cases where protection is high. Table 10 shows that tariffs on agricultural products are not particularly high as compared to other countries. Tariff rates on rice, sugarcane, crops and livestock are even lower of 15.4%, 10%, 11% and 1.32% respectively. Besides, many tariff rates on agricultural unprocessed products which are production outputs of the majority of poor households are in fact redundant, as Vietnam has clear comparative advantage in these products and no imports can penetrate anyway.

Table 10. Tariffs on Major Agricultural Products (Tariff Schedule Applied in 2002)

		Number of tariff rates	Mean	CV	Minimum tariff	Maximum tariff
1	Live animals	25	2.8	89.3	0	5
2	Meat and edible meat and offal	53	21.1	15.2	30	20
3	Fish and crustaceans	92	28.4	23.9	0	30
4	Diary products	35	22.7	33.5	5	30
5	Products of animal origin n.e.s	20	4.5	33.3	0	5
6	Live trees and other plants	12	16.6	124.1	0	40
7	Edible vegetables, roots and tubers	22	23.5	51.1	0	30
8	Edible fruits and nuts	57	39.5	7.3	20	40
9	Coffee, tea, mate and spices	34	28.2	45.0	20	50
10	Cereals	18	10.5	108.6	0	30
11	Products of the milling industry	37	14.1	36.9	5	20
12	Oil seeds and oleaginous fruit	62	4.8	133.3	0	30
13	Lacs, gums and other vegetable slaps	13	4.8	12.5	3	5
14	Vegetable planting material	11	5	0	5	5
15	Animal of vegetable fats and oil	79	18.6	88.7	3	40
16	Preparations of meat, or fish or crustaceans	26	50	0	50	50
17	Sugar and sugar confectionary	19	18	100.8	3	40
18	Cocoa and cocoa preparations	14	30.7	60.3	10	50
19	Preparations of cereals, flour, starch or milk	25	39.6	38.1	0	50
20	Preparations of vegetables, fruit or nuts	49	50	0	50	50
21	Miscellaneous vegetable preparations	26	34.2	54.7	5	50

Source: Athukorala 2002 p. 44.

Vietnam will also have to abolish export subsidies. In its recent notification on export subsidies in agriculture, the Government of Vietnam stated that the average product-specific export subsidies is VND 1,103 billion (or around US$ 73.5 million) per year during the period from 1999 to 2001 (Nguyen Viet Vinh 2003 p.13). There are four major product groups which benefited from these subsidies, namely, rice, coffee, pork, and vegetables and fruits. The maximum that may be demanded by WTO members would be that none are introduced in the future[13]. However, the level of subsidies is not particularly large, and Vietnam has strong comparative advantage in rice[14] whose export subsidies account for over half of the total notified export subsidies (around 58 percent) (Nguyen

[13] According to countries' notification to the WTO, 25 WTO members can subsidise exports, but only for products on which they have commitments to reduce subsidies. Under the current WTO regulations, members who have not made commitments cannot subsidise agricultural exports at all. Some among these 25 countries have decided to greatly reduce their subsidies or drop them completely.

[14] Rice production in Vietnam has Domestic Resource Cost ratios of between 0.42 and 0.66. (World Bank 2003a p. 203.)

Viet Vinh 2003 p.13). Removal of subsidies on rice exports would not cause any serious problems to the rice sector. In the on-going negotiations for WTO Accession, Vietnam wants to bind the level of export subsidies at the maximum level allowable under the WTO. Although not absolutely necessary at this stage of development, this would provide room for Vietnam to manipulate policies in the future for the benefits of then poor households. Although some developed countries that are large exporters of agricultural produce put pressure on Vietnam to completely remove export subsidies, the position of Vietnam's WTO Negotiation Team has been consistently resistant.

There are some export taxes in place in Vietnam. Duties are placed on certain farm exports such as cashew nuts and rubber from time to time. Vietnam will be required to abolish these duties.

Some of the domestic support Vietnam currently provides to agriculture are permissible under the so-called 'Green Box' of the WTO's Agreement on Agriculture. However, domestic support in the form of payments provided from time to time via the Export Assistance Fund are more questionable, since they directly support producer prices when they fall below certain thresholds, and thereby boost the trend level of production above what it otherwise would be. At the very least the government of Vietnam may be required to make the operational rules of the Fund explicit and transparent and bind the levels of support that it provides.

A quick look at the current trade regime with regards to agriculture allows conjecturing that removal of the existing distortions to make the trade regime consistent with the WTO will not have large negative impact overall. However, some sub-sectors such as sugar, maize, soybean etc. where quite many poor households work (Kirkbridge 2004) may suffer. It is therefore important to do careful poverty and social impact analysis (PSIA) for these sub-sectors[15]. In any case, Vietnam's trading partners should be careful in formulating their requests to Vietnam, in terms of the level of commitments and the length of transition period, with regards to sensitive sectors. In this sense, any further progress in multilateral trade negotiations under the Doha Round of the WTO with strong development focus would help Vietnam to join WTO in a timely manner, with terms and conditions that are in line with Vietnam's development priorities.

If other countries, both developed and developing alike are committed to substantial reduction in barriers to agricultural trade under the Doha Round, Vietnam's agricultural sector, particularly those sub-sectors that have a large volume of export, will flourish.

The question is sometimes put the other way around: if Vietnam raises its rice export, it may hurt the net buyers of rice including the poor, as price of rice will increase.

[15] It should be noted that the sugar sub-sector's has already been in trouble even without WTO accession, mostly due to the low quality of investments and intensified sugar smuggling.

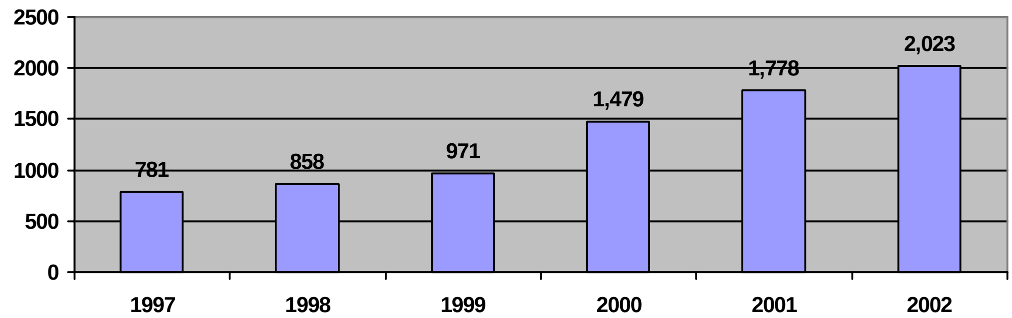
However, Minot and Golleti (2000) found that a 10% increase in rice price would lead to a marginal increase in poverty rate, from 25.0% in the base case to only 25.2% in the long term (Minot and Golleti 2000 p.64). Although high rice price will clearly hurt people in urban areas, higher rice prices would be expected to increase the demand for labour and wage rates, since rice production is likely to be more labour-intensive than many alternative economic activities. To the extent that the poor obtain a significant share of their income from agricultural labour, this would strengthen the poverty-reducing effect of higher rice prices. Winters et. al. (2002) have not found significant negative poverty effect of increase in rice price either, by looking at consumption pattern of the poor (Winters et. al. pp.12-13). A study by Oxfam GB and Hong Kong (Oxfam (HK) & Oxfam (GB) in Vietnam. 2001 pp.54-56), which is focused on poor communes in poor provinces of Nghean and Travinh, found that although low prices of rice were generally beneficial to poor households who are normally net buyers of rice, too low prices of rice may destabilise the local economy, i.e. reduce on-farm employment, trade, and investment, and may lead to distress land sales and, consequently, will severely hurt the poor and the near-poor. This implies that if well-managed and backed up by complementary policies in support of the livelihoods of the poor through effective diversification, rice exports can contribute to both economic growth and poverty reduction.

Vietnam's WTO accession and fisheries Sector

Figure 6 shows that Vietnam's export of aquatic products has grown very fast, almost tripling over the period from 1997 to 2002 and becoming one of the major foreign exchange earners. Aquaculture provides good opportunity for many farmers to diversify their production towards higher-value activities. VHLSS 02 reveals that fish ponds are increasingly common in Vietnam and by now, 15 percent of rural households, both rich and poor, have at least one (World Bank. 2003c, p. 40). Many poor households, particularly in the Mekong River Delta, managed to capture these new income generating opportunities and as a result, escape from poverty. Seafood processing industries also create many jobs and thus make an important contribution to poverty reduction. Although the direct poverty impact of further exports of aquatic products are likely to diminish substantially due to the increasing capital and knowledge requirements[16], the indirect impact of these relatively high value exports through economic growth and their role in keeping non-poor from falling back into poverty should not be underestimated. These exports may therefore be important for achieving VDG 8 "Reduce vulnerability".

[16] According to CRP/ActionAid study (CRP/ActionAid 2000 p. 41), the start-up fixed costs of catfish production are in a range of around VND 200 million (or around USD 15,000 at then prevailing exchange rate). This money is needed to buy a fish-feeding raft (boat) of 16mx7mx5m and a capacity of 60 tons per year. Smaller rafts would cost less, but not lower than VND 100 million (or USD 7,500). On top of this, at least a similar amount has to be provided for operating capital. One raft can employ up to only 5 workers. Besides, farmers need to possess certain level of knowledge and skills in order to meet sanitary and phytosanitary standards imposed on exports of aqua-products.

Figure 6. Export of Aquatic Products 1997-2002 (USD million)



Source: General Statistical Office, Statistical Yearbook 2003.

In the meantime, worldwide, the average tariffs for fish products continue to be more than 40 percent, well above the average of 6 percent for manufactured goods. Tariff reduction has been slow in the case of fish, which is of major export interest of developing countries in general and Vietnam in particular. Some fish products face tariff peaks, i.e. whose rates are the highest among all products. In addition, technical barriers and SPS present challenges to poor fish farming households, despite some technical assistance provided by donors. The biggest challenge to Vietnam's fish exports is the arbitrary protective actions, taken by developed countries. The recent catfish dispute with the US is a notorious example. This case was cited by Secretary General of the United Nations on the eve of the recent WTO Cancun Ministerial Meeting. Mekong Delta fish farmers quickly acquired a 20 percent share of the US catfish market, prompting charges of unfair trading practices by the Catfish Farmers of America (CFA). A US government attempt in mid-2002 to reduce trade volumes by prohibiting Vietnamese producers from marketing their product as catfish in the US did little to contain demand. The CFA's next move was to urge the US government to use anti-dumping legislation to impose tariffs on the grounds that Vietnam is a non-market economy and therefore local production costs are not a reliable indicator of the true cost of production. The case in interesting in that it both demonstrates Vietnam's remarkable capacity to penetrate export markets, and the vulnerability of these markets, which may lead to many farmers falling back into poverty, in the absence of a reliable mechanism of dispute settlement.

The decision as to the labelling of catfish and the non–market economy (NME) criteria used by the US against Vietnam could have been successfully challenged, if Vietnam were already a member of the WTO. There is no doubt that Vietnamese exporters are competitive solely because of geographic attributes of the Mekong delta, low labor costs, and accumulated traditional knowledge, and that there are no state subsidies involved. Overall, the case demonstrates the need for more stringent multilateral rules and special and differential treatment in the form of meaningful thresholds to protect small developing country exporters and new entrants to the market from trade harassment. This case also highlights the urgent need for Vietnam to join the WTO as soon as possible, as under bilateral trade agreements, Vietnam actually has to accept the terms and conditions of WTO without the rights it should have under the WTO.

It should be noted, however, that without imposition and proper enforcement of environment standards, the eruption of market forces with their “invisible hands” in the aquacultural sector may pose serious threats to environment, thus jeopardising the achievement of the development goal 6 “Ensure environmental sustainability”. A recent participatory poverty assessment carried out by the Centre for Rural Progress in Ninhthuan province in July-August 2003 finds (CRP 2003 pp. 56-58) that excessive development of shrimp business in this province over the last couple of years has caused severe damage and pollution to the underground water and environment, threatening the livelihoods of many poor households who heavily depend on natural coastal resources such as natural seaweed, crab, shrimp, fish etc. As a consequence, they had to seek other sources of earnings with lower and more unstable incomes[17].

Therefore, Government’s capacity to put in place and enforce regulations on environmental protection is key to ensuring that export and economic growth, and poverty reduction can be sustained over the long-term.

<u>Vietnam’s WTO accession and the textile and garment sector</u>

Table 11 shows strong growth and export performance of the textile and garment sector. It also makes a significant contribution to employment creation. Although by global standards Vietnam is a small exporter of garments and light manufactures[18], at the national level, apparel exports are an important export sector accounting for more than 14 percent of Vietnamese exports and providing a livelihood for thousands of unskilled workers, many of them come from the countryside (Table 12). There is no question about the utmost importance of this labour-intensive industry with strong export orientation for employment and poverty reduction.

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[17] This PPA strongly confirmed an early point about the lack of long-lasting beneficial poverty effects of exports of aquatic products. Indeed, although many poor households in Ninh Thuan received windfall profits from the sales of their land at high prices thanks to the boom of the shrimp production, it is the rich people coming mostly from Hochiminh City and purchasing the land for shrimp production who continue to receive super-profits from this business. After the sales of their land, many of poor people had to seek to work as hired labour in the shrimp business.

[18] In 1997 Vietnam had less than 1 percent share in the global apparel market.

Table 11. Performance of Textile and Garment (T&G) Sector 1994-2001

	1994	1995	1996	1997	1998	1999	2000	2001
GDP (VND billion at 1994 price)	178,534	195,567	213,833	231,264	244,596	256,269		
GDP growth rate	8.8	9.5	9.3	8.2	5.8	4.8		
Growth rate of T&G	20.7	-6.2	7.1	18.5	12.5	9.9		
Growth rate of T[19]	12.9	-14.8	3.2	13.9	15.2	11.0		
Growth rate of G	51.1	18.9	15.3	27.2	7.9	7.8		
T&G/Manufacturing	-	11.0	10.3	10.8	10.8	10.8		
T&G export (million USD current price)	431	850	1150	1503	1450	1750	1892	2000
T&G export growth rate	-9.5	97.2	35.3	30.7	-3.5	20.7	8.1	5.7
Share of T&G export/total country export	10.6	15.4	15.7	14.8	15.5	15.1	13.1	13.3

Source: General Statistical Office *(*GSO). Statistical Yearbooks for various years.

Table 12. T&G employment by urban/rural and by sex

	1992/93		1997/98	
	Wage employment	Total	Wage employment	Total
Total T&G employment (people)	491,599	1,042,786	634,736	1,173,658
Urban (%)	70.9	42	64.6	40.7
Rural (%)	29.1	58	35.4	59.3
Male (%)	23	23.7	19.8	23
Female (%)	77	76.3	80.2	77

Source: Bales 2000.

Apparel is also a potential growth sector since the recent USBTA opens up the US market to Vietnamese clothing and apparel. However, China's WTO accession now calls into question how much market share Vietnamese exporters will be able to capture in the US. WTO's accession will lead to the abolition of quotas on Chinese textiles and apparel exports to the US and the EU during a transition period up to 2007.[20] Increased Vietnamese exports to China stimulated by its WTO accession will not be enough to offset the decline in apparel exports to the third markets. Vietnam will be among few larger exporters that will be still subject to quotas to major markets in developed countries after ATC is fully phased in in 2005. Despite increases in exports of traditional products like rice, processed food, light manufacturing, metals and less traditional ones like petrochemicals, electronics and other manufactures, it is estimated that overall Vietnam will lose (World Bank 2003b p.38). Therefore, the natural response for Vietnam

[19] The economic growth rate of the pure textile industry must be lower if garments are taken out from the textile industry. In reality, many textile firms also do garment business. Statistical data on output of textile industry seem to have included garments.
[20] China will be subject to additional textile safeguard quotas until 2008, but these will be applicable for only one year at a time, unlike the existing quotas which were put in place for an indefinite period of time.

would be to join the WTO and also aggressively improve its business environment, especially the legal and enforcement systems.

However, analysis in Box 1 shows that expansion of garment exports does not automatically benefit people in poorer provinces. Other complementary policies will be required to augment capacities of poor people and thereby, allow them to more fully participate in and benefit from this strongly export-oriented manufacturing industry.

Box 1. Do the Poor Adequately Participate in the Export-Led Growth Process?

(Adapted From Nguyen Thang 2002)

WTO accession is widely expected to provide a further boost to the export growth of textile and garment, and footwear sectors. However, it remains unclear whether people in periphery and poorer provinces will be able to participate adequately in and benefit from this strongly labour-intensive export-oriented manufacturing industry through wage employment. This policy question arises from recent evidence of widening regional disparities in growth rates and poverty reduction, particularly between the so-called growth poles and the remaining parts of the country. Migration is an important mechanism that allows a more balanced regional development21, and thus is the main focus of this note.

In 2001 and 2002 the Institute of Economics supervised a survey of 150 textiles and garments firms located in the greater Hochiminh City area, Dongnai and Binhduong in the South, and the greater Hanoi area including the city itself, Haiphong, Namdinh, Thaibinh and Phutho in the North. These are the eight provinces highest in terms of employment in the textile and garment industry. These provinces account for forty-six percent of revenue and fifty-four percent of jobs in the industry. The sampling frame was constructed from GSO/UNIDO Industrial Census 1998. Firms were selected randomly with the probability of being selected proportional to size, measured by the number of workers in the firm. The sample was also stratified by ownership (central SOE, local SOE, foreign invested firms, domestic private firms) and sector (textile vs. garment) to capture differences in incentives and performance between these types of firms. Two separate questionnaires (for management and workers) were simultaneously applied. A standard weighting technique was applied to make the sample representative of the population of firms located in the selected provinces.

One of the questions asked of the worker is where he or she lived three years previously. If the province where the worker had lived was different from the one where the factory was located, this worker was considered to be migrant one. 1200 interviewed workers come from 42 provinces throughout Vietnam. Migrants represented eleven percent of total surveyed workers. Of these, thirty-six percent come from the South, twenty-eight percent from the Centre, and thirty-six percent from the North. Data indicate no sign of south-to-north migration. These figures may suggest that rapid export-led economic growth in the South East of the country had spill-over effects through the whole country. However, the proportion of migrants in the total workforce seems small relative to that in the informal low-paid non-tradable sector. This may indicate that people from poorer provinces of Vietnam benefit little in terms of employment from the export-led growth process.

[21] Migration came out strongly as a burning issue in the most recent poverty assessments (see World Bank 2003c).

Table 13. Unskilled Workers by Educational Attainment (in percent)

	MIGRANT UNSKILLED WORKER								All unskilled workers
Education	Northern Upland	Red River Delta	North Central	Central Coast	Central Highlands	Southeast	Mekong Delta	Unskilled migrants	
Primary	0.0	26.3	0.0	31.6	100.0	28.6	20.0	25.0	14.4
Lower Secondary	50.0	47.4	60.0	52.6	0.0	57.1	60.0	52.9	47.2
Upper Secondary	50.0	26.3	40.0	15.8	0.0	14.3	20.0	22.1	38.3
Total	100	100	100	100	100	100	100	100	100

If one compares educational attainment achieved by either all unskilled workers or unskilled migrants as in

with information on education level as revealed in the recent poverty assessments[22], one can easily see that education is a big barrier to participation of poor people in this seemingly unsophisticated export-oriented manufacturing industry.

Table 14. Ownership, Employment and Migrants

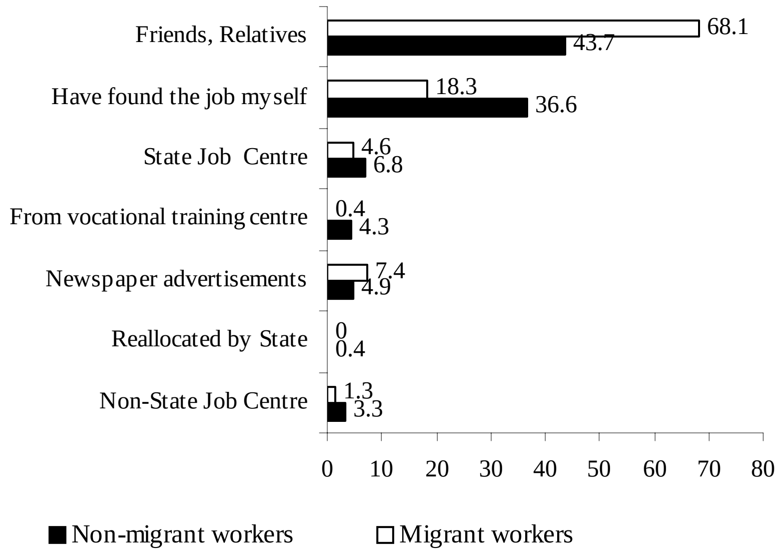
	FDI	Private	SOE	Total	Percentage
Central Coast	6	28		34	26.0
Central Highland	1			1	0.8
Mekong River Delta	3	25		28	21.4
North Central	6			6	4.6
Northern Uplands		1	1	2	1.5
Red River Delta	15	23	5	43	32.8
Southeast	15	2		17	13.0
Total	46	79	6	131	100.0
Share of migrants (%)	35	60	5	100	
Share of employment (%)	27.1	19.0	53.9	100.0	

Table 14 shows that domestic private firms absorb a disproportionately large proportion of migrant workers, thus, deliberately or not, shoulder most of the burden of job creation for people in the poorer provinces. However, disadvantages in regards of access to credit, external market etc. that are faced by private sector and well documented in numerous studies[23] may further slow down the trickle down effects on poverty reduction of outstanding performance of garments as a strongly export-oriented manufacturing sectors, which are expected to be among major winners of Vietnam's WTO accession.

Figure 7. Information Sources for Job Opportunities (%)

[22] It is found in the recent household survey VHLSS 02 that the net enrolment rates at upper secondary school level are only 17.1% for the bottom expenditure quintile and 34.1% for the near-bottom quintile (World Bank 2003, p. 62) indicating the possible educational gap that the poor may need to overcome in order to be able to participate in this seemingly unsophisticated sector.

[23] For example, see CIEM 2002 for the finding regarding relative disadvantageous position of private sector in the textile and garment sector.



Evidence shows (Table 13. **Unskilled Workers by Educational Attainment (in percent)**

	MIGRANT UNSKILLED WORKER								All unskilled workers
Education	Northern Upland	Red River Delta	North Central	Central Coast	Central Highlands	Southeast	Mekong Delta	Unskilled migrants	
Primary	0.0	26.3	0.0	31.6	100.0	28.6	20.0	25.0	14.4
Lower Secondary	50.0	47.4	60.0	52.6	0.0	57.1	60.0	52.9	47.2
Upper Secondary	50.0	26.3	40.0	15.8	0.0	14.3	20.0	22.1	38.3
Total	100	100	100	100	100	100	100	100	100

If one compares educational attainment achieved by either all unskilled workers or unskilled migrants as in

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) that people were active in search of employment, evidenced by high proportion that found jobs by their own efforts. However, data indicate that migrants face greater difficulty than non-migrants in accessing to basic social services[24]. In addition, Table 13. **Unskilled Workers by Educational Attainment (in percent)**

	MIGRANT UNSKILLED WORKER								All unskilled workers
Education	Northern Upland	Red River Delta	North Central	Central Coast	Central Highlands	Southeast	Mekong Delta	Unskilled migrants	
Primary	0.0	26.3	0.0	31.6	100.0	28.6	20.0	25.0	14.4
Lower Secondary	50.0	47.4	60.0	52.6	0.0	57.1	60.0	52.9	47.2
Upper Secondary	50.0	26.3	40.0	15.8	0.0	14.3	20.0	22.1	38.3

[24] Recent poverty assessments have pointed out to numerous impediments to migrants to participate in the growth process. It has been found that migrants from poorer families would be less likely to be generating enough income to remit a significant amount. Furthermore, depending on the resources of the local authorities, these households are likely to be excluded from benefits which are accessible to the resident poor, such as health care cards and exemptions from school fees under the Hunger Eradication and Poverty Reduction (HEPR) program as well as access to mainstream education. These households also face administrative hurdles in buying property and having an official address, which in turn makes it difficult for them to secure electricity and water connections. (World Bank 2003c. p. 30).

Total	100	100	100	100	100	100	100	100	100

If one compares educational attainment achieved by either all unskilled workers or unskilled migrants as in

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shows that migrants that word of mouth is the major source of information about job opportunities for people who already get the job, and the difference between migrant and non-migrant workers is significant. Proportion of workers who "have found the job myself" is also high, by far exceeding other sources of information. These observations may imply several things. First, friends and relatives are the most effective channel of information in the labour market so far, and personal recommendation may influence the job decision of firms. In turn, these imply that there is a real danger of further job bias against provinces and regions that are currently under-represented in the existing workforce, once new job opportunities are opened up thanks to growth process. This in turn leads to the persistence of severe unemployment in certain areas that have weak physical and social links with fast growing centres of the country. In short, while job creation is of utmost importance, the pro-poor pattern of job allocation through equitable distribution of information on job opportunities can also further contribute to reducing regional disparities and poverty reduction. Job centres, state and non-state, have much work to do if they are to play an important role in the labour market, and if the government is to distribute job opportunities equitably among provinces and geographical regions.

5.5 Conclusions

By reviewing a large body of evidence available to date, this study has found that trade liberalisation in Vietnam has aided growth, which has been in turn broadly shared resulting in fast poverty reduction. Trade liberalisation is therefore widely believed to be beneficial to poverty reduction and this linkage appears to continue into the future. At the same time, it is also widely believed that further trade liberalisation under AFTA, US BTA and the upcoming WTO membership may have fast diminishing beneficial impact on poverty reduction, unless serious market-oriented economic reforms are carried out and deepened. The goods and labour markets should be made integrated spatially to enable the poor who live far from ports to benefit from trade liberalisation. Adequate investments should be made in the areas of hard and soft infrastructures (education, health) to raise the pay-off to international economic integration and allow the poor to more fully participate. SOEs and banking reforms should be further accelerated to ensure macroeconomic stability, and to comply with WTO's national treatment principle. The policy and business environment should be made much more transparent and transactions costs should be reduced by all means to enable Vietnam to attract efficient investments which are associated with new technology, managerial and international marketing skills. 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 short, both external and internal reforms should be carried out with the right sequencing in order to maximise benefits and minimise costs associated with Vietnam's WTO accession and the outcomes of multilateral negotiations in the Doha Development Round.

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Appendix 1. The Vietnam Development Goals

Social and Poverty Reduction Indicators			
Goal 1: Reduction of Percentage of Poor and Hungry Households	Unit	2002	2003 (estimated)
- By 2010, reduce by 40% the proportion of people living below the international poverty line	%	28.9	27
- By 2010, reduce by 75% the proportion of people living below the international food poverty line - By 2005, reduce by 40%, and by 2010 reduce by 60% the proportion of households living below national poverty line (base year 2000)	%	13.1	11
- Number of Households escaping poverty	Thou.	330	300
Goal 2: Universalize education and improve education quality			
- Increase the net enrolment rate in primary school to 97% in 2005, and 99% in 2010	%	92	
- Increase the net enrolment rate in lower secondary school to 80% in 2005, and 90% in 2010	%	67	
- Increase the literacy rate to 95% of under-40-year-old women by 2005 and 100% by 2010	%	94	
- Provinces achieving universal lower secondary education	provinces	12	19
- Kindergarten children	Thou.	2,144	2,331
- Primary school children	Thou.	8,841	8,951
- Lower secondary school children	Thou.	6,498	6,627
- Upper secondary school children	Thou.	2,549	2,596
- New university and college enrolment	Thou.	282	294
- New intermediate education enrolment	Thou.	197	210
- New vocational training enrolment	Thou.	982	1,024
- Post graduate training enrolment	Thou.	10	11
- Retrained and fostered officials	Thou.	35	40
	Unit	2002	2003 (estimated)
Goal 3: Ensure gender equality and women empowerment	%	27	
- Increase the number of women in elective bodies at all levels	%	2.5	

- Ensure the names of both husband and wife appear on the land use right certificate			
Goal 4: Reduction of birth rate, infant mortality rate and malnutrition rate			
- Reduce the infant mortality rate to 30 per 1000 live births by 2005 and 25 by 2010	‰	33	32
- Reduce the under-5 mortality rate to 36 per 1000 live births by 2005 and to 32 by 2010	‰	42	40
- Reduce the under-5 malnutrition to 25% by 2005 and 20% by 2010			
- Reduced birth rate	%	29.5	28
	%	0.4	0.4
- Population	Mil.	79.7	80.8
- Population growth rate	%	1.3	1.3
- Under 5 malnutrition rate	%	29.5	28.0
- Under 1 mortality rate	‰	42	40
- Communes with health clinics	%	97.3	98
- Communes with doctors	%	60	63
- Total treatment beds	Thou.	190	195
- Treatment beds per thousand people	Bed	23.9	24.1
	1/100,000	165	
Goal 5: Improve maternal health			
- Reduce the maternal mortality rate to 80 per 10,000 live births by 2005 and to 70 by 2010 with special attention to disadvantaged areas			
Goal 6: Reduce HIV/AIDS infection and eradicate other major diseases			
- Slow the increase in the spread of HIV/AIDS by 2005 and halve the rate of increase by 2010	persons		70,000
7. Ensure environmental sustainability			
- Extend forest coverage to 43% by 2010 from 33% in 1999			
- Ensure 60% of the rural population (80% of urban population) has access to clean and safe water by 2005 and 85% by 2010	%	36.6	37.5
- Ensure no slums and temporary houses in all towns and cities by 2010	%	52	54
- Ensure that all solid waste is collected and disposed safely in all towns and cities by 2010	%	24	
- Air and water pollution must attain national			

standards by 2005	%	15	
8.Goal 8: Essential infrastructure for poor people, poor communes and poor areas	%	64	
- Poor communes with car-accessible roads to communal centre (CPC)	%	-	57.27
- Poor communes with health clinics	%	-	51.76
- Poor communes with enough classrooms for primary schools, kindergartens and nursery schools	%	-	26.88
- Poor communes with communal or inter-communal markets	%	-	10.03
- Poor communes with electricity	%	-	57.67
- Poor communes and districts with safe water supply system	%	-	23.27
Goal 9: Job creation			
- Urban unemployment rate	%	6.0	5.8
- Labour with job provided (converted)	Mil.	1.4	1.5
- Rural working time utilization rate	%	75.4	76.5
Goal 10: Culture and information			
- Ensure by 2005, the Coverage of Voice of Vietnam Radio Broadcasting reaches 95% households	%	93	93
- Ensure by 2005, 95% of households can watch Vietnam Television	%	84.7	86
- Preserve and develop literacy in ethnic languages	%	84	
- Number of fixed telephones per 100 people	Line	6.9	8.5
- Communes with telephone lines	%	92.5	95.0
- Number of preserved heritages		300	300
Goal 11: Reduce vulnerability and develop social safety nets			
- Increase by 40% average income of the poorest quintile by 2005, and by 90% by 2010 (base year 2000)	%	8	

** Note: Goals 8,9,10 and 11 are purely Vietnamese (not based on MDGs)*

Appendix 2. Income and Expenditure Structure of Households by Income Groups

Appendix Table 1. Structure of Household Income

Household group	Farm labour	Non farm rural	Unskilled	Skilled	Share of labour in total income
Rural 1 (poorest)	0.81	0.08	0.06	0.04	0.94
Urban 1 (poorest)	0.27	0.39	0.25	0.09	0.99
Rural 2	0.78	0.12	0.05	0.06	0.96
Urban 2	0.32	0.33	0.15	0.2	0.98
Rural 3	0.74	0.14	0.04	0.07	0.95
Urban 3	0.33	0.38	0.1	0.19	0.99
Rural 4	0.27	0.38	0.1	0.26	0.87
Urban 4	0.27	0.38	0.1	0.26	0.95
Rural 5 (richest)	0.71	0.22	0.01	0.06	0.93
Urban 5 (richest)	0.25	0.44	0.05	0.27	0.9

Appendix Table 2. Broad Household Expenditure Shares

Household group	Agriculture	Manufacturing	Services
Rural 1 (poorest)	0.62	0.11	0.27
Urban 1 (poorest)	0.62	0.1	0.28
Rural 2	0.59	0.13	0.28
Urban 2	0.62	0.12	0.26
Rural 3	0.57	0.17	0.26
Urban 3	0.6	0.12	0.28
Rural 4	0.52	0.22	0.26
Urban 4	0.57	0.17	0.26
Rural 5 (richest)	0.46	0.25	0.29
Urban 5 (richest)	0.46	0.23	0.31

Source: CIE (2002). p.62.