



# ON DIRECTIONS FOR DEVELOPMENT OF FOREIGN TRADE AND DEGREE OF INTERNATIONAL TRADE INTEGRATION IN THE COMING YEARS

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## 1. On difficulties and challenges to foreign trade in 2009

The financial crisis brought the world economy to a deep recession. Global trade, after years of stable development and acting as a dynamic of the world economic growth, went down drastically because of negative effects by market price and demand. Countries suffering from falls in their export and import include Japan falling by 36% in August (the 11th successive month), Thailand 23.5% (the 10th successive month), South Korea 20.6% (the 10th successive month), and China 23% (the 8th successive month).

Vietnam has integrated more fully into the international and regional economies, especially for the last two years after its accession to the WTO and gained a higher degree of openness (Vietnam's export in 2008 approximated 70% of its GDP), therefore it can't evade bad effects of the financial crisis and global recession. In 2009, Vietnam's economy and its trade in particular was still affected by the world economic crisis and met with various difficulties and challenges.

Vietnam's export was affected by various fac-

tors: falls in the world market demand and prices, and appearance of non-tariff barriers and safeguards in importing countries, etc. These effects showed themselves in three aspects: falls in orders because of financial difficulties in importing countries; falls in market demand in importing countries; falls in prices of staple exports from Vietnam such as crude oil, coal, rice, rubber, coffee bean, black pepper and seafood, etc. In addition, exporters, including the foreign ones, in Vietnam faced shortage of capital and contraction of the market for their output.

Regarding the import, the trade gap may reduce because of falls in many imports, and demand in the domestic market didn't increase at the same high rate as in previous years, which helped curb the inflation remarkably. On the other hand, the import may rise high because foreign goods become cheaper, and tariff rates get lower as required by international agreements, which causes pressure on domestic production. In fact, because of effects of the financial crisis and global recession, falls in prices, and contraction of export markets, the export and import of Vietnam in 2009 faced a lot of difficulties and challenges and there-

fore failed to achieve targets set for the year.

To deal with this situation, the Government issued Decree 30/2008/NQ-CP on Dec. 11, 2008, Decree 30a/2008/NQ-CP on Dec. 27, 2008 and Decree 01/2009/NQ-CP on Jan. 9, 2009 to introduce strong measures and policies to stimulate the economy, spending and investment in particular, stop economic recession, ensure social welfare, develop the agriculture and rural areas, and alleviate the poverty. These demand- stimulating measures helped companies keep on doing their business and survive the worse of the recession. In addition, consensus and determination among leadership; full attention from the Government; efforts by ministries, local governments, companies and the public, helped the economy stay stable and gain a low but encouraging growth rate in the context of the global recession.

## 2. Achievements in export and import in 2009

In 2009, in spite of bad effects of the global and domestic recession, Vietnam's foreign trade gained many encouraging achievements in comparison with regional countries.

### a. Export:

The 2009 export value is estimated at US\$56.5 billion falling by 9.9% compared with 2008. Of this value, the local sector accounted for US\$33 billion decreasing by 14.3% and the foreign on 23.5 billion falling by 2.76%.

- Farm and aquatic products: Export value from these products in 2009 is estimated at US\$12.3 billion falling by 6.8% over 2008 and accounting for 21.8% of the total export value. The export volume of these products increased remarkably in comparison with 2008, such as cashew nut 5.8%; coffee 11.3%; tea 29.2%; black pepper 50%; rice 28.6%; cassava and its products 143.5%; and rubber 7.9%, but the fact that their export prices fell

drastically – cashew nut 3%; tea 6%; coffee 26%; black pepper 25%; rice 28%, rubber 33%; and cassava and its products 37% - made export earnings from these products fall by 6.8% over 2008.

- Minerals and fossil fuel: The 2009 export value of these products was about US\$8.5 billion falling by 34.8% over 2008 and accounted for 15% of the total export value. It's worth noting that the export volume of coal rose by 21.4% while its price fell by 26%, which made the export earnings from this product fall by 9.9%. Similarly, export of oil rose by 37.5% but its export price fell by 39%, which reduced its export value by 16.4%.

- Manufactured goods: Their export value in 2009 was about US\$35.7 billion falling by 2% compared with 2008 and accounted for 63.1% of the total export value. As for export earnings, some of these goods suffered steep falls: plastic used as raw materials 37.3%, rubber products 44.7%, basenetwork 22.6%, wooden products 10.7%, paper and paper products 11%, footwear 16%, ceramics 26%, electric wire and cable 13%, vehicles and spare parts 13.6%, and handbags; suitcase; hats and umbrellas 13.6%. Some others enjoyed slight rises or falls in their earnings were chemicals +14%; glass +21%; machines and spare parts + 5.9%; electronic equipment and computer parts + 6%; and clothing – 0.8%.

Export growth rate showed an upward tendency over months: 8.1% in June; 3.5% in September; 10.6% in October; and 6.1% in December as compared with its previous month.

The 2009 total export value was smaller than the 2008 one and failed to achieve a growth rate of 3% as a target set for the year because export prices fell drastically as compared with 2008, especially the ones of Vietnam's staple exports. These falls affected badly the export earnings,



such as coffee 24.2%; black pepper 28.6%; rice 26%; rubber 33.6%; crude oil 39%; and coal 39.3%. Moreover, the financial crisis forces many European countries to cut import of many consumer or durable goods, such as footwear and wooden furniture.

#### **b. Import:**

The 2009 import was estimated at US\$68 billion decreasing by 15.8% over 2008. Of this value, the local sector accounted for US\$43 billion decreasing by 18.6% and the foreign on 25 billion falling by 10.4%.

Steep falls in prices of imports made the import values of many products decrease drastically: fuel 43%; fertilizer 12%; steel 15%; other metals 10.4%; cloth 6%; textile – leather materials 19%, plastic as raw materials 4.2%; machine and spare parts 16%; and wood as raw materials 20%.

The Ministry of Industry and Trade and other ministries took various measures to reduce the import of consumer goods (increasing import duties; limiting access to foreign exchange supply; collecting duties before customs clearance; cutting interest-subsidized loans for import of consumer goods; and granting import permits electronically, etc.) and they helped reduce the growth rate of import of consumer goods in 2009.

The 2009 trade gap was about US\$11.5 billion equaling 20.4% of the import value (this figure in 2008 was 28.5%).

### **3. Advantages and difficulties to export and import in 2010**

Local production and the foreign trade in 2010 will enjoy some advantages and still face the following difficulties.

#### **a. Advantages:**

The world economy showed signs of recovery

in late 2009 and it is expected to change positively in 2010. In 2009, many policies and mechanisms adopted by the Vietnamese Government helped liberate productive forces, mobilize more resources for development, and solve better many socioeconomic and environmental issues. Up till now, positive effects of the first stimulus package are obvious: many companies can keep doing business and ensuring employment; the infrastructure is improved; and a better business climate needed for economic recovery and new developments is ensured. Subsidies in terms of bank interest helped many companies, especially SMEs, sell their stock in hand, improve their competitiveness, and enhance the output in some industries. Moreover, tax cuts and deferment of tax payment also helped companies to deal more effectively with difficulties caused by the global crisis and survive the recession.

Another advantage that is worth mentioning is experience of international integration, especially after Vietnam's accession to the WTO, which can help Vietnam to make the best use of its comparative advantages and strengths in the integration process. Expansion of bilateral cooperation can create a better environment and more markets for Vietnamese exports. In addition, Vietnam's political stability and prestige in the international arena, which has been more and more appreciated, is an important condition for mobilization of resources at home and abroad for a fast and stable development of the economy.

#### **b. Difficulties and challenges:**

In 2010, the world economy still faces complicated changes. Its recovery will be slow and involves various unpredictable risks. Protectionism will become stronger in many countries. Such post-crisis issues as trade protectionism, fluctua-



tion in price, inflation, and shortage of fuel and raw materials may take place and affect seriously such developing economies as Vietnam. Thus, Vietnam may face a series of new difficulties, such as:

- Vietnamese staple exports, such as farm products, seafood, clothing, footwear, and electronic equipment, will face keener competition from their counterparts from other Asian countries when the market demand in importing countries is still low. The market prices may show some signs of increase but they are still low because of low demand and disposable income in importing countries. The global recession will also prevent the market prices from rising next year.

The domestic market will involve various difficulties and challenges caused by the following factors: the 2009 global recession; unstable macroeconomic balances; ineffective financial system; possibly high inflation rate; falls in personal income; imperfect infrastructure; and cuts in subsidies to companies.

In addition, the corporate and national competitiveness is still low in spite of some improvements. Vietnam is also expected to realize many commitments in 2010 as required by the WTO accession, especially promises to open retail, financial and service markets, which mean great challenges to local companies. The domestic trading system also fails to serve the development of production and distribution in a changeable situation.

Industries with big export earnings, such as clothing and footwear, will face contracted markets. In 2009, revocation of American import quota on Chinese clothing created a keen competition against Vietnamese one; EU decided to revoke the GSP status for footwear exported by

Vietnam; many non-tariff barriers and sophisticated safeguard measures were taken by foreign countries, such as the 2008 Farmbill lobbied by the USDA, the certificate of producing and processing process (for catfish, etc.) required of manufacturers in the U.S. as well as exporting countries, and the American Lacey Law beefing up the check on origin of wooden products. In EU, the FLEGT was introduced to check the legitimacy of timber exports through original evidence, and EC Decision of Sep. 22, 2008 that establishes a system for preventing and stopping illegal fishing and fish trade.

## 4. Directions and measures to promote the foreign trade

By analyzing the situation with its advantages and difficulties, the Ministry of Industry and Trade sets forth directions and measures to promote the foreign trade in 2010.

### a. Directions for the 2010 foreign trade:

Objectives of the 2010 foreign trade are: (1) developing the export at rather high rate to serve as a basis for a high economic growth, fuller employment, and positive changes in the structure of industry and labor; (2) promoting production and export of goods of competitive advantages and developing potential goods into new staple exports in order to enhance efficiency of export; (3) changing the structure of exports by promoting the export of goods of high added values and manufactured goods from technology-intensive industries and reducing export of raw materials.

### b. Measures to promote the foreign trade in 2010:

To achieve these objectives, main measures to take are as follows:

- Various measures should be taken to enhance quality and value of the traditional exports, farm



products in particular, whose output can't increase because of natural conditions (areas, yield, and weather, etc.).

- More investments should be put in programs to replace facilities needed for production and exports of goods that can bring in high earnings, have great potentials for development, and play important role in job creation and increases in the total export earnings, such as clothing, footwear, wooden furniture, plastic products, and electric wire and cable, etc. Industrial authorities should review and discover goods of high potentials for development and export such as plastic products, mechanical products, suitcases, handbags, hats and umbrellas, etc.

- Trade promotion and export marketing should be carried out more effectively to find new markets for goods of high potentials employing local raw materials, such as handicrafts, rubber products, processed food, cosmetics, mechanical products, and software services, etc.

- Export authorities should try their best to exploit extensively and intensively traditional and key markets, and at the same time, increase their shares in markets adjacent to Vietnam by revising regulations that have limited or prevented the export business for years.

- Vietnam should make the best use of advantages offered by bilateral FTAs to link export markets with import ones, thereby promoting the export and reducing trade gaps in relations with major importing markets.

- Production cost should be reduced to improve both corporate and national competitiveness. Companies should rationalize their production lines, enhance their productivity and quality and cut the production cost. As for the Government, it should review and adjust inappropriate mechanisms and policies in an open approach, refrain from raising export duties and import ones on raw materials in order to help companies make the best use of falls in prices during the global recession to reach the international level of prices, and encourage production and consumption.

- Various instruments, such as technical barriers, monetary policy, and export promotion can be used for reducing the gap between export and import.

- Administrative procedures and customs for-

malities for export and import business must be reformed continuously in order to help companies exercise their rights as allowed by law. The Ministry of Industry and Trade should cooperate with local governments and other ministries to carry out export- promoting and trade- gap- reducing policies and handle properly complaints from companies.

- Trade promotion tasks should be beefed up and improved with a view to maintaining and expanding export markets, especially traditional ones that have brought in high export earnings.

- Negotiations with foreign countries must be accelerated to sign bilateral agreements and acquire mutual recognition of SPS standards, especially with key markets such as the U.S., Japan, South Korea, Singapore, Australia and New Zealand. This effort can help companies to carry out settlements and meet foreign SPS standards, especially for farm products and seafood.

- Authorities must support and encourage companies to diversify settlement currencies and prevent exchange risks to their foreign trade.

- Production of raw materials and other inputs needed for production of import substitutes and exports is also an effective to reduce the trade gap. Moreover, incentives can be used for developing supporting industries and attracting foreign investment to these industries. At present, the Ministry of Industry and Trade is preparing a "Decree on preferential treatment to development of supporting industries" in order to create a legal basis for such effort.

In short, ministries, local governments and companies should make great joint efforts to deal with difficulties in developing production and export markets, and make the best use of chances brought about by the global recovery to create a breakthrough in export business, thereby gaining a growth rate of 6% set as a target for the export business and reducing the trade gap in 2010■