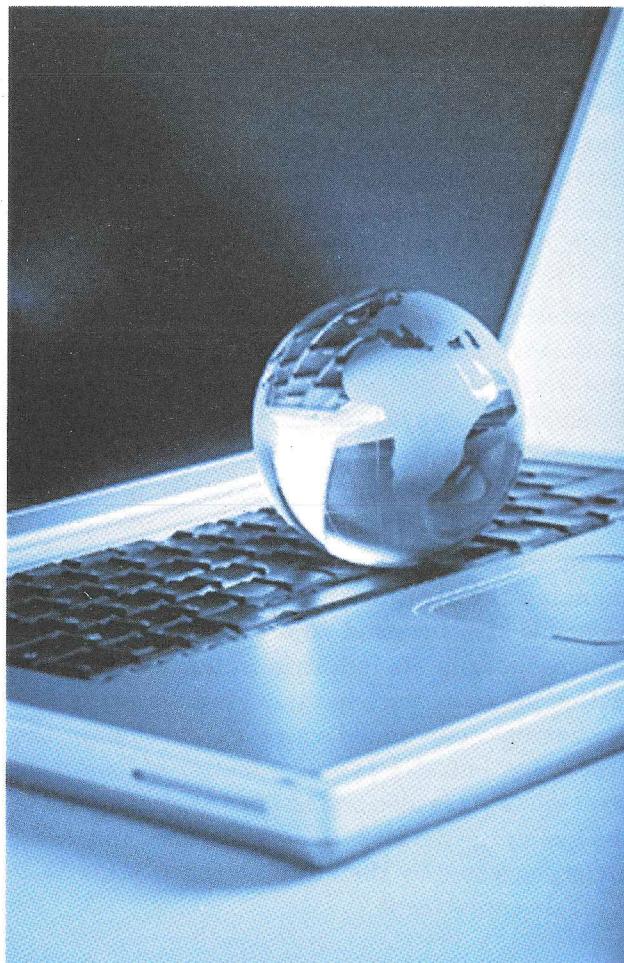
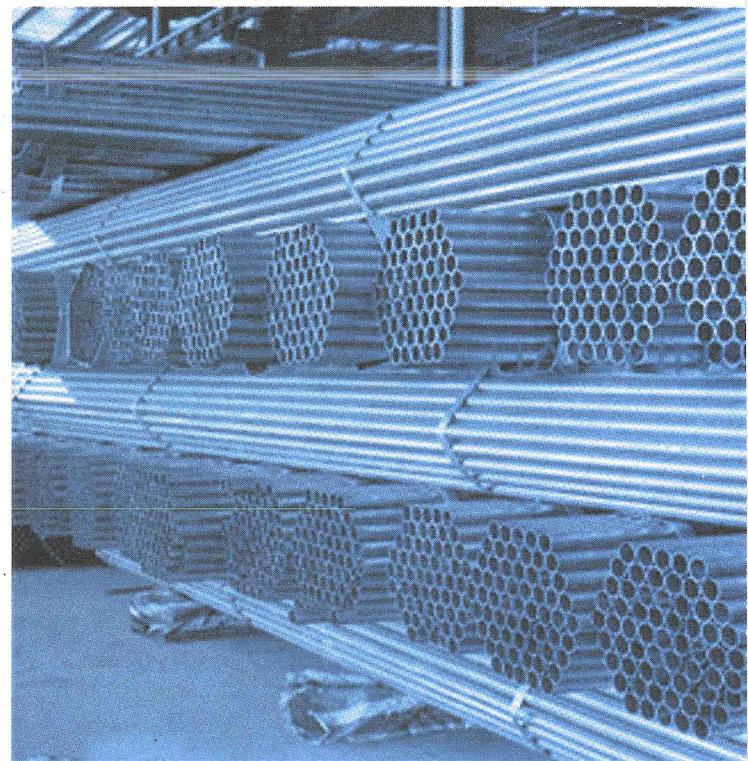


# TO KEEP PROMOTING THE FOREIGN TRADE DURING THE INTERNATIONAL INTEGRATION

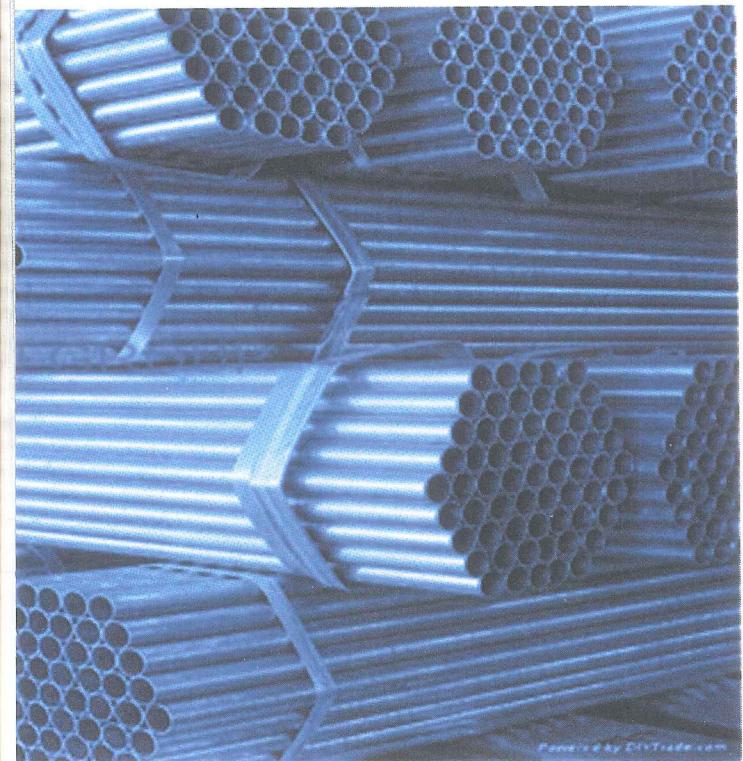
by Ass. Prof., Dr. LÊ DANH VĨNH  
Deputy Minister of Industry and Trade



## 1. Foreign trade and Vietnam's industrialization, modernization and international integration

The socioeconomic development strategy for 2001 – 2010 affirms that Vietnam should accelerate the industrialization and modernization to become basically an industrialized country by 2020, make the best use of existing resources to develop fast and effectively products, fields and industries with advantages to meet demand in domestic market and promote the export, and enhance continuously competitiveness on both domestic and foreign markets. Besides disadvantages because of a high population density, small area of farming land per capita and poorly developed economy compared with neighboring countries, Vietnam enjoy certain advantages from good geographical position, abundant source of young and industrious laborers who can absorb new knowledge, therefore the industrialization and modernization should be linked closely with the foreign trade.

In recent years, the foreign trade has played an important role in achieving targets of the socioeconomic development strategy, especially when Vietnam is integrating more fully into the world economy and became a member of the WTO. In the industrialization and modernization process, control over foreign trade is adjusted to



the trade liberation and international integration. Vietnam has carried out economic reform and adjusted laws and regulations on trade in general and on foreign trade in particular in order to make them appropriate to international standards, which helped the foreign trade obtain remarkable achievements, companies engaging in the foreign trade have made good progress. Export value represents a big share in the GDP and generates a source of foreign exchange needed for importing machines, technologies, and raw materials to serve increasingly high demand of the economy, opens outlets for production, and provides jobs for millions of laborers. High-quality exports of competitive prices also accelerate the industrialization and modernization.

## 2. Important achievements of the foreign trade in recent years

In the past three years, international economic and political life was not stable, especially in late 2007 and the period from early 2008 up till now. Prices of raw materials, especially the oil, rose increasingly high (the oil price reached a record level of US\$147 per barrel in July 2008). American and Japanese economies fell into doldrums and crises, the European economy was in recession, and the world growth rate fell drastically.

The situation affected Vietnam greatly, especially its financial and banking sector, its production and foreign trade.

In the years 2006-08, however, Vietnam made good achievements in the foreign trade.

### a. Export:

The export value in 2006-08 rose quickly, from US\$32.4 billion in 2005 to 39.8 billion in 2006 increasing by 22.8%; 48.6 billion in 2007 (21.9%); and 62.7 billion in 2008 (29.1%). The average growth rate in the three-year period was 24.6% a year. Structure of exports has changed positively. Exports that gained growth rates in their earnings higher than the average were coffee, plastics, rubber, coal, black pepper, handicrafts, precious stone and metal, rice, electric wire and cable.

Up to the end of 2008, there were 12 items that earned more than US\$1 billion by export: crude oil (US\$10.4 billion); clothing (9.1 billion); footwear (4.8 billion); seafood (4.5 billion); rice (2.9 billion); wooden furniture (2.83 billion); electronic devices and computer parts (2.64 billion); mechanical devices (2.1 billion); coffee (2.1 billion); rubber (1.6 billion); coal (1.4 billion); and electric wire and cable (1 billion).

Vietnamese goods have entered into and found footholds in many major markets with high potentials for further growth, such as the U.S., the EU and Japan. In 2008, the export value was US\$62.7 billion, a twofold increase compared with the 2005 one (32.4 billion), and 28.1 billion of which went to local sectors – twice as much as they earned in 2005.

Regarding the export markets, Vietnam's goods are found in 180 countries and territories. More and more companies from all sectors engaged in the export, especially private and foreign-invested ones. Growth rate of export value realized by local sectors is still higher than the one by the foreign sector, but the absolute export value earned by the foreign sector is big and this sector is really a dynamic of export development.

Progress of the export business shows itself in the following facts:

- Size and growth rate are maintained at a high level, and all preset targets are obtained and surpassed.

- The structure of exports changed positively in which the share of manufactured goods from

technology-intensive industries increased.

- More and more companies from all sectors engaged in the export business, especially the private and foreign – invested companies.

**b. Import:**

During the industrialization and modernization, Vietnam has to import the best part of raw materials and machines: 100% of fuel, 50% of fertilizer, and from 70% to 80% of steel and iron consumed by the market. Import of machines and raw materials in recent years has met the increasing demand of local production.

The import value in 2006-08 rose quickly, from US\$36.8 billion in 2005 to 44.9 billion in 2006 increasing by 22%; 62.7 billion in 2007 (39.6%); and 80.7 billion in 2008 (28.8%). The average growth rate in the three-year period was 30.1% a year. Main imports are raw materials, machines and equipment used for production.

**3. Difficulties and challenges to Vietnam's foreign trade**

In the years 2009 – 2010, Vietnam's production and foreign trade will meet the following difficulties and challenges:

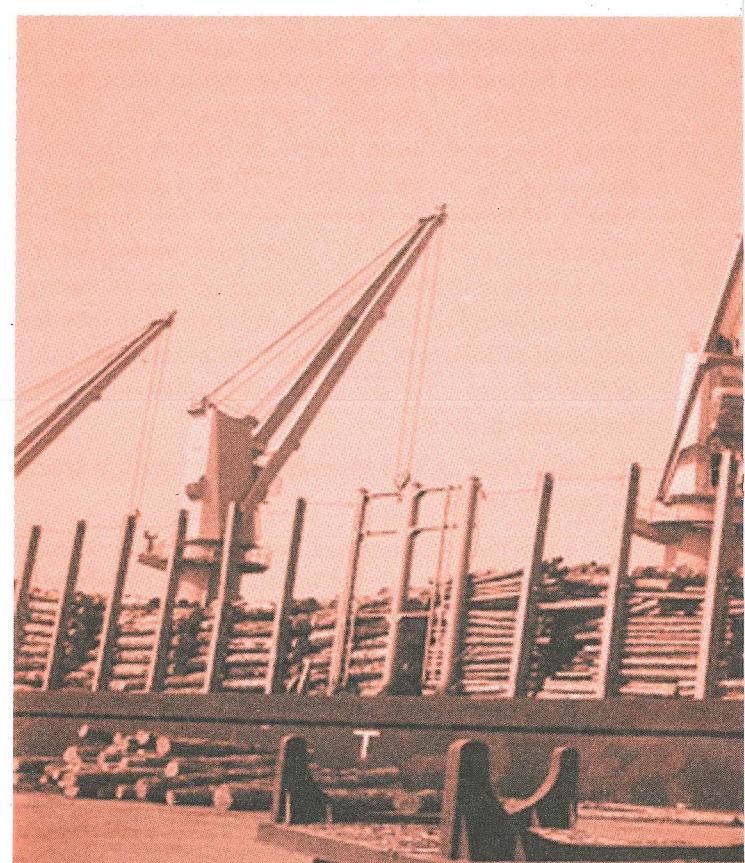
**a. Export:**

- The world economy will experience complicated and unpredictable changes. The global financial crisis will make the growth rate fall drastically in the coming years. Many major economies have been to, or approached to, recession while emerging economies also stagnated. Remarks on perspectives of the world economy in 2009 by international institutions predict that the 2009 growth rate is lower than all previous predictions. The IMF thinks that the world growth rate is 2.2% instead of a rate 3% it worked out before, and the growth rate of developed countries is 0.3% instead of 0.5%. This is the lowest prediction for the developed countries since the World War II. The growth rate of emerging economies is also falling.

- In 2009, competition in the American and international markets will be keener, which affects greatly the Vietnam's export because goods from all countries, especially from China and ASEAN bloc, will flood local markets when the American import reduces, which makes it difficult for Vietnam to sell its goods to Chinese and ASEAN markets.

- Many international banks start tightening their credits because of the global financial crisis, which affects badly international payment, and prevent importers from paying foreign exporters on delivery. Many Vietnamese exporters meet such difficulties when foreign importers ask for longer terms of payments, otherwise they have to stop importing. In addition, wide changes in the rate of the euro are not favorable for the Vietnam's export. Many exports from Vietnam are made according to subcontracts. Before exporting them to the EU, local companies pay for raw materials in the US dollar and for other costs in the VND, and they receive the euro from EU importers. At present, the dollar is rising against the euro with the result that the production cost goes high while the sales stay unchanged.

- Cheap prices stop being an advantage when all prices are cut to the bone because decreases in the market demand and ability to pay. The world economic recession also prevents the price from increasing next year. When the consumption falls, export of farm products and minerals which gained high prices in 2008 will experience falls in export value (by 30% or 40%) in 2009, which



makes it difficult to achieve the planned targets of export growth.

- Export market of some staple exports, such as clothing and footwear, will contract because American quotas on Chinese clothing is removed in 2009, which causes a fierce competition against the Vietnamese clothing, while the EU refuses to extend the GSP status for footwear from Vietnam any longer. In addition, many countries may restore some technical barriers in an effort to limit the import, protect local production and reduce deficit in their trade balances. Many sophisticated non-tariff barriers and protectionist measures are taken by many governments. The American Department of Agriculture is implementing the 2008 Farm Bill that requires certificates of producing processes from exporting countries and American producers as well. The Lacey Act that will be effective by the end of 2009 also aims at beefing up control over sources of wooden products. In the EU, the Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT) is promulgated with a view to ensuring the legality of wooden products for trade by checking strictly original documents.

- The year 2008 left a lot of difficulties for the economy: effects of anti-inflation measures, such as higher interest rate, make many producers and exporters unable to maintain or expand their businesses. The economic recession also makes it hard to create new jobs or maintain the existing employment rate.

#### *b. Import:*

In 2009, the competition in the domestic market will be keener. As from Jan. 1, 2009, the retail service is open to foreign distributors. They can build their own distribution networks in Vietnam, import necessary goods, and apply all possible methods to increase their sales.

- Like Vietnam, regional countries meet with difficulties to export their goods to major markets, and therefore, their goods are ready to flood the Vietnamese market.

#### **4. Policies on development of the foreign trade in the coming years**

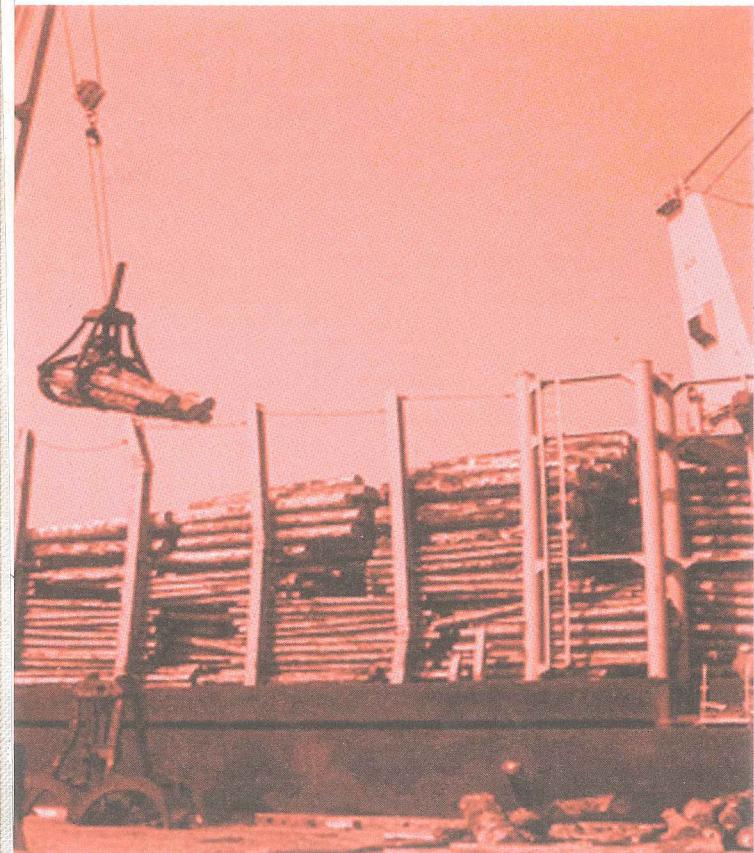
##### *a. Export:*

The Ministry of Industry and Trade has set forth measures to promote the export in 2009 – 2010 in an effort to gain the highest growth rate of export, thereby enhancing the economic growth, creating more jobs and changing the structure of industry and labor. These measures are to promote production and export of goods with competitive advantages; develop products with great potentials into staple exports; and change the structure of exports by promoting the share of manufactured goods of high added values and technological content and reducing the share of semi-finished products.

Some specific directions and principal measures to promote the export in 2009 – 2010 are as follows:

- Beefing up trade promotion, business promotion; looking for and expanding the export markets; and increasing the production and export of goods with great potentials for large- scale production based on local raw materials, such as handicrafts, rubber products, processed food, chemicals, cosmetics, mechanical devices, and software services.

- Developing traditional and major export markets intensively and extensively, and at the same time, paying full attention to countries adjacent to Vietnam by reforming regulations that limit cross-



border export; making the best use of advantages offered by bilateral agreements (FTA); and linking the export markets with the import ones with a view to increasing the export and reducing the trade gap from relation with major import markets.

- Companies should try to reduce the production cost to enhance the competitiveness of products, rationalize the production, and improve productivity and product quality. Authorities had better review and adjust unreasonable policies and mechanisms, and refrain from rising taxes on imports used as inputs and exports in order to help companies make the best use of cut prices caused by the global recession and encourage consumption and production.

- Necessary measures should be taken to enhance the product quality and increase the added values of traditional exports and goods whose production is structurally limited (by area, productivity or weather), especially farm products.

- More investments must be put in expansion of production, and replacement of machines and technologies in order to beef up the production and export of goods of great potentials for growth, big export earnings, and job creation, such as clothing, footwear, wooden furniture, plastic products, and electric wire and cable. It's necessary to study and discover goods that are free from market limits, such as plastic products, mechanical devices, suitcases, handbag, hat, and umbrella.

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

The overall target of the import in 2009 – 2010 is to ensure the import of goods essential to domestic consumption and production of exports in order to obtain high growth rates for the export and the economy as a whole. Full attention must be paid to production of import substitutions, stricter limits on the import of goods that can be made locally and reduction in the trade gap.

To achieve the said target, main measures to carry out are as follows:

- Priority must be given to import of raw materials, equipment and modern technologies needed for local investment and production, improvements in the competitiveness, and export promotion.

- The import must be controlled effectively by the tax policy and non-tariff measures. There must



be policies to encourage the production of import substitutions, and use of locally-made machines and raw materials in publicly-financed projects with a view to reducing the trade gap.

- Monetary policies and technical barriers must be applied effectively. Natural resources must be employed reasonably in order to prevent waste in construction of major works.

- Various measures should be taken to reduce the demand for imports, including the much-needed ones, by the tax policy and non-tariff measures. Number of investment projects should be cut rationally and more encouragement must be given to thrift.

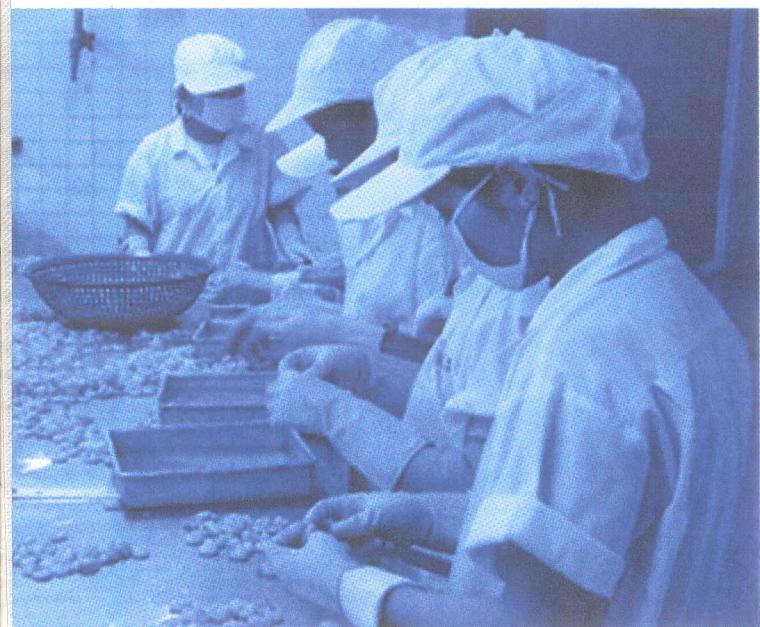
#### **5. Measures to promote export and import in the coming years**

##### **a. Export:**

- Uniform and consistent measures should be carried to develop quickly and stably the production of staple exports. More investment must be oriented towards supporting industries in ensure stable supply of raw materials and semi-finished good to export making industries.

- Promoting the export of staple products along with other items, and changing the structure of exports by increasing the share of manufactured goods, especially the ones from technology-intensive industries.

- Enhancing the competitiveness of exports in all aspects, and developing productive capacity, structure of products, their prices and quality, and



operation of exporting making companies.

- Economic authorities should handle timely problems relating to mechanism, financial and monetary policies, exchange rate and customs formalities to create favorable conditions for producers and exporters. Technical and food safety standards and quarantine system must be made appropriate to international standards, and at the same time, negotiation with trading partners about standardization and mutual recognition must be carried out successfully in order to reduce losses and risks for Vietnam's exports caused by technical barriers, especially the ones erected by the EU, the U.S., and Japan.

Methods of promoting the export must be reformed and beefed up to expand the export markets and build brand names. Trading relations with partners inside and outside the ASEAN bloc must be multilateralized and diversified. Besides increasing the export to traditional markets, companies in cooperation with related authorities must make market researches to find opportunities in new markets with potentials to prevent risks caused by fluctuations on the world market.

- Ministries should review implementation of rules promulgated in the past in preparation for the implementation of Resolution 30/2008/NQ-CP issued by the Government on Dec. 11, 2008 providing urgent measures to curb economic recession, maintain the economic growth, and ensure the social welfare; especially the group of meas-

ures to promote the production and export; the group of monetary and financial measures; and decisions made by the PM on the implementation of the said Resolution. As for newly arising problems, there must be measures to deal with them appropriately.

- Companies should control the product quality, apply new measures to enhance the business performance, keep a close watch on changes in the market forces, supply information about obstacles to the production and export to authorities, and suggest solutions to these obstacles in order to facilitate the production and export.

- Ministries must beef up their tasks of providing predictions of the supply and demand on the world market, and commercial conditions that serve as a basis for policies to develop the production and export; and of studying and estimating difficulties to each industry, export item, and market in order to work out measures to deal with them.

### *b. Import:*

- Controlling strictly items of goods imported in large quantities, checking the quality of imports and applying technical and tariff barriers appropriate to the WTO rules.

- Implementing measures to stabilize the market forces and balance the supply of essential goods to the economy; and paying full attention to the task of predicting changes in market prices and forces against fluctuations in the world market, thereby working out more effective measures to stabilize the market and balance the supply and demand.

- Besides promoting the export, development of local production of materials and parts used for making exports and import substitutions is also an important measure to reduce the trade gap.

- It's necessary to struggle against waste in capital construction, consumption and use of natural resources; apply new methods of saving power and energy, and reduce the production cost. To enhance the efficiency of capital construction works and production of goods based on imports, such tasks as making master plan; making the feasible plans appropriate to requirement, standards and limits; and supervising closely the implementation of the plan must be carried out perfectly ■