Prospective Development of Foreign Trade in 2009 and Next Decade

by Prof., Dr. VÕ THANH THU & Dr. NGÔ THỊ NGỌC HUYỀN

1. Vietnam's export and import in recent years

Over twenty years after the economic reform was launched, the Vietnam's foreign trade has made good progress, especially after its accession to the WTO, and also faced a lot of difficulties. Studying success and shortcomings of the foreign trade can help us find measures to promote it in the coming years when the world economy is experiencing a period of recession.

a. Achievements:

- Vietnam is among countries with the highest growth rate of foreign trade.

- Extensive development of the foreign trade helps Vietnam integrate quickly into the world economy.

+ The growth rate of foreign trade is twice as high as the GDP one. The total value of exports and imports in 2007-08 was 1.6 times higher than the GDP.

+ Vietnam sells thousands of products to the world and 11 products of them earned more than US41 billion a year (crude oil, garment, footwear, aquatic product, wooden furniture, electronic equipment and computer, coffee, rice, rubber, coal, and cashew nut) [3;18].

+ Trading partners of Vietnam, limited to the socialist bloc and neighboring countries before 1995 (when the American embargo hasn't been lifted), include some 230 countries: 219 are its buyers and 151 are its sellers [5 ; 555].

+ High growth rate of the foreign trade puts Vietnam in high places in the world ranking: 50th in export and 41st in import among 260 surveyed countries and territories [1]. Vietnam is the world' biggest exporter of black pepper and the second biggest exporter of rice, coffee, and cashew nut, and included in the world's top- 10 exporters of garments, footwear, seafood, and wooden furniture.

- More and more businesspersons engage in the foreign trade: This number rose from some hundreds of companies (all of them were state-run ones) to thousands of exporter and importers of all economic sectors and many of them are businesspersons with language skill and international trading experience. Their efforts become an important factor to the development of the foreign trade.

Table 1: Growth of Vietnam's and the world's international trade in 2000- 2008 (%)

Region	Export				Import			
	2000-2005	2006	2007	2008 estimated	2000-2005	2006	2007	2008 estimated
The world	5.5	8.5	6.0	5.5	5.5	8.0	5.5	5.3
U.S.A	8.5	10.5	7.0	6.0	4.0	5.5	6.5	6.0
EU-27	4.0	7.5	3.5	3.2	8.5	7.0	8.0	6.5
ASEAN-6	8.5	12.0	8.5	8.2	5.5	7.5	5.0	5.0
China	22.5	22.0	19.5	19.0	18.0	16.5	18.5	18.5
Asia	10.5	13.5	11.5	11.0	8.5	8.5	8.0	8.0
Vietnam	19.95	22.7	21.9	30.0	21.25	22.1	39.6	36.0

Source : www.wto.org, Vietnam's Statistical Yearbook

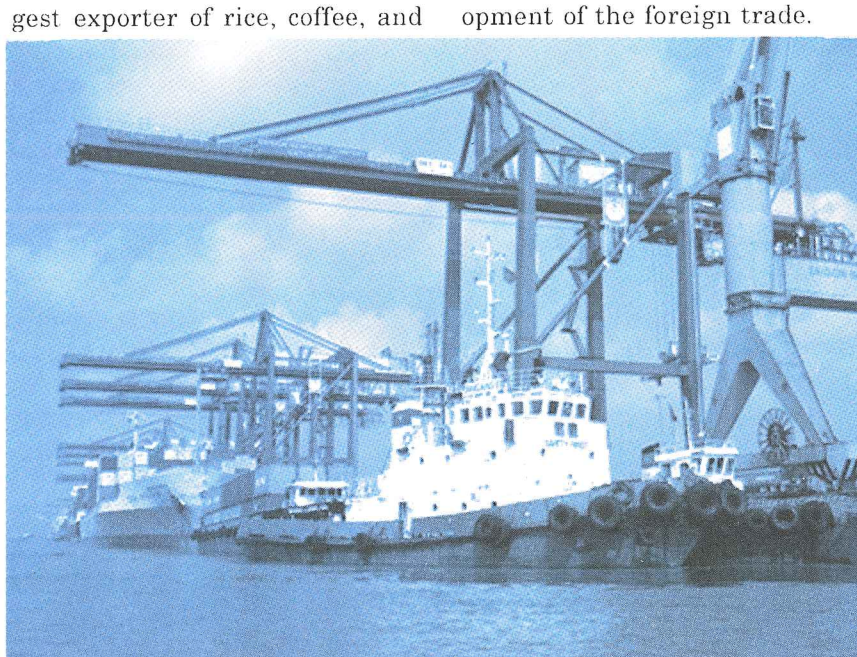

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Table 2: Export and import of the ASEAN -6 in 2007 (US$ billion)

Country	Export	Import	Balance of payments		
	Value	Rank in the world	Value	Ranking in the world	
Indonesia	118	32	92	32	+ 26
Malaysia	161	19	147	25	+ 14
Philippines	50	48	58	45	- 8
Singapore	299	14	263	15	+ 36
Thailand	153	25	141	26	+ 12
Vietnam	48.4	50	60.8	41	- 11.9

Source: [1]

- Foreign trading activities become increasingly diverse: From acting as subcontractors to foreign companies or exporting their products in small quantities, Vietnamese companies have done re-export trade, cross-border trade, e-commerce and spot sale ; acted as export agents ; and opened their supermarkets in foreign countries.

In short, the foreign trade has accelerated the Vietnam's international integration.

b. Shortcomings:

- Its foreign trade and influence is still of a small size:

+ Vietnam accounts only for 0.3% of the world's export value and 0.37% of the import value.

+ Vietnam takes a rank lower than other ASEAN countries with the same or poorer advantages (see Table 2).

Table 3: Export and import of services of some countries in 2007 (US$ billion)

Country	Export		Import	
	Value	Rank	Value	Rank
Thailand	28.8	27	38.0	16
Malaysia	28.2	30	27.8	18
Singapore	67.3	14	70.1	14
Vietnam	6.03	NA	6.397	NA
Hong Kong	82.7	12	41.0	11
China	121.7	7	129.3	5

- Most exports from Vietnam are natural resources and products of labor-intensive industries and they account for some 90% of Vietnam's export earnings.

- Vietnam' export market is small: Although Vietnam's products are sold to 219 countries and territories, 82% of its export earnings came from six countries and regions: the U.S., the EU (27), ASEAN, Japan, China and Australia. The limited market for exports produces profound effects on the Vietnam's economy when these countries and regions met difficulties. Moreover, Vietnam suffers huge trade gap from its leading trading partners, such as the U.S., Australia, the EU and Japan. This means that Vietnam can't reduce its imports from these markets in retaliation for damage they cause for Vietnam's export (by imposing antidumping tax for example) when necessary.

- Production of exports in Vietnam depends too much on imported raw materials. Some 90% of raw materials used in the footwear industry are imports. This figure is 90% in the plastics industry; some 80% in production of electronic and electric equipment; 60% in garment; and 70% in wooden furniture. Over 60% of fertilizer used in Vietnam is imported. Vietnam spends about one billion dollars importing animal feed although it is still an agricultural country. The situation comes from the fact that supporting industries in Vietnam are less developed, which forces producers of exports have to depend on imports although the dependence makes their exports less competitive.

- In leading exports-making industries, such as garment (US$8 billion), footwear (4 billion), and electronic equipment and computer (some 2 billion), over 60% of goods are made under subcontracting orders, which leads to low added value and high dependence. Many companies that earn from US$100 to 200 million from export have no brand names or products of their own. Their capital accumulation and efficiency are low. That is why Vietnam has no influence on the regional and international markets in spite of its large volume of exports.

- Export of services is limited and fails to reach full potential of the country and the trade gap tends to increase over years.

- Except for the tourism industry that earns some US$2 billion a year, value of import and export of other services is around hundreds of millions of dollars. The Vietnam's export and import of service is shown in the following table.

- Vietnam's trade gap is of the highest level in Southeast Asia (see Table 2) and it kept increasing: US$8.1 billion in 2005; 8.3 billion in 2006; 12 billion in 2007; and about 18 billion in 2008. Huge trade gap affects badly the balance of trade and balance of payments.

- Vietnam has no foreign trading group that is strong enough to open its offices or branches in foreign market like Japanese Itochu and Nisho Awai; or Korean Kolon and help Vietnamese SMEs get access to the world market.

Table 4: Vietnam's export and import of services in 2005 – 2007 (in US$ million and %)

Service	Export						Import					
	2005		2006		2007		2005		2006		2007	
1.	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
- Tourism	2,300	53.93	2,850	55.88	3,330	55.22	900	20.09	1,050	18.13	1,220	18.06
- Air transport	657	15.40	890	17.45	1,071	17.76	630	14.06	700	12.09	820	12.14
- Navigation	510	11.96	650	12.75	810	13.43	170	3.79	210	3.63	250	3.70
- Post & tele-communication	100	2.34	120	2.35	100	1.66	31	0.69	30	0.52	45	0.67
- Finance	220	5.16	270	5.29	332	5.51	230	5.13	270	4.66	300	4.44
- Insurance	45	1.06	50	0.98	65	1.08	130	2.90	160	2.76	210	3.11
- Public service	33	0.77	40	0.78	45	0.75	30	0.67	40	0.69	40	0.59
- Others	400	9.38	230	4.51	277	4.59	850	18.97	850	16.68	1,030	15.24
- I &F fee for imports							1,509	33.68	2,482	42.85	2,842	42.06
Total	4,265	100	5,100	100	6,030	100	4,480	100	5,792	100	6,757	100

Source: [3,82]

- Competition between Vietnamese companies for selling or buying on the world market also affects badly the efficiency of the foreign trade.

To maintain the high growth rate of export and reduce the trade gap, authorities must work out measures to deal with shortcomings and enhance achievements of the foreign trade.

2. Opportunities and challenges for foreign trade in 2009

a. Opportunities:

- The world economy is in recession, and cheap goods from Vietnam, such as seafood, footwear and garment, may be saleable in foreign markets.

- In the 2008 APEC Conference, 20 members of this organization promise not to raise more trade barriers in order to encourage the multilateral trade among members. This is an opportunity for Vietnam to export more goods to such markets as the U.S., Japan, Russia, China and Australia.

- Chinese exports have been rejected or banned in many markets because of a series of scandals, which leads to an opportunity for Vietnam's exports if they are good enough.

- From 2009, the US supervision on garments exported from Vietnam will come to an end, which can boost export of this line of products.

- The Doha Negotiation Round may conclude in 2009 and bring about a better opportunity to export farm products.

- According to commitments when entering into bilateral and multilateral agreements, Vietnam has to keep on reforming the economy, improving the business climate, and simplifying administrative procedures in order to ensure a level playing field for all companies of all sectors. This effort can promote the foreign trade actively.

- Prices of many essential goods, including oil and raw materials, on the world market are falling, which can allow local companies to cut production cost and make their products on foreign markets more competitive.

- Transport cost has also fallen drastically. From August to November 2008, the freight fell by 30% - 70%; the freight for dry cargo was cut by 90%. In April 2008, the sea freight to Europe was US$1,500/container 20' and this charge fell to US$500 in November; some shipping companies offered a charge of US$400 or 300 for a container. Lower transport cost may encourage the foreign trade and lower the production cost.

- The foreign sector in Vietnam is developing well with many newly licensed projects to make exports. This is a factor that helps maintain a high growth rate for the foreign trade during the world recession.

b. Challenges:

- The recession in leading economies that are main export market for Vietnam may produce complicated effects: importers may fail to pay timely and volume of import may fall because of lower spending power. This will be a great obstacle to Vietnam's export.

- Prices of many staple exports from Vietnam on the world market fall drastically. The price of crude oil in December 2008 fell by half compared with the one in June – July 2008 and it is still falling. Prices of many farm products (rice, coffee, rubber and cashew nut) fell by 15% - 50%. Competition between exporters of farm products during the recession may make the market prices much lower.

- Some staple exports from Vietnam, such as shrimp and catfish in the American market and footwear in the EU one, are imposed anti-dumping taxes. The EU authorities decide to remove the GSP status for Vietnam's footwear as from 2009. This means that this product should pay higher taxes and become less competitive. It's worth noting that the footwear earns over US$4 billion a year and over 50% of this sum comes from the EU market.

- Changes in exchange rates of many hard currencies prove unfavorable for the export. Many of them, including the euro, English pound, Australian, New Zealander and Canadian dollars, fell by 10% - 30% against the US dollar, which makes the VND dearer because most importers pay in the US dollar.

- Trade barriers raised by developed countries are becoming more complicated and sophisticated (technical, anti-terrorism and biological barriers, among others) and discouraging export from developing countries.

- As required by the WTO rules, Vietnam has to cut and then stop giving direct subsidies to export business. And Vietnamese exporters will face more difficulties.

In short, opportunities and challenges will intertwine and affect strongly the Vietnam's export in the coming years.

3. Measures to promote the export and improve the efficiency of foreign trade

a. Short-term measures for 2009:

- For authorities:

+ Approving a plan to raise technical barriers based on standards of food hygiene and safety, protection for the environment, origin of goods, and urgent measures, etc., to control flows of imports and protect the local production to a certain extent, thereby reducing the trade gap.

+ Improving capacity to predict economic and financial changes in the world market to help the Government to adopt right policies on the export.

+ Working out quickly a plan to support exporters in terms of capital, and market researches, etc. like many governments that are carrying out overall solutions to economic recession and falls in export.

+ Promoting foreign relations to expand the export market for Vietnam's goods and adopting programs to help diplomatic corps in foreign countries take part in promotion of export and serve as bridges between local exporters and foreign markets.

+ Making publicly-financed export-promoting programs fairer and more transparent.

- For associations of exporters:

+ Enhancing capacity and performance to link exporters.

+ Promoting cooperation among producers in the same industries to handle big orders and avoid unnecessary competition in foreign markets.

+ Supporting trade promoting and technology transferring programs.

+ Actively offering suggestions to authorities about policies pertaining to production of exports.

+ Acting as protectors for legitimate interests of local companies at home and abroad, especially in law suits.

- For companies:

+ Building strategies to differentiate products and expand export markets, especially Russian, Eastern European, Arab and African markets (These countries consume Vietnam's products in large quantities and in 2008, many trading and cooperation agreements were exchanged to facilitate bilateral trade.)

+ Studying technical barriers in foreign markets and building appropriate strategies enter into these market based on product quality and safety.

+ Beefing up cooperation between exporting companies and producers of exports in order to make products based on local market demand and tastes in order to secure firm footholds in foreign markets.

+ Applying active standards of quality control, such as ISO, HACCP, ISO- 14000, and GMP, etc.

+ Beefing up marketing programs and taking part actively in trade promoting plans launched or supported by authorities and exporters' associations.

+ Trying to cut production cost in order to make exports more competitive in foreign markets during their recession.

b. Long-term measures:

- For authorities:

+ Building specialized warehouses and international commodity exchanges in areas that produce farm products in large quantities (instead of giving tax incentives or export bonuses that are against WTO rules) in order to maintain and improve quality of farm products; monitor market forces; and help companies to store commodities waiting for better prices.

+ Strengthening systems of controlling the product quality and safety, especially for food for export: To develop these systems, Vietnam's authorities must cooperate with foreign agencies of drug and food, especially the ones in the U.S., the EU, and Japan, with a view to build good public images for Vietnam's food in the world market.

+ Helping VCCI open its offices in foreign countries and carry out effective trade promoting programs like what have been done by AMCHARM, EUROCHARM, KOTRA; and British Council.

+ Perfecting mechanism for controlling overseas investment by Vietnamese companies, and adopt policies to support them in this effort (because it is an effective way to enter into foreign markets).

+ Investing in the building of national brands.

+ Supporting the production of raw materials and other capital goods in order to reduce the trade gap and production cost.

- For companies:

+ Working out strategies to move from doing subcontracts and producing products of new brand names.

+ Diversifying exporting activities: re-exporting, running outlets in foreign markets, or investing in foreign markets.

+ Opening rep offices in foreign countries to find prospective customers and supervise distribution of Vietnam's goods in order to avoid risk when exporting and importing.

+ Working out strategies to enhance internal strength of the companies by replacing old technologies and facilities, improving the competitiveness; and retaining competent managers and skilled employees, etc.

+ Building corporate public images and brand names for staple products.

Conclusion: The world economy is in recession, the world export in 2009 will meet with many difficulties. If managers know how to turn 'threats' into 'opportunities' by carrying out right solutions and measures, the foreign trade can develop well anyway and Vietnam can maintain its high growth rate.■

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