

SOLUTIONS TO REDUCE THE CURRENT TRADE DEFICIT IN VIETNAM

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1. Problem

It seems that the global economic crisis is calling for its end and is on the progress of recovering. In order for the Vietnamese economy to develop steadily in the new era, one of the urgent problems that needs handling right away is the trade deficit. Trade deficit is no more a new issue in Vietnam because for over the past 20 years our economy has been in that same state of affairs, i.e. trade deficit. However, what triggers attention is that Vietnam has become the nation with the biggest trade deficit in the region; during the past three years, trade deficits have been over US\$12 billion annually, which affected and imposed limitations on the national finance, thus causing impacts on the economic effectiveness.

2. Import and trade deficit of Vietnam: Facts

a. An overview on import in 2009

The year 2009 saw a 14.7% decrease in Vietnam's import compared with 2008 which resulted in the whole-year import value of US\$68.8 billion. As in the previous years, this year Vietnam mainly imported machinery, equipment and raw materials for production and export, with machinery, equipment, and spare parts accounting for 29.5% of total import values; 61.3% for raw materials, 8.7% for commodities, 0.5% for gold.

Throughout 2009, Vietnam imported 4.3 million tons of fertilizer, 2.2 million tons of plastic, 9.63 million tons of steel, 1.04 million tons of paper and 12.5 million tons of oil and gas, approximately 76.300 end-product automobiles, 110.600 motorcycles, powder milk and dairy products worth of US\$514 million.

In 2009, Vietnam imported goods from 160 countries, but 85% of import value is mainly from 8 major markets: the biggest import value is from China with US\$16.1 billion, increasing by 2.7% compared with 2008; the smaller import values are from ASEAN with US\$13.4 billion, decreasing by 31.3%, from Japan with US\$7.3 billion, a decrease of 11.3%; from Korea with US\$ 6.7 billion, decreasing by 5.3%; from Taiwan with US \$ 6.2 billion, decreasing by 25.9%; from EU with US\$5.5 billion, increasing by 2.2%; from the US with US\$2.8 billion, increasing by 9.1%, and from Australia with US\$1 billion, decreasing by 24%.

b. For trade deficit

Vietnam's trade deficit is ranked highest in SEA (See Table 1) and 41st in the world (www.wto.org.) In the last quarter of the last century, except 1992, Vietnam's value of imports was always greater than the value of its exports, especially in the last ten years. (See Table 2)

Table 1: Import & Export of six ASEAN countries in 2007 (US\$ billion)

Country	Export		Import		International balance of payments
	Export value	World rank	Import value	World rank	
1. Indonesia	118	32	92	32	26
2. Malaysia	161	19	147	25	14
3. Philippines	50	48	58	45	-8
4. Singapore	299	14	263	15	36
5. Thailand	153	25	141	26	12
6. Vietnam	48.4	50	60.8	41	- 11.9

Source: www.wto.org

Table 2: Vietnam's trade deficit 1999-2009
(US\$ million)

Year	Export	Import	Trade deficit	As % of export value
1999	11,523.00	11,636.00	-113.00	0.98
2000	14,428.70	15,636.50	-1,153.80	7.97
2001	15,027.00	16,126.00	-1,135.00	7.55
2002	16,530.00	19,300.00	-2,770.00	16.76
2003	20,200.00	25,200.00	-5,000.00	24.75
2004	26,485.00	31,969.00	-5,484.00	20.71
2005	32,419.90	36,978.00	-4,558.10	14.06
2006	39,605.00	44,410.00	-4,805.00	12.13
2007	48,560.00	60,680.00	-12,120.00	24.96
2008	62,685.00	80,656.00	-17,971.00	28.67
2009	56,600.00	68,800.00	-12,200.00	21.55

Source: Calculations from data of the Ministry of Industry and Trade

Whereas, in the past three years, Vietnam's trade deficit in commodities trading has always been over US\$12 billion per year. Service trading shared the same deficit: export of services in 2009 was estimated at US\$5,766 million, decreasing by 18.1% compared with 2008, among which tourism accounted for US\$3,050 million, decreasing by 22.4% and transportation service accounts for US\$2,062 million, decreasing by 12.5%.

Imported service value in 2009 was estimated at US\$6,837 million, decreasing by 14.1% compared with 2008, among which transportation and insurance for imports accounted for US\$3,579, decreasing by 14.7%; tourism accounted for US\$1,100 million, decreasing by 15.4%, and transportation cost US\$860 million, decreasing by 21.8%. Deficit in the service trading for the whole 2009 equaled US\$1,071 million, increasing by 17% compared with 2008 and equaled to 18.6% of exported service value in 2009.

3. Assessment on the current importation and trade deficit in Vietnam

In order to figure out proper solutions for the trade deficit, we need to have an objective outlook of the role as well as of the consequences of several factors affecting this issue:

a. Positive role:

It seems that we have not yet evaluated prop-

erly or refrained from mentioning the positive role of import activities, including the trade deficit. That is why a large number of researchers and policy-makers want to reduce the trade deficit quickly in absolute terms. In our opinion, large-scale import during the past few years has had great impacts on the national economy in the following ways:

Import helps promote export rapidly while export-supporting industries have not developed and its growth requires a lot of time and capital.

Import enhances the technological competence of the country. Many local industries can keep up with those of other regional countries thanks to import such as oil and gas, electricity, fertilizer, postage and telecommunications, and banking, etc.

Large-scale import creates a competitive environment in the country by forcing local enterprises to renovate technologies and management in order to produce goods that are able to compete with imports. Only by so doing could they maintain their market share in the country and strongly promote their exports. If we limit imports to excess, it would lead to the monopoly enjoyed by a few domestic enterprises and this, in turn, could lead to the increases in prices and poor competitiveness of Vietnamese products.

Import affects positively the implementation of foreign-invested projects and makes business climate more attractive.

Import supports various industries such as footwear, garment, electricity, electronic products, automobiles, etc. to take part in regional and global trade; and through that, Vietnam could rapidly integrate into the globalization.

Import stimulates the enhancement of quality of the human resource so as to meet the need of modernization. Moreover, imported technical literature also helps enhance the quality of training.

Import helps increase the people's living standards both materially and spiritually. Thanks to imports, source of supply is more diverse and the product's quality is more improved. Imported machinery and equipment help bring projects into reality and widen the scale of business, thus attracting more laborers and reducing the rate of unemployment.

The increase in import also explains a large

share of budget income.

b. Negative effect of the current trade deficit

The current import deficit has a great deal of effects on the economy, namely:

Trade deficit causes bad impacts on the balance of payments and the national foreign exchange reserve.

Trade deficit makes the Vietnam's economy more vulnerable to fluctuations in regional and global markets, putting it at a high risk.

The huge trade deficit causes difficulties for the development of the country and makes many of small- and medium-sized enterprises go bankrupt.

The excess of import would partly consolidate and promote the consumption of foreign products, thus limiting the consumption of domestic ones.

c. Factors affecting the current trade deficit

- Objective factors

History: Experiencing many ruthless wars against French and American invaders, the Vietnam's economy has not had favorable conditions for development. Besides, for nearly 30 years under the centrally-planned mechanism and government monopolies, the domestic products could not compete with imports, and consequently, many of Vietnamese have had a tendency to "worship" foreign goods. These are the objective factors that greatly affect the current trade deficit.

Many foreign-invested enterprises in Vietnam are multinational corporations. They set up their factories and companies here as a part of their business chain in the world. Therefore, they only use materials supplied within their chain instead of buying the local materials. Nike and Adidas are such companies.

Bilateral and multilateral ODA sources poured into Vietnam are on the increase. The ODA increased from US\$3.7 billion in 2005 to US\$4.4 billion in 2006, US\$5.426 billion in 2007, US\$5.015 billion in 2008, and more than US\$5 billion in 2009. In 2010, the ODA promisingly reaches US\$8.063 billion. The import of materials, machinery, and means of transportation for execution of ODA projects is also the reason of rising import.

The current integration of Vietnam into the regional economy; the reduction of import tariffs and

the non-tariff measures as set forth in bilateral and multilateral agreements, for example the U.S.-Vietnam Bilateral Trade Agreement, the CEPT program of ASEAN countries, the WTO Agreements, etc. are also objective factors facilitating the import activities both in price and in quantity.

- Subjective factors

Vietnam's policies relating to international business have not yet kept up with the process of integration; we have not yet set up effective trade barriers in accordance with international conventions so as to strictly manipulate imports and protect the domestic market with a view to reducing the trade deficit.

By the end of 2009, Vietnam's exports have faced 35 antidumping lawsuits and 5 countervailing lawsuits on the world market. Hundreds of cases have been launched on the Internet regarding inadequate standards of food hygiene and safety or nuisances of trade barriers. Moreover, Vietnam's agricultural and aquatic products are required to meet standards of HACCP, ISO, GAP, etc. if they are to enter the world market.

Up till now, after 22 years of economic reform, even though several of laws on trade barrier have been promulgated, we still have to face some limitation when bringing them to reality. We have never once won an antidumping or countervailing lawsuit of ours. Lots of poor-quality foreign products with inadequate standards of food hygiene and safety have been able to enter Vietnam: in 2009, hundreds of containers of poor-quality goods remained in Vietnam's ports. We have not yet built up a set of standards concerning product origin, HACCP, etc. for imported goods although we import more than US\$3 billion worth of raw materials, agricultural, forestry, and aquatic products each year. We have just applied new quarantine regulations as of Oct. 1, 2009. Of these new regulations, the ones on products contaminated with bacteria and those containing microorganism shall be refused to enter Vietnam, making enterprises reluctant to import frozen meat in large quantities. The imported food unloaded in HCMC ports in November and December decreased by 60% in comparison with that in previous months.

The domestic production and consumption are on a quite small scale, meanwhile long-term economic development supervised by local authorities

so far has been ill-considered and policies supporting supplementary industries have not yet been attractive, thus structural changes within an industry aiming at producing raw and auxiliary materials is rather slow. This is one of the reasons why imported raw materials account for a large percentage within Vietnam's production and exportation, i.e. 65% in clothing, 85% in footwear, 70% in wood processing, and 70% in electronic components; approximately US\$280 million worth of aquatic products is imported for processing each year. In 2009, the imported food stuffs for cattle and pantry cost more than US\$1.7 billion; and an amount of over US\$1.8 billion also poured into fertilizers and pesticides. Via these figures, we can conclude that not only industry but also agriculture have to depend heavily on imports.

The competitiveness of local products is not high in quality and many domestic products such as clothing, steel, cane sugar, refined sugar, and building materials are about 5% to 10% as expensive as imported ones. Ratio of exports based on subcontracts in some industries such as clothing, footwear, electricity, and electronics are still high; and raw materials are mainly supplied by foreign suppliers, thus making imports increase.

A number of foreign-invested enterprises keep on importing raw materials and services because only by so doing would the "transfer pricing" be easier with a view to getting maximum profit from the whole chain of companies in the world. Yet, Vietnam has not had effective measures against this transfer pricing.

Vietnam chiefly exports agricultural materials and natural resources in raw forms making its exports cheaper. The year 2009 saw a decrease of revenue in all these exports, particularly US\$1.05 billion in agricultural and aquatic products (i.e. a decrease of US\$2.48 billion in value and an increase of US\$1.52 billion in quantity) and US\$4.52 billion in fuel and minerals (i.e. a decrease of US\$5.46 billion in value and an increase of US\$939 million in quantity.) Meanwhile, the price of many of imported materials and high-technology machinery are hiking up.

The current trade deficit in Vietnam originated partly from excessive consumption. For example, several groups of customers have a tendency to consume luxurious imports such as automobiles, cosmetics, mobile phones, etc. In 2009 alone, the

import of end-product automobiles is about 76,300 pieces, accounting for US\$1.71 billion and 14% of the whole-year deficit. (See Table 3)

Table 3: Vietnam's import of end-product automobiles (US\$ million)

Year	Quantity	Value
2007	28.0	523
2008	50.4	1
2009 (estimated)	76.3	1,171

Source: GSO

In brief, trade deficit and its affecting factors indicate that to reduce the trade deficit is no easy task for Vietnam in the near future because import cutbacks would result in the following consequences: Vietnam would violate the commitments to open the economy to international competition; production and export would be reduced because of the shortage of raw materials, Vietnamese products would lose its competitiveness because local materials have not yet met the market demand in terms of quality and quantity, etc. It is very urgent to study and propose scientific and practical solutions for the trade deficit in Vietnam.

4. Proposals to solve the trade deficit

a. Standpoints of proposal

- Resolutely maintain the integration strategy and the open-door economy in order to closely observe the bilateral and multilateral commitments
- Strongly promote the export at a higher speed than that of import is the most effective solution for the trade deficit.
- Reduction of import should not produce any impact on the domestic production and export.
- The foreign sector plays an important role in the Vietnam's trade balance. In 2009, it accounts for 52.76% of the export turnover and 36.14% of the import turnover. Thus, a solution for this sector must be figured out as soon as possible.
- Transition from subcontracting to self-producing is impossible to be done overnight owing to the fact that we have not got an internationally well-known trademark or a worldwide distribution network; whereas it can take us at least 10 years to develop our supporting industries.
- To enhance the competitiveness of domestic

products and services is the most important factor to reduce the trade deficit. Good-quality products with low price would encourage the consumption of domestic products and purchase of local materials for production, and ensuring the satisfaction of international requirements.

b. Proposals

+ 1- to 3-year solutions

- The National Integration Committee in association with the Ministry of Industry and Trade, the General Customs Office under the Ministry of Finance, the Ministry of Agriculture and Rural Development, and the Ministry of Science and Technology and with the assistance of international experts, should set up trade barriers in accordance with world standards in technique, food hygiene and safety. Besides, necessary standards of imports should be figured out clear-cut such as product's origin, environmental friendly standards, ISO standards, etc.

- Competence of the National Competition Bureau (under the Ministry of Industry and Trade) should be enhanced to support enterprises in international commercial lawsuits so as to maintain their export; and in actions against unhealthy competition like dumping, subsidy, and commercial fraud, etc.

- Enhancing the supervision and imposing effectively non-tariff barriers on goods imported through the Northern border ports, especially when Vietnam has confronted the trade deficit in trade with China, are necessary. As of Jan. 1, 2010, when the ASEAN – China Free Trade Area, the world's largest free trade area, was officially put into operation, some 9000 categories of products and services accounting for some 90% of the bilateral trade value, enjoy cuts in or exemption from import tariff, which may lead to bigger trade deficit.

- Expedite the export by means of:

+ Enhancing the competence in forecasting economic and financial upheavals of national level with a view to supporting the government to make proper policies on export

+ Supporting enterprises to expand its business and diversify products

+ Supporting enterprises in capital and their export as well as potential markets for major exports like rice and coffee, etc. while many developed countries have adopted policies to restore their economy and push up the export.

+ Establishing diplomatic relationship to facilitate the export; submitting plans to Vietnam's diplomatic agencies in foreign countries in order that they can help liaise between foreign enterprises and Vietnamese ones

+ Promoting the effectiveness, transparency and equality of trade promotion projects funded by the national budget

- Building up a mechanism for encouraging enterprises to raise the added value of exports (i.e. levying taxes on low-price goods and exempting high-price ones from taxes) For example, we can levy a 2% tax on shirts exported at the price of less than US\$10, 1% for US\$10 – 15 worth of shirts, and 0% for those more than US\$15. Accordingly, our enterprises will be encouraged to manufacture goods with high added value and not be involved in dumping lawsuits.

- Fortifying the system controlling the product quality and food hygiene and safety of exports so as to consolidate the prestige of Vietnam's enterprises and the consumers' trust in Vietnam's products. Accordingly, our export will be enhanced. We should avoid the recurrence of unfavorable news appeared in 2009 when Spain, Russia, Australia and New Zealand shook their heads with our exported seafood.

- Notifying widely Vietnam's enterprises of opportunities in 2010 when 95% of exports to China shall enjoy cuts in or exemption from tariffs; and Australia – ASEAN – New Zealand Free Trade Agreement (AANZFTA) shall be effective as of Jan. 1, 2010, and accordingly, members of this agreement pledge to abolish 90% of tax categories by 2018.

- Enhancing the competitiveness of Vietnamese products in domestic and world markets in terms of product's quality, diverse and catchy models, environmental friendliness, and lower prices. The slogan "Vietnamese people use Vietnam's goods" should be put into action instead of a wordy campaign. This is a significant measure to increase export and reduce the trade deficit.

+ Long-term solutions

- Promoting the investment in key fields; offering preferential treatment to foreign investors in supporting industries, especially the ones needed for clothing, footwear, electricity, electronic, and plastic industries; and, at the same time, paying full attention to the following aspect: Projects to develop supporting industries by local investors must be examined thoroughly and approved in terms of the competitive competence of auxiliary materials as well as their market, because at present when subcontracting, presently, is accounting for a great deal of output, raw materials are supplied by foreign contractors, Vietnam's exports haven't got their brand names while imported materials are cheaper and more competitive than the local ones; and Vietnam is trying its best to integrate deeply into the regional and world economy by means of import tariff reduction or by non-tariff measures. These facts ensure no bright future for such projects.

- Investing in infrastructure needed for export such as warehouses, piers and freight yards, etc., because it would help reduce losses and maintain

the quality of exported agricultural and aquatic products; and speculate and hoard on goods with a view to earning the highest profit and manipulating the regional and international markets for farm products.

- Promoting export of services relating to tourism, transportation, finance, etc. because the export value of these fields is still low compared with their potentials; and Vietnam is also facing the trade deficit in services.

In short, the most fundamental solutions for the trade deficit that Vietnam need to take immediately is to speed up its export and improve the competitive competence of local products and raw materials■

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