Vietnam's Export in the International Integration

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Export business has become one of dynamics of Vietnamese economic growth in recent years but it failed to meet requirements posed by the modernization and industrialization program, especially as the international integration is accelerated and negotiations are carried out to get accession to the WTO for Vietnam.

1. Situation

After two decades of economic reform, the Vietnamese trading business has developed quickly and contributed a lot to the economic growth. Export markets are expanded and more and more foreign buyers come to Vietnamese producers. In the years 1990-2000, the export rose by some 20% a year and this figure reached 20.8% in 2003, 28.9% in 2004 and some 22% in the first half of 2005 twice as high as the economic growth rate.

In 2004 alone, the export earnings reached a record level of US$26 billion increasing by 28% compared with 2003. High growth rates were found in crude oil, coal, wooden furniture, electric cable, etc. In the period 2000-04, the export value was about US$80 billion. Thus, the total value of exports and imports has exceeded the GDP and the export growth rate is always higher than the economic one.

Realities in the past two decades show that the export business played an important role in creating new jobs, increasing the personal income, encouraging labor division and improving the economic growth rate. The foreign trade also helps Vietnam get access to modern technologies, secure supply of materials needed for local production and integrate into the world market.

Photo by Huỳnh Thơ

Main achievements in the foreign trade in the past two decades are as follows:

- The proportion of manufactured goods and service exported rose against that of raw materials. Many export staples earn more than one billion dollars a year, such as crude oil, clothing, aquatic products, footwear, wooden furniture and electronic appliances.

- Export market for Vietnamese goods has expanded. In the past it was limited to ASEAN countries and now it covers over 100 economies, including the U.S., the EU and Japan. Asian and ASEAN countries account for 60.5% and 17% of Vietnamese exports respectively in 2001 and fell to 47.7% and 13.9% in 2004. This means that Vietnam has more and more trading partners from other continents. At present, the American market represents the highest percentage of Vietnamese export.

- The new foreign trade policy adopted by the Government encourages companies from all sectors to do export. Private and foreign-invested companies made great contribution to the growth of the export value.

The 11^{th} National Assembly in its 7^{th} session has passed the Trade Law that affirms the most important task I this period is to develop markets for goods and services. The Law regulates the trading activities according to five principles suitable to the market economy and international integration trend.

In the modernization and industrialization program, the Vietnamese Government adopted the export-oriented policy. Realities in the past two decades show that it is a right decision. Although the export value rises fast over years (the planned target for the export business in 2005 is US$31.5 billion, the highest one up to now), its development reveals many limitations and shortcomings.

+ Farm products and raw materials still represent a high percentage of exports. The proportion of manufactured exports, in spite of recent increases, only amounted to 38%. Moreover, the added value in exports is still low. This means that supporting industries haven't developed in Vietnam with the result that local producers could only act as subcontractors or turn raw materials into semi-finished goods. This factor makes Vietnamese goods cheap and less competitive. In the competitiveness rating publicized by the World Economic Forum in 2004, Vietnam's rank fell from 60 to 77 among 104 surveyed countries.

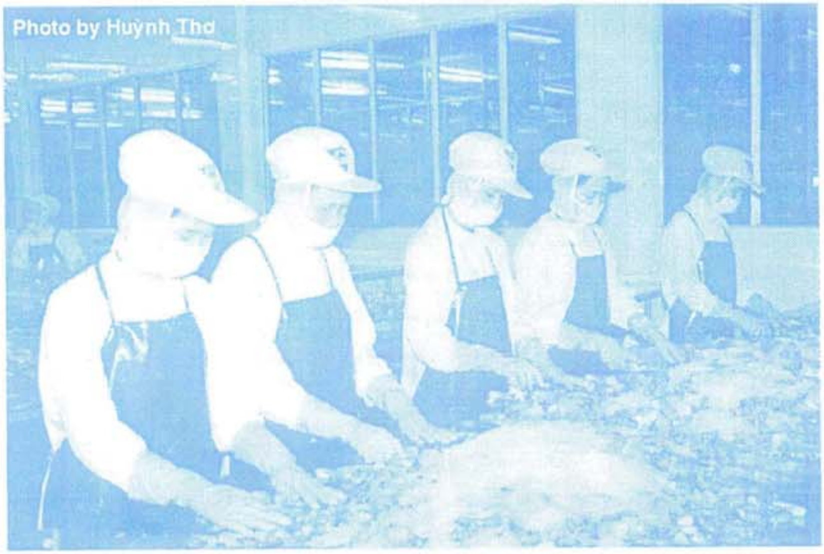
+ The competitiveness of Vietnam in terms of price, quality, distribution network and brand name is very low in comparison with regional countries and the world in general. Many products and companies, especially state-owned ones, exist because of government subsidies and protection. When the domestic market is open to foreign companies, many companies will be in the brink of ruin and see their market share contract.

Regarding staple exports, they have low added values. Vietnam enjoys the same comparative advantages that are based on cheap labor and raw materials as China, India and other regional countries do. And their competition is becoming increasingly keen.

+ When Vietnam joins the WTO, all trade barriers must be lifted, if the competitiveness of local companies is not improved, their market shares will lose to foreign rivals. Clothing industry, one of leading exports of Vietnam, has faced keen competition from China and India in the American and European markets since Jan. 1, 2005.

+ The trade gap, in terms of absolute value, has increased incessantly. In the first half of 2005, this gap amounted to US$3.5 billion equaling 24.6% of the export value (in the same period in 2004, it equaled only 20% of the export value.) As the international integration take place at a larger scale, increases in the trade gap will become more dangerous and require strong measures to control it.

The trade gap is caused by domestic sectors only because the foreign one always tries its best to export. Although Vietnam enjoys trade surplus when trading with the U.S. and EU, it suffers trade gap with Asian economies: US$2.2 billion with Taiwan; 1.4 billion with China; nearly 1 billion with Thailand and 0.6 billion with Hong Kong.



What worries us is the cause of the trade gap. Import values of many raw materials didn't increase while import of consumer's goods did: automobile by 51% and motorbike by 65% and many exports, such as clothing, footwear, handicrafts, aquatic products and crude oil only rose slightly.

+ Poor quality of exports comes from the fact that changes in the structure of industry are very slow. Vietnam failed to develop key industries based on its comparative and competitive advantages. In addition, some export policies need amendments and perfection. For example, the protectionist policy failed to encourage local companies to make the best use of time left to expand their market shares. According to the WB, the current protectionist tariffs still allow high profits for traders in the domestic market in comparison with exporters. Other causes of poor export performance are badly- developed infrastructure, poor human resource, and limited export promotion programs.

2. Some measures to promote the export

According to the plan, Vietnam is actively negotiating with WTO members and making preparations for accession to this organization by the year's end. This situation offers both advantages and challenges to Vietnam.

For the time being, many measures should be taken to ensure the target of US$31.5 billion worth of exports.

- The Government should work out an overall export policy to encourage export companies, make administrative procedures more reasonable, especially ones for accessing sources of finance, establish insurance fund for exports and trade promotion. Moreover, Vietnamese embassies should help companies develop distribution networks in foreign markets.

- The law system must be stable and consistent in order to make the business climate more attractive, especially when Vietnam becomes a WTO member. A Companies Law applying commonly to all companies must replace the existing Companies Law and State-Owned Companies Law. Similarly, the Foreign Investment Law and Encouragement to Domestic Investment Law must be replaced by an Investment Law. Other policies and laws must be amended and perfected with a view to making them transparent and suitable to international practices and regulations.

- Reforms in the structure of industry should be accelerated in order to make the best use of comparative and competitive advantages, develop export-oriented technology-intensive industries, reduce monopolies and remove protectionist measures. Costs of services supplied by government monopolies must be cut to the bone in order to help companies reduce production cost thereby improving their competitiveness.

- The Government had better establish trade promotion offices in such important export markets as the U.S., the EU, Japan and ASEAN countries and encourage operations of associations of producers.■