

# VIETNAMESE PROTECTIONIST POLICY AND INTERNATIONAL INTEGRATION

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## I. AN ASSESSMENT OF CURRENT PROTECTIONIST POLICY

### 1. Achievements

- Tariff barrier: To protect local production, the duty rates have been regularly kept high or rather high on goods that could be made locally and low or extremely low on necessary raw materials or machinery. This policy helped increase output of certain industries (paper, glass and cement for example).

- Non-tariff barriers: The Government banned import of certain products that could be made locally; and set import quotas on 19 items in 1999 and 10 items in 2000. The Directive 853/1997/CT-TTg by the PM required 17 imported items (including refrigerator, TV set, internal-combustion engine, bicycle, electric fan, alcohol and sanitary ceramics) to be stamped in an effort to prevent smuggling.

- Investment policy and other supporting policies: The Government have increased public investment in companies producing essential goods, and encouraged foreign investment and transfer of technology and managerial skills with a view to improving competitiveness of local industries.

### 2. Shortcomings of protectionist policy

In spite of the above-mentioned achievements, the protectionist policy proved unreasonable and inconsistent with obligations placed on Vietnam by international agreements.

- The policy provides protection to local industries without conditions and time limit: high tariffs and quotas are still imposed on items that could be made domestically. Protectionist measures aren't based on comparative advantages of local industries. The limitless protection also led to ineffective investment policy that failed to make use of domestic comparative advantages and benefits offered by international di-



vision of labor. Since 1994, the best part of public investment has been put in production of import substitutes, instead of production of exports. The production of automobile is a case in point.

The car industry is well protected in Vietnam: five-seater cars (and smaller ones) pay a duty rate of 60% and an excise tax rate of 100% (or an aggregate import tax of 210%) while the duty rates on spare parts and components are lower (from 3% to 45%). Due to this protection, 14 car factories have been built in Vietnam with total investment of US\$824 million and total capacity of 170,000 cars a year. These companies are suffering losses because domestic market demand for car is small, road networks are badly developed and production cost of car made in Vietnam is high. In other words, the development of the car industry in Vietnam was a waste of capital.

In addition, the unconditional protection made protected industries more reliant on the Government instead of encouraging them to improve their competitiveness.

The Government is slow to replace non-tariff measures with tariff barriers: Besides tariffs, many non-tariff measures are applied and the most important one is quantitative restriction. Quotas are used for controlling supplies of certain products, such as fertilizer, paper, cement, iron and steel. Import quotas provide importers who secure quotas with privileges while import ban allows producers some monopolistic power. Application of too many non-tariff measures led to adoption of ambiguous policies and increasing smuggling. Many non-tariff measures aren't recognized by the WTO and should be removed in the near future.

Tax and customs authorities didn't pay full attention to market control and struggle against smuggling, monopoly and corruption. In addition, the task of persuading consumers into using locally produced goods isn't done well with the result that the cult of foreign goods is widespread.

At present, most local companies are facing great difficulties and their products are of poor competitiveness. What is the future protectionist policy that could not only safeguard local industries but also force them to enhance their competitiveness? The following are some of our opinions about this problem.

## II. AN OUTLINE OF A NEW PROTECTIONIST POLICY AGAINST A

### BACKGROUND OF INTERNATIONAL INTEGRATION

#### 1. Principles

- Protection is necessary: Vietnam's economic position is lower than other surrounding countries. Protectionist measures are needed for helping domestic industries survive foreign competition and develop.

- Protectionist measures should be consistent with trade liberation policy and international obligations committed by Vietnam.

- Protection should, above all, aim at achieving high socioeconomic efficiency, that is, forcing local industries to enhance their competitiveness, increase their market shares and enter new markets; and ensuring fast and sustainable development.

- Protectionist policy should also protect interests of consumers and ensure them a wide range of choices.

#### 2. Main features of protectionist measures in the near future

- Protectionist measures should be applied on a selective basis, that is, they only protect industries or products with high competitiveness.

- These measures are conditional and temporary. They aim at helping local industries in certain conditions and also force them to develop faster. They are meant to last for only three or four years.

#### 3. Some protectionist measures in the near future

- Different degrees of protection: Because development levels vary over industries and Vietnam wants to introduce a conditional and selec-

tive protectionist policy, the protection could be of five different degrees:

+ Degree 1: A 10% duty rate is imposed on products that local industries could supply at competitive prices, such as rice, tea, rubber and coffee; and on products needed for modernization of local industries.

+ Degree 2: A maximum duty rate of 20% on products that local suppliers could compete against foreign companies but still need some protection, such as fish, meat, vegetables, etc.

+ Degree 3: A maximum duty rate of 30% on products that local suppliers could meet with difficulties in competing against imports; such as household appliances, soft drink, milk, vegetable oil, etc.

+ Degree 4: A maximum duty rate of 40% on products competing against local infant industries that could be developed into important ones in the future, such as food processing and confectionery.

+ Degree 5: A maximum duty rate of 50% on products important to the task of ensuring safe socioeconomic development.

##### - Non-tariff barriers:

+ Import and export quotas: At present, Vietnam's exports are limited by quotas set by importing countries. The Government had better negotiate with traditional trading partners for higher quotas. As for export quotas, the Government should grant them by tender and ban all forms of selling or buying quotas among exporters. In the long run, quota should be replaced by tariff barriers as required by WTO regulations.

+ The Government should refuse to grant license to foreign-invested projects producing goods that compete against local industries with comparative advantages, such as beer, animal feed, clothing and textiles, footwear, etc.

+ Smuggling and commercial fraud should be punished severely. Job creation programs should be carried out in border regions in order to prevent poor peasants from taking part in smuggling activities.

+ The Government should orient public investment, soft loans and ODA capital towards industries producing essential goods and exports; help agro-industries to secure foreign loans needed for their development and encourage private factories to go public in order to increase their working capital. ■

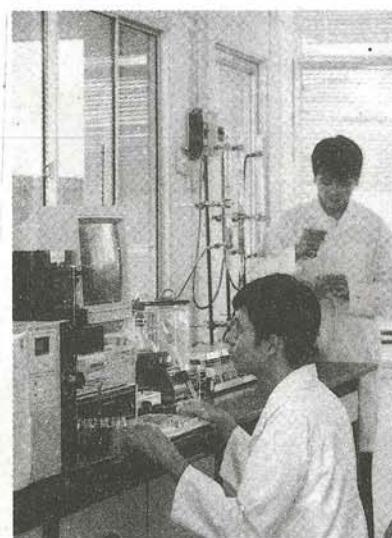


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