# Vietnamese Trade
# Integration, Competition and Development

**The year 2008 was full of challenges to the Vietnamese foreign trade. The world commodity market experienced complicated fluctuations in prices of food and oil. Moreover, the global financial crisis affected unfavorably the Vietnam's balance of trade. Local companies are facing keen competition from foreign rivals and a danger of contracted export market and failure in the domestic market. How can demand-stimulating measures adopted by the Government be implemented successfully to help local companies maintain their growth and survive the competition?**

**At the threshold of 2009, ERD asks Mr. Trương Đình Tuyển – former Minister of Trade (now Ministry of Trade and Industry) and head of Vietnam's delegation to the international economic and trading negotiations – to answer some questions with a view to analyzing domestic and foreign trading and economic situation; and giving suggestions needed for local companies expand their markets and promote their trade in the coming year.**

**EDR:** *Many events unfavorable for the Vietnamese economy took place in 2008. Could you give us an overview on Vietnam's export and import and some noticeable features?*

**Trương Đình Tuyển (TĐT):** The 2008 could be seen special, not only to Vietnam but also to the global economy with many complicated, unpredictable, and sometimes opposite fluctuations.

Globally, the world in early 2008 faced inflation and threats of food and fuel crises. Market prices went high, especially the ones of oil and food. From September on, the financial crisis in the U.S. spread over most economies shaking the world finance market. This has been the worst crisis for the past 80 years, since the Great Depression 1929-33. The crisis in the monetary economy affected greatly the real economy spreading from Wall Street to Main Street. The world faced a threat of recession. Leading economies such as the U.S., Japan and EU industrialized countries, fell into recession and found it hard to recover quickly before the first half of 2010. According to various predictions, the world GDP in 2009 couldn't top a growth rate of 2.5% compared with a rise of 3.5% in 2008 and 5% in 2007. Some others expressed a more pessimistic view.

These complicated and opposite fluctuations also showed themselves in international trade and Vietnam's export and import. Before September when the world struggled against the inflation, prices of many commodities from Vietnam, especially food and oil, rose high. Better prices and expanded market allowed the export value to rise by 39% in the first three quarters of the year to US$48.575 billion. It's estimated that the export value of 2008 would reach US$63.5 or 64 billion increasing by 31% over 2007. This is the highest rise in the past decade.

There are three noticeable features of the export in 2008: (1) Growth of export rose is due to not only higher prices but also increases in the exported volume. According to reports from Ministry of Trade and Industry, increases in the price accounted for 70% of the growth of export value and the increase in quantity 30%; (2) Removal of quota system after Vietnam's accession to the WTO allowed the export value of the clothing industry to increase at a high speed reaching some US$9.2 billion, second only to the crude oil, although the selling price didn't rise (the world average prices even fell because of competition); and (3) Earnings of other exports (we are waiting for exact statistics of these exports) also rose strongly by 51.3% and reached US$12.63 billion. This proves that local companies succeeded in finding some footholds in foreign markets in process of international integration.

From the third quarter on, however, prices of fuel, food and many farm products started falling and the financial crisis spread all over the world. Many countries reduced import and Vietnam's export, therefore, didn't rise as expected. In the last four months, the export value reduced about US$400 million a month compared with the average value for the previous eight months. The situation may continue in 2009 at a possibly worse level.

Besides rises in the export, the import also increased at a high speed and its value reached US$82 billion producing a trade gap of US$18 billion that equaled some 30% of the export value and

24% of the GDP. This is the highest gap ever seen that affected badly the balance of payments and macroeconomic stability. Increased import and huge trade gap had their roots in the economic structure and development model. Competitiveness of Vietnam's import substitutes is poor (the most typical are steel and autos); supporting industries are not well developed; Vietnam has to import raw materials in large quantities while their prices rose sharply. Most exports were made according to subcontracts and content of imports in exports reached somewhere between 70% and 80%, therefore the added value was small. And from the early third quarter, especially from September on, measures to reduce the trade gap, falls in prices of many imports (fuel, steel and iron, fertilizer and chemicals, etc.), decreases in the market demand, and cuts in investment and production due to high interest rates and difficulties in getting access to sources of capital made the import to fall. The rise in import in September was lower than that in the first seven months but the total import value was still very high. We can say that inevitable changes in the global inflation and effects of the world financial crisis are affecting strongly the Vietnam's economy and trade.

**EDR:** *How do economic crises in foreign countries affect the Vietnam's foreign trade? If the global financial crisis continues, what adjustments to the plan to develop the foreign trade in the near future are suitable?*

**TDT:** Vietnam's export value equals some 80% of its GDP, which proves that the export is important to the economic growth. At present, Vietnam's goods can be found in most countries and economies, and such leading ones as the U.S., Japan and the EU that account for some 50% of Vietnam's export earnings, are in recession. Asia and Oceania that account for some 40% of the export value are also affected badly by the financial crisis. Other export markets, such as Africa and Middle East that are less affected by the crisis, are not so important to Vietnam's export because Vietnam only export goods in small quantities to these markets. I think gaining a growth rate of 13% for the export is no easy task because export prices are falling and export markets are contracted. After the East Asian crisis, Vietnam's growth rate and export value fell sharply: The export in 1998 rose by 0.4% only and this figure in 1999 was 11.6%. At that time, the crisis took place only in Asia, especially in Southeast Asia and some countries such as South Korea and Hong Kong. At present, the crisis is much more serious and widespread while Vietnam has integrated more fully into the world economy, therefore effects of the crisis are also more profound. So Vietnam has to try its best to limit sharp falls. At national level, export must be considered as a principal target and a basis for calculation of other macroeconomic targets, such as the growth rate, balance of current accounts and the overall balance of the economy. Vietnam should work out suitable measures to promote the export and adjustments to its targets can wait. To individual companies, however, reasonable adjustments are needed. I can discuss this issue later.

**EDR:** *Challenges to Vietnam's trade and individual companies are apparent great. What opportunities are there in 2009 for companies and what should they do to make the best use of opportunities, overcome the challenges and survive the international integration and competition? What should the Government and trade associations do to support them?*

**TDT:** It's apparent that the competition is increasingly keen and taking place in various aspects but during a crisis the fiercest is the war price. Why? Because personal, corporate and national incomes are all falling, and everybody has to look for goods they can afford with the contracted income, and the dearer the goods, the fewer the buyers. Competition on foreign markets is certainly very fierce because all countries try their best to increase the export in order to maintain the production and employment rate and prevent the recession. In 2009, however, the competition in the domestic market will much more fierce because: (1) Vietnam has to allow foreign companies to do distribution business in 2009; they can built their distribution networks in Vietnam and sell imports directly to local users; (2) The global crisis affects greatly the Chinese market, cheap goods from China may flood the domestic market when its currency has been just depreciated and its export is falling. This will be a great pressure on the local production. In short, the cake 'market' gets smaller while many players are stronger and hungrier than us, which becomes the biggest challenge to local companies in 2009 and possibly in 2010 as well. Compared with early 2008, however, new opportunities for local companies have made their appearance:

- The interest rate is lower and may keep falling. It's easier to get access to bank loans because of some surpluses of capital in most banks. And two new mechanisms have just been introduced: credit guarantee for SMEs and agreed-upon interest rate for profitable business projects. The two mechanisms allow more companies to secure bank loans needed for their businesses or production.

- Many financial policies to support the business have been adopted, including various tax incentives for labor-intensive companies.

- The Government decided to stimulate the private investment and consumption with a view to preventing falls in the growth rate. In addition to a VND17,000- billion (US$1 billion) package, the Government decided to issue bonds to finance various infrastructure projects, including the one in rural areas and programs to build facilities for education and health care services, and houses of low prices. Although not very large, the package can create markets for investment from companies, produce far-reaching effects and orient investment from all sectors. It's necessary to add that many people only think of this package without considering other sums from the treasury used for offering credit guarantee, supporting purchase of rice and farm products for storage, or covering the program to cut taxes. If everything is taken into consideration, the rescue package is much bigger than the sum of US$1 billion.

- Along with the above-mentioned mechanisms, the Government is accelerating strongly the reform in administrative procedures, especially the ones for capital construction, and allows assignment of contractors for public works that cost less than VND5 billion in certain provinces and cities in order to help companies cut their overheads and facilitate the business and investment.

- Vietnam and Japan have just finished an EPA negotiation that helps facilitate flows of Vietnamese goods to the Japanese market by cutting tariffs sharply. This agreement is expected to be signed at the coming ASEAN summit and come into effect in 2009.

Thus, the year 2009 doesn't only bring about challenges although they are very serious. Along with challenges, there are many opportunities, including ones that other countries can't enjoy because of their unstable socio-political situation. Vietnam's potentials for medium- and long-term development are encouraging. Foreign investors also consider Vietnam as a safe and prospective destination for their investments.

To make the best use of opportunities and overcome challenges, local companies should pay full attention to the following issues:

(1) Because the price war is the keenest, local companies should consider cuts in production and distribution costs as a matter of life and death. They must review all stages of production and distribution, try hard to cut overheads save expenses on raw materials and energy, establish production processes and ways for organizing logistics, transport and managerial techniques according to new tracks. These efforts not only help deal with challenges more effectively but also create progressive and economical processes of production and management, thereby ensuring better efficiency and productivity for companies. This is the way to turn challenges into opportunities in order to innovate oneself.

(2) Segmentation is the way that can help companies identify their potential customers based on their advantages and capacity. Ability to customize the goods or services is very important. Competition, as Michael Porter put it, means creating suitability and one's own identity instead of producing the best. Why? Because the best is always accompanied with the highest price and thus the consumption spectrum is very narrow, especially when the unemployment rate is high and personal income is lower as seen today; and because not all companies can offer the best price. That is why companies must choose the suitability. Many internationally famous distributors with multi-billion sales (such as Wal-Mart) tend to target customers of medium income instead of concentrating on selling the best products. After selecting the suitable products, companies should try to create their own identity. This is not only a requirement during the crisis but also a long-term one, and it is more critical during the crisis.

(3) Stress must be put on shares in the domestic market. The domestic market with a population of 84 million people is a big one. Total retail sales of goods and services in 11 months of 2008 reached VND872,000 billion (equaling some US$50 billion at current price). It is not accidental for A.T. Kearney consultancy to estimate that the Vietnamese retail market has surpass the Chinese and Indian ones to become the world's most attractive market. And it is not accidental for many international distributors to get ready to enter into this market. Meanwhile, many local companies, including major ones failed to pay full attention to expansion of their national distribution network. They should review their concept in order to adopt right strategies for development. To compete successfully in foreign markets, it is necessary to get successful in the domestic market where local companies are more ad-

vantageous to foreign ones because they have better knowledge of culture, habits, lifestyles of consumers, and more options on organization of markets with more diverse distribution plans. This is not only a temporary requirement facing present difficulties caused by the recession but also a long-term one. Local companies must understand that the domestic market is essential while foreign ones are important to their market development strategies and the national strategy to develop an independent economy against the background of globalization and international integration.

(4) It's necessary to distribute difficulties and handle harmoniously interests of employers, managers and employees. During a hard time, incomes of employers, managers and employees may fall. Employers and managers had better present clearly the situation to the employees and get ready to accept more losses than the employees in order to encourage them to share burden with the company creating a new spiritual dynamic and a fresh corporate cultural basis.

(5) Companies should beef up horizontal and vertical cooperation to make the supply consistent, and stabilize and expand channels of distribution. The competition doesn't eliminate the cooperation but they always go parallel in the market economy. And as Michael Porter put it, terms for companies today are merger, alliance, strategic partner, cooperation and super-national globalization.


Pho to by Huynh Tho

Along with efforts by companies in these directions, authorities and trade associations should support practically companies in entering into new markets and promoting the foreign trade. The Government has adopted policies on these matters, and the question is how to implement them effectively. We should carry out well all stages, from preparations to specific promotion campaigns, beef up such campaigns for each industry, help companies find new markets and customers based on customization of promoted objects. In this matter, roles of representatives in foreign countries and trade associations, and their cooperation with companies are very important.

It's worth mentioning that provincial and municipal governments should create conditions for local companies to get easy access to the stock of land needed for implementation of their investment projects. Many provincial governments today are eager to welcome foreign investors but reluctant to facilitate investment from local companies. I think such behavior reflect unreasonable way of thinking and political views. To make our country strong, the first thing to do is to strengthen local companies. If we want local companies to compete successfully on the international arena, we should help them get stronger in the domestic market. This is also an important way to increase the "soft strength" of the nation – an increasingly outstanding factor in the modern international affairs.

**EDR:** *How can the trade gap be reduced in current conditions?*

**TDT:** In my estimation, the import in 2009 will not go as high as in 2008, so the trade gap will be lower. Ratio of the trade gap to the export value, however, may keep rising while the foreign investment may fall, therefore the trade gap may affect badly the balance of payments and threaten the macroeconomic stability. That is why controlling the trade gap will be a matter of great urgency in 2009 and years to come. To reduce the trade gap, we should change the structure of investment, and more generally, change the development model. For the time being, such instruments as exchange rate, technical barriers and other measures allowed by the WTO rules must be used for reducing the trade gap. More importantly, investment projects that are not really necessary, and less competitive and productive must be cut, and thrift in production and consumption must be realized actively.

**EDR:** *Thank you for the interview and we wish you and your family a new year of good health and success.* ■