VIETNAM'S EXPORT AND IMPORT IN THE INTERNATIONAL INTEGRATION: SITUATION AND SOLUTIONS

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Vietnam started opening its markets and integrating its economy to the world and regional markets from 1986 on. In 1997, the Foreign Investment Law was promulgated and up till now, Vietnam has joined many economic organizations, at both regional and international levels, such as ASEAN, APEC and WTO; established trading relations with some 180 countries and territories; and exchanged 86 bilateral trading agreements and 46 investment agreements with many countries.

Vietnam's accession to the WTO in 2007 became a landmark in its international integration. In 2008, Vietnam's foreign trade made good progress although the world economy experienced many ups and downs. It kept fulfilling WTO commitments and took part in WTO activities; cooperated with ASEAN countries to replace the CEPT-AFTA with the ATIGA. At the end of 2008, it signed an important economic agreement with Japan after two years of negotiation.

At present, Vietnam keeps perfecting the legal infrastructure for foreign trading relations by negotiating and signing bilateral and multilateral agreements, and opening its markets to the fullest as required to get recognized as a market economy. At the same time, Vietnam carries out its commitments on investment and trading relations as required by the WTO, AFTA, Vietnam – American Agreements.

The international integration brings about opportunities to expand import and export for local companies and develop Vietnam's foreign trade. Before 1995, Vietnam lived on foreign aid and its exports and imports didn't reflect the nature of its economic growth. For this reason, this article only analyze the Vietnam's foreign trade in the years from 1996 up to now and emphasis is put in the period after Vietnam's accession to the WTO.

1. Achievements in foreign trade in the period of international integration

Value of exports and imports increased steadily, from US$18,399.4 million in 1996 to 143,398.9 million in 2008. The value rose by 18.67% a year on average in this period. The more Vietnam integrates into the world economy, the higher the value of exports and imports becomes.

Table 1: Vietnam's exports and imports in 1996 – 2008 (US$ million)

Year	Export		Import		Foreign trade		Trade balance
	Value	Growth (%)	Value	Growth (%)	Value	Growth (%)	
1996	7,255.8	33.2	11,143.6	36.6	18,399.4	35.2	-3,887.8
1997	9,185.0	26.6	11,592.3	4.0	20,777.3	12.9	-2,407.3
1998	9,360.3	1.9	11,499.6	-0.8	20,859.9	0.4	-2,139.3
1999	11,541.4	23.3	11,742.1	2.1	23,283.5	11.6	-200.7
2000	14,482.7	25.5	15,636.5	33.2	30,119.2	29.4	-1,153.8
2001	15,029.2	3.8	16,217.9	3.7	31,247.1	3.7	-1,188.7
2002	16,706.1	11.2	19,745.6	21.8	36,451.7	16.7	-3,039.5
2003	20,149.3	20.6	25,255.8	27.9	45,405.1	24.6	-5,106.5
2004	26,485.0	31.4	31,968.8	26.6	58,453.8	28.7	-5,483.8
2005	32,447.1	22.5	36,761.1	15.0	69,208.2	18.4	-4,314.0
2006	39,826.2	22.7	44,891.1	22.1	84,717.3	22.4	-5,064.9
2007*	48,561.4	21.9	62,682.2	39.6	111,243.6	31.3	-14,120.8
2008**	62,685.1	29.1	80,713.8	28.8	143,398.9	28.9	-18,028.7
Tổng	313,714.6	-	379,850.4	-	693,565.0	-	-66,135.8
Q I/2009**	13,479.0	-	11,832.0				1,647.0

Source: Niên giám thống kê 2007 (Statistical Yearbook 2007), Thống kê Publishers, Hà Nội, 2008;

* A rough estimate; ** Author's calculation.

After its accession to the WTO, Vietnam started carrying out its commitments, especially of tax cuts. From Jan. 11, 2007 on, Vietnam has cut over 1,000 tariff lines (including the category of consumer goods), from Jan. 1, 2008 on, it cut some 1,700 more lines, and planned to cut in 2009 some 2,000 more lines of over 20 categories with a maximum level of 2%. Tariff cut is one of important causes of increases in import, besides other causes such as sudden increases in foreign investment in Vietnam and higher prices of goods on the world market.

Vietnam's export gained high growth rates and became the main dynamic of the economic growth. The export value rose by 19.68% a year on average in this period and gained a sudden rise of 29.1% in 2008. The export growth rate in this period was some 2.5 times higher than the GDP growth rate. With high export growth rates, Vietnam accounts for 0.2% of the world non-oil exports and 0.6% of non-oil exports from developing countries.

Structure of exports experienced positive changes when the share of farm products fell and those of manufactured goods and minerals rose; and the share of manufactured goods increased at the expense of raw materials. In the exports structure, farm products account for 28.9% a year, minerals and goods from heavy industries 32.8%, and goods from light industries and handicrafts 38.2%.

Vietnam's export market is expanding and diversified. Many local companies have entered into the American market and found footholds there. The export to Asian markets tended to fall as local companies expanded their shares in European and Russian markets. In recent years, Vietnam is trying to get some niches in Middle East, Africa, South America and Oceania.

Mechanism and policies on foreign trade became more stable and open. Government interventions got less and less frequent while allocation of resources is more and more determined by market forces. Connections between foreign and domestic markets were beefed up by effective participation of the private and foreign sectors in the foreign trade.

2. Shortcomings in the foreign trade

- The export growth is not stable and easily affected by fluctuations on the world market. Exports from Vietnam include mainly raw materials, semi-finished goods and products made according to subcontracts with the result that the export is vulnerable to external shocks, such as fluctuations in prices on the world market, appearance of trade barriers, or the global financial crisis, etc.

- Increase in the share of manufactured exports is slow. In recent years, Vietnam has been still an exporter of raw materials, minerals, semi-finished and subcontracted goods, and farm products. Export of these goods can't grow quickly because of such technical limits as farming area, yield, output, natural conditions and the environment. That is why increasing the export of manufactured goods is the only way to reduce trade gap and enhance the export value. Up till now, however, Vietnam produces no goods of high added value and its technology-intensive industries have not yet developed. Its manufactured goods are of low added value and mostly from clothing, footwear, and wood processing industries that depend on imported raw materials and subcontracts from foreign producers.

- Quick increases in import volume and value lead to huge trade gaps. The import value rose by 17.94% a year on average in this period and it topped the US$80-billion mark in 2008 for the first time in the past 18-year period (1,29 times higher than the export value), making the total import value rise to US$379,850.4 million equaling 54.77% of foreign trade value. This increase made the trade gap in this period rise to US$66,135.8 million. The trade gap in 2008 alone was US$18,028.7 million equaling 28.76% of the export value.

- Structure of imports is unreasonable. The share of machines, equipment, and original technologies are still small, equaling only 28.96% of the annual import value. This means that the speed of modernization of industrial production is low. In the long run, backward technology will lead to poor competitiveness of Vietnam's exports and import substitutions and make it difficult to improve the trade balance and trade gap. Meanwhile, the import raw materials account for 62.74% of the annual import value, which shows that supporting industries haven't developed and local industries depend too much on imported inputs, and moreover, the trade deficit can't be reduced in the near future.

- Structure of export and import markets is not promising. The best part of imports (80.1% of the annual import value) is from Asia – main supplier of raw materials and technologies of middle level – while most exports are to the U.S., the EU and Japan – main suppliers of original technologies. With big shares of imports from economies of medium technologies and high export to economies with source technologies, Vietnam can hardly find a short cut to development and a place in the global value chain.

- The trade gap increases steadily, especially after Vietnam's accession to the WTO. Vietnam suffered trade gap during the whole period with only an exception of 1992 when it enjoyed a trade surplus of only US$40 million. The trade gap was US$32,149.5 million in two years 2007 and 2008; and 33,986.3 million in the 11-year period from 1996 to 2006, making a total of US$66,135.8 million for the years 1996-2008, or 21.08% of the total export value. In this period, the trade gap reached a record level in terms of growth rate, absolute value and proportion to the export value and the GDP. The high trade gap that is above a safety level (higher than 5% of the GDP) leads to worrying effects on balance of current accounts, balance of payments, and the macroeconomic stability. In the first quarter of 2009, although, Vietnam enjoyed a trade surplus of US$1.647 billion, it didn't reflect the real nature of the economy.

- High growth rates of export and import didn't ensure a sustainable development. Vietnam's exports consist mainly of minerals, oil and unprocessed goods. Pollution degree is still high, especially in exports making companies. Eco-friendly techniques and processes are not appreciated and applied. In many provinces, production of exports causes great damage for the environment, especially the forests. Import of old technologies and machines, waste, hazardous chemicals is still widespread in spite of government's efforts.

- State control over foreign trade is not strict enough. There is no master plan for development of export and infrastructure for foreign trade.

Some industrial authorities or ministries might work out some master plans but they didn't observe the plan when directing their subordinate bodies. Policies on the foreign trade usually aimed at dealing with the then obstacles and complaints instead of anticipating a long –term development. Most policies are changeable and unpredictable, which caused a lot of difficulties for companies and investors. Authorities lack personnel, equipment and effective measures to control the market and import in an effort to ensure a sustainable development and protect the environment.

- Infrastructure for export is poor and lacking. There are not enough ports and roads for transport, and facilities for storing and processing goods before export.

- Full attention has not been paid to information supply and analyses, and prediction of changes in prices and market demand with the result that local companies couldn't deal with fluctuations on the world market. The supply of information to foreign trade authorities was not abundant while the flow of information from these authorities to companies was limited and not standardized.

- Number of local companies engaging in the foreign trade is small and most of them lack knowledge of international practices. Their financial strength and scope of activities are very limited, and they failed to cooperate with, and support, one another to promote their exports in foreign markets.

3. Measures to promote the foreign trade in the coming years

- Promoting export of goods of high added value: The share of manufactured goods in the export could be increased by making the best use of cheap labor and modern technology. For the time being, local companies can employ cheap labor and technology of medium level to obtain economies of scale, and then move to capital- and technology-intensive industries to produce goods of high added values. Replacement of machines is the shortest way of improving product quality and added value, which can help reduce export of raw materials and semi-finished products, especially agricultural ones.

- Enhancing competitiveness of exports: Authorities should make long-term plans to develop

key industries based on competitive advantages in order to produce goods of high competitiveness within a short period of time and win a foothold in the global value chain. Vietnam has to lift protection for local production as required by the WTO commitments but necessary measures should be taken to ensure a steady growth for the export. More investment must be put in replacement of technologies, expansion of production scale, and production of goods with potentials for long-term growth. For the time being, the Government should ensure an easy access to formal loans for exporters from all sectors.

- Beefing up the trade promotion and diversifying export markets: Trading authorities should take measures to expand the markets for goods with full potentials for development based on local raw materials, such as handicrafts, rubber products, processed food, chemicals, cosmetics, and machines. Efficiency of trade promotion and market researches by governmental bodies must be enhanced. E-commerce should be developed in order to reduce marketing costs. Local companies should pay full attention to brand building while the government should limit import with a view to reducing the trade gap. International integration must be carried out extensively and intensively in order to expand markets for exports.

- Technical barriers and other non-tariff measures allowed by the WTO should be applied. Technical and sanitary standards and disease control process must be developed up to international standards. Standardization and mutual recognition must be in agenda when negotiating with foreign partners, especially such major ones as the

EU, the U.S., and Japan, in order to avoid losses for Vietnamese exports caused by foreign protectionism.

- Control over import must be beefed up in order to prevent import of obsolete technology and equipment, industrial waste, hazardous chemicals and fake goods, thereby reducing the trade gap and avoid bad effects on local production. Many tariff and non-tariff measures (technical barriers, environmental standards, etc.) allowed by the WTO could be taken to achieve this aim in order to ensure fair competition between imports and local goods, protect local consumers, and limit possible disputes, and at the same time, ensure the supply of materials and technology to local industries.

- Developing supporting industries: Although the Vietnam's starting point is far behind neighboring countries, its export has developed fast depending mostly on imported raw materials (equaling 62.74% of annual import value). The import thus becomes essential to local production, especially the production of exports, with the result that the trade gap gets bigger and bigger. Imported materials account for some 70% of the output value of the clothing industry. This figure in footwear industry is 80%; wood processing 50%, plastics 85% and electronics some 90%. To deal with the huge trade gap, Vietnam should develop supporting industries to produce import substitutions in order to reduce the trade gap and ensure the supply of materials for export –oriented industries.

- Improving the business climate to attract foreign investment: This is one of important measures to get access to modern technologies and force local managers to enhance their expertise. Foreign investment in production of exports must be encouraged actively, and foreign investors must be allowed to mobilize capital from local sources. Number of industries and fields that are closed to foreign investment must be reduced. Such requirements posed to foreign investors as high proportion of goods made for export, use of local raw materials, and high proportion of local content, could be replaced with more appropriate instruments and measures.

- Developing areas specialized in producing industrial crops: These specialized areas may be used for producing grains, oilseed, wood, and food crops, or for sea farming and grazing. They will become a reliable supply of raw materials to processing industry and help reduce the trade gap.

- Other solutions: The exchange rate must be flexible enough to promote the export and limit the import. A fund of credit guarantee may share risks with exporters. Predictions of changes in the world supply and demand are much needed for the task of working out measures to deal with negative fluctuations, which may reduce risks and ensure better profits for exporters ■

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