



Mr. Vũ at the conference

VIETNAMESE COMMERCE Opportunities and Challenges

An interview with Vũ Khoan

EDR: *One year has passed after the Vietnam's accession to the WTO. What are positive and negative effects of this event on the Vietnamese economy?*

VK: One year is not long enough for us to estimate exactly and fully effects of such a new and far-reaching event as our accession to the WTO. However, we can see initially some positive effects:

- The position of Vietnam in the international arena is improved, and Vietnam has become an attractive destination for foreign investors and visitors.

- Vietnam's export keeps rising at a high speed, especially the clothing that had long been hindered by the quota system because Vietnam was not a WTO member.

- Increases in direct and indirect foreign investment, ODA, immigrant remittance and tourist receipts are very remarkable.

- Business climate and economic policies are increasingly open in the eyes of both foreign and local businesspersons.

- Many local companies are trying more actively to expand their export markets and improve their competitiveness.

And we also realize some negative effects:

- Existing shortcomings mentioned in the previous interview (EDR April issue), and poor competitiveness of local companies and the whole economy are more apparent.

- Fluctuations on the world market affect the Vietnamese economy more deeply and quickly.

- Vietnam hasn't been accustomed to ways of running and doing business during the full integration into the world economy.

EDR: *It's estimated that Vietnam's export earnings may reach US\$60 billion, that is, US\$5 billion a month, but the earnings in the first quarter was only US\$13 billion. What do you think of this situation where exporters met with difficulties in exporting staple products, such as increased costs, unfavorable exchange rate, and reduced financial support for export, etc.?*

VK: Vietnam is unfortunate, one year after its accession to the WTO, to face a period of recession of the world economy, especially the American one – the biggest economy and Vietnam's biggest buyer. In addition, Vietnam suffered last year a high inflation rate, falls in the dollar price, and rises in prices of rice and many other essential goods. These external factors make our export more difficult. Other favorable conditions, such as increases in prices of oil, rice, coffee, rubber and black pepper, can't make up for losses caused by the above-mentioned factors.

EDR: *The Vietnam's trade balance is seriously unfavorable. The trade gap widened quickly after our accession to the WTO. It reached US\$12 billion in 2007 (a threefold increase compared with 2006) and equaled US\$7.5 billion in the first quarter of 2008. It is*

estimated at 20 billion for the whole year. Is it an effect of the accession to the WTO? What is your opinion about this fact?

VK: The trade gap comes from many causes, both short- and long-term ones.

The most important long-term cause is: Vietnam, as a developing country, has to import many machines, equipment, technologies, and raw materials. The more it wants to industrialize the economy, the more imports it buys.

As for short-term ones, there are five causes: (1) Both public and private investments, along with spending are on the increase; (2) Prices of many imports rise suddenly; (3) Export business meets with many difficulties and increases slower than import; (4) The exchange rate of the VND to the dollar works to advantage of importers; and (5) Vietnam starts to cut duties on certain imports as required by our commitments to the WTO.

EDR: *What should the central and local governments do, in your opinion, to reduce the trade gap? What is the most important solution?*

VK: In the long run, the most important task is to accelerate production of goods based on comparative advantages, thereby reducing the trade gap by degrees. To achieve this aim, the Government, of course, should adopt right policies allowed by our international commitments. For the time being, we need policies to encourage the use of local raw materials and machines thereby reducing imports. Taxes and technical barriers could be used, as allowed by international commitments, to limit imports. A flexible exchange rate is also a useful instrument for encouraging the export and limiting the import.

EDR: *One of Vietnam's commitments to the WTO is to develop a predictable and consistent business climate. Did recent government's management and interventions in trade, finance market, and realty market violate these commitments, or affect unfavorably the campaign for recognition of the market economy in Vietnam? What are your comments on this problem?*

VK: I observe that measures taken by the Government to regulate economic activities are appropriate to laws of the market economy and our international commitments, and in many cases, they are carried out after consultation with international experts and organizations. Moreover, we see that

governments of all country are ready to intervene in the economic field to ensure stability at macroeconomic level in certain cases.

Fighting against the inflation is a difficult and complicated process in which we may reap some rewards here but at the same time cause troubles there; or give more benefits to this groups and cause harm for others. The problem is to calculate steps to take, timing, or degree with a view to avoiding causing troubles for business circles and the public as well.

EDR: *Liberation of trade and service is inevitable when integrating into the world community and developing the market economy. What opportunities and challenges will Vietnam face when its markets are open as required by the WTO and what measures should be taken by both the State and companies to limit risks brought about by the liberation of domestic markets?*

VK: Firstly, I want to affirm that the Vietnamese Government did not open the domestic market totally, and we will do it conditionally according to an agreed-upon track.

In our life, every problem has two sides and in economy the same thing happens, we will meet with both opportunities and challenges. For example, the field of distribution and communication is opened by degrees. By doing so, Vietnam acquires three benefits: foreign companies can consume some locally-made goods and export them to other branches all over the world; consumers can enjoy goods of higher standards and better services, and local companies have chance to learn about modern ways of doing business and re-organize their distribution network. I'm very happy with establishment and development of some local companies in this industry, such as Co-opmart, Favimart, and Phú Thái, etc..

On the other hand, local companies have to face keener competition because foreign rivals have advantages of financial strength and managerial skills.

The most basic thing to do is to stop relying on government's protection and subsidies, and try our best to face the foreign competition, learn foreign experience and expand the market shares because local companies enjoy bigger advantages than the foreign ones do.

EDR: *Thank you very much for your answers* ■