

**MINISTRY OF FOREIGN AFFAIRS  
DEPARTMENT OF ECONOMIC AFFAIRS**

**WTO Accession**  
*A New Stage of Development for Vietnam*  
**Special Issue**

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*Contents*

*Page*

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**ECONOMIC HIGHLIGHT**

- **Profile of the 150th WTO Member** 1

**HISTORY RECALL**

- **A Rocky Journey to Geneva** 6

**ANALYSIS**

- **A SWOT Perspective** 13
- **Post-WTO Legal Environment** 18

**FOCUS**

- **Trade Prospect** 23
- **FDI Prospect** 27

**PRESS REVIEW**

- **What we have heard** 32

*On November 7<sup>th</sup>, Vietnam is officially recognized by the international community as the 150<sup>th</sup> WTO member. A high ranking delegation of Vietnamese government led by Deputy Prime Minister Pham Gia Khiem attends a special session in Geneva, Switzerland where Vietnam is admitted to the WTO. The accession protocol is signed by Trade Minister Truong Dinh Tuyen and WTO Director General Pascal Lamy.*

# ECONOMIC HIGHLIGHT

## PROFILE OF THE 150<sup>TH</sup> WTO MEMBER



### Socialist Republic of Vietnam

**President:** *Nguyen Minh Triet*

**Prime Minister:** *Nguyen Tan Dung*

**Total area:** *329,560 sq km*

**Population (2006 est.):** *84,402,966*

**Life expectancy:** *70.8*

**Literacy rate:** *94% (2003 est.)*

**Capital:** *Hanoi*

**Major Cities:** *Ho Chi Minh City;*

*Hai Phong, Da Nang, Hue, Nha Trang, Can Tho, Dong Nai*

**Monetary unit:** *Dong*

**Languages:** *Vietnamese (official);*



**GDP/PPP (2005):** *\$253.2 billion;*

**GDP per capita /PPP:** *\$3,000.*

**Real growth rate:** *8.4%.*

**Labor force:** *44.39 million;*

**Exports:** *\$32.23 billion (2005)*

**Imports:** *\$36.88 billion (2005)*

**Major trading partners:** *U.S., Japan, EU, China, Australia, Singapore, Taiwan, South Korea, Thailand, Hong Kong.*

**Telephones:** *4.9 million (2004);*

**Mobile cellular:** *3.4 million (2004).*

**Internet users:** *5.1 million (2004).*

## Geography

Lying on the eastern part of the Indochina's peninsula, Vietnam is a strip of land shaped like the letter "S". China borders it to the north, Laos and Cambodia to the west, the East Sea to the east. The country's total length from north to south is 1,650km. The coastline is 3,260km long and the inland border is 4,510km. Vietnam is also a transport junction from the Indian Ocean to the Pacific Ocean.

Vietnam's climate is tropical and monsoonal; humidity averages 84 percent throughout the year. Annual rainfall ranges from 1,200 to 3,000 millimeters, and annual temperatures vary between 5°C and 37°C.

Vietnam is a family of 54 ethnic groups, in which Kinh (Viet) people make up nearly 90% of the whole population, and 53 other ethnic groups represent over 10%. The major religious traditions in Vietnam are Buddhism (which fuses forms of Taoism and Confucianism), Christianity (Catholicism and Protestantism), Islam, Dadaism and the Hoa Hao sect.

## History

Human civilization started in Vietnam a very long time ago. During the Pre-Paleolithic Age, also known as the Son Vi Era (between 10,000 to 30,000 years ago), the population of Vietnam was rather large and widespread. Vietnam's history began with the Metal Age (about 4,000 years ago). The foundation of the Nation went through a number of historical periods and dynasties, including Van Lang Nation, Au Lac Nation, Champa Nation, the period of foreign domination (1st century, BC - 10th century, AD), Ngo Dynasty, Dinh Dynasty, Pre-Le Dynasty, Ly Dynasty, Tran Dynasty, Ho Dynasty, Later Tran Dynasty, Le So Dynasty, Tay Son Dynasty, Nguyen Dynasty, and the French colonization period (1858-1945).

The Proclamation of Independent Vietnam by President Ho Chi Minh founded the Democratic Republic of Vietnam in 1945. The country then had to go through two long wars for independence for 30 years, which culminated in the famous victory of Dien Bien Phu, leading to the Geneva Conference in 1954 and the Great Spring 1975 Victory leading to country reunification in 1975.

## Economy

In 1986 Vietnam launched the Renovation (Doi Moi) which introduced reforms intended to facilitate the transition from a centralized economy to a “socialist-oriented market economy.” Over 20 years since then, the country has registered remarkable socio-economic success and is emerging as a rapid growth economy with strong potentials.

**GDP Growth:** Real GDP growth has been strong and stable since 1993, driven by expanding private investment, including high inflows of FDI.

### Country Economic Indicators

	2003	2004	2005
GDP – Current			
Exchange Rate (USD billion)	39.54	45.33	51.39
Real GDP Growth (%)	7.34	7.80	8.40
Export (USD billion)	20.15	26.49	32.30
International tourist (million)	2.43	2.93	3.47
Investments/ GDP (%)	37.85	38.46	38.62
FDI (USD billion)	3.19	4.55	6.84

Source: [Vietnam National Statistics](#)

**Investment:** The share of investment in GDP rose rapidly from 11% in 1990 to 39 % of GDP in 2005. The rise in investment has been financed by increased government savings, increasing foreign direct investment capital, and a booming domestic private investment.

### GDP PPP & GDP Growth Rates



Year	GDP in Billions of USD PPP	% GDP Growth
2001	172.90	5.47
2002	185.26	5.68
2003	202.50	5.78
2004	224.48	6.31
2005	250.76	7.01

Source: [EIU Country Data](#)

### Risk Assessment

	2006
Sovereign risk	B
Currency risk	BB
Banking sector risk	B
Political risk	B
Economic structure risk	CCC

Source: [Vietnam: Country risk summary](#)

**Exports:** In 2005 Vietnam's merchandise exports were valued at US\$32.3 billion, and were growing rapidly. Principal exports were crude oil, textiles and garments, footwear, fisheries products, and electronics. The main export destinations were the United States, Japan, China, Australia, Singapore, Germany.

**FDI:** From 1988 to 2005, FDI commitments totaled US\$52.84 billion, of which about 58% had been dispersed. About half of FDI has been directed at the two major cities (and environs) of Ho Chi Minh City and Hanoi. The largest sector by far for licensed FDI is industry and construction. Other sectors attracting FDI include oil and gas, fisheries, agriculture and forestry, transportation / communications, hotels and tourism.

**Portfolio Investments:** Portfolio investments to Vietnam has increased substantially since 2002. By June 2006, there has been 19 foreign investment funds with registered capital totaling USD1.9 billions. Some international funds managers rated Vietnam among the most promising securities market in Asia (Bloomberg, 21/9/2006). VN-Index has increased by 66% in terms of USD in 2006, the fastest growing index in Asia, surpassing those of China.

Vietnam's first stock exchange, known as the Ho Chi Minh City Securities Trading Center, was established in July 2000. In March 2005, Vietnam opened an over-the-counter exchange, known as the Hanoi Securities Trading Center. The purpose of the second exchange is to expedite the process of equitization of state-owned enterprises. By the November 2006, the number of companies listed on the exchange had reached 52, representing a total market capitalization of US\$3.8 billions or 7.6% GDP.

**Tourism:** In 2005 Vietnam received 3.47 million international arrivals, up from 2.93 million the previous year and 2.43 million in 2004. The annual increase represented a strong rebound from a slight decline in 2003 attributable to the severe acute respiratory syndrome (SARS) epidemic in Asia. Most of the visitors came from China, the United States, Japan, and South Korea, and Europe.



**External Debt:** In 2004 external debt amounted to US\$16.6 billion, or 37 percent of gross domestic product (GDP).

**Foreign Aid:** From 1993 to 2005, Vietnam received pledges of US\$32.7 billion of ODA, of which about 50 percent, actually has been disbursed. In 2005 international donors pledged ODA of US\$3.75 billion, USD300 millions up from the pledges level of 2004. Largest donors for Vietnam include Japan, the World

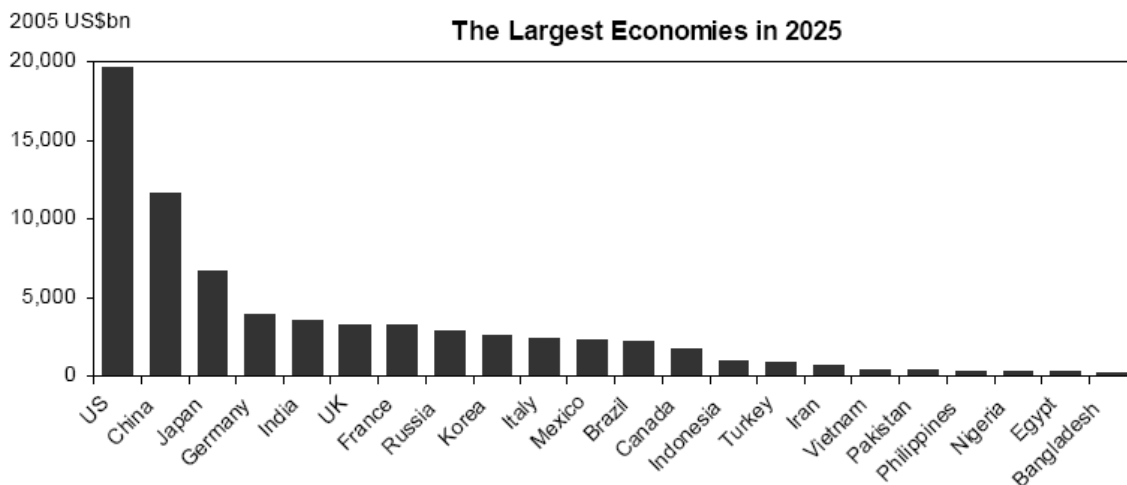
Bank, and the Asian Development Bank. During the period 2006–10, Vietnam hopes to receive US\$14 billion–US\$15 billion of ODA.

**Agriculture:** By employment, Vietnam is an agrarian country, with around 65% of the labor force working in agriculture, forestry and fisheries. However, the agricultural sector currently accounts for just 23% of GDP, down from 40% in 1991. In recent years, there has been spectacular growth in the output of pepper, coffee (100%), making Vietnam the world’s second largest exporter of these commodities, and a robust growth in the output of rubber, tea and especially rice, for which Vietnam is now the world’s third largest exporter.

**Industry:** Industrial GDP grew by over 10% per year over the past decade, and together with construction contributed around 40% of the country’s GDP. Industry is relatively well diversified, and all sub-sectors of industry have expanded over the past decade, with particularly rapid growth in steel products, garments, footwear, cement and vehicle assembly. Oil production has now probably reached a plateau, while gas production is expected to rise rapidly over the next years.

## Looking ahead

So far, Vietnamese economy has proved unstoppable. Neither the outbreak of SARS in 2004, nor the avian flu epidemic in 2004, slowed down the growth momentum. Even during the Asian financial crisis in 1997, when many countries in Asia were plunged into recession, growth in Vietnam never fell below 4.8%. Strong economic fundamentals such as remarkable export growth, burgeoning foreign investment, small business boom, WTO accession, growing savings, etc. shall definitely guarantee a medium and long term success for Vietnam.



Sources: Goldman-Sachs, 2006

GOLDMAN-SACHS, in a recent research paper, forecasts that Vietnam shall become the World’s 17th Largest Economy by the year 2025.

The Hong Kong and Shanghai Banking Corporation's (HSBC) report titled "Vietnam: going for the next level" (May, 2006) calls Vietnam a new tiger of Asia and confirms its potential for growth in the future: "Thanks to development prospects in terms of capital, human resources, production capability, macro economic reform policies, the Vietnamese economy will develop strongly, especially after the country joins the WTO,"

Vietnam has so far successfully mobilized necessary resources and created favorable conditions for the ambitious endeavor of country development. The country is owning great opportunities for a strong leap to another level of development in the coming years.

Vietnam is striving for the objective of removing her name from lowest income countries list by the year 2010 and turning the country to a basically industrialized economy by the year 2020.

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# HISTORY RECALL

## A ROCKY JOURNEY TO GENEVA

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In January 1995, Vietnam officially submitted its request for accession to the World Trade Organization (WTO) - the largest global trade organization with 150 member countries, totaling for over 97% of world trade. Since then, Vietnam has spared no efforts to get the “beneficial trademark” of being the member of WTO. The long journey for over a decade Vietnam has gone through to reach Geneva-based organization is by itself a chronology of economic reforms and international integration which have brought up the country to an emerging economy in Southeast Asia.

### **1<sup>st</sup> January 1995: official request for accession.**

The year 1995 marked the successful removal of blockade and embargo to Vietnam. In July 1995, Vietnam and the United States officially normalized the bilateral relation, paving the way to establish and boost the bilateral economic relation. Also in this year, Vietnam became the member of the Association of South East Asia Nations and then joined ASEAN Free Trade Agreement (AFTA) in 1996. Under this Agreement, Vietnam committed to reducing tariffs on imports from AFTA members to less than 5% by the year 2006.<sup>1</sup> In 1996, a Framework Co-operation Agreement was signed between Vietnam and the European Commission and then come into force on 1 June 1996. The country’s deeper international integration and the breakthrough of Vietnam’s ties with great economic partners means more chances and business opportunities for the foreign investors.

The year 1995 also marked the period of 10 years since Vietnam embarked its sound “doi moi” (the Renovation) and opened its market to the world. The foreign policy of “Vietnam wants to be a friend of every countries” resulted in many fruits. The more favorable legislative framework for the Vietnam’s business environment was created thanks to the Law of Investment promulgated in 1987 which established a remarkably liberal regime for foreign investment in Vietnam. In the mid 1990s, Vietnam attracted large inflows of foreign capital, relative to the size of the economy, equivalent to 11.2% of GDP, mostly in the form of FDI. In 1991, a duty rebate scheme was introduced, enabling export-oriented firms not to pay trade taxes on their imported inputs. In 1993, all enterprises with a business license were authorized to engage in foreign trade in goods specified in their

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<sup>1</sup> Up to the end of 2005, Vietnam reduced 10,277 tariff lines, accounting for 96.15% tax base.

license, without requiring any additional authorization. The economy has recovered from the recession resulted from the central-planned economy.

In this theme, the official WTO accession request of Vietnam is the major step in the country's reform and integration progress. On January 31st 1995, the WTO Working Party on Vietnam accession was established. According to the WTO's regulation, every applicant government must engage in multilateral negotiations and bilateral negotiations with interested Working Party members on concessions and commitments on market access for goods and services. The results of these bilateral negotiations are consolidated into a document which is a part of the final "accession package". On August 26<sup>th</sup> 1996 Vietnam presented its memorandum on Trade regulation to the Working Party.

### **September 2000 (forth round): trade policy transparentization completed**

After the first multilateral negotiation with WTO Working Party in July 1998, Vietnam completed its trade policy transparentization in September 2000 and started negotiations with member countries on goods and services market. This is the essential step for every applicant government. Through the first four negotiation rounds, Vietnam had answered around 1700 questions. Moving into the next stage, Vietnam would have to negotiate with the 28 interested members which started since the fifth multilateral negotiation round in April 2002.

The year 2000 was also an milestone of Vietnam's reform and international integration, illustrated by the conclusion of a Bilateral Trade Agreement with the United States, and domestically the promulgation of the Law on Enterprises which triggered a private investment boom to push up economic growth in the years after.

Up to this time, Vietnam's export-led growth strategy was severely restrained by the lack of access to the United States market, which has been a key engine of export growth for developing and developed economies in East Asia. The Vietnam – U.S. Bilateral Trade Agreement which came into force on December 10, 2001 had an amazingly positive effects on boosting Vietnam's exports. In addition, since 1998, the licensing requirements for exporting and importing have been largely abolished. Although some restrictions on the products permitted to be traded remain, they are being progressively loosened. In 2001, all legal entities (companies and individuals) were permitted to export most goods without license. Moreover, from 2000 to 2002, the use of quantitative restrictions diminished considerably. By the end of 2002, only two commodities, petroleum products and sugar, remained under quota. In response to these reforms, external trade became the most dynamic component of the Vietnamese economy, as shown in the table below.

## Export and Import Growth and Trade Deficit

(percentages)

	1995	1996	1997	1998	1999	2000	2001	2002
Export growth rate	34.3	33.2	26.6	1.9	23.3	24.4	4.5	10.0
Import growth rate	40.0	36.6	4.0	-0.8	1.1	30.8	2.3	19.4
Exports/GDP	26.3	29.4	34.3	34.5	40.2	45.6	46.2	N/a
Imports/GDP	39.3	45.2	43.3	42.4	40.5	48.5	49.5	N/a
Trade balance/GDP	-13.1	-15.8	-9.0	-7.9	-0.3	-2.8	2.9	n/a

*Source:* GSO and CIEM database.

Beside export booming, domestic investment was also strongly promoted. Given the political legitimacy needed to provide jobs and support broad based increases in prosperity, Vietnam accelerated the introduction of a number of other reforms from around 2000. The promulgation of the Law on Enterprise in 2000 has brought about great successes. Private sector has been flourishing and guaranteed a strong economic growth during the period where FDI inflows were smaller than before.

### 15 June 2004 (eighth round): New offers received hail

In this round, 63 WTO members negotiating a membership package with Vietnam praised the country for considerably improving its market access offers for goods and services, and its programme for applying WTO agreements. Viet Nam's latest offers, circulated in April 2004, include commitments to cut tariffs to an average of about 18% (a 4-percentage point improvement over the previous offer), and to provide some access to services in 10 sectors or 92 sub-sectors. Viet Nam has also supplied a considerable amount of additional information in response to members' requests. More importantly, some countries spoke their support to Vietnam's argument that as a heavily indebted low-income developing country, with a per capita income of less than \$400 per year, it should be traded leniently, and in particular should be eligible for exceptions under the Subsidies Agreements. Also in this round, the WTO's members worked through the "Elements" of a Draft Report and underlined the need to accelerate the Vietnam's negotiation progress by a possible discussion of the Draft Report in the next round. Regarding some difficult issues, a small group "plurilateral" meeting on agriculture was held on 14 June 2004. Some members reported good progress, but with a particularly detailed discussion on domestic support.

*"I believe it is my duty to emphasize to the Vietnamese delegation the absolute need to accelerate the laws and enforcement regulations. The pace of this accession will depend on the pace at which the Vietnamese government manages to implement these."*

Chairperson Seung Ho

However, working party members also said that a lot of work still remains, in continuing to negotiate market access and other terms of Vietnam's membership, in obtaining further clarification of Viet Nam's regulations and policies, and in putting into place the necessary laws and regulations. In addition to seeking further improvements in the market access offers, members also raised concerns about Viet Nam's use of "specific" import or combinations of specific and ad valorem rates, the use of tariff quotas on agricultural products, proposed transition periods for implementing parts of the Sanitary and Phytosanitary Measures Agreement, and apparent lack of progress on Viet Nam's own schedule for applying the intellectual property (TRIPS) agreement.

### **27 March 2006 (twentieth round): Going into final stages**

After a substantial step forward with the Working Party looking in detail on 15<sup>th</sup> September 2005 at the first revision of the Working Party Report, the Working Party made the last check for core points of the Draft Report in this round. This thanks to tremendous efforts of Vietnam regarding the bilateral negotiation, multilateral work, the rush of new laws as well as amended ones.<sup>2</sup>

However, the discussion of the first revised working party draft revealed a number of issues still requiring further clarification, in particular, trading rights and the functioning and status of the state trading enterprises, considered by the U.S. as "a central issue" in this negotiation, which attracted a lot of questions from U.S., Switzerland, Australia and the EU. Areas of concern also included subsidies, the investment regime and the taxation policies.

The chairperson concluded that "It is clear that some more work is needed on the various sections of the Report". Nevertheless, the chairperson also said that on the bilateral front, the market access negotiations were advancing very well and he expected that for the next meeting Vietnam would have concluded all its remaining market access negotiations in goods and services.

### **31 May 2006: Vietnam – United States negotiation finished**

Among all bilateral negotiations, that with the U.S. is the most difficult one. Vietnam reached an agreement-in-principle with the United States on 14 May 2006 and officially signed the U.S.-Vietnam WTO bilateral market access

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<sup>2</sup> The seventh session of the National Assembly, held in May and June this year, passed 15 laws, four more than scheduled, including the amended Civil Code, the amended Commercial Law, the Law on State Auditing, the Law on signing of, Accession to and Implementation of International Treaties, the amended Customs Laws, the amended Law on Export and Import Duties, the amended Mineral Law and the amended Law on Complaint and Denunciation.

agreement on 31 May 2006 in Ho Chi Minh City. This deal would bring Vietnam much closer to the WTO membership.

Vietnam's tariffs for most U.S. manufactured goods will be reduced to an average of less than 15%. Tariffs for U.S. priority sectors such as construction equipments, pharmaceuticals, aircraft parts, chemicals, and IT products will, for the most part, have low duties of 0-5%. Such increased market access is expected to directly benefit companies such as Caterpillar, Dupont, Dow Chemicals, Boeing, Eli Lilly, GSK, Merck, Intel, IBM, Johnson & Johnson, Motorola, and Pfizer, and indirectly impact many others. The market for U.S. services will also be substantially liberalized in Vietnam with Vietnam's commitment to open up a broad variety of service sectors.

*"The agreement is a win-win deal"*

**Karan Bhatia**

U.S. Deputy Trade Representative

### **19 July 2006: Bilateral negotiation done**

With Viet Nam's last bilateral market access negotiations completed in May (with the United States and Mexico), work was now focusing partly on translating those bilateral deals into the lengthy detailed commitments (or "schedules") that Viet Nam would apply to trade with the entire WTO membership. Delegations in the working party of over 40 WTO members (counting the EU as one) echoed Viet Nam's desire to join the WTO by the time Hanoi hosts the Asia-Pacific Economic Cooperation summit in November. They paid tribute to the effort Viet Nam has put into passing numerous laws, issuing many rules and regulations, and conceding to many of their demands.

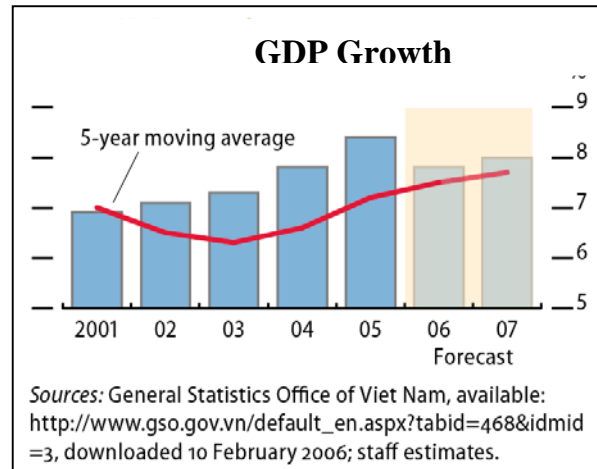
### **9 October 2006 (14<sup>th</sup> round): the door opened wide**

WTO members negotiating Vietnam's membership deals began intensive consultation aimed at putting the final touches to the package of agreements and completing the deal by the end of the month. The chairperson said: "For the first time, we have in front of us the complete package of documents representing Viet Nam's terms of membership to the WTO. ... Clearly this working party is now very close to completion." Almost all the partners acknowledge the Vietnamese National Assembly's recent efforts to revise laws in accordance with the country's administrative reform and economic renewal, as well as international practices. In addition to revising existing legal documents, Vietnam has promulgated more than 20 new laws<sup>3</sup> and ordinances to comply with the WTO's regulations. Vietnam has even pledged to abolish export subsidies for its agricultural products as soon as it becomes a WTO member.

<sup>3</sup> These laws includes Commercial Law, The Law on Intellectual Property Rights, The Investment Law, the Enterprise Law and the Law on Competition.

Along with the great advance in Vietnam's negotiation to WTO progress, great economic achievements and significant reforms were recorded. According to the Asian Development Outlook 2006, Vietnam's economic performance continues to be robust, with growth accelerating above 8% in 2005, fueled by surging private investment and strong domestic demand.

Vietnam is a success story following respectable achievements of China, Hans Timmer, manager of the WB's global trends team, said at the launch of the Global Development Finance 2006 book. Mansoor Dailami, the author of the book, said that there's a chance for Vietnam to move forward along with other countries in East Asia to develop its capital market to support long-term foreign investment.



UN Development Program Deputy Resident Representative Subinay Nandy said the most recent increase of FDI inflows reflects investors' confidence in Vietnam's economic future. But the report also suggests that there is room for improvement in Vietnam's investment environment. Better infrastructure and telecommunication facilities, more highly skilled workers and stronger national technology policies would make Vietnam more attractive and would enable Vietnamese firms to make better use of FDI.

In the article posted on The New York Times on October 25, Keith Bradsher said that Vietnam has begun surpassing many its neighbors, becoming the second-fastest-growing economy in Asia with 8.4 percent growth last year. Through the end of last year, Vietnam's growth rate exceeded that of Thailand, Malaysia, the Republic of Korea and even India. Speaking about achievements Vietnam has gained in the fight against poverty, the paper said Vietnam has reduced the percentage of its people living in poverty "less than 1 USD a day" to 8 percent from 51 percent in 1990, a greater advance than either China or India.

*"Vietnam has become the talk of investment bankers and investors across Asia."*  
**Keith Bradsher**, The New York Times

American companies like Intel and Nike, and investors across the region, are pouring billions of USD into Vietnam. Vietnam's appeal to foreign companies rests on its young labor pool. Three-fifths of its 84 million people are under 27. And with a policy of limiting families to two children, as distinct from China's

one, Vietnam will continue for many years to have a large proportion of hard-working employees, the author said.

**Conclusion:**

After almost 11 years conducting negotiations at more than 4,000 meetings and conferences, Vietnam now becomes member of the world's biggest trade organization. WTO membership will be a catalyst for the country's further reforms and let Vietnam enjoys many trade benefits. Other than the immediate benefits such as free quota on textiles and garments, the biggest benefits will come from creating a favorable environment for investment and trade. A stable, transparent policies will bring about the trust of investors and result in more foreign investments in Vietnam.

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# ANALYSIS

## A SWOT PERSPECTIVE

*Concluding eleven years of negotiations with the WTO, Vietnam is now entering a new stage of economic development and international integration where it has a more level playing field with its competitors. A SWOT Analysis below points out both endogenous factors (strengths and weaknesses) and exogenous ones (opportunities and threats) which may have repercussions on how Vietnam positions itself in the new international economic environment.*

### 1. Strengths

**1.1 Political Stability:** Vietnam is seen as a country of high political stability in various analysis of international organizations. Goldman-Sachs' Global Economic Paper ranked Vietnam first among selected countries in terms of political stability, even above China. In recent World Bank Governance Indicators Report 2006, Vietnam's position is 59, above China, Thailand, the Philippines and Indonesia. In parallel with political stability, Vietnam also has a high human security. This is typically important in the context of terrorism risks and crimes faced by many other countries.

**1.2 Strong Economic Growth:** with economic boom since 1990, Vietnam has registered a steady and stable economic growth despite financial turbulences in the region in 1997. Compared to other economies in the region, Vietnam ranks second after China, but considerably higher than other ASEAN economies

#### GDP Growth of Asian Economies (%)

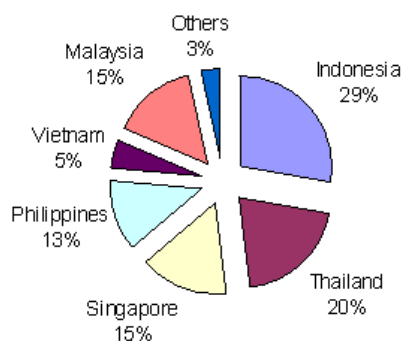
	2004	2005	2006	2007
<b>ASEAN</b>	<b>5.3</b>	<b>4.8</b>	<b>4.9</b>	<b>4.7</b>
Indonesia	5,1	5,6	5,2	6,0
Malaysia	7,2	5,2	5,5	5,8
Philippines	6,2	5,0	5,0	5,4
Thailand	6,2	4,5	4,5	5,0
<b>Vietnam</b>	<b>7.8</b>	<b>8.4</b>	<b>7.8</b>	<b>7.5</b>
China	10.1	9.9	9.5	9
India	8.1	8.3	7.3	7

*Source: IMF (9/2006)*

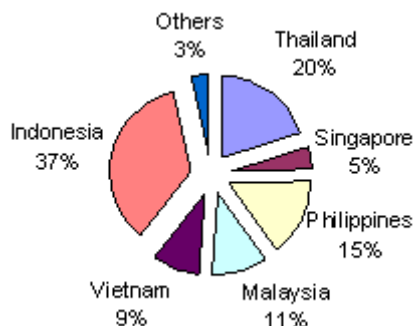
High economic growth rate has scaled up Vietnam's economic profile in Southeast Asia. Its GDP in terms of PPP has reached 9% of the whole region and is expected to increase in the coming years. Some analysts have started questioning the concept of ASEAN-4<sup>4</sup>.

<sup>4</sup> ASEAN economies, excluding 4 new members: Vietnam, Laos, Cambodia and Myanmar.

**GDP of ASEAN countries  
(current exchange rate - 2005)**



**GDP of ASEAN countries  
(Purchasing Power Parity - 2005)**

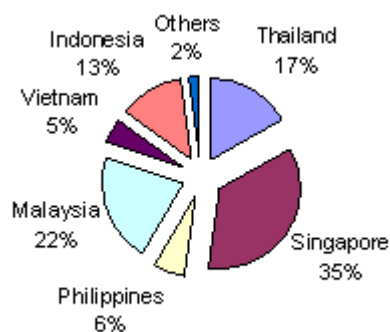


Source: WTO (2006)

**1.3 Robust Export:** This is the most evident strong point of Vietnamese economy. Export volume has increased from US\$9.1 billion in 1997 to US\$16.5 billion in 2002 and to US\$32.23 billion in 2005, registering an average annual growth rate of over 20%. This growth rate is equivalent to that of China and far over those of other countries.

By the measure of export volume, Vietnam now accounts for 5% of ASEAN total export, which is just a little bit behind the Philippines (6%). Given robust export growth rate, Vietnam shall be likely to surpass the Philippines and get closer to Indonesia in the coming years. A positive feature is that Vietnamese exports are diversified in different products and therefore can mitigate the turbulences of global markets.

**Export Share / ASEAN Countries  
(2005)**



Source: WTO (2006)

**1.4 Sound Macroeconomic Indicators:** budget deficit remains controllable (less than 5% of GDP); external debt which was rescheduled in the years 90s, has been managed to a safe level (less than 30% of export volume). Domestic savings keeps growing and investments as a percentage of GDP has surpassed 40% - a convincing level compared to other economies in the region. Bank bad loans have been reduced to a manageable level (less than 10% of total loans outstanding).

**1.5 Positive Social Indicators:** high literacy rate and rapid poverty reduction are very positive factors for Vietnam's future economic development. Vietnam's Human Development Index has also improved substantially from 0,58 (1985) to 0,70 (2003), surpassing that of Indonesia (0,69) and approaching that of China (0,75).

Vietnam has achieved great successes in poverty reduction which has been widely commended by the international community. In parallel with economic growth, the gap between the rich and the poor has also increased, but still remain rather low according to international standards.

**1.6 Boomed private investment:** Official figures indicate that the private sector in Vietnam has been growing rapidly since the mid-1990s and particularly since the implementation of the Enterprise Law in January 2000 when it became significantly easier to register new private companies. So far, there has been over 230,000 private enterprises, most of which are dynamic and grow up quickly.

### Investment Trends 2001-2010

	2001-2005 estimates (VND trillion)	2006-2010 Plan (VND trillion)
SOE investment	226.0	336.5-356.0
Private investment	328.5	568.0-607.1
Foreign Direct Investment	206.0	252.7-277.5
Source: MPI, Draft Five-Year Socio-Economic Development Plan 2006-2010, June 2005		

*Nguồn WTO (2006)*

The share of domestic private sector investment within total national investments has increased substantially and surpassed that of SOEs. Booming private investments have played a decisive role in the dynamics of Vietnamese economy in recent years and shall be an important strength in the post-WTO competition.

## 2. Weaknesses

**2.1 Increasing Incremental Capital-Output Ratio (ICOR):** This ratio measures investment efficiency and an increased ICOR may have negative repercussions on sustained economic growth. Vietnam's ICOR has increased from 3.2 in the years 1995 – 1998 to 4.5 in the years 2000-2002 and to 5 in 2005. Increasing ICOR reflects the fact that more investment capital is required for a percent of GDP growth. This is in part attributed to the fact that Vietnam has shifted to a higher stage of development which requires more capital and to some extent the big investment projects in long return industries such as sugar, steel, paper etc.

**2.2 Problems of State Owned Enterprises:** After 20 years of renovation, SOEs have been restructured and reformed. However, so far SOEs still face long-lasting losses and inefficiency. Although the number of SOEs has been reduced from 12 000 to 5 000, of which 3000 has been equitized, the remaining 2000 SOEs still account for 40% GDP. Equitized SOEs are usually small companies and therefore total capital of equitized SOEs accounts for only 12% of all SOEs' capital. In the years to come, Vietnam shall have to take strong measures to successfully restructure this SOE sector.

**2.3 Inefficient Administrative System:** Although Vietnam has attached great importance to administrative reforms, the system so far remains inefficient and to some extent is an obstacle to businesses activities. The World Bank estimates an enterprise needs approximately 1,050 hours each year for tax clearance procedures, rather long compared to other countries in the region. However, the situation seems improving. According to World Bank Global Governance Report (2006), Vietnamese government's performance is improving with its index increasing from 42.6 (2004) to 45 (2005).

### 3. Opportunities

**3.1 Boosting Export:** Given strong growth potentials of the world economy, especially in major its trade partners, Vietnam has an opportunity to boost exports in the coming years. The demand for imports in the US, China, EU, Japan and Asian economies are expected to continue growing, although probably at a lower rate than that of last two years.

In addition, WTO membership also help lowering tariff and non-tariff barriers to Vietnam's exports, which shall definitely increase its export competitiveness. Vietnam shall be in a better position to defend protectionist measures imposed by her trading partners.

**3.2 Attracting FDI:** Vietnam is currently possessing very favorable conditions to attract foreign direct investment, especially from multi-national corporations. Intel's decision to choose Vietnam for a chip plant of US\$600 million value has very positive effects on Vietnam's image as a destination for big multinational corporations.

Investors generally view WTO accession as a guarantee of policy environment for their investment in Vietnam. In addition, a number of sectors shall be opened after Vietnam joins the WTO, which create new opportunities for foreign investors. It is therefore widely believed that WTO accession shall definitely boost the inflows of FDI to the country.

**3.3 Increasing Foreign Portfolio Investment:** So far, Vietnam has prepared all necessary conditions to attract foreign portfolio investments. The flows of portfolio investments has substantially increased since 2002. Currently, 19 foreign funds with total registered capital of US\$1.9 billions are operating in Vietnam. Vietnam securities market also grows up quickly with current 52 listed companies capitalized at US\$3.8 billions. USD-converted VN-Index has increased by 66%, the highest growth rate among hundreds of indexes in Asia.

Joining the WTO enhances the credit rating of Vietnam. In addition, WTO accession also leads to the opening of finance and banking sector, paving the way for more active foreign participation in Vietnam's securities market.

**4. Threats:** The biggest threat Vietnam has to face after WTO accession is by no doubt the fierce competition to local industries such as banking, distribution, automobiles, telecommunication etc. Restrictions to foreign participation and tariff barriers shall be step by step removed which allow foreign companies to establish their businesses easily in Vietnam. Local businesses, especially SOEs shall have to compete directly and on a level-playing field with foreign players and those who have not sufficiently prepared and equipped themselves to join the game shall not be in a position to win.

However, Vietnam's integration experience has proved that Vietnamese businesses usually have strong dynamics and resilience when they are put in hard conditions. This has been evidenced by their successes in the implementation of ASEAN Free Trade Area (AFTA) in recent years.

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## ANALYSIS

### POST-WTO LEGAL ENVIRONMENT

*By lawyers of VILAF – Hong Duc  
Vietnam International Law Firm*

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On 26 October 2006, the Working Party negotiating the terms of Vietnam's membership of the World Trade Organization ("WTO") completed their task by accepting the accession package detailing Vietnam's commitments and rights as a WTO member. This is one of the final steps in the accession process and paves the way for Vietnam to officially become a WTO member in mid-January 2007.

Vietnam submitted its application to join the WTO in 1995. It has taken 12 years of working party negotiations to reach the stage where Vietnam is ready to take on the rights and responsibilities of WTO membership. Although most public attention has been focused on tariff cuts and increased market access opportunities for Vietnamese goods (such as textiles) following WTO accession, WTO membership also involves ratification of a series of supplementary agreements covering issues such as trade in services, intellectual property protection, abolition of prohibited subsidies and trade-related investment measures. These agreements require each member country's legal system to be sufficiently developed to effectively enforce the rights and obligations contained therein. During the working party process, other WTO members have been concerned to ensure that Vietnam is structurally and economically capable of meeting its commitments under WTO rules.

In terms of legal developments, Vietnam has come a long way since 1995, with many landmark laws enacted to modernize the legal business framework. The speed of reform has accelerated considerably in the last few years, with the enactment of the amended Civil Code 2005, Land Law 2003, Commercial Law 2005, Intellectual Property Law 2005, Bankruptcy Law 2004, Competition Law 2004, Securities Law 2006, Law on Real Estate Business 2006, Foreign Exchange Law 2005 and Environment Law 2005, among many others. One of the most significant legal developments has been the enactment of the Law on Investment and Law on Enterprises in 2005, which for the first time bring all foreign, domestic and state-owned investment and corporate activities under a single regulatory regime.

As accession negotiations have now concluded, Vietnam is expected to further the legal reform to meet its WTO's commitments. Membership of the WTO requires Vietnam's full commitment to the development of a rule-of-law State, in which business activities are fairly and transparently regulated according to clearly established rules. Other WTO members may bring a complaint to the WTO dispute resolution body if they believe their nationals are not being treated fairly in their investments in Vietnam. Enactment of laws is a good first step, but the authorities must ensure that implementing regulations continue to reflect WTO principles, and that officials are adequately trained in the enforcement and administration of the laws.

This article examines some important developments of the Vietnamese legal system along the WTO accession.

### **Foreign investment**

Although the WTO was primarily established to liberalize trade in goods, the General Agreement on Trade in Services ("GATS") also contains important principles on international trade in services, including trade in the form of establishment of a commercial presence by foreign investors in Vietnam (commonly known as foreign direct investment).

The two main pillars of GATS are most-favored-nation ("MFN") status and national treatment. MFN status means that "each Member shall accord immediately and unconditionally to services and service suppliers of any other Member treatment no less favorable than that it accords to like services and service suppliers of any other country." That is, investors from all member countries must be afforded equal treatment across all sectors. National treatment means that foreign investors must receive treatment "no less favorable" than that of domestic investors. Unlike MFN status, national treatment does not apply generally, but only to specific sectors inscribed by member states in their respective schedule of commitments.

With the passage of the Law on Investment 2005, Vietnam has incorporated these two main concepts into domestic law. Article 4.1 provides that "investors shall be permitted to invest in all sectors and in all industries and businesses which are not prohibited by law", while Article 4.2 states that "the State shall provide equal treatment before law to all investors from all economic sectors and as between domestic investment and foreign investment".

Following WTO accession, foreign investment in sensitive sectors such as banking, insurance, aviation, trading and distribution, which are restricted under the Law on Investment 2005 will be permitted subject to the schedule of commitments agreed to by Vietnam during the working party negotiations. While these commitments are yet to be publicized, most observers expect foreign

ownership limits in these sectors to be subject to gradually increasing limits. For example, foreign investors may be allowed to own 49% of a distribution business in Vietnam for a period, followed by an increase to 51% for another period, with 100% foreign ownership eventually available. In the banking sector, we have seen that foreign ownership of domestic banks is subject to a 10% ownership limit, and such limit is expected to increase to 20% following WTO accession. It should be noted that foreign banks are already licensed to establish 100%-owned subsidiaries and branches in Vietnam.

Of note is the transparency requirement in GATS requiring member states to promptly publicize all relevant measures of general application and international agreements pertaining to trade in services. Hence, Vietnam is obliged to publish its commitments on foreign investment in conditional sectors promptly upon WTO accession. All investors, both domestic and foreign, eagerly await publication of these commitments.

### **Elimination of prohibited subsidies**

After joining the WTO, Vietnam will be obliged to eliminate prohibited subsidies on goods (apart from agricultural goods) in accordance with the Agreement on Subsidies and Countervailing Measures (the “**Subsidies Agreement**”).

The Subsidies Agreement prohibits subsidies that require recipients to meet certain export targets, or to use domestic goods instead of imported goods. This is to ensure that global trade in goods is conducted on a level-playing field without manufacturers receiving unfair support from governments.

Generally, countries joining the WTO are obliged to progressively remove their prohibited subsidies within a phase-out period determined during WTO accession negotiations. Details of Vietnam’s phase-out timetable are yet to be officially released, but it is believed that Vietnam has secured a five year period to phase-out existing subsidies.

### **Intellectual property rights**

The Agreement on Trade Related Aspects of Intellectual Property Rights (“**TRIPs Agreement**”) imposes obligations on WTO member states to respect and enforce intellectual property (“**IP**”) rights. The TRIPs Agreement requires member states to comply with substantive provisions of major intellectual property agreements such as the Berne Convention for the protection of literary and artistic works and the Paris Convention on patents, to which Vietnam is already a signatory. The TRIPs Agreement also extends the application of such agreements, for example by stating that computer programs will be protected as literary works under the Berne Convention, and that authors of computer programs and producers of sound

recordings must be given the right to authorize or prohibit the commercial rental of their works to the public.

Member states are obliged to provide procedures and remedies under their domestic law to ensure that intellectual property rights can be effectively enforced both by foreign and domestic rights holders. Procedures should permit effective action against infringement of intellectual property rights but should be fair and equitable, not unnecessarily complicated or costly, and should not entail unreasonable time-limits or unwarranted delays. Finally, under the TRIPs Agreement parties should provide for criminal procedures and penalties, at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale. Remedies should include imprisonment and fines sufficient to act as a deterrent.

The new Law on Intellectual Property, which came into effect on 1 July 2006, reflects these principles and represents a significant step forward for the recognition and enforcement of intellectual property rights in Vietnam.

Generally, intellectual property rights are protected in Vietnam upon registration on a first to file priority basis, except for trade secrets, geographic indications and trade names (which are entitled to legal protection as far as they fulfill their own conditions of formation and usage). Registration is not a prerequisite for copyright protection although it is a prima facie evidence for protection.

During Vietnam's WTO negotiations, other countries have expressed concern at the ability of rights holders to protect and enforce their IP rights in Vietnam. The Law on Intellectual Property specifically deals with the issue of enforcement, and provides for civil, administrative and criminal remedies for IP violations. Civil remedies include injunctions and actions for damages. Administrative remedies are generally speedier and include confiscation and destruction of violating goods, suspension of the business activities of those infringing IP rights and customs interception of suspected violating goods. IP violations may also incur criminal liability in accordance with the Criminal Code, which provides for significant criminal penalties for organized dealing in counterfeit goods or industrial property (including trademark) violations.

### **Moving forward**

The main planks of Vietnam's business legal framework have been laid down in the last few years through the enactment of many landmark Laws discussed above. The challenge now for Vietnam is to ensure that the liberalizing trend in these Laws continues to be reflected in implementing regulations and administration by State officials.

In particular, with WTO accession, the Government of Vietnam is expected to speed up its administrative reforms to ensure that rights existing on paper can effectively be enforced in practice for the sake of both foreign and domestic investors; that judicial and administrative procedures are conducted fairly and transparently; and that commitments made to investors when establishing investment projects are honored according to their terms.

In this sense, joining the WTO is significant for Vietnam in a broader sense than on purely economic terms. More generally, WTO accession may also herald a new era of transparency and equity in dealings between individuals and the State, which encourages both economic growth and social cohesion. This is the opportunity now available to Vietnam, and all observers are confident that it will be taken.

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## TRADE PROSPECT

### Vietnam's trade: Fact and figures

Vietnam's trade has been performing well for the last decade. Between 1996 and 2005, the total turnover increased from about 18.4 billion USD to 69.1 billion USD. Vietnam's export totaled over 32 billion USD in 2005, about 2.2 times higher than that in 2002. In five years (2001 – 2005), the export averaged 17% annually, nearly 2.3 times higher than the GDP growth. And the export income per capita reached approximately 390 USD by 2005. Thanks to these outcomes, Vietnam ranked 50<sup>th</sup> in the world merchandise exports and 44<sup>th</sup> in the world merchandise imports in 2004.

<b>Rank in world trade, 2004</b>	<b>Exports</b>	<b>Imports</b>
Merchandise	50	44
Commercial services	54	51
Merchandise excluding intra-EU trade	34	28
Commercial serv. excl. intra-EU trade	36	34

*(Source: WTO statistics)*

Goods from light industries and from agriculture, forestry and fishery have recorded the fastest growth rate. These goods made up 66% of the total export income in 2005. Many products namely rice, coffee Robusta, rubber, pepper, and processed goods are the world well-known. Vietnam is now among the world top three rice and coffee exporter. The export of rice rose from 1.9 million tones or 530 million USD in 1995 to over 5 million tones or over 1 billion USD in 2005.

Besides, Vietnam's import has rapidly increased, averaged annually 18.7% between 2001 and 2005. Hence, raw materials, fuel, machinery, and equipment have taken large proportion in the import, accounted for about 81.5% of the total import turnover. The share of foreign invested enterprises in the import was 34.7% in the period 2001 – 2005.

Such exports and imports have gone to and come from all over continents. By 2005, Vietnam established commercial ties with over 220 countries and territories in the world. ASEAN, EU, Japan, and the U.S are major trading partners. In 2005,

half of Vietnam's exports went to Asia, and nearly 18% and 20% to Europe and America, respectively.

### Export by regions

*Million USD, %*

	2001		2002		2003		2004		2005	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
<b>Export turnover</b>	<b>15,029</b>	<b>100</b>	<b>16,706</b>	<b>100</b>	<b>20,149</b>	<b>100</b>	<b>26,503</b>	<b>100</b>	<b>32,442</b>	<b>100</b>
<i>Asia</i>	<i>8,610</i>	<i>57.3</i>	<i>8,684</i>	<i>52.0</i>	<i>9,756</i>	<i>48.4</i>	<i>12,634</i>	<i>47.7</i>	<i>16,383</i>	<i>50.5</i>
ASEAN	2,556	17.0	2,437	14.6	2,958	14.7	3,885	14.7	5,450	16.8
China	1,418	9.4	1,495	8.9	1,748	8.7	2,735	10.3	3,082	9.5
Japan	2,510	16.7	2,438	14.6	2,909	14.4	3,502	13.2	4,639	14.3
<i>Europe</i>	<i>3,515</i>	<i>23.4</i>	<i>3,640</i>	<i>21.8</i>	<i>4,326</i>	<i>21.5</i>	<i>5,412</i>	<i>20.4</i>	<i>5,872</i>	<i>18.1</i>
EU-25	3,152	21.0	3,311	19.8	4,017	19.9	4,971	18.8	5,450	16.8
<i>America</i>	<i>1,342</i>	<i>8.9</i>	<i>2,774</i>	<i>16.6</i>	<i>4,327</i>	<i>21.5</i>	<i>5,642</i>	<i>21.3</i>	<i>6,910</i>	<i>21.3</i>
United States	1,065	7.1	2,421	14.5	3,939	19.5	4,992	18.8	6,553	20.2
<i>Africa</i>	<i>176</i>	<i>1.2</i>	<i>131</i>	<i>0.8</i>	<i>211</i>	<i>1.0</i>	<i>427</i>	<i>1.6</i>	<i>681</i>	<i>2.1</i>
<i>Ocean Pacific</i>	<i>1,072</i>	<i>7.1</i>	<i>1,370</i>	<i>8.2</i>	<i>1,455</i>	<i>7.2</i>	<i>1,879</i>	<i>7.1</i>	<i>2,595</i>	<i>8.0</i>

*Source: Ministry of Trade of Vietnam*

### Post – WTO prospects

WTO membership opens up the world economy for Vietnam's exports and is expected to shift Vietnam's trade to a higher rank in the world trade. It is hoped that Vietnam would follow China's success after accession. The economic integration process in the last decade has shown that the more Vietnam integrates into the region and the world, the more Vietnam earns. In 1995, Vietnam became ASEAN member and joined the AFTA. There were some concerns about decreased exports. However, Vietnam's exports increased dramatically. Since 2001 when the Bilateral Trade Agreement (BTA) with the U.S came into force, two-way trade between Vietnam and the U.S has grown from approximately 700 million USD to 7.8 billion USD, an increase of more than 400%<sup>5</sup>.

The WTO is the global playing ground accounting for over 90% of the world trade transactions and controls 85% global goods. The WTO accession provides Vietnam's goods with borderless markets of goods, service, capital, and labor. Vietnam will be able to export the current competitive goods such as agricultural

<sup>5</sup> source: USTR (United States Trade Representatives)

products and textiles through non-discriminated trade, lower tariff and, fewer non-tariff barriers. These export opportunities will help Vietnam's enterprises and create more jobs. Within 10 years after accession, Vietnam's textiles exports will not be affected by quantitative restrictions set by textiles import countries. Rice is another goods benefiting from the accession. The quotas on rice and other agricultural goods are replaced by tariff which will be reduced under the WTO roadmap. At the moment, Asia is the main market for rice. Other markets such as Europe and North America started to import Vietnam's rice and are expected to be widen after the accession.

The WTO membership will help Vietnam to raise its position in trade negotiation and have a closer access to fair and effective rules to settle trade disputes between Vietnam and other countries. In the global ground, all enterprises, have to obey international rules. On the other hand, Vietnam will be able to protect enterprises' rights through WTO dispute settlement and other WTO instruments. Furthermore, as a developing country, Vietnam is given some preferential and special treatment such as export subsidies to non-competitive goods.

Trade liberalization will help WTO members' products with good quality and reasonable price to flood in Vietnam, putting pressure on Vietnam's business circle. Some industries will be losers in the short-term and be pushed to raise their standards and competitiveness without the government protection. This is considered as a driving force to reform and strengthen Vietnam's ailing industries. In this fierce competition, even the top exports are also affected and in need of further improvement of quality and technology.

<b>Level of export potential</b>	<b>Short-term</b>	<b>Long-term</b>
<b>High</b>	Rice, coffee, pepper	Rice, coffee, pepper, rubber
<b>Medium</b>	Rubber, tea	Tea, vegetable
<b>Low</b>	Vegetables, pork	Pork

*(Source: CIEM)*

Vietnam is not the only country that will benefit from trade. All WTO members trade with Vietnam under the same conditions, same trade policies and MFN, reduced quantitative restrictions and export subsidies. During bilateral and multilateral negotiations, Vietnam has committed to give favorable conditions for other trading partners. Right at the time accession, most of the commitments will be realized. The partners will enjoy new opportunities for their key exports to Vietnam and taking part in Vietnam's exports to other countries.

They will be granted full trading rights not later than 1 January 2007, except for limited amount of products for which full trading rights will be granted in 2009, and products subject to State Trading enterprises. Restrictions on imports that foreign-invested companies can import will be eliminated. A very limited number of products are subject to a short transition period before trading rights will be granted and importation of a few products will be through state trading enterprises. The role of state owned enterprises (SOEs) in trade activities (including eliminating the role of the state as the sole importer of certain products) will be reduced. Foreign companies will have access to the market to supply goods and services to Vietnam's state-owned and controlled enterprises, which will be obligated to make purchases and sales of goods and services based on commercial considerations. SOEs monopoly on some exports such as rice and pharmaceuticals will be removed by the year 2009 and 2011. Vietnam will remove the commitment by producers to export as a criteria for establishing businesses in export processing zones to ensure that subsidies granted to export processing zones are not trade-distorting. Vietnam's system of excise duties on spirits to remove the discriminatory taxation of some spirits will be revised.

It is possible to say the accession of Vietnam will be a "win-win" deal for Vietnam and trading partners. The merchandise export is expected to reach 67.5 billion USD by 2010 or 257 billion USD in the five years 2006 – 2010<sup>6</sup>. In this period, Vietnam will import from other countries an amount of 286.5 billion USD.

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<sup>6</sup> Vietnam's five year socio-economic development plan 2006 - 2010

## FDI PROSPECT

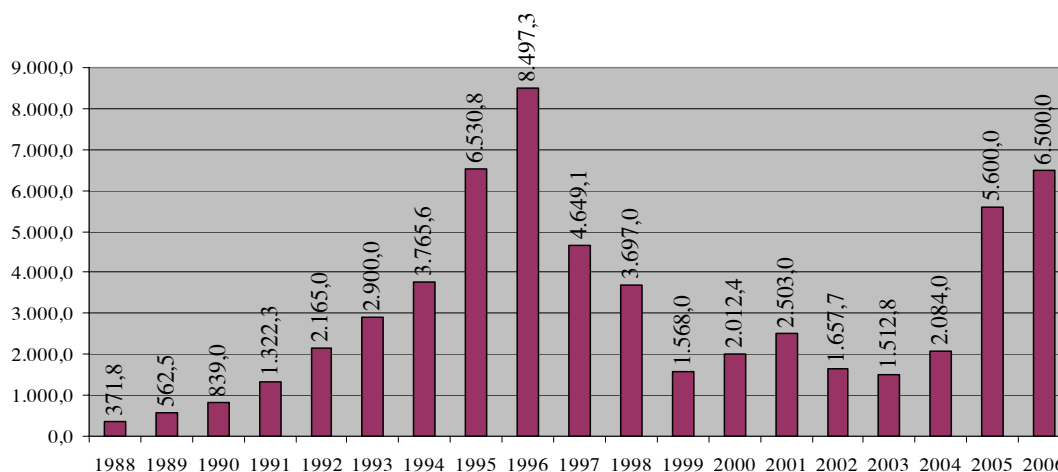
Since the adoption of *Doi moi* policy, Viet Nam has continuously encouraging foreign investment as an important source for national development. In her accelerating integration process marked by the recently concluded WTO membership, foreign investment as an integral component will continue to prosper along with the economy, offering enormous opportunities to investors. At this critical point in time, this article attempts to review the performance of foreign investment in Viet Nam and assess the prospects for investors of WTO membership in the years to come.

### I. Foreign investment in Viet Nam – a brief overview

#### 1) Foreign direct investment (FDI)

The Law on Foreign Direct Investment was first promulgated in 1987 and has been continually revised to set up conducive and attractive environment for foreign enterprises. In 2006, unified laws on enterprises and investment have been put in force that treat domestic and foreign enterprises and their investment equally.

**Inward FDI to Viet Nam during 1988 - 2006<sup>7</sup>**  
(million US dollars)



Up to October 2006, total amount of inward FDI to Viet Nam during 1988 – 2006 is close to USD 60 billion, accounting for about one fourth of total

<sup>7</sup> 2006 figure is up to October only

investment in the economy. After its peak before the 1997 Asian crisis, FDI in Viet Nam slowed down remarkably in 1997 – 2003 and has now regain very fast growth. A summary of inward FDI to Viet Nam in 1988 – 2006 is presented in the above table.

FDI in Viet Nam comes from 75 countries and territories. Top investing countries and territories are listed in below table.

**Leading investing countries and territories to Viet Nam**  
(as of year-end 2005)

No.	Country/Territory	No. of projects	Percentage	Total investment	
				(million USD)	Percentage
1	Taiwan (China)	1,422	23,58%	7.769.027.127	15,23%
2	Singapore	403	6,68%	7.610.672.977	14,92%
3	Japan	600	9,95%	6.289.749.999	12,33%
4	Republic of Korea	1.064	17,65%	5.337.858.695	10,46%
5	Hong Kong British Virgin	360	5,97%	3.727.943.431	7,31%
6	Islands	251	4,16%	2.692.708.280	5,28%
7	France	164	2,72%	2.171.243.593	4,26%
8	Netherlands	62	1,03%	1.996.039.210	3,91%
9	Malaysia	184	3,05%	1.571.072.072	3,08%
10	Thailand	130	2,16%	1.456.109.156	2,85%
11	United States	265	4,39%	1.455.112.949	2,85%
12	United Kingdom	68	1,13%	1.248.301.073	2,45%

In 2005, foreign enterprises in Viet Nam have recorded their highest revenue of 20 billion USD since the 1997 Asian monetary crisis, and contributed 1.3 billion USD to the State budget. Overall, FDI sector accounts for about 15% of the GDP, 30% of industrial output and export. Most remarkably, Intel has invested in a USD-600m microchip production factory, making Viet Nam a promising destination for high-tech industries.

**2) Foreign Indirect (institutional) investment (FII)**

Foreign indirect investment in Viet Nam amounts at about USD 2 billion through the presence of foreign investment funds as well as foreign security traders.

The position of Vietnam in the international financial market has been improved steadily as its credit ratings have been raised recently. Moody's Investor Services, the rating agency, in July 2005 raised Vietnam's sovereign credit rating from B1 to Ba3 against the country's improving external performance. Standard & Poor's Ratings Services in September 2006 also raised the country's long-term foreign and local currency sovereign credit ratings on Vietnam to 'BB' and 'BB+',

from 'BB-' and 'BB', respectively. The outlooks on the long-term ratings are stable, while both short-term foreign and local currency ratings are affirmed at 'B'.

Along with the fast growing institutional investment, nineteen foreign investment funds have been established in Viet Nam with total managed capital of over USD 1 billion. Together with the establishment of investment funds, an increasing number of foreign individuals and organizations have now invested in the Vietnamese securities market recently. The Vietnam Securities Depository Center (VSDC) under the State Securities Commission (SSC) has provided trading codes for between 40-50 foreign investors a month on average. Among the foreign securities firms entering Viet Nam market are Nomura International (Hong Kong) Ltd., Blackhorse Asset Management Pte. Ltd. of Singapore and Mirae Maps Investment Management Co. of South Korea. Merrill Lynch has also decided to enter Vietnam's financial market with a trading code through its custody bank HSBC.

### 3) Outlook

The prospect of Viet Nam economy remains bright with predicted growth rate of about 7 – 8 percent annually, meaning a doubling of current's economy size within about ten years. The impressive growth is not only with GDP itself but also in GDP per capita, reaching almost USD 1,000 by 2014. A more detailed projection is presented in Table 3. However, this projection is based on an assumption of gradual and moderate reforms and could probably be much better if the pace of reform accelerates.

**Viet Nam economy: 2014 outlook<sup>8</sup>**

		1994	1999	2004	2009	2014
Population	m	71.6	77.1	82.6	88.3	94.4
GDP	US\$ bn	16.3	28.7	44.3	63.6	91.3
Import demand (goods, FOB)	US\$ bn	5.9	10.6	28.4	51.4	69.3
Import demand (services, FOB)	US\$ bn	1.5	3.0	4.7	7.5	9.8
Inward FDI (new projects only)	US\$ bn	2.4	1.4	2.0	2.5	3.5
Inward FDI per head	US\$	-	18.3	23.6	28.3	37.2
Personal disposable income	US\$ bn	11.3	18.0	25.3	34.0	45.9
Personal disposable income (PPP)	US\$ bn	59.8	85.4	145.1	218.2	328.2
Real personal disposable income (at 1996 prices)	US\$ bn	14.6	19.2	29.5	40.0	56.0
Private consumption	US\$ bn	12.2	19.7	28.4	40.1	56.6

<sup>8</sup> This is based on an Economist Intelligence Unit report to the Asia New Zealand Foundation.

## II. Impacts of WTO membership on foreign investment to Viet Nam

There has been a consensus in positive assessment of Viet Nam economy after being a WTO member. Foreign investment, both direct and indirect, is expected to be in an upsurge within five years. 2006 has already seen a dramatic rise of FDI with about USD 6.5 billion in ten months, larger than USD 5.6 billion of the previous year.

WTO membership will have positive effects on inward foreign investment because it strengthens the economy's openness and expands the market size. In general, economies open to trade are attractive to foreign investors for two main reasons: the openness signals that the government has policies in place that welcome both trade and (by implication) competition, and it helps reassure investors that they can repatriate their profits. Joining the world trade bodies, Viet Nam not only commits itself to further reforms but also align its rules and regulations with international standards and practices. Foreign investors now enjoy equal footing in legal environment with domestic ones, while trade-related restrictions on investment removed.

As the country liberalizes its trade in goods and services, there are new opportunities for exporting, import-substituting and service sectors. With lower tariff barriers, the cost of doing business in Viet Nam will be lower than it used to be, which will help boost the competitiveness of local production. The newly formed and booming service sector are also open to foreign service providers, who usually come in the form of foreign investment – i.e. setting up branches or affiliates etc.

"I expected Vietnam will be the fastest growing country in the next 10 years, far more than anywhere else in ASEAN," said Spencer White - Merrill Lynch strategists - on post-WTO opportunities.

With regards to market size, with its WTO membership and further liberalization efforts like the AFTA with ASEAN countries and possible FTAs, the Viet Nam market is global market. Moreover, its domestic market is also expanding rapidly, at an annual growth of 20 percent in consumption of the population of 82 million<sup>9</sup>. This will encourage higher levels of domestic investment and savings, which will help the economy to gain sustained momentum for growth and attract more foreign investment.

Such bright prospects for growth in general and for foreign investment in particular might be affected by red tapes, which has been identified as one of the hindrances to business conduciveness. However, the government has committed to further economic and administrative reforms to make the economy more attractive and has gained investors' confidence. To the investors, Viet Nam's WTO official

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<sup>9</sup> "Buy Vietnam - The emerging frontier of ASEAN", Merrill Lynch Feb 2006 Report.

accession would be a historic celebration, but not the most decisive factor in their confidence in the country's economic outlook. WTO membership can be a boost for Viet Nam and just one final post on the road to integration in the world economy. "The country has done many things along the way, especially in terms of reforms and investment. Vietnam's WTO entry is a good marker, but at the same time, it is just a marker," said Sin Foong Wong, country manager of the International Finance Corporation (IFC) under the World Bank Group. A procession of investment is coming.

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## PRESS REVIEW

### WHAT WE HAVE HEARD

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With the announcement of WTO working party that “Vietnam had reached the conclusion that Vietnam (should) be invited to accede to the Marrakech Agreement establishing the WTO”, Vietnam is set to be the 150<sup>th</sup> member of the world biggest trade club. This topic has been taken onto headlines by international press.

With the headlines “Vietnam has hailed imminent WTO accession”, AFP introduces Vietnam has wrapped-up membership talks and is finally poised to join the World Trade Organization (WTO), signaling its emergence as a significant regional player shortly before it hosts a summit of Asia-Pacific leaders. As Reuters comments, this success has lifted the last major hurdle to entry after 12 years of tough negotiations with which the United States praised Hanoi's "courage" in the marathon talks. Reuters also quotes a U.S. diplomat William Tagliani saying that Vietnam's desire to join the WTO is a vote of confidence in the WTO and their membership will be an important addition to the organization.

Foreign newspapers also praise Vietnam on its economic achievements. As AP cites, Vietnam is Asia's best-performing economy after China, and the Asian Development Bank last month projected its economy would expand by 7.8 percent this year. Vietnamese membership would leave Russia, Iran and Ukraine as the three biggest countries that have not yet joined the WTO. Financial Times of London sees this from a different angle, Vietnam's exports have grown by leaps and bounds, despite restrictions such as US anti-dumping duties on catfish imposed three years ago and a recent decision by the European Union to impose duties on Vietnamese and Chinese shoes.

What Vietnam would get and lose is also in the interests of foreign journalists. As in The New York Times, the agreement on joining WTO requires Vietnam to reduce or repeal many import duties, eliminate a long list of textile industry subsidies and allow foreign banks to incorporate wholly owned subsidiaries in Vietnam beginning April 1. In exchange, quotas on Vietnam's garment exports will be lifted, and Vietnam will gain the right to challenge foreign countries' trade barriers before WTO tribunals in Geneva.

Didia Lauras in the article “Vietnam wraps-up WTO talks, poised for accession” on **AFP** points out that WTO membership is a chance for Vietnam to present itself to the world. The chance as a WTO member, according to The New York Times, Financial Times, Reuters and other newspapers, is that Vietnam would benefit

from the removal of quotas that limit textile exports to Europe and the United States. Quotas on Vietnam's garment exports will be lifted, and Vietnam will gain the right to challenge foreign countries' trade barriers before WTO tribunals in Geneva. Moreover, WTO membership should encourage more foreign companies to invest in Vietnam, create new jobs and increase the incomes of its people beyond the current average of about \$620 per head, according to **BBC News**.

On the other hand, international pressmen also show concerns to potential challenges facing Vietnam as a WTO member. As **AP** indicates, while Vietnam's competitive clothing manufacturers will benefit from fewer restrictions on their exports to the US and Europe, other sectors in the economy will face stiffer competition from foreign suppliers and the removal of many government subsidies, putting pressure on them to raise their standards without government protection. Moreover, according to **AFP**, as a WTO member, Vietnam's vital textile, rice and coffee exporters will be protected by the organization's rules from any arbitrary decisions by other countries to block imports they see as threatening their domestic producers.

Author Bill Hayton from **BBC News** has analyzed in details the "Challenges for Vietnam's economy" after holding WTO membership, focusing in development inequality. With WTO, Vietnam has got the chance to develop its economy but increasingly development is widening income differences between rich and poor and particularly between people living in rural and urban areas. And there's resentment that some of the richest people have made their money through connections or questionable deals. The problem Vietnam faces is that joining the WTO - and speeding up the pace of its economic development is likely to increase urban-rural inequality - at least in the short term. And that, warn several economic observers in Vietnam, is likely to lead to more dissent. WTO membership is going to bring opportunities to Vietnam but also challenges what its political system has not had to face so far. At some points Vietnam will face a choice about whether the best way to deal with them is to pursue greater openness or ever-tighter control.

For **The New York Times**, Keith Bradsher mentions the topic from the question who would benefit most after Vietnam becomes the official member of the body. And he finds that Asian and European companies are likely to be the big winners from Vietnam's entry into the World Trade Organization. Because the United States, Europe and other trading powers have driven an even tougher deal with Vietnam than they did before China joined the WTO in 2001, the changes in Vietnam are likely to be even greater.

He shows the examples of Prudential, the British insurer with the rapid opening of Vietnam's markets. Eight years after receiving the first license for a foreign company to offer life insurance in the country since the end of the Vietnam War, Prudential has already captured 41 percent of the life insurance market. That

compares with 38 percent for Bao Viet, the state-owned life insurer, 11 percent for Manulife and 6 percent for American Insurance Group. Moreover, other examples have proved convincingly. LaFarge Groupe of France, the world's largest cement company, has built a state-of-the-art cement-grinding operation near Ho Chi Minh City, the country's largest municipal market for cement. The German company Metro dominates retailing with a chain of eight immense warehouse stores that sell to small stores across the country while Wal- Mart Stores has yet to open its first outlet.

Vietnam passed an investment law this year guaranteeing foreign-owned companies equal treatment with domestic companies. But with WTO membership, some of the biggest changes will start coming next April 1 - the date that Vietnam has accepted in WTO negotiations for allowing foreign banks to set up 100 percent foreign-owned subsidiaries. Vietnam is going further than China, which has not accepted fully foreign-owned banks, limiting foreign institutions to minority stakes in existing banks and to the opening of a handful of foreign-controlled branches. With nearly double-digit economic growth and six million bank accounts held by its 84 million people, Vietnam is one of the world's great untapped banking markets.

Whatever being said, WTO accession is a very encouraging sign as it last the 12 – year process of taking on "extensive and far-reaching commitments" to open markets and economic reforms (as Trade Minister Truong Dinh Tuyen said). It becomes more meaningful when coming just before Hanoi summit of the Asia-Pacific Economic Cooperation (APEC), a body which includes the United States, China, Russia and Japan, which will put regional leaders in a position to treat Vietnam with the new status of being afforded to WTO members.

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