
SUMMARY

Economic Environment

1. Political and economic reforms (*Doi Moi*) have transformed Viet Nam from one of the poorest countries in the world to a lower middle-income country, and from a centrally planned economy into a more market-oriented economy through gradual integration into the global trading and investment system. Trade and foreign direct investment liberalization have been integral parts of the structural reforms that contributed to improved competitiveness and thus export-led growth. Despite Viet Nam's extraordinarily rapid economic development, its international competitiveness seems to have come under threat in recent years. More specifically, notwithstanding rising labour productivity, the contribution of total factor productivity to the growth of Viet Nam's factor-driven economy appears to have collapsed.

2. Since the launch of *Doi Moi* and until its WTO accession Viet Nam's growth rates were high owing mainly to rising investment and vigorous exports. Viet Nam grew at an annual average rate of 6.3% (2007-12), albeit trending slowly downward for the last 5-6 years. Growth has been driven equally by the expansion of the export sector and strong domestic investment, and was supported by a generous economic stimulus package in 2009, while the recent slowdown has, *inter alia*, been the outcome of the slow pace of structural reforms that impeded TFP growth, the global financial crisis, and tighter macroeconomic policies adopted in 2011. Despite recent macroeconomic instability involving, *inter alia*, a sharp rise and subsequent drop in inflation whose latest bouts were in 2008 (23%) and 2011 (18.6%), official unemployment remains low.

3. Monetary policy is set on the basis of a balance between controlling inflation and supporting sustainable economic growth. As from 2011, controlling inflation and stabilizing the macroeconomy became the priority, and direct rather than indirect policy tools were used to ensure the attainment of macroeconomic objectives. In recent years, the central bank, under government oversight, has devalued the national currency at least seven times, improving export competitiveness, and narrowed its trading band. Following a peak fiscal deficit in 2009 (7.2% of GDP) reflecting the impact of the stimulus package, by 2011 the deficit had been gradually brought down to its 2007 level (2.5% of GDP) due largely to higher tax revenue collection, and a significant reduction in public investment spending.

4. Viet Nam has significantly narrowed its large merchandise trade and current account deficits, and achieved surpluses since 2011 (current account) and 2012 (trade account). Since 2008, foreign exchange reserves have dropped significantly, due to the impact of the global economic crisis, but in 2012 they rose and in February 2013 they stood at US\$28.6 billion (about 3 months of imports). Viet Nam's historically low external debt position rose from 29.8% of GDP (2008) to 41.5% (2011), due to increased demand for capital related to the country's industrialization and modernization.

5. The economy is strongly outward oriented, with trade in goods and services accounting for 171.5% of GDP. A considerable proportion of Viet Nam's foreign trade is increasingly intra-regional (Asia-Pacific); its labour-intensive and low value-added exports are relatively well diversified.

6. Following its WTO accession, Viet Nam experienced a surge in foreign direct investment. FDI inflows and the total value of licensed projects peaked in 2008 but the latter declined as a result of investors' worries, while FDI outflows grew five-fold between 2007 and 2011. Nevertheless, the country remains an attractive destination for foreign investors and has long-term growth potential. The contribution of foreign-invested enterprises to GDP, employment, and exports as well as product and market diversification have been noteworthy, although state involvement in the economy in certain activities remains relatively high, albeit declining.

7. Viet Nam went a long way in equalizing the treatment accorded to Vietnamese and foreign investors with the promulgation of its enterprise and investment laws in 2005. However, some differences remain and may lead to differing interpretations, particularly when a foreign investor acquires a locally owned business. The establishment of a one stop shop system for business registration and investment licensing is a long-standing issue, and could help to address occasional allegations of inconsistent and uncoordinated implementation of laws and regulations by the responsible government agencies. Private ownership of land is not permitted in Viet Nam, but land

may be leased on long-term agreements. Private-public partnership projects have been implemented on a pilot basis since early 2011 to stimulate private investment in infrastructure.

Trade Policy Framework

8. Viet Nam's hierarchy of legal documents comprises 12 levels, determined by the type of legislation and the issuing institution. Legislation issued by a lower state organ must be consistent with the legal documents of higher state organs. However, it is not always evident whether new legislation abrogates or supplements existing legislation. Ministries continue to rely on official letters, notices, or guidelines to set policy and clarify implementation issues, although the Law on promulgation of Legal Documents stipulates that such communications have no legal or binding effect.

9. The Ministry of Industry and Trade plays a leading role on international trade issues, although many other ministries and agencies also deal with trade-related matters. The National Committee for International Economic Co-operation serves as a coordinating body between the ministries and line agencies. Since Viet Nam became a WTO Member, some 130 notifications have been submitted to the Secretariat in a number of areas. Notable gaps include agricultural and industrial subsidies, for which data remain unavailable (since 2007), and state trading, where Viet Nam has provided no information despite the importance of the public sector in its economy. Concerns have been raised in the Committee on Import Licensing regarding the timeliness and completeness of information provided by Viet Nam.

10. Viet Nam joined ASEAN in 1995 and is thus part of its comprehensive framework for trade in goods, services, and investment. Viet Nam pursues trade liberalization in Asia and the Pacific together with its ASEAN partners complemented by additional bilateral initiatives. Viet Nam has taken advantage of these agreements to boost exports of competitive product lines, e.g. in agriculture, fisheries, textiles, footwear, and furniture. Viet Nam has been a full participant in the negotiations on a Trans-Pacific Partnership Agreement since November 2010, and is negotiating bilateral FTAs with the EU, the members of EFTA, the customs union of Belarus, Kazakhstan, and the Russian Federation, and Korea.

Trade Policy Developments

11. Viet Nam bound the entire tariff schedule in the context of its WTO accession, and mostly in the 0-40% range. The simple average MFN tariff has declined significantly, from 18.5% in 2007 to 10.4% in 2013, as Viet Nam has been phasing-in its tariff concessions. However, differences between bound and applied rates have left some scope for flexibility, and Viet Nam has made use of this, *inter alia*, to reduce fluctuations in domestic energy prices, and to provide additional protection to selected industries since 2008. Tariff rate quotas regulate imports of eggs, sugar, unmanufactured tobacco and tobacco refuse, and salt.

12. A special consumption tax is levied on certain goods and services including cigarettes, alcoholic beverages, motor vehicles, motor cycles, and golf and gambling services. Tax rates were equalized on imported and domestically produced alcoholic beverages as a result of Viet Nam's WTO accession. Nevertheless, valuation differences in the tax base may provide an advantage to local producers. Viet Nam introduced an environmental protection tax on five product categories with effect from 1 January 2012, in part replacing earlier surcharges on various fuels. Value-added tax, which is levied at a general rate of 10%, constitutes almost one third of the Government's total tax revenue, while trade taxes seem to account for one tenth.

13. As for non-tariff measures, Viet Nam prohibits the importation of goods generally considered harmful to human health and safety, or national security. Import restrictions may be applied to comply with international treaties and conventions to which Viet Nam is a party. "Line management", i.e. licences issued by the Ministry of Industry and Trade for imports regulated by other ministries, is applied to the importation of various goods. According to the authorities, the system includes automatic and non-automatic licensing procedures.

14. In 2008, Viet Nam introduced what it considers to be automatic licensing for a wide range of consumer products and agricultural items. The product coverage was extended in 2010, reduced somewhat in 2011, and temporarily suspended as from September 2012. However, certain steel

products are still affected by this measure. In April 2010, the Ministry of Industry and Trade issued a long list of "non-essential" imported commodities and consumer goods not encouraged for import, and the State Bank of Viet Nam discourages the granting of loans by credit institutions to finance imports of such items. A requirement to channel all imports of wines, spirits, cosmetics, and mobile phones through three seaports only was in effect from May 2011 until the end of 2012.

15. Although Viet Nam has legislation and institutions to conduct anti-dumping and countervailing investigations, no such action has been taken. An investigation into possible safeguard measures on imported float glass was terminated with no safeguards imposed in February 2010. In an ongoing investigation on certain imported vegetable oils, the imposition of a provisional safeguard measure (5% additional duty) was announced in May 2013.

16. Standards and technical regulations are drawn up by technical committees with support from the Directorate for Standards, Metrology and Quality (STAMEQ), under the Ministry of Science and Technology. STAMEQ, which is the WTO TBT enquiry point, also represents Viet Nam in a number of international and regional standards organizations and its subsidiary bodies are responsible for metrology, conformity assessment, quality assurance, and certification. Accreditation of laboratories is the responsibility of the Bureau of Accreditation, also under the Ministry but not part of STAMEQ. At the end of 2012, Viet Nam had 6,800 national standards, 40% of which were harmonized with international, regional, or foreign standards, and 116 technical committees with plans to complete 813 standards in 2013.

17. A number of government ministries are responsible for sanitary and phytosanitary measures. The Ministry of Agriculture and Rural Development is the WTO SPS enquiry point. As is the case for standards and technical regulations, the legislation for SPS measures comprises a number of ordinances, laws, decisions, decrees, and circulars. The measures generally correspond to standards established by the OIE, Codex Alimentarius, and the IPPC; the official objective is to harmonize them fully, although no date has been set.

18. Among measures affecting exports, Viet Nam levies export duties on certain products and royalties on certain natural resources. Export duties on scrap metal have been reduced by approximately 50% since 2006, in accordance with Viet Nam's WTO commitments. Numerous other changes since 2006, have added or deleted items, and increased or eliminated tax rates. Some goods are subject to export controls. The Ministry of Industry and Trade does not appear to have applied legal provisions to regulate or monitor exports through automatic licences. However, other measures imposed by the authorities include quality standards and bans on exports of certain minerals.

19. Viet Nam provides subsidies, mainly in the form of tax incentives, for example to encourage research and development; the development of infrastructure of special importance; to assist enterprises involved in education, training, and health care; and the establishment of businesses in geographically disadvantaged areas. The Viet Nam Development Bank (VDB), finances infrastructure as well as business development. An interest rate support programme is available. Support for trade promotion activities is modest and, according to the authorities, well below the level requested by Vietnamese businesses.

20. Nearly 300 industrial parks and export-processing zones account for a significant share of Viet Nam's industrial output, investment, exports, and employment. Although the performance of the industrial parks is highly uneven and the average occupancy rate has been falling in recent times, many new parks and zones are on the drawing board.

21. Although Viet Nam has made no formal commitment to join the Agreement on Government Procurement, it currently has observer status. Under existing legislation, preferences are available to local suppliers in international tenders, and imports are discouraged when machinery, equipment, and materials used in the procurement can be produced domestically.

22. Viet Nam began the process of reforming its state-owned enterprises more than 20 years ago. Many enterprises have been privatized and further divestment of state holdings is foreseen. Nevertheless, the state-owned sector continues to account for 38% of GDP, and the fundamental approach to state ownership is a mixture of renovation, preservation, and expansion. In 2005, Viet Nam began establishing pilot State Economic Groups, i.e. loose alliances of SOEs with similar

business interests. The financial difficulties of one of these groups, exposed in 2010, revealed a number of structural weaknesses in large Vietnamese SOEs including complex corporate structures, lack of effective oversight, and expansion well beyond the stated core business activities. A Steering Committee for the restructuring of SOEs was set up in 2011. Viet Nam has also begun the process of legally separating state ownership rights from the State's regulatory functions.

23. Intellectual property protection is the focus of attention of Viet Nam and many of its trading partners. Viet Nam is party to a number of WIPO-related treaties and continues to integrate the IP-innovation-trade triangle in international and regional fora. Viet Nam's legislation was reviewed by the Council for TRIPS in 2008. The enforcement system in Viet Nam is highly complex. Regulation is provided through various legal and administrative texts, and the responsibilities for IPR enforcement are shared among a considerable number of central and local authorities. Issues such as counterfeited and pirated goods, and cable and satellite signal theft, remain matters of concern.

Sectoral Policy Developments

24. Production and trade of agricultural products has increased over the past few years and Viet Nam is now an important producer and exporter of several agricultural products, including rice, coffee, and cashew nuts with a large surplus in trade in agricultural products. Imports have also increased considerably, particularly of inputs such as animal-feed and cotton. Although state-owned enterprises do not play a major role in production, several are involved in processing and trade, as well as supplying inputs to farmers. Total public spending on agriculture was about 5-6% of the total state budget in 2010, which would equate to roughly 6% to 7% of the total value of agricultural production. The focus of government policy is on increasing productivity and reducing risk exposure through investment in infrastructure, research and development, better extension services, and easier access to credit.

25. Viet Nam has a large trade surplus in fisheries products as both marine catch and aquaculture production and exports have increased over the past few years, particularly aquaculture, as the value of production nearly doubled from 2005 to 2011. The fisheries sector is dominated by small-scale production for both the aquaculture and catch subsectors. Public policy aims to complete a database on aquatic resources, to increase production of aquaculture, to improve sustainability through better resource management, and to enforce compliance with laws and regulations on sustainable fishing.

26. In mining, where foreign-invested enterprises account for the largest part of total output, efforts have been made to promote sustainable development and ensure that mined products are used in a cost-effective and efficient way. Legislative changes have affected, *inter alia*, the granting of mining licences and increased royalties. Overall tariff protection in the sector remains relatively low; average applied MFN tariff on mineral fuels and oils dropped considerably while the rate for ores, slag and ash increased slightly. Recently export prohibitions and controls on several mining products were reinforced and taxes raised on others to ensure adequate domestic supplies, increased value-added and/or vital tax revenue.

27. Efforts have been made to promote renewable energy sources as well as energy saving and efficiency. The energy sector remains dominated by cross-owned state enterprises, and characterized by the loose separation between operational, regulatory, and ownership functions. Efforts are being made to address the country's limited oil-refining capacity. Retail petrol and oil prices are adjusted in accordance with flexibly applied market-based mechanisms so that they are now closer to international market prices. Natural gas prices along with wholesale electricity prices are kept generally low. Despite the ongoing introduction of a competitive electricity market, low electricity purchase prices by the state-owned monopoly discourage investment in much needed new power-plant capacity. The current pricing structure does not allow utilities to cover the full cost of producing and distributing electricity, and electricity rates for low-income households and irrigation are cross-subsidized by higher rates for industry and commerce.

28. The contribution of manufacturing to GDP has dropped steadily since 2007, while its share in employment has risen. Average applied MFN tariff protection for industrial products has been cut by almost half. Nevertheless, tariffs on apparel and clothing, footwear, ceramic products,

automobiles and motorcycles remain relatively high compared to those on other manufactures. Domestic support to manufacturing activities is provided in the form of tax and non-tax incentives as well as government-procurement practices, and a buy-locally campaign entitled "Vietnamese people use Vietnamese products". In addition to border protection, industry-specific domestic support was adopted to boost "support industries", an important element in increasing local content in some key sectors, and the steel industry while assistance to the automotive sector was under consideration. Efforts were made to, *inter alia*, promote patient safety and sustainable access to pharmaceutical and biological products.

29. Services, the largest sector of the economy, have been further liberalized as a result of Viet Nam's comprehensive WTO accession undertakings. Consequently, its GATS+ commitments in recent regional trade agreements have been relatively limited. Labour productivity, although higher than the average in the rest of the economy, grew at a slower pace than in other sectors. Certain activities are subject to ceilings on foreign ownership. State involvement in major services subsectors with high market concentration is significant in certain cases. Despite successes, the banking sector has been exposed to unusually rapid growth in lending, but action is being taken to address safety and soundness issues. Great strides have been made in upgrading the telecommunications systems, improving access, and affordability of services; a pro-competition regulatory regime was passed although subject to certain limitations. Screen quotas were recently passed for projection of foreign movies in cinemas, while certain restrictive conditions tied to film imports were removed. Transport infrastructure deficiencies and increasingly higher fees and surcharges on foreign firms dominating Viet Nam's overseas shipping market, have seemingly affected export competitiveness. Moreover, the presence of foreign vessels operating in the domestic container-shipping market was temporarily restricted in June 2012. Efforts have been made to address ports competitiveness by reducing their fees. Reduced airport charges and fees were offered to encourage airlines to increase their flight frequencies. Despite Viet Nam's openness to fully foreign-owned businesses, an economic needs test is compulsory in order for any retail outlet to be established beyond the first one.

Outlook

30. Although many of Viet Nam's economic fundamentals remain strong and much progress has been made in its economic transformation, significant weaknesses persist. As these weaknesses pose downside risks to Viet Nam's immediate economic outlook, action is being taken to address them. Equitable (inclusive) and sustainable growth depends on the Government implementing far-reaching structural reforms in a timely manner, especially those aimed at addressing systemic risks faced by the financial sector, improving the operational framework of trade-related sectors (e.g. electricity supply, transport infrastructure), and intensifying SOE restructuring. These and related reforms, including regulatory reforms and trade liberalization in certain sectors, would improve resource allocation, thereby raising TFP and consequently competitiveness, as well as increasing the flexibility of the economy and its ability to attract foreign investment. Therefore, a key challenge for Viet Nam is to prioritize trade and trade-related policies conducive to the attainment of these objectives within a stable, transparent, and predictable policy framework.