CHAPTER III

3. The Impact of the World Trade Organization (WTO) Regime on Foreign Direct Investment (FDI) Flows to Vietnam:

3.1 Introduction:

Lots of Vietnam’s economic indicators prove that attracting foreign direct investment (FDI) capital with conductive policies has been a key to succeed in the process of industrialization, modernization, and economic development. FDI has a positive impact on host country through generating new financial, managerial, technological resources on the one hand, and increasing employment, exports on the other hand. Moreover, FDI may also have the linkage effects by transferring know-how, managerial skill, and advanced technology to domestic firms, promoting the efficiency of the economy. Vietnam’s accession to the World Trade Organization (WTO) is regarded as a milestone for the much-heralded FDI investment boom period. After just 8 years of accession (2007-2014), Vietnam attracted about 143,950.3 million USD of FDI capital. This raises the research questions: What are the main trends and determinants of such a large amount of FDI capital flowing to the country after WTO accession? Does the WTO accession really induce the FDI flows to Vietnam? We know much about the function of the WTO, one of which is to ensure that trade flows as smoothly, predictably, and freely as possible. This multilateral trading system is also an attempt by governments to make the business environment stable and predictable. Moreover, this institution makes sure that the conditions for trade are stable, predictable, and transparent as well. However, we know less about its impact on the country members. Vietnam offers a particularly interesting case study for several reasons. First, there are plenty of previous studies focusing on the impact of the WTO on trade flow of all its memberships (e.g., Rose, 2004; Subramanian & Wei, 2007; Tomz, Goldstein, & Rivers, 2007), while there are few studies focusing on the impact of the WTO on FDI flows to a specific case of the developing country since its establishment in 1995 (e.g., Qin, 2007; Bussea & Gröning, 2011; Pham, 2011). Second, among many developing countries, Vietnam has maintained a high level of economic growth and also attracted a considerable number of FDI capital since the 1990s. Third, an understanding of the impact of the WTO accession on Vietnam’s FDI attraction will have important implication for the design of supporting polices to attract more FDI flows in the post-WTO accession. Fourth, quantifying the effect of a multilateral trading system on FDI flows seems to be a worthy objective and possibility. From this approach, the author outlines a gravity model, employs descriptive, quantitative methods, and applies them to recent data set by Vietnam’s authorities.
(the General Statistics Office (GSO), the Ministry of Industry and Trade (MIT), the Ministry of Planning and Investment (MPI), and international organizations (the Asian Development Bank (ADB), the IMF, the World Bank (WB), and the WTO) of 18 Vietnam’s major counterparts in FDI covering the period from 1995 to 2011 to reexamine the impact of WTO accession on FDI flows to the country recently.

3.2 The Legal Framework and the FDI Policy of Vietnam:

The Legal Framework:

Vietnam has emerged as one of the great successful countries in terms of economic development in Asia. The economy has posted annual growth of around 7% in over two decades of Renovation since 1986. The country has also prospered since its accession to the WTO in 2007. Vietnam joined the group of medium-income countries in 2010 for the first time. These achievements resulted from three main factors. First, it has benefited from internal restructuring program focusing on the supply side which has led to the extension of investment and output making a transition from agriculture base toward manufacturing and services. Second, Vietnam’s restructuring program aims in the strategy that promotes the foreign resources, i.e., FDI and Official Development Assistance (ODA), to expand the investment and speed up the economic reform. Third, Vietnam has been increasing the integration to the dynamic Asian-Pacific region. The latter two combined factors could be the so-called “outward-looking policy” (Tran, 2004). Due to the success generated by regional neighbor countries, the role of FDI has been recognized and emphasized since the early 1990s. In the context of Renovation, to attract the foreign resources, the Foreign Investment Law was issued in 1987. Investment activities in Vietnam were regulated by four main legal instruments, including the 1999 Enterprise Law, Law on State Enterprises, the Law on Domestic Investment Promotion, and the Foreign Investment Law. Nonetheless, in the late 1990s, foreign enterprises were imposed many regulations and requirements (e.g., achieve a certain localization rate, export with certain proportion, self-balance the foreign currency from exports to meet the demand of imports, and so on) in investment license. These regulations violate the provisions of Article III (National Treatment) and XI (Quantitative Restriction) of the General Agreement on Tariffs and Trade (GATT) 1994. Upon the claims of foreign investors and to qualify the provisions of the WTO, the successor of the GATT, the Investment Law 2005 (Luat Dau tu 2005) and the Enterprises Law 2005 (Luat Doanh nghiep 2005) were promulgated.

3.3 The Impact of the WTO Regime on FDI Flows to Vietnam:

(1) Ensuring the capital and assets: The legitimate investment capital and assets of investors shall neither be nationalized nor confiscated by administrative measures (except in absolutely necessary cases for reasons of national defense, security, and interests when there would be specific regulations);

(2) Protection of intellectual property: The state shall protect the intellectual property rights in the activities of investment, ensuring the legitimate interests of investors in technology transfer in Vietnam in accordance with the Law of
Intelectual Property and other legal provisions involved;

(3) Opening markets and trade-related investment: In line with the provisions in international treaties of which Vietnam is a member;

(4) Transfer of capital and assets abroad: Foreign investors are able to remit abroad the profits, capital, fund, and assets lawfully owned by investors after making full financial obligations to the State of Vietnam;

(5) Applying consistent prices, fees, and charges: In the course of investment activities in Vietnam, investors are subjected to uniformly applied rates, fees, and charges for goods and services controlled by the state;

(6) Ensuring investment in case of changes in the laws and policies (Invenco, 2012).

3.3.1 Fields of investment preferences:

FDI is an important resource in the total social investment capital in Vietnam. The Government of Vietnam has been furthering the attraction to the capital flow of FDI, improving the quality and effectiveness of the attraction and use of FDI. Vietnam prioritizes the FDI attraction in the following sectors and industries:

(1) Production of new materials, new energy; production of hi-tech products, biotechnology, information technology, and manufacturing engineering; use of modern technology and science; and ecological environment production;

(2) Growing and processing agricultural, forestry, and aquatic products; producing consumer goods for domestic demand and exports;

(3) Building and developing the infrastructure system, such as transport, seaports, electricity and water supplies, construction of infrastructure for industrial zones, urban areas, etc.; other important and sizeable projects to create a breakthrough in the infrastructure system;

(4) Projects to develop human resources related to education, training and health, and sports; labor-intensive projects;

(5) Projects of investment in industrial areas, export-processing zones, hi-tech zones, and economic zones; investment in areas of socio-economic disadvantages (Invenco, 2012).

3.3.2 Investment Preferences:

In order to attract investment into the sectors and regions with development priority in each period, the Government of Vietnam shall apply a series of incentives for investors and investment projects including:

(1) Tax preferences:
(a) Investors with projects entitled to investment preferences under the law shall enjoy the preferential tax rates, the duration of preferential tax rates, the duration of tax reduction or exemption in accordance with the tax legislations;

(b) The corporate income tax: The preferential tax rates of 10% and 20% (the normal rate is 25%) shall be applied from 15 to 30 years (some fields can enjoy project life-long preferences). In addition, investors may be exempt from corporate income tax up to four years and 50% of corporate income tax up to nine years after the expiration of corporate income tax exemption;

(c) The investors shall enjoy tax preferences for income earned from capital contribution, purchase of shares in economic organizations in accordance with the tax legislation after the economic organizations have paid enough corporate income tax;

(d) Investors are exempt from import duties for equipment, materials, transport vehicles, and other goods for the implementation of investment projects in Vietnam in accordance with the law on import and export tax;

(e) Income from activities of technology transfer for projects subjected to investment incentives is exempt from income tax under the provisions of the tax law.

(2) **Loss shifting:**

Investors after finalizing their tax payment with the tax authorities suffer from losses; such losses would be transferred to the following year and shall be deducted from taxable corporate income in accordance with the corporate income tax law. The duration of loss shifting must not exceed five years.

(3) **Depreciation of fixed assets:**

Investment projects in the field or geographical area of investment incentives and business projects with efficiency are subjected to accelerated depreciation for fixed assets; the maximum depreciation rates can be twice the rate under the depreciation of fixed assets.

(4) **Preferences for land use:**

Investors in the fields and areas of investment incentives are subjected to exemption or reduction of land rent, land use fees, and land use tax in accordance with the land law and the tax law.

(5) Incentives for investors in industrial parks, export-processing zones, hi-tech parks, and economic zones: Based on the socio-economic development conditions in each period and the principles stipulated in this law, the government shall give preferential treatment to investors in industrial parks, export-processing zones, hi-tech parks, and economic zones (Invenco, 2012)
3.3.3 FDI Registered Capital in Vietnam:

Figure 1 below shows the overall trends of FDI inflows into Vietnam by the number of projects, the amount of registered and implemented capital during 1988-2011. Generally, both the number of new licensed projects and registered capital soared rapidly in the first half of the years, and then declined dramatically in second half of the 1990s. FDI picked up in the early years of the new millennium, and then suddenly rocketed after Vietnam joined the WTO. Specifically, from 37 projects and 341.7 million USD registered capital in 1988, these figures reached at 372 projects and 10,164.1 million USD in 1996. The first half of the 1990s is usually referred to as the first “investment boom” period in attracting FDI of Vietnam. In duration of 1988-1995, Vietnam attracted 1,620 investment projects and 19,265.2 million USD registered capital. Compared with the increase of registered capital, implemented capital was far lower at only around 6,517.8 million USD.

Figure 2: Pre-WTO accessions

![Graph showing FDI registered capital in Vietnam during the period of 1988-2011 (million USD). Source: 2012 GSO statistics](image)


To qualify the provisions in the Trade-Related Investment Measures (TRIMs) Agreement and related agreements like the Subsidies and Countervailing Measures (SCM) Agreement, etc. of the WTO, a large number of laws, sub-law documents have been supplemented, amended, and issued to facilitate the institutional reform (Investment Law 2005, Enterprise Law 2005, etc.). The Master Plan of Administrative Procedure Simplification in the fields of state management for the period of 2007-2011 (the so-called Project 30) has been carried out comprehensively. The Government of Vietnam has determined to implement the administrative reform program of which the reform of administrative procedures is a breakthrough to improve the efficiency of state management, effectively preventing all the acts of corruption as the key tasks in the socio-economic management of the country. The government is steering the
review and sum-up of the obstacles in the administrative procedures at all stages and levels in the direction of
transparency, simplicity, and convenience for citizens and businesses, especially in the areas of land, construction,
investment, planning, business registration, construction of one-door mechanism, and the pilot model of one-door
mechanism in administrative procedures. Also, the government furthers decentralization of management of investment,
land, and state budgets for ministries, provinces coupled with the enhancement of the mode of service, training and
retraining staff and public officials (Invenco, 2012). As a result, we witnessed the “abrupt increase” of FDI inflows in
both registered capital and number of new projects in duration of 2007-2014

3.4 FDI by Regions in Vietnam:

The FDI inflows into Vietnam by regions during 1988-2011, in the phase of 1988-2006, fdi inflows
have passed over the provinces and cities in the whole country. geographical location in this duration was
characterized by a concentration on two regions, including big/excited economic cities such as ho chi
minh city, ba ria-vung tau, dong nai, binh duong in southeast, and ha noi, hai phong, hai duong, hung yen,
and vinh phuc in red river delta. The two regions covered around 80% in both total registered capital and
total projects.

Mentioning regional FDI in Vietnam after its WTO accession, like in the previous duration, FDI inflows
tended to locate in big/excited economic cities in red river delta and the southeast of Vietnam. in duration
of 2007-2014 , red river delta and the southeast of Vietnam attracted 82.37% of total projects and 61.76%
of total registered capital. However, it must be noted that north central coast (including thanh hoa, nghe
an, ha tinh, quang binh, quang tri, and hue) and south central coast (including da nang, quang nam,

3.4.1 FDI by Regions in Vietnam during 1988-2011:

Table:3.4  FDI by regions in Vietnam during 2007-2014 (post-WTO accession)

<table>
<thead>
<tr>
<th></th>
<th>Red River Delta</th>
<th>2,062</th>
<th>32.48</th>
<th>20,617.5</th>
<th>14.32</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>North East</td>
<td>191</td>
<td>3.01</td>
<td>4,312.1</td>
<td>2.99</td>
</tr>
<tr>
<td>3</td>
<td>North West</td>
<td>28</td>
<td>0.44</td>
<td>279.3</td>
<td>0.19</td>
</tr>
<tr>
<td>4</td>
<td>North Central Coast</td>
<td>126</td>
<td>1.98</td>
<td>18,051.2</td>
<td>12.54</td>
</tr>
<tr>
<td>5</td>
<td>South Central Coast</td>
<td>235</td>
<td>3.70</td>
<td>22,593.6</td>
<td>15.70</td>
</tr>
<tr>
<td>6</td>
<td>Central Highlands</td>
<td>67</td>
<td>1.06</td>
<td>500.6</td>
<td>0.35</td>
</tr>
<tr>
<td>7</td>
<td>Southeast</td>
<td>3,167</td>
<td>49.89</td>
<td>68,284.6</td>
<td>47.44</td>
</tr>
<tr>
<td>8</td>
<td>Mekong River Delta</td>
<td>455</td>
<td>7.17</td>
<td>8,636</td>
<td>6.00</td>
</tr>
</tbody>
</table>
The policies in attracting FDI inflows of the cities/provinces in these regions are usually better than that of compared with the others in terms of encouraging the foreign investors. Notably, Lei and Chen (2011) examined the location choice behavior of Taiwanese firms in Vietnam and China, concluding that: (1) Firms with stronger ownership advantages prefer to invest in more developed than less developed regions; (2) Firms occupying favorable positions in their network prefer to invest in more developed than less developed regions; (3) Firms with a high degree of networking prefer to invest in less developed than more developed regions; (4) Firms choose to invest in more developed than less developed regions to gain access to a large market; and (5) Firms with strong resource-seeking motives prefer to invest in more developed than less developed regions to access their resources. This is also consistent with the hypothesis of Paul Krugman on firm’s behavior that firms tend to locate in big cities to get the larger markets and the benefit resulting from “return to the scale” (larger scale promotes greater benefits) and motivating their “monopolistic competition” due to an intrinsic love of variety itself (Dinh, 2009).

3.4.2 The Gravity Model and the Analysis of the Empirical Estimation Results:

The gravity model in international economics, similar to other gravity models in social science, can be employed to predict bilateral trade or FDI flows based on the economic sizes (often using the gross domestic product (GDP) measurements, GDP per capita, gross national product (GNP), GNP per capita, and the distance between two partners). The model was first used by Tinbergen in 1962. It was given the name “gravity model” for its analogy with Newton Law of universal gravitation. The basic theoretical model for trade,

The model has also been used in international relations to evaluate the impact of treaties or alliances on trade, FDI flows, and it has been used to test the effectiveness of trade agreements and organizations, such as the North American Free Trade Agreement (NAFTA) or the WTO as well.

For the data, the empirical analysis presented in this paper is base on a panel data (mixed data) set over the period from 1995 to 2014 which involves 18 Vietnam’s major/stable FDI partners, including Australia, Belgium, Canada, China, France, Germany, Hong Kong, Japan, Malaysia, the Netherlands, the Philippines, the Russian Federation, Singapore, the Republic of Korea, Taiwan, Thailand, the UK, and the US. The 18 partners listed above are the crucial partners for FDI capital sources amounting around 80% of the total of Vietnam’s FDI inflows for the duration of 1995-2011. The data are obtained from different reliable resources such as Vietnam’s authorities (e.g., the GSO, the MIT, and the MPI) and international organizations (e.g., the ADB, the IMF, the United Nations Statistic Division (UNSD), the WB, and the WTO). To the special case, Taipei China (Taiwan), the figures are collected from the ADB and the World Economic

<table>
<thead>
<tr>
<th>9</th>
<th>Oil and gas</th>
<th>16</th>
<th>0.25</th>
<th>1,623</th>
<th>1.13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Errors</td>
<td>(+1)</td>
<td>0.02</td>
<td>0.02</td>
<td>(-0.66)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6,348</td>
<td>100</td>
<td>143,950.3</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Note. Source: Personal calculation from figures of 2012 GSO statistics.
Outlooks, October 2012, available on Knoema’s website. All nominal variables (the GDP, exports, imports, etc.) are expressed in constant prices (2005 price). The detailed description of those resources of the data is listed in the appendixes and references. The estimated results are presented in Table 4 using the econometrical software—Stata 11.

3.4.3 The GATT/WTO Rounds of Negotiation and Tariff Cuts:

The later four rounds, Annecy, Torquay, Geneva II, and Dillon, offered the modest of tariff cuts. The next three rounds of negotiation, Kennedy, Tokyo, and Uruguay, had brought much larger tariff reduction than ever before. Vietnam that is a late “comer” is not an exceptional case. To qualify the participant conditions, Vietnam has cut down thousands of tariff lines (around 10,600 tariff lines) in line with the framework committed to the WTO (average tariff rate will be reduced from 17.2% to 13.4% gradually up to 2015). A tariff reduction will always benefit imports of intermediary goods in the host country or imports of the final goods in the home country. Lower tariffs mean lower price. The lower price of the foreign imported goods in manufacturing (intermediary goods) and trade (final consumer goods) favors the stronger competitiveness and profit in the businesses, hence attracts foreign firms to come and invest in host country with a higher level of economic openness/liberalization like Vietnam. Economy that is open to trade is attractive to overseas investors for two main reasons: (1) The openness signals that the government has policies in place that welcome both trade and competition; and (2) It may help reassure investors that they can repatriate their profits. Thus, FDI can help foreign firms to re-allocate their production activities abroad. This allows them to benefit from the foreign investment incentive

Secondly, the overarching/main function of the WTO is not only to ensure that trade flows as smoothly, predictably, and freely as possible. This multilateral trading system is also an attempt by governments to make the business environment stable and predictable on the one hand23. And, it commits the policy stability, predictability, and good governance through membership of the WTO on the other hand.

Finally, the author discusses the possible impact of the various FTAs on FDI flows to the country. The estimated results show that the USBTA, ACFTA, and the AKFTA did not facilitate the FDI capital to the country. By contrast, only the JVEPA has motivated the FDI flows to Vietnam of about 96.44% (= EXP (0.6752) – 1). The AANZFTA and the AFTA have had a negative impact on FDI inflows as their negative significant coefficients. This could be explained that after signing the FTAs, ASEAN and Australia investors exported directly to Vietnam which is, now, free for import instead of investing in the host country to avoid the trade barriers (high taxes, technical barriers). In other words, FDI and export are substitute for this case.

3.4.4 Impacts of International Economic Integration on Vietnam’s Economy and Trade:

In order to release the research results and introduce goods import and export Policy for the period 2011 – 2020, with orientation towards 2030, approved by the Government’s Decision No. 2471/QĐ-TTg dated December 28th 2011, on April 10th 2012, The EU-Vietnam project MUTRAP III held a Workshop “Impacts of international economic integration on Vietnam’s economy and trade. Policy recommendations on goods import – export strategy for the period 2011-2020,
Market opening and international economic integration has put Vietnam’s economy right at the door of opportunities and challenges. This door takes Viet Nam’s enterprises to the opportunities of doing business with attractive markets such as the USA, the EU, China, Korea, Japan, etc. However, the process of economic integration, particularly since Vietnam joined the WTO and greater participation of free trade agreements (FTAs), also revealed more clearly the immanent weaknesses of the Vietnam’s economy. The current situation requires an extremely effective import-export strategy to improve efficiency of resource allocation, improve competitiveness of the economy and macroeconomic stability. It is more meaningful in the context of Vietnam’s innovation focusing on macroeconomic stability, growth paradigm shift towards quality and efficiency as outlined in the Strategy of Social - Economic Development in the period from 2011 to 2020.

In the framework of EU-Vietnam MUTRAP III, a group of experts including Mr. Truong Dinh Tuyen - former Minister of Commerce and other senior officials, economic experts in the specialized institutions of Vietnam has studied “Impacts of market opening access commitments under frameworks of Viet Nam’s WTO accession and free-trade-agreements (FTAs) on production and trade activities in Viet Nam and measures to improve Import-export management mechanism under Ministry of Trade and Industry during the period 2011-2015”.

The research focused on Viet Nam market opening commitments, analyzing the impact of international economic integration on growth, investment and trade, especially for the last 10 years, and also analyzing the goods import-export situation of Viet Nam. On that basis as well as the forecast for the coming years, the report proposed and put forward recommendations about Import-Export policies and management regime that Viet Nam needs to consider and implement in order to promote goods exports and reduce trade deficit in the period of 2011-2015, the target to 2020.

Speaking at opening session of the workshop, Deputy Minister of Industry and Trade – Nguyen Thanh Bien expressed the research result of expert group has contributed significantly to the formulation of goods import-export Strategy for the period 2011-2020, towards 2030 of the Government.

At the workshop, Mr. Truong Dinh Tuyen - former Minister of Commerce (team leader) presented a summary of research findings on market opening commitments in the WTO and free trade agreements, evolution of integration impacts on the economy and commercial activities in Vietnam and some policy recommendations for export development, restricting trade deficit for the period 2011-2015, target by 2020. The impacts were analyzed through investment policy, fiscal policy, monetary policy and trade policy. As far as the impact on economic growth is concerned, he claimed that the annual growth rate of the economy of our country gradually increased from 2001 until 2005 and stayed high, over 8%
until 2007. Remarkably, after Vietnam joined the WTO, foreign capital flows strongly poured into the economy and positively impacted on the economic growth of Vietnam. However, the immediate following global financial crisis negatively affected the economy and significantly reduced the growth rate.

As for the export growth, Mr. Tuyen pointed out two important factors: global trade growth and liberalization competitiveness improvement. Unlike export, import seems to have clearly greater growth since we joined the WTO. Mr. Tuyen analyzed that the increase of import, first of all, followed the increase in investment. In addition, imports of consumer goods "increased sharply" because of higher income plus the effect of income from rising assets together with the tariff reductions for some imported consumer goods.

Dr. Vo Tri Thanh, Vice President, Central Institute for Economic Management, delivered a presentation about the impact of economic integration on macro-economic balance, economic growth and commercial activities. He said, when the tariff barriers are left, the issues ASEAN enterprises will concern are: trade facilitation, investment facilitation and standard harmonization. According to Dr. Thanh, in 2012, Viet Nam finds it difficult to achieve export value of USD 100 billion as world consummation demand overall decreases, the price of many goods exported falls and domestic enterprises are facing to many difficulties.

Mr. Phan Van Chinh, Director General, Import-Export Department, MOIT, presented the assessment on implementation of goods import/export strategy for the period 2001-2010. Following the report, the achievements of this 10-year-strategy were goods export growth over the 2001-2010 strategic target; diversification of export commodity, export participants and export markets, etc… Also Mr. Chinh pointed out limitations and shortcomings of the 2001-2010 strategy as well as the lessons learnt for development of strategy for the next 10 years.

The workshop has attracted lots of attention of the participants. The discussion of the workshop was vibrant and contributed helpful recommendations on the action plan to implement the important Strategy of the Government.

3.5 Opportunities and Challenges for Vietnam in WTO:

It is imperative to explain the opportunities and challenges faced by Vietnam in its WTO accession. In principle, opportunities and challenges in integration for Vietnam now are affected by two major factors. The first is the complex and fast changing international context. The second is Vietnam's specific issues in its own development. To come up with an appropriate approach, the study on opportunities and challenges for Vietnam in WTO accession should clarify these factors.

1. New international context, opportunities and challenges in development for Vietnam In recent period, the world situation changed rapidly and profoundly as never before. The impact of globalization and the knowledge-based economy forces developing countries to join the world economy system, and the situation for them is much more difficult than before. In general, the level of development in the modern world is measured by the following indicators:
First, high speed of change and the faster pace of shortening in the production and technology cycle,

Second, the global network structure and the complex nexus of the world economy,

Third, conditions for economic development become unstable and unpredictable.

Fourth, the balance of power is profoundly changing and driving the world economy, with power concentrating in a few nations and transnational corporations.

These new developments entail great challenges to the late comers as follows:

First, the reaction by governments and firms should be prompt and effective in a high-speed global game.

Second, the cost of integrating into the global economy is high, especially to the poor countries.

Third, competition at the global scale becomes vigorous. The traditional comparative advantage based on natural resources and low labor cost is diminishing in importance. Knowledge and skill become determinants of competitiveness. The big challenge to late comer countries is how to continuously improve their comparative advantage and dynamic competitiveness, created by human being in an integrated environment, under the impact of economic globalization.

3.5.1 However, the new condition of development requires new thinking in development.

The overall target of Vietnam now is to successfully implement the transition and development. The first task is to transform the centrally-planned economy into a market economy with socialist orientation. The second is to transform the traditional peasant economy into a modern industrialized economy, moving from extensive to intensive development, with improved competitiveness and higher quality of economic growth. These two tasks contain both challenges and opportunities in economic integration, and become a component of the short-cut development and modernization in Vietnam.

Active international economic integration means a more active participation into international economic processes, with cooperation in development, with competition under the conditions and requirements of the more globalized world economy. This means that the key of integration today is to accept fair competition, and thereby achieve development benefit.

Vietnam now is disadvantaged in competition for the following reasons:

- Most of competitors of Vietnamese firms are stronger and at the higher development level;
- Vietnam is a new transition economy that has to integrate into a big playing ground with new rules of the game;
- Despite the huge opportunities brought by integration, Vietnam is a poor country, with limited capacity, it is not easy to translate opportunities into development benefits; some challenges are even looming large.
It is important to bear in mind that challenges of WTO accession is not just the efforts in negotiation that help Vietnam soon become member of this organization. The biggest and most important challenge of this process is to create best conditions in the country for Vietnam to effectively participate into the international labor division and successfully compete in the world market within WTO.

It is the daunting task for Vietnam to access the WTO. Vietnam has to meet the challenging commitments of accession to become WTO member. On the other hand, Vietnam has to well prepare in terms of domestic conditions for the implementation of international commitment, especially in terms of improving the competitiveness of the economy, firms, and products. It is necessary to strengthen the economic and social institutions, to ensure stability in front of potentially negative impact of integration.

3.5.2 Taking advantage and rising to the challenges to soon become WTO member

WTO accession entails both opportunities and challenges that are intertwined. This requires a clear understanding of both opportunities and challenges in their political, economic, social, cultural, and environmental aspects. Solutions are needed to take advantage of the opportunities, to determine an effective mechanism to coordinate between instruments and solutions to achieve the objectives of integration and development.

However, it is necessary to be aware of the great challenges of WTO accession. First of all, challenges are in trade. The competitive pressure will increase when protection of domestic production is reduced while the country implements the international commitments. This forces firms to restructure to improve their competitiveness, and to create new competitive capacity. Many regulations in trade in services, and rules of intellectual property right are new to Vietnam.

WTO accession also requires a strengthening of legal institutions and transparency to be in line with the international practices. Building market-oriented economic institutions, creating a fair competitive environment for all firms are key steps to be taken, based on the international principle, if we are to access the WTO soon.

Improving the capacity of different local governments is also an important component of Successfully integration of Vietnam, WTO accession requires an assessment of impact of this process on social issues and poverty. For that reason, active international economic integration is not simply to reduce protection of domestic production, but also an overall and concerted campaign of the whole country in all fronts, political, economic, cultural, social, and environmental alike.

For Vietnam now, the awareness of integration and WTO by the public at large, the firms, and other players is limited. The international experience suggested that limited awareness can be a big hindrance to the integration process. The situation of integration in many countries around the world indicates that different understanding may exist in different sectors, levels, enterprises, and the public at large about the benefits and obligations of the stakeholders in implementing WTO commitments. Vietnam needs to clearly understand this potential threat, otherwise it would be hard to come up with timely measures to cope with challenges, and may slow down the WTO accession.
To cope with this challenge, Vietnam has to consistently solve a whole range of problems, such as acceleration of state-owned enterprise reform, more effective fiscal expenditure, and enhancing the capacity of the banking system, development of real estate market, labor market, and capital market. These tasks should be put in the overall context of reform program to fully develop appropriate and modern market economy institutions. This is very important premises to change the mechanism and the orientation in resource allocation, especially the public investment, to better tap on the comparative advantage and competitiveness of Vietnam.

For enterprises, which are the most important stakeholders of integration, it is imperative to develop their competitiveness to compete in the more integrated environment. The time to implement this task is counted down, while there are many problems to be solved, and this should be done in a consistent way, from the vision, to business strategy, and training to enhance capacity in all components of enterprises, especially state-owned enterprises.

Though the development focus of the Doha round makes trade negotiation more human for developing countries, the impact of WTO accession on poverty reduction and social issues is huge for Vietnam, for both opportunities and challenges. To cope with this situation, it is necessary to create opportunities and enhance capacity in choosing opportunities for all people, especially the poor, in development and WTO accession.

3.5.3 Vietnam – U.S. Trade Status and Outlook, 2012 – 2015:

Vietnam – U.S. trade in 2012 continued to grow, but at a slower pace than in previous years. Based on ten months’ data (jan-oct 2012) from the u.s. department of commerce, bilateral trade may reach $24.6 billion in 2012, a healthy increase of 12.8% over 2011. Most noticeably, U.S. imports of apparel from Vietnam may reach only $7.8 billion, a single-digit increase over the $7.2 billion in 2011, and down sharply from the double-digit growth of 2010 and 2011. On the other hand, Vietnam’s exports of higher-value-added products from “modern manufacturing” FDI are increasing sharply. Total bilateral trade in 2011 was US$21.8 billion, up 17.5% over the previous year, with Vietnam’s exports to the U.S. $17.5 billion (up 18%), and imports from the U.S. $4.3 billion (up 17%), demonstrating once again that manufacturing foreign direct investment (FDI) and trade are strong and stable factors that support Vietnam’s economic and social development.

In comparison, total bilateral trade in 2012 may reach about US$24.6 billion (up 12.8%), with Vietnam’s exports to the U.S. about $20.0 billion (up 14%), and imports from the U.S. about $4.6 billion (up 7%).

Growth of Vietnam’s apparel exports to the U.S. is likely to continue to slow because of increasing labour costs, increased competition from countries such as India, Indonesia, Bangladesh, and Mexico, not to mention Cambodia and Myanmar, and reduced demand in the United States. The hope for Vietnam is that exports of “modern manufacturing” and services will take up the slack, both in export revenue and employment.

Figure 3: Vietnam – U.S. Trade Status and Outlook, 2012 – 2015:
However, lack of trained workers and increasing wage costs without productivity gains in the factories and efficiencies in the economy (transportation infrastructure, customs, business services) that reduce costs may slow the growth of Vietnam’s exports to the U.S. According to the Asian Development Bank, less than 30% of young workers, who comprise half the workforce, have completed upper secondary education.

Figure 4: Private Sector Minimum Wage Adjustment for 2013:

The Ministry of Labour, Invalids and Social Affairs (MOLISA) has proposed raising the monthly minimum wage for the private sector by up to 35 per cent – the highest rise ever – to help employees tackle skyrocketing living costs. There is a different minimum wage for the state sector.

In a draft decree, MOLISA introduced two options on raising the minimum wage in Region 1 from the current VND 2
million/month to VND 2.7 million. A second option would be to raise wages to VND 2.5 million/month. Deputy Director of the ministry’s Labour-Salary Department Hoang Minh Hao told Viet Nam News yesterday that the increases were needed because current wages were insufficient to meet basic living standards.

Although the Consumer Price Index so far this year was down on previous years, the rises were needed to make up for earlier price increases, plus anticipated rises next year, Hao said. He also said that the monthly minimum wage would be adjusted from time to time if inflation rose more than expected.

Figure 5: Annual Private Sector Minimum wage 2008-2017:

Vietnam now has different wage rates covering four regions, ranked according to the socio-economic development level of each region. Region One covers urban Ha Noi and HCM City. Zone Two covers rural Ha Noi and HCM City plus urban Can Tho, Da Nang, and Hai Phong. Zone Three covers provincial cities and the districts of Bac Ninh, Bac Giang, Hai Duong, and Vinh Phuc. Zone Four covers the remaining localities.