CENTRAL INSTITUTE FOR ECONOMIC MANAGEMENT

COMPREHENSIVE EVALUATION OF VIETNAM'S SOCIO-ECONOMIC PERFORMANCE FIVE YEARS AFTER THE ACCESSION TO THE WORLD TRADE ORGANIZATION

(Reference book)

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The consultants preparing background reports include Assoc. Prof. Bui Quang Tuan, Dr. Nguyen Thi Lan Huong, Dr. Nguyen Dang Binh, Assoc. Prof. Nguyen Hong Son, Dr. Do Ngoc Huynh, Mr. Nguyen Viet Phong, Dr. Nguyen Chien Thang, Mr. Pham Sy An, Dr. Dang Van Thuan, Dr. Hoang Kim Ha and Assoc. Prof. Nguyen The Chinh.

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LIST OF ABBREVIATIONS

AANZFTA	ASEAN-Australia-New Zealand Free Trade Area Agreement
ACFTA	ASEAN-China Free Trade Area
ACIA	ASEAN Comprehensive Investment Agreement
ACTIS	Agreement on Trade in Services Liberalization within the Framework Agreement on ASEAN-China Comprehensive Economic Cooperation
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
AFTA	ASEAN Free Trade Area
AIA	Framework Agreement on ASEAN Investment Area
AITIG	ASEAN-India Trade in Goods Agreement
AJCEP	ASEAN-Japan Comprehensive Economic Partnership agreement
AKFTA	ASEAN-Korea Free Trade Area
APEC	Asia - Pacific Economic Cooperation forum
ASEAN	Association of South East Asian Nations
ATIGA	ASEAN Trade in Goods Agreement
BEC	Broad Economic Categories
BO	Build – Operation
BOP	Balance of payment
BOT	Build – Operation – Transfer
BT	Build – Transfer
CEPT	Common Effective Preferential Tariff
CIEM	Central Institute for Economic Management
CKD	Complete Knocked Down
CLM	Cambodia, Laos and Myanmar
CLMV	Cambodia, Laos, Myanmar and Vietnam
CMS	Constant market share
CPI	Consumer Price Index
CPV	Communist Party of Vietnam
EHP	Early Harvest Program
EPA	Economic Partnership Agreement
EPZ	Export processing zone

ERP	Effective Rate of Protection
EU	European Union
EZ	Economic Zone
FDI	Foreign Direct Investment
FIE	Foreign-invested enterprise
FOB	Free on board
FTA	Free trade agreements
GAP	Good Agricultural Practice
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GEL	General Exclusion List
GMP	Good Manufacturing Practice
GSO	General Statistics Office
HSL	Highly Sensitive List
ICOR	Incremental Capital-Output Ratio
ICT	Information and Communication Technology
IGA	Investment Guarantee Agreement
IL	Inclusion List
ILSSA	Institute of Labour Science and Social Affairs
IPAP	Investment Promotion Action Plan
IPR	Intellectual property right
IT	Information technology
ITA	Information Technology Agreement
IZ	Industrial zone
JSCB	Joint-stock commercial bank
MFN	Most Favored Nation
MOF	Ministry of Finance
MOIT	Ministry of Industry and Trade
MOLISA	Ministry of Labor – Invalids and Social Affairs
MONRE	Ministry of Natural Resources and Environment
MPI	Ministry of Planning and Investment
NCIEC	National Committee for International Economic Cooperation
NPL	Non-performing loan
NRP	Nominal Rate of Protection
NT	Normal Track
ODA	Official Development Assistance

PPP	Public-private partnership
RCA	Revealed Comparative Advantage
RCEP	Regional Comprehensive Economic Partnership
REER	Real effective exchange rate
SBV	State Bank of Vietnam
SCIC	State Capital Investment Corporation
SEDP	Socio-Economic Development Plan
SEDS	Socio-Economic Development Strategy
SITC	Standard International Trade Classification
SL	Sensitive List
SME	Small- and medium-sized enterprise
SOCB	State-owned commercial bank
SOE	State-owned enterprise
SUT	Source and Use Table
TEL	Temporary Exclusion List
TFP	Total Factor Productivity
TPP	Trans-Pacific Partnership
TRIMS	Agreement on Trade-Related Investment Measures
UNIDO	United Nations Industrial Development Organization
USD	US dollar
VA	Value added
VDB	Vietnam Development Bank
VHLSS	Vietnam Household Living Standard Survey
VJEPA	Vietnam-Japan Economic Partnership Agreement
VN	Vietnam
VND	Vietnam dong
VN-US BTA	Vietnam-US bilateral trade agreement
WB	World Bank
WHO	World Health Organization
WTO	World Trade Organization

INTRODUCTION

1. BACKGROUND

As a key policy direction in the Socio-Economic Development Plan (SEDP) for 2011-2015 and the Socio-Economic Development Strategy (SEDS) for 2011-2020, Vietnam attempts to promote deeper, wider and more effective integration into the international economy, seeking to attain rapid and sustainable development and achieve the strategic target of fundamentally becoming a modern industrialised economy; to significantly improve the people's material and spiritual life; and to further consolidate the position of Vietnam in international arena.

In recent years, the international economic integration process, an important milestone of which was the accession to the World Trade Organization (WTO) in 2007, has brought about numerous positive changes in as well as significant impacts on socio-economic situation in Vietnam. Access to foreign markets has become easier, thereby inducing rapid expansion of merchandise trade. Flows of both foreign direct investment (FDI) and outward investment have increased considerably. The business environment continued to be improved with better transparency; market-oriented economic institutions have been strengthened and improved at a faster pace; Vietnam already joined the group of middle-income economies, with consolidated importance in the world.

However, the implementation of commitments in international economic integration arrangements, including the WTO commitments, also made way for some material issues and challenges for Vietnam, particularly in the post-WTO period when the domestic economy and financial sector suffered from the serious impacts of the global and regional economic developments. Vietnam is currently implementing the SEDS for 2011-2020 and the SEDP for 2011-2015, with the goal of achieving major breakthroughs in institutional reform, infrastructure development, human resource development as well as renovating the growth paradigm. At the same time, Vietnam will continue to implement more fully commitments in the WTO, regional and bilateral integration frameworks. Furthermore, the country is negotiating free trade agreements (FTAs) with various economies and regions, with wider scope of commitment and higher standards.

This publication serves to provide a comprehensive assessment of Vietnam's socio-economic performance after the WTO accession. On that basis, policy adjustments are proposed so as to further strengthen and improve the efficiency of Vietnam’s international economic integration in the periods 2011 - 2015 and 2016-2020.

2. OBJECTIVES

The key objectives of this publication are: (i) to assess and summarize the major socio-economic changes in Vietnam during 2007-2011 in economic, social, and institutional environmental aspects; (ii) to elaborate on the notable achievements, strengths, weaknesses, opportunities, challenges, causes and lessons learned; *and* (iii) to

make policy recommendations for Vietnam to adjust socio-economic and environment policies with a view to attain higher efficiency of international economic integration in the forthcoming years, which in turn helps realize the objectives of SEDS in period 2011-2020 and the SEDP in period 2011-2015.

Notably, the key changes in economic, social and environmental aspects, which Vietnam have experienced in the 5 years after WTO accession, could be attributed to a number of (internal and external) factors. Those factors have complicated interactions and can hardly be separated, which prevents the exact identification of impacts by each factor. Within the limited scope of this publication, the authors only attempt to explain the key reasons related to the international economic integration process in general and the WTO accession in particular.

3. METHODOLOGY

3.1. General Assessment Method

Starting from an overview of Vietnam's international economic integration commitments under the frameworks of WTO and most important multilateral, regional and bilateral arrangements, the authors compare and assess the implementation of such commitments in reality. On that basis, the report identifies the sectors which may experience the largest (positive and/or negative) impacts.

Subsequently, the authors assess the changes in the economy 5 years after WTO accession compared to the previous 5-year period, and relate the assessments to the implementation of relevant SEDSs, SEDPs and action plan of the Government. This method is then combined with the analysis of some main reasons for the situation (see Figure 1), including international economic integration and world economic developments (such as the financial crisis, food crisis, and energy crisis). Accordingly, the publication highlights the major changes induced by the international economic integration process, and elaborate on the achievements, remaining issues and reasons. On that basis, the authors propose policy recommendations to optimally realize the opportunities and minimize the undesirable effects in the context of Vietnam's deeper integration into the regional and world economy, thereby fulfilling the objectives of the SEDS for 2011-2020 and the SEDP for 2011-2015.

3.2. Effective Rate of Protection

To assess the impacts of implementing integration commitments, the authors compute some indicators such as the Effective Rate of Protection (ERP[1]), Power of Dispersion and other indicators. The ERP reflects the actual protection level created by the tariff barriers for domestic producers of a manufacturing sector. This index allows assessment of *real protection level* for the products taking account of the nominal rates of

[1] The Effective Rate of Protection in this report are calculated based on the 2010 Input-Output table (updated) and the nominal tax rate in reality for the years 2007-2011.

protection (quantifiable tariff and non-tariff measures) of the *input* and *output* of that sector. In other words, the ERP shows how many percentage of value added (VA) that domestic manufacturers will acquire thanks to protection barriers compared to free trade case. When the total value of import duties levied on inputs exceeds that of tariffs levied on output (product), the ERP ratio of that output (product) is less than 0. In this case, the industry/sector under consideration receives no protection, and is even in a disadvantage relative to imported substitutes. As such, the ERP reflects more complete impact of the changes in tariff on production of goods.

To analyze the inter-sectoral impact, the research team also calculated the Power of Dispersion based on the Backward Linkage Index and the Import Multiplier of sectors based on the Source and Use Table (SUT) version in 2007. A sector with the Power of Dispersion greater than unity will have larger impact on domestic production. In other words, concentrating resources on these sectors will stimulate expansion of other sectors. Meanwhile, if an industry has the Power of Dispersion on Import greater than unity, its expansion will induce more rapid increase in import.

The comparison between the Power of Dispersion, the Import Multiplier and ERP enables policymakers to select the key sectors with the criteria of having high Power of Dispersion (greater than 1), low Import Multiplier (less than 1). On that basis, the import tariff structure will be adjusted to ensure compliance with integration commitments whilst incorporating reasonable protection of domestic production.

Finally, the authors also compute some trade indicators (such as trade intensity, export similarity, and trade complementarity) to assess the situation and potential of trade between Vietnam and some main trading partners.

3.3. Scope of research

As its focus, this publication summarizes and assesses the key socio-economic changes in Vietnam, alongside major causes and lessons in the 12 aspects, namely: (i) Economic growth; (ii) Domestic and foreign trade; (iii) Investment; (iv) Regional development; (v) Macroeconomic stability; (vi) Labour and employment; (vii) Poverty reduction and income inequality; (viii) Social safety; (ix) Education; (x) Health; (xi) Environment; *and* (xii) Economic Institution. The analyses and assessments in this publication will focus more on the periods of 5 years before the WTO accession (ie. 2001-2006) and of 5 years after the WTO accession (2007-2011).

4. STRUCTURE OF THE REPORT

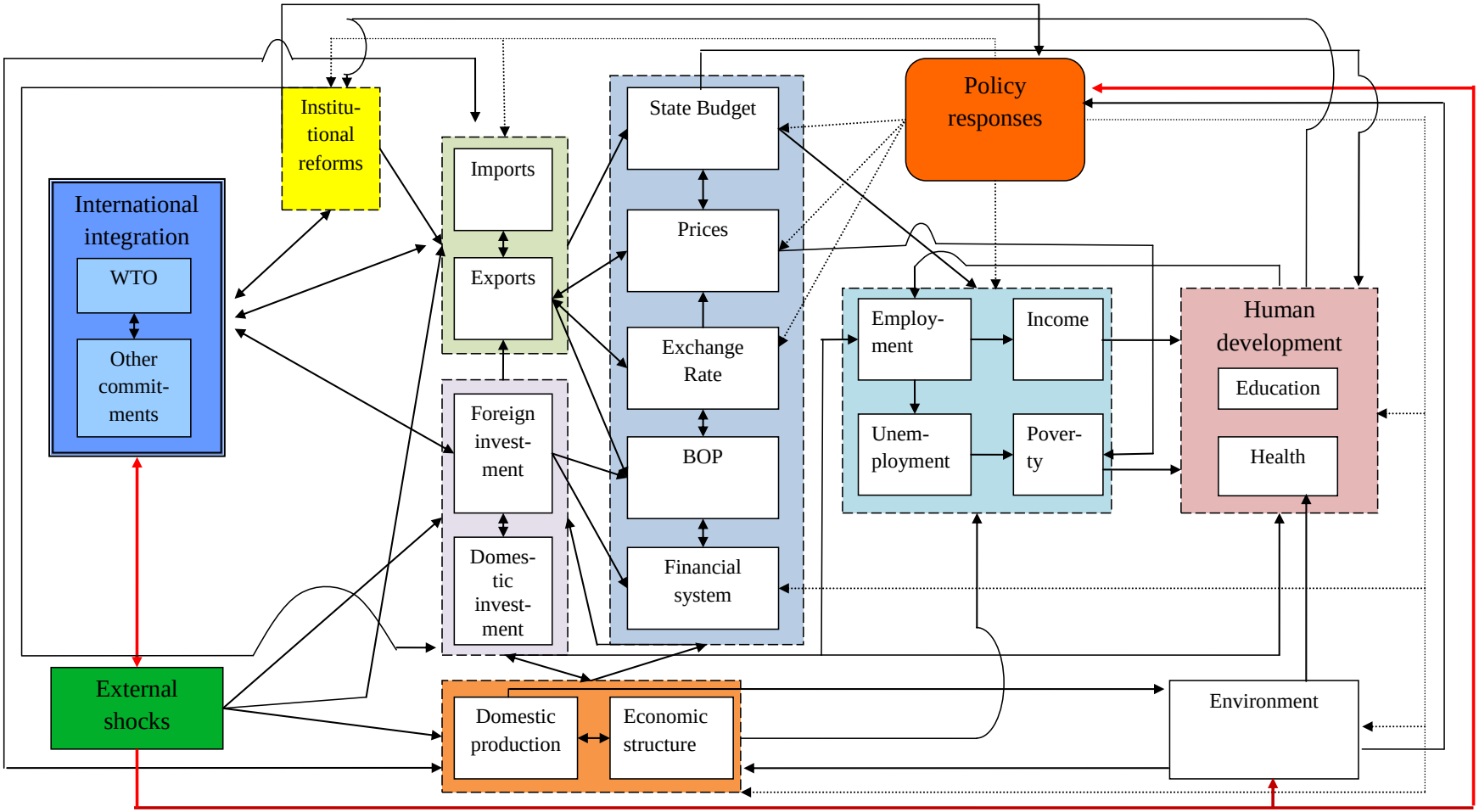
Apart from Introduction, the remainder of this publication consists of three parts.

Part One: Current Situation of International Economic Integration and Implementation of International Commitments;

Part Two: Overview of Vietnam's Socio-economy Five Years After the Accession to the World Trade Organization; *and*

Part Three: Policy Recommendations.

Figure 1: Framework to Analyze the Impact of International Economic Integration for Vietnam Economy



PART ONE

CURRENT SITUATION ON INTERNATIONAL INTEGRATION AND IMPLEMENTATION OF INTERNATIONAL COMMITMENTS

1. THE PROCESS OF INTERNATIONAL ECONOMIC INTEGRATION OF VIETNAM

The most comprehensive update of commitments within the frameworks of WTO and free trade agreements (FTAs) is covered by Truong Dinh Tuyen *et al* (2011). As detailed accordingly, the process of economic integration of Vietnam became more rapid since 1995 with the 3 most significant milestones. *First*, Vietnam negotiated and signed the Vietnam - US bilateral trade agreement in 2000. This agreement, on one hand, laid an important foundation with induced preparations for Vietnam before participating more deeply in the regional (FTA-based) integration and WTO process. On the other hand, this agreement enhanced Vietnam's access to the largest export market without being discriminated. *Second*, Vietnam joined the Association of South East Asian Nations (ASEAN) and participated in the ASEAN Free Trade Area (AFTA) and other FTAs under the ASEAN-plus framework. *Third*, Vietnam made huge negotiation attempts to join WTO and became official member of the organization in January 2007. Along with the regional FTA, Vietnam signed Economic Partnership Agreement (EPA) with Japan, which is effectively a bilateral FTA.

With the above agreements, Vietnam has created huge opportunities for promoting foreign direct investment (FDI) and export activities, thereby contributing immensely to accelerating economic growth and job creation. At the same time, these agreements also brought about material challenges for enterprises and Vietnam's economy as a whole. The largest sources of pressures under the WTO are related to institution reforms and service sector. Meanwhile, bilateral and regional FTAs exert pressures in trade in goods via comprehensive tariff reduction within the ASEAN bloc and some ASEAN+ agreements: about 90 percent of tariff lines will become 0 percent by 2015, and most of the remaining lines will decrease to 0 percent by 2018. As an evidence, in order to fulfill WTO commitments, Vietnam had to amend and/or promulgate many laws, ordinances, and decrees related to domestic regulations (institutions), while almost all the commitments of ASEAN, ASEAN-plus FTAs, and the ASEAN-Japan Comprehensive Economic Partnership Agreement have almost no effect on institutional regulations. Notwithstanding large scope of both opportunities and challenges, the decisive factors underlying how to take advantages of these opportunities and to overcome these challenges depend crucially on institutions and policies (or management activities of authorities at all - mainly central and provincial - levels) as well as enterprises' activities.

Table 1: Summary of Key Integration Milestones of Vietnam

Milestones	*Membership*	*Status*
AFTA	10 ASEAN member countries	Signed in 1992 (ASEAN-6); Vietnam participated in 1995; the remaining countries participated the following years.
Vietnam - US BTA	Vietnam and the United States	Signed in 2000 and implemented in 2001.
ASEAN – China FTA	10 ASEAN countries and China	Signed in 2004
ASEAN – Korea FTA	10 ASEAN countries and Korea	Signed in 2006; only Thailand signed in 2009
WTO	Became the 150th member	Accession in 2007
ASEAN – Japan	10 ASEAN countries and Japan	Signed in 2008
Vietnam - Japan	Vietnam and Japan	Signed in 2008
ASEAN - India	10 ASEAN countries and India	Signed in 2009
ASEAN -Australia- New Zealand	10 ASEAN countries and Australia, New Zealand	Signed in 2009
Vietnam - Chile	Vietnam and Chile	Signed in 2011
Trans- Pacific Partnership (TPP)	New Zealand, Singapore, Chile, Brunei (Vietnam, Australia, Peru and the US are negotiating to participate)	Negotiation in progress
Vietnam – European Union (EU)	Vietnam and the European Union	Negotiation in progress
Regional Comprehensive Economic Partnership (RCEP) (ASEAN+6)	10 ASEAN countries, China, Japan, Korea, India, Australia, New Zealand	Started
Vietnam - Korea	Vietnam and Korea	Negotiation in progress
Vietnam - Customs Union	Vietnam and Russia-Belarus-Kazakhstan	Negotiation in progress

Note: ASEAN-6 countries including: Brunei, Indonesia, Malaysia, the Phillipines, Singapore and Thailand.
Source: Truong Dinh Tuyen et al. (2011) and updated by the authors.

2. TRADE COMMITMENTS UNDER THE MAJOR FTAS OF VIETNAM

The following section will describe Vietnam's key trade commitments within the framework of some major FTAs.

2.1. CEPT-ATIGA

On December 15th, 1995, Vietnam officially joined the Common Effective Preferential Tariff (CEPT) aimed at establishing ASEAN Free Trade Area (AFTA). In 2010, the 10 ASEAN member countries implemented the ASEAN Trade In Goods Agreement (ATIGA) in replacement of CEPT. In compliance with CEPT requirements, Vietnam has introduced the various schemes of tariff cuts as follows:

Inclusion List (IL): the list of products that the member countries are ready for tariff cuts.

General Exclusion List (GEL): the list of products excluded in AFTA due to reasons of national defense, conservation of social morals, health, human life, flora and fauna, preservation of valuable works of arts, history and archeology. At the 42th ASEAN Economic Ministers' Meeting, Vietnam and ASEAN countries has agreed on the Tariff Reduction Roadmap on petroleum - formerly a GEL product. Vietnam also agreed to bring tobacco out of GEL for tariff reduction by 2015.

Temporary Exclusion List (TEL) and Sensitive List of unprocessed agricultural products (SL): Currently, Vietnam has shifted all the products in TEL and SL towards IL for tariff cut. To date, the IL of Vietnam comprises of 10,455 tariff lines. Vietnam's roadmap of tariff reduction following CEPT/AFTA in 2005-2013 is summarized in Table 2.

Table 2: Vietnam's Average Tariff in CEPT/AFTA

No.	*Category*	*MFN tariff (%)*	*Vietnam's tariff commitment (%)*		
			2006	*2010*	*2013*
1	Fishery products	28.58	4.85	4.85	4.85
2	Milk and dairy products	26.59	5.00	5.00	5.00
3	Vegetable	27.87	2.99	1.64	1.64
4	Rice, wheat	31.04	8.13	6.43	3.21
5	Animal and vegetable oil and fat	19.34	3.13	3.39	3.39
6	Confectionery and cereal products	34.79	4.93	4.91	4.9
7	Forage and materials	5.62	1.47	1.67	1.67
8	Tobacco materials	46.97	5.00	20.61	20.61
9	Petroleum	20.0	40.00	40.00	12.23
10	Coal	3.75	0.00	0.00	0.00
11	Other petroleum products	7.79	23.25	22.82	6.51
12	Chemicals	1.15	0.46	0.22	0.22
13	Chemical products	10.02	2.83	1.83	1.83
14	Pharmacy and pharmaceutical raw materials	3.60	1.54	0.61	0.61
15	Fertilizers	0.66	0.42	0.78	0.78
16	Plastic materials and plastic products	10.30	1.38	1.91	1.91
17	Rubber and rubber products	12.57	1.28	1.39	1.39
18	Wood and wooden products	7.20	0.03	1.51	1.51
19	Paper and paper products	18.34	2.69	2.56	2.56
20	Fibers, yarns	3.74	2.62	2.16	2.16
21	Garment fabric types	11.98	5.00	5.00	5.00
22	Materials of textile, garments, leather, shoes	9.30	1.63	2.39	2.3
23	Precious stones, precious metals and products	10.75	1.69	1.77	1.7
24	Iron and billet steels	4.13	1.33	1.12	1.12
25	Other metals	1.89	0.56	0.43	0.43
26	Computers, electronic products and peripherals	9.41	2.95	1.77	1.77
27	Other electrical products and components	2.85	4.30	3.64	3.64
28	Wires and cables	10.74	2.98	1.62	1.62
29	Completely-built-up Automobiles	45.23	30.25	29.96	22.35
30	Other transport means and accessories	3.60	1.98	1.77	1.77

Note: For CEPT, committed tariff rate is also the applied one.
Source: Truong Dinh Tuyen et al. (2011).

According to ATIGA, by 2015, zero tariff applies for all products, except for those in the GEL or those previously in the GEL but being removed later to implement own roadmap for tariff reduction. Cambodia, Laos, Myanmar, and Vietnam (CLMV) enjoy some flexibility in retaining 7 percent of tariff lines until 2018. CLMV will issue the detailed lists of these tariff lines in 2013 at their own discretion, and no negotiation with other ASEAN members is required. Accordingly, Vietnam can actively incorporate the products that need protection in this 7-percent List. On the other hand, by 2015, all export products from Vietnam to ASEAN-6 countries will be treated with zero import tariff.

Apparently, for key imported goods, except gasoline, oil and petroleum products (formerly under the GEL), the gap between MFN tariff and the preferential tariff following CEPT/AFTA is rather big. For export, Vietnamese enterprises can take advantage of CEPT/AFTA because the CEPT tariff levied by ASEAN member states to Vietnam's export products is far smaller than the MFN counterpart. This gap will increase even further when ASEAN fulfills the establishment of ASEAN Economic Community (AEC) in 2015.

2.2. ASEAN-China Free Trade Area Agreement

The ASEAN-China Free Trade Area Agreement (ACFTA) was signed on November 29th, 2004 in Vientiane, Laos. The agreement took effect from January 1st 2005, and tariff reduction began from July 1st, 2005. The ASEAN-China Trade in Goods Agreement covers almost all aspects of merchandise trade between ASEAN and China, including roadmap of tariff reduction, principles of preferential treatments, non-tariff measures, principles of applying merchandise trade management measures such as anti-dumping and safeguarding measures, and regulations of institutional structure. The ASEAN-China Trade in Goods Agreement provides the Roadmap of Tariff Reduction following ACFTA under 4 different schemes: (i) Early Harvest Program (EHP); (ii) Normal Track (NT); (iii) Sensitive List (SL); *and* (iv) Highly Sensitive List (HSL).

Due to lower development level, *Vietnam could enjoy longer and more flexible roadmaps of tariff reduction of Vietnam than those of China and ASEAN-6 member states*. Details of such roadmaps are described in the following sub-Sections.

2.2.1. Early Harvest Program

EHP is a narrow preferential tariff scheme implemented since 2004, right after the Framework Agreement on ASEAN-China Comprehensive Economic Cooperation. EHP consists of unprocessed agricultural products (from Chapter 1 to Chapter 8 in the import tariff schedule), for which the tariff would be phased out within 3 years by ASEAN-6 and within 5 years by Vietnam (from 2004). *Accordingly, from January 1st 2006, China and ASEAN-6 applied the tariff rate of 0 percent on all products listed in the EHP. Vietnam started to abolish all tariff rates from January 1st 2008.*

2.2.2. Normal Track

NT comprises of 90 percent of tariff lines, which are to be completely phased out by 2010 by ASEAN-6 and China. The tariff reduction roadmap of Vietnam is 5 years longer; that is, Vietnam have to complete tariff reduction under the NT by 2015.

2.2.3. Sensitive List

The Sensitive List consists of products with longer protection roadmap and higher protection tariff than NT. The Sensitive List includes 2 groups, namely: Normal Sensitive List (SL) and High Sensitive List (HSL). *There is no specific roadmap of tariff reduction for products in the Sensitive List; only the final bound rate and the deadline for completion are specified as follows:*

For ASEAN-6 and China, the tariff rates in SL must decrease to 20 percent by 2012 and to 0-5 percent by 2018. The tariff rates under HSL must be equal to or smaller than 50 percent by 2015. For Vietnam: tariff rates under SL must decrease to 20 percent by 2015 and to 0-5 percent by 2020, while tariff rates under HSL will have to be 50 percent or below by 2018.

Table 3: Vietnam's Roadmap of Tariff Reduction under NT

Product category	*ACFTA tariff rate (%)*							
	2005	*2006*	*2007*	*2008*	*2009*	*2011*	*2013*	*2015*
Category 1: Tariff rate $\geq$ 60%	60	50	40	30	25	15	10	0
Category 2: 45% $\leq$ tariff rate < 60%	40	35	35	30	25	15	10	0
Category 3: 35% $\leq$ tariff rate < 45%	35	30	30	25	20	15	5	0
Category 4: 30% $\leq$ tariff rate < 35%	30	25	25	20	17	10	5	0
Category 5: 25% $\leq$ tariff rate < 30%	25	20	20	15	15	10	5	0
Category 6: 20% $\leq$ tariff rate < 25%	20	20	15	15	15	10	0-5	0
Category 7: 15% $\leq$ tariff rate < 20%	15	15	10	10	10	5	0-5	0
Category 8: 10% $\leq$ tariff rate < 15%	10	10	10	10	8	5	0-5	0
Category 9: 7% $\leq$ tariff rate < 10%	7	7	7	7	5	5	0-5	0
Category 10: 5% $\leq$ tariff rate < 7%	5	5	5	5	5	5	0-5	0
Category 11: tariff rate < 5%	Unchanged							

Source: Truong Dinh Tuyen et al. (2011)

2.2.4. Vietnam's Commitments on Tariff Reduction under ACFTA

For Vietnam, the tariff reduction roadmap under ACFTA is consistent with those in other FTAs in terms of scope and principle. Vietnam is committed to tariff reduction roadmap for about 90 percent of tariff lines. The remaining 10 percent of tariff lines have longer tariff reduction roadmap or even no commitments on zeroing tariff rates (Table 4).

Protection scope under ACFTA is rather consistent with those under other FTAs. The highest protection is applied for poultry's eggs, tobacco leaves, tobacco, oil and gasoline, automobile tyres, construction steel and iron, motorbikes and spare parts. Longer protection is in place for processed foodstuff, alcoholic drinks, products of oil and gas, cement, plastic, textile products, automobile and motorbike spare parts, equipment machinery.

In the first five years of implementation, committed tariff reduction under NT is rather slow. The average tariff rates under ACFTA from 2005 to 2010 are nearly equal to those under Vietnam's MFN scheme. From 2015 onwards, committed tariff rates of Vietnam under ACFTA will be almost similar to those under CEPT/AFTA.

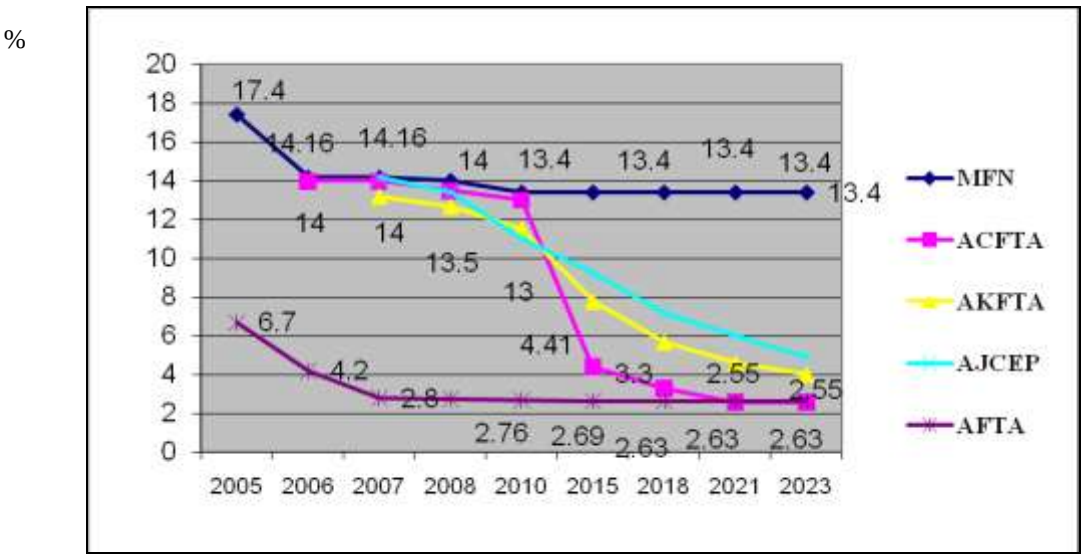
Table 4: Comparison of tariff reduction commitments under ACFTA and other FTAs

Vietnam's tariff reduction roadmap	*Normal Group*	*Sensitive Group*			*Exclusion*	
	NT List	*HSL*	*SL*	*Particularly Sensitive*	*No tariff cut*	*General Exclusion*
ASEAN-China	**9,544** (tariff rates decrease to 0%)	941 (tariff bound rate is 50%)	560 (tariff bound rate is 5%)			94
ASEAN – Korea	**8,907**(tariff rates decrease to 0%)	108	852 **(**tariff bound rate is 5%)	378 (Reduction of tariff rate by 20%)	766	101
ASEAN – Japan	**9,425** (tariff rates decrease to 0%)	1,224			498	
VJEPA	**8.548** (tariff rates decrease to 0%)	132 (tariff bound rate is 50%)	2 (tariff bound rate is 5%)		517	

Note: Number of tariff lines according to the Harmonized System (HS) 2002 (differences caused by adjustment of tariff)

Source: Truong Dinh Tuyen et al. (2011).

Figure 2: Tariff reduction of Vietnam in some major FTAs



Source: Truong Dinh Tuyen et al. (2011)

Table 5: Vietnam's Average Tariff Rate (%) in ACFTA

No.	*Category*	*MFN Tariff rate*	*Tariff committments*		*Applied tariff 2010*	*Note*
			2010	*2011*		
1	Fishery products	28.58	4.62	2.77	4.62	
2	Milk and dairy products	26.59	17.29	10.00	17.29	39 tax lines have tariff rate of 0%
3	Vegetable	27.87	10.39	6.31	10.39	93 other tax lines have tariff rate of 0%
4	Animal and vegetable oil and fat	19.34	9.09	6.22	9.09	233 tax lines in total
5	Forage and materials	5.62	3.21	2.08	3.21	
6	Petroleum	20.00	14.69	14.69	14.69	
7	Chemicals	1.15	1.48	1.27	1.48	435 tax lines have tariff rate of 0%
8	Fertilizers	0.66	0.00	0.00	0.00	
9	Plastic materials and products	10.30	10.96	7.70	10.96	80 tax lines have tariff rate of 0-3%
10	Paper	18.34	x	x	x	
11	Paper products	18.34	14.69	10.17	14.69	
12	Fibers, yarns and cotton types	3.74	4.90	4.79	4.90	
13	Garment fabric	11.98	12.00	12.00	12.00	
14	Materials of textile, leather, shoes	9.30	9.66	7.59	9.66	
15	Precious stones, precious metals and products	10.75	19.54	15.12	19.54	Tax lines from HS 7101-7113 have tariff rate of 1%
16	Iron and steel	4.13	10.99	8.38	10.99	190 tax lines have tariff rate of 0-1%
17	Computers, electronic products and peripherals	9.41	10.33	8.49	10.33	
18	Wires and cables	10.74	7.37	5.18	7.37	
19	Completely-built-up automobiles	45.23	x	x	x	
21	Motorcycles and spare parts		36.76	31.89	36.76	Some non-committed tax lines
22	Other means of transport	3.60	5.52	4.07	5.52	

Note: For ACFTA, committed tariff rate is the applied one.

Source: Truong Dinh Tuyen et al. (2011)

2.3. ASEAN-Korea Comprehensive Economic Cooperation Agreement

The Trade in Goods Agreement has been negotiated between ASEAN and Korea based on the ASEAN-China Trade in Goods Agreement which was signed earlier. The Agreement includes roadmap of tariff reduction, principles of preferential treatment, non-tariff measures, principles of applying merchandise trade management measures such as anti-dumping and safeguarding measures, regulations on institutional structure.

In terms of tariff reduction, the Agreement provides for the following roadmaps:

- NT List: includes 90 percent of tariff lines and 90 percent of trade values, but the benchmark for Vietnam is just 75 percent of trade value. Korea completed this NT Track roadmap on January 1st 2010; ASEAN-6 fulfilled the roadmap on January 1st, 2012; the

deadline for Vietnam's implementation is January 1st, 2018, and that for Cambodia, Laos and Myanmar is January 1st, 2020.

- SL: ASEAN-6 and Korea will reduce their SL tariff rates to 0-5 percent by January 1st 2016; Vietnam has to complete the target by January 1st, 2021; and Cambodia, Laos and Myanmar must bring SL tariff rates to 0-5% by January 1st, 2024.

Table 6: Average Tariff Rate (%) of Vietnam in AKFTA

No.	*Categories*	*MFN tariff 2010*	*Tariff commitments*			*Tariff applied in 2010*
			2010	*2011*	*2015*	
1	Fishery products	15.51	20.21	15.41	10.00	20.21
2	Milk and dairy products	8.44	15.32	10.92	10.00	15.32
3	Fruits and vegetables	23.68	19.17	14.60	10.00	19.17
4	Rice, wheat	24.67	17.14	13.93	10.00	17.14
5	Animal and vegetable oil and fat	15.66	14.28	11.36	10.00	14.28
6	Confectionery and cereal products	24.07	24.04	19.15	10.00	24.04
7	Forage and materials	0.61	5.06	3.28	0.00	5.06
8	Tobacco materials	43.70	43.33	12.5[2]	10.00	43.33
9	Petroleum	20.77	9.67	8.01	0-5	9.67
10	Coal	4.00	4.00	4.00	0.00	4.00
11	Other petroleum products	8.78	4.86	3.5	0.00	4.86
12	Chemicals	1.01	0.99	0.90	0.00	0.99
13	Chemical products	6.58	5.24	3.93	0.00	5.24
14	Pharmacy and pharmaceutical materials	1.62	3.40	2.60	0.00	3.40
15	Fertilizers	1.13	0.00	0.00	0.00	0.00
16	Plastic materials and products	8.56	7.60	5.90	0-5	7.60
17	Rubber and rubber products	10.99	6.84	5.57	0-5	6.84
18	Wood and wooded products	7.04	7.38	5.76	0-5	7.38
19	Paper and paper products	13.59	15.90	12.15	0-5	15.90
20	Fibers, yarns	3.27	3.47	3.47	0.00	3.47
21	Garment fabric	12.00	12.00	12.00	0-5	12.00
22	Materials of textiles, garments, leather, shoes	8.23	6.85	5.83	0-5	6.85
23	Gemstones, precious metals and products	10.57	9.58	7.82	0-5	9.58
24	Iron and billet steel	7.31	5.58	4.43	0.00	5.58
25	Other metals	5.68	5.15	3.85	0.00	5.15
26	Computers, electronic products and peripherals	9.01	6.27	4.74	0.00	6.27
27	Machinery, equipment, tools, spare parts	9.04	3.89	2.96	0.00	3.89
28	Electric wires and cables	8.00	5.24	4.35	0.00	5.24
29	Completely-built-up automobile	37.00	8.49	5.81	0-5	8.49
30	Other transport means and spare parts	6.20	5.91	4.65	0-5	5.91

Note: for AKFTA, committed tariff rate is the applied one.
Source: Truong Dinh Tuyen et al. (2011)

[2] From 2010 to 2011, import tariff was reduced sharply. In 2010, value of tobacco materials imported from Korea to Vietnam was negligible. In the first half of 2011, import value of this product reached nearly USD 1.8 million. Some major exporters of tobacco materials to Vietnam are Brazil (over USD 28 million), China (over USD 15 million), Japan (about USD 19 million) and some other ASEAN countries such as Malaysia, Indonesia, and the Philippines. (Source: *General Department of Customs*)

- HSL: for ASEAN-6 and Korea there are 200 tariff lines at the 6-digit HS level or 3 percent of the total tariff lines at the HS digit level selected by each country and 3 percent of trade value. For CLMV: the List includes 200 tariff lines at the 6-digit HS level or 3 percent of the total tariff lines at the HS level selected by each country.

The roadmap of High Sensitive List consists of 5 categories as follows:

Category A: ASEAN-6 and Korea have to reduce tariff rates to 50 percent by January 1st 2016; Vietnam: bound rates of 50 percent by January 1st 2021; Cambodia, Laos, Myanmar: bound rates of 50 percent by January 1st, 2024.

Category B: ASEAN-6 and Korea: to cut 20 percent of tariff rates (MFN tariff rates as of January 1st 2005) by January 1st 2016; Vietnam: to reduce 20 percent of tariff rates by January 1st 2021; Cambodia, Laos, Myanmar: to reduce 20 percent of tariff rates by January 1st 2024.

Category C: ASEAN-6 and Korea: to reduce 50 percent of tariff rates (MFN tariff rates as of January 1st 2005) by January 1st 2016; Vietnam: to cut 50 percent of tariff rates by January 1st 2021; Cambodia, Laos, Myanmar: to reduce 50 percent of tariff rates by January 1st 2024.

Category D: tariff quota is negotiated bilaterally.

Category E: exclusion of 40 tariff lines at the 6-digit HS level from tariff reduction and elimination.

2.4. ASEAN-Japan Comprehensive Economic Partnership Agreement

ASEAN and Japan has negotiated and signed the ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEP) on April 1st 2008 which officially took effect from December 1st 2008.

In terms of tariff reduction, the Agreement provides for the roadmaps as follows:

- NT List: for Japan: the list includes 92 percent of tariff lines and trade value, of which 88 percent of tariff lines became 0 percent in 2007 and 90 percent of tariff lines fell to 0 percent in 2013; for ASEAN-6, 90 percent of tariff lines will be 0 percent in 2013, based on bilateral EPA commitments; for Vietnam, 90 percent of tariff lines will be reduced to 0 percent by 2023.

- SL: Final tariff rate will be 5 percent by 2018 (according to bilateral EPA commitments).

- HSL: Final tariff rate will be 50 percent (according to bilateral EPA commitments).

- Exclusion List: no commitment of tariff reduction; the list includes 1 percent of tariff lines, defined by bilateral EPA commitments.

Basically, commitments between Vietnam and Japan in AJCEP are lower than those in the Vietnam-Japan Economic Partnership Agreement (VJEPA). For this reason, detailed analysis of tariff commitments of Vietnam and Japan will be presented in sub-section 2.7.

2.5. ASEAN- Australia- New Zealand Free Trade Area Agreement

The main contents of ASEAN-Australia-New Zealand Free Trade Area Agreement (AANZFTA) regarding tariff reduction are:

- For Vietnam: 90 percent of tariff lines will be eliminated in 2018-2020 under the NT; 7 percent of total tariff lines are under the SL, of which tariff rates will be cut to 5 percent by 2022, and tariff rates following HSL will be reduced to 7-50 percent by 2022. The GEL consists of 3 percent of the total tariff lines.
- For Australia, New Zealand and ASEAN-6: 90 percent of tariff lines will be 0 percent by 2015, with some flexibility until 2020.

From Vietnam's perspective, tariff reduction for the majority of products till 2012 was insignificant, as reflected by the small gap in comparison with baseline level (MFN tariff rates in 2007). However, since 2015, Vietnam will have to reduce tariff more rapidly.

For Australia and New Zealand, as the applied tariff rates of those countries have already been low (even in the absence of AANZFTA, about 87 percent of Vietnam's export value to Australia already enjoyed zero import tariff), the impact of tariff cuts by these two countries under AANZFTA is hardly significant.

2.6. ASEAN- India Trade in Goods Agreement

Because of high protection policy of India, the extent of tariff reduction in ASEAN-India Trade in Goods Agreement (AITIG) is different from those in other ASEAN-plus agreements. According to the AITIG, roadmap of tariff reduction is differentiated into five categories with different deadlines and extents of tariff reduction, including NT, SL, HSL, Special List, and GEL. As one of the new members of ASEAN (CLMV), Vietnam may follow a longer tariff reduction roadmap (by 5 years) than ASEAN countries and India. Despite a longer roadmap, Vietnam still enjoys preferential treatments from tariff cut commitments by India and other ASEAN countries. The detailed commitments of Vietnam are summarized in Table 7.

The NT of Vietnam consists of 80 percent of tariff lines, which will be reduced to 0 percent on December 31st 2017. Among them, 9 percent of total tariff lines will be reduced to 0 percent with flexibility until December 31st, 2020 (NT2). SL accounts for 10 percent of total tariff lines, with the rates being reduced to 5 percent or below by December 31st 2020 (for ASEAN-6 and India, the deadline is 2015). 4 percent of tariff lines in the SL will be eliminated by December 31st, 2023. 50 tariff lines with MFN rates of 5 percent will remain unchanged. The remaining tariff lines will be cut to 4.5 percent immediately after the Agreement takes effect and to 4 percent by December 31st, 2015 for ASEAN-6, while CLMV countries have to fulfill similar commitments by December 31st, 2020.

The Special List includes some of India's highly sensitive products which are key export products of Vietnam. In response to Vietnam's request, India agreed to reduce tariff to 45 percent for coffee and black tea, and 50 percent for pepper by December 31st 2018.

The HSL consists of 244 tariff lines which are divided into three groups: (i) those being reduced to 50 percent; (ii) those being reduced by 50 percent; *and* (iii) those being reduced by 25 percent. The deadline for completion is December 31st 2023.

The GEL has 485 tariff lines, covering the products excluded from tariff reduction. India retains 489 tariff lines in the list which accounted for 5 percent of trade value. With large scope of exclusion, the GEL includes most of the products which Vietnam needs to protect.

Similar to other FTAs, tariff reduction by Vietnam in the early years (after the agreements) is rather slow. The pace will however accelerate towards the end of the reduction roadmap.

Table 7: Average Tariff Rate of Vietnam in AITIG (%)

No.	*Category*	*MFN in 2010*	*Applied tariff rate in 2011*	*Tariff commitments*			
				2009	*2011*	*2015*	*2020*
1	Materials of textiles, garments, leather, shoes	8.2	7.6	8.6	7.6	4.8	1.4
2	Other petroleum products	8.8	4.0	4.5	4.0	2.0	0.0
3	Fishery products	15.5	25.4	28.8	25.4	18.4	9.2
4	Computers, electronic products & peripherals	9.0	9.0	9.9	9.0	6.8	4.0
5	Gemstones, precious metals & products	10.6	3.9	4.3	3.9	2.5	0.0
6	Rice, Wheat	24.7	25.5	29.5	25.5	13.6	0.0
7	Wood & Wooden Products	7.0	6.0	6.8	6.0	3.6	0.7
8	Copper	0.8	3.3	3.6	3.3	1.8	0.5
9	Animal and vegetable oil and fat	15.7	11.8	14.1	11.8	7.3	0.9
10	Machinery, equipment, tools & accessories	9.0	5.8	6.6	5.8	3.8	1.2
11	Oil and petrol	20.8		x	x	x	x
12	Rubber and rubber products	11.0	7.1	8.2	7.1	3.8	0.0
13	Completely- Built-Up Automobiles	37.0		GEL	GEL	GEL	GEL
14	Electrical wires and cables	8.0	5.3	6.0	5.3	3.2	0.0
15	Pharmacy and raw pharmaceutical materials	1.6	3.6	3.6	3.6	2.8	2.3
16	Plastic materials and plastic products	8.6	9.6	10.3	9.6	6.7	2.9
17	Garment	12.0	9.0	10.7	9.0	6.5	2.7
18	Iron and steel (including billets)	7.3	8.9	9.1	8.9	7.6	6.6
19	Milk and dairy products	8.4	18.0	20.9	18.0	12.3	4.3
20	Fruits and vegetables	23.7	23.3	27.4	23.3	13.08	0.515
21	Forage and materials	0.6	6.6	7.1	6.6	4.3	1.4
22	Other transport means and spare parts	6.2	4.5	5.1	4.5	2.7	0.0
23	Confectionery and cereal products	24.1	29.8	33.3	29.8	19.3	8.2
24	Paper and paper products	13.6	13.8	16.0	13.8	8.7	2.2
25	Other metals	5.7	3.2	3.5	3.2	2.0	0.6
26	Chemical products	6.6	10.4	11.1	10.4	8.0	4.8
27	Tobacco materials	43.7	17.9	21.8	17.9	9.9	0.0
28	Fertilizers	1.1	4.0	4.1	4.0	2.4	0.1
29	Fibers, yarn	3.3	4.2	4.6	4.2	2.5	0.8
30	Chemicals	1.0	4.1	4.5	4.1	2.4	0.2

Source: Truong Dinh Tuyen et al. (2011)

2.7. Vietnam-Japan Economic Partnership Agreement

Being the first bilateral FTA that Vietnam has signed, Vietnam-Japan Economic Partnership Agreement (VJEPA) has comprehensive coverage, including regulations on trade in goods, services trade, investment, intellectual property, competition, government procurement and other areas of economic cooperation. The agreement was signed in December 2008 and came into force on October 1st 2009. Tariff commitments between

Vietnam and Japan under VJEPA are based on request-offer method, rather than following some specific model as in other FTAs. In terms of general commitments, Vietnam agreed to phase out 87.66 percent of trade value within 10 years. Accordingly, Vietnam will include 8,873 out of 9,390 tariff lines in the Tariff Commitment Schedule (excluding 57 lines of CKD automobile and 428 lines without tariff reduction). In particular, immediately after the Agreement came into effect, Vietnam had to bring 2,586 tariff lines (28 percent of 9,390 tariff lines in the Tariff Commitment Schedule) to zero percent, mainly including of chemical, pharmaceutical products and electronic products. By 2019, another 3,717 products will have their tariff reduced to zero, thereby lengthening the list of duty-free products to 6,303, i.e. 67 percent of lines in the Tariff Commitment Schedule.

Table 8: Vietnam's average tariff rate in VJEPA (%)

No.	*Category*	*MFN 2010*	*Applied tariff rate in 2010*	*Vietnam's average tariff rate*			
				2010	*2016*	*2019*	*2024*
1	Materials of textile, garments, leather, shoes	8.2	7.3	7.3	2.8	0.6	0.0
2	Other petroleum products	8.8	2.5	2.5	0.6	0.0	0.0
3	Fishery products	15.5	26.5	26.5	14.2	8.1	0.4
4	Computers, electronic products & peripherals	9.0	7.5	7.5	3.1	1.9	1.0
5	Gemstones, precious metals & products	10.6	9.3	9.3	5.0	2.9	0.0
6	Rice, Wheat	24.7	27.1	27.1	15.4	9.5	0.0
7	Oil and fat of animals and plants	7.0	6.2	6.2	3.0	1.4	0.0
8	Machinery, equipment, tools & accessories	15.7	16.7	16.7	8.6	4.6	0.0
9	Petroleum	9.0	11.8	11.8	10.9	10.8	10.8
10	Rubber and rubber products	20.8		x	x	x	x
11	Completely-build-up automobiles	11.0	7.6	7.6	3.9	2.1	0.5
12	Electrical wire and cable	37.0		x	x	x	x
13	And pharmaceutical raw materials	8.0	8.7	8.7	3.8	2.0	1.3
14	Plastic materials and plastic products	1.6	2.9	2.9	1.0	0.1	0.0
15	Oil and fat of animals and plants	8.6	9.2	9.2	3.5	0.7	0.1
16	Garment fabric	12.0	9.8	9.8	3.2	0.9	0.9
17	Iron and steel, steel billets	7.3	7.1	7.1	1.6	0.2	0.1
18	Milk & dairy products	8.4	19.0	19.0	10.0	5.5	0.7
19	Fruits and vegetables	23.7	25.9	25.9	14.4	8.6	0.0
20	Forage & materials	0.6	7.1	7.1	2.5	0.1	0.0
21	Means of transport (ships, boats)	6.2	7.1	7.1	2.4	0.0	0.0
22	Confectionery and cereal products	24.1	30.3	30.3	15.6	8.3	0.0
23	Paper and Paper Products	13.6	16.2	16.2	5.0	0.3	0.3
24	Other metals	5.7	4.2	4.2	1.4	0.0	0.0
25	Chemicals	1.0	4.6	4.6	1.6	0.2	0.1
26	Materials of tobacco	43.7		x	x	x	x
27	Fertilizers	1.1	4.9	4.9	2.0	0.6	0.0
28	Fibers, yarns	3.3	1.9	1.9	0.0	0.0	0.0
29	Chemical products	6.6	11.0	11.0	4.7	1.6	0.0

Note: X: no commitment.
Source: Truong Dinh Tuyen et al. (2011).

Evidently, Vietnam's preferential treatment for Japan is rather low in comparison with those provided by other ASEAN countries under bilateral agreements with Japan. The main sectors which Vietnam needs to protect are: (i) alcoholic beverage, oil and petrol; (ii) automobile and spare parts, machinery; (iii) iron and steel; (iv) chemical and textiles; (v) beverage, motor vehicles, motorbikes.

Meanwhile, Japan will have to liberalize 94.5 percent of trade value within 10 years. Immediate tariff elimination will be undertaken for 69.6 percent of trade value (the highest proportion among the EPAs signed between Japan and ASEAN countries). 1,638 tariff lines have the best preferential treatment that Japan provides for some ASEAN countries. In particular, Japan's commitments on agricultural products are the most open compared to those with other ASEAN countries. Japan is committed to abolish tariff for 83.8 percent of Vietnam's agricultural exports within 10 years, which also represents the highest commitment among EPAs with ASEAN countries. The products from Vietnam that are guaranteed with best preferential treatment (in comparison with other ASEAN countries) by Japan include honey (with the annual quota of 100 tons, to be raised gradually to 150 tons; the tariff within quota is 12.8 percent), ginger, garlic, litchi, durian, shrimp and crab. According to statistics, 23 out of top 30 agricultural, forestry and fishery export products from Vietnam to Japan will enjoy zero percent tariff rate immediately or within 10 years.

2.8. Commitments upon WTO Accession

2.8.1. Tariff Commitments

Upon joining the WTO, Vietnam made binding commitments on all current (about 10,600) import tariff lines. Final bound rate on average (13.4 percent) will be 23 percent smaller than the current average tariff rate (i.e. the MFN tariff rate in 2005, or 17.4 percent). The period for tariff reduction is from 5 to 7 years. Specifically, Vietnam will reduce tariff rates for about 3,800 tariff lines, apply the current tariff rates as final bound rates for about 3,700 tariff lines, and apply final bound rates (higher than current tariff rates) for 3,170 tariff lines, mainly for such categories as oil and petrol, metal, chemicals, and transport means. High tariff rates (more than 30 percent) for some categories will be cut immediately upon WTO accession. The categories with the largest committed tariff reduction are: textiles and garment, fish and related products, wood and paper, other manufactured goods, machinery, electric and electronic products.

In agriculture, average committed rate is 25.2 percent by the date of accession and average final bound rate will be 21 percent. In comparison with the average MFN rate on agriculture before WTO accession (i.e. of 23.5 percent), the extent of tariff reduction is 10 percent. Vietnam reserves the right to apply tariff quota on 4 products,

namely eggs, sugar, tobacco leaves, and salt. For these 4 products, in-quota tariff rates are equal to the current MFN counterparts (40 percent for eggs, 25 percent for crude sugar, 50 to 60 percent for refined sugar, 30 percent for tobacco leaves, 30 percent for white salt), which are much lower than out-of-quota tariff rates.

In industry, average committed rate by the time of accession is 16.1 percent and the average final bound rate will be 12.6 percent. In compared to the average MFN before WTO accession (16.6 percent), the extent of tariff cut is 23.9 percent.

Like other new WTO members, Vietnam is also committed to join some sector-specific liberalization agreements. The sectors which Vietnam has fully engaged in are Information Technology Agreement (ITA), textiles and clothing, and medical equipments. Some sectors that Vietnam has partly joined are aircraft devices, chemicals and construction equipments. As the key content of these agreements, Vietnam is committed to phase out tariff (mostly to 0 percent) within 3 to 5 years. Among these agreements, ITA constitutes the most important one, with abolition of about 330 tariff lines on information technology (IT) products within 3 to 5 years. Accordingly, electronic products such as computers, mobile phones, camcorders, digital cameras, etc. will all have the tariff rates of 0 percent within 3 to 5 years, or 7 years at the maximum. Joining the WTO Agreement on Textiles and Clothing (to multilateralize the already committed tariff under Textiles and Clothing Agreements with the EU and the US) will also lead to dramatic tariff reduction on textile and garment products.

Therefore, for many IT products, textiles and garment products, Vietnam's tariff reduction takes place faster in WTO than in FTAs, notwithstanding the same final bound rates.

Table 9: Average Committed Tariff According to Main Categories

No.	*Categories*	*Accession bound rate*	*Final tariff rate*
1	Agricultural products	25.2	21
2	Fish and related products	29.1	18
3	Oil and Gas	36.8	36.6
4	Wood, paper	14.6	10.5
5	Textiles and garment	13.7	13.7
6	Leather products, rubber	19.1	14.6
7	Metals	14.8	11.4
8	Chemicals	11.1	6.9
9	Transport equipment	46.9	37.4
10	Mechanical machinery and equipment	9.2	7.3
11	Electrical machinery and equipment	13.9	9.5
12	Minerals	16.1	14.1
13	Other manufactured goods	12.9	10.2
14	**Overall**	**17.2**	**13.4**

Source: Authors' compilations.

2.8.2. Services Liberalization Commitments

WTO Commitments

Vietnam has committed to open market to *11 services sectors, or 110 subsectors out of 155 subsectors* according to the WTO's services classification. In general, regarding the committed services sectors, *Vietnam has few restrictions related to Mode 1 and Mode 2, a lot more restrictions related to Mode 3, and almost no commitment related to Mode 4.*

Construction services are the only sector in which Vietnam has commitments with all subsectors. Other sectors such as distribution, financial services, communication, educational services, and environmental services have rather large number of subsectors whereby Vietnam has commitments. The sectors which have the least number of committed subsectors are entertainment, culture, sports and transport.

The services sectors/subsectors in which Vietnam is committed to open most rapidly, without a transition period, consist of: construction services, banking services, insurance services, health services (with restrictions in hospital services, dental services and diagnosis services), tourism services (with restrictions in hotels, restaurants, travel agencies services and tour operators), and some business services. However, in reality, apart from banking services, commitments on other sectors/subsectors in the above list are already reflected in prevailing regulations upon accession. That is, high commitments related to these sectors/subsectors might not affect the domestic market seriously.

The services sectors/subsectors in which Vietnam is committed to open rapidly, but with transition period, include: some business services, communication services, distribution services, educational services, environmental services, securities-related services, and transport services. However, in general, Vietnam's commitments in terms of these sectors/subsectors are more open than implied by current regulations (Hoang Phuoc Hiep, 2006). Accordingly, the projected impact of opening the aforementioned sectors/subsectors on Vietnam's services market, particularly from 2012 onwards, would be significant.

The services sectors/subsectors - in which Vietnam has commitments but of limited openness - include: telecommunication services; advertisement services; services related to agriculture, hunting, forestry; film production, distribution, showing services; recreational, cultural, sport services; maritime transport services, internal waterways transport services; road and rail transport services. These services have complicated and strict commitments on capital contribution.

The services sectors/subsectors in which Vietnam is yet to have commitment consist of: veterinary services, real/leasing services relating to other machinery and

equipment (business services), sound recording services (communication services); primary education services.

Comparison between Commitments on Services in FTAs

At the time of WTO accession, Vietnam's services commitments under the WTO generally have a larger scope than those under FTAs. To date, services commitments in FTAs basically do not exceed WTO's commitments on services. Only in ASEAN framework does Vietnam have wider commitments than in WTO, yet these commitments do not surpass the current status of services liberalization in Vietnam.

The below section analyses and compares Vietnam's horizontal and specific commitments on services in WTO with those in some other Agreements, namely: (i) ASEAN Framework Agreement on Services (AFAS); (ii) Agreement on Trade in Services Liberalization within the Framework Agreement on ASEAN-China Comprehensive Economic Cooperation (ACTIS); (iii) Agreement on Trade in Services Liberalization within the framework of AKFTA (AKTIS); (iv) the Vietnam-US BTA; *and* (v) VJEPA. These are the key bilateral and multilateral agreements with significant impacts on Vietnam's international integration regarding services. Table 10 lists the basic information of the above-mentioned agreements and compares them with General Agreement on Trade in Services (GATS) of WTO. Notably, AFAS, ACTIS, AKTIS are specific agreements on trade and services; while VJEPA and VN-US BTA only incorporate trade in services as a chapter. [3]

As shown in Table 10, the agreements related to trade in services that Vietnam has signed are generally built on the basis of GATS. Therefore, contents and basic regulations of these agreements are very similar such as regulations on scope of adjustment over service sectors/sub-sectors, modes of service supply, obligations, general principles, rules of negotiation and commitments, structure of commitment schedule, methods of market access restrictions, etc. Maintaining such a consistency among the agreements does facilitate Vietnam's efforts, not only during negotiation process but also in implementing the commitments.

[3] Chapter 7 in VJEPA and Chapter 3 in VN-US BTA.

Table 10: Comparison between Common Issues of GATS with AFAS, ACTIS, AKTIS, VJEPA and US - VN BTA

No.	*Criterion*	*GATS*	*AFAS*	*ACTIS*	*AKTIS*	*VJEPA*	*VN-US BTA*
1	Date of effect	January 1st 1995	- Signed on: December 15th 1995 - 5 rounds of negotiation with 7 packages of commitment - 7th package of commitment: February 26th 2009	July 1st 2007	May 1st 2009	January 1st 2009	December 10th 2001
2	Definition of services	- Following rules of GATS	- Similar to GATS			- Similar to GATS*	
3	Modes of service supply	- 4 modes	- Similar to GATS				
4	Classification of services sectors and subsectors	- WTO's services classification is built on UN PCPC, with detail to each subsector. - Do not explain specific coverage of each subsector	- ASEAN's services classification is built based on UN PCPC and the WTO's services classification. - Explain specific coverage each subsector; more detailed than WTO's services classification.	- Similar to AFAS			- Similar to GATS

No.	*Criterion*	*GATS*	*AFAS*	*ACTIS*	*AKTIS*	*VJEPA*	*VN-US BTA*
5	General obligations and principles	- Most important obligations: + MFN Principle; + Transparency.	- Similar to GATS				
			- Additional principle of "GATS plus"	- Similar to AFAS			
6	Structure of commitment schedule	- 3 parts + Market access + Horizontal commitments + Specific commitments + MFN exemption list	- Similar to GATS				
7	Specific commitments	- 2 specific commitments following GATS rules + Market access + National treatment - Additional commitments	- Similar to GATS				

No.	*Criterion*	*GATS*	*AFAS*	*ACTIS*	*AKTIS*	*VJEPA*	*VN-US BTA*
8	Other basic principles and obligations	- Similar to rules of GATS (economic integration, announcement of secret information, domestic regulations, recognition, monopoly and provision of monopoly services, restrictions to protect balance of payment, emergency measures, etc.)	- Built based on GATS rules. - Refer to GATS in the absence of provisions.				
9	Approaches in negotiating and making commitments	- Positive list; - Negative list;	- Positive list; - Negative list; - Negotiation of common services subsectors; - Negotiation of amended common services subsectors; - "ASEAN-minus-X" formula	- Similar to GATS			

No.	*Criterion*	*GATS*	*AFAS*	*ACTIS*	*AKTIS*	*VJEPA*	*VN-US BTA*
10	Main issues of services being negotiated	- Access to services market					- Negotiation completed
		- Public services - Domestic regulations; - Emergency safeguarding measures	- Prioritized services: health, tourism, air transport, e-ASEAN, finance, logistics, etc. - Mutual recognition in services sectors such as: technical consultation, land survey, medical clinics and treatment, architecture, etc.) - Facilitation of movements of natural people to supply services	- Prioritized services: finance, telecommunication.	- Prioritized services: finance, telecommunication.		

Source: Authors' compilation from WTO(2006), MOIT and MUTRAP II (2009), MUTRAP III (2009b), MUTRAP III (2011b), MUTRAP III (2011c), Vergano et al. (2010).

*Note: * provisions in Chapter 7 of services in trade do not apply to (1) air transport services (except repair and maintenance of aircraft, sales and marketing air transport services, on-line booking and reservation services; (2) coastal transport services; (3) measures related to immigration laws and regulations.*

Table 11: Comparison between horizontal commitments of Vietnam under GATS with those under AFAS*, ACTIS, AKTIS, VN-US BTA and VJEPA

Comparison criteria	*GATS*	*VN-US BTA*	*AFAS and ACTIS*	*VJEPA*	*AKTIS*
1. Market access					
1.1. Commercial presence	- Business cooperation contract; - Joint-venture company; - Wholly foreign invested company; - Representative office; - No commitment on establishment of branches	- Similar to GATS			
1.2. Retain preferential treatment for overseas suppliers.	- Retainment of conditions related to ownership, activities, form of legal entity, scope of operations.	- Retainment in place, but lacking details relative to GATS	- Similar to GATS		
1.3. Proportion of capital contribution via share acquisition	- No more than 30 percent; - Abolish the 30 percent ceiling in one year after accession, unless otherwise specified in specific commitments.	- No more than 30 percent; - Maintain the ceiling of 30-percent in 3 years.	- No more than 30 percent; - Abolish the 30 percent ceiling since 2007, unless otherwise specified in specific commitments.	- No more than 30 percent; - Abolish the 30 percent ceiling immediately after VJEPA is in effect, unless otherwise specified in specific commitments.	- Similar to GATS
1.4. Movement of natural person - Movements inside company	- Entry and stay in the initial period of 3 years, and can later be extended; - At least 20% of the managers must be citizens of Vietnam. - Foreign firms are allowed to have a minimum of 03 managers	- Similar to GATS - Unbound - Similar to GATS	- Similar to GATS	- No specific provisions like GATS for each type of natural person providing services except: + At least 20% of managers must be citizens of Vietnam.	- Similar to GATS

Comparison criteria	*GATS*	*VN-US BTA*	*AFAS and ACTIS*	*VJEPA*	*AKTIS*
- Services offering people and people responsible for setting up commercial presence - Services suppliers under contracts - Other people	- Stay of shorter than 90 days - Stay less than 90 days - Entry and stay in the initial period of 3 years and then can be extended.	- Unbound - Unbound - Unbound		+ Foreign firms are allowed to have a minimum of 03 managers	
2. National treatment					
2.1. Related to Mode 3 - Commercial presence	- Retainment of domestic subsidies + Subsidies to improve welfare and create jobs for ethnic minorities; + R & D Subsidies; + Health, education, audio-visual aid subsidies + Once-off allowance for SOE equitization	- Retainment of domestic subsidies + Assign land for investment projects; + R & D support; + Education support; + *Other support*	- Similar to GATS		
2.2. Related to Mode 4 – Movement of natural person	Unbound	- Similar to GATS			

Source: Authors' compilations from WTO(2006), MOIT and MUTRAP II (2009), MUTRAP III (2009b), MUTRAP III (2011b), MUTRAP III (2011c), Vergano et al. (2010).

*Note: * Vietnam's commitments on services under AFAS are from the 7th Package. ASEAN countries are currently negotiating the 8th Package which tentatively has a higher level of commitment than WTO.*

Comparison of Horizontal Commitments

As illustrated in Table 11, the horizontal commitments under AFAS, ACTIS, AKTIS and VJEPA are very similar to those under GATS, with some exceptions related to timing of abolishing ceiling of capital contribution (30 percent) and movement of natural people in Mode 3. Such a similarity provides greater ease and convenience for Vietnam in implementing commitments related to services sector, especially in avoiding inconsistency and conflicts in amending and issuing related legal documents.

Comparison of Specific Commitments

(i) Scope of commitments

Under GATS framework, Vietnam is committed to open 11 services sectors, or about 110 out of 155 services sub-sectors, according to WTO services classification. The only service sector whereby Vietnam made no commitment is "Other services". The scopes of commitments in ACTIS and AKTIS are entirely the same as that under GATS (Table 8).

Within the framework of AFAS, Vietnam is committed to open 11 services sectors or 105 services sub-sectors. Compared with GATS commitments, Vietnam has wider scope of commitments under AFAS (in terms of number of sub-sectors) in communications, health and tourism services, while the reverse holds in business and transport services. In other services sectors, the number of services sub-sectors with liberalization commitments are the same. Thus, compared with GATS, ACTIS, and AKTIS, AFAS has smaller scope of commitments by Vietnam, though the difference is insignificant. Therefore, ASEAN member countries are currently negotiating the 8th package of commitments, seeking to achieve wider scope and larger extent of commitment in comparison with GATS.

Table 12: Comparison of Vietnam's services commitments in international agreements

No.	*Sectors*	*Number of sub-sectors in WTO regulations*	*Number of sectors and sub-sectors committed by Vietnam*					
			GATS	*AFAS*	*ACTIS*	*AKTIS*	*VN-US BTA*	*VJEPA*
1	Business services	46	26	21	26	26	15	26
2	Communication services	24	19	20	19	19	17	19
3	Construction services	5	5	5	5	5	4	5
4	Distribution services	5	4	4	4	4	3	4
5	Educational services	5	4	4	4	4	3	4
6	Environmental services	4	3	3	3	3	0	3
7	Financial services	17	16	16	16	16	16	16
8	Health services	4	2	3	2	2	2	2
9	Tourism services	4	2	3	2	2	2	2
10	Recreational, cultural, sports services	5	2	2	2	2	0	2
11	Transport services	36	17	14	17	17	0	17

Source: Authors' compilations from WTO (2006).

(ii) Extent of commitments

In the VN-US BTA, Vietnam made commitment to open eight services sectors, including about 65 services sub-sectors (ASEAN 2007). Thus, the scope of Vietnam's commitment under VN-US BTA is noticeably narrower than GATS. This is largely because the VN-US BTA was signed long before Vietnam joined the WTO.

Commitments under GATS, VN-US BTA, AFAS, ACTIS, AKTIS and VJEPA all reflect a consistency in Vietnam's policies. As for the market access commitments, Vietnam has few restrictions related to Mode 1 and Mode 2 whilst being rather skeptical about opening access via Mode 3 and Mode 4, especially Mode 3. Regarding national treatment commitments, the extent of openness for each mode of service supply is quite similar to that under market access commitments, except Mode 3. In Mode 3, Vietnam grants higher level of openness in national treatment commitments than in market access commitments.

Services commitments under GATS go inconsiderably beyond the VN-US BTA. For the most sensitive service sectors such as insurance, distribution, and tourism, etc., GATS commitments are almost at the same level with those under VN-US BTA. In particular, for some sectors such as telecommunications, banking, and securities, Vietnam proceeded further, making more market access commitments under GATS than in VN-US BTA in order to quickly finalize negotiations (National Committee for International Economic Cooperation, 2007). However, GATS commitments are generally not too far from the status-quo, whilst being relevant to the development guidelines for these sectors.

Specific commitments under GATS attain the same depth as those under AFAS, ACTIS, AKTIS and VJEPA. More precisely, after joining the WTO, Vietnam adopted GATS commitments as the basis for negotiating and signing arrangements related to services with other countries.

As an implication from the above comparisons, disaggregating the impacts of implementing WTO commitments and of implementing other commitments is hardly possible. This is because fulfilling commitments under GATS also means Vietnam is implementing commitments under other international arrangements.

2.8.3. Commitments on Trading Rights (Right to Export and Right to Import)

When joining the WTO, Vietnam is committed to allow foreign-invested enterprises (FIEs) to export most commodities. As for rice, Vietnam only permits right to exports for FIEs since 2011 because of food security reason. Notably, right to export may not be accompanied by the right to establish buyers' network to gather goods for export.

So far, Vietnam has allowed FIEs to import and re-sell most products to domestic customers. Nonetheless, the right to import of FIEs may not be associated with the right to distribute products locally.

3. INVESTMENT COMMITMENTS AND OTHER COMMITMENTS

3.1. ASEAN Investment Agreement

Intra-ASEAN investment activities are adjusted by the two existing agreements, namely Investment Guarantee Agreement (IGA) signed in 1987 and the Framework Agreement on ASEAN Investment Area (AIA) concluded in 1998 by ASEAN countries.

As its most important principle, AIA provides for the implementation of national treatment and opening of economic industries for investors in a roadmap, with exceptions related to some specific sectors and issues. Accordingly, in addition to the measures and sectors positively listed in their own Temporary Exclusion List (TEL) and SL, member countries also add to TEL the unopened sectors or those without national treatment commitments for ASEAN investors in AFTA-plus-seven period; that is, the deadline for retreating from TEL is 2013 for Vietnam, 2010 for ASEAN-6, and 2015 for Laos and Myanmar.

SL includes measures or sectors without clearly defined time for national treatment or openness to ASEAN investors. However, the list was reviewed by ASEAN member countries in 2003 so that it could later, in each period, be shortened or gradually shifted to TEL. The above lists are announced by member countries based on their own interest and socio-economic situation without having to negotiate with others.

Table 13: Deadlines for opening sectors and applying national treatment for ASEAN investors

	Opening sectors				*Applying national treatments*			
Sector/Industry	*TEL*			*SL*	*TEL*			*SL*
	ASEAN-6	CLM	VN		ASEAN-6	CLM	VN	
Production	2003	2010 Myan. 2003	2010	Not defined	2003	2010 Myan. 2003	No	Not defined
Agriculture	2010	2015 Cam. 2010	2013	Not defined	2010	2015 Cam. 2010	No	Not defined
Forestry	2010	2015 Cam. 2010	2013	Not defined	2010	2015 Cam. 2010	No	Not defined
Fishery	2010	2015 Cam. 2010	2013	Not defined	2010	2015 Cam. 2010	No	Not defined
Mining and quarrying	2010	2015 Cam. 2010	2013	Not defined	2010	2015 Cam. 2010	No	Not defined
Services related to the above sectors/ industries	2010	2015 Cam. 2010	2013	Not defined	2010	2015 Cam. 2010	No	Not defined

Source: Tran Hao Hung (2008).

To create a more favourable investment environment and amend some provisions in investment agreements which were no longer appropriate, in February 2009, ASEAN Economic Ministers signed the ASEAN Comprehensive Investment Agreement (ACIA). The agreement consists of seven general guiding principles for members; accordingly, when fulfilling commitments, member countries have to comply with these principles in order to ensure feasibility of the Agreement.

First, regulations on investment liberalization, investment protection, promotion and facilitation of investment. Basically, investment liberalization and investment protection inherited provisions of AIA and IGA. However, the scope of object under protection is wider. Investment promotion is conducted through directions such as developing small- and medium-sized enterprises (SMEs) and the transnational companies, developing supporting industries and production networks; organizing survey teams to develop regional complex and production networks; organizing and supporting seminars on investment opportunities, investment provisions, policies and ideas exchanging on other related issues. Creating favorable conditions for investors through the key measures such as creating the necessary environment for all forms of investment; simplifying investment procedures for registration and licensing; and disseminating information related to investment; setting up single window on investment; consolidating database of investment policies to help formulate policies to improve intra-regional investment environment; consulting with business community on issues related to investment; and providing advisory services to business community.

Second, making continuously efforts towards investment liberalization, seeking to achieve a free and open regional investment environment. This principle requires each member country to adopt appropriate liberalization policies and roadmap in line with their own and regional development context, thereby contributing to the establishment of the AEC.

Third, guaranteeing interest and investment outlay of investors, including those from ASEAN and those investing in ASEAN. Guaranteeing interest is understood as provision of equal treatment, security, and fairness in lawsuits, administrative procedures or any policies related to the implementation of rights and obligations of investors.

Fourth, the principle of national treatment requires member states to treat investors from other member countries and their investment no less favourable than what have been reserved for investors from their own countries. Compared with other agreements on investment encouragement and protection that Vietnam has joined or signed with other countries, this principle retains the same contents, because its application is considered as international practice to ensure fair competition while ACIA is no exception.

Fifth, no retroaction of AIA and IGA. ACIA will replace AIA and IGA. Therefore, commitments of member countries in AIA and IGA related to all investment activities will no longer be applied when ACIA takes effect. However, this provision excludes the implementation of compensation obligation arising during the implementation of AIA and IGA commitments.

Sixth, providing special and differential treatment. This principle is considered the commitment by developed member countries to support and ensure the benefit of new member countries with lower development level (including CLMV) and at the same time

guarantee the improvement of benefit from the Agreement in accordance with the initial target. This policy is respected and guaranteed by ASEAN member countries, through technical assistance to strengthen capacity of investment policies and encouragement, including human resource development; commitments in areas bringing benefits to new members and recognition of commitments by new members in accordance with their own development stages.

Seventh, expanding the ACIA scope of adjustment to include other sectors and industries in the future. The member countries will tend to liberalize investment in other sectors and industries; these new sectors and industries will also be under the ACIA scope of adjustment once member countries reach a consensus.

3.2. ASEAN - China Investment Agreement

This Agreement was signed in August 2009 and took effect from January 1st 2010. The parties to this Agreement are committed to support, promote and protect investment of stakeholders, to provide fair and non-discriminatory treatment to investors, to make reasonable compensation in the case investors' assets are nationalized, and to build the mechanism of settling dispute between investors and the State.

To improve infrastructure and promote connectivity between ASEAN and China. China has announced the establishment of the ASEAN-China Investment Cooperation Fund. USD 10 billion has been spent on major joint investment projects of ASEAN and China in such sectors as infrastructure, energy and resources, ICT and some other industries.

3.3. ASEAN – Korea Investment Agreement

The ASEAN-Korea Investment Agreement was signed on June 2nd 2009, with a view to establish a more transparent, enabling and stable environment for investors and capital flows from ASEAN and Korea. The Agreement took effect from September 1st 2009.

The main contents of the Agreement focus on aspects of investment protection, such as provision on fair treatment, full and safe protection of investment; transfering fund regarding investment; and compensation in the case of nationalizing investment.

However, ASEAN and South Korea are currently working to complete substances of planned cooperation, including making liberalization commitments or roadmap to phase out the reserved measures. Within 5 years after the Agreement came into effect, ASEAN and South Korea would discuss and conclude on these substances.

3.4. WTO commitments on investment and government procurement

When joining the WTO, Vietnam is committed to eliminate the requirements of export ratios, local supply development, etc. (trade-related investment measures) for FDI projects.

Although there is no overall commitment on investment policy, Vietnam is obliged to make transparent the aspects of such a policy. Under WTO commitments, Vietnam has confirmed some key principles as follows:

- Investors, enterprises of all ownership types are free to invest and do business in the areas and sectors not prohibited by the laws, and are allowed to determine forms and location of investment, proportion of capital contribution, sale markets, etc. unless otherwise stipulated in international arrangements to which Vietnam is a member.

- The list of industries and sectors in which investment is prohibited or conditional on fulfilling certain requirements will be periodically reviewed to identify overlapping or contradictory regulations, thereby making ways for necessary amendments, additions or abolition.

- The amendment, addition or abolition of the list of industries and sectors - in which investment is prohibited or conditional on fulfilling certain requirements - will fully comply with Vietnam's obligations to the WTO, including that on transparency, and those under GATS and Vietnam's Schedule of Specific Commitments on Services. Opinions of related businesses, individuals and organizations in the amendment and addition of this list during the drafting process will be publicized in accordance with the Law on Promulgation of Legal Documents.

Vietnam also has several commitments to apply licensing conditions and procedures without creating specific barriers to market access.

Regarding government procurement, upon WTO accession, Vietnam is only committed to consider joining the WTO Agreement on Government Procurement. Therefore, Vietnam enjoys full autonomy in making policies and regulations in this area.

3.5. Asia-Pacific Economic Cooperation

The Osaka Action Agenda of the Asia - Pacific Economic Cooperation (APEC) forum defined 15 sectors included in the Collective Action Plan of all member economies, including investment liberalization program with the goal of liberalizing investment in the Asia - Pacific region through: (i) reduction or elimination of restrictions on investment, implementation of WTO Agreements, APEC's principles of non-binding investment, other relevant international agreements and any guidances commonly agreed within APEC, (ii) expansion of the system of APEC's bilateral investment treaties.

To achieve the above objectives, APEC will coordinate to conduct such collective activities as: Enhancing transparency of investment environment in APEC economies; proceeding to formulate APEC investment rules; establishing dialogue mechanism between governments of member economies and of the APEC business community to improve the investment environment; creating a forum to support new WTO Round of negotiations.

3.6. Asia – Europe Cooperation Forum

Among the top priorities of the Asia-Europe Cooperation Forum are to strengthen cooperation among enterprises, and to facilitate trade and investment through the implementation of two cooperation programs including Trade Facilitation Programme and Investment Promotion Action Plan (IPAP). The overall objective of IPAP is to create a favorable investment environment, seeking to increase two-way investment flows between Asia and Europe, implementing cooperation programs to promote investment between members, and strengthening measures to improve policies, mechanisms and regulations on investment in the region.

IPAP members have been implementing the Investment Policy and Regulation Improvement Agenda to establish a high-level dialogue forum on policies improving investment environment toward implementing the non-binding investment principle with the key contents being provisions of national treatments; removal of restrictions related to

the transfer of capital and profits abroad; ensures fair, appropriate treatments in conformity with the principles of international law in the cases of expropriation or confiscation of investments for public purposes; removal of restrictions related to trade in goods for investment projects in accordance with the provisions of the Agreement on Trade-Related Investment Measures (TRIM); implementation of investment dispute settlement mechanism in accordance with international principles and practices; and signing agreements on avoidance of double taxation between the members.

3.7. Bilateral commitments

By the end of 2011, the Government of Vietnam has signed bilateral agreements on investment promotion and protection with over 60 countries and territories. Under these agreements, Vietnam is committed to implementing measures to promote and protect investment in accordance with common international standards and practices, namely:

- Expanding the scope of investment under protection by the Agreement, including direct and indirect investment, contractual rights, tangible assets, intangible assets, intellectual property rights and other rights prescribed by laws.

- Creating favorable conditions to encourage investment of contracting parties by accepting investment in principles of fairness, appropriateness, without damage by unreasonable measures and discrimination.

- Committing to no confiscation, requisition of investors' property by administrative measures except for public purposes, in a manner of no discrimination and with rapid, adequate, efficient compensation, based on market value and in accordance with legal procedures. The measures of expropriation and compensation are implemented on the MFN principle.

- Ensuring transfer of capital, profits and other legal income of investors to their own countries "without delay and by freely convertible currency" in principle.

- Recognizing investors' right to settle disputes with state agencies at administrative courts, international arbitration or any dispute settlement mechanism selected by investors.

3.8. Chapter on Development of Investment Relations in VN-US BTA

Vietnam also has bilateral commitments on investment in the VN-US BTA. Albeit being part of the VN-US BTA, the Chapter on Development of Investment Relations covers similar contents to a complete bilateral agreement on investment promotion and protection between the two countries. The scope of investment activities under protection by the Chapter not only includes direct investment but also indirect investment in the form of stocks, bonds, various types of tangible and intangible assets, intellectual property rights or other contractual rights.

In particular, in addition to similar standards of investment promotion and protection similar to bilateral investment agreements, for the first time Vietnam made binding commitments on national treatment and MFN treatment for US investors. National treatment regime of Vietnam is implemented with exception of several sectors and following the roadmap relevant to current economic conditions of Vietnam in transition.

Apart from the above exceptions without deadline, Vietnam is committed to offering national treatment to US investors in a number of aspects and issues as follows:

a) Narrowing and then eliminating restrictions on foreign investment. Vietnam is committed to eliminate within 5-7 years some provisions of existing laws inconsistent with the WTO Agreement on TRIM. The country will also remove immediately regulation on export-import balance and requirement of foreign exchange management for import goods after the day the Agreement takes effect. In addition, within 3 to 7 years, Vietnam is committed to allowing US investors to establish joint-ventures or wholly-foreign-owned enterprises to do business, except for some products and with some restrictions on capital contribution rate.

b) Gradually implementing the registration regime for investment license issuance. According to this commitment, Vietnam is permitted to retain without deadline the appraisal (during investment certification) for most projects in Category A under the decision authority of the Prime Minister. In addition, within 2 to 9 years, Vietnam will gradually implement the registration regime for investment licensing, applying for investment projects in manufacturing sector, projects with high export ratios, and investment projects in industrial zones (IZs), export processing zones (EPZs), and high-tech zones.

c) Diversifying the methods for raising capital and removing restrictions related to the establishment, organization and management of FIEs. Vietnam is committed to allowing US investors to contribute capital, increase capital, and re-invest using VND currency obtained from legitimate business activities. The country is also committed to eliminate restrictions on investment capital within three years. During this period, also, Vietnam permits US investors to establish joint-stock companies.

d) Implementing roadmaps of unifying prices and fees of some goods and services for domestic enterprises and FIEs. Accordingly, Vietnam will eliminate within 4 years the contemporary dual price system (including prices of electricity, water, telecommunication, fee of international sea ports, vehicle registration and inspection fee, tourism and sightseeing fee etc.).

e) Facilitating business activities, labor recruitment and technology transfer towards: (i) allowing US investors to shift and recruit foreign employees for top management positions in accordance with legislation on immigration and temporary residence of foreigners, (ii) imposing no requirements of technology transfer and manufacturing processes, except the regulations on environmental protection and enforcing decisions by courts or competent authorities, *and* (iii) creating favorable conditions for business activities.

3.9. Vietnam – Japan Agreement for the Liberalization, Promotion and Protection of Investment

Vietnam – Japan Agreement for the Liberalization, Promotion and Protection of Investment (hereinafter referred to as Vietnam – Japan Investment Agreement) came into effect from December 12th, 2004. The Agreement covers comprehensive provisions such as: principles of national treatment and MFN treatment; further improvement of Vietnam's investment environment; making the legislation framework more stable for investors; relaxing and deregulating investment restrictions. Vietnam-Japan Investment Agreement also incorporates commitments related to investment and business at equal or even more favorable level than those under the WTO framework.

Vietnam-Japan Investment Agreement contains detailed, clear and transparent provisions related to investment and incentives. Vietnam offers national treatment and MFN treatment right from pre-investment stage, with many sectors being more opened to Japanese investors. Some regulations on local content and requirement of technology transfer have also been eased. Some services in which Japanese investors show interest - such as finance, banking and insurance - are also open with priority to such investors.

4. GENERAL REMARKS

From the above WTO commitments on tariff, trading rights, distribution, investment, government procurement, some remarks can be made as follows:

- Except for IT and textiles products, WTO tariff commitments for other products have no big impact since the extent of reduction is insignificant and the roadmap is rather long. In particular, compared to the tariff commitments in FTAs of ASEAN, those under the WTO framework have limited impacts (if any) on export and import activities.

- WTO commitments have more impacts in institutional aspects (trading rights, distribution rights, investment) and services sector. These commitments induce the shift of investment structure and commercial activities, evidenced as follows:

+ Investment in services sector increased, which is even accompanied by the shift in investment away from the production sectors to the services sector. As a reflection, the proportion of investment in processing and manufacturing industries went down while that of investment in services sectors increased in several years after the WTO accession.

+ Some FIEs have cut production and turned instead to imports, or even engaged themselves in some distribution activities. This trend could be largely attributed to the protective tariff barrier in Vietnam being gradually phased out.

+ Vietnam is no longer permitted to implement targeted bidding in the projects that are not funded from State budget sources, and to require investors to use domestically produced goods in such projects.

Notable consequences may include: (i) the upgrading process of production capacity and new export capacity may be restrained if domestic production costs are still high; and (ii) higher possibility of import expansion.

However, the impact of institutional and services commitments need to be assessed comprehensively at the economy level, which may require considerations of the following aspects:

- The institutional commitments make Vietnam’s business environment more transparent and more competitive, and induce domestic firms to restructure towards compliance with new and more effective standards. FIEs are permitted to import and help increase prices for producers (such as rice, coffee), thereby encouraging production and ensuring adequate interests of farmers.

- Opening services market helps drive dynamic development of this sector, and ultimately promote economic restructuring process. Early attempts to liberalize the services sector before WTO accession and particularly the implementation of WTO commitments have contribute to higher growth rate of services sector (relative to the overall economic growth rate), ultimately accelerating the expansion of aggregate economic activities.

- Services market liberalization helps reduce service costs and, consequently, manufacturing costs.

- Opening the market for distribution service forces distributors to switch to more modern business models on one hand, and refreshes the development of retail sector in Vietnam on the other hand.

As a key issue, Vietnam needs to exploit the restrictions excluded from commitments, whilst having appropriate policies to support local businesses and guide investment in areas of essence.

5. CURRENT SITUATION ON IMPLEMENTATION OF AGREEMENTS ON INTERNATIONAL ECONOMIC INTEGRATION OF VIETNAM

5.1. Agriculture, Forestry and Fishery

After 5 years of implementing WTO commitments, Vietnam has fulfilled the commitments on tariff reduction in agriculture. Specifically, 60 product categories (accounting for 68 percent) have their tariff reduced in line with the prescribed roadmap; 24 (equivalent to 27 percent) experienced even faster tariff reduction than commitment; and only 4 categories had slower tariff reduction than commitment.

In the forestry sector, by early 2012, 18 out of 22 forestry product categories (accounting for 81.8 percent) had exact or faster tariff reduction than commitments, of which 5 categories experienced faster tariff reduction and 13 complied with the committed level of tariff reduction; only 4 product categories (or 18.2 percent) had slower tariff reduction than commitment.

In the fishery sector, 157 tariff lines have to be phased out according to the committed roadmap till 2012. Such a roadmap has been implemented by Vietnam for all product categories. For some categories, Vietnam has conducted even faster tariff reduction than commitment. For example, for fresh or frozen crustaceans, the committed bound tariff rate by 2012 is 17.8 percent, but the actually applied one was only 5.8 percent. For fresh or frozen molluscs, the bound rate by 2012 is 16.5 percent, but the actual tariff rate was 4.6 percent.

5.2. Industry - Construction

Vietnam has generally fulfilled WTO commitments in these sectors. Most of the product categories have their tariff reduced on time or faster than committed roadmap. Of which, 23 percent of products saw the tariff reduction in line with the roadmap, while 60 percent of products experienced faster tariff reduction than commitment..

The products with faster tariff reduction than commitments include: garment, construction materials, paper, all kinds of antibiotics, medical gauze, alcohol, tobacco, paint, varnish, and chemicals for industries of textile, leather and paper. Except for alcohol and tobacco, other products are input to essential industries or products (health sector).

The products which have tariff reduction in exact compliance with the commitment roadmap consist of instant coffee, municipal waste, cream, artificial leather and fur, trunks, boxes and packaging, and printed calendars, ski boots, electronic calculators. Those having slower tariff reduction than commitments include sauces, carbonated mineral water, briefcases, shoulder bags for students, leather of all kinds of

animals, products of artificial flowers and fruits, porcelain bathroom products. These items are generally used for final consumption.

Notably, some products which had the fastest pace of tariff reduction might cause rapid increase in import, thereby exerting competition pressure on domestic producers. These products include: Children's bicycles (tariff falling from 80 percent to 39 percent in 2011); reefers (from 53 percent to 20 percent), iron and steel bars and rods (from 39-36 percent to 7-6 percent); short-barrel hunting rifles (from 40 percent to 9 percent); postcards (from 35 percent to 5 percent); printed calendar (from 35 percent to 5 percent); cars and other passenger motor vehicles (from 85 percent to 60 percent); tools and equipments for adjustment or automatic control (from 30 percent to 5 percent).

The categories with the smallest or no tariff reduction include: suede, footwear parts, ceramic pipes, conduits, guttering and fittings, radio receivers for radio combined or not combined with sound recording or reproducing apparatus or with clock, mannequin and others artificial shapes used in the professional seamstress; automation equipment and other movable exhibition articles.

5.3. Services

5.3.1. General remarks

Vietnam has implemented full commitments under WTO for the service sectors/sub-sectors whereby rapid liberalization without transition period is committed. In particular,the Government has issued many legal documents relating to banking and insurance services. Notably, although the above sectors/sub-sectors have commitments with most rapid liberalization, apart from banking services, liberalization commitment for other service sectors/sub-sectors is in fact only equivalent to current regulations. Therefore, high liberalization commitments in these sectors/sub-sectors would not cause major changes in the local service market.

Besides, Vietnam has fully implemented WTO commitments for *service sectors/sub-sectors with rapid liberalization but with the need of transition period*. For securities service and especially distribution service, the Government has issued many legal documents to incorporate the implementation of WTO commitments.

Vietnam has fulfilled commitments related to the principles of MFN and transparency. However, the country should review more rules and legal documents relating to Mode 4 and Mode 3, particularly the regulations on representative offices and branches to have appropriate amendments in accordance with WTO commitments.

5.3.2. Issues and Obstacles in implementing WTO service commitments

Regarding Legal Aspect

Upon reforming the legal framework in line with WTO commitments on services, Vietnam has encountered many difficulties and obstacles as follows.

First, the issues related to quality of the legal framework and regulations. The legal framework that adjusts service activities in Vietnam remains incomplete and lacks compatibility. Vietnam's policies and regulations on the service sector incorporate various inconsistencies with international standards, especially GATS commitments. The legal documents sometimes exhibit contradiction and overlappings. The adaptation of

these international commitments and treaties in domestic laws and regulations suffers from several limitations and lack of details, thus restricting the effect of their applications. As such, in the legislation process, Vietnam often includes the general formula of "unless otherwise specified in international treaties".

Second, difficulties in reviewing and amending policies. The processes of reviewing, promulgating and amending legal documents in Vietnam are slow, and fail to catch up with the practical needs and rapid development of modern types of services. Besides, the legal system lacks completeness and compatibility, thereby increasing the difficulty, time and costs of reviewing.

Third, limitations in understanding contents of commitments. Understanding and applying WTO commitments remains inadequate, which affects the issuance of policies and regulations adjusting service activities. For instance, Vietnam encounters various difficulties in ensuring proper understanding and implementation of commitments on capital contribution.

Implementation process

The implemenation of legal documents and commitments has also witnessed the emergence of many difficulties and obstacles.

First, lack of transparency and well-defined responsibility of administrative agencies. Although Vietnam has announced functions of each ministry and branch in promulgating legal documents and formulating policies related to services trade, there remains overlappings in management activities by different agencies.

Second, inadequate transmission of policy changes to community. Legal information sometimes fails to be provided with timeliness and accuracy. Dissemination of legal information only incorporates formalism, without focus on establishing an effective legal advisory system to help citizens, organizations and enterprises to protect their legitimate interests.

Third, inadequacies in policy compliance and enforcement. In the absence of sufficiently strong enforcement mechanism, compliance to regulatory and policy changes by the people and businesseses remains inadequate, which in turn undermines the implementation of WTO commitments. Also, limited quality of legal framework and overlappings of legal documents lead to difficutlies in implementing services commitments.

5.4. Investment

5.4.1. Multilateral and Regional Commitments

ASEAN Investment Agreement

Vietnam has fulfilled and submitted Exclusion List of the Agreement to the Prime Minister for approval in September 2010. Nonetheless, to date, the List has not come into effect because of the late ratifications by the National Assembly of Thailand and the People's Consultative Assembly of Indonesia. The member countries are still to applying "method of reducing/abolishing and improving investment restrictions" in the period 2011-2012 following this agreement.

ASEAN – China Investment Agreement

In March 2010, the Prime Minister approved this Agreement[4] and asigned follow-up tasks to ministries and functional branches to implement commitments in the Agreement.

Asia-Pacific Economic Cooperation Forum

Immediately after APEC membership in December 1998, Vietnam adopted the National Action Plan on investment liberalization in accordance with the goals of APEC. Accordingly, the country is committed to offer full national treatment for foreign investors by 2020; to gradually establish more equal legal foundation and non-discriminatory tax policies and services price for domestic and foreign investors; to enhance transparency and accountability of legislation, and policies on foreign investment; to improve investment procedures; to gradually phasing out requirements on foreign investment projects in accordance with TRIM Agreement; to gradually implement the registration system of investment license issuance; and to diversify forms of investment and method of mobilizing foreign investment capital.

5.4.2. WTO Commitments

General Obligations on Transparency of Investment/Business Policies

Regarding the implementation of commitment, as stipulated in Clause 5, Article 29 of the Investment Law, based on socio-economic development requirements in each period and in accordance with commitments in international arrangements to which Vietnam is a member, the Government specified the list of areas and sectors of conditional investment, conditions related to establishing economic organizations, forms of investment, liberalization in some sectors for foreign investors. The Law on Promulgation of Legal Documents stipulates sequences and procedures in amending legal documents and consulting the relevant stakeholders.

Prior to WTO accession, with the goals of improving competitiveness and transparency, Vietnam has promulgated the Bidding Law in 2005 with open, public and non-discriminatory provisions in this field.

Commitments on Conditions and Procedures of Licensing

Vietnam has promulgated the Investment Law and the Enterprise Law and various specific Law which stipulate specific licensing conditions and procedures to meet basic requirements in conducting commitments. The conditions and procedures for licensing are modified and upgraded over time to increase favorable treatment for investors.

Commitments on Forms of Investment and Conditions of Capital Contribution and Purchase of Shares by Foreign Investors

The Investment Law, Enterprise Law, Commercial Law, and guiding Decrees of these laws permit commercial presence by foreign investors in the forms which are specified in the Schedule of Commitment.

As stipulated in Decree No. 108/2006/ND-CP, foreign investors are allowed to contribute capital, purchase shares, merge and acquire enterprises in Vietnam in accordance with conditions stipulated in international arrangements that Vietnam is a

[4] According to Document No. 1388/VPCP-QHQT dated March 4th, 2010.

member. On June 18th 2009, the Prime Minister promulgated Decision No. 88/2009/QD-TTg stipulating Regulations on capital contribution and share acquisition by foreign investors in Vietnamese enterprises. Accordingly, foreign investor are permitted to contribute capital, buy shares without restriction,[5] except when the enterprises operate in securities sector, sectors in specific legislation, services trade, multidiscipline, and wholly State owned enterprises (which are under adjustment of specialized law and documents).

Commitment on Business Rights

To implement this commitment, on February 12th 2007, the Government promulgated Decree No. 23/2007/ND-CP guiding the implementation of the Commercial Law regarding commodity trading activities and activities directly related to commodity procurement and sales by FIEs in Vietnam. Minister of Trade (now the Ministry of Trade and Industry) issued Decision No. 10/2007/QD-BTM on May 21st 2007 announcing the roadmap on liberalizing commodity trading activities and others related to procurement and sale of goods in accordance with the commitment on this issue. With these documents, Vietnam has fully implemented WTO commitments on business rights.

Commitment on Subsidies under the Form of Investment Incentives

Provisions under the Investment Law and guiding documents have made way for the implementation of this commitment. The Investment Law has excluded the projects producing export goods and having high local contents from the List of Sectors/Industries for Investment Encouragement. From July 1st 2006, the investment incentives based on the criteria stipulated in the Law on Foreign Investment and the Law on Domestic Investment Promotion as well as related guiding documents automatically expire. The Government later issued Decree No. 124/2008/ND-CP dated December 11th 2008 guiding the implementation of the Law on Corporate Income Tax and requested review and amendment of some provisions related to tax incentive, land use right, and credit in order to fulfill the commitments.

Besides, the Government has also transformed the Development Assistance Fund into Vietnam Development Bank (VDB), revised objectives and activities of the Export Support Fund, and replaced the subsidies which are not permitted under WTO rules by other forms commonly used in the world and acknowledged by the WTO.

Commitment under the Agreement on Trade-Related Investment Measures

According to the VN-US BTA which came into effect from December 2001, Vietnam is committed to fulfill its obligations under the TRIM Agreement no later than the WTO accession. Therefore, the legal system of Vietnam has undergone constant improvements to help implement TRIM commitments. The Investment Law (Article 8) also removes the entire TRIM measures previously applied as the conditions for investment licenses and investment incentives, including the mandatory export requirement, local content requirement, as well as investment incentives associated with the implementation of these requirements. Moreover, Vietnam is committed against re-installing the above requirements and other measures contrary to the provisions under TRIM Agreement.

[5] Previously, foreign investors were permitted to acquire shares of Vietnamese enterprises to the maximum proportion of 30 percent (of chartered capital).

Commitment on operations of Economic Zones

Commitment related to the establishment and operation of Economic Zones (EZ) has been fully implemented through the provisions of the Investment Law, Decree No. 108 and Decree No. 29/2008/ND-CP on State management of IZs, EPZs, hi-tech parks and EZs. Accordingly, enterprises operating in these zones are not obliged to meet mandatory requirements or achieve certain local content, and can be entitled to investment incentives without having to satisfy export ratio or local content requirement; exchanges of goods between enterprises within and outside EPZs are considered export and import activities, and must comply with regulations on import and export procedures as well as on related incentives. Vietnam is also committed to abolish all subsidies – which are prohibited under binding international arrangements - for enterprises investing in these zones.

5.4.3. Overall Assessment

In general, Vietnam has fulfilled bilateral and multilateral commitments on investment liberalization. The country is also considered as one of the successful implementers of WTO commitments and other international integration commitments. In recent years, the improvement of institutions and policies in investment in Vietnam, beside effective mobilization and utilization of investment capital by all economic sectors, has always complied with international economic integration commitments. In December 2005, the National Assembly passed the Investment Law and Enterprise Law which apply to all investors and enterprises of all ownership forms. The specific provisions on investment and business activities are issued, amended and supplemented in accordance with the international commitments and rules. In June 2009, the National Assembly approved the Law on amending and supplementing several articles of the Laws related to construction investment.

The implementation of these commitments basically led to no major changes in Vietnam's current policy and legal system, because commitments on conditions of investment and business are largely consistent with current laws and policies. On the other hand, many legal documents on investment and business have been actively reviewed and amended in accordance with WTO commitments as well as bilateral and multilateral agreements.

Vietnam's commitments related to investment and business activities are aimed at the broad objective of gradually opening service market without discrimination against foreign service providers, within a certain roadmap. Implementing these commitments - together with positive improvements in the legal and policy system on foreign investment over time - contributes immensely to strengthening foreign investors' confidence on Vietnam's attractive and competitive investment environment, ultimately helping attract foreign investment.

However, the implementation of integration commitments on investment also witnessed some practical problems as follows:

- Most integration commitments related to investment, especially those related to service liberalization, are directly applied. Furthermore, under the Investment Law and Decree No. 108/2006/ND-CP, the sectors/industries with conditional investment require

compliance with specific laws and/or commitment under international arrangements that Vietnam is a member. However, due to the lack of adequate and consistent guidelines which fail to establish a concrete legal basis, the issuance and amendment of investment licences in these sectors/industries encounter many difficulties.

- No concrete treatment is available to the projects having many different goals but operating in the sectors / sub-sectors with different scope and extent of commitments.

- No specific provisions are incorporated in the current legislations as well as in the WTO Agreements regarding the application of commitments to the sector/sub-sectors marked as "*Unbound*" or excluded from the Services Commitment Schedule; no specific provisions are available on the application of commitments to overseas Vietnamese, and to FIEs which have already been established in Vietnam. Accordingly, investment management authorities suffer from many difficulties during appraisal process for licensing of FDI projects.

- The implementation of MFN principle for investors from the countries/territories which have signed bilateral investment agreements with Vietnam is also impeded by the absence of full awareness of commitment or inconsistent application by licensing authorities.

- The licensing and business requirements in Vietnam still reflect some shortcomings, namely: (i) the criteria for administrative authorities to decide whether or not to license the project is a ambiguous; (ii) objectives of licences are sometimes not well-defined, and fail to justify the interests that they serve; and (iii) State management through licensing is not sufficiently efficient, accompanied by the lack of monitoring measures to ensure compliance with requirements specified in the licences.

PART TWO

COMPREHENSIVE ASSESSMENT OF VIETNAM'S SOCIO-ECONOMIC SITUATION IN FIVE YEARS AFTER THE WTO ACCESSION

1. ECONOMIC GROWTH

1.1. Overall Assessment

During the 5 years after the WTO accession, Vietnam's economy was significantly affected by the global economic developments, namely higher commodity prices since late 2007, financial crisis in the US which triggered the global financial crisis and economic recession since 2008, and the European sovereign debt crisis since 2010. The global economy also suffered from severe impacts of the food and energy crises.

In Vietnam, to deal with high inflation rates in 2008 and 2011 and economic recession in 2009, the Government had to adopt major policy swings, starting from curbing inflation in 2008, to economic stimulus in 2009 before reverting to inflation control and macroeconomic stabilization in 2011.

GDP growth rate of Vietnam in 5 years after the WTO accession was only 6.6% annually, less than the average of 7.8% during the 5-year-period of 2002-2006; and even lowered than the average of 7.0% during the period of East Asian financial crisis (1996-2000). Consequently, Vietnam could not achieve the 2006-2010 five-year-plan's target of economic growth rate of 7.5-8%. Though Vietnam's GDP growth rate declined dramatically since 2000, it was still better than much lower or even negative growth rate of many other countries in over the world in the context of financial crisis and economic recession.

To portray the factors affecting Vietnam's economy, the 5 years after Vietnam joined the WTO is divided into 2 sub-periods: from 2007 to the first half of 2008, and from the second half of 2008 to the end of 2011.

In 2007, the first year after the WTO accession, Vietnam enjoyed the overall economic growth rate of 8.5%, the highest level after 10 years. The major favourable external factors included: High growth of the global economy, especially in important trading partners of Vietnam (such as the US, Europe, Japan and China) as well as Asian region (in particular, East Asia); low international prices of key commodities; lowered trade barriers in trading partners thanks to deepened integration attempts. Vietnam could expand market share in its trading partners, increase export values, which resulted in higher output of export-oriented industries.[6]

Among the many internal favourable factors was the implementation of WTO commitments as well as bilateral and regional agreements which considerably improved the business environment. In parallel with political stability, such an improvement induced more investment flows and higher economic growth. Heightened optimism and expectation of domestic investors of a new development era with huge business opportunities being opened all over the world constituted another positive element. As a

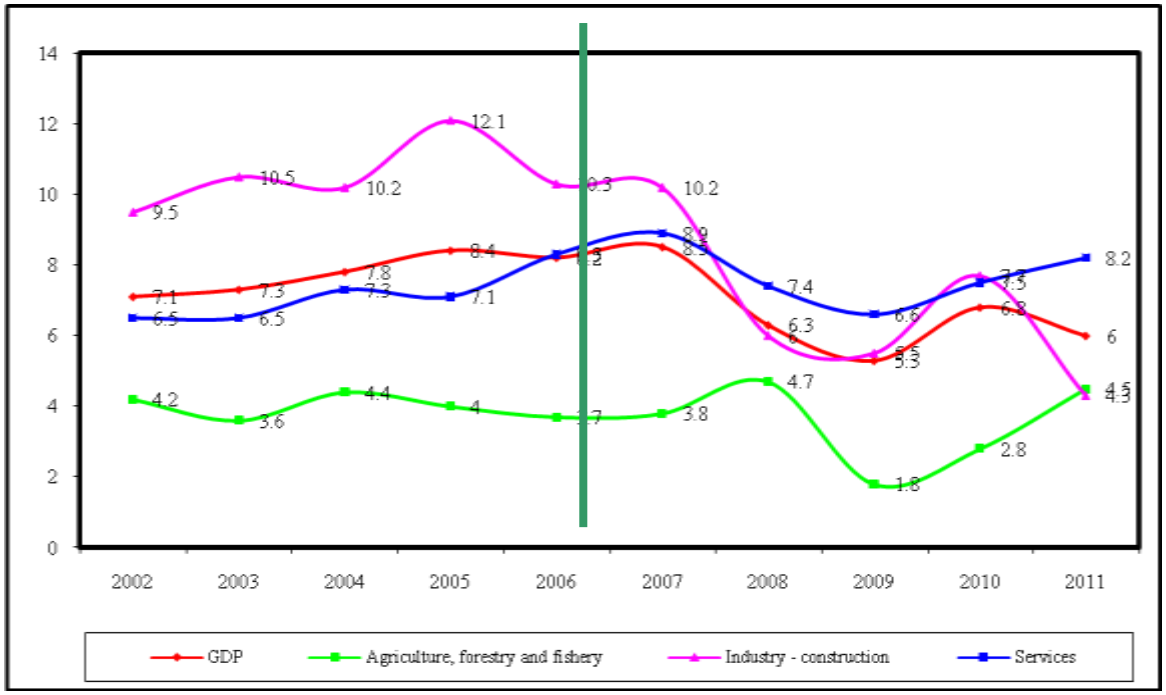
[6] See further details at Section 2.1.

result, GDP growth rate in 2007 retained the momentum of the previous years despite rapid increase of international prices that drove up the input prices for domestic manufacturing industries.

Since 2008, however, the growth rate decelerated and became much lower than that in the 5 years prior to the WTO accession. This could be attributed to the two groups of factors that operated in the opposite directions. Due to deeper international integration and higher trade openness, the rapid increase of international prices in 2008, 2010 and 2011 was transmitted into the economy more severely and quickly, somehow leading to higher inflationary pressure and lower economic growth. Since October 2008, the global financial crisis and economic recession started to hit Vietnam's economy with unfavourable impacts. Export growth and FDI inflows were stalled as key trading partners of Vietnam suffered from crisis or sluggish economic growth. Because of high openness[7] and export and FDI were the key drivers, Vietnam's economy was negatively affected.

Simultaneously, several inherent weaknesses of the economy were revealed more clearly after Vietnam's WTO accession. Such weaknesses also brought about various unfavourable impacts on the economy as well as macroeconomic situation.

Figure 3: Economic Growth Rate, 2002-2011 (%)



Source: GSO.

Some factors were also in pace with favourable impacts on growth. First, the prices of crude oil and food – key export commodities of Vietnam – as well as of other exported products increased considerably in 2008, 2010 and 2011. Second, continued expansion of export markets thanks to international integration also fostered economic growth. Overall, the adverse impacts had larger magnitude, whilst being transmitted more rapidly into the economy following integration attempts.

[7] Trade openness is measured as the ratio of total trade value over GDP (in percent). In the years of 2006, 2007, and 2008, Vietnam's trade openness reached 152%, 170% and 171%, respectively. In 2009, the figure dropped to 147% due to the global crisis, but recovered to 178% in 2011.

The above internal and external factors, with favourable and unfavourable impacts, also interacted rapidly in a complicated manner with the policy response of the Government before and after the WTO accession. First, the adopted policies since 1999 until 2007 (i.e. the WTO accession), which aimed at stimulating high growth by means of rapid investment expansion but with material inefficiencies, resulted in overly accumulated inflationary pressure in the post-WTO period. Moreover, unfavourable developments of the international economy could not be foreseen in the SEDP for 2006-2010. As another important issue, Vietnam suffered from the lack of experience and inappropriate capacity to absorb and sterilize the huge surge of FDI inflows in 2007, as well as the perplexity of and inconsistency between fiscal and monetary policies to address macroeconomic instability in the years 2008-2010. During this period, the Government's policy responses exhibited some major swings between (i) tightening fiscal and monetary policies to dampen inflationary pressure and restore macroeconomic stability; and (ii) loosening macroeconomic policies to prevent economic downturn immediately after inflation eased (Box 1). From early 2011 to present, the Government has consistently pursued the target of macroeconomic stabilization alongside social security measures.

Box 1: Key Economic Management Measures During the Period of 2008-2011

In early 2008, to cope with macroeconomic instability and internal and external unfavourable factors, the Government issued Resolution No. 10/2008/NQ-CP dated 17 April 2008, specifying 8 groups of measures to curb inflation, stabilize the macroeconomic environment, and to ensure social security and sustainable growth.

However, because of negative impacts of the global financial crisis and economic recession, the Government then issued Resolution No. 30/2008/NQ-CP dated 11 December 2008 on 5 urgent measures - towards loosening fiscal and monetary policies - to prevent economic downturn, maintain economic growth and ensure social security. In 2009, the Government enforced a series of specific policy measures to implement Resolution No. 30, including policies on interest rate subsidy and credit support, tax exemption and reduction, export promotion, investment and consumption stimulus, social security, job creation, poverty reduction, stabilization of people's livelihood, etc. The economic stimulus package of about USD 8 billion - to implement these measures - significantly helped to stabilize the macroeconomic environment, to prevent economic downturn, to facilitate gradual economic recovery, and to create jobs and ensure social security.

In 2010, as the global and domestic economy recovered but still faced with many difficulties, the Government approved Resolution No. 18/NQ-CP dated 6 April 2010 on measures to strengthen macroeconomic stability with more prudent fiscal and monetary policies. In early 2011, acknowledging complicated developments of the international and domestic economy with mounting risk of macroeconomic instability, the Government issued Resolution No. 11/NQ-CP dated 24 February 2011 on key measures to control inflation, to stabilize macroeconomic environment and to ensure social security. Specifically, monetary policy was tightened and became more prudent; fiscal policy was also tightened, with reduction of public investment and state budget deficit; other measures were undertaken to promote manufacturing, business and export activities, to narrow down trade deficit; and social security was strengthened.

Consequently, GDP growth contracted significantly since 2008, especially in 2009 (only 5.3%). Since 2010, economic growth gradually recovered, but with unstable pace. Still, economic growth would have been much lower in the absence of economic integration.

Overall, the global financial crisis and economic recession since late 2007 had adverse impacts on Vietnam's economy which were transmitted more quickly and more completely through such integration-related channels as prices, trade and investment (including both FDI and capital flows). The favourable and considerable impacts of economic integration were smaller than expectations prior to the WTO accession.

In the 5 years after the WTO accession, huge opportunities and enormous challenges emerged alongside deeper international integration process and their realization significantly affected Vietnam's economy. This further affirmed the assessment in Resolution No. 08-NQ/TW as well as other projections in pre-WTO studies that international integration would create ample chances for economic development, including rapid economic growth, whilst also making the economy more vulnerable and affected more severely and rapidly by unfavourable and/or unstable factors in the global markets such as investment flows, financial market, crude oil market, etc.

One question arises regarding the disaggregation of negative impacts of the 2009 global financial crisis and economic recession through international integration channels, and impacts of economic stimulus package implemented since early 2009. The CIEM employed its own macroeconometric model to simulate the reduction of output growth in the absence of stimulus package. As evidenced by the simulation results, without economic stimulus packages, GDP growth rate would be only 4-4.5%, about 1-1.5 percentage points lower than the actual figure, *keeping other assumptions unchanged*.[8] The industry-construction sector would contract most severely.

Meanwhile, during the Asian financial crisis in the 1990s when Vietnam had lesser extent of liberalization and integration, the overall GDP growth rate plunged more sharply from 8.2% in 1997 to only 5.8% in 1998 and 4.8% in 1999. This evidence also showcases the positive impact of international economic integration.

1.2. Assessments at Sectoral Level

1.2.1. Agriculture, Forestry and Fishery

Average annual growth rate of agriculture-forestry-fishery sector in the 5 years after the WTO accession reached 3.5%. This figure exceeded the target in SEDP for 2006-2010 (of 3-3.2%) but was still 5 percentage points lower than that in the 5 years before WTO accession. The sector's growth gradually decelerated since 1992,[9] and this tendency was maintained during the first 5 years of WTO membership. The agriculture-forestry-fishery sector experienced unstable growth, induced by variable weather conditions as well as volatilities in external and internal demand for the sector's inputs and outputs. Yet growth of the sector was still relatively high by international standard.

The main reasons for high growth rate in 2007-2008 were good agricultural crops, and rapid increase in international prices for Vietnam's key exported agricultural products. As a consequence, Vietnam saw expansion of areas for perennial crops, especially rubber

[8] According to the Report on "*Vietnam Economy in 2008",* CIEM (2009b).

[9] The annual average growth rate of the agriculture-forestry-fishery sector during the period of 1992-2001 was 4.3%.

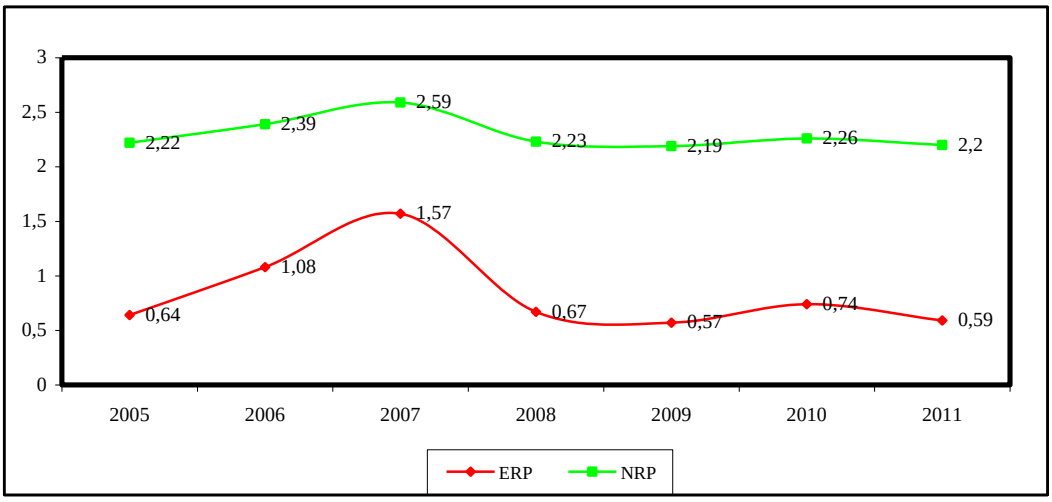
and cashew. In 2009, as international prices of most agricultural products dropped dramatically[10], the agriculture-forestry-fishery sector then suffered from severe slowdown, with recorded low growth rate of 1.8% - the slowest level since 1991.

To a certain extent, international economic integration positively affected growth of the agriculture-forestry-fishery sector. This can be justified on the grounds that Vietnam has been one of the leading exporters of various agricultural products such as coffee, rice, cashew, pepper, etc., while market access for such products has been significantly improved after joining the WTO. However, trade barriers in major markets encountered by Vietnam's agricultural products were not very restrictive before the WTO accession; thus, the improvement of market access thanks to the WTO accession was not the driving factor for growth of the agriculture-forestry-fishery sector.

In another aspect, the implementation of trade commitments altered protection structure for domestic sub-sectors in terms of both input and output.[11] This can be evidenced by the Effective Rate of Protection (ERP), for which the details by sub-sector in the period of 2005-2011 were presented in the Appendix. As noted previously, the smaller ERP shows that the sub-sector enjoys less protection in general.

During the period of 2005-2011, protection level of agriculture-forestry-fishery sector was insignificant, reflected by very low average ERP and NRP of the sector as a whole (Figure 4). ERP is always smaller than NRP, especially for agriculture-fishery sub-sectors, implying that NRPs of their raw inputs even exceed NRPs of these sub-sectors. Surprisingly, before the WTO accession, both ERP and NRP of agriculture-forestry-fishery sector tended to increase, but ERP increased faster than NRP, so the former got closer to the latter. Nevertheless, since 2008, ERP decreased faster than NRP. That is, after the WTO accession, the agriculture-forestry-fishery products *generally* enjoyed less protection, and their comparative advantages were gradually undermined. Many agriculture-forestry-fishery sub-sectors have very low or even negative ERPs such as pig breeding (-17.9%), other agricultural products (-8.5%), poultry (-6.6%), sugarcane (-2.2%), and cattle (-1.6%).

Figure 4: ERPs and NRPs of Agriculture-Forestry-Fishery Sector (%)



Source: Authors' calculations.

[10] For further details, see Section 2.1.

[11] See sub-Section on Methodology for more details.

The development of breeding sub-sector, other agricultural products, and aquaculture (which have power of dispersion larger than 1) will drive the development of other downstream industries, thereby creating positive impact on the whole economy without increasing imported input (as the import multiplier is smaller than unity) (Table 14). Again, however, these sub-sectors still received inadequate support.

Based on comparative advantages, Vietnam's agricultural products can be classified into the following categories:

- Category 1: The products which have high comparative advantage and competitiveness, with capability to expand export market via international economic integration. These products include paddy, rice, coffee, cashew, pepper, forestry products, and aquacultural products.

- Category 2: The products which still have opportunity to expand their market, but also face with many challenges. The two products in this category are fruit and vegetable, and salt.

- Category 3: The products with weak comparative advantage and competitiveness, which are prone to significant adverse impacts by international integration, namely cattle, sugarcane, and cotton.

In the five years after the WTO accession, for several agricultural products that have no comparative advantages, the reduction of import tariff made way for more severe competition in the domestic market between imported and locally produced items. Some products under Category such as sugarcane and cotton – despite high protection by the Government - still have their weaknesses revealed, and are unable to develop in the context of tougher competition from foreign suppliers. For some products under Category 2 such as mulberry, some tropical fruits and vegetables, peanut, beans of all kinds, etc., mass production will be difficult because of weak competitiveness. Meanwhile, a proportion of local manufacturers and businesses are not well-prepared and adaptable to the new situation.

Table 14: Power of Dispersion and Import Multipliers of Some Agriculture-Forestry-Fishery Sub-sectors

Industries	*Power of Dispersion*	*Import Multiplier*
Cattle	1.149	0.724
Pig	1.794	0.752
Poultry	1.616	0.748
Other breeding sub-sectors	1.591	0.747
Agricultural services, and other unclassified agricultural products	1.484	0.796
Aquaculture	1.694	0.771

Source: Authors' calculations.

In some sub-sectors with low competitiveness, Vietnam even proceeded far beyond its commitments, which caused adverse impacts on some local producers. For example, the reduction of import tariff on fresh, frozen and processed meat in 2007-2008 was implemented earlier and bigger than WTO commitments, which in turn negatively affected domestic production of such products.

Thanks to comparative advantage in fishery sub-sectors, the local producers were hardly affected by the tariff reduction schedule, which was faster than WTO commitment. During the period of 2007-2011, the average growth rate of fishery sub-sector attained 6%, i.e. twice as much as the overall level of agriculture-forestry sector. However, the fishery sub-sector still underperformed in comparison with the average growth rate of 8.8% in the five years before the WTO accession, mainly because of economic recession in major importers of Vietnam's fishery products. To a certain extent, lower growth rate also resulted from non-trade barriers (such as anti-dumping, food hygiene) by trading partners notwithstanding Vietnam's deeper integration.

The forestry sub-sector shifted from exploitation to afforestation, via investment programs, projects, assignment of forest land to households on a long-term basis. The growth rate of the sub-sector gradually increased after Vietnam joined the WTO (from 0.5% in 2002 to 1.1% in 2007 and 5.2% in 2011). This fact reflected the efforts of wood-processing enterprises on product innovation as well as market penetration.

The cultivation sub-sector maintained its growth compared to the 5 years before WTO accession. Although some crop plants (especially perennial crops) have acquired an important role in the international market, many other cultivated products failed to make sufficient improvement.

The structure of agriculture-forestry-fishery sector only exhibited insignificant changes. The cultivation products, many of which many have very low value added, still accounted for the largest share of agriculture-forestry-fishery sector. The key exported agricultural products are mainly from cultivation crops, such as rice, coffee, rubber. A few breeding products were exported. Fishery products still have ample potential industry and comparative advantage, but still made up a small proportion (less than 20% in terms of GDP) of the agriculture-forestry-fishery sector; thus, fishery products only had modest contribution to the overall growth of agriculture-forestry-fishery sector.

International economic integration helped shift the structure of agriculture-forestry-fishery sector towards export-oriented products, such as aquacultural products, rice, coffee, rubber, cashew, and pepper. Since the WTO accession, agricultural producers of Vietnam have acquired more serious attitude in doing business. They have paid more attention to brand name, quality and hygiene of exported agricultural products in an attempt to expand exports to demanding markets such as the U.S., Japan and EU. They also gained more experience in dealing with anti-dumping lawsuits. Specialized cultivation areas have been established, especially for exportable fruits and vegetables like litchi, Nam Roi grapefruit, green-skin grapefruit, small-seed durian, etc. Large-scale production models, using advanced technologies and varieties with high quality and food hygiene, have been popularized. Vietnam then consolidated the leading position in exporting many kinds of raw or primary agricultural products.

Nevertheless, the achievements so far fail to match potential and advantage of the sector. Development of agriculture-forestry-fishery sector remains unsustainable; its growth rate tends to decrease; productivity, quality and competiveness remain low; resources for the sector's production are under-utilized; research activities, the transfer of scientific knowledge and technology, brand name development and trainings of human resource are also limited. The structural shift and innovation of production model in the agriculture-forestry-fishery

sector are still slow. Agricultural production is small-scaled, scattered and unaligned with well-developed programs, thereby failing to support mass production; post-harvest losses remain significant; value added of processing industry is modest, agricultural exports are mainly raw or preliminary goods. The capacity to produce materials and output capacity of processing factories in some industries (namely cashew, sugarcane and aquaculture) are imbalanced. Agriculture and rural development are not well-planned, socio-economic infrastructure is bad, and environment pollution is increasing.

Many unskilled labour without practical job trainings are unable to move out of agriculture-forestry-fishery sector while the cultivated area is narrowed, leading to very low labour productivity in this sector. Most farmers still cultivate low-value added crops to earn just enough for their living. The shift away from those crops towards higher value-added ones - such as industrial crops, breeding, aquaculture - to satisfy the demand of domestic consumption or export is still quite slow. In this context, a scientific and technology breakthrough or alteration of cultivation scale is required to promote higher growth in the agricultural sector.

During the process of industrialization, especially with huge inflows of FDI to Vietnam following deeper international integration, fertile farming areas have been used to build industrial zones, residential areas or golf courses without serious consideration of benefits and costs. Meanwhile, unskilled farmers with no land have not received appropriate training or support to find job in non-agricultural sectors. Moreover, the remote areas with unfavourable cultivation conditions and poor infrastructures remain underdeveloped, but receive very modest investment capital, especially FDI.

Diversification of economic activities in rural areas thus becomes necessary, if not essential, for the development of agriculture as well as for agricultural and rural transformation towards industrialization and modernization. Nonetheless, in order to promote structural shift of rural economy, various policies - such as provisions of investment and financial incentives, human resource and technology development, infrastructure development, establishment of vertical linkages, as well as others - should be formulated.

1.2.2. Industry - Construction

Industry – construction has the most significant impact on overall GDP growth rate thanks to the largest scale (contribution of more than 40% to GDP), whilst usually having the highest growth rate in the economy. In the period of 2007-2011, the average growth rate of this sector was 7.0%, which was much lower than that of 10.2% for the period of 2002-2006, and also smaller less than the 5-year-plan target of 9.5-10.2% for the period of 2006-2010.

Except high figure in 2007, growth of the industry-construction decelerated rapidly in the period of 2008-2011 compared to the period of 2002-2006, and even reached the lowest levels since 1991. As industry-construction is the driver of growth, its dramatic slowdown led to downturn in the overall economy. However, the growth rates of sub-sectors in industry-construction differed remarkably among themselves. While low growth rates of industry-construction in 2008 and 2011 were caused by the contractions of mining and quarrying, and of construction, the key for modest growth in 2009 was poor performance of manufacturing sub-sector.

With the role of building physical and technical facilities, construction sector tends to achieve high growth rate during boom period, and to be stagnated if the economy falls into recession. In 2007, the first year after Vietnam' WTO accession, the FDI flows into the economy reached the record high level (increasing by 93.4% compared to 2006 even after excluding price effect); non-state investment also grew up considerably (by 26.9%). Therefore, despite some difficulties (such as rapid increase of construction materials' prices, slow capital disbursement), the construction sector still attained higher growth rate (of 12.2% in 2007) in comparison with the 5 years before WTO accession.

However, in 2008, the construction sector was adversely affected by the rapid surge in material costs (cement, iron and steel) due to impacts from higher international prices, difficulty of non-state entities in accessing capital, the reduction of state investment capital to curb inflation as well as the decline of real estate market. For the first time in several decades, the construction sector experienced was negative growth (-0.4%). In 2009 and 2010, thanks to measures of economic stimulus, especially investment and construction stimulus, the sector enjoyed the growth rate of more than 10%.[12] In 2011, because of the determined measures to maintain macroeconomic stability, public investment was decreased, the non-state sector suffered from severe shortage of capital, while FDI inflows decreased. Consequently, the construction sector contracted by 1% in terms of value added. This situation also affirms the heavy dependence of GDP growth on investment capital.[13]

The growth of value added of electricity, gas and water supply in 2007-2011 was generally lower than that in the period of 2002-2006, except in 2007. Specifically, the growth rate of this sub-sector decreased sharply in 2008 and 2009 because of the lower demand in the context of the global financial crisis and economic recession. In 2010, as demand gradually increased, the growth rate of value added of electricity, gas and water supply industry also recovered.

Table 15: Growth Rate of Industry – Construction Sector by Industry, 2002-2011

Industry	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*
Industry – Construction	**9.48**	**10.48**	**10.22**	**10.69**	**10.38**	**9.43**	**5.95**	**5.52**	**7.68**	**5.5**
Industry	9.17	10.45	10.55	10.64	10.20	8.66	7.79	3.96	7.00	7.41
Mining and quarrying	*1.10*	*6.26*	*8.86*	*1.86*	*0.58*	*-4.71*	*-3.83*	*7.61*	*-3.69*	*-0.14*
Manufacturing	*11.60*	*11.53*	*10.86*	*12.92*	*12.42*	*12.60*	*9.78*	*2.76*	*8.38*	*8.3*
Electricity, gas and water supply	*11.41*	*11.91*	*11.97*	*12.30*	*12.07*	*1.64*	*10.07*	*9.02*	*11.27*	*9.86*
Construction	10.57	10.59	9.03	10.87	11.05	12.14	-0.38	11.36	10.06	-0.97

Source: Authors' calculation from GSO data.

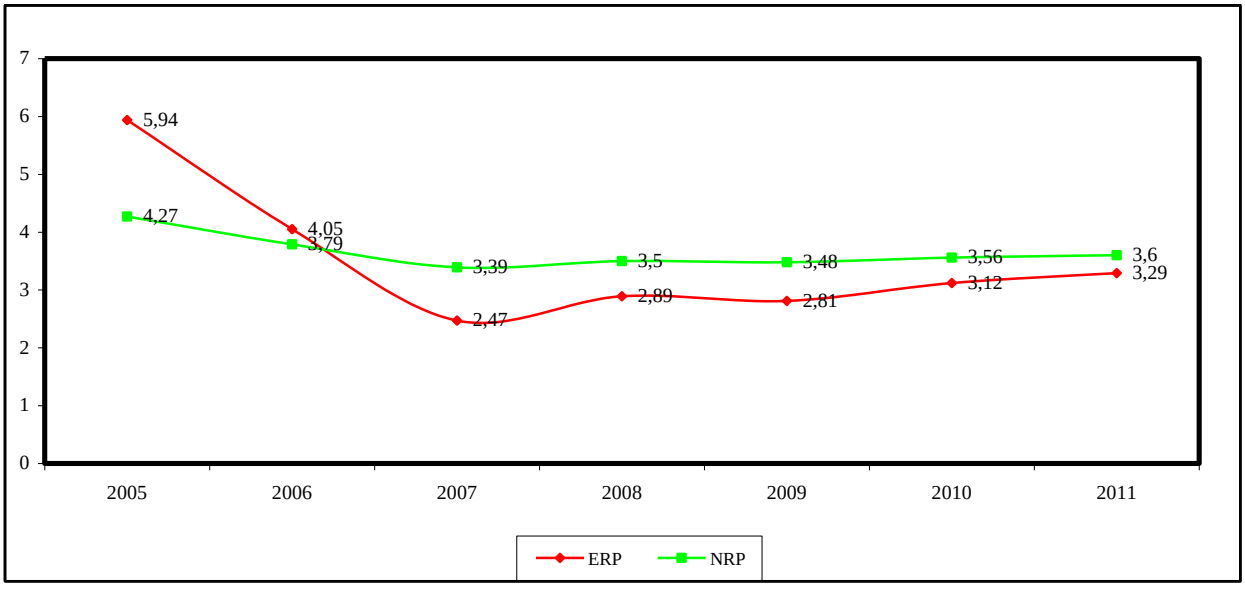
Meanwhile, value added of mining and quarrying sub-sector decreased (negative growth) almost continuously, except in 2009. The main reasons were the Government's

[12] The Prime Minister approved Decision No. 390/QD-TTg dated April 17, 2008 on managing capital investment plan and State Budget expenditure to help control inflation.
[13] According to the MPI (2011).

policy on saving natural resources and limited technical capacity of mines (newly discovered mines have low reserves).

In 2007 – the first year of WTO membership, the manufacturing sub-sector had relatively high growth rate, albeit only equivalent to the growth rates in 2005-2006. In late 2008, the growth rate of the sub-sector decelerated as the global financial crisis and economic recession started to hit the economy. As Vietnam is an open economy, the impacts of the global financial crisis and economic recession were transmitted very quickly, initially via high international prices, followed by investment slowdown (very modest growth in 2008) and then by export contraction (in 2009). Export-oriented sub-sectors encountered considerably lower demand from trading partners and more restrictive protection barriers. Meanwhile, manufactured goods to serve domestic market were also exposed to tougher competition from imported products as the import tariff of many commodities was phased out in line with international commitments. Output of many sub-sectors went down significantly in 2009, resulting in the record low growth rate of the overall manufacturing sub-sector since 1991 (2.8% in 2009). The difficulties in the year 2009 also revealed more clearly the weaknesses of manufacturing sub-sector, namely: limited production efficiency and competitiveness with slow improvement; reliance of production on low-value-added processing and on imported inputs in the absence of sufficiently developed supporting industries.

Figure 5: ERP and NRP of Industry Sector (%)



Source: Authors' calculation.

The manufacturing sub-sector recovered its growth pace in 2010 and 2011, albeit still slower than in previous years. The products with rapid growth in 2010 mainly served the domestic market. Many products had high inventory level.

The ERP better depicts the implementation of tariff reduction commitments and its impacts. In general, although ERP and NRP of industrial sector remained modest, they still exceeded those of agriculture-forestry-fishery sector. Notably, ERP decreased sharply in

2007 (Figure 5). In the five year before WTO accession, for industry sector, ERP was higher than NRP. However, since 2007, ERP dropped to below NRP (though not significantly) because higher tariff rates were levied on inputs to the industry sector. This presents a paradox for Vietnam as "the deeper the country integrates itself into the international economy, the less effective protection the domestic production could enjoy".

1.2.3. Services

Trend

Despite overall economic difficulty, the service sector achieved remarkable progress. The sector attained higher average growth rate in the 5 years after WTO accession (7.5%) than in the previous 5 year (7.1%). This performance was contrary to those of the whole economy and of industry-construction sector which decreased after the WTO accession. Still, the sector could not achieve the target growth rate of 7.7-8.2% per annum set out in the SEDP for 2006-2010.

Shortly before and after the WTO accession (2005-2007), the international and domestic economic contexts were favourable, which helped accelerate the growth of service sector to the average level of 8.1% per annum. In 2007-2011, the average growth rates of key service sub-sectors (which accounted for significant shares of service sector or played important roles in overall economic development) - such as trade, hotels and restaurants, transport-post-tourism, banking-finance, and education-training - were higher than that of the whole service sector. However, such growth rate at the sub-sector level was unstable. Such sub-sectors as trade, hotels and restaurants, banking-finance, science and technology, real estate business and consultancy, and education and training all saw their growth rates decelerate in the 5 year after joining the WTO. Nevertheless, the service sector has been exposed to lesser difficulties than the industry-construction sector since the outbreak of the global financial crisis and economic recession.

Slower growth of the trade sub-sector constituted an important reason for the overall slowdown of the service sector as trade contributed about 37-38% to overall GDP of the service sector during 2007-2011. In 2008, the trade sub-sector only grew by 6.3%, the lowest level in the last 10 years, because economic difficulty and high inflation restricted consumption. From 2008 to 2011, the sub-sector experienced higher growth thanks to stimulus of domestic consumption by the Government (through the fiscal stimulus package in 2008-2009, the exemption and reduction of personal income tax). Banking-finance sub-sector also encountered huge difficulties in 2008 jointly caused by the tightened monetary policy and the global financial crisis and economic recession.

Real estate business and consultancy fell into contraction during 2008-2011, and bottomed out in 2011 due to the stagnated real estate market. This sub-sector also had hard time in 2012-2013 because the real estate market and securities market failed to recover quickly. At the same time, the banking system had to undergo a drastic restructuring process, leading to more skepticism in extending real estate loans.

Table 16: GDP Growth Rate by Service Sub-sector (%)

Service sub-sector	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*Average 2002-06*	*Average 2007-11*
1. Trade	7.25	6.83	7.82	8.34	8.55	8.67	6.34	7.67	8.09	7.82	7.76	7.72
2. Hotels and restaurants	7.05	5.15	8.13	17.04	12.42	12.72	8.54	2.29	8.69	7.42	9.88	7.88
3. Transport, post and tourism	7.09	5.49	8.12	9.61	10.13	10.42	13.84	8.48	8.74	7.13	8.07	9.70
4. Banking and finance	6.98	7.95	8.07	9.37	8.18	8.82	6.63	8.7	8.34	7.25	8.11	7.94
5. Science and technology	9.15	7.07	7.44	7.83	7.38	7.67	6.14	6.4	6.79	6.24	7.77	6.65
6. Real estate business and consultancy	3.76	5.26	4.35	2.92	2.94	4.07	2.49	2.54	2.62	1.83	3.84	2.71
7. Public administration	3.9	5.25	5.91	7.2	7.57	8.22	6.38	7.27	7.47	7.09	5.96	7.28
8. Education and training	8.13	7.49	7.68	8.26	8.42	8.68	8.04	6.56	6.95	7.15	8.00	7.47
9. Health and social security	7.54	8.71	7.85	7.76	7.84	7.99	7.67	6.73	6.97	7.28	7.94	7.33
10. Recreational, cultural and sporting activities	3.52	8.85	7.54	8.31	7.68	7.98	7.83	7.2	7.89	6.93	7.16	7.57
11. Activities of party and membership of organizations	5.69	5.38	6.18	7.09	7.42	8.05	6.92	6.72	6.79	6.19	6.35	6.93
12. Community, social and personal service activities	5.43	6.14	5.9	7.2	7.25	7.91	6.31	5.9	6.45	6.24	6.38	6.56
13. Housekeeping services for private households	1.03	3.57	3.61	6.01	7.45	8.49	7.94	6.28	6.83	6.29	4.31	7.16
Total	**6.54**	**6.45**	**7.26**	**7.14**	**8.32**	**8.88**	**7.40**	**6.63**	**7.54**	**7.01**	**7.14**	**7.49**

Source: Authors' calculation from GSO data.

The growth rate of hotel-restaurant sub-sector became slower than the period right before the WTO accession, and hit a bottom in 2009 (only reached 2.3%). This was the consequence of economic difficulty, slow improvement of people's income, and contraction of the industries that might create "demand" for hotel-restaurant sub-sector, namely tourism.

After a boom period (2006-2008), the transport-post-tourism sub-sector was slowed down since 2009. The main reason was the contraction of transport sub-sector, which was in turn caused by sluggish domestic production, high fuel price, and stagnated marine transport because of sharp reduction of international trade and the restructuring of big transport corporations such as VINASHIN and VINALINES. Tourism sub-sector started to recover after being severely hit by the global financial crisis and economic recession. The numbers of foreign tourists to Vietnam reached 5 million and 6 million in 2010 and 2011, respectively. However, the target of attracting 5.5-6 million foreign tourists in 2010 set out in Vietnam Tourism Development Plan for 2001-2010 was not fulfilled.

Public administration also achieved higher average growth rate in 2007-2011 compared to the 5 preceding years. However, such a growth performance was unsustainable due to tightened expenditure policy of the Government, especially in 2008 and 2011 when the economy was in huge difficulties.

The structural shift within the service sector was still slow and hardly noticeable. The sector remains heavily reliant on traditional services and final consumption. The shares of intermediary sub-sectors (such as banking and finance) or the service sub-sectors that may create foundation for long-term development (such as education and training) was small relative to world standard.

The number of services enterprises grew rapidly at virtually similar rates in both periods of 2002-2006 and 2007-2011, though they were mostly small sized, with low level of specialization. In the 5 years after joining the WTO, the number of enterprises in real estate business and consultancy increased at an impressive pace, reflecting the spectacular boom in this sub-sector. However, the growth rate of the sub-sector was unstainable; the number of enterprises became excessive just to grasp business opportunities when the signs of bubble were enormous.

The number of enterprises in trade, hotels-restaurants industries also jumped considerably. Meanwhile, those in science and technology, health and social security were relatively modest, notwithstanding rapid growth in number. Notably, the number of banking-finance service providers grew most rapidly in 2006, then decreased steadily in 2007 before climbing continuously since 2008.

By 2011, however, trading enterprises with low VA still accounted for the major share (60.7%), followed by real estate business and consultancy enterprises (23.3%). The share of enterprises operating in strategic sub-sectors that may create high VA and improve competitiveness of the economy - namely transport, tourism, banking-finance, science and technology, was insignificant despite of considerable increase in number.

Although the number of service enterprises trended upward, the average VA per enterprise tended to go down. This reflected the fact that most service enterprises are small-sized in terms of both labour and capital. The majority of enterprises has fewer than 9 employees and less than VND 5 billion of capital. Very few enterprises have more than 200 employees.

Labour productivity in the service sector increased continuously, reached VND 17.9 million per person (at comparative prices) in 2011, which was higher than that at the economy level. Average growth rate of labour productivity during 2007-2011 (2.8% per annum) also exceeded that for 2002-2006 (2.1% per annum). Labour productivity was relatively high in some sub-sectors, namely banking-finance, real estate business and consultancy, science and technology, and hotel-restaurant. Yet the growth of service sector was mainly dependent on expansion of capital and labour.

Lack of professionalism was among the important factors underlying low labour productivity of service sector. Many agencies and enterprises, especially big SOEs, expanded their operations to non-core activities (such as real estates, securities, credit, banking, financial investment). These efforts not only prevented the fulfillment of their core businesses, but also undermined their labour productivity and the quality and efficiency of non-core services. Moreover, there exist a sizeable informal service sector with low labour productivity, especially in trade.

Competition in Service Sector

The service sub-sectors can be divided into 3 groups depending on their exposure to external competition pressure, namely:

First, the service sub-sectors that are exposed to low competition pressure: This group includes such sub-sectors as telecommunication, air transport, railway transport, etc. where monopolistic or semi-monopolistic provisions of services are in place, mainly by SOEs.

In the process of restructuring SOEs, the Government established pilot large-scaled business groups and special corporations in several key economic sectors, including services. However, some of them expanded their activities to non-core businesses, namely real estates, banking and securities exchange, leading to lower efficiency of specialization. Consequently, such business groups and corporations are being restructured to improve efficiency.

Second, the service sub-sectors that are exposed to moderate competition pressure. In these sectors, the domestic enterprises are able to adapt quickly to the new situation and develop. Such sub-sectors include education and training, tourism, and banking.

In these sub-sectors, private enterprises, including foreign invested ones, achieved significant development.[14] For example, in education and training, the number of non-public university grew from 45 in 2006 to 82 in 2011, including foreign invested ones. This trend contributed considerably to the improvement of university education, leading to a more diversified network of universities and colleges. Non-public universities accounted for nearly 15% of total number of students nationwide. However, in 2007-2011, the implementation of WTO commitments on opening university education did not result in a large increase of foreign invested universities as expected. The main reason was high tuition fees in these foreign institutions while public universities still retained competitiveness in terms of lower tuition fee and long-term reputation.

[14] In particular, Vietnam's informal economic sector still has many micro-sized enterprises or even individuals acting as service providers.

The quality of health care and education services has been improved thanks to competition pressure between local and foreign service providers. The presence of non-public education centers in such regions as the South West, South Central, and Central Highlands offered more education opportunities for students, especially those from poor families, ethnic minority or remote areas.

The quality of tourism services was also improved considerably after joining the WTO. Tourism transport facilities were gradually modernized. Some tourism complexes, golf courses, theme parks and recreational centers combined with shopping centers came into operation and satisfied the demand of tourists. The application of information technology in room booking and payment became popular in both big and small hotels. Many hotels in big cities are qualified to organize important international conferences.

Competition in marine transport has become more and more severe since 2007, though Vietnam had few commitments to open this market. The main reasons were low competiveness of Vietnam's marine transport, and the economic recession which led to smaller trade flows and contracted transportation demand. Most shippers of Vietnam are small-sized, inexperienced, and poorly equipped; and suffer from low profitability and high manufacturing cost. The capacity to seek for shipping orders of Vietnam's marine fleet was rather limited, while such orders also become relatively scarce in the unfavorable global economic context.

The domestic shippers only had a market share of about 20% of gross import and export cargo, leaving the remainder for foreign counterparts. Outbound cargo carried by Vietnam's shippers mostly came from contracts with foreign counterparts; and the main markets of Vietnam's shipping lines were Asian countries, which accounted for 50-60% of total exports and 85% of total imports (Vu Dai Thang, 2010). In particular, Vietnam's shippers still charge relatively high fees for their services.

Volatilities of exchange rate and fuel prices posed major risks for shipping companies, while those shipping companies in Vietnam still paid inadequate attention to hedging instruments to avoid exchange rate risks. Besides, Vietnam's seaports mainly provided traditional services such as cargo handling and storage, while the international counterparts already switched their focus to one-stop services or were transformed into logistics centers.

Third, the service sub-sectors that are exposed to high competition pressures. In these sub-sectors, the domestic enterprises face with the risk of losing market share even in the local market. Such sub-sectors include insurance and modern distribution.

Currently, competition in insurance sub-sector was mostly technical via reducing premium without adequate attention to insurance objects, riskiness, or customer care services. The key reason lied in the salary and cost payment scheme which was based on revenue, instead of likely payout (should the insured event occur). Consequently, competition took place not only among insurance companies but also among branches of the same company. The insurance companies may then have little interest in providing added services for customers accordingly. Lack of professionalism was also reflected by the difficulties in making payment to customers, while the payment procedures and document requirements were rather cumbersome.

The domestic and foreign distributors already started competition to control distribution channels, especially in distribution of consumption goods. The domestic distributors are exposed to fierce competition from experienced foreign retailers such as Metro Cash & Carry (Germany), Big C (France), and Parkson (Lion Group, Malaysia).

For example, to obtain advantages of price and promotion over domestic distributors, Metro forced producers to offer high discount (ranging from 8% to 20%). Metro has bargaining power because it is the fourth biggest retailer in the world with more than 600 distribution centers in 29 countries. If producers in Vietnam, especially foreign invested ones, fail to satisfy Metro's requirements, the retailer will create pressures on holding companies abroad. Meanwhile, small producers are forced to use Metro label for their products so that they can get in Metro's distribution centers.

In general, modern distribution forms are the strengths of foreign distributors. Despite of efforts by Vietnam's distributors to strengthen their channels in competition with foreign competitors, the latters still have advantages induced by enormous experiences in doing business in developing countries as well as by huge capital resources. Foreign retailers can conduct market research, manage business activities and make lobbying efforts in a professional manner. They are also able to offer much lower wholesale prices than domestic wholesalers, not to mention sale convenience and attractive promotion programs. Foreign retailers may gradually dominate the local distribution system thanks to their huge investment capital, large premises, outstanding sales – inventory – transport management, and more professional logistics services. Currently, a proportion of the population turn to big supermarkets with modern infrastructure, diversified and high quality items, stable prices and various promotion forms. The number of new distribution premises such as supermarkets, commercial centers has increased considerably nationwide. However, small-scaled and scattered distribution method is still common due to consumption habits of Vietnamese people, and the points of sales are very close to residential areas so that direct transactions can take place easily between sellers and buyers.

The dependence on foreign distributors groups may create unfavourable impacts on the livelihood of small-scaled producers and businesses. The supermarkets usually set high standards on food quality and hygiene. Large-scale purchase can be granted if farmers can satisfy those standards, which in turn require farmers to invest in equipment and facility, variety and farming method. However, such investment is based on bank loans, so farmers run the risks if foreign distributors refuse to buy the products.

For household and decoration commodities which are advantage of Vietnam's producers, foreign distribution groups always offer higher prices, and at the same time set out strict requirements on timing of delivery, use of labour, material sources and technology innovation. Being secured in terms of selling outputs, small enterprises only have to focus on their production without having to worry about packaging, designing, marketing, establishing distribution channel or brand names. However, the risk remains evident since foreign partners may reduce prices and cause losses to domestic producers.

Overall, the domestic service sector faced with more severe competition after the WTO accession. However, such a competition is essential to improve the quality of services and better satisfy demand of the community.

In the five years after the WTO accession, Vietnam's service sector exhibited remarkable features as follows:

In contrast with previous concerns, the implementation of WTO commitments in the period of 2007-2011 has created insignificant competition pressure for Vietnam's service sector as the implementation roadmap is relatively slow; some service sub-sectors are incompletely opened; monopoly, semi-monopoly or restrictions on the participation of foreign players still exist. Meanwhile, the presence of foreign enterprises in some fully opened sub-sectors is still modest due to domestic economic difficulty and global recession.

However, after the WTO accession, the global financial crisis and economic recession as well as domestic macroeconomic instability have considerably affected the development of the whole service sector in general and of certain service sub-sectors in particular. Such sub-sectors as banking, finance, real estate business and consultancy were more severely hit by domestic macroeconomic instability, including the frozen real estate market, the contraction of securities market. Meanwhile, other sub-sectors such as tourism and transport were more adversely affected by the global economic recession. The number of international tourists to Vietnam decreased sharply, and the slowdown of international trade also resulted in lower shipping demand. Public administration grew more slowly because of tightened State budget under economic difficulties.

In general, the main pressures of Vietnam's service sector in 2007-2011were not caused by implementation of service liberalization commitments under WTO. Instead, they could be attributed to more difficulties in the domestic and global economic context, which could not be foreseen before implementing WTO commitments.

Achievements

In 2007-2011, the service sector achieved significant results. Technology level of the sector was remarkably upgraded compared with previous 5 –year period, though in many aspects still failed to catch up with international progress. Thanks to higher technology and modernization level, the service sector was improved in terms of both quality and quantity, especially in such sub-sectors as trade, hotels-restaurants, banking-finance, transport-post-tourism, and public administration.

Among the service sub-sectors, technology level of information and communication achieved the most spectacular improvement. The Government emphasized development of this sub-sector as priority in order to lay critical infrastructure for growth and modernization of the economy. Vietnam's information technology sub-sector is now capable of participating in outsourcing services. Digitalized communication technology has attracted serious attention, and becomes a priority. Vietnam successfully launched two geostationary telecommunication satellites, i.e. VINASAT 1 (in 2008) and VINASAT 2 (in 2012), and are thus able to provide satellite transmission services and expand coverage area. On that basis, the development of other sub-sectors will be promoted, namely telephony, television broadcasting, mobile information, data transmission, internet, distant education and health services, information transmission for fisherman on board, weather forecast, national defense and security, etc., which would otherwise be impossible via other transmission methods.

In banking sub-sector, e-banking, internet banking and card services with prominent features have flourished after 5 years of WTO membership. Internet banking created important base for the development of modern payment services in Vietnam. The commercial banks also paid enormous attention to developing retail banking services with diversified and modern types of services. Many utilities of retail banking services have been commonly applied in such services as money transfer, deposit and lending, long term investment on securities, foreign exchange transactions (namely spot contracts, future contracts, swap contracts).

The distribution methods through the internet, e-commerce have proliferated rapidly and attracted much attention because of their advantageous utilities. Online distribution, both formal and informal, has expanded considerably. Many websites in Vietnamese support online transactions.

In public administration, ICT applications became more common at organizations and agencies under the Communist Party of Vietnam (CPV), the National Assembly, the Government, provinces and national defense and security. Online newspapers and websites have significantly contributed to information dissemination and propaganda as well as foreign affairs. Websites of the CPV, National Assembly, Government, line ministries and agencies and provinces are frequently updated, attracting the interest of many local and foreign users.

Weaknesses

Despite the above improvements, during 2007-2011, the gap in many service sub-sectors (even those with boom) between Vietnam and the world failed to be narrowed down significantly. In banking sub-sector, Vietnamese commercial banks mainly provide traditional banking services, mostly credit services. Technology absorption of the local banking system is limited, while human resource lacks both efficiency and appropriate skills, including banking management, supervision, and regulations as well as the ability to analyse and assess financial situations and forecast development trends.

In tourism and hotel sub-sectors, the capacity of Vietnam's tourism companies remain modest. Although the number of hotels and accommodation establishments increased dramatically, most of them are small-scaled and compete with one another (instead of cooperating to form "groups" or corporations with well-known reputation and high standard services). Many hotels are state-owned, which was established long time ago and are not adequately maintained. Moreover, the majority of accommodation establishments are located in big cities and urban areas, while very few are at beautiful sites, but with low quality. Vietnam has not yet established tourist areas of international standard (similar to Sentosa in Singapore, Bali in Indonesia or Pattaya in Thailand). The local tourism services are not diversified and appropriately developed in accordance with international standards. In many places, tourism environment has deteriorated and been polluted because of poor maintenance.

For slowly growing service sub-sectors, the gap between local providers and the world and regional counterparts is even much larger. In marine transport, by 2011, Vietnam has 266 seaports, mostly small-scaled, among which only one is deep-water seaport (Tan Cang Cai Mep in Ba Ria-Vung Tau province). Most seaports are not dredged and maintained regularly due to limited budget, and lack necessary facilities to

receive large container vessels. Consequently, almost all import and export container vessels have to transit at Hong Kong or Singapore. Infrastructure, equipment and technology of Vietnam's seaports are relatively outdated compared to other countries in the region and over the world. Besides, those seaports also lack adequate handling facilities, not to mention improper connectivity between seaports and supporting transportation services. The limited and poor, inefficient and time-consuming handling capacity has negatively affected the effectiveness of storage warehouses, leading to higher cost for shipping companies and lower competitiveness of Vietnam's seaports.

In education and training, though many education centers have cooperated with foreign partners, the quality and technology level of the education-training industry are relatively low. This is reflected in the poor and backward education infrastructure (for instance lack of e-library and adequate laboratories), centralized administrative education management system, and inefficient mix of education and research.

Traditional services and final consumption (namely trade, transport-post-tourism, hotels-restaurants, real estate business and consultancy) still accounted for the major share of overall service sector. The proportion of driving or facilitative sub-sectors, such as banking-credit, science-technology, and education-training, was very small and somehow portrays the low quality of economic growth.

In comparison with 5 years before WTO accession, the shares of service sub-sectors changed only insignificantly. The figures for trade and for hotels-restaurants increased most rapidly, while those of real estate business and consultancy, and of education-training decreased most noticeably. Although Vietnam's education and training sub-sector has been opened in accordance with WTO commitments, the sector failed to develop steadily since 2009 as expected. The smaller share of education and training poses a serious concern for the human resource development in the long run. The proportion of finance-banking services hardly increased despite of dramatic expansion of banking business during 2007-2011.

Many qualitative targets for the service sector set out in the SEDS for 2001-2010 could not be realized. For instance, the SEDS requested for *"a fundamental and comprehensive improvement in education and training"* or upgradation of science and technology capacity so that *"science and technology will become drivers of national development".* However, these sub-sectors experienced slowdown in 2007-2011. Besides, some key directions such as *"ensuring sound development of the financial-money market in the overall economy…, implementing monetary policy to help ensure macroeconomic stability and control inflation…"* and *"restructuring the banking system"* were just newly and/or inappropriately implemented during 2007-2011.

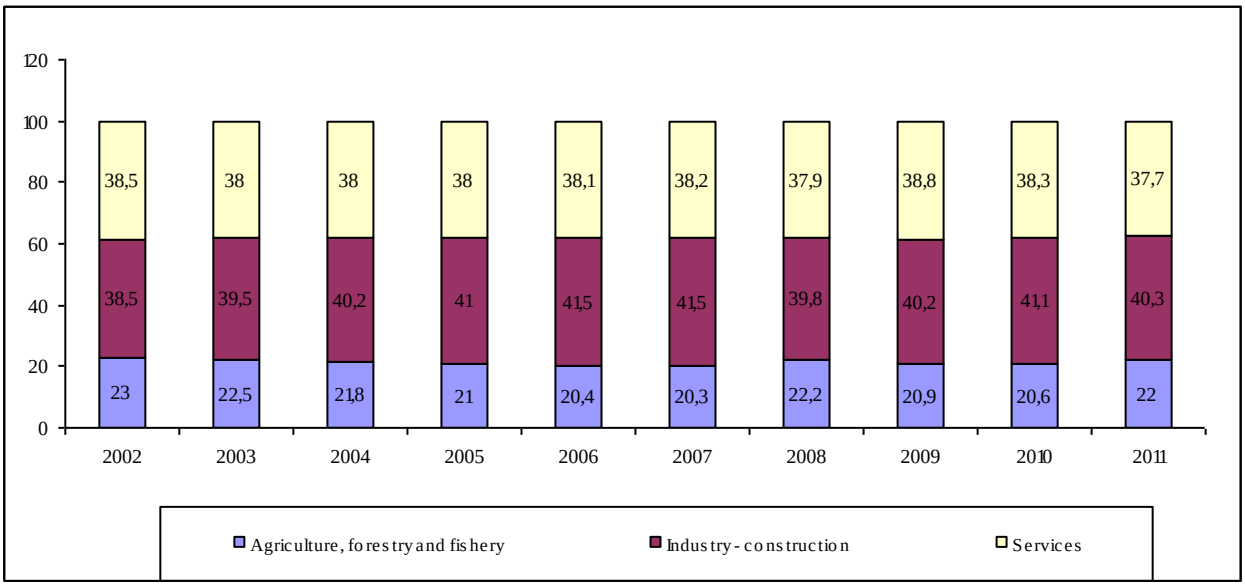
1.3. Shift in Economic Structure

During 2007-2011, GDP structure hardly changed, with no evident shift away from agriculture-forestry-fishery towards industry-construction and service sectors as set out in the SEDP for 2006-2010. In this period from 2007 to 2011, the share of agriculture-forestry-fishery sector increased by 1.7 percentage points, while those of industry-construction and service sectors decreased by 1.2 percentage points and 0.5 percentage point, respectively. That is, the targeted shares of agriculture-forestry-fishery,

industry-construction and service sectors for the year 2010 (which were 15-16%, 43-44% and 40-41%, respectively) were not realized.

Figure 6: Structure of GDP by Sector, 2002-2011

Unit: Percent



Source: GSO.

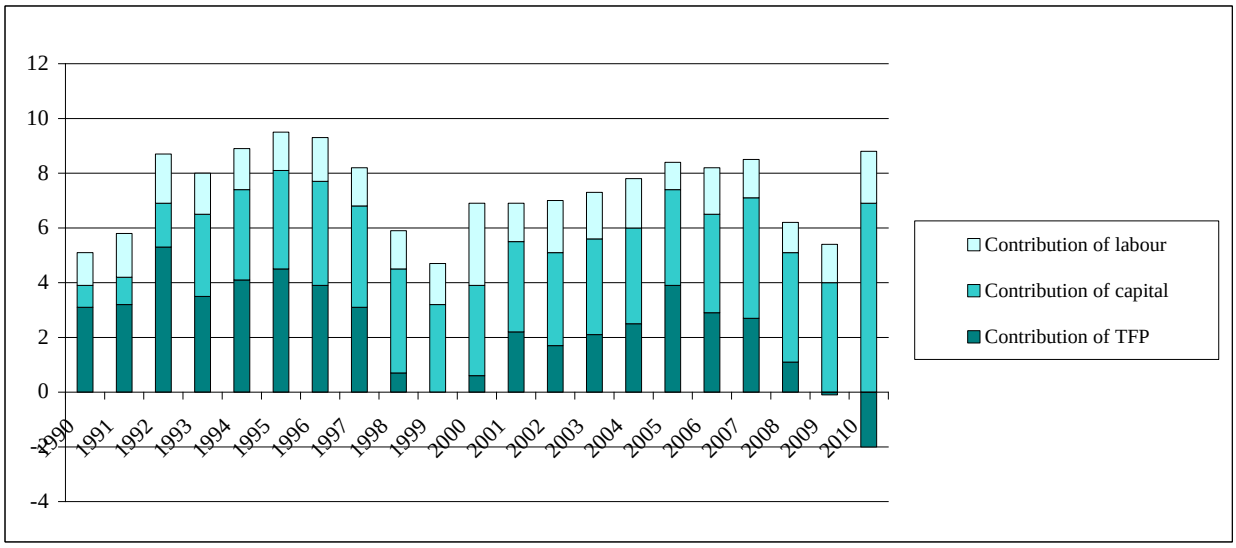
The slow shift of economic structure was mainly caused by the failure of industry-construction sector to fulfil the planned growth target, and by unforeseeable volatilities in the global economy.

1.4. Quality of Economic Growth

Total Factor Productivity (TFP) is one indicator of quality of economic growth, among others. In the period of 1990-1996, TFP was the most important factor to economic growth (contribution of 43-83% of GDP growth). In contrast, the contribution of capital accounted for the largest share since 1997 (45-102% of GDP growth), and the figure tended to increase over time (Figure 7). During this period, Vietnam's economic growth was heavily dependent upon the expansion of capital, while the contributions of labour and TFP were very modest despite the fact that the country had more advantage of labour instead of capital. Technology level, labour skills, and management capacity was only improved slowly. Without more applications of science and technology alongside human resource development, the mere increase in capital and the number of labours can hardly lead to high and sustainable growth.

In particular, the quality of economic growth during 2007-2011 was also weaker than the period of 2002-2006. In the years of 2007-2010, TFP only contributed 5% to GDP growth, i.e. smaller than the annual average figure of 33% during 2002-2006. In 2009 and 2010, TFP's contribution was even negative (-1% and -29%, respectively). The dependence of the economy's development on capital then became most serious during 2007-2011 (73% compared with the average figure of 46% during 2002-2006), while the growth rates were lower.

Figure 7: Contribution to Economic Growth, 1990-2010 (Percentage Point)



Source: Nguyen Ngoc Anh (2011).

The quality of economic growth could also be reflected in the Incremental Capital-Output Ratio (ICOR) and the ratio of gross investment over GDP.

Another indicator of growth quality is labour productivity. Vietnam's labour productivity grew very slowly, and the pace of growth in 2007-2011 (3.7% per annum) was much slower than that in 2002-2006 (5% per annum). Improving labour productivity presents a critical concern if Vietnam wants to avoid the middle-income trap and strengthen the competitiveness of the economy.

In comparison with other countries, Vietnam's labour productivity is still low. The figure in 2010 was nearly USD 5,900 (in USD value in 1990), equivalent to 13.2% of Japan, 23.3% of Malaysia, 12% of Singapore, 13.3 of South Korea, 46.5% of China, 37% of Thailand, and 69.9% of Philippines.

2. TRADE

2.1. Export and Import

Both export and import were increasing and reached the record high levels in 2008 (Figure 8). They were then hit severely by the global financial crisis and economic recession, but started to increase since 2010 thanks to the recovery of the domestic and international economy.

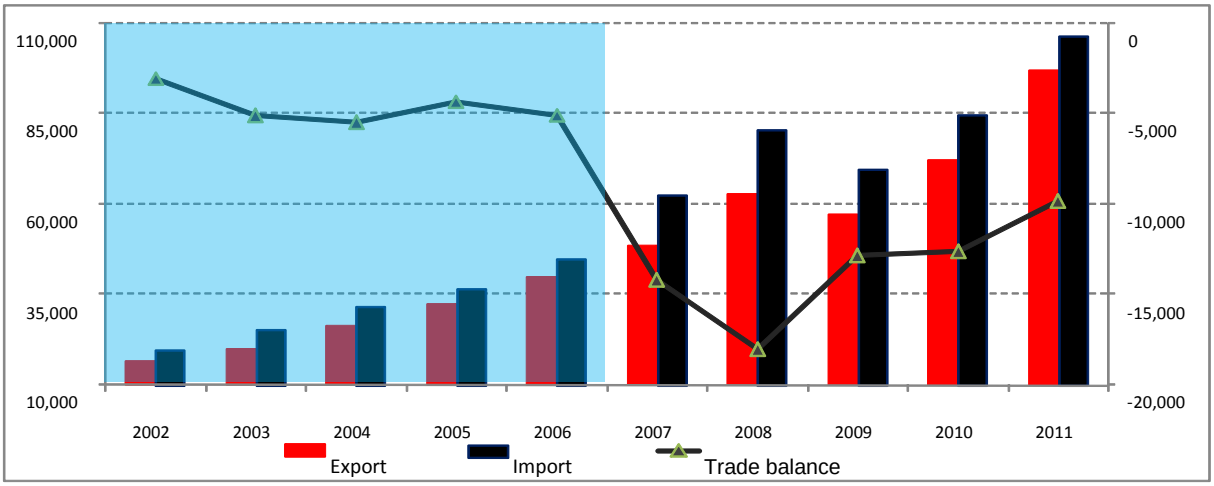
2.1.1. Trend

Export

During the period of 2007-2011, export still maintained the upward trend, but also became more volatile than the years of 2002-2006. Annual export growth was relatively high in 2007 and 2008 (21.9% and 29.1%, respectively). However, exports decreased by 8.9% in 2009 following the outbreak of the global financial crisis and economic recession. Since 2010, export value bounced back, increasing by 25.5% in 2010 and 34.2% in 2011. Overall, exports grew by 2.4 times in the period of 2007-2011, from USD 39.8 billion to USD 96.9 billion. The average growth rate of exports attained 19.5% per annum, higher

than the target for 2006-2010 (16% per annum). Still, export growth was slower in 2007-2011 than in 2002-2006, during which export value jumped by 2.6 times, i.e. on average by 21.5% per annum.

Figure 8: Import-Export and Balance of Merchandise Trade, 2002-2011 (million USD)



Source: GSO.

Note: The values of import and export are in the left axis. Trade balance is in the right axis.

The ratio of exports over GDP increased continuously, and attained 79.0% in 2011 (compared with only 65.2% in 2006). During the period of 2007-2011, the contribution of exports to economic growth was significant, reaching 113.2%, i.e. much higher than those of final consumption (89.4%) and capital formation (66.4%) (Truong Dinh Tuyen et al. 2011). Thus, even in a volatile economic environment, Vietnam could make the best of export potentials, and transform those potentials into income for its citizens and the whole economy.

Following the trend in 2002-2006, the achievements of Vietnam's exports during 2007-2011 were driven by: (i) world trade growth; *and* (ii) liberalization and improvement of competitiveness. The constant market share (CMS) analysis using Vietnam's export data for the periods of 200-2004, 2004-2007 and 2007-2008, by Vo Tri Thanh and Nguyen Anh Duong (2011), shows that the above factors had positive impacts in all concerned periods. The contribution of the world trade growth to Vietnam's export growth increased from 53% in 2001-2004 to 61% in 2004-2007, before contracting to 48% in 2007-2008. As an explanation for these high figures, Vietnam's export was very small relative to global export, so the former was very sensitive to growth of the latter.

From econometric estimation using data for 1990-2010, the impact of the WTO accession on export volume (excluding crude oil) was less significant than that of VN-US BTA. Meanwhile, Vietnam's export was affected more significantly by world economic growth. Specifically, if world GDP increases by 1%, Vietnam's export volume will go up by 4.4%.

Obviously, exports became the main driver of Vietnam's economic growth both before and after the WTO accession. Impressive export performance contributed

considerably to job creation and facilitated the shift of economic structure in accordance with the world economic development. Nonetheless, the difference between export growth in 2007-2011 (even in 2007 and 2008) and that of 2002-2006 was not significant, implying that the WTO accession did not help foster export growth, or that Vietnam's enterprises could not take most advantage of new opportunities in other WTO member economies. Spectacular growth of exports in 2011 thus was a rare highlight, and its sustainability still needs to be affirmed in the subsequent years.

Import

Since 2007, imports also became more volatile. The figure jumped by 40% in 2007 and 28.6% in 2008. Due to impacts of the global financial crisis and domestic economic downturn, import went down by 13.3% in 2009. However, imports quickly recovered, with growth rates of 20% and 25.9% in 2010 and 2011, respectively. Overall, in the period of 2007-2011, imports increased by about 2.4 times, from USD 44.9 billion to USD 106.7 billion. The average growth rate of imports in this period reached 18.9% per annum. The ratio of imports over GDP attained the peak level of 88.6% in 2008, then dropped to 72.0% in 2009 and then climbed to 87.1% in 2011. Import growth was generally slower in 2007-2011 than in 2002-2006, during which imports went up by 2.8 times and the average annual growth rate of imports was 22.6%.

Notably, unlike exports, imports only jumped in a couple of years after Vietnam became member of the WTO. As an explanation, Vietnam has gradually adapted to the WTO "games", at both policy and enterprise levels. The policymakers gradually became able to restrain import more effectively without violating WTO regulations. Meanwhile, to some extent, Vietnamese products became more competitive relative to imported ones. The surge in prices of imported goods (in VND) due to the increased VND/USD exchange rate also weakened demand for these items.

Increased imports were partly induced by the widened investment-savings gap which in turn resulted from huge increases in (both domestic and foreign) investment. In fact, the IMF estimated that investment-savings gap (as percentage of GDP) grew sharply from 0.3% in 2006 to almost 11.9% in 2008, before falling to 4.2% and 0.5% in 2010 and 2011, respectively. Besides, the dramatic rise in imports of consumer goods was due to (overall) income improvement, added by the "wealth effect" and the tariff reduction of some imported consumer goods (Vo Tri Thanh and Nguyen Anh Duong 2009). Finally, import expansion also served domestic production.[15]

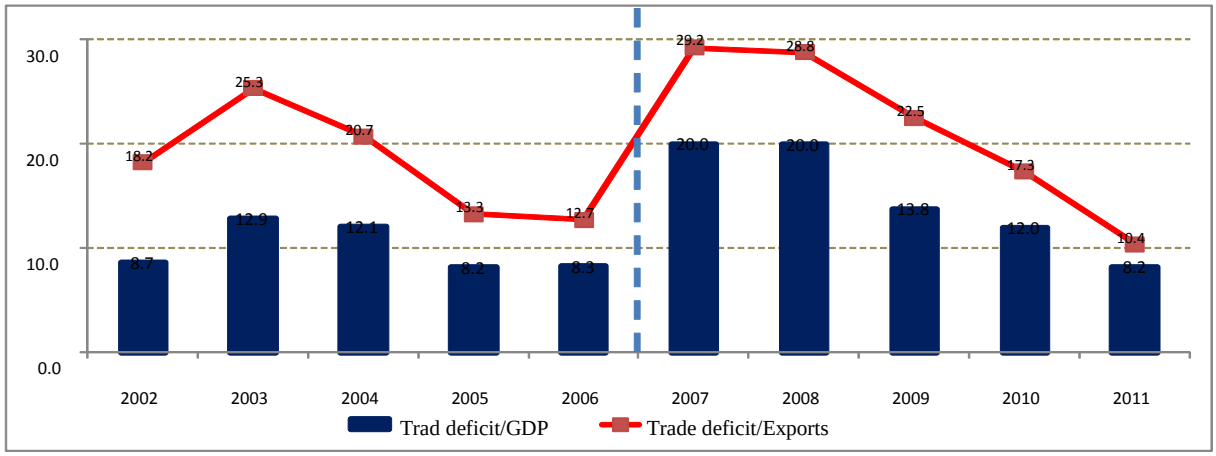
Estimation by Truong Dinh Tuyen et al. (2011) reveals several factors that influenced imports in the 1990-2010 period. On the one hand, the increase of nominal VND/USD exchange rate made Vietnam's products become more expensive (in current VND), thereby causing higher imports. Meanwhile, the disbursement of FDI capital also increased demand for imported goods. Specifically, if disbursed FDI capital went up by 1%, the import volume rose by about 0.3%. High GDP growth is also associated with higher demand for imported goods to serve domestic consumption and production. As an emphasis, the tariff cut under WTO commitments will induce further import demand *in the absence of technical measures to restrain import*.

[15] This argument will be analysed more thoroughly in the next section.

Before the WTO accession, trade deficit only increased significantly to USD 3.0 billion and USD 5.1 billion in 2002 and 2003, respectively. After that, the figure only went up slightly and reached nearly USD 5.1 billion in 2006. After the WTO accession, trade deficit was widened dramatically to USD 14.2 billion and USD 18.0 billion in 2007 and 2008, respectively. In the subsequent years, due to impacts of the global economic recession and policies to restrain trade deficit, the figure went down to USD 12.9 billion in 2009 and USD 9.8 billion in 2011. Average growth rate of trade deficit reached nearly 33.6% per annum in the period of 2002-2006, then climbed up to 88.7% per annum in 2007-2008, before decreasing by 18.4% per annum during 2009-2011. As a positive sign, unlike the early years after Vietnam joined the WTO, trade deficit became gradually under control as exports increased faster and import growth decelerated.

Figure 9: Trade Deficit/GDP and Trade Deficit/Exports, 2002-2011

Unit: Percent



Source: Data on trade deficit is from GSO database, GDP (in USD) is from EIU database.

The ratios of trade deficit over GDP and of trade deficit over exports also depict similar changes (Figure 9). As an implication, in early years after WTO accession (i.e. 2007-2008), the increase in trade deficit had insignificant payoff in terms of economic growth and export growth. Positive impacts of trade deficit on export growth seemed to be only evident in 2010 and 2011. Meanwhile, the lower ratio of trade deficit over GDP currently was mainly explained by more effective measures to restrain trade deficit.

Together with the expansion of merchandise trade, Vietnam also attained larger trade openness. Measured by the ratio of merchandise trade over GDP, Vietnam's trade openness increases continuously, from 130.4% in 2005 to 157.4% in 2008. Due to impacts of the global financial crisis and economic recession, the figure fell to only 130.7% in 2009. Since 2010, trade openness bounced back and reached 166.1%. According to Truong Dinh Tuyen et al. (2011), the movement of trade openness reflected quite closely the *"natural"* integration tendency of the economy in the period of 2000-2006 and from 2010 to present. In the period of 2000-2006, Vietnam became automatically opened for international integration, an obvious outcome of economic development and of implementation of previous commitments. The years 2010 and 2011 witnessed a better adaptation of the economy after several years of over-optimism (i.e. 2007 and 2008) or impacts of the global financial crisis and economic recession (i.e. 2009).

2.1.2. Impacts on Trade by Country and Territory

Impacts on Export

During the period 2007-2011 (except 2009), Vietnam enjoyed higher growth rate of exports to most markets than in the years of 2002-2006 (Table 17). That is, the country could realize opportunities to expand exports. Notably, the average growth rates of Vietnam's exports to South Korea and China in the period of 2007-2011 were much higher than those in 2002-2006, reflecting the fact that Vietnam could exploit export opportunities in relatively new destinations (i.e. South Korea and China), while other traditional ones (namely EU, Japan and the US) were maintained. Australia was among the rare markets that even the WTO accession or AANZFTA could create no significant improvement of export.

Table 17: Growth Rates of Exports to Major Countries and Territories (% p.a.)

	2002-2006	*2007-2008*	*2009*	*2010-2011*	*2007-2011*
ASEAN	21.0	24.8	-15.3	24.6	15.4
EU	18.8	23.9	-13.7	32.5	18.4
South Korea	15.7	45.9	15.9	50.6	41.1
Japan	15.9	27.1	-25.2	29.3	15.1
China	18.0	22.3	11.4	41.4	27.2
U.S.	49.1	23.1	-4.0	21.0	16.3
Australia	29.2	7.8	-45.2	2.8	-7.6

Source: GSO and authors' calculation.

However, the export growth was unstable during 2007-2011. In 2007 – 2008, exports to almost all key markets increased dramatically. In particular, the average growth rate of exports to South Korea attained 45.9% per annum during this period. In 2009, the financial crisis and economic recession negatively hit the world economy, thereby reducing world import demand and Vietnam's exports to most countries and regions. During the year, Vietnam could only increase exports China and South Korea. As an implication, Vietnam's enterprises could realize opportunities to expand exports even in difficult situations. In 2010-2011, exports to all key markets recovered. Notably, export growth rates in this period were generally higher than those in 2007-2008, except for such destinations as Australia, ASEAN and the U.S. Over time, as a reflection, benefits from export opportunities under AFTA and VN-US BTA deteriorated much quicker than those under relatively new ones such as ACFTA, AKFTA and VJEPA.

The key markets accounted for the lion's share of Vietnam's exports, which reached averages of 85.9% in the period of 2002-2006 and of 81.6% during 2007-2011 (Table 18). Truong Dinh Tuyen et al. (2011) argue for two major policy implications from this result. *First*, export orientation and export structure should be tailored to specific markets in order to better grasp potentials of each market and of economic integration arrangements that the country participated. *Second*, Vietnam's export markets are relatively concentrated, thus very vulnerable to external shocks that may arise in one or 2 key markets. From the observation of diversified export markets and the increase of Vietnam's exports to some markets even in 2009, Vietnam should attempt to further diversify its export market.

Exports were still concentrated in some key markets, but the total share of major partners such as ASEAN, Japan and the EU was gradually reduced. Meanwhile, the shares of some markets like the U.S., China and South Korea in Vietnam's total exports were increasing. As a note, transportation costs in the current globalization context has decreased significantly, but still affected trade flows of many countries (Doanh and Heo, 2009; Trang *et al.*, 2011). Thus, other regional partners still accounted for significant share in Vietnam's imports and exports.

Table 18: Export Structure by Major Destination (%)

	2002-2006	*2007-2008*	*2009*	*2010-2011*	*2007-2011*
ASEAN	15.8	16.6	15.3	14.2	15.4
EU	18.3	18.1	16.5	16.5	17.1
South Korea	2.3	2.7	3.6	4.6	3.6
Japan	13.8	13.0	11.1	10.9	11.8
China	9.5	7.6	9.5	10.7	9.2
U.S.	18.2	19.9	20.0	18.5	19.4
Australia	8.0	7.4	4.2	3.2	5.1
Total	**85.9**	**85.3**	**80.2**	**78.5**	**81.6**

Source: GSO and authors' calculation.

As indicated by the trade intensity index[16] of Vietnam's export in some major trading partners, ASEAN and Japan play increasingly important roles in Vietnam's export, followed by the U.S. market. Notably, South Korea becomes more and more attractive, especially after the enforcement of AKFTA agreement in 2006, reflected in trade intensity index being continually larger than 1 and continuously increasing during 2007-2009 (though slightly decreased in 2010). In the period of 2006-2008, also, Vietnam reaped decreasing benefits from exports to China, even though such exports still attained positive growth.

From the analysis of export similarity index[17], Vietnam's export structure has been quite similar to those of China and ASEAN. The index with China grew from 41.8 to 50.8 almost throughout the period of 2004-2009. Vietnam's export structure was most similar with that of China during this period. As an implication, China and ASEAN are the biggest competitors of Vietnam in terms of some key export goods.

The trade complementarity index[18] indicated that Vietnam's exports meet import demand of most trading partners (except South Korea). The index was the largest in the case of Japan. This helped explain the rapid increase of Vietnam's exports to this market in recent years.

[16] Trade intensity index of a country's export indicates the importance of that country's export in comparison with other countries in the world.

[17] The calculation of this index is based on the comparison of Vietnam's export structure with that of each trading partner. The index takes the value between 0 and 100, with a value of 0 indicating complete export dissimilarity and 100 indicating complete similarity.

[18] The trade complementarity index takes the value between 0 and 100. 0 indicates that no export goods of a country are imported by the other, and 100 means a country's exported goods and the other country's imports exactly matched. Notably, this index only compares export structure of a country with import structure of the other without paying attention on trading *scale* of the two countries.

Similarly, Vietnam's exports are increasingly complementary to import demand of the U.S. and EU25. Meanwhile, the index was relatively small in the case of China, albeit significant improvement compared with previous years. With respect to South Korea, trade complementarity index increased during 2004-2008, but fell considerably in 2009.

According to Truong Dinh Tuyen *et al.* (2011), the trade agreements, bilateral and regional FTA have immensely induced the change of Vietnam's export structure by market. Because many FTAs were signed and implemented almost simultaneously, separating trade creation effect and trade diversion effect of each FTA on Vietnam's exports is no easy task. However, larger exports to most markets indicate that FTAs are mostly beneficial to Vietnam's export growth. In that context, the shift in export structure by market was driven by Vietnamese enterprises taking good advantage of new opportunities in export markets, albeit to different extents.

Impacts on Imports

The total share of imports from major markets was smaller than the corresponding figure for exports, but still ranged from 72-77%. Imports from major trading partners increased dramatically in the 2002-2011 period. Among the major import sources, imports from the U.S grew most rapidly with the average growth rate of 35.6% per annum during 2007-2011 in comparison with only 15.7% per annum in 2002-2006. Imports from other partners like South Korea, Japan and EU also went up quickly. In contrast, imports from ASEAN and China grew more slowly, despite high value in absolute term.

Table 19: Import Growth by Country and Territory (%)

	2002-2006	*2007-2008*	*2009*	*2010-2011*	*2007-2011*
ASEAN	20.1	24.9	-15.9	12.7	10.7
EU	13.0	33.6	-4.3	18.5	19.1
South Korea	12.9	36.2	-7.5	40.2	27.5
Japan	13.6	32.4	-17.0	23.3	17.2
China	29.0	47.0	-3.5	26.3	27.2
U.S.	15.7	63.8	2.4	29.3	35.6

Source: Authors' calculations from data of GSO and General Department of Customs.

Similar to exports, imports also fluctuated during 2007-2011. Import expansion was only relatively considerable in the first two years after the WTO accession. Imports from ASEAN grew most slowly, but still attained the average annual growth rate of 24.9% while that of the U.S amounted to 63.8%. By 2009, the global financial crisis and economic recession as well as domestic economic downturn led to contraction of imports from most markets (except the U.S.). Imports only regained its growing tendency in 2010-2011. However, imports from most major markets like China and ASEAN decelerated while those from other trading partners went up more rapidly. Notably, imports from South Korea increased on average by more than 40.2% per annum in the period of 2010-2011.

Table 20: Import Structure by Country and Territory (%)

	2002-2006	*2007-2008*	*2009*	*2010-2011*	*2007-2011*
ASEAN	25.1	24.8	23.5	19.5	22.4
EU	8.3	7.6	7.6	7.3	7.5
South Korea	10.2	8.7	9.6	11.9	10.2
Japan	11.4	10.0	9.8	10.2	10.0
China	14.0	20.0	22.0	23.3	21.7
U.S.	3.0	3.0	3.9	4.3	3.7
Total	**72.0**	**74.1**	**76.4**	**76.5**	**75.5**

Source: Authors' calculations from data of GSO and General Department of Customs.

The share of imports from major markets changed dramatically during 2007-2011. In the period of 2002-2006, ASEAN ranked first in Vietnam's imports (with the share of 25.1%), followed by China (14.0%), and Japan (11.4%). Nevertheless, ASEAN's share dropped to only 24.8% in 2007-2008 and 19.5% in 2010 and 2011. Similarly, that of Japan fell from 11.4% in 2002-2006 to 10.2% in 2010-2011. By contrast, the proportion of imports from China grew most rapidly, from the average of 14% in 2002-2006 to 23.3% in 2010-2011. This was partly caused by EPC contracts undertaken by Chinese enterprises in Vietnam, as well as the price competitiveness of Chinese goods. Imports from South Korea also went up significantly, accounting for 11.9% of Vietnam's imports in 2010-2011 compared with only 10.2% in 2002-2006. Thus, Vietnam seemed to experience larger trade diversion effect than trade creation effect when importing from other countries.

Trade intensity index indicated the attractiveness of Vietnam's market to other East Asian countries. More importantly, in parallel with the country's open-door policy and international integration, Vietnam became more and more attractive to almost all other trading partners. The country is a highly potential destination for exports from ASEAN, though trade intensity index of the latter with respect to the former only increased slightly from 4.1 in 2004 to nearly 4.7 in 2007, before decreasing to almost 3.4 in 2010. The indices with China and Japan also went up continuously in the period of 2004-2009, from 1.6 to 2.5 and 1.8 to 2.1, respectively. South Korea also shows potentials of further export to Vietnam, though the trade intensity index fell from about 3.8 to only 3.5 in the 2004-2010 period.

From the calculations by Truong Dinh Tuyen *et al.* (2011), the trade intensity index of most trading partners in Asia with respect to Vietnam was larger than the corresponding figures of Vietnam with respect to those countries. The only exception was Japan, indicating that Vietnam could reap *net* benefit from trade with Japan in the 2004-2009 period. Meanwhile, the net benefit of Vietnam in trading with China was very modest. On the other hand, the former's net benefits in trading with EU25 and the U.S. were considerable.

As reflected in the trade complementarity index, imports from most trading partners (except the U.S.) could satisfy import demand of Vietnam during 2004-2010. Surprisingly, the degree of complementarity was biggest with EU25, though import value from EU25 was less than expected. Meanwhile, those of exports from ASEAN, South Korea and Japan were

more or less similar in the 2009-2010 period, and much improved compared to corresponding figures in 2004. In the case with the U.S., the trade complementarity index increased from 41.1 to 43.5 in 2004-2006, before decreasing continuously to 40.5 in 2009. The pace of improvement of the trade complementarity index was most remarkable in the case with China, which jumped up by almost 13.3 points.

2.1.3. Impacts on Imports and Exports by Product Category

In Terms of Export

In order to have more detailed analysis of impacts, import and export goods were divided into several categories. The Broad Economic Category (BEC) classification was used for the purpose. The categories included: consumption goods, intermediate goods, capital goods, petroleum, and others. The detailed descriptions of these categories are presented in Table 21. *Notably, cars, whether used in households or enterprises, are included in the category of capital goods.*

Table 22 presents Vietnam's exports by classified product category during 2002-2010. In the period before 2007, consumption goods accounted for the largest share in total exports. However, growing more slowly than total exports, consumption goods saw its share in total exports decreasing from 48.7% to 47.5%, while those of intermediate goods and capital goods increased gradually.

Table 21: Categories of goods with accordingly BEC code

Category	*Name of goods and BEC code*
Consumption goods	Primary food and beverages mainly for household consumption (112); processed food and beverages mainly for household consumption (122); Consumer goods not elsewhere specified (6);
Intermediate goods	Primary food and beverages mainly for industry (111); processed food and beverages mainly for industry (121); Industrial supplies not elsewhere specified (2); parts and accessories thereof of capital goods (except transport equipment) (42); parts and accessories thereof of transport equipment (53);
Capital goods	Capital goods (except transport equipment) (41); passenger motor cars (51); other transport equipment (industrial) (521); other transport equipment (non-industrial) (522)
Petroleum	Fuels and lubricants (3);
Others	Goods not elsewhere specified (7);

Source: Extracted from Truong Dinh Tuyen et al. (2011).

Since the WTO accession, the export structure exhibited major shift. Exports of consumption goods grew dramatically in terms of both value and share. The value of exported consumption goods attained an annual growth rate of 20.8% on average. The share of consumption goods in total exports also went up significantly, reaching 48.5% in 2007 and 53.7% in 2010. In the same period, the share of intermediate goods soared up from 25.2% to 27.0%. In particular, the share of exports of capital goods jumped more immensely, from 4.8% in 2007 to 9.0% in 2010. Thus, the export structure was shifted towards consumptions goods, intermediate goods and capital goods, reflecting positive effect of Vietnam's deeper engagement in the regional value chain and production network.

In contrast, the share of exported petroleum (mainly crude oil) dropped sharply, from 24.4% in 2006 to 20.2% in 2008 and 9.9% in 2010. This was largely attributed to the completion and operation of Dung Quat oil refinery in 2009 and, thus, a significant portion of exploited crude oil were refined domestically instead of being exported like before. Notably, due to impacts of the global financial crisis and economic recession, export values of most categories (except capital goods) decreased in 2009.

In terms of growth rate, exports of capital goods achieved the most impressive growth rate of 39.4% in the 2007-2010 period, much higher than that of 33.6% during 2002-2006. This reflected the positive impact of international economic integration on exports of capital goods from Vietnam. Similarly, exports of consumption goods and intermediate goods had relatively high annual growth rates in the post-WTO-accession era, being 20.8% and 21.5% on average compared to those of 19.3% and 25.6% in the period of 2002-2006, respectively. Thus, the trade creation effect of the WTO accession and international economic integration was only evident in the cases of capital goods and consumption goods, whilst being relatively modest in the case of intermediate goods.

Table 22: Vietnam's Export Structure by Commodity Category, 2002-2010 (%)

Category	*2002*	*2006*	*2007*	*2008*	*2009*	*2010*
Consumption goods	57.0	47.5	48.5	47.0	51.2	53.7
Intermediate goods	18.3	23.3	25.2	26.6	25.9	27.0
Capital goods	3.3	4.5	4.8	5.5	7.3	9.0
Petroleum	21.3	24.4	20.7	20.2	14.9	9.9
Others	0.0	0.4	0.7	0.7	0.7	0.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total value (million USD)	**14,483**	**39,826**	**48,561**	**62,685**	**57,096**	**74,828**

Source: Data for 2000-2009 are from Truong Dinh Tuyen et al. (2011); those for 2010 are calculated by authors from mirror trade data provided by partners.

Nevertheless, Vietnam's exports depended heavily on the exploitation of natural resources, minerals, agriculture and labour-intensive manufacturing industries. This argument is supported by the Revealed comparative advantage index (RCA[19]) of each category classified by 2-digit SITC level (Table 23).

Footwear (SITC 85) had the largest comparative advantage (relative to the world). However, RCA index of this sector decreased slightly from 22.1 to 19.3 in the 2004-2008 period, and further dropped to 10.8 in 2009. Other categories with significant comparative advantages included raw rubber (SITC 23); fish, crustaceans, mollusk (SITC 03); coffee, tea, cocoa, spices (SITC 07); articles of apparels and clothing accessories (SITC 84). Some other categories (especially coffee, tea, cocoa, spices and their manufactures thereof (SITC 07); furniture and parts thereof, bedding, mattress and its supports, cushion and similar stuffed furnishings (SITC 82); leather, leather manufactures and clothes (SITC 61)) became more and more competitive. As an indication, Vietnam

[19] For a certain product category, the index will compare its share in Vietnam's exports with that in world exports. RCA>1 suggests revealed comparative advantage, and RCA<1 revealed comparative disadvantage. More importantly, larger RCA means the improvement of comparative advantage of export goods.

seemed to take good advantages of primary and/or natural resource-intensive, labour-intensive products for exports. Simultaneously, Vietnam showed significant potentials in exporting some products with higher processing content.

To have a deeper insight on the structure of products with or without comparative advantage in Vietnam, Truong Dinh Tuyen *et al.* (2011) also summed export shares of various product categories classified by RCA index (Table 24). Specifically, three groups were identified, namely: (i) those having comparative advantage in 2009 (i.e. $RCA_{2009}>1$); (ii) those having no comparative advantage in 2009, but the level of comparative advantage was improved somehow (i.e. $RCA_{2009}<1$ and $RCA_{2009}>RCA_{2004}$); *and* (iii) those having no comparative advantage in 2009, and their comparative advantage was not improved during 2004-2009. As can be seen, the products that had comparative advantage in 2009 accounted for the major share of total, though the share continuously declined from about 83.6% in 2004 to approximately 76.9% in 2009. Even so, export value of those products still increased.

Table 23: RCA index by product category

SITC classification	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*SITC classification*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
00	0.39	0.37	0.41	0.35	0.29	0.06	56	0.07	0.02	0.03	0.13	0.63	0.58
01	0.19	0.15	0.13	0.15	0.13	0.10	57	0.04	0.09	0.20	0.19	0.18	0.20
02	0.04	0.02	0.03	0.05	0.05	0.10	58	0.15	0.20	0.28	0.27	0.25	0.26
03	10.22	9.91	10.49	10.10	9.99	10.57	59	0.28	0.33	0.42	0.39	0.34	0.62
04	3.48	5.71	4.20	2.94	3.67	4.93	61	0.64	0.52	0.64	1.20	2.05	1.96
05	1.73	1.72	1.76	1.80	1.94	2.16	62	0.86	0.71	0.86	0.60	0.56	0.94
06	0.47	0.33	0.32	0.57	0.68	0.71	63	0.58	0.61	0.70	0.74	0.84	0.80
07	7.66	7.80	9.48	10.60	9.15	7.32	64	0.15	0.18	0.21	0.25	0.31	0.39
08	0.11	0.08	0.18	0.17	0.15	0.30	65	1.05	1.05	1.24	1.40	1.54	2.04
09	0.78	0.59	0.59	0.66	0.60	0.72	66	0.66	0.59	0.70	0.71	0.66	0.69
11	0.07	0.08	0.08	0.07	0.12	0.20	67	0.07	0.07	0.09	0.14	0.34	0.36
12	0.44	0.22	0.19	0.29	0.30	1.03	68	0.07	0.08	0.10	0.14	0.22	0.14
21	0.51	0.53	0.49	0.79	0.84	0.13	69	0.50	0.54	0.63	0.70	0.63	0.60
22	0.34	0.28	0.13	0.15	0.05	0.18	71	0.33	0.34	0.38	0.35	0.38	0.40
23	4.57	4.09	5.51	5.24	3.81	9.61	72	0.11	0.13	0.13	0.16	0.17	0.13
24	0.74	1.07	1.19	1.77	1.76	1.71	73	0.07	0.10	0.15	0.14	0.17	0.08
25	0.00	0.00	0.00	0.00	0.00	0.00	74	0.24	0.21	0.27	0.23	0.26	0.18
26	0.15	0.23	0.37	0.59	0.63	0.71	75	0.19	0.35	0.58	0.73	0.91	0.78
27	0.49	0.52	0.56	0.97	1.60	1.29	76	0.19	0.19	0.26	0.44	0.63	0.60
28	0.40	0.36	0.33	0.31	0.27	0.14	77	0.48	0.48	0.44	0.43	0.44	0.50
29	0.52	0.40	0.35	0.31	0.28	0.29	78	0.13	0.12	0.09	0.08	0.10	0.13
32	3.29	3.74	4.67	4.93	3.53	3.20	79	0.02	0.02	0.09	0.30	0.20	0.21
33	2.22	1.95	1.66	1.42	1.16	1.21	81	0.36	0.37	0.46	0.56	0.45	0.43
34	0.00	0.00	0.00	0.00	0.01	0.02	82	4.88	5.69	6.09	6.54	6.50	4.55
35	0.00	0.00	0.00	0.00	0.00	0.08	83	5.99	5.65	5.09	4.93	5.14	3.77
41	0.08	0.10	0.09	0.14	0.49	1.72	84	5.53	5.19	5.74	6.33	6.54	5.63
42	0.10	0.08	0.05	0.13	0.11	0.16	85	22.10	20.55	20.22	19.33	19.31	10.76
43	0.10	0.11	0.15	0.06	0.12	0.30	87	0.12	0.11	0.17	0.16	0.20	0.15
51	0.12	0.11	0.09	0.09	0.11	0.10	88	0.26	0.26	0.29	0.39	0.39	1.20
52	0.04	0.08	0.12	0.10	0.11	0.20	89	0.64	0.65	0.74	0.83	0.88	1.60
53	0.03	0.05	0.05	0.06	0.07	0.11	93	0.10	0.12	0.11	0.15	0.14	0.14
54	0.01	0.02	0.02	0.02	0.02	0.02	96	0.01	0.00	0.04	0.00	0.00	0.00
55	0.36	0.29	0.27	0.27	0.33	0.36	97	0.01	0.02	0.13	0.34	0.45	1.51

Note: The coloured cells indicate comparative advantage.
Source: Truong Dinh Tuyen et al. (2011).

Even for many sectors without comparative advantage in 2009, their competitiveness has been gradually improved in relative terms, and some of these may become drivers of export growth. The major products in this group includes: office machines and automatic data-processing machines (SITC code 75); textile fibers (SITC code 26); fertilizers (SITC code 56)[20]; Telecommunications and sound-recording and reproducing apparatus and equipment (SITC code 76). Moreover, those products accounted for an increasing share in Vietnam's exports, from 12.6% in 2004 to more than 20.2% in 2008. As the manufacturing content of these products exceeded those for which Vietnam has been enjoying comparative advantage, the improvement indicated positive shift of the country's export structure toward manufacturing products.

Table 24: Export shares of products classified by RCA (%)

	2004	*2005*	*2006*	*2007*	*2008*	*2009*
$RCA_{2009}>1$	83.55	83.37	81.36	79.50	77.90	76.89
$RCA_{2009}<1$ và $RCA_{2009}>RCA_{2004}$	12.57	13.30	15.52	17.40	18.91	20.20
$RCA_{2009}<1$ và $RCA_{2009}<RCA_{2004}$	3.88	3.33	3.12	3.10	3.19	2.90

Source: Truong Dinh Tuyen et al. (2011).

Thus, Vietnam's export structure tends to shift from traditional sectors where Vietnam enjoyed comparative advantage toward new ones, even when comparative advantage of these sectors has not been revealed. As an indication, Vietnam focused not only on increasing exports of products with static comparative advantage, but also built up comparative advantage in some other manufacturing products. In this regard, proactive participation in FTA negotiation and implementation has broadened opportunities for the country to exploit potential manufacturing products. However, according to Truong Dinh Tuyen *et al.* (2011), the transition from products of *current* comparative advantage to those of *future* advantage may pose challenges for Vietnam. The longer the transition process, the larger the cost for Vietnam.

Impacts on Imports by Product

Similar to the analysis of exports, imports are also divided into different categories (see Table 21). Intermediate goods accounted for the largest share in total imports, with the most rapid annual growth rate (about 26.1%) in the years before 2007. The share of this category in total imports was 62.4%, higher than that in 2002 (61.0%). Meanwhile, imports of consumption goods and capital goods also increased but at slower pace; thus, their proportions in total imports decreased significantly.

After Vietnam joined the WTO, its import structure changed considerably. The share of imported intermediate goods somewhat decreased, while those of consumption goods and capital goods went up. In the period of 2007-2010, imports of intermediate goods only grew on average by 15.1% per annum, i.e. slower than that in 2002-2006. The proportion of intermediate goods in total imports thus fell to only 60.9% in 2007 and 58.8% in 2010.

[20] Re-exports may have contributed to large export value of fertilizers, because import value of the product increased from USD 825 million in 2004 to more than USD 1.4 billion in 2009.

In contrast, imports of consumption goods and capital goods exhibited remarkable growth. The difference was that imported consumption goods surged significantly in 2010, while import value of capital goods went up dramatically in 2007-2008. It was because the demand for imported capital goods of FDI sector in 2007-2008. Therefore, deeper international economic integration in recent years induced faster import growth of capital goods, which would become a more serious challenge if such imported goods could not be transformed into additional production capacity for the economy.

Notably, imports of petroleum increased from USD 6.6 billion in 2006 to USD 12.2 billion in 2008, then decreased dramatically in 2009 as Vietnam reduced exports of crude oil volume to ensure supply to Dung Quat oil refinery. This represented the positive impact of import-substitution production (in the case of petroleum), rather than of international economic integration.

Table 25: Imports by category, 2000-2010

	Value (Million USD)						*Growth rate (%)*	
	2002	*2006*	*2007*	*2008*	*2009*	*2010*	*2002-2006*	*2007-2010*
Consumption goods	1,967	3,306	4,053	5,376	5,739	12,080	10.7	38.3
Intermediate goods	11,499	27,996	38,229	48,024	42,280	49,153	26.1	15.1
Capital goods	3,895	6,791	11,625	14,738	14,357	14,837	15.5	21.6
Petroleum	1,481	6,608	8,623	12,179	7,305	6,395	37.3	-0.8
Others	2	190	235	397	267	1,260	-24.9	60.5
Total	**18,844**	**44,891**	**62,765**	**80,714**	**69,949**	**83,725**	**22.6**	**16.9**
Share (%)								
Consumption goods	10.4	7.4	6.5	6.7	8.2	14.4		
Intermediate goods	61.0	62.4	60.9	59.5	60.4	58.7		
Capital goods	20.7	15.1	18.5	18.3	20.5	17.7		
Petroleum	7.9	14.7	13.7	15.1	10.4	7.6		
Others	0.0	0.4	0.4	0.5	0.4	1.5		
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**		

Source: Data for the period of 2002-2009 were extracted from Truong Dinh Tuyen et al. (2011), data for 2010 were calculated from mirror trade data of trading partners.

2.2. Domestic Trade

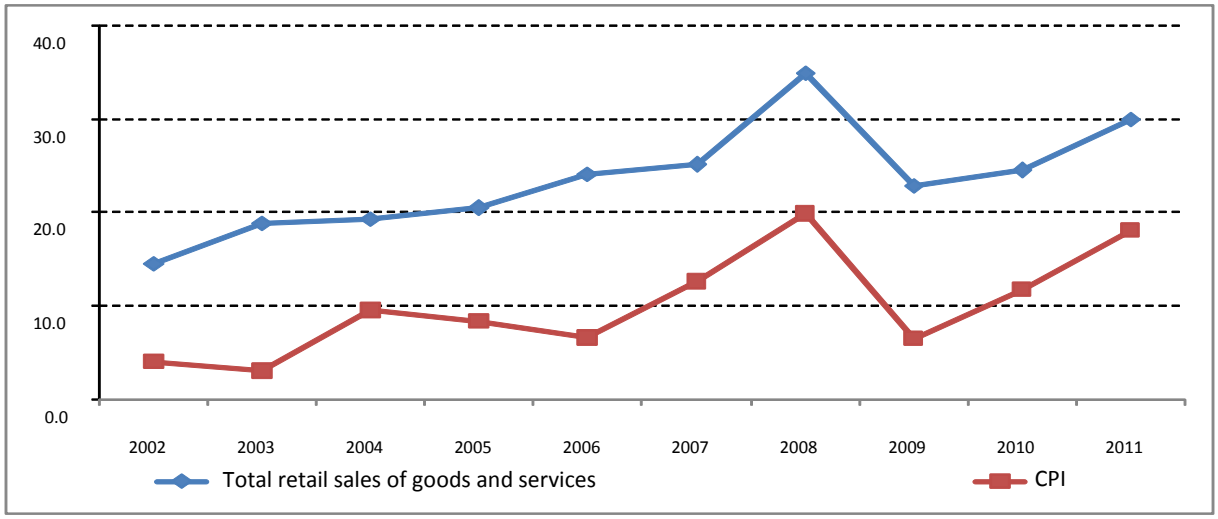
2.2.1. Situation

Retail sales of goods and services increased continuously in the years 2007-2011, irrespective of whether the price effect was taken into account or not. The growth rate of retail sales of goods and services varied insignificantly throughout the concerned period. Retail sales of goods and services expanded from VND 596.2 trillion in 2006 to VND 2,004.4 trillion in 2011. The fastest growth rate was in 2008, of about 35.0%.

Accordingly, in the 2007-2011 period, retail sales of goods and services grew by nearly 3.4 times, equivalent to the average annual growth rate of 27.4%, i.e. slightly higher than that of 24.1% in 2006 (including the effect of price increase).

Notably, the growth rate of retail sales of goods and services exhibited some correlation with that of consumer price index to a certain extent. As an implication, the growth rate of retail sales of goods and services (excluding the effect of price increased) exhibited few structural change by sector in the 2007-2011 period. Specifically, during 2007-2011, retail sales of goods and services achieved the effective growth rate of only 12.8% per annum on average, dramatically declined during times of high inflation in 2008 and 2011 (9.8% and 9.6%, respectively).

Figure 10: Growth of Retail Sales of Goods and Services Relative to the CPI Inflation (%)



Source: Authors' calculations from GSO data.

In 2009, despite economic difficulties, retail sales of goods and services still grew by 22.9% (or 15.0% if excluding effect of price increase). This growth rate was impressive in the context of economic difficulty. Therefore, the domestic market still maintained its role as the "basis" for production recovery, with considerably contribution for GDP growth and macroeconomic stabilization.

The above performance was explained by the larger presence of distribution enterprises, especially foreign retail corporations, after Vietnam's distribution services were liberalized in accordance with WTO commitment since 1 January 2009. In 2009, many new international brands participated in Vietnam's retail market, namely Naf Naf, Morgan de Toi, Mexx, Aldo, Hard Rock Café, Debenhams. The foreign retail corporations operating in Vietnam also set up plans to expand and improve their distribution channels in big cities. Some other foreign retail corporations showed their interest in Vietnam's market and invested in the country.

Besides, many Vietnamese enterprises shifted their focus, paying more attention to the domestic market as the economy was in downturn due to impacts of the global

financial crisis and economic recession. By 2010 and 2011, retail sales of goods and services even increased at higher rates, of 24.5% and 30.0%, respectively (or 14.0% and 9.6% after excluding effect of price increase).

By ownership, the structure of retail sales of goods and services witnessed insignificant change in 2007-2011 compared to the years 2002-2006. The share of State sector decreased in 2007-2008, reaching 9.8% in 2008 from 12.7% in 2006. The figure only recovered to about 12-13% in the 2009-2010 period. As an explanation, domestic distributors could adapt to the tougher competition in retail services following liberalization. In other words, although such liberalization could be foreseen, SOEs were not well-prepared in 2007 and 2008, and could only grow under competition pressure since 2009.

In another aspect, intervention measures by the Government indirectly led to the higher share of the State sector during 2009-2011. Specifically, the stimulus package in 2009 also included the campaign to encourage Vietnamese to use locally produced products, the program to distribute Vietnam's products in rural areas. By 2010-2011, to curb inflationary pressure, the Government alloted expenditure to help stabilize prices of some products at several retail enterprises, mostly SOEs. This important factor contributed to larger share of the state sector in domestic retail sales.

Meanwhile, the non-State sector still accounted for the largest share of retail sales of goods and services. Unlike the State sector's share, that of the non-State sector climbed slowly from 83.6% in 2006 to 86.8% in 2008, but dropped to 83.0% and 85.17 in 2010 and 2011, respectively. The relatively large share reflected advantage of the domestic non-State sector. Still, this sector depended heavily on business households though they could distribute goods to all areas, including remote or distant ones.

The proportion of FDI sector in retail sales of goods and services was rather stable, and only slightly fell from 3.7% in 2006 to 2.8% in 2011, except the increase in 2010 (to 3.1%). Therefore, even after Vietnam liberalized the retail market for foreign enterprises, their share only varied insignificantly. As a reason, entities of other ownership forms could expanded their businesses as discussed above. Moreover, some technical measures to restrict the expansion of FDI sector in the retail market resulted in the slightly smaller share of the sector. For example, foreign distributors need permission so as to open second retail premise, while the approval process is rather strict. Besides, regulation on locations of retail premises poses another barrier.

By sub-sector, trade accounted for the major share of retail sales, followed by hotels and restaurants. Retail sales of trade sub-sector grew from VND 463.1 trillion in 2006 to VND 983.3 trillion in 2009 and VND 1,578.2 trillion in 2011. The industry maintained a relatively stable share in the 2006-2011 period, which ranged from 77.0% to 79.4%.

Hotels and restaurants achieved total revenues of nearly VND 227.0 trillion in 2011, more than three times higher than that in 2006 (VND 71.3 trillion). However, the corresponding share in retail sales of goods and services decreased to 11.1-11.3% in the period of 2008-2011 compared with 12.0-12.1% during 2006-2007.

Similarly, revenues of tourism and services went up from VND 61.7 trillion in 2006 to VND 199.2 trillion in 2011. The corresponding share increased slightly from

10.3% in 2006 to 11.1% in 2008, and went down to 9.9% in 2011. This pattern did not differ significantly from that of previous years.

In summary, even in the context of economic hardship, domestic trade still exhibited impressive growth momentum. Such a momentum was thanks to efforts of relevant business entities to strengthen and develop distribution system as well as modern and professional modes of retail and wholesale activities. Besides, some enterprises shifted their focus toward the domestic market. As export growth decelerated and the Government implemented the stimulus package, the enterprises carried out many measures widely to exploit and regain dominant position in the domestic market.

2.2.2. Achievements

First, the domestic market exhibited noticeable improvement thanks to consumption stimulus measures such as the campaign on encouraging Vietnam citizens to use Vietnam's products, promotion programs by distribution enterprises, programs to bring goods to rural areas and industrial zones, trade fairs and exhibitions, and various projects on supporting interest rate or loan access in order to stabilize prices of products. Many trade enterprises strengthened and developed distribution system, implemented different modes of modern and professional retailing and wholesaling services. The webs of markets and other traditional trading premises continued to be developed. Essential goods such as books, notebooks, salt, and kerosene were distributed adequately for mountainous areas and islands. Thanks to that, the demand-supply balance of essential goods was assured, accompanied by complete satisfaction of production and consumption demand. Some sudden increases of demand for certain products were timely controlled, helping re-establish market balance.

Households and individuals consumption contributed immensely to the expansion of retail market. Since 1995, final consumption of individuals was closely correlated to retail sales of goods and services. Notably, since the WTO accession, consumption of individuals also soared up quickly, and induced rapid development of retail sales of goods and services. Moreover, private consumption constitutes a substance of attractiveness in Vietnam's retail market, as illustrated clearly in the surveys by AT Kearney.

Second, the domestic market achieved high growth, while the demand and supply of essential goods were balanced. The measures to promote domestic trade and encourage Vietnamese citizens to use Vietnam's products improved fundamental understanding of consumers about such products. The regulations of domestic market as well as specific industries were continuously adjusted and improved to establish a sound and fair competitive environment, relying more on market rules under the State regulations.

Third, the participation of foreign enterprises helped create a competitive environment for import-export and domestic trade. The participation of these enterprises led to higher prices of domestically produced good, especially agricultural products, and at the same time contributed to lower price of imported goods. Therefore, the benefits of domestic producers and consumers were improved. Simultaneously, domestic exporters also have to cope with more severe competition.

Fourth, modern distribution methods were promoted, leading to rapid development of Vietnam's retail sub-sector. Foreign retailers invested in modern

distribution centers in the country, thus necessitating local counterparts to modernize their business models. Modern business models like shopping centre, supermarket and convenient store were increasing popularized. By 2011, 638 supermarkets and 116 shopping centers were in operations in nationwide (compared with 386 supermarkets and 72 shopping centers in 2008). The proportion of goods distributed via modern retailing (supermarket and shopping centre) increased significantly. Currently, about 20% of retail sales were through those channels, and 50% of urban households went shopping at commercial centers monthly. This situation implied fiercer pressure for business households in urban areas of Vietnam.

Finally, Vietnam gained more experience in policy formulation in general and in limiting influence of FDI sector in domestic trade. Although commitments on liberalizing the domestic retail market were implemented quite early, Vietnam has taken WTO-compliant measures to restrict the over-expansion of foreign retail corporations and supermarkets. Moreover, the measures on economic stimulus and price stabilization indirectly favoured domestic sectors' development under competition pressure from foreign counterparts.

2.2.3. Some critical issues for the development of domestic trade

Liberalizing distribution services made the retailing sub-sector become more competitive, with modern distribution channels and more shopping options for consumers. At the same time, the local distributors with weak capacity confronted with more severe competition pressure. The establishment of a modern FDI-led distribution system forced domestic producers to innovate production technology, to improve quality of products, to satisfy standards and regulations on food safety and hygiene in order to penetrate these distribution channels. However, this is no easy task, because the critical issues of unsafe food or low quality products still prevail in Vietnam, thus affecting consumer confidence in local products.

Domestic trade enterprises still have many weaknesses and shortcomings relative to foreign counterparts. In order to strengthen competitiveness and maintain market shares, domestic enterprises should cooperate with foreign partners to enhance quality of human resources, to upgrade technology level, to improve management skills and to develop modern distribution system. In addition, domestic retailers and producers should apply customer-based approach, identify consumption trends and consider these trends as orientations for the development of retail industry. This was a challenge even before 2009, when commitments on liberalizing the distribution market took effect. Nonetheless, effective responses by enterprises to improve competitiveness were still modest. The relatively stable share of State sector in retail sales of goods and services was not totally induced by own efforts of enterprises. Instead, supporting policies of the Government played an important role.

Besides, domestic trade still exhibited some limitations. No big domestic enterprise with modern business model came in operation with capabilities to lead and organize the circulation of goods and services; to create linkages between production and import-export in order to establish a modern, developed and sustainable distribution system. Public administration of trade activities has been improved in many aspects, but still fails to match current situation of trade and services operations. Some regulations and policies were inappropriate, and lack of close linkages among public administration agencies over trade activities created chances for smuggling and trade fraud. Some regulating measures of the

Government only had effect at a lag, notwithstanding appropriate approaches. Some complicated procedures, in another aspect, present major obstacles for businesses to access sources of support. Information dissemination remains ineffective, leading to possible information bias and undermining the confidence of consumers.

3. INVESTMENT

3.1. Total Investment

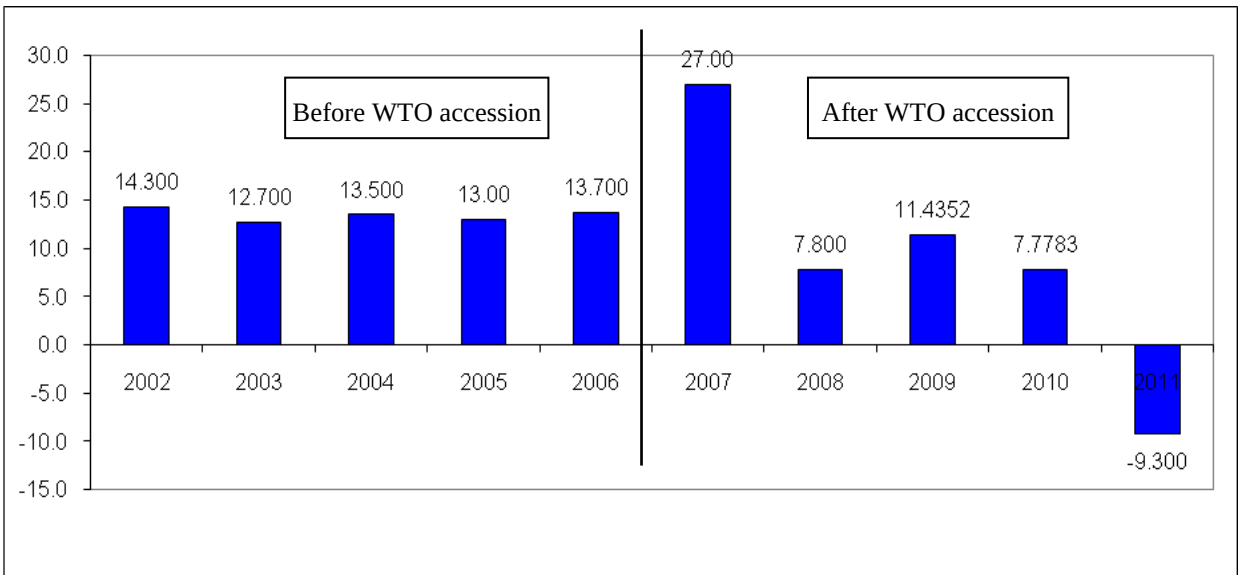
The WTO accession and complicated developments in the domestic and international economic context resulted in considerable changes of Vietnam's total investment. Before joining the WTO, investment prospect was very optimistic. Investment growth then accelerated rapidly just after accessing to the WTO (reaching 27.0% in 2007). However, investment eventually achieved slower growth rate compared with those in 2002-2006, and even decreased in 2011. On average, total investment only increased by 8.3% per annum in the period of 2007-2011 (at constant 1994 prices), much lower than that of 13.4% per annum during 2002-2006.

The dramatic increase of total investment in 2007 was explained by optimism of private investors: FDI inflows reached record growth rate (93.4%), investment by non-state sector also increased at a rapid pace after many years (26.9%). In 2007, total outstanding credit of the economy achieved record growth rate, of 53.9% at current prices.

Among many reasons for slower growth of total investment in 2008 were the tightening of State investment to curb inflation (leading to 2.5% reduction of State investment in the year) and difficulties of non-State sector (their investment fell by 3.5%). Meanwhile, investment by FDI sector increased by 36.1%, mainly thanks to improvements of the investment environment after the WTO accession.

In 2009, despite stimulus measures of the Government - including investment stimulus (which led to the increase by 34.6% of State investment) - to prevent economic downturn and restrict impacts of the global financial crisis and economic recession, total investment only went up by 11.4% due to smaller investment by FDI sector (decreasing by 8.6%).

Figure 11: Pattern of Investment Growth (at constant 1994 prices)

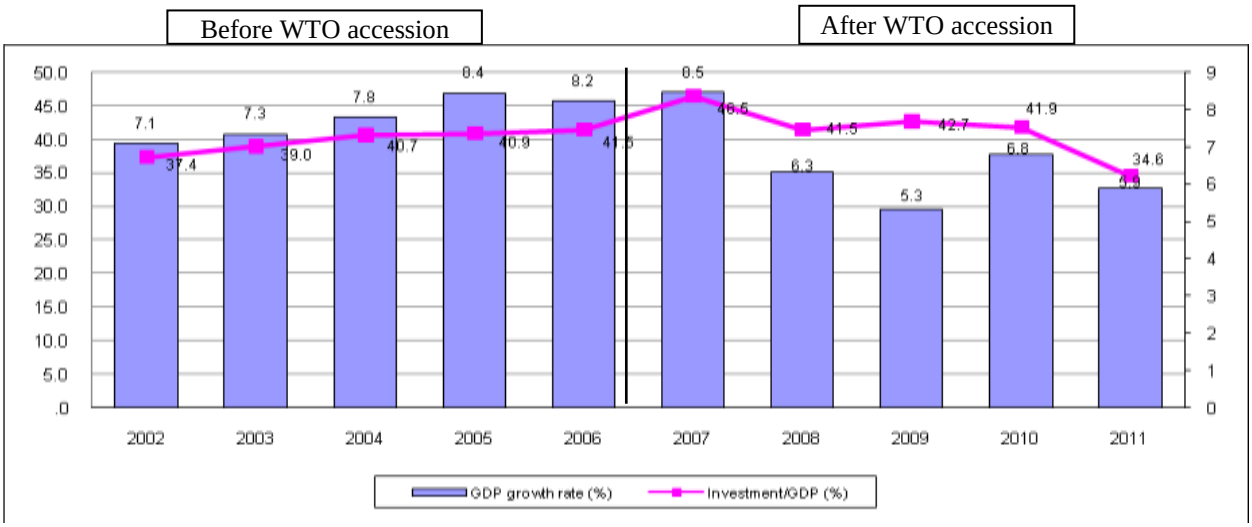


Source: GSO (2011a, 2011b, 2012b).

From 2010 to 2011, the economic difficulties caused by the global financial crisis and economic recession adversely affected investment and business activities. In 2011, the Government switched priority to inflation control and macroeconomic stabilization. In doing so, many measures were implemented, including reduction and transfer of State investment, as well as tightening credit. As the result, investment growth decelerated from 7.8% in 2010 to a negative rate (-9.3%) in 2011, marking the record reduction in the last 20 years.

The ratio of total investment over GDP increased rapidly, from 37.2% in 2002 to the record level of 46.5% in 2007, and maintained at more than 40% during 2007-2010 (Figure 1). However, the ratio dropped sharply to only 34.6% in 2011, lower than the planned target (40%), and even less than that of 2002.

Figure 12: Total Investment over GDP and GDP Growth Rate (%)



Source: GSO (2011a, 2011b, 2012b).

Figure 3 indicated that GDP growth in the period of 2007-2011 (averaging at 6.5% per annum) was lower than that in the period of 2002-2006 (7.8% per annum). Meanwhile, the average ratio of total investment over GDP in 2007-2011 was 40.5% (regardless of very low level in 2011), still higher than that for the 2002-2006 period (40.2%). As an implication, investment efficiency was not improved much in 2007-2011 as compared to 2002-2006, if other factors were not taken into consideration.

Nonetheless, the domestic and international economic context during 2007-2011 was more complicated and difficult compared with the period of 2002-2006. Simultaneously, deeper international economic integration makes Vietnam's economy increasingly vulnerable to adverse changes of the world economy. In turn, this significantly affected investment impacts on economic growth and other socio-economic aspects of Vietnam.

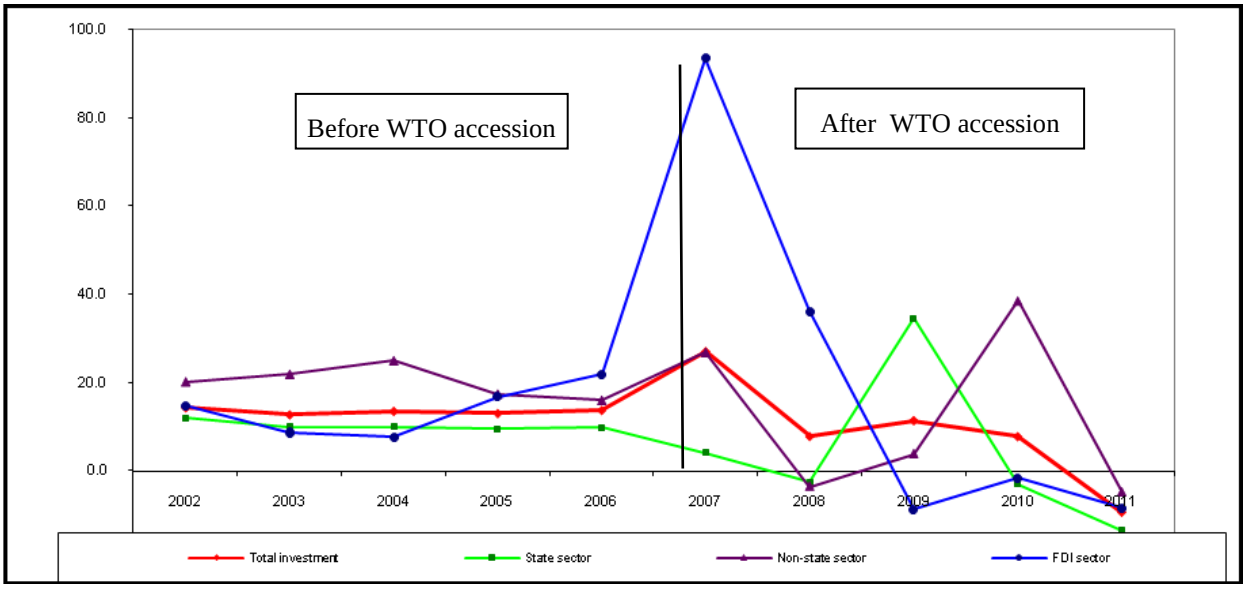
3.2. Investment by Ownership

In recent years, alongside the Renovation and economic integration processes, investment by the non-State sector and FDI sector increased more rapidly compared with that by the State sector (Figure 13), except in 2009 due to impacts of the global financial

crisis and economic recession. During the period of 2007-2011, investment by FDI sector and non-state sector achieved the average annual growth rates of 16.8% and 10.9%, respectively, much higher than that by State sector (of 2.8%).

The patterns of investment growth in all economic sectors were relative stable in the period of 2002-2006, and approximated that of total investment. However, after the WTO accession, investment growth by ownership varied dramatically and affected the structure of total investment.

Figure 13: Investment Growth by Ownership (At Constant 1994 Prices)



Source: GSO (2011a, 2011b, 2012b).

The shares of investment by domestic non-State and FDI sectors only grew rapidly in 2007 or 2008, then dropped and became more stable after that. That is, the shift toward larger share of private sector and smaller share of State sector was not obvious, and was even reversed. This represented no positive trend because investment capital by private sector was a very important alternative for Vietnam's socio-economic development - in the contexts of limited State investment capital, and of broadened opportunities to attract investment by domestic and foreign private sector after the WTO accession and associated improvements of the investment environment.

The share of State investment was nearly halved in the period of 2001-2008, from 59.8% to 33.9%; then recovered to about 40.6% in 2009 as other investment sources by the Government were increased (from the state budget, government bonds) in order to stimulate the economy and prevent economic downturn after the global financial crisis and economic recession; and still stayed at around 38-39% in 2010 and 2011. Those numbers were not fully positive. In fact, although State investment played an important role in the development of socio-economic infrastructure, it also led to unexpected impacts such as worsening budget deficits, higher public debt and trade deficit, rapid expansion of aggregate demand (due to high growth rates of money supply and credit), whilst affecting interest rates, exchange rate, inflation, and even other substances of macroeconomic instabilities.

Table 26: Investment Structure by Ownership (%)

	Year	*State sector*	*Non-state sector*	*FDI sector*
Before WTO accession	2002	57.3	25.3	17.4
	2003	52.9	31.1	16.0
	2004	48.1	37.7	14.2
	2005	47.1	38.0	14.9
	2006	45.7	38.1	16.2
After WTO accession	2007	37.2	38.5	24.3
	2008	33.9	35.2	30.9
	2009	40.6	33.9	25.6
	2010	38.1	36.1	25.8
	2011	38.9	35.2	25.8

Source: GSO (2011a, 2011b, 2012b).

Moreover, too large State investment (including those by SOEs and from state budget and Government bonds) may crowd out investment by private sector. Higher share of state investment, and adverse risks and impacts of larger State investment in recent years were undesirable from the Government's perspective. Consequently, the Government and the Prime Minister promulgated resolutions and decisions on measures to reduce and rearrange state investment in 2008 (Decision No. 390/QD-TTg) and 2011 (Resolution No. 11/NQ-CP), aiming at controlling inflation, stabilizing the macroeconomic environment and implementing investment restructuring measures toward reducing the share of State investment and increasing those of domestic non-State and FDI sectors (Directive No. 1792/CT-TTg dated 15 October 2011 and resolutions of the Government).

3.2.1. Foreign direct investment

Investment liberalization commitments, including those under WTO, remarkably affected foreign investment. In general, the implementation of those commitments - in parallel with reforming and strengthening the legal system and FDI policy over the years - improved investment environment and enhanced the attractiveness of Vietnam to foreign investors.

After the WTO accession, Vietnam adjusted economic policies to enhance transparency and ease of doing business for enterprises. The country also liberalized the goods and services markets, and implemented comprehensive domestic reforms in order to take advantage of opportunities and overcome challenges from the integration process. Administrative reforms on business registration and investment licensing were accelerated, import and export procedures were simplified, the single window mechanism was well applied in some provinces, while business registration and investment licensing procedures were simplified and improved. These improvements encouraged foreign investors to increase investment and/or expand the scale of their investment projects. Consequently, FDI inflows to Vietnam achieved remarkable improvement. During 2007-2011, FDI attraction acquired better outcomes compared with the 2002-2006.

Compared to the period 2002-2006, the period 2007-2011 saw the number of FDI projects increasing by 1.5 times, registered capital by 5.1 times higher (including both newly

registered and added capital), while disbursed capital grew by 3.3 times. However, implemented capital only accounted for the average of 34.0% of total registered capital in the years 2007-2011, i.e. much lower than that of 52.4% during 2002-2006 (Table 27). The figure was however improved from 16% in 2008 to 43.3% in 2009, 55.3% in 2010 and 70.4% in 2011, notwithstanding more unfavourable domestic and international context.

Table 27: FDI Inflows to Vietnam, 2002-2011

Indicator	*Unit*	*Before the WTO accession (1)*	*After the WTO accession (2)*	*Comparison (2:1)*
		2002-2006	*2007-2011*	
No. of projects	Project	4,367	6,737	1.5
Total registered capital	Million USD	29,581	151,685	5.1
Total implemented capital	Million USD	15,502	51,530	3.3
Ratio of implemented capital over registered capital	%	52.4	34.0	

Source: Authors' calculations from data of GSO (2011a) and Foreign Investment Agency (2012b).
Note: Including added capital of implemented projects licensed in previous years.

On the other hand, the FDI situation exhibited significant changes, from rapid increase and record high level of registered capital during 2007-2008 to drastic reduction in the period of 2009-2011 (Table 28).

Table 28: FDI Attraction, 2006-2011

	Indicator	*Unit*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*
I	**Registration**							
1	New projects	Project	987	1,544	1,557	1,208	1,237	1,191
	Growth rate	*%*		*56.4*	*0.8*	*-22.4*	*2.4*	*-3.7*
2	Registered capital of new projects	Million USD	9,097	18,718	66,500	17,236	17,919	12,258
	Growth rate	*%*		*105.8*	*255.3*	*-74.1*	*4.0*	*-31.6*
3	Number of existing projects with added capital	Project	486	379	397	355	402	403
	Growth rate	*%*		*-22.0*	*4.7*	*-10.6*	*13.2*	*0.2*
4	Added capital	Million USD	2,907	2,629	5,226	5,871	1,967	3,360
	Growth rate	*%*		*-9.6*	*98.8*	*12.3*	*-66.5*	*70.8*
5	Total registered capital	Million USD	12,004	21,347	71,726	23,107	19,886	15,618
	Growth rate	*%*		*77.8*	*236.0*	*-67.8*	*-13.9*	*-21.5*
II	**Implementation**							
	Implemented capital of FDI sector	Million USD	4,100	8,030	11,500	10,000	11,000	11,000
	Growth rate	*%*		*95.9*	*43.2*	*-13.0*	*10.0*	*0.0*

Source: Authors' compilations and calculations from data of MPI (2011c) and Foreign Investment Agency (2012b and annual reports).

In 2007, registered capital amounted to USD 21.3 billion, i.e. 77.9% higher than that in 2006. In 2008, the figure already exceeded USD 71.7 billion, the record level in the process of FDI attraction in Vietnam. In 2009, due to impacts of the global financial crisis and economic recession as well as other factors, registered FDI into Vietnam dropped sharply, only attained USD 23.1 billion, i.e. equivalent to one third of that in 2008. After that, FDI attraction gradually decreased to only USD 15.6 billion in 2011.

The implementation of investment by FDI sector was improved remarkably during 2007-2008. In 2009, despite impacts of the global financial crisis and economic recession, implemented capital of FDI sector only decreased by 13% compared with the previous years. In the years of 2010-2011, implemented capital of this sector reached USD 11 billion, higher than in 2009 but still lower than that of USD 11.5 billion in 2008. The investment by FDI sector (at constant 1994 prices) grew on average by 16.8% per annum in the period of 2007-2011, considerably faster than that of 13.9% per annum during 2002-2006. The average share of FDI sector in total investment was 26.4% during 2007-2011, i.e. significantly higher than that of 15.6% in the years 2002-2006.

The contribution of FDI sector to GDP increased from 17.0% in 2006 to 19.0% in 2011. On average, FDI sector accounted for 18.6% of GDP in the period of 2007-2011, higher than that of 15.5% for 2002-2006. Exports by FDI sector also grew remarkably, from USD 44.9 billion in 2006 to USD 55.1 billion in 2011. FDI sector then accounted for 49.4% of total exports of the country (excluding crude oil), and the figure was up to 56.9% if crude oil was included.

FDI sector's revenue contribution to the State budget went up continuously, from about USD 1 billion prior to the WTO accession to USD 1.6 billion in 2007 and approximately USD 3.5 billion in 2011. FDI sector also created jobs and income for a significant portion of the population. By 2011, the sector directly created jobs for about 1.7 million labourers, accounted for 3.4% of total employed labourers of the economy.

Thus, the implementation of investment-related WTO commitments as well as other integration commitments in the period of 2007-2011 helped attract a record high level of FDI inflows, especially in the first few years after the WTO accession. The share of FDI sector in total investment was improved remarkably, justifying significant contribution to socio-economic development in Vietnam. More open, more transparent and non-discriminatory investment-related regulations and policies created favourable conditions for FDI enterprises to do business and conduct manufacturing and export activities. As a result, FDI sector contributed immensely to GDP growth, state budget revenue and job creation.

However, FDI attraction during 2007-2011 also shows some major limitations. In the years 2007-2008, registered FDI capital reached a record level but implementation ratio was very low. Many projects were not implemented or focused on speculation (especially real estate projects or those occupying large areas of land). FDI capital also

attained low growth with very modest recovery after the global financial crisis and economic recession. FDI to poor, remote and distant areas accounted for a minor share and took time to improve. Imports by many FDI enterprises were high, but they did not focus on manufacturing. Instead, those enterprises only conducted some processing or assembling activities or doing business in the domestic market, thereby adversely affecting the trade balance. Many enterprises took advantage of loopholes in Vietnam's regulations and policies to conduct transfer pricing and report loss or low profit, thus resulting in modest contribution to the State budget revenue. Meanwhile, some FDI projects used low technology, consumed a lot of energy, created environment pollution, occupied large areas of land, and used abundance of natural resources and minerals, etc. but produced limited outcomes, not to mention their non-compliance with the schedule of capital contribution, capital mobilization, construction, technology transfer and responsibilities for employees[21]. These issues all had certain adverse impacts on Vietnam's socio-economic development.

There were many reasons for those weaknesses and shortcomings. The investment-related legal and policy system has been improved, but still inconsistent and non-harmonized, and there have been many gaps that people may illegally exploit; investment incentives for needed locations were unattractive and scattered, and unable to promote manufacturing instead of commercial and trading[22]. Decentralization in issuing investment license and FDI management was implemented strictly, but the coordination mechanism and the management capacity were still limited, especially at grassroots levels. Consequently, many investment licenses were issued but not in accordance with plans, criteria on technology, technical, environment, labour, etc. were not appropriately assessed and examined. Besides, FDI projects have not appropriately investigated and monitored.

3.2.2. Investment by Non-state Sector

In the period of 2001-2011, investment by non-State sector (individuals and private enterprises) increased dramatically thanks to the improvement of legal system in line with international economic integration, especially mechanisms and policies on improving investment environment and develop non-State economic sector, including the introduction of Enterprise Law, Investment Law and guiding documents.

During 2007-2011, more than 370 thousand enterprises were newly registered (Table 29), more than double of the figure for 1999-2006 (167 thousand enterprises). This achievement partly resulted from the implementation of international commitments in general and WTO commitments in particular, including improvements of facilitative mechanism, policies and procedures related to business registration and market entry.

[21] More details on shortcomings of FDI by industry and sector are discussed at Section 1.

[22] A uniform corporate income tax is levied on both maufacturing enterprises and trading companies.

Table 29: Development of Non-state Enterprises, 2006-2011

Indicator	*Unit*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	***2007-2011***
No. of newly registered non-State enterprises	Thousand	46.7	58.2	65.3	84.5	83.6	79.1	**370.7**
Total registered capital of newly established non-state enterprises	Trillion VND	146.3	473.8	569.5	517.0	489.6	496.0	**2,545.9**

Source: MPI (2011c, 2011d).

Total registered capital of non-State enterprises increased continuously, from about VND 146 trillion in 2006 to VND 570 trillion in 2008 (at current prices). However, in 2009-2011, registered capital of non-State enterprises dropped considerably mainly due to impacts of the global financial crisis and economic recession, and then economic difficulties in 2011 as the economy suffered from high inflation. In 2011, not only the number of registered enterprises went down and registered capital only slightly increased in relative to 2010, but many enterprises went bankruptcy or terminated their business because of the country's economic difficulties as well.

Although the number of non-State enterprises and registered capital of non-State sector grew dramatically during 2007-2011, the growth rate of implemented capital of the sector only reached a peak in 2007 (26.9%), then dropped to low levels, and even negative ones in 2008 and 2011 (-3.5% and -4.8%, respectively) as the country confronted with high inflation and other hardships. These was the two years during which the Government attempted to reduce public investment and tighten credit.

The implemented capital by non-State sector only grew on average by 10.9% per annum in the period of 2007-2011, i.e. slightly higher than half of the figure for 2002-2006 (20.1%).

The growth rate of non-State investment in the period of 2001-2007 was higher than that of the State sector (11% in 2001, 16% in 2006 and 26.9% in 2007). Thus, the share of non-State sector in total investment went up continuously from 22.6% in 2001 to 38.5% in 2007. However, the share decreased in 2008-2009 and recovered in the 2010-2011, but was still lower than those in 2004-2007.

Notwithstanding hardship in private investment, the share of the non-State sector in GDP went up slightly from 45.6% in 2006 to 48.0% in 2010, except the fall in 2008. On average, the non-State sector acquired a share of 47.0% in GDP during 2007-2011, marking insignificant improvement from that of 46.1% in the period of 2002-2006. The non-State sector created more jobs than the State-sector and FDI sector. The total employees of over 15 years old in non-State sector was 43.4 million in 2011, or 86.2% of total labourers of the economy. Despite important contribution to socio-economic development, the non-State sector only enjoyed modest investment

effectiveness, business efficiency and competitiveness. In 2008 and 2009, the number of non-State enterprises with reported losses was equivalent to 25% of total enterprises in the sector.

In summary, the implementation of international economic integration commitments, including WTO commitments, generally created positive impacts to the development of non-State economic sector in terms of total number of enterprises and the scale of investment capital. However, investment by this sector - mostly by individuals and SMEs - was significantly influenced by changes in the international and domestic context as well as the Government's policies. Moreover, manufacturing, business and investment activities by non-State sector confronted with increasing competition from FDI and SOE counterpart. Meanwhile, the sector mainly consisted of SMEs, households and individuals with small-scaled capital, limited management skill, technology level and capacity to deal with variations in the domestic and international economic contexts. Still, the sector played an important role in GDP and remarkably contributed to job creation and income generation. Therefore, it is necessary to introduce measures to promote investment and settle difficulties in manufacturing and business activities for this sector.

Table 30: Growth Rate and Share of Non-State Sector in Total Investment (%)

	Year	*Growth rate (at 1994 prices)*	*Share in total investment (at current prices)*
Before the WTO accession	2001	11.0	22.6
	2002	20.2	25.3
	2003	21.9	31.1
	2004	25.0	37.7
	2005	17.4	38.0
	2006	16.0	38.1
After the WTO accession	2007	26.9	38.5
	2008	-3.5	35.2
	2009	3.9	33.9
	2010	38.5	36.1
	2011	-4.8	35.2

Source: GSO (2011a, 2012b) and authors' calculations.

3.2.3. State Investment

The average growth rate and share of State investment were both lower in 2007-2011 than those in 2002-2006. The average growth rate of State investment was 10.3% per annum in the period of 2002-2006, then fell to 2.8% per annum during 2007-2011. Similarly, the share of State investment in total investment went down from the average of 49.2% in the period of 2002-2006 to 37.9% during 2007-2011 (Table 31). The decreasing share of the State sector in total investment could be expected in the context of international economic integration and in line with the view to promote investment by non-State and FDI sectors.

Deeper economic integration after the WTO accession requires the State to utilize its investment sources for maximal use of opportunities and favourable conditions, whilst overcoming adverse impacts from international economic integration. This was clearly reflected in the State's investment management mechanism during 2007-2011, especially in the years of volatility in international and domestic contexts (i.e. 2008, 2009 and 2011).

In 2008, the dramatic surges in prices of raw materials and inputs resulted in the delays and/or slow progress of many investment projects. To address high inflation, the Government had to review public investment projects, cut down unnecessary and ineffective investment projects. Consequently, State investment decreased by 2.5% in 2008, which in turn helped control inflation.

In 2009, State investment increased significantly after the Government implemented investment stimulus in response to the global financial crisis and economic recession. The measures to stimulate State investment included bringing forward the investment capital for 2008 to 2009, advancement of capital for 2010 and 2011 to implement important and urgent projects in 2009, as well as issuing additional government bonds. As a result, State investment grew by 34.6% (at 1994 prices), of which investment from the State budget (including government bonds) increased by 39.5%, Government-loan-financed investment went up by 42.4%.

In 2011, due to more severe inflationary pressure and macroeconomic problems, the Government had to reduce and transfer State investment capital (in accordance with Resolution No. 11/NQ-CP of the Government). This reduction of the State investment (by 13.5%, of which investment from the State budget fell by 15.0%, and Government-loan-financed investment dropped by 13.2%) was the largest in the last decade.

Table 31: Growth Rate and Share of Investment by State Sector in Total Investment (%)

	Year	*Growth rate (at 1994 prices)*	*Share in total investment (at current prices)*
Before the WTO accession	2001	13.7	59.8
	2002	12.0	57.3
	2003	10.1	52.9
	2004	10.1	48.1
	2005	9.6	47.1
	2006	9.9	45.7
After the WTO accession	2007	4.2	37.2
	2008	-2.5	33.9
	2009	34.6	40.6
	2010	-3.0	38.1
	2011	-13.5	38.9

Source: GSO (2011a, 2012b) and authors' calculations.

Investment from the State budget and government bonds contributed immensely to socio-economic infrastructure development, social security and welfare. However, these investment sources usually exhibit such common problems as low effectiveness of some projects and programs; wastages and losses; slow progress, dispersion of investment, outstanding debts in capital construction, etc. Moreover, large state investment at times may worsen State budget deficit and public debt, whilst increasing pressures on money supply and credit growth, inflation, trade deficit and to some extent adversely affecting sustainable development, economic growth and poverty reduction. The key reasons for such limitations are: the inadequacy, inconsistency and weak linkages of poverty reduction programs or projects; decentralization without enhanced responsibility and capacity of local levels, which led to large projects beyond local budget capacity or shortage of capital for important projects; inadequate investment management and monitoring which fails to meet current needs.

SOE investment grew very slowly (by 2.6%) in 2007 and decreased (by 19.1%) in 2008, as compared with the growth rate of 40.7% in 2006 (at 1994 prices). The slowdown of investment by SOEs in 2007-2008 was partly caused by international economic integration: manufacturing and business activities faced with increasing competition, not to mention the needs to restructure and improve investment efficiency. Nevertheless, the impacts of high inflation in 2008 constituted another important reason for the drop of SOE investment. In 2009, despite impacts of the global financial crisis and economic recession, investment by SOEs increased steadily (by 18.1%) thanks to several factors, namely: (i) lower prices of raw materials which induced SOEs to invest more; (ii) tendency to cope with crisis and prevent economic downturn alongside economic stimulus measures by the Government; (iii) ability to find suitable investment opportunities after the process of restructuring and rearranging investment (in 2008); (iv) lesser competition pressure from foreign investors due to crisis.

Table 32: Investment by SOEs and Other Sources

Year	*Unit*	*Before the WTO accession*		*After the WTO accession*		
		2002	*2006*	*2007*	*2009*	*2011*
Investment capital (at current prices)	Trillion VND	29.6	58.1	60.2	62.2	49.5
Share in State investment	%	25.8	31.4	30.4	21.6	14.5
Growth rate (at 1994 prices)	%	6.4	40.7	2.6	18.1	-10.1

Source: GSO (2011a, 2012b) and authors' calculations.

In 2010 and 2011, investment by SOEs continued to shrink, by 15.8% and 10.1%, respectively. During these two years, the Government implemented strict measures to manage enterprises after the VINASHIN case as well as policies to control inflation and stabilize the macroeconomic environment. Among those measures were the requests for

business groups and general corporations to review, reduce and rearrange investment projects; to concentrate on core businesses and production activities. At the same time, since 2010, the Government retreated from almost all stimulus measures that were implemented in 2009.

On average during 2007-2011, investment capital from SOEs and other State sources decreased by 4.0% per annum, despite rising by 17.6% per annum during 2002-2006. The share of SOEs and other state sources in State investment tended to decrease since 2007. Meanwhile, the share of investment from State budget (mainly for socio-economic infrastructure and non-profit projects) and Government loans was higher (Table 32).

In general, SOEs employed more capital than non-State and FDI enterprises. However, net revenue per 1 VND of fixed assets and long-term financial investment of SOEs was lower than those of non-State and FDI enterprises (Table 33).

In terms of capital efficiency, according to the Monitoring Report by the Standing Committee of the National Assembly (2009), net profit after taxes of business groups and general corporation grew from VND 60.8 trillion by the end of 2006 to VND 69.3 trillion by the end of 2008, i.e. by 14.0%. In 2008, return on equity (ROE) was above 15% for 35 out of 91 business groups and general corporations[23]; of between 10-15% for 15 out of 91 entities; of 5-10% for 20 out of /91 entities. Meanwhile, 18 out of 91 entities had ROE of under 5%, and 3 out of 91 reported loss. Among all business groups and general corporations, 25.2% had rate of return of negative value or less than 5%, and 47.2% had the rate of return of less than 10%. Thus, a significant portion of business groups and general corporations (45.0%) failed to attain efficiency (return on equity of over 10), which undermined overall efficiency of the State sector.

Many economic groups and state corporations got involved in financial investment. The aggregated return on investment (ROI) of 47 business groups and general corporations that invested in financial activities reached 7.4% in 2006, 9.2% in 2007 and only 4.8% in 2008, which was lower than ROI of their core businesses.

Table 33: Net Revenue on Capital by Ownership in 2009

Types of enterprises	*Fixed assets and long-term financial investment (%)*	*Net revenue/fixed assets and long-term financial investment (VND/VND)*
SOEs	44.77	0.9
Non-state enterprises	35.97	2.5
FDI enterprises	19.26	1.6
Whole economy	**100.0**	**1.6**

Source: GSO (2011a).

[23] 91 out of 99 enterprises reported net revenue on equity in 2008.

According to data from the GSO (2011d), within the years of 2007-2009, about 12% of SOEs reported loss, i.e. less than the figure of 25% for the economy as a whole. Nonetheless, the average loss per SOE was several times higher than that of non-State counterpart (about 19 times higher in 2009).

A large number of SOEs encountered difficulties and problems in adapting to the new competitive environment and conditions after the WTO accession. Many SOEs invested in too many areas, including non-core businesses without concentration on utilizing their advantage. This resulted in over-borrowing, insufficient efficiency, and even financial risks. The case of VINASHIN presents a typical example.

Overall, the implementation of economic integration commitments - related to investment - mainly affected investment by the State sector indirectly. The share of the sector in total investment tended to decrease while those of non-State sector and FDI sector increased. The limitation of State investment in terms of capital adequacy and efficiency forced the Government to restructure investment, with the focus on restructuring public investment. International economic integration, especially after the WTO accession, increased competition for investment by SOEs. As such, these enterprises have to adapt timely to integration process and changes of the international economy so as to survive and develop.

3.3. Investment by Sector and Industry

3.3.1. FDI by Sector and Industry

The implementation of WTO commitments in general and investment-related ones in particular affected investment by sector and industry, especially FDI through 3 main channels, namely: (i) *Commitments on liberalizing trade in services,* thus allowing foreign investors to participate in Vietnam's services market*;* (ii) *Commitments on liberalizing trade in goods*, which require phasing-out of export and import tariff, so investment can be induced to industries with benefits from lower export and import tariff when exporting to other countries and vice versa (indirect effect); (iii) *Commitments on conditions and procedures of licensing, trading rights, operations of economic zones as well as other investment-related commitments,* which facilitate and promote investment in some areas without previous attractiveness to investment.

The growth rate and structure of (newly registered and added) FDI capital by industry and sector changed significantly during 2007-2011 (Table 34). This was explained by the implementation of WTO commitments, especially in the first few years after joining the WTO, and to some extent by volatile developments of the international economy, especially the global financial crisis and economic recession.

Thanks to the liberalization of services market in accordance with WTO commitments and other integration commitments, some industries/sectors witnessed high growth of FDI inflows in the years 2007-2011, namely health and social works (annual growth rate of 62.1%), wholesale and retail trade – repair of motor vehicles and motorcycles (28.7%), and other service activities (37.8%). The industries with rocketed increase of FDI in 2007-2008 include: real estate activities; financial, banking and insurance activities; education and training; transport and storage; accommodation and food service activities.

Thanks to remarkable growth of investment in services sector, the sector saw its share in total registered FDI increased rapidly from the average of 30.7% in the period of 1998-2006 to 46.9% during 2007-2011.

To a certain extent, the implementation of commitments to liberalize trade in goods and other investment-related commitments also affected FDI to some industries of construction-industry and agriculture-forestry and fishery sectors. FDI to manufacturing sub-sector, including export products that enjoyed benefits from the WTO accession, grew considerably in 2007-2008 (31.6% in 2007 and 257.8% in 2008). On average, during 2007-2011, this sub-sector accounted for 44.3% of total registered FDI, the highest among all sub-sectors. FDI inflows to other industrial sub-sectors also increased rapidly at times. FDI to water supply; sewerage, waste management and remediation activities went up considerably in 2011 - the first year after foreign investors were allowed to choose investment forms (except branches) to provide services in Vietnam according to the WTO commitments.

Thus, the implementation of commitments to liberalize service sector and other investment-related commitments led to remarkable expansion of investment in many industries and sectors during 2007-2011. This performance is even more noteworthy as the global financial crisis and economic recession occurred in 2009 constrained overall FDI as well as FDI to specific industries. Lower import tariff of Vietnam and of other importers of Vietnam’s products also contributed to higher FDI attraction to export-oriented industries. The country also obtained initial achievements in attracting FDI to high-tech industries such as electronics, semi-conductors, accurate devices, spare parts of motor vehicles (Intel - U.S., Canon, Nidec Copal, Renesas - Japan, Samsung - South Korea, Robert Bosch - Germany). The participation of FDI enterprises also induced economic structure shift; gradually fostered linkages between enterprises and manufacturing industries in Vietnam with the regional and international value chains and production network; encouraged Vietnam’s enterprises to improve management capacity, adopt new business strategy and upgrade technology in order to develop in a both competitive and cooperative environment.

Table 34: Registered FDI Capital by Sector and Industry (million USD)

Sector/Industry	*Before WTO accession*	*After WTO accession*				
	2006	*2007*	*2008*	*2009*	*2010*	*2011*
Agriculture-Forestry-Fishery	**169.4**	**58.6**	**332.0**	**134.5**	**36.2**	**142.0**
Construction-Industry	**9,056.6**	**12,147.7**	**39,746.1**	**5,176.2**	**10,763.6**	**12,054.8**
Construction	***8,415.2***	***11,154.4***	***39,241.6***	***4,523.7***	***8,947.6***	***10,748.8***
Mining and quarrying	144.3	262.3	192.7	402.4	5.6	98.4
Manufacturing	8,270.9	10,882.5	38,939.1	3,937.4	5,979.3	7,798.8
Electricity, gas, steam and air conditioning supply	-	9.6	85.5	170.7	2,952.6	2,528.5
Water supply; sewerage, waste management and remediation activities	-	-	24.3	13.2	10.1	323.2
Construction	***641.4***	***993.3***	***504.4***	***652.5***	***1.816.0***	***1.306.0***
Services	**2,777.8**	**9,141.5**	**31,647.8**	**17,796.7**	**9,086.3**	**3,421.6**
Wholesale and retail trade; repair of motor vehicles and motorcycles	141.1	129.9	138.6	261.1	462.1	499.1
Accommodations and food service activities	498.4	1.968.1	2,625.4	9,156.3	315.5	476.7
Transport and storage	52.3	356.5	615.8	188.2	881.0	74.9
Information and communication			2,447.5	111.6	106.5	897.4
Financial, banking and insurance activities	32.0	32.3	141.0	100.0	59.1	-
Real estate activities	1,818.8	6,114.8	23,397.7	7,647.7	6,827.9	870.0
Professional, scientific and technical activities	-	-	107.8	131.4	71.5	265.6
Administrative and support service activities	-	-	36.1	18.2	4.6	5.1
Education and training	22.1	11.6	98.6	30.4	74.7	11.2
Health and social work	7.9	112.5	426.9	15.0	205.6	88.5
Arts, entertainment and recreation	189.1	410.3	1,047.1	107.4	62.3	153.1
Other service activities	16.1	5.5	565.3	29.3	15.5	79.9
Total	**12,003.8**	**21,347.8**	**71,725.9**	**23,107.4**	**19,886.1**	**15,618.4**

Source: Authors' compilations and calculations using GSO data (2011a) and Foreign Investment Agency (2012b and annual reports).

Table 35: Growth Rate of Registered FDI by Sector and Industry (%, at current USD price)

Industry	*Before WTO accession*	*After WTO accession*					
	2006	*2007*	*2008*	*2009*	*2010*	*2011*	*2007-2011*
Agriculture, forestry and fishery	**231.5**	**-65.4**	**466.5**	**-59.5**	**-73.1**	**299.2**	**-3.5**
Construction - Industry	**78.8**	**34.1**	**227.2**	**-87.0**	**107.9**	**12.0**	**5.9**
Industry	***71.9***	***32.6***	***251.8***	***-88.5***	***97.8***	***20.1***	***5.0***
Mining and quarrying	157.7	81.8	-26.5	108.8	-98.6	1.657.1	-7.4
Manufacturing	71.7	31.6	257.8	-89.9	51.9	30.4	-1.2
Electricity, gas, steam and air-conditioning supply	-	-	790.4	99.7	1.629.7	-14.4	-
Water supply; sewerage, waste management and remediation activities	-	-	-	-45.7	-23.5	3.100.1	-
Construction	**274.9**	**54.9**	**-49.2**	**29.4**	**178.3**	**-28.1**	***15.3***
Services	**61.2**	**229.1**	**246.2**	**-43.8**	**-48.9**	**-62.3**	**4.3**
Wholesale and retail trade; repair of motor vehicles and motorcycles	42.1	-7.9	6.7	88.4	77.0	8.0	28.7
Accommodation and food service activities	706.5	294.9	33.4	248.8	-96.6	51.1	-0.9
Transport, storage	-92.4	581.6	72.7	-69.4	368.2	-91.5	7.5
Information and communication	-	-	-	-95.4	-4.6	742.6	-
Financial, banking and insurance activities	-78.1	0.9	336.4	-29.0	-40.9	-100.0	-100.0
Real estate activities	294.7	236.2	282.6	-67.3	-10.7	-87.3	-13.7
Professional, scientific and technical activities	-	-	-	21.9	-45.6	271.4	-
Administrative and support service activities	-	-	-	-49.8	-74.7	11.3	-
Education and training	-14.3	-47.5	750.3	-69.2	146.1	-85.0	-12.7
Health and social work	-96.1	1.324.1	279.5	-96.5	1.272.5	-57.0	62.1
Art, entertainment and recreation	796.2	117.0	155.2	-89.7	-42.0	145.7	-4.1
Other service activities	-21.5	-65.8	10.178.2	-94.8	-47.1	415.8	37.8
Total	**75.5**	**77.8**	**236.0**	**-67.8**	**-13.9**	**-21.5**	**5.4**

Source: Authors' compilations and calculations using GSO data (2011a) and Foreign Investment Agency (2012b and annual reports).

Table 36: Structure of Registered FDI by Industry, Sector (%, at current USD price)

Industry	*Before WTO accession*	*After WTO accession*					
	2006	*2007*	*2008*	*2009*	*2010*	*2011*	*2007-2011*
Agriculture, forestry and fishery	**1.4**	**0.3**	**0.5**	**0.6**	**0.2**	**0.9**	**0.5**
Construction - Industry	**75.4**	**56.9**	**55.4**	**22.4**	**54.1**	**77.2**	**52.7**
Industry	***70.1***	***52.3***	***54.7***	***19.6***	***45.0***	***68.8***	***49.2***
Mining and quarrying	1.2	1.2	0.3	1.7	0.0	0.6	0.6
Manufacturing	68.9	51.0	54.3	17.0	30.1	49.9	44.5
Electricity, gas, steam and air-conditioning supply	0.0	0.0	0.1	0.7	14.8	16.2	3.8
Water supply; sewerage, waste management and remediation activities	0.0	0.0	0.0	0.1	0.1	2.1	0.2
Construction	***5.3***	***4.7***	***0.7***	***2.8***	***9.1***	***8.4***	***3.5***
Services	**23.1**	**42.8**	**44.1**	**77.0**	**45.7**	**21.6**	**46.9**
Wholesale and retail trade; repair of motor vehicles and motorcycles	1.2	0.6	0.2	1.1	2.3	3.2	1.0
Accommodation and food service activities	4.2	9.2	3.7	39.6	1.6	3.1	9.6
Transport, storage	0.4	1.7	0.9	0.8	4.4	0.5	1.4
Information and communication			3.4	0.5	0.5	5.7	2.3
Financial, banking and insurance activities	0.3	0.2	0.2	0.4	0.3	0.0	0.2
Real estate activities	15.2	28.6	32.6	33.1	34.3	5.6	29.6
Professional, scientific and technical activities	0.0	0.0	0.2	0.6	0.4	1.7	0.4
Administrative and support service activities	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Education and training	0.2	0.1	0.1	0.1	0.4	0.1	0.1
Health and social work	0.1	0.5	0.6	0.1	1.0	0.6	0.6
Art, entertainment and recreation	1.6	1.9	1.5	0.5	0.3	1.0	1.2
Other service activities	0.1	0.0	0.8	0.1	0.1	0.5	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Authors' compilations and calculations using GSO data (2011a) and Foreign Investment Agency (2012b and annual reports).

Nonetheless, FDI by industry and sector during 2007-2011 shows some limitations and adverse impacts as follows:

First, FDI flows were smaller than expected to some targeted industries and sectors, namely high technology, clean technology, agriculture (especially those with high added value and high export potential), services with high knowledge content, science and technology, education and training, and infrastructure.

Second, FDI was channeled to some industries and sectors with rapid growth but with possible adverse impacts - such as real estate activities, mining and quarrying, industries using low technologies, and afforestation. As an explanation, these industries and sectors are land-, natural-resource-, mineral-, and energy-intensive which may create environment pollution and threaten social security and national security.

Third, the recent FDI inflows could not bring the maximal spillover effect to industrial production in Vietnam. According to the survey by United Nations Industrial Development Organization (UNIDO 2012) on nearly 1,500 enterprises in Vietnam, the transfer of technology and knowledge by FDI to the economy was every limited at the sectoral level. Currently, FDI enterprises mainly depended upon imported intermediate goods and raw materials, while the linkages with the domestic supply chains were not established. Many FDI enterprises produced products for export but had a weak connection with domestic enterprises, which resulted in low-added value of some export items.

The key reasons for the above limitations include the followings:

The legal system and policies related to FDI attraction was still inconsistent and inadequate, notwithstanding some improvements, thus failing to promote FDI to targeted industries. Investment incentives for high-tech and supporting industries were insufficiently attractive. Besides, Vietnam had no adequate policies to attract multinational corporations or FDI enterprises with high technology. The implementation of public-private partnership (PPP) remained at pilot phase, but FDI attraction to infrastructure was still modest.

The quality of master plans, information dissemination, and forecast was insufficient. There was no clear shift from protecting domestic production to market-based and integration-based master plans. The studies, dissemination of information, warnings and forecasts to support pro-active policy responses of the Government to external shocks were still inadequate. In real estate, apart from improved investment and business conditions after the WTO accession, the subprime mortgages crisis in other countries also resulted in larger FDI flows to Vietnam.

The coordination among the Central and provincial levels and ministries in administering FDI activities was less than effective. The strong decentralization of FDI management failed to be accompanied by enhanced implementation capacity. Investment monitoring remained weak, thereby preventing timely detection and handling of illegal behaviors, while solutions to deal with those behaviors were not deterrent enough.

The factors helping attract investment and enhance its efficiency were slowly established and unsecured, namely the lack of high qualified labourers, inadequate infrastructure, and underdeveloped support industries. Consequently, many multinational corporations or high-tech FDI enterprises did not invest or expand their investment in Vietnam.

Vietnam’s economy was prone to more rapid and drastic impacts of external economic changes, while its international cooperation as well as resilience were

insufficient. Since 2009, together with impacts of investment liberalization commitments, the investment structure was somewhat affected by the global financial crisis and economic recession, which forced foreign investors to adjust their investment activities in line with the new situation.

3.3.2. Total Investment by Sector and Industry

The changes of FDI by industry and sector during 2007-2011 also altered the growth and structure of total investment by industry and sector of Vietnam (Table 37). In this period, investment in some sub-sectors increased rapidly, even more rapid than total investment, such as:

- Real estate investment attained average annual growth rate of 39.7%, the highest among all industries and sectors, or more than double of the figure for 2002-2006 (18.0%). This performance mainly came from the contribution of FDI and non-State sectors;

- Financial, banking and insurance investment grew at the average rate of 19.6% per annum, i.e. nearly 4 times higher than that for 2002-2006 (5% per annum), of which, the State investment had an average annual growth rate was 26.3%; *and*

- Investment in manufacturing sub-sector went up on average by 12.0% per annum, i.e. considerably higher than that of 9.2% for 2002-2006 period thanks to significant contribution of FDI and non-State sectors.

The annual average growth of investment in service sector was 8.5%, driven largely by FDI and non-State sectors. Consequently, the share of services sector in total investment increased from the average of 50.9% during 2002-2006 to 51.6% in the period of 2007-2011. The figure of construction-industry also climbed from 41.2% to 42.2% while that of the agriculture-forestry-fishery sector contracted from 7.9% to 6.2% in the same period.

The State investment structure by industry and sector hardly changed during 2007-2011. The shares of agriculture-forestry-fishery sector and services sector in State investment decreased slightly, while that of construction-industry sector increased.

Therefore, the implementation of WTO commitments in particular and economic integration commitments in general affected investment structure by industry and sector during the years 2007-2011. Investment growth and structure exhibited dramatic changes in the concerned period, and were more prone to changes in the international economic environment. FDI and non-State sectors played an important role in most industries of which the growth of investment exceeded that of total investment.

However, the structure of total investment by industry and sector only shifted slowly. Development investment was concentrated on natural-resource- or energy-intensive industries or those exporting primary products, using low technology, having low labour productivity. Meanwhile, a modest share of investment came into high-tech industries or those exporting processed products, creating high added value and enjoying comparative advantage or competitiveness. This undermined the quality of development; Vietnam's economic growth and socio-economic development often came at the expense of exhausted natural resources and minerals, energy shortage and environmental pollution. Investment in such sub-sectors as supporting industries, clean industries or important industries was inadequate, though these sub-sectors have large potential for long-term development and may help penetrate foreign markets. Investment in socio-economic development was rather modest, and failed to meet practical demand in Vietnam.

Table 37: Growth Rate of Total Investment by Sector and Industry (%)

Industry	*Before WTO accession*		*After WTO accession*					
	2006	*Average, 2002-2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*Average, 2007-2011*
Overall	**13.7**	**13.5**	**27.0**	**7.8**	**11.4**	**20.1**	**-2.3**	**8.3**
1. Agriculture, forestry and fishery	**15.3**	**8.5**	**12.7**	**14.4**	**7.9**	**16.1**	**-5.8**	**5.6**
2. Construction – Industry	**15.5**	**14.1**	**26.6**	**3.6**	**13.7**	**25.5**	**1.2**	**8.6**
2.1. Industry	***15.3***	***15.0***	***27.1***	***3.3***	***14.6***	***25.5***	***0.1***	***8.5***
Mining and quarrying	13.8	25.5	15.0	7.3	8.5	3.7	3.7	3.9
Manufacturing	17.5	9.2	34.5	-1.6	23.2	3.5	3.5	12.0
Electricity, gas, steam and air-conditioning supply	12.9	15.2	23.3	8.8	5.0	9.7	-8.3	5.3
Water supply; sewerage, waste management and remediation activities	13.8	-	26.9	7.8	11.6	20.1	-3.6	8.0
2.1. Construction	***18.2***	***6.2***	***21.9***	***6.0***	***4.1***	***5.0***	***5.0***	***9.0***
3. Services	**12.0**	**13.8**	**29.6**	**10.6**	**10.0**	**16.2**	**-4.7**	**8.5**
Wholesale and retail trade; repair of motor vehicles and motorcycles	9.6	13.5	10.9	4.8	6.1	22.5	12.4	6.7
Accommodation and food service activities	29.2	16.3	19.8	2.0	4.2	12.4	5.5	6.1
Transport, storage	10.4	13.9	29.9	6.7	8.3	13.9	-6.1	7.1
Information and communication	13.4		26.7	7.5	12.7	22.1	-5.5	
Financial, banking and insurance activities	47.3	5.0	86.7	5.8	17.4	24.2	5.6	19.6
Real estate activities	13.4	18.0	333.9	17.3	3.4	11.5	0.9	39.7
Professional, scientific and technology activities	45.5	13.7	21.1	7.5	8.6	18.0	8.6	9.0
Administrative and support service activities	14.2	-	27.2	7.6	11.3	19.6	-4.9	7.7
Communist Party, socio-political organizations activities; public administration and defence; compulsory social security	21.9	23.7	10.8	13.0	18.5	27.9	-0.2	8.2
Education and training	26.5	14.7	9.8	8.5	5.9	14.6	1.8	5.1
Health and social work	6.3	15.3	12.8	8.0	3.5	10.5	3.5	5.5
Art, entertainment and recreation	15.1	14.7	10.5	5.7	1.2	11.3	7.0	4.8
Other service activities	-2.3	4.0	19.6	22.8	16.8	13.0	-22.5	5.9

Source: Authors' calculations from data of GSO (2011a, 2012b and annual Statistical Yearbook of Vietnam).

3.4. Outward FDI

Outward FDI was expanded considerably in 2007-2011, with 474 projects and USD 12.8 billion of registered capital, increasing by 3.8 times and 16.6 times, respectively, from those in the period of 2002-2006 (Table 38).

Table 38: Outward FDI, 2002-2011

Period	*Year*	*No. of projects*	*Registered capital (Million USD)* (*)
Before WTO accession	2002	15	147.9
	2003	24	28.1
	2004	15	9.5
	2005	36	367.5
	2006	36	221.0
	2002-2006	**126**	**774**
After WTO accession	2007	80	977.9
	2008	104	3,147.5
	2009	91	2,597.6
	2010	108	3,503.0
	2011	91	2,597.6
	2007-2011	**474**	**12,823.6**

Source: GSO (2011a, 2012b)
Note: (*) covering only capital of Vietnam investors, including added capital of projects licensed in previous years.

As of December 31, 2011, total outward FDI of effective projects was USD 11.4 billion (or 45.4% of total mobilized capital for projects, i.e. 25.1 billion USD). Implemented capital reached about USD 2.9 billion, of which Vietnam National Oil and Gas Group (PetroVietnam) ranked first (USD 1.5 billion), followed by Vietnam Rubber Group (USD 360 million) and Song Da Group (USD 250 million).[24]

By investment industry and sector, as of December 31, 2011, mining and quarrying accounted for the largest share of registered capital, with USD 4,319 million (in 91 projects). Electricity, gas, steam and air-conditioning sub-sector followed with USD 1,873.9 million of registered capital (9 projects). At the third and fourth places were agriculture-forestry-fishery sector and art, entertainment and recreation with total registered capital of USD 1,630.0 million (70 projects) and USD 1,239.2 million (115 projects), respectively. Manufacturing sub-sector had the second largest number of

[24] Foreign Investment Agency (2012b).

projects (115), only after wholesale and retail trade and repair (122 projects), but ranked sixth in terms of registered capital (USD 478.1 million). Other sub-sectors with high values of outward FDI were information and communication; financial, banking and insurance activities; and real estate activities (Table 39).

By investment destination, as of December 31, 2011, Vietnam invested in 57 countries and territories. The most important destination of Vietnam's outward FDI was Lao PDR with USD 3,508.8 million (210 projects), followed by Cambodia (USD 2,399.2 million, 105 projects), Venezuela (USD 1,825.1 million, 2 projects), Russia (USD 965.8 million, 17 projects), Peru (USD 448.6 million, 2 projects), Malaysia (USD 412.5 million, 7 projects), etc. Notably, Vietnam had direct investment in developed countries with sizeable scale such as the U.S. (USD 254.3 million, 79 projects); Australia (USD 127.6 million, 12 projects); Germany (USD 27.9 million, 11 projects); Japan (USD 2.7 million, 14 projects).

Table 39: Accumulated Outward FDI as of December 31, 2011

No.	*Sub-sector*	*No. of projects*	*Investment capital of Vietnam investors (million USD)*
1	Mining and quarrying	91	4,319.0
2	Electricity, gas, steam and air-conditioning supply	9	1,873.9
3	Agriculture, forestry and fishery	70	1,630.3
4	Art, entertainment and recreation	5	1,239.2
5	Information and communication	30	907.6
6	Manufacturing	115	478.1
7	Financial, banking and insurance activities	25	272.4
8	Wholesale and retail trade; repair	122	168.9
9	Real estate activities	27	162.6
10	Transport, storage	16	85.9
11	Accommodation and food service activities	23	68.6
12	Professional, scientific and technological activities	59	37.7
13	Health and social work	4	32.1
14	Construction	23	30.6
15	Administrative and support service activities	11	10.3
16	Water supply; sewerage, waste management and radiation activities	2	7.9
17	Other service activities	7	3.3
18	Education and training	3	2.1
Total		**642**	**11,430.5**

Source: GSO (2011a, 2012b)

In summary, during the period of 2007-2011, outward FDI had the following achievements and limitations[25]:

Key achievements:

First, Vietnam's outward FDI projects in such sub-sectors as mining and quarrying, electricity, industrial crops, telecommunication services, aviation services, banking services acquired an important position with rapid development in some key investment destinations.

Second, outward FDI activities contributed remarkably to the expansion of Vietnam's export market abroad.

Third, Vietnam's enterprises could utilize comparative advantages of some countries to do their business, expand production, gradually establish their brand names, and improve their competitiveness in the global market.

Fourth, many projects enjoyed high revenue, started to get profit or remitted their profits back to Vietnam (such as information, communication).

Main weaknesses and shortcomings:

First, the growth of outward FDI outpaced the increase of profits that were remitted to Vietnam, resulting in pressures on supply and demand of foreign currency, and on the balance of payment (BOP).

Second, most large-scaled outward FDI projects used State capital and investors were State business groups or SOEs. Meanwhile, the legal framework for outward FDI projects using State capital was inadequate and non-transparent.

Third, monitoring the project implementation by Government agencies was inadequate, especially regarding outward capital transfer.

Fourth, the implementation of policies and regulations concerning outward FDI was inconsistent and encountered many difficulties; some regulations were unreasonable and unsatisfactory relative to the diversified forms of outward FDI. The appraisal process of some projects took more time than stipulated in the regulations.

In summary, accession to the WTO created positive impacts on outward FDI during 2007-2011. Outward FDI capital increased remarkably, which in turn require better administration, monitor and assessment of outward capital as well as further improvement of their efficiency.

4. REGIONAL DEVELOPMENT

4.1. Development Gaps among Regions

4.1.1. Economic Aspect

International economic integration had impacts on regions and the whole economy, first and foremost on investment and trade and then on economic growth. The lack of trade data by region prevents the assessment of impacts via the channel of trade. In addition, because the export structure changed slowly, the contribution of regions to the export value can be regarded as stable under impacts of the integration process.

[25] Foreign Investment Agency (2012b).

FDI

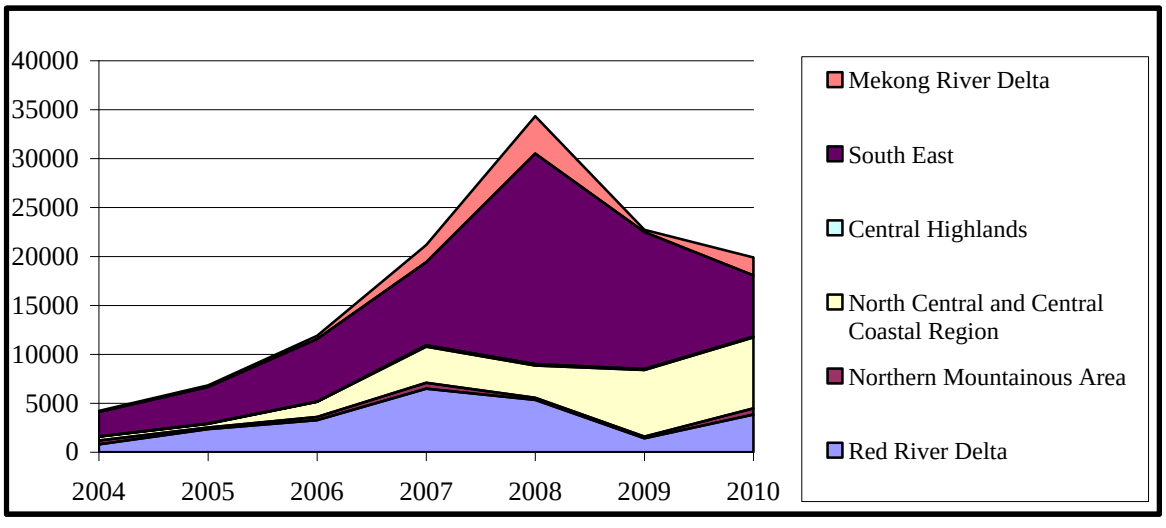
Investment liberalization affected the FDI inflows and then domestic investment activities. Moreover, the FDI inflows varied in the context of global financial crisis and economic recession. As shown in Figure 14, FDI flows into regions were not even, with the South East accounting for the largest proportion, followed by the Red River Delta; meanwhile, the Northern mountainous region and Central Highlands received almost no FDI.

Noticeably, FDI into the South East increased sharply in 2007 and 2008, then decreased drastically in the aftermath of the global financial crisis and economic recession. Meanwhile, FDI inflows to other regions hardly changed. As the barrier to FDI in the South East was negligible, this region could be regarded as most "sensitive" to the implementation of integration commitments, as well as to changes in the world economy and international capital markets.

The increase of registered FDI in the North Central and the Central coastal region even after the crisis period had hardly any implication, because some big FDI projects in the regions were just registered, not implemented and the rate of implementation was only modest. As of 31 December 2010, the average size of an FDI project in the region was 4 times bigger than that in the South East, 6 times larger than that in the Red River Delta and up to 12 times higher than that in the Central Highlands.

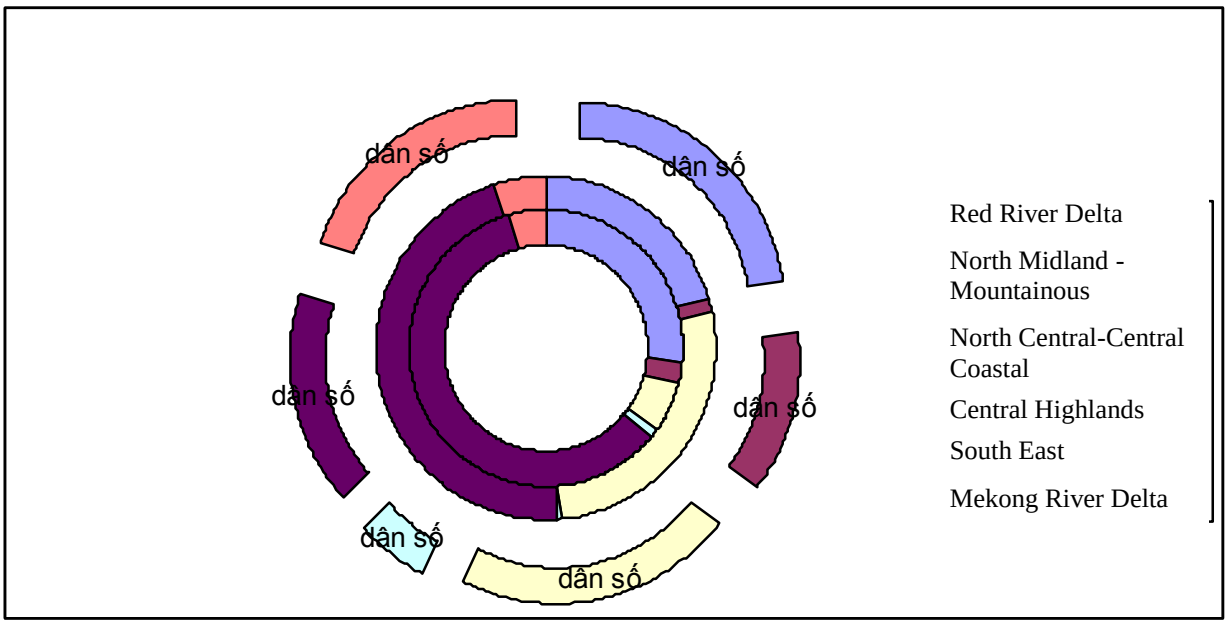
Compared with the population structure, the FDI structure (regarding number of projects and registered capital) depicts a big gap between the South East and other regions. In the North Central and Central Coastal region, the share in registered FDI exceeded that in population (due to big size of FDI projects). Meanwhile, the Red River Delta saw the two shares of similar magnitude. For the three remaining regions (Northern mountainous area, Central Highlands, and Mekong River Delta), the shares in FDI registered capital were lower than those in the population. These regions mainly provide materials and primary products used for manufacturing activities in Vietnam.

Figure 14: Registered FDI by Region, 2004-2010 (million USD)



As a conclusion, *while the Government thought that Vietnam's availability of materials and cheap labours are important factors to attract FDI, foreign investors paid relatively little attention to the regions with abundant materials or low-cost labours; instead, they made investment in the regions with most convenient infrastructure conditions. Foreign investment then attracts labours from the areas with difficulties, and the magnitude of impact is stronger than in the reverse direction (i.e. the areas with abundant resources and labours attracting foreign investment.* The Government needs to address possible consequences of this tendency at present and in the future, including social and environmental issues in key economic areas (mostly in urban areas) and big development gaps among regions.

Figure 15: Structures of Population, FDI Capital and Number of FDI Projects in 2010 (%)



Note: outer ring: population; middle ring: registered FDI capital; inner ring: number of FDI projects

Domestic investment

Similar to FDI, domestic enterprises were concentrated in the South East and the Red River Delta. Apparently, the South East and the Red River Delta were much more attractive to investors than other regions. Notably, the numbers of enterprises (per 1,000 people) in the two regions grew faster than other regions, especially after Vietnam's WTO accession, thereby widening the gaps among regions (see Figure 16).

Figure 16: Number of enterprises per 1,000 people, 2004-2009

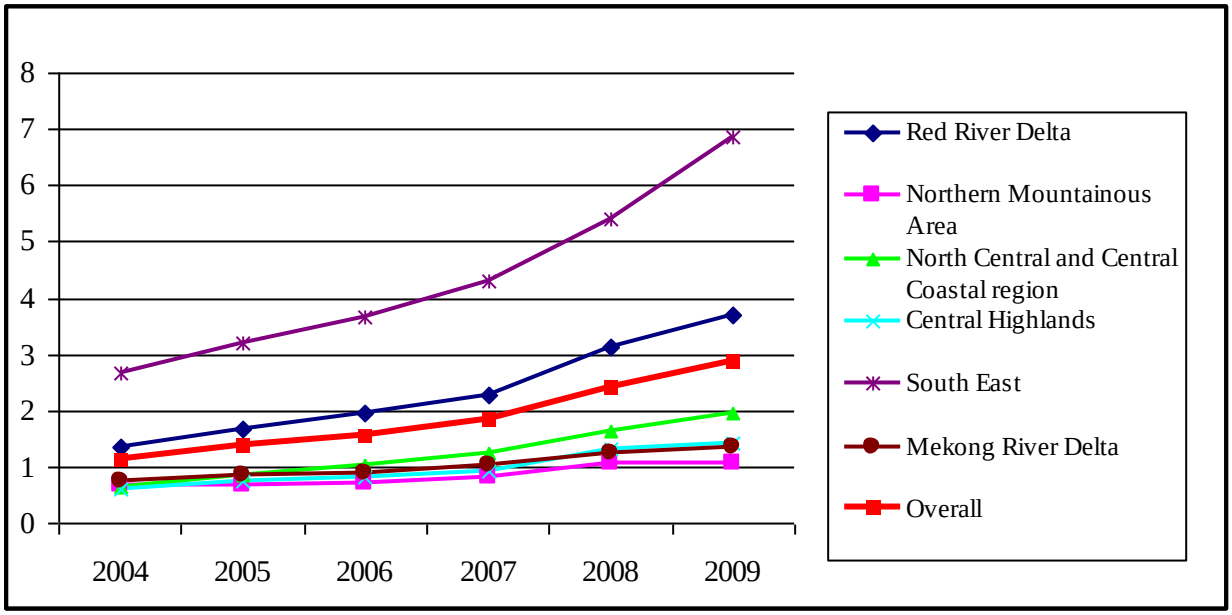
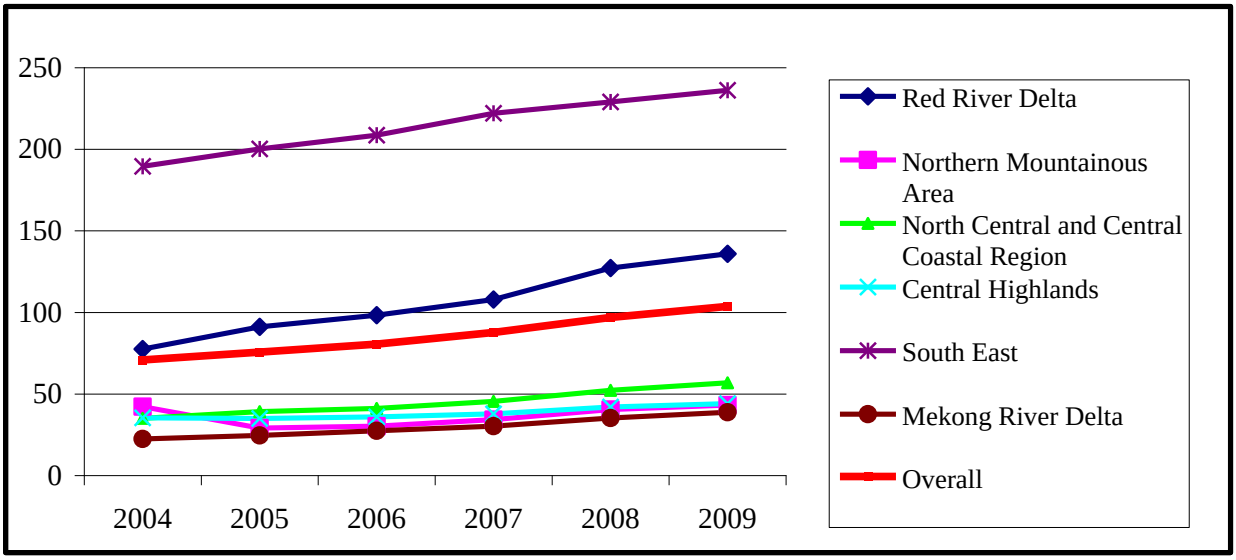


Figure 17: Number of employees in enterprises per 1,000 people, 2004-2009



4.1.2. Social Aspects

In the last decade, the population distribution in Vietnam exhibited a slight change. The shares in population of the Northern mountainous area, the Red River Delta, the North Central and Central coastal region, and the Mekong Delta decreased, while that of Central Highlands increased slightly, from 5.6% in 2001 to 6.0% in 2010 and that of the South East went up rapidly, from 13.9% to 16.8%. Nonetheless, there was no big change in population migration after the WTO accession. The above trend was mostly caused by the free migration into the Central Highlands (mainly from

Northern mountainous region) to explore forest lands, and by the increase of non-agricultural employment in the South East.

Income and Employment

In the last two decades, investors mostly invested in non-agricultural sub-sectors, thereby contributing to shifting Vietnam's economic structure and creating more non-agricultural employment in regions. As a result, the regional distributions of investment and trade led to the distribution of labours in enterprises among regions. Even considering the size of population in each region, the gap was still sizeable.

In addition to the difference in number of labours, the gap in quality of labours among regions was significant. Currently, the ratios of trained labours above 15 years old in the Red River Delta and the South East were much higher than those in the other regions. Only these two regions had higher ratios than the national average. Notably, the Mekong River Delta was more economically developed than the Northern mountainous area and the Central Highlands, but the ratio of trained labors above 15 years old of the former was just two-thirds of those in the latter (see Figure 18).

Generally, average income of non-agricultural sector was higher than that of agriculture, and the labour income in enterprises is higher than in non-enterprise entities. As a result, the income gap among regions continued to widen, especially after Vietnam's WTO accession.

Under-employment and income gap further induced labours to move from difficult areas to urban ones and regions with higher development levels. Such a free population migration caused larger burdens for cities, economic zones in the South East and the Red River Delta.

Figure 18: Ratio of Labors above 15 Years Old with Trainings, 2005-2010 (%)

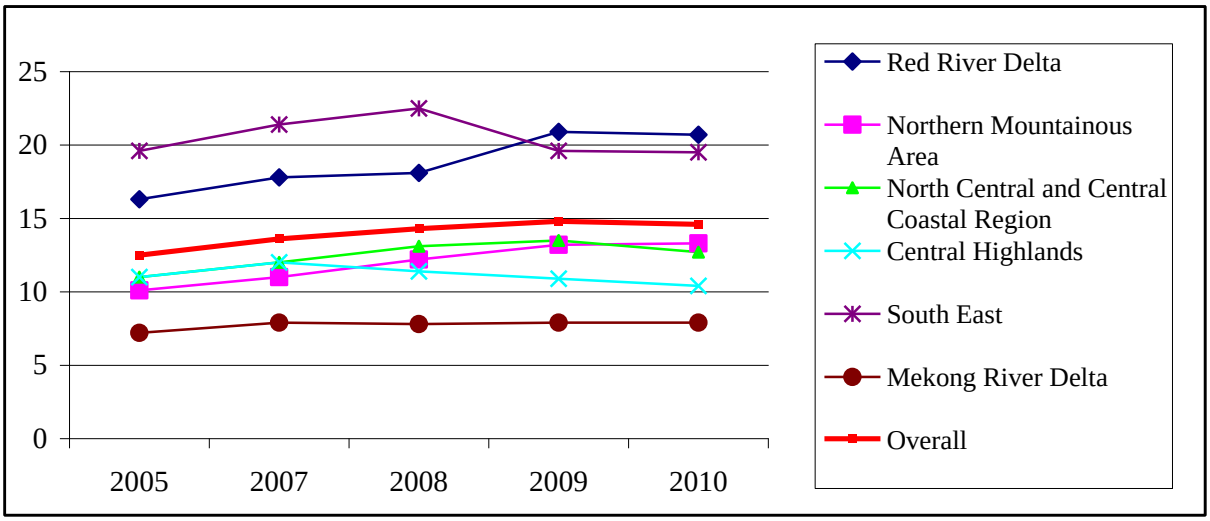
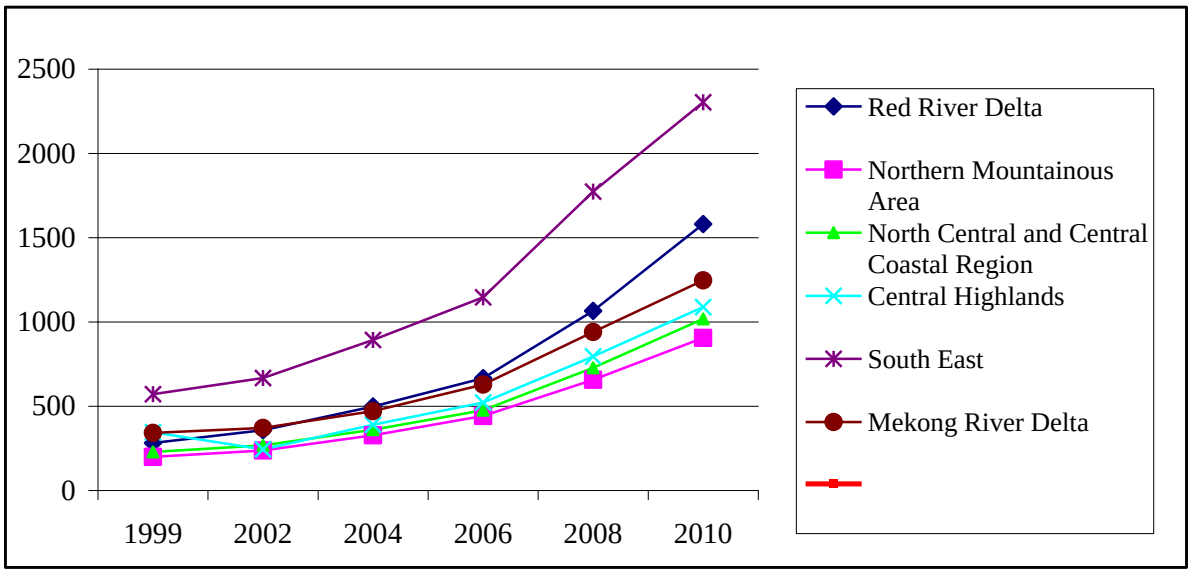


Figure 19: Average Monthly Income by Region, 1999-2010 (1,000 VND)



Education and Training

Institutional system, infrastructure and quality of labour force constituted the 3 key areas of inadequacy in Vietnam's development process, especially during 2007-2011. The gap in labor quality across regions, to some extent, resulted from poor master plans on the development of universities, colleges, secondary technical schools and vocational centers. Most of the universities, colleges, secondary technical schools were public institutions located in the Red River Delta region and the South East (illustrated by the number of teachers and pupils in the two regions). Besides, the gap in the number of vocational centers was increasing. As a result, once the State have not adjusted the plan in education and training, under-developed regions will have few chances to improve the quality of labor. Figure 20 and Figure 21 show that the number of teachers and pupils increased sharply in 2007, then decreased slightly in 2008. Even considering the size of population in each region, the gap was still high.

Figure 20: Number of Teachers and Students at Tertiary Level, 2004-2010

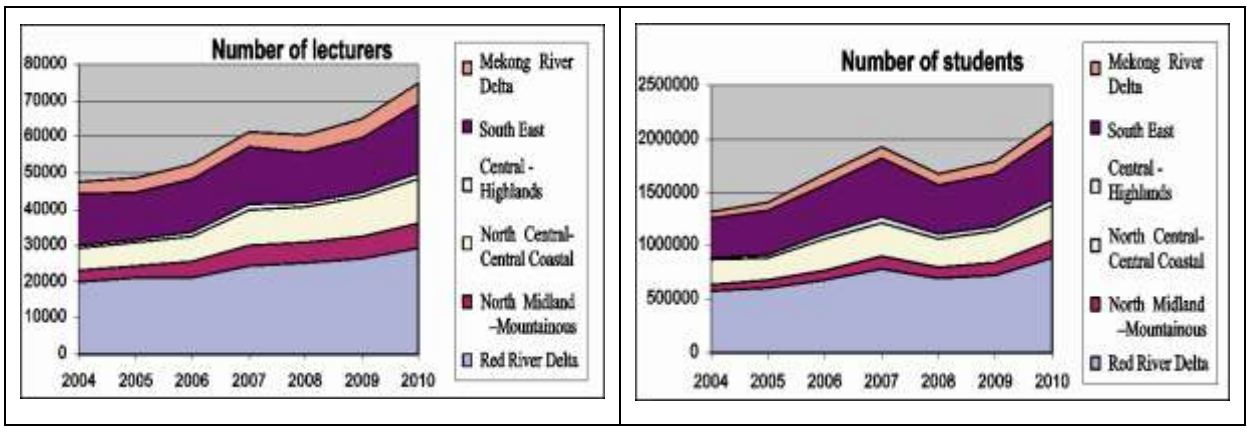
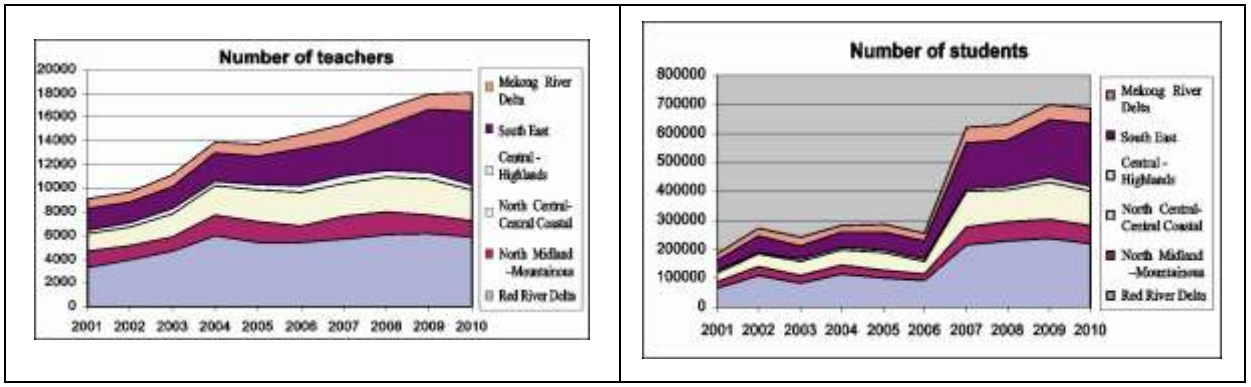


Figure 21: Number of Teachers and Pupils at Technical Colleges, 2001-2010



The rapid change of the number of technical college pupils in 2007 was noteworthy. However, the larger number of pupils was not accompanied by the increase in number of teachers at technical colleges, which raised a concern about the possible decrease in quality of the technical colleges.

The above analysis helps explain the big gap in the ratios of trained labours above 15 years olds between the Red River Delta, the South East, and the remaining four regions. Notably, *while the Mekong River Delta region contributed remarkably to the export value and the State wants to increase the ratio of processed goods (with high value added) in export structure, the State paid insufficient attention to the technical colleges in this region.*

Healthcare

Unlike education, the healthcare sector had rather small difference of indicators across regions (see Figure 22 and Figure 23). All communes had a medical station and most of medical stations had a doctor in charge. The average number of hospitals per 1 million people was rather low in the South East, Mekong River Delta and the Red River Delta because of their higher population density than other regions (in particular, the Northern mountainous area).

However, the number of hospital beds, especially the average number per 1,000 people, failed to stay in line with the above hospital indicators. The South East had the highest number of hospital beds per 1,000 people due to larger average hospital size.

Figure 22: Number of Hospitals under Provincial Management, 2005-2010

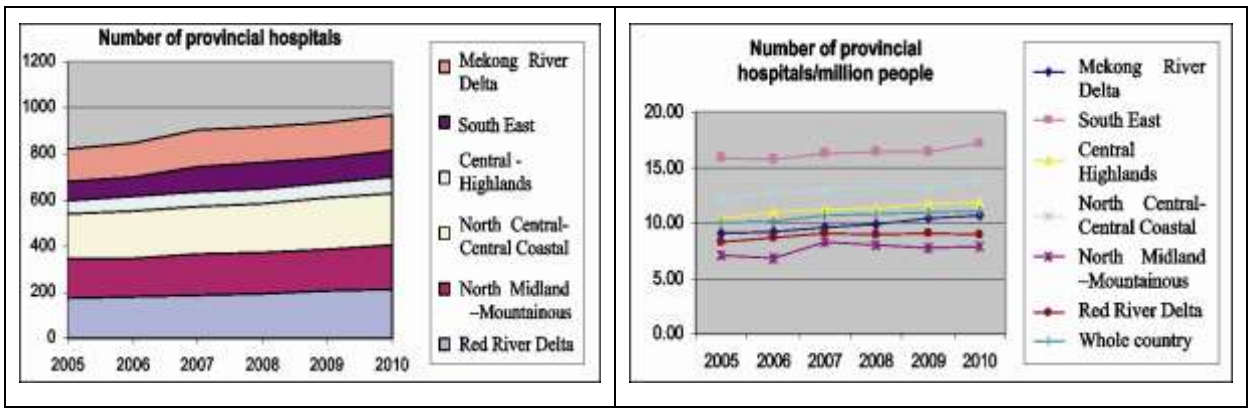
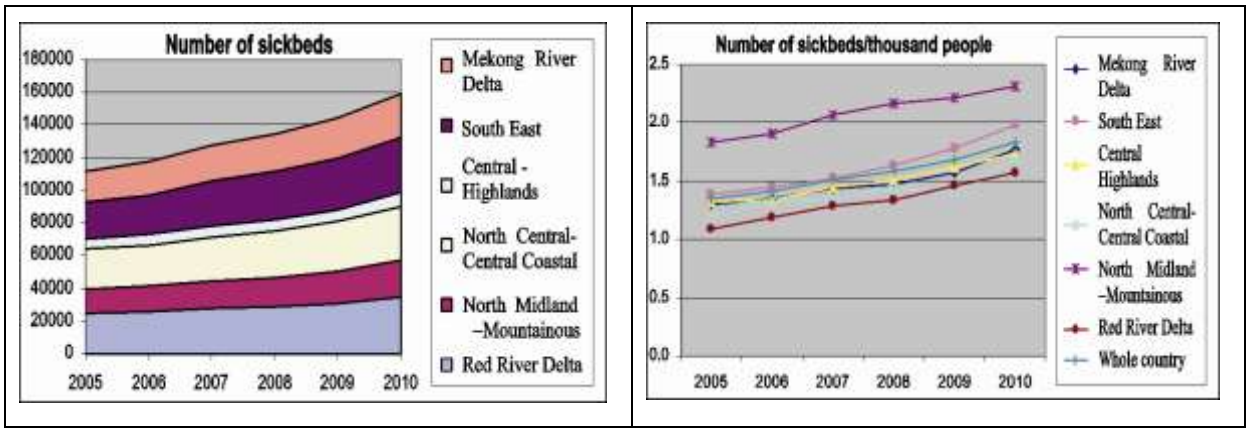


Figure 23: Number of Beds in Provincial Hospitals, 2005-2010



Concerning the average number of healthcare staffs per 1,000 people, the figure was generally higher in the Northern mountainous area than in other regions; while negligible difference was observed among the remaining regions. Meanwhile, the number of doctors in the Northern mountainous area was also higher, yet the difference among other regions was more material. The Mekong River Delta, the Central Highlands, the North Central and Central Coastal region had lowest number of doctors. The above indicators only exhibited limited progress after Vietnam joined the WTO.

Figure 24: Number of Healthcare Staffs under Provincial Management, 2005-2010

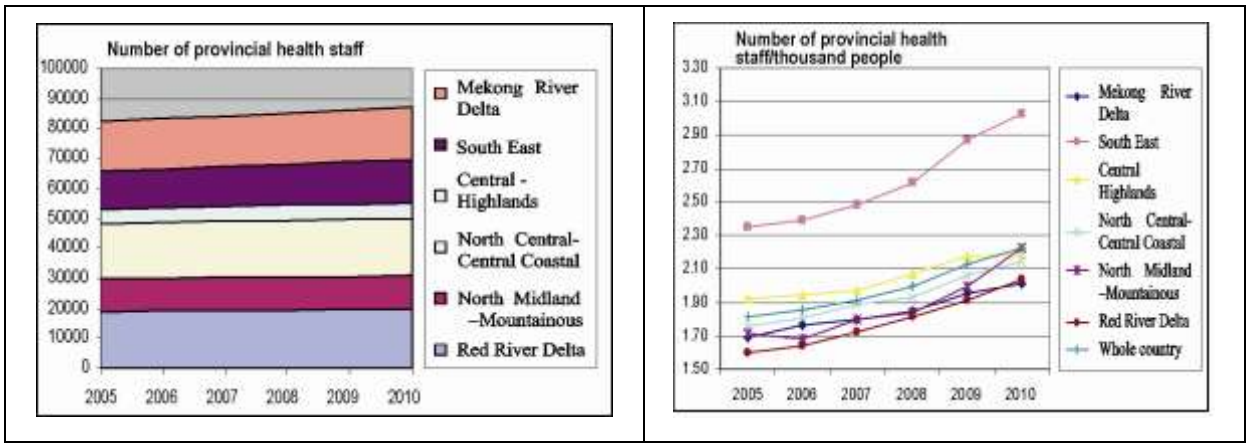
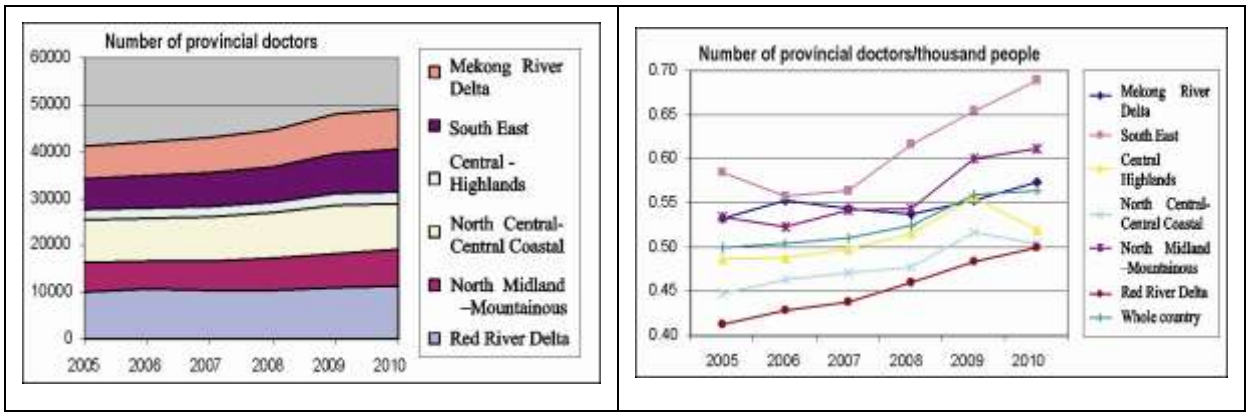


Figure 25: Number of Doctors under Provincial Management, 2005-2010



4.2. Supporting Policies for Regions

The development gap among regions is unavoidable in the development process of each country. Therefore, solutions to restrain the gap become essential, which constitutes a very important objective of regional development policy. The State can provide various kinds of supports. Beside supports for developing the education and training system, efforts to upgrade infrastructures play a very important role in facilitating regional development. This sub-Section concentrates on analysing the infrastructure system for transport and industrial zones.

4.2.1. Road System

Decentralization of investment and management of the road system is rather clear. The Central Government manages the system of national roads, and the governments at province, district and commune levels manage the system of provincial roads, inter-commune roads and rural transportation respectively. The map of national roads shows the high density of national roads in the Northern and Southern delta regions (Figure 26). Many new national roads are being built in the Northern mountainous area, Central Highlands and the Mekong River Delta.

However, the map fails to reflect the road quality. Limitation and dispersion of investment capital prevented synchronous development of roads. Some surveys in some regions indicated modest compatibility between bridges and roads, especially in the Mekong River Delta with an interlacing system of canals and arroyos. Many national road routes have loading capacity of up to 30 tons, but that of some bridges in the routes is only 10 tons, or even 7 tons, thus undermining capacity utilization of the whole routes. This incompatibility also presents a big barrier for localities to attract investment. Even with the National Road No.1 - the biggest national road in the country, the bridges in the road section crossing the Mekong River Delta had just been upgraded for full compatibility with the roads by early 2012.

Beside the national road network, the provincial roads also assume a very important role by connecting national roads with important areas in the provinces. Provincial roads are under provincial management and are invested by local budgets. The underdeveloped provinces have limited budget, and are normally located in remote regions (the Northern mountainous area, Central region, Central Highlands or the Mekong River Delta region with weak land ground and many canals). These provinces then had huge investment demand to develop the transport system, and the investment cost per km of road is much higher than in other regions. As a result, despite more supports from the State, those provinces are still far from reaching a high quality road system similar to ones in other delta regions.

Figure 26: Map of Vietnam's National Road Network

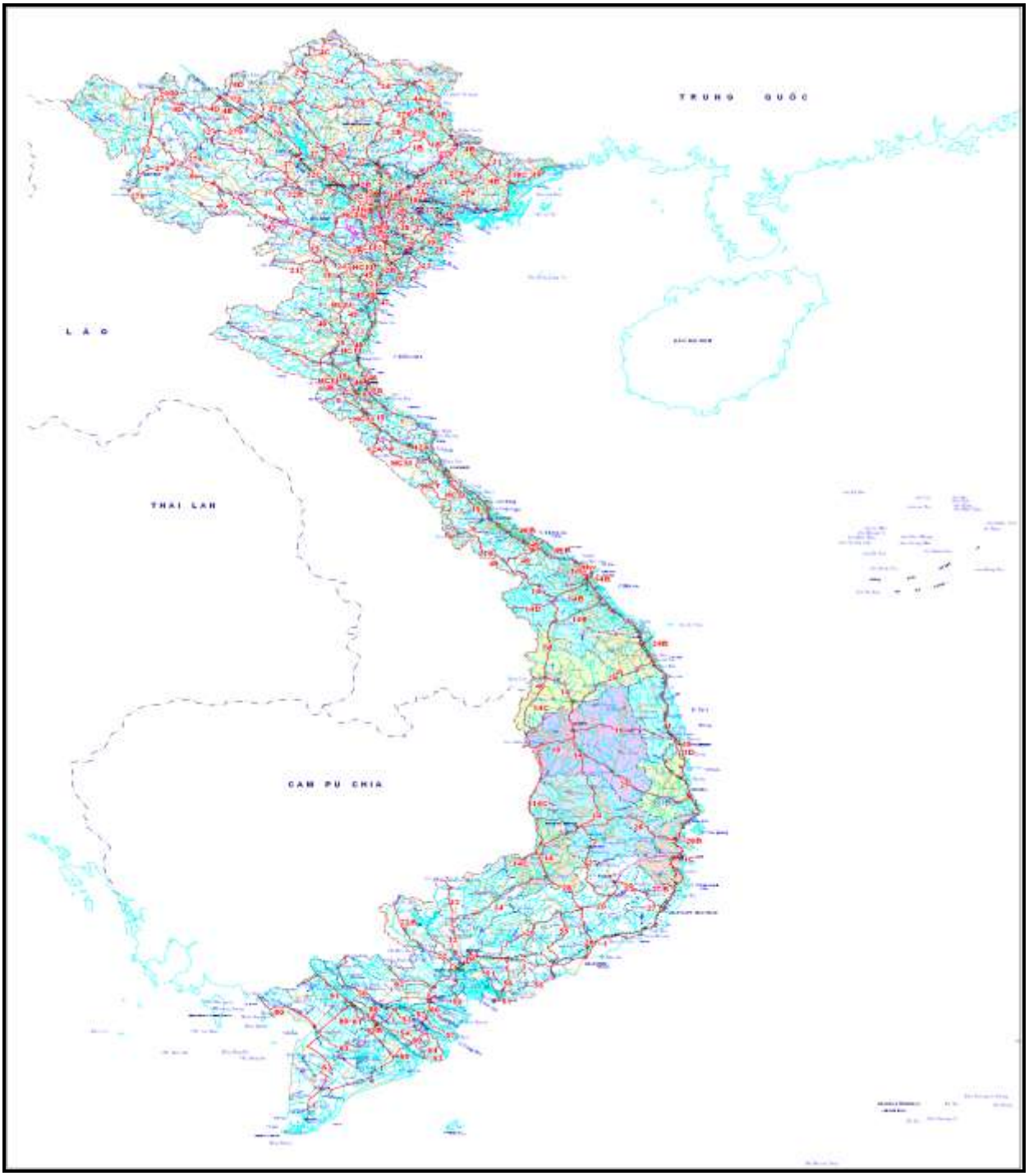


Table 40: Bridges along National Road No. 61 (Hau Giang – Kien Giang)

Name of bridge	*Km*	*+*	*Management Authority*	*Bridge length (m)*	*spans*	*Number and type of main girder*	*Year of construction*	*Loading capacity (tons)*
Cai Tac	0	517	Road Authority Unit No. 7	55.5	3	Steel I	1973	20
Tam Vu	3	44		58.9	3	T prestressed ferroconcrete	1973	20
Ba Lang	7	560		63	3	T prestressed ferroconcrete	1968	10
Xang	15	670		62.61	3		1973	13
Cai Nhuc	43	405		21	1			8
Chu Chet	46	892		18	1			8
Cai Sinh	47	575		27	1			8
Rach Goc	49	378		38.5	3	Doubled Pi ferroconcrete	1996	20
Soc Ven	64	122		18	1			5
Rach Tia	66	171		75.15	3	T prestressed ferroconcrete	1998	25
Ca Nhum	69	603		30	3		1990	5
Dong Xuong	74	673		18	1			5
Ben Nhut	77	846		117	5			5
Ban	80	61		6.3	1		1990	
Chng Bou	81	3		42	2			5
Go Đat	83	61		18	1			5
Caphone	86	742		30	1			5
Ba Liet	87	191		4.3	1		1988	5
Minh Hoa	88	933		5	1			
Minh Luong	89	490		30.7	3	DTLH BTCT	1987	20
Ta Nien	92	846		9	1			12

Source: Ministry of Transport.

4.2.2. Deep Seaports and Airports

In the last two decades, many deep sea ports were built along the Eastern coast of Vietnam, with remarkable contribution to economic development, particularly foreign trade. While the rather high density of ports in Hai Phong, Quang Ninh provinces or in Vung Tau - Dong Nai - Hochiminh City area (serving key economic zones in the North and the South) is understandable, having too many deep sea ports in the central coastal

region (from Thanh Hoa to Ninh Thuan) can hardly be justified. Notwithstanding high density, Vietnam still lack big size ports with convenient logistics system to receive big or specialized vessels.

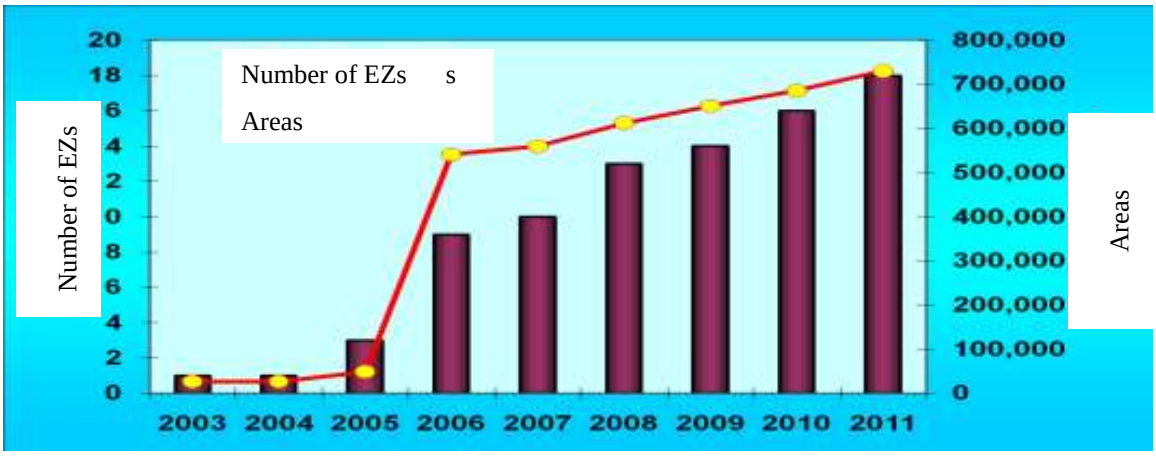
Notably, all ports were invested by the Central Government using the central budget. Wastage in investment alongside limited capital resource then decrease the funds that the Central Government could otherwise use to support difficult regions.

Figure 27: Map of Deep Seaports

Similarly, the system of airports in Vietnam also revealed the weak coordination of regional development policies and sectoral development policies. Too high density in many areas, in particular in the Central Coastal Region (from Vinh to Cam Ranh), increased both construction costs and operation costs. The revenues of most of airports (except Noi Bai, Tan Son Nhat and Da Nang airports) failed to cover the costs of operation. Many airports just received 1 or 2 flights each day. Even An Giang airport is planned for construction just 60 kilometres away from Can Tho airport, while the latter has already been upgraded, extended, and under-utilized.

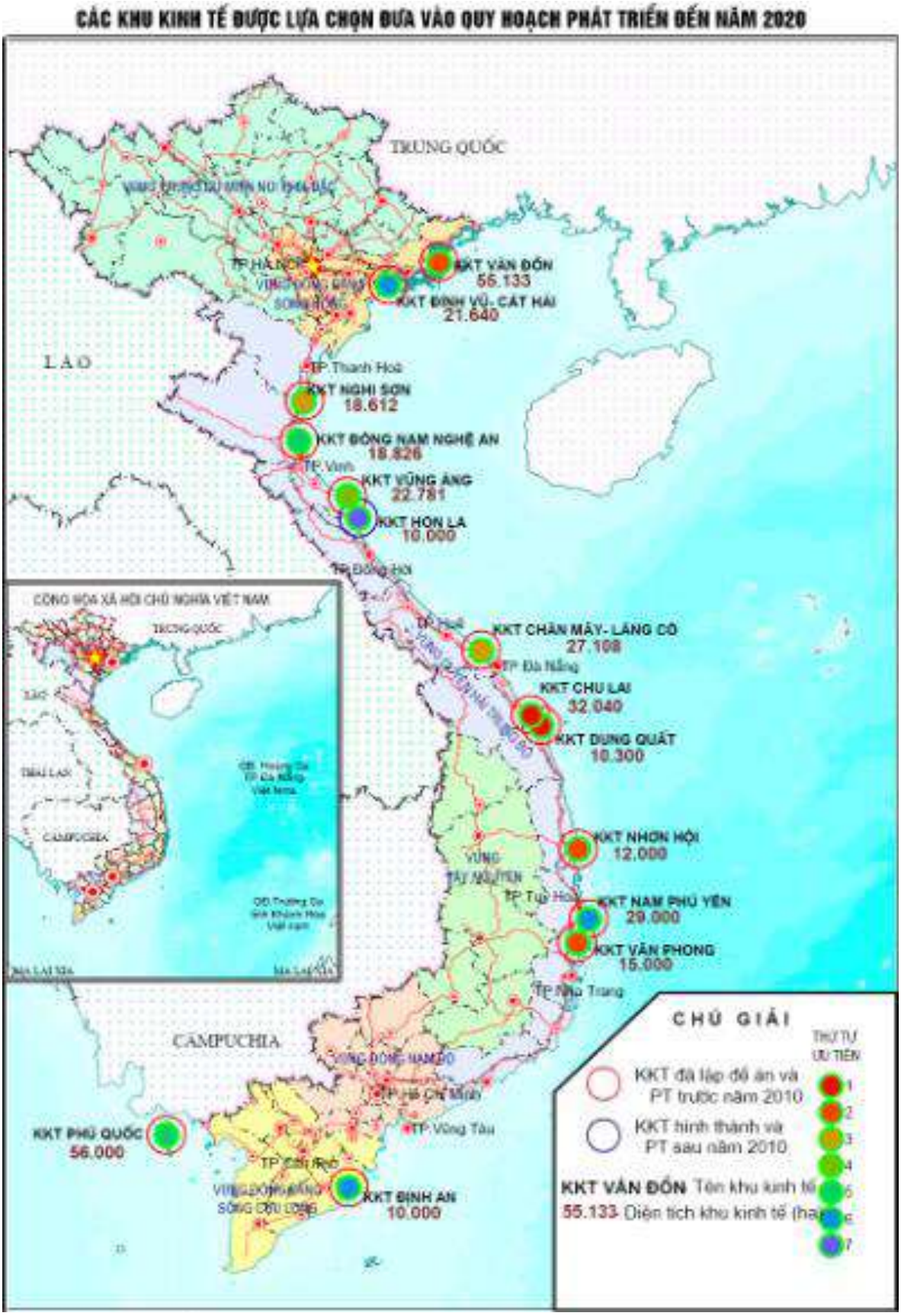
Figure 28: Map of Airports in Vietnam

Figure 29: Economic Zones in Vietnam



Source: Teaching materials of Fulbright Programme.

Figure 30: Economic Zones in the Development Plan up to 2020



Source: Teaching materials of Fulbright Programme.

4.2.3. System of Large Concentrated Industrial Zones

Figure 29 shows the boom of economic zones in 2006 (reflected by the number and scale of land). This might originate from the Socio-Economic Development Plan for 2006-2010. Notably, the investment costs for these zones were huge whilst producing very low occupancy and operational efficiency. Many economic zones are located in the Central coastal region, but have small impacts on local economic development and job creation. Moreover, wastage was evident in using scarce State capital for too many economic zones located closely to each other (for example, Nghi Son economic zone and Dong Nam economic zone, Vung Ang economic zone and Hon La economic zone, Chu Lai economic zone and Dung Quat economic zone, Nam Phu Yen economic zone and Van Phong economic zone) while transportation and connection among these zones became rather convenient (National Road No.1). As an inference, Vietnam's ideology for regional development remains inadequate, and the coordination between regional development plans and sectoral development plans is still weak.

4.3. Intra-Regional and Inter-Regional Linkages

To date, despite many efforts, Vietnam failed to enforce effective measures to strengthen (both intra-regional and inter-regional) regional linkages. In that context, some regions (or sub-regions) implemented initiatives for enhancing intra-regional connections to support economic development, such as regional linkage activities in the Mekong River Delta (especially Forum for economic cooperation and development of the Mekong River Delta), and cooperation to promote tourism activities in the 7 provinces of the Central Coastal Region.

Nevertheless, the above initiatives and activities failed to create motivations and "bonding" among localities in socio-economic development. There was no fundamental breakthrough in intra-regional and inter-regional cooperation and linkage. Regarding infrastructure in particular, the localities continued to deploy "their own designated projects" of building sea ports and airports, etc. whilst having no cooperation with one another to review the master plans notwithstanding many warnings from independent researchers.

The most important factor for enhancing intra-regional linkages is to create "common properties" which can be shared simultaneously by many localities (for example, airports, sea ports, economic zones, etc.). According to current investment decentralization, all of the above "assets" are financed by the Central Government's budget. Therefore, the Central Government can "force" neighboring localities to work together on building and exploiting "common properties". This direction of efforts would have prevented the recent wastages in building airports, sea ports and economic zones.

Still, a precondition for regional development and linkage is to establish a coordinating organization. Regrettably, no adequate effort was sought to fulfil the precondition.

During 1975-1977, after the unification, the Government Council divided 38 provinces and cities into 7 agricultural and forestry regions. The division sought to help develop regional master plans for agricultural and forestry development, and each region contained a number of neighboring provinces. After that, there were some adjustments and re-divisions. At present, Vietnam has 6 economic regions.

Regions, regional planning, and regional development policy have been mentioned in many documents, but no agency is in charge of regional development management in Vietnam. This presents one of the key barriers to establishing and implementing regional development policies as well as to effective coordination between sectoral planning and regional planning in the country.

At present, three economic regions have Steering Committees, namely the North West Steering Committee; Central Highlands Steering Committee; and South West steering committee. These committees were established by the Politburo, to help the Politburo direct the implementation of central resolutions on socio-economic development and ensuring national defense and security in the respective regions. Notwithstanding many efforts to cooperate with the Central and local governments, the Steering Committees only enjoy modest effectiveness in coordinating regional development.

5. MACROECONOMIC STABILITY

5.1. Inflation

Under the impacts of external economic shocks as well as domestic policies, inflation in Vietnam exhibited more complicated movements in different directions. Such movements were clearly reflected in Figure 31 that captured year-on-year inflation rate (based on consumer price index - CPI). Regarding inflation pattern, the period of 2007-2011 can be divided into 3 sub-periods: (i) from January 2007 to August 2008; (ii) from September 2008 to August 2010; *and* (iii) from September 2010 to December 2011.

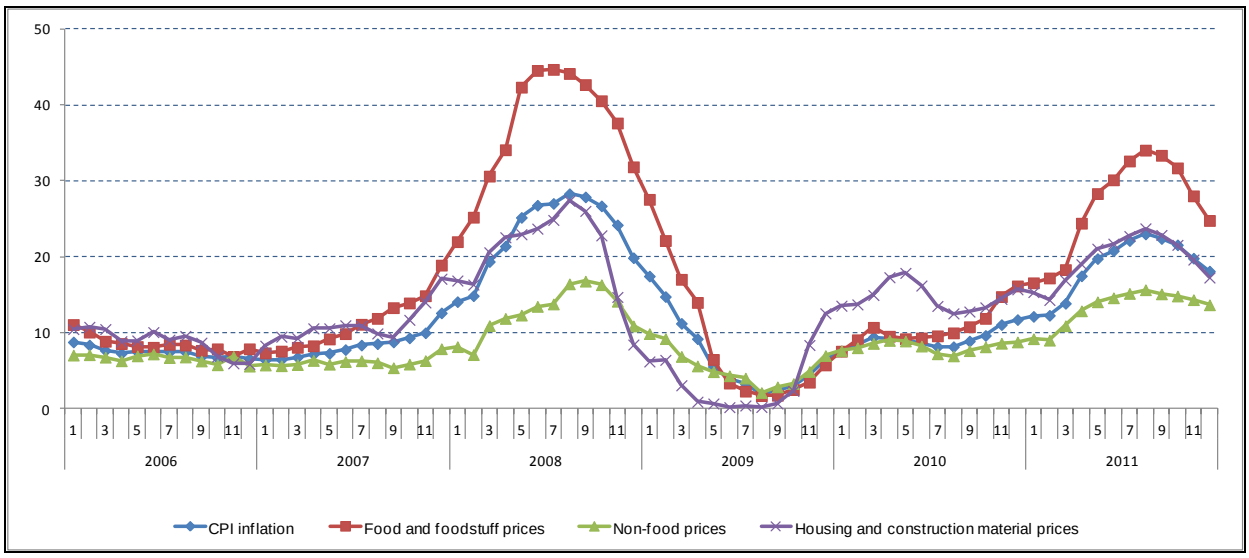
5.1.1. From January 2007 to August 2008

During this period, inflation rate went up continuously, especially since September 2007. The figure peaked at 28.3% in August 2008 (compared with 6.4% in January 2007). In the 2007 as a whole, CPI increased by 12.6%, the highest since 1996 and almost double of that in 2006 (6.6%).

According to many studies (for instance, Vo Tri Thanh and Nguyen Anh Duong 2009; CIEM 2010), the above increase in inflation could be attributed to various reasons from both supply and demand sides. *From the supply side*, the wider and deeper economic integration led to stronger impact of price increases in international markets. This impact was transmitted through import channel, because imports accounted for a significant share in GDP (73.5% in 2006 and 88.5% in 2008). *From the demand side*, high inflation resulted from accumulated inflationary pressure from previous years, as Vietnam gave priority to high growth and implemented expansionary macroeconomic

policies[26]. Thus, high inflation in this period was due *only partly* to impacts of international economic integration.

Figure 31: Changes in Inflation Rate, 2006-2011 (year-on-year, %)



Source: GSO.

The above impacts were exacerbated by the perplexity and inadequacy in formulating and coordinating macroeconomic policies and price policy in the context of deeper economic integration. First, the surge in (both direct and indirect) foreign investment inflows to Vietnam since the end of 2006 was not anticipated, and even exceeded the absorptive capacity of the economy. The State Bank of Vietnam (SBV) then had to increase money supply to purchase large amount of foreign currencies but failed to appropriately sterilize such increase. In addition, the rather tight peg of VND to USD effectively led to import of inflation, particularly as the world prices increased rapidly.

In other words, macroeconomic management failed to anticipate the rapid and strong impacts of international economic integration, thus resulting in few relevant adjustments.[27] Attempts to deal with high inflation were to some extent undermined by Vietnam's liberalization of prices of some products under the State control, while necessary preparations remained absent (for instance, little attempts were made to improve monitoring capacity and information transparency, market-based policy instruments and to establish a more competitive market structure, etc.).

5.1.2. From September 2008 to August 2010

During this period, inflation decreased continuously since September 2008, and only recovered from September 2009. The CPI even declined in last months of 2008. The starting point for this period originated from negative impacts of the global financial crisis and economic recession. These impacts were transmitted more rapidly than in the period before

[26] Total investment, final consumption and credit all grew rapidly. For example, the ratio of investment over GDP rose from 34.2% in 2000 to more than 41.5% in 2006.

[27] In fact, the perplexity in macroeconomic management as mentioned above also resulted from limitations of *ex ante* studies before 2007 on assessing possible impacts of the WTO accession on Vietnam's economy.

the WTO accession as effects of the external economic shocks on Vietnam's economy became larger and faster through various channels of integration. Nevertheless, the fall in inflation was partly due to the lagged impacts of macroeconomic policies to control inflation, which were adopted since April 2008[28].That is, the impacts of international economic integration and macroeconomic policy responses in the period were in the same direction, thereby reducing domestic inflationary pressure. Of which, prices of housing and construction materials decelerated most significantly. Consequently, the average inflation in 2008 was 23.0%, while inflation rate (based on end-of-period CPI) was 19.9%.

From September 2009 to December 2009, the year-on-year inflation rate tended to increase, though much lower than previous years. CPI as of December 2009 was 6.5% higher than that at the end of 2008. In 2009 as a whole, the average CPI increased by 6.9% compared from that in 2008 (less than that of 23.0% in 2008).

Positive and small inflation rate in this period could be attributed to some factors, including stimulus measures of the Government via tax rescheduling, deferrals, deduction and exemption; financial supports; interest subsidy, etc.; the recovery of the world prices as well as the increase of VND/USD exchange rate[29]. Similarly to the previous period, weaker inflationary pressure in this period was not solely caused by inherent factors of Vietnam's economy, but was under larger impacts of external economic changes via integration channels. (CIEM 2010).

Nevertheless, the policy responses created relatively strong impacts on the increase of inflation in 2010, as macroeconomic policies were continuously loosened (instead of being tightened to control inflation when the economy showed recovery signals). Consequently, inflationary pressure since the period of 2007-2008, which was not completely addressed, was re-ignited and led to higher inflation in the following months.

5.1.3. From September 2010 to December 2011

Since September 2010, year-on-year inflation (based on CPI) started to increase, notwithstanding slower pace than in the period of 2007-2008. CPI as of December 2010 was 11.8% higher than that at the end of 2009, while the average CPI increased by about 9.2% in 2010. The prices of housing and construction materials, restaurant and catering services increased most rapidly.

CPI continued to increase in 2011, and the inflation rate even exceeded the target set by the National Assembly. For instance, in the first five months of the year, CPI already increased by 12.1%, much higher than the target of 7% for 2011. Therefore, the Government had to propose adjustment of inflation target to 15% and then 17% for approval by the National Assembly. By August 2011, (year-on-year) inflation reached 23.0%. Toward the end of the year, inflationary pressure gradually eased. Year-on-year

[28] Comprising of many measures, including tightening of credit growth and rescheduling public investment.

[29] More fundamentally, tensions in the foreign exchange market originated from prolonged and huge trade deficit of Vietnam due to wider and deeper integration – the impactd that was foreseen before 2007 but failed to be addressed effectively.

inflation rate went down continuously, though still high in absolute value. As of December 2011, (year-on-year) inflation rate reached 18.1% while the average-CPI inflation was approximately 18.6%.

The above pattern of inflation resulted from both uncontrollable and domestic factors. *In terms of uncontrollable factors*, inflationary upheaval in many countries was complicated with an upward trend. Meanwhile, prices of inputs and materials also went up rapidly[30]. In 2011, prices of imported goods as a whole increased by approximately 20.2% while those of food and non-food had the respective growth rates of 20.6% and 18.6%. On the other hand, natural calamities and epidemics occurred unexpectedly, which in turn significantly affected the supply of goods and services at some provinces. Consequently, production cost and prices surged.

In terms of domestic factors, consumer demand and purchasing power (particularly in the period of before, during and after the Lunar New Year or at the end of the year) induced increase of overall prices. Total retail sales of goods and services in 2010 exceeded VND 1,570 trillion, increasing by 25% (or 15% if excluding effect of price increase). In 2011, the figure attained more than VND 2,004 trillion, rising by 24.2% (or 4.7% if excluding effect of price increase).

Another cause of higher prices in this period was the increase of prices of essential goods such as petroleum, electricity, water supply, etc.[31]. Impacts of the fluctuations of international oil price on Vietnam were relatively obvious after the WTO accession. Direct impact of these price adjustments was quite significant because oil-petrol and electricity accounted for 3.64% and 2.46% in the CPI basket, respectively. Indirect impact on CPI was even larger because oil, petrol and electricity were inputs for other production – service industries, thus implying "cost-push" inflation. These impacts exclude considerations of inflation expectation, particularly in the context Petrolimex (the oil-petrol retailer with the biggest market share) and Vietnam Electricity Group arguably making losses and proposing to raise retail prices.

Meanwhile, inflation was subject to impacts of the exchange rate policy. The acceleration of inflation during September 2010-August 2011 partly stemmed from the significantly increases of interbank VND/USD exchange rate by the SBV, particularly on August 8, 2010 and February 11, 2011.[32] Due to high ratio of imports over GDP as well as high import content of exported goods[33], the increase of exchange rate induced drastic

[30] In 2010, imported price of petroleum increased by 28.5%, while that of liquefied petroleum gas went up by 32.6%, finished steel products: 27.6%, paper: 19.7%, plastics: 23.0%, cotton: 45.4%.

[31] Price of A92 gasoline was adjusted from 16,400 VND per litre (which took effect in January 14, 2010) to 19,300 VND/litre (rising by 17.7%) on February 24, 2011, then to 21,300 VND/litre (rising by 10.4%) on March 29, 2011. After remaining relatively stable since February 2010, the average price of electricity also went up by about 15.3% in March 1, 2011, followed by a 5% increase on December 20, 2011. Notably, the increase of electricity on December 20, 2011 was not reflected in the inflation rate of 2011 because the calculation of inflation rate was completed at that time.

[32] More details in the section on Exchange rate.

[33] More details in the section on Trade.

rise in import prices (in VND). Thus, similar to the period of 2007-2008, policy on exchange rate intensified the "importing inflation" effect from the world market. In addition, the crawling peg exchange rate regime consolidated the market's expectation of further increase of exchange rate later on (thus resulting in higher inflation). This important cause of inflationary pressure was not alleviated until August 2011. In contrast, in the last months of 2011, the VND/USD exchange rate was maintained stable, which helped ease pressure on CPI.

Finally, Vietnam failed to timely retreat from impacts of loosened policies to prevent economic downturn in 2009. Total liquidity and outstanding credit expanded dramatically, particularly in the last months of 2010, and reached the year-end growth rates of 23.0% and 29.8%, respectively. Therefore, the growth rates of both total liquidity and outstanding credit surpassed the planned targets for 2010 (of 20% and 25%, respectively). Consequently, inflation was under pressure to increase rapidly *not only in 2010 but also in early 2011*. Moreover, other policy changes such as imposing the value added tax rate of 10% on some products instead of 5% (as previously implemented in the "stimulus package" in 2009), liberalization of price controls for some goods and services such as electricity and petroleum, or early effects of the salary increase (in effect since May 2011) were the factors that directly increase prices.

Acknowledging the inflationary pressure since the end of 2010, the Government decided to tighten macroeconomic policies. Importantly, the highest priority was switched to macroeconomic stabilization, and the Government was willing to accept a reasonably lower economic growth. This differed from the Government's stance in 2010 as well as other previous years, in which the perplexive switches between economic growth stimulus and inflation control prevented fundamental restoration of macroeconomic stability. In fact, the determined stance towards tightened macroeconomic policies helped reduce inflation since September 2011 – which affirmed prior expectation of many economists.[34]

In summary, wider and deeper international economic integration made Vietnam's CPI more vulnerable to the impacts of world market changes. The surges in world prices and the global financial crisis and economic recession produced different impacts on prices in the country. These impacts, to a certain extent, were not effectively mitigated. Moreover, policy responses in some cases were inappropriate and/or the roadmap for domestic price liberalization were not adjusted in a flexible manner. Due to these factors, inflation exhibited a complicated pattern. However, international economic integration was not the only source of inflation changes in the years 2007-2011. In fact, such movements also resulted from inherent imbalances within the economy – which were magnified by the international economic integration process.

[34] In February 2011, many experts believed that a tightened macroeconomic policy only took affect after 6 months.

5.2. Exchange rate

In the period of 2007-2011, the VND/USD exchange rate exhibited complicated movements in different directions (Figure 32). In order to make domestic goods and services *relatively* cheaper than those in foreign markets, thus facilitating export growth in particular and export-led economic growth in general, the VND was depreciated nominally terms against the USD. The extent of nominal depreciation depended upon the SBV's assessment of international trade and specific changes in the foreign exchange market. Consequently, for a long period since the 1990s, the VND continuously depreciated in nominal terms against the USD.[35] By the end of 2011, the decrease of VND/USD exchange rate was only evident during a short period of time, from October 2007 to April 2008.

Even in the years when the VND/USD exchange rate portrayed an upward trend, the extent of depreciation became more changeable, induced by market factors and partly by exchange rate management. Changes of demand-supply balance in the foreign exchange market were subject to the market factors such as foreign capital flows (since the end of 2006), fluctuations of gold prices and gold trade, larger imports due to the asset-price and income effects, and cyclical variations of exports under different phases of the world economy (growth – recession – recovery).

In some cases, the SBV showed perplexity and even inconsistency in exchange rate management. The utilization of trading band instead of adjusting official exchange rate sometimes led to undesirable outcomes. Despite administrative measures (such as requesting State general corporations to sell foreign currencies to banks) as well as statements of SBV leaders, the gap between parallel exchange rate and that in commercial banks failed to be narrowed down (Truong Dinh Tuyen et al. 2011).

In other cases, the official exchange rate was kept stable for too long, and only jumped "unexpectedly" at the decision of SBV under excessive pressure from parallel market. The degree of each jump was relatively significant. In addition, the SBV had to supply a large amount of USD to stabilize exchange rate in a long period, resulting in smaller foreign exchange reserves. Consequently, current expectation remains ample towards the devaluation of VND, especially in the context of huge and less sustainable trade deficit. As such, it was hard to differentiate between the attempt to promote export and that to relax tensions in the foreign exchange market when the SBV adjusted the exchange rate during 2007-2011. This resembles difference from the situation before the WTO accession, when the VND/USD exchange rate adjustment was mostly aimed at promoting export in the presence of modest trade deficit.

Figure 32 depicted the movement of VND/USD exchange rate in the period of 2006-2011. In the first 9 months of 2007, the interbank VND/USD exchange rate was gradually increased by the SBV. The degree of adjustment was insignificant, only about 0.4% in the whole period. However, this modest increase was attributed for the failure of exchange rate management to closely capture actual market changes. As a result, the

[35] For further references, see Vo Tri Thanh and Nguyen Anh Duong (2009), CIEM (2010).

parallel exchange rate exceeded the permitted ceiling rate in the formal market in August 2007 (Figure 32).

Between October 2007 and March 2008, the rapid increase of foreign capital inflows to Vietnam exerted pressures on the VND to appreciate nominally against the USD. The interbank VND/USD exchange rate announced by the SBV was reduced at faster pace (by approximately 1.3%) than the increase in the first 9 months of 2007. Notably, this increase of exchange rate seemed to depict changes of the foreign exchange market more closely (Figure 32).

Between April 2008 and December 2008, the VND/USD exchange rate tended to go up, for some reasons. *First*, trade deficit was high in 2008 because of larger demand for imported consumer goods. *Second*, foreign investment capital was divested and retrieved back to foreign countries in the context of domestic macroeconomic instability and global economic recession after the global financial crisis. *Finally*, the drastic increase of parallel exchange rate (particularly in May 2008) resulted from the people's rush for purchasing foreign currencies as they feared prevalent macroeconomic risks and the rumour of serious depreciation of the VND.

The VND/USD exchange rate continued to exhibit complicated movements in 2009. In the first 6 months, the foreign exchange market encountered significant pressures as demand for foreign currency went up considerably compared with its supply. Because of the global financial crisis and concerns of exchange rate fluctuations, enterprises opted to hold foreign currencies. On the other hand, due to additional impacts of interest subsidy for VND loans and the decrease of basic interest rate, many enterprises were hesitated to borrow in foreign currencies and shifted to VND loans for purchasing foreign currencies. In July 2007, the VND/USD exchange rate decreased, but the exchange rate policy failed to closely capture the actual changes of the market.

Figure 32 showed that between July and October 2007, the parallel exchange rate went down continuously, but still exceeded the permitted ceiling rate. Notably, exchange rate policy was in line with SBV's commitment to stabilize market exchange rate, but the exchange rate effectively went beyond ceiling rate via such measures as using the third foreign currency, using the third bank, collecting transaction fees, using broker frees between enterprises holding foreign currencies and those who wanted to buy.

Since the beginning of 2010, the VND/USD exchange rate continued to increase. However, between the exchange rate adjustments in 2010 (in February and July), the exchange rate announced by commercial banks was frequently lower than the permitted ceiling rate of the SBV, varying in the range of 18,950-18,970 VND/USD. In particular, the parallel exchange rate was lower than the commercial bank rate for the first time on April 28, 2010.

Nevertheless, the foreign exchange market still confronted with tension at times which forced the SBV to increase the interbank exchange rate considerably. In February 2010, the SBV raised the interbank exchange rate by about 3.4%. In August 2010, the SBV once again increased the interbank rate by 2.1% to 18,932 VND/USD. Yet these measures only helped official exchange rate "to follow" the parallel rate. Meanwhile, the

confidence in the VND was not significantly improved; the enterprises and people had little motivation to reduce holdings of USD, not to mention the expectation of further appreciation of the USD against the VND. Consequently, the gap between the official and parallel exchange rates became wider. At the end of November 2010, the parallel exchange rate jumped to 21,380-21,450 VND/USD, or 10% higher than the official rate - the biggest gap in Vietnam since 1990. As a result, the SBV had to raise the official VND/USD exchange rate by about 9.3% (Figure 32).

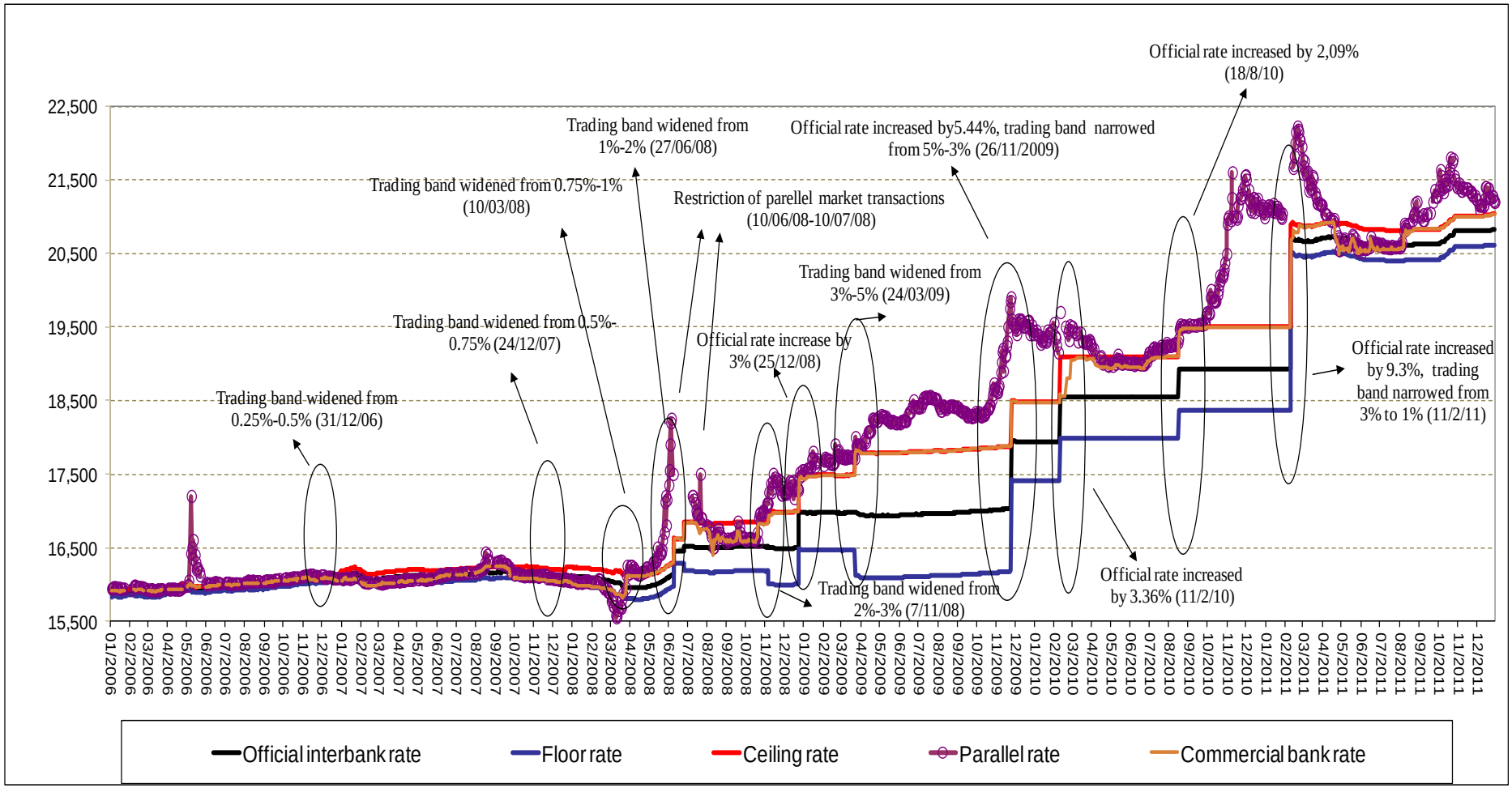
The situation was improved remarkably after the implementation of Resolution No. 11/NQ-CP (hereinafter referred to as Resolution 11) since February 2011, aiming at comprehensively controlling inflation and restoring macroeconomic stability. As a result, exchange rate was stabilized, and even continuously decreased. By the end of May 2011, the exchange rate announced by commercial banks varied between 20,520 and 20,620 VND/USD, i.e. lower than the permitted ceiling rate of 20,900 VND/USD set by the SBV. The ceiling on USD-denominated deposit rate made enterprises and people hesitant to hold USD, thus selling USD holdings to commercial banks. Consequently, foreign exchange liquidity of commercial banks was considerably enhanced, leading to lower tensions in the foreign exchange market and significantly smaller gap between official and parallel exchange rates. The difference between official and parallel exchange rates was drastically narrowed down by the end of 2011. Thanks to successful implementation of SBV Governor's commitment on September 7, 2011 on restricting increase of official VND/USD exchange rate at below 1% until the end of the year, the foreign exchange market was stabilized and the confidence in the VND was remarkably strengthened.

Together with nominal depreciation of the VND against the USD, the SBV also widened the permitted trading band relative to the interbank VND/USD exchange rate. However, these adjustments were not taken regularly or periodically; instead, they were subject to specific evolvements of the foreign exchange market.[36]

Figure 33 illustrates the movements of real effective exchange rate (REER) in the period of 2000-2010. Notwithstanding significant increase in nominal exchange rate, particularly since 2007, REER varied solely in the opposite direction. During this period, the announced VND/USD exchange rate increased by about 31.4%, yet REER went down by about 12.4%. With the base year of 1994 (value of 100), REER increased from 105.6 in 2000 to 116.2 in 2003, then falling continuously to 90.6 and 92.5 in 2009 and 2010, respectively. In the 2000-2010 period as a whole, Vietnamese products actually became more expensive in real terms compared with those of other countries. Therefore, notwithstanding adjustment of the nominal exchange rate, Vietnam failed to improve the competitiveness of its products as their prices rose more rapidly than the nominal exchange rate.

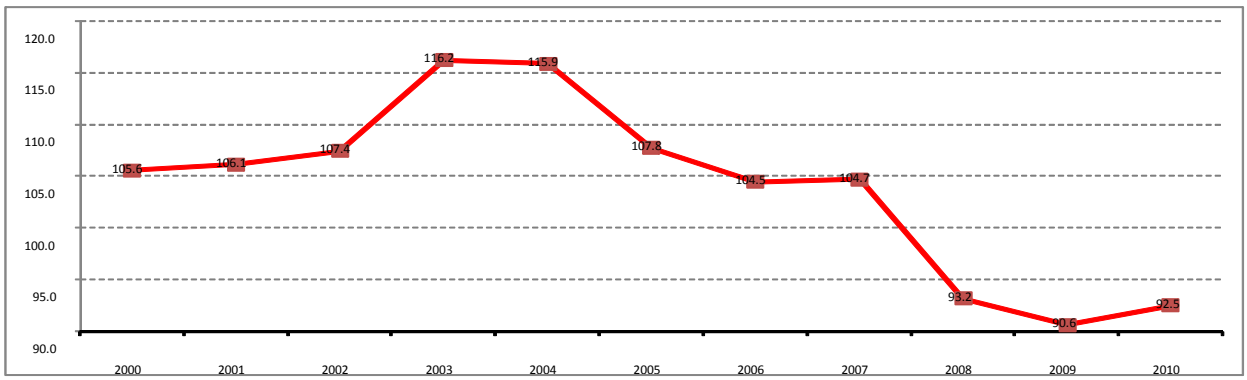
[36] Maximum margin was adjusted to increase from +/-0,5% on December 31, 2006 to +/-0,75% on December 24, 2007, +/-1% on March 10, 2008, and +/-2% on June 27, 2008 , +/-3% on November 6, 2008, +/-5% on March 24, 2009. In order to more closely manage black market operations, the margin was narrowed to +/-3% on November 26, 2009 and +/-1% on February 11, 2011.

Figure 32: Movement of VND/USD exchange rate and Government Intervention in Vietnam, 2006-2011



Source: CIEM's compilations from various sources.

Figure 33: Real Effective Exchange Rate of VND, 2000-2010 (base year 1994=100)



Source: Authors' calculation.

In summary, under impacts of capital and trade flows as well as adjustments of exchange rate policy, Vietnam's exchange rate became more unpredictable.

5.3. Balance of Payment

Similar to exchange rate, the balance of payment (BOP) also experienced more volatility with relatively larger magnitude in 2007-2011. Table 41 depicted changes of Vietnam's BOP in the period of 2006-2011. As can be seen, international economic integration made BOP and related items *varied more drastically in different directions.* As the most evident impact of international economic integration on BOP in the years 2007-2011, relative to that before the WTO accession, the trade deficit, current account deficit and increase in capital flows were widened in both absolute terms and relative to GDP. However, these impacts differed in terms of magnitude and direction, leading to the different financing capacity of capital flows for current account deficit from one year to another. In the years 2007-2011, the current account remained in deficit but with larger extent. The deficit was expanded from USD 164 million (or 0.3% of GDP) in 2006 to almost USD 7.0 billion (or 9.9% of GDP) in 2007 and USD 10.8 billion (or 11.9% of GDP) in 2008, before falling continuously to USD 4.3 billion (or 0.4% of GDP) in 2010. In 2011, the current account balance turned from deficit to surplus, though very modest, of about USD 236 million. Despite improvement in recent years, the current account deficit in 2007-2010 was more serious than in the years 2001-2006 (with the peak level of only about USD 1.9 billion USD, in 2003). Even the surplus in 2011 mainly resulted from domestic economic difficulties and partly from technical measures to control imports and trade deficit.

The movements of current account balance during 2007-2011 could be explained by the variations of trade in goods and investment income. The deficit of trade in goods (at FOB prices) rose significantly from nearly USD 2.8 billion in 2006 to USD 10.4 billion in 2007, USD 12.8 billion in 2008, then dropping continuously to almost USD 5.1 billion USD in 2010 and USD 450 million in 2011.

Table 41: Balance of Payment, 2006-2011

	2006		2007		2008		2009		2010		2011	
	Million USD	*% GDP*	*Million USD*	*% GDP*	*Million USD*	*% GDP*	*Million USD*	*% GDP*	*Million USD*	*% GDP*	*Million USD*	*% GDP*
Current account	-164	-0.3	-6,992	-9.9	-10,823	-11.9	-6,608	-6.8	-4,287	-4.0	236	0.2
Balance of merchandise trade (FOB prices)	*-2,776*	*-4.5*	*-10,360*	*-14.6*	*-12,783*	*-14.0*	*-7,607*	*-7.8*	*-5,147*	*-4.8*	*-450*	-0.4
Balance of services trade	*-8*	*0.0*	*-894*	*-1.3*	*-950*	*-1.0*	*-2,421*	*-2.5*	*-2,461*	*-2.3*	*-2,980*	-2.5
Investment income (net)	*-1,429*	*-2.3*	*-2,168*	*-3.1*	*-4,401*	*-4.8*	*-3,028*	*-3.1*	*-4,564*	*-4.3*	*-5,019*	-4.2
Transfer (net)	*4,049*	*6.6*	*6,430*	*9.1*	*7,311*	*8.0*	*6,448*	*6.6*	*7,885*	*7.4*	*8,685*	7.2
Capital account	3,088	5.1	17,730	25.0	12,341	13.5	7,172	7.4	6,201	5.8	6,390	5.3
FDI (net)	*2,315*	*3.8*	*6,550*	*9.2*	*9,279*	*10.2*	*6,900*	*7.1*	*7,100*	*6.7*	*6,480*	5.4
International loans (net)	*995*	*1.6*	*2,124*	*3.0*	*2,963*	*3.3*	*5,146*	*5.3*	*3,794*	*3.6*	*4,900*	4.1
Indirect investment	*1,313*	*2.2*	*6,243*	*8.8*	*-578*	*-0.6*	*128*	*0.1*	*2,383*	*2.2*	*1,412*	1.2
Currency and deposits	*-1,535*	*-2.5*	*2,623*	*3.7*	*677*	*0.7*	*-4,803*	*-4.9*	*-7,063*	*-6.6*	*-6,402*	-5.3
Overall balance of payment (including errors and omission)	**4,324**	**7.1**	**10,206**	**14.4**	**474**	**0.5**	**-8,465**	**-8.7**	**-1,765**	**-1.7**	**1,151**	1.0

Source: IMF International Financial Statistics (IFS) and authors' calculation.

Notably, Vietnam's trade deficit with some ASEAN-FTA partners in East Asia (such as China, South Korea) was relatively sizeable[37] and tended to increase. The global financial crisis and economic recession in 2008 somehow helped restraint the deficit of trade in goods, but such impact was only transitory. In subsequent years, Vietnam still had to cope with widened trade deficit with these trading partners.

As shown by Truong Dinh Tuyen et al. (2011), the exchange rate policy affected trade balance mainly through import channel. In particular, the increase of nominal VND/USD exchange rate did not help increase the export volume. As Vietnam is a small country with inability to set prices, the depreciation of nominal exchange rate hardly altered export price [38] and, accordingly, export volume. Meanwhile, the nominal depreciation resulted in higher import volume (increasing by 3.5 times faster than the pace of nominal depreciation), and then larger import value.

More specifically, the nominal depreciation raised the prices of imported goods in VND. As mentioned above, due to significant and increasing share of imports in GDP (from 49.6% in 2000 to 82.9% in 2010), the nominal depreciation also increased domestic price level. In parallel with loosened monetary and fiscal policies for a long period, inflation rate gradually accelerated until mid-2008 as well as in 2010. Notably, since 2003, inflation rate has exceeded the pace of nominal depreciation. The decrease of REER since 2003 came partly as the consequence of nominal depreciation. As analyzed in Truong Dinh Tuyen et al. (2011), the decrease of REER restrained export growth.

In other words, the nominal depreciation *did not* help restore trade balance, because the former was accompanied by no increase in REER. Thus, in the context of significant investment-savings gap, trade deficit remained serious and created pressure to increase exchange rate. As the policy implication, *"the depreciation of nominal exchange rate only helps promote export and control inflation in the context of macroeconomic stability"* (Truong Dinh Tuyen et al. 2011, p. 96).

In terms of trade deficit, the year 2011 witnessed the drastic reduction of investment to only 34.6% of GDP. This share was smaller than in previous years, even when the economy was hit by the global financial crisis. Accordingly, the investment-savings gap was narrowed down to only 0.6% of GDP in 2011, as compared with 4.1% of GDP in 2010 and 9.8% of GDP in 2007. This helped ease pressure on trade in particular and overall BOP in general.

Similarly, investment income deficit was significant, growing from USD 1.4 billion (2.3% of GDP) in 2006 to nearly USD 2.2 billion (3.1% of GDP) in 2007 and USD 4.6 billion (4.3% of GDP) in 2010. In 2011, due to difficulties in the domestic and external context, this deficit exceeded USD 5.0 billion. The higher ratio of deficit over GDP indicated faster growth of investment income deficit relative to that of GDP. Moreover, deficit of investment income rose almost continuously, though becoming more

[37] See further discussion of trade deficit with East Asian partners in the Trade sub-Section.
[38] In USD.

stable in the period of 2010-2011. The variations of investment income deficit were understandable as Vietnam still depended heavily on FDI capital flows.

In contrast, net transfer was always in large surplus. This surplus reached almost USD 6.4 billion (9.1% of GDP) in 2007, then increased continuously to USD 8.7 billion (7.2% of GDP) in 2011. This net transfer had important contributions from remittances, including income of Vietnamese labourers working overseas. This seemed to be a positive impact of integration process. In addition, the difference between net transfer and trade deficit was remarkably narrowed down in the period of 2009-2010, indicating significant role of net transfer in restraining current account deficit.

Regarding capital account, the capital inflows to Vietnam increased considerably and changed directions frequently. (Net) Disbursed FDI capital rose from over USD 2.3 billion in 2006 to almost USD 9.3 billion in 2008, before decreasing to USD 6.9 billion in 2009 and USD 6.5 billion in 2011. Meanwhile, (net) foreign loans increased continuously until 2009 (reaching USD 5.1 billion), then went down slightly to USD 3.8 billion in 2010 and USD 4.9 billion in 2011.

Indirect investment flows exhibit more complicated movement: (net) foreign indirect investment increased from over USD 1.3 billion in 2006 to USD 6.2 billion in 2007, dropping dramatically in 2008 and 2009, then fluctuated drastically and reached almost USD 2.4 billion and USD 1.4 billion in 2010 and 2011, respectively. (Net) Indirect investment increased in 2007 and 2008 as investors wanted to grasp opportunities from Vietnam's improved growth outlook, and dropped in 2009 since investors divested capital in the context of the global financial crisis and economic recession.

Therefore, capital inflows to Vietnam were more diverse in source and larger in magnitude, but also exhibited greater variability. Managing such capital flows became more challenging as they had been unprecedented in Vietnam before 2007. The increase (though modest) of indirect investment in recent years was handled more effectively, indicating that Vietnam has learned from the lessons of macroeconomic instability in 2007-2008.

Nevertheless, the movements of current account and capital account in 2010 and 2011 showed significant improvements over those in the first 3 years after the WTO accession. Trade expansion was continued, but trade deficit decreased markedly. Meanwhile, investment flows became less unpredictable. These improvements could be attributed to difficulties in the domestic economic context (due to economic downturn in 2009 and macroeconomic instability during 2010-2011), as well as contribution of macroeconomic policies, including trade policy. In fact, some technical measures were applied recently to restrain imports of luxury products or production inputs. The tightened macroeconomic policy in 2011 also led to lower investment and smaller investment-savings gap, thereby improving the current account.

The overall BOP became rather changeable in the period of 2007-2011. Despite surplus of USD 10.2 billion in 2007, the overall BOP only attained the surplus of USD

0.5 billion USD in 2008, and even turned into significant deficit (about USD 8.5 billion or 8.7% of GDP) in 2009. Since 2010, the overall BOP was improved to the deficit of nearly USD 1.8 billion in 2010 and surplus of about USD 1.2 billion in 2011. As discussed above, the BOP surplus in 2011was not attributed to the improvement of the economy's competitiveness. Instead, it mainly resulted from the contracted aggregate demand which was due to tightened macroeconomic policy and slow recovery of the world economy.

Apparently, the financing for trade deficit and current account deficit became less sustainable during 2007-2011. This was mainly attributed to the larger trade deficit and the uncertainty of capital inflows to Vietnam – a main source of finance for trade deficit.

5.4. Financial System and Market

After the WTO accession, the fundamental components of Vietnam's financial market were fully established. However, the development of each component differed drastically. The financial system remains largely bank-based. The integration process beyond the WTO accession broadened opportunities for financial market participants with different capacity to grasp, thus widening the development gaps among the market components.

5.4.1. Commercial Banks

Shortly before and after the WTO accession, financial and banking activities flourished in anticipation of development opportunities and preparation for the implementation of commitments on services market liberalization. The State-owned commercial banks (SOCBs) still dominated, but joint stock commercial banks (JSCBs) also expanded dramatically. However, the number of newly-licensed commercial banks after Vietnam joined the WTO was only modest. Most commercial banks got licensed and started the business in prior to 2007 in order to grasp the development opportunities after the WTO accession. By 2010, the business groups and big generation corporations (particularly state-owned ones) directly participated in financial investment and real estate activities, apart from core businesses. The commercial banks themselves tried to diversify their services and established strategic partnership with big enterprises, especially state corporations, business groups and foreign financial institutions.

Table 42: Number of Commercial Banks Operating in Vietnam, 2002-2011

	2002	*2006*	*2007*	*2008*	*2009*	*2011*
JSCB	36	35	35	36	37	37
Joint venture commercial bank	5	5	5	5	6	5
Branches of foreign banks	26	27	35	37	37	-
Banks with wholly foreign owned capital	0	0	0	5	5	5
SOCBs	5	5	6	6	6	6
Policy bank	1	2	2	2	2	2

Source: Nguyen Xuan Trinh et al. (2009), Federal Reserve Bank of San Francisco (2011).

Together with the inducement of Vietnam's banking development since 2006, deeper international economic integration in the years 2007-2009 also significantly increased financial risks. The issue of "maturity mismatch" (using short-term deposits for long-term loans) became more serious in 2007, forcing the SBV to control the ratio of short-term deposits used for medium- and long-term loans at 30% in 2009. The serious problem of liquidity shortage, "double mismatch" (maturity mismatch and currency mismatch) and increasing non-performing loans (NPLs) remained prevalent in the context of the global financial crisis and economic recession, and of high "dollarization" and "goldization" and low market confidence in the market economy.

Financial - credit activities were expanded in the years 2007-2008, and contracted during 2009-2011. This was attributed to the over optimism and speculation in the early years after the WTO accession, and then to the negative impacts of the global financial crisis and economic recession and macroeconomic instability of the domestic economy. After a boom period, securities investment and real estate activities decreased significantly, leading to the increase of NPL ratio. Specifically, after a drastic decrease from 2.6% in 2006 to 1.5% in 2007, the NPL ratio rose to 2.2% in June 2009[39] and 3.1% in June 2011.[40] In contrast with the expectations of improved risk management and credit quality control thanks to integration, the NPL ratio increased due to larger negative impacts of international economic integration (such as the global financial crisis and economic recession).

By 2011, some commercial banks became short of efficiency and/or soundness. Others had small scale and had limited risk management capacity, thus increasing the risks of instability in the banking system. Acknowledging the issue, the SBV had introduced regulations on capital adequacy and required larger chartered capital since previous years. However, mobilizing sufficient capital to satisfy SBV's regulations was no easy task due to the scarcer liquidity in the context of tightened macroeconomic policy. The liquidity problem forced commercial banks to compete for deposits, and as deposit rate was restricted at the ceiling of 14%, some commercial banks had to turn to interbank loans at very high interest rates. The pressure to restructure the commercial banking system became more serious. In late 2011, for the first time, SBV allowed the merger of 3 commercial banks, namely Sacombank, De Nhat and Tin Nghia Bank. This initiated the restructuring process of commercial banks, and more merger and acquisition activities related to commercial banks would follow in 2012.

Table 43 tabulates credit growth of commercial banks relative to some macroeconomic indicators. By 2010, together with integration process and economic growth, total credit increased continuously and more rapidly after the WTO accession. Despite the rate of only 25.5% in 2006, credit growth soared to 53.9% in 2007, contributing to the macroeconomic instability in mid-2008. Credit growth in 2008 decelerated significantly to less than half of that in 2007. This was mainly attributed to the policy measures to cope with macroeconomic instability and impacts of the global economic recession.

[39] Nguyen Xuan Trinh et al. 2009.
[40] Harry Hoan Tran and Thuan Nguyen (2011).

Table 43: Credit Growth of Vietnam's Commercial Banks and Some Other Macroeconomic Indicators, 2006-2011

	2006	*2007*	*2008*	*2009*	*2010*	*2011*
Total credit to the economy (trillion VND)	694	1,068	1,339	1,869	2,476	2,773
Credit/GDP (%)	71.2	93.4	90.2	112.7	125.0	109.4
Credit growth (%, compared to previous year)	25.5	53.9	25.4	39.6	32.4	12.0
M2 growth (%, compared to previous year)	20.2	48.9	-0.1	31.0	11.0	10.0
GDP growth (%)	8.23	8.48	6.18	5.32	6.78	5.89
Inflation (%)	6.6	12.6	19.9	6.52	11.8	18.1

Source: IFS database and GSO.

In 2009, credit growth increased again to 39.6%, partly reflecting the recovery of domestic production. In 2010, credit growth was slowed down somewhat, but still reached 32.4%. Therefore, this growth rate was relatively high in the years 2009-2010 despite the Government's measures to control credit growth in 2009 to simultaneously facilitate economic recovery and prevent macroeconomic risks. Apparently, complicated impacts of international economic integration on policy formulation were not properly recognized and assessed by policy makers, which resulted in ineffective control of credit growth.

Only until 2011 did the Government switch back to tightened macroeconomic policies, under high inflationary pressures. Thanks to Resolution 11, specifically measures to tighten money supply, credit growth and total liquidity were restrained. Priority was no longer assigned on the areas that previously received large credits, such as real estate. Credit growth only reached 12% in 2011 as a whole.

Vietnam's financial depth was also improved significantly thanks to integration, under the impacts of FDI flows as well as greater participation of foreign commercial banks. Table 44 depicts the improvements of Vietnam's financial depth in some aspects during 2005-2011.

Table 44: Some Indicators of Vietnam's Financial Depth

Indicator	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*
Deposits/GDP	66.7	78.4	95.4	114.0	132.6	151.2	129.9
Credit/GDP	65.9	71.2	93.4	90.2	112.7	125.0	109.4
% increase of market capitalization	28	146.3	89	-55.8	223.3	-38.5	-9.6
Market capitalization /GDP	0.69	22.7	43	19	55	28.3	20
Number of listed company	32	108	251	342	453	647	708
Value of listed bonds	37,000	69,000	-	213,800	-	284,718	-

Source: Compilation from various sources.

In general, most indicators were considerably improved even since 2006. The increase of economic activities, investment (including speculation) and strengthened confidence on economic prospect enhanced financial depth in the years 2007-2008. The ratio of total deposits over GDP soared up, from approximately 67% in 2005 to 95% in 2007 and to the peak of 151.2% in 2010. This indicator dropped to 130% in 2011 due to tightened credit conditions and restricted growth of money supply. The ratio of total credit over GDP showed similar movements, albeit slightly lower than ratio of total deposits over GDP. The number of listed companies and value of bond transactions also increased though slowed down since 2010. In addition, larger number of listed companies was not accompanied by improved effectiveness of transactions and capital mobilization from the stock market. The ratio of market capitalization over GDP rose continuously from 0.52% to 43% in the period of 2004-2007, then fluctuated dramatically before falling to 20% in 2011.

Notably, international economic integration process, accompanied by greater participation of foreign financial institutions and/or FDI inflows, improved Vietnam's financial system in terms of both depth and scope. The presence of commercial banks with wholly foreign owned capital as well as branches of foreign banks not only improved competitiveness and management capacity of the banking system, but also diversified financial services, and consequently strengthened the financial depth. Meanwhile, both inward and outward capital flows also significantly affected transactions and capitalization of the stock market. This positive impact, however, came along with big challenges as Vietnam had to manage risks of larger capital flows whilst simultaneously developing the financial system.

Vietnam implemented its commitment on liberalizing banking services in April 1, 2007. However, *direct* impacts of this liberalization effort were not adequately reflected in the market shares of commercial banks (Table 45). In contrast with the situation prior to banking service liberalization, the market share of foreign banks increased only modestly. The share of foreign banks in total deposits only rose from 8.1% in 2006 to nearly 8.8% in 2007, before dropping continuously to 5.6% in 2010. By the end of October 2011, the figure jumped up dramatically to 11.0%. Meanwhile, the share of foreign banks in total credits climbed from 9.0% in 2007 to over 10.5% in 2008 and approximately 13.4% in October 2011, despite the falls during 2009-2010. Foreign banks accounted for modest share in total credit, but NPL of this sector was much lower than that of the overall banking system. This showcases the risk management capacity as well as the ability to choose good investment projects to extend credits. Notwithstanding greater participation of foreign banks, still, the positive spillover effects on domestic banks were hardly evident.

In the same period, the share of SOCBs – in both total credits and total deposits – decreased continuously. Although SOCBs still accounted for the largest share in total credits, the figure fell to 57.1% in 2007 and 51.3% in October 2011. The share of this sector in total deposits even decreased at a faster pace. Since 2011, however, the SOCBs saw its leading position in total deposits being taken over by JSCBs.

Table 45: Market Shares of Commercial Banks (%)

Year	*SOCBs*		*JSCBs*		*Foreign banks*	
	Credit	*Deposit*	*Credit*	*Deposit*	*Credit*	*Deposit*
2005	69.96	73.89	14.51	16.67	9.43	7.9
2006	64.56	69.66	19.31	20.71	9.45	8.1
2007	57.05	58.07	33.94	33.14	9.01	8.79
2008	55.66	56.06	33.81	35.86	10.53	8.08
2009	54.13	49.71	36.73	42.76	9.14	7.53
2010	51.36	45.29	39.73	48.21	8.91	5.6
Oct.2011	51.3	43.8	35.3	45.2	13.4	11.0

Source: SBV.

The share of JSCBs in total deposits rose remarkably from 16.7% in 2005 to 33.1% and 45.2% in 2007 and October 2011, respectively. The increase of deposits supported credit expansion of this sector. As a result, the JSCBs saw their share in total credits jump to 35.3% in October 2011, compared with only 14.5% in 2005. Hence, if some issues related to several JSCBs (such as inadequate operation and risk management capacity, over competition in mobilizing deposits, etc.), their rise under competitive pressure from foreign banks evidenced the development of the banking system during 2007-2011.

In summary, international economic integration together with greater participation of foreign financial institutions and/or FDI capital flows contributed to developing Vietnam's financial system in terms of both scale and depth. However, these positive impacts were accompanied with material challenges as Vietnam had to further improve its financial system and simultaneously address the risks from more volatile capital flows.

5.4.2. Securities Market

Even in 2007, the securities market flourished in terms of market capitalization, number of listed companies, number of accounts of individuals and institutional investors, and participation of securities companies (Table 46 and Figure 34), accompanied by the boom in financial and banking activities. The *net* purchase of securities (including both shares and bonds) by foreign investors reached USD 1.3 billion in 2006, and jumped to USD 6.2 billion in 2007. The number of accounts of foreign investors in the official market rose to over 9,100, i.e. five times higher than that at the end of 2006.

Table 46: Some Basic Indicators of the Share Market (12/2001-12/2011)

	12/2001	*12/2006*	*12/2007*	*12/2008*	*12/2009*	*12/2010*	*12/2011*
Capitalization (% of GDP)	0.3	22.8	43.0	19.0	55.0	28.3	20.0
VN-index	235 Peak:571	752	927 Peak:1,170	315.6	494.77	484.7	399.7
HASTC-Index	..	243	324 Peak:460	105.1	168.17	114.24	58.74
Number of listed companies - HOSTC/HOSE - HASTC - UPCOM	 10 10	 193 106 87	 253 138 115	 342 174 168	 453 177 254 22	 647 280 367 100	 708 282 396 130
Number of investment funds	0	3	4	4	4	-	
Number of securities companies	8	55	74	103	105	105	102
Number of accounts of investors - Foreign institutions - Foreign investors	 8,774 71 0	 130,000 400 1650	 330,000 500 9,100	 600,000 351 3,227	 793,000 571 11,807	 1,056,000	

Source: Authors' compilations from various sources.

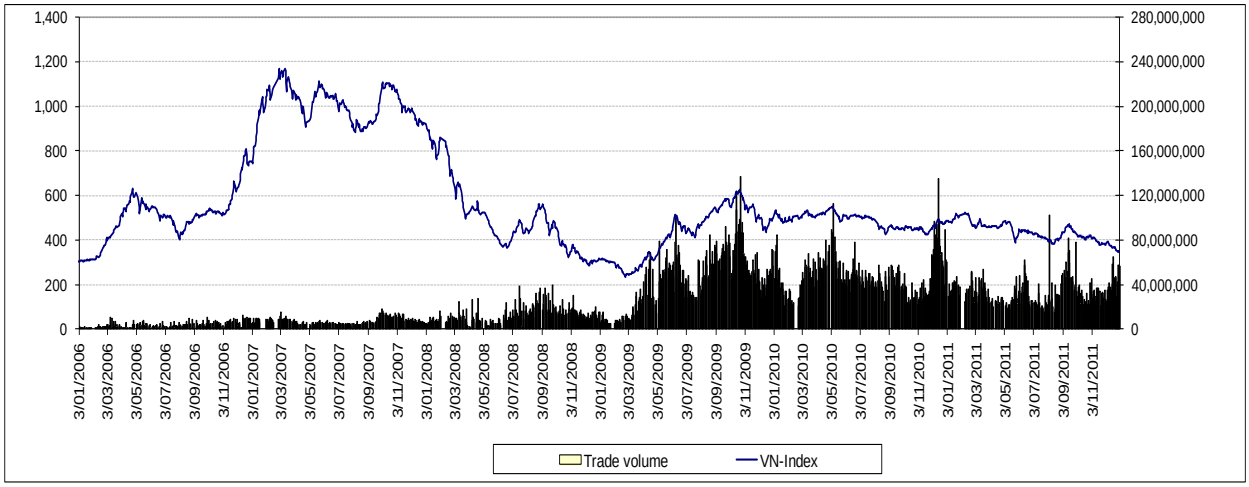
The boom of Vietnam's securities market in the period from June 2006-2007 was attributed to some reasons. *First,* the economy grew relatively rapidly while the growth prospect remained bright thanks to integration process with better access to foreign export market, larger FDI capital flows and the expectations on the strict implementation of WTO commitments by the Government. *Second*, the WTO accession only constituted one step in Vietnam's international economic integration process, and thus further promoted reforms and improvements in the investment and business environments, etc. *Third,* this period observed high international liquidity: foreign indirect investment inflows to Vietnam's securities market increased dramatically as foreign investors were optimistic over the growth prospect of the economy. *Finally,* the SOE equitization process still continued to be implemented during this period, thereby creating more opportunities for investors (CIEM 2007).

However, from October 2007 to February 2009, the market tended to decrease, and dropped sharply in 2008 (Figure 34). The downward trend continued until early 2009 and in February 2009, the VN-Index bottomed out at only around 235. Total capitalization of 342 listed companies in the two stock exchanges (namely, HOSE and HASTC) at the end of 2008 was equivalent to 19% of GDP compared with 43% of GDP in the end of 2007. This fall of the securities market was attributed to the impacts of tightened macroeconomic policy and the global financial crisis and economic recession, which worsened production-business situations of enterprises and forced foreign investors to divest. Meanwhile, the gold market fluctuated drastically with many

"rushes". Apparently, this fall was due to not only the domestic economic situation but also impacts of external factors (typically the global financial crisis and economic recession) – which became more evident in the post-WTO accession period.

From the trough in February 2009 to the end of 2009, Vietnam's securities market recovered dramatically, mainly led by individual investors, and then by institutional investors. Nonetheless, the recovery was modest, especially in comparison with the preceding decrease of the VN-Index. At the end of 2009, the VN-Index stood at almost 495, increasing by over 110% from the trough in February (235). This recovery of the securities market was mainly driven by the recovery of Vietnam's economy in particular and the global economy in general, especially of major trading partners and investment partners of Vietnam. More fundamentally, the economic stimulus package of the Government in 2009 gradually produced positive impacts while deeper international economic integration also helped Vietnam's economy benefit from the global economic recovery.

Figure 34: Movements of VN-Index, 2006-2011



Source: Website of HSX.

In the years 2010-2011, the securities market resumed its downward trend. The VN-Index only recovered slightly until May 2010, then dropped considerably to 485 at the end of 2010 and 352 at the end of 2011. This drop was attributed to some reasons. *In terms of external reasons,* foreign investors encountered difficulties caused by the sovereign debt crisis in Europe and the global economic recession, which resulted in limited foreign capital inflows to the market. *In terms of local reasons,* the tightened macroeconomic policies to deal with high inflations partly restricted investment capital poured into the securities market. Security transactions were no longer prioritized for credit extension. Meanwhile, lack of transparency in information disclosure, and insufficient understandings of many listed companies about regulations on information disclosure, also undermined confidence of investors. On the other hand, dynamic movements of the gold market, foreign exchange market and real estate market also diverted money flows away from security transactions.

In short, apart from the measures to promote financial market development, the international economic integration process accompanied by foreign capital flows,

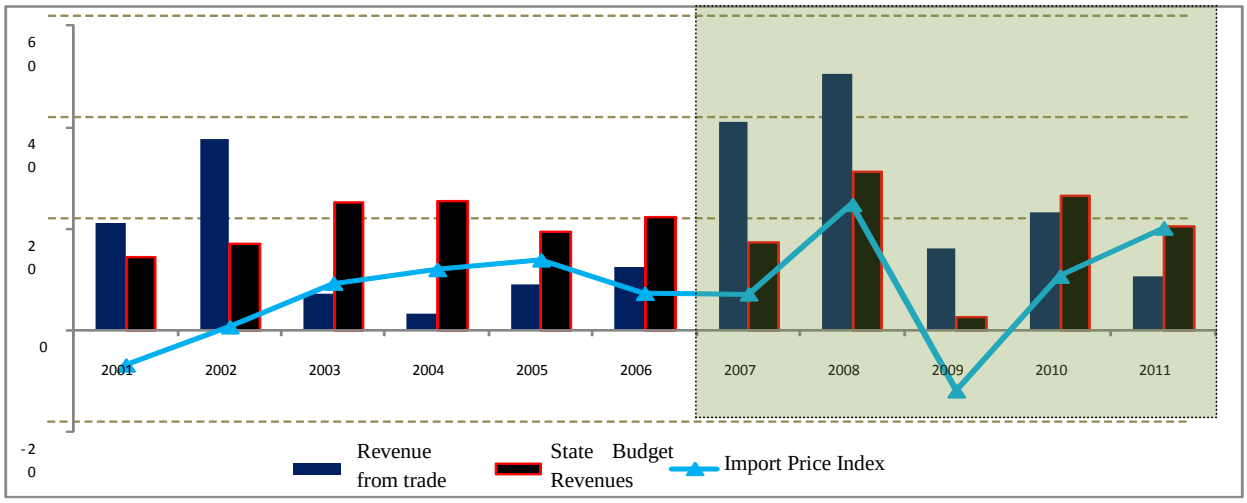
especially indirect investment ones, helped explain the development and/or fall of Vietnam's securities market in the post-WTO accession period. However, in each period, the direction of impact of deeper integration - on securities market development - also depended on changes in the external economic context. The volatile and complicated international economic context over the past years apparently had both positive and negative impacts on the securities market. These impacts became more complicated as macroeconomic policy stance was frequently switched: from economic growth to inflation control, then back to preventing economic downturn, and finally to restoring macroeconomic stability. Apparently, macroeconomic policy adjustments were necessary during 2007-2011, but they also significantly affected the securities market – an investment channel as well as the reflection of investors' confidence.

5.5. State Budget

In the period of 2007-2011, Vietnam made tremendous efforts to reduce import tariff, seeking to fulfill her integration commitments (WTO, ASEAN, ACFTA, AKFTA, VJEPA, etc.).[41] To control inflation in 2007, the Government lowered import tariff on some products such as automobiles, steel and iron, oil and petroleum, foodstuff, milk, etc. In contrast, import tariff or export taxes of several non-essential consumer products were raised to restrain imports (complete built-up unit automobiles, electronic appliances, gold, etc.) or exports of raw materials (crude oil, coal, metal ores, etc.). Since 2009, import tariff was hardly adjusted, except for some commodity groups such as automobiles, oil and petroleum, etc.

In the years 2007 and 2008, revenues from trade increased significantly by 41.0% and 50.6%, respectively. This increase was attributed to the rises of import volumes as well as of higher prices of such products as coal, imported oil and petroleum, fertilizer, etc. Revenues from imports grew more rapidly than the import prices, implying considerable expansion of trade activities (especially imports, see Figure 35).

Figure 35: Growth rates of Budget revenues and revenue from trade (%)



Source: Authors' calculation.

[41] For more details, see the sub-Section on tariff reduction.

Nonetheless, in the period of 2009-2010, the growth rate of revenues from trade decelerated significantly. Such revenues went up by 16.2% to VND 105.7 trillion in 2009. This deceleration resulted from the tremendous contraction of import and export value in absolute terms due to the domestic economic downturn and global economic recession. Revenues from trade then grew by over 23.1% in 2010, before slowing down to 10.7% in 2011. This slow down was even more significant as Vietnam had gone past the downturn period. In the context of faster economic growth with rapid import expansion[42], this result reflected impacts of import tariff reduction – which was not evident in the previous years. In addition, technical measures to restrain imports of luxury goods (such as wine, perfume, automobile) were effective, while import tariff of these products far exceeded those of other commodity groups. Notably, in 2011, revenues from trade went up more slowly than the import price index, reflecting impacts from tariff reduction and import restraint measures.

Table 47 depicted the high volatility of State budget revenue in the period of 2006-2011. Until 2009, the budget revenues depended considerably on revenues from trade. Similarly, revenue from crude oil accounted for a significant share until 2008, before Dung Quat oil refinery plant came into operation. Meanwhile, the tax reform was in progress and had little impacts on the state budget revenue were modest.[43] The ratio of State budget revenue (as percentage of GDP) decreased continuously in the years 2007-2009, mainly due to the fall in crude oil prices and, accordingly, revenues from crude oil. This share then rose to 28.7% in 2010, and only shrank to 26.6% in 2011. These fluctuations were attributed mainly to the changes of domestic revenue structure (excluding crude oil), in which the proportion of revenues from trade (relative to GDP) went down continuously.

Meanwhile, huge pressure remained in place for increasing expenditures, including both current expenditure and investment expenditure, especially for infrastructure development. As a result, state budget deficit was sizeable, reaching about 5% of GDP until 2007. Even in 2008, despite tightening of public investment to address macroeconomic instability, the budget deficit amounted to 4.5% of GDP (Table 47). Apart from the falls in revenues from trade and domestic revenues due to the stagnated trade, production and business activities - induced by the global economic recession since the fourth quarter of 2008, the fiscal stimulus via tax deduction, tax exemption and expenditure (investment) expansion[44] worsened budget deficit. In fact, the figure reached 6.9% in 2009.

[42] In both USD and VND because the VND/USD exchange rate also went up significantly in the years 2010-2011.
[43] In 2008, the National Assembly approved the Law on Personal Income Tax (in effect on January 1, 2009), the Law on Managing and Using State Assets, the Law on Compulsory Acquisition and Expropriation of Assets, the Law on Value Added Tax, the Law on Corporate Income Tax (with a common tax rate of 25% instead of 28% as levied previously).
[44] For more references, see CIEM (2010a, 2010b).

Table 47: State Budget Structure, 2006-2011 (% GDP)

	2006	*2007*	*2008*	*2009*	*2010*	*2011*
Total revenues	28.7	27.6	27.0	25.9	28.7	26.6
- Domestic revenues (excluding from crude oil)	*14.9*	*15.2*	*13.9*	*14.6*	*18.2*	*16.8*
- Revenues from crude oil	*8.6*	*6.7*	*6.8*	*3.5*	*3.6*	*3.9*
- Revenues from trade	*4.4*	*5.3*	*6.0*	*7.5*	*6.8*	*5.7*
- Grants and financial reserves	*0.8*	*0.4*	*0.3*	*0.4*	*0.2*	*0.2*
Total expenditures	39.6	34.9	32.1	32.4	31.6	28.9
Of which: development investment	*9.1*	*9.8*	*8.0*	*8.2*	*8.8*	*6.9*
State Budget deficit	5.0	4.9	4.5	6.9	5.6	4.9

Note: Budget deficit also included the items brought forward from the preceding year to the subsequent one.
Source: Calculations from MPI and MOF data.

In the years 2010 and 2011, the budget expenditure structure exhibited notable changes. In 2010, Vietnam gradually retreated from the economic stimulus package, thus easing pressure on state budget expenditure. The ratio of state budget expenditure in total GDP shrank to 31.6% in 2010 compared with 32.4% in 2009. Meanwhile, the ratio of development investment in GDP amounted to 8.8%, higher than that in 2008 (8.2%). That is, Vietnam somehow reverted to the public-investment-led growth model in 2010 after successfully overcoming the economic downturn. However, in 2011, due to high inflationary pressure and public debts, investment was significantly reduced. Together with the drastic contraction of investment relative to GDP (only 34.6%), development investment only fell to about 6.9% of GDP. Accordingly, state budget expenditure amounted only 28.9% of GDP in 2011, resulting in the budget deficit of only 4.9% of GDP.

In short, the pressure for increasing State budget expenditure after the WTO accession increased for some reasons. *First,* the growth paradigm still relied heavily on public investment, particularly development investment from the State budget, though substances of such reliance were less inevident in certain periods (such as in 2008 and 2011). Consequently, public investment seemed to "crowd out" private investment. As private investment was not sufficiently promoted, Vietnam had to allocate more State budget expenditure on infrastructure development. Although the allocation was necessary to reduce business and production costs, which in turn helped improve long-term growth potential, the associated pressure on the State budget became larger in the short-term.

Second, more State budget expenditure was required for socio-economic development programs such as human resource development, science and technology, etc. to better grasp the integration-induced opportunities for socio-economic development. For instance, the State budget expenditure on education and training increased remarkably from VND 37.3 trillion in 2006 to almost VND 44.0 trillion in 2007 and approximately VND

120.3 trillion in 2011, i.e. by over 3.2 times in the period of 2006-2011. Meanwhile, despite slower growth, the State budget expenditure on science – technology and environment also jumped from VND 2.5 trillion to VND 6.5 trillion in the same period. These expenditures were aimed at supporting socio-economic development in the long-term, but hardened the pressure on the State budget in recent years.

Finally, the macroeconomic instability and impacts of the global financial crisis and economic recession via international economic integration channels adversely affected the livelihood of the people, especially the poor and the near-poor. Accordingly, more State budget expenditure was allocated for social security programs. Increasing salary constituted an important measure. Expenditure for salary reforms reached VND 21.7 trillion in 2007 and VND 22.9 trillion in 2008, before falling to about VND 6.0 trillion in 2011. Expenditure on pension and social safety amounted to VND 82.7 trillion in 2011, reflecting an average annual growth rate of over 30.1% in the period of 2006-2011. In fact, these expenditure items increased aggregate demand of the economy, thus having little contribution to macroeconomic stabilization. Instead, they created pressure on State budget deficit and inflation expectation of the people.

In summary, the international economic integration process during 2007-2011 had remarkable impacts on the State budget expenditure and revenues. Budget revenues as percentage of GDP generally decreased, albeit slight recovery in recent years. As an explanation, budget revenues heavily depended on revenues from trade, while this item was affected by both tariff reduction/elimination in accordance with integration commitments and the slowdown of trade activities due to import-restraining measures and global economic difficulties. Domestic revenues went up, but failed to compensate the decrease of revenues from trade. Meanwhile, the state budget expenditures grew dramatically to help strengthen capacity to take advantage of integration process, and to mitigate negative impacts of integration on social security. This tendency is expected to prevail in the coming years, even though the tightened macroeconomic policies and the restructuring of public investment required restraining the expansion of public investment in particular and state budget expenditure in general. Vietnam actually acquired a lot of experiences during the period of 2007-2009 to improve fiscal policy implementation in the years 2010-2011.

5.6. Major Achievements and Issues in Restoring Macroeconomic Stability

The period of 2007-2011 witnessed Vietnam's participation in the WTO, alongside more complicated global economic developments due to impacts of the global financial crisis and economic recession as well as of structural economic reforms in other countries. The external economic issues interacted with the inherent ones of Vietnam's economy, especially as the country's international economic integration process was further accelerated. As analyzed in this sub-Section, the impacts on macroeconomic stability during 2007-2011 were rather complicated and, in such context, the policy responses had certain achievements and remaining issues.

5.6.1. Achievements

First, macroeconomic stabilization facilitated high and stable economic growth in the period from 2007 to the first half of 2008. The economic growth rate, in fact, remained high for years, reaching almost 8.5% in 2007 compared with over 8.4% in 2005 and 8.2% in 2006. Thanks to sustained macroeconomic stability, especially in the years prior to the WTO accession, relevant (price) signals for efficient resource allocation were maintained. In particular, more efficient allocation of labour, capital and land contributed to the growth of construction-industry and services sectors. More importantly, macroeconomic stability during this period - together with implementation of international economic integration commitments and other institutional reforms – significantly strengthened confidence of domestic and foreign investors, thus helping mobilize more resources for development. However, this achievement mainly stemmed from Vietnam's prolonged over-emphasis on high economic growth without flexible adjustment of the priority on maintaining macroeconomic stability.

Second, the maintenance of macroeconomic stability in 2007 and from the second half of 2009 to the mid-2010 helped attract capital flows into the economy. Together with high growth potential, the stable macroeconomic environment also appealed to foreign investors. Consequently, FDI went up tremendously from 2007 to the beginning of 2008, then maintained relatively stable in the period of 2009-2011. Foreign indirect investment also increased from over USD 1.3 billion in 2006 to USD 6.2 billion in 2007, before dropping to only -0,6 billion USD in 2008. These capital resources were very important as Vietnam attempted to promote modernization and industrialization. Notably, capital inflows to Vietnam not only represented supply of capital, but also brought about transfer of technology, management skills and training, which were essential factors to Vietnam. In this regard, Vietnam somewhat benefited from international integration.

Third, the management of macroeconomic policies was improved significantly. The macroeconomic instability, especially high inflation, in mid-2008 forced policy-makers and think-tanks to acknowledge more seriously the adverse impacts (as well as persisting risks) of expansionary macroeconomic policies to promote high economic growth over a long period. The trade-off between economic growth and inflation was recognized on an unofficial basis in the mid-2008 and, later, more officially as reflected in the Resolution No. 11 in 2011. Controlling inflation and stabilizing macroeconomic environment received more serious attention than growth target in certain periods.

Serious acknowledgement of the macroeconomic risks and stability resulted in more appropriate policy responses. In the context of high inflation in mid-2008, various measures were implemented by the Government. These measures, albeit issues in coordination, dampened the inflationary pressure [45] . In 2011, acknowledging the importance of comprehensive measures to address inflation, the Government issued the Resolution No. 11 to establish a more consistent policy framework, focusing on monetary

[45] Also supported by the decrease of world prices.

and fiscal policies. Accordingly, serious reduction of public investment was in place, leading to smaller aggregate demand and inflationary pressure. Notably, the role of macroeconomic stability was recognized with some discretion. As a result, the Government flexibly switched priority to stimulating economic growth as impacts of the global financial crisis and economic recession became evident at the end of 2008. In the second half of 2009, when economic growth began to recover thanks to the loosened monetary policy and fiscal stimulus package, the Government turned to address the risk of high inflation. In 2011, together with the implementation of the Resolution No. 11, the Government also provided preferential tax treatments for SMEs, labour-intensive enterprises, etc. to mitigate adverse social impacts (of unemployment, underemployment, etc.).

More importantly, the improvements in macroeconomic policy management originated from the experiences and lessons learned from previous periods of macroeconomic instability. This learning effect was reflected in some aspects. On the one hand, the initial policy responses to macroeconomic instability were rather fragmented. Notwithstanding the comprehensive policy framework to address macroeconomic instability (such as in 2008), the coordination of different policies to achieve the overall target were relatively weak. However, in 2011, the reduction of public investment was implemented seriously and more effectively compared with previous years, resulting in smaller aggregate demand and eased pressure on the BOP. The interconnection among markets (money market, gold market, foreign exchange market) received adequate attention to restore overall macroeconomic stability. On the other hand, macroeconomic stabilization policies became fundamentally more relevant, and the Government acknowledged that the policies needed to be in line with restructuring the economy in the long run (especially since 2010). Economic restructuring as well as other restructuring areas - such as public investment, SOEs, and credit institutions - were considered carefully and seriously. For instance, the policies to stabilize macroeconomic environment in 2011 also incorporate measures to control interest rates and improve liquidity for the banking system (via open market operations and restructuring commercial banks).

Finally, macroeconomic stabilization policies focused more on strengthening confidence of participants in the market. The (relative) macroeconomic stability in the period of 2007-2008 stemmed from reforms that were implemented by the Government previously. Due to the rapid changes caused by volatile trade and FDI flows and associated consequences after the WTO accession, however, the Government had to pay more attention to short-term measures. Consequently, the efforts to improve market fundamentals as well as long-term economic policy management were hardly appropriate. The Government only announced and actually implemented commitments on restoring macroeconomic stability since 2010 and 2011. For example, the confidence on exchange rate was somehow strengthened in late 2011 (and early 2012) when the SBV fulfilled the declared target of restricting increase of the VND/USD exchange rate at below 1% toward the end of the year. In another aspect, this confidence was built upon the Government’s close consultations with experts and donors in formulating macroeconomic stabilization policies.

5.6.2. Remaining Issues

Despite achievements, Vietnam's attempts to restore macroeconomic stability during 2007-2011 still showed certain issues. The importance of macroeconomic stability was acknowledged *more seriously*, but still *inappropriately*. In many cases, the target of macroeconomic stability only ranked second behind the target of high and stable economic growth. Even if the Government prioritized inflation control and macroeconomic stability and accepted lower economic growth rate, the Government could not clearly defined appropriate extent of growth reduction because of associated adverse impacts on employment, bankruptcy of enterprises, etc. Meanwhile, led by investment, especially public investment, high economic growth hardened pressures on State budget deficit and macroeconomic instability. Together with the inadequacy in policy management, this exacerbated the pressure on macroeconomic instability over the past years. For instance, the focus on export promotion (to make way for economic growth) explained upward adjustment of the VND/USD exchange rate and, in the context of skyrocketing international prices (in 2008 and 2011), the "importing inflation" effect caused inflation to accelerate in Vietnam. At the same time, the price level soared up at a faster pace than the nominal VND/USD exchange rate. As a result, Vietnam's products actually became more expensive relative to foreign ones. That is, Vietnam failed to promote export by way of increasing the VND/USD exchange rate.

As discussed above, sizeable trade deficit (and current account deficit) of Vietnam persisted over relatively long period. During 2007-2011, exports generally grew rapidly as the country could take advantage of the opportunities from enhanced market access. However, exports still had high import content. [46] As a result, at times of high export growth, imports also increased drastically, even faster than exports. The comparison between export growth and import growth was somehow improved recently, mainly because imports of consumption goods (especially luxury goods) and domestic savings-investment gap were better restrained. These improvements were hardly sustainable, as the increase in imports was not accompanied by parallel improvement of export production capacity. Meanwhile, foreign capital flows mainly targeted non-production activities, which in turn widened the domestic savings -investment gap and magnified the risks for BOP.

Besides, the maintenance of macroeconomic stability in particular and macroeconomic policy management in general failed to make effective use of information from analysis and forecasts. Although this assessment was made in late 2009, the situation was hardly improved since then. The statistical system failed to be upgraded, especially in terms of high-frequency indicator on the real economy and financial – monetary aspects, or consumer and business confidence indices. Meanwhile, except for few reports such as CIEM (2010b) or Truong Dinh Tuyen *et al.* (2011), the analyses of macroeconomic developments, particularly underlying reasons and inherent risks for macroeconomic policy in subsequent periods, were insufficient or inadequately considered. Expert consultations became more frequent and professional, but failed to

[46] For more details, see Tran Binh Minh et al. (2011) which provide initial estimate of the import content of exported products, though the methodology lacks substances of robustness.

improve prevention of macroeconomic risks. Instead, dealing with macroeconomic risks mainly depended upon quick responses when inflation was already high and problematic. As warned by the CIEM (2010b), slow policy responses led to more severe impacts of macroeconomic instability on the economy. In fact, the tightened macroeconomic policies following the Resolution No. 11 represented an important, but not timely, effort by the Government. Apparently, the policy responses usually produce impacts on the economy at some lags. Therefore, the longer the lags, the more severe the impacts. Consequences of the high inflation in 2011 (though somewhat decreased toward the end of the year) presented a clear evidence.

On the other hand, the relatively large stimulus package relative to the scale of the economy increased the State budget deficit to 6.9% of GDP in 2009. Notwithstanding significant contribution to growth recovery, the package also raised a concern about sizeable State budget deficit. Public debt amounted to 56.7% of GDP at the end of 2010, narrowing the room for additional borrowings by the Government in subsequent years. The interest rate subsidy scheme induced credit expansion, and simultaneously led to more severe bad debts in 2010-2011 because it was difficult to control speculative capital flows into the financial market and real estate market (Vo Tri Thanh and Nguyen Anh Duong 2009b). The consequences became more serious as Vietnam restrained credit expansion and diverting priority away from some areas (including real estate). More importantly, the interest subsidy in 2009 was too large, resulting in "overdose" effect and smaller fiscal space to address economic problems in the future.

The coordination of macroeconomic policies revealed another aspect of inadequacy. Fiscal and monetary policies generally failed to cooperate effectively to serve a common goal. Before 2011, fiscal policy still focused on increasing public investment to achieve growth target, leaving all tasks related to macroeconomic stabilization to monetary policy. In certain periods, only monetary policy was tightened to control inflation. At the end of 2009, as the economic stimulus package started to produce positive impacts on economic growth recovery and inflation tended to increase, tightened monetary policy came into play. However, fiscal policy was not tightened accordingly, and Vietnam slowly retreated from the package. The recent improvements – namely the reduction of public investment and the signed regulation on working cooperation and information exchange between the MOF and the SBV – laid the foundations for better and more effective coordination of macroeconomic policies (especially fiscal policy and monetary policy) in the forthcoming periods.

In another aspect, macroeconomic stabilization also faced with tremendous challenges from domestic price reforms under integration commitments. Price controls on some products were gradually relaxed and/or abolished in line with market-oriented reforms. Nevertheless, the process mainly aimed at enhancing the room to adjust (increase) prices for enterprises, without adequate consideration of market structure. In addition, though being predetermined, more power for enterprises to adjust prices of some essential goods worsened the inflation situation in Vietnam. For instance, more frequent (upward) adjustments of retail oil and petrol prices increased pressures on both

inflation and inflation expectation as such prices would be expected to go up continuously in line with international prices. Similarly, electricity prices underwent several increases. Meanwhile, these adjustments lacked accountability as they were largely "unexpected" to most people, and their aim to reduce losses for enterprises) was not justified with necessary information.

Exchange rate management also faced with many difficulties. Dollarization was still serious due to such factors as: high liquidity of the USD; expectation on the depreciation of VND against USD because of the export strategy and trade deficit; habit; diversification of assets. Exchange rate policy had certain impacts on trade deficit via imports and exports. However, exchange rate policy alone could not produce full effectiveness due to interactions between nominal exchange rate and inflation (Truong Dinh Tuyen et al. 2011). Low inflation represents an essential condition for nominal depreciation of VND is accompanied by real depreciation, thereby promoting exports and restraining imports as well as trade deficit.

Even the implementation of the Resolution No. 11 also showed some problems. *First,* macroeconomic policies at times seemed to exhibit perplexity in prioritizing economic growth or inflation. The message underlying the Resolution No. 11 was clear, but somewhat "overshadowed" by the proposals (by several ministries) in favor of loosening the policies.

Second, the implementing agencies sometimes were concerned about appropriate dosages of policy measures. This issue became obvious as inflation decreased insignificantly while economic downturn got more serious. Tightening macroeconomic policies further may cause slowdown in economic activities, unemployment, social security issues, etc. Alternatively, loosening the macroeconomic policies too early may re-ignite inflation.

Third, the coordination of macroeconomic policies, especially fiscal and monetary policies, remained less than fully effective. The institutional framework for coordinating macroeconomic policies was not improved adequately. Public investment was cut down, but the extent of reduction was modest in the absence of consensus of ministries and provinces. Meanwhile, upon monitoring the effectiveness of macroeconomic stabilization, one can hardly separate the effectiveness of macroeconomic policy coordination as well as contribution of each policy to the final outcomes. As a result, the agencies focused more on reporting fulfilment of their intermediate targets (namely credit growth, reduction of public investment, etc.) instead of evaluating their contribution to final target (i.e. inflation). For instance, in mid-2011, monetary policy measures were undertaken excessively and frequently.

Forth, the measures under the Resolution No. 11 sometimes were in excess of administrative nature. In the context of economic hardship, administrative measures (even under monetary policy) were necessary. However, as these measures often led to distortions, maintaining them for too long would adversely affected market-based development. Thus, retreating from administrative measures is essential in favor of enforcing a more market-friendly approach.

Finally, the recent macroeconomic instability diverted policy attention away from improving the foundations for major breakthroughs (in institution, infrastructure, and human source) set out in the SEDS for 2011-2020. Accelerating domestic reforms may increase uncertainty and delay macroeconomic stabilization. Nonetheless, the slow domestic reforms would otherwise prevent the implementation of long-term development targets.

6. LABOUR AND EMPLOYMENT

6.1. Labour Force

In 2011, the labour force estimatedly comprised of 51.9 million people. Its pace of increase was higher during 2007-2011 (on average, 2.7% per annum) than that in 2002-2006 (2.6% per annum). The share of labour force to total population went up from 51.6 percent in 2002 to 54.7 percent by the end of 2006 and 59.0 percent in 2011, as Vietnam approached the golden demographic structure[47] with potentially better participation rate and larger contribution to economic growth.

In 2007-2011, the urbanization and structural shift of agricultural land further induced the movement of rural labours to urban areas. The rural labour force grew more slowly, only by 1.6 percent per annum (as compared to that of 2.6 percent per annum during 2002-2006). The urban labour force was expanded rapidly by 5.5 percent per annum (compared to 4.3 percent per annum in 2002-2006). Consequently, the urban areas accounted for an increasing share in labour force, from 24.0 percent in 2002 to 25.4 percent in 2006 and 28.6 percent in 2011.

Because of slower growth, female labour saw their share in labour force decrease from 48.6 percent at the end of 2006 to 48.4 percent in 2011. However, the pace of such decrease became smaller over time.

Contrary to the descending trend during 2002-2006, the labour participation rate was improved for all groups of labour, increasing from 70.3 percent at the end of 2006 to 77.4 percent in 2010, and 77.3 percent in 2011. The proportion of economically active labours in rural areas (80.6 percent in 2011) was much higher than that in urban ones (70.0 percent) and reflected own development since 2006 (the figure for 2006 was 73.3 percent). The participation rate was higher for male than for female, attaining 82.0 percent and 72.8 percent respectively (comparing to 74.7 percent and 66.1 percent respectively at the end of 2006). The underlying reasons were in the same direction, leading to higher overall participation in the labour market. On the one hand, deeper economic integration during favorable world economic context induced expansion of labour-intensive industries. On the other hand, the global financial crisis and economic

[47]In the "golden demographic"structure, the dependency ratio (i.e. the ratio between the population out of working age and the working-age labour) is lower than 50 percent. Accordingly, the "burden" is smaller, as more than two people in the working age have to support one out of working age. In other words, the working-age labour accounted for 65-67 percent of total population.

recession and related consequences resulted in higher participation rate, especially in rural areas.[48]

Table 48: Labour Force in 2002-2011

Labour force	*Year*			*Growth rate (% per annum)*			*Increase in number of labours (thousand people per annum)*		
	2002	*2006*	*2007*	*2010*	*2011*	*2002-06*	*2007-11*	*2002-06*	*2007-11*
1. Total (thousand people)	**41,033**	**45,579**	**46,708**	**50,837**	**51,854**	**2.6**	**2.7**	**1,094**	**1,255**
Male	20,754	23,430	24,092	26,130	26,759	3.0	2.7	646	666
Female	20,280	22,149	22,616	24,707	25,095	2.2	2.6	449	589
Urban	9,841	11,563	11,859	14,231	14,845	4.3	5.5	447	656
Rural	31,193	34,016	34,849	36,606	37,009	2.1	1.6	647	599
2. Structure (%)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**				
Female	49.4	48.6	48.4	48.6	48.4				
Urban	24.0	25.4	25.4	28.0	28.6				
3, Labour force/Total Population, %	**51.6**	**54.7**	**55.5**	**58.5**	**59.0**				

Source: Ministry of Labour – Invalids and Social Affairs (MOLISA, various years); GSO (2011); data for 2011 are estimated from "The Labour and Employment Survey for the first sixth month of 2011" of GSO.

6.2. Educational Level and Technical Qualification

The educational level of labour was improved more clearly after WTO accession. The share of labours with primary or lower education level went down from nearly 50 percent at the end of 2006 to about 41 percent in 2011. Instead, those graduating from secondary schools and high schools saw their respective shares in labour force increase from nearly 27 percent and 24 percent to more than 33 percent and nearly 26 percent in the same period. This performance reflected the great efforts of Vietnam's education system during the years.

The quality of human resource has also been improved. In 2011, there were nearly 21.8 million technical labour, accounting for 42 percent of labour force (i.e. increasing from 31.5 percent at the end of 2006). The vocational training system played an important role in improving quality of labour force in recent years. During 2007-2011, the number of trained labour (with or without certificates) increased on average by 9.2 percent per annum. As of 2011, the number of trained labours was nearly 8.6 million, equivalent to nearly 27 percent of labour force.

[48] The higher participation rate, according to some economists, reflects an attempt to cope with income reduction under impacts of the financial crisis.

Table 49: Labour Force by Technical Qualification

Technical qualification	*Year*					*Growth (% per annum)*		*Number (thousand people)*	
	2002	*2006*	*2007*	*2010*	*2011*	*2002-06*	*2007-11*	*2002-06*	*2007-11*
Total	**41,033**	**45,580**	**46,709**	**50,837**	**51,854**				
1. No qualification	32,949	31,222	30,501	30,502	30,075	-0.8	-0.6	-413	-229
2. Qualified labour	8,084	14,358	16,208	20,335	21,779	14.7	8.4	1,508	1,484
2.a. Technical workers (with and without certificates)	4,373	9,709	10,794	7,485	8,566	22.6	9.2	1,324	1,050
- Of which, (Primary, without certificates)	3,427	7,840	8,554	5,929	6,917	25.6	12.5	1,151	1,094
- Certified technical workers	946	1,869	2,240	1,556	1,649	14.2	-7.5	173	-44
2.b. Vocational training	1,753	2,097	2,467	2,505	2,625	3.5	3.3	50	106
2.c. Colleges, universities and above	1,970	2,552	2,941	3,561	4,193	6.8	9.2	133	328
Percentage	**130**	**153**	**158**	**168**	**171**	**4.7**	**0.4**	**1**	**0**
1. No qualification	80.3	68.5	65.3	60.0	58.0				
2. With qualification	19.7	31.5	34.7	40.0	42.0				
a. Technical workers (with and without certificates)	10.6	21.3	23.2	28.1	28.9				
- Of which: primary, (no certificates)	8.3	17.2	18.4	25.0	25.7				
- Technical workers with certificates	2.3	4.1	4.8	3.1	3.2				
b. Vocational training	4.3	4.6	5.2	4.9	5.1				
c. Colleges, universities and above	4.8	5.6	6.3	7.0	8.1				

Source: MOLISA (2006, 2007), GSO (2008, 2009, 2010a, 2010b); ILSSA (2011). Calculations from data of The Employment and Unemployment in the first 6 months of 2011 (GSO).

The number of labour graduating from colleges, universities and above went up by 8.3 percent per annum during 2007-2011 (higher than that of 6.8 percent during 2002-2006), reaching nearly 4.2 million, equivalent to 8.1 percent of labour force in 2011. These figures resulted from greater focus on education, the improved educational policies and the liberalization of education market for domestic and international private sectors.

In general, the number of skilled labour increased more slowly during 2007-2011, both in absolute value and growth. In the period, the figure rose by 8.4 percent per annum (comparing to that of 22.6 percent per annum for 2002-2006). This constituted the "bottleneck" of human resource, implying that the growth paradigm still relied on unskilled-labour-intensive technology. Some economists even argue that Viet Nam may fall into the "low-income trap" and have to improve vocational training in order to support economic growth and enhance the quality of human resource.

Besides, the quality of vocational training has some problems. Although the share of trained labour went up significantly, that of technical labour with certificates rose slowly. In details, the certified labour in 2002 accounted for 57.9 percent of technical labour; yet the figure went down to 45.4 percent in 2006. During 2007-2011, the number of technical and qualified labour with certificates climbed more slowly, accounting for 38.9 percent of total technical and qualified labour, equivalent to 16.3 percent of economically active labour.

Table 50: Labour Force Structure by Technical Qualification and Gender in 2011 (%)

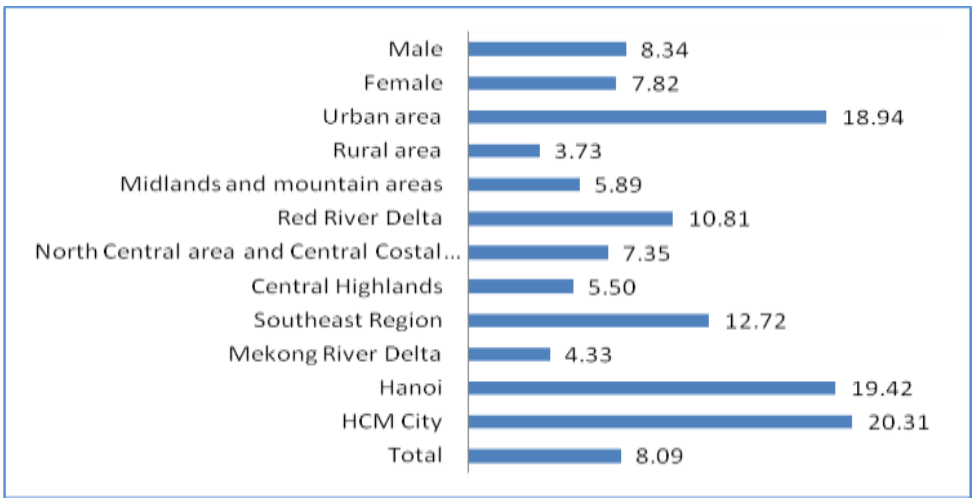
	Technical qualification with certificates	*Of which*						*Unskilled and technical qualification without certificates*
		Primary vocation	*Secondary vocation*	*Secondary worker*	*Vocational college*	*College*	*University and above*	
Male	17.1	3.0	2.5	3.3	0.4	1.2	6.7	82.9
Female	13.5	0.9	0.7	4.1	0.2	2.3	5.4	86.5

Source: Estimated from "The Labour and Employment Survey of the first 6 months of 2011" of GSO.

The gender gap in technical qualification still persisted. In 2011, the share of formally trained female labour was only 13.5 percent, i.e. 3.6 percentage points lower than that of male labour. The technical qualification of female labour is lower than that of male counterpart both in term of number and share at all levels (except for college). As an implication, females still encountered barrier to education and training.

Urban labour outperformed rural counterpart in terms of technical qualification, especially higher qualifications. The share of urban labour completing colleges, universities and above was 18.9 percent, i.e. over 5 times bigger than that of rural labour (3.7 percent).

Figure 36: Share of Labour completing colleges, universities and above in 2011 (%)



Source: Estimated from "The Labour and Employment Survey of the first 6 months of 2011" of GSO.

Technical qualification differed markedly across regions. The shares of labour completing colleges, universities and above were around 20 percent in Ha Noi and Ho Chi Minh City, and 11-13 percent in the South East and Red River Delta. Meanwhile, the figure of Mekong River Delta is the lowest (4.3 percent), even lower than in Central

Highlands and Northern Mountainous Area (both of nearly 6 percent). The low technical qualification presented one of the main reasons for high poverty rates in these regions.

6.3. Employment

Contrary to the stable economic growth and high employment during 2002-2006, Vietnam's economy exhibited more volatilities since 2007, which in turn affected the labour market. In 2008, GDP growth began to decelerate, and total employment only increased by 2.6 percent (compared to the annual average of 2.7 percent in the 5 preceding years). In particular, the years 2009 and 2011 saw the economy "bottom out" with the respective GDP growth rates of only 5.3 percent and 5.8 percent; respective employment growth rates were also low, attaining only 1.6 percent and 2.0 percent.

In 2011, total employment was estimated at 50.5 million people, increasing by about 968 thousand people from that in 2010[49]. Such an increase was, however, lower than the average figure for 2002-2006 by about 142 thousand people. As a reason, slower economic growth led to massive close-downs of enterprises.

Box 2: Estimated Reduction of Employment due to Slow Economic Growth

According to the GSO statistics, approximately 80,000 enterprises made lost and/or went bankrupt in 2011. From the beginning of 2011 to the end of first quarter of 2012, about 50 thousand enterprises went bankrupt (meanwhile, the figure was only 5,000 per annum, on average, for 2005-2010), leading to significant impact on the labour market.

The elasticity of employment to growth in 2001-2010 (of 0.36) can be used to estimate the potential reduction of employment due to slower economic growth in 2011. Accordingly, about 200 thousand jobs could not be created in the year because of slow economic growth.

Source: ILSSA, Report on Labour and Employment Trend 2001-2011.

Employment growth tended to decelerate, attaining only 2.6 percent per annum on average in 2007-2011 compared to that of 2.7 percent during 2002-2006. However, total employment went up on annual average by 1.18 million in 2007-2011, i.e. higher than that of 1.1 million for 2002-2006. As an explanation, the pressure from labour supply and the characteristics of Vietnam's labour market with a large informal sector could help soothe the impacts of economic downturn via reverse labour flows from urban to rural areas, and from the formal to informal sector.

Industrialization and urbanization had significant impacts on employment growth in urban areas. From 2007 till now, the urban employment growth was quite rapid, reaching nearly 5.8 percent per annum on average, i.e. higher than that for 2002-2006 (4.4 percent per annum) and 4 times higher than rural employment growth (only 1.4 percent per annum). The urban areas continued to attract the flows of labour from rural areas. In 2011, about 14.3 million people were employed in urban areas, accounting to 28.2 percent of total employment.

[49]According to GSO's release, as of 1 July 2011, total employment reached 50.232 million people.

Employment of female labour increased more slowly than that of male counterparts, leading to the decreasing share of females in total employment. As of 2011, female labour accounted for 48.2 percent of total employment, decreasing by 0.4 percentage point from that in 2006 (48.6 percent). As an implication, technological progress and product innovation adversely affected demand for female labours, rather than increasing such demand to support export.

In general, the structural shift of labour by sector was slower after the WTO accession. The economic downturn caused labour to return to agriculture in 2008 and 2009.

Table 51: Employment in Vietnam, 2002-2011

	Year				*Growth (% per annum)*		*Increase in number (thousand people per annum)*	
	2002	*2006*	*2010*	*2011*	*2002-06*	*2007-11*	*2002-06*	*2007-11*
People (thousand)								
Gender								
Male	20,356	22,894	25,536	26,135	3.0	2.7	630	648
Female	19,807	21,655	23,958	24,327	2.3	2.4	480	534
Area								
Urban	9,265	10,973	13,654	14,253	4.4	5.8	430	656
Rural	30,897	33,576	35,840	36,209	2.2	1.4	680	527
Total	**40,162**	**44,549**	**49,494**	**50,462**	**2.7**	**2.6**	**1,110**	**1,183**
Structure (%)								
Gender								
Male	50.7	51.4	51.6	51.8				
Female	49.3	48.6	48.4	48.2				
Area								
Urban	23.1	24.6	27.6	28.2				
Rural	76.9	75.4	72.4	71.8				
Total	**100.0**	**100.0**	**100.0**	**100.0**				

Source: MOLISA (various years); GSO (2011); data for 2011 are estimated from "The Labour and Employment Survey for the first 6 months of 2011" by GSO.

However, the labour and employment situations had some improvements. In spite of the macroeconomic difficulties, the structural shift of employment was still evident. Since 2007, agricultural employment went down on average by 65 thousand people each year (compared to the decrease by 117 thousand people each year during 2002-2006). Employment in industrial sector rose more rapidly, on average by 624 thousand people per year (compared to the figure of 548 thousand people during 2002-2006), while employment in services increased at almost the same pace (by about 623 thousand people each year, i.e. smaller than the figure of 678 thousand people for 2002-2006). In 2011, more than 24 million labour worked in agriculture, making up a share of 47.6 percent of total employment. During 2007-2011, the share fell by 7 percentage points, while the corresponding figure for 2002-2006 was 9 percentage points.

Economic integration clearly induced creation of new jobs; accordingly, the sectors with high employment growth after the WTO accession were more open ones and related to technology upgrade for competition such as services sub-sectors, especially new and modern ones such as science and technology (growth by 25.4 percent per annum), banking and finance, insurance (9.6 percent per annum); however, these industries accounted for small shares. Construction also experienced employment high growth immediately after the WTO accession (8.1 percent per annum) because it built assets and infrastructures for new production premises or expanded existing ones. The most rapid growth was in manufacturing sub-sector, which attracted an additional figure of nearly 425 thousand employments each year, or 28 percent of additional jobs.

The employment structure also exhibited drastic changes in the last 10 years. During 2007-2011, the most rapid employment growth was observed in the three groups of technical labour, namely skilled labour in agriculture and fishery (increasing by 35.6 percent per annum), individual services workers, social order - security guards, and skilled salespersons (25.9 percent per annum), and assemblers and operators of machines and equipments (22.6 percent per annum). In addition, the group of primary clerks and technicians in offices also grew steadily, by 11.2 percent per annum. These developments were consistent with the larger exports of agricultural products and labour-intensive products, and with the tendency of improving and upgrading technologies, machines and equipments of enterprises. By the end of 2011, the above-mentioned four groups of labour altogether accounted for 37.3 percent of total employment (increasing from 15.6 percent in 2006).

Table 52: Structure and Average Growth Rate of Employment by Industry, 2005-2011

	Years					*Growth rate, %*		*Increase in number, thousand people*	
	2005	*2006*	*2007*	*2010*	*2011*				
Agriculture, forestry and fishery	55.1	54.0	52.9	48.7	47.6	0.4	0.0	191.4	2.1
Manufacturing	11.8	12.1	12.5	14.3	14.9	5.9	7.0	600.6	425.6
Other industries	1.2	1.2	1.2	1.1	1.1	1.1	0.1	11.6	1.8
Construction	4.6	4.9	5.2	6.3	6.4	9.4	8.1	380.1	200.8
Wholesale and retails, repairs of motorbikes, car, and other engines	10.7	10.8	10.9	11.3	11.5	3.3	3.7	304.1	193.4
Finance, banking and insurance	0.4	0.4	0.4	0.5	0.6	1.1	9.6	4.3	21.5
Science and technology	0.4	0.4	0.4	0.4	0.4	90.8	25.4	35.0	16.2
Education and training	2.9	3.1	3.3	3.4	3.5	-0.1	8.1	-0.4	12.0
Health care and social work	0.8	0.8	0.9	0.9	0.9	11.3	7.9	27.5	12.6
Other services	12.0	12.1	12.2	13.0	13.2	4.3	4.0	572.3	303.4

Source: MOLISA (various years); GSO (2011); data for 2011 are estimated from "The Labour and Employment Survey for the first 6 months of 2011" by GSO.

Notably, the number of management staff grew rather rapidly, by 13.2 percent per annum, albeit slower than that for 2002-2006 (15.6 percent per annum due to impacts of the

Enterprise Law). The slower growth after the WTO accession was mainly attributed to many enterprises being close down because of the global financial crisis and economic recession.

Since 2009, unskilled employment has contracted both in number and share, albeit still sizeable. In 2011, more than 20.4 million labours were engaged in unskilled employment, accounting for 40.4 percent of total employment (decreasing from 65.0 percent in 2006).

Limitations

The share of unskilled labour remained high, attaining 40.4 percent in 2011. The presence of this group reflects economic development at the regional level. In 2011, less developed regions, like the Northern Mountainous Areas and Central Highlands, had high proportion of unskilled labour in total employment (66 percent and 53 percent, respectively), while the figure for the South East was only 19.7 percent. This big barrier prevented less developed regions from participating in economic integration process.

The last decade has also witnessed high growth of wage earners. In 2002, nearly 8.2 million labour worked as wage earners, accounting for 20.4 percent of labour force; in 2006, the number rose to 12 million people, or 28 percent of total employment in 2006. Even though the growth then decelerated (to 7.6 percent per annum in 2007-2011 compared to 9.6 percent per annum in 2002-2006), the figure attained nearly 17.8 million people in 2011, equivalent to 35.3 percent of labour force. On average, about 1.1 million people turned to become wage-earners each year (compared to that of 847 thousand people per annum in 2002-2006).

The share of self-employment and house works decreased from 80 percent in 2002 to 71.5 percent in 2006, and dropped further to nearly 62 percent in 2011; however, the number of people in this group still exceed 31 million people in 2011. Most of these labours worked in the informal sector with unstable jobs, poor working conditions and income, whilst receiving no protection by the Labour Code.

Table 53: Structure of Economically Active Labour in 2011 (%)

	Wage-earners (including members of cooperatives)	*Employers*	*Self-employment*	*Non-paid family labour*	*Others*
Gender					
Male	40.9	4.1	42.5	12.5	0.1
Female	29.2	2.0	44.2	24.6	0.1
Area					
Urban	52.4	5.3	32.4	9.8	0.0
Rural	28.5	2.1	47.6	21.6	0.1
Region					
Northern Midland and Mountainous Area	20.1	1.1	48.0	30.7	0.1
Red River Delta	39.6	3.3	43.4	13.6	0.1
North Central and Central Coastal Region	29.6	2.6	48.8	18.9	0.1
Central Highlands	21.4	1.7	52.9	23.9	0.0
South East	56.0	4.2	28.2	11.5	0.0
Mekong River Delta	34.4	4.0	43.5	18.0	0.1
Whole country	**35.3**	**3.1**	**43.3**	**18.3**	**0.1**

Source: ILSSA, estimation from "Labour and Employment Surveys for the first 6 months of 2011" of GSO.

The proportion of female labours doing unpaid housework was rather high (68.8 percent), even exceeded that of male counterparts (55.0 percent). The figure was large in the Northern Midland and Mountainous Area (78.7 percent) and Central Highlands (76.9 percent).

The employment structure by ownership reflected the Government commitment in improving the business environment. Although the number of SOEs dropped sharply over years, the employees in the State sector continued to increase in terms of both number and growth, thereby challenging the guideline for reducing personnel in the sector. During 2007-2011, employment in the State sector increased on average by 4.4 percent per annum, attaining 10.6 million people in 2011. The share of the sector in total employment rose from 9.7 percent at the end of 2006 to 10.6 percent in 2011.

The renovation of management mechanism significantly reduced the number of employees in the collective sector. The increase of FDI flows induced employment expansion in the FIEs. As of 2011, nearly 1.69 million employees worked in FIEs, implying an average increase of 192 thousand people each year, accounting for 3.3 percent of labour force (the figure was 1.9 percent in 2006). The expansion of FIE employment confirmed the movement of labour from low quality sectors to high quality ones. However, the tendency was not "smooth" in the presence of more labour strikes in the sector (to be analyzed in the next sub-Section).

Notwithstanding high growth during 2002-2006, employment in the private sector has been at the standstill since 2007, resulting in a small share of the sector. In 2011, the private sector only employed more than 4.1 million labour, accounting for 8.2 percent of labour force (compared with the figure of 8.1 percent in 2006).

The slow reduction of informal employment in recent years showed the limited impacts of economic development on the labour market. In 2011, nearly 39.2 million people worked in the informal sector, accounting for 78 percent of total employment. Notably, individual employment was further expanded during the global financial crisis and economic recession. This affirmed the role as "safety net" of the informal sector in job creation, whilst explaining the reasonably low unemployment rate during recent periods of economic hardship.

Table 54: Employment Expansion by Ownership, 2002-2011

	Year					*Growth (% per annum)*		*Increase in number (thousand people per annum)*	
	2002	*2006*	*2007*	*2010*	*2011*	*2002-06*	*2007-11*	*2002-06*	*2007-11*
State	10.2	9.5	9.3	9.7	10.6	2.01	4.37	68	276
Collective	15.6	1.6	0.5	0.7	0.3	-39.62	-15.76	-1131	-19
Private	3.6	8.1	7.9	7.6	8.2	26.70	2.87	501	133
Individual	68.7	78.9	80.3	78.5	77.6	6.19	2.07	1,640	640
FDI	1.1	1.9	2.0	3.5	3.3	17.81	17.40	96	192

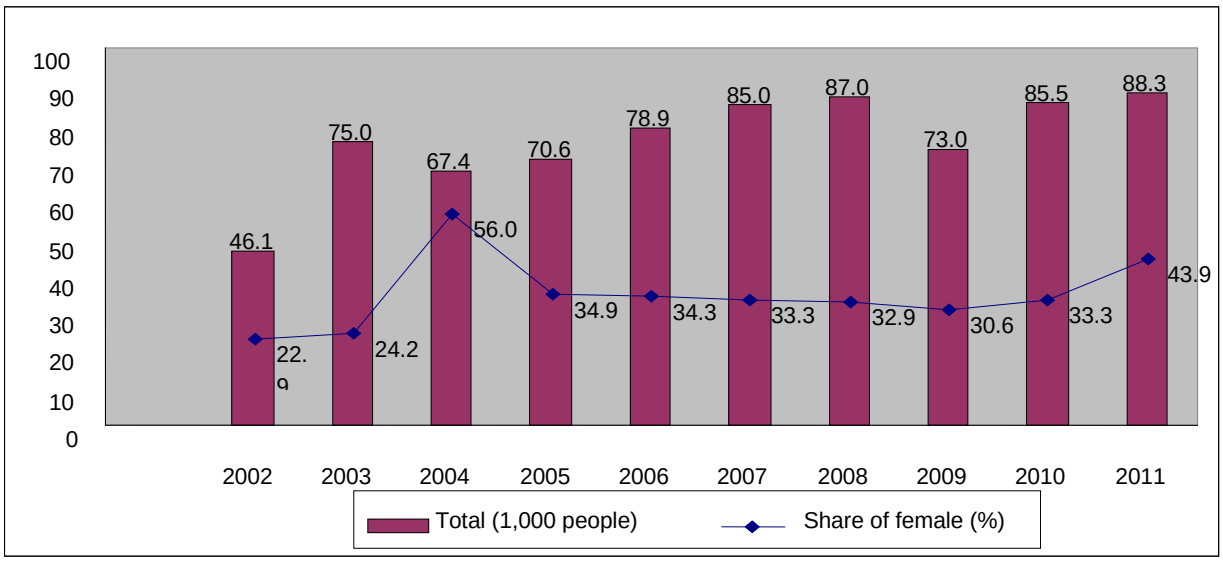
Source: MOLISA (various years); GSO (2011); estimation for 2011 from the data of "Labour and Employment Survey for the first 6 months of 2011" by GSO.

6.4 Labour Export

Sending employees to work abroad, i.e. labour export, constituted a key policy of the Party and State. During the last 30 years, these activities increased in number and targeted more diversified markets. Nevertheless, the average growth rate in 2007-2011 was only 2.8 percent per annum, slower than that in 2002-2006 (13.6 percent per annum).

The recent upheavals such as the global financial crisis and economic recession, political instability in North Africa and Middle East, earthquakes and tsunami in Japan, etc. adversely affected labour export from Vietnam. The global financial crisis and economic recession brought about a sharp decrease of labour export (by nearly 14 thousand labour compared to that of 2008). Many markets, including traditional ones like Taiwan, Malaysia, and Korea, have restricted and cancelled many labour importing contracts due to bankruptcy and smaller production. However, the situation was improved in 2010 with an increase of 12.6 thousand people, followed by an additional 2.8 thousand people in 2011. High growth was evident in some traditional markets such as Taiwan (growth of 36.8 percent), Japan (42.3 percent), and Korea (73.8 percent).

Figure 37: Labour Exports, 2002-2011



Source: Department of Overseas Labour Management, MOLISA (2011).

Female participants in labour export increased in some recent years. By 2011, the number of such participants reached nearly 32 thousand people, accounting for 36.2 percent, i.e. the peak level in the last ten years. Technical qualification of the labour working overseas has been improved after the WTO accession.

About 500 thousand Vietnamese people worked in more than 30 categories of professions in over 40 countries and territories. In recent years, the main markets included Taiwan, Korea, Japan and Malaysia. Taiwan plays an important role in Vietnam's labour export. In 2007-2011, the share of this market in Vietnam's labour export increased from 19.5 percent to nearly 44 percent.

Table 55: Vietnamese Labour under Termed Contracts by Country/Territory, 2001-2011 (%)

Country	*2001*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*
Taiwan	21.52	28.16	19.48	15.37	32.18	30.62	33.31	43.94
South Korea	10.81	19.1	12.56	12.74	20.34	17.8	10.09	17.23
Japan	8.98	5.2	5.91	6.49	7.78	7.09	5.74	7.91
Malaysia	0.06	35.44	52.89	29.86	7.58	4.85	13.72	11.3
Laos	58.63	9.58	0.66	3.36	4.12	3.75	6.9	4.84
Saudi Arabia		0	0.11	2.25	4.36	2.44	3.19	4.11
UAE		1.43	2.02	2.6	5.08	1.12	6.13	1.31
Others		1.09	6.36	27.33	18.55	32.33	20.92	9.35
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: Department of Overseas Labour Management, MOLISA (2011).

South Korea and Japan also saw their respective shares increase during 2007-2011, reaching 17 percent and 7.9 percent in 2011. Conversely, despite importance in 2002-2006, the Malaysian market had it share go down to 11.3 percent in 2011. According to the Department of Overseas Labour Management, Vietnam has opened new markets in the Middle East and is promoting new markets in Northern and Eastern Europe. Since its participants are largely from rural areas, labour export plays an important role in creating jobs and improving income for poor and unskilled labour. In 2007-2010, on average, the annual remittances reached about USD 1.8-2 billion, or 2 percent of GDP. The remittances have partly contributed to improving household living standard as well as supporting rural transformation. More importantly, the technical qualification, work discipline, industrial attitude, and social awareness of labour have all been improved, thereby enhancing the position of labour upon returning to Vietnam.

Beside the positive effects, labour export has revealed some shortcomings from the selection, training and procedures of labour export, to the stages of working overseas and ultimate return to Vietnam[50].

First, the quality of labour remained modest. In 2007-2011, despite improvement, such quality was at its low. By 2011, the share of trained labour export reached only 39.6 percent, i.e. 12.4 percentage points higher than that in 2006. The labour export markets - even those attracting unskilled labour such as Malaysia, Taiwan and Middle East - are currently demanding skilled labour. Other potential markets such as Japan, South Korea, the United States and Eastern Europe have required labour skills and foreign languages at certain level. However, Vietnam's labour come mostly from agriculture and in rural areas, without formal training. Therefore, the majority of labour export enterprises in Vietnam encounter problem in finding labours of suitable skills demanded by the foreign markets.

Second, access to labour export services was still limited. Labour's access to formal information channels encountered difficulties, and the number of labour export via private intermediaries accounted for a large share (16 percent of total surveyed labour). The labour suffered from lack of information and could not approach directly to

[50] According to ILSSA (2011).

recruitment units, resulting in abuses. Lacking formal information, many employees had to pay informal fees or much higher costs in order to work overseas, especially in the markets with high income such as Taiwan and Japan.

Third, the quality of training and coaching prior to going abroad could hardly suffice. Despite prior training, most labour had no clear information regarding overseas contact for support, or contract settlement upon return (a proportion of 59 percent of surveyed employees). In many cases, even with prior foreign language training, many employees could not make good conversation. Thus, the training and coaching activities (mainly organized by enterprises) only had form, with poor, theoretical and inappropriate content relative to absorptive ability of most labourers.

Fourth, employment and income of some labours working overseas failed to be stable. A significant share (26.6 percent of the surveyed employees) had to return before the contract matured; another small share (about 10 percent) had to do the jobs other than being those specified in the labour contracts, mostly since they could not meet the job requirement. Besides, the violations of labour contract, and labour quitting to do other jobs were quite popular in South Korea and Taiwan.

In general, Vietnamese labour faced a lot of difficulties in adapting to the living and working conditions abroad, of which the most important issue concerned the weak skill in foreign languages. In particular, Vietnamese labour underperformed in foreign language relative to those from other countries. The living conditions in Taiwan and Malaysia were not highly rated. The violations of local regulations and legal framework by Vietnamese labour remained popular. In addition, the cultural life of labour was poor, with few chances to participate in cultural exchange, sport and tourism activities when working abroad.

Fifth, contract settlement for returning workers received inadequate attention by both employees and labour export enterprises. 54 percent of labour did not settle contracts with service enterprises after coming back. The main reason involves low awareness of labour. As another reason, some enterprises ignored contract settlement for labours so that to avoid compensation or returning deposits to labour (9.9 percent).

At the same time, the policy for job creation and re-participation of labour after working overseas remained absent. During 2005-2010, an average of about 48 thousand workers returned to Vietnam each year and the figure was increasing (DOLAB 2011). After returning, only few workers had better jobs. Many labours, especially in rural areas, had difficulty in finding jobs in the formal sector; most of them had to go back to work in agricultural and unskilled sectors. Improving employment of returning workers is thus essential to take advantage of their strength for socio-economic development.

6.5. Unemployment and Underemployment

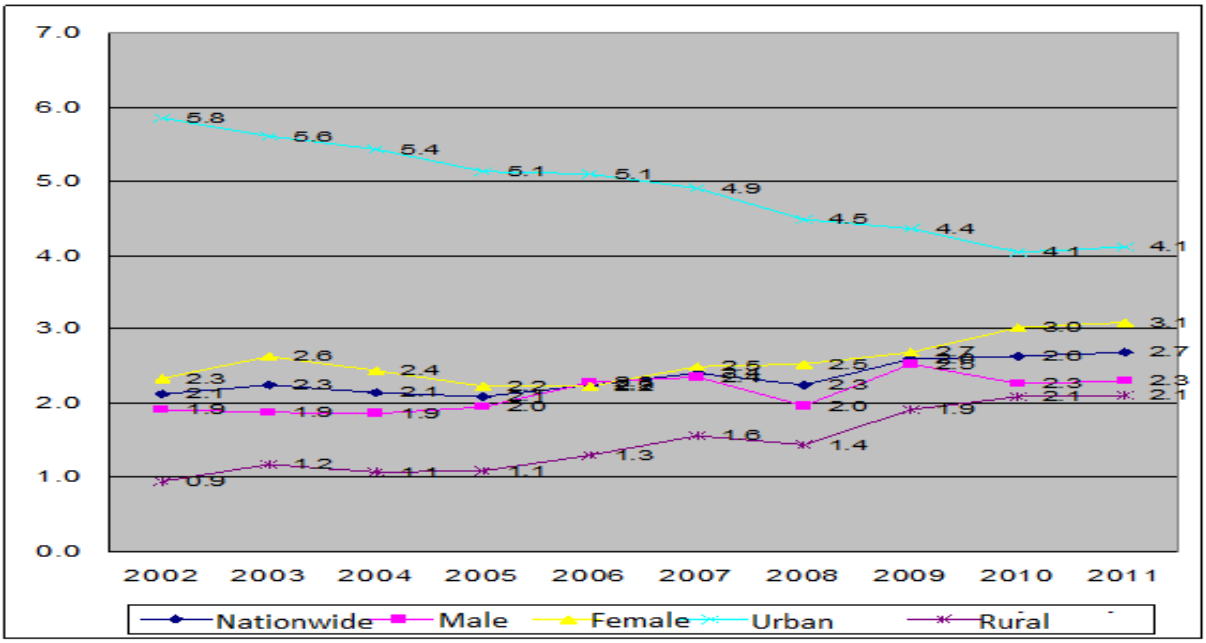
The macroeconomic instability had major impacts on the labour market. Unemployment increased more rapidly after the WTO accession. The overall unemployment rate of Vietnam went up from 2.4 percent to 2.7 percent in 2007-2011, compared to the rise from 2.1 percent to 2.3 percent in 2002-2006. In 2011, nearly 1.4 million labours were estimatedly unemployed, increasing by 362 thousand from that at the end of 2006. That is, an average of about 72 thousand people were added to the unemployed group each year (compared to the figure of 40 thousand people in 2002-2006). This situation was caused by macroeconomic instability and difficulty in job creation.

In 2011, 712 thousand people in the urban areas were unemployed, increasing by nearly 22 thousand from that in 2006. However, the urban unemployment rate went down gradually from 5.1 percent in 2006 to 4.1 percent in 2011. Notably, rural unemployment tended to increase, reaching 2.1 percent in 2011 from 1.3 percent in 2006. As such, the share of rural areas in total unemployed labour rose from 46 percent in 2006 to nearly 56 percent in 2011.

Female labour had more difficulty in finding jobs. The unemployment rate among female labour went up more rapidly than that of male counterparts. In 2011, 776 thousand female labour were unemployed, accounting for 3.1 percent (compared to the figure of 2.3 percent for male labour). During 2007-2011, this figure rose by 282 thousand (compared to 80 thousand for male). Consequently, the share of female in total unemployed labour climbed from 48 percent to 56 percent.

Notably, the unemployment insurance has been applied for the employees being contracted for at least 3 months in the enterprises with 10 or more labourers since 2009. This may reverse the fall in urban unemployment rate because of combined impacts of economic downturn and the abuse of unemployment insurance fund.

Figure 38: Unemployment Rate, 2002-2011 (%)



Source: MOLISA (various years); GSO (2011); data for 2011 are estimated from "The Labour and Employment Survey for the first 6 months of 2011" by GSO.

The more developed regions usually have higher unemployment rate. In 2011, the figure was 4.3 percent for Ho Chi Minh City, and 3.0 percent for the South East. In Hanoi, after expanding the administrative geographic border, the unemployment rate was low, approximately equal to the national level (above 2.7 percent). The unemployment rates in the regions with low living standards were also small. In 2011, the lowest rate was observed in the Northern Midland and Mountainous Area (only 0.9 percent), even lower than that in the Central Highlands (1.2 percent).

Unemployment remained problematic for young population. In the first 6 months of 2011, nearly half of the unemployed people were in the age group of 15-24. The

unemployment rate among those in 20-24 age group was quite high, reaching nearly 6 percent, while the figure for the age group of 15-19 exceeded 5 percent. About 55 percent of labour in the age group of 20-24 just participated in the labour market for the first time, and about 30 percent of labour in this group quit the job because of undesirable job aspects and/or low-income jobs.

Unemployment was also evident among technical and qualified workers. As of June 2011, the labour with college degrees had the highest unemployment rate (9.3 percent), while nearly 3 percent of labour completing universities and above were unemployed. These figures were much higher than that among unskilled labour (only 1.9 percent). As an explanation, most of unskilled labour worked in agriculture or were self-employed with low productivity, while the underemployment rate was high. In addition, the situation also reflects the weakness of Vietnam's education system in meeting demand of the labour market.

Although the overall unemployment rate is low, underemployment presents another problem that requires attention in Vietnam. In 2011, 3.1 million labour (or 6.1 percent of total employment) worked fewer than 35 hours/week. More than two-thirds of them worked in rural areas, leading to the rural underemployment rate of 7 percent, much higher than the urban figure (3.8 percent). The needs for creating more jobs and accelerating rural employment, especially in non-farm jobs, then become urgent.

Underemployment was most prevalent in agriculture sector (accounting for 69.8 percent of total underemployment), and self-employment and unpaid house works (71.8 percent). Most of labour in self-employment and unpaid house works had unsustainable jobs with low and unstable income, and inadequate working conditions. These jobs were mainly supportive and supplementary for low income labour. Therefore, creating sustainable jobs in the formal sector emerged as an urgent requirement.

Table 56: Underemployment Structure in 2011 (%)

	Underemployment rate	*Structure*
Whole country	6.1	
Urban-Rural		***100.0***
Urban	3.8	17.5
Rural	7.0	82.5
Sector		***100.0***
Agriculture-Forestry-Fishery	8.8	69.8
Industry-Construction	3.8	13.5
Service	3.3	16.7
Employment position		***100.0***
Employer	2.4	1.2
Self-employment	6.8	48.3
House work	7.8	23.5
Wage-earners	4.6	27.0

Source: ILSSA, estimated from "The Employment and Unemployment in the first 6 months of 2011" of GSO.

6.6 Wage and Income[51]

Via increasing exports, liberalizing the domestic sectors for foreign investment and drastic changes in domestic enterprises, economic integration had significant impacts on wage improvement. The average wage (at current prices) was VND 2.691 million/worker/month in 2010, or 2.6 times higher than that in 2006 (equivalent to average growth of 26.8 percent per annum), much faster than the years 2002-2006 (8.8 percent/year). The average growth of wage (at comparable prices) reached 13.5 percent per annum in 2006-2010, i.e. more rapid than the improvement of labour productivity (by 4 percent per annum in the same period). This increase was equivalent to that in China, and much faster than the world level (by 2 percent per annum, on average)[52].

The main factors inducing wage increase in 2002-2006 included productivity improvement, movements of labour from low-productivity sectors to high-productivity ones, and the policy intervention of Government on labour market. In 2002-2006, the growth of wage lagged far behind the growth of productivity, (8.8 percent per annum and 13.2 percent per annum, respectively). Nonetheless, in 2006-2010, wage increased rapidly, even much faster than the pace of productivity improvement. This indicates the impacts of structural shift of labour from low-productivity agricultural sector to high-productivity sectors such as industry and service.

Table 57: Average Wage and Labour Productivity, 2002-2010

	Value					*Growth (% per annum)*	
	2002	*2004*	*2006*	*2008*	*2010*	*2002-06*	*2006-10*
1. Average wage, thousand VND/worker/month							
- At current prices	744	806	1,042	1,552	2,691	8.77	26.77
- At comparable prices	717	697	773	863	1,284	1.89	13.52
2. Average productivity, million dong/worker/month							
- At current prices	13,340	16,904	21,870	31,429	40,023	13.15	16.31
- At comparable prices	7,800	8,565	9,548	10,380	11,145	5.19	3.94
3. Price Index (2001 = 100)	**103.8**	**115.6**	**134.8**	**179.8**	**209.6**	**6.75**	**11.67**

Source: Calculations from VHLSS, GSO.

Besides, the adjustment of minimum wage from one year to another induced increase in average wage, particularly in the State sector. During 2007-2011, the growth rate of minimum wage decelerated slightly, averaging at 13.0 percent per annum as compared to that of 13.5 percent per annum in 2002-2006.

The average wages in the key economic regions (i.e. South East and Red River Delta) were usually much higher than those in other regions, given the concentration of labours in industrial zones and export processing zones. Consequently, labours were further attracted away from agriculture toward non-agricultural sectors, away from rural areas toward urban ones; and away from the North toward the South.

[51] Data on income are from Vietnam Household Living Standard Surveys for various years, the most recent of which was in 2010.

[52] By ILO (2010). This comparison is only approximate, because productivity is measured per labour, meanwhile wage represents income of wage-earners, without taking into account self-employment.

Although the Central Highlands ranked third in terms of wage, its growth rate was more rapid than those of the South East and the Red River Delta. The development of agricultural processing industry and industrial crops justified this rapid growth. The Central Highlands, with higher wage and income, also played an important role in attracting migrant workers.

Table 58: Average Monthly Wage by Region, 2002-2010

Region	*Value (VND thousand)*					*Growth rate (%/year)*		
	2002	*2004*	*2006*	*2008*	*2010*	*2002-06*	*2006-10*	*2002-10*
Red River Delta	578	856	1,014	1,429	2,709	15.1	27.8	21.3
North Mountainous Area	435	827	1,001	1,459	2,531	23.2	26.1	24.6
Central Region	536	785	949	1,406	2,424	15.4	26.4	20.8
Central Highlands	308	717	1,010	1,730	2,561	34.6	26.2	30.3
South East	910	1,188	1,306	1,975	2,990	9.5	23.0	16.0
Mekong River Delta	462	673	831	1,257	2,337	15.8	29.5	22.5
Difference (highest/lowest)	**3.0**	**1.8**	**1.6**	**1.6**	**1.3**			

Source: Calculations from VHLSS , GSO.

The Mekong River Delta had the lowest average monthly wage of nearly VND 1.3 million in 2010. This region had high share of agricultural employment. However, the policies on attracting investment from more developed regions to less developed ones and on economic development, as well as increasing migration from this region to the South East contributed to improved work conditions. In 2006-2010, the Mekong River Delta had the most rapid wage growth, thereby narrowing down the wage gap with other regions.

By ownership form, the average wage of labour working as individuals (business households and self-employment) was the lowest, only attaining nearly VND 2 million/person/month in 2010, i.e. approximately 73 percent of overall average wage. This sector also experienced the lowest productivity. Notably, this sector accounted for nearly 80 percent of total employment and the figure tended to increase in recent years. In 2002-2006, the individual economic sector had rather low wage growth, only at 7 percent per annum. However, in the years 2006-2010, the wage growth of this sector was most rapid, thereby narrowing down the wage gap with other sectors.

Table 59: Average Monthly Wage by Ownership, 2002-2010

	Average wage/month (Thousand VND)				*Growth (% per annum)*			
	2002	*2004*	*2006*	*2008*	*2010*	*2002-2006*	*2006-2010*	*2002-2010*
Individual	648	652	850	1,202	1,973	7.0	23.4	14.9
Private	808	867	1,279	1,881	2,849	12.2	22.2	17.1
Collective	714	741	1,083	1,924	2,193	11.0	19.3	15.1
State	1,011	1,094	1,443	2,187	3,272	9.3	22.7	15.8
FDI	1,172	1,061	1,488	2,090	3,034	6.1	19.5	12.6
Gap between the highest and the lowest	**1.8**	**1.7**	**1.8**	**1.8**	**1.7**			

Source: Calculations from VHLSS, GSO.

The private sector had the highest wage growth in 2002-2006 (on average, 12 percent per annum), leading to smaller wage gap with the top-wage sector (State or FDI sector). In 2006, the wage in private sector was equal to about 70 percent of the highest one (FDI); the figure then rose to 87 percent in 2010 (compared to the State sector).

The State and FDI sector had roughly equivalent wages; the State sector even had higher wages at times. Notably, after Vietnam's accession to WTO, the wage level in FDI sector increased slowly, reflecting the tendency to use more unskilled labours in the sector.

By activity, agriculture-forestry-fishery had the lowest income, only attaining VND 1.9 million/month in 2010, or 70 percent of the overall average wage. However, thanks to agricultural development policies and the movement of redundant labour out of agriculture, the wage growth in this sector was higher during 2007-2011 than in 2002-2006. This sector also enjoyed the most rapid wage growth in the economy, reaching 31 percent per annum. As such, the wage gap between the top sector (education, training and healthcare) and agriculture-forestry-fishery was narrowed down significantly, from 2.6 times in 2002 to 1.8 times in 2010.

The manufacturing sector had the lowest wage growth before 2007, yet the pace then accelerated to 26.7 percent per year in 2007-2010. In 2010, the services sector had the highest wages, of which the top sub-sectors included: (i) Finance and credit (VND 5 million/person); (ii) science and technology (VND 4.8 million/person); (iii) asset trading and consultancy (VND 4.2 million/person); *and* (iv) education and training (VND 4.1 million/person). The traditional sub-sectors such as trade, engine repairs, transport and communication, culture and sport saw labour wage increase rather slowly.

Technical skill and qualification are among the determinants of wage level. The employees with high technical skill and qualification (rather than management staffs) had the highest wage, of more than VND 4.6 million/month in 2010, or 1.73 times of overall wage level. Economic integration helped improved income of management staffs. Skilled employees in agriculture had the second fastest wage growth, especially in 2006-2010 (about 35 percent). Unskilled workers received the lowest wage, which only grew by 16 percent per annum during 2002-2010. Accordingly, the wage gap between skilled and unskilled employees was widened from 2.6 times in 2002-2006 to more than 3 times in 2006-2010.

Table 60: Average Monthly Wage by Occupation

	Average wage/month (thousand VND)					*Average growth (% per annum)*	
	2002	*2004*	*2006*	*2008*	*2010*	*2002-06*	*2006-10*
Management staffs	681	778	1,086	1,776	3,604	12.38	34.97
Highly skilled workers	1,172	1,556	1,985	3,089	4,666	14.08	23.82
Medium skilled workers	800	1,067	1,427	2,161	3,307	15.56	23.38
Primary, office clerks	878	1,159	1,167	1,626	3,078	7.37	27.44
Individual service staffs, security guards	750	924	841	1,260	2,497	2.91	31.27
Highly skilled labour in agriculture	668	913	1,049	1,653	3,562	11.96	35.75
Technical craftsmen	707	874	861	1,188	2,050	5.05	24.22
Skilled assemblers and operators	1,120	1,221	1,272	1,756	2,286	3.23	15.78
Unskilled workers	466	635	718	1,012	1,570	11.42	21.6

Source: Calculations from VHLSS, GSO.

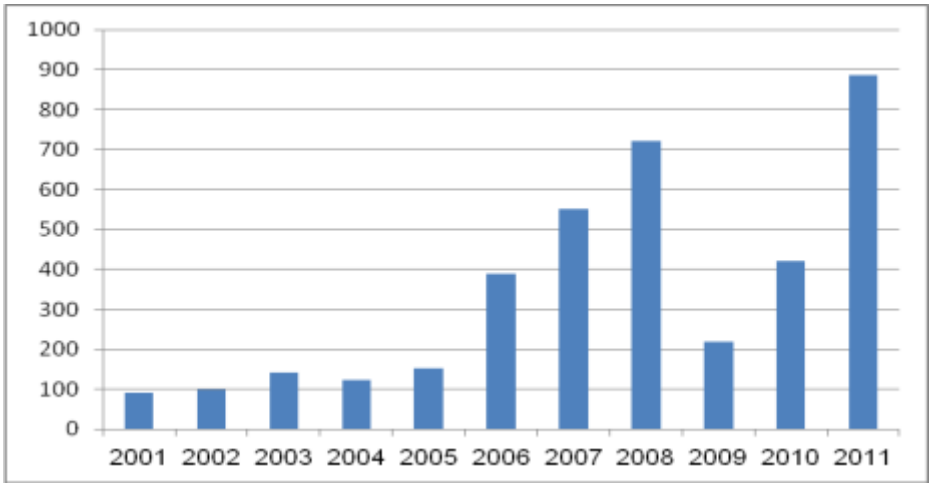
In 2010, the average wage of male labour attained VND 2.5 million/person, higher than that of female counterpart (VND 2.1 million/person). Nevertheless, the wage gap between male and female labour was not narrowed down significantly, notwithstanding slower wage growth for male labour (only 18.4 percent per annum, compared to 20 percent per annum for female labour in 2006-2010). The wage gap between male and female labour was also evident across different technical skills and qualifications: the lower the level of qualification, the wider the gap. However, the wage gap seemed to increase in the category of high skills and qualification.

6.7. Industrial relations

Industrial relations exhibited some complications. The number of labour strikes increased in 2007-2011 to a much higher level than in 2002-2006. The issue was particularly prevalent in times of economic downturn and high inflation, associated with higher prices and more difficulties for labour. In 2011, the number of strikes peaked at 885, or more than twice of that in 2010 (422). Labour strikes in EPZs, IZs for the salary increase in line with inflation became more popular.

The number of workers per strike also increased. In 2007, an average number of 613 workers participated in each strike; the figure rose to 615 in 2008, fell to 383 in 2009 before going up again to 741 in the first 5 months of 2010. The biggest strike took place in 2008 at Ching Luh Shoe Co. Ltd in Long An (with 21,000 workers), followed by that at Pou Chen Vietnam Co. Ltd. in Dong Nai in April 2010 (18,000 workers).

Figure 39: Number of Labour Strikes, 2001-2011



Source: MOLISA.

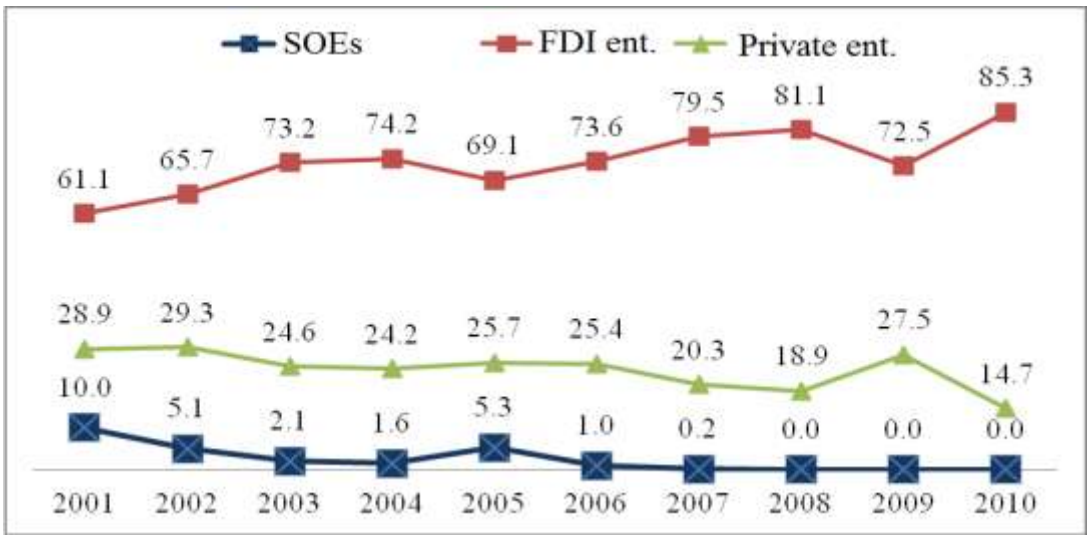
Labour strikes took place mainly in labour-intensive enterprises, particularly those in textiles, leather, electronic, wood processing industries and in concentrated IZs. By ownership, the FDI sector accounted for the highest share of labour strikes (over 80 percent).

The underlying reasons of strikes also varied over time. Initially, the labour strikes were related to disputes over labour rights. In recent years, however, the key reason was dispute over employment benefits. Meanwhile, negotiation and dialogue for improving awareness and ensuring benefits remained inadequate, with hardly sufficient attention by all stakeholders.

Prior to 2007, strikes took place as the enterprises violated labour regulations such as signing no labour contracts, inappropriate contracts, no salary scheme, no salary

increase each year; owing or delaying payment of wage and salary; no contribution to social insurance for employees; no approval of annual leave; unlawful overtime work and/or salary.

Figure 40: Structure of Labour Strikes by Ownership, 2001-2010 (%)



Source: MOLISA.

In 2007-2009, the disputes over such violations by enterprises still prevailed; however, disputes over employment benefits accounted for the lion's share. Employees required enterprises to extend more benefits than regulated, such as adjustment of wage and salary, increase of annual wage and salary, payment of benefits and subsidies (for working in dangerous or toxic environment; transportation; housing rent; industriousness), increase of lunch nutrition, bonus in the form of 13th month salary. In 2009-2011, the labour strikes were mostly for employment benefits such as increase of salary, increase of benefits, lunch provision, increase of bonus, change of managerial behaviour and management scheme.

Notwithstanding many efforts in improving the regulatory framework over industrial relations, all labour strikes failed to comply with the stipulated procedures, even though 70 percent of them took place in enterprises with trade unions. Most of strikes were with moderate attitudes and order, waiting for a solution from employers. However, some people outside of enterprises have gathered, convinced and even obliged employees to participate in the strikes, resulting in criminal convictions.

Meanwhile, operations of trade unions were still limited at the grassroot level, reflecting no representative role in negotiation and dialogue with employers for labour rights and benefits. The steering committees of such unions even received limited trust from employees. On the other hand, trade union staffs were also working at the enterprises concurrently, depending upon employers whilst having limited capacity, operational skills and strength to protect labour rights.

State management of labour has been improved; the advocacy and dissemination of labour regulations were active. However, some weaknesses remained in the inadequate organizational structure, and limitation of staffs for monitoring and supervising compliance of regulations and obligations by enterprises in IZs.

6.8. Overall Assessment

6.8.1. Achievements and Results

- Many policies have been implemented to develop the labour market, support job creation. They contributed to the improvement of labour skills and livelihood, generation of more jobs and higher income for people. The voluntary social insurance scheme has been implemented since 2008, and unemployment insurance scheme came into effect since 2009. The Law on Vocational Training and the Law on Vietnamese labour working abroad have been issued. The policies on supporting and enhancing labour export from poor districts have been carried out. In particular, during the global financial crisis and economic recession, many supporting policies and programs have been implemented to help enterprises and household businesses overcome difficulties and maintain production.

- The labour force was improved in terms of both number and quality. In the years 2007-2011, the labour force increased on average by 2.6 percent per annum. In 2011, skilled and qualified labour made up a share of 42 percent of labour force, of which 16.5 percent had vocational training, 5.1 percent graduated from secondary technical schools and 8.1 percent completed universities, colleges and above.

- Job creation maintained some progress despite economic downturn. On annual average, employment increased by 2.5 percent or 1.22 million jobs in 2007-2011. Over 88 thousand labours were sent to work abroad in 2011, increasing by 2.9 percent as compared to 2010. Some traditional markets such as Taiwan, Japan and Korea still grew rapidly. The labour structure shifted further away from agriculture. The service sub-sectors, especially new and modern ones, had rapid expansion of employment. The number of wage-earners increased more rapidly in 2007-2011 than in 2002-2006. The share of FDI sector in employment went up from 1.9 percent in 2006 to 3.3 percent in 2011, reflecting the labour shift from low-quality sectors to high-quality one.

- Individual labour tended to increase in the economic downturn, thereby affirming the "safety net" by the informal sector in job creation, which in turn led to low unemployment rate in the recent context of instability.

- International economic integration clearly affected labour demand. The enterprises participating in import-export activities had higher demand of labour (by 68 percent) than the rest of the business community. Import and export had larger impact on agriculture.

- Unemployment rate remained at low level (2.7 percent in 2011).

6.8.2. Shortcomings/Challenges

In terms of Labour and Employment

- The supporting policies for job creation and labour market development remained inadequate. The supporting policies for migrant labour in IZs and urban areas were absent. Those targeting laid-off labour were still limited and fragmented, and paid more attention to compensation rather than training for re-employment.

- The gender, rural-urban and regional gaps in terms of education level, skill and qualification still persisted. The educational level of male labour was higher than that of female labour; female labour had lower skills and qualifications than male counterparts at

all levels; rural labour were outperformed in terms of skill and qualification by urban ones; the share of labour with university level and above was higher in big cities such as Ha Noi, Ho Chi Minh City, the South East and the Red River Delta.

- The capacity of job creation in the economy remained modest. The share of informal labour was still high with poor working conditions and unstable income. Employment growth attained an average of 2.5 percent per annum in 2006-2011, yet still slower than the growth of labour force (2.6 percent per annum), reflecting the difficulty in job creation in Vietnam.

- The growth of employment decelerated, while the number of job losses increased. As one of the main reasons, the economic downturn led to larger number of enterprises experiencing losses and bankruptcy which in turn affected the labour market. In 2011, the number of newly created jobs fell by 260 thousand compared to that in 2010 as a consequence of slower economic growth. In addition, urbanization and industrialization led to smaller pool of agricultural land, and a portion of rural residents lost their jobs accordingly.

- The shift of labour structure was slowing down. In 2011, about 50 percent of labour remained in the agricultural sector. In the years 2007-2011, the share of agricultural labour only went down by 7.1 percentage points, i.e. smaller than the 9-percentage-point reduction observed in 2002-2006.

- Labour export encountered some difficulties because of economic downturn, smaller market, political instability in North Africa, Middle East, and tsunami in Japan. Political instability in Libya forced 10,000 labour to return to Vietnam.

- The unemployment rate tended to increase, especially among young population and rural labour. The overall unemployment rate rose from 2.64 percent in 2010 to 2.69 percent in 2011, of which 6.8 percent of young population and 2.3 percent of rural labour were unemployed.

- Underemployment remained pressing, particularly in agricultural sector and rural areas. In 2011, about 3.1 million labour (or 6.1 percent of total employment) worked for fewer than 35 hours per week. More than two-thirds of this figure were in rural areas. The agricultural sector accounted for 69.8 percent of underemployed labour.

In terms of wage and income

- The wage gap is increasing, reflecting increasing inequality of wage. The main reason included faster growth of wage for high-income labour than that of low-income group.

- Wage inequality was widened in 2006-2010. The regions/population groups with higher wages also experienced larger inequality.

7. POVERTY REDUCTION AND INCOME INEQUALITY

7.1. Poverty Reduction

Poverty reduction is an important target, as well as one of the key priorities in Vietnam's SEDS. Efforts to reduce poverty have been implemented simultaneously at different levels including individuals (the poor), households, communes and districts via some main programs, namely: (i) Supporting production through concessional credit policy, production land for ethnic minority households, agriculture-forestry-fishery promotion services, sectoral development and labour export; (ii) enhancing access to health care,

education, vocational training, legal assistance, housing and residential water; and (iii) developing essential infrastructures for the communes with particular disadvantages.

A series of supporting policies for poor districts have been issued for rapid and sustainable poverty reduction. The residents of poor districts were supported in production, education, training, shifting economic structure, labour export and legal assistance. In particular, the Resolution No. 30a/2008/NQ-CP prioritized investment resources for the 62 poor districts. The contributions from communities, social organizations and corporations, and the "Day-for-the-Poor" Fund increased resources substantially for poverty reduction. Accordingly, significant achievements have been made in terms of poverty reduction. As per the applied poverty line for 2011-2015, the poverty rate fell from 14.2 percent in 2010 to 11.7 percent in 2011. Using the GSO poverty line, meanwhile, the poverty rate dropped from 18.1 percent in 2004 to 15.5 percent in 2006 and 10.7 percent in 2010.

Average monthly income of poor households was more than doubled from VND 184,300 per person in 2006 to VND 369,300 per person in 2010. Support for the poor has increased substantially.

Table 61: Poverty Rate in Rural and Urban Areas* (%)

	2004	*2006*	*2008*	*2010*
Whole country	18.1	15.5	13.4	10.7
Urban	8.6	7.7	6.7	5.1
Rural	21.2	18.0	16.1	13.2

Source: Calculations from VHLSS 2004, 2006, 2008 and 2010 of GSO.

*Note: * Based on the Government's poverty line in 2006-2010 (VND 200,000 per person per month for rural areas, VND 260,000 per person per month for urban areas). Adjusted with inflation rate, the figures are as follows: VND 170,000 and VND 220,000 respectively in 2004; VND 200,000 and VND 260,000 respectively in 2006; VND 290,000 and 370,000 respectively in 2008; and VND 350,000 and VND 440,000 respectively in 2010.*

However, the progress in poverty reduction is not sustainable: many near-poor people encountered high risk of falling back to poverty. At the end of 2011, the poverty rate remained high (about 38 percent) in the communes and districts with particular disadvantage, border communes, coastal communes, islands and communes with high density of ethnic minorities. Approximately 900 thousand households were classified as near poor, which accounted for 34 percent of total ethnic minority households. Supporting policies for the poor failed to distinguish between the lazy poor people from those being poor for other reasons; therefore, they failed to induce poor people to escape from poverty.

Poverty was only measured in terms of income, and the low poverty line led to high proportion of near poor people. The identification of the poor presented another shortcoming. Many criteria such as the usage of clean water, school drop-out rate among children, child malnutrition have not been considered.

Although the living standard in Vietnam has been significantly improved, the gap between rural and urban areas remained large. The gap was widened in all consumption and social indicators. The rural-urban gap also became larger relative to overall inequality. The poverty rate in rural areas went down from 21.2 percent in 2004 to 13.2 percent in 2010, while the urban figure decreased from 8.6 percent in the same period. At the moment, about 8 million rural people and 1.3 million urban people still lived in poverty.

Box 3: Multidimensional poverty

The income poverty is by no means sufficient as it fails to comprehensively portray the situation of poverty in Vietnam. Multidimensional poverty, also called "non-monetary measure of poverty", combines the number of people who are multidimensionally poor and the depth of poverty, i.e. the average number of deprivation of each multidimensional poor. This index measures 9 different types of deprivation in healthcare, education and living standards rather than paying special attention to average income.

Using these indices of the United Nations Development Program for measuring multidimentional poor, the multidimensional poverty rate of Vietnam was 23.3 percent in 2008, i.e. much higher than income poverty, particularly in the Mekong River Delta (50 percent), North Mountainous Areas (40 percent). The multidimensional poverty rates in Lai Chau, Dien Bien and Ha Giang were all above 73 percent. In 2008, 12 provinces had multidimensional poverty rates of over 50 percent.

Source: United Nations Development Program (2012).

7.2. Income Inequality

Although the average income per capita was improved, inequality in income distribution increased over time. In 2006, the income gap between the richest quintile (i.e. 20 percent of the population with highest income) and the poorest quintile was 8.4 times, and the figure rose to 9.2 times in 2010.

Table 62: Average Income per Capita by Quintile and Area (thousand VND)

	Whole country	*1st quintile-the poorest*	*2nd quintile*	*3rd quintile*	*4th quintile*	*5th quintile-the richest*	*Difference between 5th and 1st quintiles (times)*
Whole country							
2006	636.5	184.3	318.9	458.9	678.6	1,541.7	8.4
2008	995.2	275.0	477.2	699.9	1,067.4	2,458.2	8.9
2010	1,387.2	369.3	668.5	1,000.2	1,490.4	3,411.0	9.2
Average growth (%)	*21.5*	*19.0*	*20.3*	*21.5*	*21.7*	*22.0*	
Urban							
2006	1,058.4	304.0	575.4	808.1	1.116.1	2,488.3	8.2
2008	1,605.2	453.2	867.8	1,229.9	1,722.2	3,752.4	8.3
2010	2,129.7	633.1	1,153.4	1,611.0	2,268.3	4,984.5	7.9
Average growth (%)	*19.1*	*20.1*	*19.0*	*18.8*	*19.4*	*19.0*	
Rural							
2006	505.7	172.1	287.0	394.4	552.4	1,s122.5	6.5
2008	762.2	251.2	415.4	583.1	828.7	1,733.6	6.9
2010	1,070.5	330.1	568.4	820.5	1,174.8	2,462.3	7.5
Average growth (%)	*20.6*	*17.7*	*18.6*	*20.1*	*20.8*	*21.7*	

Source: VHLSS of GSO.

The income gap between the richest group (5th quintile) and the poorest group (1st quintile) in urban areas was wider than that of rural areas. However, the former tended to decrease, while the latter was widened over time.

Measures of Income Inequality

The Gini coefficient of income distribution increased slightly, from 0.42 in 2002 to 0.43 in 2010. In urban areas, the coefficient remained stable at a rather high level (0.4). Nonetheless, the Gini coefficient for rural areas rose from 0.36 in 2002 to 0.39 in 2010. Still, inequality was under control and Vietnam pursued a rather equitable growth model in the past several years. This constituted an achievement of Vietnam in the first decades of reform, following the transition from centrally planned to market-oriented economy with high economic growth and modest income inequality.

Alternatively, the World Bank uses the standard of "40%" to define the inequality[53]. The figure for Vietnam, at the household level, was 17.98%. Therefore, although income distribution was relatively equal, income inequality tended to rise to a medium level. Besides, income inequality appeared to increase over time within the poorest groups.

Table 63: Gini Coefficient by Income and Rural/Urban, 2002-2010

	2002	**2004**	**2006**	**2008**	**2010**
Whole country	**0.42**	**0.42**	**0.42**	**0.43**	**0.43**
Urban-Rural					
Urban	0.41	0.41	0.39	0.40	0.40
Rural	0.36	0.37	0.37	0.38	0.39

Source: Calculation from VHLSS of GSO.

Table 64: Income Inequality Coefficient by Income Group

Income group	*2006*	*2008*	*2010*
1st quintile (poorest)	0.34	0.37	0.38
5th quintile (richest)	0.34	0.36	0.34

Source: Calculation from VHLSS 2004-2010 of GSO.

In summary, Vietnam has to a significant extent harmonized economic growth and social progress and equality. Alongside high and stable economic growth, the development opportunities were broadened to all people. Accordingly, the growth-induced benefits were expanded and widely distributed, while inequality only increased slightly.

7.3. Weaknesses and Limitations

The progress in poverty reduction was not sustainable, as many near-poor people had high risk of falling back to poverty. At the end of 2011, the poverty rate was very high (38 percent) in poor districts, communes with particular disadvantages, border communes, coastal communes, islands and ethnic regions. About 900 thousand households were near poor, accounting for 34 percent of total ethnic minority households.

[53] This approach examines income share of the 40 percent of population having the lowest income in total income of all population. The share of less than 12 percent implies high income inequality; the share of between 12-17 percent indicates medium inequality; and the share of above 17 percent reflects some relative equality.

Inequality was modest relative to other countries in the region, but tended to increase. In 2010, average income of poor households was only equal to about 30 percent of the national average figure.

8. SOCIAL SECURITY

The Law on Social Insurance, in effect since 1 July 2007, provides for three insurance schemes, including compulsory social insurance, voluntary social insurance and unemployment insurance. Accordingly, the Law has become a crucial part of the social security system. The Law enabled employees, especially those in informal sector, to participate in social insurance schemes, focusing on pension to support and ensure their income upon retirement.

8.1. Compulsory Social Insurance

Compulsory social insurance scheme provides for payment in 5 types of events, namely: sickness, maternal leave, working accidents and occupational diseases, pension, and death. The scheme covers officials, civil servants and labour with contracts of 3 months and longer working in Government agencies, organizations, enterprises, individuals that recruit, use and pay for employees regardless of scale.

Participation in compulsory social insurance was expanded rapidly in terms of both scale and growth, from 4.06 million people in 2001 to 10.08 million people in 2011[54], with an average growth of 9.52 percent per annum. However, those participants only accounted for 19.66 percent of labour force, and 80 percent of the groups adjusted by compulsory social insurance regulations.

Table 65: Number and Participation Rate in Compulsory Social Insurance Scheme, 2001-2011

	2001	*2005*	*2010*	*2011*
Total (1,000 people)	**4,061**	**6,177**	**9,601**	**10,080**
Share in labour force (%)	10.13	13.92	18.89	19.66
Number of employees participating in compulsory social insurance scheme, enterprise sector (thousand people)				
SOEs	1,640	1,532	1,268	1,298
Non-state enterprises	387	1,054	2,014	2,107
Foreign-invested enterprises	271	1,009	2,452	2,607
Participation rate in compulsory social insurance scheme (%)				
SOEs	40.38	24.80	13.21	12.88
Non-state enterprises	9.52	17.06	20.98	20.90
Foreign-invested enterprises	6.66	16.34	25.54	25.86

Source: Calculations from data of Vietnam Social Insurance.

Note: Share in labour force is based on data of The Labour and Employment Surveys of MOLISA and GSO.

The equitization and restructuring of SOEs reduced the number and scale of SOEs, whilst leading to increases in non-state enterprises and their labour. Therefore, the non-State employees participating in compulsory social insurance went up rapidly. In 2001,

[54] Reported data by Vietnam Social Insurance (2011).

the participation rate in the SOEs was 40.4 percent, whilst the rates for FDI sector and non-State sectors were 9.5 percent and 6.7 percent, respectively. By 2011, the respective figures were 12.9 percent, 20.9 percent and 25.9 percent respectively.

About 1.9 million people benefited from the monthly pension scheme, of which more than 884 thousand received payment from the State budget[55] with average monthly pension of VND 2.41 million per person; nearly 1.02 million people received payment from the social insurance fund with average monthly pension of VND 2.7 million per person. Despite increasing number of people out of working age, they accounted for only 20 percent of total population of the same age group. Currently, 60 percent of population in the age group of 60-80 received neither pension nor other assistances. They thus had to rely on relatives and community.

8.2. Voluntary Social Insurance

The voluntary social insurance scheme, in effect since 1 January 2008, provides for payments in the events of retirement and death. The scheme created opportunities to participate in social insurance for the labours that are not adjusted by the compulsory social insurance scheme, so that they can receive pension upon retirement. After 4 years of implementation, the scheme had more than 104.5 thousand participants, or approximately 0.2 percent of labour force and 0.34 percent of employees in informal sector. The limited coverage of voluntary social insurance in the population aging period rings an alarm for low proportion of aged people without pension, which in turn increases pressures for State budget expenditure for social security programs.

Table 66: Number and Participation Rate in Voluntary Social Insurance Scheme, 2008–2011

	2008	*2009*	*2010*	*2011*
Number of participants in voluntary social insurance (people)	6,110	41,193	81,319	104,518
Share of labour force (%)	0.01	0.08	0.16	0.20
Share of employees in informal sector (%)	0.02	0.14	0.26	0.34

Source: Calculations from data of Vietnam Social Insurance.

Note: share of labour force is based on data of Labour and Employment Surveys of MOLISA and GSO. Informal employees include self-employed labour and those in household businesses.

The low participation rate in voluntary social insurance scheme showed some inadequacy in the current social insurance policies, especially regarding the living standard of Vietnamese labour while the labour market remained under-developed. The social insurance system should be modernized, with the development of social security number to make participation in the scheme easy and convenient, without depending on residential areas.

8.3. Unemployment Insurance

The unemployment insurance scheme has been implemented since 2009 to facilitate labour in joining the labour market. It provides for benefits in four forms, namely: unemployment subsidy, vocational training, supporting the finding of job and

[55] Those people retired before 1995 – in the absence of regulation on social insurance contribution.

health insurance. The scheme covers contracted labours for 12 months or longer in agencies, organizations and enterprises having at least 10 employees.

During the economic downturn, unemployment insurance gradually became supportive to laid-off labour. By the end of 2011, 7.93 million people participated in unemployment insurance scheme, accounting for 44.82 percent of wage-earners, increasing by 10 percent from that in 2010.

In 2011, 336 thousand people registered for unemployment benefits, of which 291 thousand people received monthly unemployment benefits, 218 thousand people were consulted on finding jobs, and more than a thousand people were supported with vocational training[56].

Nonetheless, the unemployment insurance scheme still had limited coverage, only applicable for employees in entities with at least 10 employees. Accordingly, those in small enterprises with fewer than 10 employees could not participate in the scheme.

Table 67: Number and Participation Rate in Unemployment Insurance, 2009-2011

	2009	*2010*	*2011*
Number of participants in unemployment insurance scheme (1000 people)	5,993	7,206	7,931
Share of labour force (%)	12.40	14.61	15.60
Share of wage-earners (%)	37.06	43.09	44.82

Source: Calculation from data of Vietnam Social Insurance.

Note: shares of labour force and wage-earners are based on data of Labour and Employment Surveys of MOLISA and GSO.

8.4. Contingent Support

Climate change and natural disaster became more complicated with serious consequences for a portion of population and some areas. In addition, economic risks in the market-oriented economy have been more evident in Vietnam. Therefore, the contingent support received more attention by the State and communities. The natural disasters and diseases already caused hundreds of death, thousands of collapsed and floated houses, and about one million people in hunger. Total physical damage by natural disasters was estimated at trillions VND each year. According to Decree No. 13/2010/ND-CP on 27 February 2010, the coverage of contingent support include individuals and households under hardship due to natural disasters and irresistible reasons. In 2006-2011, on annual average, the State allocated VND 1,000 billion and about 50-60 thousand tons of rice to support the localities and the people to overcome natural disasters and ensure their livelihood.

The contingent support programs were implemented timely and helped stabilize temporarily the lives of people being adversely affected. Such programs also mobilized mutual support among different social groups, mass organizations, enterprises, international organizations and overseas Vietnamese community. In 2011, the State provided more than 59.8 thousand tons of rice for 811 thousand households with 2.5 million people[57] in 21 provinces with damage, and VND 660 billion for 22 provinces to

[56] Source: MOLISA (2012).

[57] Updated based on the Report by the Department of Social Protection (2012).

overcome difficulty (concentrating on essential infrastructure) simultaneously. In addition, the Central Relief Fund (managed by Vietnamese Fatherland Front) received and allocated more than VND 28.5 billion. The provincial relief funds (managed by provincial fatherland fronts) mobilized and allocated VND 46 billion, whilst guiding the localities in making relief for people, ensuring equality, transparency, and appropriate target, without letting the people in shortage of food[58].

However, the contingent support still had some weaknesses. *First,* the policies had limited coverage; only focused on those adversely affected by natural disaster. Meanwhile, the policies failed to take into account the risks related to business and production, loss of crops, and global financial crisis and economic recession. Besides, the level of support was low, covering only part of the damages rather than full demand of households. In some cases, the support was even untimely. *Second,* the management of support was still weak, without effective control of contributions. Coordination of support was less than effective, leading to different levels of support (even by hundreds of times) for the same consequence (for example, death). The decentralized functions have been insufficient for the localities to actively arrange contingent support funds. *Finally,* some community initiatives in arranging support were piloted, yet have not been institutionalized and expanded.

9. EDUCATION

Notwithstanding lower income relative to other Asian countries, Vietnam made remarkable progresses in education and training. Such progresses were deemed to be faster and more thorough than most countries with similar or even higher income per capita.

The Resolution of the 10th National Party Congress reaffirmed the top priorities for education and training alongside science and technology, serving to enhance the foundations for and drive industrialization and modernization of the country. This Resolution put forward 9 specific tasks of the education sector in 2006-2010. These tasks were supposed to lay the ground for the education sector to deepen progress, to overcome weaknesses and limitations for education development. Upon joining the WTO, Vietnam made commitments in implementing GATS, thus the education service market would be conditionally liberalized.

The national education system has been established with relative completeness, unification and diversification, covering all communes and wards throughout the country, including all levels of education and training (from preschool to postgraduate level). Technical facilities of schools have been upgraded and improved. The education system has been diversified regarding type of school (public, semi-public and private), method of teaching (regular, irregular) and resources to gradually integrate into the world education system. The education scale and network of education units have been developed to better meet demand of the society.

Due to higher demand of the society and higher living standard, the education scale increased remarkably in 2007-2011 compared with the years 2002-2006. In addition to regular education, many forms of education - like continuing education, remote education and vocational education - and many types of schools – such as public schools, semi-public schools and private schools – were introduced. Many families sent their children to high quality schools abroad or domestic schools with good facilities and

[58] According to the Report by Department of Social Protection (2011).

qualified teachers. Under the impacts of integration, many foreign-invested education and training institutions have been developed.

International economic integration led to initial changes in education such as perception of education quality, learners' personality development and organization of education process and system. From inward attitude, schools have become more open with dialogue to the society. Forms of education services were increasingly diversified. Other forms of ownership have joined education service provision; they were acknowledged with indispensable roles in the education and training system and in facilitating people's access to education. Since 2005, the Government has officially encouraged private and foreign institutions to provide education services.

This sub-Section concentrates on assessing the achievements as well as shortcomings and challenges of Vietnam's education and training sector in 2007-2011. The aspects under consideration include scale of education and training, quality of education and training, socialization of education and training, resource mobilization for education and training.

9.1. Preschool education

9.1.1. Scale

In recent years, preschool education surpassed all the scale development goals. The number of schools and classes rose from one year to another (see Table 68). By 2011, all communes had at least 1 preschool institution. In 2007-2011, investment in school facilities was improved drastically; the ratio of semi-solid and temporary classrooms was reduced considerably. In the school year of 2010-2011, 18.9% of preschools achieved the national standard, i.e. nearly 3 times higher than the 2005-2006 school year. In the years 2007-2011, enrolment in preschools increased on average by 4.8% per annum, or 1.8 percent points higher than the 2000-2006 period. The mobilization rate of children to preschool units went up continuously from 57.8% in the 2004-2005 school year to 98.0% in the 2010-2011 school year.

Education for disabled children had many positive changes, with 62.8% of those children being able to learn with normal children. The preschool education in ethnic minority regions also made a lot of achievements in terms of scale, school and class network, school facilities and teacher training.

Nevertheless, the system of preschool education still exposed many limitations such as:

- Serious lack of classrooms: Vietnam was still short of 26,886 classrooms and 22,811 teachers compared with demand. Public preschools often suffered from overload.

- Inappropriate salary and benefits for preschool teachers, which affected children's right to education. Actual income of non-permanent teachers differed markedly across provinces; in some provinces, such income was very low.

- Sizeable gap in opportunities to go to preschools between rural areas and urban areas, and across regions. Preschool units are mainly located in big cities, towns, new industrial zones and rural areas. In mountainous, remote and poor rural areas, the network of preschools and classroom failed to meet demand. This situation could be attributed to difficult economic conditions in those regions; limited awareness of governments at levels and people regarding preschool education; lack of supporting policies to construct schools and classrooms; lack of incentives to increase number and quality of preschool teachers.

Table 68: Basic Indicators of Preschool Education, 2002-2011

	Unit	*2002-2003*	*2003-2004*	*2004-2005*	*2005-2006*	*2006-2007*	*2007-2008*	*2008-2009*	*2009-2010*	*2010-2011*
Number of schools	school	9,558	9,975	10,376	10,927	11,582	11,696	12,071	12,265	12,678
Development indicator	%	*103.20*	*104.36*	*104.02*	*105.31*	*105.99*	*100.98*	*103.21*	*101.61*	*103.37*
Number of classes	school	87.4	88.7	93.0	93.9	97.5	99.7	103.9	106.6	119.4
Development indicator	%	*100.11*	*101.49*	*104.85*	*100.97*	*103.83*	*102.26*	*104.21*	*102.60*	*112.01*
Number of teachers	1000 teachers	103.7	106.7	112.8	117.2	122.9	130.4	138.1	144.5	157.5
Development indicator	%	*99.90*	*102.89*	*105.72*	*103.90*	*104.86*	*106.10*	*105.90*	*104.63*	*109.00*
Number of pupils	1000 pupils	2,143.9	2,172.9	2,329.8	2,426.9	2,524.3	2,593.3	2,774.0	2,909.0	3,061.3
Development indicator	%	*98.72*	*101.35*	*107.22*	*104.17*	*104.01*	*102.73*	*106.97*	*104.87*	*105.24*
Number of pupils per class	HS	24.5	24.4	25.0	25.8	25.9	26.0	26.7	27.3	25.6
Development indicator	%	*98.39*	*99.59*	*102.46*	*103.20*	*100.39*	*100.39*	*102.69*	*102.25*	*93.77*
Number of pupils per teacher	HS	20.7	20.4	20.6	20.7	20.5	19.9	20.1	20.1	19.4
Development indicator	%	*95.20*	*97.66*	*99.04*	*98.55*	*100.98*	*100.49*	*99.03*	*97.07*	*101.01*

Source: Ministry of Education and Training. Development indicator: previous year = 100.

Table 69: Basic Indicators of Primary Education, 2002-2011

	2002	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*
Number of primary schools	13,903	14,163	14,346	14,518	14,688	14,834	14,933	15,051	15,172	15,242
Number of classes	314.50	308.80	299.40	288.90	276.60	270.20	266.40	265.10	268.10	272.40
Pupils (1000 pupils)	9,315.3	8,815.7	8,346.0	7,744.8	7,304.0	7,029.4	6,860.3	6,731.6	6,908.0	7,043.3
Teachers (1000 teachers)	359.9	363.1	366.2	362.4	354.8	349.5	348.7	349.7	355.2	365.8
Number of pupils per teacher	25.88	24.28	22.79	21.37	20.59	20.11	19.67	19.25	19.45	19.25
Number of teachers per class	1.14	1.18	1.22	1.25	1.28	1.29	1.31	1.32	1.32	1.34
Number of pupils per class	29.62	28.55	27.88	26.81	26.41	26.02	25.75	25.39	25.77	25.86

Source: Ministry of Education and Training.

9.1.2. Quality

In general, the quality of preschool education was remarkably improved, helping children of preschool age form some social skills such as habit, custom and civilized behavior. The ratio of undernourishment in preschool institutions was reduced sharply, from 31.9% in 2005-2006 school year to just 6.2% in 2010-2011 school year. The quality of child care was also upgraded. As of 2011, 96.5% of preschool teachers fulfilled training standard, of which 32.9% even went past such a standard.

The above achievements came from efforts by the education and training sector in implementing timely and fruitfully instructions and resolutions of the National Assembly and the Government on improving quality and efficiency of preschool education and preschool universalization for 5-year-old children. All provinces and cities had active plans or projects to implement these policies. However, big gaps in quality of preschool education persisted between rural and urban areas, and across regions. In the 2010-2011 school year, only 15.8% of preschool institutions achieved national standard, lower than the target of 20% set out in the Education Strategy for 2001-2010. As the main reason, most of the institutions had insufficient conditions to take care of and teach children with new methods.

In 2010-2011, the preschool education program was implemented in 11.5 thousand schools (accounting for 88%), 132.2 thousand groups and classes (74.2%) with an enrolment of 3.1 million children (78.7%).

Vietnam has fulfilled many targets set out in the Education Strategy for 2001-2010. More than 90% of 5-year-old children joined preschool classes to prepare for 1th Grade. All communes had some preschool institutions. However, only 15.8% of preschool institutions achieved national standard, lower than the target of 20% in the Education Strategy for 2001-2010.

9.1.3. Socialization

Preschool education had rather high ratios of non-public schools and pupils. In 2006-2007 school year, the non-public preschool institutions accounted for 52.2% of preschool ones in Vietnam, 57.1% of teachers and 57.3% of preschool enrolments. In 2010-2011 school year, due to larger scale and higher quality of public preschool education, the number of non-public preschool units decreased to just 4,097, accounting for 41% of preschool institutions in Vietnam.

Despite smaller number of non-public preschool units, in the context of integration, many non-public preschool units were established in cooperation with foreign partners, or invested by foreign investors, especially in cities and IZs, to meet the demand of high-income families. 9 FDI projects in preschool education were licensed with total capital of nearly USD 17 million. Hanoi alone had 11 international preschools and 8 international multi-level schools[59].

9.2. General Education

9.2.1. Size

The network of general schools and classrooms has been upgraded all over the country. The number of schools rose by 3.6% per annum on average in 2007-2011, lower

[59] Including preschool, primary and secondary levels.

than that of 7.9% per annum on average in 2002-2006. All communes currently have primary schools; many small villages have school branches; some communes or inter-commune clusters have secondary schools; and all districts have high schools.

Nevertheless, the number of pupils was decreasing. The average pace of decrease reached 5.7% per annum in 2007-2011, i.e. slower than that of 8.2% per annum in 2002-2006. Notably, the decrease was uneven across all education levels.

The number of general teachers increased continuously by 3.0% per annum on average in 2002-2006, and by 1.3% per annum on average in 2007-2010. Because the numbers of schools, classes and teachers all increased while the number of pupils went down, the number of pupils per teacher fell from 25.9 in 2002 to 20.6 in 2006. The figure, however, was rather stable during the years 2007-2011 (at above 19 pupils per teacher).

The number of pupils at levels increased at different paces across regions. Thanks to policies to ensure equality in education and higher demand of households, especially in ethnic minority areas, the number of primary pupils went up in the Central Highlands whilst falling in other regions. At lower secondary and upper secondary levels, the number of pupils grew most rapidly in the Central Highlands, was also the highest, followed by the North West. Nonetheless, the ratio of net enrolment increased at all levels, contributing to universalization of primary education for children of official school ages and universalization of secondary education.

The pattern of female pupils at all levels was similar to that of all pupils. In 2002-2007, the number of female pupils at all levels decreased by 4.6% per annum. In the years 2007-2011, it continued to fall by 7.4% per annum on average. Despite smaller number, female pupils accounted for an increasing share in total pupils, from 44% in the 2006-2007 school year to 48.3% in the 2010-2011 school year.

Equality in education has been improved while the gap in accessing general education among ethnic groups has been narrowed down. The network of ethnic boarding-general schools and ethnic day-boarding general schools was upgraded, helping increase number and quality of ethnic staffs. In 2002-2003 school year, Vietnam had 271 ethnic boarding-general schools with 66.3 thousand pupils. In the 2010-2011 school year, the figures rose to 294 schools and 83.8 thousand pupils; the number of ethnic day-boarding general schools was 1,736 schools with 147.2 thousand pupils. To educate ethnic minorities for local leadership, the Government assigned quotas for universities and colleges to recruit minority ethnic students without examinations. The quotas of nominated students and foundation students at universities increased from one year to another.

Education policy paid more attention to improving education opportunities for girls and minority ethnic children. With policies to support poor pupils, community day-boarding pupils, disabled children, children in particular hardship, during the years 2006-2009, about 8 million poor minority ethnic pupils got tuition fee exempted and almost 2.8 million poor minority ethnic pupils receive (free or lent) books, notebooks and papers. These policies helped decrease the number of pupils quitting school.

Nonetheless, the number of general pupils at all levels being ethnic minorities varied in different directions. In the years 2002-2006, this number climbed by about 0.5%

per annum year. During the years 2007-2011, however, it decreased, especially in the 2009-2010 school year. This presents another evidence of adverse impacts of the global economic recession on Vietnam in general and education and training sector in particular.

Under ethnic policies, minority ethnic languages have been taught in schools, mostly in primary schools. Up to now, 15 provinces have ethnic minority languages taught in primary schools, accounting for 11.5% of ethnic minority pupils.

Another important achievement in Vietnam's primary education was the higher ratio of handicapped children going to school. Vietnam currently has more than 1 million disabled children. The education system for those children was gradually upgraded. All 63 provinces and cities have established steering committees on educating handicapped children from provincial down to district level. In the 2010-2011 school year, the ratio of handicapped children learning with normal ones or at specialized schools was 42.8%, increasing by 5 times from that in the 2003-2004 school year, albeit lower than the target set out in the Education Strategy for 2001-2010. Most provinces and cities had inclusive classes for handicapped children. The network of institutions for training teachers of handicapped children has been established and rapidly developed. 4 universities and 3 colleges have formed special education departments or teams. 10 centers alongside supporting systems have been established to support and develop inclusive education for handicapped children in some localities.

9.2.2. Quality

Vietnam has made remarkable achievements in universalizing primary education: in 2000, the national standard on eradicating illiteracy and primary education universalization was achieved. In the last decade, Vietnam maintained and made numerous efforts to increase quality of primary education universalization. The ratio of schools achieving national standard at all 3 levels has increased. The quality of primary education universalization was continuously improved. By 30 June 2010, all 63 provinces and cities and all 687 districts fulfilled the national standard in secondary education universalization; 99.9% of communes satisfied the national standard in secondary education universalization.

The enrolment ratio was high at both primary and secondary levels. The net enrolment ratio at primary level increased from 76.3% in the 2002-2003 school year to 96% in the 2005-2006 school year and 99% in the 2010-2011 school year. The figure however hardly varied across regions. The net enrolment ratio at secondary level also went up rapidly in all groups and regions. In line with the streaming policy of the State, more than 53% of children of high school ages went to vocational schools and professional secondary schools. In the years 2007-2011, the net enrolment ratio at high school level increased, reaching 50.2% in the 2010-2011 school year. The ratio of pupils quitting secondary schools dropped sharply over time. Forms of education have been diversified. Vocational units and professional secondary schools could admit pupils without certificates of high school graduation or those just graduating from secondary schools. Pupils in particular hardship could receive supports such as books, notebooks, learning tools and tuition fee reduction or exemption. The State also supported families via hunger eradication and poverty reduction policies and encouraged parents to facilitate

their children's access to education. Since the 2007-2008 school year, 53% of pupils and students have been eligible for tuition fee reduction or exemption.

In general, the quality of education has been continuously improved. The quality of teachers was upgraded: over 95% of teachers at all levels satisfied trainer standards. High quality schools came into operations in many localities. In parallel with renewals of training programs, textbooks and teaching materials, the schools have changed education methods towards encouraging dynamic, active and creative participation of learners, while applying information technology in the process of teaching and learning.

Some schools were established as joint venture with foreign education institutions, or invested by foreign investors. Their spill-over effects were however modest because, under regulations of the Ministry of Education and Training, Vietnamese pupils at international schools still have to learn some subjects under Vietnam's curricula. Therefore, the certificates of Vietnamese pupils are not recognized as foreign ones. Only UNIS school and France International school are wholly foreign owned schools where pupils follow international curricula. Nonetheless, they can only admit Vietnamese pupils to the maximum ratio of 10% of total recruitment. In addition, their tuition fee is too high.

New textbooks have been used at secondary level. The curriculum switched from "teacher-centered" approach to "pupil-centered" one. The new textbooks encouraged creativeness of pupils with more modern methods and higher educational orientation. The implementation of the National Assembly resolutions have laid important foundations for increasing education quality, modernizing education system and integrating into the global education system.

Nonetheless, Vietnam suffered from some shortcomings in the quality of general education. Notwithstanding impressive graduation rate from high schools (often over 90%), the ratio of pupils with low and weak aptitude remained sizeable. The quality of general education remained less than adequate, and differed across regions, especially in regions with many ethnic pupils. The education methods were still outdated, with slow improvement, while the curriculum and textbooks failed to meet practical needs. Due to existing gap in family income, the enrolment ratio at secondary level of the poorest group was only 60%, while that of the richest group attained 85%. At high school level, the respective figures were 20% and 62%. As an implication, the cost of education was relatively high, which undermined pupils' tendency to continue studying at lower secondary and upper secondary levels.

Basic social knowledge, skills for practice, life skills and ability of self-learning, creativity of a portion of pupils remained weak. Vocational orientation and streaming pupils in post-secondary and upper secondary level attained less than full effectiveness; and the ratio of pupils going to vocational schools was rather low.

Compared with the goals as well as education systems of developed countries, general education in Vietnam was less than satisfactory. Many domestic and aboard scientists and educationists made recommendations for carrying out a fundamental and comprehensive reform of education system, not only to overcome the shortcomings and issues, but also to meet the new and pressing demand for national development. However,

the education and training sector paid insufficient attention to this approach. At present, the policy efforts are concentrated in tertiary and vocational education.[60]

Compared with the targets set out in the Education Strategy for 2001-2010, the education sector has fulfilled those related to scale, and satisfied the learning demand to a large extent. Vietnam maintained universalization of primary education and is universalizing primary education for children of official school ages. The quality of general education was lower than expected, yet some positive changes were in place. These could be attributed to the education program renovation following Resolution No.40/2000/QH10. Some targets in the Education Strategy were not achieved, namely: the net enrolment ratio at secondary level was just 83.1% in the 2009-2010 school year (the target was 90%); only 3% of high school teachers had master degrees in the same school year (the target was 10%).

9.2.3. Socialization

In 2005-2006 school year, the ratio of non-public schools in the all schools was 0.6%. In the years 2007-2011, socialization in education increased sharply. In the 2010-2011 school year, the ratio of non-public schools rose to 1.6%. The number of non-public schools increased by 8.0% per annum on average in 2002-2006, and by 9.4% per annum in 2007-2011. In the 2010-2011 school year, the non-public schools accounted for 2.9% of general pupils.

The above achievements resulted from the education sector's timely and fruitful implementation of instructions, resolutions of the National Assembly and the Government on renovating general education program, universalizing primary and secondary education. The Ministry of Education and Training has renewed teaching programs and textbooks for pupils from grade 1 to grade 12 as well as provided teaching equipments to facilitate the use of new teaching programs and textbooks.

Due to higher and higher demand of domestic and overseas labor markets, the education and training sector also paid attention to improving quality of education, renovating teaching programs, textbooks and teaching materials, education methods towards encouraging dynamic, active and creative participation of learners, while applying information technology in the process of teaching and learning.

Another important factor involves international economic integration. According to the data of Foreign Investment Agency (MPI, in the years 2007-2011, 4 FDI projects were registered in general education, with total registered capital of nearly USD 12 million. Hanoi and Hochiminh City already had about 50 foreign-invested schools. The competition became more intense between domestic schools and foreign-invested ones in Vietnam in terms of training quality, quality of teachers, curriculum and source of recruitment. In the past, only some big cities like Hanoi and Hochiminh City had high quality schools. Such schools have now been established in many localities. Vietnam already published the list of top 100 high schools based on criteria such as examination performance, scale indicators of participation in university and college entry exams.[61]

[60] Source: http://www.baomoi.com/Home/GiaoDuc/www.nhandan.com.vn/

[61] Source: data from the Information Center, Ministry of Education and Training.

Vietnam also attempted to develop, at all cost, a system of gifted schools and classes aiming at training pupils for various examinations of excellent pupils. This partly resulted from the demand of parents to have a good education environment for their children. However, this approach of education was very much unbalanced. In addition, in the context of some bad education practices, the policy of bonus score for excellent pupils created more pressure on pupils in general.

9.3. Tertiary and College Education

9.3.1. Scale

In the past years, the scale of tertiary and college education was expanded. In the years 2007-2010, nonetheless, the number of universities increased by 5.7% per annum, i.e. more slowly than in 2002-2006 (9.0% per annum). The number of university and college students also went up at slower pace, but the ratio of people going to universities and colleges rose from 188 students per 10,000 people in the 2002-2003 school year to 270 students per 10,000 people in August 2011. Accordingly, the number of students per lecturer decreased from 31.2 in 2006 to 28 in 2011. To some extent, these figures reflected an improvement in tertiary education quality. In the years 2006-2010, 4.7 thousand students were sent to study abroad with the funds from State budget and official development assistance (ODA), i.e. nearly 2 times higher than in 2000-2005 (2.4 thousand students). The number of pupils studying abroad tended to increase over time.

Despite rapid expansion and fulfillment of scale targets, the tertiary education just met part of learning demand. This could be attributed to poor master plan of universities and colleges, with inappropriate distribution by region, by population and by major. The progresses in constructing 2 national universities in the new planned locations and in constructing major teacher training universities were rather slow.

Regarding gender inequality in education and training, the two major weaknesses included gap in education opportunities for girls and women in rural and ethnic minority areas, and the gap in education of women relative to men at high education levels. The share of women getting professorial titles (i.e. professor, associate professor) was small. On 24 December 2012, in the ceremony for appointing professorial titles, the share of women appointed as professors was only 14.3%, and the figure for women appointed as associate professors only reached 27.6%.

9.3.2. Quality

In recent years, management of education quality received a lot of attention. The organizations in charge of evaluating and testing education quality have been set up. The Department of Testing and Evaluating Education Quality at central level was established in August 2004. Divisions of Testing and Evaluating Education Quality have been established in 60 out of 63 provinces and cities. 70% of universities and colleges had a professional unit in charge of ensuring education quality. By 2011, 43% of universities and colleges finalized self-assessment reports, i.e. 13% higher than the target.

The training quality of some majors in basic science and technology has been improved. For some others, the training quality met the practical demand, thereby

contributing essentially to socio-economic development. A majority of students graduating from tertiary education had ambition to build their own careers, with self-motivation and dynamism; most of them can find a job after graduation. In particular, the political awareness and social responsibility of students and teachers helped broaden socio-economic development as well as ensure political stability in Vietnam.

The number of qualified tertiary teachers has been increasing. The ratio of tertiary teachers having doctorate and master degrees increased from 44.7% in the 2005-2006 school year to 47.8% in the 2010-2011 school year.

Nonetheless, tertiary education still exposed some weaknesses as follow:

The training quality at tertiary level remained low, while the quality testing has just been deployed and only had form. Lacks of efforts and honesty in learning were rather popular in some forms of training like distance training, in-service training. In general, students had weak skills in self-learning and self-studying. The ratio of lecturers and students taking part in scientific research was small, with low quality. The quality of teaching and learning political subjects and foreign languages failed to be improved sufficiently. Foreign language skills and knowledge on modern technology of majority of students was relatively low in the integration context. The majority of students graduating from universities could not read foreign materials, and had poor communication skills. The basic practice skills and cooperation at work failed to meet demand of the labour market. In general, contents and quality of teaching on key sectors and new technology fields at tertiary and postgraduate levels were weaker than other regional countries in terms of both contents and training methods. The labour force graduating from universities and colleges hardly satisfied recruitment demand of enterprises. Basically, tertiary education quality lagged behind the regional level, and further behind the international level.

Vietnam currently suffered from serious imbalance in labour training. For example, some technical and professional levels witnessed a redundancy of labour while some other areas or enterprises failed to recruit enough labours. Many students with social and art majors could not find appropriate jobs, causing a remarkable decrease in enrolments into these majors. Accordingly, those majors had to be closed down or only recruited students after several years. Meanwhile, recruiting students remained difficult in some majors necessary for socio-economic development strategy such as agriculture, forestry, fishery and environment.

A key reason lies in the huge number of universities, colleges, technical schools being upgraded to universities, and newly-established universities in recent years. In the years from 2006 to 2011, Vietnam had 84 additional universities, of which 51 were upgraded from colleges and 33 were newly established. The newly-established or upgraded universities had modest education quality and failed to reach the registered international standard. This development of tertiary education system was thus only temporary, lacking substances of sustainability.

Table 70: University Development Indicator (previous year = 100%)

No.		*2002-2003*	*2003-2004*	*2004-2005*	*2005-2006*	*2006-2007*	*Average 02-06*	*2007-2008*	*2008-2009*	*2009-2010*	*2010-2011*	*Average 07-11*
1	***University***	***105.8***	***105.9***	***107.5***	***120.4***	***116.2***	***111.2***	***114.6***	***106.5***	***102.5***	***102.7***	***106.6***
	- Public	106.5	104.5	107.5	120.9	113.2	110.5	110.9	105.6	101.2	102.5	105.1
	- Non-public	100.0	117.4	107.4	117.2	138.2	108.4	136.2	110.9	108.5	103.9	114.9
2	***Lecturers***	107.6	103.4	119.1	101.9	109.9	***108.4***	105.1	108.2	114.7	107.2	***108.8***
	- Public	106.3	104.6	114.5	105.0	108.7	107.8	112.2	106.8	110.2	105.0	108.6
	- Non-public	116.7	96.1	150.9	85.8	117.8	113.5	62.8	122.1	157.0	121.4	115.8
3	***Students***	***104.8***	***110.8***	***116.7***	***105.1***	***120.1***	***111.5***	***96.2***	***107.2***	***113.8***	***110.5***	***106.9***
	- Public	104.1	109.4	118.9	103.8	118.8	111.0	97.1	106.1	110.3	110.4	106.0
	- Non-public	110.6	122.6	100.5	116.4	130.6	116.1	90.1	115.5	137.4	111.4	113.6
4	***Graduating students***	***98.7***	***99.3***	***118.1***	***107.8***	***110.2***	***106.8***	***100.6***	***95.2***	***110.7***		***102.2***
	- Public	96.9	100	118.5	107.8	111	106.8	99.4	97	107.3		101.2
	- Non-public	124.7	91.8	113.5	107.9	100.2	107.6	117.5	74.5	162.1		118.0

Source: Ministry of Education and Training.

The quality of tertiary education differed between regular education and continuing education, in-service education; between some major public universities and local public and private universities. In addition to different source of recruitment, the quality of teachers also posed a problem. Even in existing public universities, the qualification of teachers and lecturers also differed between top and prestigious universities and young ones. For example, in the National University, the ratio of lecturers having doctorate degrees was up to 34.9%, but those of regional universities and local universities were only 7% and 1.2% respectively. The ratio of lecturer per students was far smaller than 1/20 (in some countries, the ratio was only 1/10 or even higher). The ratio of professor or associate professor per student attained about 1/617.

Compared with the targets set out in the Education Strategy for 2001-2010, Vietnam has fulfilled many regarding scale and number of universities and colleges. However, the development of community colleges received inadequate attention. The transformation towards demand-based training was still slow. Also, the increase in number of universities and colleges failed to be accompanied by sufficient quality. Vietnam failed to accomplished some targets such as: the ratio of students per lecturer; the ratio of lecturers having doctorate degrees. The quality of mass education remained limited and hardly satisfied the requirements of socio-economic development process, especially in the context of international integration.

Some main reasons for the achievements are as follows:

- The Ministry of Education and Training published the framework curriculum at tertiary level and deployed providing refresher courses for lecturers; it also implemented advanced training programs in English in some leading universities to create high quality labor force.

- Renovation of university management was identified as a breakthrough to comprehensively and boldly upgrade university education; 2010 marked the first year of renovating university education management, of finalizing mechanisms and policies on establishing universities, of investment and ensuring quality of university education.

- Science and technology activities of universities and colleges progressed towards closer connection with training activities, especially in postgraduate education, seeking to support socio-economic development in Vietnam. Most universities paid sufficient attention to and invested in science and technology activities as well as encouraged the practices of compiling textbooks, lectures, translating materials and procuring copyrights. Many universities could provide enough textbooks and materials for teaching, learning and research on their own.

- The Ministry of Education and Training renovated teaching program, contents and methods to ensure inheritance, advancement and satisfaction of integration-induced requirements, whilst maintaining consistency with socio-economic development and regional features in Vietnam.

9.3.3. Socialization

The number of non-public universities and colleges increased continuously at a faster pace in 2007-2011 (11.5% per annum) than in 2002-2006 (10.8% per annum). The average growth of university graduates also accelerated from 10.8% per annum in 2002-

2006 to 11.8% per annum during 2007-2011. Vocational training socialization produced some initial results and many organizations, enterprises and individuals invested in establishing vocational training units. In 2008, the non-public entities accounted for 32.4% of total vocational training units. Socio-political organizations and professional associations actively took part in vocational training as well as propagandized and motivated their members to learn at vocational training units.

As a notable impact of international economic integration, FDI into Vietnam's universities and colleges increased in 2007-2011, notwithstanding small scale relative to total FDI (only 94 out of 8,000 FDI projects). Hochiminh City received 59 FDI projects to establish education and training units with total registered capital of over USD 33 million. The figures for Hanoi were 21 FDI projects and USD 3.5 million. Other provinces and cities like Hai Phong, Ha Tay, Da Nang, Hai Duong also had FDI projects to establish education and training institutions (with capital between USD 0.5 million and USD 1 million). The biggest sources of FDI were Australia (10 projects) and Singapore (23 projects with small scale). The United States, England, Korea and Japan also invested in vocational training, foreign language training and general training projects in Vietnam. Regarding investment sub-sector, most projects were concentrated on vocational training, foreign language teaching and IT training. Nevertheless, the average scale of an FDI project in education was relatively small (about USD 1.3 million) and FDI capital in education services increased slowly and unevenly, thus failing to meet demand.

At present, Vietnam only has two wholly-foreign-owned international universities, namely British University (English investor) and Vietnam RMIT University (Australia investor). After 5 years of operating in Vietnam, Vietnam RMIT University had a registered capital of nearly USD 4 million with established teaching units in Hochiminh city and Hanoi. Despite modest number of students, the two international universities partly met the demand of both Vietnamese and foreign students for studying in Vietnam with internationally accepted quality.

Notably, the establishment of foreign-invested universities created spill-over effect by increasing competition between domestic universities and colleges and foreign ones in Vietnam. Many universities cooperated with foreign partners to provide education services with international programs to meet demand of domestic and foreign enterprises. As of December 2008, 23 international advanced training programs were taught in English at 17 universities.

In the context of deeper and broader integration, higher demand for qualified labor force encouraged training units to upgrade training programs, quality of lecturers and forced education and training sector to improve training quality.

9.4. Vocational Education

9.4.1. Scale

In 2007-2010, the number of professional secondary schools increased by 5.4% per annum on average, i.e. slower than in 2002-2006 (9.8% per annum). The vocational training system with 3 levels - namely primary vocational training, intermediate vocational training and higher vocational training - replaced the former system with just short-term and long-term vocational training. The network of vocational training units

could partly meet the diversified demand for qualified technical staffs in the labor market, including higher demand for highly skilled workers in the context of international economic integration.

The network of vocational training units was broadened with presence in all provinces and cities. The scale of professional secondary training increased by 14.7% per annum on average in 2002-2006. During 2007-2011, the figure decelerated to 11.7% per annum on average. The number of teachers in professional secondary units rose by 4.7% per annum on average in the years 2007-2011, i.e. slower than that of 8.4% per annum in 2002-2006. The qualification of teachers was improved, but the average number of pupils per teacher remained high (20.3).

To reach the above achievements, the Ministry of Education and Training amended policies on student recruitment and instructed professional secondary schools and professional secondary units to propose their own training quotas based on quality assurance. Most of the professional secondary schools applied non-exam assessment to reduce exam pressure, burden and cost for people and the society, with greater convenience for students. The Ministry of Education and Training continued to direct inter-school councils to prepare framework programs to ensure training standards at professional secondary schools.

However, the scale of vocational education failed to support labor force development and shift in labor structure alongside industrialization and diversified development of vocational training majors. The ratio of trained labors remained low (about 40%), especially in rural areas. The training structure was still inadequate. The correlation between labors having tertiary and higher qualifications, labors having industrial high school degrees and technical workers was 1-1.3-0.92, much higher than the world level of 1-4-10. The vocational skills of students failed to suffice. In the North West and Central Highlands, the modest density of professional secondary schools prevented them from training sufficient labors to meet local demand. In fact, the society did not appreciate the role of vocational education.

According to the WB, Vietnam arguably lacked skilled labors, trained technical workers, while quality of its labor force lagged far behind many countries. In 2010, the quality of Vietnam's labor force was only given a score of 3.8 out of 10 (ranking 11th out of 12 Asian countries rated by WB), while the scores for Korea, India, Malaysia and Thailand were 6.9, 5.8, 5.6 and 4.9, respectively.[62]

In recent years, the Ministry of Education and Training attempted to channel pupils at secondary and high school levels, with the target of about 30% of graduates from secondary schools and 60-70% of graduates from high schools going to vocational schools and professional secondary schools, joining in continuing education or participating in the labour force. Nonetheless, the ratio of graduates from secondary schools going to vocational schools or professional secondary schools was tiny, reaching only about 2-2.5%. About 30% of graduates from high schools went to vocational schools and professional secondary schools while the remaining 30% did not. Adding up

[62] *Source*: Global Competitiveness Report, WB (2010).

with the number of pupils who failed the final exam and quitted school, the annual sum was about 400,000 pupils. This caused a big waste.

Despite improved awareness of all government levels and sectors on vocational training, some provinces, cities and agencies still failed to appropriately appreciate the role of vocational training in upgrading quality of technical labor force - a decisive factor for sustainable socio-economic development. The State had no strategy for national labor force development; while local and sectoral strategies, projects, socio-economic development plans hardly incorporated the issue of labor force development.

9.4.2. Quality

The structure of training majors gradually shifted in line with the structure of sectors, businesses and services. Many new vocational training majors were opened to meet market demand, changes in economic structure of agriculture, rural areas and creating jobs for employees. In the years 2007-2011, vocational training recovered with material progress after a prolonged reduction, basically satisfying demand of the labor market. The quality of vocational training was significantly improved, somehow helping prepare the labor force for international economic integration. In 2008, a list of vocational training majors was published, including 301 at college level, 385 at professional secondary level, i.e. larger scope than list in 1992 (with 226 long-term vocational training majors).

The conditions for vocational training quality were improved. Both the number and quality of vocational teachers were increased. Vocational training curricula were updated in line with actual technical and technology progress, aiming at improving the vocational skills of learners. By the end of 2008, 108 framework programs at vocational professional secondary and college levels were built to incorporate substances of applying advanced international methods. Most vocational training units invested in improving vocational training infrastructure and equipment. The quality and efficiency of vocational training were significantly improved.

The training quality of some vocational majors such as medicine and pharmacy, agriculture, mechanics, construction, transportation could partly meet actual demand of production and life. The students in Vietnamese vocational training units won prizes and were highly ranked in South East Asian vocational contests.

Vietnam also deployed enterprise quality testing and vocational skill assessment. The year 2008 saw the introduction of 10 sets of national vocational skill standards and pilot assessment of labors' vocational skills in two handicraft majors. The State management apparatus on vocational training from the central level to local level was strengthened. Most departments of labors, invalids and social affairs had a vocational training division.

Forms and modes of vocational training were gradually diversified, including: regular vocational training, continuous vocational training, full-time vocational training, mobile vocational training and vocational training in enterprises and trade villages. On-demand vocational training was in pilot for some targeted groups, people whose cultivating land was reclaimed and ethnic minorities. Vocational training supporting policies also targeted ethnic minorities, demobilized soldiers, poor people, disabled people and rural labors. Credit policies for pupils and students were also issued.

However, the quality of vocational training was generally low, especially related to practice skills and industrial working style. Vocational training tended to focus on the supply factors. The low quality of vocational training failed to appropriately prepare direct technical labor force for production, business and services in all aspects from number, quality, structure of qualification, structure of majors and structure of region – despite demand from industrialization, modernization and international economic integration. The scale of long-term vocational training and professional secondary training was modest relative to market demand. The quality of labor force continued to undermine net benefits from international economic integration.

Some major reasons for the above situation include: slow adjustment of policies on vocational training relative to the transition towards a socialism-oriented market economy. The salary policy failed to provide sufficient incentives for vocational teachers. There was no salary policy for graduates from three vocational training levels. Some policies, especially mechanisms and policies on vocational training in enterprises and trade villages, remained absent and incomprehensive. Some policies made very slow progress, namely credit policy, policy on assigning and leasing lands, policy on preferential corporate income tax for vocational training units.

Meanwhile, the quality of vocational teachers was modest. Those having qualified skills and expertise only accounted for 71.6% of vocational teachers. Some targets in the Education Strategy for 2001-2010 were yet to be satisfied.

9.4.3. Socialization

Vocational training gained some initial progress toward socialization. Many organizations, enterprises and individuals established vocational training units with good facilities and advanced training programs to compete with each other and with foreign-invested vocational training units. Socio-political organizations and professional associations took active part in vocational training, propagandized and encouraged their members to train at vocational training units. As a remarkable feature in 2007-2011, non-public vocational training institutions proliferated. Vietnam currently has 135 vocational colleges (of which 33 are non-public), 320 vocational secondary schools (of which 111 are non-public); 840 vocational training centers (of which 296 are non-public); and more than 1,000 other units (education and training units and enterprises) providing vocational training services.

9.5. Continuing Education

9.5.1. Scale

In recent years, the network of continuing education (including community learning centers, continuing education centers, foreign language and IT centers) developed drastically, covering most communes, wards and partly met the demand of working classes.

During 2007-2011, Vietnam could maintain the results of no illiteracy, universalization of primary education and continued to universalize secondary education. The literacy rate among the population of over 10 years old increased slightly compared with the 2002-2006 period. The literacy rate among those of between 15 and 35 years old

contracted from 96% in 2006 to 93.5% (the respective figures for female and male being 91.4% and 95.8%), but went up again in 2010-2011. Many communes and wards met the targets of illiteracy eradication and primary education universalization. At the end of 2010, the ratio of people between 15-18 years old graduating from regular and supplementary secondary schools was 87.3%.

The above progress resulted from illiteracy eradication classes and localities' attention to open classes of science and life – serving to provide supplementary knowledge and life skills with practical application in daily life and production. In 2002-2006, the special-topic classes had an average of 4 million participants per year; the figure than rose to nearly 10 million in 2007-2011.

In the years 2007-2011, continuing education was further promoted, thus providing more education opportunities for people. The number of participants in continuing education at primary education level and upper secondary education level tended to increase from one year to another, while that at secondary education level fell over time. By August 2008, 42 provinces and cities had fulfilled national standards on secondary education universalization.

Compared with the years 2002-2006, the period of 2007-2011 witnessed better satisfaction of on-demand education. In line with the development of media and printing technology, distance education made remarkable progress, of which the graduates from teaching and foreign language majors accounted for a large proportion. Many curricula on foreign language, IT, supplementing knowledge on social and cultural aspects, economic management were broadcast on TV and radio. 12 universities currently provide distance training programs for learners at tertiary level. Some universities cooperate with central television station and local radio and television stations to implement distance education programs or to provide pilot training services through internet/cable network.

9.5.2. Quality

The quality of supplementary upper secondary education made big progresses. Many communes in all regions had community learning centers. They became very useful and effective for life and culture activities of communities. Basically, the targets on education for all people were achieved. These achievements resulted from more diversified contents and forms of education. Many localities combined education with vocational training and job consultancy and organized special-topic classes to disseminate knowledge.

Nonetheless, continuing education still had some weaknesses as follows:

- Notwithstanding broader network, continuing education still failed to meet the demand of all groups and levels of learners. Up to 2010, only 87.3% districts had a district-level continuing education center (lower than the target of 100%); 57 out of 63 provinces and cities had provincial-level continuing education centers. Meanwhile, the scale of some education and training sub-sectors such as in-service training, foreign language and IT training were rapidly expanded, exceeding the management capacity and conditions for quality assurance.

- The quality of continuing education, especially in-service and distance training with certificates, remained modest; quality management was loose.

As the main reason, loose management and supervision on cooperative training programs with secondary and tertiary certificates. Consequently, the certificates at times failed to reflect technical skills and knowledge of graduates.

9.5.3. Socialization

The majority of continuing education network resulted from some private efforts. Many universities deployed distance training programs. In addition, many foreign-invested centers for foreign language, IT training and skill improvement operated in Vietnam. The socialization of vocational training led to some initial results and many organization, enterprises and individuals invested in vocational training units. In 2008, the non-public sector accounted for 32.4% of vocational training units. Socio-political organizations and professional associations took active part in vocational training as well as propagandized and encouraged members to train at vocational training units.

Education socialization was among the key factors promoting education development. By July 2007, total value of contributions by enterprises and individual donors was over VND 900 billion, over USD 22 million, GBP 232 thousand and 1.5 million squared meters of land to build schools. By January 2010, the corresponding figures were VND 1.293 trillion, USD 17.9 million, EUR 276.8 thousand and 167 thousand squared meters of land for education.

Compared with the targets set out in the Education Strategy for 2001-2010, Vietnam fulfilled those related to nationwide illiteracy eradication and secondary and upper secondary universalization before the year of 2000. At the end of 2010, the literacy rate among the population of above 15 years old exceeded 97.8% (the target was 98%), of which the figure among adults of 15-35 years old reached 98.9% (the target was 99%). The literacy rates for males and females of over 15 years old were 98.1% and 97.5% respectively (the target involved equal ratios). By 2010, over 82% of communes, wards and towns had community learning centers (the target was 80%).

Some targets were not achieved such as: the ratio of pupils going to non-public (short-term and long-term) vocational training units in 2010 being 31.2% (much lower than the target of 70%); the ratio of non-public professional secondary pupils in 2010 being 24.8% (target of about 30%); the ratio of non-public students in 2010 being 14.1% (target of 30%).

9.6. Resource Mobilization for Education

Investment in education and training went up by 27.4% in 2006. From 2007, the pace of growth decelerated continuously before reaching only 6.3% in 2011. That is, investment into education and training increased more slowly in 2007-2011 than in 2002-2006. Since Vietnam joined the WTO, the share of education and training in total investment also tended to contract.

State budget has been the main source to finance education and training. State budget for education increased drastically since the introduction of the Resolution No. 2 of the Central Party Committee (Term VIII). High priorities for education in the last 10 years evidenced the attention of the Communist Party and the Government to education development. State budget expenditure for education and training per pupil/learner rose

sharply from USD 76 USD in 2000 to USD 203 USD in 2006. The proportion of education and training in total state budget expenditure climbed from 15.5% in 2001 (equivalent to 4.1% of GDP) to 18.4% in 2006 (5.6% of GDP). Since 2007-2008, the Government alloted 20% of state budget expenditure for education and training, reaching the target level approved by the National Assembly for 2010. Many big programs and projects sought to mobilize diversified and maximum resources for education development, especially for general education. State budget expenditure partly targeted education universalization at all levels, ethnic minorities, regions with particular difficulties and development of teachers. The state budget expenditure on education had larger shares of education universalization at levels, regions with particular difficulties and targeted areas in human resource development. In 2004, education accounted for 10.4% of total capital investment expenditure from the State budget, nearly 4 times higher than that in 1990-1995 (2.7%) whilst being the highest share among all social sectors.

State budget expenditure on education increased continuously. The ratio of expenditure on education over GDP rose from 4.1% in 2001 to 5.6% in 2008. Vietnam was among the top countries in terms of education expenditure over GDP. This again evidenced the State's attention for education. However, due to small GDP, the expenditure per capita was modest. The state budget investment capital for education increased from VND 19.7 trillion in 2001 to VND 81.4 trillion in 2008 (accounting for 15.5% of total state budget expenditure). Capital from bond issuance, foreign loans and ODA grants was also mobilized to implement national target programs in education. This solid financial base supported the development and modernization of education at all levels in general and implementing main targets of education in particular.

The localities mobilized more funds from local budgets as well as other funds to improve facilities of schools, thereby gradually upgrading quality of teaching and learning. On annual average in 2001-2010, the funds from local budgets and communities were equivalent to 25-33% of total cost of national target programs implemented in the localities. The State issued policies on salaries and salary-based allowances for teachers, especially those in areas with special difficulties, to increase their income.

Investment for vocational training was increasing, with the State budget assuming a leading role. In 2008, vocational training accounted for about 7.5% of State budget expenditure for education. The project on improving vocational training capacity under the national target program on education and training up to 2010 and ODA projects on vocational training in recent years concentrated on upgrading facilities, developing training programs with advanced methods, providing further training for key trainers, forming a system of national vocational training quality testing and vocational skill assessment as well as applying some pilot vocational training models to develop vocational education and training.

Recently, the policies on education socialization have encouraged investment into education and training, especially for development of non-public schools at pre-school, high school, industrial secondary, vocational training and tertiary levels to meet people's demand. Contributions from communities for secondary education increased from about VND 150 thousand per pupil in 2002 to VND 300 thousand per pupil in 2010. The ratio

of contributions from communities in total expenditure on secondary education decreased from 11.5% in 2002-2003 to 9% in 2010.

Pursuant to the Resolution No. 05/2005/NQ-CP on accelerating socialization of education, healthcare, culture and sport activities and the Resolution No.14/2005/NQ-CP on basically and comprehensively renovating Vietnam's tertiary education in 2006-2020, the Ministry of Education and Training submitted to the Government the Project on transforming semi-public tertiary schools into non-public ones. The Ministry also directed the implementation of financial autonomy and self-responsibility in public education and training units and development of non-public education; formulated policies and incentives to encourage education socialization (tax policy, investment policy, income policy…); prepared roadmaps and enforced mechanisms to transform semi-public schools into private ones.

Some regulations on investigation, supervision and financial disclosure in education units induced better efficiency of financial resources for education.

The policies on scholarships, tuition fee exemption and reduction, loans for targeted and poor students helped improve equality in education. Since the 2007-2008 school year, the pupils at vocational training institutions and tertiary students with difficulties could borrow money to finance their education. 752 thousand pupils and students were entitled to a loan of up to VND 800 thousand dong per month. After nearly 4 years of implementation, the outstanding loan under the program was VND 23.7 trillion, covering 1.9 million pupils and students.

Some shortcomings in mobilizing resources for education are as follows:

- Allocated current expenditure and capital investment expenditure failed to suffice for the demand of education. State budget expenditure per pupil/student in Vietnam remained low relative to other advanced countries in the region. The norms in allocating state budget for education and training incorporated few substances of ensuring the training quality. There was no clear responsibility in sharing training costs between the State and learners in vocational and tertiary education. Egalitarianism in education still existed.

- Inadequacies persisted in allocation of state budget for education across regions, especially for mountainous and remote areas as well as among schools. The grant of training funds based on standards and norms was still simple, ineffective and unfair. In some localities, funds for education were even misused.

- The tuition fee regime in effect since 1998 was not altered. The level of tuition fee was too low and failed to match the level of prices and policies on salary reform in recent years. The modality of tuition fee exemption and reduction in education and training units was inappropriate. The appropriate mechanisms to support pupils with difficulties to go to school remained absent.

- In general, the majority of teachers had lower income than those in other sectors (average salary of a teacher was about VND 2 million per month). Therefore, the livelihood of teachers encountered some difficulties.

- The mechanism of autonomy and self-responsibility regarding missions, organizational structure and finance in public education units failed to be enforced with material effectiveness.

- Despite existing policies and guidelines on encouraging education socialization, Vietnam still lacked effective mechanism to mobilize investment resources in education.

9.7. Impacts of International Economic Integration on Education and Training

International economic integration had both positive and unfavorable impacts on education and training. The positive impacts included:

- Enhanced education opportunities for the people. At present, the scale of tertiary education just meets 15-25% of demand of the upper secondary school graduates. The provision of foreign education services for Vietnamese pupils in Vietnam and abroad facilitated students' participation in tertiary or other levels of education.

- After Vietnam joined the WTO, foreign schools invested in the country and competed with domestic schools in attracting learners. A competition was in place regarding study conditions and education quality, thereby improving education and training quality and creating spillover effect on upgrading education and training quality.

- Education and training institutions had favorable conditions to develop and cooperate with foreign counterparts. The education and training sector had better access to and began to catch up with advancement in other countries.

- The training quality was improved in the directions of standardization, modernization and diversification to gradually meet the demand of industrialization and international economic integration.

However, Vietnam's education and training sector also encountered major challenges. Among them was the competitive pressure from training institutions invested by trans-national education service providers when the market of education and training was opened in line with WTO commitments.

The domestic training institutions commonly suffered from the much poorer remuneration relative to foreign counterparts. This led to "brain drain" from the State-owned institutions to private ones, especially to foreign-invested ones. The salary regime caused teachers to focus more on number of classes, rather than their quality. As a result, it would undermine the quality of training.

9.8. General Assessments

9.8.1. Achievements

- The scale of education and the network of education institutions were developed and could better meet demand of the society;

- Quality of education at all levels was improved;

- All provinces and cities achieved the national standards on eradicating illiteracy and universalizing primary and secondary education;

- Education socialization and resource mobilization for education made some initial progresses;

- Better social equality in education, especially in enhancing education opportunities for girls, ethnic children, children in poor families and disabled children; *and*

- Progresses in education management.

The above achievements affirmed the important role of education in increasing intellectual standards of people, training labor force and creating talent source for the country. Education played an important role in socio-economic development, ensuring political security in the past 25 years of renovation.

Underlying reasons for the above achievements were as follows:

- Decisive roles of the Communist Party's leadership, governance of the government and government at local levels, attention and contribution of socio-economic organizations and people to education. The policies on education and training development were amended in line with international economic integration and concretized by resolutions of the National Assembly and the Prime Minister.

- Political stability, economic achievements and improvements of living standard, which created a favorable condition for education development.

- Patriotism, caring attitudes to pupils and teaching careers, efforts of teachers and determined reforms in education and training renovation, which contributed essentially to completing education missions.

- The eagerness to learn as tradition in Vietnam. People invested a lot in education, encouraged their children to overcome difficulties and study hard. They also supported the schools in providing favorable teaching and learning conditions.

9.8.2. Shortcomings

The international integration brought both ample opportunities and material challenges for education. Formalism and fame-seeking behaviors were still popular; over emphasis on grades and degrees ruled over teaching, learning and examinations. The market economy had some adverse impacts on education. The learning demand of people increased over time while capability of the education system and national economic development level remained limited.

Shortcomings:

- Education quality failed to meet the rising demand on quality to support enterprises and development of the country in international economic integration context. The streaming of secondary pupils and profession-oriented education was ineffective.

- The management agencies at all levels paid inadequate attention to planning and developing staffs for education and training. A sizeable portion of teachers and education managers lack capacity to fulfil education mission in the new era.

- The curricular still lacked continuity between learning and training levels. Renovation of general education was not in line with amendment of training missions and further training for teachers in teacher training schools.

- Education programs, textbooks and methods from preschool level to university level were slowly updated. The curricula still emphasized theoretical substances and hardly satisfied education objectives.

- In many regions/areas, especially in those with socio-economic difficulties, the education institutions still possessed inadequate, outdated facilities, thus unable to meet

the demand of improving and renovating comprehensively education quality. In those regions/areas, the proportion of weak pupils was sizeable; encouraging pupils to go to school and maintaining the ratio of regular attendance were very difficult.

Reasons for the shortcomings:

- The viewpoint of education as the first national policy was not thoroughly understood at all education management levels.

- Education ideology exhibited slow adaptation to socialism-oriented market economy in the process of international economic integration.

- Education management remained inadequate. Efficiency of state management apparatus in education and training at provincial and district levels failed to match the assigned tasks and missions. The education and training management staffs had insufficient capability and professionalism, and was unable to meet the job demand. The investigation and inspection received hardly enough attention.

- Other external factors such as global financial crisis and economic recession, climate changes also magnified the shortcomings of education.

10. HEALTH

International economic integration had both positive and negative impacts on people's health and healthcare sector via some channels as follows:

- Regarding demand for clinics and treatment: international economic integration affected economic growth, income, social welfares, living conditions and quality of goods and services, thus affecting people's health. High income and better transportation facilitated better access to high quality health services.

- Regarding health service provision: economic development had direct impacts on state budget as well as state budget for health. This induced changes in health services and medical techniques. At the same time, better access to world science and technology and imported medicines helped increase quality of health and diversify health services, in turn having direct impacts on people's health. However, these also represented challenges for domestic medical enterprises, enterprises producing health equipment and medical biological products in competing with foreign products.

- Openness and integration offered an opportunity for Vietnam to attract investment from abroad such as ODA, FDI, capital of international non-government organizations to develop health network.

- Regarding disease model: changes in economic structure altered job structure, goods and services. As a result, the job-related diseases would vary. Some imported goods containing toxics and infectious disease germs could increase disease factors, leading to changes in disease models. Increase of foreign trade and tourists partly caused more cross border infectious diseases, putting pressure on the health sector.

- Regarding quarantine: International economic integration raised global issues such as the quality of goods, including product quarantine and testing to protect the health of consumers and natural environment.

10.1. Key Progress in Health Sector

10.1.1. People's health

Average life expectancy of Vietnamese people rose from 71.3 years to 73.1 years in 2007-2011, higher than in 2002-2006. Other health indicators also showed the progress over time, but some indicators decreased faster in 2002-2006 than in the 2007-2010 (such as the mortality rate of children under 1 year old; the mortality rate of children under 5 years old; prevalence of child malnutrition; prevalence of child undernourishment; the maternal mortality rate). [63] With its achievements, Vietnam was highly appreciated by the World Health Organization (WHO) as one of the few countries with lower mortality rate of children than those with similar income per capita. Vietnam was 1 of the 9 countries to reach millennium development goals earlier than planned (before 2015) and 1 of the 3 countries with rapid decrease in maternal mortality (over 75%).

Table 71: Some Indicators of People's Health

Indicators	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*
Life expectancy	71.3	71.3	71.3	71.3	71.3	72.8	73	72.8	73.0		
Mortality rate of children under 1 (‰)	26.0	21.0	18.0	17.8	16.0	16.0	15.0	16.0	15.8		
Mortality rate of children under 5 (‰)	35.0	32.8	28.5	27.5	26.0	25.9	25.5	25.0	23.8		
Proportion of new-born children weighed under 2500g	7.0	5.8	5.8	5.1	5.3	5.1	5.3	5.3	-		
Prevalence of undernourishment among children under 5 (weight/age)	30.1	28.4	26.6	25.2	23.4	21.2	19.9	18.9	17.5	16.8	16.3
Maternal mortality rate (over 100.000 survival children)	91.0	85.0	85.0	80.0	75.1	75.0	75.0	69.0	68.0	66	64
Full vaccination for children under 1 (%)	89.7	96.7	96.5	97.8	95.7	81.8	81.8	96.3	-		

Many factors helped improve health and life expectancy of people such as nutrition, living conditions, living style, access to health services, access to potential disease factors, etc. They were in turn affected by many reasons. Apparently, in 2007-2011, living standard continued to be improved, with better nutrition and access to medical services. Nonetheless, the risk of access to disease factors also increased.

10.1.2. Health System

* Public health units

The number of units for clinics and treatment increased during both periods (by 181 in the 2002-2006 period and by 185 in the 2007-2011). Thanks to upgradation and new construction, the number of hospitals went up by 156 in 2002-2006 and 134 in 2007-2011. The number of polytechnical departments tended to decrease faster (by 202 in 2007-2011 compared with 13 in 2002-2006) as many of them were upgraded to hospitals. In 2007-2011, the number of general and alterative hospitals rose by 13 units (whilst

[63] At a low level, some health indicators change significantly upon an intervention. However, after reaching certain level, they only change slightly despite larger intervention and converge to the maximum level.

decreasing by 28 units in 2002-2006) because of changes in disease models. The number of medical stations at commune and ward levels was higher in 2007-2011 than in 2002-2006 due to larger number of communal-level administrative units.

Table 72: Number of public health institutions

Type	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*
Hospitals	747	842	842	856	878	903	956	974	1,002	1,030	1,090
Regional polytechnical departments	860	912	930	881	880	847	829	781	682	622	627
General and alterative hospitals	79	76	77	53	53	51	51	40	43	44	64
Medial stations in communes and wards	9,903	10,396	10,448	10,516	10,613	10,672	10,851	10,917	10,979	11,028	11,730
'\Medial stations of agencies, enterprises	810	810	810	789	769	710	710	710	710	710	710
Other units	74	59	55	54	50	49	41	38	34	33	74
Total	**13,051**	**13,095**	**13,162**	**13,149**	**13,243**	**13,232**	**13,438**	**13,460**	**13,450**	**13,467**	**13,623**

Despite slight increases of medical institutions, the number of patient beds rose remarkably. The average growth of patient beds in 2007-2011 was nearly 4 times faster than in 2002-2006 (12.6 thousand beds to 63.9 thousand beds). This resulted from increasing investment in health sector over time thanks to new mechanism and policy on contributions, hospital fees and attracting investment into the sector. Those policies were in line with people's demand and helped reduce the burden on national budget.

The number of health staffs increased continuously thank to education guidelines and policies as well as the demand of labours in the sector. Meanwhile, the number of pharmacists in state-owned sector fell sharply, from 6,000 pharmacists with tertiary qualifications in 2001 to 5,500 people in 2006 and 5,600 people in 2010. Due to international economic integration and economic development, the private and foreign medical enterprises in Vietnam could attract highly qualified staffs by offering better salary and remuneration than the state-owned sector.

* The network of private medical units

The period of 2007-2011 witnessed a big development of private clinics and hospitals. Before 2006, Vietnam only had 35 private hospitals. However, up to 2007, there were 44 private second-grade hospitals; up to 2011, the figure rose to 132 private hospitals in 30 provinces and cities, with more concentration in Hochiminh City (30 hospitals) and Hanoi (12 hospitals). In addition, Department on Health Care Management granted new or extended certificates of private medicinal practice for 48 FDI-invested hospitals and clinics; granted or extended certificates of private medicinal practice for 338 doctors as leaders in hospitals; and approved 81 projects on establishing hospitals with 20,028 patient beds in total.

The number of sickbeds in private hospitals was 6,210, equivalent to 3.7% of those in public hospitals. The ratio of sickbeds per 10,000 people was 0.7. On average, the ratio of private medical practitioners per 100,000 people was 28. Nearly 70% of doctors with private medical practices worked in the public sector and only conducted such practices in after-hours clinics.

The drastic development of private medical network in 2006-2007 resulted from improved legal frameworks on conditions for establishing and operating non-public medical institutions. In addition, since Vietnam joined the WTO, the private sector had better access to equipment and pharmaceutical products which were competitive in terms of type, quality and price.

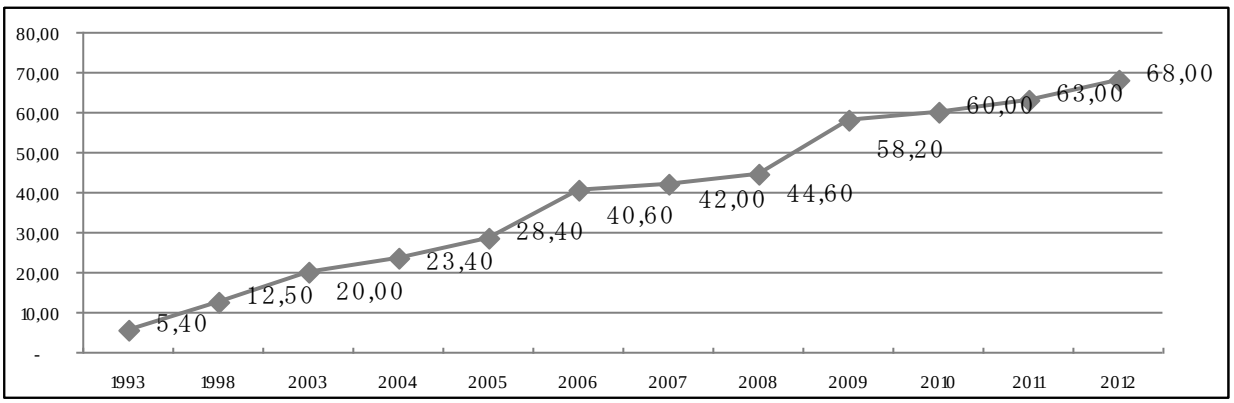
10.1.3. Access to Health Services by Social Group

Since 1994, people had to pay a part of medical cost. Because some poor and near-poor people could not afford medical costs, since 2002, the State has granted free health insurance cards for poor peoples. In the 2002-2006 period, alongside economic development, the number of people having health insurance tended to increase, with the majority being workers in enterprises and state officials and civil servants.

In 2008-2010, the number of people having health insurance increased sharply after the Health Insurance Law which extended health insurance to pupils, students, near-poor people, targeted groups and soldiers. The Law provided better conditions for people to access health insurance. The Law also identified pupils, student, near-poor people, ethnic minorities and children under 6 years old as beneficiaries of health insurance allowances. This represented a breakthrough in universalizing medical insurance. The coverage ratio of medical insurance rose from 20.0% in 2003 to 40.6% in 2006 and 68% in 2012. The Government is currently mobilizing resources and establishing legal framework for universal health insurance.

Figure 41: Coverage Ratio of Health Insurance over Years

(Number of people having health insurance over total population, %)

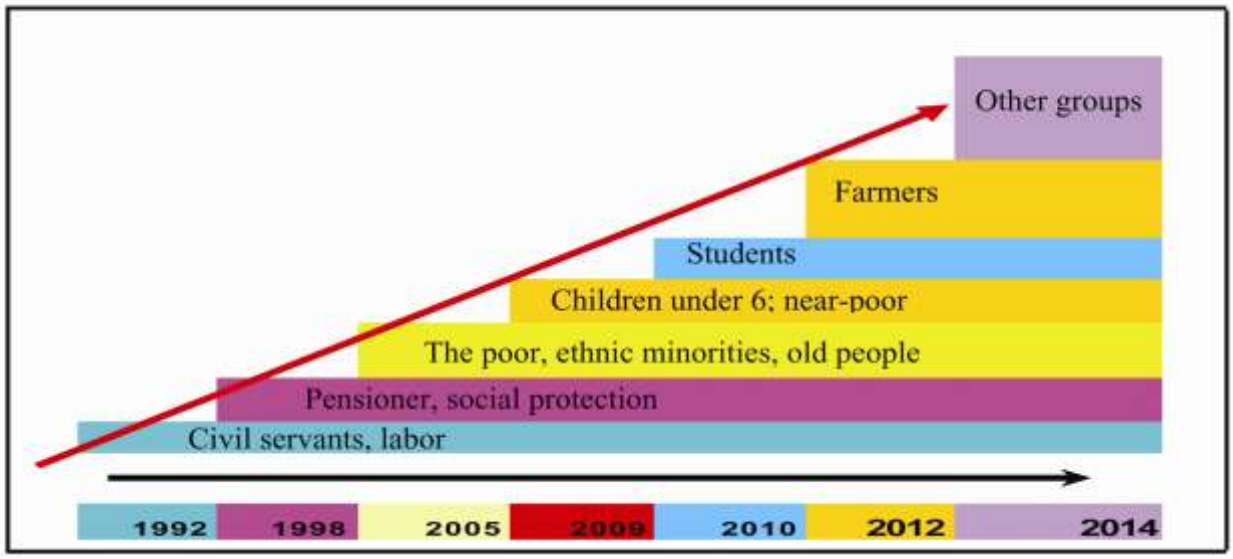


Source: Annual reports on Vietnam Social Insurance, Annual Yearbooks on medical statistics for 2001-2012 and Ministry of Health's 2001-2012 annual reports.

To meet the demand for health care and international economic integration, the health system has been improved towards ensuring equality and effectiveness, seeking to create favorable conditions for protecting, taking care of and improving all people's

health with better quality in line with national socio-economic development. Many policies have been implemented, such as reforms of operational and financial mechanisms of public medical institutions; encouragement for socialization to meet higher and more diversified demand for health care; and increases the choices of medical services for the people.

Figure 42: Roadmap for Universaling Health Insurance



In 2007-2010, state budget expenditure on health was concentrated for preventive healthcare; development of medical institutions at local levels, remote areas and those with particular difficulties. In recent years, with assistances from some international organizations, many projects were implemented in the remote regions such as Central Highlands, the coastal South Central region, the North Central region, the Mekong River Delta and the Northern Mountainous region.

Vietnam has implemented the policies on autonomy and socialization of health services to financially ensure health activities, including health service fees. Some medical institutions actively increased the quality of some services by differentiated service packages to meet people's demand and financing capacity. There was thus a gap in accessing and using health services across income groups.

A portion of the population remained poor and could not afford health service costs. Despite the State's social insurance policy to ensure universal access to health services, health insurance only covered about 60% of the population. Policies of the State and the Communist Party had some progresses in providing health services for poor people, ethnic minorities, females, children and old people. However, the expenditure on healthcare was still spread across many items while total budget for healthcare remained limited, thereby restraining the improvement of health service quality.

Actual situation and health development plans saw major gaps in investment and access to health services across regions. The specialized hospitals and central hospitals are located in big cities. Meanwhile, some regions like the Central Highlands, the North West, the North Central region and the South West with underdeveloped transport system

and other remote regions suffered from the lack of good hospitals, thereby deterring local people's access to high quality health services.

Vietnam has improved the strategies on developing medical network at local levels to improve quality of healthcare activities, including access to medical services for all people. Nonetheless, the country still encountered various challenges in improving health services through developing specialized and high technical medical institutions at local levels - to provide good health services to all people - in the context of low public expenditure on healthcare.

10.1.4. Impacts on Disease Structure

In 2007-2010, the acquisitions and deaths caused by diseases tended to decrease. For infectious diseases, the rate of acquisition was reduced but the death toll went up. This might result from higher living standard, better prevention and cure of diseases, leading to smaller number of acquisitions. Nevertheless, the integration process also magnified the risks of some cross-border diseases, especially some serious ones such as Influenza A subtype H5N1, Influenza A subtype H1N1, cholera. In particular, Influenza A subtype H1N1 could spread very rapidly.

Table 73: Structure of Diseases (%)

Type of disease		*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Infectious diseases	Acquisition	27.16	27.44	26.13	25.18	24.94	25.73	25.15	22.90	19.82
	Death	18.20	17.42	17.00	16.53	13.23	15.41	17.23	14.08	30.08
Non-infectious diseases	Acquisition	63.65	60.61	60.81	62.16	62.40	60.65	63.14	66.32	71.56
	Death	63.28	59.12	57.91	61.14	61.62	60.13	60.02	63.34	45.50
Accidents, poisoning, injuries	Acquisition	9.18	11.95	13.06	12.65	12.66	13.62	11.72	10.78	8.63
	Death	18.52	23.46	25.09	22.33	25.15	24.47	22.75	22.58	24.42

In contrast, acquisitions of non-infectious diseases accounted for a larger share, but caused smaller incidence of deaths in 2007-2011 relative to the period of 2002-2006. After the WTO accession, easier procurement of modern technology equipment helped detect more cases of diseases. However, international economic integration also put more pressure on employees and increased the number of non-infectious cases (diabetes, caridovasclular, cancer and mental disease). Early detection and timely treatment were important causes for smaller death toll during 2007-2011 than in 2002-2006.

The acquisition rate of accidents, poisoning, trauma cases and deaths tended to increase in 2002-2006 before falling in the years 2007-2010. This resulted from the Government's better legal framework in preventing and controlling accidents, poisoning and trauma cases. In addition to the WTO accession, the standardizations of production processes and products (food stuffs, equipment) also helped reduce such cases.

10.2. Provision of Health Services

10.2.1. Technology and Techniques

Modern technologies and techniques have been broadly applied. In 2007-2011, the quality of health care in medical institutions at all levels was upgraded. Some new and advanced techniques were implemented successfully and became widely available in many hospitals such as: kidney transplant, liver transplant, vitro fertilisation, opened heart surgery, coronary angioplasty, endoscopy operation, bone transplant, marrow transplant, blood vein operation, replacement of articulation, blood filter and outside the body calculus pulverization. Many advanced techniques have been implemented at provincial level such as magnetic resonance imaging, computed tomography, digital subtraction angiography, pathology test, hematology, blood transfusion, microorganism, nuclear and laser medical. In the years 2002-2006, those techniques were quite rare. In 2011, some new techniques were introduced and applied in hospitals, for example full coax replacement, fixing acetabula bone break by using zigzag rims, machine placement to support aortic ventricle of heart and stent placement for abdominal aortic.

The number of nursing, aesthetic and medical care services also increased rapidly, from 9,500 in 2002-2006 to 22,000 in the years 2007-2010.

The above achievements were thanks to investment in medical equipment and medical techniques. Since Vietnam joined the WTO, the phasing out of tariff barriers has facilitated foreign products' penetration into domestic market. The medical institutions could easily access modern equipment which had not been available before. In addition, technology transfer has been promoted, leading to improved service quality and better satisfaction to the people. Vietnamese medical staffs also had more chances to cooperate, learn and share medical experiences and techniques with foreign experts.

The medical guidelines, on-site training and technique transfer for lower levels, especially in surgery and emergency treatment under the Project 1816, helped provincial hospitals improve quality of health care. Upper-level hospitals transferred more than 650 techniques under 26 majors and organized 500 training classes each year for lower-level counterparts. Over 80% of lower-level hospital could receive and apply new techniques after being transferred; 15% needed additional trainings and about 5% failed to acquire the transferred techniques.

10.2.2. Hospital Overload

Although the numbers of medical institutions, facilities and staffs increases from one year to another, the issue of hospital overload became gradually more serious. In the past, the issue seemed to be less popular. In the context of international economic integration, with higher living standards, people demanded more healthcare services. With convenient transport and communication, they tend to choose medical institutions that could offer the best medical quality.

75% of patients at upper-level hospitals were the ones bypassing lower-level hospitals. Of which, about 56% could access to health care services at lower levels. 50% of resident patients are ones who bypass lower-level hospitals.

The overload at central-level hospitals was increasing. The ratio of sickbed usage at these hospitals rose from 116% in 2009 to 120% in 2010, before falling to 118% in 2011. The overload issue was more prevalent in K hospital (249%); Bach Mai hospital (168%); Cho Ray hospital (154%); and central obstetrics and gynaecology hospital (124%). In these hospitals, the overload situation differed across departments/ specialties. The most serious overload was with such specialties as cancer, caridovasclular, trauma-orthopedic, obstetrics and paediatrics. The overload problem in central-level hospitals also happened in disease diagnosis. The provincial level hospitals had rather high incidences of overload, with the capacity usage of sickbeds at general and specialized hospitals in 2011 being 114%.

10.2.3. FDI Attraction in Medical Sector

In line with international economic integration, the health sector made progresses in attracting foreign investment. The implementation of investment commitments - including ones in health sector – made way for FDI inflows to Vietnam. 70 FDI projects already went in health sector. Notwithstanding relatively modest FDI in the sector, the Ministry of Health asserted the number of private and FDI-invested hospitals would increase rapidly, especially when various preferential investment policies in health care and treatment are implemented and barriers for private medical practice are removed upon applying special preferential tax and land policy. In addition, Vietnam would receive a lot of loans and assistances from abroad.

10.3. Market of Pharmaceutical Products, Cosmetics, Foodstuffs, Chemicals and Medical Equipment

To ensure implementation of international economic integration commitments and reduce the dependence on imported medicines, Vietnam issued the Development Plan for Vietnam's phamaceutical industry till 2015, with vision to 2020. The rules and standards of GMP, GLP, GSP, GDP and GPP were applied in line with the roadmap under regional and international integration.

Total expenditure on medicines as well as expenditure on medicines per capita increased continuously. Despite high value (accounting for nearly 60%), the proportion of imported pharmaceutical products drugs was lower in 2007-2010 than in 2002-2006 because some foreign investors already established their presence in Vietnam. Another reason concerns the higher prices of some pharmaceutical products, especially those for diabetes, cardiovascular diseases and blood pressure diseases.

Vietnam has made significant efforts in ensuring sufficient pharmaceutical supply for the people. The country currently has 18 central phamaceutical enterprises; 132 local phamaceutical enterprises; 22 drug production joint-ventures. The suppliers of essential medicines were present in all communes and wards, even in remote areas, including 10,317 pharmaceutical stores and 9,087 drug cupboards at medical stations. In line with the WTO commitments, some enterprises under the Ministry of Health were equitizied and operated under market mechanism.

Traditional medicine and pharmaceutical products yielded a solution to support healthcare and economic development. Various studies to inherit and improve traditional

remedies and treatment methods have been promoted. The local pharmaceutical ingredients have been used broadly to cure some normal and chronic diseases. Vietnam currently has over 450 traditional pharmaceutical producers with about 2,000 medicine products. Each year, about 30% of patients had clinical services and treatments with traditional medicine.

The WTO membership offered a good opportunity for chemical enterprises to import antiseptic and anti-virus chemical products for household and medical use into Vietnam. The country now enjoys a variety of products with many different uses. In addition to granting licenses based on scientific evidences for identifying effectiveness and safety of each chemical, the Ministry of Health instructed research institutes and universities to analyze the evidence for effectiveness and safety. Additionally, Vietnam has been studying and producing some chemicals to reduce import.

Food safety and hygiene encountered many challeges. Imported foods were very diverse with many kinds and models. The establishment of provincial-level food safety and hygiene department partly helped address difficulties in management. However, food safety and hygiene issues remained pressing in the absence of testing and evaluating equipment and facilities. Moreover, the management of imported goods faced complicated issues because many were recently imported into Vietnam through many forms - such as temporary import and re-export - or with small volume hrough border gates in Lang Son and Quang Ninh provinces.

10.4. Border Quarantine and Product Testing

The international medical quarantine system failed to meet practical demand. Vietnam had 13 international medical quarantine centers while the number of provinces with road border gates or airport border gates was 41. The facilities at quarantine centers, especially those used for testing laboratories, remained limited and could not satisfy demand.

The management of food safety and hygiene made big progress. Vietnam had 63 provincial departments for food safety and hygiene. However, they had insufficient equipments and facilities for testing food quality. The provincial departments could undertake some simple microbiology and chemical tests. Most complicated tests must be sent to leading institutes for implementation, with longer processing time and thus affecting food dealers and consumers' health in the sufficiency of tests to indentify complicated toxics.

Vietnam encountered many difficulties in protecting consumers. Many cosmetics and food with foreign origin were consumed in Vietnam. Many cases of foods imported in the form of temporary import and re-export were detected. This showed the potential threat of poor food hygiene and safety related to foreign products. Moreover, with long land border and coastal line, Vietnam could not have enough border policemen and customs to prevent and fight against smuggle activities. As a result, imported medicines, chemicals, cosmetics and foods into Vietnam without being tested posed a big threat to domestic consumers' health.

11. ENVIRONMENT

11.1. Assessment of Natural Resource Usage in 2007-2011

11.1.1. Forest and Biodiversity

In the years 2007-2011, the forest land in Vietnam continued to expand on average by 0.07% per annum, i.e. much slower than in 2002-2006 (0.55% per annum). Since 2008, while the areas of natural forests became smaller, those of planted forest increased rapidly. Notwithstanding larger forest coverage, the quality of forests was decreasing. Natural forests degraded in quality, two thirds of which were poor and regenerated forests. Upstream protective forests in big river basins had their purposes changed and were destroyed. The destruction of mangrove swamps for aquatic cultivation prevailed in some localities, leading to degradation of mangrove swamp ecology.

The direct causes of forest losses included changes of forest land into cultivation land, infrastructure development, illegal wood exploitation, over-exploitation and fires caused by people and natural disasters. Besides, there were indirect and root causes such as growth and modality of economic development, market changes and other issues of management and policies. Since Vietnam joined the WTO in 2007, the wood processing industry grew rapidly. Despite using about 80% of wood inputs from import, the industry still caused a big pressure for forest protection.

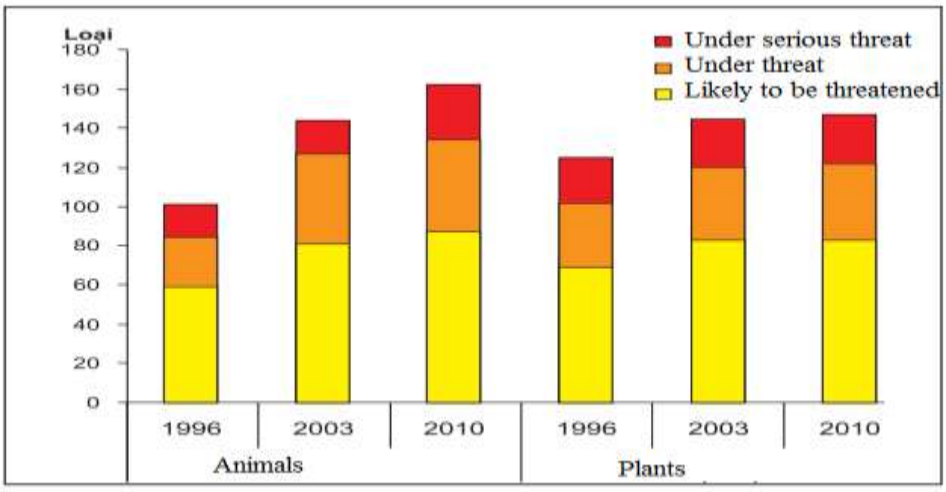
Threats to national biodiversity (Vietnam is one of the 16 countries with highest biodiversity) have been increasing. Up to 300 plants are currently in danger and their population decreased due to forest destruction and mobile cultivation; about 400 animals were threatened by the loss of living conditions and by people's hunting activities for trade purposes. The forests with high biodiversity only account for about 5% of natural forests and are spread in many areas; some of them are even located within agriculture cultivation areas and residential areas. The risk of extinction increased for valuable and rare animals in Vietnam due to illegal hunting and trading (for example, one-horn rhino, forestry elephants with tusks and tiger). Trading wild animals tends to increase with up to 1.556 wild animal-related cases being detected and seized. The import of harmful creatures presents a big problem. The management of genetically modified creatures still has many shortcomings. The open-door policy, convenient goods circulation, loose control and trade frauds, to some extent, constitute the main causes for this situation. They also reflect the complication and adverse impacts of market mechanism when the economy is opened and integrated without appropriate controls. Besides, the culture of consumption should be changed.

11.1.2. Land Resource

During the process of international economic integration, especially after the WTO accession, the increase of investment and trade activities increased pressure on land. The expansion of agricultural land and transformation of agricultural land into infrastructure and non-agriculture land with higher value became more popular, especially in city neighborhood regions. While the Red River Delta and the Mekong River Delta were under pressure to transform agricultural land and wetlands to urban one and IZs, the forest land in Northern Mountainous region and the Central Highlands were

changed into industrial crop areas due to rising market demand. The areas of agricultural land in convenient locations were narrowed drastically. The change of land purposes constituted one of the key factors reducing biodiversity resources.

Figure 43: Number of globally-threatened plants and animals of Vietnam



Vietnam encountered 3 long-term challenges in using land resources. *First*, the potential of exploiting unused lands was small while the land demand of different sectors increased rapidly alongside maintenance of agricultural land to ensure food security. Thus, Vietnam has no choice but improving the efficiency of land use. *Second*, the system of land management remained inadequate, lacking well-prepared plans for land use in urban areas and agriculture, thereby preventing mass production. Many sensitive land-related issues still need to be resolved. *Third*, climate changes adversely affected land area and land use regime, which necessitated effective adaptation in planning as well as an appropriate cultivation system for agricultural production.

Table 74: Situation and Results of Implementing Land Use Plan, 2001-2010

Land use indicator	*Area in 2000*	*Target for 2010*	*Area in 2010*	*Results of land use plan, 2001-2010 (%)*
1. Agricultural land	**20,388**	**26,220**	**26,022**	99.24
Rice cultivation land	4,468	3,996	4,098	102.55
Preventive forests	5,398	6,563	6,158	93.83
Specialized forests	1,443	1,978	2,128	107.58
Other agricultural lands	9,029	13,683	13,638	99.67
Of which:				
Land for annual crops (except rice cultivation land*)*	*1,699*	*2,587*	*2,232*	86.28
Land for perennial crops	*2,258*	*2,657*	*3,560*	133.99
Production forests	*4,734*	*7,702*	*7,095*	92.12
Aquatic cultivation land	*368*	*700*	*717*	102.43

Land use indicator	*Area in 2000*	*Target for 2010*	*Area in 2010*	*Results of land use plan, 2001-2010 (%)*
2. Non-agriculture land	**2,851**	**4,021**	**3,613**	89.85
Land for national defence [a]	189	252	276	109.52
Security land [b]	3	29	42	144.83
Land of IZs	23	101	96	95.05
Land for infrastructure development	819	1,136	1,139	100.26
3. Urban land [c]	**990**		**1,257**	
4. Land of natural reserve zones [d]			**2,238**	

Note: [a] Land for national defence excludes agricultural land, forestry land in places of execution, land for economic activities.

[b] Security land excludes agricultural land, forestry land in prisons.

[c] Residential land in urban areas, instead of urban land, is submitted to the National Assembly.

[d] Land of natural reserve zones - a new indicator - just appeared in this planning period.

Compared with the pre-WTO period, information on land was improved with higher transparency and publicity. However, such aspects of improvements need to be further incorporated in information on land use plans, especially in urban areas, IZs and lands for transport. The policies on land reclamation, land compensation, site clearance and compensation price still exhibited many issues.

11.1.3. Water Resources

About 60% of surface water resources in Vietnam's 6 river basins depend on international sources of water. Agriculture consumed the biggest volume of water (about 81%). The output of agricultural products increased continuously. Economical watering technologies were initially applied for terrestrial plants, not yet for rice cultivation. 60% of exploited underground water was used without plan and people's supervision.

Although industries only accounted for 5% of water usage, the volume of industrial waste water has been increasing, especially after Vietnam joined the WTO. Some enterprises operated for profits and ignored environmental problems, leading to environmental pollution caused by waste water. Production development in handicraft village used a lot of water while waste water was not treated. This was a main cause for pollution and degradation of water. Most small household businesses produced goods at home and the waste water was poured directly to the environment without treatment. There was little progress in environment protection and just a few industrial units had an effective system for waste water treatment. Awareness of economical water usage was modest, leading to losses of water for living and industrial activities.

Compared with pre-WTO period, people's living standard was significantly improved and the ratio of people using clean water increased rapidly from 62% in 2005

to 83% in 2010. Nonetheless, the coverage of water supply in urban areas was still low, reaching just 60-70%.

The above situation revealed many water-related challenges in the context of international economic integration and economic development, namely: water source security; effective water supply and sustainable water salinity; sustainable agriculture and irrigation services; and water source pollution and degradation. Also, natural disasters and climate changes would adversely affect water resources. Vietnam is projected to face with the risk of water shortage in the absence of effective management in the future.

11.1.4. Mineral Resources

Vietnam is rich of mineral resources with about 60 kinds of minerals. To date, a range of them have been exploited, processed and exported. Coal and crude oil have been most important minerals with high export volume. Other minerals were mostly processed and sold domestically. In the years 2007-2011, the value added of mining sector decreased by 0.4% per annum on average, mainly affected by the Government's policies on export fewer natural resources. Before 2009, exploited crude oil was all exported. Since the Dung Quat oil refinery plant came into operation, export volume of crude oil tended to decrease. In 2011, such exports only accounted for 46% of total exploited volume of crude oil.

Vietnam's energy demand is increasing, especially after the WTO accession. This also constitutes the key source of greenhouse gases.

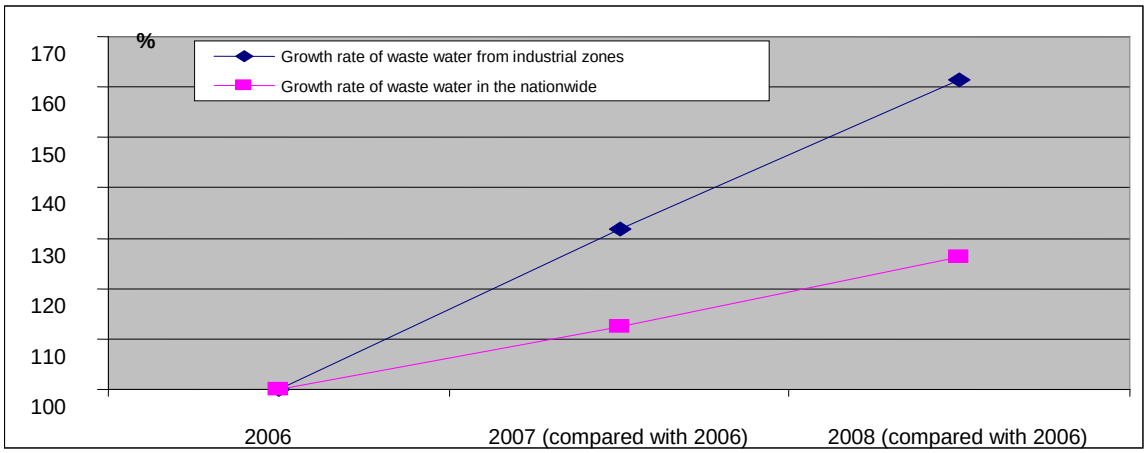
After Vietnam became member of the WTO, technologies in mining sector were hardly improved; mining equipment and techniques remained outdated, causing sizeable losses in mining activities. New investment was insufficient, while small investment scale led to high ratio of investment over output. Supporting infrastructures, especially transportation, remained inadequate. Moreover, Vietnam could obtain higher value added from mineral production by gradually phasing out export of minerals. However, increasing value added in ore selection and deep processing is no easy task because it requires a lot of investment, high technology and good operation capability.

11.2. Assessment of Environment Pollution

11.2.1. Water Pollution

Surface water pollution is the most urgent issue now, especially in river basins such as those of Cau River, Nhue-Day rivers, Dong Nai – Sai Gon rivers. Pollution and waste discharge into the environment became more alarming, especially in post-WTO period and in the context of larger investment in industries. In 2008, the volume of waste water in IZs rose by 160% compared to that in 2006, i.e. much faster than volume of waste water from all other sectors. The South-East region accounted for the lion's share (49%) in waste water in IZs.

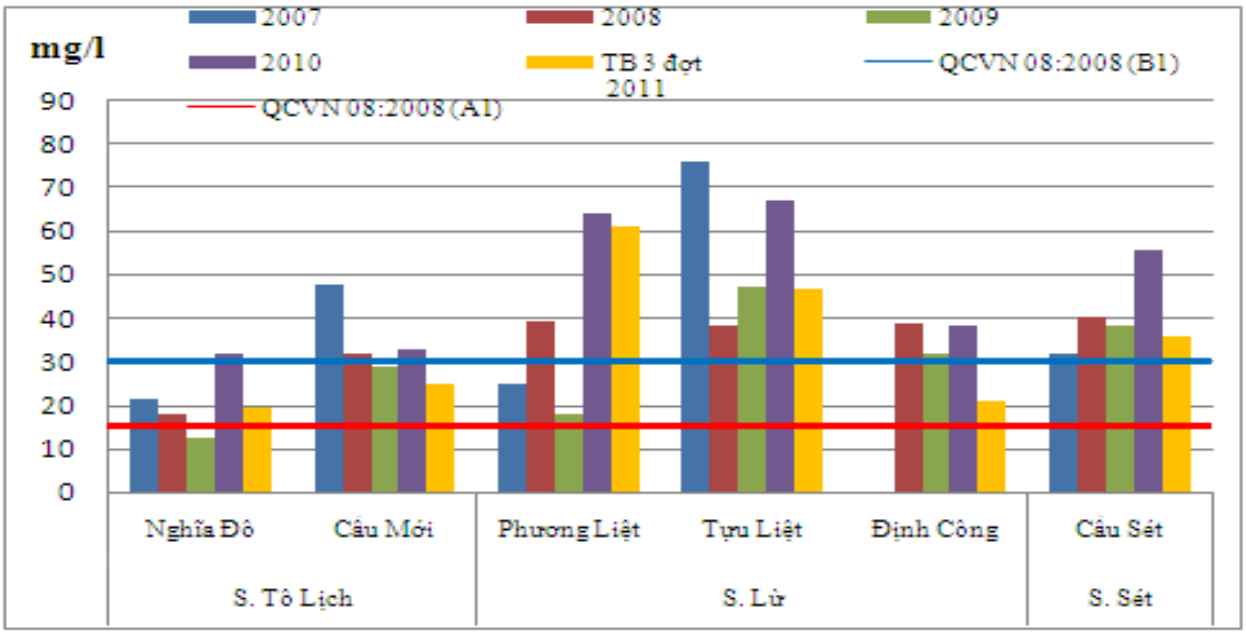
Figure 44: Growth in Volume of Waste Water in IZs and in all sectors (%)



Source: National Environment Report 2009.

Water pollution became more and more serious, namely pollution of surface water in ponds, lakes, rivers and springs and in coastal regions. The flow of domestic waste water in urban areas increased from 1.8 million cubic meter/day in 2006 to 2.0 million cubic meter/day in 2009. BOD5 content indicator of To Lich River, Lu River and Set River (in Hanoi) all exceeded Vietnam's standard level, with more serious pollution than in the years 2002-2006 (Figure 45). Previously, the system of Dong Nai River and Thi Vai River was seriously contaminated, yet its water quality has been improved recently by the efforts of management agencies.

Figure 45: Changes of BOD5 Content of Some Inner-city Rivers in Nhue-Day River's Basin, 2007-2011

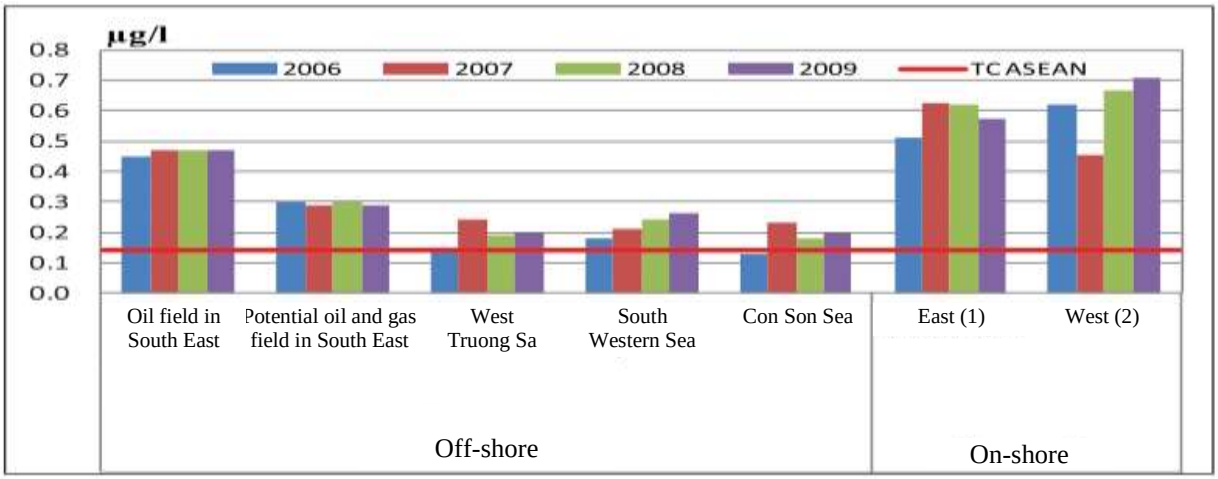


Source: Ministry of Natural Resources and Environment (2011); National Environment Report 2010.

International economic integration also had impacts on sea environment because proliferated marine activities were accompanied by garbage, waste oil and oil spills. Marine accidents tended to increase. The marine accidents often brought about serious consequences, with the oil spilled from ships adversely affecting sea environment and ecology.

Oil content in the regions with oil exploitation and operation of vessels tended to increase, especially in the coastal regions. Some coastal regions started to be contaminated with oil and cyanide. For water further in the sea, the contents of dissolved oxygen and oil were lower than in coastal regions but still exceeded the ASEAN standards for preserving aquatic creatures. Sea water was polluted in the southern coastal line starting from Nha Trang. However, the COD content tended to decrease in the years 2007-2011, maybe due to better environment protection in coastal regions. In the coastal provinces from Quang Ninh to Thanh Hoa, Nghe An, the content of nutrition substance (N-NH4) reached or exceeded the maximum permitted level and even tends to increase.

Figure 46: Changes of Average Oil Content in Sea-water, 2006-2009



The underground water in Vietnam was mostly of good quality, but its reserve decreased due to unsustainable exploitation. Some locations experienced partial pollution of such water. Water source pollution mainly resulted from agricultural production with increasing use of fertilizer and pesticides. Many limitations prevailed in complying with regulations on production, trading, using and import of pesticides.

In aquaculture, water pollution came from excessive foodstuffs and chemicals for aquatic pond treatment such as lime, diatomite, dolomite mineral distances and sulfur. Massive changes from rice cultivation into aquatic cultivation, especially in coastal regions, caused salinity or serious salinity intrusion, especially in the Mekong River Delta. The areas of surface water for aquatic cultivation in 2007-2011 tended to increase, albeit at slower pace than in 2002-2006.

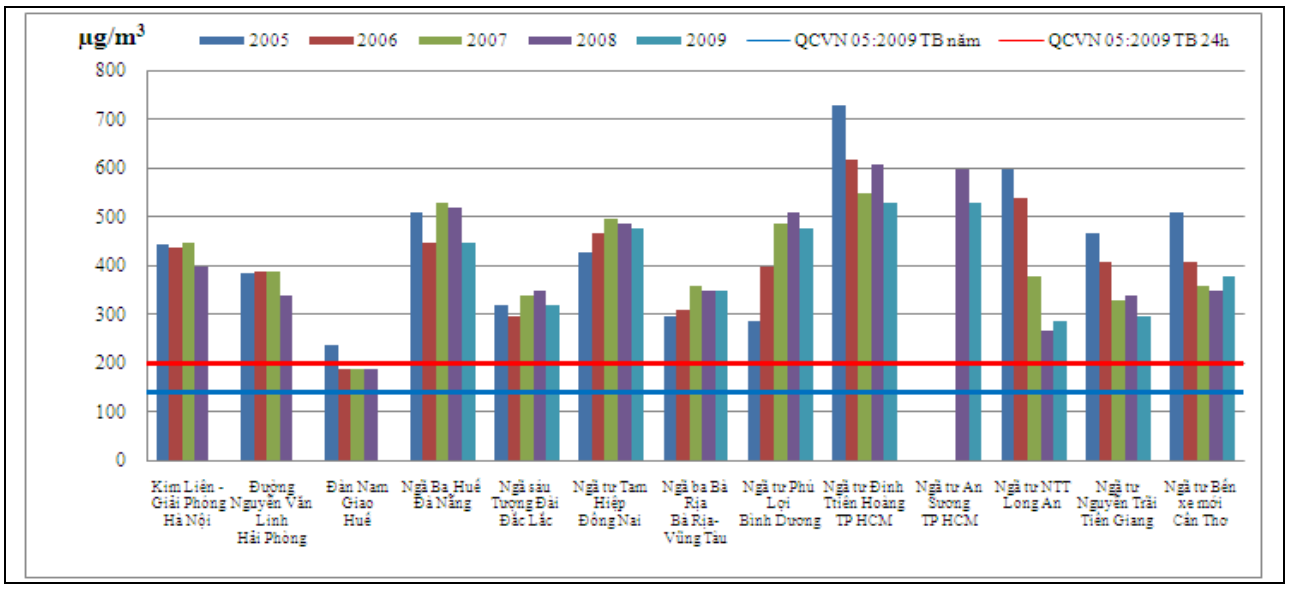
11.2.2. Air Pollution

In 2007-2011, the quality of air environment degraded more rapidly in Vietnam, especially in big cities. The air environment in urban areas was polluted with dust, and some cities like Hanoi and Hochiminh city suffered from serious pollution. In the regions with high density of transport and/or industrial activities, total suspended particulate

(TSP) and smooth dust concentration both exceeded the permitted level. In particular, some regions with many infrastructure constructions even saw higher concentration of suspended particles than the allowed level. TSP concentration in all IZs exceeded the permitted level in 2005-2009 and tended to increase rapidly. Even the air around IZs had far larger concentration of suspended particles than the permitted level.

In the urban areas with smaller adverse impacts of industrial production, and constructions of roads and residential buildings, the concentration of dust also reached or even exceeded the permitted level. Concentration of NO2 in the air exceeded the maximum threshold and tended to increase throughout the country in 2005-2009. Air environment pollution of NO2 and CO was generally evident in the Southern cities; meanwhile, the Northern cities still had lower concentration of these gases than the maximum permitted level.

Figure 47: Changes of TSP Concentration in Some Urban Routes, 2005-2009



Source: Mainland Environment Observation and Analysis stations, 2010.

The rural areas generally had rather good air quality. In some regions such as trade villages, construction material production units and mining points, however, the air environment was polluted and the pollution level tended to increase since 2007. The main cause for air pollution was the villages with recycling activities. The process of recycling and metal processing produced pollution from fuel burning such as CO and dust, whilst emitting acid gas, alkali and heat pollution. Recently, the number of recycling trade villages increased rapidly and caused more serious pollution, putting ample pressure on the rural areas with trade villages.

11.2.3. Import of harmful garbage and foreign creatures

Compared with the pre-WTO period, illegal import of harmful garbage still happened. In 2008-2009, 340 containers full of waste garbage and dozens of containers full of lead accumulators and electronic chips were imported. In 2010, Hai Phong ports kept over 300 containers with over 3,000 tons of garbage under import ban into Vietnam. In the period from May 2009 to May 2011, the environmental police detected 37 cases of

violation all over the country, of which 3,278 containers with 56,618 tons of waste lead accumulators and harmful waste goods were imported through ports and border gates. The measures against such violations only included administrative fines, re-export or destruction. Few violations involved criminal proceedings.

As the main reasons, enterprises lacked awareness on environment protection while the profit from importing garbage was very high. On the other hand, management of garbage import was less than strict, the investigation and testing procedures were not fulfilled seriously and enterprises could exploit many loopholes. Custom procedures and control process to detect violations were still complicated, time-consuming and even unclear. The punishment failed to incorporate sufficient deterrent effect. The import regulations still had loopholes, and the list of garbage under import ban or with import permission was specified with ambiguity.

Import of foreign creatures, genetically modified creatures and strange plant variety into Vietnam tended to increase, especially after the WTO accession. As major threats, importing foreign creatures could compete with native creatures for foods, living environment; eat native creatures which may lead to ecological imbalance; cross-breed with native creatures which might produce gene disorder of native gene system; and contain germs harmful for the people.

Globally, there are about 100 foreign creatures with serious consequences. Of which, many races are present in Vietnam - such as yellow edible snail, Japan water-fern, hamster mice, Brontispa longissima, Bemisia tabaci, king fish and red ear turtle – yet no eradication measure is in place.

12. INSTITUTION

The WTO accession helped improve economic institution in Vietnam remarkably as follows: (i) *The legal framework* was established and improved further; (ii) *The organizations* involved in implementing and managing economic activities were strengthened; and (iii) *The enforcement mechanism* including supporting policies and mechanisms, etc. experienced upgradation to establish fair competition in the business environment and ensure that Government interventions only seek to correct market failures.

12.1. Improvement of Legal Framework

International economic integration had many positive impacts on the improvement of legal framework. Most efforts have sought to internalize international commitments into domestic laws to: create a business environment with fair competition and transparency; develop various markets; reduce the Government intervention in markets through price control, resource allocation, ownership, protection measures, subsidies and monopoly; and create a socio-economic environment satisfying relevant criteria for Vietnam to be recognized as a market economy.

12.1.1. Continuous Improvement of Business Environment and Competition

In order to internalize WTO commitments into domestic laws and establish institutions for market economy, before the WTO accession as well as in 2007-2011, many legal documents (such as Enterprise Law, Investment Law and guiding documents) were issued. They helped make the business environment more transparent and reduce time, efforts and transaction costs of enterprises in fulfilling administrative procedures.

Starting a business as well as market exit became easier. Competition environment incorporated greater soundness, and more level between SOEs and private enterprises and between domestic and foreign enterprises.

The Government newly issued or modified some legal documents such as Decree on the Investment Form of Build-Operation-Transfer, Decree on construction and investment management. These efforts sought to attract domestic and foreign investment into infrastructure development, doing business, acting as a counterbalance to big business groups to reduce monopoly in business and production.

The issuance of Bidding Law in 2005 and guideline decrees, pursuant to which public goods and services need to be competitively procured (except some special cases in which targeted bidding can be applied), reflected Vietnam's efforts to enhance equality and transparency in bidding activities.

12.1.2. Development of Markets

The legal frameworks for developing markets continued to be improved. For the goods market, some barriers were gradually removed. To protect consumers' rights and prevent pirated goods, counterfeit goods and unreasonable price increase, many legal documents were issued in 2007 and 2008. At the end of 2010, the Law on Protecting Consumer's Rights was passed, thereby solidifying the legal framework for protecting Vietnamese consumers' rights. The issuance of Law on Advertisement also contributed to the development of goods and service market.

The legal framework for some service markets (including the Law on Tourism in 2005; Law on Social Insurance in 2006; Law on Real estate business in 2006; Law on Health Insurance in 2008; Law on Communication in 2009; Law on Education in 2005; and Law on amending and supplementing some articles of Law on Education in 2009; Law on Vocational Training in 2006; Law on Tertiary Education in 2012; Law on amending and supplementing of some articles of Law on Insurance Business in 2010; Law on Postal Services in 2010; Law on Credit Institutions in 2010; and other legal documents) was further improved towards liberalizing markets, abolishing monopoly, creating a fair competition between enterprises of all ownership types, and encouraging non-state sector to provide public services. It facilitated rapid development of those markets, with transformation from monopoly into competition, and encouraged non-state participation in providing services (including public services). Such improvement also created a favorable condition for applying many new technologies, diversifying services, improving quality and reducing product prices.

Continuous improvement of regulations over Vietnam's securities market (i.e. the Securities Law in 2006 and related documents) helped such a relatively new market become an increasing important channel for mobilizing long-term capital in Vietnam.

Partly thanks to more transparent legal framework on land, housing and real estate business, the real estate market became more vivid.[64] The new Land Law - aiming to replace the Land Law in 2003 – would be finalized for issuance soon. The new Law

[64] *Law on amending and supplementing Article No.126 of Law on Housing and Article No. 121 of the Land Law in 2009, and the Law on Real estate business in 2006.*

recognizes the rights of land use and transfer of individuals as well as role of land use right in the economy. The Decree on compensation for land reclamation, supports and resettlement experienced various amendment and additions so that those policies could be better aligned to international practices.

In line with the Labor Code 2012, Law on Trade Union in 2012 and Law on Social Insurance in 2006, the conditions, rights and benefits of labors were better ensured. The labor market also functioned with more flexibility and better compatibility with international practices in order to prepare for the ASEAN Economic Community.

12.1.3. Government's Ownership and Control over Production Factors

In efforts to have its market economy status recognized, Vietnam improved the legal system on ensuring and protecting private land ownership right, land use right and property right in the economy.

After joining the WTO, to fulfill criteria of a market economy, Vietnam attempted to reduce Government's controls over resource allocation and price. Public administration has been boldly decentralized to lower levels, thereby facilitating people's involvement in public resource allocation at local level. Besides, the State and enterprises made efforts to liberalize prices of some essential goods and services.

The Law on amending and supplementing the Law on Intellectual Property in 2009 stipulated administrative penalties on intellectual property right (IPR) infringement with damages to authors and holders. To fulfil the criterion on completeness as regulated in Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS), the legal framework on IPR protection was further improved. As rated by the WB and other international financial organizations, the index on Protecting Investors increased sharply from 2.0 in 2006 to 2.7 for the years 2007-2009. The time for registering IPR protection was also shortened from 67 days in 2006-2007 to 57 days in 2008-2009.

The revised Land Law, currently drafted and finalized, would clarify the rights of land ownership and use to protect the benefits of people and the whole society.

In addition, to strengthen the role of monetary policy, the Law on State Bank of Vietnam (SBV) was issued on 19 June 2010. The amended and adjusted contents include regulations on liberalizing the basic interest rate and managing interest rates in line with market mechanism. The SBV has to identify and announce refinancing rate and other policy interest rates in conducting monetary policy. The Law on SBV stipulates more clearly missions and responsibilities of the National Assembly, the Government and the SBV in implementing monetary policy. The National Assembly decides the tentative inflation target for each period. The Government identifies inflation target and orientations for conducting monetary policy each year. The SBV prepares the scenarios of inflation targets for each period, on the basis of which the Government will submit to the National Assembly for determination of targets and related monetary policy measures each year.

However, a lot of shortcomings still prevailed. Some laws and documents had varying and modest quality. Many documents were incomplete, inconsistent with other related ones, ambiguous and inefficient in addressing the targeted issues. Some legal documents had to be amended and adjusted many times, thereby undermining actual enforcement.

As one of main reasons, many officials had limited skills in drafting legal documents, analyzing and formulating policies. This reason is added by the lack of wide consultation on legal documents' contents right after the idea is formulated.

The process of equitizing SOEs lagged behind requirements. The transformation of SOEs into limited liability companies or joint-stock companies before 1 July 2010 in accordance with the Enterprise Law presented a rather difficult mission. State management over state-owned business groups constitutes another area of controversy.

12.2. Legal and Policy Enforcement Structure

To ensure effective socio-economic development policies reflected in the legal documents, the policy enforcement structure was continuously improved. Right after Vietnam joined the WTO, the Government required ministries/government agencies at both central and local levels to review their roles and functions of macro management, seeking to improve management efficiency in line with economic reforms and international economic integration. In 2007-2008, the management roles and functions of all ministries and government agencies at both central and local levels were supplemented and amended towards unambiguous division with better accountability and deeper decentralization to increase management efficiency. The functions of the Government and public administrative agencies at all levels basically shifted from direct to indirect management via legal documents and macroeconomic instruments. Many ministries and ministerial-level agencies were merged, thereby reducing the number of agencies directly under the Central Government from 38 to 30.

The reorganization of Government apparatus in 2007-2008 sought to separate public administration function of public administrative agencies from management of enterprises' activities. This may help reduce unnecessary or improper administrative interventions in the process of production and business which could cause adverse social consequences. After separating the organizations with mandate of providing essential services from ministries and public administration agencies, some new organizations were established to regulate price, manage quality, etc. in these fields.

Because the function of business management was separated from the function of public administration, the ministries and government agencies had no management function over assets and business activities of affiliated SOEs. Instead, the State Capital and Investment Corporation (SCIC) was established to supervise the SOEs and corporations which used state capital and investment.

Reform of the judicial system played a very important role in improving legal enforcement and protection of legitimate benefits of people and the State. The system of courts, procuracies and agencies of investigation, judgment execution and judicial affairs support recently underwent positive changes. Some economic, labor and administrative courts were established under the People's Supreme Court and provincial courts in order to ensure that the trials become more professional, stricter and fairer. According to the Judicial Reform Strategy till 2020, functions of courts would be deeply decentralized and the system of courts will have authorities independent from different levels of governments, with better accountability.

Notwithstanding significant progresses in reforming legal framework and legal enforcement structure, Vietnam failed to clearly improve the efficiency of legal enforcement. There are several reasons for this situation. *First*, the sanctions remained absent or ineffective, failing to deter illegal behaviors. This reduced incentives for and accountability of executors. Ambiguity in some legal documents also undermined transparency and fairness in public administration. The guiding documents were slowly issued and at times contained articles contradicting with other laws or legal documents.

The legal information often lacked timeliness and accuracy, or with slow update. Vietnam has neither mechanism on physical and legal responsibilities in case of wrong and insufficient information nor an efficient mechanism to encourage enterprises of all ownership types to invest in disseminating legal information. The propaganda and popularization of legal regulations were inclined to formalism. Building an efficient legal aid and consultancy system - to help people, organizations and enterprises protect their legitimate rights and benefits – received hardly adequate attention.

Due to inefficient propaganda, many people lacked sufficient awareness of the rule of law, role, position and meaning of laws in adjusting socio-economic relationships. A portion of officials had insufficient acknowledgement of the role and functions of legal documents. Accordingly, they paid inadequate attention to studying regulations and using legal consultancy in management and administration. The weak system of Vietnamese courts partly undermined legal enforcement. Vietnam remained in shortage of qualified lawyers and judges.

12.3. Enforcement Mechanism

Joining the WTO had big impacts on improving Vietnam's legal framework in line with market economy mechanism and international economic integration. To some extent, legal enforcement has been upgraded.

The most notable improvement in legal enforcement mechanism was induced by the Project No.30 on simplifying administrative procedures for the years 2007-2012. Under a gradually improved legal framework, efforts to simplify administrative procedures increased the efficiency of government apparatus, reduced time and costs for enterprises and people in accessing public administrative services and prevented bureaucracy, harassment and corruption of officials. The Project No. 30 sought to reduce 30% of procedures in investment and business. In its first phase, over 1.000 administrative procedures were abolished. The second phase of the Project would be carried out mainly in the areas of tax, customs, labor and business registration. About 54% of enterprises, surveyed by the Secretariat of Business Forum in 2009, recognized the improvement in administrative procedures.

Despite many efforts to simplify administrative procedures, Vietnam saw almost no change in the number of procedures and time for entrepreneurs to start their businesses, being 11 procedures and 50 days in the years of 2007-2009. In the above-mentioned survey, efficiency of administrative services was among the five aspects with lowest scores (2.09 points).

12.4. Institutions for International Economic Integration

In the years 2007-2011, the institutions for international economic integration were gradually improved. The National Committee on International Economic

Cooperation (NCIEC), an inter-ministerial agency, served to consult and assist the Prime Minister in directing and coordinating economic integration activities nationwide. After the WTO accession, the NCIEC was further strengthened. All ministries and ministerial-level agencies had steering committees on international economic integration and supporting units in charge of implementing and coordinating own or inter-ministerial economic integration activities. At the local level, each province or city has a steering committee and a specialized unit to carry out and coordinate economic integration activities. Nevertheless, the coordinating and presiding roles for each specific area are assumed by relevant ministry/agency depending on its tasks and functions.

The Communist Party of Vietnam and the Government issued many important policies with comprehensive vision and contents of international economic integration. Such policy documents include Resolution No. 07-NQ/TW, Resolution No. 08/NQ-TW and Action Plan of the Government issued under Resolution No.16/2007/NQ-CP. All those policies were implemented and brought about some certain results.

Nonetheless, the institutions for international economic integration still exposed many shortcomings. Therefore, Vietnam failed to take full advantage of and mitigate negative impacts via channels of international economic integration. There were several reasons for the situation, including: (i) slow reforms of institutions for international economic integration which undermined capacity to cope with complicated and unexpected impacts of external factors; (ii) lack of a comprehensive strategy on international economic integration; (iii) inadequate preparation for management and cooperation of international economic integration activities; (iv) weak linkages and consistency in various phases of international economic integration, from selection of partners, negotiation and domestic consultation, implementation of commitments, domestic reforms to support international economic integration, to monitoring, evaluation and adjustment of policies; and (v) unreasonable and inefficient negotiation or contents of commitments when joining in FTAs with some partners, with insufficient consultation of enterprises and even some ministries/agencies.

In many cases, the policy adjustment only took forms, without adequate linkages with existing policies. Meanwhile, little attention was paid to periodic assessment, leading to limited results. The improvement of legal framework mainly focused on adjustments in line with international economic integration commitments. Advanced guidelines and supporting measures for the people and enterprises to take advantage of new opportunities from WTO terms, to increase competitiveness and to reduce risks and adverse impacts failed to suffice. The viewpoints and policies on international economic integration were insufficiently acknowledged and incorporated in SEDSs and SEDPs, loosely linked with socio-economic management and failed to materialize due to resource constraint. Many important tasks set out in the Resolution No. 07-NQ/TW, Resolution No. 08/NQ-TW and the Government's Action Plan have remained uncompleted.

PART THREE
POLICY RECOMMENDATIONS

1. BROAD POLICIES

1.1. To Enhance Propaganda and Involvement of the Society in International Economic Integration

To further improve understandings and knowledge of international economic integration commitments, associated opportunities and challenges upon implementing these commitments, especially for SMEs in rural areas. To ensure effective sharing of information between line ministries, authorities, localities and enterprises. To mobilize wide participation of private sector, sectoral associations, socio-political organizations and the people in implementing international economic integration policies.

1.2. To Accelerate Business Environment Reforms and Enhance Competitiveness

To deepen administrative reforms for a more favorable business environment. To enhance transparency of the legal system, policies, plans, development strategies at sectoral, subsectoral, product and local levels.

To fundamentally address trade deficit in order to achieve sustainable trade balance by 2020, based on comprehensive resolutions of the relationship between savings, consumption and investment alongside a competitive and flexible exchange rate policy, strengthening production capacity and export of domestic enterprises, promoting development of supporting industries and improving product quality.

To focus on improving competitiveness simultaneously at national, enterprise and product levels. To develop and implement programs to enhance competitiveness of potential industries and programs to transform uncompetitive industries. To promote higher value added contents in all sectors via upgrading human resources, technology, access to better source technologies and long-term cooperation with strong partners in respective sectors. To encourage enterprises to develope and applying science - technology in production. To implement supporting policies for enhanced competitiveness, with particular focus on:

+ Restructuring the financial and banking sector, minimizing risks of financial instability; proposing measures to attract FDI inflows, whilst managing sudden changes of capital flows, especially short-term ones.

+ Developing synchronous infrastructures to reduce costs of production and doing businesses, to attract investment, to narrow development gap and to improve competitive capacity. Enhancing connectivity of domestic infrastructures with those in regional linkages.

+ Implementing measures to promote and attract investment in business supporting services such as finance, credit, science, technology, processing agricultural products in accordance with international economic integration commitments. Liberalizing sensitive markets (such as services) with reasonable and carefully considered roadmaps together with necessary supporting measures, particularly comprehensive social security measures.

+ Reducing behind-the-border barriers to trade and accelerating trade and investment facilitation for enhanced domestic and international connectivity.

1.3. To Accelerate and Achieve Fundamental Progress in Economic Restructuring and Shift of Growth Paradigm

To quickly implement "The Project on Comprehensive Economic Restructuring with Accompanied Shift of Growth Paradigm towards Improving Quality, Efficiency and Competitiveness for 2013-2020"; to deepen linkages between restructuring processes of key areas – namely, SOEs, credit institutions and public investment – and institutional reforms and social security measures.

2. SECTORAL POLICIES

2.1. Horizontal Policies

To take advantage of current special and differential treatments and reserved restraining measures in international economic integration commitments for related sectors; to provide policy support to domestic enterprises and to channel investment in the sectors of necessity for Vietnam. To monitor and evaluate the uses of those treatments and supports so as to identify and address related impediments.

To encourage and facilitate access to advanced technologies, improve value added content and quality of products. To deepen linkages with FDI enterprises, aiming to further participation in the regional production network. To induce reduction of service link costs, such as those related to transportation, warehouses, ports, post, telecommunication, finance, banking. To diversify product structure, with more products of higher value added and improved food safety and sanitation.

To focus on formulating and implementing market development strategies in key markets alongside establishing and promoting national brands. To gradually develop an overseas distribution network for key export products, targeting major markets. To establish business cooperation and linkages with major distributors and retailers to develop products in close line with market needs, thereby increasing sales.

To adopt new organizational and marketing methods with professionalism. To diversify and expand forms of trade promotion. To strengthen marketing through overseas exhibitions, e-marketing and establishment of representative offices. To focus trade promotion activities in major markets, new and potential markets.

To enhance market information and pro-active support to enterprises related to market access; To build and develop capacity for forecasting world market demand and changes in order to update information for enterprises and producers regarding: prices, supply-demand balance, sale trends, market changes and new requirements of import markets. To ensure thorough understandings of importers' regulations related to import and business activities.

To improve the legal framework on activities of professional organizations via creating mechanism and supporting the legitimate establishment and development. To promote the supporting role of associations in trade promotion, market search, product strategy analysis, development policy, access to investment capital, cooperation and linkages in production/business activities, whilst bridging enterprises, Government and related organizations. To establish business associations of export products to each market so as to coordinate export activities, avoiding domestic exporters' competition leading to price reduction and associated losses for enterprises.

To encourage businesses to better realize the opportunities from FTAs to penetrate and exploit overseas markets, and to shift from processing to direct export.

To actively negotiate with partners to reduce tariff and non-tariff barriers, especially SPS regulations for the purpose of protecting domestic producers rather than for sole epidemic prevention and/or sanitary and phytosanitary quarantine.

2.2. Policies Related to Agriculture and Rural Areas

2.2.1. General Recommendations

To improve quality of agricultural products to promote their exports. The key measures are: to promote investment to develop good varieties and to import good varieties from advanced countries with developed biotechnology; to deploy and popularize modern technology and process from caring, harvest, preservation, processing to ensure quality and food safety in accordance with Good Agricultural Practices (GAP); to support and encourage the preparation of good manufacturing practices (GMP), ISO in producing and processing agricultural products; to encourage investment in producing and exporting agricultural products that Vietnam has advantages; and to build infrastructures (warehouses, pre-preservation processing system) for agricultural business. To reduce costs of agricultural production by adopting good breedings and cultivation techniques, and preventing losses in harvest, preservation and manufacturing.

To increase investment in quarantine for food safety and sanitation. To enforce strict sanctions on violations to prevent abuse of banned chemicals in production, thereby ensuring reputation of Vietnamese seafood and decreasing risks for exports.

To socialize agricultural services as well as agriculture promotion, forestry promotion and fishery promotion services.

2.2.2. Recommendations in Agriculture

Vietnam needs supporting measures for each specific product as follows:

- Rice: To transform the variety structure with intensive cultivation of high-yielding rice with higher value added; to take advantage of economies of scale for higher export values and efficiency.

- Coffee: To strictly implement production process in line with the UTZ certified traceability system, the 4C code of sustainable producing, processing, and trading, GAP and Viet GAP; to improve value added by further processing of products; to increase investment in processing final coffee products; to diversify products and distribution channels.

- Rubber: to diversify export products; to reduce proportion of raw rubber exports; to gradually improve processing level.

- Pepper: to shift the variety structure to increase the share of white pepper export; to quickly develop the plan for pepper planting area to ensure sustainable development and stable source of exports; to develop the distribution system in key markets; to set up reputable brands for Vietnam's pepper exports.

- Cashew nut: to develop and improve plan of cashew regions; to enhance investment in intensive cultivation; to use new high-yielding varieties with high quality; to further develop brands and distribution network, particularly in China.

2.2.3. Recommendations in Forestry

The top priority is to establish key and competitive products in the world market together with surveys to assess potential of forest areas, wood producing and processing areas. This helps identify consistent development orientations for enhancing linkages between material and production areas and for specialized wood processing at different stages by different enterprises.

To reorganize wood processing units toward product specialization, cooperation, diversification by means of state regulations and policies, thereby enhancing linkages among small producers and between small enterprises and big ones to meet large orders.

To implement the already issued policies and to formulate additional policies for forestry processing industry in line with Vietnam's commitments under WTO, with the key contents as follows:

- To implement strict measures – in close coordination with Vietnam Timber and Forest Product Association – to control and certify the origin of imported wood to Vietnam and to ensure that domestic wood is legally harvested and FSC certifed; to increase support for enterprises in complying with traceability requirement of wood products.

- To review the current legal documents and policies related to forestry processing; to analyze, assess impact of the policies; to propose necessary amendments, additions and new issuances of policies in accordance with Vietnam's situation and integration commitments.

- To continue financial support and tax incentives for the development of material areas and wood processing industry. To encourage the development of large concentrated material areas, investment and development of wood processing industry

2.2.4. Recommendations in Fishery

To improve competitiveness of Vietnam's fishery products by means of: (i) reducing production cost; and (ii) upgrading food safety and sanitation via:

- Tighten requirements under plan of land use for aquaculture; to enforce strong mechanisms to induce development of stable and long-term production areas.

- To invest in common infrastructure for irrigation systems, electrical systems, cold storage systems. To invest more in competitive products such as shrimp, catfish, mollusk groups and others exploited products such as ocean tuna, squid.

2.3. Policies Related to Services

To upgrade quality of services, especially high-grade ones. To improve productivity of service provision by encouraging innovation and creativity; promoting competition, improving quality of human resources for service industry; enhancing linkages among services sub-sectors and between services and industry; developing key economic regions and key services to drive national economic development.

To promote further competition by two basic solutions: (i) equitization or restructuring of SOEs in the services sub-sectors without the nature of natural monopoly or without government dominance; (ii) enhancement of publicity and transparency by competitive bidding in Government and SOE procurement of service, thereby promoting the development of private SMEs.

To focus on developing of some prioritized services sub-sectors with large spillover effects on the economy, namely: telecomunication, finance, transport, tourism, education and business service.

3. INVESTMENT-RELATED POLICIES

3.1. To Improve Institutions and Policies in line with Integration Commitments for Enhanced Effectiveness of Capital Mobilization and Utilization

- To formulate and improve the legal and policy framework further to fully implement integration commitments in accordance with the roadmap. To issue guidelines to addresses issues that arise from the inconsistency between integration commitments and Vietnam's current laws and regulations. To review and abolish the investment and business regulations in conflict with integration commitments, in order to fully implement Vietnam's obligations on opening markets under bilateral, regional and multilateral agreements. Besides, Vietnam should consider deregulating investment and business conditions in certain sectors if necessary for national development and compatible with future investment strategy, even in the absence of commitments or the commitments being more restrictive than current regulations. To closely monitor the promulgation and application of licenses and business conditions.

- To issue complete and consistent guidelines on requirements and conditions under international investment-related commitments, both bilateral and multilateral ones, which will be implemented by People's committees and IZs' Board of Management upon granting investment certificates and business registration certificates. To develop guiding and monitoring institutions to ensure implementation of investment and business requirements in services in line with the TRIM agreement of WTO. To avoid arbitrary imposition of compulsory requirements related to sales (exports or domestic sales), application of local contents, development of local material sources and others on technology transfer and labor recruitment, etc.

- To promptly amend Decree No. 108/2006/ND-CP dated 22 September, 2006 detailing and guiding implementation of Investment Law as well as other circulars guiding implementation of the Decree for FDI activities, in order to promptly remove obstacles and speed up investment and disbursement. To formulate policy on attracting investment from multinational corporations as well as specific treatment for each corporation and major partner, such as EU member countries, the US, Japan, etc. To issue timely guidelines for conditional investment areas in order to create legal basis for the issuance and adjustment of investment licenses. To establish technical criteria and standards to issue investment certificates and facilitate the process of monitoring, examining and supervising investment projects (such as minimum ratio of investment over output of land-intensive projects; technical and environmental standards; requirements related to natural resource and mineral exploitation).

- To review, amend and add some articles of the Investment Law, the Enterprise Law, the Bidding Law, the Land Law and the Law on Construction that became inappropriate and adversely affected investment process. To quickly improve the legal framework for sound development of capital market, especially the securities market.

- To promptly draft and promulgate the Law on Public Investment and Law on Public Procurement. To review and amend the State Budget Law for better consistency with Vietnam's development and international practices. To promptly issue the Decree on medium-term investment plans and prepare the medium-term investment plans.

- To review, evaluate and amend regulations on decentralization between Central and provincial levels, so that obligations and responsibilities and rights of each level will be clearly defined and Vietnam's resources will be managed consistently and effectively nationwide. To amend the regulations on public investment decentralization, starting with investment from the State Budget and government bonds. To make sure that each level of authority is responsible for its own investment decisions. Capital source and its sustainability should be clearly defined and guaranteed before an investment decision is made. To appropriately amend and complement regulations on decentralizing FDI management, so that FDI will be managed more effectively and the role of ministries and central agencies in the process of examining, supervising and modifying investment projects will be enhanced if necessary (such as investment in natural resource and mineral exploitation, land, casinos, gambling, trade, education and training, health care and electricity-intensive and water-intensive projects that may affect the environment, etc.)

- To further improve the legal framework and implement appropriate policies to attract more social resources for infrastructure investment; to encourage private investment, especially in the PPP form. To facilitate the implementation of PPP, starting with a few pilot projects; and simultaneously improve relevant legal provisions and further promote PPP in broader scope. To diversify incentives to attract participants of different ownership forms to take part in infrastructure development; continue to strengthen mechanism and policy to foster such investment modes as BOT (Build – Operation – Transfer), BT (Build – Transfer) and BO (Build – Operation). To expand franchising operations and utilize some infrastructure projects within a certain time to generate capital resources for infrastructure development. To develop appropriate plans and policies to collect better resources from land, especially land for building new urban areas, IZs, shopping centers, apartments, etc. via auction for land use rights or exchange of land for infrastructure. The proceedings are very large and essential, especially when public debt becomes relatively high and ODA attraction becomes more difficult.

- To issue consistent and harmonized policies and regulations on finance (tax, fee, etc.), money, credit, land, foreign exchange management to maximize capital mobilization of all entities into prioritized sectors, industries and areas, and restrain investment in non-production activities or those that worsen trade deficit, energy-intensive activities, exploitation without process, or those with excessive output, etc. To adjust prices and quality of public services to attract more investment from entities of all ownership forms. To enforce requirement on investors to fulfill their commitments on investment schedules, especially for large projects or those occupying large areas of land. To establish and improve mechanism and policies to prevent transfer pricing practices by FDI enterprises.

- To boldly reform public administrative procedures related to investment and business. To publicize information on relevant procedures. To remove all unnecessary procedures and unofficial fees and charges. To promptly and completely address issues in the process of issuing and amending investment certificates.

- To promptly supplement and improve legal documents to support outward investment, and simultaneously manage and improve the effectiveness of such investment activities.

3.2. To Improve the Quality of Planning, Information and Forecast

- To improve the quality of planning process, from preparation, appraisal, approval stages to management stage. To promulgate a comprehensive system of legal documents on planning and SEDS, of which the very first are Planning Law and the Government Decree on preparing, monitoring and evaluating the implementation of SEDPs. To improve legal status and enforcement of approved plans. To administer the implementation of plans; to strictly manage investment in accordance with plans. To strengthen the process of checking and supervision by the community and inspection by the State over the implementation of plans.

- To identify and publish the list of encouraged investment areas, the list of restricted investment areas, and the list of prohibited investment areas. To determine and publish the list of national investment projects and attract foreign investment into these projects for the period of 2011-2015 and beyond, and simultaneously establish a detailed information network related to these projects.

- To strengthen warning and forecasting capacity to support planning process, macroeconomic management and information dissemination to relevant agencies, enterprises and investors; to guide and support the above groups to make the right investment decisions, prepare and implement investment projects effectively. To make appropriate adjustments - based on information, analysis and forecast - of policy, economic structure, sectoral structure, regional structure to utilize comparative advantages and to meet the demand of domestic and international markets.

3.3. To Strengthen Investment Coordination, Implementation and Supervision

- To promulgate specific regulations and establish a mechanism to strengthen coordination among ministries, agencies and local authorities; to simultaneously enhance the capacity of investment management, especially during the stages of making investment decisions, issuing issuing investment certificates, managing projects and examining and supervising investment activities. To improve sharing of information among ministries and agencies and adequate guidance for local authorities, thereby ensuring consistency in implementing investment-related commitments.

- To improve the quality of investment appraisal; to conduct thorough analyses and surveys before making investment decisions or issuing investment certificates; to comprehensively review and examine economic and financial indicators as well as information on material sources, markets, land use, determinants, outcomes, economic-social-environmental impacts during the appraisal and approval process. To appraise carefully the projects that will use lots of land or grant land use rights based on the project's progress; to consider the ratio between investment and land area, including land for IZs. In case of specific industry, sector, region and province, investment decisions and capital mobilization should be based on analysis and assessment of socio-economic and environmental efficiency. If the efficiency is low, no investment decision and capital mobilization will be made. To clearly define responsibilities of the officials in charge of making investment decisions or issuing investment certificates.

- To improve investment promotion activities, especially those related to FDI. To carry out measures to facilitate implementation of project capital. To review licensed projects nationwide to find suitable solutions for each type of projects.

- To enhance information dissemination and transparency related to legal system, investment policy, development plans and strategy of each sector, industry, product and area. To ensure publicity and transparency in distributing and using State investment capital. To clearly define responsibilities and accountability of Government agencies at different levels. To implement strict regulations on competitive bidding, choosing qualified bidders. To have regular dialogues with investors and enterprises to address issues for and facilitate investment, production and trade.

- To enhance the inspection, examination and supervision over the utilization of State capital as well as the conformance to legal regulations by foreign and domestic investors, which helps improve investment efficiency, prevents and curbs corruption, capital wastages and losses as well as other problems in investment, namely pollution, socio-economic instability. To facilitate the participation of people and local authorities in monitoring and implementing state, foreign and private investment projects in the region. To promptly and strictly settle violations, especially those related to land use right, natural resource, transfer pricing and environmental pollution. To monitor and manage outward investment of Vietnam.

3.4. Develop Factors that Promote and Improve Investment Effectiveness

In the coming years, Vietnam may have difficulty in attracting investment because its advantages acquired in the early years after the WTO accession start to decay. Such competitive factors as low labour cost in the short-run and favourable conditions on market entry no longer play decisive roles in FDI attraction. In addition, the global economic outlook remains gloomy, and competition for FDI within the region become more intense.

In this context, together with the above measures and policies, Vietnam should further develop and consolidate the factors that can help attract investment and enhance investment effectiveness such as macroeconomic stability, appropriate tax policy and supporting policies, human resource development to satisfy requirements of investors, infrastructure development, improvement of international cooperation.

4. TRADE-RELATED POLICIES[65]

4.1. Import and Export Policies

Deeper and broader integration alongside implementation of various integration commitments by no means implies that Vietnam's "policy space" in achieving its targets will be narrowed. Pursuing integration targets and sustainable development in the current context should rest on *a more sophisticated, scientific and inter-sectional and multi-sectional policies.* A new framework of national trade policy for the period of 2011-2020 should satisfy the following principles:

First, a new, comprehensive and consistent framework for trade policy should represent a combination and interactions of foreign trade policy, investment policy, competition policy, market regulation and other related policies.

[65] These policy recommendations are based on the study by Truong Dinh Tuyen et al. (2011).

Second, the scope and objectives of trade policy should be improved. Trade policies should focus on both penetrating product markets and participating in value chains, instead of sole access to foreign markets. Therefore, import policy plays a very important role in driving technological innovation and implementation of best practices on upgrading human resources, management skill and modern institutions.

Third, to improve institutional capacity to design and implement legitimate, sophistical and scientific protection measures in compliance with commitments.

Fourth, trade policy should adopt a consumer-centered approach, since protecting consumer implies "endogenous" protection method, which becomes more sustainable when traditional trade barriers are gradually removed.

Fifth, for some strategic areas and industries, trade policy should apply an "illogical" approach. Accordingly, Vietnam may reduce import tariff on some strategic inputs for domestic production and processing, and simultaneously levy export taxes on strategic inputs for its trading competitors.

Sixth, the new trade policy should prioritize establishment of strategic industrial alliances in order to actively regulate and adapt to unexpected changes of world prices.

Regarding import and export of specific sectors and industries, the national trade policy for the period of 2011-2020 should satisfy the following principles:

First, to prioritize development and promotion of export of the industries that Vietnam has prominent comparative advantages and competitiveness (namely agriculture – forestry – fishery, garment and textiles, footwear).

Second, to establish strategic industrial (agricultural) alliances for leading export products of Vietnam in the world market (namely rice, coffee, pepper, rubber, cashew) in order to maximize the acquired profits.

Third, export or import promotion should comply with the enhancement of linkages between Vietnam's manufacturing and services industries and the global production network and supply chain, upgradation of technological levels and value added content to foster economic restructuring and transform the growth model.

Forth, industrial production and export promotion should incorporate consideration of more sophisticated and non-trade-related protection barriers in other countries. Thus, the policies on developing major export products should cover new trade issues such as environment, labour and many other "behind-the-border" issues.

Fifth, profits and costs of integration were unequally distributed. As integration becomes broader and deeper and international commitments are implemented more effectively, the State (specifically MOIT) may actively develop various *programs to support trade adjustments* in order to mitigate impacts of integration "shocks" on the industries and groups being most adversely affected.

Based on the above principles, Vietnam should take into consideration the following solutions:

1. To improve the export management mechanism by: (i) developing and publishing standards of export goods to increase export value; setting up a roadmap to gradually restrain exports of primary products; (ii) issuing standards of enterprises that are allowed to export certain products, together with improving the linkage between material producers and export enterprises as well as developing storage and processing

units; (iii) gradually improving the mechanism to stabilize production and consumption of Vietnam's major agricultural and fishery products such as rice, cat fish, shrimp and coffee; (iv) organizing exports across borders, especially for high value and large-scale commodities; (v) improving the organization and capacity to forecast world supply, demand and prices, focusing on the products exposed to price volatility or with large export volume; (vi) strengthening cooperation with major export partners to get information, exchange experience and create the power to regulate the markets. To consider to participate in the group of rubber exporting countries; to enhance collaboration with rice exporters; *and* (vii) preparing development strategy of logistic services to attract investment into this industry, reduce services costs, aiming at improving the effectiveness of import and export activities.

2. To effectively implement investment policies to promote export and restrain import. In particular, investment policy should focus on supporting industries to reduce imports, to increase local content and value added of export goods and to gradually reduce imports of intermediate inputs. Besides, FDI structure should be adjusted toward higher proportion of capital into manufacturing industries; investment must be in line with enhancing production capacity and creating export advantages.

3. To implement flexible and prudent exchange rate policy in order to simultaneously achieve two objectives, namely: (i) to maintain the competitiveness of Vietnam's products in international markets; and (ii) to create enough room for exchange rate fluctuations, thus increasing the flexibility of monetary policy and promoting market-based signals of exchange rate. More importantly, the crawling-pegged exchange rate fails to suffice on its own. Instead, Vietnam needs to incorporate exchange rate policy in the common framework of macroeconomic policies to ensure overall macroeconomic stability.

4. Import guidelines should put priority on materials and equipment that can not be produced locally or sufficiently to meet demand; to prioritize imports of advanced and energy-saving technologies, thus enhancing competitiveness of locally produced goods. Additionally, import management should go in line with narrowing the investment-savings gap by economizing on materials in investment and improving investment effectiveness. To encourage Vietnamese people to consume local products. To develop sufficiently sophisticated protection measures in accordance with commitments under trade agreements.

4.2. Policies to Promote Domestic Trade

First, to enhance the confidence of households and individuals. Thus, at the macro level, the Government should quickly stabilize the macroeconomic environment to reduce the risks of instability for the households, thereby consolidating confidence in consumption decisions. The Government and enterprises should take more responsibilities for and improve the quality of domestically produced and distributed goods, further strengthen the confidence of consumers on these products.

Second, Vietnam should quickly finalize the plan on developing distribution system (specialized distribution channels by industry, general business; expansion by rural and urban areas; combination of various business models: large-scale and modern shopping centers, supermarkets, convenient stores, wholesale markets, retail markets, etc.). Special focus should

be dedicated on the food trading system to reduce intermediate costs from producers to final consumers – which in turn help lessen inflationary pressure in the domestic market.

Third, to facilitate and support entities of different ownership forms to participate in developing distribution system; to encourage the establishment of Vietnamese large-scaled retailers with modern business facilities, leading role in the market and emergence in competition. To pay more attention to developing human resources, especially management staff specialized in distribution services.

Fourth, to set up a mechanism to encourage the establishment of joint-ownership enterprises between distributors, manufacturers and producers of materials. This important measure will help to develop a stable domestic supply chain.

Fifth, to identify concrete criteria for testing economic needs if foreign investors want to open the second retail store (in accordance with relevant commitments). The key criteria include: (i) compliance with plans; (ii) job security and stability of the existing retail systems; (iii) population density; (iv) transport conditions; *and* (v) the increase of demand. To accordingly liberalize distribution sector in accordance with commitments, encourage fair competition, and simultaneously protect small businesses and assist them in innovating their business methods and models. To encourage foreign distributors to establish linkages with domestic producers, especially farmers; to encourage foreign distributors to consume domestically produced goods.

Sixth, to pay attention to develop rural markets, especially commercial cooperatives in rural areas for sales of agricultural products and supply of inputs for agricultural production, acting as intermediaries between farmers and enterprises.

Seventh, to develop logistics services that are associated with distribution system in order to reduce transaction costs.

Eighth, to promote the development of e-commerce.

Ninth, to further encourage Vietnamese people to consume locally produced goods.

Finally, to strengthen state management over trade and distribution system in order to establish a modern, civilized and disciplined market. To prevent smuggling, trade fraud, tax evasion, production and distribution of counterfeit goods; to protect IPR and interests of consumers, the State and enterprises.

5. POLICIES ON MACROECONOMIC STABILITY

To further consolidate macroeconomic stability by implementing the following policy measures:

First, to maintain macroeconomic stability. To consistently, timely, flexibly implement macroeconomic policies, with reasonable objectives and appropriate policy instruments, in different periods on the basis of accurate and evidence-based analysis and forecasts. The ministries and line authorities should closely coordinate in proposing, justifying and implementing policies.

Second, to develop information system and statistical data in order to produce accurate, evidence-based analysis and forecasts, which helps determine the priorities over

high economic growth and macroeconomic stability in certain periods. This will make way for suitable policy instruments.

Third, to improve trade and current account towards more sustainable balance. Accordingly, Vietnam needs to coordinate measures to improve export competitiveness and simultaneously encourage imports of machinery that can enhance production capacity for export. These are the most important and fundamental measures. In the longer term, Vietnam should reconsider its export-led growth policy. Apparently, excessive policy support to export, including the crawling-pegged exchange rate regime, will narrow the policy space for Vietnam.

Fourth, to further strengthen the financial system and financial market to create strong foundations for more effective implementation of monetary policy. International economic integration requires Vietnam to liberalize its capital account. However, given the current development of its financial system, Vietnam should set this as the objective for the long run. Liberalizing the capital account should proceed gradually in the most prudent manner to prevent unfavorable impacts on its financial and macroeconomic stability.

Fifth, together with implementing policy measures, Vietnam needs to improve communication to market participants. This will help prevent herd behaviours due to inaccurate information. More importantly, Vietnam should enhance policy credibility through concrete review and accountability. More specifically, the country should consider the trade-off between short-term benefits gained from policy changes in response to the market expectations and long-term losses due to weakened confidence on policies. Any policy adjustment, if truly necessary, should be accompanied with comprehensive and reasonable justifications.

Sixth, Vietnam is not able to adopt the floating exchange rate regime yet. In the future, the exchange rate policy should aim at: (i) maintaining competitiveness of Vietnam's products in international markets; and (ii) creating a sufficient room for exchange rate fluctuations in order to increase the flexibility of monetary policy and strengthening exchange rate's roles in providing market-based signals. The capacity of SBV is the key factor in formulating and making appropriate policy decisions. Vietnam should effectively use interest rate instrument to affect exchange rate, which in turn requires further interest rate liberalization.

Seventh, Vietnam should actively cooperate with other countries in the region to cope with common financial and monetary risks at regional level. In this process, Vietnam should learn experiences from other countries in the region for more active prevention of financial and monetary risks.

6. POLICIES RELATED TO LABOUR

6.1. To further Reform Institutions and Policies for the Development of Labour Market

The legal framework should be further improved to shift labour from unstable employment with low productivity and working conditions to better one.

To finalize the regulations on labour, employment and minimum wage; to improve institutions and policies to increase flexibility of the labour market.

6.2. Development of Employment

To concentrate on job creation, especially in rural areas. To narrow down the share of employment in the informal sector; to encourage creation of jobs and good jobs in FDI and non-State sectors.

To develop public employment program to support the underemployed labour in agriculture, those losing land due to industrialization and urbanization, laid-off labour due to global financial crisis and economic recession or massive lay-offs.

To increase the shares of FDI and private sectors in total employment. To enhance the participation of private sector and society in formulating and monitoring policies on labour market development and employment.

To develop policies on supporting/encouraging labour-intensive industries, particularly those using low-skilled labour. To promptly support labour-intensive and migrant-labour industries to move into IZs, EPZs.

To participate more deeply in the international labour market and movement of natural persons in search of jobs.

6.3. To Enhance the Competitiveness of Vietnamese Labour

To formulate policies for shifting from cheap labour to high productivity labour with better working conditions. Investment should focus on good employment on the basis of increasing labour productivity.

To further ratify international conventions on labour standards. To implement decent works. To improve industrial relations in enterprises, especially in FDI and private ones.

6.4. To Improve the Efficiency of Training

To increase rapidly the share of technical and qualified labour, with special attention to technical labour. Training and vocational training policies should seek to meet demand for human resource, particularly highly skilled labour in export and import sectors as well as key production and service sectors.

To improve the efficiency of vocational training, especially for rural labour, young population, migrant labour, labour in agriculture, land-lost labour and poor labour; to provide training and re-training for redundant labour, land-lost labour and laid-off labour to return to the labour market.

6.5. To Reform Wage and Salary Policies, Increase Income of Employees

Minimum wage regulations should be adjusted timely in line with inflation pattern. To ensure sufficient livelihood by minimum wage for all labour, especially in the State sector; to improve fundamentally income distribution, particularly the wage policies in the State sector and for high-skilled labour.

To narrow down the wage inequality through the efficient shift of rural labour. To ensure improvement of real wage for labour and equality among different ownership forms. To strengthen measures on improving the quality of human resource.

7. POLICIES ON SOCIAL SECURITY

To develop universal, multi-layer, flexible and efficient social security system. To diversify and develop efficient social security programs for low-income and adversely affected people.

7.1. To Improve the Effectiveness of Poverty Reduction Policies

The policies on poverty reduction should be improved to distinguish between chronic and temporary poverty by incorporating the chronically poor people in the beneficiaries of social support; to develop credit policies, capacity building programs, market approach and public employment, etc. for the temporary poor people to escape from poverty.

To concentrate on reducing inequality across different groups and to increase the benefits for poor ethnic minorities and the poor in remote areas.

7.2. To Facilitate Labour's Access to Social Security System

To increase compliance with compulsory social insurance and extend the coverage of compulsory social insurance in the context of rapid economic changes and aging population, thereby enhancing job security for labour.

To increase the participation in voluntary social insurance: the voluntary social insurance scheme should be adjusted with affordable premia for farmers and informal labour; to encourage the poor and near-poor labour to participate in voluntary social insurance, in which the State may provide partial support.

To extend the coverage of unemployment insurance to support the laid-off labour in returning to the labour market. To review and unify the groups of participants in compulsory social insurance and unemployment insurance.

To study and develop pension scheme for the olds.

8. EDUCATION-RELATED POLICIES

First, to further strengthen education management. To assign State management on education to one institution. To gradually eliminate ministry-owned-and-administered mechanism over tertiary education. To improve legal framework and policies on education; to develop, guide and monitor the implementation of strategies and plans for education development as well as adjust education structure and scale in line with the demand of learners and demand for labor force. To strengthen management decentralization for localities and education institutions, especially for vocational education institutions and universities. To increase application of information and communication technology to "*computerize*" education management at all levels. To prepare and carry out *the Project on renovating financial mechanisms in education* to effectively increase and use resources of the State and society for improved quality and larger scale of education.

Second, to develop the pool of teachers and education management staffs. To apply contract regime instead of permanent employment in the process of recruiting and using teachers, lecturers and other staffs. To formulate policies on reducing and waiving tuition fees and providing special scholarships to attract excellent pupils to teacher training universities. To comprehensively renovate the system of teacher training from training model to curricula and methods. To develop vocational trainer departments in technical universities to provide vocational pedagogic training and retraining services for students. To organize diversified education programs for higher standards of training for teachers. To continuously develop and implement policies on assessing teachers at preschool, primary, secondary and upper secondary levels based on professional

standards; on assessing teachers and lecturers based on professional standards. To provide appropriate incentives for teachers. To attract foreign charismatic and experienced scientists, overseas Vietnamese intellectuals to participate in teaching and research activities in Vietnam.

Third, to restructure national education system and extend the network of education institutions. To restructure national education system towards diversification, standardization, clear streaming and continuity for graduates from secondary schools. To develop the nationwide network of preschool education units, secondary and upper secondary schools, especially in rural, remote and ethnic minority regions. To extend the network of vocational education institutions. To revise the plans on network of universities and colleges at both national and regional levels to meet the demand for human resource in terms of scale and structure of majors. To extend the network of continuing education institutions.

Fourth, to further promote education socialization. To institutionalize roles, responsibilities and benefits of organizations, individuals and families in monitoring and evaluating education, cooperating with schools to implement education goals and building a sound and safe education environment. To develop a new tuition fee mechanism to ensure rational cost sharing among the State, learners and other social entities. To encourage and protect legitimate rights and benefits of domestic organizations and individuals, overseas Vietnamese people, foreign organizations and individuals who invest in education. To develop non-public education units with detailed supporting policies. To increase the share of pupils going to non-public vocational schools (both short-term and long-term). To clearly identify criteria for the establishment of education institutions, quality assurance and to facilitate the people and economic organizations to establish schools in line with the State development plans. To encourage and create favorable conditions for opening wholly-foreign-owned universities in Vietnam. To facilitate enterprises in developing and implementing training programs; to issue reasonable regulations on responsibilities and mechanisms to strengthen cooperation between schools and enterprises in training, personnel and research and development.

Fifth, to increase investment in education infrastructure. To finalize national standards on infrastructure for all kinds of schools. To re-organize the pool of land for building new schools or expanding areas of general schools, vocational schools and universities to achieve education goals; in which, organization of sites for building some concentrated university areas is prioritized. To push up the implementation of the program on solidifying schools, especially for those in remote and difficult areas. To build a shared electronic library system, connecting universities at national, regional and international level. To build some modern laboratories in key universities. To build dormitories for students, residential houses in boarding general schools in ethnic minority regions and on-duty houses for teachers and education management staffs.

Sixth, to provide educational supports for targeted regions and learners. To develop and implement mechanisms on scholarships, tuition fees and credits for pupils and students. To grant scholarships and exempting tuition fees for pupils and students of entitled families. To grant scholarships for pupils and students with excellent study and research performance. To provide special supports for disabled pupils. To provide free or

discounted textbooks and learning equipment for pupils with difficulties, pupils in remote areas. To deploy vocational training programs for farmers' inclusion in economic integration. To implement preferential policies in enrolment and training for ethnic minority pupils and students.

Seventh, to improve efficiency of science and technology activities in training and research institutions. To strengthen the connection between scientific research and social demand by establishing linkages among research institutes, universities and enterprises. Science and technology activities will constitute an important source of revenues of a university.

Eighth, development of advanced education institutions. To implement the campaign on "friendly schools, active pupils" at primary and secondary levels to create a sound education environment. To establish some vocational education institutions with high quality to develop human resources of international standards to meet the demand of key economic sectors. To concentrate the State investment and ODA capital into building some universities in Vietnam which can reach international standards.

9. HEALTH-RELATED POLICIES

9.1. To Further Develop Health System to Meet People's Demand

To improve legal mechanisms and policies on health, especially under-law documents. To increase investment for health, especially preventive healthcare (specifically, to ensure quality of medical quarantine, to test and investigate medicines, cosmetics and foods and to increase investment in healthcare units at local levels). To reduce the overload situation by proper streaming of healthcare at various levels as well as improving quality of infrastructure, facilities, personnel and medical techniques of the local healthcare network in order to ensure medical service access for all people. To ensure medical waste treatment in hospitals. To increase investigation and inspection of private hospitals and improve legal frameworks on private medical practice and FDI medical institutions.

9.2. To Improve Investment Policies and Financial Policies for Health Sector

The health sector should ensure a favorable investment environment to attract ODA and FDI, and receive more budget expenditure, targeted investment for remote areas and preventive healthcare. For medical institutions with autonomy, the regulations should ensure their goal of caring people's health instead of running after revenues and profits. To ensure access to high quality health services, with fairness and equality across different groups. The State needs to increase funds for health insurance allowances and facilitate all groups to participate in health insurance, thereby universalizing health insurance.

9.3. To Develop Pharmaceutical, Vaccine, Healthcare Goods, Chemicals, Health Equipment

To develop domestic industries of pharmaceutical, vaccine, healthcare goods, chemicals and health equipment to better ensure people's health. To do this, larger investment in scientific research and advanced technologies and techniques is needed. To build standards for domestic products which are closer to international standards or those of advanced countries. To develop policies to encourage and facilitate the development of domestic pharmaceutical, vaccine, chemical and health equipment.

9.4. To Strengthen International Cooperation in Health Issues

To strengthen bilateral and mulilateral cooperation with other countries for sharing information and experiences and technical cooperation as well as to jointly address global issues such as diseases, natural disasters, and people-caused disasters. To develop master plan for international cooperation in health sector, including strategic directions for investment attraction and targeted investment areas to ensure high ODA efficiency.

10. ENVIRONMENTAL POLICIES

10.1. To Improve and Amend the Legal and Policy Framework

To enhance cooperation among ministries and agencies in studying and issuing regulations to prohibit the import goods which are forbidden in foreign countries. Those documents should be in line with Vietnam's situation, ensure national security, protect the environment and consumers as well as increase punishments on violations of environmental regulations. To review the current policy of "temporary import - re-export", as its loopholes can cause environment pollution.

To tighten custom procedures for conditional import goods, especially those for importing waste and foreign creatures into Vietnam, thereby reducing environment pollution and waste, and ensuring food safety and sanitation.

To extend the list of products with energy-saving labels in accordance with Decision No. 51/2011/QD-TTG dated 12 September 2011. To study and issue regulations on ecological labelling for environment-friendly products.

10.2. To Actively Prepare and Participate in the Doha Development Round

To develop environment services according to WTO commitments with a reasonable roadmap in line with the Doha Development Round. To fully implement international treaties, international committments, and bilateral and multilateral programs and projects on environmental protection for national benefits.

To upgrade negotiation capacity, especially for those specializing in procedures, expertise on environment, environment commitments and environment services.

To enforce mechanisms for dispute settlements under international conventions and multilateral environment treaties to which Vietnam has been a signatory.

To cooperate closely with neighbours and regional countries, especially the ASEAN, to solve regional and inter-country environment issues.

10.3. To Prepare Resources in Regard to Technical Barriers on Environmental Protection

To prepare resources to overcome technical barriers on environment protection. To consult and support enterprises in building long-term business strategies in line with environment regulations related to production and consumption, incorporating satisfaction of environment standards as part of business and production cost. To increase the business ethics of enterprises. To clearly identify social responsibities of enterprises.

To develop a pool of good specialists with high qualifications and skills to deal with "trade- and environment-" related issues, ranging from policymakers to customs officers and environment polices to detect and penalize violations of environmental regulations in the field of trade.

To organize training courses, disseminate information and introduce international regulations and standards on product quality for enterprises' better understandings when conducting trade activities. To disseminate further information and raise awareness of consumers on environment-friendly products. To form, at the same time, social public opinion to strictly criticize the behaviors causing insanitation and environmental pollution.

To provide information for enterprises on the activities of the National Inquiry Point on quality standards and measurement and National Inquiry Point on epidemic hygiene, sanitary and phytosanitary issues. Accordingly, enterprises and consumers can access information and understand strict regulations under WTO on food hygiene and safety as well as environment-related technical barriers consistent with WTO commitments. As a result, the enterprises, especially those exporting agricultural products, can prevent or reduce losses.

To attract financial resources from enterprises, individuals and international organizations for investment in environmental protection. To invest in and innovate science and technology to develop environment industry.

10.4. To Use Natural Resources More Efficiently

First, to improve legal system related to natural resources such as the Land Law, the Law on Water resource, the Law on Minerals, the Law on Forest protection, the Law on Biodiversity and the Law on Environmental Protection in line with the institutions for socialism-oriented market economy, international commitments and the demand for effective and economical use of natural resources.

Second, to prepare and issue some new laws to ensure effective use of natural resources and to fix the current discrepancies, such as the Law on Effective and Economical Use of Natural Resources, the Law of the Sea in line with new development context with deeper and broader economic integration and larger pressure on using natural resources. To discourage investment in exploiting natural resources in sensitive regions, upstream areas, border forest regions, national defence and security areas. To restrict licenses for exploiting natural resources which are valuable and under threat of exhaustion. To re-align FDI activities related to natural resources and environment - in line with international economic integration commitments - by reducing and gradually eliminating investment sectors which use natural resources wastefully and cause environment pollution.

Third, to create a fair competitive market under State management and eliminate the request-grant mechanism over important natural resources such as land, minerals and water resources. All natural resources have to be valued using market prices, on the basis of which to establish a bidding mechanism before granting exploitation licenses in line with the market mechanism under State management. To increase revenues for State budget from taxes and fees on natural resources.

Fourth, to review and improve economic instruments for natural resource management and environmental protection such as tax, fee, refunded deposit, subsidy, deposit, etc. to increase state budget, effectively use natural resources and protect environment. In doing so, the market rules - namely "The beneficiary has to pay"; "Those causing environmental damage must compensate" – will be respected.

Fifth, to increase investment for restoring the ecological system and for environmental protection by using international resources, State budget and capital mobilized

from the community and enterprises; to gradually apply PPP model in public investment in infrastructures for natural resource exploitation and environmental protection.

Sixth, to improve institutions and policies to reduce and gradually eliminate exports of primary natural resources.

Seventh, to create mechanisms and policies to encourage investment in modern technology and new technology like "green technology" for exploiting, processing and producing natural-resource-saving goods, thereby reducing discharges into the environment; to promptly develop a roadmap for implementation in the future.

Eighth, to review and improve implementation of natural resources management and environment protection missions in terms of number of staffs, quality, capacity in legal execution, monitoring and inspection, especially for customs officers, environment polices, foresters, army force, in particular soldiers at border gates, army forces in remote areas where many natural resources and biodiversity are present.

Nineth, to disseminate information on regulations and to increase enterprises' compliance with regulations on effective use of natural resources and environment protection, especially those which exploit, process, export and consume large volume of natural resources for production. To regularly inspect and monitor enterprises to prevent price transfer and avoidance of compensation after exploition, and to reduce environmental pollution.

Tenth, to disseminate information and raise awareness of effective and economical use of natural resources, starting with leaders at all levels of ministries and localities, as well as civil society organizations and the people. To review and draw lessons in management decentralization, especially in granting licenses for mineral exploitation in the past years, to make adjustments and prevent excessive licensing which causes serious consequences, waste of natural resources, and environment pollution and degradation. Even the licensed projects, especially those using large areas of land, have to be withdrawn in the case of serious violations, so that the sites can be returned to the State.

11. INSTITUTIONAL POLICIES

11.1. To Further Improve Socialism-oriented Market Economy Institution in line with International Economic Integration Roadmap

- To establish comprehensive and synchronous institutions for socialism-oriented market economy; to lay the foundations for the development of capital market, labour market, land market and real estate market. To further develop, improve, review and amend legal regulations and policies in line with international economic integration roadmap and commitments. To develop and apply internationally recognized standards on labour, employment in line with international treaties which Vietnam is or will be negotiating. To ensure a favourable, stable, comprehensive and effective investment and business environment.

- To accelerate administrative reforms. To increase transparency and publicity of legal system, development policies, plans and strategies. To increase cooperation among ministries and agencies in public administration. To improve capacity and professionalism of State apparatus. To increase accountability of leaders of organizations and State officials.

- To improve organization, operation mechanism and management capacity of Government agencies over competition, anti-subsidy, anti-dumping, trade dispute settlement and market management.

- To support enterprises in understanding regulations on international economic integration and settling disputes in international trade. To reform the judical system in line with international practices, building sufficient capacity in settling disputes in order to protect legitimate rights and benefits of organizations and individuals.

- To further improve the law-making process. To strengthen people's participation in this process.

- To increase the quality and enforcement of legal documents. To improve dissemination of information for the people and public administration agencies. To increase enforcement measures and apply fines to violations. To pay more attention to monitoring and inspecting the implementation of policies.

11.2. To Upgrade Institutional Capacity for International Economic Integration

- To promptly develop International Economic Integration Strategy and FTA Negotiation Strategy to direct the negotiation and implementation of international economic integration commitments and FTAs. General political strategic benefits and national economic benefits must constitute the most important criteria for selecting partners. To ensure close cooperation among ministries and agencies in negotiation process; to study and assess potential impacts of various negotiation scenarios; to consult the business community and other stakeholders.

- To review and remove all overlapping contents and regulations. To strengthen the role of and improve the institutions at all levels for directing, organizing, managing, coordinating, implementing and monitoring the implementation of international economic integration activities. To quickly strengthen and improve the organization, capacity, representativeness and efficiency of the NCIEC to assist the Prime Minister in directing and coordinating ministries, sectors and localities in implementing international economic integration activities consistently and effectively. To clearly identify operational and cooperation mechanisms among ministries, sectors and localities; and instruments and institutions for implementing, monitoring and reviewing major policies. To stipulate supports for policies on international economic integration, especially financial resources to improve effectiveness of integration-related activities.

- To incorporate action program on international economic integration with SEDPs with neccesary adjustments to effectively implement signed FTA agreements and multilateral trade liberalization agreements. To periodically review and assess the outcomes of the action program to timely detect and address the urgent issues emerging in international economic integration process. To strengthen and improve the monitoring activities over compliance with commitments of Vietnam's trade partners.

- To further disseminate information and raise awareness on international economic integration for government agencies at all levels, the localities and the people in order to properly prepare for effective integration into the world economy. To enhance understanding of international economic integration commitments as well as opportunities and challenges in their implementation. To ensure information sharing among ministries, agencies, localities and enterprises. To increase the participation and the roles of private sector, professional associations, socio-political organizations and the people in implementing policies on international economic integration.

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