Vietnam Trade Brief

Trade Policy

Vietnam concluded its accession to the World Trade Organization (WTO) in 2007, significantly liberalizing its trade regime in the process. In particular, tariffs on textiles (which is the second largest export sector) were cut by more than half their value upon accession and subsidies given to the textile sector were removed.[1] The simple average of the MFN applied tariff rate (16.8 percent) in 2007 has not changed significantly in the past decade, and is higher than the averages for both the East Asia and Pacific (EAP) region and low-income countries (9.6 and 12.5 percent, respectively). When taking into account actual trade flows, the MFN applied tariff drops to 15 percent. Based on the MFN applied tariff, Vietnam ranked 158th out of 181 countries (where 1st is least restrictive). Tariff protection for agricultural goods (24.2 percent) is nearly 10 percentage points higher than for non-agricultural goods and is 9 percentage points higher than the average for the EAP region. Since 2005, Vietnam has had a maximum tariff on all goods (excluding alcohol and tobacco) of 100 percent. Vietnam's applied tariff rates were above its bound rates in 2007, as reflected in the wedge between bound and applied tariffs (the overhang), of negative 5.5 percent, compared with 29.3 percent on average for the country's regional neighbors. Vietnam ranked 57th out of 148 countries in its commitment to liberalize services trade according to the GATS Commitment Index.

In response to rising food prices in early 2008, the government banned rice exports through June.[2] As the economic crisis spread, Vietnam simplified its rules for rice exports, while stiffening quality checks on some imports. In September 2008, the government announced a 5 percent tariff on oil imports as oil prices fell in the second half of the year. To restrict the importation of luxury commodities and reduce the trade deficit, the government also increased import tariffs on luxury goods in July 2008.[3] In light of the financial crisis, Vietnam increased tariffs on some dairy products, meat and poultry products, iron, and steel in the first four months of 2009.[4] It also reduced tariffs on imports of cotton and fuels to reduce costs of exporters.

External Environment

The simple average of the rest of the world tariff faced by Vietnamese exports is 10 percent. When the volume of exports is taken into account, Vietnam's rest of the world tariff is 6.1 percent, above the regional average of 4.6 percent. The tariff faced by its agricultural products is relatively high at 19 percent, and by the non-agricultural ones it is 4.9 percent. In December 2008, Vietnam signed an Economic Partnership Agreement with Japan covering trade, financial services, and migration.[5] In March 2008, as a member of the Association of South-East Asia Nations (ASEAN), it signed a less expansive free trade agreement (FTA) with Japan, whereby Japan agreed to eliminate tariffs on 93 percent of goods exported from ASEAN member countries. Further improving the country's market access, in the same month, the government signed a preferential trading deal with Lao People's Democratic Republic that will reduce import tariffs.[6] In February 2009, a comprehensive free trade deal, which is expected to be implemented by the end of 2009, was signed between ASEAN members and Australia and New Zealand. In August 2009, a FTA between India and the ASEAN countries was signed and is expected to take effect in January 1, 2010. Over the course of 2008, Vietnam had four anti-dumping investigations initiated against it and has had an additional three initiated against it in the first half of 2009. In addition, one countervailing duty investigation was initiated against it by the United States in the second quarter of 2009. The central bank maintained a crawling peg to the U.S. dollar in 2008, but widened the band around the official exchange rate halfway through the year to allow for more flexibility. Over the course of 2008 the Vietnamese dong depreciated by 1.2 percent against the U.S. dollar.[7]

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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Behind the Border Constraints

In terms of the conduciveness of its institutional environment to business, Vietnam ranked 93rd out of 183 countries in the 2010 Ease of Doing Business index. The Logistics Performance Index, a measure of the extent of trade facilitation, rates Vietnam at 2.89 on a scale from 1 to 5 with 5 being the highest performance, compared with 2.58 for the EAP region. It ranked 53rd in the world and 5th in the EAP region (with Malaysia leading the regional group). It performed best in lowering domestic logistics costs while its weakest performance is in the quality of transport and IT infrastructure for logistics. In April 2009, as trade finance became scarcer, the government passed a fiscal stimulus package that contained provisions aimed at increasing credit incentives for exporters.[8]

Trade Outcomes

The global economic slowdown is expected to put a damper on the fast growth experienced by Vietnam in the past several years. Vietnam's growth rate of total trade increased through 2007 to reach 26 percent, but slowed down in 2008 to an estimated growth rate of 17.7 percent in real (constant 2000 U.S. dollars) terms. Real export growth was an estimated 18.2 percent while real import growth was an estimated 17.2 percent. Expectations are that exports and imports will fall in 2009 by 6.8 and 3 percent in real terms, respectively.

Vietnam has a high rate of trade integration with total trade equal to 135 percent of GDP in 2008. This is due in part to its double-digit growth in nominal terms of both exports and imports every year since 2002.[9] In nominal terms, total trade of goods and services grew by an estimated 28.8 percent in 2008. By the second half of 2008, prices and demand for Vietnam's main exports, including crude oil, garments, footwear, and rice, had declined due to the economic downturn.[10] Production of crude oil also fell in 2008.[11] Despite this, total exports increased by an estimated 29.1 percent in nominal terms in 2008. Growth slowed in the fourth quarter, however, when exports grew by only 4.7 percent in nominal U.S. dollar terms compared to the corresponding period in 2007.[12] Vietnam's main export destinations (the United States, the EU, and Japan) will most likely decrease demand in 2009. A fall in goods exports is expected to lead to a decrease in total exports of 20.7 percent in 2009. The decline in the first quarter of 2009 was 3.4 percent. Total imports grew by an estimated 28.6 percent in 2008 in nominal terms, due to increases in global commodity prices but are expected to fall by 12.4 percent in 2009. Remittances were equivalent to 7.9 percent of GDP in 2008, while foreign direct investment as a share of GDP was 9.8 percent in 2007.

Notes

1. IMF, 2007.
2. FAO, 2009.
3. ESCAP August 2008, p. 4; October 2008, p. 5.
4. World Bank PREM Trade Group, January 2009, p. 17; April 2009, p. 3.
5. Bilaerals.org, 2009a-d.
6. Economic and Social Commission for East Asia, April 2008, p. 5.
7. Asian Development Bank, 2009, pp. 273–274; IMF, 2009.
8. WTO, 2009, pp. 76–77.
9. All nominal trade growth data from General Statistics Office of Vietnam, 2009.
10. U.S. Department of State, 2009.
11. Asian Development Bank, 2009, p. 262.
12. All quarterly data from IMF, 2009.

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