



Asian Productivity Organization “The APO in the News”

Name of publication: VnExpress International (23 November 2016, Vietnam)

Page: <http://e.vnexpress.net/news/business/data-speaks/looking-back-at-10-years-of-wto-in-vietnam-3500464.html>

Looking back at 10 years of WTO in Vietnam

By Ha Phuong November 23, 2016 | 12:19 pm GMT+7



Former Trade Minister Truong Dinh Tuyen (right) at a negotiation in Geneva on October 28, 2006. Photo by VnExpress via Vietnam Foreign Affairs/File Photo

Take a look at Vietnam's transformation as trade barriers were removed.

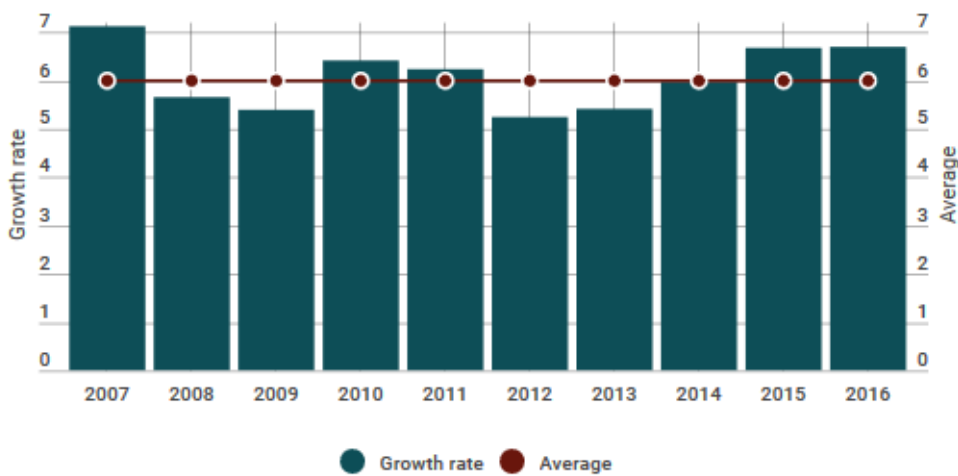
After more than 10 years of preparations and negotiations, Vietnam's accession to the World Trade Organization was completed in 2007, marking a turning point in the country's international economic integration.

Vietnam's economy grows 6 percent/year

Trade liberalization and open-door policies under WTO agreements have coincided with the rapid expansion of Vietnam's economy. Over the past ten years, despite the global economic crisis, Vietnam's gross domestic product (GDP) has grown on average by 6 percent per year, according to data from the World Bank, but still lower than the average of 7.12 percent posted from 2001 to 2006 before becoming a part of the WTO.

The government sustained such high growth in part through fiscal expansion, spending at least a third of the total state budget over the period. This is higher than other regional countries, leaving Vietnam behind its peers in the race for sustainable growth, according to a report by the National Assembly's Standing Committee.

Vietnam's economy grows 6 percent/year



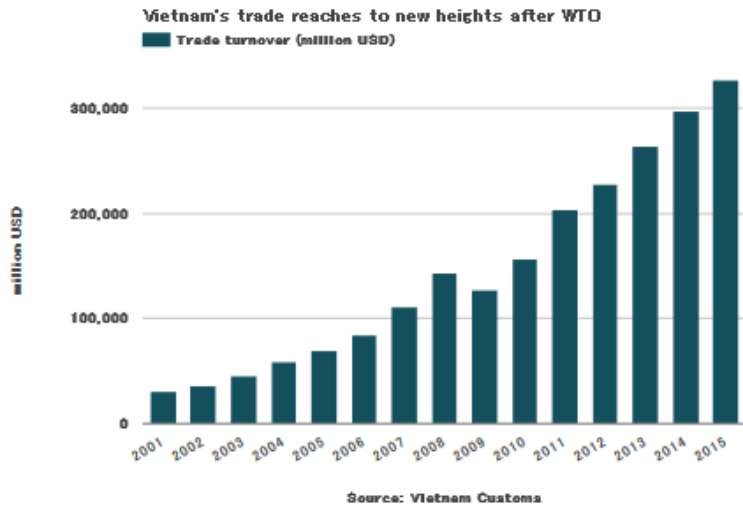
Source: World Bank data

Doors open for trade

Vietnam's government considers exports key to taking advantage of its natural resources and abundant labor force.

Being a member of the WTO means fewer trade restrictions and brings greater export opportunities, and this expansion of exports allows domestic firms to tap larger economies.

Over the last 10 years, Vietnam's trade with other countries has risen to new heights and export value has tripled.



Vietnam exports mostly raw materials or assembly-oriented products such as garments, textiles and footwear, while the country has to import tech-intensive equipment as well as processed products, including electrical goods, metal, chemicals and automobiles. Although exports have skyrocketed, the country has still posted trade deficits in six of the last 10 years.

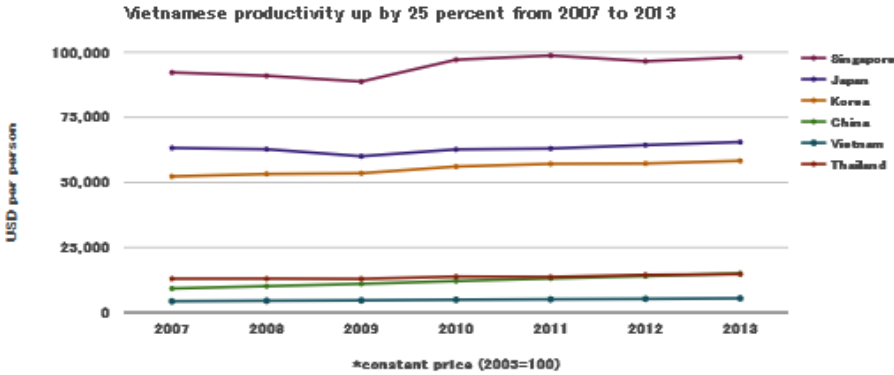


Capital finds its way

Protection barriers as well as tax incentives have been used to attract foreign investment into infant domestic industries.

Together with trade, foreign direct investment (FDI) has been accompanied by the transfer of technology and managerial skills that are needed for the modernization of domestic industries. Total direct capital flowing into Vietnam rose by 30 percent in the 10 years, half of which touched down in low value-added and labor intensive manufacturing-related sectors.

Vietnamese productivity has risen in the last decade, but the country still lags behind its Asian neighbors in this respect.

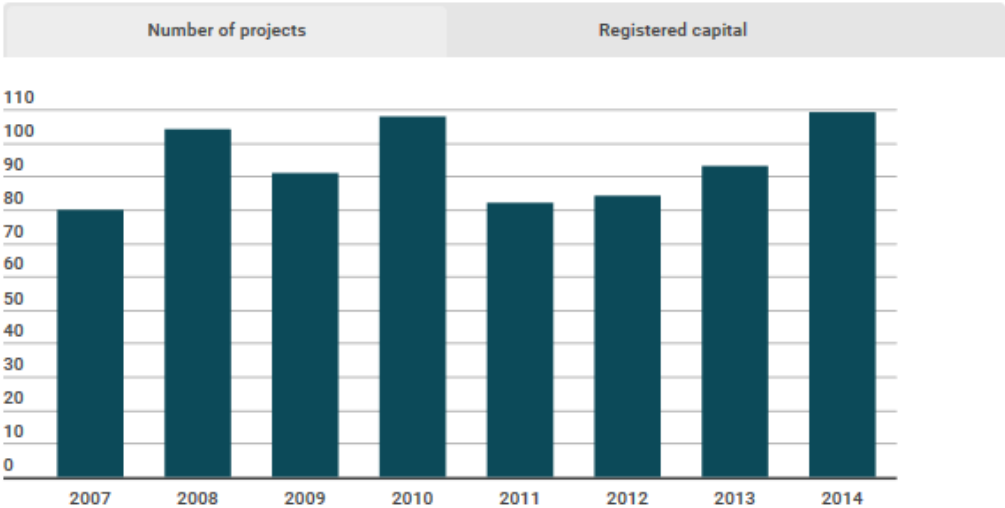


Source: Asian Productivity Organization data, 2015

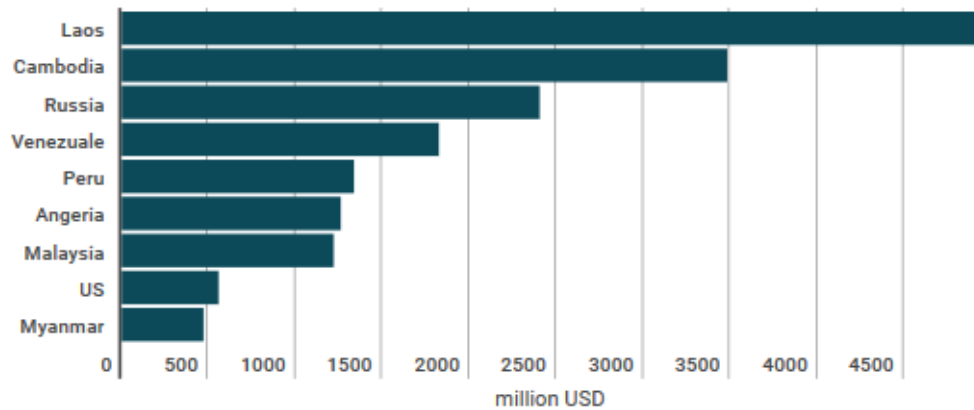
Analysts warn that reliance on FDI could lead Vietnam straight into the [middle-income trap](#) since the FDI sector is notorious for tax dodging and price transferring, and most recently, the environmental disaster caused by Taiwanese steel firm [Formosa](#).

At the same time, in this era of globalization, Vietnamese firms have also been finding their way overseas. Other than traditional markets like Cambodia and Laos, Vietnamese firms have started to try their luck in further afield in markets such as Germany, Russia and the U.S.

Vietnamese firms find their ways overseas



Top 10 investment destinations of Vietnamese firms by registered capital by December 2015

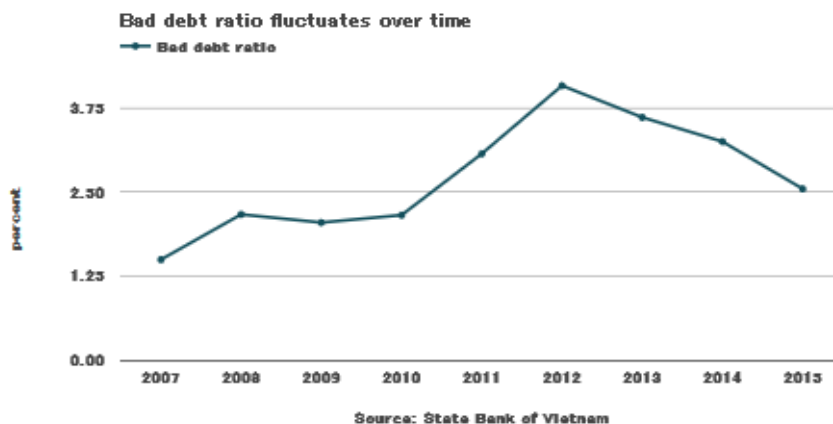


Source: General Statistics Office

Deeper integration a challenge for financial sector

During the integration process, the banking sector has been heavily influenced by the international financial market in terms of exchange rates, interest rates and foreign currency reserves, while trying to meet international obligations and commitments.

The bad debt ratio has had its ups and downs over the decade, raising concerns over credit quality as well as the sustainability of the banking system in Vietnam. Toxic debts are somehow holding back the country's banking system, said Moody's in its latest assessment of Vietnam's banking system.



The recent application of Basel II - the second international banking regulatory in accordance with the Basel Accords standards set by the Basel Committee on Banking Supervision - is another challenge for local banks. However, it may push Vietnam's

banking system one step closer to interational practices.

“Competition will probably become much stronger when foreign banks expand their operations in the Vietnamese market,” said Truong Dinh Tuyen, former minister of trade at a government meeting on WTO back in 2011.

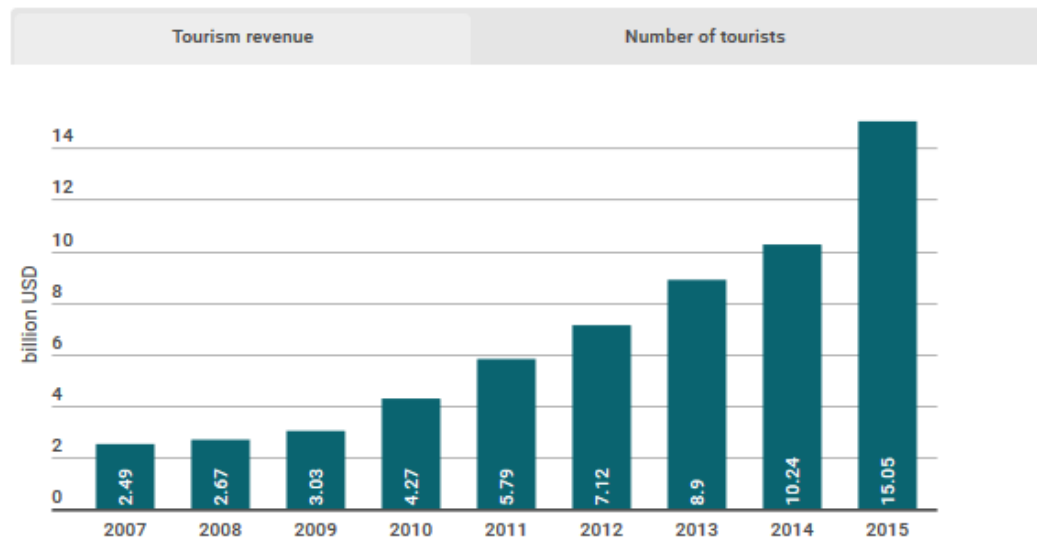
As part of the globalization process, more room for foreign investors has been created in accordance with a decree issued in mid-2015, which led to an increase in foreign traders on the local securities market. By the end of 2015, there were 18,607 foreign investors, marking a jump of 65 percent compared to 2008, data from the Vietnam Securities Depository showed. But analysts worry if the securities market becomes too dependent on the foreign sector, there could be another financial crisis like that of 1998.

Tourism and education reap the benefits

Vietnam's tourism sector seems to have also enjoyed the benefits the WTO brings. From a revenue of \$2.5 billion in 2007, the tourism sector cashed in over \$15 billion in 2015. That figure is expected to reach \$18 billion this year.

Education has also gained from the trade agreement. Vietnamese students have found it easier to fulfill their thirst for knowledge overseas. The number of Vietnamese students in the U.S. has nearly doubled compared to 2007, according to the latest report from the Institute of International Education.

Vietnamese tourism enjoys the benefits of WTO



Source: Vietnam national administration of tourism