

**BỘ CÔNG THƯƠNG**  
**VIỆN NGHIÊN CỨU CHIẾN LƯỢC, CHÍNH SÁCH CÔNG THƯƠNG**

## **HỘI THẢO QUỐC TẾ**

**ĐỊNH HƯỚNG CHIẾN LƯỢC, CHÍNH SÁCH XUẤT NHẬP KHẨU HÀNG  
HÓA PHỤC VỤ MỤC TIÊU PHÁT TRIỂN BỀN VỮNG  
Ở VIỆT NAM ĐẾN NĂM 2030**

**DIRECTIONS FOR STRATEGIES AND POLICIES OF IMPORT  
AND EXPORT OF GOODS FOR VIETNAM'S SUSTAINABLE  
DEVELOPMENT TOWARDS 2030**

**NHÀ XUẤT BẢN CÔNG THƯƠNG - 3/2022**

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## **TABLE OF CONTENTS**

<b>1. SUGGESTIONS ON GOODS IMPORT AND EXPORT FOR VIET NAM'S SUSTAINABLE DEVELOPMENT DURING 2021-2030</b>	<b>7</b>
Nguyen Van Hoi (Ph.D) General Director - Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>2. DEVELOPMENT OF VIET NAM'S IMPORT AND EXPORT MARKETS FOR GOODS IN THE PERIOD 2011-2020: SITUATION AND SOME POLICY RECOMMENDATIONS</b>	<b>20</b>
Dinh Van Thanh (Assoc. Prof. Ph.D) Nguyen Thi Quynh Hoa (Ph.D) Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>3. ANALYSIS AND FORECAST OF FACTORS THAT AFFECT VIET NAM'S STRATEGY FOR IMPORT-EXPORT OF GOODS IN THE PERIOD 2021-2030</b>	<b>31</b>
Le Huy Khoi (Ph.D) Do Tuan Linh (BA) Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>4. STATE MANAGEMENT OF VIET NAM'S EXPORT OF GOODS DURING 2011-2020: SITUATION AND ISSUES FOR ATTENTION</b>	<b>45</b>
Nguyen Thi Quynh Hoa (Ph.D) Nguyen Khanh Linh (MSc.) Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>5. FRAMEWORK TO RESTRUCTURE VIET NAM'S EXPORTS OF GOODS TO MEET ITS INTEGRATION REQUIREMENTS IN THE PERIOD OF 2021-2030</b>	<b>57</b>
Nguyen Thi Nhieu (Ph.D) - Senior researcher Trinh Thi Thanh Thuy (Ph.D) Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>6. ENHANCING STATE MANAGEMENT OF IMPORT OF GOODS TO VIET NAM TO PROMOTE INTEGRATION AND IMPLEMENTATION OF NEW GENERATION OF FTAs</b>	<b>68</b>
Dang Cong Hien (Ph.D) Tran Thi Thu Hien (Ph.D) Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>7. ORIENTATION FOR THE RESTRUCTURING OF VIET NAM'S GOODS IMPORT TO MEET ITS INTEGRATION REQUIREMENTS IN 2021-2030</b>	<b>81</b>
Pham Tat Thang (Assoc. Prof. Ph.D) Pham Hong Lam (BA) Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>8. NEW INDUSTRIALIZATION STRATEGY TOWARD 2030, VISION TO 2035 FROM THE INDUSTRY'S PERSPECTIVE</b>	<b>91</b>
Pham Ngoc Hai (Ph.D) Deputy Director - Vietnam Institute of Strategy and Policy for Industry and Trade Le Nguyen Thanh (EN) Vietnam Institute of Strategy and Policy for Industry and Trade	

<b>9. GOODS IMPORT/EXPORT STRATEGIES OF SOUTH KOREA, CHINA AND THAILAND AND LESSONS FOR VIET NAM</b>	101
Pham Huu Thin (Ph.D)	
Hoang Trung Hieu (MSc.)	
Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>10. SUSTAINABLE EXPORT DEVELOPMENT OF VIET NAM'S GOODS TO THE EU MARKET IN THE CONTEXT OF IMPLEMENTATION OF EVFTA - SOME POLICY RECOMMENDATIONS</b>	114
Pham Hong Tu (Ph.D)	
Dang Thanh Phuong (Ph.D)	
Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>11. ENHANCING VIET NAM'S EXPORT OF GOODS TO RUSSIAN FEDERATION IN THE NEW CONTEXT</b>	126
Do Quang (MSc.)	
Dinh Van Thanh (Assoc. Prof. Ph.D)	
Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>12. EXPORT DEVELOPMENT OF VIET NAM'S PROCESSING AND MANUFACTURING INDUSTRIES TOWARDS 2030</b>	135
Nguyen Van Lich (Assoc. Prof. Ph.D)	
Vietnam Institute of Strategy and Policy for Industry and Trade	
Nguyen Thi Xuan Thuy (MSc.)	
Department of Industry - Ministry of Industry and Trade	
<b>13. THE EU - VIETNAM FREE TRADE AGREEMENT (EVFTA) AND PROSPECTS FOR VIET NAM'S RICE EXPORTS</b>	148
Hoang Thi Van Anh (MSc.)	
Vietnam Institute of Strategy and Policy for Industry and Trade	
Dinh Cong Hoang (Ph.D)	
Institute for Africa and Middle East Studies	
<b>14. SUSTAINABLE DEVELOPMENT OF EXPORT OF WOOD AND WOOD PRODUCTS OF VIET NAM WITH NEW-GENERATION FREE TRADE AGREEMENTS (FTAs)</b>	158
Hoang Thi Huong Lan (MSc.)	
Hoang Thi Van Anh (MSc.)	
Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>15. SUSTAINABLE EXPORT DEVELOPMENT OF VIET NAM'S SEAFOOD PRODUCTS IN THE CONTEXT NEW GENERATION FTA'S TOWARDS 2030</b>	169
Nguyen Thi Quynh Van (MSc.)	
Lai Hong Minh (MSc.)	
Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>16. EU - VIETNAM FREE TRADE AGREEMENT - OPPORTUNITIES AND CHALLENGES FOR EXPORT DEVELOPMENT OF VIET NAM'S FRUITS AND VEGETABLES TO THE EU MARKET</b>	181
Pham Nguyen Minh (Ph.D)	
Vietnam Industry and Trade Information Centre	
Nguyen Thi Quynh Hoa (Ph.D)	
Vietnam Institute of Strategy and Policy for Industry and Trade	

<b>17. EXPORTING VIET NAM'S HALAL-CERTIFIED AGRICULTURAL PRODUCTS TO THE MIDDLE EAST - AFRICA: SITUATION AND POLICY RECOMMENDATIONS</b>	191
Trinh Van Thao (Ph.D Candidate)	
Vietnam Institute of Strategy and Policy for Industry and Trade	
Dinh Cong Hoang (Ph.D.)	
Institute for Africa and Middle East Studies	
<b>18. EXPORT DEVELOPMENT OF VIET NAM'S AGRICULTURAL PRODUCTS TOWARDS 2030</b>	202
Phung Thi Van Kieu (MSc.)	
Nguyen Thi Tra Giang (MSc.)	
Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>19. OPPORTUNITIES TO EXPORT VIETNAMESE AGRICULTURAL PRODUCTS TO THE CHINESE MARKET AFTER THE COVID-19 EPIDEMIC</b>	210
Thai Quoc Hai (MSc.)	
Pham Vu Quang Huy (MSc.)	
Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>20. SUGGESTIONS FOR EXPORT DEVELOP OF VIET NAM'S WOOD AND WOOD PRODUCTS TOWARDS 2030</b>	217
Le Trinh Minh Chau (Assoc. Prof. Ph.D)	
Vuong Quang Luong (Ph.D)	
Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>21. EXPORTING VIETNAMESE AGRICULTURAL PRODUCTS TO EU MARKET: OPPORTUNITIES AND CHALLENGES</b>	225
Nguyen Thi Huong (MSc.)	
Nguyen Thi Hue (Ph.D)	
University of Labour & Social Affairs	
<b>22. EXPORTING VIETNAMESE AGRICULTURAL PRODUCTS TO THE US MARKET IN THE COVID-19 PANDEMIC</b>	234
Nguyen Thi Van Anh (Ph.D)	
University of Labour and Social Affairs	
Doan Thi Mai Huong (Ph.D)	
University of Labour and Social Affairs	
Bui Thi Bich Nga	
Faculty of International Economics, Diplomatic Academy of Vietnam	
<b>23. POLICIES TO OVERCOME TRADE BARRIERS FOR SUSTAINABLE DEVELOPMENT OF THAILAND'S AGRICULTURAL PRODUCTS AND EXPERIENCE FOR VIET NAM</b>	245
Luc Thi Thu Huong (Ph.D)	
University of Commerce	
<b>24. SINGAPORE'S LOGISTICS INFRASTRUCTURE DEVELOPMENT AND LESSONS FOR VIET NAM</b>	253
Tran The Tuan (Ph.D)	
The University of Transport Technology	

<b>25. SERVICES PROVIDED CAPACITY OF INTERNATIONAL LOGISTICS BUSINESSES AND EXPERIENCE FOR VIETNAM LOGISTICS BUSINESSES</b>	264
Lam Tuan Hung (Ph.D)	
Le Trinh Minh Chau (Assoc. Prof. Ph.D)	
Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>26. SUPPORTING SMALL AND MEDIUM SIZED ENTERPRISES (SMEs) TO JOIN THE GLOBAL VALUE CHAIN UNDER FREE TRADE AGREEMENTS</b>	273
Ho Trung Thanh (Ph.D)	
Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>27. ENHANCING COMPETITION LAW ENFORCEMENT FOR VIET NAM'S INTERNATIONAL TRADE DEVELOPMENT</b>	280
Bui Nguyen Anh Tuan (Ph.D Candidate)	
Vietnam Competition Council - Ministry of Industry and Trade	
<b>28. RESPONDING TO ANTI-SUBSIDY MEASURES AGAINST VIET NAM'S EXPORTS</b>	290
Le Trieu Dung (MSc.)	
Trade Remedies Authority of Vietnam - Ministry of Industry and Trade	
<b>29. DEVELOPING VIET NAM'S GOODS DISTRIBUTION NETWORKS ABROAD AND THE QUESTIONS TO BE ANSWERED FOR THE NEXT STAGE</b>	299
Le Thi Thu Huong (MSc.)	
General Department of Market Management - Ministry of Industry and Trade	
<b>30. PROMOTION OF COMMERCIAL ADVERTISING ACTIVITIES OF ENTERPRISES ON DIGITAL PLATFORMS</b>	307
Dao Ha My (Ph.D Candidate)	
Vietnam Trade Promotion Agency - Ministry of Industry and Trade	
<b>31. VIETNAM'S EXPORTS AND OUTPUT GROWTH: A STRATEGIC POLICY MODELLING STUDY</b>	316
Tran Van Hoa	
Professor, Victoria University, Australia	
Ho Trung Thanh (Ph.D)	
Vietnam Institute of Strategy and Policy for Industry and Trade	
<b>32. ANALYSING OPPORTUNITIES AND CHALLENGES FOR VIETNAM'S POWER MARKET OPENING IN CONNECTION WITH ASEAN NEIGHBOURS</b>	331
Nguyen Van Lich (Assoc. Prof. Ph.D)	
Vietnam Institute of Strategy and Policy for Industry and Trade	
Tue Anh Nguyen (Ph.D)	
Institute for Innovation and Public Purpose, University College London	

# **SUGGESTIONS ON GOODS IMPORT AND EXPORT FOR VIET NAM'S SUSTAINABLE DEVELOPMENT DURING 2021-2030**

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## **Abstract**

*Implementing the “Strategy for Exports and Imports of Goods during 2011-2020” (hereinafter referred to as “the Strategy”) for the past 10 years, Viet Nam’s import and export activities have accomplished significant achievements, contributing to the process of renewal and development of the country. High export growth has become an important pillar of economic growth, stabilizing the macro-economy, contributing to creating jobs, raising income, and eradicating hunger and reducing poverty. Import of goods has contributed to the development of production, export growth, improvement in the economy’s technological level, and the stabilization of the market and people’s lives. However, there were also issues in import-export activities during period 2011-2020 that needed to be analyzed and evaluated as a basis of formulating the Strategy for the Import-Export of Goods during the period 2021-2030. This article focuses on assessing Viet Nam's import and export activities during the period 2011-2020, analyzing and forecasting international and domestic factors affecting import and export of goods in the coming time, and proposes perspectives, directions, and strategies for Viet Nam's import-export development during the period of 2021-2030.*

**Keywords:** Strategy, strategic orientation, export, import, goods, sustainable development.

## **I. IMPORT-EXPORT OF GOODS DURING 2011-2020**

Implementing the Strategy for Import-Export of goods for the period of 2011-2020, Viet Nam has accomplished important achievements in import-export activities making great contributions to Viet Nam’s renewal and development process in the last 10 years. Despite many difficulties and challenges resulted by the complicated and unpredictable changes occurred in Viet Nam and in the world, in general the targets set out in the Strategy have been largely accomplished. High export’s growth has become an important factor of the economic growth, macro-economic stabilization, increased employment and income, hunger eradication and poverty reduction of. Goods import has been a crucial factors contributing to the production development, export growth, enhancement of the application of technologies in the economy, stabilization of people's lives, assisting consumers to have good access to quality goods and services with better quality but cheaper price.

According to data provided by the Ministry of Industry and Trade, by the end of 2020, Viet Nam's total import-export turnover reached \$545.35 billion comprising the export and import turnovers reached \$282.65 billion \$262.7 billion respectively. The average export growth rate in the period 2011-2020 stood at 14.6% per year (higher than the target set by the Strategy at 11-12%/year). The scale of the export of goods is expanded while the exported products become increasingly diverse and abundant. The number of products with the export turnover of over 1 billion USD has increased rapidly over the years, accounting for a large

proportion of Viet Nam's total export turnover. By the end of 2020, there were 31 products with an export turnover of more than \$1 billion (of which 9 products with an export turnover of more than 10 billion USD), accounting for 92% of the total export turnover. The structure of goods export has changed positively with the increase in the proportion of processed and manufactured goods (accounting for 85.1% in 2020, higher than the target set out in the Strategy at 62.9%), decrease in the proportion of raw materials and semi-processed goods (in 2020, the proportion of fuel and mineral products dropped to 1.0%, lower than the target of 4.4%, the proportion of agricultural, forestry and fishery products decreased to 8.8%, lower than the target of 13.5%). High export's growth is a crucial factor contributing to the improvement of Viet Nam's trade balance. Since 2012, Viet Nam has constantly recorded trade surplus. In 2020, despite the uncertainties of the world economy, Viet Nam reported a trade surplus record of \$19.95 billion.

Given the low level of economic and technological development, the import policies over the recent years have created favorable conditions for Viet Nam to access advanced technology, step by step solve the problem of fuel shortage and gradually meet the demand for materials, machinery and equipment needed for export production. These policies also help strengthen the control of import activities. The growth rate of goods import is always lower than the growth rate of exports, contributing to the improvement of trade balance. The structure of imports has been changed positively with increased import of processed or refined goods, decreased import of raw and semi-processed goods. Main focus is to import essential goods need for export production and domestic investment projects. At the same time, the proportion of imported machinery, equipment, components and spare parts tends to increase, from 36.8% in the 2011-2015 period to 44.6% in the 2016-2020 period, thereby creating favorable conditions for Viet Nam to improve its technological development level in order to improve the quality, increase added values and competitiveness of its exports and the efficiency of export activities.

**Table 1. Viet Nam's goods import-export in the period 2011-2020**

Year	Export		Import		Import-Export		Trade Balance (million USD)
	Turnover (million USD)	Growth (%)	Turnover (million USD)	Growth (%)	Turnover (million USD)	Growth (%)	
2010	72,237	26.5	84,839	21.3	157,076	23.6	-12,602
2011	96,906	34.2	106,750	25.8	203,656	29.7	-9,844
2012	114,529	18.2	113,780	6.6	228,309	12.1	749
2013	132,175	15.4	131,312	15.4	263,487	15.4	863
2014	150,217	13.7	147,849	12.6	298,066	13.1	2,368
2015	162,017	7.9	165,570	12.0	327,587	9.9	-3,553
2016	176,581	9.0	174,804	5.6	351,385	7.3	1,777
2017	215,119	21.8	213,007	21.9	428,126	21.8	2,112
2018	243,697	13.3	236,869	11.2	480,566	12.2	6,828
2019	264,267	8.4	253,393	7.0	517,660	7.7	10,874
2020	282,655	7.0	262,701	3.7	545,356	5.4	19,954
2011-2020	1,838,163	14.6	1,806,035	12.0	3,644,198	13.3	32,128

*Source: Synthesized and calculated based on the data provided by the Ministry of Industry and Trade, General Statistics Office of Viet Nam*



However, there were still issues in Viet Nam's import-export activities during the period of 2011-2020:

*First*, export growth was fast but may not be entirely sustainable in medium to long term. In addition, since the openness of the economy is high, there are potentially import and export risks that can be triggered by adverse impact of shocks and external factors, affecting the stability of export's growth:

- **Imbalance in trade with import-export markets:** The proportion of exports and trade surpluses with some major markets are increasing, especially with US; Trade deficit with APEC countries, including China and Korea, tends to increase (especially with China). Market concentration/dependence is still quite high. The figures in 2020 show that the 20 largest export markets account for 80% of Viet Nam's total export turnover and 10 major import markets account for 80% of Viet Nam's total import turnover.

- **Imbalance of the structure of exports:** There is too much focus on only a small number of key products of the agriculture, forestry, fishery sectors and labor or resources intensive processing industries; The proportion of high-tech exports is still low, and there are many difficulties in developing new products. In 2020, 15 main exports accounted for 80% of the total export turnover, 6 of which (electronics products, computers and components; mobiles and components; textiles; machinery, equipment and tools; footwear; wood and wood products) reached an export turnover of more than \$10 billion accounting for 64,3% of national total goods export turnover.

- **Imbalance in the composition of exporters:** Viet Nam's export heavily relies on FDI enterprises, with the average growth rate in the 2011-2015 period of 21.3%/year; and 11.7%/year in 2016-2020 period; the proportion of the exports by FDI enterprises in the period 2011-2015 was 54.8%; 2016-2020: 60.5% and 64.3% in 2020. The competitiveness of domestic enterprises was limited, with the average growth in the period 2011-2015 of 7,4%/year; and 6,4%/year in the period 2016-2020; the proportion of the exports by domestic enterprises in the period 2011-2015 was 45,2%; 39,5% in the period 2016-2020 and 35,7% in 2020 of the total export turnover.

*Second*, the competitiveness of the economy, the enterprises and export products are generally weak. The competitiveness and added value of exports are low, and export growth still relies heavily on quantitative growth factors such as capital, cheap labor and natural advantages (most key exports/products are resource-intensive and labor-intensive, with low added value such as agricultural products, seafood, textiles, footwear, furniture, electronics, etc...). The innovated content of exports is small and the capacity of Vietnamese exporters to comply with technical regulations and standards, and the capacity to participate in the global value chain is limited.

*Third*, import activities are unsustainable due to the import of intermediate technologies, luxury goods or goods which can be domestically produced. There are no long-term measures to curb trade deficit with China, and there is a lack of incentives to encourage the import of competitive goods. The lack of effective management of import activities has led to an increased risk of environmental pollution and degradation. The import of outdated equipment, poor quality foods, and toxic chemicals from China and through border gates with Laos and Cambodia has not been effectively prevented. Poor management of imports has resulted in

trade frauds, illegal incomes from import activities, affecting macroeconomic and social stability.

*Fourth*, there is insufficient attention to consumers' health and ecological environment during the process of developing export activities or producing exports. Many products of Viet Nam are at risk of being rejected by foreign markets because they fail to meet environmental and social regulations applicable to the exploitation, fishing and processing.

*Fifth*, rapid growth of the import and export contributes to economic development, job creation of jobs and improvement of people's living standards. However, the opportunity to participate in export activities and to enjoy result of the export growth is unequal between large enterprises and small, micro enterprises, between domestic enterprises and FDI enterprises, between farmers and export enterprises.

The reason for this is that during the process of formulating and planning the import-export strategy in the period 2011 - 2020, Viet Nam paid little attention to the quality of growth while focusing on quantitative targets, underestimating negative impact of the export on the society and the environment, maintaining an extensive growth model for too long, paying insufficient attention to creation of the premise for the development and intensive growth model based on science-technology factors and high-quality human resources. The policy to attract domestic and foreign investment did not focus on the transformation of production and export activities towards increased acquisition and application of advanced technology, and high quality human resources. There was also a lack of investments for developing supporting industries, upgrading infrastructure and cultivating human resources to be able to take full advantage of the opportunities delivered by the integration process. Necessary resources for import-export development are far to meet the quality and quantity requirements. The mechanism for allocating, using and mobilizing domestic and international resources namely financial resources, technical materials, science - technology, information resources and high quality human resources is inefficient. There was insufficient investment in developing a logistics service system which is strong and efficient enough to support the increased need of import and export activities.

State management of import activities was not concentrated. There were too many documents issued as instrument for state management but they were not synchronized and consistent while there was still a lack of specific regulations or documents tailored to help govern a specific goods, markets and suitable to the current socio-economic situation. Measures taken to reform administrative procedures and simplify custom procedures were still complicated and not really effective for state management. The import management method mainly focused on administrative measures while neglecting economic and technical measures, causing troubles and increasing costs, prolonging custom clearance time for businesses. There was a lack of legal documents governing the application of trade remedies and anti-fraud of goods origin. The capacity to monitor, inspect and verify the origin of goods to effectively to prevent and strictly punish origin frauds, illegal transshipment, and evasion of trade remedies is limited.

Furthermore, the size of most of exporting enterprises are either medium or small, with limited capital, technology, and human resources, so the competitiveness is low. The number of enterprises that have the capacity to compete globally is small. The linkage and cooperation between domestic enterprises and FDI enterprises is still ineffective. Production organization and development of raw material areas is not synchronized in various stages from the

planning stage to the rational arrangement of processing facilities. The capacity to research and forecast the market is limited. The ability to adapt to the new context of the international market, changes in the policy on the application of trade barriers. They are not capable of following the new FTAs leading to changes in policy and trade flow. As a result, they have little ability to forecast and respond to global problems such as natural disasters, epidemics, trade disputes, crises, economic recession.

## **II. DIRECTIONS, GOALS AND TARGETS FOR VIET NAM'S IMPORT-EXPORT DEVELOPMENT DURING 2021-2030**

### **2.1. Directions**

Viet Nam is entering a new development period with the requirement for fast and sustainable economic development based on innovation and creativity, exploiting the advantages of the Industrial Revolution 4.0. The international context in the upcoming years will also have unpredictable and complicated developments. The world economy still has many potential risks from geopolitical and trade conflicts, epidemics, and economic crisis cycles. The trend of protectionism, anti-trade and investment liberalization has been merging globally. The COVID 19 epidemic with unpredictable developments can disrupt supply chains and reshape production and trade activities regionally and globally.

In that context, sustainable import-export development poses a great urgency for our country in the period 2021-2030 with the main goal of attaching importance to the quality, efficiency and sustainability of the development, ensuring macroeconomic stability, harmonizing the relationship between the rate and quality of the growth, social stability, and environmental protection. This is one of the major policies of the Party for the period 2021-2030. The requirement for sustainable import-export development has become more and more pressing in the context of our country's deeper integration with the world economy, especially by participating in new generation free trade agreements with higher and more comprehensive commitment. Deep international economic integration increases competitive pressure in the world market and the world economic volatility is a challenge for maintaining a high and sustainable export growth rate of Viet Nam.

Viet Nam will focus all resources on economic development to achieve ambitious strategic goals in the coming decades, with specific goals identified in the Resolution of the 13th National Party Congress: becoming a developing country with modernity-oriented industry, surpassing the low middle income level by 2525; becoming a developing country with basically modern industry and upper middle income by 2030; becoming a developed, high-income country by 2045.

Based on the Party's general directions for the development of the economy during 2021-2030, the key directions in developing Viet Nam's import-export in the coming years should include:

*(i) Viet Nam's import-export needs to be developed by ensuring harmonious cooperation between short- and long-term goals, with emphasis on improving the quality of import-export growth, and efficiency and sustainability of the development.*

On the basis of the Party's major undertakings and the goal of rapid and sustainable development in the 10-year socio-economic development strategy for 2021-2030, it is necessary to consider sustainable import-export development as a priority target and

orientation. It is also important to ensure a harmonious combination between short- and long-term goals, with emphasis on improving the quality of import-export growth, efficiency and sustainability of development.

Sustainable import-export development must contribute to promoting fast and sustainable economic growth, improving the competitiveness of the economy on the basis of innovation, development of e-commerce, digital transformation and exploiting the advantages of the Industrial Revolution 4.0. It is necessary to focus on economic restructuring towards considering industrialization, modernization as the core, and rapid intensive modernization, based on the exploitation of dynamic competitive advantages of modern science - technology and high-quality human resources.

*(ii) Develop import and export in a balanced and harmonious manner in terms of the composition of export and import goods as well as the structure of export and import markets and structure of export enterprises (domestic and FDI). There should be a good balance of trade in goods to ensure sustainability on the basis of effective implementation of commitments under various FTAs, especially new generation FTAs.*

Viet Nam needs to develop goods import and export based on a comprehensive and holistic approach, on the basis of effective implementation of commitments under new-generation of free trade agreements (FTAs) to diversify products and import-export market, effectively taking advantage of opportunities. It will be necessary to well-balance short-term, single interests with the long-term interests of the country, as well as economic interests with political-strategic interests. It will be necessary to ensure compliance with international commitments on market opening and trade liberalization under WTO commitments and the new generation of FTAs. At the same time, it will be necessary for Viet Nam to stay proactively cautious and prepare a response mechanism to fast uncertain and unpredictable developments of the domestic and global market in the context of deepening international economic integration.

*(iii) Improve the creative content of exports; effectively exploiting comparative and competitive advantages, building and developing Vietnamese exports brands, actively and proactively participating in the global supply chain and value chain.*

It will be necessary for Viet Nam to actively and proactively participating in the global production network and value chain, encouraging all economic sectors to promote export business activities in the direction of improving the creative content of exports, participating deeply in stages of creating high added values of the global value chain, focusing on building and developing a number of strong brands for exports and Vietnamese enterprises.

*(iv) Develop goods import-export in alignment with investment in development of economic - technical infrastructure, increase of the scientific - technological development level and development of high quality human resources.*

It will be necessary to focus all resources to remove bottlenecks in the development of goods import-export related to economic - technical infrastructure, the scientific - technological development level and high quality human resources in order to accelerate the process of changing the structure of imports and exports with a focus on improving the quality of goods, increasing the processed and manufactured contents and the added value of exports.

*(v) Promote the import of advanced technologies, encouraging the transfer of modern technologies to improve the technological development level of the economy; adopting strict*

*management and control of the import of outdated technology and hazardous goods that are harmful to the environment and human health.*

Continuing to reform the management mechanism and strictly controlling import activities to protect the domestic production and market, limiting the import of goods that can be domestically produced, and limiting trade deficit, especially with China and Korea in the long term.

*(vi) Develop goods import-export in harmony with the opportunity to participate in and enjoy results of import and export growth of all entities in the economy; contributing to the realization of socially and environmentally sustainable development goals.*

Building, consolidating and developing relationships with strategic cooperation partners to develop goods import-export in alignment with the task of boldly developing the domestic market, contributing to the realization of sustainable development goals such as eradication of hunger, reduction of poverty, creation of more jobs, generation of incomes, protection of social justice, and ecological environment.

## **2.2. Goals and Targets**

### **Overall Goals**

Maintaining export development as the main driving force of fast and sustainable economic growth. Effectively implementing commitments, effectively exploiting opportunities from free trade agreements to expand and diversify export markets, especially key strategic export markets (the United States, Japan, the United States, Japan, China, EU, ASEAN), avoiding heavy dependence on some markets. Improving the quality and of processed and manufactured content and increasing added value and competitiveness of exports, actively participating in the global production network and value chain, building and developing strong brands for Vietnamese exports.

- Diversifying import partners, increasing the market share in developed countries in the EU, North America, Japan, and South Korea, avoiding dependence on some partners. Prioritizing the import of high-tech and modern source technology, machinery, equipment and input materials; restricting the import of goods that can be domestically produced or non-essential goods; adopting strict management and control of the import of outdated technology and goods that do not meet health and environmental regulations; controlling trade deficit with some countries, especially China and Korea, working towards a sustainable trade balance.

### **Specific Targets**

The average growth rate of goods export will be 6-7%/year in the period 2021-2030, in which the average export growth in the period 2021-2025 is 8-9%/year; the average export growth in the period 2026-2030 is 4-5%/year.

Ensuring the trade balance in the 2021-2025 period, working towards maintaining a sustainable trade surplus in the 2026-2030 period; moving towards a trade balance with healthy and reasonable partners, controlling trade deficit with some countries (especially China, Korea), thereby ensuring sustainable growth in the long term.

Increasing the proportion of the export of processed and manufactured industrial goods from 85.1% in 2020 to about 90-92% of the total export turnover by 2030 (in which, the proportion of medium and high-tech export industrial goods is increased from about 50% at

present to about 70-75% by 2030). Reducing the proportion of agricultural, forestry and fishery products in the structure of exports to 3-5% of total export turnover by 2030 (In which, the proportion of processed agricultural products will reach over 50% by 2030, the absolute value of agricultural, forestry and fishery exports will increase mainly as a result of deep processing, the development of high-tech, organic agricultural products and Vietnamese specialty brands). Reducing the proportion of fuel and minerals group to less than 1% of total export turnover by 2030 (absolute value of fuel and mineral exports increases mainly based on the export of refined products, green, clean products of the circular economy model).

Maintaining the proportion of goods the import of which is encouraged (machinery, equipment, raw materials) in the range of 80-85% of total import turnover by 2030. The proportion of goods the import of which is controlled and restricted (consumer goods, goods that can be domestically produced) ranges from 6-7% of total import turnover by 2030).

Increasing the proportion of the export to markets in the European Union (EU) to about 17 - 18% of total export turnover by 2030 and market in the America (mainly the United States) region to about 28 - 29% by 2030; maintaining the proportion of the export to the markets in Asia to around 49 - 50% by 2030, in which the export to China, ASEAN, Japan, South Korea stands at 17 - 18%, 9 - 10%, 7 - 8%, 7 - 7.5 % respectively.

Increasing the proportion of the import from developed countries in the European Union (EU) to about 7-8% of total import turnover by 2030; the North American region (mainly the United States) to about 8-9% by 2030; Japan 8 - 8.5%, Korea 18 - 19% by 2030; reducing the proportion of the import from Asia to about 79-80% by 2030, in which the export to China and ASEAN stands at 30-31%, 10-11% respectively.

### **III. GOODS IMPORT AND EXPORT DEVELOPMENT STRATEGY FOR THE PERIOD 2021-2030**

#### **3.1. Export development strategy for goods**

Improving the productivity, quality and efficiency, comparative advantage and enhancing the competitiveness, participating more deeply and effectively in high value-added production stages of the global value chain. Transforming into a rational intensive growth model, effectively using and saving resources and energy, and at the same time protecting the ecological environment and solving social problems, improving the quality of human resources and income of employees, ensuring the achievement of the target of long-term stable export growth.

Promoting the intensive changes of export structure in the direction where the industrialization and modernization are considered as the core with a focus on increasing domestic value of exports, reducing the dependence on imported raw materials, spare parts and components; increasing the proportion of industrial goods, especially medium-tech and high-tech manufactured goods, while reducing the proportion of agricultural, forestry and fishery products in the structure of exports; increasing the proportion of products with high added value, deeply processed products, products with high technology and gray matter contents, continuing to reduce the proportion of raw and semi-processed products in the export structure.

Discouraging the production and export of resource intensive products, or products that the production of which pollutes the environment and attracts a lot of cheap labor, has low added value and economic benefits; attaching importance to investment in export of green products, environmental friendly products, energy efficient products.

Improving the ability to comply with regulations on quality, standards, food hygiene and safety, social responsibility, environmental protection, rules of origin in new generation FTAs. proactively adapt to and overcome increasingly strict trade barriers, trade remedies, anti-dumping, anti-subsidy and safeguard measures adopted by import markets to boost exports, penetrate deeply into overseas supply chains and distribution channels.

Focusing on developing markets for key exports with good competitiveness, high added value or products with a high proportion of the export turnover. Effectively exploiting market opening opportunities delivered by international economic integration commitments in new generation FTAs to boost the export to major markets such as the US, EU, Japan, China, and Korea National, ASEAN...promoting the exploitation of potential markets such as Russia, Eastern Europe, India, Africa, the Middle East and Latin America

Developing new products suitable with the changing trend of the world market and Viet Nam's advantages is a breakthrough in export development in the period 2021-2030, in which the roadmap and steps are as follows:

In the period 2021-2025: Focusing on increasing the proportion of key agricultural and aquatic products with natural advantage, building and developing brands of typical Vietnamese agricultural products. Improving added value of exports and the ability to meet international standards for highly competitive and labor-intensive products such as textiles, footwear, electronics, medium-tech manufactured industrial products, creating a solid premise to increase the proportion of the export of agricultural products, deep-processed seafood with high added value and industrial goods with high scientific-technological content in the next period.

In the period 2026-2030: Focusing on developing new products with high added value, deep processed agricultural and aquatic products, high-end refined products with high added value used in the food and non-food industries, pharmaceuticals or cosmetics industries; medium- and high-tech manufactured products, products of the application of 4IR, products of the supporting industries, spare parts, components manufacturing industries on the basis of investing in modern production and processing technologies imported from abroad in export-oriented manufacturing industries in export-led industries in order to participate more effectively in the global value chain.

### **3.2. Import management strategy for goods**

Encouraging the import of modern machinery and equipment and advanced production lines on the basis of exploiting and making good use of opportunities from free trade agreements with developed countries. Promoting foreign investment attraction and technology transfer, especially high technology, source technology, applying technological achievements of the 4.0 industrial revolution in the world.

Effectively taking advantage of commitments on market opening in new generation FTAs to diversify import markets and rapidly increase the proportion of the import of machinery, equipment, spare parts and high technology from other developed countries to strengthen the core part of industrialization and modernization, creating a premise to increase

the productivity, quality and competitiveness of exports, and adopting intensive changes to the export structure.

Applying technical barriers TBT, SPS and trade remedies, anti-dumping, emergency safeguards more effectively in compliance with the integration commitments in order to strictly control import activities, prevent the import of outdated machinery, equipment, technology and goods that fail to comply with health and environmental protection regulations to protect domestic production, limit environmental pollution and bad impact on human health.

Adopting policies that encourage investment in the development of supporting industries and import substitution industrialization in order to provide materials, components and accessories for export production. Restricting the import of goods that can be domestically produced, luxury goods, and non-essential goods; preventing the smuggling of goods from ASEAN countries and China to protect the domestic production and market; controlling trade deficit with China, Korea toward balancing trade in the period 2026-2030.

Continuing to changing the import market structure in the direction of reducing the proportion of imports from low-tech and intermediate technology markets in Asia, especially ASEAN, China, Hong Kong, and Taiwan, increasing the proportion of imports from source technology markets in the EU, North America, Japan, Korea, and the Russian Federation, thereby helping to rapidly increase hi-tech imports and ensure secure supply of basic materials necessary for the domestic production, corresponding to the development roadmap of the import substitution industries and supporting industries to achieve the export growth target and create a breakthrough and in-depth change of the export structure.

#### **IV. SOLUTIONS**

##### *1. Continuing to renew the mindset and awareness about rapid and sustainable development*

*First*, changing from the mindset of developing an extensive economic development model to the mindset of an intensive economic development model and from the mindset of developing a quantity based model to the mindset of developing quality and efficiency based model. *Second*, shifting from a short-term, localization, term-based thinking and perception in economic development to holistic and long-term thinking fashion. *Third*, it is necessary to have a global mindset on economic development, moving from a national mindset to a global one. *Fourth*, shifting from administrative imperative -driven thinking to economy - technology driven thinking. *Fifth*, shifting from a mindset favoring a defensive, protective, and coping fashion to a mindset favoring an attacking, open-door, and proactive market dominating fashion. *Sixth*, renewing the critical thinking of the state management for the purpose of sustainable import-export development. *Seventh*, realizing the importance of the internal and external strength, seizing the opportunities and proactively limiting integration challenges.

##### *2. Continuing to perfect the institutional framework of the socialist-oriented market economy*

Continuing to improve a number of macro policies in order to create a fair, transparent and efficient business environment, promoting the fair competition and building confidence



for businesses and people to invest in the production development activities. Developing synchronously all market types of, regulatory tools such as price mechanisms, taxes, salary schemes, exchange rates. Maintaining the stability of the macro-economic environment by perfecting policies on investment, finance, budget balance, stable currency, inflation control, prevention of economic recession, promotion of administrative reforms and simplification of customs procedures.

### *3. Transformation into an effective growth model*

Transforming the economy from an extensive development model into intensive development model on the basis of effective use of advanced scientific and technological achievements to increase the labor productivity and enhance the competitiveness of goods and services, improving the efficiency of the economy in general and the efficiency of investment capital in particular. Transforming the economy from a model focusing exploiting natural resources and using them raw materials, to model focusing on using the natural resources to produce and export more sophisticated and deep processed increasing the added value of each and every unit of exploited resources. Adopting a thrift approach in using resources for the development, using scarce resources effectively and limiting excessive use of resources to save for the future generations.

### *4. Investing in science and technology development*

Prioritize the import of advanced technology, source technology, invention patents, strengthening international cooperation to learn from experience from other countries and coordination on research and development (R&D). Building a high-tech center to attract foreign investment of multinational companies to gradually shorten the technology gap with other countries in the region. Developing a science and technology market in order to create conditions for businesses to access and increase the liquidity of capital investment sources for R&D, to carry out technological innovation and make innovative products. Implementing a mechanism to encourage all organizations and individuals of all economic sectors to invest in science and technology development.

### *5. Developing high-quality human resources, enhancing scientific research and application of science and technology*

Developing a long-term training strategy and retraining high-quality human resources, especially a team of technological specialists and skilled workers with an industrial working style. Adopting a policy attracting talents and offering generous remuneration to employees, especially those who make great contributions to the development of the country. Reforming the salary system according to fairness criteria based on the capacity, quality and work efficiency of individual workers, ensuring long-term service of talented people for the business. Developing high-quality human resources for export-led manufacturing industries, focusing on formulating of policies to support the development of the national innovation system and innovation startup ecosystem. Considering enterprises as the center of research, development and technology transfer, digital transformation. Promptly developing a new production capacity with self-reliance, ability to adapt to the Industrial Revolution 4.0 and the robust development of science-technology in the world.

### *6. Entrepreneurship development*

Accelerating the reform of state-owned enterprises toward improving the proactiveness, efficiency and competitiveness. Encouraging the long term development of the collective and

private economic model, in which the development of the private sector, especially small and medium enterprises must be considered as a key task to shift the economic structure towards an export-led model. Creating favorable conditions for foreign investors to do long-term and effective business in Viet Nam, actively attracting foreign investment in high-tech processing and manufacturing industries. Strengthening effective cooperation between domestic enterprises and FDI enterprises, at the same time strengthening the connection among the economic sectors, building strong economic groups for the purpose of improving the efficiency of economic restructuring and sustainable export development.

#### *7. Investing in infrastructure development*

Giving priority to attract domestic and foreign investment to upgrade economic - technical infrastructure in a synchronous manner including road and waterway transport systems, power supply system, ports, warehouses, offices, communication system, considering the synchronous development of economic - technical infrastructure as one of the prioritize strategic breakthroughs in order to develop and improve the efficiency of import and export activities. Implementing the master planning for import and export infrastructure systems, wholesale infrastructure systems trade fair and exhibition centers to support import and export activities, especially border trade. Formulating a strategy to develop various types of logistics services, attracting investment in logistics service business, reducing logistics costs, promoting the application information technology in logistics businesses.

#### *8. Strengthening import management and control*

Encouraging the import of machinery, equipment, high technology, basic raw materials to serve domestic industries and to boost exports. Studying and adopting a policy to encourage the competitive import through the bidding mechanism, giving priority to the import of machinery, equipment, high technology, raw materials and fuels that cannot be produced domestically or not enough to meet the production needs. Strengthening the management and quality control of imported goods through the application of non-tariff measures, technical barriers to trade and effective administrative and customs measures. Strengthening state management and combat of the evasion of trade remedies and origin frauds in international trade; effectively controlling imports, proactively preventing the application of trade remedies and improving the capacity to apply trade remedies, giving early warnings on the settlement of trade disputes. Strengthening the research and application of safeguard, anti-dumping and anti-subsidy measures to protect the legitimate interests of domestic producers in accordance with WTO principles.

#### *9. Improving the efficiency of international economic integration*

Implementing the commitments that Viet Nam has made, especially the commitments in WTO agreements and new generation FTAs. Focusing on effectively implementing action plans for the implementation of FTAs that have entered into force, making a better use of opportunities and limiting challenges from these FTAs to diversify import and export markets. Reforming the inter-sectoral coordination mechanism for the negotiation and implementation of international economic integration commitments, first of all, consolidating the organizational structure of the National Committee for International Economic Cooperation. Strengthening the capacity and operation of overseas diplomatic and trade missions to provide market forecasts, information on import and export partners, and at the same time effectively handling incidents related to Viet Nam's export market and goods. Continuing to expand the

strategic partnership, comprehensive economic partnership with other countries, establishing a strategic position of the country in the international arena. Promoting bilateral and multilateral negotiations to expand export markets; reviewing and negotiating more intensively bilateral preferential tariff agreements between Viet Nam and other countries, as well as the tariff reduction roadmap according to the list of imports and exports in the FTAs for the effective implementation.

#### *10. Maintaining political and social stability*

The sustainable development strategy of Viet Nam clearly states the relationship between sustainable development and socio-political stability. Viet Nam's stable socio-political environment in recent years is an important factor to ensure high and stable economic growth, and it is also one of the important factors to attract foreign investment, as well as increase the confidence of domestic investors.

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# **DEVELOPMENT OF VIET NAM'S IMPORT AND EXPORT MARKETS FOR GOODS IN THE PERIOD 2011-2020: SITUATION AND SOME POLICY RECOMMENDATIONS**

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## **Abstract**

*During the period 2011-2020, Viet Nam realized great achievements in import and export activities making significant contributions to the successful implementation of the country's socio-economic development goals. The total goods export turnover of Viet Nam has increased from 96.9 billion USD in 2011 to 282.6 billion USD in 2020, i.e., an average growth rate of 14.6%/year; total goods import turnover increased from 106.7 billion USD in 2011 to 262.7 billion USD in 2020, i.e., an average growth rate of 11.9%/year, which is slightly lower than the average export growth rate during the same period. So far, Viet Nam has established trade relations with more than 230 countries and territories. Viet Nam's import-export market is increasingly diversified and expanded in terms of size and number, making an important contribution to improving import-export efficiency and the overall growth of the economy.*

*However, Viet Nam's exports depend largely on a few markets. The restructuring of export markets is slow. Viet Nam faces many difficulties in protecting and maintaining its share in traditional markets while progress in the development of new export markets is rather limited. For the import market, Viet Nam also heavily depends on a few key markets and the pace of the restructuring of the import market is also slow. Viet Nam mainly imports from the Asian markets. Viet Nam-China trade deficit is increasing. A comprehensive assessment of the problems and causes of the current import-export markets is necessary in order to propose appropriate and feasible solutions when Viet Nam is increasingly integrating into the world with the implementation of new-generation of Free Trade Agreements (FTAs).*

Keywords: Market, export, import, goods, Viet Nam, current situation, policy.

## **I. ASSESSMENT OF THE DEVELOPMENT OF VIET NAM'S IMPORT AND EXPORT MARKETS IN THE PERIOD 2011-2020**

### **1.1. Achievements**

Along with the process of international economic integration, the export market of Viet Nam's goods has expanded in the direction of diversifying and multilateralizing economic relations. The export market has expanded rapidly. The market structure has changed in a positive direction. Viet Nam has exported goods to more than 230 countries and territories. Growth rates of turnovers of exports to important markets of Viet Nam such as the United States, EU, ASEAN, Japan and Korea are high. In addition, the implementation of trade liberalization policy, the opening of its markets to the region and the world helps Viet Nam to

continuously expand and diversify its import market to meet the demand for machinery, equipment and input materials to serve the production activities and export industries in the process of industrialization and modernization of the country.

*Firstly, the development of the import and export market for Viet Nam's goods over the past years has made an important contribution to the development of goods import and export and the economic growth of Viet Nam.*

Thanks to the development and expansion of the import-export markets, Viet Nam's trade scale is getting larger, with the average annual growth rate of import-export turnover maintaining at a high level of 13.3%/year during the period of 2011-2020, despite world political uncertainties, the decline of global trade growth and the outbreak of the COVID-19 pandemic since the end of 2019. The average growth rate of goods exports reached 14.6%/year, 2.5 times higher than GDP growth rate (5.9%/year). Goods export has become one of the main drivers of economic growth, contributing to increased employment rate and higher incomes for workers, improvement of people's living standards, eradication of hunger and reduction of poverty, playing an important role in limiting the current account deficit of the economy. Imports have also met the demand for input materials for the production activities and export of goods.

**Table 1. Imports and Exports of Viet Nam in the period of 2011-2020**

Year	Exports		Imports		Imports and exports		Trade balance (mill. USD)
	Turnover (mill. USD)	Growth rate (%)	Turnover (mill. USD)	Growth rate (%)	Turnover (mill. USD)	Growth rate (%)	
2010	72,237	26.5	84,839	21.3	157,076	23.6	-12,602
2011	96,906	34.2	106,750	25.8	203,656	29.7	-9,844
2012	114,529	18.2	113,780	6.6	228,309	12.1	749
2013	132,175	15.4	131,312	15.4	263,487	15.4	863
2014	150,217	13.7	147,849	12.6	298,066	13.1	2,368
2015	162,017	7.9	165,570	12.0	327,587	9.9	-3,553
2016	176,581	9.0	174,804	5.6	351,385	7.3	1,777
2017	215,119	21.8	213,007	21.9	428,126	21.8	2,112
2018	243,697	13.3	236,869	11.2	480,566	12.2	6,828
2019	264,267	8.4	253,393	7.0	517,660	7.7	10,874
2020	282,655	7.0	262,701	3.7	545,356	5.4	19,954
<b>2011-2015</b>	<b>655,844</b>	<b>17.5</b>	<b>665,261</b>	<b>14.3</b>	<b>1,321,105</b>	<b>15.8</b>	<b>-9,417</b>
<b>2016-2020</b>	<b>1,182,319</b>	<b>11.8</b>	<b>1,140,774</b>	<b>9.7</b>	<b>2,323,093</b>	<b>10.7</b>	<b>41,545</b>
<b>2011-2020</b>	<b>1,838,163</b>	<b>14.6</b>	<b>1,806,035</b>	<b>11.9</b>	<b>3,644,198</b>	<b>13.3</b>	<b>32,128</b>

*Source: Synthesized and calculated from the data of the Ministry of Industry and Trade*

*Secondly, the development of the goods import-export market plays an important role in determining the production orientation and has a great impact on positive changes of the goods import-export structure, thus improving the competitiveness of goods import-export in particular and Vietnamese economy in general.*

Viet Nam's goods production is shifting strongly towards industrialization, modernization and international integration, which greatly improves the competitiveness of Vietnamese exports. Growth of key exports of large quantities namely textiles and garments, footwear, wood products, machinery, equipment and spare parts maintains at a stable rate while many new types of products categorized as high-tech ones such as mobile phones, computers, and electronic equipment have been developed for the exporting purpose. These items have a high export turnover and maintain a high growth rate, making an important contribution to the growth of export turnover in past years.

The import structure has also positively changed towards increasing the import of raw materials and fuels for the manufacture and export, reducing the import of non-essential goods and goods that can be produced domestically. In general, the import of goods grew quite high in both volume and turnover, meeting the demand for raw materials, machinery and equipment for export production activities.

*Thirdly, Viet Nam's import-export market is constantly expanding and diversifying. Viet Nam has many new import-export markets. The structure of the import-export market has changed in a positive direction and the quality of the newly developed import-export market is increasing.*

The import-export market is expanded thanks to the diversification and multilateralization of economic relations, expansion of trade relations to various continents, regional and international economic blocks. Viet Nam's exports to many markets remain at high growth rates, especially markets where Viet Nam has signed an FTA. Vietnamese goods continue to strengthen and maintain its good position in key traditional markets such as the US, EU, Japan, and China and penetrate into new markets around the world including Africa and Latin America. This results in a better balance and autonomy for import-export activities as well as for the Vietnamese economy as a whole. The import market has also been expanded and developed, meeting the demand for input materials for production of goods for domestic consumption and export.

*Fourthly, Viet Nam has efficiently exploited opportunities from international economic integration and participation in FTAs to develop the import-export market and foreign trade.*

It can be seen that accession to ASEAN and AFTA in 1995, signing a bilateral trade agreement with the US in 2001, becoming a member of the WTO in 2007 and participating in many regional trade and investment agreements has helped Viet Nam's economy open up and integrate with the world economy. Viet Nam has been participating in negotiations to sign 17 FTAs, of which 15 have been implemented, especially new generation FTAs such as CPTPP and EVFTA. The implementation of these FTAs has unlocked great opportunities for the development of products and import-export markets, contributing to the growth of goods import and export turnover.

The level of exploiting and utilizing the advantage of FTAs is increasing with an increase of only about 10% of the export turnover of goods using preferential C/O in 2011 to more than 40% of the total export turnover of goods in 2020. In addition, the implementation of bilateral and multilateral FTAs also allows Viet Nam to diversify supply sources and increase the import of competitive goods with guaranteed quality from FTA markets.

*Fifthly, the development of Viet Nam's import-export market in the period of 2011-2020 contributes to the enhancement of Viet Nam's position and reputation in the global economy and trade, the consolidation of its role as an important trading partner.*

Along with the efforts in the development of import-export activities and the development of the import-export market over the past years, Viet Nam has quickly improved its position in the world import and export map. As for the export market, if in 2011 Viet Nam ranked 41st among the world's largest export markets, its rank has risen to 32<sup>nd</sup> and 22<sup>nd</sup> by 2015 and 2020 respectively. As for the import market, in 2020, Viet Nam ranked 20th among the world's largest import markets compared to the 33<sup>rd</sup> position in 2011. With this result, Viet Nam has improved its position in the group of countries and territories with the biggest import-export value in the world. Within ASEAN, Viet Nam ranks 3<sup>rd</sup> in terms of import and export, after Singapore and Thailand.

By establishing an important position as a major trading partner in the world, Viet Nam has increased its strength and prestige in negotiating international agreements to better protect national interests thus contributing to the creation of fairer and more equal game rules for international trade. This helps strengthen and enhance Viet Nam's political position in the international arena, creating more room for progressive economic and trade policies in particular and the country's foreign policy in general.

## **1.2. Weaknesses**

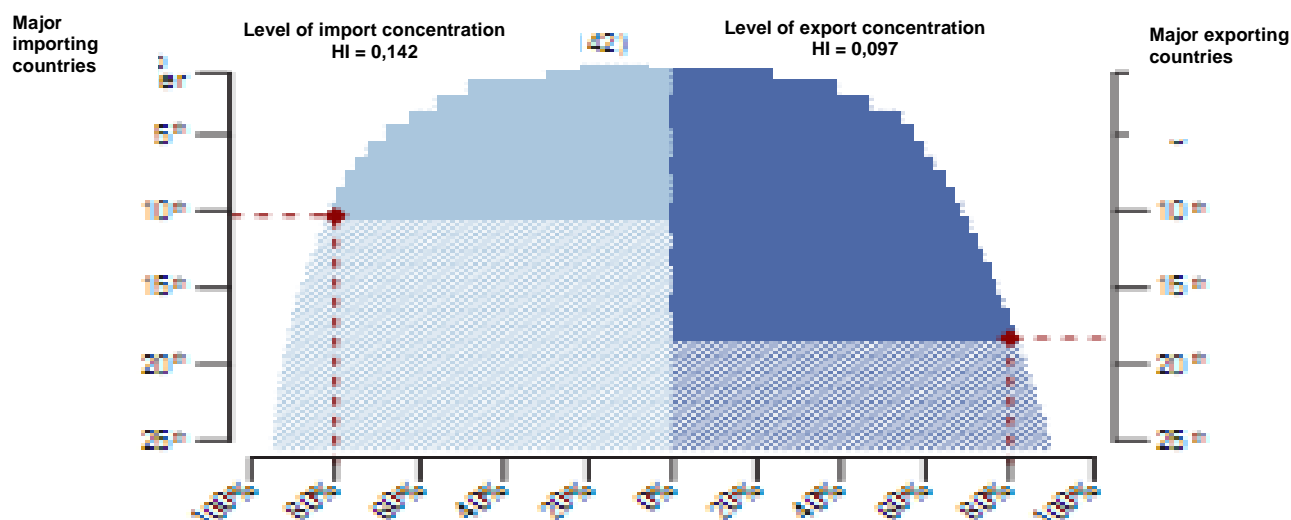
*Firstly, low quality and efficiency of the development of the goods import-export market and slow improvement of which has negatively affected the import-export development in particular and socio-economic development in general.*

The global economic recession has led to low economic growth in most countries around the world and especially in developed markets. This has significantly affected Viet Nam's exports in recent years. Confusion and passive response to the adverse developments in the international market and the excessive dependence on some import-export markets has made Viet Nam's import-export growth not really sustainable. In addition, that the scale and turnover of exports has been increased rapidly but more vulnerable to external changes such as world market prices, the existence of new trade barriers, the application of anti-dumping measures, trade remedies of importing countries also show weaknesses and inadequacies in the development of Viet Nam's import-export market.

*Secondly, progress of the restructuring of the import-export market is still slow. There is a lack of breakthroughs. Import-export activities are concentrated and highly dependent on a few key markets. The diversification and development of new import-export markets is still limited.*

Most of Viet Nam's main import-export markets are countries in the Asian region, while the number of larger markets remains unchanged, showing a high degree of concentration on a few large trading partners, as well as difficulties in implementing the direction of diversifying Viet Nam's import and export markets. Figures in 2019 show that, if the 20 largest export markets account for 80% of Viet Nam's total export turnover, only 10 major import markets account for 80% of Viet Nam's total import turnover.

**Figure 1. Level of the concentration of Viet Nam's import-export market in 2019**



Source: Comtrade, 2020

*Thirdly, growth of imports and exports increasingly depends on FDI enterprises while the development of the import-export market of domestic enterprises is still limited.*

The export proportion of domestic enterprises is small, unstable and the trade deficit of domestic enterprises is high while FDI enterprises are making the most of international integration opportunities. Exports of the FDI sector are always growing at a high rate and account for an increasingly larger proportion of Viet Nam's total export turnover.

*Fourthly, the development of the import-export market in recent years has failed to play its role in establishing an effective linkage between domestic and foreign markets. The transformation of the domestic economic structure and the import-export structure in the direction of industrialization and modernization is not directed and implemented in an effective manner.*

The restructuring of exports has not emphasized deep processing, developing export products with high technological and intellectual content. The proportion of processed and manufactured products with high added value is still small. The proportion of categories of fuels, minerals and agricultural, forestry and fishery products has gradually decreased in the structure of exports, while the proportion of processed and manufactured goods has increased rapidly. However, the rapid increase in export volume of processed and manufactured goods has not created qualitative changes in the structure of imports and exports. Textile and garment, footwear, electronic goods, telephones, means of transport are exported mainly in the form of processing and assembling for foreign countries. The added value and domestic value content are low and have not been increased. The export of goods with technology and grey content is still limited.

Until now, the export of goods is still mainly based on exploiting natural resources and cheap labour. In recent years, Viet Nam has gradually established itself as a strong exporter of basic goods and labour-intensive goods such as agricultural, seafood, textiles, footwear, leather products, wood, furniture and electronics products. These are resource and labour-intensive export industries with low added value and they are approaching the limit for rapid turnover growth, and at the same time are very susceptible to trade remedies applied by importing countries.



*Fifthly, realizing opportunities from international economic integration, participating in FTAs for export-import market development and export-import development in recent years has not really achieved high efficiency.*

For exports, the exploitation and utilization of tax incentives, as well as the readiness to meet rules of origin, and the exploitation of other benefits of market opening opportunities delivered by bilateral, regional and multilateral FTAs to boost exports to FTA markets are limited. According to data from the Ministry of Industry and Trade, in 2020, only over 40% of Viet Nam's exports (in terms of turnover) could benefit from preferential C/O while nearly 60% of the remaining export turnover was subject to high import tax rates applied by import markets. This is obviously a big limitation in developing Viet Nam's export market with FTA partners but it also means that it is a potential opportunity for Viet Nam to increase exports in the future.

For imports, while opening the domestic market under FTA commitments brings greater competition for businesses, Viet Nam lacks or does not effectively use appropriate tools and measures such as TBT, SPS, temporary trade remedies to protect the domestic market and manufacturers, as well as preventing the flow of inappropriate imports. This weakness needs to be addressed by thoroughly reviewing relevant provisions under FTAs to be able to apply appropriate and effective tools and measures in order to, on the one hand, continue opening the domestic market, on the other hand, overcoming difficulties, challenges for Viet Nam's economic development and import-export development in the context of intensive international integration in the future.

### **1.3. Causes of the Weaknesses**

In the past 10 years, the world economic and political situation has been very complicated and unpredictable with many economic, political and social uncertainties and strategic competition among major economies, typically the US-China trade war, climate change and environmental problems, natural disasters, the outbreak of the COVID-19 epidemic. In addition, the international business environment has undergone many changes in the context of promoting trade liberalization and international economic integration, such as strengthened implementation of commitments under bilateral and multilateral trade agreements and new generation FTAs, severe competition from other large exporters in the world, or the tendency to adjust import management policies of other countries, strengthened protection of domestic production, especially the application of regulations and standards on quality, food safety, environmental protection and social responsibility, and higher frequency of the application of strict trade remedies and anti-dumping measures.

In addition to the objective causes from the change of the international business environment, there are a number of subjective causes of existing limitations and problems in import and export activities in general and in the development of import and export markets in particular in recent years that come from domestic management capacity and resources, specifically as follows:

*Firstly*, the perception, mindset and vision of import and export management policy makers is still limited, far to meet the development requirements in the context of the market economy and international integration where a higher level of the openness of the economy requires dynamism, creativity, proactiveness, and sensitivity. This weakness makes Vietnamese policy makers fail to keep up with rapid and unpredictable developments of the

international business environment, changes in policies of importing countries and new development trends of the global environment, the goal of sustainable import and export development and the Industrial Revolution 4.0.

*Secondly*, the import-export management system currently is very weak in terms of human resources, qualifications and management responsibilities of competent agencies. The capacity to supervise law enforcement in the field of import and export is very limited and far to meet the requirements of the integration process. The coordination between agencies that develop and promulgate regulations and measures to manage import and export activities and agencies that enforce regulations on import and export management such as Customs Authority, Ministry of Finance, Ministry of Industry and Trade, and Ministry of Science and Technology and related ministries and agencies is not smooth and effective. There has not been an effective mechanism for specialized management of import and export activities.

*Thirdly*, the capacity of import-export management staff is limited. The number of border-gate customs officers and specialized inspectors is too small. They are weak in terms of professional and technical skills, capacity to access, handle information and coordination in performing import-export management functions.

*Fourthly*, though the infrastructure has been improved, it has not yet met the requirements of socio-economic development in general and import-export development in particular. The infrastructure for transportation, logistics, information technology, energy has been slowly renovated and upgraded; Limited transportation and loading and unloading capacity, complicated administrative procedures result in prolonged customs clearance time, increased costs. Many services for import and export business must be hired or procured from foreign suppliers.

*Fifthly*, the technical facilities, investment for import management are not concentrated, especially in the inspection/verification of imported goods, detection and handling of violations of laws and regulations. Technical equipment needed for the application of non-tariff measures, technical regulations and standards, animal and plant quarantine regulations and environmental standards of Viet Nam is insufficient. There is a lack of equipment and devices for the inspection, examination, control or to conduct testing, experiment, verification, certification of the conformity and they are far to meet the practical requirements.

*Sixthly*, the specialized inspection is part of the customs clearance procedures for goods import and export which is carried out by the lead ministry but with the involvement of many other ministries, causing significant delay for goods clearance, making importers and exporters spend more time and pay additional costs and especially affecting negatively small and medium enterprises the most. The specialized management, inspection and audit of production and export processing facilities, the mechanism to supervise import and export activities and the enforcement of import and export policies are ineffective and inefficient. Applicable sanctions against violations of regulations on environmental protection in import and export activities are not strict and of insufficiently deterrent effect and featured with many loopholes.

*Seventhly*, the system of legal documents regulating the application of trade remedies and anti-fraud of goods origin is inadequate. The capacity of the apparatus to monitor, inspect and verify the origin of goods to effectively prevent and strictly punish frauds about the origin

of goods, illegal transshipment, and evasion of safeguard measures is limited. Therefore, trade remedies have not been highly effective.

*Eighthly*, the awareness and capacity to implement policies on import and export market development of businesses is limited. They are not fully aware of and paying sufficient attention to the importance, roles and responsibilities, rights and interests of businesses as the subject of the implementation of import and export development objectives and tasks. Most Vietnamese businesses are small and medium-sized enterprises, with limited capital, technology and human resources, so their competitiveness is low. There are only few export enterprises with high international competitiveness.

## **II. PROPOSED SOLUTIONS TO DEVELOP VIET NAM'S IMPORT AND EXPORT MARKETS IN 2021-2030**

### **2.1. Some observations on the development prospect of Viet Nam's import-export markets**

- Viet Nam's import-export market continues to expand and diversify, towards intensive development of the import-export market under the impact of the implementation of new generation FTAs such as CPTPP, EVFTA and the most recent agreements such as RCEP, UKVFTA. This will have a very positive impact, and promote the transformation of Viet Nam's economic and goods import and export structure.

- Although still focusing on import-export activities with the Asia-Pacific region, Viet Nam's import-export market will continue to be diversified by expanding to many new potential markets in America. The implementation of FTA commitments with European countries and other regions in the world will help develop Viet Nam's import-export market in a more diversified, balanced and efficient manner.

- Viet Nam will strengthen the application of advanced technologies of the Industrial Revolution 4.0, the application of e-commerce in the development of the import-export market to increase the quality and efficiency of the development of the import-export market of Viet Nam in the future. In particular, the small and medium-sized enterprises will focus on exploiting e-commerce platforms to develop the import-export market.

- The increased uncertainty and unpredictability of the world market and the forecast of decreased world economic growth in the near future require greater efforts of the Government and businesses to be able to control the situation, proactively and actively build capacity and resources to take opportunities and overcome challenges and difficulties to fulfil the objectives and tasks in the Socio-Economic Development Strategy 2021- 2030, including the task of effectively exploiting free trade agreements, expanding and diversifying import and export markets, minimizing the dependence on a single market, and maintaining trade balance, improving the quality and efficiency of import and export activities, actively contributing to economic development and satisfying requirements of international integration.

### **2.2. Proposals to develop import and export markets for goods**

*Firstly, strengthening the advocacy and dissemination of information on commitments under FTAs, especially new-generation FTAs*, continuously updating policies of import markets and introducing potential export markets. Actively deploying extensive outreach activities on the contents of free trade agreements that Viet Nam has signed with other countries, regional blocs and economic regions on opportunities and challenges in the

integration, ways of integrating contents of international economic integration into the development strategy of each locality and enterprise.

*Secondly, strengthening the government-level information exchange mechanism, handling trade barriers and problems in trade relations with other countries.*

- Annually reviewing and promoting the implementation of conclusions of meetings of the Inter-Governmental Committees, Joint Committees and Joint Sub-Committees; actively and effectively implement this meeting mechanism, in which regularly studying and proposing new cooperation methods to promote exports; at the same time, finding an effective solution to address existing and newly arising problems that hinder trade exchange activities.

- Conducting research and identifying new and potential markets to propose, establish cooperation mechanisms for Inter-Governmental Committees, Joint Committees and Joint Sub-Committees to support trade exchange promotion.

- Strengthening information exchange mechanism at all policy making and implementing levels to deal with problems, trade barriers and major emerging issues, especially animal and plant quarantine issues, food hygiene and safety issues in markets with strict requirements on import conditions (Korea, Japan, Australia, New Zealand, EU, USA).

*Thirdly, strengthening national trade promotion activities and specialized trade promotion for each product and enterprise.*

- Implementing comprehensive solutions to support businesses to participate in trade promotion activities in foreign markets, especially at annual prestigious and specialized fairs, helping them connect with distribution systems abroad and attract more partners around the world in key markets, FTA markets.

- Encouraging the promotion of the application of e-commerce and IoT in trade promotion and trade information sharing activities at both state trade promotion authorities, industry associations and import-export enterprises.

- Strengthening the development and introduction of Vietnamese goods' brands together with trade promotion activities in export markets in order to build a good brand image and create a basis for stable export development of Vietnamese goods. Giving priority to support the penetration into foreign markets for goods brands under the National Branding Program of Viet Nam.

- Stepping up market survey and trade promotion to develop exports and bring Vietnamese goods to new potential markets in Africa and Latin America; potential markets in Northern Europe, Eastern Europe and SIS states, the South Pacific region; Northeast Asia (Mongolia, Korea), and some Central American states.

*Fourthly, promoting the role of overseas representative missions and Vietnamese communities in the development of import and export markets.*

- Strengthening economic diplomacy to promote exports and bilateral trade relations with countries and territories; renovating the organizational model to ensure the proactiveness and improve the operational efficiency of Viet Nam's Overseas Trade Missions and trade promotion agencies abroad. Economic diplomacy should be carried out in association with trade promotion and export development programs of Viet Nam abroad.

- Strengthening the capacity to conduct research on policies, laws, economic development trends, trade, investment, science, technology and other related issues affecting Viet Nam's trade relations; coordinating and direct Overseas Trade Missions to promptly report and propose solutions to respond to changes in the host country's market in order to continue maintaining and boosting the export of Vietnamese goods.

- Conducting research and proposing appropriate mechanisms and policies to encourage overseas Vietnamese businesses, associations and people to step by step build distribution channels for Vietnamese goods in the host country.

- Conducting research and developing policies to encourage and support Vietnamese enterprises to participate in production and distribution networks abroad. Guiding and supporting businesses to actively participate in the global value chain with branded and high-value-added goods. Strengthening comprehensive cooperation mechanism with large distribution systems, supermarkets and trade centres in regional markets.

*Fifthly, proactively responding to trade remedies and international trade disputes.*

- Stepping up information dissemination and provide training and re-training courses for relevant state management agencies, associations, enterprises, lawyers, economic and legal experts to improve their knowledge and understanding about laws and regulations on competition, anti-dumping, anti-subsidy and safeguard, trade remedy investigations, lawsuits on international trade as well as regulations and investigation procedures of some countries regularly applying trade remedies in international trade.

- Encouraging businesses to actively coordinate with state management agencies in preparing, responding to and participating in specific cases to protect the legitimate rights and interests of Vietnamese businesses in foreign markets. Continuing to strengthen and implement the early warning system for trade remedies.

*Sixthly, support to strengthen the capacity of import-export enterprises.*

- Encouraging and supporting enterprises to develop export strategies suitable to the characteristics of each regional market; Establishing representative offices for businesses and associations in key regional markets including the EU, the United States, Japan, markets in Africa, Latin America; doing research and investing in establishment of bonded warehouses in Africa, America, and Europe which are located in a long geographical distance from Viet Nam to support export activities.

- Encouraging the improvement of competitiveness of enterprises and export products through investment in the innovation of technology and goods production processes to catch up with the technical standards of markets in developed countries, application of IT, modern management methods and business association models.

- Supporting trade promotion and marketing activities of SMEs to boost the export, in which the State guarantees financial support, favourable tax mechanisms, foreign currency policies, availability of market information for enterprises.

- Creating favourable conditions for the import of competitive input materials from large corporations of developed countries to develop production activities and the export of a number of key commodities in which Viet Nam has competitive advantages.

*Seventhly, proactively ensuring the import of reasonable inputs for domestic production and consumption; adopting appropriate policies to encourage efficient and economical use of imported products; adopting appropriate policies to reduce demand for categories of goods the*

import of which are not encouraged by applying measures on tariffs, credit, savings, awareness raising and education.

*Eighthly*, strengthening import management instruments and measures in conforming to commitments under FTAs, especially new generation FTAs, such as tariff and non-tariff instruments, safeguard measures, trade remedies such as anti-dumping, anti-subsidy and safeguard measures, application of environmental standards, regulations on corporate social responsibility, other legitimate instruments to control imports to meet requirements of the national industrialization and modernization.

- Adopting preferential policies to encourage the import of high-tech and innovative machinery and equipment; encouraging the import of machinery and equipment with outstanding features, which are energy and resource saving, environmentally friendly; increasing the proportion of imported machinery and equipment from source technology markets suitable with Viet Nam's development level in order to fully meet the demand for equipment used for the national industrialization and modernization and economic development of Viet Nam.

- Attracting foreign direct investment in the industries manufacturing machinery, equipment and in high technology, innovative and creative technology, environmental technology and production of new materials. Reviewing the investment structure, adopting appropriate policies to further encourage investment in the machinery, equipment and high-tech manufacturing industries, green, clean and energy-saving technologies.

- Promoting negotiations and signing of new FTAs with Latin America, the Middle East, and Africa in order to diversify and develop new import markets for basic raw materials to avoid dependence on a few markets, seeking favourable opportunities for import prices when there are fluctuations in the world raw materials market.

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# **ANALYSIS AND FORECAST OF FACTORS THAT AFFECT VIET NAM'S STRATEGY FOR IMPORT-EXPORT OF GOODS IN THE PERIOD 2021-2030**

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## **Abstract**

*In the coming period, the world economic situation will experience many rapid and unpredictable changes. While globalization and trade liberalization will continue and deepen, they will also face many obstacles and challenges. Populism and protectionism will increase. In the international context, the change in the scale of economic growth will call for the adjustment in international trade and integration policies. The foreign relations of major countries in the region and the world are unpredictable. The trade war between major powers such as the US and China is complicated. Political and social issues, including the wave of industrial revolution 4.0 will continue in the coming years. In addition, the COVID-19 pandemic is difficult to control, leading to the risk of global supply chain disruption, potentially extending into the early 2020s. Such problems may drastically change the global order and the structure of the economy as well as the method of global governance. The changes in the way the economy operates and the organization of social life of the world, can cause a severe depression and global economic crisis. Such regional and international context will affect the process of international economic integration and development of Viet Nam's import and export in the period from now to 2030.*

*The domestic situation with Viet Nam's economic development in the context of COVID-19 and post-COVID will also need to be analysed carefully with the deepening of international economic integration and implementation of the new generation of FTAs. There are ongoing process of institutional reforms and growth model transformation. Measures to attract foreign direct investment, as well as environmental issues and climate change will create new opportunities, prospects and challenges for the development in import and export of Viet Nam's goods. Identifying international, regional and domestic contexts, forecasting trends affecting Viet Nam's import and export strategy in the coming period, thence properly assessing prospects, opportunities as well as challenges to the development of import and export of Viet Nam's goods in the new context is necessary.*

**Keywords:** Context, domestic, international, export, import, goods, Viet Nam.

## **I. REGIONAL AND INTERNATIONAL CONTEXTS AND TRENDS THAT AFFECT VIET NAM'S IMPORT AND EXPORT STRATEGY**

*- World economic and trade growth in the 2021-2030 period is forecasted to continue to decline in the short term but recover in the medium term to 2025 although the rate will be very slow. The growth momentum will be recovered in the long term toward 2030.*

According to forecasts of many international organizations such as the International Monetary Fund (IMF), World Bank (WB), Asian Development Bank (ADB), global trade growth rate in 2030 will reach an average of 5.32%/year. The highest is India with an average increase of 9.61% followed by China with 8.66%, ASEAN with an increase of 7.99%, Nigeria with an increase of 7.93%, other Asian countries increased by 6.51%, the Middle East and North Africa increased by 6.22%, Brazil by 4.66%, the US by 3.47%, the EU (28) by 3.27%, Japan by 2.98%. Developing countries will contribute the most to global trade growth, creating opportunities to develop exports of goods to this region in the coming years. Asia - Pacific will continue to be the leading development region with the presence of many large countries and dynamic economies, located on the most vibrant sea and air routes in the world. With the expected recovery in global trade activity, the sum of world trading volume should increase by circa 8.3% in 2021 after a 10.4% decline in 2020, then the increase gradually fades and an average increase of only 4.3%/year in the period 2022-2025; therein the import growth of developed economies is forecasted to reach an average of 3.8%/year and developing and emerging markets economies reach 5.2%/year; the export growth of developed economies is 3.9%/year and developing and emerging market economies reach 4.9%/year.

*- Sustainable development becomes an all-encompassing trend in the world, circular economy, green growth is the growth model chosen by many countries and has become an inevitable trend and development goal of all countries.*

In the period from now to 2030, sustainable development, green growth and the development of circular economic models will become one of the priority goals in the economic development process of many countries, including developed countries such as the EU, the United States, Japan and developing countries to cope with the crisis, implement the goals of the post-crisis development strategy, as well as deal with environmental and social issues. The 2030 Agenda for Sustainable Development of the United Nations has a great influence on the growth method, economic cooperation, trade and investment in the world. Transferring to renewable energy, green energy will be a more clearly trend in the coming period.

*- The trend of strengthening international economic integration and the implementation of free trade agreements (FTA) of the new generation, in which the regionalization process plays an increasingly important role and will gradually replace the globalization process.*

The regionalization process is boosted through the signing of new generation FTAs linking many countries in the same region and across regions. New generation FTAs have an ever-expanding number of participating members, not only within each region but also inter-regional, with a deeper degree of liberalization, with "high standard FTA" criteria. , the scope of trade liberalization and commitments is broader, not limited to traditional trade in goods and services, but also includes non-traditional areas such as investment issues related to trade, protection of intellectual property rights, labour, union and environmental issues, including commitments in many new areas that Viet Nam has never committed to open up before such as state-owned enterprise, government purchases, institutional issues, legal policies, and competition.

*- The rise of trade protectionism, the tendency to increase the application of technical barriers in trade to protect trade and domestic industries in the context of world economic growth slowdown and the outbreak of the COVID-19 pandemic.*



More and more countries are returning to the policy of promoting the production of industrial goods to replace imports, tightening regulations on localization rates and subsidizing export prices, and creating trade barriers to protect domestic production. Meanwhile, the results of globalization are not fairly distributed among regions, and economies are also one of the reasons for the severe increase of protest to trade liberalization in many regions in the world, especially in major economies, including the US and Europe. In the period to 2025 and beyond to 2030, the trend of increasing the application of measures and technical barriers in trade in order to protect trade and domestic manufacturing industries is expected to increase, with the uncertainty in the trend of comprehensive adjustment of trade policies by strengthening trade protectionism of some major countries, especially the increased instability surrounding US and EU trade policies, which will have a negative impact on global trade growth.

*- The trend of strengthening linkages and cooperation in production networks or regional value chains regional/Global will continue.*

Yet, there will be shifts in two main directions, which are: (i) Relocation of global production and supply chains to member countries that have signed the FTA to take advantage of preferential things, especially tax and the removal of non-tariff technical barriers, along with the formation of multinational corporations of developed industrialized countries in developing countries to take advantage and promote the comparative advantages of these countries in terms of labour and natural resources in each industry, leading to the displacement of factors of production such as capital, labour and technology between regions, thence forming and developing production, distribution and supply chains in the region; (ii) Moving up ladders with higher added value, in other words, it is the trend of adjusting the production structure from simple processing, pre-processing, supplying raw materials to connect as materials, participating in processing and distributing final products, thereby having a strong position in the regional/global value chain.

*- Trends of strategic competition, competition for resources, markets, technology, high-quality human resources among countries are increasingly fierce. The trade war between major powers such as the US and China continues to develop complicatedly.*

The tension increase in geopolitical prolong in the Middle East, Asia, political tension between the US and Iran, internal disagreements in the Organization of Petroleum Exporting Countries and on the Korean Peninsula, increasing policy instability in Europe and the US, the European Union (EU) direct inwards, severely divided after the Brexit process, trade tensions between Korea and Japan continue to be complicated. Notably, the US-China trade war continues to escalate for a long time, confronting directly in the fields of economics, international trade and technology issues, could not find a common agreement and it is predicted that it will be difficult to end in a short time, thus affecting the entire world political and security situation, first of all, Southeast Asia - where is and will be the focus of competition between major countries, at the same time have a strong impact on the global economy and trade.

*- The development of science, technology, innovation and the Fourth Industrial Revolution are developing very rapidly, have far-reaching and multidimensional impacts on all aspects of production and trade activities on a global scale.*

Science, technology, and innovation are increasingly becoming decisive factors for the competitiveness of each country. Digital technology will promote the development of the digital economy and digital society, changing state management methods, production and business models, consumption and cultural, social life. In the future, the industrial revolution 4.0 will develop even more strongly, benefiting businesses and economies in all countries, and helping to redraw the world economic map with a decline in power of developing countries is based mainly on exploitation of resources, labour and the increase in power of developed countries is based mainly on technology and innovation.

*- The centre of global prosperity tends to shift from West to East, with a leading role China's growing leadership, leading to a shift in the economic order and power on a global scale.*

The density of Western economies, including the US, Western European countries and Japan, tends to decrease gradually; The density of the economies of China and India is increasing day by day in the world economy, creating the basic motivation for development trends in technology, trade and finance. In addition, the southward trend in investment and trade policies of North Asian countries is quite clear, with the direct transfer of investment from the home country and from China to the South to diversify investment and risk reduction, along with China's implementation of the "made in China" policy in the context of the complicated and unpredictable developments of the COVID-19 pandemic.

*- The COVID-19 pandemic continues to develop in a very complicated and unpredictable way, with comprehensive and far-reaching effects and cause enormous economic damage to every country in the world, disrupting trade in goods and services and risking disruption to global supply chains.*

There will be uncertainties especially in the supply of materials for production in main industries of the countries, in which developed countries in the EU, the US and Japan suffered heavy losses. Besides, global supply chains will be restructured in the direction of reducing the role of China and emerging new business models.

The regional and international context in the coming years will create great opportunities and challenges for Viet Nam's import and export development.

### ***Opportunities:***

With an increasing international position, along with potential advantages of the economy such as geo-strategic position, steady socio-political stability and other development potentials in natural resources, labour, with the Government's determination in strategies and policies encouraging economic development, promoting import and export, Viet Nam will have many opportunities to promote integration for economic development and import and export of goods, becoming a safe destination for international trade and investment flows, especially attracting foreign investment from developed industrialized countries.

Promotion of institutional reform, the completion of a synchronous legal framework, transparent with the requirements of international economic integration and commitments in new-generation FTAs help to improve business investment environment, facilitate fair competition, mobilize the participation of the non-state sector, contribute to improve the competitiveness of the Vietnamese economy and enterprises, integrating more deeply and effectively with the region and the world.

With an increasingly extensive participation in the process of globalization and international economic integration, especially in the implementation of new generation FTAs, Viet Nam has many opportunities to expand its import and export markets, and to shift the composition of import and export products in depth of increasing value added and scientific-technology content, attracting FDI and modern technology investment to improve the competitiveness of the economy, enterprises and export goods, participating in regional and global supply chains and value chains.

Viet Nam has the opportunity to pick up the trend of shifting and repositioning regional and international supply chains after the COVID-19 pandemic. Along with the trend of shifting and repositioning regional and international supply chains to countries with lower costs and safer, have endurance and successful in controlling the spread of the COVID-19 epidemic, or the trend of shifting locations of global production and supply chains to member countries that have signed FTA Agreements to take advantage of offers, Viet Nam has the opportunity to diversify supply chains and form new economic linkages and supply chains, more deeply participation and moving up the higher ladder in global value chains.

Viet Nam also has many advantages to receive investment flows from developed industrialized countries shift out of China in the context of increasing US-China trade conflict due to favourable geographical position, socio-political environment, stable macroeconomics, active reform of economic institutions, and the business investment environment is constantly being improved, etc. In the context of the growing US-China trade war, the US and many countries continue to accelerate the process of moving production and business companies in China back home or to some safer, more reliable countries, without ambition to compete with the US, first of all Southeast Asian countries, it is a historic opportunity for Southeast Asia, including Viet Nam, to attract investment from developed industrialized countries and become the "world factory".

Viet Nam has many opportunities to take advantage of the results of the fourth industrial revolution, trend of green economy development to attract investment in development and technology transfer, digital transformation and innovation; learn and absorb advanced science - technology, apply modern management methods and models, thence promoting the transformation of growth model towards digital economy, developing exports, which have high technology content and are friendly to the environment, improving the competitiveness of businesses and exports.

### ***Challenges:***

In addition to potential new development opportunities and depends on the ability of Vietnamese enterprises to seize opportunities and integrate effectively, our country's economy and trade face great existing challenges due to the fact that the world economic and trade situation will continue to change rapidly and unpredictably, under the influence of factors such as the trend of increasing trade protectionism, trade conflicts between major power countries, US-China trade war, climate change, and COVID-19 pandemic.

First of all, with a high level of economic openness, the capacity of responding to policies is still limited, the extensive international economy integration makes Viet Nam's economy vulnerable due to the impact of external factors, the competitive pressure of the world and domestic markets is increasingly fierce. Besides, the trend of increasing trade protection makes exports have to meet increasingly high and strict regulations, standards of

import markets, especially non-tariff trade protection measures, such as technical barriers, quarantine, hygiene, environmental, social standards, rules of origin and other regulations on trade remedies, and anti-dumping. If Viet Nam does not make efforts to reform and improve competitiveness to meet the requirements of the world market, taking advantage of the opportunities of integration will be very limited.

Participation in new generation FTAs opens up many opportunities for Vietnamese businesses. However, the implementation of commitments also creates many challenges due to the weak competitiveness of domestic enterprises, especially SMEs, and limited capacity to participate in global supply chains and value chains. Rising to new levels in the global supply chain and value chain is one of the great challenges for Vietnamese businesses.

The trend of shifting investment flows of developed industrialized countries out of China in the context of increasing US-China trade conflict poses a great challenge to Viet Nam, because we will have to make great efforts to restructure the economy, reform economic management institutions, accelerate the construction and completion of infrastructure, as well as strengthen training activities for high-quality human resources. Moreover, this process must be completed in a short time in order not to miss the coming “historic opportunity”.

The trend of shifting foreign investment away from China, especially in the context of the pandemic COVID-19 will likely be the risk of turning Viet Nam into a "dumping ground" of outdated technology that pollutes the environment, including poor quality and unsafe Chinese goods that may spill over when Viet Nam does not have barriers and effective trade remedies measures, thus making it difficult to move up the higher ladder in the value chain and is dependent on the increase trade deficit from China. On the other hand, we also have to actively deal with trade frauds when China takes advantage of Viet Nam's preferential origin to export to third countries, in which, Viet Nam's large export surplus to the US can lead to risks of the US increasing tariffs and other protective measures on Vietnamese exports.

The COVID-19 pandemic may disrupt the supply chain of goods and services, causing difficulties for import and export activities, making the consumption market of exported goods face many difficulties and cannot recover in the short term, putting Vietnamese export enterprises at risk of losing market share in many large markets in the world.

For imports, with the implementation of a tax reduction roadmap and technical barriers to implement FTA commitments, goods and technologies of other countries will easily penetrate into our country. This requires strict import control and management tools, applying effective trade remedies to protect the domestic market, and restricting the import of poor quality and not environmentally friendly goods and technologies, at the same time have policies to encourage the import of advanced technologies from developed countries to raise the level of domestic production technology to catch up with the technology level in the region and in the world.

## **II. DOMESTIC CONTEXT AND TRENDS THAT AFFECT VIET NAM'S IMPORT AND EXPORT STRATEGY**

*- Our country has achieved many very important and comprehensive achievements in economic development in 10 years of implementing the Socio-Economic Development Strategy 2011-2020.*

The position and power of our country have grown much stronger, the political position of Viet Nam in the ASEAN region and the world has been increasingly enhanced; The scale, potential, and competitiveness of the economy have been raised, and the economy's autonomy has been improved. The Government, with the determination to build a "creating development" State, changes the way of leading, directing and administering socio-economic development, shifting from imperative and administrative measures to technical measures, along with development promotion policies to help expand the growth space, has brought positive effects to attract large domestic and foreign investors, contributing to enhancing the effectiveness of supporting businesses, especially small and medium enterprises. The socio-political situation, the macroeconomic situation is basically stable, the belief of the business community and society increases. The quality of economic growth has been gradually improved, the economic structure has initially shifted to depth, the efficiency of using inputs for the economy was significantly improved, increasing the economic openness and attracting foreign direct investment (FDI). The private sector contributes more and more and becomes an important motivation for the country's economic development. The achievements in economic development in the past 10 years are an important premise for economic development and import-export activities in particular in the coming years, contributing to affirming the country's position and prestige in the international arena.

*- Viet Nam's economic and trade development is facing new opportunities created by efforts to reform and innovate, focusing all resources on economic development to achieve strategic goals in the coming decades.*

The Resolution of the 13th National Party Congress set out the country's development goals: By 2025, it will be a developing country with modern industry, surpassing the low-middle income level; By 2030, it will be a basic developing country with modern industry and high middle income; By 2045, it will become a modern, high-income developed industrialized country.

Viet Nam's socio-economic development strategy also sets out tasks for the implementation of the strategy, which are to continue promoting institutional reform and transforming the growth model, improving the competitiveness of the economy based on innovative thinking, focusing on innovation, digital transformation and development of science - technology. Viet Nam still has a lot of potential to continue maintaining a high and sustainable economic growth momentum. That is political stability, accelerating the process of economic institutional reform, improving the business investment environment, transforming the growth model in depth towards improving the efficiency of the use of labour and resources, modern science - technology. In addition, actively and proactively participating in the signing of new generation FTAs will create new opportunities for economic and trade growth through institutional reform, expand markets, diversify export products, attract investment and technology from developed industrialized countries.

*- Viet Nam's economic and trade development in the coming period will have to cope with difficulties and challenges coming from the internal weaknesses of the economy are slow to be overcome, the risk of falling behind and falling into the middle-income trap is still very large.*

(i) Weaknesses are first associated with economic strength still have many limitations and slow development, start from the basic inputs of the market economy, that is: The lack of financial resources, investment capital, science, technology and innovation has not really

become the motivation for development.; infrastructure is slowly being upgraded, technology is outdated; lack of high quality and skilled human resources; the state management capacity as well as the capacity of domestic enterprises is still limited; capacity to manage, exploit and use natural resources is not effective and sustainable, and limited in handling environmental pollution problems.

(ii) The productivity, quality and competitiveness of the economy are not high. The downtrend of Viet Nam's competitiveness, despite continuous GDP growth, exacerbating the reality of the economy's "lagging further behind"; the risk of falling into the middle-income trap is still great, especially for some groups of factors, social groups that are vulnerable to economic fluctuations; the goal of making our country basically become a modern industrialized country has not met the requirements, has not been able to narrow the development gap and catch up with other countries in the region. Moreover, challenges and contradictions between rapid economic growth and sustainable development goals, changing the growth model from breadth to depth, can cause market instability and affect economic growth., hard to achieve the goals of growth and sustainable development.

(iii) The third weakness is associated with the incomplete, unfinished state of the construction work of a new institutional system, an incomplete business environment, economic restructuring associated with growth model innovation is still slow, not based on science - technology and innovation. Notably, there are difficulties and challenges in meeting the requirements of fast institutional transformation, strongly upgrading the fundamental conditions of the development process according to the requirements of the modern world, while our economy is still poor and has limited capacity, we have to solve "dual" development tasks: transition to a complete market economy, deep international integration and modern economy construction for a limited time. Specifically, it is necessary to complete the market economy institution, business investment environment, amend the policy and legal system to meet international regulations and commitments in new generation FTAs, such as the CPTPP, EVFTA, especially commitments related to labour issues, social and environmental responsibility.

*- Increasing trend of non-traditional security challenges, especially social and environmental issues, climate change, COVID-19 pandemic continue to be complicated and unpredictable.*

Environmental pollution, climate change, sea level rise, salinity intrusion, natural disasters, epidemics are factors out of control, and Viet Nam is forecasted to be one of the most severe and obvious affected countries. Climate change is happening more and more rapidly, fiercely and unpredictably, greatly affecting production and people's lives, with the process of urbanization and industrialization creates great pressure on the demand for infrastructure development. and environmental pollution treatment. In the coming time, the COVID-19 pandemic will continue to happen very complicatedly, unpredictably, comprehensively, deeply and lastingly affecting all countries in the world, disrupting supply chains and trade flows, stagnating production, business and service activities and directly affecting Viet Nam's import and export of goods in the early years of the Strategy period.

Besides, some social problems such as rapid aging population leading to pressure on the social security system, rich-poor gap will continue to have impacts on economic development, trade growth, and implement sustainable import and export development goals in Viet Nam.

### **III. TARGETS AND FORECAST OF VIET NAM'S IMPORT AND EXPORT OF GOODS IN THE PERIOD 2021-2030**

#### **3.1. Import and export development targets**

##### **Overall targets:**

To maintain rapid and sustainable economic growth of Viet Nam, export development should continue to be promoted. Accordingly, it will be necessary to implement the trade-related commitments effectively and exploit opportunities from free trade agreements in order to expand and diversify export markets, especially main strategic export markets (USA, Japan, China, European Union - EU, ASEAN) and not to depend too much on a few markets. It will be necessary to improve the quality and content of processing and manufacturing, increase added value and competitiveness of exported goods, proactively participate in the global production network and value chain, build and develop a number of strong brands for Vietnamese exports.

It will also be necessary to diversify import partners by increasing the market density of developed countries in the EU, North America, Japan, and South Korea and avoid dependence on some partners. Prioritize the import of machinery, equipment and input materials created from high technology and modern source technology; restrict the import of domestically produced goods and non-essential goods; strictly manage and control imports of outdated technology and goods that do not meet health and environmental regulations; control trade deficit with some countries, especially from China and Korea, progress to a sustainable balance of trade.

##### **Specific targets:**

Achieve the average growth rate of exports of goods at 6-7%/year during the period 2021-2030, with 8-9% in the period 2021-2025 and 5-6%/year during the period 2026-2030.

Achieve the average growth rate of imports of goods at 5 - 6%/year during the period 2021-2030 with the average import growth rate of 7-8%/year during 2011-2015 and 4-5%/year during the period 2026-2030.

Achieve the trade balance in the 2021-2025 period and maintain the trade surplus in the period 2026-2030. To realize the healthy and balanced trade, control trade deficit with some countries (especially China, Korea) and ensure sustainable growth in the long term.

Increase the proportion of export processing and manufacturing industrial goods from 85.1% in 2020 to about 90-92% of total export turnover in 2030 (in which, increasing the proportion of medium and high tech industrial exports from about 50% at present to about 70-75% in 2030); to reduce the proportion of agricultural, forestry and fishery products in the composition of exports to 3-5% of total export turnover in 2030 (in which, the proportion of exported processed agricultural products will reach over 50% in 2030, the absolute value of agricultural, forestry and fishery exports will increase mainly as a result of deep processing, the development of high-tech agriculture, organic agricultural products and Vietnamese brand specialties); reduce the proportion of fuel and minerals group to less than 1% of total export turnover in 2030 (the absolute value of fuel and mineral exports increases mainly based on export results of refined, green, clean products applying the circular economy model).

Maintain the proportion of groups of goods that need to be encouraged to import (machinery, equipment, materials) around 80-85% of total imports in 2030. The proportion of groups of goods that need to be controlled and restricted from import (consumer goods, domestically produced goods) around 6-7% of total import turnover in 2030.

Increase the proportion of export markets in the European Union (EU) to about 17 - 18% of total export turnover in 2030; the Americas (mainly the United States) region to about 28 - 29% in 2030; maintaining the proportion of export markets in Asia around 49 - 50% in 2030, of which China 17 - 18%, ASEAN 9 - 10%, Japan 7 - 8%, South Korea 7 - 7.5 %.

Increase the proportion of import markets from developed countries in the European Union (EU) to about 7-8% of total import turnover in 2030; the North American region (mainly the United States) to about 8-9% in 2030; Japan 8 - 8.5%, Korea 18 - 19% in 2030; reduce the proportion of import markets from Asia to about 79-80% in 2030, of which China 30-31%, ASEAN 10-11%.

### **3.2. Forecast of import and export of Viet Nam's goods in the period of 2021-2030**

#### **Forecast base:**

- Resolution of the 13th National Party Congress.
- Socio-economic development strategy for the period of 2021-2030 set out by the 13th Congress of the Communist Party of Viet Nam, with the goals, orientations and tasks set out for the development of trade, import and export for the 5-year period 2021-2025 and the next 5- year period 2026-2030.
- Assessment and evaluation of the import and export situation of goods in the period 2011-2020.
- The international, regional and domestic contexts affect Viet Nam's economic and trade development in the strategic period 2021-2030.
- Synthesize forecasts on economic and trade growth indicators of prestigious national and international organizations (such as World Bank and IMF).

#### **Forecast options:**

Forecast some main economic and trade indicators of Viet Nam in the next 10 years according to the following 3 scenarios:

- Option 1 (high): Developing Viet Nam's economy and trade in terms of implementing breakthrough reforms, including institutional reform, improving the business and investment environment, enhancing the performance of state-owned enterprises, creating positive spill over effects on FDI enterprises and private enterprises, substantively creative innovating the growth model in depth, focusing on innovation and development of science - technology, high-quality human resources.
- Option 2 (medium): Developing Viet Nam's economic and trade in an incomplete state, unfinished work of creating a new institutional system, gradually improving the business environment, and the economic structure and growth model transform slowly.
- Option 3 (low): Developing Viet Nam's economy and trade within the condition of slow implementation of reforms, the capacity of the country and businesses is still limited, in



the context of the economy's large openness and easily be vulnerable to external economic shocks and fluctuations.

**Table 1. Import-export turnover growth forecast of Viet Nam in the period of 2021-2030**

DF	Index	Unit	2021-2025			2026-2030			2021-2030		
			Opt 1	Opt 2	Opt 3	Opt 1	Opt 2	Opt 3	Opt 1	Opt 2	Opt 3
1	Export turnover	%	9.50	9.00	8.00	6.50	6.00	5.00	7.50	7.00	6.00
2	Import turnover	%	8.50	8.00	7.00	5.50	5.00	4.00	6.50	6.00	5.00
3	Total export and import turnover	%	9.00	8.50	7.50	6.00	5.50	4.50	7.00	6.50	5.50

*Source: Data of the General Department of Customs and the author's calculations*

On the basis of the forecast of the growth of import and export turnover of Viet Nam's goods in the period of 2021-2030 under 3 scenarios, at the same time based on the orientation to encourage the development of advantageous and potential products to export, restructuring of exports in the direction of reducing exports of raw products, increasing exports of processed and manufactured products, enhancing export value added, encouraging import competition in the direction of enhancing the content of science - technology, prioritizing the import of high-tech machinery and equipment, importing materials for domestic production, thence serving as a driving force for sustainable import-export growth, we make a number of growth forecasts and restructuring import and export goods under 3 scenarios as follows.

**Table 2. Forecast of growth and restructuring of Viet Nam's exports in the period of 2021-2030**

	Scale (Million dollars)		Proportion (%)		Growth (%)	
Period	2025	2030	2025	2030	2021-2025	2026-2030
<b>High option (Opt 1)</b>						
Group of agriculture, forestry and fishery	29,328	33,071	5.4	3.4	3.4%	2.4%
Group of fuels and minerals	2,716	2,723	0.5	0.3	-1.3%	0.1%
Group of processing and manufacturing industries	489,290	905,476	90.1	93.1	15.4%	13.1%
Others	21,770	31,403	4.0	3.2	8.8%	7.6%
<b>Total export turnover</b>	<b>543,104</b>	<b>972,673</b>	<b>100</b>	<b>100</b>		
<b>Medium option (Opt 2)</b>						
Group of agriculture, forestry and fishery	29,426	30,258	6.10	3.70	3.5%	0.6%
Group of fuels and minerals	2,653	2,372	0.55	0.29	-1.7%	-2.2%
Group of processing and manufacturing industries	422,099	736,812	87.50	90.10	12.0%	11.8%

Others	28,220	48,330	5.85	5.91	14.6%	11.4%
<b>Total export turnover</b>	<b>482,398</b>	<b>817,771</b>	<b>100</b>	<b>100</b>		
<b>Low option (Opt 3)</b>						
Group of agriculture, forestry and fishery	30,411	31,676	6.80	5.05	4.2%	0.8%
Group of fuels and minerals	2,639	2,258	0.59	0.36	-1.8%	-3.1%
Group of processing and manufacturing industries	382,376	552,611	85.50	88.10	9.8%	7.6%
Others	31,798	40,709	7.11	6.49	5.6%	5.1%
<b>Total export turnover</b>	<b>447,224</b>	<b>627,254</b>	<b>100</b>	<b>100</b>		

Source: Data of the General Department of Customs, World Bank, IMF and author's calculation

**Table 3. Forecast of growth and restructuring of Viet Nam's imports in the period of 2021-2030**

Period	Scale (Million dollars)		Proportion (%)		Growth (%)	
	2025	2030	2025	2030	2021-2025	2026-2030
<b>High option (Opt 1)</b>						
Group of goods that need to be imported	419,980.3	751,961.4	82.5	82.8	15.1	12.5
Group of goods that need import control	30,544.0	49,949.1	6.0	5.5	5.7	5.2
Groups of goods that need to be restricted from importing	34,616.5	58,122.6	6.8	6.4	7.0	6.0
Others	23,926.2	48,132.9	4.7	5.3	12.5	10.9
<b>Total import turnover</b>	<b>509,067</b>	<b>908,166</b>	<b>100</b>	<b>100</b>		
<b>Medium option (Opt 2)</b>						
Group of goods that need to be imported	375,286.1	619,649.4	81.8	81.2	13.0	12.3
Group of goods that need import control	25,233.2	39,681.9	5.5	5.2	6.5	5.8
Groups of goods that need to be restricted from importing	29,362.2	45,786.9	6.4	6.0	7.3	6.2
Others	28,903.5	57,996.8	6.3	7.6	11.6	10.1
<b>Total import turnover</b>	<b>458,785</b>	<b>763,115</b>	<b>100</b>	<b>100</b>		
<b>Low option (Opt 3)</b>						
Group of goods that need to be imported	349,892.6	533,239.9	80.7	80.6	10.4	9.5
Group of goods that need import control	22,979.3	33,740.9	5.3	5.1	6.9	6.5

Groups of goods that need to be restricted from importing	26,881.4	40,356.8	6.2	6.1	7.5	6.7
<b>Others</b>	33,818.7	54,250.4	7.8	8.2	10.2	9.2
<b>Total import turnover</b>	<b>433,572</b>	<b>661.588</b>	<b>100</b>	<b>100</b>		

*Source: Data of the General Department of Customs, World Bank, IMF and author's calculations*

On the basis of the forecast of export turnover growth of Viet Nam in the period 2021-2030 under 3 scenarios, at the same time based on the development orientation of diversifying export markets, forecast on the restructuring of export market according to the scenario of medium economic and trade development (Opt 2), specifically as follows:

**Table 4. Forecast of market composition of Viet Nam's exports of goods in the period of 2021-2030 (%)**

Year	2021	2022	2023	2024	2025	Avg. 2021-2025	2026	2027	2028	2029	2030	Avg. 2026-2030
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Asia</b>	<b>49.7</b>	<b>49.7</b>	<b>49.8</b>	<b>49.8</b>	<b>49.7</b>	<b>49.7</b>	<b>49.7</b>	<b>49.6</b>	<b>49.6</b>	<b>49.5</b>	<b>49.4</b>	<b>49.6</b>
ASEAN	8.5	8.7	8.8	8.8	8.9	8.7	9.3	9.5	9.8	10	10.3	9.78
East Asia	31	31.1	31.2	31.2	31.3	31.2	31.3	31.3	31.4	31.5	31.5	31.4
China	17.4	17.4	17.5	17.5	17.5	17.5	17.7	17.8	17.8	17.9	18	17.84
Japan	7	7.5	7.7	7.6	8.5	7.7	8.7	8.5	8.8	8	8.1	8.42
South Korea	7	7.2	7.3	7.3	7.5	7.3	7.4	7.2	7.7	7.1	7	7.28
<b>Europe</b>	<b>17.2</b>	<b>17.3</b>	<b>17.4</b>	<b>17.4</b>	<b>17.5</b>	<b>17.4</b>	<b>17.5</b>	<b>17.6</b>	<b>17.6</b>	<b>17.7</b>	<b>17.9</b>	<b>17.66</b>
EU 27	12.6	12.7	12.8	13.2	13.9	13.0	14.5	15.3	15.9	16.5	17	15.84
<b>America</b>	<b>29</b>	<b>29</b>	<b>29</b>	<b>29.1</b>	<b>29.1</b>	<b>29.0</b>	<b>29.1</b>	<b>29.2</b>	<b>29.2</b>	<b>29.4</b>	<b>29.4</b>	<b>29.26</b>
USA	27.3	27.8	28.3	28.5	28.7	28.1	28.8	29	28.9	29.2	29.5	29.08
<b>Africa</b>	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.2</b>	<b>1.2</b>	<b>1.14</b>
<b>Oceania</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.6</b>	<b>1.6</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.8</b>	<b>1.7</b>
<b>Unallocated market</b>	<b>1.7</b>	<b>1.6</b>	<b>1.3</b>	<b>1.1</b>	<b>1.1</b>	<b>1.4</b>	<b>1.0</b>	<b>0.8</b>	<b>0.8</b>	<b>0.5</b>	<b>0.3</b>	<b>0.68</b>

*Source: Synthesized and calculated from the data of the Ministry of Industry and Trade*

Based on the forecast of the growth of Viet Nam's import turnover of goods in the period of 2021-2030 under 3 scenarios, at the same time, based on the orientation of diversifying the import market and continuing to shift the import market composition in the direction of reducing the proportion of the Asian market, especially ASEAN, China, increasing the proportion of the EU, North America, Japan, Korea, and Russia markets, forecasting import market composition according to the scenario of medium economic and trade development (Opt 2), specifically as follows:

**Table 5. Forecast of composition of Viet Nam's import market for goods in the period of 2021-2030 (%)**

Year	2021	2022	2023	2024	2025	Avg. 2021- 2025	2026	2027	2028	2029	2030	Avg. 2026- 2030
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Asia</b>	<b>79.9</b>	<b>79.9</b>	<b>79.8</b>	<b>79.8</b>	<b>79.7</b>	<b>79.8</b>	<b>79.7</b>	<b>79.6</b>	<b>79.6</b>	<b>79.6</b>	<b>79.5</b>	<b>79.6</b>
ASEAN	11.4	11.3	11.3	11.2	11.2	11.3	11.1	11.1	11.0	11.0	10.9	11.0
East Asia	55.5	57.4	56.6	56.0	56.7	56.4	55.4	56.1	57.3	55.9	56.6	56.3
China	28.4	27.3	27.5	29.6	31.9	28.9	28.3	27.2	27.4	29.5	31.8	28.8
Japan	7.9	8.0	8.1	8.1	8.3	8.1	8.2	8.3	8.3	8.4	8.3	8.3
South Korea	17.7	17.9	18.1	18.3	18.4	18.1	18.5	18.7	19.0	19.0	19.1	18.9
<b>Europe</b>	<b>7.2</b>	<b>7.2</b>	<b>7.3</b>	<b>7.5</b>	<b>7.6</b>	<b>7.4</b>	<b>7.6</b>	<b>7.7</b>	<b>7.7</b>	<b>7.8</b>	<b>7.9</b>	<b>7.7</b>
EU 27	5.7	5.8	6.0	6.2	6.2	6.0	6.4	6.5	6.5	6.7	6.8	6.6
<b>America</b>	<b>8.4</b>	<b>8.8</b>	<b>8.7</b>	<b>8.8</b>	<b>8.6</b>	<b>8.7</b>	<b>8.8</b>	<b>8.9</b>	<b>8.9</b>	<b>9.0</b>	<b>9.0</b>	<b>8.9</b>
USA	5.4	5.6	5.7	5.9	5.9	5.7	6.0	6.1	6.2	6.4	6.4	6.2
<b>Africa</b>	<b>1.0</b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>	<b>1.0</b>	<b>1.1</b>	<b>1.0</b>
<b>Oceania</b>	<b>2.1</b>	<b>2.1</b>	<b>2.2</b>	<b>2.2</b>	<b>2.3</b>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>
<b>Unallocated market</b>	<b>1.4</b>	<b>1.1</b>	<b>1.0</b>	<b>0.7</b>	<b>0.9</b>	<b>1.0</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>	<b>0.2</b>	<b>0.1</b>	<b>0.4</b>

*Source: Synthesized and calculated from the data of the Ministry of Industry and Trade*

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# STATE MANAGEMENT OF VIET NAM'S EXPORT OF GOODS DURING 2011-2020: SITUATION AND ISSUES FOR ATTENTION

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## **Abstract**

*During the period 2011-2020, state management of Viet Nam's export of goods has recorded good results, with efforts in promoting international economic integration, completing institutional improvements, and improving business investment environment to support export development. The formulation and implementation of export development policies have partly played a role in promoting export growth and changing the composition of export products and markets in a positive direction.*

*However, although with such positive results, the state management of export of goods could not avoid limitations and inadequacies. For example in the legal system, the export development policy is still incomplete, and the process implementation has not yet ensured uniformity and efficiency. The allocation of resources as well as the formulation of strategies and policies for export development to meet the goals of sustainable export development are still insufficient and they are not commensurating with the potential and contributions of this field to economic development. A good assessment of the current situation and the problems in the state management of export activities is necessary. Viet Nam needs to identify appropriate policy measures proactively and enhance the effectiveness of state management so that it can continue promoting integration and implementation of new generation FTAs.*

**Keywords:** State management, policy, export, goods, Viet Nam.

## **I. ASSESSMENT OF THE ACHIEVEMENTS OF STATE MANAGEMENT IN GOODS EXPORT ACTIVITIES**

*Firstly*, the economic development strategy in the direction of industrialization and modernization towards export and the goal of rapid economic development coupled with sustainable development is absolutely correct, contributing to the achievements of export activities in the period 2011-2020. Notably, the promulgation of correct and timely guidelines and policies of the Party and Government in order to maintain macroeconomic stability, improve institutions and business environment, with export orientation as an important driving force for economic development, together with the efforts of the business community, at all levels, ministries and branches, are important elements in order to promote export activities.

*Second*, to promote state management over import and export of goods, the Government has issued Resolutions and Decrees with the aim of perfecting institutions, improving the

investment and business environment, and improving the quality of goods and services. national competitiveness, perfecting the legal framework, strengthening the direction and administration of administrative reform at ministries, branches and localities in accordance with the spirit of Resolution No. 02/NQ-CP dated 1/ 1/2021 on continuing to perform key tasks and solutions to improve the business environment and enhance national competitiveness in 2021 and Resolution No. 76/NQ-CP dated July 15, 2021 issued State administrative reform master program for the period of 2021-2030. On that basis, ministries and branches shall review, adjust, amend, supplement or replace documents directing and administering administrative procedure reform in specific fields in the direction of transparency and facilitate import and export activities of enterprises.

The implementation of WTO commitments as well as the negotiation and implementation of new-generation FTAs have created a driving force for domestic reform, Viet Nam's business environment index in 2020 according to the World Bank's assessment increased from 90/190 to 70/190 countries (ranked 5th in ASEAN region); Viet Nam's national competitiveness index 4.0 also increased 10 places to 77/140 countries and territories. Viet Nam's economic institutions are increasingly improved, the business environment is increasingly favorable, with efforts to reform import and export customs clearance procedures to ensure full compliance with the Agreement on Facilitation. trade, thereby expanding conditions for businesses to access the import-export goods market, at the same time stimulating and releasing social resources, and allocating resources of the country more effectively.

*Third*, the implementation of policies to promote international economic integration, expand foreign activities and cooperation bilaterally, multilaterally, regionally and internationally, and participate in the signing of free trade agreements. The new generation of FTAs shows Viet Nam's determination in promoting deep integration into the world economy, contributing to solving current difficult problems in trade relations with other countries to promote economic growth such as growth in export of goods, attracting foreign investment, receiving technical and technological assistance, improving management level, quality of human resources and being recognized as a market economy. In the context of a market economy, the world economic and political situation is having many complicated and unpredictable developments.

Now, Viet Nam has participated in the negotiation and signed 17 free trade agreements, of which 10 are already in effect and are implementing commitments, 5 agreements have been signed or negotiated but have not come into force yet, the two agreements are still being negotiated. The participation in FTAs with multi-party nature, especially the new generation FTAs, has made Viet Nam one of the economies with a large openness, thereby creating favorable conditions for businesses to expand global market access, connectivity and deeper participation in global value chains and production networks.

*Fourth*, in the field of trade, the Government pays great attention to and prioritizes the implementation of green growth goals and sustainable import-export development, reflected in strategies, programs and projects on sustainable development, sustainable production and consumption, green growth, and environmental protection. The Government and ministries have also issued a number of policies for sustainable import and export development, both to realize the economic goals, while meeting requirements related to environmental protection and ensuring social security, encouraging import and export in an environmentally friendly

direction, and limiting negative impacts of import and export activities on the environment, while improving incomes for workers, limiting inequality and disparity between rich and poor.

For the Ministry of Industry and Trade, on the basis of orientations and national goals on sustainable trade development, the contents related to promoting green growth and sustainable import-export development were presented in a report and a number of strategies, programs, schemes and projects of the Ministry on environmental protection in order to limit exploitation of natural resources, effectively use natural resources, non-renewable energy, reduce, treat and manage waste management causing environmental pollution.

*Fifth*, the innovations in the import-export management mechanism as well as policies to facilitate and support domestic enterprises to boost exports have made an important contribution to creating a positive change in investment activities, production and export of Viet Nam's goods in the period 2011-2020, specifically:

- Trade policies and mechanisms to support and encourage exports have had the effect of promoting exports through incentive policies, tax incentives, financial support and export subsidies for the manufacturing sector. Exporting agricultural products, the private sector, especially small and medium-sized enterprises, improve the economic efficiency of the state economic sector, thereby improving the economic efficiency of the state economic sector, thereby improving export competitiveness and investment efficiency in the context of accelerating international economic liberalization and integration.

Notably, the 2005 Commercial Law was amended and supplemented by the Law on Foreign Trade Management No. 05/2017/QH14 dated June 12, 2017 of the National Assembly (effective from January 1, 2018) and the Law on Foreign Trade Management No. Prevention and control of harmful effects of alcohol and beer No. 44/2019/QH14 dated June 14, 2019 of the National Assembly (effective from January 1, 2020), including regulations aimed at creating a mechanism to encourage To encourage export through the following policies: (1) *Tax incentives and incentives*; (2) *Export financing* through strong export financial support; (3) *Export support and subsidies*; (4) *Exchange rate*, with the liberalization of the foreign exchange management mechanism and a more flexible floating exchange rate policy to facilitate and encourage businesses to boost exports.

- Policies to encourage FDI attraction for export, focus on improving the investment and business environment, upgrading infrastructure, giving many incentives on tax, land rent, support for site clearance, application fee, simplifying administrative procedures, creating many favorable conditions for foreign investors, and strongly committed to protecting the legitimate and legitimate interests of investors have helped the foreign direct investment sector affirming the important role in socio-economic development, making a great contribution to Viet Nam's trade surplus in recent years, at the same time helping to increase the export proportion of high-tech groups in the total export turnover of goods exports from Viet Nam. The policy of attracting FDI contributes to creating technology spillover effects, creating competitive pressure, technological innovation for domestic enterprises, and at the same time improving management skills, training engineers and managers, highly qualified management, skilled workers, creating many direct and indirect jobs with increasing income for society.

The highest legal framework governing investment activities currently is *the Investment Law No. 61/2020/QH14* dated June 17, 2020, which regulates business investment activities

in Viet Nam and business investment activities abroad (replacing the Investment Law No. 59/2005/QH11 dated November 29, 2005 and the revised Law on Investment No. 67/2014/QH13 dated November 26, 2014).

- Policies to develop production associated with export, restructuring of exports and improving export competitiveness help create a legal corridor to organize the production and processing of agricultural products with stable outputs, transforming product structure in the direction of raising the proportion of high-value-added products, innovating processing technology towards modernity and reducing post-harvest losses, improving food quality and safety, encouraging businesses to associate, sign production and consumption contracts with farmers, develop production links along the value chain, thereby improving the value, efficiency and export competitiveness of agricultural commodities, forestry and fisheries. A was considered a positive shift, creating breakthrough to push businesses to invest in the agricultural sector and rural areas, with a number of mechanisms and incentives, investment support of the State land, human resource training, market development and application of science and technology. At the same time, through supporting mechanisms and policies of the State, industrial enterprises in general and processing and manufacturing industry enterprises in particular have conditions to invest in production development and improve their professional skills technology, improve competitiveness and participate more deeply in global value chains.

On the basis of *Decision No. 1137/QĐ-TTg* dated August 3, 2017 of the Prime Minister approving the Project "Improving the competitiveness of Viet Nam's export products by 2020, with orientation to 2030"., the Government has directed ministries and branches to develop projects to improve competitiveness such as: "Program to improve competitiveness of goods and service industries", "Project on analyzing competitiveness" competition of specific products and businesses", "A synchronous program to improve competitiveness to support investment and product development", from which localities also actively build projects to improve competitiveness of local goods and services.

- The approved export promotion policies and national programs on trade promotion become the core guiding and orientation for trade promotion activities of industry associations and trade promotion agencies of localities across the country, thereby supporting businesses to directly participate in promoting products and developing export markets. In addition to traditional and direct trade promotion policies, the Ministry of Industry and Trade and the system of trade promotion agencies nationwide have promoted the application of information technology to digital transformation, innovation, diversification and improvement of the efficiency of trade promotion in order to improve the efficiency of trade promotion. supporting businesses to connect customers, maintain and develop distribution channels in the domestic market, consolidate and develop export markets at a lower cost ( *Circular No. 40/TT-BCT* dated 30/11) 2020 amending and supplementing Circular No. 11/2019/TT-BCT dated July 30, 2019 guiding the implementation of trade promotion activities and foreign trade development under the National Program on Trade Promotion in order to create a clear legal basis clearly support XTMM activities on digital environment).

Notably, *Decision No. 1320/QĐ-TTg* of the Prime Minister dated October 8, 2019 approving the Viet Nam National Brand Program from 2020 to 2030, in which the overall goal is to build a image Viet Nam is a country with a reputation for high-quality goods and services, increasing the pride and attractiveness of the country and Vietnamese people,



contributing to promoting foreign trade development and improving productivity national competitiveness. National Brand Program - a long-term trade promotion program that has contributed to building and promoting trade names, geographical indications and trademarks of goods and services of Viet Nam in the international market quite effectively.

- The policy of increasing the application of science - technology and innovation, upgrading the economic - technical infrastructure, developing high-quality human resources has made important contributions in transforming the business and growth model, restructuring the economy, promoting production and processing of exports in depth, increasing value added, promoting innovative start-ups, enhancing capacity to approach the Fourth Industrial Revolution is going strong around the world.

Policies and legal regulations on strengthening the application of science and technology in production and processing of export goods have been promulgated quite fully, creating favorable conditions for enterprises to invest in export manufacturing industries, typically for example: *Law on Technology Transfer No. 07/2017/QH14* dated June 19, 2017 (effective from July 1, 2018); *Decree No. 57/2018/ND-CP* dated April 17, 2018 on mechanisms and policies to encourage enterprises to invest in agriculture and rural areas; *Resolution No. 52-NQ/TW* dated September 27, 2019 of the Politburo on a number of guidelines and policies to actively participate in the Fourth Industrial Revolution; *Decision No. 118/QĐ-TTg* dated January 25, 2021 of the Prime Minister on the National Technology Innovation Program to 2030.

- Regarding supporting industry development policy, although there is no clear direction and feasible policy for supporting industry development, the Government and a number of ministries and branches, including the Ministry of Industry and Trade, have issued issue documents on encouraging the development of a number of key industries and supporting industries in Viet Nam.

In the period 2011-2020, the supporting industry has been paid special attention by the Party and State and oriented as one of the priority sectors for development and investment incentives. In 2015, with the introduction of *Decree No. 111/2015/ND-CP* dated November 3, 2015 of the Government on the development of supporting industries and related policy documents, legal system, policies Supporting industry has been increasingly improved, contributing to promoting the development and growth of the supporting industry. The Government issued *Resolution 115/NQ-CP* dated August 6, 2020 on solutions to promote the development of supporting industries, with a view to directing the development of supporting industries in accordance with development conditions. socio-economic development of the country and the development trend of the world, in order to meet the domestic needs of industries prioritized for development according to *Resolution No. 23-NQ/TW* of the Politburo dated March 22 2018 on orientations for building national industrial development policies to 2030, with a vision to 2045, including: electronics, key mechanics, automobile manufacturing and assembly, textiles, footwear, industry high-tech industry and defense industry.

- Regarding policies to support export enterprises to overcome barriers and trade remedies, in the context that Viet Nam has deeply integrated into the regional and world economy, especially in the implementation process of new-generation FTAs such as CPTPP and EVFTA agreements, to strengthen state management and improve forecasting capacity on the possibility of applying trade remedy measures, and to prevent and strictly handle trade remedies and acts of evading trade remedies, fraud on origin of goods and illegal

transshipment, protecting the rights and interests of Viet Nam's genuine production and business enterprises, the Ministry of Industry and Trade has made great efforts to perfect the legal framework, promulgate legal documents on trade safeguard, anti-dumping and anti-subsidy measures in accordance with WTO, and at the same time guide enterprises to implement so that when necessary can be used as an effective weapon in the fight against anti-dumping duties.

In order to overcome and deal with a series of anti-dumping measures in major EU markets aimed at Viet Nam's exports, since 2012, the Competition Administration Department - Ministry of Industry and Trade has developed and allowed launched the "Anti-Dumping Early Warning System" to provide businesses with a set of useful information lookup tools to be able to predict the risk of anti-dumping lawsuits, proactively respond to lawsuits, minimize damages caused by lawsuits, as well as update information on target export markets.

The Government and ministries and branches have also taken many measures to support export enterprises to proactively meet and overcome technical barriers (TBT) in export markets: (i) Improve the legal system on standards, technical regulations and conformity assessment procedures through the promulgation of relevant Acts, Decrees and guiding circulars; (ii) Develop an information system of TBT, TBT offices in Viet Nam and provinces in order to meet the transparency requirements in the TBT Agreement (article 10.7) of the WTO and the urgent needs of exporting enterprises. Importers and industry associations in exchanging and providing information and documents related to TBT.

## **II. ASSESSMENT OF ISSUES AND THE CAUSES OF SHORTCOMINGS OF THE STATE MANAGEMENT IN GOODS EXPORT ACTIVITIES**

### **2.1. There were issues despite successes**

In addition to the achieved results, in the past time, the state management of goods export activities still has limitations and shortcomings that need to be overcome.

*First*, besides the achievements in integration, we have to admit the fact that we have not really actively integrated. The level of readiness for integration of Vietnamese enterprises is still modest. The exploitation of opportunities from international economic integration and implementation of commitments in FTAs for export market development has not been effective in recent times. Exploiting and taking advantage of tax incentives, preparing to meet rules of origin and exploiting other benefits of market opening in bilateral, regional and multilateral FTAs to boost exports to markets that have signed FTA agreements still have many limitations.

The delay in international economic integration puts Viet Nam at a disadvantage compared to other countries in the region, especially China and ASEAN countries, putting Viet Nam at risk of falling into the "liberalization trap" and "middle-income trap", it is difficult to break through to higher levels in the value chain.

*Second*, the reform of market economy institutions according to the requirements of integration is still slow, the market economy institutions in Viet Nam are not yet complete, and synchronous. The land, real estate and market markets are not yet complete. The financial, labor and S&T markets are underdeveloped and still distorted by administrative imperatives, with low

efficiency and effectiveness, which waste resources and increase the risk of corruption and reduce the competitiveness of the economy.

Although the business investment environment has been improved, administrative procedure reform has been focused, there are still many difficulties and barriers to export development of enterprises. Some legal regulations, mechanisms and policies to encourage export development are still lacking transparency and fail to include provisions to ensure the equality, stability. Many of them are overlapping, contradicting and lack of rigorousness, specificity. They are not enforced with efficiency and effectiveness leading to increased costs and reduced export competitiveness of enterprises.

*Third*, the transformation of economic growth model has been slow, and the model of growth in breadth has been maintained for too long, based mainly on exploiting comparative advantages in terms of natural resources and abundant labor, but not yet fully integrated. Proactively redirecting the economy to in-depth development, growing based on improving productivity, quality and efficiency of the economy, promoting innovation and creativity, and applying the achievements of the Way Industry 4.0 and the digital transformation of the economy. This is an important reason why the restructuring of Viet Nam's export goods has not met the requirements and objectives set forth.

*Fourth*, the process of formulating strategies, policies, master plans and projects on the development of industries and agriculture has not been suitable with the characteristics and strengths of each locality; The planning work is not synchronized, the production, processing and preservation processes have not strictly complied with international standards, therefore, the stable output product quality has not been ensured, and the strict regulations have not been met. slot of the export market. The policies on finance and credit have not approached closely the actual needs of enterprises, FDI enterprises are entitled to many preferential loans from foreign credit institutions or parent corporations with low interest rates, while Viet Nam's loan interest rate is high, so domestic enterprises lose right from the start.

In addition, in the process of implementing strategies and policies, a number of obstacles need to be removed, including barriers in terms of land, scale and way of organizing production, access to The sources of preferential loans to supplement investment capital to expand production and improve the science and technology level of enterprises are still facing many difficulties. In particular, there is a lack of policies to encourage and strengthen cooperation and links between domestic enterprises and FDI enterprises, corporations and industrial enterprises producing finished products such as Samsung, Toyota, etc. improve the synergy in capital, technology, and management level, thereby leading to limitations for domestic processing and manufacturing enterprises in participating in the global supply chain.

*Fifth*, the import-export management mechanism has been renewed, policies to support domestic enterprises to boost exports have contributed to creating a positive change in export activities, however, the enforcement efficiency has not been improved. In practice, there are certain limitations.

- Viet Nam's export development policies have not encouraged in-depth export development, but mainly took advantage of static competitive advantages, relying mainly on exploiting input resources such as natural resources and cheap labor. Policies to create dynamic competitive advantages, based on technology and quality of labor and management skills, have not yet brought into full effect. Investment policies to upgrade infrastructure,

research and develop new technologies and new products have not been given due attention. The allocation of resources in terms of capital, science - technology, and high-quality human resources for the development of industrial production industries is inadequate, and large industrial groups have not yet been established to lead the economy or to become a leading "crane" to drag the later-class businesses to develop.

- Viet Nam's foreign investment attraction policy has only focused on quantity, but has not paid much attention to quality or economic, social and environmental efficiency, has not yet built a close connection between enterprises. FDI and domestic enterprises, export depends on the FDI sector, causing risks to sustainable export development. The policy to attract FDI has not focused on shifting production and exports in the direction of absorbing advanced technology, capital and management from abroad. Moreover, policies to attract FDI mainly focus on labor-intensive industries, so they have not created much trade surplus or in-depth industrial development, low added value and efficiency. economic results are not high.

- Policies to attract FDI, develop infrastructure and invest in agriculture and rural areas, develop key export manufacturing industries, develop supporting industries, or develop large industries to Modern technology transfer has not yielded commensurate results. Foreign investment to Viet Nam is mainly from the group of countries with medium technology in the ASEAN region, leading to exports mainly in the form of raw, preliminary processing or processing, assembly, competitiveness and added value. low exports, difficult to participate deeply in the global value chain, there is a risk of becoming a "technological garbage dump", especially from China.

- The policy of export support, trade promotion, market development and branding of Vietnamese goods also has limitations, in many cases the interests of exporters cannot be protected; The effectiveness of trade promotion and market expansion is not high, and the benefits of market opening in bilateral, regional and multilateral FTAs have not been well exploited through trade promotion tools, trade deals, etc. services, representative offices in foreign countries to boost exports to markets that have signed FTAs, therefore, Viet Nam's export goods have not penetrated deeply into the supermarket chains and distribution centers of Viet Nam abroad, especially in difficult markets in the EU.

- In the export development strategy, policies and measures are put forth mainly to achieve export achievements with little attention to environmental factors. Although the issue of environmental protection and social security has been mentioned in the formulation of export promotion policies, the system of export promotion policies is still biased towards achievement and quantity, but not on quality, export growth, especially the fair and reasonable sharing of benefits among those participating in export activities, which are small and micro enterprises, farm households in rural and mountainous areas, remote areas. Therefore, the export promotion policy has not had a positive effect in transforming the growth model towards sustainable. This can be said to be the biggest limitation of Viet Nam's current export development policy in the implementation of sustainable export development goals.

- The organization and implementation of a number of preferential policies, supporting export enterprises to overcome barriers and trade remedies are still many obstacles, inconsistent and ineffective. Policy on development of priority processing and manufacturing industries such as electronics, key mechanics, automobile manufacturing and assembly, textiles, footwear, etc., in order to create markets for industrial products The support industry has not achieved the desired results. There is no practical support policy for supporting

industry enterprises, leading to limitations in production management capacity, lack of capital resources for technological innovation, production fields. are quite similar in terms of qualifications, scale, technology and products, but do not have the capacity to supply components and spare parts to meet the requirements to be able to participate deeply in the global value chain.

## **2.2. The main causes of shortcomings**

*First*, the most significant shortcomings are that the policy makers are not fully aware of the importance of sustainable import and export development. The quality of growth in the planning and implementation of import-export development policies has not kept pace with development requirements in the context of a market economy and international integration with the openness of a large economy requiring the dynamic, creative, proactive and responsive, has not kept up with the rapid and unpredictable developments of the international business environment, changes in policies of the importing country, and new development trends of the international business environment, global market, sustainable development goals and Industry 4.0.

- The approach to formulating policies on export and import development has been slow to innovate in the past time and has not kept up with the development requirements of the country in the context of market economy and international integration that requires dynamism and creativity.

- Import-export policy only pays much attention to economic efficiency and economic goals, but pays little attention to environmental and social issues, so import and export development is unsustainable.

- The signing and participation in FTAs in the past time has not been fully and carefully prepared both in terms of material resources and in awareness and thinking by both the state and businesses. Views and perceptions about participating in FTAs at all levels and sectors are still different, not unified, and efforts have not been made in the whole society to make the most of the incentives and opportunities to maintain high export growth to markets that have signed FTAs, as well as limit the adverse effects of liberalization under FTA commitments on trade.

*Second*, the capacity and the allocation of resources for the formulation and implementation of policies for export development is limited and not commensurate with the potential and the contribution of this sector to economic development, above all Human resources are human resources, while human resources are decisive for formulating and successfully implementing export development policies to meet sustainable export development goals.

- Currently, Viet Nam's human resources are the biggest challenge for sustainable export development. The organization of the state management apparatus is still cumbersome, a part of cadres and civil servants is weak in both capacity and quality; organize ineffective policy implementation; has not yet made strong changes in solving breakthroughs, key issues and pressing social problems.

- Human resources, trained in information technology and techniques in state management agencies, including tax authorities and import-export enterprises, have certain limitations, so the interaction efficiency is limited to ensure regular and continuous

information between the state sector and between the state sector and import-export enterprises, as well as between regions and businesses, there are still weaknesses.

- The capacity of import-export management staff is still limited, especially the border-gate customs force and specialized inspectors are too thin, limited both in terms of awareness, professional qualifications, and the ability to access and process information, to ensure and coordinate the performance of functions, as well as to sanction benefits and accountability among officials and employees.

- In particular, the current import-export management organization system has many shortcomings in terms of human resources, qualifications and management responsibilities of competent agencies; capacity to supervise law enforcement in the field of import and export is still weak, not meeting the requirements of the integration process well. There has not been a close coordination between agencies that develop and issue regulations and measures to manage import and export and agencies that enforce import and export management such as Customs, the Ministry of Finance, the Ministry of Industry and Trade, and the Ministry of Finance. The Ministry of Science and Technology and related ministries and branches do not yet have a specialized mechanism to manage import and export activities effectively.

*Third, in addition to the limitation of human resources, the limitations of financial resources, economic-technical infrastructure, technology, and information for the management of export activities also affect the effectiveness of the implementation and the effect of measures and policies on export development in practice is limited.*

- Although the country's infrastructure has improved a lot, it has not yet met the requirements of socio-economic development in general and import-export development in particular. Infrastructure of traffic, transport, logistics, information technology, energy is still slow to be renovated and upgraded; Limited transportation and loading and unloading capacity, complicated administrative procedures, prolonged customs clearance time, high costs, many services for import and export business must be rented or purchased from abroad. This is one of the main bottlenecks affecting the competitiveness of the economy and the efficiency of import and export activities of Vietnamese enterprises.

- In fact, the material and technical basis for the implementation of the application of non-tariff measures, regulations, technical standards, animal and plant quarantine and environmental standards of Viet Nam is still lacking. Technical equipment for inspection, examination, control or to conduct testing, verification, conformity certification is very lacking and unsatisfactory is required to inspect the quality of goods. The limited state budget is not enough to conduct support programs for the application of technical regulations and standards, environmental standards in enterprises.

- The process of carrying out specialized inspection for imported and exported goods has limitations and shortcomings because the specialized inspection agency does not have the human resources and means of inspection at the border gate (except for the force doing inspection work, goods that need specialized inspection must be brought to domestic laboratories for implementation; Technical means and human resources for implementation are still lacking and weak. In many cases, the results are slow, leading to prolongation of the customs clearance time of enterprises. In addition, there are limitations in the application of information technology and electronic data exchange on specialized examination results. There has been no coordination in exchanging information in a timely manner

between the state management agencies in charge of specialized inspection and the customs authorities in handling consignments brought back for preservation.

*Fourth*, the capacity of enterprises to implement import and export management policies is still limited.

- Viet Nam's import-export businesses are mainly small and medium-sized enterprises, not ready and not strong enough, still relying on the support and help from the state, not proactive and creative. , seize and take advantage of opportunities to rise up. Moreover, domestic import and export enterprises lack investment sources and lack attractiveness for strategists and senior managers, most of which do not have a methodical business strategy in the direction of exploiting comparative advantages. in international trade. Due to the lack of knowledge and skills to do business in the world market in the context of integration, business activities of enterprises often take place under short-term contracts. They are compete against each other, lack linkages and are not connected.

- Limited professional human resources to implement marketing and trade promotion strategies of enterprises; ineffective market research and development; research, product development, and promotion of new products to foreign consumers are still slow, not fully understood about consumer tastes and changes in consumer tastes; The application of e-commerce in marketing and export promotion has achieved low efficiency.

- The capacity to research and forecast export markets is still limited, and it is still slow to grasp changes in policies of each country related to export goods of enterprises. The ability to grasp information, recognize policies and changes in the world market for strategic business management planning of enterprises is still weak, while the ability to adapt to the new context of the international market is still weak. (the trend of forming FTAs has become popular, changing policies and trade flows, trade barriers are becoming increasingly strict) of Vietnamese enterprises is still limited.

- The quality of human resources of businesses is far from meeting the requirements of export development in the context of the implementation of new generation FTAs. The high quality human resources of export enterprises are inadequate in both quantity and quality. The limitation of enterprise human resources due to the lack of connection of the national education and training system with the actual training needs of enterprises.

*In summary*, in the period 2011-2020, the state management of goods export activities has made important progress, as a result of great efforts of the Government, business community and the whole society in implementing the renovation process, improving the environment for business and investment activities, actively and proactively participating in the economic integration process. The success of commercial activities in general and import-export activities in particular has greatly contributed to the legal corridor and system of trade mechanisms and policies. In the coming time, Viet Nam's import and export management mechanisms and policies need to continue to be perfected and adjusted to suit the process of international integration, trade liberalization and compatibility with international standards, creating an open, transparent and equal legal corridor for export activities, respecting the business rights and autonomy of export enterprises.

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# **FRAMEWORK TO RESTRUCTURE VIET NAM'S EXPORTS OF GOODS TO MEET ITS INTEGRATION REQUIREMENTS IN THE PERIOD OF 2021-2030**

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## **Abstract**

*In the period of 2021-2030, the economic and trade context of the world as well as in the region will continue to evolve rapidly, complicatedly and unpredictably, greatly affecting Viet Nam's economic and trade development. Viet Nam's economy is in the process of deep international integration, so competition in the world market will be increasingly fierce. The Resolution of the 13th National Congress of the Party sets out the strategic goals: by 2025, Viet Nam shall become a developing country with modern industry, surpassing the low middle income level; by 2030, Viet Nam shall be a developing country with generally modern industry and a high average income; in 2045, Viet Nam shall become a developed and high-income country.*

*In order to realize the above-mentioned strategic goals, it is particularly important for Viet Nam to continue to promote innovation of the growth model based on creativity, modern science-technology, high-quality human resources, restructuring the economy, restructuring of the composition of its export of goods, and the implementation of the policies towards sustainable development goals.*

*This article focuses on reviewing the composition of Viet Nam's export of goods over the past 10 years, and based on such an analysis, proposes a framework for restructuring Viet Nam's export of goods to meet its integration requirements in the period of 2021-2030.*

**Keyword:** Exports, goods, restructure, orientation, integration, Viet Nam

## **I. VIET NAM'S EXPORT OF GOODS IN THE PERIOD OF 2011-2020**

### **1.1. Achievements and results in “restructuring” Viet Nam’s export of goods**

#### ***Restructuring according to the group of exports:***

In the period 2011-2020, export products are more and more diversified. The number of items with export turnover of more than \$1 billion has increased over the years, accounting for a large proportion of the total export turnover of the country. In 2011, there were 21 items with export turnover of over \$1 billion, accounting for 81% of total export turnover, in 2016 increased to 25 items with the proportion accounting for about 88.7%, by 2020 there were 31 items (in which there are 9 export items of over \$5 billion and 6 export items of over \$10 billion), accounting for 92% of total export turnover.

The structure of export goods shifts towards industrialization and modernization: increasing the proportion of processed and manufactured goods, reducing the proportion of raw materials and semi-processed goods; in which the growth of the processing and

manufacturing industry is always higher than the growth rate of the general export turnover (in the period 2011-2015 increase by 26.9% per year compared to the overall export turnover growth rate of 17.5% per year and the period 2016-2020 increased by 13.5% per year compared to 11.8% per year). In the past 10 years, the proportion of export turnover of processed and manufactured industrial goods increased from 61.2% in 2011 to 85.2% in 2020; the proportion of export turnover of agricultural, forestry and fishery products decreased from 20.4% in 2011 to 8.9% in 2020; the proportion of export turnover of fuel and mineral groups decreased sharply from 11.6% to 1.0%, respectively.

The restructuring of export goods towards industrialization and modernization in the 2011-2020 period is also reflected in the structure of 15 key export item groups of Viet Nam. Accordingly, in 2011, out of 15 key export products, accounting for 70.9% of Viet Nam's total export turnover of goods, there were 4 items belonging to the mineral group, namely crude oil, coal, precious metals and petroleum of all kinds; 4 items belonging to the group of agriculture, forestry and fishery are seafood, rice, coffee and rubber; The remaining 7 items belong to the group of processed and manufactured goods. By 2020, the products of the mineral group are no longer in the list of 15 key export products; group of agriculture, forestry and fishery products have 3 items are aquatic products, vegetables and fruits, cashew nuts (rice in 16th place); Meanwhile, the number of products in the processing and manufacturing group has increased to 12, with key products such as phones and components, electronic products, textiles, footwear.

#### ***Restructuring according to the export market:***

In the period 2011-2020, export markets are expanded and diversified, not only maintained in traditional and key markets such as the United States, EU, Japan, China. Viet Nam has also gained access to new markets by effectively taking advantage of signed FTAs, reaching out to the African and Latin American markets. Up to now, Viet Nam's exported goods have been present in over 230 countries and territories, many export products have gradually gained a firm foothold in markets with high quality requirements such as the EU, Japan, the United States.

By region, Asia is still Viet Nam's main export market, accounting for an average of 50.7% of the total export turnover of goods in the period 2011-2015 and maintaining at 50.8% in the 2016-2020 period due to Viet Nam's continued implementation of its market opening commitments within ASEAN and with some Asian countries (EPA with Japan, FTA within the ASEAN framework with China, Korea, and Japan). The proportion of goods exported to the American market increased sharply, from 20.3% in 2011 to 31.4% in 2020 (average 2011-2015 accounted for 21.9% and increased to 26.5% in the period 2016-2020), mainly thanks to increased exports to the US due to the impact of the implementation of the "US-Vietnam Comprehensive Partnership" agreement in the overall framework to promote bilateral trade relations between the two countries in July 2013 and recently the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The proportion of goods exported to the European market decreased slightly from 19.9% in 2011 to 15.5% in 2020 (average of 2011-2015 accounted for 19.9% and decreased slightly to 18.3% in the period 2016-2020); Exports to Africa and Oceania also followed a downward trend, from 2.9% to 0.9% and 2.8% to 1.5%, respectively.

In the period 2011-2020, the United States has always been the main export market of Viet Nam with a turnover increasing from \$16.92 billion in 2011 (accounting for 17.5%) to

\$77.07 billion in 2020 (accounting for 27.3% of the total export turnover of goods). China is Viet Nam's second largest export market with export turnover increased from \$11.12 billion in 2011 (accounting for 11.5%) to \$48.91 billion in 2020 (accounting for 17.3% total export turnover of goods of Viet Nam). Japan is Viet Nam's third largest export market since 2014 to date, with export turnover increasing from \$10.78 billion in 2011 (accounting for 11.1%) to \$19.28 billion in 2020 (accounting for 6.8% total export turnover of goods of Viet Nam).

***Restructuring of the composition of exporting firms:***

In accordance with the guidelines and policies of the Government to encourage all types of enterprises to develop and join international integration, the number of enterprises participating in export has been constantly expanding and operating more effectively. The bright spot in Viet Nam's export in recent years is that domestic enterprises, although participating in exports are still limited (the export proportion of domestic enterprises in total export turnover decreased from 43.1% in 2011 to 27.7% in 2020), but has become increasingly proactive, actively integrating, participating in market search, product development, in the last 2 years (2018, 2019), the export growth rate of the domestic enterprise sector has increased again, reaching growth rates of 16.8% and 13.3%, respectively (compared to 11.9% and 6.5% of the FDI enterprise sector).

Notably, the contribution of FDI enterprises is mainly in the processing and manufacturing industries, in which, in 2020, FDI enterprises account for over 80% of the country's export turnover in most electrical and electronic goods. Among the 25 major export items of the processing and manufacturing industry, there are 18 items that FDI enterprises contribute over 50% of export turnover. The exports of the FDI sector are mainly processed and manufactured goods, especially high-tech goods, which have promoted the restructuring of Viet Nam's export goods towards industrialization and modernization, increasing the proportion of exports, manufactured and high-tech goods in total export turnover of Viet Nam. Although export opportunities and market access opportunities from FTAs are open fairly to all businesses, it shows that FDI enterprises have made better use of these opportunities than domestic enterprises.

**Table 1. Restructuring of Viet Nam's exports in the period 2011-2020**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total export turnover (million USD)</b>	<b>96,906</b>	<b>114,529</b>	<b>132,175</b>	<b>150,217</b>	<b>162,017</b>	<b>176,581</b>	<b>215,119</b>	<b>243,697</b>	<b>264,267</b>	<b>282,655</b>
<b>Growth (%)</b>	<b>34.2</b>	<b>18.2</b>	<b>15.4</b>	<b>13.7</b>	<b>7.9</b>	<b>9.0</b>	<b>21.8</b>	<b>13.3</b>	<b>8.4</b>	<b>7.0</b>
<b>Export turnover growth: 2011-2015: 17.5%/year; 2016-2020: 11.8%/year; 2011-2020: 14.6%/year.</b>										
<b>Restructuring according to the group of exports</b>										
<b>1. Group of agriculture, forestry and fishery</b>										
<b>Growth: 2011-2015: 6.2%/year; 2016-2020: 4.0%/year; Proportion: 2011-2015: 15.8%; 2016-2020: 10.6%</b>										
Proportion (%)	20.4	18.3	15.0	14.7	12.7	12.5	12.1	10.9	9.6	8.9
<b>2. Group of fuels and minerals</b>										
<b>Growth: 2011-2015: -9.5%/year; 2016-2020: -9.9%/year; Proportion: 2011-2015: 7.1%; 2016-2020: 1.7%</b>										
Proportion (%)	11.6	10.0	7.3	6.0	3.0	2.0	2.2	1.9	1.7	1.0
<b>3. Group of processing and manufacturing industries</b>										
<b>Growth: 2011-2015: 26.9%/year; 2016-2020: 13.5%/year; Proportion: 2011-2015: 70.9%; 2016-2020: 83.0%</b>										

Proportion (%)	61.2	64.8	70.5	73.5	78.9	80.3	81.1	82.9	84.2	85.2
<b>Restructuring according to the export market</b>										
<b>Asia</b>	<b>50.9</b>	<b>52.5</b>	<b>51.2</b>	<b>49.6</b>	<b>49.1</b>	<b>48.4</b>	<b>52.4</b>	<b>53.6</b>	<b>50.6</b>	<b>48.9</b>
ASEAN	14.1	15.1	14.0	12.8	11.3	9.9	10.1	10.2	9.6	8.3
China	11.5	10.8	9.9	9.9	10.6	12.4	16.5	17.0	15.7	17.3
Japan	11.1	11.4	10.3	9.8	8.7	8.3	7.8	7.7	7.7	6.8
South Korea	5.0	4.9	5.1	4.8	5.5	6.5	6.9	7.5	7.5	6.7
<b>Europe</b>	<b>19.9</b>	<b>19.8</b>	<b>20.5</b>	<b>20.1</b>	<b>19.1</b>	<b>20.7</b>	<b>19.1</b>	<b>18.5</b>	<b>17.5</b>	<b>15.5</b>
EU 27	17.1	17.7	18.5	18.6	19.1	19.3	17.8	14.9	13.5	12.4
<b>America</b>	<b>20.3</b>	<b>19.9</b>	<b>21.2</b>	<b>23.1</b>	<b>25.1</b>	<b>26.3</b>	<b>23.8</b>	<b>23.4</b>	<b>27.6</b>	<b>31.4</b>
United State	17.5	18.2	19.1	19.1	20.7	21.8	19.3	19.5	23.2	27.3
<b>Africa</b>	<b>2.9</b>	<b>1.5</b>	<b>2.2</b>	<b>1.6</b>	<b>1.5</b>	<b>1.2</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>
<b>Oceania</b>	<b>2.8</b>	<b>3.0</b>	<b>3.0</b>	<b>2.9</b>	<b>2.9</b>	<b>1.8</b>	<b>1.7</b>	<b>1.8</b>	<b>1.5</b>	<b>1.5</b>
<b>Restructuring according to economic participants in export</b>										
<b>Domestic enterprises:</b>										
<b>Growth:</b> 2011-2015: 7.6%/year; 2016-2020: 10.4%/year; <b>Proportion:</b> 2011-2015: 34.2%; 2016-2020: 28.5%										
Proportion (%)	43.1	36.9	33.1	32.6	29.5	28.5	27.7	28.6	29.9	27.7
<b>FDI enterprises:</b>										
<b>Growth:</b> 2011-2015: 23.9%/year; 2016-2020: 12.3%/year; <b>Proportion:</b> 2011-2015: 65.8%; 2016-2020: 71.5%										
Proportion (%)	56.9	63.1	66.9	67.4	70.5	71.5	72.3	71.4	70.1	72.3

*Source: Synthesized and calculated from the Ministry of Industry and Trade's data*

In short, with the great openness and deepening international economic integration, the international and regional situation is very complicated and unpredictable, especially with the developments of the US-China trade war, increasing trend of trade protectionism, global outbreak of COVID-19 disease, etc. Yet, positive results in restructuring export goods by products and markets of Viet Nam over the past years have been very significant and encouraging.

## **1.2. Assessing limitations and inadequacies in restructuring of goods export**

In the past 10 years, Viet Nam's export growth has reached a high rate but there are still many risks that can affect sustainable export growth in the medium to long term. These risks come from imbalances in the structure of exports, export market structures and trade balances with markets, as well as imbalances in the structure of export enterprises.

*Firstly, the structure of exported goods has not really been reasonable*, and has not quickly raised the added value, domestic value, and technological and processing content of exports according to the objectives and orientations of the import and export strategy in the period of 2011-2020. In the export structure of processed and manufactured goods, the shift is not really reasonable because it is still mainly processing and assembling for foreign countries, the added value of exported products is low and slow improves. The structure of export goods focuses too much on a few key products of the agricultural, forestry, fishery and processing industries that use a lot of labour or resources. In 2020, there are 15 key export products, accounting for 80% of total export turnover, of which there are 6 items (electronics, computers and components; phones and components; textiles; machinery, equipment and

tools; footwear; wood and wood products) with export turnover of over \$10 billion accounting for 64.3% of the country's total export turnover.

*Secondly, the restructuring of export goods in depth is still difficult* because the competitiveness of the economy, enterprises and export goods is generally still weak and slow to improve, especially for processed and manufactured goods. Viet Nam is competitive for agricultural, forestry, fishery products and labour-intensive processed and manufactured goods such as textiles and clothing, but is currently experiencing a decline in competitiveness and is subject to fierce competition of China and other ASEAN countries, while for most other manufactured goods there is no export competitive advantage. The content of innovation in exported products is not high; the ability of Vietnamese exporters to meet regulations, technical standards and participation in the global value chain is still limited, so the contribution to the implementation of economic restructuring and the transformation of growth model to depth is still limited.

*Third, there is an imbalance in export markets*, the restructuring of export markets is still slow, there is a lack of breakthroughs, and exports are still concentrated and heavily dependent on some key markets in Asia or the United States, while the number of large markets remains unchanged (only about 20 largest export markets account for 80% of Viet Nam's total export turnover). Consolidating market share in traditional markets faces many difficulties, while the development of new export markets has limited results, which shows the difficulties in implementing the orientation of diversifying Viet Nam's export market. This can be explained by the fact that Viet Nam's export goods are still in the low value chain, the ability to meet increasingly strict regulations and technical standards of difficult export markets, as well as the ability to taking advantage of commitments in FTAs to expand to new potential markets is still limited.

Assessing Viet Nam's export potential based on the Export Potential Index (EPI) and Product Diversification Index (PDI) also shows that Viet Nam has not fully exploited its potential to boost exports, when while the gap between export potential and actual export is still quite large, the main export markets are still ranked at the top of the list of potential export markets, in order that is China, USA, Korea, Japan, Germany, India, UK, France, Malaysia, Netherlands.

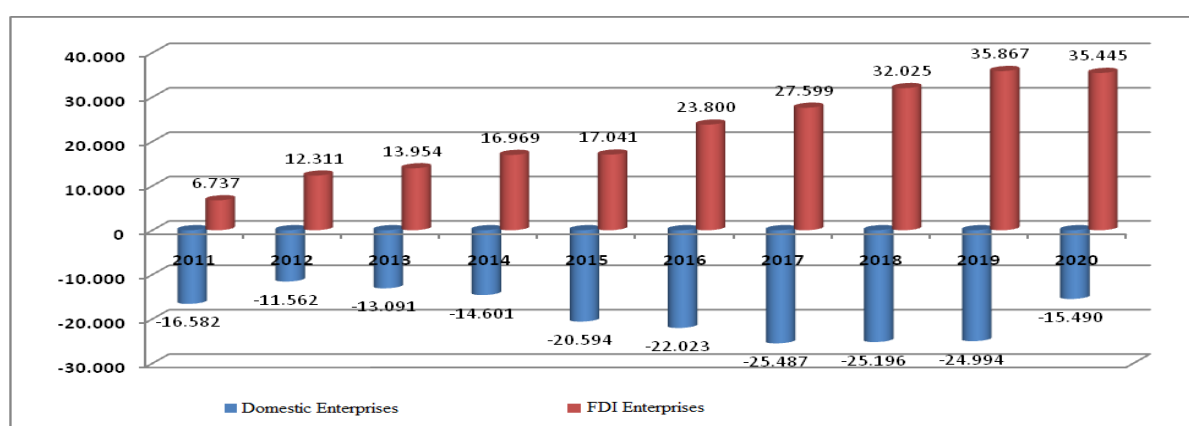
*Fourth, it's an imbalance in the trade balance with some markets.* The proportion of exports and trade surpluses to some major markets is increasing, especially the US market. In 2020, exports to the US market reached \$77.1 billion, up 25.7% compared to 2019. The proportion of export turnover to the US in total export turnover increased from 19.5% in 2018 to 23.2% in 2019 and 27.3% in 2020; trade surplus increased respectively from \$34.78 billion in 2018 to \$46.89 billion in 2019 and sharply increased to \$62.69 billion in 2020 (compared to the general trade surplus of \$19.95 billion). The trade surplus to a rapidly growing market can make the economy vulnerable to trade remedies or external shocks, and at the same time, a trade surplus with a high and rapidly increasing surplus will put pressure on the Government's management of monetary and exchange rate policy.

*Fifth, it is an imbalance in export enterprises*, exports are still highly dependent on foreign-invested enterprises (FDI), especially exports of processing and manufacturing industries. Meanwhile, the export of FDI enterprises is highly dependent on regional and global supply chains, whenever there are fluctuations in the supply chain due to the impact of the recent COVID-19 pandemic, for example, Viet Nam's exports will be strongly affected.

The restructuring of the composition of exporting firms is still slow, although the number of foreign-invested enterprises accounts for a rather modest proportion (only 2.81% in 2020), accounting for a large proportion of the total export turnover of the country, increased from 56.9% in 2011 to 72.3% in 2020. Viet Nam's trade surplus is mainly attributed to the FDI enterprise sector, in which this sector always had a trade surplus in the period 2011-2020, with the trade surplus increasing every year, in 2020 the trade surplus will reach \$35,445 million (while the domestic business sector has a trade deficit with \$15,490 million in 2020). Notably, the trade surplus of the FDI sector is mainly due to the high export growth of processed and assembled products such as computers, phones and electronic components, textiles, garments, and footwear. They are outsourced by the parent corporation abroad. Raw materials or inputs for the production are mostly imported, so the added value is slim, and the foreign currency earnings are not really high.

**Table 1. Trade balance according to economic participants in export**

*Unit: Million USD*



*Source: Synthesized and calculated from the Ministry of Industry and Trade's data*

On the one hand, this shows that the export competitiveness of the domestic business sector is still weak, on the other hand, it shows that the ability of enterprises to link and cooperate is not high, the spillover effects of the FDI sector on Viet Nam's production and exports is still very limited. Viet Nam has not yet exploited the advantages of capital, technology transfer and labour force training of the FDI sector for the purpose of implementing industrialization and modernization of the country while we are only involved in the processing and assembly of final products for export, the design, manufacture and production of components and spare parts as well as the consumption of high value-added goods are still in the hands of foreign corporations... Thus, foreign investment have not yet made a real change in technology and productivity, mainly concentrated in medium-tech industries, using many low-skilled workers. Excessive dependence on FDI poses risks to exports, especially in the context of large fluctuations from the outside.

## **II. FRAMEWORK TO RESTRUCTURE VIET NAM'S EXPORT OF GOODS FOR 2021-2030**

### **2.1. Group of processed and manufactured goods**

This is a group of products with strong potential for development in the world with many new products being born thanks to Industry 4.0 and the digital economy, while the world market is always available and new needs appear. The general orientation of

restructuring the export of this export item group is to accelerate the export of processed and manufactured products with high technological and intellectual content; maintain export growth of processed and manufactured products with comparative advantages in line with the needs of the world market; develop supporting industries, raise the proportion of domestic value, reduce dependence on imported raw materials, accessories, spare parts, components and intermediate products.

\* ***For the traditional labour-intensive processing and manufacturing industries*** such as textiles, apparel, footwear, woodworking, handicrafts, etc., this is a group of items with great export potential and there are still many opportunities to increase export turnover stably up to 2030 under normal conditions of the world market in order to maintain a reasonable proportion in Viet Nam's goods exports structure.

- *The general orientation* of export development for these products is: Focusing on improving the domestic value and added value of products through the development of production of raw materials and auxiliary materials, associated with environmental protection, social responsibility and the trend of agricultural and rural labour movement in the process of building a new countryside; Improve the ability to meet technical, environmental and socially responsible standards to overcome trade barriers of major import markets; Focusing on investing in research on international fashion models and fashions, catching up with major trends in the fashion industry in time, applying the achievements of Industry 4.0, e-commerce and digital economy in the design stage, prototyping, production and marketing, diversifying high-fashion products, innovating business methods, diversifying and developing new markets for export. Striving for the growth rate of this export item group will be equivalent to the growth rate of general merchandise exports in the 2021-2030 period.

- *General orientation for export development:*

+ In the period of 2021-2025, to stabilize and increase exports to traditional markets such as China, ASEAN, EU, the United States, and Japan; focus on developing and increasing export turnover to key markets with high import demand, with strict regulations on traceability, technical standards, high quality, environmental standards and difficult to meet the needs of the European Union (EU), the United States, and Japan

+ In the period of 2026-2030, strive to expand the export of traditional labour-intensive processing and manufacturing industrial products to other potential markets, effectively exploit opportunities of FTAs to boost exports to markets that have signed FTAs such as Korea, Philippines, and Canada; at the same time looking for new markets in Africa, the Middle East, and Latin America in order to minimize dependence on certain markets.

\* ***For the group of middle-tech goods*** such as manufacturing machinery, equipment, household electronics such as air conditioners, hair dryers, microwave ovens, mechanical tools, metallurgy, iron and steel of all kinds, vehicles transportation, chemical industry, pharmaceutical chemistry, plastics, and construction materials, general orientation to develop selective, efficient and sustainable product export, circular economy application, industrial technology green, clean technology, saving energy consumption and raw materials, striving to increase the domestic value of products through the development of supporting industries, increasing participation in production networks and global/regional value chains region through the effective implementation of commitments in FTAs/RTAs. Striving for the export growth of this export item group to be about 1.5 - 2.0 times faster than the general export

growth rate in the 2021-2030 period in order to increase the proportion of the whole group of processed and manufactured goods in the structure of Viet Nam's export.

*- Framework for export market development:*

+ Diversify and develop export markets for medium and high-tech products, focusing on exploiting potential markets such as developing and emerging markets in Asia, India, Africa, and Latin America, markets that already have FTAs with Viet Nam.

+ For the traditional markets of ASEAN, Cambodia and the Philippines are potential untapped markets, so Vietnamese enterprises should quickly find opportunities to access these two markets to expand the export market share of this group of products in the future.

\* ***For the group of high-tech goods*** such as electronic products and computer components, telephones and components, information technology products, telecommunications, manufacturing specialized and sophisticated machinery, technological equipment, manufacturing and assembling automobiles, auto parts and components, this is a strategic item that needs to be prioritized, to encourage export development to anticipate the transformation of investment and division of labour in the industry on a global scale, and to enhance the attraction of foreign direct investment by TNCs/ MNCs in supply chain transformation.

- *The general orientation* for export development of this group of products is: Taking export as a development goal in order to take advantage of market opportunities and diversify export products, increase technology content and intelligence, and increase value. domestic product; at the same time, promote the development of supporting industries to increase the readiness to participate in global production networks/value chains, as well as towards the goal of economic restructuring towards industrialization and modernization, towards the core of the high-tech application industry. Striving for the export growth rate of this goods group to be 1.5 - 2.0 times higher than the growth rate of general merchandise exports in the 2021-2030 period in order to increase the proportion of this goods group in the structure of the processing and manufacturing industries and in the total export turnover of Viet Nam's general goods by 2030.

*- Framework for export market development:*

+ In the period of 2021-2025, to maintain export development to traditional markets such as Japan and Korea, and continue to exploit potential markets such as the United States and China. In particular, automobile products and auto parts and accessories are products with large and diverse market potential, in which China, the United States, Japan, Korea, and India are markets that have both large production capacity and scale as well as large consumption markets, opening up opportunities for Viet Nam to boost exports, especially spare parts and components, currently have a comparative advantage.

+ In the period of 2026-2030, diversify and develop new export markets for high-tech products, consolidate and increase export market share in the markets of industrialized countries in the European Union (EU), the United States, especially focusing on exploiting and making good use of commitments to develop markets with countries that have FTAs with Viet Nam.



## **2.2. Group of agriculture, forestry and fishery products**

This is a group of goods with comparative advantage of Viet Nam but limited in land resources, greatly affected by climate change, natural disasters, sea level rise and the shift of labour force in the process of industrialization and urbanization.

- *The general orientation* to develop exports for these products is: Exploiting the advantages of tropical agriculture to increase output and export turnover of agriculture, forestry and fishery; improve productivity, quality and added value of exported agricultural, forestry and fishery products; restructuring exports with a strong focus on deep processing; develop export products with application of advanced science and technology, biotechnology, information technology, digital technology, control technology and automation to improve productivity and implement green agriculture, clean, competitive products and overcome new increasingly sophisticated trade barriers of importing countries. Orientation that the proportion of this goods group in the structure of export goods will decrease to less than 5% by 2030 due to the decrease in output of agriculture, forestry and fishery under the influence of industrialization and urbanization, climate change and sea level rise. However, increasing the application of scientific and technological achievements in breeding, production and processing, preservation, harvesting, marketing and logistics will help to improve productivity, quality and value added, thereby allowing to increase the absolute value of export turnover of agricultural, forestry and fishery products as well as improve the export efficiency of this group of goods.

- *Framework for export market development:*

+ In the period of 2021-2025, taking advantage of competitive advantages and promoting production capacity to strengthen its position and effectively exploit the long-term stable demand for importing agricultural and aquatic products of key markets, traditional Asian markets such as ASEAN and China markets; accelerate the restructuring of exports with strong focus on highly processed agricultural and aquatic products, application of advanced science and technology, biotechnology and green and clean agricultural products to increase export value to this traditional market area.

+ In the period of 2026-2030, focus on developing key markets that have demand to import high-quality and high-value agricultural and aquatic products and processed or refined agricultural and aquatic products, improve the ability to meet the requirements and high standards of quality, food hygiene and safety and traceability in the European Union (EU), United States, Japan, Korea, Russia. Promote trade relations of agricultural and aquatic products in the direction of stability, sustainability and efficiency through the direct introduction of high-quality, high-value-added agricultural and aquatic products and registered trademarks of agricultural products with Vietnamese characteristics and trademarks into official distribution channels in these regions.

Developing new and potential markets in Africa, the Middle East, India, and Latin America, making good use of niche markets, penetrating markets that still have room for development in Oceania (Australia, New Zealand).

## **2.3. Group of fuels and minerals**

This is an export item group that has the advantage of resources but is limited in supply. *The general orientation* is to have a roadmap to radically reduce the export of raw minerals, especially pre-processed ores, raw ores and unprocessed ores to China; joint venture,

association, investment in technology to increase exports of processed and refined products, take advantage of favourable market and price opportunities to increase the export value of this group of products. The orientation of the proportion of this group of goods in the structure of export goods will continue to decrease slightly to less than 3% by 2030. Products will be minimized, or even stopped, in the coming time, especially in the second half of the 20s are crude oil and coal, while the export value of this export item group will still increase due to intensive processing and refining of metal ores and other minerals for export.

*- Framework for export market development:*

Diversifying export markets for this group of products in order to avoid business risks and exploit potentials in new markets, on the basis of effective organization and synchronization of information activities, forecasting of the world market situation, laws, policies and trading practices of markets to help enterprises improve their competitiveness, increase efficient market entry. At the same time, it is necessary to monitor, analyse and propose specific solutions to strictly control and gradually reduce the dependence of trade activities of fuel and mineral products on the Chinese market, where the average export price of ore is much lower than the average export price to other countries and regions, avoiding resource loss and policy profiteering.

#### **2.4. Group of new export product**

In the coming time, it is necessary to review new products in the group of other goods with low current turnover but high potential for export growth, thereby adopting policies to encourage development, creating a breakthrough in the development and restructuring of export goods.

The general development orientation of this product group is to increase FDI attraction of TNCs/MNCs, choose to attract investment in clean and environmentally friendly production technology, encourage R&D investment, research and develop new products from the Fourth Industrial Revolution, apply e-commerce and digital economy, promote trade promotion activities, market research and export marketing, diversify and develop new export markets from joining FTA/RTA.

Research and develop new groups of export products with great potential in the direction of diversifying and developing new products, focus on investment and development of export of green, environment-friendly products, medical equipment and supplies such as gloves, cylinders, needles, mattress beds, floating equipment groups such as tugboats boats, rescue boats, yachts, etc., thereby accelerating the restructuring of Viet Nam's export goods in the period to 2030.

In summary, on the basis of the achievements and results of the period 2011-2020, the framework for restructuring of export goods in the coming time needs to define the role of export products and markets. Selecting products and export markets with strategic priorities, developing export groups with potential and competitive advantages in the long run will be important, taking advantage of opportunities for tax incentives in the context of implementing new-generation FTAs. There needs to be policies to boost exports, promote restructuring, renovate growth models, and restructure export goods to meet the requirements of international integration. It will be important to improve the competitiveness of the economy, enterprises and exported goods, so that the objectives and orientations defined by the Economic Development Strategy approved by the 13th National Party Congress will be effectively implemented.

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# ENHANCING STATE MANAGEMENT OF IMPORT OF GOODS TO VIET NAM TO PROMOTE INTEGRATION AND IMPLEMENTATION OF NEW GENERATION OF FTAs

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## Abstract

*In the period 2011-2020, the state management of Viet Nam's goods import activities made remarkable achievements, making an important contribution to import control and limiting trade deficit especially with China. The import management policy has been continuously innovated and perfected to be consistent with the market economy mechanism and Viet Nam's international commitments in the WTO as well as in the new generation of free trade agreements (FTAs).*

*Despite many commendable achievements, the state management of import of goods over the past decade still had limitations and inadequacies. The legal system and import management policies are still incomplete and the actual implementation process is not synchronized and faces many difficulties. There are problems in the coordination among concerned ministries, branches, provincial and local customs offices. As a result, businesses cannot operate most effectively. The allocation of human resources and technical facilities to formulate strategies and policies, or to implement import management projects in border areas is still inappropriate. As a result, border-gate customs still face many difficulties and their capacity cannot meet the requirements in detecting and preventing commercial frauds, illegal imports or entry of poor quality goods to the country. This inability directly affects the domestic production capacity negatively, harm consumer health and pollute the environment. Therefore, it is important to evaluate the current situation and problems faced by the state management of import activities. This article aims to identify such problems so that the Government can proactively take measures to strengthen state management of import activities as Viet Nam accelerates integration and implementation of the new-generation of FTAs.*

Keywords: State management, policy, goods import, Viet Nam, integration, new generation of FTAs.

## I. REVIEW OF THE STATE MANAGEMENT OF GOODS IMPORT ACTIVITIES

*Firstly, the import management policy has been continuously innovated and completed to suit Viet Nam's market economy mechanism and international commitments. The Government, ministries and branches have reviewed legal documents on import management and submitted them to the National Assembly for amendments, supplements, legal system formation, the import management policy is quite comprehensive, along with guiding documents on law enforcement. The legal regulations on import management are the key tools for Viet Nam to manage and control imports by sustainable development goals in terms of economy, society and environment.*

In the period 2011-2020, several tools and policies for import management were issued to increase the use of domestically produced goods to replace imported goods, encourage sustainable production and consumption, limit the import of luxury consumer goods, strictly control the import of poor-quality goods that do not meet standards, out-dated machinery and equipment, chemicals that pollute the environment and affect human health, including:

- Legal documents, import management policies, projects and programs related to goods import management:

In the period 2011-2020, many documents related to the field of import and export have been newly promulgated or amended and supplemented to suit the reality and management requirements of the State. It is especially important that the Law on Foreign Trade Management No. 05/2017/QH14 was approved by the XIV National Assembly on June 12, 2017 and took effect from January 1, 2018. Law on Foreign Trade Management covers a wide range of tools for managing foreign trade, towards the goal of stability, transparency, unified, meeting the requirements of international economic integration, and ensuring convenient and effective state management of foreign trade, meeting the requirements of international integration. Law on Foreign Trade Management is built on the principle of promoting reform of administrative procedures, encouragement and creating conditions for the development of foreign trade activities of traders and the competitiveness of the economy; complete, improving the legal effect of trade remedies, supporting foreign trade to improve the competitiveness of Vietnamese goods and Vietnamese enterprises in the integration period.

- Regulations related to the application of technical and phytosanitary measures to imported goods to meet the requirements of goods quality, protection of human health and animals, plants, ecological environment, biodiversity and assurance of security and national interests:

Sanitary and phytosanitary (SPS) controls are based on standards and technical regulations, to quarantine and ensure food safety measures to enable timely inspection and detection of imports adversary affecting the environment and human health. Measures related to product and goods quality, regulations on animal and phytosanitary and food safety have been fully developed, do not violate the principles of the SPS Agreement and the WTO's regulations on discrimination, and is developed by international conventions and implemented to the extent necessary to protect human health, flora and fauna and protect the environment, without creating a disguised restriction on international trade.

Law on Foreign Trade Management No. 05/2017/QH14 also has provisions related to technical and quarantine measures, which are specified in: Article 61 on the application of technical measures to imported and exported goods (the order and procedures for applying technical measures to exported and imported goods shall comply with the provisions of the law on product and goods quality, technical standards and regulations, food safety, food safety, metrology); *Article 62* the on application of measures to phytosanitary products (contents, order and procedures for phytosanitary products before export, import, temporary import, re-export, temporary export, re-import, border-gate transfer, deposit in a bonded warehouse, transit through the territory of Viet Nam shall comply with the provisions of the law on veterinary medicine); Article 63 on application of phytosanitary measures (contents, order and procedures for plant quarantine for export, import, temporary import, re-export, temporary export, re-import, border-gate transfer, and deposit in bonded warehouses , transit through Viet Nam's territory must comply with the law on plant protection and

quarantine); Article 64 on application of border medical phytosanitary measures (content, order and procedures for border medical quarantine comply with the law on prevention and control of infectious diseases); Article 65 stipulates that imported and exported goods are subject to inspection.

- Administrative and customs measures to manage imports are promulgated such as:

Prohibiting, suspending and restricting importing; import tariff quotas; designate border gates, import traders; management according to import permits and conditions; certificates of origin of goods; temporary import, re-export, temporary export, re-import, border-gate transfer and transit of goods; entrust and receive import entrustment; border management, goods management for separate customs areas; regulations on customs procedures, customs inspection and supervision for goods imported and transited through the ASEAN Customs Transit System, specialized inspection procedures for imported and exported goods.

Notably, administrative measures related to import permits, import conditions, the legal status of importers, customs declarations, temporary import permits for re-export, packing lists, certification origin... has been simplified, consistent with WTO regulations.

*Second*, Trade Remedies and emergency control measures are put in place in compliance with international laws and practices, besides actively negotiating and implementing the tariff reduction roadmap according to the commitments in the FTA agreement.

Trade remedies, including anti-dumping, anti-subsidy and safeguard measures, shall be decided by the Minister of Industry and Trade to be applied to imported goods in specific cases. In addition, emergency control measures in foreign trade activities are specified in Article 100 of the Law on Foreign Trade Management No. 05/2017/QH14, which stipulates cases where urgent control measures are applied to goods; principles of applying emergency control measures and the issue of consultation in the case of emergency control measures. As a result, Viet Nam has controlled the quality of imports, increased imports of machinery, equipment, technology, raw materials, and essential consumer goods for production and life, implemented industrialization and modernization of the economy, gradually increase the proportion of processed and manufactured industrial products in the structure of imported goods, at the same time restricting the import of non-essential goods, luxury goods and out-dated technology and equipment.

*Third*, the continuous improvement of the legal system on intellectual property and the fulfilment of obligations, commitment to international integration of intellectual property in new generation FTAs has helped create an environment for better protection of IP achievements, fight against IP rights infringement, improve the efficiency of IPR enforcement, as well as create a transparent and fair environment to attract investment and technology transfer from developed countries.

The legal system on the protection of intellectual property rights has been completed by international commitments, at the same time participate and fully implement the obligations and commitments to international integration on intellectual property in the new generation FTA agreements (Consolidation document No. 07/VBHN-VPQH promulgated by the National Assembly on June 25, 2019 clearly states: Law on Intellectual Property No. 50/2005/QH11 dated November 29, 2005 of the National Assembly, effective from July 1, 2006, as amended and supplemented by Law No. 36/2009/QH12 dated 19/ June 2009 of the

National Assembly, effective from January 1, 2010 and Law No. 42/2019/QH14 dated June 14, 2019 of the National Assembly amending and supplementing several articles of the Law on Insurance Business, Law on Intellectual Property, effective from November 1, 2019).

*Fourth*, the inspection, examination and handling of arising problems for import activities, as well as strengthening quality management, the market management for poor quality manufactured goods, smuggled goods, counterfeit goods and imitation goods represents drastic steps and actions of the Government to contribute to market management, control the quality of imported goods, thereby promoting the development of domestic production, improving the localization rate and standardizing the quality according to national and international standards, helping Vietnamese goods overcome trade barriers in the export markets.

Notably, Decree No. 98/2020/ND-CP dated August 26, 2020 has provisions on sanctioning administrative violations in commercial activities, production, trade in counterfeit goods, prohibited goods and protecting consumers, which includes violations on export and import of goods and services related to export and import of goods; Decision No. 389/QĐ-TTg dated March 19, 2014 on the establishment of the National Steering Committee 389 on combating smuggling, commercial fraud and counterfeiting.

## **II. STATE MANAGEMENT'S SHORTCOMINGS IN IMPORTATION OF GOODS**

### **2.1. Limitations**

Over the past time, the State management of import has limitations and inadequacies. With regard to the legal system and import policy, although it has been amended and supplemented many times, it is still incomplete and the implementation process still lacks practicality and does not ensure synchronization and efficiency, specifically:

*Firstly*, the state management of import activities is still scattered with many but incomplete documents. There is a lack of synchronization and consistency. There is also a lack of important regulations that are specific and in-depth for each product and each market, and suitable to the current socio-economic situation.

- While the implementation of market opening under new-generation FTAs brings great competition challenges for businesses, Viet Nam does not effectively use tools and measures allowed through TBT and SPS trade barriers to protect the market and domestic producers, as well as prevent the flow of inappropriate imported goods.

- Although non-tariff measures to manage imports of Viet Nam are relatively consistent with relevant principles and regulations in WTO agreements, the harmonization of technical measures, phytosanitary of Viet Nam is still limited compared with International phytosanitary standards. In general, Viet Nam's system of technical standards and phytosanitary standards has not yet met the requirements for import management, many documents are too old and it is not suitable for international quality management systems such as HACCP, GMP for food, ISO 9000 for other products, as well as not fully meeting the requirements of the Agreement on Technical Barriers to Trade (TBT) and the Sanitary and Phytosanitary (SPS) Agreement of the WTO. The number of regulations (regulations) and specialized technical standards for imported products is still small compared to other countries, causing many difficulties in enforcement, distorting implementation or sometimes

failing to implement, so the enforcement efficiency is not high, it has not yet been promoted its role as a "fence" to control imports.

- The development of technical regulations on technology transfer, assessment and quality of imported goods, regulations and quarantine standards to ensure hygiene and safety for humans and the environment have received little attention, lack of pre-precaution measures, and inspection according to the process for imported goods. The policy to encourage competitive imports in order to raise the level of technology is still ineffective or even faint. Import of technology that consumes energy, pollutes the environment, endangers the safety and health of workers, and pollutes the environment is still common, but there is a lack of effective treatment measures.

- Measures on administrative reform and simplification of customs procedures have not been really effective for State management, still complicated, import management methods still focus too much on administrative measures, but pay little attention to economic and technical measures, causing troubles and increasing costs, prolonging the customs clearance time of enterprises.

- The regulations promulgating the list of goods banned from import, restricted or allowed to be imported, are not strict and there are still many shortcomings, especially for the list of scrap goods, recyclable and preliminarily processed wastes are allowed to be imported as raw production materials. All of this has failed in many import management objectives, ranging from import restructuring to reducing the trade deficit.

*Secondly*, Secondly, the system of legal documents on the application of trade remedies and anti-fraud of goods origin is still incomplete; especially temporary trade remedies and emergency control measures; capacity of the apparatus to monitor, inspect and verify the origin of goods to effectively implement activities to prevent and strictly handle acts of origin fraud, illegal transshipment, trade remedies has many limitations. Therefore, the implementation of trade remedy work has not achieved high efficiency, the number of trade remedy cases sued by Viet Nam is very small about the cases of Vietnamese export goods being sued. Notably, Viet Nam's current law on trade remedies is not completely compatible with the provisions of signed FTAs and is not compatible with international law.

*Thirdly*, the system of legal documents on specialized inspection stipulates that the list of items must be inspected many times but is not synchronized. The responsibility of specialized inspection agencies has not been clearly defined in the management of goods during the inspection process, pending inspection results. Inspection, examination and handling of arising problems and violations for import activities have a worrying situation about the effectiveness of law enforcement and policies, sanctions and sanctions in practice.

- Specialized inspection is part of customs clearance procedures for import and export goods performed by functional ministries, but also involves many ministries, cause significant delays in the clearance of goods, costing importers time, money, the most effective as small and medium enterprises.

- Many lists of good subjects to specialized inspection promulgated by specialized management ministries do not have HS codes attached, many goods are subject to specialized inspection, but the management ministries and branches have not fully issued standards and regulations for goods, thus making customs authorities and businesses confused when applying in practice. In addition, Viet Nam's system of specialized management regulations is



still lacking in detail, many items are subject to specialized management such as toxic chemicals, fertilizers, and pesticides, there are no specific and appropriate regulations. The management of imported goods under the testing permit has not been paid due attention, and there have been no timely handling measures for unsuitable imported goods.

- The mechanism to manage and supervise the implementation of import policies is still weak and lax, sanctions for violations of regulations on environmental protection for import activities are not strict and not enough of a deterrent, uncertainty, ambiguity, contradiction, overlapping, lack of transparency and fickleness of policy are still common. The inspection, examination and handling of arising problems for import activities, especially specialized management activities, still reveal many shortcomings, management methods are still passive, there is a lack of risk management methods in specialized management and inspection activities. Therefore, it has not kept up with the trend of international integration and trade liberalization, not able to fully utilize the function of management and administration tools, prolonging the use of administrative measures and checking according to shipments, which increases costs and prolongs the time for customs clearance of goods.

- Many problems arising and often occurring violations in import and export activities in the tax field have not been seriously handled, although the administrative sanctions on tax are quite complete and comprehensive. However, from practical application, there are still some problems that need to be researched and supplemented to improve, ensure efficiency, synchronism and prevent tax loss and evasion in import and export activities. The administrative handling of operations related to tax violations has not been thoroughly understood by strict regulations, sometimes causing difficulties for businesses. The coordination between State agencies, tax agencies, inspectors or State audits is not synchronized, leading to tax handling or incomplete and incomplete coordination of related tax issues, handling many times, sometimes causing psychology and wasting the time of business.

## **2.2. The main cause of the limitations**

*First of all*, it is the perception and thinking of policy makers in import and export management that there are limitations, unawareness of the importance of sustainable import-export development and growth quality in planning and implementing import-export development policies.

The approach to developing import-export development policies has been slow to innovate recently and it has not yet met the country's development requirements in the context of a market economy and international integration that requires dynamism, creativity, initiative, positivity and sensitivity with a long-term vision, achievement disease is still severe, it is still quantitative, not paying due attention to the quality of growth.

- Import management policy only pays much attention to economic efficiency and economic goals, but pays little attention to environmental and social issues, so importing goods also cause impacts on the environment and Domestic production.

*Second*, the capacity and resources for the formulation and implementation of import management policies are limited, above all, human resources, while human resources are decisive for the construction and implementation of import management policies. Successfully implemented import management policies to meet the sustainable development goals.

- The organization of the state management apparatus is cumbersome, a part of cadres and civil servants is weak in both capacity and quality; organize the implementation of

inefficient import management policies; has not yet made strong changes in solving breakthroughs, key issues and pressing social problems.

- The capacity of import management staff is still limited, especially the border-gate customs force and specialized inspectors are still too thin, limitations in both awareness, professional qualifications, ability to access and process information, ensure and coordinate the performance of functions, as well as on sanctions, benefits and accountability among officials and employees. The capacity to supervise law enforcement in the import sector is still weak, not meeting the requirements of the integration process well.

- The current import management organization system has many shortcomings in terms of human resources, qualifications and management responsibilities of the competent authorities. There has not been close coordination between agencies that develop and issue regulations and measures for import management and import management enforcement agencies such as Customs, Ministry of Finance, Ministry of Industry and Trade, The Ministry of Science and Technology and related ministries and branches do not have a specialized mechanism to manage import activities effectively.

*Thirdly*, in addition to human resource limitations, financial resource limitations, facilities, technology and information levels also limit the effectiveness and impact of import management measures and policies in practice.

- In fact, the material and technical basis, the level of technology for the implementation of the application of non-tariff measures, regulations, technical standards, animal and plant quarantine and environmental standards of Viet Nam is still very limited. Technical equipment, investment for import management, inspection, examination, control or to conduct testing, testing, verification, and certification of conformity are still very lacking and have not met the requirements, especially in the stage of inspection of imported goods, detection and handling of violations of the law.

- Financial capacity to serve the state management of imports, especially for activities at border-gate customs, inspection, inspection, quarantine, detection of violations to take measures to prevent, handling is still very slow and limited, while hardware and software infrastructure is weak and lacking, inspection, examination and handling of arising problems (violations) for import activities Imports have not yet met practical needs in the context of deep integration and participation in new-generation free trade agreements.

- The process of carrying out specialized inspection for imported goods still has limitations and shortcomings because the specialized inspection agency does not have the force and means of inspection at the border gate (except for the force doing the quarantine work). Goods that need specialized inspection must be brought to domestic laboratories for implementation. Technical means and human resources for implementation are still lacking and weak. In many cases, results are slow, leading to the prolongation of customs clearance time of enterprises.

### **III. POLICY RECOMMENDATIONS TO STRENGTHEN IMPORT MANAGEMENT**

#### **3.1. Strengthen the management and quality control of goods import through the application of non-tariff measures and technical barriers in trade.**

First, it is necessary to strengthen the application of measures to limit the import of domestically produced goods, especially luxury consumer goods, to strictly control the import of poor-quality goods and do not meet technical standards, out-dated machinery and

equipment, goods that pollute the environment and affect human health through the development and application of non-tariff measures, technical barriers in trade are compatible with the integration roadmap and implementation of tax reduction commitments under the FTAs that Viet Nam participates. These are regulations on technical regulations and standards (TBT); regulations, environmental standards, animal and plant quarantine and food safety (SPS); quality inspection of imported goods and technology. It is necessary to focus on implementing specific measures as follows:

- Accelerate the amendment, supplement and adjustment of the system of standards and technical regulations of Viet Nam in the Law on Standards and Technical Regulations by Vietnamese law, harmonized with respective regional and international standards, fully meeting the requirements of the Agreement on Technical Barriers to Trade (TBT) and international commitments, as well as being consistent with the conditions and responsiveness of domestic enterprises. Research, develop, apply and certify advanced environmental and quality management systems according to ISO 9000, ISO 14000, HACCP, GMP, SA 8000. The lead agency is the General Department of Standards and Metrology Quality, the Ministry of Science and Technology, in collaboration with the Ministries of Industry and Trade, Natural Resources and Environment, Agriculture and Rural Development, and Justice.

- Based on reviewing the system of standards and technical regulations, quickly convert Vietnamese standards, industry standards into national standards; convert technical regulations, processes, rules, regulations and technical documents required for application into national technical regulations. Simultaneously, research, develop and apply environmental standards and national technical regulations to products such as leather, footwear or imported footwear materials, textiles, electronic products, machinery, equipment bag; supplementing national technical regulations on the environment for imported scraps (in addition to the standards of iron, steel, plastic and paper scrap as prescribed).

- Research, develop and apply a system of national environmental regulations and standards in line with international standards, taking into account the specific conditions of domestic enterprises, as an effective tool for environmental management, promoting the activities of enterprises to meet environmental protection requirements, as well as improve their ability to meet environmental regulations and standards of the importing country, improving the competitiveness and reputation of enterprises when participating in international integration.

These are regulations and standards on food safety (SPS); regulations and standards on packaging, packaging, transportation and storage labelling requirements, environmental labels and eco-labels; standards on environmentally friendly production and processing processes (PPM) (in case of necessity, the inspection may be required directly from the production or processing facility, if the process is not performed correctly, then no allowed to import into Viet Nam). In the coming time, it is necessary to study the possibility of applying eco-labels to a number of products, especially agricultural products, fresh fruits and vegetables, to encourage consumption and use of products with eco-labels or energy saving label. However, the use of labels requires thorough testing to ensure the reliability and authenticity of eco-labelled products.

- Based on the regulation "saving labelling" for a number of existing electrical and electronic products, the State should have legal documents in the following directions:

(i) Converting regulations on energy-saving labelling for electrical products and electronic equipment into national technical standards and regulations for application, with standards and specifications on energy saving; specific power saving;

(ii) Adding electrical and electronic products to the list of compulsory energy-saving labels;

(iii) There are strict monitoring, implementation and application mechanism and sanctions to strictly handle violations, ensuring effective enforcement. The lead agency is the Ministry of Science and Technology, in collaboration with the Ministries: Natural Resources and Environment, Industry and Trade, Agriculture and Rural Development, Health, and Justice which, the Ministry of Industry and Trade is the agency responsible for formulating and promulgating national technical standards and regulations on economical and efficient use of energy.

- Adjusting the system of environmental regulations and standards, avoiding the overlap and complexity to ensure uniformity, consistency and effective prevention of cross-border pollution. Supplementing standards and specifications for used technological lines, equipment and machinery that are allowed to be imported (the Ministry of Science and Technology is in charge). Promulgating additional environmental standards such as requirements on safety in transporting and storing chemicals and chemical packaging (the Ministry of Industry and Trade is in charge); safety standards in the transportation and storage of plant protection drugs, the system of emission standards and regulations on waste and waste treatment (Ministry of Natural Resources and Environment is in charge). Additional research on specific regulations on maximum allowable residues for contaminants in food, seafood and other products (chemicals, antibiotics, pesticides, heavy metals), food additives, and microbiological criteria), the content of recycled and reused materials; standards on testing methods, sampling, laboratory standards and the recognition of results... The lead agency is the Ministry of Science and Technology, in collaboration with the Ministries: Natural Resources and Environment, Industry and Trade, Agriculture and Rural Development, and Justice.

- The Ministry of Natural Resources and Environment, as the national focal point, organizes the implementation of the National Plan for the Implementation of the Stockholm Convention on Persistent Organic Pollutants, it is necessary to closely coordinate with the Ministry of Industry and Trade in formulating, promulgating and monitoring the implementation of regulations on chemical safety management, minimize and proceed to destroy 12 chemicals/groups of toxic and persistent organic pollutants (as specified in the Stockholm Convention) in Viet Nam. To amend, supplement and perfect the current system of mechanisms, policies and laws related to the safe management and destruction of persistent organic pollutants, focus on management and control of the production, import, use, storage and transportation of banned chemicals; manage the import of PCB-containing industrial equipment and products, especially in the electrical industry, in order to safely manage chemicals, remove and destroy PCBs; safely manage, destroy and remove pesticides in the form of persistent organic pollutants

- For the regulation conformity assessment process, it is necessary to strengthen research work to recognize standard conformity, speed up the progress of developing and implementing projects on standard conformity assessment activities, conformity with regulations when the state funding for the development of standards and regulations is still

limited (For example, you can take the standards of some European countries for agricultural products and food and the ASEAN standards for machinery and equipment). Speeding up the process of negotiating, certifying conformity with standards and regulations and certifying parity of quality standards with international certification organizations, encouraging Viet Nam's conformity assessment organizations to sign and implement implementation of bilateral and multilateral agreements and mutual recognition agreements on the results of conformity assessment between Viet Nam and corresponding organizations of countries and territories that are key or potential markets. The lead agency is the Ministry of Science and Technology, in collaboration with the Ministries of Finance, Industry and Trade, Natural Resources and Environment, Agriculture and Rural Development, Foreign Affairs, and Justice.

### **3.2. Strengthening management and quality control of goods import through administrative and customs measures**

- Strengthen the management and quality control of imported goods through the application of import management measures and customs procedures, preventing the import of poor quality goods, out-dated machinery, equipment and technology. is from China; improving the quality and efficiency of market inspection and control, step up the fight against smuggling in border areas and border gates with China, Laos and Cambodia, fight commercial fraud, counterfeit goods, infringement of intellectual property rights, origin fraud, contribute to protecting the domestic market and consumers, ensuring a healthy business and production environment and improving the competitiveness of Vietnamese enterprises. Customs is the focal agency to manage import and export activities, it is necessary to focus on implementing specific measures as follows:

- Continue to reform administrative procedures and cut cumbersome customs procedures, simplifying the processing of import procedures or not allowing imports at the border-gate customs, strengthen institutions and have strict sanctions, enough deterrent against illegal trading, importing and transporting goods, especially enterprises that intentionally import out-dated equipment and technology, import toxic scraps that pollute the environment, and goods of poor quality, seriously affecting human health. Supplementing regulations and increasing the level of penalties for administrative violations in the field of biodiversity, which stipulates heavy penalties for acts of importing invasive alien organisms on the list of banned import and circulation, and at the same time remedy the consequences by re-exporting all goods out of Viet Nam's territory or destroying all infringing goods.

- Promulgating regulations on determining the border gates allowed to import for certain types of goods, based on applying the "import channel" method, that is, only allowing the import of goods related to environment through certain border gates with strict quality inspection and testing procedures. As for other border gates, in order to implement border trade policy, it is necessary to control the number of imported goods to avoid rampant import, uncontrolled quality, affecting human health and the environment. Due to the long terrain of our country with a very long land border, long costal lines, and limited material and technical facilities, equipment and human resources at many border gates which are required check the quality of goods upon customs clearance, this measure helps to strengthen the quality control of imported goods and prevent smuggling affecting domestic production and market, causing harm to the environment, health and life of people, animals and plants. This is a measure that the WTO does not ban and is often used effectively by countries around the world.

- Research the automatic licensing mode instead of the current non-automatic licensing mode to both ensure transparency, speedily and smoothly in licensing procedures and accordance with the commitment on public notification under the provisions of the WTO Agreement on Import Licensing Procedures, it could control imports clearly, when necessary can stop automatic licensing and switch to other management measures more quickly. At the same time, strengthen the application of measures and regulations on electronic customs clearance, creating favourable conditions for businesses in the automatic customs declaration.

- Supplementing regulations and specific instructions on the order of inspection and testing for goods before importation at border inspection and quarantine agencies, at the same time, there are sanctions to strictly implement the inspection and quarantine process in order to detect and promptly handle acts of importing poor quality goods, out-dated machinery, equipment and technology violate regulations on technical and environmental standards, especially from China.

- Researching and adding to the list of items restricted or banned from import and export, goods that are dangerous to the environment and human health and safety, affecting national security, and detailing the list of these items.

- Strengthen the inspection, examination and specialized management of imported and exported goods, supplement specific and appropriate regulations for imported goods subject to specialized management (such as hazardous chemicals, fertilizers, and pesticides).

*(1) Developing and perfecting a system of legal documents related to specialized management of imported and exported goods:*

+ Review, develop and perfect the system of legal documents prescribed by ministries and branches related to specialized management of import and export goods, eliminate inadequacies and duplication to avoid overlapping and causing difficulties. complicated in the process of management and implementation in practice, propose to develop legal documents on customs clearance of import and export goods subject to specialized inspection, including: quarantine, food safety inspection, goods quality inspection.

+ Review, develop and issue a complete list of items subject to specialized inspection in the direction of narrowing the area of specialized inspection and focusing on key items that need to be inspected at the border gate, it needs to check before customs clearance; Announcement of items subject to specialized inspection after customs clearance (before being put into circulation).

+ Ministries and ministerial-level agencies in charge of specialized management should coordinate with the Ministry of Finance to annually review the lists of goods subject to specialized inspection in order to make timely adjustments, supplementing items that have changed or arise in reality to meet the State's management requirements for specialized inspection, facilitate import and export activities of enterprises. Specialized lists must be issued with HS codes to ensure consistency with the List of Import-Export Goods and the current Import-Export Tariff Schedule, grouped according to the management of the competent authorities. The Ministry of Finance synthesizes and encrypts all lists to update into the electronic clearance system of the General Department of Customs.

+ To promulgate national technical standards and regulations for goods subject to specialized inspection as a basis for inspection. For goods subject to food safety inspection, quality inspection, technical regulations, ministries and branches develop and publicize

technical regulations and standards as the basis for functional agencies and units, duties as prescribed by law to perform quality inspection, food safety inspection, at the same time, encourage and strengthen the socialization of inspection participation in order to bring into play the existing resources of the ministries/sectors.

*(2) To fundamentally renew the method of specialized management and inspection:*

- + Research and conduct a specialized inspection before customs clearance with focus, focus, at appropriate times; It is necessary to strengthen measures to carry out a specialized inspection for import and export goods at 3 different times, including: Inspection before goods arrive at the border gate for import and export; Check at the import border gate; Inland testing.

- + Consolidate the construction and complete the specialized inspection apparatus to meet practical requirements in the current period; which is necessary to improve management capacity, innovate working methods, increase equipment and resources (people), equipment and working conditions.

- + Applying risk management in specialized inspection, applying specialized inspection methods based on analysing risk information in order to reduce the time for customs clearance of goods such as: Carry out focused and focused inspection of goods with high risks of affecting epidemics, people's health, social security and the environment; Prioritize and facilitate specialized inspection of goods that the State encourages to export and goods imported for production but which cannot be produced domestically; Research and apply risk management methods in specialized inspection such as: Probability test or post-test for low-risk goods, goods originating from G7 countries, goods of enterprises good compliance with the law.

- + Enhance mutual recognition of goods inspection results or reduce quality inspection for goods imported from countries and regions with high technical standards such as the EU, the United States, Japan, Canada, Australia, and New Zealand.

### **3.3. Strengthening management and quality control of goods import through the application of trade remedies and early warning measures**

- Strengthening state management of anti-circumvention of trade remedies and origin fraud in international trade; effectively controlling imports, proactively preventing and improving trade remedy capacity, giving early warning and settling trade and international investment disputes, and reasonably protecting domestic manufacturing industries. Continue to review, amend and supplement legal documents in accordance with the guidelines and policies of the State on prevention of origin fraud and illegal transshipment; perfecting the legal provisions related to the origin of goods, especially goods circulating in the country.

- Strengthen research and application of safeguard, anti-dumping and anti-subsidy measures to protect the legitimate interests of domestic producers, in accordance with WTO principles. Supplement and complete documents guiding the implementation of trade remedies to contribute to the protection of domestic production, complete and improve state management capacity in this field. Enhance the dissemination of information on these measures so that domestic producers are aware of the law in order to create necessary pressure on importers and countries that are increasing exports to Viet Nam.

- Proposing the development and application of a remote quality control mechanism in order to prevent the penetration and circulation of goods in the market that do not conform to standards and technical regulations, fail to ensure safety and hygiene environment and unknown origin; study and develop regulations on quality inspection mechanism right at the production facility of the exporting country when conditions permit; actively participate in the network of early warning on goods quality between countries.

- In particular, functional agencies need to proactively develop and flexibly use emergency measures in each certain period without contravening WTO commitments to ensure the stability of the trade balance payment when a serious imbalance occurs and meet the requirements of protecting consumers' interests against counterfeiting, poor quality goods, combating commercial fraud, and protecting the domestic market.

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# **ORIENTATION FOR THE RESTRUCTURING OF VIET NAM'S GOODS IMPORT TO MEET ITS INTEGRATION REQUIREMENTS IN 2021-2030**

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## **Abstract**

*In the 10 years of implementing the Import-Export Strategy of Goods for the period 2011-2020, despite facing many difficulties and challenges due to complicated changes in the domestic and world situation, the import of goods have generally contributed to promoting production development, export growth, improving the technological level of the economy, and improving people's standards of living. Yet, import activities still have some shortcomings and limitations. Imports are not sustainable because the focus remains on importing goods produced with intermediate technologies because competitive imports have not been properly encouraged. Restructuring of imports to increase imports from higher technology markets is still slow.*

*In the period of 2021-2030, the economic and trade context in the world as well as in the region will continue to evolve rapidly and unpredictably in a complicated manner, significantly affecting Viet Nam's economic and trade development. In order to realize the strategic goals of socio-economic development set out in the Resolution of the 13th National Party Congress, it is necessary to continue to promote innovation in the growth model in depth, on the basis of innovation, creativity, application of modern science and technology and development of high-quality human resources. There is also a need for the restructuring of composition of Viet Nam's imported products and the import markets to serve the process of industrialization, modernization and implementation of sustainable development goals in the context of the deepening of international economic integration.*

*The article reviews the restructuring Viet Nam's goods import over the past 10 years, with a focus on the composition of import products and the markets. Based on such analysis, this article makes recommendations to restructure the composition of Viet Nam's imports to serve the process of industrialization and modernization in the context of integration in the period of 2021-2030.*

**Keywords:** Import, goods, restructuring, orientation, integration, Viet Nam.

## **I. RESTRUCTURING OF VIET NAM'S GOODS IMPORT IN 2011-2020**

### **1.1. Review of the restructuring of goods import**

Total import turnover of Viet Nam's goods in the period 2011-2015 increased from \$106.7 billion in 2011 to \$165.5 billion in 2015, with an average growth rate of 14.3%/year; from \$174.8 billion in 2016 to \$262.7 billion in 2020 with a growth rate of 9.7%/year in the period 2016-2020; for the whole period 2011-2020, the import turnover of Viet Nam's goods is about \$1,806.0 billion, the average growth rate is 11.9%/year.

**Table 1. Import and export of goods of Viet Nam in the period of 2011-2020**

Year	Export		Import		Import and export		Trade balance (USD million)
	Turnover (USD million)	Growth (%)	Turnover (USD million)	Growth (%)	Turnover (USD million)	Growth (%)	
2011	96,906	34.2	106,750	25.8	203,656	29.7	-9,844
2012	114,529	18.2	113,780	6.6	228,309	12.1	749
2013	132,175	15.4	131,312	15.4	263,487	15.4	863
2014	150,217	13.7	147,849	12.6	298,066	13.1	2,368
2015	162,017	7.9	165,570	12.0	327,587	9.9	-3,553
2016	176,581	9.0	174,804	5.6	351,385	7.3	1,777
2017	215,119	21.8	213,007	21.9	428,126	21.8	2,112
2018	243,697	13.3	236,869	11.2	480,566	12.2	6,828
2019	264,267	8.4	253,393	7.0	517,660	7.7	10,874
2020	282,655	7.0	262,701	3.7	545,356	5.4	19,954
<b>2011-2015</b>	<b>655,844</b>	<b>17.5</b>	<b>665,261</b>	<b>14.3</b>	<b>1,321,105</b>	<b>15.8</b>	<b>-9,417</b>
<b>2016-2020</b>	<b>1,182,319</b>	<b>11.8</b>	<b>1,140,774</b>	<b>9.7</b>	<b>2,323,093</b>	<b>10.7</b>	<b>41,545</b>
<b>2011-2020</b>	<b>1,838,163</b>	<b>14.6</b>	<b>1,806,035</b>	<b>11.9</b>	<b>3,644,198</b>	<b>13.3</b>	<b>32,128</b>

*Source: Synthesized and calculated from data of the Ministry of Industry and Trade, General Statistics Office*

Growth in exports grew faster than imports in the period 2011-2020, which helped improve Viet Nam's trade balance. The trade deficit in 2011 was nearly \$10 billion, but from 2012 up to now, the trade balance has reversed direction, with a continuous surplus (except in 2015, there was a deficit of \$3.55 billion) the period 2016-2020 fully recorded the trend of trade surplus with the trade surplus in 2020 reaching about \$19.95 billion - marked the 5th consecutive year of having a trade surplus with a surplus of the following year higher than the previous year and a record trade surplus in recent years.

***Restructuring according to the group of imported goods:***

In the period of 2011-2020, the import of goods has grown reasonably (averaging 11.9%/year), creating favourable conditions for Viet Nam to access advanced technology, improve technology level, meet demand for raw materials, machinery and equipment for domestic production, contributing to improving the efficiency of export activities, improving the quality, added value and competitiveness of exports. In addition, import activities were controlled, so the trade deficit decreased sharply, leading to a continuous trade surplus and trade surplus in the 2016-2020 period.

According to the data of the General Statistics Office, in the period 2011-2020, the structure of Viet Nam's imported goods has shifted positively in the direction of focusing mainly on the group of essential goods to meet the needs of production, export and domestic investment projects. Accordingly, the group of machinery, equipment, components and spare parts with a proportion of about 36.8% of the total import turnover in the period 2011-2015 has increased sharply to about 44.6% in the period 2016-2020; the group of raw materials and materials accounted for about 53.7% in the period 2011-2015, decreasing to about 46.1% in the 2016-2020 period; import of consumer goods was relatively stable, with the proportion at 9.0% in the period 2011-2015, slightly increasing to 9.2% in the period 2016-2020.

**Table 2. Viet Nam's import structure in the period of 2011-2020**

	2011	2012	2013	2014	2015	Average 11-15	2016	2017	2018	2019	2020	Average 16-20
<b>Total import turnover (million USD)</b>	<b>106,750</b>	<b>113,780</b>	<b>131,312</b>	<b>147,849</b>	<b>165,570</b>		<b>174,804</b>	<b>213,007</b>	<b>236,869</b>	<b>253,394</b>	<b>262,701</b>	
<b>Growth (%)</b>	25.8	6.6	15.4	12.6	12.0	<b>14.3</b>	5.6	21.9	11.2	7.0	3.7	<b>9.7</b>
<b>Structure (%)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Production materials</b>	<b>88.6</b>	<b>90.9</b>	<b>90.8</b>	<b>91.1</b>	<b>91.1</b>	<b>90.5</b>	<b>90.3</b>	<b>90.6</b>	<b>89.8</b>	<b>89.4</b>	<b>93.6</b>	<b>90.7</b>
Machinery, equipment, spare parts	29.6	35.1	38.2	38.1	43.2	36.8	43.7	45.6	43.0	44.7	46.0	44.6
Raw materials, fuel materials	59.0	55.8	52.6	53.0	47.9	53.7	46.6	45.0	46.8	44.7	47.6	46.1
<b>Consumer goods</b>	<b>9.5</b>	<b>9.0</b>	<b>9.0</b>	<b>8.8</b>	<b>8.8</b>	<b>9.0</b>	<b>9.6</b>	<b>9.3</b>	<b>10.1</b>	<b>10.5</b>	<b>6.3</b>	<b>9.2</b>
<b>Non-monetary gold</b>	<b>1.9</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.5</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

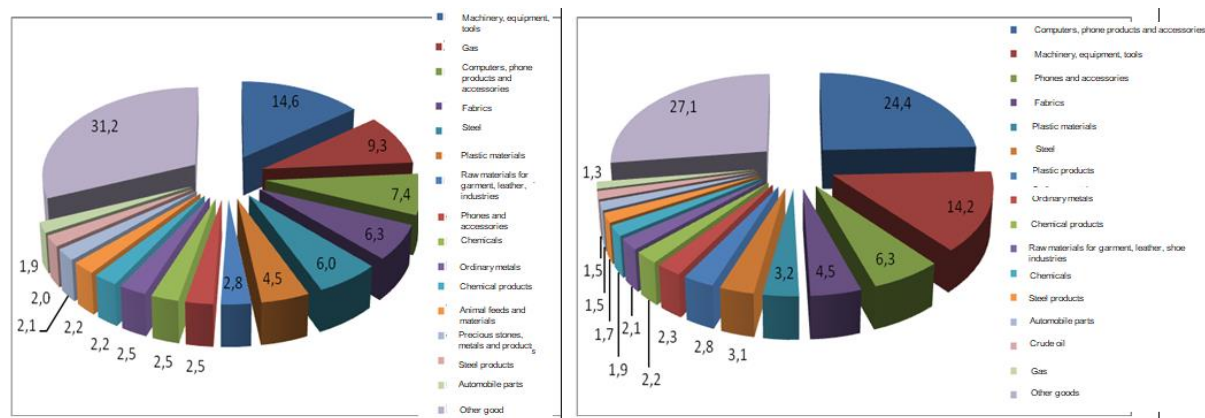
*Source: Statistical Yearbook, General Statistics Office of Vietnam*

The structure of imported goods according to the classification of the Ministry of Industry and Trade also has a positive change in the period 2011-2020. Accordingly, the group of necessary imported goods (including machinery, equipment, tools, spare parts, raw materials for production) still accounted for a large proportion, accounting for 87.4% of the total import turnover in the period of 2011-2015 and 85.6% in the period of 2016-2020; the group of goods should limit imports (including consumer goods such as cars with 9 seats or less, motorbikes, mobile phones, cosmetics, alcohol, etc.) accounted for only 4.5% of the 2011-2015 period and decreased to 3.2% in the period 2016-2020; group of goods subject to import control (including gemstones, precious metals, auto parts and accessories with 9 seats or less, spare parts for motorcycles) accounting for 4.4% and 6.5% respectively for each period.

Considering the structure of goods import by technology level, it is found that there is a shift in the direction of increasing the proportion of imported machinery, equipment and technology, creating favourable conditions for Viet Nam to access advanced technology and equipment, improving the level of technology in order to improve the quality, added value and competitiveness of exports. Viet Nam's key imports in 2020 focus mainly on machinery, equipment, technology, components and raw materials for the country's industrialization and export processing. The 5 largest import groups accounted for 52.6% of the total import turnover of goods (up from 43.6% of the 5 largest import groups in 2011), specifically: Imports computers, electronic products and components are the largest with a turnover increasing from \$7.85 billion in 2011 to \$23.12 billion in 2015 and reaching \$63.97 billion in 2020 (accounting for 24 35% of total import turnover of goods); followed by machinery, equipment, tools and spare parts with import turnover increasing from \$15.53 billion in 2011

to \$27.58 billion in 2015 and up to \$37.25 billion in 2020 (accounting for 14.17% of total import turnover of goods); the third is phones and components with figures of \$2.72 billion, \$10.59 billion and \$16.64 billion, respectively (accounting for 6.33% of the total import turnover of goods in 2020).

**Figure 1. Structure of 15 key imported products of Viet Nam in 2011, 2020 (%)**



Source: Calculation from the data of the General Department of Vietnam Customs

### **Restructuring according to the import market:**

In the period of 2011-2020, in terms of import market area, Asia has always maintained the region with the highest proportion of import turnover over the years, accounting for 80.2% of the country's total import turnover in the 2011-2015 period and 80.0% in the 2016- 2015 period, on average. Imports from the European market tend to decrease, accounting for only 7.1% of total import turnover in 2020 compared to 10.0% in 2011 (on average accounted for 8.3% of total import turnover in the period 2011-2015 and decreased to 7.2% in the period 2016-2020). The Americas have a significant improvement in market share, accounting for 8.3% of total import turnover in 2020, up from 7.2% in 2011 (accounting for 7.3% on average in the period 2011-2015 and increasing to 8.2% for the period 2016-2020). Imports from Oceania and Africa still account for only a small market share of Viet Nam's total import turnover.

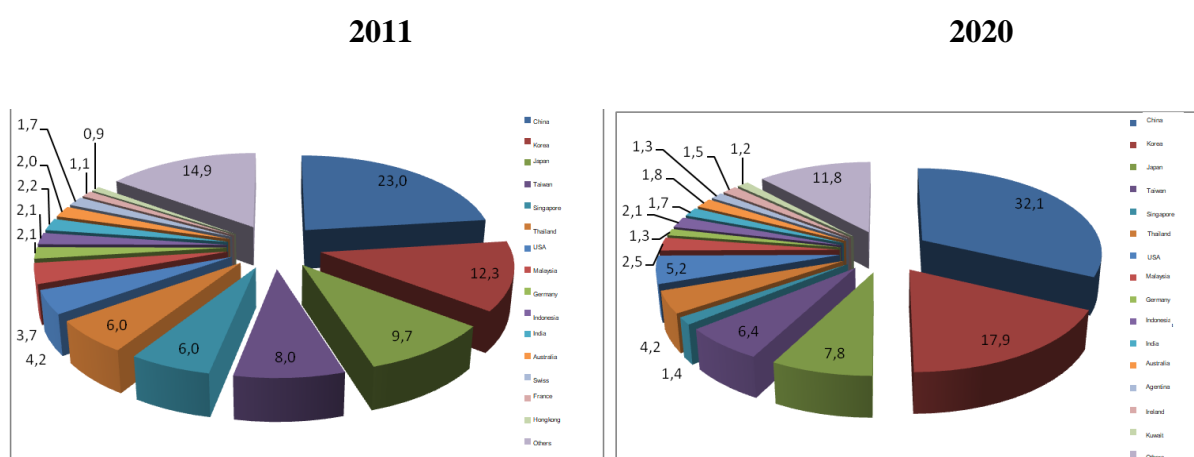
**Table 3. Structure of Viet Nam's import market for goods in the period 2011-2020 (%)**

Import market	2011	2012	2013	2014	2015	Average 11-15	2016	2017	2018	2019	2020	Average 16-20
<b>Asia</b>	<b>78.2</b>	<b>79.7</b>	<b>81.2</b>	<b>81.2</b>	<b>80.7</b>	<b>80.2</b>	<b>79.9</b>	<b>80.9</b>	<b>79.7</b>	<b>79.5</b>	<b>80.0</b>	<b>80.0</b>
ASEAN	19.6	18.2	16.3	15.5	14.4	16.8	13.8	13.3	13.4	12.7	11.5	12.9
China	23.0	33.7	35.9	37.8	37.3	35.4	28.6	27.5	27.7	29.8	32.1	29.1
Japan	9.7	10.2	8.8	8.7	8.7	9.2	8.6	8.0	8.0	7.7	7.8	8.0
South Korea	12.3	13.7	15.9	14.7	16.7	14.7	18.4	22.0	20.1	18.6	17.9	19.4
<b>Europe</b>	<b>10.0</b>	<b>9.1</b>	<b>8.2</b>	<b>7.1</b>	<b>7.2</b>	<b>8.3</b>	<b>7.6</b>	<b>6.9</b>	<b>7.3</b>	<b>7.1</b>	<b>7.1</b>	<b>7.2</b>
EU 27	7.3	7.7	7.0	6.0	6.3	6.9	6.4	5.7	5.5	5.5	5.6	5.7
<b>Americas</b>	<b>7.2</b>	<b>7.1</b>	<b>6.5</b>	<b>7.4</b>	<b>8.3</b>	<b>7.3</b>	<b>8.2</b>	<b>7.4</b>	<b>8.4</b>	<b>8.8</b>	<b>8.3</b>	<b>8.2</b>
United States	4.2	4.2	3.9	4.3	4.7	4.3	5.0	4.4	5.4	5.7	5.2	5.2
<b>Africa</b>	<b>0,5</b>	<b>0,2</b>	<b>0,4</b>	<b>0,4</b>	<b>0,4</b>	<b>0,4</b>	<b>0,6</b>	<b>0,6</b>	<b>1,0</b>	<b>0,9</b>	<b>1,0</b>	<b>0,8</b>
<b>Oceania</b>	<b>2,3</b>	<b>1,9</b>	<b>1,6</b>	<b>1,7</b>	<b>1,4</b>	<b>1,8</b>	<b>1,6</b>	<b>1,7</b>	<b>1,8</b>	<b>2,0</b>	<b>2,0</b>	<b>1,8</b>
<b>The market is not egmented</b>	<b>1,8</b>	<b>2,0</b>	<b>2,1</b>	<b>2,2</b>	<b>1,9</b>	<b>2,0</b>	<b>2,1</b>	<b>2,5</b>	<b>1,8</b>	<b>1,7</b>	<b>1,6</b>	<b>1,9</b>

Source: Synthesized and calculated from the data of the Ministry of Industry and Trade

In terms of import market or the origin countries, during the period of 2011-2020, China was always Viet Nam's leading import market, with its market share in the total import turnover always maintained at a high level, accounting for 32.1% 2020. The second largest import market of Viet Nam and also the market with an increased share of import turnover is South Korea, which increased from 12.3% in 2011 to 17.9% in 2020. Viet Nam's third largest market is Japan, but it is a market where the proportion of import turnover has decreased sharply, from 9.7% in 2011 to 7.8% in 2020. Thus, it can be seen that, in addition to the trend, the direction of restructuring of the import market is the increase in imports from a number of industrialized countries such as Korea, Germany, and the United States (increasing from 4.2% in 2011 to 5.2% in 2020). It is necessary to emphasize the negative trend of shifting import markets such as maintaining a large market share of China, or a sharp decrease in import market share from source technology markets such as Japan. Reduction in the imports from Singapore (down from 6.0% in 2011 to only 1.4% in 2020) and Taiwan (down from 8.0% in 2011 to 6.4% in 2020) can also be noted.

**Figure 2. Structure of 15 main import markets of Viet Nam in 2011, 2020 (%)**



Source: Calculation from the data of the General Department of Vietnam Customs

### ***Restructuring according to economic entities participating in import:***

Imports of the FDI sector increased sharply and accounted for a fairly high proportion of the total import value of Viet Nam's goods in the period 2011-2020, with an average import growth rate of 21.3% in the period 2011-2015 and 11.7% in the period 2016-2020 (compared to the average import growth rate of the domestic business sector of 7.4% and 6.5% respectively), bringing the import proportion of the FDI sector in total import turnover increased to 54.8% in the period 2011-2015 and 60.5% in the period 2016-2020, much higher than the proportions of 45.2% and 39.5% of the domestic economic sector in the same period.

**Table 4. Imports of goods by economic sector in the period 2011-2020**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total import turnover (million USD)</b>	<b>106,750</b>	<b>113,780</b>	<b>131,312</b>	<b>147,849</b>	<b>165,570</b>	<b>174,804</b>	<b>213,007</b>	<b>236,869</b>	<b>253,394</b>	<b>262,701</b>
<b>Domestic enterprises:</b>										
<b>Growth:</b> 2011-2015: 7.4%/year; 2016-2020: 6.5%/year; <b>Proportion:</b> 2011-2015: 45.2%; 2016-2020: 39.5%										
Scale (million USD)	58,363	53,839	56,843	63,638	68,344	72,368	85,171	94,930	103,983	93,686
Proportion (%)	54.7	47.3	43.3	43.0	41.3	41.4	40.0	40.1	41.0	35.7

Growth (%)	21.9	-7.8	5.6	12.0	7.4	5.9	17.7	11.5	9.5	-9.9
<b>FDI enterprises:</b>										
<b>Growth:</b> 2011-2015: 21.3%/year; 2016-2020: 11.7%/year; <b>Proportion:</b> 2011-2015: 54.8%; 2016-2020: 60.5%										
Scale (million USD)	48,387	59,941	74,469	84,211	97,226	102,436	127,836	141,939	149,411	169,014
Proportion (%)	45.3	52.7	56.7	57.0	58.7	58.6	60.0	59.9	59.0	64.3
Growth (%)	30.9	23.9	24.2	13.1	15.5	5.4	24.8	11.0	5.3	13.1

Source: Synthesized and calculated from the data of the Ministry of Industry and Trade

*In short*, with the great openness and deeper and deeper international economic integration, in the context that the international and regional situation is extremely complicated and unpredictable, especially the developments of the US-China trade war, increasing trade protectionism trend, and global outbreak of COVID-19, the positive results in the restructuring of imported goods by product and market of Viet Nam in recent years are very meaningful and encouraging, creating a premise for the restructuring of Viet Nam's imported goods to serve the process of industrialization and modernization to meet the requirements of integration in the period of 2021-2030.

## 1.2. Shortcomings in the restructuring of goods import

In the past 10 years, Viet Nam's import growth has reached a high rate, but there are many potential risks that can affect the sustainable import growth in the medium and long term. Those risks come from the imbalance in the structure of imported goods and the trade balance by group of imported goods, the structure of the import market and the trade balance with other markets, as well as the on the structure of import enterprises.

*Firstly*, although Viet Nam's restructuring by the import group has recorded encouraging results, in terms of trade balance by the import group, there are still limitations. Considering the structure of imported goods classified according to Standard International Trade Classification (SITC), it was found that the proportion of processed or refined goods in the total import turnover increased from 72.2% in 2011 to 80.8% in 2019, however, the trade balance of processed or refined goods has changed from a trade deficit in the 2011-2015 period to a trade surplus in the 2016-2020 period. Meanwhile, the proportion of raw or semi-processed goods in the total import turnover of goods decreased from 25.9% in 2011 to 19.1% in 2019, however, after a period of continuous trade surplus, the group raw or semi-processed goods in the period 2011-2016 has changed to a state of trade deficit in the period 2017-2020. Notably, the large and increasing trade deficit for cotton (HS 52), yarn (HS 54), leather (HS 41) shows that Viet Nam still has to increase imports of input materials for export processing, especially serving key export industries such as textiles and garments, leather and footwear. This affects the localization rate of exported products, if they do not meet the rules of origin, they will not enjoy preferential tariffs under FTAs, and at the same time increase domestic production costs, leading to low added value of exported goods, reducing energy export competitiveness.

**Table 5. Viet Nam's trade balance according to the SITC classification**

*Unit: Million USD*

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Raw or semi-processed goods</b>									
Export	33,737	352,001	33,783	35,735	30,299	30,467	36,046	37,492	36,959
Import	27,620	26,899	27,712	30,648	29,367	29,829	37,310	45,897	48,421

<b>Trade balance</b>	<b>6,117</b>	<b>325,102</b>	<b>6,071</b>	<b>5,087</b>	<b>932</b>	<b>638</b>	<b>-1,264</b>	<b>-8,405</b>	<b>-11,462</b>
<b>Processed and refined goods</b>									
Export	63,106	79,242	98,173	114,472	131,710	146,107	179,065	203,193	227,217
Import	77,056	86,781	104,203	117,072	136,281	145,012	175,759	191,196	204,772
<b>Trade balance</b>	<b>-13,950</b>	<b>-7,539</b>	<b>-6,030</b>	<b>-2,600</b>	<b>-4,571</b>	<b>1,095</b>	<b>3,306</b>	<b>11,997</b>	<b>22,445</b>
<b>Goods not in the above two groups</b>									
Export	63	87	78	11	7	6	8	12	13
Import	2,074	101	118	129	127	138	142	149	162
<b>Trade balance</b>	<b>-2,011</b>	<b>-14</b>	<b>-40</b>	<b>-118</b>	<b>-120</b>	<b>-132</b>	<b>-134</b>	<b>-137</b>	<b>-149</b>

*Source: Calculation from the data of the General Statistics Office of Vietnam*

Analysis of the trade balance of some major import-export groups of goods according to the HS classification code for the period 2011-2020 finds that Viet Nam has a trade surplus for goods that are intensive in natural resources and labour such as fisheries (HS 03), beverages and condiments (HS 09), edible fruit, nuts (HS 08), leather and footwear (HS 64), garments (HS 61, 62), wood and wood products (HS 44, 94), while the trade deficit was large for capital and technology-intensive goods such as machinery and equipment (HS 84), iron and steel (HS 72), plastics (HS 39), means of transport. and spare parts (HS 87), chemicals and chemical products (HS 28, 29, 38) due to the increasing demand for industrialization and modernization of the country. This also proves unreasonable and unsustainable in the structure of Viet Nam's import and export goods, the added value obtained through export activities is not high, while the cost of imports is quite large, making affect economic efficiency and environmental and social factors in the long run.

*Secondly, the restructuring of the import market is still slow, lack of breakthroughs,* imports are still concentrated and heavily dependent on a few key markets (10 main import markets account for 80% of Viet Nam's total import turnover). Most of Viet Nam's main import markets still belong to the Asian region, with the trade deficit from this market area (especially the increasing trade deficit from China, Korea and some ASEAN countries such as Singapore and Thailand), while the EU and North America are the "source technology" markets, the share of imports is still too small, and Viet Nam has a trade surplus to these markets.

The trade deficit in the past 10 years has tended to decrease and in the 2016-2020 period, the trade balance has completely changed to a state of trade surplus, but the trade deficit from APEC, including China and South Korea, tends to increase, especially from the Chinese market with the trade deficit from China increasing sharply, from \$13 billion in 2011 to a peak of \$32 billion in 2015 and although there was a slight decrease in the years 2016-2018, the trade deficit with China in 2019 and 2020 still increased and set a new peak of \$35 billion in 2020. Trade deficit from Korea also increased continuously from \$8.3 billion in 2011 to \$27.5 billion in 2020, making Korea the market where Viet Nam has the second largest trade deficit after China because imports from Korea are directly related to Korean FDI enterprises in Viet Nam such as Samsung, LG and many other subsidiaries. Although the large trade deficit with China and Korea is related to the third markets where Viet Nam has trade surplus such as the US and EU, because many of the inputs imported to process goods for export to the export surplus markets are provided by China and Korea. However, under

any conditions, the large trade deficit for some markets also affects the quality, efficiency and sustainability of the development of import and export markets.

Thus, the restructuring of the import market has not yet fulfilled the targets set out in the Import-Export Strategy for Goods for the Period 2011-2020, in terms of the level of diversification. It is disappointing that imports from source technology markets remained unchanged, indicating a high level of concentration on a few large trading partners.

*Thirdly*, the structure of imports by economic sector has shifted towards the direction that FDI enterprises account for an increasingly high proportion of Viet Nam's total import turnover. The sharp increase in imports of the FDI sector proves that the domestic supply capacity for input materials and components to meet production needs is still limited, the supporting industry has not yet developed and cannot supply enough components, accessories, and input materials to increase the domestic value-added of products. At the same time, it also shows that the efficiency and spillover effects of the FDI sector for economy are still low and unsustainable.

## **II. ORIENTATION FOR THE RESTRUCTURING OF VIET NAM'S GOODS IMPORT IN 2021-2030**

**2.1. Types of goods that need to be encouraged for importation** (machinery, equipment, basic raw materials)

- *The general orientation* is to prioritize the import of machinery, equipment, basic raw materials, and input materials created from high technology and modern source technology to serve domestic production and actively contribute to the restructuring of exports in the direction of industrialization and modernization; maintaining the proportion of the groups of goods that need to be encouraged to be imported in the range of 80-85% of total import turnover by 2030.

- *Orientation for import market development:*

+ Diversify partners to import machinery and equipment, effectively use FTAs that Viet Nam has signed, especially new-generation FTAs (CPTPP, EVFTA) as tools to adjust import market strategy, reduce trade deficit and move towards a sustainable trade balance.

+ Diversify the import market of basic raw materials to avoid dependence on a few markets, find favourable opportunities in import prices when there are fluctuations in the world raw materials market.

+ Focus on increasing the proportion of import markets from developed countries with modern source technology in the EU, North America, Japan, and South Korea (of which by 2030: the European Union (EU) will account for about 7 - 8%; North America, mainly the United States accounted for about 8 - 9%; Japan 8 - 8.5%; South Korea 18 - 19 %), rapidly reduce the proportion of imports from developing countries with intermediate, low or mid-low technology in ASEAN, China, Taiwan and Hong Kong (of which by 2030: China will account for about 30 - 31%, ASEAN accounts for about 10 - 11% of Viet Nam's import turnover).

+ Proactively build customer relationships with partners in Indonesia and Australia to prepare a stable and long-term source of goods for coal imports in the period up to 2030. Strengthening joint ventures and association with oil and gas companies in the Middle East -



North Africa to ensure a stable supply of crude oil and plastic raw materials for production and export in the long term. Consolidate market relations with the Middle East, Southwest Asia, South America and the Caribbean - key import markets for Viet Nam's raw materials, materials and accessories in the coming period.

**2.2. Group of goods that need to be restricted or discouraged to be imported** (luxury consumer goods, domestically produced goods)

- *The general orientation* is to limit the importation of good that can be produced domestically, and non-essential goods, especially luxury consumer goods and non-essential raw materials, to reduce trade deficit and protect domestic production. We should try to reduce trade deficit, especially from China, to achieve better trade balance. We may wish to maintain the proportion of the groups of goods that need to be restricted from import in the range of 6 - 7% of total import turnover by 2030.

- *Adjusting the structure of the import market* in association with the adjustment and restructuring of domestic manufacturing industries, adjusting the structure of FDI capital flows in the direction of focusing on product industries with potential and comparative advantages to develop sources of high competitiveness, substitute imports and boost exports.

**2.3. Groups of goods that need to be controlled for import** (outdated machinery and equipment, goods that pollute the environment and negatively affect human health)

*The general orientation* is to strengthen the management and strictly control the importation of outdated machinery, equipment and technologies that pollute the environment and goods do not comply with regulations, quality standards, food hygiene and safety, affecting consumer health and the environment.

Building and effectively using technical barriers TBT, SPS, environmental and social standards and administrative and customs measures, trade remedies in order to strictly manage import activities import, timely detect, prevent and strictly handle acts of importing outdated machinery, equipment, technology and goods of poor quality through official channels or through technology transfer in the form of FDI, especially from intermediate technology markets in ASEAN, China, and Taiwan, including smuggling of goods from the Chinese market.

The goal is that by 2025, with the synchronous and effective strengthening of administrative and technical measures for import management, to limit the import growth rate of this group of goods to below 6%/year on average; by 2030, this number will be less than 5%/year.

*In summary*, on the basis of the achievements and results achieved in the past time, the restructuring imported goods in the coming time needs to re-define the position and role of import products and markets, along with that, to select strategic priority import products and markets to serve the process of industrialization and modernization, raising the technological level of the economy, and at the same time contributing to promoting restructuring and innovating the growth model in depth, meeting the requirements of international integration and improve the competitiveness of the economy, businesses and export goods, contribute to the well implementation of the sustainable development goals as well as the goals and orientations in the socio-economic development strategy set out by the 13th National Party Congress.

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# **NEW INDUSTRIALIZATION STRATEGY TOWARD 2030, VISION TO 2035 FROM THE INDUSTRY'S PERSPECTIVE**

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## **Abstract**

*The new international integration context together with the globalization trend will increase the interdependence and mutual influence among the world's economies. The globalization process accompanied by scientific and technical progress, notably the Fourth Industrial Revolution (4IR), is accelerating rapidly, and it will change economic activities and lives of people in all the countries. This change will bring the world into a new period of development. The 4IR is opening up development opportunities, helping accelerate the economic growth, and allows the competitiveness of the industrial sector and the entire economy, to an extent Viet Nam keeps up with all the challenges. With the necessary progress, Viet Nam will be able to catch up with developed countries in the world. For Viet Nam's industrialization, expansion of international economic relations is an indispensable part of the development process, because Viet Nam needs to create conditions and opportunities for attracting investment, so that it can acquire new technologies and managerial skills from the pioneering countries to help accelerate the process of industrialization and modernization of the country. Therefore, it can be said that the New National Industrialization Strategy toward 2030, with a vision to 2035 is developed in the context of the new integration trend towards achieving higher values, better responding to new opportunities and challenges of the market economy in the development and evolution trend of the world economy.*

*This article focuses on discussing some characteristics of the current national industrialization process and explains the new industrialization strategy of Vietnam. It also considers the strategic vision of industrialization from the industry's perspective as the basis of some industrialization and economic development goals by 2030 and forecast some targets of Vietnamese industries and economy to be achieved by 2030, with a vision to 2035.*

**Keywords:** Strategy, industrialization, new industrialization, industries, Vietnam.

## **I. CURRENT NATIONAL INDUSTRIALIZATION PROCESS**

Industrialization is a long process which is always implemented through many steps and stages. Compared with the previous industrialization process in Viet Nam, as well as in other developing countries in the world, so far the process of industrialization has focused not only on the goal of restructuring production activities in the economy toward modernization, but also on improving the quality of all aspects of socio-economic life.

Based on the definition that "Industrialization is a development process to become an industrial country", many international organizations and economists and political scientists around the world have conducted a number of studies on industrialization models, and also introduced many sets of industrialization criteria, corresponding to each step or stage of the

development process. Notably, in each period, these criteria are adjusted and supplemented to better suit the development process and the evolution of the world economy and society.

Based on international studies, lessons learned from developed countries, as well as countries undergoing industrialization in the world, many national scholars have summarized results from studies and step-by-step developed specific industrialization targets for Viet Nam. It is required that these targets should be not only in harmony with the international practice but also “more recognizable” in the context of the current socio-economic situation and the development process of Viet Nam.

Until now, domestic studies and reviews on the industrialization process reflect many different levels and perspectives of industrialization targets, but basically all focus on 03 groups of targets with the following basic contents:

*“Economic development targets”*: Including (1) GDP/person; (2) MVA/person; (3) Proportion of industrial sector and service sector or agricultural sector in GDP; (4) Proportion of processing and manufacturing industry in GDP; (5) Proportion of the export of manufactured goods and high-tech goods in the total export turnover; (6) Exports/GDP.

*“Social development targets”*: Including (1) The structure of labour in agricultural sector or industrial sector in the economy; (2) Rate of urbanization; (3) The percentage of trained workers; (4) Human Development Index (HDI); (5) Unemployment rate; (6) Number of doctors/population; (7) Average life expectancy; (8) Gender Equality Index.

*Other reference targets*: Including (1) Import and export turnover; (2) FDI; (3) National competitiveness index; (4) Industry competitiveness; (5) Targets for natural resources and environment; (6) TFP's contribution to economic growth...

Based on the above groups of targets, we can see that, in today's modern economies, it is difficult to reach a consensus on the criteria for an industrial or industrialized country. The elaboration of a set of industrialization criteria and the development of an Industrialization Strategy for a country, or a group of countries, involves a very broad concept and relates to many economic and social sectors/fields (Although the concept of “industrialized economy” is widely accepted, there has been no clear sign of a common agreement on the criteria in practice).

## **II. VIET NAM’S STRATEGIC VISION FOR INDUSTRIAL DEVELOPMENT**

### **2.1. New Industrialization Strategy of Viet Nam**

According to the United Nations Industrial Development Organization (UNIDO)<sup>1</sup>, *“Industrialization is an economic development process in which an increasingly large part of national resources is developed to mobilize a multi-sectoral economic structure with modern technology to produce means of production and consumer goods possibly ensuring high growth rates across the entire economy and economic and social progress”*.

According to a research report of the United Nations (United Nations - UN, 1995) *“Industrialization is the process of using modern machinery and technology as well as advanced management methods in all production activities whether their outputs are physical*

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<sup>1</sup> United Nations Industrial Development Organization

*goods or services to improve the production efficiency, achieve rapid and sustainable growth in value added (GDP).*

In the context of Viet Nam, the Resolution of the 7th Plenum, the 7th Central Committee of the Party<sup>2</sup> defined: *“Industrialization and modernization is a process of radical and comprehensive transformation of the mode of production, business, service and economic, social management activities where manual labour is used as the main methodology to another mode where labour force together with advanced and modern technologies, means and methods based on industrial development and scientific-technological progress are used in a universal way to improve high social labour productivity”*.

In early years, the ideas and views of the Party and State on industrialization and modernization were basically general directions while objectives and contents of the task were not clearly defined. In following years, our Party has developed a roadmap with specific steps for the process of industrialization and modernization. The industrialization and modernization process is implemented through three steps, (1) Creating premise and conditions for industrialization and modernization; (2) Accelerating industrialization and modernization and (3) Improving the quality of industrialization and modernization.

It is clearly indicated that industrialization in our country is a long-term development process, during which the emphasis is placed not only on developing the industrial sector alone, but also on structural transformation in each industry/field, and the whole economy-society in the direction of application of modern technology.

The history of industrialization in the world also shows that the process of industrialization is always associated with the scientific, technical and technological revolutions, as well as the transformation of an economy from an economy of low technology level to an economy of a high technology level, and gradual transformation into a modernized economy. However, due to different historical conditions and different starting points of each economy, countries undergoing industrialization will decide to follow different development models, each of which has advantages and disadvantages thus leading different outcome. There are industrialization models that attach importance to internal resources, models that attach importance to external resources, and models that are featured by a harmonious combination between internal and external resources.

The Fourth Industrial Revolution is now in its early stage of development, and is expected to soon impact and change economic activities and social life, bringing the world into a new development period. For our economy, the Fourth Industrial Revolution is also opening up development opportunities, helping accelerate economic growth, maintain competitiveness, step by step helping Viet Nam approach and catch up with more developed countries in the world. The trend of globalization will help increase the interdependence, interaction between nations and blur national boundaries. Globalization is also associated with scientific and technical achievement. Each country will become a part of the global economic system, having mutual effects and subject to general economic changes of the world.

During the process of industrialization of the country, the expansion of economic relations becomes a very essential part of the development process. Especially in the current era, Viet Nam's economy cannot grow and develop strongly without establishing and

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<sup>2</sup> 7/1994

expanding relationships with economies around the world, thereby creating better conditions and opportunities to attract investment, technology, managerial and organizational experience from advanced countries and accelerate the process of industrialization and modernization of the country.

After more than 30 years of "Doi Moi", our country has achieved important results. The scale of the economy has increased rapidly<sup>3</sup>. Competitive Industrial Performance (CIP) continues to improve<sup>4</sup>, Viet Nam's economy is gradually integrating deeply into the regional and world economy. However, from the perspective of the current regional and world economic context, Viet Nam's economy are facing a number of big and intertwined challenges such as: low economic growth rate (when compared with those of other countries in the same industrialization period); big gap between GDP per capita of Viet Nam and the world; low labour quality and productivity compared to the development requirements; heavy reliance of economic growth on investment capital, rather than on the basis of high-quality labour and technology. These challenges prevent Viet Nam from meeting the necessary conditions of the innovation and make the progress of country's industrialization and modernization much slower than expected.

With all these factors, the New Industrialization Strategy toward 2030, with a vision to 2035 of Viet Nam must be developed in manner where the new context is fully taken and with vision to obtain higher values, take full advantage of new opportunities and overcome challenges in the development trend and evolution of the world economy.

In addition, the new industrialization strategy in our country is also a process of realizing a new mindset on industrialization in the market economy, international integration and taking full advantage of opportunities from the 4<sup>th</sup> Industrial Revolution to accelerate economic growth, improve the competitiveness of the industrial sector and the whole economy.

## **2.2. Strategic Vision for Viet Nam's Industrialization from the Industry's Perspective**

From the perspectives of the industry, the strategic vision of our country's industrialization can be summarized as follows:

*General vision:* Industrialization and modernization is aimed at developing our country into a modernized and industrialized country as soon as possible; building an economy independent and self-sufficient in terms of science and technology, and at the same time proactively and actively integrating with the world economy.

Exploiting and using resources effectively and efficiently to ensure fast and sustainable socio-economic development with foreign resources playing an important role, domestic resources playing a decisive role in the success of the process of industrialization and modernization in our country.

Completing and further improving the quality of socialist-oriented market economy institutional framework; ensuring social progress, justice and improving people's living standards and moving towards a civilized and prosperous society.

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<sup>3</sup> Rose to 45<sup>th</sup> in 2018 from 88<sup>th</sup> in 1990

<sup>4</sup> Ranked 43<sup>rd</sup> in the world (gaining 24 positions compared to 2010)

*Development of industries:* Increasing the percentage of the industry's contribution to GDP; increasing the percentage of the contribution of high-tech industries in the processing and manufacturing industries.

*Import and export of goods:* Export continues to be the main driving force of economic growth. Export development is the right way for Viet Nam to penetrate more efficiently into the global value chain and integrate more deeply into the world economy.

Changing the export structure towards improving the quality of goods, increasing volume of processed and manufactured products, products with high technological and domestic value content in export products.

Encouraging the import of high technology, advanced technology, and source technology on the basis of taking advantages from free trade agreements with developed and industrialized countries.

*Attracting foreign investment:* Changing the strategy for receiving FDI and the approach for accessing to technology from the world. Adopting radical changes in attracting foreign investment towards selecting projects of transnational corporations using modern technology, offering highly competitive products to be able to join global value chains.

*Scientific and technological development:* considering international economic integration and the Fourth Industrial Revolution as a driving force for promotion of the application of science and technology in industrial production and the restructuring of the industry and the economy as a whole.

### **III. OBJECTIVES OF INDUSTRIALIZATION AND ECONOMIC DEVELOPMENT OF VIET NAM IN THE NEW CONTEXT**

#### **3.1. Objectives of Viet Nam's Industrialization and Economic Development toward 2030**

- *Economic and GDP per capital growth:* shortening industrialization and modernization in our country seems to be a big challenge to overcome.

In Korea, since the beginning of the industrialization process, the average economic growth rate in the following 25 years was 7.79%/year (period 1961 - 1985); that of Thailand is 7.11%/year (period 1961 - 1985); Malaysia is 7.66%/year (period 1961 - 1985); China is 9.63%/year (1979 - 2003). Meanwhile, Viet Nam's GDP per capita growth rate in 25 years, from the year of launching the "Doi Moi" to 2010 (period 1986-2010) is only 6.65%/year. Based on statistics and the comparison with the growth rates above, we can see that the risk of being left behind by other countries in the region is increasingly visible.

In terms of purchasing power parity (PPP), Viet Nam's GDP per capita in 2018 was about \$7,435/person<sup>5</sup>, equal to about 41.5% of the world average figure, about 27% of the ASEAN region and equivalent to 85% of the Philippines, 57% of Indonesia, etc. These indicators show that Viet Nam must strive to obtain high economic growth rate for a long time to be able to catch up with and have the opportunity to surpass some countries in the ASEAN region.

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<sup>5</sup> According to World Bank statistics

It is expected that with the oriented roadmap to obtain the economic growth rate of about 7.5%/year, Viet Nam's GDP per capita will reach \$6,500 - 7,000 by 2030 or GDP per capita (PPP) of \$18,000, equivalent to Korea in 2000, Malaysia in 2006, and Thailand in 2017. With this growth rate, Viet Nam will be able to catch up with some countries in ASEAN (e.g. the Philippines and Indonesia) in the near future.

- *Economic restructuring*: The proportion of our country's agriculture sector has decreased quite quickly, from 18.38% in 2010 to ~14.85% in 2020. Therefore, to catch up with industrialized countries, the goal of increasing the percentage of the industrial and service sectors in our economy by 2030 up to about 90% (and reducing the percentage of the agriculture sector to about 10%) is completely achievable.

- *Labour structure*: The percentage of labourers in the agriculture sector has decreased from 49.5% in 2010 to about 33.1% in 2020. Against this background, the goal of increasing the percentage of labourers in the industry and service sector to more than 70%, and reducing the percentage of agricultural workers to about 25-30% to be equivalent to the standards of some industrialized countries is completely achievable.

- *Labour productivity*: In the period 2011-2020, Viet Nam's labour productivity increased faster than 05 countries with higher development level in ASEAN. However, until now, our country's labour productivity is still very low compared to other countries in the region, and notably, the absolute gap continues to widen. Particularly, by 2018, Viet Nam's labour productivity stood at about \$11,142<sup>6</sup>, equal to 7.8% of Singapore's labour productivity level; 23.4% of Malaysia; and 58.7% of Thailand.

These differences in labour productivity indicate that the Vietnamese economy will have to overcome great challenges in the future to be able to catch up with the labour productivity levels of developed countries in the region.

- *Contribution of the processing and manufacturing industry*: According to the United Nations Industrial Development Organization (UNIDO), the contribution of the processing and manufacturing industry plays an important role in classifying and determining what stage of the CNH process a country belong to.

In terms of MVA per capita, Viet Nam still has a big gap with the world and the leading countries in ASEAN. Specifically, by 2017, this index of Viet Nam was 0.012, only equal to half that of the Philippines; 1/3 compared to Indonesia and 1/6 compared to Thailand. This shows that Viet Nam must adopt robust policies to accelerate the development of this industry in the future.

However, if we consider the contribution of this sector to GDP, there is no big difference between this index of Viet Nam and the world. By 2018, the contribution of this industry to our country's GDP was about 16.0%, not much lower than the world average of 16.7% (in 2012). Against this background, the target set for the period up to 2030 of about 25 - 30% is completely achievable.

- *Percentage of industrial exports/Total export turnover*: by 2018, the proportion of industrial exports/Total export turnover of our country was quite high (accounting for 82.8%) compared to 40% in 2005 and is actually higher than the “standard” of some developed countries (reaching 80% or more).

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<sup>6</sup> GDP (PPP) 2011



Until 2030, it will be the period when our country is implementing international economic commitments, including many commitments under new-generation FTAs that will create a driving force for the country's economic growth with a high degree of openness. Therefore, if the goal to increase the percentage of industrial goods of more than 90% of the total export turnover of by 2030 is completely reasonable and achievable.

- *Competitive Industrial Performance (CIP) Index*: Over the past 20 years, our country's CIP index has increased quite rapidly, from 0.0243 in 2000, to 0.0713 in 2017, making Viet Nam ranked 43<sup>rd</sup> out of 150 economies (gaining 36 places compared to 2000). Notably, this better index helps shorten the gap between our country and other countries in the ASEAN region. Specifically, this index of Viet Nam is as high as that of the Philippines (In 2000, this index of the Philippines was 3.6 times higher); closer to Indonesia (now this index of Indonesia is only 1.3 times higher than that of Viet Nam while in 2000, it was 3.9 times higher) and shorten the gap with Thailand (now that of Thailand is 2.0 times higher compared to 5.8 times higher in 2000), Malaysia (now that of Malaysia is 2.3 times higher compared to 8.4 times higher before) and Singapore (now that of Singapore is 3.6 times higher compared to 12.8 times higher before).

Therefore, in the period to 2030, the goal of becoming one of 03 leading ASEAN countries in terms of CIP Index is achievable.

- *Population structure*: Until 2035, our country's population tends to fluctuate greatly. Over the past decade, Viet Nam has benefited from the "golden population" structure, with a high percentage of the population of working age, which has contributed to accelerating economic growth. However, this advantage is gradually disappearing, when the proportion of the population of working age in our country will peak around 2020, and then will gradually decrease.

According to the United Nations projections, Viet Nam's working-age population will begin to decline absolutely right after 2035, and it is noteworthy that the population size approached a "turning point" in terms of the elderly population in 2015. And very soon our country will become one of the countries with the fastest aging population in the world, with the population over 65 years old increasing from 8.87% at present, to about 14.4% in 2035, transforming Viet Nam from a society with a young population to one with an aging population. Consequences of population fluctuations (decreased number of working-age people) will weaken the main driving force of economic growth and GDP per capita.

Therefore, in order to take full advantage of the "golden population" structure, and soon adapt to the rapidly aging population, Viet Nam will have to adopt many synchronous solutions and policy at the same time to adapt to this volatile trend.

To solve this problem, the Central Executive Committee issued Resolution No. 21-NQ/TW dated October 25, 2017 on Population work in the new stage. One of the important directions given by the Resolution is to shift the focus of population policy from Family Planning to Population and Development. This shift of focus will be a condition and opportunity to comprehensively solve the current population problems, with specific contents, such as: Taking advantage of the "golden population" structure; adapting to the aging population context; maintaining the replacement fertility rate; improving the quality of the population...

- *Urbanization rate (or percentage of population in urban areas)*: By 2019, our country's urbanization rate was 34.4%, compared to 26.9% in 2005. Statistics of the 2019 Census indicate that, after 15 years, the country's urbanization rate has only increased by 7.5 %. Therefore, in order to meet the minimum standard urbanization rate of 50% (like those of other industrialized countries, and the world average urbanization rate in 2008), in the next 15 years, our country will have to increase by more than 1.0% per year to accomplish this goal. Obviously, to achieve this goal, we must make a great effort to speed up economic growth, make significant changes of the labour structure and increase the rate of urbanization.

### **3.2. Goals for the Industry and the Economy of Viet Nam to 2030, Vision to 2035**

#### **\* *Targets for the period 2021-2030***

##### *- Economic development goals*

- + Economic growth rate (GDP) reaches 7.0%-8%/year
- + GDP per capita by 2030 will reach about \$7,500/person.
- + Labour productivity increases by 6-6.5%/year. The percentage of workers in the Industry and Service sectors is more than 70%.
- + The average growth rate of goods exports is 9% -10%/year in the period 2021-2030.
- + Maintaining the position in the Global Innovation Index (GII) to be among the top 40 countries in the world. The digital economy accounts for more than 30% of GDP. Build a digital infrastructure to keep up with the advanced level of ASEAN region. 5G mobile network covers across the entire country; everyone has access to broadband Internet at low cost.
- + The rate of enterprises applying at least one of the IR4 technologies will reach 40% or more by 2030.

##### *- Industrial development goals*

- + The growth rate of the industrial sector will reach 8.0 - 8.5%/year, of which the growth rate of the processing and manufacturing industry will be higher than the growth rate of the industrial sector (targeted at more than 10%/year).
- + The proportion of the industrial sector in the economy reaches over 40%. The proportion of processing and manufacturing industry in the economy reaches 25 - 30%, of which the manufacturing industry alone reaches 20%.
- + The value proportion of high-tech industrial products makes up more than 50% of the GDP. The rate of innovation in technology and equipment in the industrial sector reaches 20%/year.
- + The proportion of the value of medium to high-tech products in the processing and manufacturing industry reach at least 45%.
- + The growth rate of industrial labour productivity reaches an average of 6.0 - 7.5%/year. The proportion of exported industrial goods/total export turnover is more than 90%.
- + In terms of the Competitive Industrial Performance Index (CIP), Viet Nam tries to be among the top three ASEAN countries by 2030 and develops a number of industries into the ones that are internationally competitive and be able to deeply participate in the global value chain.

##### *- Attracting foreign investment:*

+ Total registered capital in 10 years 2021-2030 will reach about \$350-500 billion (on average \$35-50 billion/year). The target for the period 2021-2025 is about \$150-200 billion (\$30-40 billion/year) and in the 2026-2030 period about \$200-300 billion (\$40-50 billion/year).

+ The total investment capital realized in 10 years from 2021-2030 will reach about 70% of the registered capital. In which, the period 2021-2025 realized capital will reach about \$100-150 billion (average \$20 - 30 billion/year) and the period 2026-2030 will reach about \$150 - 200 billion (on average \$30 - 40 billion/year). .

+ The proportion of enterprises applying advanced technology, modern management model, environmental protection measure, aiming for application of high technology will increase by 50% by 2025 and 100% by 2030 (compared to 2018).

+ The proportion of trained workers in the labour force structure will reach 70% by 2025 and about 80% by 2030.

*- Other goals*

+ Total social investment for R&D<sup>7</sup> accounts for 2% or more of GDP, in the period up to 2030.

+ Viet Nam is among the top 30 countries with highest number of patents in prioritized technology fields.

+ In terms of the Human Development Index (HDI), Viet Nam is among the top four countries in Southeast Asia.

+ Accelerating the urbanization process, increasing the urbanization rate and the percentage of population living in urban areas to 45% or more.

**\* Vision to 2035**

Continuously striving to complete the industrialization and modernization goals. Developing Viet Nam into a modern industrialized country.

Striving obtain the GDP per capita of about \$9,000 - 10,000/person<sup>8</sup>; The proportion of industrial and service sectors accounts for more than 90% of the GDP.

Stepping up the development of innovation capacity, building a strong team of leading scientific and technical experts, step by step to reach the level of advanced countries in the region.

The competitiveness of Vietnamese human resources continues to improve compared to the level of ASEAN-4 countries. Striving to increase the proportion of labour in Industrial and Service sectors to more than 75% of the total employment in the economy.

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<sup>7</sup> Research & Development

<sup>8</sup> Equivalent to 25.000 USD/person (PPP), equal to the GDP per capita of Malaysia (in 2014), South Korea (in 2012)

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# **GOODS IMPORT/EXPORT STRATEGIES OF SOUTH KOREA, CHINA AND THAILAND AND LESSONS FOR VIET NAM**

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## **Abstract**

*The success of economies such as Japan, South Korea and newly industrialized countries (NICs) has shown the importance of import and export activities as the main driving force of economic growth. However, not all countries have succeeded with export-based economic growth strategy such as South Asian and Latin American countries. There is no consensus about the impact of import and export on economic growth, especially in developing countries. Many studies show that the success of the import-export-based growth strategy depends on many factors, including the quality of import and export growth.*

*After nearly 35 years of renovation, Viet Nam has made remarkable achievements in economic development. The quality of growth has improved, inflation is controlled at a low level, and people's lives are generally improving. Viet Nam has been deeply and comprehensively integrated into the regional and world economy, with import and export play the role of "pillars" for comprehensive innovation the high rate of economic growth. However, the quality, efficiency and sustainability of import and export activities still have many shortcomings. Therefore, Viet Nam needs to learn lessons from the experiences of other countries in formulating and implementing the import and export strategy of goods, especially from countries with similar conditions such as South Korea, China, Thailand – countries whose starting point is a backward economy, mainly based on agriculture and were badly devastated by the war like Thailand.*

**Keywords:** Experiences, South Korea, China, Thailand, formulating, implementing, strategy, export, import, goods, Viet Nam.

## **1. EXPERIENCES SOUTH KOREA, CHINA AND THAILAND**

### **1.1. South Korea**

South Korea is a typical country in implementing a strategy to promote exports based on the export of processed and manufactured industrial goods, while maintaining import substitution policies. This strategy is very suitable for a small and resource-poor country like South Korea. South Korea's import and export strategy in recent years can be divided into two phases as follows:

#### ***(1) The period after the Asian Financial Crisis from 1998 to 2007:***

South Korea continued to adjust its structure to develop the export of high-tech industries, with policies such as:

- Abolishing the fixed exchange rate regime, devaluing the Won and adopting the floating exchange rate, in addition to tightening fiscal and monetary policy and not increasing salaries for a long time.

- Implementing policies on trade and financial liberalization, reforming loan policies, liberalizing capital assets, promoting foreign investment, attracting foreign investments and applying industrial development policies.

## ***(2) The post-recession period of the world economy from 2008 to present:***

After the second global financial crisis in 2008, South Korea issued and implemented policies to recover the economy through strong reforms with an innovative and creative perspective, while remaining committed to market opening, trade liberalization and international economic integration. In addition, the South Korean government promoted the development of cooperation between the state-owned business community and private enterprises.

- First of all, with the perspective of innovation and creation in reform, the central policy goal of the Government of South Korea is to build a creative economy - an economy that creates new added value, creates jobs and economic growth motivations - through the convergence of scientific and technological creativities, information and communication technologies (ICT), establishing online and offline platforms for the creative economy. The website address <https://www.creativekorea.or.kr/> in Creative Economy was launched in 2013 to support the commercialization of creative ideas. In 2015, the Government of South Korea established nationwide 17 Innovation National Creative Economic Innovation Center, which serves as a stepping stone for the development of affiliated companies, small and medium-sized enterprises (SMEs).

- The Government of South Korea approved the "Three-Year Plan on Economic Innovation" in January 2014, with key contents to build a favourable environment for the creative economy and carry out structural reforms in four areas: Organization of public administration, labour, finance and education. Reform measures in four areas include: (i) Adjusting the overlap of functions, duties and applying annual salaries based on performance results in public administration organizations; (ii) Forming a fair and flexible labour market, effectively promoting the quality of human resources for the development of domestic manufacturing sectors; (iii) Promoting the fintech industry in the financial sector, applying new fintech to compete with traditional financial methods in the provision of financial services. Fintech has become a representative of the digital revolution, which can completely change the way of doing business in the field of finance and banking; (iv) Reforming the structure of universities.

- To implement the commitment to open the market, liberalize trade and integrate into the world economy, the Government of South Korea ratified Trade Facilitation Agreements (TFA) and complied with amendments of the WTO Agreement on Government Procurement (GPA), which came into force on January 14, 2016. At the same time, continuing to participate in the negotiations to expand the Information Technology Agreement (ITA) and negotiations of the Environmental Goods Agreement (EGA).

- South Korea has actively participated in trade capacity building activities at the WTO level. As a member of the WTO, South Korea has a great appreciation for trade liberalization, considers it a core principle in trade policy, and continues to pursue goods, service, and

investment liberalization through comprehensive FTAs, high bilateral and multilateral standards in the region.

- In the field of import and export, South Korea has accelerated customs clearance procedures, allowing information to be published on the website and applying only one mechanism to the customs clearance system through UNI-PASS, the fourth-generation electronic customs clearance platform, in 2016. At the same time, offering preferential policies on services from July 2015 to create favourable conditions for less developed countries (LDC), such as value-added policies to make the determination of origin simpler and the value of inputs allowed to be imported into Korea by LDC countries is increased to 60% - the same level as developed countries; or the amendment of the Decree on Preferential Tariffs for less developed countries has allowed these countries to access the duty-free, quota-free market (DFQF) for 4,870 tariff lines (equivalent to 93.6%). On the other hand, South Korea is willing to share with developing countries their experiences in building and managing customs clearance systems.

## **1.2. China**

At the end of 2010, China overtook Japan to be the world's second-largest economy and reached 75th in the world in terms of GDP per capita in 2017. In 2020, China was the only major economy that had positive growth in international commerce of goods. The total import and export turnover of goods in 2020 increased by 1.9% compared to 2019, to a record high of 32.16 trillion Yuan (about \$5 trillion), of which, exports increased by 4% and imports decreased by 0.7%. Notably, the Association of Southeast Asian Nations (ASEAN) became China's largest trading partner in the first six months of 2020, accounting for 14.7% of China's total foreign trade transactions.

Speaking of China's outstanding development and great economic achievements in the past period, it can be affirmed that the most important sector contributing to these achievements is the import and export sector. Immediately after entering the early years of economic reform, the Chinese government has specifically focused resources on the import and export sector, with the promulgation of priority policies for infrastructure construction, orientation and support for import-export enterprises both in terms of policies, autonomy, capital and other supplementary resources. Strengthening the connection with the world economy through import and export activities not only contributes to boosting exports but also makes many investors know China, therefrom easily making investment decisions to take advantage of competition, goods production in China and export to the world market.

### ***(1) Policies establishing new mechanisms for the goal of sustainable trade development:***

*First, implement policies to support import activities proactively.* China has simplified import management procedures and reduced import duties. In November 2017, the temporary tax rate had been applied to 152 lines of consumer goods duties with an average reduction of 50% compared to the import tax rate from the most favoured nations, corresponding to the annual import value of \$10.9 billion. From December 1st, 2017, China continued to reduce import duties on 187 lines of consumer goods duties. In 2017, China's imports boosted global imports increased by nearly 2%, contributing more than 15% of the increase in global imports, the country's proportion of global imports hit a record high of 11.1%.

*Second, continue to implement policies on trade facilitation.* On February 22, 2017, the WTO Trade Facilitation Agreement came into force. From March 2016, the Inter-Ministerial

Committee on Trade Facilitation chaired by the Deputy Prime Minister of the State Council was established to promote trade facilitation through strengthening the efficiency of cooperation between government agencies. By the end of 2017, all provinces, autonomous regions and municipal cities have established provincial-level Joint Committees on Trade Facilitation to promote trade facilitation in localities.

*Third, integrated customs procedure reforms are implemented nationwide*, at the same time, establish national centres for customs risk prevention and control, tax collection management, customs clearance activities apply "one-time declaration and phased processing". Promoting the construction of a single-window mechanism for international trade and deploying it at all ports of entry in China. The average time of customs clearance of imported goods in 2017 was 15.87 hours, decreased by 36.85% compared to 2016 and the average time for customs clearance of exported goods was 1.11 hours, decreased by 38.24% compared to the previous year.

*Fourth, implement a series of important policies and measures in foreign exchange management to facilitate trade and investment, the forex market is also more open.* Pilot programs have been implemented to facilitate foreign exchange payments related to cross-border e-commerce or through third-party payment agencies. Develop and support cross-border bond transactions and payments. Macro-executive policies for cross-border funding are improving. Foreign debt management reforms are being promoted to meet the funding needs of enterprises.

*Fifth, develop new commercial and business models.* China has been working to replace the motivations and adjust the trade structure, simultaneously expanding cross-border e-commerce. 13 cross-border e-commerce pilot zones in Hangzhou and other cities have been promoted to work. Recently, China has been gradually promoting new types of trade cooperation such as cross-border e-commerce, along with 17 countries to build bilateral e-commerce cooperation mechanisms, cross-border economic and trade cooperation zones (with Laos and Kazakhstan).

## ***(2) Policies to create an attractive investment environment:***

Effectively attracting foreign investment has always been an important part of China's national development policy for opening up to the outside world. In 2017, the State Council promulgated two circulars on measures to facilitate greater openness to attract foreign investment and promote investment growth, to improve the investment environment by strengthening facilitation and completing legal policies, promoting domestic and foreign enterprises to compete equally, improving both the quality and quantity of investment.

*Firstly, improve the management of establishment dossiers and change information of foreign-invested enterprises.* According to the Decision amending 4 laws related to investment, including the Law on Foreign-Invested Enterprises (FIEs), for foreign-invested enterprises that do not belong to the management of approaching to foreign investment, the establishment and change of enterprise information only need to be done by profiling without verification, approval.

*Second, improve the management of records and approve investment projects.* In 2016, China revised its list of investment projects under the government assessment and approval, including 17 categories. In these 17 categories, 02 categories were replaced by managing through record-keeping and 15 categories were authorized by the local government to verify



and approve. The total number of projects to be examined and approved by the Government has decreased by 90%.

### ***(3) Policies to boost FDI-based exports:***

*First, the Chinese government has a policy of attracting export-oriented transnational corporations.* Since joining the WTO in 2001, China has gradually removed barriers to multinational corporations operating here. With a large domestic market and many attractive investment incentives, China has attracted a lot of multinational corporations. In 2017, 40% of the world's largest multinational corporations were in China, 26% higher than in the United States. Some of the world's leading multinational corporations operating in China: Microsoft, Motorola, IBM, Nokia, Samsung, Electronic.

*Second, establish special economic zones to attract FDI capital sources effectively.* At the end of 2017, China had a total of 156 high-tech development zones (HTDZs), concentrated in major cities. Currently, China has 11 national economic development zones, divided into 7 groups: (i) Special Economic Zone (SEZ), Special Economic Development and Technology Zone (ETDZ); (ii) High-tech Industrial Development Zone (HIDZ); (iii) Special Zone for Trade and Export, including free trade zones (FTZ), export processing zones (EPZ); (iv) Special Zone for cross-border e-commerce business; (v) Special Zones intended to attract investment for special purposes including national resort areas, finance and commerce; (vi) Special Zone cooperates with some countries consisting of 4 different regional forms depending on the priority country (Taiwan, Macau, Russia); (vii) New areas such as Comprehensive Development Zones. The general preferential policy in these special economic zones is duty-free import and tax exemption/reduction for export enterprises.

*Third, encourage FDI enterprises to connect with domestic small and medium-sized enterprises (SMEs) for export orientation.* On March 15, 2019, China passed a new Foreign Investment Law (effective from January 1, 2020), which prohibits acts of forcing foreign companies to transfer technologies to China, contributing to strengthening its commitment to creating a level playing field for domestic and foreign investors, defusing U.S-China trade tensions.

*Fourth, encourage FDI enterprises to export.* Many policies, which promote FDI enterprises to participate in exports, have been implemented by China, including exempting import duties on input materials for the export industry and prioritizing attracting FDI enterprises that have export production or import substitution sectors. In addition, China has adopted a long-term fixed-rate policy to stabilize monetary policy in fast-growing economic conditions, facilitating the promotion of exported goods around the world at cheap prices and attracting foreign investors with low costs.

*Fifth, strengthen international economic integration to boost exports.* Joining the WTO has a positive impact on exports, causing rapid export growth in both quality and quantity with a wide range of new exports. As of 2020, China has 24 FTAs under negotiation and 16 FTAs signed and implemented. FTA is an important goal to achieve economic, political and strategic interests in globalization. The signing of the FTA aims to reduce import duties and market access to increase export competition. The reduction of import and export duties along with exemptions from tariffs on raw and input materials made an important contribution to China's "rise" as a global manufacturing hub.

***(4) The policy of building a new foundation for international trade cooperation, simultaneously shifting the focus to support domestic trade development:***

*First, actively promote international cooperation in the Belt and Road Initiative (BRI) to bring China deeper into the game of large countries on a global scale.* Since it was announced in 2013 till now, despite its short-term implementation, the Belt and Road Initiative (BRI) has quickly been put into China's Party Charter (19th Congress of the Communist Party of China), which has become an important foreign strategy for China. China has signed a total of 174 BRI cooperation documents with 126 countries (Jamaica is the latest signatory country) and 29 international organizations. China's priority is on its neighbouring countries and countries along the BRI (six axes of economic corridors and the Maritime Silk Road). Recently, the BRI has expanded its reach to further regions, towards Africa, Latin America, the South Pacific, etc., in which Africa is currently the continent has the biggest number of partners participating in the BRI (37 countries) compared to Asia (36 countries).

China has signed many cooperation mechanisms to strengthen ties between China and countries located on the BRI line. To promote trade and investment and gradually form a network of free trade zones along the BRI, China has either signed or upgraded free trade agreements with ASEAN, Pakistan, and Georgia. Economic and trade cooperation agreements with the Eurasian Economic Union were signed and cooperation initiatives have also been initiated to promote movement of goods among the BRI countries with the participation of 83 countries and international organizations. Therefore, the speed of trade exchange between China and countries along the BRI line has increased rapidly in the recent 6 years. The total import and export trade in goods has reached more than \$6 trillion, accounting for 27.4% of the proportion of China's goods trade.

*Secondly, focus on supporting domestic enterprises, especially small, medium and micro enterprises, simultaneously expanding domestic consumption demand, domestic stimulus.* In the context of the U.S.-China trade war and still facing the COVID-19 pandemic, to promote the recovery of domestic consumer demand, China aims to adopt several measures such as diversifying the method of consumption of goods; enhancing the quality and expanding service consumption; accelerating the formation of new consumption habits, mainly digital consumption, internet consumption; actively expanding green, healthy, energy-saving consumption and protecting the environment; strengthening the construction of infrastructure and network of consumer service systems.

For domestic business supporting policies, the Chinese government has taken a series of financial support measures, such as reducing cash reserve ratio, restructuring loans, sketching out credit plans to support small and micro enterprises, deploying deferment of debt payment policies. Promoting the promulgation and implementation of supporting policies for job creation. Implementing more flexible monetary policy, focusing on supporting small, medium and micro enterprises to overcome difficulties, increasing more credit loans, additional loans; promoting the development of the domestic market, gradually forming a new development situation with the subject of the domestic circular economy, promoting the development of the dual circular economies (domestic and foreign), creating new advantages in international cooperation and competition. The Chinese government also applies some tax and fee reduction policies for businesses. In the first 4 months of 2020, the total amount of tax and fee reductions across China reached \$128 billion, estimated for the whole year 2020, this number accounted for more than \$357 billion.

### 1.3. Thailand

In the past five years, Thailand's export-import turnovers have shown signs of slowing down after a period of growth in the 2000s. In the period of 2015-2016, export-import turnovers decreased by 8.4% and 1.77% respectively, due to reducing oil prices and global demand for goods. However, Thailand's trade turnover increased again impressively in 2017-2018 with export and import turnovers increasing by 11.86% and 9.39% respectively due to increased exports to major partner markets such as the US, China, Japan and ASEAN. Thailand's trade turnover in 2019-2020 returned to a downward trend of about 3.65% due to many reasons such as decreasing the amount of imports and exports to major trading partners, the world's economic - political situation is fluctuated, the COVID-19 pandemic. However, experts forecast that Thailand's export prospects in 2021 will increase again at 4%.

Thailand's main trading partners in the 2015-2019 period by total trade value are China, Japan and the United States, respectively. In 2019, in terms of exports, the United States was Thailand's top major export market, followed by China and Japan, with export values are \$31.3 billion, \$29.2 billion and \$24.6 billion, respectively. In terms of imports, China is Thailand's largest import partner, followed by Japan and the United States, with import values are \$50.3 billion, \$33.2 billion and \$17.3 billion, respectively. In terms of regional trade, ASEAN is Thailand's most important trading partner, with export and import turnovers are \$62.9 billion and \$45.0 billion respectively in 2019. In 2019, Thailand's main exported goods are automobiles and motor parts, automatic data processing machines, gemstones and jewellery, rubber products, polyethylene and polypropylene. The main imported goods are crude oil, machinery and spare parts, electrical machinery and spare parts, chemicals and iron and steel products.

***(1) Policies to promote trade liberalization, expand export markets, strongly open the domestic market and support the improvement of the competitiveness of small and medium-sized enterprises (SMEs):***

*First, implement and complete international trade policy to promote trade liberalization, support and promote exports.* To encourage exports, the Thai Government prioritizes administrative reform at the customs procedure stage. The average time to carry out customs procedures is only about 1 hour (compared to the previous 3 to 4 hours). Thailand has applied the Internet system to customs declarations for small and medium-sized enterprises. This system is also applied to the customs clearance of the import of raw materials for foreign-invested enterprises.

In addition, Thailand focuses on enhancing the supporting role of the state in the orientation and development of export markets. Export promotion and credit support activities to help exporters develop the market have been implemented during Thailand's strongest export growth period. The Thai government has made good use of negotiating and signing bilateral and multilateral trade agreements. Thailand has negotiated and signed bilateral free trade agreements with the US and Australia and is an active supporter of the AFTA process to be implemented on time.

*Second, support the development of domestic manufacturing industries.* To support domestic manufacturers in promoting trade liberalization, the Thai government has first decided not to join the WTO Agreement on Government Procurement to facilitate domestic companies. Secondly, the Government of Thailand selects a number of industries to focus on

support (information, marketing, training) to enhance competitiveness such as industry, agriculture, automobiles, textiles, electronics and high-value-added services, not applying regulations on localization rates or export content requirements. Third, the Thai government focuses on controlling quality standards (promulgates Thai standards according to international standards). Fourth, the Government has boosted the implementation of regulations on intellectual property protection. Fifth, applying some special powers, such as the Ministry of Finance has the right to impose a tax rate not exceeding 50% of the tariff rate on an item without the approval of The National Assembly or the Ministry of Commerce.

*Third, focus on supporting the capacity-enhancement of SMEs in the country.* The focus of Thailand's policies is to develop support networks for exports, with the main target of Thailand's post-Asian Financial Crisis recovery strategy, based on export development and attracting foreign investment. Some important policies can be mentioned as:

- Strengthening the network of specialized institutions on SMEs: Establishing the SME Promotion Committee - an independent agency under the Prime Minister, proposing policies and measures to encourage SMEs and manage the SME Development Fund. Establishing the SME Development Fund and the SME Development Research Institute, strengthening organizations such as Small Business Credit Guarantee Group, Small Business Finance Group, Industry Association.

- Planning a grand plan for SME development consists of 7 basic strategies to assist SMEs.

- Identifying SME network development sectors: The Thai government has introduced 10 sectors with relatively good infrastructure and high added value to focus on developing a network of SMEs, divided into 2 groups: Group 1 consists of 5 sectors: food and animal feed; textiles; plastic products; electrical and electronic equipment; automobiles and auto parts. Group 2 consists of 5 sectors, which have moderate importance: footwear; wood products; rubber; ceramics and glass; gems and jewelry.

- Planning an action program to develop SMEs: In 2021, the Government of Thailand aims to increase the production capability proportion of newly established SMEs to at least 45% of GDP; promoting export growth to expand production capacity and supporting entrepreneurs to improve production capacity in Thailand by 10%.

- Supporting the development of SMEs operating in the field of high technology: Approving a new policy package including a series of tax incentives aimed at specific countries and progressing to amend the Foreign Business Law. Besides, this policy package offers measures to support human resource development in the high-tech field.

## ***(2) Policies to promote the production and export of agricultural products:***

With the use of about 40% of the domestic workforce and the contribution proportion of gross domestic product (GDP) is nearly 10%, the agricultural sector has always played a key role in the Thai economy. In the past few years, the export of agricultural products has brought income to Thai farmers in particular and the economy in general, especially fruits thanks to the increased demand from China. However, Thailand's agricultural sector has suffered great damage due to the drought. 2019 was not considered to be an easy year for the agricultural sector in particular and the Thai economy in general. The country's GDP growth in the second quarter of 2019 was only 2.3% and was the slowest growth rate since the third

quarter of 2014. Declined domestic demand and declined export activity are the main reasons for the slowdown in economic growth. In the face of this situation, creating a new resilience for the economy is one of the most important tasks of the Thai Government. Some of the main policies implemented by the Government of Thailand to promote the production and export of agricultural products are notable as follows:

*First, implementing the policy of agricultural development "One commune, one product" (OTOP) to develop people's self-reliance, human resources and promote the creativity of the community, seek potential OTOP products towards integration with ASEAN economic community (AEC) and globalization.*

The OTOP program has been implemented since 2001, in which the Government of Thailand plays an important role from coming up with product development ideas, training knowledge, technology, supporting finance, to marketing through fairs, promoting trade promotion domestically and internationally. OTOP products are developed include: Agricultural products, handicrafts, industrial products; services; tourist destinations; local culture, lifestyle (cultural customs) and cultural traditions. As of 2018, the OTOP program has attracted 25,253 participating units, the majority of which are in the form of cooperatives (57%), followed by private manufacturers (42%), the rest are small and medium-sized enterprises (1%). In terms of goods, by 2018, there were 167,403 products, divided into 5 groups: Food with 63,753 products (38%), household appliances and souvenirs 44,790 products (27%), fabrics and clothing 30,096 products (18%), herbal processing products 20,987 products (13%) and the rest are beverages with 7,777 products (4%).

*Second, promoting cross-border exports and registering geographical indications for agricultural products sold on e-commerce platforms.* In 2019, in addition to promoting cross-border exports and registering geographical indications for agricultural products sold on e-commerce platforms, the Ministry of Commerce of Thailand has conducted three policies to address the low price status of five agricultural products, including: (i) Focus on promoting 5 main agricultural items: rice, rubber, cassava flour, coconut and corn; (ii) Promoting macroeconomic development to increase the revenues of enterprises and effectively allocate financial resources; (iii) Promoting business area to catch up with new economic models such as bioeconomics, green economics and creative economics.

*Third, promoting the application of scientific and technical progress and new technologies in agriculture.* Due to the limited area of agricultural land, Thailand promotes agricultural development in the direction of promoting the application of scientific and technical advances to improve the land, crossbreeding new plant varieties that are capable of adapting to infertile, arid arable lands. Currently, the level of mechanization in Thailand has covered each rice field. Even the post-harvest stages are fully mechanized. The "bottleneck" in improving the quality of agricultural products towards sustainable development has been removed by scientists with biotechnology (genetically modified technology, plants and animals hybridization)

*Fourth, promoting training in farming techniques, technology transfer to farmers.* Technical training and raising awareness for farmers are appreciated. Many universities, colleges and schools open on-site courses in farming techniques, technology transfer to attract and improve the level of agricultural human resources. For example, Chulalongkorn University (in the top 200 universities in the world) has invested in modern laboratory equipment, cooperated with experts from the leading countries in agricultural science and

technology research, and at the same time established scholarships for many young researchers to study at universities in the US, Japan and Europe.

*Fifth, supporting and subsidizing farmers to promote the production and export of high-quality agricultural products.* The Thai government subsidizes farmers for main agricultural products such as rice, rubber and fruit, and supports the price for farmers to grow five staple crops: durian, longan, lychee, mangosteen and rambutan. To implement this support policy well, the Government of Thailand uses senior experts in charge of the program with the task of supervising from production, distribution, processing, price to finding new export markets. Many capital incentives and insurances for farmers are implemented by the Government, agricultural taxes are abolished. The Government supports marketing programs, seeking export addresses for post-harvest and processed products to create the best conditions for agricultural consumption, through the promotion of "government-to-government" contracts; synchronize policies to ensure the interconnection from planting, production to export underwriting and reduce risks for farmers. Besides, rice farmers also have preferential treatments such as buying fertilizer at low prices, exempting fertilizer transportation charges, being provided with new plant varieties with high productivity, receiving low-interest loans from agricultural banks

*Sixth, supporting the promotion of agricultural exports and boosting consumption in the domestic market.* About the situation of exporting agricultural products facing difficulties due to the impact of the COVID-19 pandemic, the Ministry of Commerce of Thailand has coordinated with the Ministry of Agriculture and Cooperatives of Thailand to adjust the plan to manage the production, distribution and trading of fruits of Thailand, with a focus on the domestic market to offset export activities negatively affected by the epidemic. To boost exports, the Ministry of Commerce has planned to connect business between buyers, importing companies and Thai companies to organize online business networking events, introduce products to neighbouring countries and international markets. The Thai government has offered to subsidize 3% interest for 10 months for companies that purchase local fruit and 3% for companies that purchase fruit for export.

*Seventh, implementing financial and credit supports for farmers to promote agricultural production.* In August 2019, the Bank for Agriculture and Agricultural Cooperatives (BAAC), the Ministry of Finance, the Housing Fund and the Ministry of Industry implemented three main groups of measures: subsidies for low-income and elderly people; debt rescheduling for farmers affected by drought and efforts to mitigate the impact of the global economic slowdown on the Thai economy, with the expectation of helping to increase Thailand's economic growth in 2019 to 3.5%. In 2020, the Thai government invested 1 billion baht (more than \$30 million) in the fiscal year 2020 to support farmers and promote the development of the domestic agricultural sector.

***(3) Policies on infrastructure connectivity and technology application to serve the growth targets, making the Thai economy become an economy with high technology content and value, developed on the basis of innovation:***

*Implementing the "Thailand 4.0" plan* is one of the important development policies supporting the National Strategy. The Thai government aims to encourage the use of digital technology to apply to long-term plans such as smart cities, public area digitization, transport systems and logistics to improve the quality and scope of public services, therefrom setting more inclusive growth targets. Besides, the Government of Thailand also aims to become a

digital government, simultaneously integrating digital technology into improving the quality of public services. The government also aims to promote structural reforms to manage and regulate the digital economy better.

#### ***(4) Export-based growth policy:***

The economic recovery since 1999 thanks to strong export growth is evidence to the country's right export-based growth strategy. Thailand's export explosion has given the country a huge source of foreign currency. In recent years, the Government of Thailand has focused on building an "Innovative Economy", contributing significantly to Thailand's exports and putting Thailand in the top 20 exporters of innovative goods in the world. The highlights that led to Thailand's growth success can be seen are:

*First, choosing agriculture is the foundation in the early stages of the export-oriented growth strategy.* Thailand clearly defines the country's advantages and implements the export-oriented economic growth strategy on the basis of developing comprehensive agriculture, making agriculture not only one of the sources of capital accumulation for the industry but also a direct or indirect source of raw materials for industry.

*Second, renewing the export-import regulation, promoting the strength of economic sectors in export activities, investing appropriately for export promotion activities.* The Import and Export Act, which was enacted in 1977, contributes to facilitating the implementation of free competition and equality among economic sectors. Different from South Korea, Thailand's policy does not "choose winners" in industries. Instead, investment priority policies have been expanded over time to an increasing number of businesses, as well as various industries since the early 1970s. The Thai government has always considered the private sector as a driving force for economic development. Export promotion measures, micro-incentive policies are implemented with all economic sectors.

*Third, opening the economy, creating all conditions to attract foreign investment.* Thailand is ready to "roll out the red carpet" for investors by focusing on investing in infrastructure development, transport, implementing very specific policies. To orientate investment in sectors and fields according to its growth strategy and reduce inequality, Thailand has divided the country into three priority areas with specific preferential conditions for each area to different levels. The law encouraging domestic and foreign investment is constantly being added, adjusting to make the investment environment increasingly open and attractive to foreign investors.

*Fourth, flexibly implementing the export restructuring, thus the Thai Government has identified the right strategy, make very specific policies and plans for each period, overall for the whole economy, and are open to the public.* In the early stages of export-oriented economic growth, to take advantage of cheap labour and abundant raw materials in the country, Thailand focused mainly on the manufacturing and processing of agricultural products, textiles and footwear. In the 1980s, as this advantage dwindled, Thailand changed to focus on investing in assembly and manufacturing industries that require higher capital, skills and technology. In the 1990s, Thailand focused its attention on higher-value-added manufacturing industries such as the production and assembly of transport vehicles, telecommunications, computers, electrical and electronic devices, televisions, refrigerators and microwaves.

*In short*, the export-oriented economic growth strategy has helped Thailand achieve consistently high GDP growth for many years and become one of the bright spots of the "East Asian miracle". By the end of the 20th century, after nearly 30 years of implementing export-oriented policy, from a backward agricultural country, Thailand had become a fairly developed industrial, agricultural and service country in Southeast Asia, with many famous export products present in most countries and regions around the world. In recent years, Thailand's exports have achieved impressive results, in 2015 exports reached \$214 billion, in 2016 reached \$214 billion, in 2017 reached \$235 billion. Thailand's Ministry of Commerce forecasts that exports will recover with a growth rate of 4% in 2021 from a decline of 7% in 2020.

## **II. LESSON FOR VIET NAM**

From the fact of formulating and implementing the import and export strategy of Korea, China and Thailand, Viet Nam can have some lessons learned as below:

*First*, it is necessary to renew its view on strong economic growth towards exports. Although the strategy of promoting exports prioritizes export activities, it does not completely exclude the policy of developing domestic production to replace imports, selectively maintaining imports of some sectors and fields of the economy. These policies have been clearly shown in South Korea and protection is more limited in the case of Thailand and China.

*Second*, from the model of cheabol economic groups of Korea, Thailand can draw a lot of experience to build state-owned economic groups, especially in the field of import and export and related fields. Through the experience learned from Korea, it can be seen that restructuring and removing inefficient parts through M&A activities of these corporations are very important.

*Third*, always respecting and encouraging the development of private enterprises, especially for SMEs and micro-enterprises, depending on core enterprises to develop import and export activities, thereby contributing to economic growth. To do this, the State must reduce interference in the socialist-oriented market economics and give more autonomy to the private sectors. The state then mainly controlled, operated the economy and trade activities through laws, policies and economic levers in case of need. This has been successfully implemented by all three countries of Korea, Thailand and China in their import and export strategies.

*Fourth*, developing supporting industries and industries that are in the supply chain of materials and input components for the production process of final products. The development of supporting industries in the supply chain will ensure that the main manufacturing sectors operate autonomously, reducing dependence and passiveness from foreign suppliers, simultaneously contributing to significantly improving added value, increasing the competitiveness of national goods exports.

*Fifth*, learning from the experiences of South Korea, China, continuing to implement policies to attract foreign investment and encouraging export activities in this region. Making use maximally of the resources of FDI enterprises, which are multinational corporations and companies with global production and distribution networks. From there, FDI enterprises have the ability to expand their markets, market share of exported goods to countries that are not members of free trade agreements. Besides, FDI enterprises will help promote technical development, science and technology transfer through production and business cooperation activities with domestic enterprises.



*Sixth*, considering and reassessing the important role of the restructuring of exports to improve the quality and competitiveness of exported goods as well as export enterprises, it is necessary to have a roadmap to improve and enhance the quality of exported goods in the direction of exploiting comparative advantages to turn comparative advantages into competitive advantages. Take advantage of the export strength of agricultural products to promote successful exports such as Thailand, or export products in the field of processing, manufacturing and high technology such as Korea and China. Shifting the structure of exports according to the roadmap to meet the goals set in each stage of economic development is one of the positive factors contributing to the export success of Thailand and South Korea.

*Seventh*, focusing on further promoting scientific and technological R&D activities applied in the field of import and export, namely integrating information technology application to improve administrative management activities in the field of customs, logistics, using technology software to operate financial activities, credit such as fintech. This policy contributes importantly to the success of trade activities of South Korea, China, Thailand.

*Eighth*, the State must continue to perform the role of stabilizing the macro economy well by building an open legal corridor, reducing overlap, making appropriate and timely policies for the import and export sector. It is possible to use exchange rate policies as a tool to regulate and boost exports, such as the devaluation of the South Korean Won or the floating of the value of the Chinese Yuan, which has helped these countries take advantage of the opportunity to penetrate more deeply into world markets.

However, Viet Nam should be careful when applying the experiences from these countries to maximize efficiency and limit policy mistakes related to the development and implementation of the imports and export strategy. As with South Korea, it is the manipulation of Chaebol to the economy, even after receiving so many incentives, it lacked rigid supervision from the government. For Thailand and China, it is an environmental trade-off to achieve export-oriented rapid economic growth.

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# **SUSTAINABLE EXPORT DEVELOPMENT OF VIET NAM'S GOODS TO THE EU MARKET IN THE CONTEXT OF IMPLEMENTATION OF EVFTA - SOME POLICY RECOMMENDATIONS**

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## **Abstract**

*In the period 2011-2020, the export of Viet Nam's goods to the EU market has recorded encouraging achievements. Export growth has been quite good, reaching 13.13% per year on an average (approximately the overall export growth of 14.6%/year), with restructuring of export products and markets have been in a positive direction. However, the export of Viet Nam's goods to the EU market also faced challenges. There were many limitations in terms of competitiveness. The export value - added has been low. Viet Nam's ability to meet very high and strict import regulations and standards of EU countries are still challenges to Vietnamese firms, and the export has not met the requirements for sustainability requirements in terms of environment and society. In the period from now to 2030, the anticipated changes in the international contexts will affect the process of international economic integration and export development of Viet Nam. In addition, implementation of EVFTA commitments will require Viet Nam to accelerate institutional reforms and transformation of growth models. These tasks will be even more complicated with the COVID-19 pandemic. In summary, there will be both significant opportunities and challenges for the export development of Viet Nam's goods to the EU market.*

*The article provides an overview of Viet Nam's export of goods to the EU market and draws some lessons to note for sustainable export development. It will also try to assess opportunities and challenges for the export development of Viet Nam's goods to the EU market through the implementation of EVFTA commitments. It will then make some policy recommendations to promote Viet Nam's sustainable goods export to the EU market in the new context.*

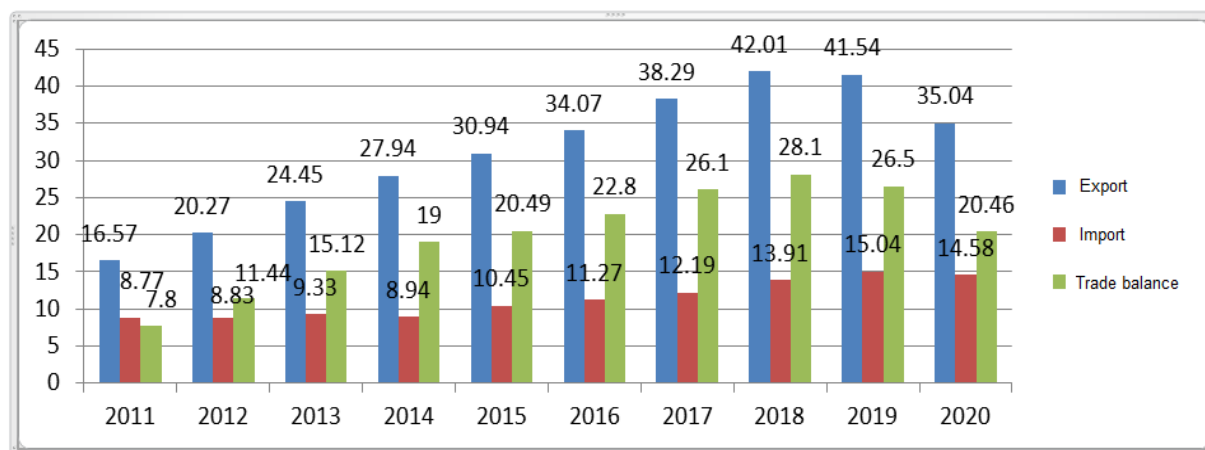
**Keywords:** Export, sustainable export development, goods, Viet Nam, European Union (EU), solution, policy, EVFTA.

## **I. VIET NAM'S GOODS EXPORT TO THE EU MARKET**

*Firstly, in the period 2011-2020, the bilateral trade turnover between Viet Nam and the EU has achieved encouraging results, from \$25.34 billion in 2011 to \$56.58 billion in 2019 and by 2020 to reach \$49.63 billion (up 1.95 times compared to 2011); in which, Viet Nam's export turnover to the EU market increased from \$16.57 billion in 2011 to \$41.54 billion in 2019 and \$35.04 billion in 2020 (an increase of 2.11 times compared to 2011). The export has increased rapidly, making Viet Nam's trade balance with the European Union (EU) always achieve a surplus with an increasing trend over the past 10 years, from a trade surplus of \$7.8 billion in 2011 to the highest level of \$28.1 billion in 2018. By 2019, the trade surplus*

decreased slightly to \$26.5 billion. In 2020, despite the uncertainties of the world economic situation, as well as the impact of the COVID-19 pandemic, Viet Nam's trade balance with the EU still reached a record surplus of \$20.46 billion (higher than the general surplus of Viet Nam's trade of \$19.06 billion in 2020).

**Figure 1. Import - export turnover and Viet Nam's trade balance with the EU in the period 2011 - 2020 (Billion USD)**



*Source: Ministry of Industry and Trade, General Statistics Office of Vietnam*

*Secondly*, in the period 2011-2016, the Viet Nam's export growth to the EU market has reached a rather high level, always maintaining higher than the growth of the country's total export turnover (in this period, the average growth to EU was 20.99% compared to 16.37% of the total export growth). From 2017 until now, the Viet Nam's export growth to the EU market has been lower than the growth of the country's total export turnover. Particularly in 2020, the record was even negative at -15.62%. Yet, the average growth of Viet Nam's export to the EU market in the whole period 2011-2020 is still quite good at 13.13% (approximately the same as the growth of total export turnover at 14.6%). The export in general and export to the European Union (EU) market in particular have made an important contribution to the overall GDP growth of the country.

*Third*, EU is currently the fifth largest trading partner and the second largest export market of Viet Nam, after the United States. In the period 2011-2020, the proportion of Viet Nam's export to the EU in the total export turnover has remained quite high and stable (accounting for 12.4% in 2020). The main export markets of key export goods of Viet Nam have always had the presence of EU members. Among 8 export markets with the turnover of over \$5 billion in 2020, there were the presence of 2 EU members such as the Netherlands and Germany. In addition, in the top 15 main export markets of Viet Nam, there was another EU member - France, with the export turnover of \$3.29 billion in 2020.

However, diversification of Viet Nam's export markets has been still slow and the concentration on a few markets has been still large because the ability to penetrate into new markets has been still limited so that the 10 largest export markets have accounted for 90.54% of the total export turnover to this region. The main export markets of Viet Nam in the EU are the traditional ones such as the Netherlands, Germany, France, Italy, Austria, Belgium, Spain, Poland and Sweden.

*Fourth*, in the period 2011-2020, the structure of Viet Nam's goods exported to the European Union (EU) market has had a positive shift in order to serve the process of

industrialization and modernization of the country, towards increasing the proportion of processing and manufacturing industrial products, especially machinery, electronic equipment, means of transport and spare parts; reducing the proportion of agricultural, forestry and fishery products, especially fuel and minerals. The structure of export goods according to foreign trade standards (SITC) also has had a positive shift in the direction of increasing the proportion of processed or refined products in the total export turnover; reducing the proportion of raw or freshly processed products for export.

In addition to the trend of restructuring, the range of export products has been also increasingly diversified and the quality has been improved. The main export items of Viet Nam to the EU have been phones and accessories, computers, electronic products and components, shoes of all kinds, textiles, machinery, equipment and spare parts, coffee and seafood products, with the export turnover up to billions of USD. In 2020, despite the impact of the COVID-19 pandemic, the export to the EU market still had a good growth, notably, electrical machinery and equipment (HS 85) was a key export item, with the export turnover up to \$14.79 billion (accounting for 42.18% of the total export turnover to the EU). In addition, a number of products with a sharp increase in the export turnover were leather and footwear (HS 64), textiles (HS 61), wooden furniture (HS 94), along with some new export products to offset the decline of traditional products such as: leather products, toys, sport equipment, interior products from materials other than wood.

*Fifth*, Viet Nam increasingly asserts its export position in the world export in general and in the EU market in particular. Data from the International Trade Centre (ITC) shows that, if in 2011, Viet Nam ranked 41st in terms of the export, by 2018 it has risen to 26th place and especially in the context of the COVID-19 pandemic booming since the end of 2019, Viet Nam's export continued to improve in the rankings, in 2020 Viet Nam ranked 22nd among countries with the largest export turnover in the world and ranked 11th among countries with the largest export turnover to the EU.

*Sixth*, besides remarkable results, the export competitiveness of Viet Nam's goods in general and the export to the EU market in particular have been still assessed as slow to improve, despite having comparative advantages in some key export sectors such as textiles and garments, footwear, agricultural, forestry and fishery products, the trend of decreasing export competitiveness has been showing quite clearly (RCA coefficient of leather and footwear group (RCA index of leather and footwear (HS 64) decreased from 10.97 in 2011 to 9.11 in 2019; RCA of garments (HS 62) decreased from 6.52 to 4.6; furniture (HS 94) from 3.2 to 2.57; RCA of fishery products (HS 03) dropped sharply from 9.55 to 3.55). Meanwhile, for most other manufactured products, Viet Nam has no export comparative advantages compared to competitors in the EU market.

*Seventh*, the ability to meet high regulations and standards on quality and food safety of Viet Nam's goods in the EU market, as well as the ability to participate in the global value chain have been still limited, especially Viet Nam's agricultural product value chains have had a small scale and low position in the global agricultural product value chain, making it difficult to penetrate directly into large distribution chains, as well as supermarkets, trade centres of EU countries. In addition, there have been difficulties in meeting regulations on intra - regional rules of origin in order to enjoy preferential tax rates for goods exported to the EU under the EVFTA agreement, because the source of raw materials for the production of Viet Nam's export goods has been mainly imported from China or ASEAN countries.

## **II. SOME POINTS REGARDING SUSTAINABLE DEVELOPMENT WHEN EXPORTING GOODS TO THE EU MARKET**

*First*, it has been the limited awareness and thinking of export policy makers, not fully aware of the importance of sustainable export development and export growth quality in planning and implementing export development policies in the context of deep integration and implementation of the EVFTA.

- The level of readiness for integration of Vietnamese enterprises has been still modest and lack of initiative. The institutional reform of the market economy according to requirements of integration has been still slow, especially in amending laws and policies to meet commitments of the EVFTA.

- The exploitation of opportunities from international economic integration and participation in FTAs has not been highly effective. Viet Nam's export goods has not met the rules of origin or the regulations on traceability to be able to take advantage of the tax incentives to maintain high export growth to markets that have signed FTAs. Vietnamese enterprises have been lack of initiative in limiting challenges and adverse impacts brought by the integration.

- Viet Nam's foreign investment attraction policies have only focused on quantity, but have not paid much attention to quality or economic, social and environmental efficiency, have not yet built a close connection between FDI and domestic enterprises. The export of Viet Nam's goods has not really been sustainable, even causing risks to export development because the export has been still heavily dependent on foreign direct investment enterprises.

- System of policies to develop the export in general and export goods to the EU market in particular in terms of land use planning, finance, credit, science and technology and human resource training has existed many shortcomings, the enforcement has been still low. The system of quality and environmental regulations and standards in line with international standards to ensure sustainable export development in all three aspects of economy, environment and society has been incomplete and ineffectively implemented.

*Second*, the economic growth model has been slowly transformed, the model of broad - based growth has been maintained for too long, based mainly on exploiting comparative advantages in terms of natural resources and abundant labour. We have not yet actively redirected the economy to in-depth development, based on improving productivity, quality and efficiency of the economy, promoting innovation and creativity, applying achievements of the Industrial Revolution 4.0 and the digital transformation of the economy. This has been an important reason why the restructuring of Viet Nam's export goods has not met the set requirements and objectives.

- Policies to encourage export development of Viet Nam have not focused on developing the export in-depth, but mainly taking static competitive advantages, relying mainly on exploiting input resources such as natural resources and cheap labour. The policies to promote the export of goods to the EU have not been practical, the effectiveness of export development and trade promotion has not been as expected, because the policies have not been specific, not attached to the characteristics of each market or properties of each item. Solutions for creating dynamic competitive advantages based on technology, the quality of labour and management skills have not yet brought into full effect.

- In the export development strategy, despite focusing on environmental protection and social security, measures to encourage the export have still focused on achievements and quantity, but not on the export quality, so they have not had positive effects in transforming the growth model towards sustainable, solving problems of environmental protection and ensuring social security.

*Third*, the capacity and resources for the formulation and implementation of export development policies have been limited, above all, this has been the capacity of management staffs and export policy makers, lacking of close coordination between stakeholders in the organization and implementation of policies, between functional agencies, ministries, departments, businesses and employees.

In addition, there have been weaknesses in management organization and lacking of linkage and cooperation between stages in the export supply chain, especially the role of chain leadership of export processing enterprises has been weak, while these chains have played a huge role in the sustainable export development in general and in the goods export to the EU market in particular.

*Fourthly*, in addition to the limitation of human resources, limitations of financial, information and scientific - technical and technological resources for the export management have also made the implementation and effectiveness of measures and policies for export development difficult in practice. The impact of measures and policies on export development in practice is limited. In particular, limitations of the development and application of scientific and technological achievements in production and processing have affected the improvement of productivity, output and product quality, of which the majority of processing factories have been small-scale, with outdated processing techniques and technology, the ability to invest and innovate in processing technology has been still limited.

In addition, an important issue affecting Viet Nam's exports to the EU has been that the system of laboratories for quality control, food hygiene and safety, the traceability system of Viet Nam have still not meet international standards so that test results have created trust and have been accepted when exporting goods to difficult markets with high requirements for quality, safety like the EU.

*Fifth*, although the country's infrastructure has improved a lot, it has not yet met requirements of socio - economic development in general and export development in particular. The transport infrastructure, road system, storage warehouse, preliminary processing house, communication system, energy of Viet Nam have been still asynchronous and slow to be upgraded; logistics services, seaports, airports, bonded warehouses, transportation and loading capacity have been limited, administrative procedures have been complicated, making customs clearance time prolonged, high costs, many services for export business must be rented or purchased from abroad. This has been one of the main bottlenecks affecting the competitiveness of the economy and the export performance of Vietnamese enterprises, especially when the geographical distance to the EU market is very far.

*Sixth*, the capacity of enterprises to implement export management policies has been still limited, the quality of human resources in the export enterprises have not met the requirements of export development in the context of implementing new generation FTAs. The ability to catch information, recognize policies and changes in the world market for

strategic business management planning of enterprises has been still weak, while the ability to adapt to the new context in the international market has been still limited.

Viet Nam's export of goods has been still mainly based on factors of static comparative advantages in terms of natural conditions, soil, tropical climate, abundant natural resources, abundant and low cost labour force, while large - scale centralized production has not been developed yet, workers lack industrial manners, have been not fully equipped with technical, modern science - technology knowledge, advanced management skills. The percentage of workers with training and technical qualifications in industrial enterprises has been still low, so it has been difficult to absorb and transfer new science and technology. Production scale has been still small and scattered, has not been able to create a large output of high - quality goods, the export competitiveness has been still low compared to other countries in the region.

### **III. IMPLEMENTATION OF COMMITMENTS IN EVFTA, OPPORTUNITIES AND CHALLENGES FOR VIET NAM'S EXPORT OF GOODS**

#### **3.1. Opportunities**

*First*, the EU is one of the most "open" economies in the world, also the largest market in the world, so when the Free Trade Agreement and Investment Protection Agreement between Viet Nam and the European Union (EVFTA and EVIPA) has been signed and implemented, with strong commitments to open the market, it will be certain to promote Viet Nam - EU trade relations, bringing great opportunities for the trade development between Viet Nam and the European Union (EU) through the expansion of export markets. Along with strengthening the overall relationship with the EU, the EVFTA agreement will also create very good conditions for Viet Nam and each member country to open up new cooperation opportunities on the basis of each country's advantages, making the bilateral cooperation between Viet Nam and each member country of EU become more and more substantive, sustainable and in - depth.

*Second*, joining the EVFTA will bring competitive advantages to Viet Nam's export goods thanks to commitments to cut tariffs in major EU markets, thereby boosting the export growth. The EVFTA with commitments to eliminate import taxes up to nearly 100% of the tariff and trade value that the two sides have agreed, in which the EU eliminates taxes on thousands of products originating from Viet Nam, opportunities to increase the export for Vietnamese advantaged goods such as textiles and garments, footwear, agricultural products (rice, sugar, honey, tropical fruits and vegetables), aquatic products, wooden furniture are very worthwhile; at the same time, it helps Vietnamese consumers to access a supply of high quality products and services from the EU in areas such as pharmaceuticals, healthcare, infrastructure construction and public transport.

*Third*, the opportunity to expand the EU export market will facilitate rebalancing of trade relations between Viet Nam and key market areas, avoiding excessive dependence on a certain market area, reducing trade deficit from China, at the same time easing pressure from the complicated development of the US - China trade war - the two Viet Nam's leading major trading partners.

*Fourth*, in terms of foreign direct investment, the EU is one of the largest foreign investors in Viet Nam, with the implementation of the Free Trade Agreement and Investment Protection Agreement between Viet Nam and the European Union ( EVFTA and EVIPA),

European enterprises not only bring modern technology sources, invest in high - tech, environmentally friendly and low-energy industrial processing and production fields, but also help businesses practice responsible business and creates quality jobs for Viet Nam.

*Fifth*, for the improvement of institutions and policies, joining the EVFTA will create a driving force to accelerate the process of perfecting institutions and promote transparency in the policy environment, including policies related to promote exports to the EU in accordance with international regulations and commitments when becoming a member of this agreement. Domestic institutional reforms, together with commitments on governance, will help achieve new international standards in the business environment, as well as in business and investment rules, ensuring a stable and open legal and business environment for investors of both sides, thereby improving the competitiveness and quality of Viet Nam's business investment environment, promoting the investment wave and business activities of FDI enterprises.

*Sixth*, joining the EVFTA will help Viet Nam take further steps in the environmental protection through the implementation of commitments in chapter 13 of the agreement on trade and sustainable development, in which trade development and foreign direct investment attraction will be selective and pay more attention to environmental issues, people's health and the future of the natural environment.

### **3.2. Challenges**

*First*, changes and adjustments in import management policies, strengthening protection of domestic production and consumers, especially strict import regulations and standards in the direction of increasingly stricter of the EU market in terms of quality, food safety and hygiene, rules of origin, labelling, regulations on environmental protection, high requirements for protection of intellectual property rights, labour action and social responsibility will cause significant challenges and obstacles to the sustainable export development of Viet Nam's goods, when the ability of export enterprises to cope and overcome barriers has been limited.

*Second*, there have been difficulties in meeting regulations on internal rules of origin to enjoy preferential tax rates for imported and exported goods under the EVFTA. Enterprises must prove the origin of goods by providing certificates of origin, the form CO form EUR.1, which clearly states the internal content, while the source of raw materials for the production of export goods of Viet Nam is currently mainly imported from China or ASEAN countries.

*Third*, one of the big challenges for Viet Nam when joining the EVFTA is the need to quickly improve production and quality control processes in a variety of industries to meet strict import requirements to the EU market, as well as the conditions of origin traceability to enjoy the tariff preferences of the EVFTA. For the fisheries sector, it is about meeting regulations on illegal, unreported and unregulated fishing (IUU fishing); or in the agricultural sector, it is the strengthening of testing for pesticide residues, maximum pesticide residue levels (MRLs) for agricultural products and vegetables exported from Viet Nam to the EU. For the textile and garment industry, the EVFTA has very strict regulations on the origin of products, while most Vietnamese enterprises still have to import raw materials (fabric and yarn) from China and Taiwan - countries that do not have an FTA with the EU, on the one hand, Vietnamese enterprises have to face price fluctuations of these imported materials, on the other hand, they will not enjoy preferential tariffs under the agreement.

*Fourth*, besides barriers on technical, quality and environment standards, the risk Vietnamese exporters face trade remedies, anti - dumping and anti - subsidy measures in the



EU market is very large, including sensitive issues for Viet Nam such as equality and non - discrimination between types of domestic and foreign enterprises, not accepting preferential treatments, special or different treatments from any business...

*Fifth*, this is increasing competitive pressures on imported goods from abroad in the EU market, especially with countries in the ASEAN region such as Singapore because it has signed a FTA with the EU since 2014, or countries with export strengths similar to Viet Nam such as Thailand, Indonesia, Malaysia and Philippines, because recently, they have also intensified negotiations to have their own trade agreements with the EU, as well as other developed countries that have gone ahead and succeeded in applying scientific and technological achievements in the production and processing of agricultural and aquatic products, manufactured industrial goods such as textiles, footwear, machinery, equipment, electronic components which have met strict technical and quality standards of the EU. Moreover, the cost of exporting Viet Nam's goods, especially the cost of transportation, preservation and the cost of certifying goods that are qualified for export to the EU, tend to increase, thereby affecting the price competitiveness of Viet Nam's export goods.

#### **IV. VIEWPOINTS AND SOME SOLUTIONS FOR SUSTAINABLE EXPORT DEVELOPMENT OF VIET NAM'S GOODS TO THE EU MARKET**

##### **4.1. Viewpoints on sustainable export development of Viet Nam's goods to the EU market**

*First*, sustainable export development in general and sustainable export development to the European Union (EU) market in particular must contribute to promoting fast and sustainable economic growth, improving competitiveness of the economy on the basis of innovation and digital transformation, transforming the economic structure towards industrialization and modernization in the context of implementing new generation free trade agreements, including EVFTA.

*Second*, sustainable export development of Viet Nam's goods to the EU market based on effective implementation of commitments in the EVFTA on market opening and trade liberalization, harmonization of domestic environment and technical standards and regulations with international regulations in order to improve the ability to meet import regulations of the EU market, create an initiative to overcome trade barriers and have a timely response mechanism with trade remedies, anti - dumping and countervailing measures of importing countries.

*Third*, sustainable export development of Viet Nam's goods to the EU market based on comprehensive and holistic approaches, effectively exploiting opportunities from the EVFTA to diversify export products and markets, limiting challenges and proactively responding promptly to changes in the process of integration and implementation of EVFTA commitments.

*Fourth*, sustainable export development of Viet Nam's goods to the EU market based on well exploiting the country's comparative advantages, creating pressure to quickly transform the growth model in depth based on modern science - technology and high - quality human resources in order to improve the processing and manufacturing content, added value and export competitiveness of Viet Nam's goods.

*Fifth*, on the basis of the Party's major undertakings and the goal of rapid and sustainable development in the socio - economic development Strategy for the period 2021-2030, it is necessary to consider sustainable export development as the goal and the top priority direction, ensuring a harmonious combination of short - term and long - term goals, focusing on improving the quality of export growth, the effectiveness and sustainability of the development; the economy growth must be associated with the protection of the ecological environment and ensuring social security, creating jobs and increasing incomes of employees.

#### **4.2. Some solutions for sustainable export development of Viet Nam's goods to the EU market**

*First*, for institutional issues, Viet Nam needs to continue to reform institutions, improve the investment and business environment. It is necessary to have a new approach in planning, formulating and implementing export development policies based on science to convince, be more appropriate and meet the goals of sustainable export development.

- First of all, it is necessary to raise awareness and renew the thinking of managers and policy makers for export development on the importance of sustainable export development, quickly renew the growth model in depth to improve the quality of export growth.

- Accelerate the process of institutional reform, improve the investment and business environment, reform administrative procedures and simplify customs procedures in order to create a transparent, equal and fair competitive environment, attracting foreign investors and creating conditions to promote the development of domestic economic sectors, strengthening cooperation and association between FDI enterprises and domestic enterprises to boost the export.

- There should be a focal point to monitor and evaluate the suitability and impact of export development policies, as well as the effectiveness and efficiency of policy implementation, in which great attention is paid to transparency and accountability of policies, to receive comments and suggestions of enterprises in the process of formulating and implementing policies.

*Secondly*, grasping the viewpoints that promoting innovation is a vital factor for the goal of rapid and sustainable development in the coming period, whereby priorities should be given to:

- For infrastructure, it is necessary to consider synchronous development of economic and technical infrastructure as one of the priority strategic breakthroughs, whereby road infrastructure is a bottleneck that needs to be focused on solving, in which, the system of highways, roads, railways, airports, wharves, warehouses should prioritize planning and upgrading, developing synchronously with high vision, associating with regional linkages and creating a spillover motivation for sustainable export development. At the same time, focus on developing information technology infrastructure and databases for scientific research, digital transformation; promulgating mechanisms and policies to effectively implement Resolution No 52-NQ/TW dated September 27, 2019 of the Politburo on a number of guidelines and policies to actively participate in the Industrial Revolution 4.0, Strategy on Industrial Revolution 4.0 and digital economy.

- For groups of skills, technology and labour criteria, it is necessary to focus on policies to promote labour productivity, total factor productivity (TFP), improve efficiency and competitiveness of businesses, industries and the economy, needing to: Improve institutions,

establish a National Productivity Committee and initiate a National Productivity Campaign, effectively operate the National Council on sustainable Development and improve the national competitiveness. Promote industrial and agricultural restructuring to increase labour productivity from internal factors, develop clean agriculture, modern and environmental friendly industry; continuing to identify the promoting research and application of modern and environmental friendly science and technology, innovation and creativity as one of the four strategic breakthroughs of the country; focusing on strengthening the capacity of risk management of information technology, network security and intellectual property in the direction of encouraging innovation and creativity while still controlling effectiveness and risks; building and rapidly developing human resources for research, application of science and technology, digital human resources - this requires drastic reform of mechanisms, policies and working environment to attract, retain and develop high quality human resources; strongly renovating education and training, including vocational training, focusing on improving qualifications, skills and digital technology skills in line with the context of the Industrial Revolution 4.0 and the trend of green growth and sustainable development in the world.

*Third*, with regard to international economic integration, continue to build and strengthen the foundational factors for fast and sustainable export development, it is necessary to:

- Continue to accelerate the trade liberalization process according to the roadmap of international commitments, make good use of opportunities and commitments in the EVFTA to diversify export markets and expand potential new markets in the EU region.

- Continue to expand strategic partnership, comprehensive economic partnership with other countries, build the country's strategic position in the international arena, affirm Viet Nam's export position in the EU market.

- Continue to perfect the market economic structure, synchronously build all kinds of markets to quickly have a full market economy according to WTO commitments, in which, continue to build a competitive energy market, forming a market for high - quality human resources and making a breakthrough in the development of the science and technology market.

*Fourth*, for policy improvement, conduct a review of export policies, tariff and non - tariff measures to ensure compliance with integration commitments as well as to effectively support for enterprises to develop their exports, whereby:

- Promulgate policies to encourage the restructuring of export products in the direction of increasing the proportion of processed and manufactured products with high added value, improving the quality of exported goods, better meeting import standards and regulations, in which: For export agricultural products, switch from exporting raw materials to processed products, from simple processed products to deeply processed products with high added value; for export industrial products, switch from simple manufactured and assembled products to high - tech manufacturing products on the basis of application of achievements of Industrial Revolution 4.0, digital transformation and e-commerce.

- Accelerate the development and application of a system of national standards in harmony with international and regional standards, including technical standards, food hygiene and safety standards, social and environmental standards, thereby improving the ability to meet import standards and regulations in the EU market.

- Build and improve the capacity of testing and certification organizations meeting international standards to serve the testing and assessment of conformity with national standards, international and regional standards as well as specific standards for exported goods.

*Fifth*, for the development of export markets, it is necessary to improve the efficiency of trade promotion activities in order to consolidate and expand the market share of Vietnamese goods in the traditional markets of the EU, creating a breakthrough in expanding potential new export markets; promote monitoring and research on world market developments, analyse and assess the impact on the export of Viet Nam's goods.

- Promote trade promotion activities at the Government, associations and enterprises, in which associations and exporters are the subjects that directly develop and implement trade promotion activities in accordance with the export market development strategy and national trade promotion programs.

- Strengthen the role and responsibilities of trade counsellors in EU countries through the coordination mechanism between industry associations and Viet Nam's Trade Offices abroad, supporting export businesses to organize trade promotional events and participate in fairs, especially thematic fairs in export markets. At the same time, strengthen cooperation with overseas Vietnamese enterprises to carry out communication and marketing programs, build information networks in export markets; support enterprises to open agents and form representative offices to introduce products, from which to choose appropriate distribution channels and directly bring Vietnamese goods to supermarkets, trade centres, large distribution systems in EU importing countries, instead of export position through intermediaries.

- State management agencies, industry associations and businesses need to strengthen research, forecast and update changes in trade policies, import regulations of other countries, preventive and trade protection measures, non - tariff barriers, quality standards, human and plant, animal health safety, social and environmental standards, especially standards of large export markets of Viet Nam in the EU region.

- Analyse and evaluate the impact of changes in trade policies of importing countries in the EU region on the production and export of Viet Nam's goods in order to adjust and respond appropriately and promptly.

- Improve the effectiveness of early warning work to take necessary and timely measures to minimize damages from trade remedy and anti - dumping lawsuits by importing countries in the EU.

*Sixth*, for export enterprises, continue to support domestic enterprises, especially small and medium enterprises in restructuring, improving productivity, quality, efficiency and export competitiveness; developing new business models based on digital technology such as e-commerce, applying the achievements of the Industrial Revolution 4.0 and improving the capacity to participate in the global value chain.

- Support the development of domestic production, support domestic enterprises to develop enough to become a counterweight to the FDI sector, becoming partners for cooperation and development. Paying more attention to the connection between FDI enterprises and domestic enterprises, helping domestic enterprises participate more and more in the value chain created by FDI enterprises, connecting industrial parks dedicated to FDI enterprises with industrial zones and clusters for domestic small and medium enterprises.

- Adjust preferential policies for investment projects in the direction associated with socio-economic development orientations in each economic region and each locality, thereby creating new export products with high quality and added value, competitive in the world market and in difficult markets in the EU region.

- Focus on training and improving the quality of human resources and technology of domestic enterprises, especially small and medium enterprises to be able to access the Industrial Revolution 4.0 in the coming time. Focus on improving the capacity of Vietnamese enterprises in terms of capital, material and technical facilities, information technology, developing high quality human resources to meet requirements of integration and technological innovation, production and business processes innovation to be able to deeply involve in the global value chain.

***In short***, sustainable development is becoming an inevitable global trend, in which sustainable export development plays a very important role in the sustainable development of the economy, especially for developing countries in the period of industrialization, modernization and international economic integration, implementing commitments in new generation FTAs like Viet Nam. Sustainable export development of Viet Nam's goods to the EU market in the context of the implementation of EVFTA commitments in the coming time is set out as one of the indispensable and objective requirements to realize the goals and orientations for sustainable export development in general, ensuring the harmony between the goals of economic growth, environmental protection and social security.

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# ENHANCING VIET NAM'S EXPORT OF GOODS TO RUSSIAN FEDERATION IN THE NEW CONTEXT

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## **Abstract**

*Viet Nam's export to Russia Federation (Russia) has increased rapidly in the recent years, supported by Vietnamese business circle's increased attention to the market. With the population of 146.2 million (national statistics in August 2021), Russia's economy has a high demand for competitively-advantaged goods of Viet Nam such as tropical agricultural products and marine products, textiles, etc. Russia is Viet Nam's 26<sup>th</sup> largest export market of goods with export turnover of US\$ 2.85 billion in 2020. However, Viet Nam's export turnover to Russia accounts for just over 1% of Viet Nam's total export turnover. The result is not really commensurate with the export potential of Viet Nam as well as the wishes of both sides. In the prospect of Viet Nam's export of goods during the implementation of the Free Trade Agreement between Viet Nam and the Eurasian Economic Union and the implementation of the Joint Statement on the Vision of the Comprehensive Strategic Partnership between Viet Nam and Russia by 2030, creating opportunities for Viet Nam's exports to Russia market in the coming time, this article focuses on assessing the reality of Viet Nam's exports to Russia, thereby pointing out the shortcomings and proposing some solutions to enhance Viet Nam's exports to the market.*

Keywords: Foreign trade, export, import, integration, FTAs, Viet Nam, Russia.

## **I. VIET NAM - RUSSIA TRADE RELATION IN NEW CONTEXT**

Viet Nam and Russia have experienced a tradition of friendly and comprehensive cooperation since the former Soviet Union. Russia established official diplomatic relations with Viet Nam on January 30, 1950. Since the 90s of the twentieth century, due to socio-political upheavals in Russia, the bilateral relation has temporarily subsided. The two countries have only really increased their cooperation for comprehensive development, especially in the field of economy and trade, since the visit to Viet Nam by Russian President in March, 2001. On the basis of the "Joint statement on strategic partnership", development cooperation agreements in many fields were also signed. Particularly in the economic field, foreign trade activities between the two countries have therefore continuously developed in recent years.

Bilateral economic relations have developed in a positive trend in recent years. On May 29, 2015, the Free Trade Agreement between Viet Nam and the Eurasian Economic Union (EAEU), including Russian Federation, Republic of Belarus, Republic of Kazakhstan, Republic of Kyrgyzstan and the Republic of Armenia, was signed and took effect on October 5, 2016. According to the commitment of tariff cut on commodities from Viet Nam, this can be divided into 7 large groups:

(1) Group of tariff rates to 0% right after the Agreement comes into effect – Group A: Including 6718 tax lines, accounting for the largest proportion with 59.14% of the tariff.

(2) Group of tariff rates to 0% after 5 years of the Agreement's entry into force – Group B: Including 728 tax lines, accounting for 6.14% of the tariff schedule. The tariff rate will be annually reduced and to 0% in the last year of the roadmap.

(3) Tariff rate group to 0% after 10 years – Group C: Includes 2148 tax lines, accounting for 18.91% of the tariff. The tariff rate will be annually reduced and to 0% in the last year of the roadmap.

(4) Group reduced by 25% compared to the current tariff rate immediately after the Agreement came into effect and then unchanged later – Group R: Includes 131 tariff lines, accounting for 1.15% of the tariff.

(5) The tariff rate group will be reduced to 0% right after the Agreement comes into effect, but with the application of trigger safeguard measure – Group T: Includes 180 tax lines, accounting for 1.51% of the tariff schedule. This is a special case that has not been found in other FTAs. Although with the nature of market opening, it is reserved for closing in case imports increase too quickly with a large scale. This group applies to textile, footwear and wood products specified in the Annex to the Agreement, which are commodities that Viet Nam has advantages and also being products produced in EAEU countries. Accordingly, EAEU will set an import threshold for each product annually, and otherwise, it will be conducted with a consultation procedure to assess the possibility of injury and may make a decision to apply a safeguard measure. The measure requires a lot of time for administrative procedures, information collection, consultation and decision-making (however, this process usually takes quite a long time, and during that process, enterprises still keep going to export).

(6) Group applying tariff quotas – Group Q: Includes 2 products (rice and unprocessed tobacco leaves). Rice is granted the quota of 10,000 tons with the tariff rate of 0%. The quota will be reviewed after 3 years and if the quota is exceeded, the common tariff rate will be applied.

(7) Unbound group – Group N (or U): Including 1453 tariff lines, accounting for 12.79% of the tariff. With this group, the EAEU is not bound to reduce or eliminate tariffs but can unilaterally reduce/remove.

Accordingly, Viet Nam's key export products such as textiles and garments, footwear, wooden furniture, bags, seafood, plastic are all taxed at a high level with a reduction of 76% - 100%, mainly as in 5-10 year roadmap and completely eliminated in the last year of the term.

**Table 1. EAEU's commitment for certain key commodities of Viet Nam**

Item	% of line	% of line exempted	% of line eliminated after FTA's effect	Remark
Textile	82%	42% - 10 year roadmap	36%	Apply trigger safeguard measure to certain products Require rules of origin
Footwear	77%	73% - 5 year roadmap	-	
Wood products	76%	65% - 10 year roadmap	-	
Hand bags	100%	100%	Majority	
Seafood	100%	95% - 10 year roadmap	71%	
Plastics	100%	97%	-	

*Source: Compiled from tax commitments in the EAEU*

In particular, during the visit and working visit of Viet Nam President – Mr. Nguyen Xuan Phuc in November 2021, the state leaders issued “*Joint Statement on the Vision of the Comprehensive Strategic Partnership between Viet Nam and Russian Federation by 2030*”. The statement emphasizes that economy, trade and investment cooperation has continuously expanded, Viet Nam and Russia have become each other's important trading partners. With the EAEU signing, bilateral trade has grown significantly. The two sides continue to implement cooperation projects in petrol exploration and exploitation, focusing on cooperation in the fields of electric energy, industry, information technology and agriculture. The two sides consider economic cooperation an important pillar of the comprehensive strategic partnership, and commit to make efforts to further cooperation of mutual benefits, determined to create favourable conditions, and promptly resolve the problems arising in the process of cooperation. In order to achieve the above goal, Viet Nam and Russia affirmed their readiness to carry out the following tasks:

- Improving the efficiency of the implementation of the EAEU and its member countries towards facilitating import and export of goods in line with the existing incentives in the Agreement, including removing non-tariff barriers to ensure trade turnover in sustainable and inclusive growth.

- Encouraging bilateral investment in Viet Nam and Russia in available and new fields, such as electric energy (including renewable electricity), industry, mining, high technology, transportation, urban and housing development, urban technical infrastructure, agriculture, forestry; Improving the role and operational efficiency of the Viet Nam-Russia High-Level Working Group on priority investment projects.

- Enhancing cooperation in the fields of energy and petrol - the leading important pillar of the comprehensive strategic partnership, supporting the expansion of cooperation in potential areas such as construction of gas power plants, supplying liquefied natural gas to Viet Nam, building infrastructure, developing renewable energy, producing motor fuels, as well as modernizing energy facilities; Supporting the implementation of existing or new petrol projects with the participation of the Viet Nam Oil and Gas Group and Zarubezhneft, Gazprom, Novatek and Rosatom, and other companies including for power projects using liquefied petroleum gas in Viet Nam.

- Creating favourable conditions for the expansion of activities of Vietnamese oil and gas enterprises in Russia and Russian enterprises in the continental shelf of Viet Nam, as well as the joint projects in third countries, in accordance with international law including the United Nations Convention on the Law of the Sea 1982 (UNCLOS) and the laws of Viet Nam and Russia.

- Enhancing industrial cooperation, including deploying in Viet Nam manufacturing and assembly facilities for motor vehicles of Russia, and gradually localizing production.

- Enhancing cooperation in agriculture and forestry in order to take advantage of the strengths of both countries and promote trade in agriculture and fisheries.

- Expanding cooperation in the finance and banking, specifically promoting the use of local currency in payments, strengthening the connection of payment systems, continuing to improve the efficiency of bilateral banking system to facilitate trade and investment; actively promoting the role of the Viet Nam-Russia Joint Venture Bank in implementing joint cooperation projects.



- Continuing to cooperate in building an e-Government with a focus on ensuring network safety and security, taking into account the trustworthiness of the comprehensive strategic partnership between Viet Nam and Russia.

- Encouraging direct cooperation between provinces and cities of Viet Nam and territories of Russia, including investment cooperation between Viet Nam and Siberia and Far East area.

## II. REALITY OF VIET NAM'S EXPORT OF GOODS TO RUSSIA

### 2.1. Overview of the current situation of Viet Nam's export of goods to Russia

Clearly, with the implementation of the Joint Statement on the Vision of a Comprehensive Strategic Partnership, trade between the two countries has made remarkable progress in the recent years. Import-export turnover has increased in both value, structure and list of exported commodities have improved.

**Table 2. Import-export turnover and trade balance between Viet Nam and Russia in the period 2010-2020**

Year	Export		Import		Turnover		Trade balance (Mil. US\$)
	Turnover (Mil. US\$)	Growth rate (%)	Turnover (Mil. US\$)	Growth rate (%)	Turnover (Mil. US\$)	Growth rate (%)	
2010	829.70	-	999.10	-	1828.80	-	-169.40
2011	1287.32	55.16	694.01	-30.54	1981.34	8.34	593.31
2012	1617.85	25.68	829.37	19.50	2447.22	23.51	788.48
2013	1921.17	18.75	855.13	3.11	2776.29	13.45	1066.04
2014	1724.91	-10.22	826.71	-3.32	2551.62	-8.09	898.20
2015	1438.34	-16.61	741.78	-10.27	2180.12	-14.56	696.55
2016	1616.09	12.36	1136.83	53.26	2752.92	26.27	479.25
2017	2165.65	34.01	1392.33	22.47	3557.98	29.24	773.32
2018	2446.40	12.96	2131.10	53.06	4577.50	28.65	315.30
2019	2667.59	9.04	1835.11	-13.89	4502.71	-1.63	832.48
2020	2849.20	6.81	2065.50	12.55	4914.70	9.15	783.70

Source: UN Comtrade, 2021

The foreign trade mainly reached US\$ 1828.80 million in 2010. Viet Nam exported to Russia US\$ 829.70 million and imported a value of 999.10 million US\$. Viet Nam mainly imports machinery and installed equipment for the electricity and oil exploitation industry, trucks and spare parts, ferrous metals and metal products, fertilizers, chemical products. and petroleum. In contrast, Russia's main imports from Viet Nam are rubber, herbs, spices, tea, coffee, rice, seafood, instant noodles and necessities.

In 2015, the bilateral turnover surpassed US\$2 billion, amounting to US\$2180.12 million, of which exports reached US\$ 1438.34 million and imports reached US\$ 766.6 million (increased 19.2% compared to 2010). However, in the two years of 2014 and 2015, two-way trade turnover decreased significantly compared to the previous year, down 8.09% and 14.56% respectively.

In 2020, the bilateral turnover reached a peak of US\$ 4914.70 million, an increase of 9.15% compared to 2019, of which Viet Nam's exports to Russia reached US\$2849.20 million, an increase of 6 0.81%, and imported from Russia 2065.50 million US\$, an increase of 12.55% compared to 2019. The structure of exported goods is quite stable, towards promoting comparative advantages of each country. The main Viet Nam's imports are petroleum and thereof, rolled steel, chemicals, industrial machinery and equipment, fertilizers and thereof, rubber, iron and steel, paper and pulp. The main Viet Nam's export items are aquatic products, textiles, footwear, instant noodles, agricultural and forestry products such as vegetables, rubber, coffee, and rice.

In the period 2000-2010, Viet Nam has always undergone a trade deficit against Russia with the largest deficit in 2005, up to US\$ 514.0 million and then decreasing to US\$ 169.4 million in 2010. However, the trade balance improved in 2011, and Viet Nam has had a trade surplus with Russia since then with the largest trade surplus of US\$ 1066.04 million in 2013. However, the export turnover proportion of goods in the total import value of each country is quite small. In 2020, Viet Nam's export turnover accounted for only 0.3% of Russia's total imports, and 1.8% vice versa.

#### **- Export turnover:**

Before the EAEU was signed, Viet Nam's exports maintained a strong stability in the range of US\$ 1.1 billion to US\$ 1.9 billion for years. Bilateral export turnover increased 11.63% per year in the period 2010-2015.

With the signing and implementation of the EAEU in May 2016, bilateral trade of goods between Viet Nam and Russia has grown stronger than that of previous period. The EAEU has played a part in bringing about significant benefits for Viet Nam's exports to Russia market. Country's enterprises have also taken advantage of the incentives from the Agreement to boost the export of commodities to Russia. Viet Nam's export turnover to Russia has grown continuously, from 1.61 billion USD in 2016 to 2.84 billion USD in 2020. The average growth rate in the 2016-2020 period is 14.65%/year (Table 3).

**Table 3. Viet Nam's export turnover to Russia in the period 2015-2020**

	HS	2015	2016	2017	2018	2019	2020	Average growth rate 2016-2020 (%)
<b>Export turnover</b>		1438.34	1616.09	2165.65	2446.40	2667.59	2849.20	14.65
Electrical machinery and equipment	85	721.17	798.32	1225.44	1365.43	1411.33	1588.25	17.11
Nuclear reactors, boilers, machinery	84	126.53	100.35	134.43	135.29	161.76	176.49	6.88
Footwear, gaiters and the like; par	64	77.28	104.46	102.27	122.79	166.01	163.12	16.11
Articles of apparel and clothing ac	62	55.20	59.90	87.42	98.03	143.24	131.85	19.02
Coffee, tea, mat and spices	09	130.21	155.13	133.07	179.22	158.48	130.59	0.06
Fish and crustaceans, molluscs and	03	77.23	93.57	96.59	83.67	99.09	116.36	8.54
Articles of apparel and clothing ac	61	28.72	49.60	80.92	80.80	110.83	109.07	30.59
Edible fruit and nuts	08	24.62	36.88	58.92	65.35	62.72	58.87	19.05
Miscellaneous edible preparations	21	32.31	25.28	36.91	48.21	53.55	51.98	9.98

Source: UN - Comtrade 2021

### - Export structure:

Key export products to Russia market have not changed significantly in the period 2015-2020 including: Electric machines and electrical equipment and parts, electric furnaces, boilers, machines, mechanical equipment and parts, footwear, coffee, tea and spices; textiles, seafood and a certain agricultural products. During this period, industrial products always accounted for a large proportion in the total export turnover of Viet Nam to Russia market, such as phones and components; computers, electronic products and components; machinery, and mechanical equipment. These are the items with the largest value among the main export items to Russia, accounting for over 60% of Viet Nam's total export turnover to this market:

- In 2015, electrical machinery and electrical equipment and parts (HS.85) accounted for 50.14% of the total export turnover of Viet Nam to Russia, increased to 55.74% in 2020.

- Electric furnaces, boilers, machines and mechanical equipment; parts (HS.84) accounted for 8.8% in 2015 and decreased to 6.19% of total export turnover in 2020.

- Footwear (HS.64) accounted for 5.37% in 2015 increasing to 5.73% in total export turnover of Viet Nam to Russia in 2020.

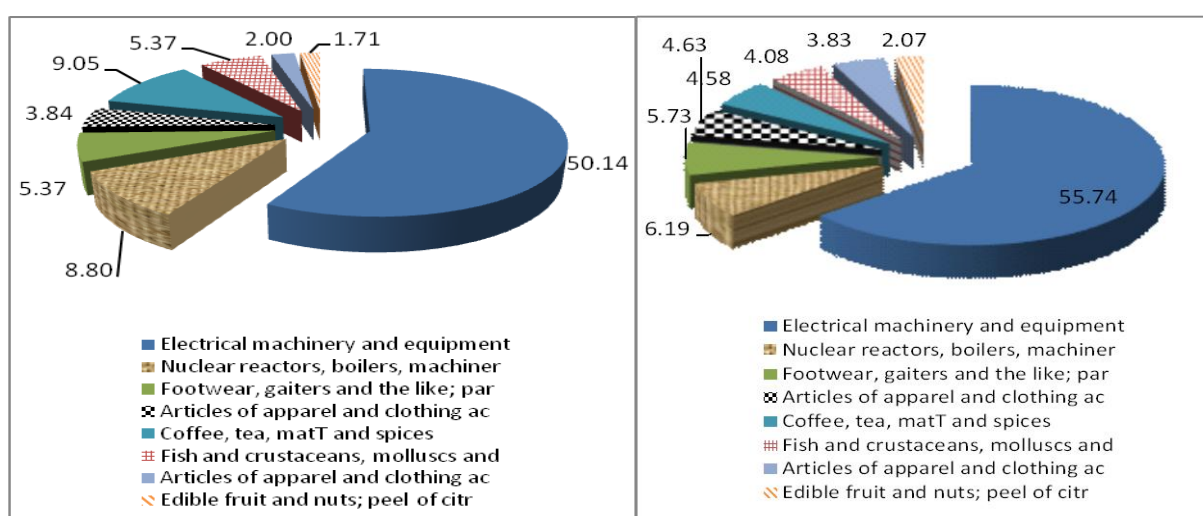
- The textile includes clothing and apparel accessories, not knitted or crocheted (HS.62) and clothing and apparel accessories, knitted or crocheted (HS.61) account for 3.84% and 2.0% respectively in 2015 and increased to 4.63% and 3.83% respectively of Viet Nam's total export turnover to this market in 2020.

- Aquatic products (HS.03) accounted for 5.37% in 2015 and decreased to 4.08% of the total export turnover of Viet Nam to Russia in 2020.

- Coffee, tea and spices (HS.09) accounted for 9.05% in 2015, decreased to 4.58% of the total export turnover of Viet Nam to Russia in 2020.

- The group of fruits, nuts (HS.08) accounted for 1.71% in 2015, increased to 2.078 % of the total export turnover of Viet Nam to Russia in 2020.

**Figure 1. Structure of Viet Nam's exports to Russia in 2015 and 2020 (%)**



Source: UN - Comtrade 2021

## **2.2. Overall assessment**

### **- *The achievements:***

+ Viet Nam's export turnover to Russia is constantly increasing, up to 2 times within 5 years, an average increase of 14.65%/year in the period 2016-2020. Viet Nam has continuously achieved a trade surplus with the largest value of USD 832.48 million in 2019.

+ The export structure has been relatively stable for years, of which the group of electrical machinery and electrical equipment and parts accounts for an increasing proportion of the export structure.

+ Viet Nam has taken a good chance from incentives in the EAEU to promote the export of advantageous products such as textiles, footwear, and seafood to Russian market.

### **- *Shortcomings, limitations and causes:***

- The export value is not commensurate with Viet Nam's export capacity and the comprehensive strategic partnership between Viet Nam and Russia. The proportion of Viet Nam's exports to Russia is insignificant, about 1.32% of Viet Nam's total export turnover in the period 2015-2020.

- The quality of goods is still low, undiversified and uncompetitive. Some export shipments have not yet met Russia quality standards and food hygiene and safety regulations, especially for aquatic products. The items, that account for a large proportion of Viet Nam's export turnover to Russia, are machinery and equipment but added value is low, mainly domestic processing and assembly with so low local content.

- Not mention to the matter of the Eurasian Economic Commission (EEC) - the executive body of the EAEU, has issued Decision No. 17 on updating the list of developing and least developed countries entitled to preferential treatment under GSP of the Union, in which Viet Nam could no longer entitle the system's preferences from October 12, 2021, tax incentives in the EAEU for agricultural and aquatic products, which are competitive exports, are much lower than those in other FTAs such as CPTPP, and EVFTA.

- Viet Nam may face problems of exceeding the export quota, for example, our country is only allowed to export 10 thousand tons of rice to the EAEU per year with the tax rate of 0% as in the tariff quota. If exceeded, Viet Nam's rice exports will be taxed from 7-29.1% depending on the type and grade.

- Logistics activities, especially for transporting export of goods, are also an obstacle in enhancing Viet Nam's exports to Russia market. Due to the specific nature of agro-forestry-fishery products, especially processed foods, which must be stored in refrigerated containers, frozen and glazed, lead to high transportation costs. Moreover, because of transported routes through European ports and then back to Russia, or to the port of Vladivostock and then along the route across Russia from East to West, from the Far East and Kamchatka peninsula to urban areas, the cost shipping is more expensive than shipping from China, Turkey, Iran, India...

- The Russian strict regulations on sanitary and phytosanitary are also a barrier making the export of agricultural, forestry and fishery products from Viet Nam to Russia not reach the scheduled results. The procedures for import of fresh food products into Russia are too long and complicated, involve many parties with different interests, and are only conducted sequentially for each item. Viet Nam has repeatedly proposed to sign an agreement on mutual recognition in the field conformity assessment and animal and plant quarantine, but keep unchanged so far.

- Ruble of Russia Federation has continuously fluctuated in a downward trend against USD - the base currency to measure Ruble in recent years. The currency is very sensitive to fluctuations in crude oil prices when Russia economy heavily depends on the petroleum market and political issues. The fact that Vietnamese enterprises make payment in the currency to a certain extent will cause exchange rate risks in Viet Nam's export activities to Russia market.

- Besides, the distribution system of goods into the market, from import, domestic logistics to distribution to the retails controlled by Russian large corporations, is a big difficulty for Viet Nam enterprises to penetrate directly into the distribution system in Russia.

### **III. SOME SUGGESTIONS TO ENHANCE THE EXPORT OF GOODS FROM VIETNAM TO RUSSIA MARKET**

The total bilateral turnover is estimated at over US\$ 5 billion in 2021 and the number of investment projects is 150 with a total investment of US\$ 1 billion, which is not commensurate with the potential with more space left. In order to enhance the export of Viet Nam's goods to Russia commensurate with the potentials and desires of both sides, we would like to propose the following solutions:

#### ***- Suggestions for the Government:***

(1) Because the export structure to Russia is mainly machinery and electrical and electronic equipment, the Government needs to make more preferential policies to attract Russian investors in development of supporting industry in Viet Nam. Developing these industries will help Viet Nam improving the added value of goods and export efficiency of the above group of goods, which have had to mainly import raw materials and accessories from China, Korea and ASEAN countries up to now. Also, this helps to reduce the proportion of processing goods exported to the market. The development support industry not only contributes to attracting foreign investment, but also improves the efficiency of taking advantage of incentives in the EAEU to promote exports of goods to Russia market.

(2) Strengthening government-level trade promotion activities, strengthen cooperation in building trade facilitation mechanisms; Supporting businesses in participating in trade fairs and exhibitions in Russia. The Ministry of Industry and Trade needs to organize an in-depth study on the economy and trade policies of Russia and their trade barriers for Vietnamese exports in order to help businesses acknowledge and abide to the regulations on sanitary and phytosanitary; To encourage retail groups of Russia to invest and do business in the Vietnamese market, thereby acting as the focal point for introducing and selling Vietnamese goods in retail systems in Russia.

(3) Promoting the negotiation and signing of the Mutual Recognition Agreement on conformity assessment, standards, technical standards, sanitary and phytosanitary of Russia so that Vietnamese goods can better meet the standards of Russia; Building and upgrading test and laboratory centres in line with international standards; Cooperating with the authorities of Russia in the inspection and quarantine of goods; Requesting Russian authorities to support technology and to improve the capacity of Vietnamese experts in the field of food hygiene and safety inspection to meet the requirements on import standards of Russia.

#### ***- Suggestions for enterprises:***

(1) Actively, proactively looking at information about the EAEU in order to effectively take advantage of the incentives from the Agreement. First of all, businesses need to understand the preferences in the Agreement and the requirements. in order to entitle

incentives related to the specific exported items and sectors, tax reduction roadmap under the Agreement. Enterprises need to be proactive in finding information about the Agreement as well as guiding documents of ministries related to the Agreement's implementation.

(2) Researching the market to develop and export new products as well as the consumption tastes and trend of Russian customers to diversify products for each specific item. For example, for many years, Viet Nam's seafood products mainly exported basa fillets and frozen shrimp. These items are then packaged, made trademarks of other foreign enterprises and sold on Russian market.

(3) Apply quality management systems according to international standards and meet health safety and environmental protection requirements. The strict regulations on sanitary, phytosanitary and quarantine of Russia are still a hard barrier to open the export of agricultural products, especially seafood, dairy, cattle and poultry meat from Viet Nam to the market. To overcome this situation, Vietnamese enterprises should develop and apply international quality management systems ISO 9000, HACCP, ISO 14000 and so on as a foundation for overcoming trade barriers of Russia.

(4) Speeding up enterprise-level export promotion activities into Russian market. In addition to improving the quality and diversifying products to increase the competitiveness of the goods, exporting enterprises need to improve their marketing capacity, actively carry out export promotion activities to Russian markets. Actively looking for partners and offers through participation in fairs and exhibitions held in Viet Nam and Russia, through the Viet Nam Trade Office to Russia, the Viet Nam-Russia Friendship Association in Viet Nam. Taking advantage of the National Promotion programs to participate in trade promotion activities in Russia as well as to grasp the needs and tastes of consumers in the market.

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# **EXPORT DEVELOPMENT OF VIET NAM'S PROCESSING AND MANUFACTURING INDUSTRIES TOWARDS 2030**

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## **Abstract**

*In the period 2011-2020, the export growth of Viet Nam's processed and manufactured industrial goods is quite good, shifting the export structure in a positive direction in line with the orientation of restructuring key industries (such as electronics, textiles, and footwear) contributing to improving the competitiveness ranking of Viet Nam's industry. Such goods are now the major contributors to the development of Viet Nam's industry, creating more jobs for the society and improving workers' incomes. The role of driving the growth of Viet Nam's entire industry of the processing and manufacturing industries is especially clearly expressed in three aspects: value of export turnover, growth rate and attracting foreign investment. In 2020, despite the difficulties caused by the COVID-19 pandemic, export turnover of processed goods has still accounted for 85.2% of the total exports with the turnover reaching \$240.7 billion, recording the growth rate of 8.2% compared to 2019. The growth of processing and manufacturing industries significantly contributed to the overall growth rate of the country's export turnover of goods. The growth rate of these exports was always higher than the overall export turnover growth rate (In the period of 2011-2020, the average increase of 20.2% per year compared to the overall export turnover growth of 14.6% per year).*

*Resolution No. 23-NQ/TW dated March 22, 2018, of the Political Bureau on the national industrial development policy to 2030 and the vision to 2045, sets a goal for the industry: by 2030, Viet Nam will achieve its goal of industrialization and modernization to become an industrial nation; and become one of the top three industrial nations in ASEAN. This article reviews Viet Nam's export development of processing and manufacturing industries to date, and makes suggestions for its continuing development to play the leading role for the continuing growth of Viet Nam in the next decade.*

**Keywords:** Processing industries, manufacturing, export, current situation, orientation, solutions, Viet Nam.

## **I. EXPORT DEVELOPMENT OF VIET NAM'S PROCESSING AND MANUFACTURING INDUSTRIES IN 2011-2020**

### **1.1. Achievements**

*Firstly, in the period of 2011-2020, export turnover of processed and manufactured goods was constantly increased year by year, from \$59.3 billion in 2011 to \$240.7 billion in 2020, the export growth rate of this type of goods was always higher than the growth rate of the overall export turnover (in the period 2011-2015, it was increased by 26.9% per year compared to the overall export turnover growth of 17.5% per year; in the period 2016 - 2020,*

it was increased by 13.5% per year compared to the overall export turnover growth of 11.8% per year; in the period 2011 - 2020, it was increased by 20.2% per year compared to the overall export turnover growth of 14.6% per year ). With impressive export turnover growth, processed and manufactured goods always accounts for a high proportion in the structure of exported goods. The proportion of export turnover of this type of goods out of the overall export turnover rose from 70.9% in the period 2011-2015 to 83.0% in the period 2016-2020 and in the whole period of 2011-2020 it accounted for 76.9%. Therefore, this is considered as a key export that has made an important contribution to Viet Nam's overall export growth in recent years.

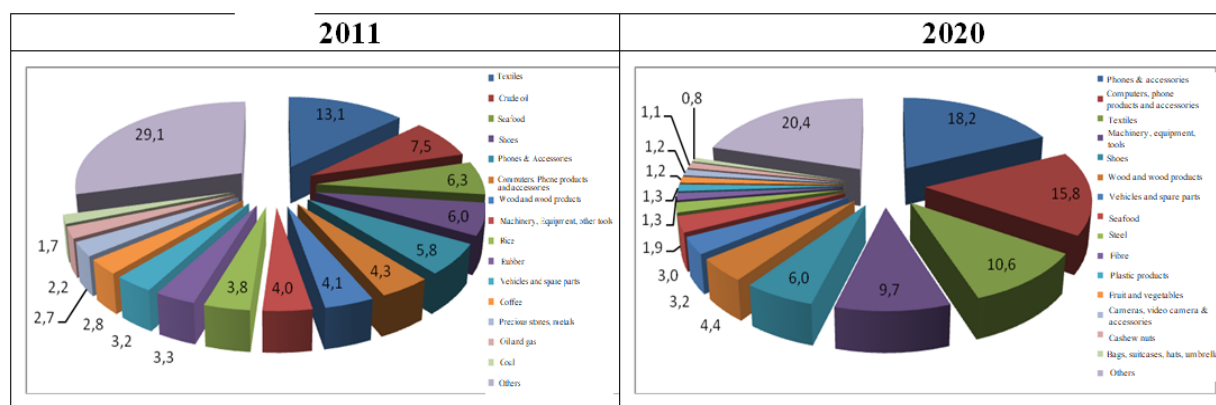
**Table 1. Exports of processed and manufactured goods of Viet Nam in the period 2011-2020**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total export turnover</b> (million USD)	96,906	114,529	132,175	150,217	162,017	176,581	215,119	243,697	264,267	282,655
<b>Growth (%)</b>	34.2	18.2	15.4	13.7	7.9	9.0	21.8	13.3	8.4	7.0
<b>Growth in export turnover</b> : 2011-2015: 17.5%/year; 2016-2020: 11.8%/year; 2011-2020: 14.6%/year.										
<b>Processing and manufacturing industries</b> (million USD)	59,352	74,256	93,181	110,374	127,763	141,768	174,409	201,950	222,633	240,788
<b>Growth (%)</b>	53.2	25.1	25.5	18.5	15.8	11.0	23.0	15.8	10.2	8.2
<b>Proportion (%)</b>	61.2	64.8	70.5	73.5	78.9	80.3	81.1	82.9	84.2	85.2
<b>Growth of processing and manufacturing industries</b> : 2011-2015: 26.9%/year; 2016-2020: 13.5%/year; 2011-2020: 20.2%/year										
<b>Proportion</b> : 2011-2015: 70.9%; 2016-2020: 83.0%; 2011-2020: 76.9%										

Source: Synthesized and calculated from the data of the Ministry of Industry and Trade

Secondly, in the structure of Viet Nam's main exports, if in 2011, only 7/15 key exports (accounting for 70.9% of Viet Nam's total export turnover) were processed and manufactured goods, by 2020, this proportion was increased to 12/15 with the contribution of various products including phones of all kinds and accessories, electronic products, computers, textiles products, machinery, equipment, spare parts, shoes, wood and wood products.

**Figure 1. Structure of 15 types of key exports of Viet Nam in 2011 and 2020**



Source: Calculation from the data of the General Department of Vietnam Customs



In the period of 2011-2020, the export structure of the processed and manufactured industrial goods has changed in a positive direction, with an increase in the proportion of medium and high technology items (phones, computers, electronic products, machinery, equipment, spare parts) and gradually reduce the proportion of low-tech, labour-intensive products (textiles, footwear, seafood processing). Notably, by 2020, mineral items (crude oil, petroleum, coal) will no longer be in the list of 15 key exports of Viet Nam. Textiles and footwear are still the main export items, although still increasing in absolute value (except for 2020), but the proportion has decreased slightly in Viet Nam's export structure.

*Thirdly*, in terms of the export size of processing and manufacturing industries, in 2020, there are 6 largest key exports with turnover of over \$10 billion, the group of phones and components are ranked first, with a turnover of \$51.18 billion, accounting for 21.25% of the whole processing industries' export turnover and is equivalent to 18.11% of Viet Nam's total export turnover. During the past 10 years, this group has grown significantly, the export value is higher than the previous year (except for 2020, it decreased slightly by 0.37% compared to 2019), in the period of 2016-2020, the average growth is 11.15% per year. Phones and components have been the largest key export for many years, overtaking other traditional key exports such as textiles, footwear. Meanwhile, their export turnover has always contributed more than 20% of Viet Nam's total export turnover in recent years.

In the second place, computers, electronic products and components reached a turnover of \$44.57 billion in 2020, accounting for 18.51% of the whole processing industries' export turnover and accounting for 15.77% of Viet Nam's total export turnover. In the period of 2016-2020, this group had a high export growth rate, increasing by an average of 23.35% per year.

The textile and garment are the third leading key export, with a turnover of \$29.81 billion in 2020, accounting for 12.38% of the whole processing industries' export turnover and accounting for 11.28% of Viet Nam's total export turnover. In the previous period, the textile and footwear was the main export industry with a fairly high growth rate. However, in the period of 2016-2020, the textile, garment and footwear only increased by an average of 5.51% and 6.94% per year, respectively.

Machinery, equipment and other spare parts are ranked fourth in turnover, with a turnover of \$27.19 billion in 2020, accounting for 11.29% of the whole processing industries' export turnover and accounting for 9.62% of Viet Nam's total export turnover. In the period 2016-2020, this group had the highest export growth, increasing by an average of 27.22% per year. Along with computers, electronic products, wood and wood products (increasing by an average of 12.41% per year, in the period of 2016-2020), this group had an impressive growth, contributing significantly to the positive growth momentum of Viet Nam's total export turnover.

**Table 2. Exports of major processed and manufactured goods of Viet Nam in the period 2016-2020**

*Unit: Million USD*

<b>Processed and manufactured goods</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Growth rate in 2016-2020 (%)</b>
<b>Export turnover of processing and manufacturing industries</b>	<b>127,763</b>	<b>141,768</b>	<b>174,409</b>	<b>201,950</b>	<b>222,633</b>	<b>240,788</b>	<b>13.5</b>

1. Cell phones and accessories	30,166	34,316	45,271	49,219	51,374	51,184	11.15
2. Computers, electronic products and components	15,608	18,957	25,978	29,562	35,920	44,576	23.35
3. Textiles	22,802	23,825	26,120	30,477	32,832	29,810	5.51
4. Other machinery, equipment, tools and spare parts	8,160	10,113	12,913	16,359	18,302	27,193	27.22
5. Footwear	12,007	12,998	14,678	16,236	18,315	16,791	6.94
6. Wood and wood products	6,892	6,965	7,702	8,907	10,652	12,372	12.41

*Source: Synthesized from data of General Department of Viet Nam Customs*

*Fourthly*, in terms of export markets of processed and manufactured goods, in 2011, Viet Nam exported goods to 131 countries and territories, including 3 markets with the turnover of over \$10 billion (USA, China, Japan) and 25 markets with the turnover of more than \$1 billion. In 2020, Viet Nam exported to 98 countries and territories, including four markets with turnover of over \$10 billion (USA, China, Japan, South Korea) and 32 markets with the turnover of more than \$1 billion.

The export market structure of Viet Nam's processing and manufacturing industries in the past 10 years has not changed too much. the United States remains Viet Nam's biggest export market, with the proportion rising from 18% in 2011 to 23% in 2020. The Chinese market remains in second place, with the proportion rising from 12% to 16%. Japan maintained third place, but its proportion dropped from 11% to 8%. South Korea is the fourth leading country, has risen from 5% to 7%, a sign of better trade relations between the two countries over the past 10 years. Notably, in 2011, some ASEAN countries were in the group of 10 Viet Nam's largest export markets, however, in 2020, there is only Thailand in the group with a market share of 2%. Although the ASEAN market has been fully open and geographically favourable, Viet Nam's processing and manufacturing industry exporters have not taken these advantages and mainly focus on non-ASEAN markets.

For the group of phones and components, it is exported to more than 50 countries and territories. The largest market is China with export turnover reaching \$12.34 billion in 2020, accounting for 24.11% of Viet Nam's total export turnover of phones and components, and increasing of 48.8% compared to 2019. The EU is the second largest export market with a turnover of \$9.9 billion, accounting for 19.34% of the total export turnover, decreasing of 18.9% compared to 2019. For other markets such as Hong Kong, Canada, Japan, it is shown an uptrend in phones and components exports in 2020 with the number of 44.14% at \$1.73 billion, 34.3% at \$826.23 million, 16.5% at \$937.75 million, respectively. Meanwhile, the downtrend markets in 2020 are the United States (\$8.79 billion, down 1.2%); South Korea (\$4.58 billion, down 11%); UAE (\$2.53 billion, down 25.6%). For the group of computers, electronic products and components, in 2020, the export turnover to China reached \$8.35 billion, accounting for 18.73% of the total export turnover of this group, and increasing of 26.9% compared to 2019. The US market ranked second with an export turnover of \$7.36 billion, accounting for 16.51%, and increasing significantly of 83.2%. The EU market is the third leading market with a turnover of \$4.57 billion, accounting for 10.25%, and raising

of 22.1%. Hong Kong ranked fourth with a turnover of \$2.68 billion, accounting for 6.01%, and increasing of 25.6% compared to 2019.

Export markets of machinery, equipment, tools and spare parts with increased turnover in 2020 include: The export turnover to the United States reached \$7.59 billion, accounting for 27.91% of total export turnover of this group, and growing considerably of 121% compared to 2019; The export turnover to EU reached \$2.25 billion, accounting for 8.27%, and increasing of 29.1%; For South Korea, Japan and China markets, the export turnover reached \$1.5 billion, \$1.45 billion and \$1.32 billion, accounting for 5.52%, 5.33% and 4.85%, equivalent to an increase of 29.2%; 2.2% and 19.7%, respectively.

For the textile and garment export market, in 2020, the United States continues to be the largest market of Viet Nam with a value of \$11.62 billion, decreasing of 5.8% compared to 2019 and accounting for 38.98% of Viet Nam's total textile and garment exports. The second place is the EU-27 market with turnover reaching more than \$3 billion, accounting for 10.06%, and dropping of 15.5%; this was followed by the Japanese market with \$2.89 billion, accounting for 9.69%, decreasing of 11.2%; For the South Korean market, the export turnover was \$2.5 billion, accounting for 8.38%, and dropping of 14.4%

As well as the textile and garment, the UNITED STATES and the EU continue to be the two main export markets of Viet Nam's footwear in 2020, with a value of \$5.06 billion (accounting for 30.13%, decreasing of 6.3%) and \$3.44 billion (accounting for 20.48%, decreasing of 16.2%) respectively. In general, the export value of footwear to these two main markets reached \$8.5 billion, accounting for 50.61% of the Viet Nam's total export turnover of this group.

Viet Nam's wood and wood products have been present in more than 120 countries and territories, highly appreciated in the international market, with the diversity of wood products, better designs and quality. They are able to meet not only the requirements of import markets but also regulations, technical, environmental and hygiene and safety standards of strict markets such as Japan, the EU, the United States. The US, Japan, China, South Korea and EU-27 continue to be five important export markets of Viet Nam's wood and wood products, with total export turnover reaching over US\$9.3 billion, accounting for 87.32% of the total export turnover of the whole industry in 2019. The United States is Viet Nam's largest export market for wood and wood products, in 2019, export turnover reached \$5.1 billion, up 42% compared to 2018; In 2020, it increased to \$7.1 billion, an increase of 39.2% compared to 2019 and accounting for 57.39% of Viet Nam's total exports of wood and wood products.

## **1.2. Difficulties and Causes**

*Firstly*, Viet Nam's processing and manufacturing industries are not self-sufficient in input materials, leading to dependence on the supply of imported raw materials and inputs – especially key industries such as electronics, textiles, footwear, manufacturing, automobile assembly. The import of key inputs such as raw materials, components, spare parts for production in the processing and manufacturing industries is a situation that has lasted for many years, leading to the added value of the processing and manufacturing industries being very low. The localization rate in the processing and manufacturing industries is still low, making it difficult to meet the regulations on localization rate and intra-bloc rules of origin to enjoy tariff preferences as committed in FTAs. Therefore, when the COVID-19 epidemic broke out in countries supplying components for Viet Nam such as China, Korea, and Japan,

the domestic processing and manufacturing industries have encountered a lot of difficulties in ensuring production inputs in the period from the beginning of 2020. This will affect the export turnover of both 2020 and the following years.

In 2020, the export turnover of textiles and footwear has decreased by 9.20% and 8.32% respectively compared to 2019. The reason for the decrease in the growth of these goods is that these goods strongly affected by the COVID-19 pandemic, the supply chain is disrupted globally, the supply of raw materials for production, Viet Nam's export of textile and footwear industry is difficult due to dependence on raw materials from China. At the same time, demand declined sharply in the European and U.S. markets - major export partners of Viet Nam.

*Secondly*, the processing and manufacturing industries account for nearly 40% of the total production and business revenue of the economy, as well as exports of processing and manufacturing industries accounting for a high proportion of Viet Nam's total export turnover. But the processing and manufacturing industries contribute only about 14% of GDP, the added value is very low compared to other industries. Data from the Organization for Economic Co-operation (OECD) also shows that in the last five years, in the structure of Viet Nam's export value-added, foreign added value still accounts for a large proportion, especially from China and South Korea, while the domestic value-added rate is still low and there has not been much significant change (Viet Nam's two main export industrial goods are textiles and electronics with a value-added ratio in the country of just over 50% and 37%), respectively.

This situation will not only affect the development of industrial production and economic growth in the short term, but will also continue to affect not only the development of processing and manufacturing industries but also Viet Nam's economy in the long term in the period of deepening international integration.

*Thirdly*, electrical and electronic goods increasingly play an important role in Viet Nam's trade. Its proportion of Viet Nam's total export turnover of goods is quite high and growing rapidly. However, in terms of the proportion of the 3 largest exports and the 3 export markets, the concentration of products and markets of the electricity and electronics industry is quite large. In terms of products, the proportion of the top 3 products (including phones, integrated microchips and wires and power cables) in 2011 was 70%, rising to a peak of 81% in 2015, then gradually decreased to 75% in 2019. In terms of the market, the concentration on the three largest markets (China, the United States, South Korea) is increasing, the proportion of these three markets in 2011 was 18%, rising to 42% in 2019. Therefore, Viet Nam's electricity and electronics sectors are relatively low diversification, depending on a small number of products and markets, so there may be risks when these markets experience unexpected shocks.

Over the past 10 years, Viet Nam's trade balance in the electricity and electronics sector has improved significantly, from a deficit of \$1.5 billion in 2011 to a surplus of \$19.3 billion in 2019, however, the surplus mainly comes from the final product of phones. Meanwhile microchip components integrate has the second largest export turnover, but it was the largest trade deficit during the past period, with a deficit from \$2.6 billion in 2011 to \$19 billion in 2019. This reflects the situation of Viet Nam's electricity and electronics industry, which is focused mainly on the assembly of final products for export and is dependent on imported electronic components (mainly EIC) for domestic production and assembly.

*Fourthly*, for the textile and footwear, in terms of proportion of the three largest exports and the three largest export markets, the product concentration of the textile and footwear industry is quite low, but the concentration of the market is quite high. In terms of products, the top 3 products (leather shoes, women's suits, men's suits) in 2011 had a proportion of 28%, in 2020, the top 3 products (fabric shoes, leather shoes, knitted clothes) had a proportion of 35%. In terms of the market, the focus on the three markets is increasing, the proportion of the three largest export markets (the United States, Japan, South Korea) in 2011 was 54%, rising to 57% in 2019, notably, China has become the second largest export market after the United States. So, Viet Nam's textile and footwear industry has a high product diversification, but the market diversification is quite low, especially, the US market has maintained a proportion of more than 30% of Viet Nam's total textile and footwear export turnover.

In the past 10 years, in terms of the whole industry's trade balance, textiles and footwear is a fairly high surplus, reaching \$12.4 billion in 2011, rising to \$37.2 billion in 2020. However, the surplus mainly comes from the final products, while the raw material items have a fairly large trade deficit. This reflects the situation of Viet Nam's textile and footwear industry, which is not forming a domestic production chain, mainly focusing on processing final products for export and relying more and more on imported raw materials (mainly fabrics) for domestic processing. This situation does not allow businesses to take advantage of the market opportunities offered by FTAs, especially new-generation FTAs, because they do not meet the requirements of rules of origin.

In addition, Viet Nam's textile and footwear industry has global competitive advantages but it is tending to lose these advantage, as shown by the RCA index in the period of 2011-2020 has decreased from 5.0 to 3.5, the Lafay index has decreased from 69.3 to 43.8. The gradual reduction of competitive advantage in labour-intensive and low-tech sectors is inevitable in the process of industrialization and both indicators are still quite high, showing that in the short term, textiles and footwear continue to be with the main export of Viet Nam. However, if these two sectors do not enhance their competitive advantage and added values based on technology and high-quality human resources, in the next few years, when Viet Nam's average salary increases, foreign garment enterprises will leave Viet Nam and move to countries with more advantages in labour costs. There are only remaining domestic enterprises, which have no direct connection with the export market and no market experience. As the result these industries will be difficult to maintain their position in domestic market and in the world market.

*Fifthly*, for wood and wood products, in terms of the proportion of the three largest exports and the three largest export markets, the concentration of products and markets of the wood industry is quite large. In terms of products, the proportion of the top three products (furniture, chairs, fuel wood) in 2011 was 83%, only slightly reduced to 80% in 2019. In terms of the market, the focus on the three markets is increasing, the proportion of the three largest export markets (the United States, Japan, China) in 2011 was 61%, rising to 71% in 2019. In general, Viet Nam's wood and furniture industry has relatively low diversification, depending on a small number of products and export markets.

Over the past 10 years, the trade balance of the wood industry has always been surplus and tends to increase, from about \$2 billion in 2011 to nearly \$10 billion in 2019, mainly coming from three main export products: furniture (HS 9403), chairs (HS 9401) and fuel

wood (HS 4401), The trade deficit items, mainly wood materials such as round wood (HS 4403), had a deficit of nearly \$500 million and lumber (HS 4407) with a deficit of nearly \$1 billion. We still have to import raw wood to produce the final product. The direction of sustainable development is increasingly demanding on the origin identification, certificate of forest protection and sustainable exploitation. In order to remain competitiveness, wood enterprises must pay more attention to non-tax measures such as rules of origin and requirements, certificate of sustainable development.

*Sixthly*, according to the type of enterprises, foreign-invested enterprises (FDI) account for a relatively modest proportion of 2.81% but account for 71.7% of the country's export turnover in the processing and manufacturing industries. According to each group of exports, FDI enterprises account for more than 80% in most electrical and electronic items. For the 25 main exports, 18 FDI enterprises contribute more than 50% of the country's export turnover. It is shown that Viet Nam's exports of processed and manufactured industrial products are being heavily dependent on the FDI sector.

***Current difficulties and causes:***

*Firstly*, one of the most important reasons is that Viet Nam's supporting industries are still underdeveloped, and the ability to supply input materials for domestic production and export is still very limited. The assessment of the impact of the COVID-19 pandemic on domestic manufacturing industries also clearly shows that one of the biggest weaknesses of the Vietnamese economy is the limited internal resources of the domestic manufacturing industries. It is heavily dependent on foreign supply chains because the supporting industries of many processing and manufacturing industries are underdeveloped.

*Secondly*, the development policy of the priority processing and manufacturing industries such as electronics, key mechanics, manufacturing and assembling automobiles, textiles and footwear, etc., with the aims to create markets for these industries has not achieved the desired results. Domestic supporting industry products are simple, with medium and low technology, and have a small value in the product value structure. The ability to self-supply supporting industrial products of enterprises in the processing and manufacturing industries is still inadequate. Viet Nam's supporting industry enterprises still have many limitations in production management capacity and technical technology; lack of resources to innovate in terms of level, scale, technology and products; the manufacturing sector is quite similar; insufficient capacity to supply components and spare parts to meet the requirements to participate deeply in the global value chain.

*Thirdly*, the policy of attracting FDI to develop infrastructure of industrial parks, export processing zones and invest in developing supporting industries is not effective. Investment policy on research and development of new technologies and new products has not been given much attention. The investment policy in developing large industries in order to transfer modern technology has not achieved desired results. Foreign investment in Viet Nam is mainly from the countries with medium technology in the ASEAN region. This had led to the fact that processed and manufactured products have low competitiveness and export value added, difficult to participate deeply in the global value chain, having risk to become a "technological dump", especially from China.

*Fourthly*, the policy to attract FDI has not focused on shifting production and exports in the direction of absorbing advanced technology, capital and management from abroad. Viet

Nam's foreign investment attraction policy focuses on quantity but does not pay much attention to quality or economic, social and environmental efficiency, mainly focusing on labour-intensive industries such as textiles and garments, leather and footwear. Therefore, it has not created much of a trade surplus or the development of an in-depth processing and manufacturing industries based on advanced science and technology, innovation and creativity, value-added is low and economic efficiency is not high.

*Fifthly*, Export policies on developing processed and manufactured industrial goods have not encouraged in-depth export development based on science - technology and highly qualified human resources, not focused on quality and environmental protection issues, ensuring social security and sharing benefits equally. The allocation of resources in terms of capital, science - technology, and high-quality human resources for the development of industrial production industries is inadequate to create industrial groups to lead the economy.

*Sixthly*, domestic enterprises in the processing and manufacturing industries still have many limitations in terms of capital, technological level and quality of human resources, production capacity, export, participation in the global value chain, support from the state. Although export opportunities and market access opportunities from FTAs are equally open to all businesses, FDI enterprises have made better use of these opportunities than domestic enterprises.

*In short*, in addition to policies on developing processing and manufacturing industries, attracting FDI and supporting the development of domestic enterprises, the focus on developing supporting industries, developing processing industries and supporting industries should be considered such as electronics, key mechanics, automobile production and assembly, textiles, apparel, footwear, etc., in order to create markets for products of supporting industries, step by step being self-sufficient in resources domestic raw materials, components and accessories, thereby helping the domestic processing and manufacturing industries to develop. It is one of the core issues for the sustainable development of Viet Nam's industry in the long term.

## **II. ORIENTATIONS OF EXPORT DEVELOPMENT IN PROCESSING AND MANUFACTURING INDUSTRIES OF VIET NAM TOWARDS 2030**

### **2.1. Orientations of Export Development in Processing and Manufacturing Industries**

Resolution No. 23-NQ/TW dated March 22, 2018 of the Political Bureau on the orientation of national industrial development to 2030 and the vision to 2045 clearly states the general goals: by 2030, Viet Nam will complete the industrialization and modernization and “generally” become an industrialized country; Viet Nam will be one of the 3 leading countries of ASEAN in terms of industry. Viet Nam’s industry will be internationally competitive and deeply involved in the global value chain. By 2045, Viet Nam will fully become a modern industrialized country. At the same time, Resolution No. 23-NQ/TW also sets specific targets to 2030 for Viet Nam's industry: the processing and manufacturing industries will play an important role. In that vision, the proportion of industry in GDP reaches over 40% with the proportion of processing and manufacturing industries in GDP reaches about 30% (of which the manufacturing industries reach over 20%). The proportion of high-tech industrial products reaches at least 45% of the processing and manufacturing industries. The growth rate of

industrial value-added reached an average of over 8.5% per year, of which the processing and manufacturing industries reached an average of over 10% per year.

Regarding the priority industries, Resolution No. 23-NQ/TW clearly states the principle of selectivity, i.e., Vietnamese companies should select products with which they can deeply participate in the global production network and value chain. It is hoped that such products are also of fundamental significance with significant spill over impact on other economic sectors. Such products should use clean and environmentally friendly technologies. They should also allow Viet Nam to realize a high added-value. It is also hoped that such products will support some labour-intensive industries that Viet Nam still has a competitive advantage in.

Based on the principles of selection and policy on the development of priority industries outlined in Resolution No. 23-NQ/TW; on the basis of the priority products of the processing and manufacturing industries outlined in the Prime Minister's Decision No. 879/QĐ-TTg on approving the Vietnam Industrial Development Strategy to 2025 with a vision to 2035; at the same time, based on the export prospects of Viet Nam's processing and manufacturing industries, it is possible to give a general orientation to develop exports of processed and manufactured industrial goods, which are: "Shifting the export structure of processed and manufactured industrial goods in the direction of accelerating the export of processed and manufactured products with high levels of technology and grey matter; maintaining export growth of processed and manufactured products with comparative advantages in line with the needs of the world market; develop supporting industries, improve the domestic value ratio, reduce dependence on raw materials, spare parts, components and intermediate products imported from abroad."

In short, it is necessary to identify processed and manufacturing industries as a group with strong potential for development in the world with many new products born thanks to the Industrial Revolution 4.0 and the digital economy, while the world market is always available and new demand appears. At the same time, Viet Nam has the prospects and potential to develop exports of this category of goods in the next decade.

## **2.2. Suggestions to Promote Viet Nam's Export of Processing and Manufacturing Industrial Products towards 2030**

- Development of supporting industries is important in increasing the contribution of the processing and manufacturing industries in the structure of the economy. Developing supporting industries is one of the most important solutions for Viet Nam to improve the quality of growth, improve the internal strength of domestic manufacturing sectors, reduce dependence on imported input materials, minimize dependence on foreign supply chains. At the same time, the development support industries help increase the ability to attract foreign direct investment, promote the reception and transfer of technology, promote the development of domestic small and medium enterprises; Since then, it has created a strong spread, helping domestic enterprises to participate deeply in the supply chain of FDI enterprises and the global value chain of multinational corporations.

- Perfecting mechanisms and policies to develop the processing and manufacturing industries. Develop, perfect and implement effectively and synchronously specific mechanisms and policies for the development of priority processing and manufacturing industries (which are preferential and supported by the State in accordance with the Law on Investment); at the same time, effectively formulate and implement policies to develop



materials industries and market development for complete product manufacturing and assembly industries, creating a fundamental foundation for industrialization in a modern and sustainable way.

- Ensuring and effectively mobilizing resources to develop the processing and manufacturing industries. Arrange, ensure and mobilize resources effectively to implement investment policies to develop priority processing and manufacturing industries. To enhance the role and encourage localities to invest resources to implement policies, programs and activities to support enterprises in processing and manufacturing enterprises to prioritize development, on the basis of complying with legal regulations and ensuring compliance with socio-economic conditions of each locality.

- Implementing financial and credit solutions to support capital for enterprises in the processing and manufacturing industries. Continue to implement preferential interest rate policies for processing and manufacturing enterprises prioritizing development when borrowing short-term loans at credit institutions. The State shall provide compensation for interest rate differences for medium and long-term loans of enterprises to implement projects producing products in the list of priority processing and manufacturing industrial products developed with central budget capital, local budget and ODA sources, foreign concession loans.

- Create opportunities to form and develop the domestic value chain through attracting effective investment and promoting business connections and links between Vietnamese enterprises and multinational enterprises, domestic and foreign manufacturing and assembly companies; construction of concentrated processing and manufacturing industrial parks to create industry linkage clusters; develop materials industries to enhance the autonomy of input materials for production, reduce dependence on import sources, improve domestic added value, product competitiveness and position of Vietnamese enterprises in the global value chain. At the same time, promoting the development of the manufacturing and assembly industries of complete products, supporting with a focus and focus of Vietnamese enterprises in the processing and manufacturing industries prioritizing the development of regional-class corporations, creating a spillway effect and leading processing industry enterprises, Development in the spirit of resolution No. 23-NQ/TW of the Ministry of Politics on orientation to develop national industrial development policy to 2030, with a vision to 2045.

- Promote the development of the domestic market and the export market to facilitate the development of priority processing and manufacturing industries. Specifically, ensuring the size of the domestic market through solutions to develop priority processing and manufacturing industries, on the principle of ensuring economic efficiency, building and implementing a system of regulations and technical standards in the appropriate industry to protect domestic production and consumers; strengthen the quality inspection of imported industrial goods and use technical barriers to reasonably protect the domestic market in accordance with international commitments and practices. At the same time, seeking and expanding potential export markets on the basis of taking advantage of signed FTAs; implement measures to support processing and manufacturing enterprises to effectively implement commitments in free trade agreements; actively remove barriers, combat exclusive behaviours, unfair competition; Develop modern types and methods of trading.

- Strengthen trade promotion and complete the legal document system to create a legal corridor for trade promotion activities at the government and industry and enterprises levels. In parallel with solutions to improve the efficiency of trade promotion activities, special

attention is focused on the application of science and technology and digital economy to trade promotion activities, trade connection, and market access information for domestic enterprises. In order to implement activities to effectively support and improve the capacity of trade promotion and export market development, a long-term program is required, with a clear system of measurement and evaluation objectives to serve the process of implementation, supervision, evaluation, ensure the effective use of state resources for trade promotion, finding and expanding potential export markets for enterprises in the processing and manufacturing industries.

- Improving the capacity of domestic processing and manufacturing enterprises. Building and effectively operating technical centres to support regional and local industrial development by allocating medium-term investment capital of the central and local governments on the basis of the needs, development goals and available resources, Manufacturing prioritizes innovation development, R&D, technology transfer, productivity improvement, product quality and competitiveness, creating opportunities to participate deeply in the global value chain. Forming mechanisms and policies to support and provide financial incentives, economic and technical infrastructure to improve the capacity of technical centres to support regional industrial development, perform the role of connecting local centres, forming a common ecosystem of technology and industrial production.

- *Improve the capacity of domestic processing and manufacturing industries enterprises.* Effectively build and operate technical centres to support regional and local industrial development from central and local medium-term investment capital on the basis of needs, development goals and available resources to supporting processing and manufacturing industries enterprises to prioritize the development of innovation, research and development (R&D), technology transfer, improve productivity, product quality and competitiveness, create opportunity to participate deeply in the global value chain. Forming supporting mechanisms and policies, financial incentives, and economic-technical infrastructure in order to improve the capacity of technical centres to support regional industrial development, perform the role of connecting local centres, forming a common ecosystem of technology and industrial production.

- Focusing on improving science and technology capacity for processing and manufacturing enterprises to prioritize development in order to create breakthroughs in technology infrastructure, technology transfer, improve the capacity to absorb technology of processing and manufacturing enterprises. Strengthen domestic and international cooperation in research, development, application of science and technology, purchase and transfer of scientific and technological products; promote the commercialization of scientific and technological research products; strengthening public-private cooperation mechanisms in the implementation of technology innovation, research and development projects; establish it start-up centres to develop artificial intelligence (AI), Internet of Things (IoT), big data technologies for the processing and manufacturing industries.

- Developing human resources in the field of processing and manufacturing industries through national programs and plans on improving skills, promoting links between training institutions and enterprises, linking vocational education with the labour market, developing management systems and ensuring the quality of vocational education, implementing a modern, lean and professional management model, applying according to international standards and applying information technology, promoting international cooperation in

training and developing high-quality human resources, developing the assessment system, granting national vocational skills certificates, especially for important vocational skills in the field of processing and manufacturing industries.

- *Promote the work of information, communication, statistics and form the database of the processing and manufacturing industries.* Building and perfecting a statistical system and database of processing and manufacturing industries prioritized for development in order to promote the connection between Vietnamese suppliers and multinational corporations, increase efficiency. , effective state management and policy formulation on the processing and manufacturing industries; improve the quality of statistics, ensure timely, complete and accurate information. Promote extensive advocacy on the processing and manufacturing industries prioritized for development in order to attract attention, change and raise awareness and implementation responsibilities of leaders at all levels and sectors. localities and the whole society on the development of processing and manufacturing industries.

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# **THE EU - VIETNAM FREE TRADE AGREEMENT (EVFTA) AND PROSPECTS FOR VIET NAM'S RICE EXPORTS**

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## **Abstract**

*The EU - Vietnam Free Trade Agreement (EVFTA) officially took effect on August 1, 2020, It is considered to have a positive impact on Vietnam's rice exports to the EU. Despite the huge benefits created by EVFTA such as preferential tariff and quotas, expanding Viet Nam's rice export markets to major EU countries, Vietnam is also facing great challenges in terms of rice quality competition and compliance with strict regulations and standards of the EU markets. This article reviews the status and prospects of Vietnam's rice exports to the EU market in the context of EVFTA implementation and makes some policy recommendations for the Government and businesses to take full advantage of the opportunities created by the EVFTA. It also suggests ways to overcome challenges, to boost Vietnam's rice exports to the global market in general and the EU market in particular in the years to come.*

Keywords: Export, rice, prospects, policies, EVFTA, Vietnam.

## **I. EU'S COMMITMENTS FOR VIETNAM'S RICE EXPORTS UNDER EVFTA**

### **1.1. Introduction**

The European Union (EU-27) is a developed market with 446 million consumers, GDP of about \$14 trillion in 2020. Rice is not the main food of EU consumers, but the EU is a market with high demand and the import of rice into the EU tends to increase due to the increased number of Asian, African and Middle Eastern immigrants in the population structure of the European Union. As a long-term developed market with a high income, the European Union has strict requirements for quality standards, value, grade and food safety, traceability and labelling of the imported rice. EU rice consumers tend to favour premium rice, fragrant rice and high quality products made from rice. These types of products account for a large proportion of the EU's rice imports and consumption structure and are supplied mainly by major Asian rice exporters such as Pakistan, Thailand, Myanmar, and India.

The European Union - Vietnam Free Trade Agreement (EVFTA), officially took effect from August 1, 2020, is considered as having a positive impact on Viet Nam's rice exports to the EU market. According to the commitments in the agreement, as soon as the Agreement officially comes into effect, the EU will give Viet Nam a quota of 80,000 tons of rice/year with a preferential tax rate of 0%, compared with the tax rate of 45% applied before EVFTA for Vietnamese rice, even the rate of 100% applied by certain EU members to particular types of rice. The European Union will also fully open for Viet Nam's broken rice exports after 5 years, the tax rate will be reduced to 0% after 3 - 5 years for rice products. This will significantly improve the price competitiveness of Viet Nam's rice products exported to the

EU. In addition, the effect of EVFTA will help improve Viet Nam's business and investment environment, attract high-quality EU investors, build and develop Viet Nam - EU rice supply chains, connect Vietnamese businesses with EU consumers, thereby better satisfying needs, tastes and high requirements of EU consumers for high quality and strong brands and helping Viet Nam's rice participate more effectively in the regional/global rice supply chain.

## 1.2. EU's Commitments for Viet Nam's Rice Exports under EVFTA

### \* *Tariff quotas commitment*

Under EVFTA, the EU's tariff commitments are specified in Appendix 2-A Chapter 2 of the Agreement. Table 1 below describes the EU's quota commitments for Viet Nam's rice exports.

**Table 1. Tariff quotas commitment under EVFTA for Vietnamese rice products**

Product type	HS Code (EU Tax Schedule)					Tariff quotas
Husked rice	1006.10.21; 1006.10.94; 1006.20.15; 1006.20.98	1006.10.23; 1006.10.96; 1006.20.17; 1006.20.98	1006.10.25; 1006.10.98; 1006.20.92;	1006.10.27; 1006.20.11; 1006.20.94;	1006.10.92; 1006.20.13; 1006.20.96;	20,000 tons
Milled rice	1006.30.21; 1006.30.44; 1006.30.65; 1006.30.96	1006.30.23; 1006.30.46; 1006.30.98;	1006.30.25; 1006.30.48; 1006.30.67;	1006.30.27; 1006.30.61; 1006.30.92;	1006.30.42; 1006.30.63; 1006.30.94;	30,000 tons
Fragrant rice	1006.10.21; 1006.10.94; 1006.20.15; 1006.20.98; 1006.30.42; 1006.30.63; 1006.30.96;	1006.10.23; 1006.10.96; 1006.20.17; 1006.30.21; 1006.30.44; 1006.30.65; 1006.30.98;	1006.10.25; 1006.10.98; 1006.20.92; 1006.30.23; 1006.30.46; 1006.30.67; 1006.30.92;	1006.10.27; 1006.20.11; 1006.20.94; 1006.30.25; 1006.30.48; 1006.30.92; 1006.30.94;	1006.10.92; 1006.20.13; 1006.20.96; 1006.30.27; 1006.30.61; 1006.30.94;	30,000 tons
The rice shall belong to one of the following varieties of fragrant rice: Jasmine 85; ST 5; ST 20; Nàng Hoa 9; VD 20; RVT; OM 4900; OM 5451; Tài Nguyên Chợ Đào						
The consignment of rice eligible for the tariff rate quota should be accompanied by an authenticity certificate issued by the relevant competent authorities of Viet Nam stating that the rice belongs to one of the varieties mentioned above.						

Source: European Union - Vietnam Free Trade Agreement (EVFTA), Appendix 2-A

### \* *Rules of origin for rice and rice products in EVFTA*

- To enjoy tariff preferences in EVFTA, rice must be of pure origin.
- Raw materials being rice used in food production must be of pure origin.
- Non-reproducible rice-based products from non-originating products in the same group as the output product and the total weight of rice materials  $\leq$  20% of the product weight.

\* *Commitment on geographical indications:* The EU recognizes and protects 39 geographical indications of Viet Nam, of which there are 4 rice products: Hong Dan rice, Dien Bien rice, Hai Hau rice and Bay Nui rice.

## II. VIET NAM'S RICE EXPORTS TO THE EU MARKET IN 2016-2020

Firstly, in the period of 2016-2020, Viet Nam's rice exports to the EU, after falling to a low turnover of \$12.54 million in 2017, have started to increase since 2018 and reached a high growth rate in 2019 and 2020. In 2020, rice exports to the EU increased to \$33.28 million, 2.65 times higher than in 2017 and 13.45% higher than in 2019. The proportion of Viet Nam's rice export turnover to EU in total rice exports also increased from only 0.47% of Viet Nam's total rice exports in 2017 to 1.20% in 2019 and 1.19% in 2020.

**Table 2. Viet Nam's rice exports to the EU in the period 2016-2020**

*Unit: 1.000 USD*

No.	Country	2016	2017	2018	2019	2020
<b>Viet Nam's total rice export turnover</b>		<b>2,159,977</b>	<b>2,634,588</b>	<b>2,621,440</b>	<b>2,434,252</b>	<b>2,790,951</b>
<b>Turnover of rice export to EU-27</b>		18,561	12,543	13,050	29,336	33,284
<b>Percentage of the total rice export turnover of Viet Nam (%)</b>		0.86	0.47	0.49	1.20	1.19
1	Italia	773	522	959	5,518	5,608
2	virtue	1,162	719	1,573	3,492	5,268
3	Poland	1,510	352	2,091	4,780	5,209
4	Netherlands	2,995	1,685	2,096	3,403	4,472
5	Czech Republic	421	285	268	943	2,303
6	France	2,467	739	616	1,095	2,114
7	Switzerland	63	18	73	1,057	1,604
8	Portugal	681	365	361	643	1,503
9	Hungary	762	170	775	691	1,394
10	Lithuania	3,234	4,818	1,823	3,718	1,242
11	Spain	619	474	449	414	806
12	Croatia	654	621	93	1,418	439
13	Denmark	286	242	428	337	288
14	Belgium	2,660	1,220	305	990	268
15	Slovenia	0	16	169	190	266
16	Greek	186	85	72	131	124
17	Shirt	0	0	0	13	107
18	Latvia	0	0	0	0	80
19	Bulgaria	60	38	88	152	68
20	Republic of Ireland	0	147	110	0	65
21	Cyprus	3	17	25	10	27
22	Romania	11	0	676	265	15
23	Finland	14	10	0	52	14
24	Other EU countries	0	0	0	24	0

*Source: International Trade Centre (ITC) data, 2021.*

Secondly, Viet Nam's rice export market in the European Union is increasingly expanding and diversifying. While the volume of rice exported to leading markets such as Italy, Germany,

Poland, the Netherlands, the Czech Republic, and France is increasing, Viet Nam's rice has been available in all markets in the EU-27 though the export volume is still small. Notably, the volume of rice exported to Switzerland, Portugal and Hungary has increased significantly in recent years. These countries have become the top 10 largest export markets of Viet Nam in the EU in 2020. Although the Lithuanian market is ranked 10<sup>th</sup> in terms of rice exports of Viet Nam in the EU region, the export increase and decrease is unstable and the Belgian market has recorded a significant decrease in rice export turnover (Table 2).

*Thirdly*, Vietnamese rice exported to the EU has a good price in comparison with the export price of rice of other competitors such as Thailand and India. According to the European Commission in June 2021, the export price of Viet Nam's 5% broken rice reached \$445/ton compared with the price of \$430/ton of 5% broken rice of Thailand and only \$390/ton of 5% broken rice of India (Figure 1). As for fragrant rice, taking advantage of the effect of EVFTA as from September 2020, Viet Nam has exported the first consignment of rice to the EU with a relatively high selling price compared to the previous period. For example, before the implementation of the agreement, the price of ST20 rice and Jasmine rice exported to the EU were about \$800/ton and \$520/ton respectively, in the first quarter of 2021 the prices increased to more than \$1,000/ton and \$600/ton, respectively. For the market with the strictest requirements for quality in the world like the EU, these prices are considered a proud achievement of Vietnamese rice.

**Figure 1. Comparison of rice export prices of some countries, June 2021 (USD/Ton)**



Source: EC (2021), Committee for Common Organization of Agricultural Markets, Rice Market Situation, June 2021, Ec.europa.eu

*Fourthly*, these positive export results are obtained thanks to the great efforts of both the Government and the business community of Viet Nam made to prepare the agreement and implement the EVFTA commitments. The Government has made great efforts in negotiating, signing and organizing the implementation of EVFTA, which is seen as a new generation free trade agreement with the highest standards that Viet Nam has ever joined so far. Just one month after the Agreement officially took effect on August 1, 2020, on September 4, 2020, the Government issued Decree No. 103/2020/ND-CP regulating the certification of varieties of fragrant rice exported to the European Union to be eligible for exemption of import tax within the quota of 80,000 tons/year under the framework of EVFTA. The Ministry of Industry and Trade and related ministries/departments/agencies and local authorities at all levels have organized a number of workshops, seminars, conferences, training courses to disseminate knowledge and contents of the Agreement's commitments to the business

community and related trade support organizations, cooperatives, farms and farmers, helping them increase their awareness, understanding and have relevant skills and qualifications to effectively fulfil their commitments in order to take advantage of the benefits of EVFTA for the purpose of the development of Viet Nam's rice exports. Businesses have also made great efforts in studying the contents of EVFTA to develop good strategies to exploit opportunities and potentials from EVFTA and overcome difficulties and challenges from the implementation of the EVFTA in a proactive manner. By doing this way, a number of enterprises such as Loc Troi Group, Viet Nam Seed Group (Vinaseed), Trung An Hi-tech Agriculture Joint Stock Company, etc. have been able to immediately take advantage of the tariff quota as committed under the Agreement to export high quality rice to the EU.

However, besides the goods results, Viet Nam's rice exports to the EU are far below the country's potential and Viet Nam's rice export to the EU is far to meet the EU's rice import demand:

*Firstly*, Viet Nam has now become the world's second biggest rice exporter in terms of volume after India, with Viet Nam's rice exports accounting for about 15% of the world's total rice export volume. As one of the three biggest rice exporters in the world along with India and Thailand, Viet Nam's rice exports to the EU are not commensurate with the potential and position of Viet Nam on the world rice map. While India and Thailand are always on the top of the list of the largest rice exporters to the EU and the rice export of each country accounts for about 8-9% of the EU's total rice import volume, that of Viet Nam only accounts for very small share in the EU market. Compared to other Southeast Asian countries that export rice to the EU (Myanmar, Cambodia), Viet Nam also has the lowest position, indicating weak and slow improvement of competitiveness of Vietnamese rice in the EU market.

*Secondly*, Viet Nam's rice has not had a strong foothold in the EU market and for a long time it was identified as the middle-grade rice product which is of uneven quality, low value, no brand, far to meet the needs and tastes of EU consumers, while the tastes and habits of EU consumers have been attached to rice brands from Pakistan, Thailand, India, Myanmar, Cambodia. Some of key root causes of these limitations and difficulty in penetrating the EU market include the high import tariffs that the European Union applies to rice imported from Viet Nam, strict requirements of the EU market for quality, food safety, diversity and differentiation in quality, technical regulations, environmental standards, social responsibility, traceability and trademarks, while Viet Nam's ability to respond to these requirements is very limited.

*Thirdly*, the mindset and farming habits of Vietnamese farmers have not changed to respond to new development and context. The capacity of rice enterprises is still limited. They lack good capital, human resources, infrastructure, technology, effective cooperation and linkage with other rice traders in the production - consumption chain. These are the direct reasons of the limitation of Viet Nam's rice exported to the EU is still limited and why it is less competitive compared to other Asian competitors. Meanwhile, the State's support measures and policies for rice exporters to the EU are not efficient, especially policies to strengthen the linkage of different parts of the rice supply chain including the linkage between different parts of the chain dealing with seeds and cultivation, processing, transportation, logistics, distribution, consumption or policies to support businesses' marketing and promotion of rice exports to the EU market.



### III. PROSPECTS FOR VIET NAM'S RICE EXPORT TO EU MARKET

Firstly, the tariff reduction according to EVFTA commitments will bring a great competitive advantage in price for Vietnamese rice exported to the EU when currently other competitors such as Thailand and China are not having an FTA with the EU. The specific situation of tariff reduction according to EVFTA commitments and opportunities for Viet Nam's rice exports are summarized in the Table 3 below.

**Table 3. Competitive advantage of Vietnamese rice offered by the implementation of EVFTA**

Before EVFTA	After EVFTA takes effect
<ul style="list-style-type: none"><li>- Viet Nam's rice exported to the EU market was subject to very high tax rate, up to 45%. There were even some countries in the EU that imposed import tax on Vietnamese rice up to 100% or higher.</li><li>- Many fragrant rice varieties including ST20, ST25 series that won the world's best rice award were subject to an import tax rate of 45%, therefore, the selling price was increased to more than \$1,000/ton. Particularly in some countries that imposed a tax rate of 100%, the price of fragrant rice was up to \$1,400/ton (compared to the price in the EU market, which should have been only \$700/ton).</li></ul>	<ul style="list-style-type: none"><li>- The EU gives Viet Nam a preferential tax rate of 0% with a quota of 80,000 tons of rice/year (including 30,000 tons of milled rice, 20,000 tons of husked rice and 30,000 tons of fragrant rice).</li><li>- In particular, the EU will completely liberalize broken rice and completely eliminate import tax on broken rice after 5 years.</li><li>- For rice products, import tax will be reduced to 0% after 3-5 years.</li></ul>

*Source: Ministry of Industry and Trade, Department of European and American Markets (2020), information on exports to the EU market - Rice industry (HS 1006)*

These commitments help Viet Nam export about 100,000 tons of broken rice to the EU every year. For rice products, Viet Nam will also enjoy more benefits compared to other exporting countries in the ASEAN region, when Cambodia and Myanmar as the EU's two major suppliers for many years are subject to absolute tax rates until the end of 2021, with a specific absolute rate of 175 Euro/ton in 2019, 150 Euro/ton in 2020 and 125 Euro/ton in 2021.

Secondly, Viet Nam has the opportunity to diversify and develop many new rice products for export such as new varieties of rice, specialty rice products, etc., because these are high-demand products in the EU. In other words, the type of rice exported from Viet Nam to the EU will be increasingly diversified to meet the needs and tastes of EU consumers, with many new varieties of rice being cultivated such as specialty rice, fragrant rice, brown rice, organic rice, parboiled rice. About 5 years ago, Viet Nam only had 35-40% of quality rice varieties, by 2021, this number has already increased to 75 - 80%, even in many localities, quality rice varieties account for up to 90%. In addition, the commitment that the EU will give Viet Nam a quota of 30,000 tons of fragrant rice with a tax rate of 0% has offered a great opportunity for Viet Nam's fragrant rice and specialty rice to affirm its quality and prestige in the market. Currently, there are 9 varieties of fragrant rice exported to the EU that enjoy this tariff quota. These are also the varieties of rice that Viet Nam still has a great potential for

development. Therefore, if Viet Nam does a good job in all stages related to food quality and safety, this quota will certainly be expanded by the EU giving Viet Nam a great opportunity to build a more effective and sustainable Vietnamese rice brand.

*Thirdly*, Viet Nam has the opportunity to attract investment in the high-value-added processed rice segments from qualified EU investors, helping to strengthen the capacity of Vietnamese rice enterprises to participate in the regional/global rice value chain. With the benefits from EVFTA and comparative advantages in labour and natural conditions, and radical institutional reforms and improvement of the business investment environment to respond to the EVFTA commitment, Viet Nam is having the opportunity to welcome the new wave of investment in the fields of food processing and high-tech agriculture. When EU businesses invest in Viet Nam, they will join with Vietnamese rice businesses to build rice production chains, create opportunities for Vietnamese businesses to connect with EU consumers in the Viet Nam - EU rice supply chain, thereby creating a spillover effect on the global market, increasing the value of Viet Nam's rice in the regional/global value chain.

*Fourthly*, Vietnamese rice enterprises have the opportunity to strengthen their rice export capacity to the EU market by attracting investment from high-quality rice processing enterprises from the EU to supplement capital sources, upgrade their technology, improve the quality of human resources for professional, technical and managerial staff, and enhance the application of achievements of the industrial revolution 4.0, especially biotechnology and digital economy in cultivating, processing and exporting rice to meet EU standards and standards of other high-end markets. Domestic enterprises such as Loc Troi Group, Vinaseed, and Trung An have pioneered and concentrated on cultivating and processing rice through the linkage of rice export chains, initially occupying the EU market in the segments of fragrant rice, specialty rice and better satisfy strict requirements of the EU market on the quality of exported rice.

*Fifthly*, besides the opportunities and advantages from EVFTA for Viet Nam to boost rice exports to the EU, there are some challenges for Viet Nam's rice exports to the market with great potential but extremely strict requirements. Opportunities always come with challenges and if Viet Nam does not exploit and make good use of these opportunities, they themselves will become burdens and challenges. Even that the allocation of the quota focuses on the first 3 quarters of 2022 and the allocation of the quota for the first quarter alone account for half of the total quota for the whole year (40,000/80,000 tons) has been a big challenge for the rice industry in term of rice supply sources, logistics arrangement, etc. (Table 4).

**Table 4. Allocation of Viet Nam rice import quotas in the EVFTA according to Enforcement Regulation No. (EU) 2021/760**

Rice volume/type	Q1/2022 (1/1 - 31/3)	Q 2/2022 (1/4 - 30/6)	Q 3/2022 (1/7 - 30/9)	Q 4/2022 (1/10 - 31/12)
30,000 tons of milled rice	15,000	7,500	7,500	0
20,000 tons of husked rice	10,000	5,000	5,000	0
30,000 tons of fragrant rice (9 varieties including Jasmine 85, ST 5, ST 20, Nàng Hoa 9, VD 20, RVT, OM 4900, OM 5451, Tài nguyên Chợ Đào)	15,000	7,500	7,500	0

Source: Vietnam Trade Mission to in EU (2021), Enforcement Regulation No (EU) 2021/760

*Sixthly*, there are difficulties and challenges that come from the limitations of the internal capacity of Vietnamese rice exporters, which can be mentioned as: poor rice cultivating and breeding capacity, lack of fragrant rice and specialty rice varieties which are preferred by the European market; poor trade promotion capacity, poor marketing for Vietnamese rice brands; fragmented rice production, difficulties in application of advanced technology in production and processing resulted in uneven quality rice; few varieties of high quality rice, limited capacity to participate in the regional/global rice value chain, poor competitiveness and ability to meet more and more strict requirements and regulations on quality standards of the EU market.

In summary, Viet Nam's rice products have great potential and opportunities to export to the EU market when the export quota is expanded and strict requirements of the EU high-end market are satisfied during the implementation of EVFTA. According to the assessment of policy makers and experts, when implementing EVFTA, Viet Nam has the opportunity to increase the volume of rice to be exported to EU to about 100,000 tons/year and can even negotiate to further expand the quota if Vietnamese rice is accepted by the EU market in terms of value, brand and quality. Therefore, it is important to improve the quality of rice varieties, apply the achievements of the Industrial Revolution 4.0 to improve the quality, value and grade of rice, creating a large, stable supply corresponding to the operations of the EU rice import and distribution system, thereby maintaining and consolidating Viet Nam's rice export market share, increasing added value and efficiency of rice exports to the EU market.

#### **IV. POLICY RECOMMENDATIONS**

##### **4.1. Recommendations for the Government**

*Firstly*, continue to improve the institutional framework and policies for Viet Nam's rice export corresponding to bilateral and multilateral international commitments, especially the commitment in EVFTA as a new-generation FTA with highest standards that Viet Nam has ever signed and implemented so far to make the best use of opportunities opened up for Viet Nam's rice exports.

*Secondly*, measures and policies on information dissemination and advocacy to develop the rice export market in the European Union need to focus on the following areas: (i) The Government, the Ministry of Industry and Trade direct functional units and the Viet Nam's overseas Trade Missions to continue reviewing, updating and closely monitoring consumers' needs, tastes and import mechanisms and policies of the EU market in general and of each EU member market in particular. Timely provide updated information for the Vietnam Food Association, rice export traders to determine their orientations/directions on business operations and export activities and proactively coordinate, prevent and timely solve problems arising in export markets. (ii) Promote the dissemination of information of EU regulations on food safety, quality management, traceability, technical and trade barriers to rice imports to businesses and the Association to respond promptly to arising issues (iii) The Ministry of Industry and Trade shall coordinate with the Ministry of Agriculture and Rural Development to continue reviewing, negotiating and signing agreements on conformity and mutual recognition of product quality, food safety standards with other markets to create favourable conditions for Viet Nam's rice export activities

*Thirdly*, strengthen trade promotion activities, development of Vietnamese rice brands: (i) Promote advertisement in EU countries about the benefits of Vietnamese rice; develop

more ready-made products from rice satisfying the taste and demand of the EU market. (ii) Strengthen the diversification of methods and activities to introduce and promote information about Vietnamese branded rice exporters to EU partners to create export opportunities such as e-commerce, online export platforms, etc. (iii) Actively look for and introduce potential EU partners wishing to import rice products to Vietnamese enterprises.

*Fourthly*, develop policies on financial and credit support and support to upgrade infrastructure and improve logistics services, technology levels, support to develop human resources, build capacity for rice exporters. Continue to study, develop, and improve policies to encourage and strengthen linkages in the rice supply chain for export from seed service to cultivation, processing, transportation, logistics, distribution, and export; Develop policies to support rice exporters to participate in public-private partnership projects, participate in the global rice value chain to offer Vietnamese rice product brands with high added value, introduce rice products with a national brand into the distribution system of EU countries.

#### **4.2. Recommendations for Businesses**

In order to continue realizing the opportunities offered by EVFTA, and at the same time actively overcome arising difficulties and challenges, Vietnamese rice exporters need to:

*Firstly*, proactively capture adequate and accurate information about the commitments in EVFTA related to their fields and business activities to establish a solid foundation for their actions, preparation of sufficient resources, development and implementation of plans to effectively exploit opportunities from EVFTA.

*Secondly*, build strong Vietnamese rice brands, diversify high quality rice products, organic rice, convenient rice and rice mixture food to make sure that they meet strict regulations and requirements of the EU market for safe, healthy food.

*Thirdly*, actively coordinate and establish an accurate, specific, transparent and timely market information system, especially information on consumer demand, tastes, quality and technical standards of the EU market.

*Fourthly*, conduct research, improve technology and organize complete rice mill production lines according to international quality standards to ensure the capacity to supply products suitable to the tastes and strict requirements of a high-end market like the EU. Pay due attention to obtaining other voluntary certificates popular in the EU such as eco-label, organic rice, thereby helping businesses export rice to this market more easily.

*Fifthly*, rice processing and exporting enterprises should establish strong and long-term linkages with rice growers including farming households/farms/cooperatives to develop material production areas which can be traced digitally, thereby changing farmers' way of thinking and farming habits. Provide training, coaching services, share knowledge, provide technical guidance, support supply of seeds, materials, investment in factories, packing and preserving equipment, etc., to make farmers become professional and modern rice producers who are capable of offering products meeting tastes and strict requirements of high-end consumers in the EU market. This is seen as the key point to create good quality rice products for export to the EU in particular and to other high-end markets in general.

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# **SUSTAINABLE DEVELOPMENT OF EXPORT OF WOOD AND WOOD PRODUCTS OF VIET NAM WITH NEW - GENERATION FREE TRADE AGREEMENTS (FTAs)**

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## **Abstract**

*The export of wood and wood products in recent years has achieved encouraging results, making them one of the key export items of Viet Nam. In 2020, the export of wood and wood products reached \$12.37 billion with an increase of 16.2% from 2019. The export of wood and wood products accounts for more than 4% of Viet Nam's total goods export turnover, ranking the sixth in the list of products with export turnover of over \$10 billion. Viet Nam's wood and wood products are exported to many countries and territories with the United States, Japan, China, Korea, and the EU being the main export markets for Viet Nam. For the wood industry, the signing and implementation of new generation FTAs (e.g. CPTPP, EVFTA) will, on one hand, opens up new opportunities for increasing further the export turnover and expanding export markets, on the other hand, serve as a driving force for Vietnamese wood manufacturing and exporting enterprises to improve their competitiveness and develop sustainably.*

Keywords: Wood and wood products, export, sustainability, Viet Nam, new generation FTAs.

## **I. EXPORT OF WOOD AND WOOD PRODUCTS OF VIET NAM IN PERIOD OF 2016-2020**

### **1.1. Achievements**

*Firstly*, in the period of 2016-2020, the scale and growth rate of the export of wood and wood products exports of Viet Nam is very impressive, with an average growth rate of 12.4%/year. The data in Table 1 below shows that, in 2016, the export of wood and wood products reached \$6.96 billion and it is the second year wood and wood products are listed in the group of goods with a turnover of over \$5 billion. By 2020, the export of wood and wood products reached \$12.37 billion, it is the second year wood and wood products are listed in the group of goods with a turnover of over \$10 billion. 2020 is said to be a successful year for Viet Nam's wood industry in the context that the world witnessed the global economic downturn, goods export activities face many difficulties due to the global outbreak of the COVID-19 pandemic and trade tensions between the US and China are on the rise.

**Table 1. Viet Nam's exports of wood and wood products in the period of 2016-2020**

Year	Goods export turnover (Mil. USD)	Turnover export growth rate (%)	Wood and wood product export turnover (Mil. USD)	Wood and wood product export turnover growth rate (%)	Wood and wood product export turnover/Total goods export (%)
2015	162,016	7.86	6,892	10.6	4.25
2016	176,580	8.99	6,965	1.05	3.94
2017	215,119	21.83	7,702	10.6	3.58
2018	243,697	13.28	8,907	15.6	3.65
2019	264,189	8.44	10,652	19.6	4.03
2020	282,655	7.0	12,372	16.1	4.37

Source: Synthesized and calculated from annual data of the General Department of Vietnam Customs

Secondly, the export of wood and wood products has significantly contributed to the overall goal of Viet Nam's goods exports, accounting for 4.37% of the total export turnover of goods in 2020 and becoming the sixth largest industry in the list of products with an export turnover of over \$10 billion of Viet Nam. For the export of wood products (HS code 44), Viet Nam is the 10th largest exporter in the world, the second largest exporter (after Indonesia) in Southeast Asia; for wood products and furniture (HS 94), Viet Nam ranks 7th in the world, 2nd in Asia (after China) and 1st in Southeast Asia.

Thirdly, wood products are more and more diversified, product designs and quality are increasingly improved and satisfy the needs and tastes of import markets, as well as technical standards and regulations, stricter environmental and safety standards in high-end markets such as Japan, EU, and the United States. Wood products with high export value in 2020 include: wood chips, pellets, veneer boards, particle boards, fiber boards, plywood/joint boards, chairs, furniture. In which, veneer boards are the items that recorded a high growth rate of 94% in volume and 51% in value, followed by chair products with an increase of 32% in export value, and wooden furniture products with an increase of 22% in value compared to 2019. The export volume and turnover of some wood and wood products in 2019 - 2020 are shown in Table 2.

**Table 2. Viet Nam's exports of key wood and products**

Product	Unit	2019	2020	± 2020/2019 (%)
Wood chips	Ton	12,021,921	11,607,583	-3
	USD	1,687,327,066	1,487,925,901	-12
Wood pellet	Ton	2,791,391	3,207,472	15
	USD	311,082,930	352,037,059	13
Veneers	Ton	358,280	694,236	94
	USD	53,944,094	81,692,372	51
Particle boards	Ton	55,250	39,769	-28
	USD	11,272,189	9,500,938	-16
Fiber boards	Ton	154,350	111,122	-28

	USD	45,994,051	45,748,652	-1
Plywood/joint boards	Ton	2,099,582	2,096,006	-0,2
	USD	712,513,574	719,411,147	1
Chairs	USD	2,021,054,540	2,670,866,667	32
Furniture	USD	4,814,940,719	5,879,158,325	22

Source: <https://goviet.org.vn/bai-viet/viet-nam-xuat-nhap-khau-go-va-san-pham-go-thuc-trang-2020-va-xu-huong-2021-9258>

Fourthly, the export market for Viet Nam's wood and wood products is constantly expanding. Currently, Viet Nam's wood and wood products have been exported to 120 countries and territories. The United States, Japan, China, Korea, EU-27 continue to be the 5 important export markets of Viet Nam with the total export turnover to these 5 markets reaching about \$10.78 billion, accounting for 87.11% of the industry's total export turnover in 2020. During the period of 2016-2020, Viet Nam's exports of wood and wood products to the United States - Viet Nam's largest export market of wood and wood products - have been continuously increased annually, from \$2.71 billion in 2016 to \$6.97 billion in 2020, reaching the average growth rate of 26.7%/year for the whole period. Exports to Japan - as the second largest market of Viet Nam's wood exports in the same period - increased from \$961.4 million to a peak of \$1,308.2 million in 2019, then in 2020 decreased to \$1,266, 5 million, reaching an average growth rate of 7.1%/year for the whole period. Exports to China are not stable, the export value in the period fluctuates between \$1,026.1 - \$1,227.1 million. During this period, exports decreased in 2018 and 2020. The export of wood and wood products to the EU continuously increased until 2018, but in the last two years 2019 and 2020 exports fell sharply due to the impact of the COVID-19 pandemic outbreak in this region, causing demand to decrease and supply chain disruption (Table 3).

**Table 3. Viet Nam's main export markets for wood and wood products in the period of 2016-2020**

nit: 1.000 USD

Markets	2016	2017	2018	2019	2020	± 2020/2019 (%)
USA	2,711,280	3,080,742	3,613,299	5,125,856	6,976,392	36
Japan	961,430	988,707	1,119,033	1,308,214	1,266,559	-3
China	1,026,144	1,085,937	1,077,017	1,227,120	1,182,121	-4
South Korea	579,358	673,189	938,696	801,951	816,741	2
EU-27	720,560*	739,670*	785,266*	562,718	536,690	-5
Australia	161,345	154,226	174,052	138,903	159,085	15
Canada	130,568	152,612	155,893	186,826	215,684	15
Hong Kong	33,142	16,872	-	3,837	9,566	149
India	49,453	60,225	46,165	36,127	25,000	-31
Taiwan	64,310	58,320	60,602	71,402	69,692	-2
Malaysia	44,530	54,010	100,907	67,913	75,492	11

Note (\*) EU-28 including UK

Source: Synthesized and calculated from annual data of the General Department of Vietnam Customs



*Fifthly*, continuous growth of the export turnover of wood and wood products, increasing demand for wood raw materials for the processing industry in the country are factors that encourage the development of forestry production activities. In addition, many programs and policies on forest development, sustainable environmental protection and specific policies to support ethnic minorities in mountainous areas have been promulgated, further supporting households, especially mountainous ethnic minorities in difficult areas to generate more income, eliminate poverty, gradually stabilize their lives, improve livelihoods, develop forestry production activities, contribute to socio-economic development, ensure national security and defence.

## **1.2. Limitations and causes**

*Firstly*, although the export of wood and wood products has continuously increased in recent years, there are still unpredictable risks that make export growth unsustainable and unstable. The United States has always been the largest market and recorded the highest growth among Viet Nam's key export markets for wood and products, with a turnover of \$6.97 billion in 2020, an increase of 36.1% compared to the figure of 2019, accounting for 56.38% of Viet Nam's total export turnover of wood and wood products. Interestingly, the massive growth in this market is an opportunity created by the US-China trade war, where Vietnamese products substitute Chinese products which are subject to high tariffs. In addition, the current rapid increase in export turnover may contain some risks in controlling trade frauds.

*Secondly*, Viet Nam has not made the best use of opportunities from the implementation of commitments in new-generation FTAs (CPTPP, EVFTA) to boost the export of wood and wood products to member countries. In the markets of CPTPP countries, the export of wood and wood products to CPTPP members did not grow as expected (see Table 4). In 2019 - the first year of the implementation of CPTPP, although accounting for 16.9% of Viet Nam's total export turnover of wood and wood products, the export growth of wood and wood products to the CPTPP markets was only 6.8%, much lower than the growth rate of Viet Nam's export of wood and wood products in 2018 (15.6%) and 2019 (19.6%). In 2020, in the context of the COVID-19 pandemic, Viet Nam's export of wood and wood products still increased rapidly at 16.1%, while the export to the 10 CPTPP members grew only at a modest rate of 1.8%, although the proportion of exports to these markets was quite stable at 14.8%. In the EU-27, although the EVFTA has come into force from August 1, 2020, the export turnover of wood and wood products to many markets in this region has decreased due to facing many difficulties and challenges caused by complicated development of the COVID-19 epidemic in EU, record high costs of logistics and imported materials and serious shortage of empty containers.

**Table 4. Viet Nam's exports of wood and wood products to CPTPP countries in the period 2016-2020**

<b>Countries</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
1. The export of wood and wood products of Viet Nam (Mil. USD)	6.965	7.702	8.907	10.65 2	12.37 2
<i>Growth (%)</i>	<i>1.05</i>	<i>10.6</i>	<i>15.6</i>	<i>19.6</i>	<i>16.1</i>
2. The export of wood and wood products to CPTPP markets (Mil. USD)	1,332	1,465	1,689	1,804	1,836
<i>Growth (%)</i>	-	<i>10.0</i>	<i>15.3</i>	<i>6.8</i>	<i>1.8</i>
<i>Proportion (2/1) %</i>	<i>19.1</i>	<i>19.0</i>	<i>19.0</i>	<i>16.9</i>	<i>14.8</i>

*Source: Synthesized and calculated from annual data of the General Department of Vietnam Customs*

*Thirdly*, although the structure of exports has been shifted towards developing value-added products, the quality and designs of Vietnamese wood products are still poor. Therefore, they are less competitive than products from China, Thailand, Indonesia. The proportion of exported woodchips in the export structure tends to increase in recent years, especially in the Chinese market where the export of wood chips accounts for 60% of Viet Nam's exports of wood chips. Heavy dependence of a key product as such on a single market may lead to future risks when this market changes. Therefore, diversification of markets and products is necessary to guarantee the sustainable development of Viet Nam's export activities of wood and wood products.

*Fourthly*, only little progress in expansion of export markets has been recorded. Apart from traditional markets namely the US, China, Japan, Korea, EU and some regional markets, the penetration into markets with which Viet Nam has signed FTAs is still quite limited. Even in the EU-27 region, the export of wood and wood products has only focused on three main markets: France, Germany and the Netherlands. Exporting wood and wood products to major markets, especially Korea, is becoming more difficult due to strict regulations or changes in policies of importing countries.

*Fifthly*, the competitiveness of domestic wood processing enterprises in Viet Nam is still weak, the cooperation and linkage among them is not strong. Currently, only few enterprises take their own initiatives to invest in technology and equipment, and are capable of designing, manufacturing products, finding markets for their products on their own, and increasing added value to their products. Most of the remaining small and micro-scale processing establishments such as households, cooperatives, business groups, and craft villages have outdated technology and equipment, limited management capacity, and lack of long term strategies. The cooperation and coordination among them is weak and ineffective making it difficult to create the collective strength to accept and deliver big orders. Most Vietnamese wood enterprises have not been able to comply with the European Union Timber Regulation (EUTR) effective from March 2013 and the Voluntary Partnership Agreement on Forest Law Enforcement, Governance and Trade (abbreviated as VPA/FLEGT) between Viet Nam and the European Union, which took effect from June 1, 2019.

There are many reasons why Viet Nam's export of wood and wood products has not been developed as expected in the past years. The objective reasons are mainly changes in demand and tastes in wood consumption in the world, economic conditions, prices and consumers' incomes, the impact of the COVID-19 pandemic, especially changes in timber trade policies of major importing countries. In fact, countries often do not impose quantitative restrictions to control wood imports, so non-tariff barriers are mainly established in the form of technical standards and regulations, environmental protection measures. These technical regulations and standards vary widely from country to country. Particularly, the world's major wood import markets have been strengthening the application of technical barriers related to the legitimacy of the origin of raw wood used to process wood products for export.

Meanwhile, the subjective reasons include limited competitiveness and unsustainable development of Viet Nam's wood processing and exporting enterprises. They are characterized by scattered investment, small scale, borrowed capital, limited capacity to invest in advanced chain management technology and processes; mainly contracted for processing, highly dependent on orders, designs from customers. Their source of raw materials is still heavily dependent on imports, while the control of the legitimacy of the origin of imported

wood is not tight and synchronous to create a breakthrough for the industry. In addition, wood processing enterprises have not are fully prepared to adapt to the process of international economic integration while technical barriers to trade such as proof of origin of wood materials, CoC certification, and regulations on plant quarantine are getting stricter.

## **II. PROSPECTS OF VIET NAM'S EXPORT OF WOOD AND WOOD PRODUCTS WITH NEW GENERATION FTAs**

In the current context with complicated and unpredictable developments of the international market, Viet Nam's intensive integration in the international economy and implementation of commitments in new-generation FTAs such as CPTPP, EVFTA and other FTAs require greater efforts of the State and the business community in changing their awareness, mindsets, working approaches and more innovation and creativity in the management and administration of economic development as well as strategic management of business operations. It is required that they must continuously update information, conduct market research and forecast to be able to realize and make the best use of opportunities created by FTAs and overcome challenges and difficulties to boost the export of wood and wood products, getting to higher value ladders in the global value chain of wood products.

### **2.1. Advantages and Opportunities**

*Firstly*, with strong commitments to cut tariffs by FTAs partners, Viet Nam's wood processing and export industry is having important opportunities to develop and increase exports to all markets in general and new-generation FTAs markets in particular (CPTPP and EVFTA). This is especially meaningful in the context that (i) Some CPTPP countries (such as Japan, Canada) are on the top of the list of Viet Nam's major wood export markets and have strong commitments to eliminate tariffs on Viet Nam wood and wood products under CPTPP compared to previous FTAs (e.g. AJCEP and VJPA with Japan) or compared to the existing MFN tax (Canada); (ii) Viet Nam's export of wood and wood products only accounts for a very small proportion of the total import turnover of wood and wood products of the CPTPP countries; (iii) Countries such as China, Indonesia, and Thailand have not signed FTAs with the EU, so the reduction of tariffs on Viet Nam's wood and wood products under EVFTA will create a great competitive advantage in price for Viet Nam compared to these countries.

*Secondly*, the implementation of new-generation FTAs will deliver opportunities to expand and diversify Viet Nam's export markets for wood and wood products, avoid dependence on certain markets, and limit negative impacts on Viet Nam's export of wood and wood products when these import markets adopt policy changes. In addition to expanding the export market for wood and wood products, Viet Nam should avoid focusing on the 5 main markets namely the United States, Japan, China, Korea and the EU like what happened in past years. The participation in new generation FTAs will help diversify export products and move towards the sustainable and stable development of export markets and products.

*Thirdly*, the implementation of new generation FTAs will bring opportunities for Viet Nam to import raw materials and equipment for the wood industry towards securing a sustainable supply of raw materials. Under CPTPP, with Viet Nam's commitment to eliminate import taxes as soon as the Agreement comes into effect, wood industry enterprises will have a good opportunity to import wood and wood products (especially raw materials) from a

number of legal timber suppliers of CPTPP member countries. This is a great advantage in the context that Viet Nam implements a mechanism to manage the legal timber supply chain for all kinds of timber and wood products for domestic consumption and export. In addition, under CPTPP, Viet Nam also has commitments to eliminate tariffs on most imported machinery and equipment, including machinery and equipment for the wood industry. This is an opportunity for Vietnamese businesses to import modern machinery, equipment and technology at reasonable prices from CPTPP sources. Likewise, under EVFTA, some import taxes will be reduced to 0% as soon as the Agreement comes into effect and while other taxes will be reduced according to the roadmap, which will create good conditions for Vietnamese wood enterprises to import raw materials for the wood industry from the EU market, instead of China and Thailand as they are doing now, thereby improving the quality of wood products, adding more value and satisfying the requirements of the EVFTA's rules of origin. In addition, Vietnamese enterprises will also have good opportunities to import machinery and equipment, wood processing technology from the EU in order to improve product quality and improve the competitiveness of the industry.

*Fourthly*, the implementation of new generation FTAs with commitments on improving institutional framework and business environment, especially import and export rules and procedures will help accelerate the process of reforming institutional framework and improving the business investment environment, reforming administrative procedures of Viet Nam. In addition, institutional reforms under pressure and requirements of new-generation FTAs will also create conditions to attract more domestic and foreign investment in production and business activities, including the processing and export of wood and wood products.

*Fifthly*, new generation FTAs with labour commitments will open employment and income generation opportunities to rural workers, including female workers. It can be seen that the wood production and processing industry is a labour-intensive industry, especially craft villages in rural areas, with a significant proportion of female workers (especially in finishing stages of products such as grinding, coating, decorative painting). Therefore, increasing Viet Nam's export of wood and wood products to the CPTPP and EVFTA markets will also help open up job opportunities and generate more income for workers in this business area.

## **2.2. Difficulties and challenges**

*Firstly*, in order to benefit from preferential tariffs as prescribed in new-generation FTAs, Viet Nam's wood and wood products when exported to markets in CPTPP and EVFTA countries must meet the rules of origin. However, satisfying the rules of origin is found to be a big challenge for wood industry enterprises to benefit from tariff preferences under the CPTPP and EVFTA. For example, Vietnam can only guarantee about 70% of wood materials from domestic sources while the rest is imported from many sources other than CPTPP countries. In addition, many kinds of materials are used in wood production and processing for export (nails, glue, paint, etc.) are imported. Under EVFTA, in order to enjoy preferential tariffs, Vietnamese wood enterprises must use 100% raw wood from legal sources with certified origin (including imported and domestic timber). Therefore, if the strict rules of origin are not met in the context that it is difficult to control and prove that raw wood is supplied from legal sources, it is hard for the businesses to benefit from the reduction of tariffs.

*Secondly*, Vietnamese wood and wood product processing enterprises are also facing challenges when exporting to markets where they have to have commitments on environment and wildlife protection. For example, in the CPTPP, there is a separate chapter on the environment with commitments related to environmental policies and laws, and one particular

clause directly related to the wood industry, especially the logging and processing wastes. In the EVFTA, Viet Nam and the EU have signed the Voluntary Partnership Agreement on Forest Law Enforcement, Governance and Trade (abbreviated as VPA/FLEGT), effective from June 2019, therefore in terms of raw materials, with mandatory requirements from the VPA/FLEGT component, Vietnamese enterprises must ensure that their exports to the EU are 100% legal (regardless of imported wood or wood harvested from domestic plantations). This is a huge challenge for Vietnamese businesses because the supply of raw wood materials is scarce in the immediate future, or even in a longer term if they do not take initiative in developing a stable and sustainable source of raw materials.

*Thirdly*, it is the competitiveness problems of exporters of Vietnamese wood and wood products. Their production technologies are outdated while their workers have not been properly trained to keep up with the technology. Heterogeneous sources of raw materials (in terms of types and sizes) make the production inefficient. The amount of waste is high. Management skills in wood processing and production are still limited. Capacity in product design and branding is poor. All these make up huge challenges for domestic wood processing enterprises.

### **III. RECOMMENDATIONS FOR SUSTAINABLE DEVELOPMENT OF WOOD AND WOOD PRODUCTS OF VIET NAM**

#### **3.1. Seize the opportunities offered by FTAs, especially new generation FTAs**

The signing and implementation of FTAs, especially new generation FTAs, will help maintain, expand the market and enhance the brand for Vietnamese wood products. Viet Nam's wood and wood products can be exported more efficiently to markets with similar regulations without being subject to inspections or compliant to other legal requirements. The implementation of integration commitments will help Vietnamese wood enterprises strengthen their management and production capacity, improve the lives of forest growers, contribute to forest and environment protection through the use of wood from planted forests and encourage investment back into plantations.

To be able to make the best of opportunities and limit challenges from the implementation of new-generation FTAs commitments, Vietnamese wood enterprises must meet the requirements of the import market, of which the requirements on the rules of origin, proving the legality of wood and wood products are among the biggest challenges. Therefore, the Government should strengthen information dissemination and outreach activities to raise the awareness of the public and business community about integration commitments, especially commitments in new generation FTAs, and adopt policies to encourage and support businesses to improve their competitiveness, moving to higher levels in the value chain ladder. On the part of businesses, it is necessary to thoroughly study the content of commitments such as tariffs, rules of origin, technical measures and safeguards to work out an effective strategy to enter into the new generation FTAs markets.

#### **3.2. Adjust the structure of wood products, strengthen the design capacity and improve wood products**

- Adjust the structure of wood exports in the direction of harmonious development of both exterior and interior furniture production, minimizing the export of raw products. The production of finger-joint boards is an industry that brings small added value, however, this is

a kind of product that can be produced from many different types of materials, so the development of this product can deliver certain advantages in increasing the added value of the wood industry. Artificial boards (chipboard, fiberboard, MDF) are products that have both high added value and are suitable options for production and processing in the context where timber from natural forest becomes scarcer, so the development of these products should be encouraged and the government should create favourable conditions for development of these products. Although wooden handicraft products and interior wood products have the highest added value, the requirements on wood materials (precious and rare woods), processing technology and market conditions for making of these products are very strict. Therefore, the development of these products has certain limitations, it is necessary to have real breakthroughs in both science and technology and human resources to take advantage of these high value added products.

- Enhance design capacity and product improvement. Viet Nam's wood products are mainly developed based on the needs of customers. Very few products are built and improved based on the maker's creativity. Vietnamese products often have similar designs, especially exterior products due to the lack of adequate research and development support for wood processing. Therefore, to strengthen the capacity to meet stricter requirements of the market, wood manufacturers and exporters need to improve the design, quality, technology and build their own brand of products with high quality and reasonable prices.

### **3.3. Develop and expand wood export markets, promote the export of wood products**

- Promote market development, build and promote the development of brands for Vietnamese wood products; build a market information system and product standards, promote e-commerce for wood products; implement the agreements that Viet Nam has signed, pay more attention to the domestic market. Give priority to the use of resources for trade promotion programs at home and abroad, invest in large-scale exhibition centres commensurate with the development potential of the wood processing industry.

- Build and implement market development strategies for key markets, along with building and promoting national brands for wood products. Develop models of linkages among enterprises with similar interests in production and processing for export to reduce investment and production costs, improve competitiveness to be able to deliver large export orders, satisfy the requirements of the import market.

- Develop programs to promote furniture of Viet Nam as a country providing high-quality wood products, using legal and sustainable wood suppliers in major markets. These programs should be engaged by wood industry experts, market experts and wood associations to ensure success and high efficiency.

- Innovate trade promotion activities, conduct market research and assess market trends, look for good business partners by providing maximum support for businesses to participate in international and domestic timber trade fairs and forums. Promote marketing, negotiate technical agreements to expand wood export markets.

### **3.4. Strengthen research activities, develop technical standards to control imported wood**

- Issue policies to sponsor/support research and transfer research results on product design, materials, and wood processing technology. Focus on research and scientific and

technological transfer, especially transfer of results of programs and projects on product design, on alternative materials, use of wood materials and increase of added value of processed wood products; establish the linkage between research work of institutes and universities with enterprises' business activities.

- Develop policies to offer incentives for enterprises investing in technological innovation, modern and environmentally friendly machinery and equipment. Support to deliver training on information technology, development and application of FSC, CoC certificates for processing enterprises and forest growers.

- Develop technical standards to control wood imported into Viet Nam to secure a good supply of wood materials for export production; at the same time, control and prevent illegal timber from being imported into the Vietnamese market. Negotiate and sign agreements with countries currently supplying a large quantity of raw wood materials for Viet Nam to control the origin of imported wood into Viet Nam. Strictly control and supervise, seriously and effectively implement the Voluntary Partnership Agreement on Forest Law Enforcement (VPA/FLEGT), the VNTLAS Decree on the control system of the legality of domestic timber materials used for the processing and trading of wood products, creating opportunities for Viet Nam's wood and wood products to penetrate more robustly into the world market.

- Give stronger emphasis on infrastructure development, expansion and establishment of concentrated wood processing industrial zones and clusters to reduce production costs and facilitate production and processing activities. Continue to invest in and develop logistics services for the wood processing industry; establish connections between the planning of wood processing industrial zones and clusters with the planning of raw material areas.

### **3.5. Training and improving the quality of human resources**

- Improve the capacity of exporters in terms of knowledge, production technology, management skills, marketing, organize training programs for production managers/production supervisors, sales directors, accountants, designers and marketing specialists. Organize training programs on wood drying and wood treatment, training programs on finishing wood surfaces. Work closely with suppliers of spare parts/materials (PU, materials for gold - plating) to organize technology transfer. Organize free training programs on new technologies, production and management processes for wood processing businesses.

- Conduct assessment of the need for skilled workers of the industry to formulate a suitable training strategy. Review training programs of vocational training schools with a focus on practical training courses, internet-based courses, encourage public-private partnership model in training activities. Cooperate and establish linkage between training institutions and enterprises to deliver training, retraining courses, connect training with on-the-spot employment.

- Adopt a policy which offers opportunities for designers working in factories of wood manufacturers and processors to participate in domestic and foreign fairs to grasp market trends in order to promote design and creativity capabilities.

- Improve businesses' understanding of international law to proactively deal with and deal with disputes and trade barriers caused by protectionist policies of other countries.

### **3.6. Ensure the harmony between export growth and environmental protection, solve social problems**

- Develop and finalize national standards on sustainable forest management. Ensure extensive participation of economic sectors and social organizations in forest protection and development in order to increase their contribution to social development, environmental protection, and biological conservation and provide environmental services.

- Continue to support and deliver training courses for wood processing enterprises to be able to apply cleaner production technology, save raw materials and energy, reduce waste and effectively handle pollution sources. Inspect and impose strict sanctions against production and processing facilities that do not comply with laws and regulations on the environment.

- The implementation of international commitments and integration standards for wood products will create difficulties for many target groups such as small-scale wood producers, wood processing households, and ethnic minorities involved in afforestation and other vulnerable groups, therefore, it is necessary to have policies to ensure labour rights, improve working conditions and raise income for workers in the industry.

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# **SUSTAINABLE EXPORT DEVELOPMENT OF VIET NAM'S SEAFOOD PRODUCTS IN THE CONTEXT NEW GENERATION FTA'S TOWARDS 2030**

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## **Abstract**

*Fishery is one of the economic sectors with high export turnover, always among the top export items of Viet Nam in the period 2011-2020. In recent years, seafood - one of Viet Nam's main export groups has tended to grow steadily. After years of development, the fishery industry has made significant strides in enhancing growth quality, protecting the environment and meeting other key sustainability criteria. However, the seafood industry also faces many challenges from fierce competition in the international market, as well as to meet increasingly strict regulations of importing countries, especially difficult markets such as the US, EU and Japan.*

*Towards 2030, the world context will continue to change. The process of globalization and regionalization will be stronger and more practical, especially with the launching of new generation FTAs, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Viet Nam - European Union Free Trade Agreement (EVFTA). These new generation of FTAs will open up new opportunities in developing export markets with major countries, and at the same time come with great challenges for Viet Nam's seafood exporters. Not only they need to compete with other seafood enterprises in the domestic market, but also sustainable development of seafood exports will need to be set as a goal or an indispensable objective in the new integration context in the coming time.*

**Keywords:** Export, sustainability, seafood, Viet Nam, new generation FTAs, CPTPP, EVFTA

## **I. VIET NAM'S SEAFOOD EXPORT IN 2011-2020**

In the period of 2011-2020, Viet Nam's seafood exports grew quite quickly, always being among the world's leading countries in terms of export value and significantly contributed to the country's economic development. In 2019, Vietnamese seafood accounted for 6.2% of Asia's total seafood production, 4.4% of total output and 5.5% of global seafood export value; In terms of export value, Vietnamese seafood ranks third in the world after China and Norway, contributing to creating jobs for about 3.9 million workers and restructuring the agricultural and rural economy. The fisheries sector contributes about 3.4% to the national GDP and 25% to the GDP of the whole agricultural sector.

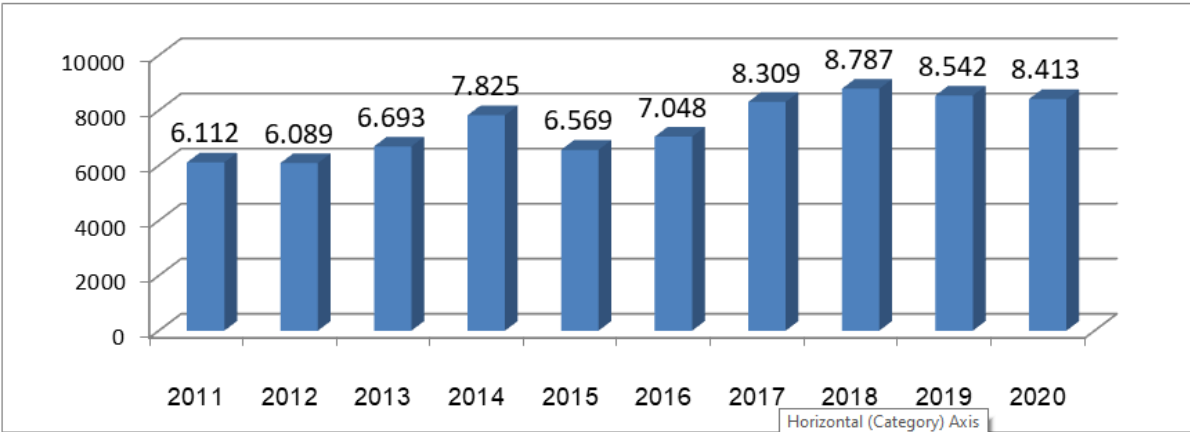
*Regarding export turnover*, for many years, seafood has always been a group of export products with good growth, ranked in the Top 10 key exports of Viet Nam. Seafood export turnover increased from \$6.112 billion in 2011 to \$7.825 billion in 2014. In 2015, seafood export turnover decreased significantly to only \$6,569 billion, down 16.05% compared to 2014, then grew again from 2016 to 2018. After reaching \$8,787 billion in 2018, in 2019 and 2020, seafood export turnover slowed down, but the decrease was relatively small, with export turnover reaching double \$8,542 and \$8.413 billion, respectively. In 2020, seafood

exports account for 2.97% of the total export value of the country. Although seafood export turnover in 2020 decreased slightly compared to 2019, seafood export output in 2020 increased slightly, in which, exports from fishing sources accounted for 54% with 4.6 million tons, exports from exploitation accounted for 46% with over 3.8 million tons.

In general, in the period 2011-2020, seafood export turnover grew by an average of 3.96%/year, of which the period 2011-2015 increased by 2.6%, the period 2016-2020 increased by 5.33%/year. year (compared to the growth of the country's total export turnover in the 10-year period is 14.6%/year).

**Figure 1. Seafood export turnover of Viet Nam in the period of 2011-2020**

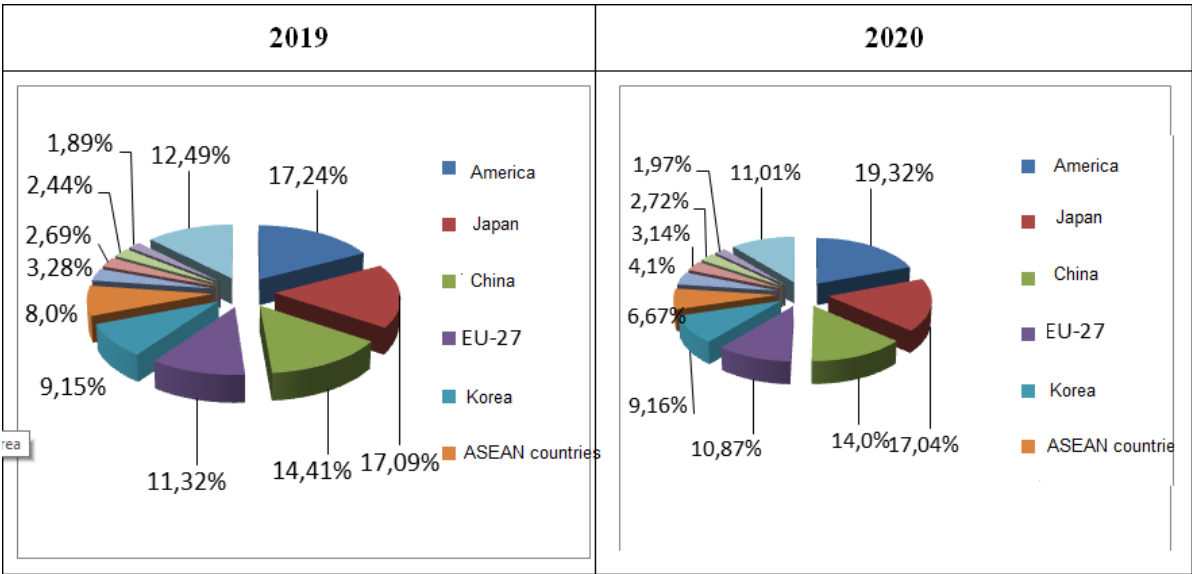
*Unit: Million USD*



*Source: General Department of Vietnam Customs*

Regarding export markets, Viet Nam's seafood export market is spread across nearly 60 countries around the world across continents. In which, 10 main export markets are the US, Japan, China, EU, Korea, ASEAN countries, the UK, Canada, Australia and Hong Kong. These 10 markets account for 87.51% and 88.99% of Viet Nam's seafood export turnover in 2019 and 2020.

**Figure 2. Structure of Viet Nam's main seafood export markets in 2019, 2020**



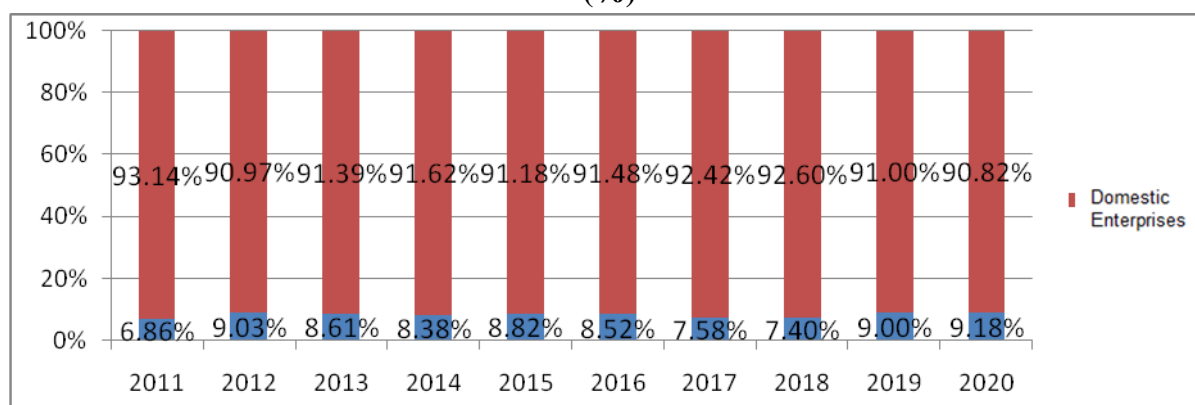
*Source: Calculation from the data of the General Department of Vietnam Customs*

According to data from the General Department of Customs, the US is Viet Nam's largest seafood export market with a turnover of \$1.47 billion in 2019, accounting for a market share of 17.24% of the country's total seafood export turnover; in 2020, the turnover is \$1.62 billion, accounting for 19.32%. Seafood exports to the Japanese market in 2019 reached \$1.46 billion, accounting for a market share of 17.09%; in 2020, the turnover is \$1.43 billion, accounting for a market share of 17.04%. Exports to the EU-27 in 2019 reached \$0.97 billion, accounting for 11.32%; 2020 will reach \$0.91 billion, accounting for 10.87% (In 2020, the UK leaves the EU, so this is EU-27 data for easy comparison). Before getting the IUU yellow card in 2017, the EU was Viet Nam's second largest seafood export market, just behind the US and always accounted for over 17% of Viet Nam's total seafood export value. Particularly, seafood exports such as tuna, octopus, squid, and mackerel always account for about 30% of the total value of Viet Nam's seafood and seafood export turnover to the EU. However, since Viet Nam was fined by the EU with the IUU yellow card in October 2017, seafood export turnover to this market has decreased significantly. The EU market fell from the second position in Viet Nam's seafood exports to the Chinese market in 2020. Seafood exports to China in 2019 were \$1.17 billion, accounting for 14.41%; in 2020 is \$1.23 billion, accounting for 14.00%. In 2019, seafood export turnover to Korea reached nearly \$782 million, accounting for 9.15%; 2020 is \$770 million, accounting for 9.16%. In 2019, seafood exports to ASEAN markets accounted for 8.0% of the country's total seafood export turnover, reaching \$683.27 million, in 2020 reaching \$561 million, accounting for 6.67%.

*Regarding exports*, according to the Vietnam Association of Seafood Exporters and Producers (VASEP), the main aquatic and seafood exports of Viet Nam are pangasius, shrimp, tuna and other fish. Pangasius and shrimp are the two most important export items. According to data from the Ministry of Agriculture and Rural Development, in 2020, shrimp exports will reach about \$3.85 billion, up 15% compared to 2019 and accounting for 45.76% of total seafood export turnover. Pangasius exports in 2020 dropped sharply due to the impact of the disease, reaching a turnover of about \$1.54 billion, down 23% compared to 2019, accounting for 18.31% of the total seafood export turnover. The seafood group with the main products being tuna, squid, octopus, in 2020 will export nearly \$3.2 billion, equivalent to the turnover in 2019, accounting for about 38.04% of seafood export turnover.

*Regarding the type of economy participating in seafood export activities*, according to the data of the General Department of Vietnam Customs, in the period of 2011-2020, domestic enterprises are the main seafood exporters, accounting for over 90% of total seafood export turnover. However, the market share of FDI enterprises tends to increase slightly. Specifically, in 2011, FDI enterprises accounted for 6.86% of seafood export turnover of the country; market share of FDI enterprises increased sharply in 2012, then declined in the period 2013-2018; By 2019 and 2020, FDI enterprises tend to increase their market share in seafood exports, accounting for 9.00% and 9.18% of total seafood export turnover, respectively.

**Figure 3. Structure of seafood export enterprises in the period of 2011-2020 (%)**



Source: Calculation from the data of the General Department of Vietnam Customs

## **II. PROSPECTS FOR VIET NAM'S SEAFOOD EXPORT DEVELOPMENT TOWARDS 2030**

### **2.1. Advantages for Viet Nam's seafood exports**

*- Outlook for the world economic recovery after the COVID-19 pandemic:*

In early 2021, the World Bank (WB) released its Global Economic Outlook 2021, which forecasts that the world economic growth will reach 4%, when countries deploy mass vaccination against COVID-19. If the world effectively controls the pandemic, it will lead to the recovery of global economic growth in the coming period. The recovery of the global economy after the pandemic, especially the recovery of the tourism, restaurant and hotel industries will be a boost to demand for goods, especially seafood. This is an opportunity for Vietnamese seafood products to increase exports and increase market share in markets that have been greatly affected by the epidemic.

*- Important new-generation FTAs signed and put into effect will help seafood exports grow by benefiting from the reduction of import taxes.*

In 2020, important FTAs such as EVFTA and CPTPP will come into effect, which will open up opportunities for Viet Nam's seafood exports to access large consumer markets with many advantages. With the EVFTA, the EU is a large and potential market with a population of over 500 million people, a total GDP of over \$15 trillion, accounting for about 22% of world GDP. The average income per capita of EU countries is quite high compared to the world, consumers prefer to use seafood products for eating and health protection due to the superiority of this product compared to other meats. Annually, the EU's seafood consumption demand stands at 22.03 kg/person, much higher than the world average of 5.34 kg/person. In recent years, as the EU's seafood resources have been below the biosecurity limit, forcing the EU to apply measures to limit fishing and fishing, while the EU's seafood consumption demand is still increasing rapidly. Therefore, in theory as well as in practice, it can be affirmed that for Viet Nam, the EU is a huge potential seafood export market if Vietnamese seafood products meet the increasing requirements in terms of quantity, quality, and variety from the EU market.

With CPTPP, Viet Nam's seafood has the opportunity to increase exports to 10 member markets (accounting for about 25% of the country's seafood export turnover) because most of the import tax is cut to 0%, especially for export to the Japanese market. When the CPTPP

comes into effect, the tax rates are adjusted to 0%, which will create a unique competitive advantage in price for Viet Nam's seafood exports compared to major exporting countries such as China, Thailand, Norway, India, thereby improving Viet Nam's export competitiveness.

In 2021, UKVFTA will also come into effect. The UK is a large seafood export market, in the Top 10 largest seafood export markets of Viet Nam. From 2020, the UK leaves the EU, so the implementation of UKVFTA commitments will help Viet Nam's seafood products have a competitive advantage in price when exporting to the UK.

*- Participating in new generation FTAs, especially the CPTPP, will help Viet Nam diversify its source of raw materials from increasing imports from member countries for production, processing for export and processing for export of seafood products thanks to the reduction of import tax to 0%:*

Imports from CPTPP countries account for about 16% of Viet Nam's total seafood import turnover. With Viet Nam's current seafood processing capacity and technology, enterprises can import raw materials from other countries for processing and export to CPTPP countries as well as other countries. In the face of the shortage of domestic seafood raw materials, Viet Nam's import tax reduction under the commitments in the agreement will create better conditions for domestic enterprises when importing tuna, squid, octopus from countries with good fishing capacity such as Japan, Mexico, and Peru for export processing. Therefore, joining the CPTPP, besides bringing opportunities to expand seafood export markets, will help rebalance trade relations between Viet Nam and key market regions, avoid excessive dependence on a certain market, especially trade deficit from China.

*- Many specific guidelines, policies and measures of the Government, ministries and sectors have been issued to support and give incentives for export products in general and seafood in particular, thereby improving competitiveness, maintaining and developing export markets:*

For many years, seafood has always been in the group of key export products of Viet Nam, contributing to GDP growth, creating jobs for workers, transforming the economic structure in agriculture. Therefore, Viet Nam has and will continue to have guidelines, policies and measures to support the promotion of seafood exports.

In 2017, the Law on Fisheries No. 18/2017/QH14 dated November 21, 2017 was approved by the National Assembly and put into effect, creating a legal framework for aquaculture, production and export activities. In 2018, the Central Committee of the Party issued Resolution No. 36-NQ/TW dated October 22, 2018 promulgating the Strategy for sustainable development of Viet Nam's marine economy to 2030, with a vision to 2045, emphasizing the important role of Viet Nam's marine economy, including seafood export. In 2019, the Party Civil Affairs Committee issued Resolution No. 836-NQ/BCSD dated July 17, 2019 on Increasing investment to improve the efficiency of seafood exploitation and promote marine aquaculture, contributing to the implementation of the Strategy for Viet Nam's marine economic development to 2030, with a vision to 2045. In 2020, the Government issued Decision No. 339/QĐ-TTg dated March 11, 2021 approving the Strategy for Viet Nam's Fisheries Development to 2030, with a vision to 2045. The determination of the whole system of Government, Ministries and sectors and the consensus of all levels of government, businesses and people will promote building a successful fishery industry. economic industry

with large scale and proportion of goods, reputable brand name, deeply involved in the global supply chain, highly competitive and sustainable development, maintaining and developing export markets Vietnamese seafood products in the world.

## **2.2. Challenges for Viet Nam's seafood export**

*- Seafood exports continue to depend heavily on the world economic recovery after the COVID-19 pandemic:*

Due to the impact of the COVID-19 epidemic, in 2020, export activities in general and seafood exports in particular were interrupted due to border closures, a series of restaurants and eateries in the main importing countries were closed, shipping has a period of stagnation, some orders are canceled or delayed, some customers refuse to fulfill new orders, temporary labour shortages, there are times when there is a shortage of refrigerated containers to export seafood products.

*- Viet Nam's seafood exports will continue to face the trend of increasing technical, environmental and food hygiene barriers from import markets, especially large markets such as the EU, the US and Japan:*

With the participation and implementation of commitments in new-generation FTAs, Viet Nam's seafood exports will continue to face the trend of increasing technical, environmental and food safety barriers, along with strict chemical and antibiotic testing regulations, difficult import markets, including the application of anti-dumping, anti-subsidy, and trade remedies measures for seafood exports, so competitive pressure will increase in the international market.

Meanwhile, the contents of the CPTPP negotiations barely mentioned the issue of limiting member countries' right to issue new SPS and TBT conditions, so these countries are still allowed to unilaterally apply or adjust new SPS and TBT conditions, thereby preventing seafood imports from CPTPP member countries in general and Viet Nam in particular. In the future, countries may apply new TBT and SPS regulations to raw materials or other export restrictions.

*Trademark, labelling and traceability issues* are mandatory requirements when entering the markets of CPTPP member countries, specified in Chapter 3 on principles of origin and origin procedures. While this issue for Viet Nam's seafood industry is still in the process of being built and completed, there are still too many disagreements and lack of consensus between the business community and the facilities that produce raw materials, purchase and process them. If this term of reference is not well met, Viet Nam's seafood will be greatly restricted when entering the markets of CPTPP member countries in particular and export markets in general.

Another challenge for Vietnamese enterprises is that to enjoy the 0% tariff rate depends on many factors, especially the rules of origin, which emphasizes the internal rules of origin, raw materials and product-forming elements must be produced by member countries participating in the Agreement in order to enjoy tariff preferences. Among the seafood materials imported for processing and export of Viet Nam, besides Japan (accounting for about 7%) and the United States (accounting for about 3%), we mostly import seafood materials from countries not participating in the Agreement such as India, Norway, Taiwan, China and Korea. Thus, if the strict regulations on internal rules of origin are not met, when the process of purchasing raw materials for the production and processing of aquatic products

for export is still scattered and difficult to control, the benefits from tariff reduction will not be taken advantage of.

The main import markets such as the US, EU, and Japan always have strict requirements on rules of origin, dumping, subsidies and the use of trade remedy tools, thus causing great obstacles for Vietnamese seafood enterprises in accessing the market. A simple, flexible system of rules of origin, suitable for Viet Nam's situation and allowing Viet Nam to enjoy legitimate benefits from EVFTA, CPTPP or UKVFTA will be a matter to ensure. Therefore, proving the legal origin of seafood is a challenge for exporters, especially for seafood caught at sea. In addition, the European Commission continues to maintain a yellow card warning for Viet Nam's seafood exports, leading to the inspection of export shipments, which takes more time and costs, and reduces the competitiveness of Vietnamese seafood in the EU market.

*- Viet Nam's seafood exports will have to compete more fiercely and fiercely with domestic seafood products and seafood products of other exporting countries in the world.:*

Although Viet Nam's seafood exports are temporarily ranked third in the world after China and Norway, they are also facing stiff competition from other seafood exporting countries in the world, in which, India and Ecuador have all increased shrimp farming for raw materials to supply the world market, China expands fish farming area, self-sufficiency in domestic fuel sources, even for export increases competitiveness with Vietnamese pangasius.

*- Increasing competitive pressure against seafood products imported from abroad in the domestic market:*

In the coming time, the signing and implementation of new generation FTAs, especially the CPTPP, means that tariffs on seafood imported into Viet Nam from member countries will be partially eliminated (import tax on processed seafood will be completely eliminated in the 5th year after the CPTPP comes into effect). Given the relatively high MFN tax rates currently applied by Viet Nam (up to 15% on average for live seafood and 30% for processed seafood), the fact that these tax rates are adjusted to 0% will certainly create great competitive pressure on domestic seafood enterprises before goods imported from abroad.

Currently, with preferential import tax on raw materials and support mechanisms, some competitive countries such as China, Thailand or other major supplying countries such as Bangladesh, Indonesia, and India are creating exerting strong competitive pressure on Vietnamese seafood in the main export markets and in the domestic market. Besides, thanks to the application of scientific advances in farming such as seed production, feed, farming technology (for example, with farmed shrimp, the success rate in other countries reaches 70%, Viet Nam only 30%), Viet Nam's production cost is always 10 - 30% higher than other countries, so even if the tax is 0%, it is still difficult to have a competitive advantage in price compared to similar products. As a result, domestic seafood production and business establishments have to face fierce competition with member countries' seafood products, and Viet Nam's market share of seafood products will be narrowed, even is the risk of losing market share in the domestic market.

*- Aquaculture production is highly dependent on weather and the ability to control disease on livestock:*

With aquaculture, the fierce and prolonged salinity drought in the Mekong Delta make it difficult for farmers to stock new crops, and the fish being raised get sick and die;

Processing enterprises mainly purchase raw fish in the linked chain or fish from enterprises, which makes the fish stock in the population quite high. The demand for seafood products with high economic value (cold water fish, lobster, and snails) decreased, because these objects mainly serve the needs of export and consumption in restaurants. These difficulties will continue to remain at least until the end of 2021 due to the unpredictable development of the COVID-19 epidemic.

### **III. SUGGESTIONS FOR INCREASING VIET NAM'S SEAFOOD EXPORTS TOWARDS 2030**

*Firstly, develop a stable and quality source of seafood raw materials, improve the ability to meet the requirements of rules of origin in each new generation of FTAs.*

*- For raw materials from farming:*

+ Reorganize the production of aquaculture areas (both freshwater, brackish water and marine farming), especially in areas where key products are raised (tiger shrimp, whiteleg shrimp, pangasius, clams, ocean tuna and other specialties), in the direction of creating close links, ensuring the harmony of interests between farmers and processing and exporting enterprises. Simultaneously, gradually industrialize and modernize in order to create farming areas with large, high quality and stable production.

+ Strengthen the management of the implementation of regulations on production conditions, the implementation of standards and mandatory regulations in aquaculture (Viet GAP) and the implementation of traceability for farming facilities aquatic products, preservation and preliminary processing facilities to ensure food quality and safety right from seed production to commercial farming, and supplying raw materials for export processing.

+ On the basis of market forecasts, functional agencies must have specific programs and plans to quickly guide farmers in active production, from seed production to the process of raising farmed species, they have competitive advantages, efficiency and quality assurance, providing a large output for export processing, meeting the market's demand from time to time.

*- For raw materials from mining:*

+ Increase the value and quality of raw material products from exploitation, on the basis of investment, apply scientific advances to improve the quality of post-harvest products, especially advanced preservation technology, reduce post-harvest losses and strictly control the use of product preservatives...

+ Promote offshore fishing, reduce inshore fishing to protect aquatic resources, and at the same time change the structure of catches, from aquatic species of low economic value to other objects of high economic value and large output for export processing.

+ Apply advanced technical solutions to ensure that fishing products comply with international regulations on resource protection and combat against illegal fishing (IUU), overcoming barriers of difficult markets about traceability.

*- For imported materials:*

+ Strictly control quality, origin, and balance the structure of imported materials suitable for processing and re-export, meet the requirements of the market's structure and quantity of products and improve the efficiency of using the capacity of the processing



industry, increase export turnover and make an important contribution to creating jobs for rural workers in many localities.

- + Continue to import aquatic products that are not available in Viet Nam or do not meet the requirements of the structure and quantity of raw materials for processing and export according to the market's demand, and at the same time improve the utilization efficiency of processing plants.

***Second, focus on developing in-depth seafood processing for export.***

- Focus on investing in upgrading and renovating export seafood processing facilities to meet national standards and technical regulations and meet the requirements of the import market on food safety and environmental protection.

- Encourage investment in new technology, application of advanced science and technology, in which priority is given to investment in innovation of modern processing lines and equipment, advanced technology, improvement of designs and packaging, etc. renewing products, diversifying processed products for export, even making use of by-products to process all kinds of products for consumption and export.

- Develop new products, especially value-added products, reduce the proportion of preliminarily processed goods and low value-added goods, suitable to consumer tastes and needs of each import market.

- Promote the application of new, advanced and environmentally friendly technologies in seafood production and processing establishments, increase investment in construction of technical infrastructure to reduce and treat environmental pollution in the production process of the seafood industry in general, and in seafood processing in particular.

***Third, strengthen inspection and supervision to ensure the quality and safety of aquatic products in the entire chain of the seafood industry.***

- Apply a system of standards and technical regulations that are mandatory for seafood production, business and processing establishments in terms of food safety management from raw material production to the dining table, towards synchronization, application of relevant international standards.

- Regularly organize to inspect and control the implementation of regulations on ensuring food safety for seafood production, business, and export establishments. Strictly handle and publish the violations of regulations on quality, food safety, unfair competition, market dumping, etc., especially for organizations and individuals dealing in seafood processing and exporting, affecting the reputation of Vietnamese seafood products and damaging the common interests of the community.

- Technical support for production and business establishments to strengthen their capacity, apply advanced production programs and self-control systems for quality and food safety right from the preservation of raw materials to processing and consume.

- The business of aquaculture, processing, packaging and exporting seafood is a closely linked industry. To meet the strict requirements on the quality of exported seafood products, it is necessary to have a close association, a closed operation process between stages in the industry, even need the participation of a number of representative agencies and reputable quality accrediting agencies. Large markets such as the US, EU, and Japan always set strict requirements for the fishing industry to have its origin, ensure food safety and hygiene, meet standards and are granted certificates according to international standards. Most seafood

products exported from Viet Nam must meet the requirements of the importing country through international standards such as the Hazard Analysis and Critical Control Point (HACCP) system for seafood processing plants; food safety and quality standards SQF 2000; food safety standards established by the British Retail Consortium (BRC); international food standards (IFS); Global Good Agricultural Practices (Globe GAP); best aquaculture practices (GAP); Aquaculture Stewardship Council (ASC); Marine Stewardship Council (MSC) for fishing products and VietGAP. In addition to the SPS regulations of the markets, Vietnamese businesses need to meet the specific regulations of large retailers and wholesalers.

+ As for fishing products, export seafood must not be caught illegally. Localities need to strengthen propaganda for fishermen to fish sustainably, and well implement their commitments to combat illegal, undeclared and unregulated fishing. Businesses need to focus on researching preservation technology and reducing post-fishing losses. Fishermen must focus on fishing with logs, longitude, latitude, and origin to ensure convenient access. The assurance of food safety on fishing vessels as well as factories needs to comply with European standards and standards, thereby improving the quality and scale of goods and increasing the value-added content in each exported seafood product.

+ For farmed products, ensuring safety from seed to feed, breeding process as well as ensuring the requirements for control of drug residues in finished products and regulations on ensuring social security and labour safety for workers, not abusing child labour are high requirements that demanding markets like the US and EU set for the seafood industry. It is necessary to regularly check and review all stages in the chain of linkages in the seafood industry because if a mistake occurs in any one stage, all of Viet Nam's seafood exports will be affected.

#### ***Fourth, maintain and develop export markets.***

- For the traditional export markets, especially the export markets of key aquatic products, first of all, they must meet the market's requirements on quality assurance, food safety, ensure to maintain the reputation of Vietnamese seafood products; at the same time, strengthen the work of information and propaganda fully and accurately about the production process and product quality to a wide range of consumers in the markets.

Actively monitor market developments, update export market policies to deploy and apply appropriate trade remedies, deal with trade disputes and new technical barriers, and technical barriers that might be emerging.

- For potential markets, the key task is to study the needs, tastes, purchasing power and product structure to orient the production, processing and export of seafood. Focus on investing in research, production and market share of high-value added aquatic products, suitable with purchasing power and tastes according to the characteristics of each market.

Conduct trade promotion, publicity, and widely disseminate information about Viet Nam's exported seafood products, and at the same time, access and create close links with major importers and distributors in the market to negotiate and sign long-term and stable import-export contracts with reliable and potential partners.

#### ***Fifth, renew export activities and promote trade.***

- To gradually develop the form of direct export for distribution systems, shopping mall, and supermarkets, replacing exporting through intermediaries (importers) in order to improve export efficiency. Step by step building a distribution network of Vietnamese

seafood in export markets. Develop a supply and wholesale network to the supermarket system through association with importers and key suppliers of the host country.

- Research and form a number of trade promotion centres for Vietnamese agricultural products in general, including seafood in major markets such as the US, Japan, and the EU in order to promote and provide accurate and complete information about Vietnamese seafood products to the market and consumers; at the same time provide timely information on the market, policies and laws of the host country to management agencies, research agencies and businesses; support businesses to open agents and proceed to form representative offices to introduce Vietnamese export seafood products.

- Develop and implement trade promotion programs in line with export market development strategies, in the direction of increasing the participation of associations and businesses. Extensive organization and more suitable forms for promotional activities, communication, marketing, manuals to major suppliers, distributors, supermarket system and a large number of foreign consumers in order to increase the correct understanding of Vietnamese seafood, especially for key products, new products, and value-added products.

***Sixth, strengthen the management and training of staff in the seafood industry.***

- Consolidate the system of state management agencies in charge of food safety and fishery safety from the central to local levels, and at the same time, promote socialization in inspection, inspection and testing of food hygiene and safety; continue to assign and decentralize between the central and local levels to effectively implement the Law on Food Safety.

- Develop public service models, socialize activities of consulting, training, testing and certifying conformity with standards and regulations for community organizations in the implementation of national and international standards and regulations; create conditions for organizations and individuals, including third-party organizations, to carry out standard and regulation conformity certification and quality control activities at enterprises.

- Support associations and community organizations to improve their capacity to proactively deal with and fight trade disputes and barriers in the international market and proactively propose to state management agencies on mechanisms and policies to protect the legitimate interests of members and the seafood industry in general.

- Diversify forms of training for research staff, import-export managers, technical and marketing staff of enterprises in order to gradually improve the level of knowledge, expertise, understanding of laws and policies on international business and trade.

***Seventh, continue to promulgate specific policies and measures to support seafood exports, improve competitiveness, maintain and develop export markets.***

- Diversify investment capital sources to develop seafood processing and export capacity, in which:

- + State budget for investment and investment support: Build a food safety control system according to the product value chain approach for regulatory agencies, research agencies and businesses; funds for trade promotion activities under the National Trade Promotion Program (implementation of information and communication campaigns and promotion of Vietnamese seafood products); build a database system and manage the quality of exported aquatic products; training staff to improve professional qualifications and international law in service of trade and commercial dispute resolution in the fisheries sector.

+ Capital of organizations and individuals: To invest in building new or upgrading processing facilities in the direction of industry, modernity, technological innovation and application of advanced technology in export processing in order to gradually increase the export proportion of high value-added aquatic products, reduce the proportion of preliminarily processed and low value added products; build and promote brands as well as commercial promotion activities of enterprises; investment to ensure the conditions for the application of standards and compulsory regulations and the application of advanced farming programs, environmental protection and human resource training of enterprises.

- Research and develop a number of financial mechanisms and policies to encourage and support the development of seafood exports, such as reducing import tax on raw seafood, supporting businesses in advertising and trade promotion, etc.

- Implement policies on investment and credit in order to encourage and support organizations and individuals to invest in the development of production, processing and consumption of aquatic products, applying advanced science and modern processing technology to enhance added value and competitiveness for export seafood products of Viet Nam.

### **Conclusion:**

In the period 2011-2020, seafood export has made remarkable and steady progress, becoming one of the key export items of Viet Nam, making Viet Nam the third largest seafood exporting country in the world. With this achievement, seafood export helped create jobs and increase income of workers in fisheries. In 2020, despite being affected by the COVID-19 pandemic, seafood exports still did not decrease much, making a significant contribution to the country's overall export turnover. In the period of 2021-2030, although with some challenges, the positive impact of the new generation FTAs as well as the recovery of the global economy after the pandemic will bring many opportunities and potential for high growth for Viet Nam's seafood exports towards the export target of \$14-16 billion by 2030.

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# **EU - VIETNAM FREE TRADE AGREEMENT - OPPORTUNITIES AND CHALLENGES FOR EXPORT DEVELOPMENT OF VIET NAM'S FRUITS AND VEGETABLES TO THE EU MARKET**

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## **Abstract**

*The European Union (EU) is a potential export market for Viet Nam's fresh tropical fruits and vegetables. In 2020, vegetable and fruit exports still maintained a good growth at 6.76% from 2019, reaching \$158.02 million (an average increase of 15.95% in the period 2016 - 2020). However, the proportion of the export turnover of vegetables and fruits to the EU in the total export turnover is only 4.83% and the market share of Viet Nam's vegetables and fruits is still very modest, accounting for only 0.94% of the total import turnover of vegetables and fruits of the EU. In 2021-2025 and towards 2030, trade liberalization and the implementation of new generation FTAs, including the EVFTA, will open up new opportunities to expand export markets of vegetables and fruits to major EU countries. There will be also significant challenges for Viet Nam's fruit and vegetable exports, because the EU is a market that requires very high levels of quality, hygiene, and food safety standards, with strict regulations on traceability, plant quarantine and maximum residue of pesticides.*

*This article reviews Viet Nam's fruit and vegetable exports to the EU market and presents achievements, shortcomings and their causes. This article will then identify opportunities and challenges for the export development of Viet Nam's fruits and vegetables to this potential market in the context of the implementation of EU - Vietnam Free Trade Agreement (EVFTA).*

**Keywords:** Fruit and vegetable, export, Viet Nam, European Union (EU), EVFTA.

## **I. VIET NAM'S EXPORT OF FRUITS AND VEGETABLES TO THE EU MARKET IN 2016 - 2020**

### **1.1. Achievements**

*Firstly, in the period 2016-2020, Viet Nam's export of vegetables and fruits to the EU market has maintained a good growth trend, averaging 15.95% per year (higher than the average growth rate of total export turnover of vegetables and fruits of 14.09%/year). In 2020, vegetable and fruit exports to the EU continued to record a growth of 6.76% compared to 2019, reaching \$158.02 million, in the context that the growth rate of total export turnover of vegetables and fruits of Viet Nam decreased sharply to 12.75% over the previous year, reaching \$3,269.24 million.*

**Table 1. Viet Nam's export turnover of vegetables and fruits in 2016-2020***Unit: Million USD*

Import country	2015	2016	2017	2018	2019	2020	Average 2016-2020 (%)
<b>EU</b>	<b>76.34</b>	<b>93.12</b>	<b>106.35</b>	<b>115.15</b>	<b>148.01</b>	<b>158.02</b>	
Growth rate/year (%)	6.50	21.96	14.21	8.28	28.53	6.76	15.95
<b>World</b>	<b>1,839.27</b>	<b>2,457.66</b>	<b>3,501.59</b>	<b>3,809.59</b>	<b>3,747.06</b>	<b>3,269.24</b>	
Growth rate/year (%)	23.52	33.62	42.47	8.79	-1.64	-12.75	14.09
Proportion EU/World (%)	4.15	3.79	3.04	3.02	3.95	4.83	3.73

*Source: General Department of Vietnam Customs*

Secondly, in the period 2016-2020, the EU has always maintained its position as an important fruit and vegetable export market of Viet Nam, the proportion of fruit and vegetable exports to the EU market in the total export turnover of this item has remained quite stably, accounting for 3.73%/year on average. In 2020, the export of vegetables and fruits to the EU accounted for 4.83% of the total export turnover of this item, bringing the EU ahead of Thailand, Korea, Japan and becoming the fourth largest export market of Viet Nam, after China, Southeast Asian countries and the US.

**Table 2. Main export markets of Viet Nam's fruits and vegetables in 2020***Unit: Million USD*

Markets	2020	Growth compared to 2019 (%)	Proportion (%)	Figure 1. Structure of Viet Nam's fruit and vegetable export market in 2020 (%)
<b>The total export turnover of fruits and vegetables</b>	<b>3,269.24</b>	<b>-12.75</b>	<b>100</b>	
1. China	1,839.85	-25.71	56.28	
2. Southeast Asia	288.25	27.31	8.82	
3. United States of America	168.82	12.54	5.16	
<b>4. EU</b>	<b>158.02</b>	<b>6.76</b>	<b>4.83</b>	
5. Thailand	157.15	109.7	4.81	
6. Korea	142.97	8.46	4.37	
7. Japan	127.67	4.3	3.91	
8. Taiwan (China)	94.47	28.79	2.89	
9. Netherlands	82.39	3.43	2.52	
10. Australia	64.33	43.85	1.97	
11. Other markets	145.32		4.44	

*Source: General Department of Vietnam Customs*

*Third*, in the EU region, despite the general growth reduction due to COVID-19 pandemic, Viet Nam's fruit and vegetable exports continue to maintain and develop traditional markets, such as the Netherlands, France, Germany and Italy, in which, the leading is the export of processed vegetables and fruits to the Netherlands - the gateway for fruit and vegetable products to penetrate the EU market, reaching \$82.39 million in 2020, an increase of 3.43% compared to 2019, accounting for 52.14% of the total export turnover of vegetables and fruits to the EU; the export of processed fruits and vegetables to France in 2020 reached \$32.15 million, up 8.36% compared to 2019, accounting for 20.35%; the export of fresh fruits to Germany in 2020 reached \$19.91 million, up 5.23% compared to 2019, accounting for 12.60%; followed by the export to the Italian market, in 2020 the figures were \$11.96 million respectively, up 6.12%, accounting for 7.57%. In addition, the export to the UK market in 2020 grew strongly, reaching \$11.59 million, a sharp increase of 36.87% compared to 2019, accounting for 7.34% of the total export turnover of vegetables and fruits to the EU.

*Fourth*, the range of fruit and vegetable products exported from Viet Nam to the EU has been increasingly expanded and diversified, especially fresh fruit (HS code 08) - the main export product to the EU market, accounting for over 90% of the total export turnover of vegetables and fruits to this region during the period 2016-2020 (accounting for 90.92% in 2020). Although there has been a slight decrease in the growth in the last 2 years, on average in the period 2016-2020, the growth rate of export turnover of this item still has reached the highest at 17.75%, thanks to the high import demand of EU for tropical fruits and off - season vegetables, in which pineapple has been still the item with the highest export turnover, followed by dragon fruit, mango, copra, and rambutan. Meanwhile, the export of vegetables (HS code 07) and processed vegetables (HS code 20) to the EU - although accounting for a modest proportion of the total fruit and vegetable export turnover (accounting for 1.83% and 7.25% in 2020 respectively), but have recorded a remarkable growth in 2019 compared to the previous year at 21.75% and 21.03% respectively, achieving the average export turnover growth of 1.26% and 8.68% respectively for the whole period.

*Fifth*, Viet Nam's export of vegetables and fruits to the EU market has been constantly improved in terms of quality, with tropical specialties associated with geographical indications to better meet the requirements and demands of the EU consumers about food hygiene and safety, consumer health protection and environmental and social responsibility standards. These are the basic factors that help improve the export competitiveness of vegetables and fruits, especially fresh fruits, giving businesses the opportunity to participate in the supply chains of vegetables and fruits in the EU market.

## **1.2. Limitations and causes**

### **(1) Limitations**

*Firstly*, although the export growth rate of fruits and vegetables to the EU market has been maintained at a high level, even higher than the average growth of the total Viet Nam's fruit and vegetable export turnover in the period 2016-2020, however, the proportion of fruit and vegetable exports to the EU in the total export turnover of this item of Viet Nam has been still quite small, the lowest was 3.02% in 2018 and the highest was 4.83% in 2020. Moreover, Viet Nam's fruit and vegetable market share has been still very modest, Viet Nam's fruit and vegetable exports have not yet met the import demand which has been considered to have great potential of the EU market.

*Secondly*, although there have been many efforts in developing and diversifying export markets, Viet Nam's fruit and vegetable exports to the EU still cannot avoid the situation of excessive concentration on a few key markets, those are 5 markets: the Netherlands, France, Germany, Italy and the UK, while the penetration and expansion of export markets for each type of fruit and vegetable products to other potential markets in Central and Eastern Europe are not really simple and those requires a lot of time, efforts and investments.

*Third*, the level of restructuring of Viet Nam's export fruit and vegetable products to the EU in the period 2016-2020 has been still very slow, mainly exporting fresh fruits and vegetables, the processing level has not been deep, low added value, low quality and no brand name, mainly in the middle and low price market segments. Viet Nam has exported mainly fresh and typical fruit products of the tropics (accounting for 90.92% in 2020), while processed fruits and vegetables have accounted for a very modest proportion of the total export turnover of fruits and vegetables to the EU market (only 7.25% in 2020). While the demand for EU organic fruit and vegetable products has been increasing, the scale of organic agricultural production in Viet Nam has been only in the form of small - scale models, there has been no centralized production area, products in single form and currently there has been no common standard for the production, processing and labeling of organic fruit and vegetable products, no list of agricultural inputs such as fertilizers and pesticides that have been allowed to be used in the organic agriculture.

*Fourth*, the export competitiveness of Viet Nam's processed fruits and vegetables has been still low compared to regional competitors such as Thailand, while the export competitive advantage for fresh fruit products to the EU market have been also facing strong competitions from Turkey and Thailand in recent years. In the comparative relationship between export and import, although the value of fruit and vegetable export turnover in general has increased, it has been mainly due to the increase in scale and output and mainly due to price competitions, not really competitions on the quality and value. Moreover, in recent years, the cost of exporting to the EU market has tended to increase, affecting the competitiveness by the price of exported fruits and vegetables of Viet Nam. The prices of Viet Nam's exported fruits and vegetables have been generally much higher than those of exporting countries in the region such as Thailand and the Philippines.

*Fifth*, Viet Nam's ability to meet import regulations for vegetables and fruits exported to the EU market has been still limited and there have been many problems needed to be overcome, especially in meeting international standards for food hygiene and safety increasingly strict in the EU market. The number and types of Viet Nam's fruit and vegetable products that have meet the standards of product quality inspection such as VietGAP and GlobalGAP have been still very small compared to the export potential. The capacity to participate in the export supply chain and the global value chain of Viet Nam's fruits and vegetables exported to the EU has been still weak and inefficient. The method of exporting and distributing agricultural products in general and Viet Nam's fruits and vegetables in particular to the EU has been still inadequate, the ability to directly penetrate into EU supermarket chains has been still limited.

## **(2) Causes**

\* The EU import market:



*Firstly*, the change in the international business environment has been an important cause affecting the sustainable export development of Viet Nam's fruits and vegetables. The explosive development of science and technology, the industrial revolution 4.0, the trend of expanding trade liberalization and international economic integration, participating in new generation FTAs, including the EVFTA Agreement have been irreversible, bringing great advantages and challenges for the sustainable export development of fruit and vegetable products.

*Secondly*, changes and adjustments in import management policies of the EU countries, increased protections of agricultural production and consumers, especially import regulations and standards very strict and increasingly strict in the EU market on quality, food safety and hygiene, environmental protection, social responsibility and workers' rights, have caused significant challenges and obstacles to the export development of Viet Nam's fruit and vegetables in recent years, while the ability of Vietnamese fruit and vegetable exporters to cope with and overcome barriers has been still limited. Moreover, Viet Nam's fruit and vegetable exporters have still faced many difficulties in expanding export markets due to stiff competitions from EU countries' local supply, as well as from other fruit and vegetable exporters in the world.

*\* Viet Nam's export market:*

*Firstly*, the awareness and awareness of sustainable export development and environmental protection among managers, policy makers and the business community and workers in the agricultural sector has not been high, leading to the contradictions and conflicts between theory and practice on sustainable export development in general and the sustainable export development for fruit and vegetable products in particular.

*Secondly*, the system of institutions and policies to develop the export of fruits and vegetables in terms of land use planning, finance, credit, science and technology, and human resource training still has many shortcomings and ineffectiveness. In particular, the policies to promote the export of fruits and vegetables to the EU market have been not practical, the effectiveness of export development and trade promotion of fruit and vegetable products has not been as desired, on the one hand, because the policies have not been specific, not attached with the characteristics of each market, each product, on the other hand, due to limitations in resources and capacity to deploy and implement policies, weaknesses in the organization and implementation of policies, lack of the close coordination between functional agencies of ministries, sectors and enterprises, employees in formulating and organizing the implementation of policies.

*Third*, resources and capacity for the implementation of export development of fruit and vegetable products of the country and enterprises in terms of capital, economic and technical infrastructure, logistics services, scientific - technological level and human resources have been still limited, affecting the competitiveness of Viet Nam's fruit and vegetable exporters, making the goals of sustainable export development difficult to achieve in practice.

*Fourth*, there have been weaknesses in management organization and the lack of linkage and cooperation between stages in the export fruit and vegetable supply chain, especially the leading role in the chain belonging to export processing enterprises has been weak, while these chains play a huge role in the sustainable development of fruit and vegetable exports to the EU. Trade promotion, export promotion and the ability to penetrate

the fruit and vegetable supply chain of Vietnamese enterprises in the EU market have been still very difficult.

*Fifth*, changes in the natural environment, extreme weather events, natural disasters, climate change and sea level rise have been among the objective causes beyond control, having a significant impact on the area, output, productivity and quality of fruit and vegetable supply for processing and export in recent years and these will be continued in the coming years.

## **II. EU - VIETNAM FREE TRADE AGREEMENT (EVFTA), OPPORTUNITIES AND CHALLENGES FOR VIET NAM'S EXPORT DEVELOPMENT OF FRUITS AND VEGETABLES**

### **2.1. Eu - Vietnam free trade agreement**

The EU - Vietnam Free Trade Agreement (EVFTA) was started and negotiated in the context of the growing bilateral relationship between Viet Nam and the EU, especially in the economic and commerce fields. The Free Trade Agreement between Viet Nam and the European Union (EVFTA), after 8 years from the first day of official negotiation, has officially come into effect since August 1, 2020, with important milestones that on June 30, 2019, Viet Nam and the EU officially signed the EVFTA Agreement in Hanoi, approved by the European Council on March 30, 2020 and approved by the National Assembly of Viet Nam on June 8, 2020. The successful signing of this Agreement has marked a new milestone in the nearly 30-year journey of cooperation and development between Viet Nam and the EU, as well as a positive message about Viet Nam's determination in promoting integration deeply into the world economy in the context that the world economic and political situation has been having many complicated and unpredictable developments.

EVFTA is a new generation Free Trade Agreement, in which the term "new generation" is used to refer to FTAs with extensive and comprehensive commitments, including commitments on trade liberalization in goods and services like "traditional FTAs", but with a deeper level of commitment (cutting taxes to almost 0%, possibly with a roadmap), with tighter enforcement mechanisms and however, the content of commitments includes areas considered "non - traditional" such as labour, environment, state - owned enterprises, government procurement, intellectual property, transparency and settlement mechanism for investment disputes...

In terms of content, the EVFTA is a comprehensive, high - quality Agreement that ensures a balance of interests for both Viet Nam and the EU, which also takes into account the disparity in development levels between the two sides, at the same time these commitments are suitable for the rules of the World Trade Organization (WTO). The Agreement consists of 17 chapters, 2 Protocols and a number of memorandums of understanding, with the main contents being: Trade in goods (including general provisions and commitments to open markets), rules of origin, customs and trade facilitation, food hygiene and safety measures (SPS), technical barriers to trade (TBT), trade in services (including general regulations and commitments to open markets), investment, trade remedies, competition, state - owned enterprises, government procurement, intellectual property, trade and sustainable development, cooperation and capacity building, legal and institutional issues.

In the coming time, the implementation of this agreement will bring new opportunities and challenges for Viet Nam's fruit and vegetable exports.

## **2.2. Opportunities and challenges for Viet Nam's fruits and vegetables**

### **(1) Opportunities**

*Firstly*, the EU is one of the most "open" economies in the world and also the largest market in the world, so the EU - Vietnam Free Trade Agreement (EVFTA) that has been signed and implemented, with strong commitments to open the market, will certainly promote Viet Nam - EU trade relations, bring great opportunities for trade development between Viet Nam and the European Union (EU) through the expansion of export markets, including vegetables and fruits. Along with strengthening the overall relationship with the EU, the EVFTA agreement will also create good conditions for Viet Nam to develop export markets with each member country, in which EU members are assessed as a potential export market for Viet Nam's fresh tropical fruits and vegetables.

The European Union (EU) with more than 500 million people living in 27 countries is currently the world's leading fruit and vegetable import market, with imported fruits and vegetables accounting for about 50% of the world's fruit and vegetable import, while fruits and vegetables imported from Viet Nam only account for a very small proportion (about 0.94% of EU imports). In addition to strict and increasingly strict regulations and standards on food safety and hygiene, the EU market demand for vegetables and fruits is assessed to be always wide open, with a wide variety, ranging from popular to high quality, the demand for imported fruit and vegetable products also tends to increase. This can be considered as an opportunity for the export of specialty tropical fruits and vegetables of Viet Nam.

*Secondly*, joining the EVFTA will bring competitive advantages to Viet Nam's fruit and vegetable exports thanks to commitments to cut tariffs in major EU markets, thereby boosting the export growth of fruit and vegetable products. For Viet Nam's exports in general, as soon as the Agreement comes into effect, the EU eliminated import taxes on about 85.6% of tariff lines, equivalent to 70.3% of Viet Nam's export turnover to the EU. After 07 years from the date of coming into effect of the Agreement, the EU will eliminate import taxes on 99.2% of tariff lines, equivalent to 99.7% of Viet Nam's export turnover to the EU. For the remaining 0.3% of Viet Nam's export turnover, the EU committed to give Viet Nam a tariff quota (TRQ) with import taxes within the quota of 0%. As for vegetables and fruits alone, almost all fresh and processed fruit and vegetable products for export will basically be eliminated from tariffs as soon as the Agreement comes into effect. So far, this is the highest level of tax reduction commitment that a partner has for Viet Nam in FTA agreements. This benefit is especially meaningful when the EU is continuously one of the four largest export markets for Viet Nam's vegetables and fruits.

*Third*, in terms of FDI, the EU is one of the largest foreign investors in Viet Nam, with the implementation of the Free Trade Agreement and Investment Protection Agreement between Viet Nam and the European Union (EVFTA and EVIPA), European businesses not only bring modern technology sources, invest in high - tech, environmentally friendly and low - energy agricultural processing and production fields, but also help businesses practice responsible business and create quality jobs for Viet Nam. Moreover, joining the EVFTA will help Viet Nam take further steps in environmental protection through the implementation of commitments in chapter 13 on trade and sustainable development, in which the attraction of foreign direct investments in order to develop trade in general and trade in agricultural products in particular will be selective and pay more attention to environmental issues, people's health and the future of the natural environment.

*Fourth*, for the improvement of institutions and policies, joining the EVFTA will create a driving force to accelerate the process of perfecting institutions and promoting transparency in the policy environment, including policies related to promoting the export of fruit and vegetable products in accordance with international regulations and commitments of this Agreement. Domestic institutional reforms, together with commitments on governance, will help Viet Nam achieve new international standards in the business environment, as well as in business and investment rules, assurance a stable and open legal and business environment for investors of both sides, thereby improving the competitiveness and quality of Viet Nam's business investment environment, promoting the wave of foreign investment and business activities of FDI enterprises in Viet Nam.

## **(2) Challenges**

*First of all*, changes and adjustments in import management policies, increased application of trade protection measures for the purpose of protecting domestic agricultural production and consumers will cause serious challenges and obstacles to the export development of Viet Nam's fruit and vegetable products, while the ability of export enterprises to cope and overcome barriers is still limited. Those are very strict import regulations and standards and changes in the direction of increasing stricter import regulations in the EU markets regarding technical barriers to trade (TBT), quality regulations and standards, food safety, regulations on animal and plant quarantine (SPS), labeling, regulations on environmental protection, high requirements on protection of intellectual property rights, labour and social responsibility, especially regulations on traceability, enhanced inspection of pesticide residues, maximum pesticide residue levels (MRLs) for imported agricultural products, vegetables and fruits - prerequisites for entry into the EU market. This will be a huge barrier to trade in fruits and vegetables to the EU market and sometimes this barrier exceeds the capacity of businesses in developing countries like Viet Nam.

*Secondly*, in addition to barriers on technical, quality and environment standards, there is a risk that Vietnamese fruit and vegetable exporters will face trade remedies, anti - dumping and anti - subsidy measures in the EU market, including sensitive issues for Viet Nam such as equality and non - discrimination between types of domestic and foreign enterprises, not accepting preferential treatment or special treatment for any businesses...

*Third*, it is increasing competitive pressure against imported fruits and vegetables in the EU market. Moreover, the cost of exporting goods in general and Viet Nam's vegetables and fruits in particular, especially the cost of transportation, preservation and the cost of certifying goods eligible for export to the EU tend to increase, thus affecting the price competitiveness of Viet Nam's fruit and vegetable exports.

The EU countries have mostly imported fruits and vegetables from countries in the region or countries relatively close to the EU (such as Turkey, Morocco, Israel and Egypt). Fruit and vegetable imports from non - EU countries have accounted for only 2.7% of total imports, mainly from North America (USA, Canada, Mexico), South America (Brazil, Chile, Peru, Colombia and Ecuador) and Central America (Costa Rica), or countries in Oceania (Australia, New Zealand), South Asia (Pakistan, India), Middle East (Israel)... Notably, competitive pressures in the EU market against vegetables and fruits imported from countries in the ASEAN region - countries with export strengths of tropical fruits and vegetables similar to Viet Nam such as Thailand, Indonesia, Malaysia and the Philippines are very large. These are countries that have quite a strong position in the EU market with fruits such as bananas,

citrus fruits (oranges, tangerines) and tropical fruits (pineapple, mango, grapes, dates, passion fruit, apples, peaches, plums, melons, and avocados).

### **III. RECOMMENDATIONS FOR VIET NAM'S SUSTAINABLE EXPORT DEVELOPMENT OF FRUITS AND VEGETABLES TO THE EU MARKET**

*Firstly*, in the coming time, it is necessary to deeply renew the awareness and thinking of managers and policy makers to develop the export of fruits and vegetables. Consistently promoting the transformation of the agricultural economic development model from a broad approach, based on exploiting natural resources and labours, to in-depth approach, based on factors such as productivity, quality and efficiency, focusing on increasing participation in high value added stages in the global value chain, on the basis of exploiting comparative advantages in geography and tropical climate, improving quality, ensuring food safety and hygiene, improving competitiveness, building a prestigious brand name for Viet Nam's exported fruit and vegetable products.

*Secondly*, it is necessary to actively and proactively participate in new generation FTAs and especially effectively implement the commitments in the EVFTA to take advantage of opportunities and limit challenges, harmonize domestic technical standards and regulations with international regulations, thereby improving the ability to meet increasingly strict regulations and standards of the EU import market. It is necessary to conduct a review of laws and policies relating to the export development of fruits and vegetables in order to have a basis for building new policies, supplementing and adjusting existing policies to ensure the legal and policy framework fully, synchronously, clearly and transparently in accordance with the provisions of the EVFTA, at the same time, continuing to negotiate and strengthen the cooperation with EU import partners to realize the goal of sustainable export development of Viet Nam's fruits and vegetables.

*Thirdly*, carry out institutional reform in a substantive and serious way, create a transparent and favourable environment to support production and business, improve competitiveness for domestic and foreign enterprises to invest in agricultural and rural areas, applying advanced technology in agricultural production in general and in fruit and vegetable production in particular, towards building a smart and sustainable Vietnamese agriculture.

*Fourth*, improve the efficiency of implementation of strategies, plans and projects to sustainably develop the supply of exported fruits and vegetables. The State supports enterprises and localities to invest in developing a plan to renovate mixed gardens into concentrated production areas of fruit and vegetable materials for processing and export, in the direction of building models of concentrated production areas, disease - free communities, applying advanced and high - technical processes to the agricultural production, applying Good Agricultural Practices (GAP) and other international standards, forming specialized farming areas in the production of safe fruits and vegetables according to VietGAP and Global GAP standard in order to create a stable supply in terms of quantity, uniformity and safety in quality, food hygiene, increase the percentage of fruit and vegetable products certified organic and safe.

*Fifth*, promote the restructuring of fruit and vegetable products for export in the direction of improving quality and added value; building prestige and brand for Vietnamese fruit and vegetable products. On that basis, diversify and develop export markets, expand new potential

export markets in the EU region, strengthen trade promotion and provide market information for EU countries to support businesses to boost the export of fruit and vegetable products.

*Sixth*, encourage investments in developing infrastructure, logistics, transportation and preservation services; applying advanced technologies and techniques in the production and processing of fruits and vegetables for export. Strengthening technical equipment, building national key laboratories for inspection, testing, assessment, certification of quality standards, food hygiene and safety, occupational safety and environment for exported fruit and vegetable products, forming a system of testing and accrediting the quality of exported fruit and vegetable products to meet international standards.

*Seventh*, form large corporations, production and business models under the closed organization with the participation of the State, banks, investors, scientists and businesses; strengthen the organization and close connection between production facilities such as enterprises, private farms, cooperatives, cooperative groups, farmer households and fruit and vegetable processing and exporting enterprises, at the same time creating a close link between production and consumption, sharing risks and benefits between the parties. Focusing on developing high -quality human resources to meet the requirements of technological innovation and processes of fruit and vegetables for export, participating in the global value chain with a wide range of high -quality products, meeting the requirements of international standards as well as import standards of EU countries.

***In summary***, Viet Nam's export of vegetables and fruits is facing huge barriers in terms of technical and environmental standards, in which the main export markets of the EU are those with very strict standards and changed standards in the direction of more and more stringent. This will be a significant challenge for Viet Nam's fruit and vegetable exports towards the goals of sustainable export development. However, besides challenges, the Vietnamese economy and businesses will also receive many new opportunities, opportunities and challenges go hand in hand, it is important that we take advantage of opportunities as well as face with challenges for sustainable development when exporting fruits and vegetables to the EU market.

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# **EXPORTING VIET NAM'S HALAL-CERTIFIED AGRICULTURAL PRODUCTS TO THE MIDDLE EAST - AFRICA: SITUATION AND POLICY RECOMMENDATIONS**

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## **Abstract**

*The Middle East - Africa is a market with large population and great demand for imported agricultural products, especially Halal-certified agricultural products to meet domestic demand. The Middle East - Africa region has a complex, volatile and rather difficult political character due to certain cultural and religious differences, business practices and Halal-certified food habits. However, this region's requirements for food safety and quality standards for imported agricultural products are not so strict. Therefore, the Middle East - Africa region is a good potential market for Vietnamese agricultural products. A careful study of the Middle East - Africa market to develop a suitable approach for Viet Nam's agricultural products is necessary to penetrate into new markets and avoiding dependence on some traditional markets. A review of the current export of Viet Nam's Halal-certified agricultural products to the Middle East - Africa market points out the challenges for export development, and the need to develop new approaches in formulating policy recommendations to promote the export of Viet Nam's Halal-certified agricultural products to such a market.*

Keyword: Agricultural products (HS 10, 09, 19), vegetables, fruits (HS 08, 20, 07), Halal certification, export, policy, Viet Nam, Middle East, Africa.

## **I. DEMAND FOR HALAL-CERTIFIED AGRICULTURAL PRODUCTS OF THE MIDDLE EAST – AFRICA MARKET**

### **1.1. Overview of the Middle East - Africa market**

The Middle East (comprised of 15 countries) and Africa (comprised of 55 countries), with a population of more than 1.6 billion people and prominent purchasing power are currently assessed as potential markets for Vietnamese agricultural products. This is a market area with great demand for importing agricultural products, especially Halal certified agricultural products to make up for the shortage of agricultural products and foodstuffs to meet domestic demand.

In the Middle East, the leading important markets for Viet Nam's agricultural exports are the United Arab Emirates (UAE), Iraq, Israel, Egypt, Saudi Arabia and Turkey. Middle Eastern countries, with an average GDP growth rate of 2.2%/year and high GDP per capita, are currently importing a large number of food and food products, accounting for 80% of the volume. Goods consumed by this region, equivalent to about \$45 billion per year (in 2020, imports of agricultural products, food and foodstuffs of this region will reach \$44.48 billion, and it is expected to increase further to \$70 billion by 2025).

In particular, the UAE mainly relies on imported agricultural products and food, especially rice and coffee to serve domestic needs and ensure food security, with imports accounting for about 80% of consumption in the country. The UAE has traditionally been the agricultural product re-export centre of both the Middle East and Africa, so it is a potential market for Vietnamese agricultural exports. Iraq is one of the largest rice importers in the Middle East and in 2020 will emerge as the largest market for Viet Nam's rice and grain products. Israel is the country with the most import demand in the Middle East for aquatic products and processed seafood, including fruits from tropical countries. Egypt also has a developed agriculture, but still needs to import many agricultural products, foods such as coffee, tea and spices, meat and meat by-products, seafood, and fruits. Saudi Arabia is the largest economy, the largest population and also the largest importer of food and foodstuffs in the Gulf Cooperation Council (GCC) bloc, with a relatively high demand for agricultural products to serve production and consumption. Turkey is one of the most populous countries in the Middle East, so the demand for food is quite high, along with the need to import a variety of agricultural products as raw materials for production and processing of export goods like raw cashew, coffee, and cocoa.

In the African region, some important import markets for agricultural products that Vietnamese businesses need to pay attention to are Ghana, Côte d'Ivoire, Mozambique, Senegal, South Africa and Algeria. Africa is currently a market with great import demand for agricultural products, especially in West Africa, which has a large demand for rice due to insufficient rice production, especially in years of natural disasters, crop failure, political instability or disease (in 2020, the import turnover of agricultural products and food from African countries is \$29.22 billion and is expected to increase sharply to \$110 billion in 2025).

Meanwhile, Ghana, Côte d'Ivoire, Mozambique and Senegal are the leading import markets for Viet Nam's agricultural products, mainly rice, to make up for the lack of domestic food consumption. Next is Algeria with a great demand for importing pepper, tea, coffee, spices, rice, cereals, dairy products, seafood, meat and meat by-products. South Africa is a developed agricultural country, but every year there is a need to import many agricultural products and foods, with a large demand for pepper, tea, coffee, spices, fruits and seafood of all kinds.

Beside from the advantages, the Middle East - Africa region is complicated with the occasional political complexities, instability, religious conflicts, ethnic conflicts, resource disputes, competition for influence among major power. out. In addition, some trade barriers need to be noted that, enterprises that want to export agricultural products and foodstuffs to this market area are required to have Halal certification as a mandatory condition, along with other food safety standards. The member countries of the Gulf Cooperation Council (GCC) require certificates of standards, quality control, labeling, etc., issued by the Gulf Standards and Metrology Organization (GSMO). Turkey and Saudi Arabia are the countries that regularly apply trade remedies (anti-dumping, safeguard duties, etc.), technical barriers, and very strict Halal certification requirements for food import. Moreover, the Middle East - Africa market is quite difficult to access due to some peculiarities such as differences in culture, religion, business practices or the habit of using Halal certified food, thus requiring Vietnamese agricultural product exporters, therefore, are required to study carefully to have a suitable approach.



## **1.2. Halal-certification and demand for Halal-certified agricultural products and food in the Middle East - Africa market**

Halal-certification is a certificate for a product that meets the requirements of the ingredients and manufacturing conditions of the Halal Standards (Qua'ran and Shariah law of Islam) and is authorized to release it to Muslims. Products subjecting to Halal Certification in Muslim markets are divided into 4 main categories: Food and Beverages (excluding wine, beer and other alcoholic products); medicine; cosmetics and functional food products. These are the products that typically contain animal-based ingredients or other ingredients that are permitted for Muslim consumption. Furthermore, the standards for Halal certification are not only related to the ingredients of the product, but also cover the entire production, processing, packaging, labelling, storage and transportation of the product, thus not only for Muslims but also non-Muslims, Halal products are also a healthy choice due to the assurance of quality, safety and food hygiene standards. The Halal standard not only fulfils a religious criterion but is also one of the new standards that assure consumers of product safety and quality.

However, the Muslim market does not require products that meet many high technical standards such as the US and Europe, but instead only 2 mandatory requirements: to have the Halal certification mark and to have a language friendly to theirs. Businesses that have been granted HACCP or ISO 22000: 2005 certificates will find it easier to obtain Halal certificates. In particular, Halal certification does not refer to technical factors, i.e. no quality requirements; only the production process, raw materials must meet strict Halal requirements: the product must be free from pork, dog meat and other prohibited animals; does not contain banned substances according to Muslim standards; ensure no cross-contamination during the production of Halal products and other products. In addition, the design, product packaging labels must not go against Islamic principles such as not advertising sensitive images related to women, religion, etc. Thus, the Halal endorsement is different from that of other standards in that it does not carry much in terms of product specifications but has mainly religious significance.

Research published by the International Islamic Information Agency (IINA) of the Organization of Islamic Cooperation, the size of the consumer market for global products and services that comply with Halal standards of Islamic law, including the fields of food, pharmaceuticals, cosmetics, logistics, banking and tourism, will increase from \$2 trillion in 2020 to \$10 trillion in 2030. Or according to the figures reported by the World Halal Forum, the global trade value for Halal food products alone is about \$661 billion and if we include the group of non-food products and other Halal services, this figure averages from \$1,200 to \$2,000 billion dollars a year. In the Middle East - Africa market area alone, the majority of the population of the Middle East region is Muslim and Africa with the percentage of Muslims accounting for 53% of the total population of this continent, so the demand for the consumption of Halal certified agricultural products and foods will be huge.

It is forecasted that by 2025, food with the Halal certification mark (Halal food) will account for 20% of the total value of food consumed worldwide. Previously, most Muslim countries were able to meet most of their food needs domestically or import from other Muslim countries. However, with the global market expanding now, the potential of the Halal food market in the world is not limited to Muslim countries. Therefore, expanding the export market of agricultural products to Muslim countries is a potential direction for countries with strengths in food production and processing, including Viet Nam. In the coming years, in

order to enter the market of Muslim countries, each business needs to pay attention to Halal standards or Halal certification, thereby exploiting the maximum potential of Viet Nam's agricultural exports.

## II. VIET NAM'S EXPORT OF HALAL-CERTIFIED AGRICULTURAL PRODUCTS TO THE MIDDLE EAST - AFRICA MARKET IN THE 2016-2020 PERIOD

### 2.1. Achievements

In recent years, Viet Nam's agricultural exports to the Middle East - Africa region have prospered, with the total export turnover of agricultural products (HS code 10, 09, 19, 08, 20, 07) in 2019 reaching \$1,570.08 million and slightly decreasing to \$1,506.03 million in 2020, of which the export of agricultural products to the Middle East region reached \$732.10 million and \$694.35 million respectively (average growth rate for the whole 2016-2020 period is 7.48%); Export of agricultural products to Africa reached \$837.97 million and \$811.67 million respectively (average growth rate for the whole 2016-2020 period was 3.06%).

The group of agricultural products is one of the important export groups of Viet Nam to the Middle East - Africa market, especially Africa, with the proportion of export turnover of this group of goods in the total export turnover of agricultural products. Viet Nam's trade to Africa in 2020 will reach 30.33% (average 2016-2020 period accounts for 28.67%); this figure for the Middle East region reached 9.64% (average 2016-2020 period accounted for 7.95%).

**Table 1. Viet Nam's agricultural exports to the Middle East - Africa region in 2016-2020**

*Unit: 1.000 USD*

	Item	2016	2017	2018	2019	2020
	<b>Total export value of agricultural products of Viet Nam (HS 10, 09, 19, 08, 20, 07)</b>	<b>13,170,367</b>	<b>15,191,831</b>	<b>14,508,138</b>	<b>13,508,846</b>	<b>13,308,108</b>
	<b>Middle East Market</b>					
1	Total export turnover of Viet Nam's agricultural products to the Middle East	526,676	582,575	685,112	732,105	694,354
2	Total export turnover of Viet Nam's goods to the Middle East	7,959,550	8,820,808	8,726,792	8,085,430	7,204,118
3	Total import turnover of agricultural products of the Middle East		45,845,758	48,712,579	50,719,735	44,485,471
4	Proportion of export turnover of agricultural products/Total export turnover of Viet Nam's goods to the Middle East (%)	6.62	6.60	7.85	9.05	9.64
5	Proportion of Viet Nam's agricultural exports to the Middle East/Total agricultural product exports of Viet Nam (%)	4.00	3.83	4.72	5.42	5.22
6	Proportion of Viet Nam's agricultural export turnover/Total agricultural product import turnover of the Middle East (%)		1.27	1.41	1.44	1.56

Africa Market						
1	Total export value of agricultural products of Viet Nam to Africa	725,773	705,619	736,932	837,976	811,677
2	Total export turnover of Viet Nam's goods to Africa	2,707,672	2,642,746	2,524,153	2,761,356	2,676,354
3	Total import turnover of agricultural products of Africa			28,239,527	27,391,756	29,220,370
4	Proportion of export turnover of agricultural products/Total export turnover of goods of Viet Nam to Africa (%)	26.80	26.70	29.20	30.35	30.33
5	Proportion of Viet Nam's agricultural exports to Africa /Total agricultural product exports of Viet Nam (%)	5.51	4.64	5.08	6.20	6.10
6	Share of Viet Nam's agricultural product export turnover/Africa's total agricultural product export turnover (%)			2.61	3.06	2.78

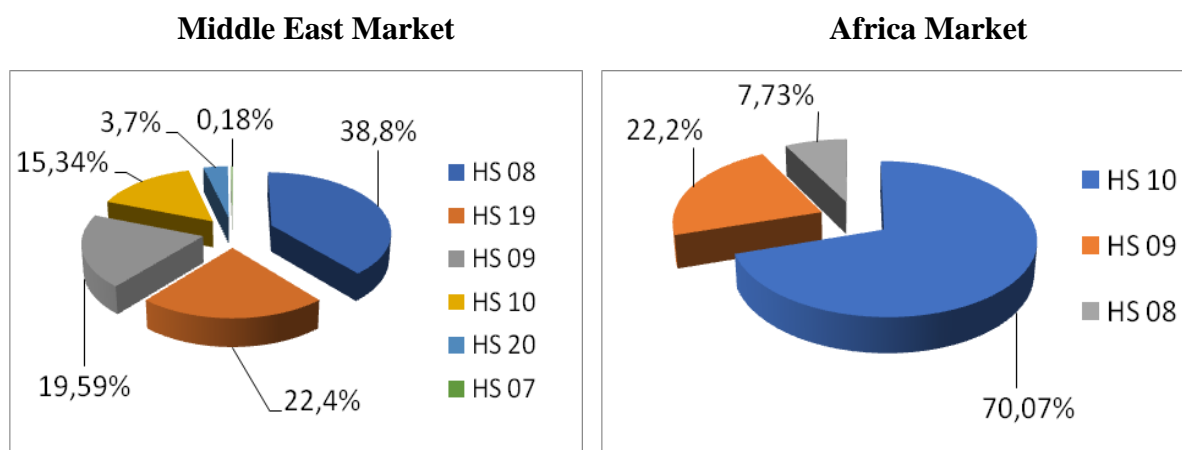
Source: Statistics of the International Trade Centre (ITC), 2020

Viet Nam is a country with strengths in agricultural products such as cocoa, coffee, rice, barley, legumes, vegetables and fruits. Viet Nam's exports include rice and coffee, pepper, tea, fruit, cereal products, etc., have penetrated and gained a foothold in the Middle East - Africa market, favoured by local people and highly appreciated for their prices and quality.

- In the Middle East market, Viet Nam's most exported agricultural products in 2020 are fruits and nuts (HS 08), with export turnover reaching \$269.39 million, accounting for 38.8% of the total export turnover of agricultural products of Viet Nam to the Middle East market; followed by products from cereals, flour, starch or milk (HS 19), with export turnover reaching \$155.56 million, accounting for 22.4%; coffee, tea and spices (HS 09) with a turnover of \$136.01 million, accounting for 19.59%; cereals (HS 10) with a turnover of \$106.49 million, accounting for 15.34%.

- In the African market, rice (HS 10) is the main export item with a turnover of US\$568.71 million, accounting for 70.07% of Viet Nam's total agricultural export turnover to the African market; followed by coffee, tea and spices (HS 09) with a turnover of \$180.22 million, accounting for 22.2%; fruits and nuts (HS 08) with a turnover of \$62.74 million, accounting for 7.73% of Viet Nam's total agricultural exports to the African market.

**Figure 1. Structure of Viet Nam's agricultural exports to Middle East - Africa in 2020 (%)**



Source: Statistics of the International Trade Center (ITC), 2020.

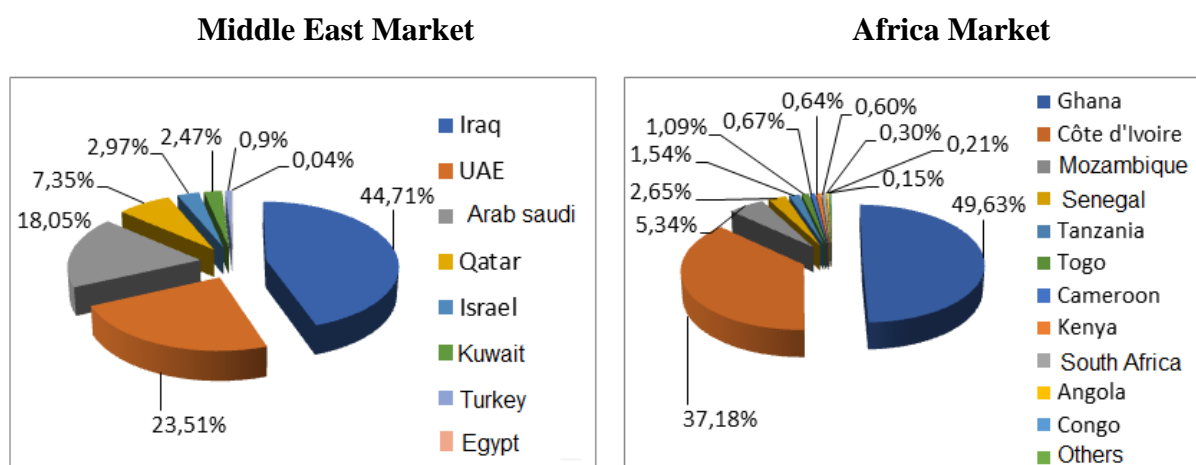
Currently, each year, our country has about 50 companies that are certified Halal with the main products being seafood, beverages, canned food, confectionery, vegetarian food and pharmaceuticals. A survey by Viet Nam Halal Center Company at companies producing rice, food and food in the Mekong Delta region shows that many businesses have great export potential and can completely achieve the Halal quality certification to meet export requirements to Muslim countries in the Middle East - Africa. Up to now, many Vietnamese food production enterprises have shifted their exports to the market of Muslim countries; many companies such as Orion Vina, Vinamilk, Nestlé Viet Nam, Cai Lan Vegetable Oil Company, Tuong An Vegetable Oil Company, and Minh Phu Seafood Company have received Halal certification.

Taking advantage of the opportunity to import a variety of food products and foodstuffs in large quantities from countries in the Middle East - Africa region, Viet Nam has gradually expanded the export market of agricultural products to this potential area.

- In the Middle East, Viet Nam's largest rice export market is Iraq with a turnover of \$47.61 million, accounting for 44.71% of Viet Nam's total rice export turnover to the Middle East market; followed by the United Arab Emirates (UAE) with a turnover of \$25.03 million, accounting for 23.51%; Saudi Arabia ranked third with \$19.22 million, accounting for 18.05%.

- In the African region, Ghana is Viet Nam's main rice export market with \$282.25 million, accounting for 49.63% of Viet Nam's total rice export turnover to the African market; followed by Côte d'Ivoire with a turnover of \$211.47 million, accounting for 37.18%; Mozambique ranked third with \$30.37 million, accounting for 5.34%.

**Figure 2. Structure of Rice Export Market (HS 10) of Viet Nam in Middle East-Africa in 2020 (%)**



Source: Statistics of the International Trade Center (ITC), 2020.

## 2.2. Shortcomings and Causes

### (1) Shortcomings

Although Viet Nam's agricultural exports to the Middle East - Africa region have achieved encouraging results, the market in the Middle East - Africa region still occupies a relatively modest position in the number of export markets for agricultural products of Viet Nam. The proportion of Viet Nam's agricultural export turnover to the Middle East market in the total agricultural export turnover of Viet Nam in 2020 accounts for only 5.22% (average

of the 2016-2020 period accounts for 4.64%) and this figure for the African market is 6.10% (average 2016-2020 period accounts for 5.51%).

Compared with the demand for agricultural products in the Middle East - Africa region, the ability of Viet Nam's agricultural exports to meet the needs is very limited, with the proportion of Viet Nam's agricultural export turnover in the total value of agricultural products. The import turnover of agricultural products in the Middle East region in 2020 only accounts for 1.56% (average of the 2016-2020 period accounts for 1.42%), while for the African region this proportion is 2.78% (the average 2016-2020 period accounted for 2.81%).

The export method of Viet Nam's agricultural products is not suitable with and has not met the customs and consumption habits of the Muslim people in terms of packaging and distribution of agricultural products, tastes, especially the Halal certified. If the first barrier on Halal is overcome, only Vietnamese enterprises can penetrate into the market of Muslim countries, however, currently only nearly 1,000 Vietnamese enterprises have met this standard - a number that is too small compared to 300,000 businesses established each year.

Viet Nam's supply of potential Halal certified agricultural products is only about \$10.5 billion. Meanwhile, the demand of the countries of the Islamic Cooperation Corporation (OIC) for Viet Nam's Halal certified export agricultural products is \$34.1 billion. Thus, the market share of \$23.6 billion is completely left open by businesses, including Muslim countries in the Middle East and Africa - a potential market for Viet Nam's agricultural exports.

## **(2) Cause of the shortcomings**

The objective cause of becoming a barrier in trade and investment relations between Viet Nam and countries in the Middle East - Africa is primarily geographical: the long distance between the two sides causes a lot of difficulties in trade, investment, and transportation, increases prices and reduces competitiveness, especially for agricultural products and foods that need freshness and high preservation requirements to ensure product quality. In addition, some characteristics of differences in culture, religion, food usage habits, consumption habits, and different business practices of Muslim countries in the Middle East - Africa region have also become a barrier in the trade of Viet Nam's agricultural products with these regional countries.

One of the biggest barriers for Vietnamese enterprises in exporting to the Middle East - Africa market lies in the payment stage. Due to limited financial capacity, importers in this region often suggest to buy goods on deferred payment, in the form of delivery to destination (CIF) and without opening a letter of credit (L/C) due to high costs, or the payment is made by TTR ie 10% deposit and the rest will be paid when documents are available. These are unsafe and even risky payment methods, so most are not approved by Vietnamese exporters. Meanwhile, exporters of some countries such as India, China or Thailand accept deferred payment, causing many partners to switch to importing from these enterprises.

The lack of information about markets and partners in the Middle East - Africa region also causes many obstacles for Vietnamese exporters when accessing this new market area. The ability to introduce and promote trade in agricultural products, and to verify the capacity of import partners, apply for visas, etc. through the Embassies and Trade Offices is still facing many difficulties, so Vietnamese enterprises have to export through international intermediaries, leading to high prices and reduced competitiveness of agricultural products

exported from Viet Nam, and sometimes the brand name of Vietnamese agricultural products is not known to local consumers.

Up to now, there has not been a general Halal Certification for the whole world, but this is just a separate Muslim standard for each market area, not yet recognized unanimously by a reputable agency in the world. There are about 300 Halal certification organizations in the world, but only 122 organizations are recognized as members of the International Halal Alliance (IHIA). In Viet Nam, Halal Vietnam (HVN) is the Centre for testing, evaluating and certifying Halal products for export to the Muslim market and has been recognized as a member of IHIA. The different Halal standard of each Muslim country is also one of the barriers that make it difficult for Vietnamese businesses to export agricultural products to this market area with a large number of Muslims.

Between Viet Nam and countries in the Middle East - Africa region has not yet signed a Free Trade Agreement (FTA), so import taxes and technical barriers to control the import of agricultural products are unstable and insufficient.

Viet Nam's agricultural product exporters still face many difficulties in export markets due to fierce competition from local supply sources of importing countries in the Middle East - Africa region, as well as other major exporters of agricultural products from other countries in the world such as India, Thailand, China, Indonesia, Malaysia, and Ecuador.

In addition, market access and business development in Middle Eastern countries also face a number of challenges such as the US-Turkey trade war, civil wars, religious conflicts, ethnic conflicts, etc. These are painful political issues that are difficult to handle.

Changes in the natural environment, extreme weather events, climate change, saltwater intrusion and sea level rise are some of the causes beyond control, becoming a major problem for mankind and scientists assess that they will directly affect agricultural production in terms of area, output, productivity and quality, in which Viet Nam - with the characteristics of an agricultural country - is forecasted as one of the countries that will be most severely affected.

### **III. RECOMMENDATIONS TO PROMOTE EXPORT OF VIET NAM'S HALAL-CERTIFIED AGRICULTURAL PRODUCTS TO THE MIDDLE EAST - AFRICA MARKET**

#### **3.1. Strengthening co-operation among all the Stake-holders in the Middle East - Africa region**

- Strengthen the exchange of ministerial and sectoral delegations as well as business delegations of Viet Nam and countries in the Middle East - Africa region in order to enhance understanding and promote cooperation in specialized fields of agriculture on an equal and mutually beneficial basis; strengthen trade cooperation and promote trade in agricultural products of Viet Nam, especially the export of Halal certified agricultural products.

- Actively promote bilateral cooperation through the Joint Committee/Intergovernmental Committee between Viet Nam and countries in the Middle East-Africa region, considering it as an effective cooperation channel through which the parties review the cooperation situation and jointly discuss and propose specific solutions for promoting trade cooperation in accordance with the new context.

- Strengthen cooperation with partners in the Middle East, consider it as a transit station for Viet Nam's agricultural exports to expand to the African market. Middle Eastern countries with a high GDP per capita and 95% of foreign currency sources obtained from processing and exporting oil and gas, along with a very developed internationally linked banking system, so their liquidity in this market is quite good.

### **3.2. Continue to improve the legal framework, mechanisms and policies to create favourable conditions for the export**

- Completing the legal framework, mechanisms and policies to enhance trade and investment cooperation between Viet Nam and Middle East - Africa countries, properly implement the goals of ensuring food security and energy security, in which policies towards encouraging and creating conditions for Viet Nam to import crude oil, liquefied petroleum gas, other petrochemical products, and raw materials from the Middle East - Africa region, and at the same time promoting the export of food products, processed foods, and vegetables with Halal certification to meet the consumption needs of countries in the Middle East - Africa region.

- Create an open and transparent investment environment; promulgate mechanisms and policies to attract Middle East - African investors to invest in Viet Nam in the fields of industry, energy, renewable energy, agricultural production, aquaculture and food processing.

### **3.3. Focus on advocacy, introduction about markets and import partners**

- Focusing on advocacy to provide diversify and reliable sources of information about the market and import partners to the export enterprises of the parties, thereby raising awareness for enterprises of Viet Nam and Middle East and African countries about the huge market potential and investment expansion opportunities.

- Strengthening the consultant and support about the market information for exporters of Vietnamese products through Vietnamese representative agencies in this region, with model cooperation companies and private companies. advising on foreign economic target server diplomacy activities in the Middle East - Africa region, especially assisting Vietnamese enterprises in verifying the capacity for imports to reduce risks in too the headers, import export payment and expanded cooperation, promote the export of manufactured goods.

For localities that do not have Vietnamese representative offices, it is necessary to strengthen the role of Honorary Consuls in the locality, as well as take advantage of the resources of Vietnamese expatriates in the host country to provide information about the market, supporting Vietnamese enterprises in exporting agricultural products.

- Supporting export businesses through diplomatic contacts to be able to connect with the authorities in the host country, reputable local organizations and business associations to promote trade in agricultural products, or participate in product introduction fairs abroad, introduce Vietnamese agricultural exporters to participate in cooperative models and projects, and open training classes on Halal certification.

- Active participation in trade promotion activities, market surveys, attend a number of annual specialized fairs and exhibitions for agricultural products and food in Asia such as: In the UAE: Association Gulfood Dubai Food Market (February); Halal Expo and Seafood Expo Dubai (October); Middle East Food Fair SIAL (December in Abu Dhabi); International Exhibition of Tea and Coffee (December in Dubai). In Saudi Arabia: Saudi Agriculture Fair (October); Saudi Horeca Food and Beverage Exhibition (November); Food and Beverage

Exhibition Foodex Saudi (November). In Turkey: Anfaş Food International Food and Beverage Fair (February); Aydın Food and Agriculture Fair (February); Izmir International Fair (August); and World Food Fair Istanbul (September).

### **3.4. Strengthening the initiative of enterprises**

- Viet Nam's agricultural export enterprises need to be more active in updating information, and carefully studying the market in the Middle East - Africa region; follow the political situation on the mass media, warn on the websites of the Ministry of Industry and Trade, when the political situation stabilizes, the demand for importing goods, especially agricultural products. To limit risks, enterprises need to fully grasp information about traders and markets, study carefully about import regulations of the local market; be cautious in finding customers online and be wary of deals that are too attractive to avoid money laundering or money transfer scams when doing import procedures.

- Effectively using consulting services in order to appraise partners, verify and verify import partners carefully before trading (requiring to provide business registration licenses, import-export cards).

- Frequently contact directly or online with import partners in the Middle East - Africa region through participating in trade promotion programs for agricultural products, fairs and exhibitions which held in countries in the region. Researching the possibility of building a supplying network of agricultural products and opening representative offices, branches, or bonded warehouses in this market area to facilitate business activities of enterprises.

Developing an appropriate approach strategy for each market, researching and producing products with quality, specifications and designs in accordance with regulations on quality standards and consumption habits of each regional market in Middle East - Africa, increasing the proportion of products certified Halal. In addition, businesses need to pay special attention to building and developing Vietnamese agricultural product brands, improving product quality, maintaining future relationship between quality and price of agricultural products.

- In order to produce products that meet Halal standards, enterprises need to proactively meet Halal standards in advance so that when an order is placed, it will be faster and easier to apply for a certificate. In addition, Vietnamese exporters need to properly approach the regulations on Halal certification of Muslim countries, avoid confusion about the concept of Halal, such as the assumption that vegetarian food is a Halal product, or products without fatty meat may be sold and consumed in the Muslim market.

- Focusing on training high-quality human resources in exporting agricultural products enterprises, building a team of high skill and high technology engineers and skilled workers; training a team of qualified import-export business staff who are fluent in foreign trade and foreign languages and be regularly improved skills in negotiation, signing contracts, building model contracts with regional partners Middle East - Africa.

*Overall*, the Middle East - Africa is a potential market for Viet Nam's agricultural exports, including Halal certified agricultural products and food. Carefully studying the Middle East - Africa market to have a suitable approach to promote the export of Halal certified agricultural products is a good solution for Vietnamese agricultural product exporters in expanding their business in new markets and avoiding dependence on some traditional markets, especially in the context of the decline in demand in key markets in the EU and the



US due to the COVID-19 pandemic. In the coming time, Vietnamese exporters of agricultural products should aim to promote the development of a strategy to access the global Halal market for Vietnamese agricultural products.

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# EXPORT DEVELOPMENT OF VIET NAM'S AGRICULTURAL PRODUCTS TOWARDS 2030

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## **Abstract**

*Agricultural products are among Viet Nam's key export items. Agricultural export has made significant contributions to the country's overall export turnover. Viet Nam has achieved certain successes in exporting agricultural products, becoming one of the top 15 largest exporters of agricultural products in the world in 2020. In the period 2011-2020, the export turnover of agricultural products tended to increase with the diversification of agricultural exports and the expansion of the export markets. Despite the impressive results, there are challenges to be addressed. One of which is the fact that Viet Nam's agricultural exports were either raw or only partly processed with unstable quality. The article analyses in depth Viet Nam's agricultural exports in the period 2011-2020 and identifies shortcomings and their causes. Based on the analysis, this article makes recommendations for the development of Viet Nam's agricultural exports toward 2030.*

Keywords: Solutions, policies, export, agricultural products, Viet Nam.

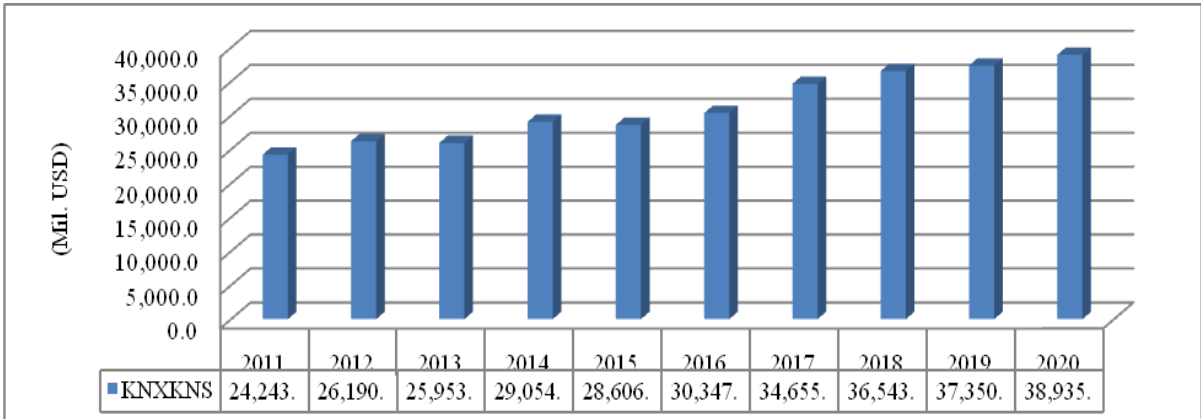
## **I. VIET NAM'S AGRICULTURAL EXPORTS IN THE PERIOD 2011-2020**

### **1.1. Achievements**

In the period 2011-2020, Viet Nam has achieved certain successes in exporting agricultural products. In 2020, Viet Nam became one of the top 15 largest exporters of agricultural products in the world, with an export turnover of \$38,935.7 million and products exported to 186 countries and territories. Viet Nam's agriculture exports consist of 11 products namely seafood products, fruits, vegetables, nuts, coffee, pepper, tea, rice, cassava and cassava products, rubber and rubber products, wood and wood products, bamboo and rattan products, sedge mats.

*Firstly*, the export turnover of agricultural products increased in the period 2011-2020, from \$24,243.5 million in 2011 to \$28,606.6 million in 2015 and reached \$38,935.7 million in 2020. The average growth rate of export turnover of agricultural products stood at 7.32%/year. The export turnover of agricultural products in 2020 increased 1.61 times compared to 2011.

**Figure 1. Export turnover of agricultural products of Viet Nam in the period 2011-2020**



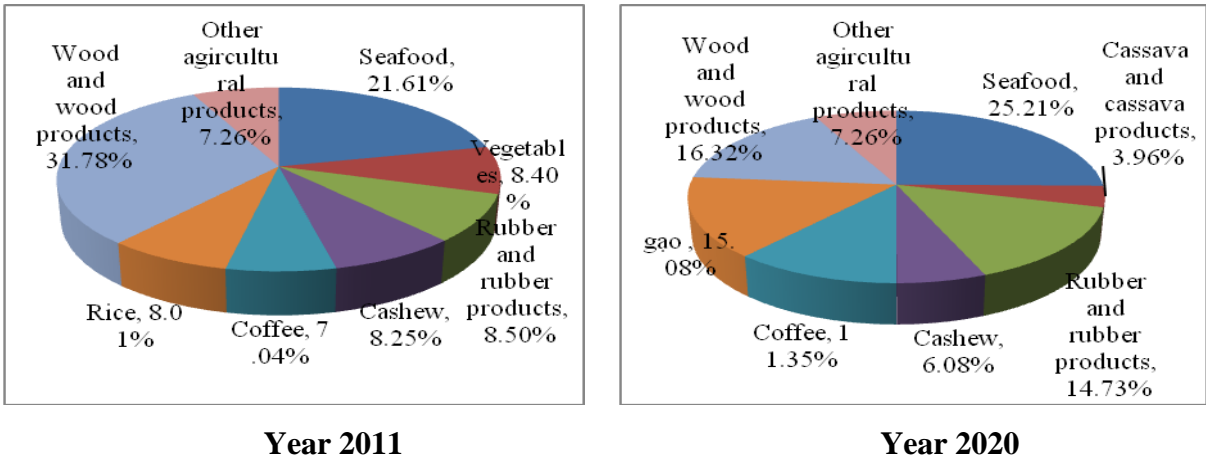
Source: General Department of Vietnam Customs, 2021

Secondly, Viet Nam’s agricultural exports are increasingly diversified and abundant. Viet Nam produces and exports many new agricultural products such as vegetables and fruits (longan, lychee, passion fruit, etc.). Many of Viet Nam’s exports are among the first-class goods on the world market, such as rice, pepper, cashew nuts, seafood, fruits and vegetables. These types of goods step by step establish themselves as well-known, prestigious brands with high quality and competitive price in the international market.

Thirdly, the quality of Viet Nam's agricultural products has increasingly improved with the adoption of safe production standards such as VietGAP, GlobalGAP, etc., Viet Nam has initially achieved satisfactory results in restructuring of the agricultural sector and certain successes in establishing large-scale agricultural production areas where high tech is applied for the exported-oriented production.

Fourthly, the structure of agricultural exports has shifted towards gradually reducing the proportion of some key exports products which are mainly exported in the form of raw materials, semi-processed products (rubber and rubber products, coffee, rice, cassava and cassava products), increasing the proportion of new agricultural products (litchi, mango, passion fruit, etc.). Vegetables and fruits in 2011 were not the main agricultural exports. But since 2014, vegetables have surpassed cassava and become one of the 7 key agricultural exports accounting for about 92-94% of Viet Nam's agricultural export turnover in the period 2011 - 2020.

**Figure 2. Structure of Viet Nam's agricultural exports in the period 2011-2020**



Source: General Department of Vietnam Customs, 2021

*Fifthly*, the export market for agricultural products is rapidly expanding. Viet Nam exports agricultural products to 186 countries and territories. The main export markets of Viet Nam's agricultural products include China, the United States, ASEAN, the EU, South Korea, and Japan. The proportion of agricultural product exports to these markets accounts for 76.55% of the country's total agricultural export turnover in the 2011 - 2020 period.

## **1.2. Weaknesses, limitations and causes**

Despite of significant achievement, Viet Nam has had some weaknesses, limitations in exporting agricultural products in the period 2011 - 2020, specifically as follows:

*Firstly*, although the export turnover of agricultural products tends to increase in the period 2011 - 2020, the proportion of agricultural export turnover out of Viet Nam's total goods export turnover tends to decrease. Specifically, the percentage of agricultural exports in Viet Nam's total goods exports decreased from 25.02% in 2011 to 17.66% in 2015 and to 13.78% in 2020.

*Secondly*, the quality of agricultural exports is not high and stable. The percentage of agricultural products meeting VietGAP and GlobalGAP standards is low, about 30-35%. Some agricultural exports of Viet Nam still violate phytosanitary, food hygiene and safety legislation of some developed countries such as EU, Japan, and Australia. Agricultural products are not strictly controlled in terms of food quality, food hygiene, safety and traceability. This is one of causes of low and unstable quality of exports, making it difficult to conquer and expand market share in markets adopting strict technical barriers such as the United States, EU, and Japan.

*Thirdly*, Viet Nam's key agricultural products have low competitiveness and have no brand name in the international market. Viet Nam has a wide variety of agricultural products for export, but it does not have a strong brand name in the international market. For example, Vietnamese bananas taste much better than Korean bananas, but foreign consumers do not see them as reliable products because they do not have brand names. Viet Nam's agricultural exports are always facing strong competition from Thailand, India, Indonesia, etc., which also offer the same type of agricultural products.

*Fourthly*, Viet Nam still mainly exports raw agricultural products, so the added value and export efficiency are low. Every year, Viet Nam exports a large amount of agricultural products, but the profit is small when compared to other countries such as China and Thailand. Currently, Viet Nam's agricultural product processing capacity has already grown 3 times higher than 10 years ago, with 7,500 industrial-scale processing establishments for export. However, 2/3 of processed products are semi-processed products with low added value.

*Fifthly*, the export market of Viet Nam's agricultural products has expanded to 186 countries and territories. However, most of agricultural products are exported to the regional markets (China, Korea, Japan...). The Chinese market accounts for 21.20% of the total export turnover of Viet Nam's agricultural products during this period. Particularly, the export of vegetables and fruits heavily depends on the Chinese market, accounting for 61.04% of total export turnover.

## **1.3. Causes of the shortcomings in Viet Nam's agricultural exports**

- Generally, policies for the development of goods export are inadequate and have low enforcement effect. Among which the policies for promoting the export of agricultural products are not realistic. The efficiency of export development, promotion activities is far

lower than expected. On the one hand, these policies seem to be generic. They are not specifically tailored for each particular product or market. On the other hand, export businesses' resources and capacity needed for the implementation and enforcement of these policies are limited. The State's preferential investment and credit policies are not strong enough to encourage enterprises to invest in agriculture (Decree No. 57/2018/ND-CP dated April 17, 2018 on incentive policies for enterprises investing in agriculture and rural development sector). The system of regulations and quality standards which are developed in harmony with international standards to secure export development is not adequately and effectively enforced.

- Currently, Viet Nam's agricultural production is fragmented with a small production scale and farmers are not really paying due attention to the quality. Therefore, exported products do not meet the requirements of developed markets in terms of quality and food hygiene and safety. Agricultural production scale is small and segmented. Post-harvest preservation technology and processing technology are low and outdated. Fragmented production makes the quality of agricultural products uneven and creates difficulties in controlling food hygiene and safety, and applying international standards on traceability. Agricultural exports are collected from farmers with wide different production processes/methods, leading to unstable supplies and low quality goods which fail to meet food safety standards and low export efficiency.

- The agricultural production area applying VietGAP and GlobalGAP standards is rather small. There is a lack of specialized farming areas, large-scale raw material areas for export-led production. Land availability, capital sources, mechanisms and policies, and the companionship of localities are barriers resulting in small investment in agriculture and a small scale of agricultural production (the number of businesses investing in agriculture only accounts for about 10% of the total number of enterprises in the country, of which the number of small and medium sized enterprises accounts for nearly 80%).

- There has been certain attention to and interest in building of brand names, registration for certification of geographical indications and protection of geographical indications in export markets for agricultural. But it needs more attention and investment. In fact, most of Viet Nam's agricultural exports are in the form of raw materials, fresh fruit, and processed products account for a very small proportion (juice, dried fruit, dipped tea, etc.).

- Market information and export promotion of agricultural products are still limited. Market information has not been updated, while other countries often change their import policies and regulations on agricultural imports, especially China (with frequent change of border trade policies). Information sharing and connection between concerned agencies, localities and businesses is still limited.

- Standards for imported agricultural products set by Viet Nam's major export markets become stricter. The administration of technical and quality standards for agricultural products in fastidious markets is gradually shifting from the management of food safety in the form of inspecting, sampling and determining the criteria of the final product to apply the management method by controlling the entire process from "farm to table".

Specifically: (i) The Chinese market not only sets higher standards for the quality of imported agricultural products, but also tightens border trade management. China strictly enforces regulations on traceability, requiring each product to have a planting area code. So far Viet Nam has only 9 types of fruits licensed for being officially exported to China (dragon fruit, watermelon, lychee, longan, banana, mango, jackfruit, rambutan and mangosteen). (ii) The EU market has not lifted the yellow card for fishery products of Viet

Nam. From September 1, 2019, the European Commission requires strict plant quarantine for many agricultural products imported from countries outside the EU (including Viet Nam). For imported batches of citrus fruits and fresh mangoes, they must be produced from gardens that have been inspected by the phytosanitary inspector and free from infection by fruit flies. All information about the plantation or treatment parameters must be recorded in the Phytosanitary Certificate to ensure the traceability. (iii) The US market maintains and increases protectionist measures through the imposition of anti-dumping duties on Vietnamese seafood products, continues the Catfish Inspection Program under the Farm Bill, vigorously applying the Lacey Act to the category of wood and wood products. (iv) The Japanese and Korean markets also regularly review and adjust regulations on food safety and increase the frequency of inspection of imported agricultural products, which is detrimental to Viet Nam's export progress into these two markets.

## **II. SUGGETIONS FOR VIET NAM'S AGRICULTURAL EXPORT DEVELOPMENT TOWARD 2030**

In the period 2021 - 2030, the world economy has been in crisis, recession. The global trade declined in the context of trade tensions between major economies, the US-China trade war, the trend of protectionism tends to increase. The COVID-19 epidemic is complicated, unpredictable and may last for a long time. The globalization and trade liberalization continue to grow in terms of the scale, extent and manifestation form with both positive and negative impacts, and complexly intertwined opportunities and challenges. Industrial Revolution 4.0 is taking place strongly, changing the production structure. Developed countries (USA, EU, a,d Japan) have adopted increasingly strict requirements for imported agricultural products.

Viet Nam integrates more and more deeply into the regional and world economy, signs and implements market opening commitments in new generation FTAs, seizes opportunities to attract foreign investment in processing industries to increase the added value of agricultural products. The international and domestic context will deliver both opportunities and challenges affecting the export of Viet Nam's agricultural products in the years to come. Therefore, we need to have solutions for both the Government and export enterprises to proactively seize opportunities and limit challenges in order to develop the export of agricultural products towards 2030.

### **2.1. Suggestions for the Government**

#### **(1) On agricultural productions**

- *Improving policies on development of agricultural production:* Reviewing, formulating, amending and supplementing policies on development of agricultural production; Formulating a strategy for processing agricultural, forestry and fishery products; Localities should really get involved in the implementation of Decree No. 57/2018/ND-CP, perform the tasks as prescribed in Article 19 (e.g. promulgating mechanisms and policies suitable to specific conditions and characteristics of their respective localities, the mechanism to promote land concentration, the list of projects entitled to investment incentives); Strengthening the dissemination information and communication on policies to encourage enterprises to invest in agriculture and rural areas; Improving the effectiveness and efficiency of state management of agricultural production, especially simplifying administrative procedures to create conditions for enterprises to access the support and incentives of the Government; The State Bank of Viet Nam should direct credit institutions to balance capital sources to meet the needs for agricultural and rural development.

- *Developing hi-tech agriculture, clean agriculture:* Develop hi-tech agriculture to improve the productivity and quality of agricultural products by promoting the application of high technology in agricultural production; Developing centralized agriculture production centres of large scale in the direction of modernization and application of high technology to increase added value and secure sustainable development; Developing high-tech agriculture, clean and organic agriculture, step by step transforming into high-yield, high-quality and efficient crops and livestock, applying VietGAP and GlobalGAP standards in agricultural production; Adopting special preferential policies for the development of hi-tech agriculture, clean and organic agriculture; Encouraging the development of green, ecological, smart agriculture, adapting to climate change.

- *Developing large-scale specialized farming and raw material areas to secure good supply of goods for export:* Developing specialized farming areas for large-scale production of vegetables, fruits and food in order to create a stable source of raw materials for processing agricultural products for export with high quality, food hygiene and safety, meeting the requirements of the export market; Adjusting the planning, re-organizing large-scale production areas to facilitate the mechanization of the stages of cultivation and harvesting and applying advanced techniques, production methods, new varieties to improve the quality and competitiveness of agricultural products; Encouraging and attracting investment in the production and processing of agricultural products for export; Providing credit support for businesses, cooperatives (cooperatives), farmers to develop specialized farming areas (safe vegetables, fruits, etc.) and aquaculture areas; Building large-scale planting areas, producing according to VietGAP, GlobalGAP processes, encoding planting areas for the traceability.

- *Promoting the application of high technology and enhancing the processing of agricultural products:* Promoting the application of high technology in agricultural development, applying scientific and technical advances in post-harvest preservation and processing to increase the productivity and the quality of agricultural products to meet the requirements of export markets; Investing in science and technology, adopting vigorous policies on capital and credit support for importing source technology used for agricultural processing in order to increase added value of agricultural products; Prioritizing and supporting research, application and transfer of science and technology in agriculture, focusing on the seed stage, production and processing processes, and value chain management.

## **(2) On agricultural export policies**

- *Continuing to improve import-export management mechanisms and policies:* Reviewing, developing, amending and supplementing import-export policies to ensure a complete, synchronous, clear and transparent legal and policy framework which is in compliance with international regulations and commitments is in place; Developing and applying a system of national standards in harmony with international, regional and foreign standards for exported goods, including technical standards, food hygiene standards, and environmental standards; Developing and issuing regulations and circulars on Vietnamese products and goods and products and goods made in Viet Nam.

- *Developing export markets:* Diversifying markets, actively exploiting opportunities and advantages offered by the international economic integration to expand export markets for agricultural products; Building a market information system, proactively taking appropriate countermeasures against trade protectionist policies in all forms, tariff and non-tariff barriers of markets to agricultural products; Speeding up bilateral and multilateral negotiation activities in order to reach agreements on market opening for agricultural

products, especially fresh fruits; Making the best use of market opening opportunities and tariff reduction roadmaps under FTAs to boost exports and improve the export efficiency of agricultural products ; Reviewing, negotiating and signing agreements on conformity and mutual recognition of quarantine, product quality, food safety standards with markets, and creating favourable conditions for the export of agricultural products and creating the basis for production and export orientation.

- *Improving the capacity to respond to non-tariff barriers applied by export markets:* Building a system of standard quality management and certification agencies from the central to local levels; Adopting a strict control of all stages from raw materials to finished products; Focusing on improving the capacity of quality management agencies by training human resources and upgrading and procuring modern machines, equipment to secure accurate test results, compatible with quality standards of developed countries; Speeding up the process of mutual recognition of standards and inspection with partners to make it easier for Vietnamese agricultural products to enter into export markets, especially FTA markets; Setting up a non-routine monitoring mechanism applicable to goods items/enterprises that frequently violate the quality and food safety standards of Japan, EU, and Australia to find solutions to thoroughly solve them and avoid negative impact on Viet Nam's agricultural exports in general.

- *Strengthening trade promotion activities:* Strengthening trade promotion activities to reinvigorate traditional markets, expand new and potential markets through the participation in fairs, exhibitions and seminars on promotion of the export of agricultural products abroad; Developing and organizing trade promotion programs to promote the export of Vietnamese agricultural products in foreign markets, maintaining key and traditional markets, and increasing the export to markets with additional economic structures with Viet Nam, potential market, finding new markets to promote the export of agricultural products; Strengthening the capacity to analyse information, forecast and warn about barriers and problems that may arise for the export of agricultural products; State authorities should strengthen the coordination with businesses to build national brand names and trademarks for a number of key agricultural products, especially furniture, fruits and seafood.

## **2.2. Suggestion for Businesses**

- *Diversifying and developing different types of agricultural exports and improving the quality of agricultural products:* It is necessary for businesses to diversify and develop agricultural products to meet the rapid change of tastes and needs of the world market; Improving the quality of agricultural products, ensuring a stable supply, ensuring food safety to meet the standards of importing countries, promoting the development of new exports, especially high-tech agricultural products and deeply processed agricultural products; Applying high technology in production, processing, preservation, packaging, transportation, participating in the global supply chain of agricultural products to meet stricter requirements of export markets.

- *Actively controlling the quality, food hygiene, implement the product traceability before exporting:* Strengthening the linkage with cooperatives, large-scale agricultural production farms, applying VietGAP and GlobalGAP standards to export agricultural products with good quality, labels, planting area codes, geographical indications, ensuring the implementation of product traceability; Organizing closed production chain from beginning to the end of the chain with close cooperation between enterprises, local authorities and state management agencies; Expanding cultivation area according to VietGAP, GlobalGAP standards, ASC certified aquaculture area (The set of standards is based on 4 main platforms:



environment, society, animal welfare and food safety) to meet the requirements of export markets; Enterprises exporting agricultural products should take their own initiatives to register the planting areas, and codes for all steps from production to processing, packaging and product output treatment to ensure the compliance to the regulations on product traceability; Applying a traceability system known as a tracking and tracing system that helps businesses and authorities locate the position of products in all stages of the supply chain.

- *Taking advantage of incentives in FTAs to boost the export of agricultural products:* Agricultural and aquatic products are entitled to many incentives in FTAs, especially new generation FTAs (CPTPP, EVFTA). Therefore, Vietnamese businesses need to carefully study the contents and provisions of the agreements governing the sectors of their interest in order to make good use of the incentives in the agreements to boost the export of agricultural products. Enterprises need to understand the tax reduction scheme under each agreement and the procedure for applying for a Certificate of Origin to enjoy tax incentives. Currently, many agricultural export products of Viet Nam enjoy 0% tax rate under CPTPP, EVFTA such as vegetables, coffee, shrimp, etc., so it is necessary to capture information and make good use of incentives from FTAs to promote the export of agricultural products.

- *Focusing on building a brand name for exported agricultural products:* Enterprises should develop their policy to invest in developing their brand names, registration and protection of brand names of agricultural products. This is essential for key agricultural exports. It is particularly true when agricultural exports have a foothold in the market, it is necessary for enterprises to register and protect their brand names and trademarks of agricultural products to avoid loss of or disputes over trademarks and brand names. The optimal solution is that businesses need to provide processed agricultural products with high added value, with clear origin, instead of just providing raw agricultural products. This will help raise the profile of Vietnamese agricultural products and build trust with foreign consumers.

- *Actively seeking market information and participating in export promotion activities:* Actively learning and updating information about export markets (demands, tastes, import regulations, distribution channels, legislation on food hygiene and safety animal and plant quarantine, culture, business practices, etc.); Actively looking for partners to put orders through the participation in fairs, exhibitions and seminars held in Viet Nam and abroad, or possibly through the Viet Nam Trade Missions in export markets, Viet Nam Chamber of Commerce and Industry; Actively participating in trade promotion programs held by Viet Nam Trade Promotion Agency, industry associations.

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# OPPORTUNITIES TO EXPORT VIETNAMESE AGRICULTURAL PRODUCTS TO THE CHINESE MARKET AFTER THE COVID-19 EPIDEMIC

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## Abstract

*The recent COVID-19 epidemic is one of the major challenges for Vietnam's trade, directly affecting import-export activities in general and import-export activities with the Chinese market in particular. However, this is also an opportunity for Vietnam to promote the export of agricultural products to the Chinese market. In this study, there are opportunities for Vietnamese agricultural products to enter the Chinese market which is large and diverse. From there, the author suggests recommendations and synchronous solutions from ministries, sectors and businesses to continue to raise awareness for farmers and businesses as well as other stakeholders in the supply chain on the repositioning of the Chinese market, thereby restructuring production, reorganizing export activities to make the most of available advantages base on new regulations of exporting agricultural products to the Chinese market.*

Keywords: COVID - 19, export, agricultural products, China

## I. INTRODUCTION

China has been a key market for many years, always playing an important role in Vietnam's import and export activities as well as economic development. In recent years, two-way trade turnover between Vietnam and China has continuously grown at an average rate of over 19% per year. China currently holds its position as the largest trading partner of Vietnam, the largest import and export market, and also the second-largest export market of Vietnam (after the United States). Besides, Vietnam is the largest trading partner of China among ASEAN countries, the 6th largest export market and the 11th largest import market of China.

As the second-largest economy in the world, with a population of more than 1.4 billion people, a proportion of 18.7% of the total world population, the import demand for agricultural and aquatic products to China to supply domestic consumption as well as production and processing into export goods is very large and diverse. China's provinces and cities all have different needs for each specific product, so provinces and cities with large populations can be considered as attractive and potential markets. China's agricultural product imports currently account for about 10% of the total global agricultural trade turnover, with an average import growth rate of 8.8% per year, which can be affirmed as the world's largest import market of agricultural products. However, most of the manufacturing and exporting enterprises of Vietnam have not properly appreciated the nature and great potential of this market, there is still the mentality that this is an "easy" market so that it needs to reposition the Chinese market in order to increase exports and raise the export level of Vietnamese products is an urgent requirement.

## II. THE RECENT SITUATION OF VIET NAM'S AGRICULTURAL EXPORTS TO THE CHINESE MARKET IN THE PERIOD 2011-2020

In the period 2011 - 2020, Vietnam's agricultural exports to the Chinese market in general had good growth, in which the average growth rate of 2016 - 2020 period was 8.59%/year, higher than the period in the period of 2011 - 2015 at an average rate of 3.00%/year. In 2017, the export turnover of Vietnam's agricultural products to China reached the highest level of 6.93 billion USD, then decreased slightly in the last 3 years and by 2020, the value of agricultural exports to China reached the highest level of 6.93 billion USD. This market reached 6.21 billion USD (a slight decrease of 0.98% compared to 2019).

China has always been an important export market for Vietnam's agricultural products in the past 10 years, accounting for an average share of 28.61%/year in the total export turnover of Vietnam's agricultural products; in which the period 2011 - 2015 accounted for 25.38%/year and the period 2016 - 2020 increased to 31.83%/year.

Considering the Chinese market alone, agricultural products are also Vietnam's main export products, accounting for an average proportion of 23.86% per year in the total export turnover of Vietnam's goods to China; in which the period 2011 - 2015 accounts for 30.12%/year and the period 2016 - 2020 accounts for 17.60%/year.

**Table 1. Export turnover of Vietnamese agricultural products in the period 2011 - 2020**

*Unit: Million USD*

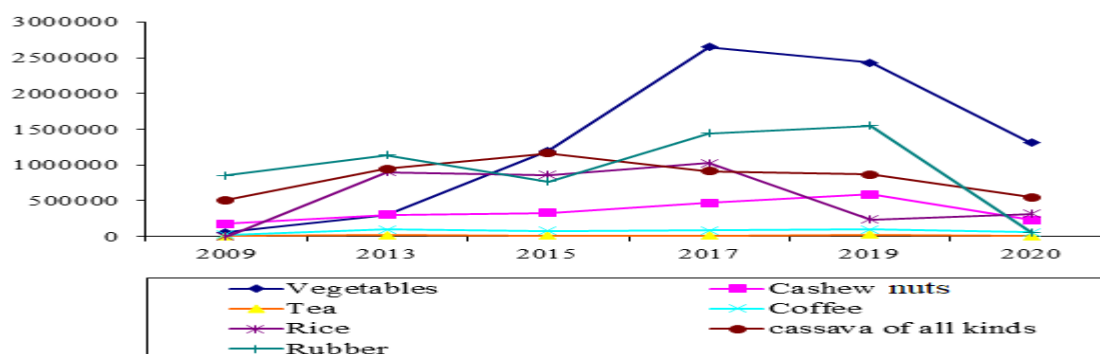
<b>Targets Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
(1) Export of Vietnamese agricultural products to China	3,913	4,412	4,118	3,771	4,312	5,368	6,933	6,664	6,276	6,214
(2) Total export turnover of Vietnamese agricultural products in the world	15,712	16,942	15,149	16,662	16,513	17,802	20,725	20,164	19,823	20,157
(3) Total export turnover of Vietnamese goods to China	11,613	12,835	13,177	14,928	16,567	21,950	35,394	41,366	41,434	48,879
(1)/(2) (%)	24.91	26.04	27.19	22.64	26.11	30.16	33.46	33.05	31.66	30.83
(1)/(3) (%)	33.69	34.37	31.25	25.26	26.03	24.46	19.59	16.11	15.15	12.71

*Source: International Trade Centre (ITC) and authors' calculations, 2021*

Regarding the structure of agricultural products exported from Vietnam to the Chinese market, some major agricultural products in that order are: vegetables, rubber, cassava and products from the first place, followed by vegetables and fruits, rubber, cassava and cassava products, cashews, rice, seafood, tea and coffee.

In the first 7 months of 2021, the total export turnover of Vietnam's agricultural and aquatic products to China reached US\$4.34 billion, up 25.83% over the same period in 2020, of which 7/8 main products were imported. All forces had positive double-digit growth rates from 10.1% to 91.1%. Goods exported through land border gates reached nearly 1.38 billion USD, accounting for 32.2% of the total export turnover to this market.

**Figure 1. Export turnover of some main agricultural products of Vietnam to the Chinese market in the period of 2009 - 2020**



Source: Lam Thanh Ha (2021)

### III. OPPORTUNITIES AND DIFFICULTIES FOR VIET NAM'S AGRICULTURAL EXPORTS TO THE CHINESE MARKET

*First of all*, Vietnam and China have a favourable geographical position for trade and have joined in the signing of the ASEAN - China Free Trade Agreement (ACFTA) which took effect in 2010, with a tariff reduced to 0% for 8,000 product lines, including agricultural products. In addition, the Regional Comprehensive Economic Partnership (RCEP) was signed with the participation of 10 ASEAN member countries and 5 countries with which ASEAN has signed a free trade agreement, which is a new generation of free trade (FTA), with a broader, deeper level of commitment and more new areas. In the context of increasing market opening for Vietnam as well as ASEAN countries, the opportunities that these agreements bring are great, especially when China has a large import demand to restore production and consumption used after the COVID-19 epidemic.

*Secondly*, the demand of this market for goods in general and agricultural and aquatic products in particular continues to increase. Currently, China's agricultural and fishery imports account for about 10% of the total global trade in agricultural and fishery products, with an average import growth rate of 8.8%/year which country is the largest market in the world in terms of agriculture and fisheries. With a population of more than 1.4 billion people, accounting for 18.7% of the total world population, the import demand of agricultural and aquatic products of the Chinese market serves domestic consumption and material productions export processing is very large and diversified. In the coming time, Vietnam's agricultural and aquatic products still have room for export growth to serve the needs of this market.

Besides, China is a very large-scale market with many regions with different levels of development, diverse needs for agricultural and aquatic products, suitable for many types of export products of Vietnam. China's 32 provinces and cities all have different needs for specific products. Each locality with a large population can be considered as an individual "market" such as Shandong (90.5 million people), Henan (90.4 million people), Guangdong (104.3 million people), Sichuan (80.4 million people), Hebei (71.8 million people), Jiangsu (75.6 million people), Hunan (65.6 million people) ...

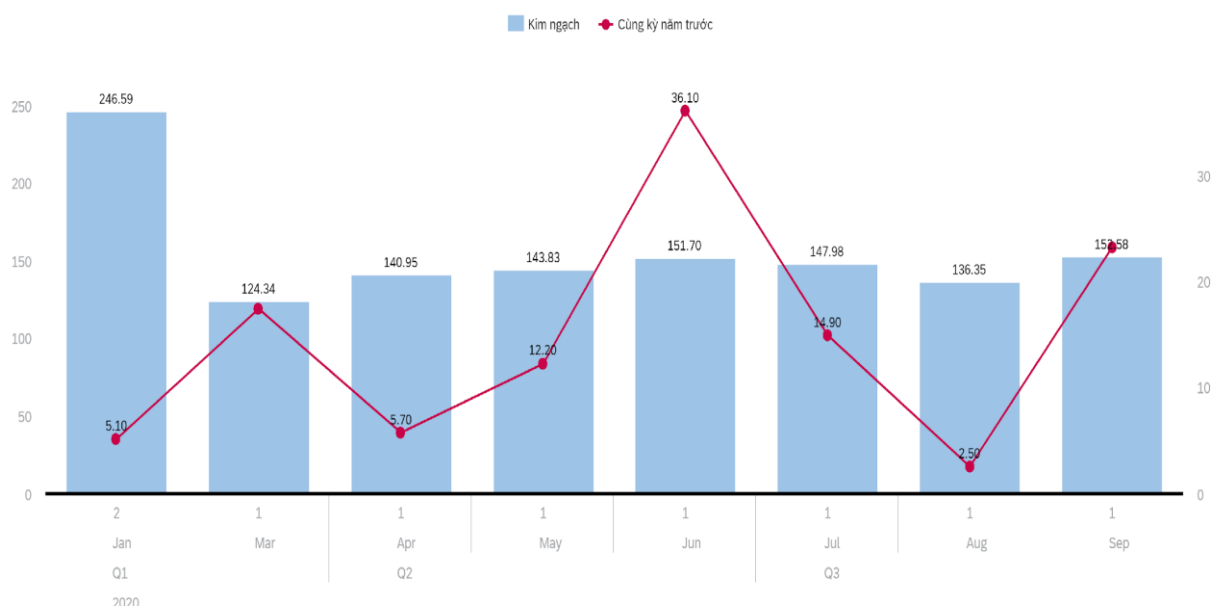
China's economy has recovered and achieved positive results when the epidemic is well controlled. China's growth is 2.3% while the global economy shrinks by 3.3% in 2020 and in the first 6 months of 2021, China's economy grows by 12.7%. It is forecasted that the demand

of this market for goods in general and agricultural and aquatic products in particular will continue to increase, especially, the export of vegetables and fruits in the last months of 2021 and the first month of 2022 has many positive developments. Growth is expected thanks to increased demand from the Chinese market during the festive season and the Lunar New Year.

*Thirdly*, up to now, China's COVID-19 disease control situation has been significantly improved, of which Yunnan province and Guangxi Zhuang Autonomous Region have downgraded the emergency response level from 1 to level 3. These two provinces have been partially restoring the form of trading and exchanging border residents to meet the increasing production and consumption demand during the post-epidemic recovery process. The process of controlling people and means of transport directly involved in import and export activities is being applied at border gates with China, so far, it has also been implemented very smoothly effective and without any adverse problems in management and administration. In addition, there have appeared factors that are likely to have a positive impact on the export of agricultural products to the Chinese market, specifically:

- The recovery rate of key export enterprises in 19 provinces and cities of China such as Zhejiang, Jiangsu, and Shanghai reached nearly 100%;
- Many supermarkets and shopping centres in China's provinces and cities have opened to serve people, even some localities such as Jiangxi, Zhejiang, and Ho Chi Minh City. Lung Nam (Cam Tuc) has encouraged the implementation of the 2.5 days/week off the regime and issued consumer vouchers for people to buy agricultural products and food;
- The Chinese state management agencies have also issued several measures to promote the resumption of import and export activities after the negative impacts of the COVID-19 epidemic, including agricultural products, food and fruit into China.

**Figure 2. China's agricultural import turnover in the first 9 months of 2020**



*Source: Author compiled from the data of the General Statistics Office of China*

## **IV. PROPOSING SOLUTIONS TO BOOST THE EXPORT OF VIETNAM'S AGRICULTURAL PRODUCTS TO CHINA**

With the current situation, it is necessary to take advantage of market opportunities when China has a large import demand to recover production and consumption after the epidemic, while other export markets such as the US, EU, and ASEAN, the Middle East is also facing difficulties due to the outbreak of a complicated disease. In order to maximize potential benefits from FTAs, contribute to the development of agricultural exports to China in a sustainable manner, and make good use of market opportunities, ministries, sectors and localities need to must continue to raise awareness for farmers and businesses as well as other stakeholders in the supply chain about repositioning the Chinese market, thereby restructuring production and reorganizing exports.

### **4.1. For state management agencies**

#### **(1) Ministry of Industry and Trade**

- Discussing and lobbying the Chinese side to continue creating favourable conditions or spend "transitional" time for new policies;
- Mobilize the Chinese authorities and local authorities (especially Guangxi, Yunnan) to open more border gates designated to import agricultural products and fruits in the border areas;
- Coordinate with the Ministry of Finance and the Ministry of Transport to accelerate the construction of logistics infrastructure such as cold storage in Tra Linh (Cao Bang), transshipment area in Lang Son, logistics centre in Bac Giang;
- Diversify forms of annual trade promotion in China in the direction of focusing and focusing on each product category;
- Strengthen propaganda and dissemination nationwide about the advantages in the Agreements and Agreements between the two countries and market information developments in order to promptly take measures to deal with arising problems.

#### **(2) Ministry of Agriculture and Rural Development**

- Review and evaluate the situation and unify the organization of production to meet the needs and requirements of the import market;
  - Prioritize speeding up market-opening negotiations with the Chinese side in a specific order for several products whose production capacity currently meets requirements;
  - Synthesize and systematize specific regulations and standards of the Chinese side for each item to propagate and disseminate systematically, methodically and publicly nationwide;
- Accelerate the restructuring of the agricultural sector to build concentrated specialized farming areas of uniform size and quality and meet quality standards for export.

#### **(3) People's Committees of Northern border provinces**

- Continually update the export situation at key border gates, especially on peak occasions; promptly coordinate with key production localities to warn information and coordinate goods brought to the border;
- Attract investment to upgrade infrastructure in border areas, strengthen coordination mechanism of functional forces of the two countries;

- Thoroughly grasp the policy of promoting "official" trade, gradually reducing "small-quota" exports.

#### **(4) People's Committees of key agricultural producing provinces and cities**

- Actively capture information, propagate and strictly implement recommendations of ministries and sectors on the Chinese market and the evolution of customs clearance activities at border gates to farmers and fishermen, manufactures and enterprises in the area;

- Disseminate, orient and guide farmers, fishermen, production facilities and businesses in the area to restructure production to meet your requirements, and at the same time change their perceptions and views about the way of exporting into "official" status, following international practices drastically.

#### **4.2. For enterprises exporting agricultural products to the Chinese market**

- Regarding production, it is necessary to organize the source of goods to properly and fully meet the needs and tastes of the Chinese market. Goods with reasonable prices, good quality, suitable for local people's needs and tastes, with sufficient output for a regular and long-term supply, ensuring origin criteria to enjoy FTA preferences. On the Stateside, the role of the ministries, branches and localities is to give the right planning and orientation to support enterprises with peace of mind in production; continue to invest in technology and plant varieties to improve the productivity and quality of exported fruits, limiting the dependence on natural conditions for competitive advantage; increasing the application of production models according to VietGap and GlobalGap standards to fully meet the increasingly strict regulations on testing and quarantine of China.

- Regarding the organization of export, enterprises need to gradually switch to business in the form of formal trade, sign purchase and sale contracts instead of exporting in the form of "small quota" in order to minimize the phenomenon. price pressure and other risks in payment; monitoring and updating market information, policy import and export, the regulations on product quality and consumer tastes of each locality in China to be active in the business plan for this market (*Companies can access this information on the website of the Ministry of Industry and Trade, through the weekly newsletters on agriculture, forestry and fishery of the Import-Export Department or directly through the Trade Office, the Trade Office of Vietnam. Ministry of Industry and Trade in the Chinese market*). In addition, it is necessary to proactively classify, select categories and organize packaging right at the place of production to meet the requirements of the importing partner (on labels, packaging) before sending to the border area. so that the process of goods delivery and receipt takes place smoothly and quickly; improve quality, strictly implement regulations on traceability, declaration of growing areas, packing facilities as well as related requirements in order to meet regulations and standards agreed with importing countries, minimize damage in the process of production, business and export. At the same time, study the possibility of cooperating with some Chinese enterprises in the field of e-commerce to import and consume agricultural products and fruits through the form of e-commerce in this market.

- Regarding trade promotion, businesses need to actively explore and focus on attending large-scale and international trade fairs and exhibitions in China to seek trading opportunities, connect directly with reputable import partners of China to export to this market professionally; through the representative offices of the Ministry of Industry and Trade located in Guangxi, Guangzhou, Yunnan, Chongqing, Hangzhou as well as the Trade Office

of China located in Vietnam for market information support, promote products and find cooperation partners; promote the building and promotion of corporate and product brands (*these brand levels are linked and supportive of each other, contributing to enhancing the value of the enterprise's own agricultural and aquatic products, helping Chinese consumers better recognize and choose to buy Vietnamese products*); improve the rate of taking advantage of FTA incentives by organizing production and source of goods reasonably to meet the origin criteria, thereby being granted a Certificate of Origin to enjoy preferential tariffs under the FTA. And importantly, it is necessary to develop strategies, long-term business plans, distribution networks, brands, models, exclusive packaging and registration for protection in the Chinese market; improve the professional level of commerce, understanding of the language and culture of the market; It is even possible to hire Chinese brand development and construction units to develop brands for products with strengths and prestige of Vietnam to better suit the tastes of the market.

### **Conclusion**

In the context that the market has been opened to the maximum in terms of tariffs, the origin of goods, etc., as at present when solutions are related to ensuring goods quality, improving competitiveness, and renewing forms. As mentioned above, if the effects mentioned above come into play, our agricultural products will record breakthroughs in exports, make good use of the Chinese market opportunities after the epidemic and make an increasingly important contribution to the country's overall export structure.

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# SUGGESTIONS FOR EXPORT DEVELOPMENT OF VIET NAM'S WOOD AND WOOD PRODUCTS TOWARDS 2030

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## Abstract

*In recent years, the export market for Vietnam's wood and wood products has been constantly expanding. Vietnam's export turnover of wood and wood products increased by an average of 12.59% per year during the period 2016-2020 and is expected to continue to increase. Up to now, Vietnam's wood and wood products have been exported to 120 countries and territories. The United States, Japan, China, Korea and the EU-27 continue to be 5 important export markets of Viet Nam's wood and wood products, with export turnover to these 5 markets reaching about \$10.78 billion, accounting for 87.11% of the total export turnover of the whole industry in 2020. However, the export of wood and wood products to some markets is unstable in the recent years with sharp fluctuations, i.e., increases and decreases in value, especially in the Chinese and EU-27 markets. Due to the impact of the global outbreak of the COVID-19 pandemic, demand has decreased and supply chains have been disrupted. This article reviews the development of Viet Nam's export of wood and wood products, identifies opportunities and challenges for export market development, and makes suggestions to develop further the export market for wood and wood products in the context new generation FTAs towards 2030.*

Keywords: Market, export, wood and wood products, Viet Nam.

## I. VIET NAM'S EXPORT OF WOOD AND WOOD PRODUCTS

In the period 2016-2020, Viet Nam's export turnover of wood and wood products increased by an average of 12.59% per year, accounting for 3.91% of the country's total export turnover. The export market of Viet Nam's wood and wood products is constantly expanding. Up to now, Viet Nam's wood and wood products have been exported to 120 countries and territories. The United States, Japan, China, Korea, EU-27 are 5 important export markets of Viet Nam's wood and wood products, with export turnover to these 5 markets reaching about \$10.78 billion, accounting for 87.11% of the total export turnover of the whole industry in 2020.

**Table 1. Viet Nam's main export markets for wood and wood products during 2016 - 2020**

*Unit: 1.000 USD*

Market	2016	2017	2018	2019	2020	± 2020/2019 (%)
United States	2,711,280	3,080,742	3,613,299	5,125,856	6,976,392	36
Japan	961,430	988,707	1,119,033	1,308,214	1,266,559	-3

China	1,026,144	1,085,937	1,077,017	1,227,120	1,182,121	-4
South Korea	579,358	673,189	938,696	801,951	816,741	2
EU-27	720,560*	739,670*	785,266*	562,718	536,690	-5
Australia	161,345	154,226	174,052	138,903	159,085	15
Canada	130,568	152,612	155,893	186,826	215,684	15
Hong Kong	33,142	16,872	-	3,837	9,566	149
India	49,453	60,225	46,165	36,127	25,000	-31
Taiwan	64,310	58,320	60,602	71,402	69,692	-2
Malaysia	44,530	54,010	100,907	67,913	75,492	11
<b>TOTAL EXPORT TURNOVER</b>	<b>6,965,000</b>	<b>7,702,000</b>	<b>8,907,000</b>	<b>10,652,000</b>	<b>12,372,000</b>	
Growth (%)	1.05	10.6	15.6	19.6	16.1	
Proportion/Total export turnover of goods (%)	3.94	3.58	3.65	4.03	4.37	

*Note (\*) EU-28 includes the UK*

*Source: Synthesized and calculated from annual data of the General Department of Vietnam Customs*

According to statistics of the Vietnam Timber and Forest Product Association, in the first 7 months of 2021, the export turnover of wood and Viet Nam's main furniture export markets grew well in the first 7 months of 2021 compared to the same period in 2020. The United States is still Viet Nam's largest export market, with a growth rate of 77.4% over the same period; followed by the Chinese market, surpassing the Japanese market with a relatively high increase of 24.8%; third place is the Japanese market with an increase of 18.8%. The turnover and proportion of some main export markets are as follows:

- The United States: Export turnover reached \$5.72 billion, up 77.4% over the same period in 2020, accounting for 62% of Viet Nam's total export value of wood and wood products.

- China: Export turnover reached \$0.93 billion, up 24.8% over the same period in 2020, accounting for 10% of the total export value of wood and wood products.

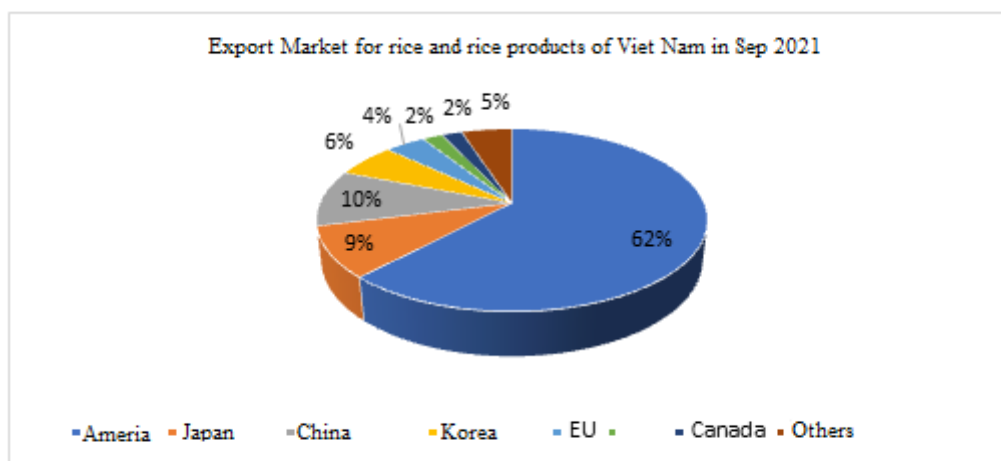
- Japan: Export turnover reached \$0.81 billion, up 18.8% over the same period in 2020, accounting for 9% of the total export value of wood and wood products.

- Korea: Export turnover reached \$0.53 billion, up 16.8% over the same period in 2020, accounting for 6% of the total export value of wood and wood products.

- EU-27: Export turnover reached \$0.38 billion, up 34.0% over the same period in 2020, accounting for 4% of the total export value of wood and wood products.

- UK: Export turnover reached \$0.16 billion, up 29.4% over the same period in 2020, accounting for 2% of the total export value of wood and wood products.

- Canada: Export turnover reached \$0.15 billion, up 48.9% over the same period in 2020, accounting for 2% of the total export value of wood and wood products.



*Source: Vietnam Timber and Forest Product Association (VIFOREST)*

In the US market, the wood products with strong export growth are mainly those for which the Chinese side is being subject to anti-dumping and anti-subsidy duties such as kitchen cabinets, sofas, etc., thus causing the export value of this item from China to the US to decrease sharply since the US-China trade war started, leading to US businesses shifting orders to Viet Nam.

In the Chinese market, exported wood products are mainly raw materials and products. In addition, the fact that some Chinese wood enterprises tend to shift their investment to Viet Nam to take advantage of opportunities to boost exports when FTAs have been signed by Viet Nam is also the reason for the increase in export turnover of these products to China.

For the Japanese market, Viet Nam's wooden products are mainly interior and exterior furniture and fine art products, requiring very strict technical requirements. Although the outbreak of the COVID-19 pandemic has made exports to this market difficult, many experts believe that this decline is only temporary and the general trend will still be strong growth in 2022.

In recent years, despite being severely affected by the fourth COVID-19 epidemic, Vietnamese wood enterprises still maintain their production chains within the allowable range, which is also the reason why international importers confidence in the adaptability and quick resilience of the Vietnamese wood industry.

## **II. OPPORTUNITIES AND CHALLENGES FOR EXPORT DEVELOPMENT OF VIET NAM'S WOOD AND WOOD PRODUCTS**

### **2.1. Opportunities**

- The scale of the global wood market, especially for furniture products, is very large and is expected to continue to increase in the coming time. Viet Nam is the world's second largest exporter of wooden furniture, but still accounts for a small proportion, so there is still a lot of room to increase market share. Therefore, along with traditional markets with high export value such as the United States, Japan, China, EU-27, and South Korea, there are some other potential markets where businesses have opportunities to expand development such as Canada, Russia, India and Middle East countries.

- Many Free Trade Agreements have been preparing to be implemented according to the roadmap, both at the multilateral and bilateral levels, typically: the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) ), the EU-Viet Nam Free Trade Agreement (EVFTA), the Regional Comprehensive Economic Partnership (RCEP) and bilateral trade agreements (with Japan, Korea, etc.) will help import taxes on exports of many products of countries participating in the agreement be reduced or eliminated, creating competitive advantages for Viet Nam's exports. This will be a great opportunity for exporters in general and exporters of wood and wood products in particular in the process of finding and expanding markets and increasing export turnover.

- The US-China trade war is prolonged, and the demand of the US market for wood products from many countries, including Viet Nam, will tend to increase to make up for the shortage of goods due to increased taxes from the Chinese market. Viet Nam's exports to the United States are mainly wooden furniture products (HS code 94) with high added value, so the export wood processing industry has the opportunity to change the structure of export products in the direction of: increase the export proportion of value-added products, reduce the export proportion of wood materials.

- Viet Nam has a stable political and security environment, which is an important factor to help domestic manufacturing enterprises and foreign enterprises trust investment and cooperation in a win-win direction. The Government's interest in the domestic wood industry is also a driving force to boost exports in the coming time. In August 2018, during a dialogue with wood industry enterprises, the Prime Minister assigned ministries and sectors to strengthen support for the wood industry towards becoming a spearhead manufacturing and exporting industry of the country.

- Policies on investment and development of the wood industry are always interested, encouraged and facilitated by the Government and ministries, which will contribute to promoting the formation of large-scale wood production, processing and export enterprises with a larger scale, more frequently renewed equipment, abundant labour force and increasingly improved skills help Vietnamese wood products become more and more prestigious and gain a lot of trust from foreign partners.

- The development orientation of Viet Nam's wood industry is adjusted in accordance with the general trend of the world. In the past, Viet Nam's wood enterprises mainly used natural wood as raw materials, only about 5% of enterprises used industrial wood, however, in recent years, the trend of using industrial wood as raw material are being widely applied, ensuring the development of the wood industry in parallel with the maintenance and protection of forest resources. In addition to imported sources, Viet Nam also has large-scale industrial wood factories serving the market. It can be said that this is an important turning point, bringing development prospects to the wood industry and Vietnamese wood and wood product exporters.

## **2.2. Challenges**

- Some FTAs are effective and come into effect, in which import partners have stricter regulations on the origin of wood materials, requiring transparency on the origin of raw materials. This will be one of the biggest challenges for Viet Nam's wood industry, as we are currently heavily dependent on imported materials. Enterprises must be prepared to adapt conditions, and set a requirement for Viet Nam's wood industry to make changes in the origin of raw materials if they want to enjoy full tax incentives.

- Extensive international integration and participation in new-generation FTAs will make Viet Nam's exported wood and wood products more competitive in the market with a huge volume of imported wood products from intra-bloc markets due to technical factors and business administration efficiency is much higher than in Viet Nam. Therefore, with limited production skills and labour productivity, the design and quality of Viet Nam's exported wood products will face many difficulties to be able to compete in the market.

- In many cases, when the number of orders increases, there are potential risk factors for Viet Nam's exports of wood and wood products, as competitors will increase the application of defensive measures to items with sudden growth. For example, at present, the US authorities are very interested in investment activities showing signs of commercial fraud and counterfeiting of origin, so Vietnamese furniture exporters need to be careful, avoid becoming a transshipment point for goods to a third country.

- Vietnamese wood and wood products exporters should pay attention to the strict regulations in some key markets, which are the provisions of the Voluntary Partnership Agreement (VPA) on forest law enforcement, forest governance and trade in forest products (FLEGT) signed between Viet Nam and the EU to remove illegal timber from the market; or the provisions of Japan's Clean Wood Act to ensure that wood products sold in this market are legal, with the accountability requirement applied to all domestic importers.

- As for international transport, Viet Nam has not yet participated in intercontinental sea transport, so enterprises processing and exporting goods in general and wooden furniture in particular will be negatively affected by the increase in freight rates on long-haul routes. For example, shipping costs to the US and European markets have increased by 2-3 times in 2020, most recently the shipping fee in July 2021 has increased by 10 times compared to the time before the COVID-19 epidemic.

- The impact of the US-China trade war and the impact of the COVID-19 pandemic on wood production, processing and export are enormous. The COVID-19 pandemic disrupted the production chain, and many raw wood supplies were seriously affected. Currently, the COVID-19 epidemic is still complicated in key export markets of Viet Nam including the United States, EU, South Korea, China, Japan, etc., thus strongly affecting the ability to deliver, distribute and consume wood products in these markets.

### **III. SUGGESTIONS FOR EXPORT DEVELOPMENT OF WOOD AND WOOD PRODUCTS TOWARD 2030**

The common and transparent solution is to maintain stability in traditional markets such as the United States, Japan, China, the EU, and South Korea, and at the same time to expand potential markets such as South American countries, the Middle East, Russia, Australia, Canada, and India. Focus on effectively resolving and handling trade disputes in order not to affect wood industry enterprises and the stable development of the industry. Some specific solutions include:

#### **3.1. Developing export development support policies**

- Strictly complying with Viet Nam's commitments in FTAs on trade liberalization and the issue of cutting import tax rates for some raw wood products (especially wood chips). Researching, perfecting, adjusting or supplementing the legal document system in the

direction of being compatible with international law and complying with the contents that Viet Nam has committed to, and at the same time creating maximum conditions for domestic exporters, ensuring export targets and targets in a sustainable way.

- Developing policies to encourage and support wood enterprises in terms of capital, technology and management experience to improve quality and reduce costs, creating competitiveness for export products. Developing trade promotion programs, expanding international cooperation to access modern technology in the field of wood product exploitation and processing, accessing to abundant raw materials, quality and reasonable prices of the countries.

- Effectively implementing the law on processing and exportation of wood and wood products. In which, strengthening the advocacy and dissemination of legal provisions on ensuring legal timber; to step up inspection and strictly handle violations of illegal timber use; have a policy of prioritizing the import of wood materials from countries with advanced forest governance, which is convenient in management and legal traceability. This is an important basis for maintaining the reputation of Viet Nam's export wood products with import partners in the world.

- Supporting for information on the world wood market for domestic exporters. This is an important content, demonstrating the State management role of ministries and branches in general and the Ministry of Industry and Trade in particular for businesses, especially wood exporting enterprises. The main content is to support businesses as much as possible with information on needs and tastes for wood products, as well as policy adjustments in import and export activities of key markets. In addition, developing a category on markets, trade activities, trade opportunities, and export manuals related to wood production, trading and export activities, serving as a basis to support for businesses can access information and study more closely about wood export markets.

- Promoting administrative reform, simplifying import and export procedures, reducing the time of licensing, and customs clearance of goods in order to create favourable conditions for wood export enterprises.

- The Ministry of Industry and Trade closely follows and strictly follows the direction of the Government in Resolution No. 63/NQ-CP dated June 29, 2021 on key tasks and solutions to promote economic growth, disbursement of investment capital Public private investment and sustainable export in the last months of 2021 and early 2022. Proactively and strengthen coordination with ministries, agencies and localities to develop measures to improve the efficiency of the implementation of the CPTPP and EVFTA. Ministries and sectors have seriously implemented and performed well the tasks assigned in Decision No. 121/QD-TTg dated January 24, 2019 of the Prime Minister on approving the CPTPP Implementation Plan and Decision No. 1201/QD-TTg dated August 6, 2020 of the Prime Minister on approving the EVFTA Implementation Plan, in which special attention is paid to measures to reform administrative procedures, strengthen support measures, improve competitiveness for industries and businesses, remove difficulties and obstacles in terms of policies to create conditions for the development of domestic raw materials to help enterprises meet the rules of origin of the Agreements.

### **3.2. Developing raw material areas, improving the quality and competitiveness of exports**

- Completing policies on forest protection and development, forming stable and sustainable raw material areas for wood enterprises. Encouraging localities to research and promulgate specific policies to help enterprises with sufficient capacity and scale to receive afforestation land for self-sufficiency in raw materials, if localities do well in this policy, this will be one of the measures to overcome difficulties in raw materials for production and export.

- Promulgating policies to promote the development of timber plantations, with emphasis on the initial support mechanism for forest owners for sustainable forest management, through preferential lending policies with loan interest rates lower than the interest rate of the Policy Bank (which can be 0% interest rate) is suitable for the forest growth cycle. Developing and pilot the implementation of insurance policies for large timber plantations so that forest growers can confidently invest in large-scale business and creating breakthroughs in forest protection and development policies.

- Focusing on development of domestic production forests in the direction of improving the productivity and quality of planted forests, strictly controlling the use of plant varieties. Promotion, advocacy and guiding people to choose plant species and plant varieties with high yield and quality, suitable to the needs of the wood processing industry. Enterprises need to actively build a model of association and cooperation with forest owners (including households and cooperatives) to form and develop planted forests according to planning, and provide wood materials in a stable way. To do this well, businesses need to support people to borrow money (or advance money to buy raw wood) for afforestation; support people with costs to do necessary procedures (such as assessment and maintenance of forest certificates); support people in plant varieties, farming techniques and methods of forest care and protection; commits to purchasing wood when harvesting, ensuring harmony between the interests of people and businesses.

- In order to maintain a sustainable export growth momentum, Viet Nam's wood industry needs to make more efforts and be proactive to ensure the legal timber origin; proactively labour sources and input materials; improve quality and innovate product designs in accordance with the cultures of countries and customers; effectively prevent origin fraud, so that existing and potential risks can be prevented and eliminated.

- Along with developing the supply of quality raw materials, wood industry enterprises must plan to invest in modern equipment and machinery, promote the application of science and technology in processing to improve quality and diversity. diversifying products, increasing the competitiveness of exported wood products in the market. Due to strict regulations on the origin of goods, businesses have to adjust the structure of wood products in the direction of increasing the proportion of using domestic raw materials, developing harmoniously among wood product groups, minimizing export of raw products, improving the quality, reputation and brand for Vietnamese wood products.

### **3.3. Promoting the industry associations**

- Enhancing the role of the Viet Nam Timber and Forest Product Association and industry organizations in trade promotion and protection of the interests of export enterprises.

- The Vietnam Timber and Forest Product Association needs to continue to exchange information, help state management agencies grasp the situation and promptly take measures

to remove difficulties and create favourable conditions for enterprises in seeking and expanding export markets.

- Propagating and mobilizing enterprises to well implement the provisions of law on product origin, promptly detect and notify state management agencies to strictly handle acts of trade fraud and origin fraud.

- Viet Nam's wood and wood products exporters need to strictly follow the recommendations of the Ministry of Industry and Trade on regulations on certification of origin, not abetting acts of origin fraud, evade trade defence measures to avoid heavy losses when being sued by countries and apply trade defence measures

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# EXPORTING VIETNAMESE AGRICULTURAL PRODUCTS TO EU MARKET: OPPORTUNITIES AND CHALLENGES

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## **Abstract**

*In the recent period, Viet Nam's agricultural export has grown year by year, making an important contribution to the country's total export turnover. Currently, Vietnamese agricultural products are exported to more than 160 countries and territories around the world, of which the European Union (EU) is one of the leading markets. Over the years, the EU has always been a strategic partner in the international trade of Viet Nam. From the beginning of 2020, due to the outbreak of the COVID-19 pandemic, trade activities of Viet Nam, as well as many countries around the world, were affected, and trade turnover decreased. However, the export value of some major agricultural products of Viet Nam to the EU has still increased and achieved impressive results. After the EU-Vietnam Free Trade Agreement (EVFTA) was signed and officially took effect on August 1, 2020, the EU has become an even more important market for Viet Nam to exploit and promote its agricultural products.*

*Although there is good potential, the EU is also a strict market, particularly in terms of quality. Exporting agricultural products to a market with high requirements for quality as well as environmental protection and social responsibility like the EU market is challenging. It is, therefore, necessary to understand the opportunities and challenges in exporting agricultural products to the markets like the EU. To be successful in penetrating the EU market, Viet Nam needs to have new efficient methods to improve its production capacity.*

**Keywords:** Export, Agricultural products, Viet Nam, EU.

## **I. THEORETICAL BASIS**

*Agricultural products* defined in the WTO Agreement on Agriculture (World Trade Organization) are all products listed from Chapters I to XXIV (except fish and fish products) and certain products in other chapters of the HS code tax system (Harmonized system of tax codes). Based on this definition, agricultural products include a fairly wide range of goods derived from agricultural activities such as: Essential agricultural products such as rice, wheat, flour, milk, coffee, pepper, cashew nuts, tea, and fresh vegetables; Derivative products such as bread, butter, cooking oil, and meat; Processed agricultural products such as confectionery, dairy products, sausages, soft drinks, wine, beer, tobacco, cotton fibres, raw animal skins, etc.

In accordance with the Clause 7 of Article 3 of Decree 57/2018/ND-CP on mechanisms and policies to encourage enterprises to invest in agriculture and rural areas, “*Agricultural products are products of the agricultural and forestry sectors, aquatic products, salt industry*”. From the perspective of Viet Nam, agricultural products are products that include not only agriculture (cultivation, livestock) but also fisheries, forestry and salt production. Viet Nam's viewpoint of agricultural products has certain differences with WTO regulations.

According to WTO, agricultural products do not include products such as fisheries, forestry and salt production.

In this study, the authors refer to Vietnamese regulations, agricultural products include agricultural products such as rice, coffee, cashew nuts, live animals and aquatic products.

*Export of goods* means that goods are taken out of the territory of Viet Nam or brought into a special zone located in the territory of Viet Nam which is considered a separate customs area according to the Clause 1, Article 28 of the Commercial Law of Viet Nam 2005.

Export of agricultural products is an activity of exchanging agricultural products of a country with other countries by buying and selling through market relations for exploiting the country's available advantages in international division of labour for the benefit of the country.

The export of Vietnamese goods, specifically agricultural products, to the EU market has been significantly promoted since Viet Nam's accession to the WTO, since the Free Trade Agreement between the European Union and Viet Nam (EVFTA) was signed and takes effect from August 1, 2020. The Agreement plays an important role in cementing the bilateral relationship between Viet Nam and the European Union, especially deepening cooperation in the fields of economy, trade and investment. Compared to the other Free Trade Agreements that Viet Nam has signed, the EVFTA is the most comprehensive and high-quality agreement, bringing Viet Nam many great opportunities to promote trade and also export of goods, especially agricultural products, which have many competitive advantages.

According to the commitment in the EVFTA Agreement, for Viet Nam's exports, since the Agreement comes into effect, EU will eliminate import taxes on about 85.6% of import tariff, equivalent to 70.3% Viet Nam's export turnover to EU. Within seven years of the deal taking effect, the EU will remove 99.2% of tariffs, equivalent to 99.7% of Viet Nam's export turnover to the EU. Regarding the remaining 0.3% of Viet Nam's export turnover, the EU pledged to provide Viet Nam with tariff-rate quota, with the import tax rate set at 0%. Thus, it can be said that nearly 100% of Viet Nam's exports to the EU will be eliminated after a short roadmap.

Thanks to the EVFTA tariff preferences, it has created positive signals in Viet Nam's agricultural export sector. In the complicated situation of the COVID-19 epidemic, the EVFTA is expected to support Viet Nam and the EU in recovering a dynamic and sustainable economy after the epidemic.

## **II. OPPORTUNITIES FOR VIETNAMESE AGRICULTURAL PRODUCTS TO ENTER THE EU MARKET**

### **2.1. From the Perspective of the Vietnamese Market**

#### ***Comparative advantage***

Comparative advantage is an economy's ability to produce a particular good or service at a lower opportunity cost than its trading partners (Ricardo, 1817). According to the theory of comparative advantage, each country should specialize in the production and export of products in which it has a comparative advantage and import products in which it has no comparative advantage.

A country has a comparative advantage when it is able to produce a good at a lower opportunity cost than other countries. The opportunity cost of producing one good is the amount of another good that must be sacrificed when using resources to produce one more

unit of that good. Comparative advantage is determined by calculating the opportunity cost of producing one unit of a product by comparing the costs of producing different products.

A country's comparative advantage depends on the country's factors of production such as labour, capital, technology, and labour productivity. Furthermore, a country's comparative advantage is also influenced by other factors such as the partner's trade policy, protectionist policies, tariff and non-tariff barriers. These factors affect a country's exports to the world market.

The revealed comparative advantage (RCA) is based on the results of a country's goods consumption in the international market, including the impact of production factors and commercial policy factors. RCA is measured as the ratio of a country's share of an export item in its total exports to the world's share of this export item the world's total exports.

The RCA coefficient for country *i* in the production of product *j* is defined as follows:

$$RCA_{ij} = \frac{X_{ij}/X_i}{X_{wj}/X_w} \quad \begin{array}{l} \text{- } X_{ij} \text{ and } X_{wj} \text{ are the export value of goods } j \text{ of country } i \text{ and the world} \\ \text{- } X_i \text{ and } X_w \text{ are the total export value of country } i \text{ and the world} \end{array}$$

Table 1 data shows that some key agricultural products of Viet Nam exported to the EU have  $RCA > 1$ , showing that these products have competitive advantages in exporting to the EU market, especially coffee with RCA value of 8.14 and some vegetable products with RCA value of 4.85. This number represents the fact that Viet Nam is one of the leading countries in the world in exporting coffee and cashew nuts.

Fish, crustaceans, molluscs and some other products of Viet Nam's seafood industry also have a moderate comparative advantage with RCA value of 2.21

Vietnamese seafood products are gradually asserting their brands in strict markets such as the EU, the US and Japanese markets.

**Table 1. RCA of some key products of Viet Nam in 2020**

*Unit: USD*

HS	Product name	The value of Viet Nam's agricultural exports to the EU	The value of the world's agricultural exports to the EU	RCA	Level of comparative advantage
HS03	Fish and crustaceans, molluscs and other aquatic animals	593,307	38,307,210	2,21	Moderate
HS08	Edible fruits and nuts, peels	853,543	51,087,489	2,38	Moderate
HS09	Coffee, tea and spices	1,089,481	19,083,547	8,14	High
HS14	Vegetable ingredients, other vegetable products	1,354	39,754	4,85	High
HS16	Finished product of meat, fish or crustaceans	361,965	18,270,586	2,82	Moderate

*Source: Calculation based on ITC's data (2021)*

According to the data of the Import-Export Department, Viet Nam's seafood exports to the EU market in the first 6 months of 2021 reached about \$485.3 million and increased by 20% over the same period in 2020. This increase is much higher than an increase of 14.4% in seafood exports of the whole country, showing that Viet Nam's seafood industry is promoting its comparative advantages (Ha, S.2021)

In addition, fruit is also one of the export items that take full advantage of its comparative advantage, as Viet Nam is the 5th largest fruit supplier to the EU in the first quarter of 2021. Vietnamese fruits exported to the EU market are diversified and increasing in value. According to data from the Import-Export Department, Ministry of Industry and Trade, the EU's average import price in the first quarter of 2021 reached 3,661.8 Eur/ton, up 13.6% over the same period in 2020. Furthermore, cereals and live animals also account for a large proportion of the total export turnover of the country and have many advantages to penetrate the European market.

In general, according to the assessment of many experts, if Viet Nam continues to take full advantage of the comparative advantages of the above key agricultural product groups, Viet Nam will achieve impressive growth in exports to the EU and also other countries in the future.

### ***Competitive advantage***

Competitive advantage is a business's application of general strategies that increase beyond the value a business can create for customers (Porter, 1985). Competitive advantage is classified into two basic types: low-cost advantage (advantage achieved when a business offers the same benefits as competitors but at a lower cost) and differentiation advantage (advantage is achieved when a business provides superior values or benefits to competitors' products or services).

Most of Viet Nam's key agricultural product groups have the advantage of low cost and no direct competition with rival groups. Specifically, for seafood products, Viet Nam has the benefit of preferential tax rates from the EVFTA agreement compared to competitors such as Thailand, or some countries in South America. According to the Agreement, the EU will eliminate 50% of tariff for the seafood industry as soon as the EVFTA comes into effect, of which high tax products from 6-22% will be eliminated to 0% such as oysters, scallops, squid, etc. octopus, clams, oysters, processed abalone, and frozen black tiger shrimp; After 3 years of EVFTA coming into effect, the tax rate will be reduced from 9% to 0% for chilled pangasius fillet products and from 5.5% to 0% for frozen pangasius products with a commitment to eliminate the tariff in 7 years. Thanks to the tax advantage of the EVFTA agreement, Vietnamese agricultural products have a higher competitive advantage than other competitors and opportunities to export Vietnamese agricultural products to the EU market.

Most products in the group of live animals, coffee, tea and spices and fresh vegetables and fruits, etc. have all been committed to reducing tariff to 0% after the EVFTA comes into effect

The EU has applied geographical indications (information on origin of goods - GI) to 39 agricultural products of Viet Nam, such as Moc Chau tea, Buon Ma Thuot coffee, Hai Hau rice, and Cao Phong oranges... Geographical indications show that the above agricultural products are high quality product and are produced by traditional methods or have gained prestige due to the geographical origin of the region. Therefore, products with geographical indications will be recognized and guaranteed for quality in the consumer market, thereby increasing competitiveness and consumer's confidence compared to products without geographical indications.

### ***Support from the Government***

Although the EU is a potential market, it is strict and has high quality requirements, if Vietnamese exporters do not clearly understand the general requirements in the Agreement, they will face many difficulties in penetrating this potential market. The Vietnamese government grasped the situation quickly, The Minister of Industry and Trade and the Minister of Agriculture and Rural Development affirmed that the two ministries will work closely together, simplifying related procedures to support businesses to quickly access the EU.

In addition, the enthusiastic support of Trade Offices in Europe, typically the Viet Nam Trade Office in Belgium, has actively connected to advocate beneficial policies for Vietnamese exporters and find ways to export Vietnamese agricultural products to the European market. The Ministry of Industry and Trade has coordinated with the Viet Nam Trade Office to organize many activities to introduce and promote Vietnamese agricultural products in the European market, timely update in regulation changes and new policies on agricultural imports of European Union countries.

Timely attention and orientations from State Offices will help Vietnamese businesses be more stable in exporting agricultural products to the EU, maximize production and export capacity, and avoid legal risks.

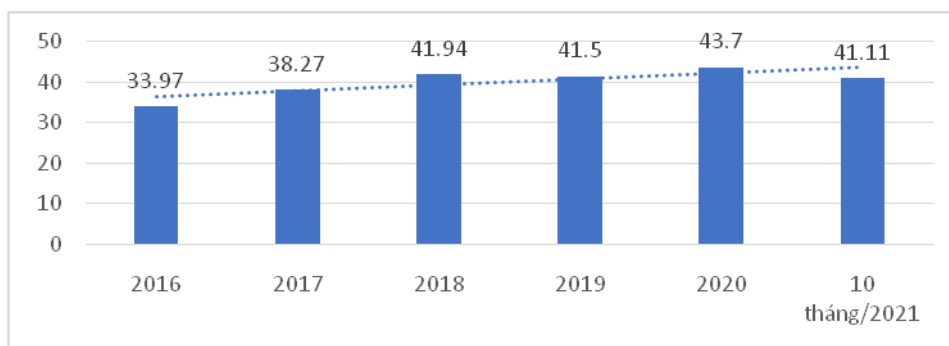
## **2.2. From the perspective of the European market**

### ***Demand and Purchasing Power***

With 27 member countries and a population of 748 million people, the EU is an open market with high purchasing power, as shown in the export turnover of Viet Nam's goods to this market in the 2016-2020 in Chart 1. After the EVFTA came into effect, Viet Nam's export turnover of goods to this market tends to increase, despite facing difficulties due to the COVID-19 epidemic situation in both Viet Nam and the EU. In the first ten months of 2021, export turnover to the EU market has reached \$41.11 billion, equalling 94.1% of the export value of 2020. In the last two months of the year, manufacturing activity in Viet Nam recovered with new normal conditions, overcoming disruptions in supply chains, signalling a significant growth in exports to the EU market.

**Chart 1. Viet Nam's Goods Export Turnover to the EU in the 2016 - 2020 period**

*Unit: Bill. USD*



*Source: General Department of Vietnam Customs (2021)*

In terms of geography, Europe is located in a temperate zone, with no conditions to produce tropical agricultural products. Viet Nam is a tropical country, with distinct advantages of natural conditions. Its ecological diversity and geographical differentiation

create ecological sub-regions that can grow many kinds of fruits. Therefore, the demand for agricultural products such as coffee, cashews, tropical fruits, etc. from the EU is very high. Behind the US market, in the first 5 months of 2021, the EU is Viet Nam's second largest coffee importer, of which Germany and Italy are the largest Vietnamese coffee consuming markets in the EU, accounting for 14% and 7.6% market share. For cashews, the EU is also Viet Nam's second largest consumer market, reaching 33,885 tons in the first five months of 2021, accounting for 21% of the country's total cashew exports (Phong, T.2021).

For seafood products, due to the culinary style and tariff incentives in the EVFTA agreement, Europeans are paying special attention to Vietnamese seafood products. EU people tend to eat fresh seafood at restaurants because they think that chefs in restaurants will know how to prepare fresh seafood better than at home. With frozen seafood products, it tends to be cooked more at home or in the collective kitchen. When the COVID-19 pandemic appeared, the trend of buying affordable frozen seafood products increased sharply compared to high cost fresh seafood products. However, it can be seen that the COVID-19 pandemic has not changed the demand for seafood, it created a change in the way of buying products based on the cost factor and its convenience.

It is estimated that the EU imports 150 billion euros each year, currently, Viet Nam only exports 4.5 billion euros to this market. The EU demand for seafood imports is very high, up to 60 billion euros per year, while Viet Nam's seafood exports only reach 1.13 billion euros (Thanh, L.2021). Thus, it can be said that the potential of Viet Nam's seafood export to the EU market is still very high.

Moreover, the EU's demand for importing Vietnamese agricultural products is increasing because the agricultural, forestry and fishery products of Viet Nam and the EU are complementary and do not compete directly.

Vietnamese agricultural products have accounted for a large market share in supply, supporting the EU food processing industry for internal and export purposes (Thanh, L.2021). Therefore, it can be assessed that this is a beneficial commercial transaction for both parties.

The value of Vietnamese agricultural products exported to the EU market still increased sharply in the first 7 months of 2021 (Table 2) despite the COVID-19 epidemic still occurring in Europe, Viet Nam and around the world. These numbers are forecasted to continue to increase in the final months of 2021, thanks to preventive vaccination campaigns and the current economic stimulus package, they are the signs of a recovering economy in Europe.

**Table 2. Value of Viet Nam's key agricultural products exported to the EU in 7 months of 2021**

*Unit: 1.000 USD*

<b>Goods</b>	<b>Pepper</b>	<b>Cashew</b>	<b>Seafood</b>	<b>Fruit and vegetable</b>	<b>Coffee</b>	<b>Rice</b>	<b>Rubber</b>
<b>Jan</b>	5,587	49,225	62,541	10,678	84,967	667	1 3,848
<b>Feb</b>	5,312	22,929	40,265	9,097	81,961	873	12,689
<b>Mar</b>	9,340	44,619	76,134	12,716	101,297	1,656	2,452
<b>Apr</b>	16,084	56,397	92,022	12,816	84,647	1,787	7,473

<b>May</b>	13,092	62,217	97,924	12,936	78,525	2,028	8,200
<b>June</b>	13,983	78,310	90,246	14,816	81,662	1,892	17,331
<b>July</b>	14,685	86,242	104,820	15,373	94,470	663	17,797
<b>Total</b>	78,083	39,939	563,952	88,432	607,529	9,566	65,942

*Source: General Department of Vietnam Customs (2021)*

### **III. CHALLENGES IN EXPORTING VIETNAMESE AGRICULTURAL PRODUCTS TO THE EU MARKET**

*Obstacles from Technical Barriers to trade.* The EU market is a strict market to penetrate with many regulations, high requirements on technical standards, environmental protection as well as social responsibility for imported goods. Vietnamese agricultural products, in order to penetrate into the EU market, have to go through a lot of strict regulations and standards related to food safety, traceability or geographical indications, etc. However, due to small-scale production, limited resources and investment infrastructure for agriculture, the quality of agricultural products is not high and not ensuring a number of the EU quality and food safety standards. In fact, shipments of Viet Nam were returned due to residues of pesticides. For example, a shipment of Vietnamese high-quality fragrant rice ST25 exported to the EU on October 6, 2021, after testing, the pesticide residue level of 0.017 mg/kg exceeded the allowable residue level of 0.01. mg/k and has been returned (Thang, B.2021). Furthermore, from the end of November 2021, the EU also applies the regulation of physical inspection to 50% of the export agricultural products of Viet Nam to the EU market, this regulation not only increases logistics costs but also affects the quality of agricultural products after waiting at port for quality checking. This is a big barrier for Vietnamese agricultural products when exporting to the European market

*For Illegal, unreported and unregulated fishing* (Illegal, unreported and unregulated fishing - IUU) of European Commission (EC), Viet Nam's export seafood products have been applied with a yellow card from October 23, 2017, which means that all Vietnamese seafood shipments imported to the EU market must be checked their origin: reporting all information on the species of fish, the location of fishing, the date of catch and the type of vessel and all other transportation types involved. After four years, although there have been many efforts of the whole system from the Central to Local, but the yellow card has not been removed, it is even possible that the EC will change the penalty from yellow card to red card (commercial ban for Vietnamese fishery products). This is a big challenge for Viet Nam's seafood industry.

In order to remove the yellow card for seafood, Viet Nam needs to implement and synchronously implement solutions such as: Strictly penalizing all fishing vessels violating IUU regulations, applied to all provinces, ensuring consistency, transparency and publicity in all coastal localities, localities need to speed up the installation of monitoring equipment to closely manage the fishing journey of each fishing vessel. Until April 30, 2021, the whole country had installed 26,865 vessels, reaching a rate of 86.8% (BT, 2021); propagandizing to fishermen on the enforcement of IUU, propagandizing for seafood processing and export enterprises to refuse illegally caught seafood.

Thus, Vietnamese exporters need to increase investment in production technology, to combine productivity and product quality, to meet the requirements of the EU, thereby contributing to improving their export ability and maintain a long-term cooperative relationship with the EU. Suppliers need to be transparent in the origin and brand of products. Customs authorities must strictly handle cases of importing poor quality raw materials, counterfeiting brands, and seriously affecting Viet Nam's reputation.

*Awareness of EU regulations for imported agricultural products.* The awareness capacity of many enterprises about the regulations of the European Union as well as those in the EVFTA agreement on issues such as anti-subsidy, traceability, food safety, and environmental protection is still lacking, production consciousness is not high, focus on quantity instead of quality. The number of high-quality human resources in the agricultural industry is not really much and it is still difficult to learn and apply new technologies to agricultural production, which is also a factor leading to the unsatisfactory quality of agricultural products. In addition, businesses still have many obstacles in accessing the market as well as the legal system of the import market, so Vietnamese agricultural products face protectionist barriers, leading to lawsuits or commercial disputes. In order to help companies to access the European Union's regulatory system and to limit the occurrence of lawsuits, the Ministry of Agriculture and Rural Development needs to disseminate knowledge of export standards, regulations. It is needed to implement parallel sustainable production and environmental protection, to organize training sessions in the legal mechanisms for leading officials to facilitate export activities and know how to react and deal with problems related to trade.

*The increase of logistic service cost.* Logistics costs are a component of the product's cost, directly affecting the comparative advantage of exports. In the context of the current COVID-19 epidemic, logistics costs and freight rates from Viet Nam to the EU are increasing, sea freight rates increased 5 times compared to before the epidemic (early 2020). This has seriously affected the export of agricultural products.

*The emergence of the COVID-19 pandemic.* The rapid spread of the COVID-19 pandemic has caused countries to impose blockade measures, social isolation, disrupting supply and global trade. The epidemic caused trade congestion, stagnant goods, increasing the cost of storage and preservation of goods, putting financial pressure on suppliers. Most Vietnamese enterprises are small and medium sized, with limited financial potential, the high logistics costs will directly affect the revenue and profit of enterprises, especially for agricultural products that need to be preserved fresh to ensure quality. Faced with the complicated situation of the global pandemic, the Government needs to continue to carry out vaccination activities; tax support, applying preferential loan policy to encourage agricultural product export enterprises facing difficulties due to the COVID-19 pandemic, thereby maintaining production, stability and growth.

## **Conclusion**

Viet Nam's agricultural exports to the EU market are growing strongly. This study points out several opportunities and challenges for Vietnamese agricultural products to be exported to the EU market. These are necessary references in formulating policies to support Vietnamese agricultural products to meet the high requirements, penetrate the EU market, increase export turnover, and maintain macroeconomic stability.



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# EXPORTING VIETNAMESE AGRICULTURAL PRODUCTS TO THE US MARKET IN THE COVID-19 PANDEMIC

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## **Abstract**

*Vietnam's agricultural export turnover continues to maintain growth momentum in the COVID-19 pandemic, in 2020 reached nearly 41.25 billion USD, an increase of 0.91 billion USD over the previous year 2019. In there, the export of agricultural products to the US market in 2020 reached over 10.4 billion USD, accounting for 25.2% of the total Vietnam's agricultural export turnover. This is a remarkable highlight when the US has surpassed China to become Vietnam's largest agricultural product export market. With the growth in export turnover and market share in the US market, it shows that our country's agricultural industry is making strong changes to approach and conquer high-quality markets. The above results indicate that Vietnamese agricultural products have gradually affirmed their quality, food safety and hygiene, met the strictest standards of many nations in the world. Currently, Vietnam has joined many free trade agreements which create a clear competitive advantage in terms of tariffs for exported agricultural products. In the essay, the research team agreed to use the term "agricultural products" instead of the phrase "agro-forestry-fishery products", because agriculture, forestry and fishery are classified as agricultural industries in a broad meaning. This essay will review briefly the situation of Vietnam's agricultural exports to the US market in the 2018-2020 period, calculate the comparative advantage (RCA) of some key agricultural products of Vietnam to the US market, assess the achieved results and some difficulties in exporting to the US market in the context of COVID-19. Since then, the team has come up with some solutions to promote the export of Vietnamese agricultural products to the US market in deepening integration of the world and amidst difficulties and instability caused by the COVID-19 pandemic.*

**Keywords:** Export, agricultural products, Vietnam, US market, COVID-19

## **I. INTRODUCTION**

With the outbreak of the COVID-19 pandemic taking place all over the world, trade activities of Vietnam as well as many countries have been severely affected. However, with timely and flexible measures, the value of some exported agricultural products Vietnam's strengths still reached impressive numbers, of which the export of Vietnamese agricultural products to the US market maintained the growth during the pandemic.

It can be clearly seen that the COVID-19 pandemic is the main cause of the disruption of the global supply chain, making it difficult for Vietnam's agricultural exports. Production and business activities of enterprises were stalled, some ones had to cut hours, and alternate jobs which led to a decrease in labour productivity. In COVID-19 pandemic, the US also applied social distancing measures, implemented quarantine for export employees that

contributes to slowing down the delivery and receipt of goods from both sides, creating more difficulties for both sides. However, the Vietnam - US Trade Agreement (BTA) along with the Bilateral Trade and Investment Framework Agreement (TIFA) have contributed to tightening the trade relationship between two countries amidst difficulties due to the pandemic. The Ministry of Agriculture and Rural Development of Vietnam has actively organized a series of meetings between enterprises importing and exporting agricultural products of the two countries, had had 18 Memorandums of Understanding on agricultural trade cooperation between businesses of two nations which were signed and seriously implemented since February 2020 (People's Daily, 2021).

In complicated developments of COVID-19, Vietnamese agricultural product exporters have made efforts and creativity along with dynamic advocacy from relevant agencies and the Trade Office system as well in accessing markets, opening new sales channels for agricultural products such as e-commerce, contributing to the impressive growth of agricultural products exported to the US and helping the US become Vietnam's largest agricultural product import partner.

## II. DATA AND RESEARCH METHODS

Secondary data is collected from research papers, on the websites of the General Statistics Office, the General Department of Customs; Ministry of Industry and Trade; The Ministry of Agriculture and Rural Development... The data is compiled in the period 2018-2020 and summarized, calculated and reflected by charts, tables and using the comparative analysis and evaluation method. Besides, the team synthesizes secondary data from Trademap, database of ITC (International Trade Center) and performs comparative advantage calculation (RCA). This evaluation method was published by Balassa in 1965 after adjusting Liesner's method in 1958. This coefficient reflects the comparative advantage or disadvantage of a country with a product compared to the whole world. This coefficient is calculated

according to the formula  $RCA = \frac{X_{ij}/X_i}{X_{wj}/X_w}$ , in which,  $X_{ij}$  is the export turnover of product  $j$

of country  $i$  to market  $Y$ ,  $X_i$  is the total export turnover of country  $i$  to market  $Y$ ;  $X_{wj}$  is the export turnover of product  $j$  of the whole world to market  $Y$ ;  $X_w$  is the total export turnover of the whole world to market  $Y$ . If  $RCA > 1$ , country  $i$  has a comparative advantage; if  $RCA \leq 1$ , country  $i$  has no comparative advantage in good  $j$ . Evaluation of the level of comparative advantage is shown in detail in *Table 1*.

**Table 1. Classification of comparative advantage through RCA**

No	Group	Level of comparative advantage
1	$0 < RCA \leq 1$	No comparative advantage
2	$1 < RCA \leq 2$	Low comparative advantage
3	$2 < RCA \leq 4$	Average comparative advantage
4	$RCA \geq 4$	High comparative advantage

*Source: Hinloopen and Marrewijk (2001)*

On the basis of analysis with collected data, calculations. the team points out the achieved results and challenges posed in the export of Vietnamese agricultural products to the

US market. From there, the team proposed a number of solutions to resolve the difficulties in exporting Vietnamese agricultural products to the US during the COVID-19 pandemic.

### III. THE EXPORT SITUATION OF VIET NAM'S KEY AGRICULTURAL PRODUCTS TO THE US MARKET

In spite of still facing difficulties caused by the complicated developments of the COVID-19 pandemic and the continuous increase in warehousing and logistics costs, in general, the export of agricultural products to the US market still recorded positive developments in the context of consumer demand in the US market tends to increase again thanks to the gradual recovery of the economy after the restrictions and blockade measures in many countries have been eased. *Table 2* shows the export turnover of Vietnam's agricultural products to the US in the recent period.

**Table 2. Export turnover of Vietnamese agricultural products to the US in the period 2018-2020**

Products	Vietnam's export turnover to the US			The increase (decrease) in export turnover		Rate of increase (decrease) (%)	
	2018	2019	2020	2019 compared to 2018	2020 compared to 2019	2019 compared to 2018	2020 compared to 2019
Wood and wood products	3879.26	5333.37	7166.24	1454.11	1832.87	37.48	34.37
Sea food	1626.82	1472.56	1624.93	-154.26	152.37	-9.48	10.35
Cashew	1210.66	1027.82	933.07	-182.84	-94.75	-15.10	-9.22
Coffee	340.22	246.85	254.89	-93.37	8.04	-27.44	3.26
Vegetables	139.95	150.03	168.82	10.08	18.79	7.20	12.52
Pepper	152.96	141.06	142.57	-11.9	1.51	-7.78	1.07
Rubber	48.49	47.84	43.31	-0.65	-4.53	-1.34	-9.47
Rice	11.91	11.86	13.94	-0.05	2.08	-0.42	17.54
Tea	7.33	7.03	7.02	-0.3	-0.01	-4.09	-0.14
<b>Total export turnover</b>	<b>7,43</b>	<b>8,43</b>	<b>10,41</b>	<b>1,0</b>	<b>1,98</b>	<b>13,45</b>	<b>23,48</b>

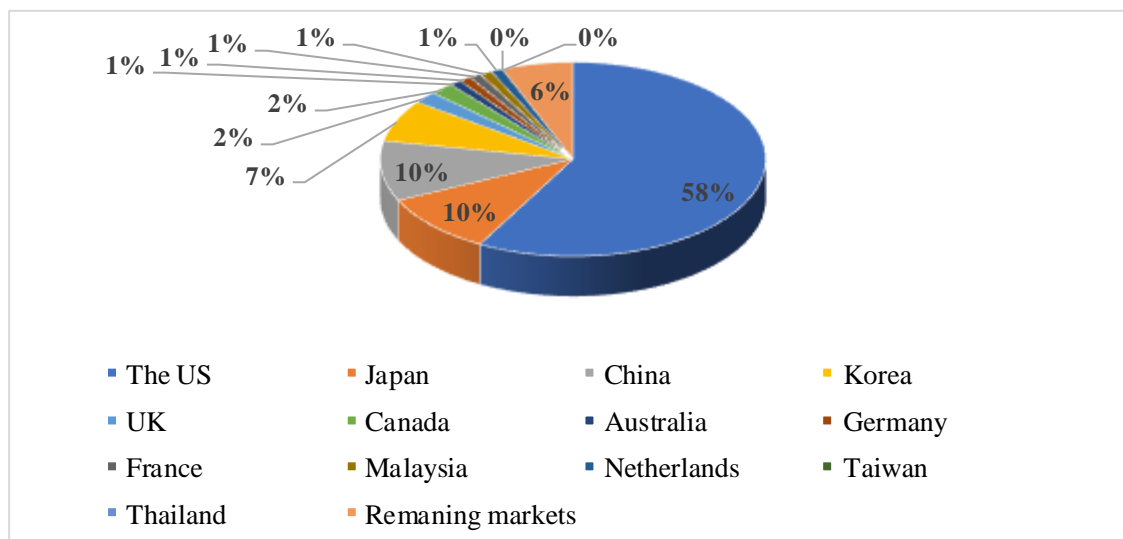
*Source: Calculate and synthesis from the General Statistics Office (2021)*

Before the complicated changes of the pandemic, many economic sectors are dealing with difficulties, Vietnam's export production is also facing many challenges. However, many key export agricultural products of Vietnam still retain profits, especially, wood and wood products turnover in 2020 still increased compared to 2019 was 1,832.87 million USD, an increase rate of 34.37%; next commodities such as sea food, vegetables, coffee, rice and pepper remained still with positive growth rates, although the pandemic has not yet been controlled. This is a results for the overall picture of Vietnam's exports in general and Vietnam's agricultural product exports to the US market.

### Export turnover of wood and wood products

Wood and wood products are the group of agricultural products with the largest export turnover. The export value of Vietnam's wood and wood products to the US market in 2020 reached 7.17 billion USD, an increase of 34.37% compared to 2019. The US market accounted for 58% of the market share of the whole wood industry of Vietnam exports to the world and has become the largest import market for Vietnam's wood and wood products.

**Figure1. Market share of Vietnam's wood and wood products export turnover in 2020**



*Source: Vietnamese wood analysed from Customs data (2021)*

### Seafood export turnover

With Vietnam's export seafood output in 2020, the US is also the leading import market, accounting for 19.3% of the market share, reaching nearly 1.7 billion USD, an increase of 10.35% compared to 2019; focusing on 3 main product lines: shrimp, pangasius and tuna. However, according to the Vietnam Association of Seafood Exporters and Producers (VASEP), compared with current seafood suppliers to the US such as Canada (3 billion USD), India (2.5 billion USD), Chile (2 billion USD), the proportion of Vietnam's seafood exporting to this market is still small, the export value is still very modest compared to competitors. Vietnam has a comparative advantage in this industry, however, the fishing process, the process of preserving and processing Vietnamese seafood are still weaknesses that have not met the requirements of the import market.

### Fruit and vegetable export turnover

In 2020, exporting fruit and vegetable to the US market reached 168.82 million USD, increased by 12.52% over 2019. Currently, six types of fresh fruit from Vietnam are licensed to export to the US, including: mango, longan, litchi, dragon fruit, rambutan and breast milk. Other fruits are exported in the form of frozen or processed products, accounting for a high proportion of total fruit and vegetable exports to the US. According to the Ministry of Industry and Trade (2020), the proportion of US fruit and vegetable imports accounts for 18.9% of the total import value of fruit and vegetables in the world. Import value from Vietnam only accounts for 0.6% of the total import value of vegetables and fruits of the United States.

### **Coffee export turnover**

The US is Vietnam's third largest coffee import market after Germany and Southeast Asia. In 2020, in the pandemic, Vietnam's coffee exports to the US market reached 254.89 million USD, an increase of 3.26% in turnover compared to 2019 (In 2019 compared to 2018, the amount of Vietnamese coffee exported to the US decreased sharply 27,44%). In the context of the pandemic, which leads to a continued increase in freight rates, the shortage of empty containers remains unresolved. In addition, Vietnam has to compete with other exporting countries, especially Brazil. With the sharp increase in the area and coffee output of Brazil - the world's largest coffee producer, it is not a small problem for Vietnam's coffee export.

### **Rubber and tea export turnover**

According to the Ministry of Agriculture and Rural Development (2020), the export quantity of rubber reached 1.75 million tons, equivalent to 2.38 billion USD, up 2.8% in volume and 3.5% in value compared to 2019. However, in the US market, in 2020, a decrease of 4.53 million USD compared to the previous year (decrease of 9,47%). Vietnam ranks 13<sup>th</sup> in the rubber supply market to the US. Rubber production and processing is considered one of the key agricultural industries, however, the competitiveness of this product in the US market has not been improved.

Vietnam ranks 5th in the world in terms of tea exports, the amount of tea exported to the US is insignificant, reaching only 6,624 tons (2019) and decreasing to 5,427 tons (2020), equivalent to an export turnover of 7.02 million USD in 2020, down 0.14% compared to 2019. This number does not accurately reflect the internal production capacity of the Vietnamese tea market.

### **Cashew nut export turnover**

The US and China are the leading markets for Vietnam's cashew imports. Contrary to the increasing trend of China's import, the US significantly reduced Vietnam's cashew import from 159,645 tons in 2019, to 104,818 tons in 2020 according to the General Department of Customs (2021), equivalent to an export turnover of 933,07 million USD in 2020, down 9.22% compared to 2019. Meanwhile, the US still increased its imports of cashew nuts from other markets such as Indonesia, Brazil or Thailand. As one of the top 3 exporting countries of cashew nut, this situation forces Vietnamese enterprises to re-evaluate and improve the quality of cashew nut production to properly represent their comparative advantage.

### **Rice export turnover**

Vietnam's total rice export volume is 6.15 million tons in 2020, of which rice exports to the US will reach 20,168 tons. Vietnam's total rice export turnover to the US market is 13.94 million USD in 2020, an increase of 2.08 million USD compared to 2019 (equivalent to an increase of 17.54%). Despite the increase, Vietnam's rice market share exported to the US market is still very small, unable to meet the increasing demand for rice in this country, the Vietnamese rice brand is not really prominent in the US compared to Vietnam's position as the second rice exporter in the world.

## **IV. ACHIEVEMENTS AND CHALLENGES IN EXPORTING VIETNAMESE AGRICULTURAL PRODUCTS TO THE US MARKET**

### **4.1. Achievements**

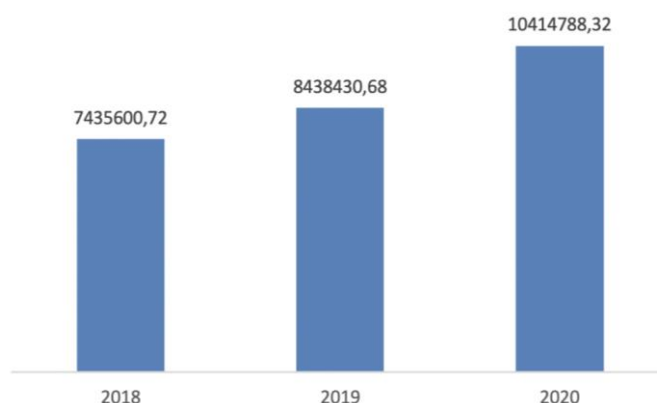
#### **Increase the total export turnover of agricultural products**

The COVID-19 pandemic has had a serious impact on the society and economy of Vietnam and the whole world, but Vietnam's agricultural export maintains a growth momentum. Vietnam's agricultural export turnover to the US market still increases in 2020 despite the

complicated development of the pandemic (*Figure 2*), bringing the US market to account 26.7% market share in total agricultural export value of Vietnam in 2020 (Khoi, C., 2021).

**Figure 2. Total Vietnam's agricultural export turnover to the US in the period of 2018 - 2020**

*Unit: 1,000 USD*



*Source: Calculations of the research team from the General Statistics Office (2020)*

Specifically, Vietnam's agricultural export turnover to the US market in 2019 reached 8,438.4 million USD, up to 13.45% compared to 2018; In 2020, it reached 10,414,7 million USD, an increase of 23.48% compared to 2019.

#### **Many commodities have a comparative advantage**

The team performed comparative advantage calculation (RCA) for some key agricultural products of Vietnam. *The data in Table 3* shows that some key agricultural products of Vietnam exported to the US all have  $RCA > 1$  (*Having comparative advantage*), pointing out that these products have a competitive advantage in the world when exporting into the US market. Most prominent are meat, fish, or crustacean products (HS16) with an RCA of 4.08 (*High comparative advantage*); Coffee, tea, spices (HS09) with RCA value of 1.69 (*Low comparative advantage*); Edible fruit and nuts, peel (HS08) with an RCA of 1.61 (*Low comparative advantage*); Fish and crustaceans, aquatic invertebrates (HS03) with an RCA of 1.47 (*Low comparative advantage*).

**Table 3. RCA of key agricultural products of Vietnam in 2020**

Code	Name of products	Export value Vietnamese agricultural products to the US (Unit: USD)	Export value the world's agricultural exports to the US (Unit: USD)	RCA	Level of comparative advantage
HS03	Fish and animals crustaceans, molluscs and aquatic invertebrates	827.466	17.534.600	1,47	Low comparative advantage
HS08	Edible fruits and nuts, peels	1.006.264	19.473.401	1,61	Low comparative advantage

HS09	Coffee, tea and spices	428.125	7.898.043	1,69	Low comparative advantage
HS16	Meat, fish, or crustacean products	793.956	6.079.000	4,08	High comparative advantage

*Source: Research team calculations based on ITC trade (2021)*

In fact, under the impacts of pandemic, along with severe natural disasters causing damage to farming, the non - stop increase of non - tariff barriers, but thanks to the comparative advantage of agricultural products with the intervention of timely and effective solutions of the government, Vietnamese enterprises still conduct production and combine with disease prevention to boost the export of agricultural products to the US market.

### **Structural shift of exported agricultural products associated with market demand**

Vietnamese agricultural products exported to the US are gradually shifting to high-value products such as wood and wood products, and processed vegetables. In particular, the strong growth of the wood industry and Vietnam's wood exports to the US have increased the total export turnover of agricultural products, helping Vietnam to become one of the few countries to keep positive growing during the COVID-19 pandemic.

Vietnamese businesses have effectively exploited from the increase in demand of the American citizens for housing and the effects of the US - China trade war, surpassing Chinese competitors to become the largest supplier of wood and wood products to the US market, affirming the position of Vietnam's furniture industry in the international market.

## **4.2. Challenges**

### **Non - tariff barriers**

The US maintains strict control over imported agricultural products through a series of laws such as the Plant Protection and Quarantine Program (PPQ); The Plant Protection Act (PPA); The Food Safety Modernization Act (FSMA). In which, the US PPQ will monitor all imported plants to detect invasive species, insects, and dangerous alien plant diseases for agriculture and natural communities in the United States. As for the barrier from customs clearance, customs authorities can only grant import permits for products to the US after they have been approved in importing place by APHIS (Animal and Plant Health Inspection Service) and FDA (United States Pharmaceuticals and Drugs Administration).

In addition, the risk of falling into commercial lawsuits is also great. Previously, in June 2020, the US initiated an investigation to avoid trade remedies tax for all plywood products imported from Vietnam. Due to the sudden increase in the export turnover of Vietnam's wood and wood products to the US market, the US Department of Commerce wants to prevent the risk of some Chinese plywood products being subject to anti-dumping duties. Prices and anti-subsidy of the US are transferred to Vietnam and exported to the US in order to avoid the imposition of high tariffs. Although, the outcome of the lawsuit has not affected the growth and reputation of Vietnam's wood industry, however, in the future, the number of trade remedy lawsuits may increase, causing many difficulties for exports in general and the Vietnamese economy in particular. These are all pre-existing challenges, however, in the context of the pandemic, which has increased difficulties for export businesses of Vietnam.



## **Supply chain and the agricultural product brand**

The risk of disease spread, especially the appearance of the Delta variant, forces countries to apply quarantine measures at the border for export staff, ship drivers. Traffic is congested which prolongs delivery time. Many businesses have had to change the delivery time and reduce the number of new contracts, because old contracts have not been completed. This consequence has reduced the revenue of the business, even losing partners if this situation persists.

Vietnam's logistics industry is still limited in number, in particular, lacking in logistics centres of national stature and in key economic areas. Yearly, Vietnam exports more than 40 billion USD, up to 90% of Vietnam's agricultural products are still exported in raw form or with limited processed content, lower quality and export value than similar products of other countries. The competitiveness and level of participation in the global value chain of agricultural products in Vietnam is still low, especially in the high value-added stages.

In the consumption of agricultural products for export in general and to the US market in particular, the building and development of Vietnam's brand is still limited. Vietnamese enterprises exporting agricultural products to the US market mostly have to stick with the trademarks of commercial intermediaries in the host country's market. American consumers will often trust when buying goods from domestic importers rather than buying goods directly from Vietnamese exporters. Because American importers have spent a lot of resources on branding, built trust with wholesalers, retailers and end consumers. Besides, American importers themselves have a wide range of products, many different products while Vietnamese enterprises can only supply a few products.

## **Cost of production and transportation**

Congestion causing a shortage of containers has pushed up transportation costs. From the beginning of June 2021, container freight rates to the US increased week by week, the shipping cost of a 40-foot container to the US has reached 20,000 USD, compared to the price of 8,000 USD/container in April. For containers cold, the cost has doubled, from 7,500 USD/container in April 2021 to 13-14,000 USD/container, in July 2021. Due to the nature of the US market, buying goods at a price that have included goods and freight, with an increasing trend in shipping costs, Vietnamese exporters are forced to pay more to continue their partnership. In addition to transportation costs, according to Vietnam Association of Seafood Exporters and Producers (VASEP), the cost of essential input materials for seafood production and processing all increased from 5% to 25%, the cost of equipment for seafood processing workers such as gloves, food safety and hygiene equipment to prevent epidemics, aquatic feed and packaging also increased very high.

For businesses that want to maintain production activities, they must implement the Government's 3-on-the-spot: *eat on the spot, stay on the spot and produce on the spot*. However, the facilities of the majority of Vietnamese enterprises were not qualified to meet the requirements and had to pay additional expenses such as food and living expenses for workers. when applying solution called 3-on-the-spot.

Most Vietnamese enterprises are small and medium-sized, and their resistance to these financial pressures is still low. As a result, the number of newly registered businesses decreased, the number of businesses leaving the market and terminating business activities increased compared to before the epidemic. According to a survey by the Ministry of

Agriculture and Rural Development (2021), 78% of agricultural product processing enterprises had to temporarily suspend production, while the remaining enterprises only operated in moderation.

## **V. SOLUTIONS TO REMOVE DIFFICULTIES IN EXPORTING VIETNAMESE AGRICULTURAL PRODUCTS TO THE US IN THE CONTEXT OF THE COVID-19 EPIDEMIC**

### **Solution to overcome non - tariff barriers**

With obstacles from tariff barriers, it is necessary for agricultural product exporters to innovate their production models, increase the application of science and technology to the production process to reduce costs and improve productivity, product quality to meet the strict requirements from the US market. In particular, with the current shortage of human resources when returning to production, the use of automatic machines and systems in production to replace workers will help businesses maintain revenue growth.

Exporters of Vietnamese agricultural products need to increase investment in production technology, in order to combine productivity and product quality, to meet the requirements of the US, thereby contributing to improving their ability to export, competition and maintain a long - term cooperative relationship with import partners. Enterprises exporting agricultural products also need to be transparent in the origin and brand of products. Equip specialized knowledge on export, the legal system of the import market in order that the trade exchange process goes smoothly and avoid the risks of commercial lawsuits which waste time and money of business.

Strengthen human resource training. In globalization and the influence of the Industrial Revolution 4.0, knowledge and a lot of skills need to be supplemented for agricultural workers. Measures must be taken to improve production capacity and business capacity for agricultural workers. Instead of producing according to seasonal customs, farmers need to be equipped with production knowledge and skills; Acquiring and applying technology to production; Bringing mechanization into production; There are techniques to preserve agricultural products after harvest; Know how to use investment capital effectively; Besides, agricultural workers also need to be equipped with commercial knowledge such as marketing, communication skills, negotiation and contract signing, bringing information technology to the countryside; training agricultural workers to use means and technology to research markets and collect useful information for production and export of agricultural products.

### **Solutions to develop supply chain and the agricultural product brand**

Investment and development of logistics infrastructure to serve the production and export of agricultural products. In the global agricultural export supply chain, production stages are geographically fragmented, requiring fast and cost - effective movement of goods across national borders. Therefore, inefficient logistics activities will increase transportation costs, preservation costs, warehousing costs, storage costs, transaction costs and reduce the competitiveness of domestic enterprises. Therefore, the investment in logistics infrastructure improves connectivity between modes of transport, reduces the lowest costs for businesses and circulation costs, and increases the value of agricultural products.

Strengthen supply - demand connection and promote the consumption of agricultural products. The State needs to take measures to promote the development of e-commerce,

quickly organize agricultural product trading floors for each region as well as nationwide. Agricultural product trading floor will help to buy and sell agricultural products in large volume; Both domestic and foreign traders can participate in trading on the exchange. Through the exchange, farmers and businesses can update information on supply - demand, agricultural product prices, which are the basis for agricultural production and trading activities. Create favourable conditions for Vietnamese agricultural product producers and exporters to participate in non - production stages, to approach more demanding consumers like the US market, especially to support information on market demand, promote trade of agricultural products in key markets, open distribution bases in importing countries, towards brand development for Vietnamese agricultural products.

### **Financial solutions to support businesses**

The state needs to develop a mechanism that is ready to provide financial support to farmers and agribusiness enterprises. Supporting businesses to access financial resources is an important factor affecting their ability to participate in global supply chains. In addition, it is necessary to create favourable conditions to attract foreign direct investment (FDI) in the agricultural sector, thereby accessing capital, technology as well as participating in the global distribution network of agricultural products.

With financial difficulties, the Government needs to continue keeping the tax policy going by reducing or extending the tax payment time for businesses because this policies contribute to minimizing financial pressure on businesses. Besides, the government should conduct surveys on the impact of the epidemic on businesses. Proposing suitable solutions for each specific group of businesses, thereby reducing the current number of enterprises stopping production and business activities. Strengthen public investment, especially increase investment in warehouse and cold storage infrastructure to meet the increasing demand of enterprises. Coordinating with the Ministry of Transport and relevant international agencies to solve the situation of traffic jams at both inland and border areas, and to adjust transportation rates in accordance with the general situation.

Enterprises exporting agricultural products to the US have stepped up joint venture and association activities to increase their strength and economic efficiency when participating in the global supply chain, quickly overcoming the situation of small and fragmented and lack of linkage between members in the chain. Agricultural product exporters link and support each other in terms of technology, supply, finance, etc. to increase their competitiveness compared to international competitors, thereby building a sustainable export market, affirming Vietnam's position in the international market in general and the US market in particular.

Agricultural product exporters with the role of purchasing, processing and consuming agricultural products need to follow the market closely, invest heavily in marketing activities and market research to get useful information about product demand, optimizing the distribution network to bring agricultural products to the world market at a reasonable cost.

### **In conclusion**

Amidst the complicated development of the COVID-19 pandemic all around the world, Vietnam maintains its economic growth momentum, Vietnam's agricultural export to the US has achieved positive results, many agricultural products for export have high comparative advantages. However, the pandemic has increased obstacles for businesses exporting agricultural products to the US market in terms of meeting the requirements of technical

barriers in trade, non - tariff barriers, on maintaining and developing the supply chain, especially the increase of the costs of production and circulation. They requires the government to come up with timely, effective, synchronous and flexible solutions to support enterprises to export agricultural products, meeting the increasingly stringent requirements of the US market, improving production and business capacity so that Vietnam's agricultural products takes opportunities to penetrate this demanding but potential market.

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# **POLICIES TO OVERCOME TRADE BARRIERS FOR SUSTAINABLE DEVELOPMENT OF THAILAND'S AGRICULTURAL PRODUCTS AND EXPERIENCE FOR VIET NAM**

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## **Abstract**

*Thailand is an export-oriented economy. In such context Thailand's strategic orientation emphasizes building a high-quality and highly competitive agriculture as a foundation for developing sustainable export of agricultural products. Thailand has become the world's leading exporter of rice and shrimp, third in sugar exports and it is in the top 10 fruit exporting countries in the world. The Government of Thailand has led this success by promulgating and implementing policies to overcome trade barriers for a sustainable development of agricultural exports. Both Viet Nam and Thailand are ASEAN members with many similarities in terms of economic development and agricultural production. Therefore, Viet Nam should carefully consider the differences from Thailand and study the experiences and policies that Thailand has adopted to overcome trade barriers for its agricultural products to realize sustainable development of its agricultural exports. From such a study, Viet Nam should also adopt appropriate policies to obtain flexible and effective solutions in exporting agricultural products in a sustainable manner.*

Keywords: Trade barrier, sustainable development, export, agricultural products, Thailand, Viet Nam

## **I. POLICIES FOR SUSTAINABLE DEVELOPMENT OF THAILAND'S AGRICULTURAL EXPORTS**

Thailand is a particular example of an export-oriented economy with exports accounting for around 65% of GDP (2019). Thailand's exports increased steadily from a total export value of \$69 billion in 2001 to \$228 billion in 2014, although the export growth rate gradually decreased, it still reached a total turnover of \$245.5 billion in 2019. Thailand's strategic orientation is to build a high-quality, highly competitive agriculture, thereby laying the foundation for sustainable agricultural product export development (Amekawa, 2010; European Commission, 2020).

Thailand was originally a traditional agricultural country. In the 1960s, Thai agriculture was still quite backward, level of rice production was still average like many other countries. However, from the 1970s and especially from the 1980s until now, Thailand has risen to become the world's leading exporter of rice and shrimp, ranking 3rd in sugar exports and in the top 10 countries. export fruit for many years. The Government of Thailand played an important role in Thailand's success, thanks to having the right strategic direction for economic development, exploiting, and awakening the potential of the country's strengths.

Thailand determines to prioritize agricultural development as a basic strategy for the development of the entire national economy. In 1982, the Thai Government launched the *"National economic development strategy with agricultural and industrial modernization as the goal"*. In 1995, the State approved the *"Planning to strengthen the development of agricultural mechanization and the application of new techniques to agriculture"*. In 2000, Thailand promulgated the *"Strategy to support agricultural production with high productivity, increasing agricultural product additives, and increasing the competitiveness of agricultural products as a goal"*.

In order to promote the sustainable development of the economy and also the export of sustainable agricultural products, Thailand has applied a number of strategies and policies that interact and support each other, ensuring both benefits. economy and preserving the ecological environment (Nidhiprabha, 2017; EUMOFA, 2020):

- Policy on creating and developing national agricultural product brand;
- Policy on building a transparent supply chain and developing export logistics;
- Policy to support agriculture, subsidize agricultural products;
- Policy on rural industrialization, application of science and technology to build a modern agriculture;
- Policies to attract foreign investment and private investment for agricultural development, especially food processing industry;
- Establishing a system of risk insurance for farmers.

In addition to the above policies, to promote the sustainable development of agriculture as well as to exploit higher added value from exported agricultural products, Thailand has been well prepared to face the challenges with a lot of non-tariff barriers coming from the most important markets such as the US, EU and China. The most common barriers are Sanitary and Phytosanitary Measure (SPS), Technical Barriers to Trade (TBT), Anti-dumping (ADP), Export subsidies (XS), Special Safeguards (SSG) and Tariff Quota (TRQ).

Below is a description and analysis of some Thailand's experiences in meeting trade remedies in shrimp exports to the US, in removing yellow cards in seafood exports to the EU and in meeting regulations of durian export to China.

## **II. THAILAND'S TRADE REMEDY EXPERIENCE IN SHRIMP EXPORTS TO THE US**

From 1997 to 2012, Thailand was the world's leading shrimp producer and exporter, thanks to the continuous development of the shrimp industry and the pioneering in food safety and farming activities. World consumers believe that Thai shrimp are of the best quality, free from contamination, and meet or exceed safety standards, such as USDA and FDA testing results. Since 2013, Thailand dropped to 5th place after India, Viet Nam, Ecuador and China.

In Thailand's top shrimp import markets, the US ranks first, accounting for 35% of the country's total shrimp export value in 2018. The US's figure of shrimp imports by volume (ton) and by origin are shown in Figure 1, for 20 years (1997-2017) in which Thailand is the largest shrimp exporter to the US for many consecutive years, from 1997 to 2013. Thailand's shrimp industry has difficulty maintaining competitiveness after the country was imposed by the US's trade remedies.

**Figure 1. The number of imported shrimp of the US, 1997-2017**



Source: <https://www.aquaculturealliance.org/>

Shrimp, one of the most profitable export items among Thai seafood, faced trade remedies in the US market very early. Thailand's frozen shrimp was initiated by the US anti-dumping investigation in 2005, when shrimp output to the US reached more than 161,000 tons, more than doubling the export volume in 1997. The Thai government and exporters quickly appealed to reduce tariffs to make shrimp exports more competitive.

Specifically, in April 2006, Thailand filed a lawsuit against the US at the World Trade Organization (WTO), accusing Washington of implementing unfair trade policies for Thai shrimp exports. The Department of Foreign Trade of Thailand said that the US is implementing dual protectionist measures for Thai shrimp exports through C-bond (100% mortgage of the value of goods at the bank) and anti-dumping duties. Thailand's Ministry of Commerce also said it has hired lawyers and gathered documents from exporters to pursue the case.

This lawsuit started from the pressure of hundreds of Thai shrimp farmers in Trang, Surat Thani and Krabi provinces, demanding that the Ministry of Commerce take action to sue the US side for unfair protectionist measures. Chairman of the Thai Frozen Food Association said that in order to export Thai shrimp to the US market in 2006, an additional \$100 million (3.9 billion baht) was incurred because of the C-bond issue. In addition, there is also an additional anti-dumping tax from 5.79 to 6.82% of the value of each shipment.

In March 2006, Thai shrimp exporters hoped that their exports would no longer be subject to protectionist measures imposed by the US when the US trade representative visited Bangkok to negotiating with the Thai Deputy Minister of Commerce on the possibility of ending C-bond for Thailand. However, the negotiations were unsuccessful, leading to Thailand's proceeding to sue the US to the WTO. This is the first state case to the WTO of a shrimp exporting country, subjected to dual sanctions from US protectionist policies (Nidhiprabha, 2017; EUMOFA, 2020).

In February 2009, the US has accepted to settle the dispute according to WTO rules, by reducing anti-dumping tax for shrimp exports from Thailand. Thailand does not face high tariffs on its future shrimp exports to the US after they presented evidence that they did not engage in dumping practices, as alleged by the US.

The president of the Thai Frozen Foods Association said that the country continued to ask the US to stop applying C-bond, the above regular guarantee fund for shrimp imported from Thailand in April 2009. After that, the US agreed to reduce the C-bond deposit for Thai shrimp exporters by half, but they required these companies to provide all documents of

market, cost, price, etc during 18 months of post-imposition of dumping tax for the US Department of Commerce.

Thus, in order to succeed with the first lawsuit against exported shrimp, Thai enterprises not only have demonstrated that their awareness and ability to enforce the provisions of the law on trade remedies, rules of origin is quite high, but also it has performed well the work of archiving documents on the origin of raw materials, perfecting the system of books and accounting documents in accordance with the provisions of international law and standards. There are sufficient basis to prove that they are not dumping and to incorporate the verification and investigation activities of the importing country.

In addition, Thai shrimp exporters have demonstrated their spirit of cooperation together, and also cooperate with industry associations. Active cooperation, unity, and active participation in the settlement of the lawsuit in a smart and effective manner are always considered necessary criteria for a successful lawsuit. In addition to their solidarity, they also have the effective support from the Association and the Government, the State management agencies helped companies to choose a team of professional legal consultants, and also the experts with professional qualifications and fluent foreign languages, who advise the association and businesses and deal with difficult situations during the multi-year appeal process.

### **III. EXPERIENCE IN REMOVING THE YELLOW CARD IN SEAFOOD EXPORTS TO THE EU**

The Regulation on IUU (Illegal, Unreported and Unregulated fishing) was issued by the European Commission (EC) in 2008 and came into force on January 1. October 2010. The objective of the IUU is to establish an EU-wide system to prevent and eliminate the importation of IUU-caught fishery products into the EU market, which is considered a major threat to maintain and to conserve aquatic resources and marine biodiversity, causing serious environmental as well as socio-economic impacts worldwide.

It is estimated that IUU fishing accounts for 19% of the total annual world fish catch. The majority of IUU fishing takes place in developing countries. Up to now, there have been 25 countries and territories that have been subject to the EU card penalty; of which 6 countries had to receive red cards. Yellow card is 100% shipment inspection. The red card is a ban on imports into the EU. In the ASEAN region, Cambodia received a red card from the EU in November 2013, the Philippines received a yellow card in June 2014 but it was removed only 10 months later thanks to the drastic efforts of both authorities and ship owners (EUMOFA), 2020).

Thailand received a yellow card from the EU in April 2015, adue to rampant illegal fishing, and has been given a green card since early 2019. Viet Nam was penalized a yellow card by the EU in October 2017, due to Vietnamese fishing vessels violating foreign seas, and having been subjected to tough measures by Indonesia, Malaysia, and Thailand, such as destroying ships, arresting people, fines, etc. 4 years have passed, but the yellow card has not been removed and it is still a big challenge for Viet Nam.

Thailand has been struggling with a yellow card from the EU for many years. Until the beginning of 2019, the European Commission (EC) announced to remove the "yellow card" for Thai fisheries in recognition of the efforts of this country during nearly 4 years has actively resolved inadequacies in fishing, processing and exporting seafood

This result comes from the point of view - Thailand considers the removal of the "yellow card" as a requirement and a driving force for a new phase to develop fisheries in a sustainable and responsible manner to improve their competitiveness in compared to other countries in the region.



Since the "yellow card" was imposed in 2015, the EU and Thailand have engaged in constructive dialogue and cooperation. In particular, the two parties have proposed specific enforcement measures such as amending Thailand's fisheries legal framework in accordance with international law. It is also proposed to strengthen Thailand's obligations such as flying national flag, establishing strict penalties for violations, reinforce national fishing fleet inspection mechanisms and systems, including remote monitoring of fishing activities and taking inspection plan at the port.

The most notable point is the management of fishing vessels through the Vessel Monitoring System (VMS) to help consumers easily trace the origin of Thailand exported seafood products and this management system has been appreciated by the EU. Specifically, all Thai fishing boats are installed with a VMS system, so that the staff of the Directorate of Fisheries will check easily the location of the fishing boats which are operating inside or outside of Thailand's territorial seas. In addition to the cost of installing a navigation system of about \$1,000 per ship, ship owners also have to pay \$25/month for VMS service providers and the application of this service on mobile phones (<http://www.iuuwatch.eu/>).

Thailand's Department of Fisheries has built a Fisheries Monitoring Center, located near Bangkok, with about 30 employees divided into three shifts, working 24 hours per day. From this Center, the position of every fishing vessel is displayed on the central screen. If any ship goes out of Thai seas, the center's staff will immediately warn and ask the ship to turn back. With just a smartphone, ship owners can register import and export procedures for fishing vessels, at the same time know what area the ship is fishing in as well as look up the operation history of the ship in the last ten days. If it is discovered that the ship is going out of Thai seas, the ship owner will contact the captain to request a return.

Thailand has actively adjusted and revised a number of legal provisions, focusing on the Fisheries Law and raising the level of penalties for violations, reforming the fisheries management apparatus, focusing on increasing the number of employees working in law enforcement agencies and increase the budget for law enforcement, control fishing activities at sea. Now, everything must be checked before the ship goes to sea, workers must have a permit, fishing boats must have a valid fishing license to sails.

#### **IV. EXPERIENCE IN MEETING REGULATIONS ON EXPORTING DURIAN TO CHINA**

The general standard of official durian export to the Chinese market is to ensure product quality with clean production processes, food safety and hygiene (food safety and hygiene), traceability through the planting area code, the number of the processing and packaging facility, with labels in English or Chinese, specified and certified by 2 global standards, namely Global GAP and GMP. Currently, Viet Nam is still exporting durians to China via unofficial channels but has not been approved to enter this large market through official channels.

Thai durian exports to China started when the road which connects between Thailand and China, are improved. New bridges are built along the Mekong River and refrigerated truck convoys are ready to transport fruit and also durian. Besides, e-commerce platforms play an important role in helping this fruit become more and more popular (Noodaeng, 2017).

To obtain the above achievement, at first, Thai durian has had to make great efforts to meet Global GAP and GMP standards. Firstly, durian must come from growing areas that meet Good Agricultural Practices – GAP. Secondly, after harvesting, durians will be

transported to GMP-certified packaging factories licensed by the Department of Agriculture, in which durians will be selected and classified by shape, weight and ripeness depending on the needs of each market. Then, they will proceed to clean the sand, harmful insects on durians by clean water or a blower, dry, then pack and store durian at an appropriate temperature until the date of export.

The Chinese government required a certificate of Good Manufacturing Practice (GMP) for all durian imports originating from Thailand in 2018. The decision came after China reported more than 1,700 cases of pesticide residues in durian and related substances in the previous year.

The new GMP regulation requires a quality certificate from the Thai Ministry of Agriculture, adding various documents related to chemical use determination, soil quality control, water source, etc., which not many merchants in the area can obtain. At that time, according to the Thai Chamber of Industry (Thai PBS), only about 20% of durian exporters in the South - Thailand and about 50% of the people in the Northeast - Thailand had GMP certification. The Department of Agriculture (DOA) ensures that Thailand continuously develops durian growing techniques to ensure quality for export and to produce high quality durian all year round. The Thai government also had high quality and safety management measures in place for exported durian, regardless of whether it is exported to China, Taiwan, Hong Kong, Indonesia or any other market (Phothiyaraj). et al., 2010; Nidhiprabha, 2017).

In order to meet Global GAP and GMP standards, businesses and associations have joined together to reorganize production to affirm the position of Thai durian in the international market and especially in China. The planning of specialized and concentrated production areas has brought into play the real advantages of specialized farming areas and the linkage of production areas. The production link between farmers and processing enterprises is strengthened and reliability is increased. Processing enterprises invest more in raw material areas, not buy products of unknown origin, uneven quality and substandard quality.

## **V. LESSONS FOR VIET NAM**

Viet Nam and Thailand are both located in the Greater Mekong Sub-region, and have some similarities in post-geographical conditions and soil. Both are traditional agricultural countries, with a wet rice civilization, currently suffering from many consequences due to drought, scarcity of fresh water, and the same requirement to restructure crops to suit climate change as well as poverty eradication for agriculture. The two countries are in the group of countries with the leading agricultural export turnover in the world, and both have built 10 key agricultural export markets with the role of regulating the entire structure of export markets and continuously expand export markets (Nguyen Thi Phong Lan, 2014). The above similarities allow Viet Nam to refer well to lessons learned from overcoming barriers in Thai agricultural exports.

*Awareness of the position and role of agricultural production and export in sustainable economic development.* Thailand's success in exporting agricultural products is due to the right perception of the position of agricultural production and export. They consider agricultural and rural development policy as the backbone of the country. This is the fundamental mechanism that receives proper attention and investment to promote the implementation of solutions to overcome trade barriers for agricultural products to the world market.

*Having the right view on trade barriers, especially SPS barriers in exporting agricultural products, this is the foundation for building sustainable solutions to overcome barriers.* Barriers are an inevitable trend of agricultural production and also export of agricultural products. Towards a green economy, developed based on sustainable values for the future, Thailand has turned challenges and barriers into opportunities to promote the growth of its agricultural export industry.

*Deeply participating in negotiation activities, having a flexible consultation policy with trading partners, actively participate in developing standards for agricultural products in the international market.* Focusing on promoting the government's negotiating power in solving SPS issues is a lesson that can solve the problem of trade barriers in agricultural exports that Thailand has applied quite successfully.

*Having a dynamic and flexible market policy, creating the ability to adapt exported agricultural products to the needs of many different market groups.* Dynamic market policy allows to cope with risks from the world market, adapting the export capacity of agricultural products to trade barriers from different markets. This flexibility helps maintain the benefits of agricultural production and export in the short term, while ensuring the balance of long-term goals in developing the industry in a sustainable way.

*Diversifying agricultural products for export in both width and depth to improve export efficiency.* This policy allows developing countries such as Thailand and Viet Nam to export large quantities of agricultural products that do not meet complex standards to low-barrier markets as well as still to serve the markets of some developed countries, to maintain steady growth of the industry.

*Building global agricultural value supply chains, facilitating solutions to overcome SPS barriers in exporting agricultural products thoroughly and synchronously.* The global agricultural supply chains provide comprehensive visibility from the input to the entire export process for each product. Thus, it should be allowed to implement and control of SPS and TBT standards in each stage such as production, harvesting, post-harvest, processing.

*Strengthen the management of quality standards and hygiene and safety of agricultural products and food in the domestic market to meet the requirements of the import market.* This is the main and long-term path to sustainable development of export agricultural products and also a lesson of Viet Nam's lychee export to the US market. Good hygiene and safety management for domestic agricultural products will create easier adaptability when agricultural products penetrate foreign markets.

*Good planning of raw material areas is a prerequisite to create agricultural products with the desired quality, in accordance with the SPS standards of the importing country market.* Raw material areas are planned appropriately in terms of climate and soil, which will contribute to the creation of high-value, good-quality products at low cost, taking advantage of natural advantages. The type of fertilizer, preservative and amount should be applied uniformly. It is easy to apply farming standards, standardize input supply, ensure the distribution of output products, and at the same time to build facilities for collecting, processing, preserving and packing according to regulations.

*Building and developing the national agricultural product brand.* When the export agricultural product brand becomes valuable in the international market, it will create a good

influence on the perception of foreign customers, the attraction of demand will help the product easily overcome trade barriers.

*Implementing synchronously supporting measures such as promoting rural industrialization, building a high-quality modern agriculture.* Viet Nam should develop infrastructure, agricultural logistics and improve the business environment which can help businesses have the conditions to increase their productivity and maintain the best quality standards of agricultural products. In addition, policies on income tax exemption, business tax, profit tax for newly established processing establishments. Policies to attract foreign investment and private investment for agricultural development, especially the food processing industry, both help change the situation of the backward, small-scale, scattered and unorganized agricultural industry. Improve the ability to apply improved technical measures, management processes, international standards on food hygiene, animal and plant quarantine measures, etc. to help agricultural products meet the requirements of SPS conditions in strict markets.

**In summary**, besides the successful lessons, Thailand's agricultural exports also have limitations such as growth in breadth, not really associated with sustainable growth and development. Many aspects are also not taken into account such as the effects of political risks that impede the set goals. Social issues have not been paid adequate attention, ensuring safety for producers and food safety is still limited, causing a lot of damage to producers and exporters of agricultural products. In particular, the limitations of resources such as lack of comprehensive managers, weak management system, fragmented arable land, short-term profits are not fully anticipated.

Viet Nam needs to carefully consider the differences from Thailand as well as the appropriate timing to apply policies to get flexible and effective solutions in exporting sustainable agricultural products. Meanwhile, it is necessary to analyse the specific context, with identified advantages and disadvantages, to be able to apply and find appropriate solutions and achieve the desired results, towards the goal of sustainable development.

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# SINGAPORE'S LOGISTICS INFRASTRUCTURE DEVELOPMENT AND LESSONS FOR VIET NAM

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## **Abstract**

*Singapore demonstrates one of the most successful models in logistics service development in the region and the world. When it gained independence in 1965, Singapore had limited income and natural resources. It also lacked basic infrastructure. Singapore has now risen to become an "Asian Dragon" economically with one of the most advanced logistics systems in the world (in the Top 5 of the Logistics Performance Index - LPI – published by the World Bank). To achieve such success, one of the fundamental factors is that the Singaporean Government has set out and prioritized the implementation of the strategy to develop the logistics infrastructure system. Within the scope of this research, we focus on three essential aspects: (i) the geographical and socio-economic characteristics of Singapore, (ii) critical ingredients of Singapore's logistics infrastructure development, and (iii) lessons for Viet Nam. Infrastructure planning and development and Singapore's policies for the logistics infrastructure system are more synchronous than Viet Nam's logistics infrastructure development for seaports, roads, waterways, and airways. There were also issues in coordinating government policies in developing Viet Nam's logistics infrastructure system. By studying Singapore's logistics infrastructure development experience, we can learn practical lessons for Viet Nam.*

Keywords: Experience, logistics infrastructure, Singapore, Viet Nam

## **I. GEOGRAPHICAL, POLITICAL AND SOCIO-ECONOMIC CHARACTERISTICS OF SINGAPORE**

Singapore is an island nation located off the southern tip of the Malay Peninsula and 137 km north of the equator. The territory of Singapore consists of a diamond-shaped main island and 63 large and small islands. Singapore is separated from Malaysia by the Johor Strait to the north and from the Riau Islands of Indonesia through the Singapore Strait to the south. Singapore has continuously expanded its territory through land reclamation: Land taken from the hills, the seabed and neighbouring countries. As a result, Singapore's land area has increased from 581.5 km<sup>2</sup> in the 1960s to 697.25 km today and is expected to increase by another 100 km by 2030. Singapore is a maritime country with a long coastline. 150.5 km and is one of the world's major commercial centres, with the status of the fourth largest financial centre and one of the busiest seaports in the world.

Singapore has almost no resources; Most raw materials have to be imported from abroad. Singapore has only a small amount of coal, lead, lava, and clay; no fresh water; arable land is narrow, mainly for growing rubber, coconut, vegetables and fruit trees, so agriculture is not developed, every year food and food must be imported to meet domestic demand. However, Singapore has infrastructure and some of the leading developed industries in Asia

and the world such as: seaports, shipbuilding and repair industry, oil refining industry, processing and assembly of fine machinery. Because; is a leading country in the production of electronic computer drives and semiconductors. In addition, Singapore is a leading oil refining and transit hub in Asia and a leader in the transition to a knowledge economy. As of 2020, the population of Singapore is about 5.8 million people, of which: 3.5 million (accounting for 60%) are Singaporean nationals, the rest (40%) are permanent residents or foreigners working. Nearly 25% of Singapore's population was not born on the island of lions, but was born in all parts of the world and then followed their parents or came to Singapore to live on their own. The average age of Singaporeans is 42.20 and the average number of family members is 3.5. Singapore has the largest population density in ASEAN at 7,833 people/km<sup>2</sup> (in 2018), while this figure of Laos is the lowest at 29 people/km<sup>2</sup> and Viet Nam 286 people/km<sup>2</sup>. High population density, narrow land area and no agricultural land place great pressure on Singapore to have no other choice but to invest in fully exploiting the advantage of favourable geographical position in a large transshipment seaport. Southeast Asia to develop into one of the highest income countries in the world. Very high incomes from the logistics industry, ship repair, international financial services create conditions to have financial resources to import all kinds of essential products of the economy, including importing water for domestic use. daily life of the population.

## **II. SINGAPORE 'S LOGISTICS INFRASTRUCTURE DEVELOPMENT**

### **2.1. Government policies**

Taking advantage of its strategic location on international maritime and air routes, Singapore has rapidly developed into a transshipment hub that plays the role of a transshipment hub for container and air freight routes. From there, creating conditions for Singapore to build a distribution and transportation network to become one of the leading logistics centres in the world. Along with Hong Kong, Taiwan, Singapore has become one of the focuses of international consolidation activities for countries in South Asia, East Asia and China. Goods from these countries will be shipped to Singapore for consolidation and transshipment around the world. Major logistics companies in the world such as APL logistics, Exel logistics, Maersk logistics all have regional management offices in Singapore and currently there are more than 3,000 logistics companies operating here.

In 2001, the Singapore Government established the Economic Review Committee (ERC) and the National Trade Commission with the main task of planning and drafting strategies for the development of key economic sectors and controlling examine economic activities on the island nation. This strategy was developed by the WGL (Working Group on Logistics) logistics research group. The Singapore government has been very successful in creating a cost-effective, transparent and stable environment for foreign business activities by investing in world-class infrastructure development and implementing tax incentives such as tax reduction on profits, tax exemption, investment credit, tax exemption for venture capital, etc. Besides, Singapore attracts foreign investors, establishes centres for buying, selling, advertising and distributing goods thanks to transparent foreign investment laws, reasonable and effective administrative mechanisms. Therefore, the necessary conditions to promote business activities in Singapore to develop more and more well. In terms of criteria including: Customs procedures, logistics costs, and quality of infrastructure. The World Bank (WB) ranked Singapore first in the logistics performance index (logistics Performance Index). ,

followed by Japan 6/150, China 21/150, Korea 25/150. Singapore is one of the ASEAN countries with the most liberal foreign investment laws and regulations. As an open economy, relying more heavily on foreign capital than any other Southeast Asian country, Singapore has the most liberal policies towards foreign business ownership, without any preconditions. There are no special rules for foreign investors, except investment in the banking industry and commissions and brokerage fees. Singapore is aggressively implementing a policy of liberalization and easing towards foreign investment in the banking industry. There are no restrictions on foreign investors participating in the public telecommunications and postal industries. An overview report on the promotion and policies of foreign investment of ASEAN countries has affirmed that Singapore has the most pro-business policy.

To solve the problem of capital for infrastructure investment, the Singapore Government has issued government bonds to mobilize capital. In 2001, investment capital from government bonds amounted to S\$92 billion. In addition, the Government also introduced a compulsory savings scheme for all Singapore workers managed by the Central Provident Fund of Singapore (CPF). This fund operates on a fully funded basis. After retirement, Singaporeans enjoy tax-free benefits based on past contributions plus interest. In recent years, the Singapore government has mainly used the above capital sources to invest in the synchronous development of the infrastructure system: Building a transit port system, modern highways, and the world's best Changi airport, logistics centres as well as infrastructure for modern telecommunications and fibre optic industries. In addition, Singapore also implemented a tax cut strategy to both boost the macro economy and attract foreign investors. As a result, many foreign investors have invested in Singapore, creating a stable source of goods for ports to operate. On the other hand, the preferential tariff policy has brought to Singapore a large volume of transshipment containers from other countries in the region.

## **2.2. Seaport system**

The Port of Singapore (PSA - Port of Singapore Authority) is strategically located on the international maritime routes between the Indian Ocean and the Pacific Ocean, receiving special favour and attention from the Singapore Government in implementing the development containers, logistics and trade liberalization, as well as the management of the island nation's maritime operations. Promoting the advantage of location is located right at the "equator", not threatened by thunderstorms or bad weather. Ports and airports operate almost all year round, convenient for loading and unloading goods, PSA deploys construction and development of seaports with modern and perfect infrastructure, ready to receive ships from five continents.

Every day, Singapore has 11 million domestic and international freight and passenger trips. The seaport throughput in 2010 was 503 million tons of goods, including 28.4 million TEUs, annually 140,000 ships docked and became the world's No. 1 transshipment port. From 2005 to 2010 PSA was the world's leading container port, accounting for 1/6 of global volume, 1.2 million TEUs of frozen goods handled here, serving 200 international shipping lines and connecting with 600 international shipping lines and seaports of 123 countries. In addition, PSA also manages 4 regional and global distribution centres (Distripart) with 600,000m<sup>3</sup>. Singapore promulgates policies and mechanisms appropriate to each stage of economic growth. From seaports (seaports), logistics centres (logistics centres), free trade centres (FTZs) to regional distribution centres (Distripart), Singapore has been upgraded to a global level due to updating and change according to the development trend of the world. The

success of the policies of computerized country, containerized seaports and global logistics is an important premise to turn Singapore's logistics industry into a logistics service industry contributing to the rate of 7% GDP/year. Currently, there are 25 leading 3PL service providers in the world and 17 LSPs operating in Singapore, notably DB Schenker which manages 11,000 employees DHL has 30,000 employees.

The Government manages, plans and develops an efficient seaport service system. In the current port management and seaport services, Singapore applies two models. With a port owner management model, the port authority owns and maintains the port facilities but is not involved in port services and terminal operations. In other words, the port authority is the one who owns and maintains the port facilities but leases them to the private sector to perform port services such as loading, unloading, forwarding, and warehousing. As for the commercialized model of port management, a commercial company owns and operates the port facilities by itself or leases it to another unit for exploitation. The government becomes an independent and private entity but the Government owns it all. Accordingly, a wholly state-owned company (Temasek Holdings Company) owns 100% of the shares of PSA Company. PSA operates container terminals at Brani, Keppel and Tanjong Pagar, three areas where PSA has particularly focused on facilities to further improve service quality. Singapore Port also has a free trade zone operating since 1969. In the above zones, there are a lot of equipment and services for transporting goods into warehouses and re-exporting goods after inspection and paying taxes with minimum customs procedures. In the policy of competing with ports in the region, Singapore takes service quality as a driving force for competition, not reducing service prices.

### **2.3. Transportation system**

Transport is one of the main catalysts for economic development and international competition, serving as an important logistics service sector. Transport is a large logistics service industry including sub-sectors such as road transport, air transport, and maritime. To achieve the goal of increasing the volume of freight in the region by rail, monthly In April 2007, the Singapore government decided to invest USD12 billion in the 40 km Downtown Line and strives to reduce the completion time of this project from 2018 to 2016. In January 2008, the Minister of Transport of Singapore, Mr. Raymond Lim has decided to invest USD14 billion to upgrade the public railway network in the country. These new railway lines will be completed in 2018, adding 48 km to the existing domestic railway network. Singapore is also in the process of building another railway line, the Circle Line, which is 33 km long. Along with the new rail lines, Singapore plans to expand two of the three existing rail lines. Besides, Singapore also upgraded the public bus system.

The expressway system is a part of the transportation infrastructure. In 2008, the Singapore government decided to spend USD28 billion to expand the MRT system. Currently, Singapore has 3 MRT lines with a total length of 138 km. In 2009, another 33 km long MRT line with 29 stations was inaugurated and 2 passenger lines under construction will be completed in the next few years. In addition, a 27 km long Thomson Line expressway with 18 stations connecting Woodlands to the north and Marina Bay to the south will be completed in 2018. The 21 km Eastern Region Line connects Marina Bay with Changi International Airport completed in 2020.



## **2.4. Warehouse system**

Singapore has built a nationwide warehouse system and is constantly modernizing with high standards. This is also a key factor for Singapore's logistics development. Singapore's warehouse management process is also very modern, simple and fast. The use of e-commerce solutions helps the Singapore warehouse system provide maximum logistics services and allows customers to track goods easily and accurately to the minute. Moreover, the warehouse price of Singapore is also considered relatively cheap compared to the world. In addition to storage, warehouses in Singapore also provide additional services such as: receiving and exporting goods, picking and packing, sending goods by sea or air, inventory management. Bonded warehouses Singapore's infrastructure is regularly improved to provide better and faster services, thus creating the most favourable conditions for international logistics in transshipment of temporarily imported goods for re-export.

The investment in modern infrastructure, airports, roads, ports, and warehouses has contributed to cutting logistics costs, promoting the optimization process from input to output of logistics activities. in Singapore. Due to the special economic structure with the proportion of agriculture close to zero, investment capital is focused on industrial development and services, including logistics services. Besides, Singapore has a very high reputation in the organization of the global financial trading system. Many large financial investors from other countries moved their capital to the Singapore stock market, especially during the financial crisis and global economic downturn in 2008. Sources of investment in infrastructure development is attracted through taking advantage of the global financial hub. Therefore, Singapore always has abundant capital available, available at optimal cost to modernize its infrastructure according to the most modern infrastructure investment models in the world. In addition, with the very high innovation capacity of high-quality human resources, Singapore has created conditions for Singapore to offer optimal solutions for infrastructure development in the context of a particularly tight land area. The current seaports of Singapore are under the management of the Port Authority of Singapore (PSA). PSA is responsible for overseeing the entry and exit of ships, loading and unloading of goods and warehouses, and regulating vehicles moving on the ground. The whole process is monitored and arranged by the most modern computer system in the world. According to calculations, the average PSA has to circulate up to 91,000 containers every day - equivalent to 60 ships entering and leaving the port, of which 5% of the cargo will be consumed in Singapore, the remaining 95% will continue to be shipped to multiple locations worldwide through the supply chain. In 2015 alone, the volume of goods transported by sea through Singapore amounted to 32.2 million TEUs.

## **2.5. Information technology system**

Logistics services cannot be developed without information technology. The remarkable advancement of information technology has made it possible for logistics service businesses to gather information, process and exchange information in the process of transporting goods and documents easily. The current situation of ASEAN's information and telecommunications technology development in terms of criteria such as the number of screens, the number of mobile and fixed phones, and the number of internet users are very different. Singapore, Brunei and Malaysia have a relatively high overall rating, double the average of Myanmar, Laos and Cambodia, only 1.5. Information and communication technology (ICT) is the most convenient technology to help the logistics service industry reduce costs and exchange information quickly and accurately to help logistics services operate in harmony, according to

the motto is right quantity, right place, right time. Singapore has the freest ICT market in the region and is considered a leader in the IT sector. In fact, Singapore is considered to be one of the most developed information technology countries in the world.

In 2000, Singapore completely liberalized the telecommunications sector in order to secure its status as an important information and communication hub in Asia. UPS is also consolidating its presence in Singapore. In 2006, UPS opened a large logistics centre close to Changi Airport for air and sea freight. In 2007, UPS increased its round-the-world flights from 11 to 16 weekly with the launch of five MS-a weekly flights connecting Singapore with the Middle East, Asia and the US. UPS says the new service allows UP to deliver collection times later than 20 hours for customers in Singapore and offers more shipping to meet customer demand.

## **2.6. Singapore Customs and its Service Automation**

Customs is one of the key factors to promote the economy, create favourable conditions for import and export activities, reduce the time of goods kept in ports, reduce the time of storage and warehousing, and reduce the amount of money in storage and handling yards, reducing time for paperwork. The result is reduced logistics costs. Singapore Customs is one of the most modern customs offices in Asia. With the process of reform and modernization, in which customs procedures are automated, Singapore customs has played a large role in economic growth and trade.

The automation system of Singapore Customs is built and operated according to a centralized processing model, including 2 main systems: Front-end system and back-end system. Front - end system uses TradeNet network built and managed by CrimsonLoigc Company. Through the TradeNet network, enterprises conduct electronic customs procedures in a single window with the customs authority. The one-stop customs clearance operation of goods quickly accelerates the release of goods, positively contributing to the process of forming the ASEAN Economic Community. Singapore's customs procedures policies are transparent with clear, strict regulations and quick enforcement. In addition, through the Trade Net network, the customs process is automated, making goods easier to clear, facilitating import and export activities, reducing the time to store goods at the port, reducing The time and cost of storage and warehousing thus created the most favourable conditions for commercial activities and transshipment of goods in Singapore.

## **III. LESSONS FOR VIET NAM IN DEVELOPING LOGISTICS INFRASTRUCTURE**

Viet Nam is a country with an average economic growth rate of 6.5% continuously for 30 years and has an import-export scale ranked 22nd in the literary world in 2020. Viet Nam's current economic development level is higher than that of Singapore measured on the independence day in 1965. Viet Nam needs a developed and modernized infrastructure not only to serve long-term socio-economic development goals but also to develop logistics, increasing the contribution of the logistics industry to economic development. About the last 5 years, Viet Nam has only realized the importance of logistics infrastructure in creating value in the market economy, increasing national competitiveness, commodity competition and business costs. According to preliminary calculations, logistics costs in Viet Nam are quite high and that is the cause of the low efficiency of the entire economy. At the same time, the

cost of logistics services in logistics costs is also not small, showing the need to improve this logistics service in Viet Nam. This is also an opportunity for the logistics industry to thrive. In 2020, the admission score and the "Logistics and Supply Chain Management" major were the highest at the National Economics University - a leading university in economics, management and business administration in Viet Nam. This is a signal that the market is moving towards the logistics industry, starting with the development of logistics infrastructure and services in Viet Nam. Viet Nam is focusing on investing in Long Thanh airport - the most modern airport in Southeast Asia and is building at least 5000 km of highways to serve the development needs of the logistics industry as well as the economy.

Through studying the experience of developing logistics infrastructure from the case of Singapore - one of the most successful models in the world above, the author draws lessons from experience in developing logistics infrastructure for Viet Nam as follows:

*Firstly*, the Government of Viet Nam needs a fundamental change in development thinking, placing a strong emphasis on developing high-quality and modern logistics service infrastructure in the process of transforming the economic growth model from the traditional economic structure to the innovative and creative economic structure, adjusting the master plan on the economic sector development structure towards commercialization, value creation, making great contributions to the economy, job creation, and long-term economic development engine. Investing in the development of logistics infrastructure is not only to provide ordinary public services but also to create a foundation for the development of value-added services, especially logistics services. The more this service is developed, the more its scope is expanded, the greater the added value obtained. From there, it is necessary to define clear guidelines, policies and strategies on the development of key economic sectors.

*Secondly*, taking advantage of Viet Nam's important strategic position in Southeast Asia, defining a plan and goal of turning Viet Nam into a hub for transshipment of goods, acting as a focal point for transshipment routes. air, maritime, road and rail transport between China and ASEAN countries, Viet Nam and other countries inside and outside the region. Viet Nam has great potential in supplying a large volume of exports and imports with a scale of about USD1 trillion by 2025, and is also a neighbouring country with China - the world's largest consortium with GDP is gradually the largest in the world. It is an important base to facilitate the construction of a transport distribution network, becoming a leading logistics centre in the region and the world.

*Thirdly*, Viet Nam needs to strongly develop the domestic capital market in connection with the international capital market to ensure the necessary and sufficient financial resources to realize the strategic objectives of the development of the logistics industry. Focus on developing diversified investment sources for infrastructure development and logistics services such as central and local state budgets, private sources in the form of public-private partnerships, main sources of official development assistance (ODA), foreign direct investment, commercial loans in the capital market and other sources of socialization. It is necessary to strongly develop the capital market according to new trends to serve the goal of developing the logistics industry, the general development trend of the region and the world. Singapore's experience of mobilizing investment capital in the market for infrastructure development and logistics services needs to be fully studied and learned.

*Fourthly*, in terms of infrastructure development for logistics activities, Viet Nam needs to encourage private enterprises and foreign enterprises with potential for construction

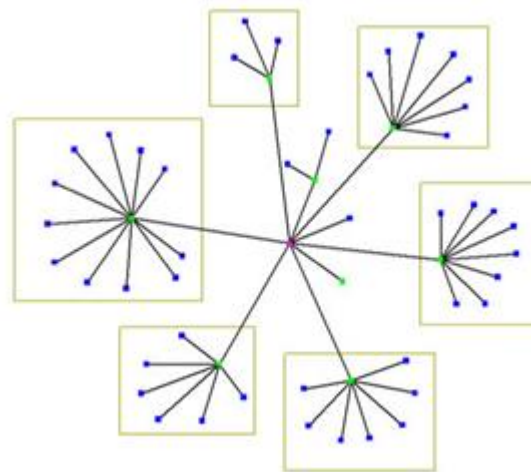
investment. In the transport infrastructure system development strategy to 2020 of the Ministry of Transport, the capital requirement for development from the State budget accounts for about 2.3% of GDP compared to the minimum requirement of 3.3% - 5% of GDP. Funds to make up for this shortfall will come from potential private and foreign enterprises. The problem is that the policy must create specific and attractive conditions for investors. These businesses can not only make up for the shortfall in capital, but can also make an important contribution with management skills, technology and experience to build and operate infrastructure systems efficiently.

*Fifthly*, it is necessary to have a system connection approach according to the largest-scale logistics network and supply chain so that logistics services can be organized and implemented most smoothly on the basis of the most modern infrastructure system. One of Singapore's successes is the development of infrastructure in an open direction to easily and conveniently connect with international partners on seaports along a fully defined and clear maritime route of information and systems, effective navigator. The advantage of a deep-water port is a convenient navigation system and an international-standard service system, not only in terms of ship repair, the fastest and most scientific service, but also ensuring service delivery, accommodation, meals, entertainment activities. Singapore develops the second largest casino in the world and this is one of the important infrastructure, additional and logistics infrastructure services, enhancing value-added services associated with logistics services. Foreign ships to Singapore in bulk. a large number of sailors can go ashore to enjoy entertainment services. Therefore, logistics infrastructure needs to be linked with the formation of logistics supply chains such as trade centres, high-class entertainment areas, luxury accommodation, dining, high-class hotels, and restaurants, international standard goods and tourist spots.

*Sixthly*, it is necessary to strongly develop logistics science to form a system of specialized logistics sub-sectors such as infrastructure logistics, service logistics, and narrow logistics sub-sectors such as forwarding, transportation, logistics, and tax services, customs, reverse logistics, green logistics, sustainable logistics. The deeper the development of the sub-sector, the more professional it is required and creating conditions for the logistics infrastructure to develop in accordance with its nature and purpose. The development of sub-sectors also facilitates the development of a training system suitable for specialized development, forming a specialized logistics human resource market.

From the experience of the above countries, it can be seen that investing in infrastructure for the logistics industry is the first thing that Viet Nam needs to do. Viet Nam needs a long-term infrastructure development plan and determination to implement it. Due to limited resources, it is difficult for Viet Nam at this time to invest in developing its entire infrastructure. However, if you look closely, Viet Nam needs to learn from Thailand in railway development, with the advantages of rail transport will help reduce logistics costs. When the railway system improves, the implementation of multimodal transport will be more convenient. Viet Nam can follow the Hub - and - spoke logistics model, but no longer follow the star model. Viet Nam should prioritize the selection of railway sections with high freight traffic for upgrading, such as the Hanoi - Lao Cai section connecting Viet Nam with China, Hanoi - Quang Ninh, Hanoi - Hai Phong, and Hanoi. Hanoi - Thai Nguyen, Hanoi - Ha Nam, Hanoi - Vinh Phuc, Hanoi - Thanh Hoa. These railway lines connect Hanoi with the main industrial zones in northern Viet Nam.

**Figure 1. Logistic organization according to Hub - and Spoke model in Northern Viet Nam**



As for the Central region, the section that needs upgrading is Da Nang - Phu Yen, in the South is Ho Chi Minh City - Binh Duong.

Next, Viet Nam needs to upgrade its logistics centre system to meet the requirements of a logistics hub. From communication infrastructure, warehousing system, it is necessary to have more specialized warehouses such as frozen storage, petroleum storage, and drying warehouse. Logistics centre management method should also be learned from other countries in the region, especially management experience from Singapore. This model needs to make full use of the latest achievements of the 4.0 industrial revolution, using augmented reality technology and big data. The internet connects things, artificial intelligence and information technology platforms, the most favourable applications to build smart and lean logistics service handling models.

**Figure 2. Logistics centre model**



*Source: Logistic management, 2009*

Human resources are the key to success, therefore, improving the quality of the management team and employees in the development of the logistics industry also needs to be done in parallel with the infrastructure upgrade. The domestic training institutions themselves also lack experienced people in the field of logistics to be able to teach. Therefore, it is necessary to add new experts from countries in the region to train human resources for the logistics industry in the present time.

Customs clearance procedures need to be simplified and made faster with the help of information technology. This needs to be learned from Singapore's method, because if Viet Nam cannot carry out customs clearance procedures more efficiently, then when ASEAN becomes a customs union in 2018, goods entering Viet Nam will go through other ASEAN countries. This will cause a lot of damage to Viet Nam.

It will focus on building a number of large logistics centres and promoting cooperation with foreign partners, including Singapore, on the basis of the Viet Nam - Singapore strategic partnership. Invest in building at least 3 logistics centres in 3 regions. The logistics centre in the North needs to be located in the northern key economic region connecting with other localities in the region. The central logistics centre can be located in Da Nang and the southern logistics centre can be located near Cat Lai port, where the density of goods traded is the largest. It can be said that each country with different geographical locations and socio-economic characteristics will choose for themselves different management models and investment priorities in the process of developing seaport services. These countries have succeeded in developing seaport services.

### **Conclusion**

As Viet Nam is increasingly integrating with the world, international trade relations between Viet Nam and countries in the region and the world are developing rapidly. To support Viet Nam's integration, it is essential to develop logistics services to facilitate its trade with other countries. A prerequisite to that is the good planning to build logistics infrastructure to connect logistics centres and industrial parks. Traffic systems by road, railway, sea, and air as well as warehouse systems and wharves are all necessary to serve the supply chain of goods quickly and most effectively. An important lesson from Singapore government's experience in infrastructure development is that infrastructure development must be an integral part of overall logistics networks' planning, involving private sector participation. Public investment in logistics infrastructure has to be complemented by the private sector as the Singapore Government has done. In addition, it is necessary to focus on information technology infrastructure and smart procedures. Viet Nam's logistics infrastructure involves seaports, roads, and airway networks as in Singapore. Based on the similarities analyzed above, we believe that lessons from Singapore's logistics infrastructure development can be applied in Viet Nam.

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# **SERVICES PROVIDED CAPACITY OF INTERNATIONAL LOGISTICS BUSINESSES AND EXPERIENCE FOR VIETNAM LOGISTICS BUSINESSES**

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## **Abstract**

*Currently, Vietnamese logistics enterprises are facing big challenges from the integration process and the rapid change of the 4th industrial revolution. Without appropriate adjustments, domestic logistics enterprises will increasingly lag and the gap with international logistics enterprises will be further and further away. The article focuses on researching and evaluating the service delivery capacity of three international logistics service providers including: UPS, FedEx and Maersk, these are successful enterprises in the logistics field with large market shares, prestige and great influence in the logistics field in the world, from that, there are lessons to Vietnamese logistics enterprises to improve service delivery capacity and increase competitiveness on the market.*

**Keywords:** Supply capacity, logistics enterprises, UPS, FedEx, Maersk, Vietnam.

## **1. LOGISTICS SERVICE SUPPLY CAPACITY OF UNITED PARCEL SERVICE (UPS)**

UPS with its full name is United Parcel Service, headquartered in Atlanta - United States, was established on August 28, 1907. With operations in over 220 countries and territories, UPS provides key products including: Courier services, shipping services, heavy goods transportation, distribution, international trade management and customs brokerage. UPS has built infrastructure around the world to serve the transportation and storage of goods. In parallel, UPS expands its portfolio of quality products and services globally to increase cost efficiency and technology. UPS has taken on its supply chain management, supplying small and medium-sized companies in over 220 countries and territories, with more than 35 million square feet of distribution space, over 800 facilities worldwide. In addition, UPS focuses on redesigning supply chains, international trade services, and management solutions for their customers.

UPS has a wide network of connections with more than 800 facilities in 220 countries and territories. In 2012, ranked 8th in the top 50 global 3PL companies. For advantages, UPS has signed service contracts for multinational companies and corporations around the world. Due to the characteristics of logistics services and a wide connection network, the goods sent by customers are controlled and tracked in more detail. When there is any happening, customers are quickly updated with information and will be resolved by UPS in the shortest time and responsibly.

UPS has more than 500 aircraft, operating at 374 domestic airports and 313 international airports. Each aircraft type has different cargo capacity, maximum range and



speed and can only fly to a few airports. Therefore, the planning of flight routes is extremely complicated. In the past, UPS used to do manual planning which often took a long time, but in 1994, UPS collaborated and studied an optimized model (known as the Volcano file). In this model, the matrix setup includes the possible routes for each of the different aircraft. In addition, the matrix also results in more than one route for each aircraft on the basis of matching cargo capacity, speed, range and aerodrome, and the cost for each route is also determined. The goal is to include all sectors to ensure that the total cost of the routes is minimized. Using Volcano resulted in UPS savings of more than \$87 million between 2000 and 2002. UPS estimates additional savings of more than \$189 million in subsequent years.

To serve the growing demand for air freight, UPS has ordered 14 new Boeing 747-8 cargo planes. UPS's long-term strategy is to expand its customers' market reach, in which air freight will be the growth engine for the company. These 747-8 aircraft will enable UPS to start a chain of aircraft re-routing, dramatically boosting air freight capacity on key routes, thereby optimizing the capacity of the global airspace network beyond the impact of the importation of new cargo planes. There are 14 aircrafts delivered between 2017 and 2020, these large transport aircraft will join the company's fleet of more than 500 aircraft currently in service. The 747-8 freighters are able to carry 34 containers of containers in the main compartment and 14 in the rear compartments with a cargo capacity of up to 308,600 pounds, or 30,000 packages, with a range of 4,340 nautical miles.

UPS just announced a successful test of delivery by drones that take off from the roof of a parcel truck, with the ability to automatically deliver a package to a certain address and then, automatically return to the parcel truck when the truck is still continuing its journey to another address. The drone is capable of flying continuously for 30 minutes, can lift packages with a maximum weight of 4.53kg and will be charged when parked on the roof of a truck. Leveraging drones will be especially effective in rural areas, where the distance between delivery points is longer than in the city.

In addition, UPS also applies many modern technologies in global freight operations such as: the DIAD tool is a type of modern device used to track the delivery of more than 15 million goods per day across the world. worldwide, smart merchandise labels to track shipping, 2 global information hubs, electronic invoice processing technology, UPS website in 12 different Asian languages to Update and track all information related to customers' goods. UPS has invested more than 1 billion USD in the application of technology throughout the system, in order to increase the value of services. Typically, at UPS's main air freight control center (in Worldport, Louisville, Kentucky - USA), the equipment system here can arrange delivery schedules of up to 416,000 packages / hour. In addition, to increase its advantage, UPS is using the idea of "cloud computing" in its global operations and sees this as a trend that can reshape logistics in the future. This makes it easier and quicker to share information about your shipments, provide more accurate delivery time forecasts, reduce excess inventory, and avoid surprises.

**Overall assessment:** With strategy and investment in technology towards the goal of sustainable development, UPS is no longer just a mere logistics supplier, but also a reliable partner, always accompanying customers and partners. In Vietnam, investment in technology and applications has contributed greatly, creating an average growth rate of 8% per year. This is evidenced by the recognition of trust from many partners, as well as affirming UPS's growing position in the market.

## 2. FEDEX CORPORATION 'S SERVICE DELIVERY CAPACITY

FedEx Corporation was founded in 1973, with headquarters in Memphis, Tennessee, United States. FedEx currently operates in 220 countries and territories, providing services such as: supply chain solutions, specialty shipping, cross-border e-commerce technology services, customs brokerage and trade management tools and data.

FedEx's business strategy is built with the core of creating the power to compete, operate independently and manage cooperatively. FedEx's unique operational strategy takes place on all three levels simultaneously:

- Compete collectively by building a global brand with a common voice.
- Operate independently by focusing on independent areas to meet the different requirements of customers.
- Collaborative management by working together to maintain a loyal bond between employees, customers and investors.

Each FedEx member companies are in charge of a separate business. FedEx Express, the largest member company in charge of the air freight market and shipping items such as medical and surgical equipment. FedEx Ground provides ground transportation with a focus on retail. FedEx Freight, specializes in large-scale industrial freight services. FedEx Services provides functions such as information technology (with approximately 7,000 IT professionals), marketing, and human resources. The company FedEx Office provides printing and delivery services.

FedEx offers customers worldwide a wide range of freight services with annual sales of up to \$65 billion. In the field of international express delivery, FedEx is recognized as a reputable brand that can stand up to all three factors: product innovation, service standards and market coverage. FedEx's two core strengths are: (i) *Well-developed infrastructure* with a large number of freight vehicles. (ii) *Wide coverage, connecting continents*: Asia, Europe, America, Africa, Australia, North America. To achieve such successes, FedEx's business strategy focuses its resources on:

(a) The investment in modern infrastructure & equipment helps FedEx's service delivery process to create excellence, specifically:

In the Pacific region, FedEx is constantly trying to improve and upgrade service quality. In 2018, the airline announced a new route connecting Hanoi with the FedEx Asia hub (Guangzhou, China). This improvement has significantly improved the transportation time of goods from Vietnam to Asian countries. The time to send goods from Hanoi to countries in Asia such as Japan, Singapore, Malaysia, Taiwan, Philippines, China, Thailand, and Korea. only takes 1 working day. Delivery time from Hanoi to countries in Europe and North America only takes 2-3 working days. The opening of new routes will help FedEx maintain a competitive edge over other major carriers such as DHL and UPS. The biggest beneficiaries are customers when new routes give better service quality while transportation costs do not increase.

In Singapore, FedEx built a logistics centre at Changi Airport. At this centre, it could contain 280 delivery vehicles at the same time and has a 12-gate automatic sorting system with the capacity to sort 12,000 parcels per hour. The infrastructure of the FedEx South Pacific Regional Hub includes two aircraft landing sites serving the weekly FedEx 34 flights to and from Singapore. The distance from the FedEx aircraft to the FedEx processing facility

is so close that it takes less than 4 minutes for the FedEx container to be delivered to the sorting line as soon as it is unloaded from the aircraft. Thus, the company will control from the beginning to the end of the process of transporting goods to customers.

(b) Regularly raise service standards, control quality and improve service delivery processes:

FedEx's starting point was from overnight mail, it was also the first express delivery company to offer overnight packed shipping and delivery before 10am the next day. FedEx was also the first company to offer definite hourly shipping and offer free return or reshipping. FedEx products include international door-to-door, time-determined international shipping services, as well as demanding packages such as: urgent gifts, fragile scientific equipment, bulky and dangerous goods. Each package shipped is checked by FedEx an average of 17 times per trip to ensure that customers can easily track the exact location of each package through checking email, accessing the Internet or calling services 24h/day.

Service quality is an issue that is always discussed at senior staff meetings at FedEx, each department has at least one person responsible for quality. FedEx offers a 100% on-time commitment and maintains 100% accuracy of all information associated with each package, FedEx's goal is to create 100% customer satisfaction to the final destination of each shipment.

(c) Constantly interested in technology & innovation:

As mentioned, FedEx is the world's leading company in applying technological innovations in its production and business activities. Some specific examples: being the first to use television commercials (1975); Leading the way in repealing air cargo laws (1977); The first company to apply electronic communication systems in trucks (1980); First introduced overnight mail (1981); Computer-based sea-shipping system (1984); Code scanning system on the handlebar (1986); Merger of domestic and international networks (1989); First service company to win the Malcolm Baldrige Award (1990); The first company to apply an online tracking system (1994); The company launched a pilot program to use blockchain to store data and resolve disputes; join the blockchain alliance in transport (Blockchain in Transport Alliance - BiTA, 2018).

(d) M&A of other logistics companies for the purpose of expanding market share and improving competitiveness:

This activity holds a particularly important position in the business strategy of FedEx because it is able to take advantage of the available resources and relationships. FedEx also quickly considered acquiring local and international shipping companies to increase market share and thus improve profits significantly. This activity is carried out continuously by FedEx with a relatively high frequency, acquiring the Polish company Opek in January 2013; acquired French shipping company Tatex in May 2013. The benefit that FedEx has after these two acquisitions is that the company has been able to deliver about 12.5 million more shipments per year and increase annual revenue by about \$ 70 million. At the same time, Opek customers will have direct access to FedEx's global network. Additionally, following the merger, Tatex has helped add to FedEx a network of 35 shipping hubs, including 6 regional centres and one in the south of Paris. Thanks to this M&A strategy, FedEx's plan to expand its European network is increasingly successful. Next, in December 2014, FedEx continued to buy Bongo International, a provider of international e-commerce ordering and shipping services, and Genco Distribution Systems, a logistics service provider

specializing returned product. Also in 2014, FedEx continued its strategy of acquiring TNT Express from the Netherlands. The transfer value is up to 4.4 billion Euro. Overall, the acquisition of TNT means FedEx has about 58,000 more employees and 550 warehouses, making it very convenient to build a road network in Europe to add to the international express delivery system. After this acquisition, FedEx is estimated to hold about 17% of the European market, compared with 16% of UPS and 19% of DHL.

Previously, Fedex international express focused on the high-end customer segment with outstanding service in terms of time, packaging and customer care. After the TNT acquisition, Fedex continues to target the mid- and low-end customer segments who have international express delivery needs but have limited budgets.

In addition, FedEx quickly adapts to the local culture in the new market by carefully researching the needs of each region and hiring local professionals and consultants.

**Overall assessment:** The synchronous implementation of investment in infrastructure and equipment system; regularly improve service quality; constant interest in technology and innovation; Expanding market share through methodical mergers and acquisitions strategies has helped FedEx grow at an average rate of 13.5% per year and today, FedEx is one of the reputable express delivery service providers which is the best in the world.

### **III. MAERSK'S ABILITY TO PROVIDE LOGISTICS SERVICES**

Maersk was founded in 1904, with headquarters in Copenhagen, Denmark. In addition, Maersk is present in 121 countries and territories, active in 343 seaports worldwide. With Maersk's global business philosophy, which is determined not only to transport goods from one seaport to another, but more importantly, to help customers save costs, bring goods to consumers in the most convenience way.

The main success of Maersk comes from constantly developing core competencies and making a difference as well as winning the trust of customers. The components that make up Maersk's core competencies:

- With offices in more than 130 countries around the world, creating a complete, consistent and unified system that helps customers access Maersk's values everywhere.

- Maersk owns 550 ships and 50 chartered container ships, including some of the world's largest vessels of the Panamax type (320m x 33.53m) and the Emma Maersk ship (397.71m x 56.4m, tonnage of 11,000 TEU). This fleet can go to seaports around the world, with a stable schedule. With this extensive network of operations, it is possible to respond more quickly to requests for goods. According to a recent study by Drewry Maritime Research's Container Insight, Maersk's average vessel size on the routes is at 8,850 TEUs compared to the average of other carriers of 6,490 TEUs, 32% larger than ships of other firms. This means that Maersk's shipping capacity and freight rates will be superior to other competitors in the market.

- Maersk is equipped with special equipment that helps to provide information about goods at any time and place customers need in a short period of time.

- Invest heavily in e-commerce and systems, thereby creating utility values for customers.

- Maersk's knowledge and experience in the shipping industry, formed and accumulated over a long period of time, helps Maersk become a professional service provider with complex modes of transportation.

Building on its core competencies and existing infrastructure, Maersk has expanded its core competencies to logistics. This is an activity to extend the arms of shipping lines to customers, creating a chain of continuous added values for customers. Providing logistics services helps Maersk offer a complete service solution, one point contact service. The components of Maersk logistics are as follows: helping customers track orders regularly and continuously; help customers track suppliers such as delivery progress to report to customers in time for quick solutions; helping customers manage foreign trade documents such as checking accuracy, helping customers have enough customs clearance procedures; Consolidation service helps customers save cost of goods, in addition, Maersk logistics also provides warehousing services and distribution solutions.

To improve its service delivery capacity, Maersk has introduced a policy of using larger vessels and prioritizing cargoes that do not require fast delivery to save costs. Maersk has built 20 more large ships of the “Triple-E” class that can transport up to 20,000 containers per vessel. In addition, Maersk came up with the idea of making ships in operation smarter, making better use of the capacity of the ships by seizing the opportunity in the digital age, ideas are realized by equipping ships with more data. At the same time, sensors are installed in the containers to track the location and the goods contained inside the containers. This makes it easier and faster for warehouses to handle ships arriving or leaving the berth. In addition, the information system is always updated and operates internal websites to help the company's information be conveyed to employees in the fastest and most accurate way such as information about train schedules, prices for sale departments or customer data for timely reference.

In addition, the quality of Maersk Logistics' staff is also of particular concern, they have used a globally consistent recruitment program to recruit staff to run the company's operations.

**Overall assessment:** In the face of fierce competition from competitors in the market, however, Maersk still affirms its position in the field of ocean transportation. Business results show that Maersk maintains an average growth rate of 11%/year, with the current sea freight market share of about 14.5% of the global market. In addition to long-term experiences in this field, Maersk has identified core competencies and developed them in the direction of constant improvement and innovation to keep up with trends and customer needs. . In addition to investing in equipment and machinery, Maersk focuses on human resources and information technology, thereby making the most of information technology to create competitive advantages and differences in supply service application.

#### **IV. LESSONS LEARNED FOR VIETNAMESE LOGISTICS ENTERPRISES**

UPS, FedEx and Maersk are all reputable companies operating on a global scale, growing at an average rate of 10% per year in the logistics sector. Each company has different business strategic orientations, its own way of approaching the market, but they all have one thing in common in business activities, which is regularly innovating the method of providing services with the goal of ensuring the quality of services, prestige, reliability, apply information technology and consider this as the key in improving service quality, using the strategy of mergers and acquisitions to expand markets and improve supply capacity services.

Below are the lessons learned through case studies of the three companies mentioned above and can be applied to Vietnamese logistics enterprises, especially large enterprises, capable of leading the logistics industry of Vietnam. Vietnam in the current context.

### **Lesson one, focus on investing in the resources of the business**

Focus on investing in resources to strengthen internal resources and overcome the internal weaknesses of domestic logistics enterprises compared to international competitors. Strengthening internal resources in terms of human resources, relationships and facilities will create conditions for Vietnamese logistics enterprises to overcome current weaknesses, gradually improve competitiveness, open expand the scope of activities and create a basis for establishing relationships between domestic and international businesses.

Logistics enterprises need to pay attention to the investment of tangible and intangible resources, this is the basic factor to create the capacity of each business. For large businesses, having a network of assets owned by them needs to have a connection with resources outside the business to best meet customer needs. Small and medium enterprises with few physical resources should focus more on human resources and information. In which, clearly defining the importance of key resources, having a strategy for integrating and deploying resources to form the core competence of the enterprise. Focusing on developing core competencies is an important factor for businesses to gain competitive advantage and maintain sustainable development.

For businesses that have their own assets such as distribution centres and warehouses, they aim to build a smart and flexible asset system. Logistics businesses should invest in the direction that is most suitable for the businesses themselves on the basis of size, modernity and can be upgraded to a higher standard in case of need.

In fact, it is difficult for any logistics enterprise to have enough resources to provide services in peak periods, such as the agricultural harvest season, leading to a sudden increase in demand for logistics services. Therefore, logistics businesses need to exploit and combine their resources with other partners' resources to reconnect when providing services. There must be flexibility in exploitation with domestic and foreign partners. The goal is to fill the gap between supply and demand for logistics services, because the peak period between regions and countries often does not happen at the same time, it may be peak here but not necessarily peak in other places. Therefore, logistics enterprises that build a network of partners that are both wide and diverse will contribute to strengthening and increasing relationship resources.

### **The second lesson focuses on expanding the scope of activities in the region and globally**

The success of logistics companies from abroad is having a worldwide network. Meanwhile, Vietnamese logistics enterprises mainly operate on a domestic scale or in Southeast Asia. A few of them have also established agents in some countries, but the level of activity is still low, the connection ability is still loose. Therefore, domestic logistics enterprises need to be proactive and have a plan to expand their activities not only in the region but also to direct their activities to a global scale.

### **The third lesson, strongly applying information technology to business activities of enterprises**

All three foreign logistics companies make full use of the advantages of information technology in the business process in order to optimize, improve productivity, and increase efficiency. A common point of all three companies is that, at any time, their employees or customers can grasp and know clearly where the goods have been - where they are. The

ability to see and control orders is a factor that customers appreciate and this is considered a competitive factor of both UPS, FedEx and Maersk.

For Vietnamese logistics enterprises, in general, the application of new technologies into operations is still quite modest. For example, most websites of Vietnamese businesses are mainly for the purpose of introducing and advertising services, but lack the utilities that customers expect such as order tracking, document tracking. Therefore, the application of information technology in general and the use of logistics software is a necessary job, contributing to improving service quality and increasing competitiveness.

**The fourth lesson, diversification of logistics services, in which the focus is on high value-added services**

In the current situation, foreign logistics companies focus on providing customers with diverse services with high added value. However, most Vietnamese enterprises currently only participate in solving part of the work in the logistics supply chain, very few enterprises provide full-service services with high added value. Focusing only on each logistics service such as forwarding, transportation, warehousing, etc., makes Vietnamese businesses only work for foreign service providers. Diversifying services, including high value-added services, helps Vietnamese businesses to approach large customers in the global market.

**The fifth lesson, strengthen the ability to cooperate and link, taking into account the trend of merging logistics enterprises**

In the trend of developing outsourced services, each logistics business needs to focus on its strengths and outsourcing services is not really a strength. This requires cooperation and association between businesses, and the connection and cooperation becomes more urgent than ever, helping businesses themselves support each other maximally, take advantage and weaknesses to provide a chain of logistics services to customers.

The important milestones of UPS, FedEx or Maersk are all marked by mergers and acquisitions. This is the fastest way to expand the network and increase market share, and in fact, this method has been effective in the field of logistics. Logistics enterprises in the world in general and in Vietnam in particular daily have to face tremendous changes in the business environment, especially the 4th Industrial Revolution, which is taking place strongly, put on pressure of continuous improvement and innovation. In order to avoid direct price confrontations and to survive and operate effectively, mergers and acquisitions are an inevitable trend for Vietnamese logistics enterprises. However, the activities of Vietnamese enterprises in this field are both weak and unprofessional and there are almost no real logistics enterprises, their activities just stop at forwarding, transportation, warehouse leasing, international delivery with small scale and independent nature.

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# **SUPPORTING SMALL AND MEDIUM SIZED ENTERPRISES (SMEs) TO JOIN THE GLOBAL VALUE CHAIN UNDER FREE TRADE AGREEMENTS**

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## **Abstract**

*Viet Nam is accelerating its deep integration into the world economy. An important condition for effective integration to realize sustainable benefits to the economy is that Viet Nam's businesses must improve their competitiveness to participate deeply in regional and the global value chains. This requirement is even more urgent as Viet Nam is implementing its commitments in free trade agreements (FTAs), especially new-generation FTAs. Although the competitiveness and participation of Vietnamese enterprises in global value chains (GVCs) in general and small and medium sized enterprises (SMEs) in particular has improved, SMEs still face many difficulties in seizing the opportunities created by FTAs to participate more deeply in GVCs. This article will focus on the capacity of SMEs to participate in GVCs; the effectiveness of the Government's policies and measures to support SMEs to participate in GVCs, and makes suggestions to support SMEs' participation in GVCs.*

Keywords: Global Value Chain (GVC), Free Trade Agreement (FTA), Small and Medium Enterprises (SMEs), Support policies.

## **GLOBAL VALUE CHAIN (GVC) AND SMEs**

Improving the competitiveness to participate in regional and global value chains is an urgent requirement for Vietnamese businesses in general and SMEs in particular. In the current integration process, effectively taking advantages of FTAs, especially new-generation FTAs, is a long-term strategy to help Vietnamese businesses, especially SMEs, improve their competitiveness in order to participate more deeply in GVCs.

There are many different definitions of a value chain. In the most common understanding, a *value chain* is a set of all activities that add values at each step in the whole process, including: Design, production & delivery of quality products to end users. Today, each product line is often operated in a chain from the first step of designing, production of input materials, manufacture of finished products, processing, storage, transportation and distribution to the end user. All the parties involved in this chain seek ways to participate deeply in the chain, in the stage of creating the highest added value. Today, the true value of a business is determined by its position in GVCs.

The process of globalization and international economic integration has accelerated the formation and development of regional and global value chains. In terms of integration, the market areas of countries that have signed free trade agreements (FTAs) are a collection of value chains. Exploiting the benefit of the integration process is effective participation in the international division of labour, regional and global value chains.

Recognizing the importance of economic integration for the country's development, the Party and Government of Viet Nam have set out a Strategy for international economic integration, in which the main oriented focus is to sign trade agreements. Since 1993, Viet Nam has signed 16 FTAs. The FTAs that Viet Nam has participated in cover almost all continents, with 47 economies, whose total GDP accounts for more than 70% of the global GDP. Economic integration through institutional reforms, export growth and foreign investment attraction has brought great benefits to the economy. In particular, through participating in FTAs, Viet Nam's enterprises are growing stronger, and their competitiveness is gradually improving. They have participated more and more deeply in GVCs. Some exporters in a number of fields such as textiles, garments, footwear, furniture, seafood are rather big-sized companies, doing business in a very professional way in strict markets with high standards such as the EU, Japan, and the United States. Many export products of Viet Nam have become highly competitive and have a strong position in the world market such as textiles and garments, electronic, footwear, seafood, wooden furniture etc. Goods export structure has been shifted in the direction of reducing the export of raw and semi-processed goods, increasing the proportion of processed goods. The proportion of processed or refined goods for export in total merchandise export turnover has increased significantly, from 65.1% in 2011 to 85.5% in 2020. The structure of export markets has changed towards increasing the proportion of exported goods to developed markets, with the participation of large economic groups. The export proportion of domestic enterprises in the export structure is increasing and in recent years, the export growth rate (of domestic enterprises) has surpassed that of the FDI sector.

According to statistics of the Association of Small and Medium Sized Enterprises, currently Viet Nam has some 700,000 SMEs, accounting for about 97.5% of the total number of enterprises having actual business operations. Over the past years, Viet Nam's SMEs have made many important contributions to the country's economic development including the contribution of over 40% of GDP, creation of jobs for about 62% of the country's total workforce, contribution of over 30% state budget, 33% of industrial output value, 30% of export value.

However, Vietnamese enterprises have only participated in low-value-added stages in the value chain (mainly in the stages of assembly, processing, and preliminary processing). Typically, in the textile and garment, leather and footwear industries which have high export growth and a strong position in the world market in recent years, they also only participate in the stages of creating small value mainly as processing service providers. The stages of creating high added value such as research, designing, branding, creating industrial designs and distribution of finished products are still carried out by reputable firms in the world. In high-tech industries such as automobiles, electronics, etc., Viet Nam's businesses are also mainly involved in assembling and manufacturing simple components with low and medium technology levels. Other stages in the production process that require a high level of technology and distribution are carried out by foreign manufacturers. This is reflected by the fact that the localization proportion of Viet Nam of each product is still very low. For example, in the textile and garment, leather and footwear industries, the rate of a few industries considered as having high localization rate only stands at about 40-45%, that rate of the automobile and electronics industry is about 7-10% and 5-10% respectively. Besides, Vietnamese enterprises, especially SMEs, have not been able to deeply participate in GVCs of domestic FDI enterprises, and have not become an important link in GVCs.

The reason for the situation is that the capacity of Vietnamese SMEs is still weak, characterized by limited capital, poor management skills, labour intensity, and application of outdated production technologies, and limited competitiveness. Those limitations are hindering SMEs from making the most of opportunities of FTAs to expand export markets and deeply participate in GVCs. With limited capital, small business scale, SMEs have difficulties in accessing financial resources to invest in technological innovation and expand production scale. And with poor technological capacity, it is difficult for SMEs to create highly competitive products to participate in GVCs. The low quality of human resources hinders enterprises from receiving information, analysing market changes, having good positions in negotiating (contracts/agreements), managing (business activities) and carrying out R&D activities. Many Vietnamese enterprises do not have a long-term development strategy, and are afraid to take investment risks, so they cannot participate in the ecosystem and value chain of leading enterprises and foreign enterprises. And also due to these limitations, most Vietnamese SMEs have not been able to connect with big domestic enterprises, multinational companies and FDI enterprises to participate in higher-value-added tasks in value chains. SMEs still largely depend on input materials to produce export goods, so they are at high risk, coping with market fluctuations in a very passive manner.

### **GOVERNMENT POLICIES**

The weakness of Vietnamese businesses in participating in GVCs is also caused by the implementation of policies to support SMEs. In the past years, the Government has adopted many policies and measures to support businesses in general and SMEs in particular, such as: policies and measures to support them in accessing credit loans, information, training human resources, delivering consulting services, and applying modern technology, promoting trade and implementing digital transformation, etc. There have been a number of legal documents issued to support SMEs such as: Law On Support for Small- and Medium-sized Enterprises; Decree No. 39/2019/ND-CP dated May 10, 2019 on the organization and operation of the SME Development Fund; Decree No. 34/2018/ND-CP dated March 8, 2018 on establishment, organization and operation of credit guarantee funds for SMEs; Decree No. 38/2018/ND-CP dated March 11, 2018 on investments in small and medium-sized startup companies; Resolution No. 02/NQ-CP dated January 1, 2020 on-going implementation of major duties and measures to improve business environment and enhance national competitiveness in 2021. State and local agencies have also implemented a number of programs to support SMEs to participate in FTAs, GVCs such as: National Program on Trade Promotion, Program to support SMEs in digital transformation, Program on training human resource, providing information, improving import-export procedures. Policies, measures and support programs of the Government, ministries/sectors have helped SMEs improve their competitiveness, market access, and boost exports. However, there are still many barriers for SMEs such as: cumbersome administrative procedures preventing SMEs from reducing costs and time. SMEs have difficulties in having access to market information, capital and quality human resources. There are still discriminations against the private sector. Most of the SMEs support programs that have been implemented are of small scale, organized as a single effort by each unit at the request of sponsors, donors.

Viet Nam is continuing to promote deep integration with the world economy. Viet Nam has been implementing FTAs, including new-generation FTAs such as the Comprehensive Trans-Pacific Partnership Agreement (CPTPP) and the EU-Viet Nam Free Trade Agreement (EVFTA), the UK - Viet Nam Free Trade Agreement (UKVFTA). The commitments in the

new generation FTAs are more comprehensive, covering many areas, and the level of commitment is also higher than in the traditional FTAs. Besides the standard commitments like in previous FTAs, the new generation FTAs have included commitments in new areas such as labour, society and environment, rules of origin, and intellectual property. The new-generation FTAs to which Viet Nam is a signatory cover advanced markets with the participation of almost all economies in the world. The level of competition in the value chain is very high. This is a huge challenge for SMEs. Therefore, the new-generation FTAs emphasize the role of SMEs and the need to support enterprises to improve their competitiveness and participate in GVCs. Experts involved in negotiating new-generation FTAs also believe that the implementation of new-generation FTAs is a long-term strategy to help Vietnamese businesses, especially SMEs, deeply participate in regional value chains, improve the export production capacity and competitiveness. In addition, the COVID-19 pandemic with many complicated and unpredictable developments can disrupt supply chains and reshape production and trade activities regionally and globally. This makes it more difficult for businesses in general and SMEs in particular to participate in GVCs. Therefore, the Government needs to continue to have more effective policies and measures to support SMEs.

In the years to come, Viet Nam will use all resources for economic development to achieve ambitious strategic goals of: becoming a developing country with modernity-oriented industry, surpassing the low middle income level by 2525; becoming a developing country with basically modern industry and upper middle income by 2030; becoming a developed, high-income country by 2045. One of the resources to realize the above goals is the development of SMEs, a highly potential resource that has not been effectively exploited. SMEs must be an important driver of economic growth in the coming decades. However, the immediate benefit of enterprises is to take advantage of the opportunities from FTAs to improve their technology, management capabilities and market accessibility, and actively participate in regional and global value chains. To achieve the above goals, the Government needs to continue supporting SMEs through synchronous and targeted policies and programs.

## **SUGGESTIONS**

The Government's policies and support measures should aim at helping SMEs actively and effectively participate in regional and global value chains, first of all, to penetrate the systems of value chains and step by step to upgrade technology and position in value chains and high-value added tasks. The Government's policies and support measures should focus on 3 main directions (i) participating in new GVCs (ii) expanding and strengthening the existing GVCs and (iii) maintaining the sustainability of the value chains to which they belong.

### **Policy Objectives**

*Firstly*, incubating and improving the capacity of SMEs, focusing mainly on training quality human resources, improving financial and technological capacity so that businesses are able to participate in GVCs in a sustainable manner, attract and connect with other enterprises in value chains, especially multinational companies (MNCs) and foreign direct investment enterprises (FDI).

*Secondly*, encouraging SMEs to connect with large domestic enterprises and MNCs, FDI enterprises. Besides, it is necessary to encourage MNCs, FDI enterprises, especially

businesses with spillover effects, and large domestic enterprises, to "entice" SMEs to join value chains.

*Thirdly*, making the best of commitments/terms of FTAs (especially the new-generation FTAs) and new factors (Industry Revolution 4.0, COVID-19 pandemic, US-China trade/economic war, re-directing of capital flows) in combination with relevant policies/laws to promote the participation of SMEs and stakeholders.

*Fourthly*, building and improving support mechanisms related to promotion of business links (between enterprises and other stakeholders), connecting technical infrastructure systems (domestic and regional transportation, logistics, information systems); supporting industries, information technology/digital transformation.

### **General Policy Framework**

- Reaching high consensus on common awareness, thoughts and actions in implementing the Party's policies, guidelines and resolutions on the development of the private sector and SMEs. Raising awareness of both the political system and the public, building high consensus in the society to encourage and facilitate the development of the private sector and SMEs in Viet Nam in the modern and integrated market economy.

- Creating a favourable business investment environment for SMEs. Improving mechanisms and policies to attract private investment and ensure that Viet Nam's SMEs are operated according to the market mechanism. Fully institutionalizing and strictly ensuring the freedom to conduct a business, property ownership, other rights and obligations of organizations and individuals as prescribed by law. Developing mechanisms and policies to encourage the establishment of SMEs; narrowing down conditional business fields, creating conditions for the private sector to invest, develop production and business activities in industries, fields and locations as prescribed by law and in line with the socio-economic development strategy in each period. Encouraging and creating favourable conditions for household businesses to expand their scale, improve business operational efficiency, voluntarily associate with others to establish different forms of cooperation or transform into enterprises by applying incentive policies such as: exemption and reduction of corporate income tax, land lease cost in the first years of operations; offering consulting services, providing guidance on how to implement procedures for setting up enterprises and how to develop production and business plans, organize financial and accounting work; Providing information; guidance on how to administer business and offering legal consultations. Improving and ensuring the transparency and effectiveness of policies to support SME development, start-up and innovation movements. Ensuring mechanisms and policies to encourage and support the development of SMEs in accordance with the market mechanism and promoting the autonomy and competitiveness of SMEs.

- Supporting Viet Nam's SMEs to innovate, modernize technology and develop human resources, improve labour productivity. Encouraging and supporting Viet Nam's SMEs to invest in R&D activities, application and transfer of advanced technologies. Improving and ensuring effective enforcement of intellectual property laws and regulations. Establishing funds to support innovation and technology application. Applying preferential tax policies, providing financial support, and supporting to have access to preferential capital sources for eligible research, innovation and technology modernization activities. Accelerating the implementation of the national strategy on human resource development. Carrying out

fundamental and comprehensive reforms and improving the quality of education and training activities, especially vocational training, training high-quality human resources to meet the quantity and quality of human resources for private economic development. Continuing to promote the development and strengthening the role of the Vietnamese business circle in the period of accelerating industrialization, modernization and international integration. Encouraging and motivating the entrepreneurial spirit, business startup and innovation spirit in the whole society, especially in the business community. Promoting information dissemination, communication on and education of business and entrepreneurship knowledge in the whole society.

- Improving the effectiveness and efficiency of state management. Improving the capacity of formulating and organizing the effective implementation of development policies, laws, plans and strategies; creating a favourable and safe business investment environment for enterprises to develop healthily and in the right direction. Promoting administrative reforms with the focus on creating a breakthrough in administrative procedure reforms. Simplifying and shortening the handling time of administrative procedures, especially procedures on business establishment, business registration, licensing, tax, import-export, and dispute settlement. Improving the capacity and efficiency of the coordination of state authorities by sector, field and locality to govern Viet Nam's SMEs, and ensuring effective state management of socio-professional organizations.

### **Specific Policy Measures**

- Supporting SMEs to have easy access to information on policies, laws, markets, governance, consulting services, commitments of Viet Nam in FTAs, etc. through promoting dissemination of information, building information databases and transmission tools. Building up-to-date information and data systems to serve the assessment of the capacity of SMEs, identifying business areas that enterprises are able to participate in order to take appropriate support measures as well as giving early warning of potential problems and risks to businesses.

- Supporting SMEs to have easy access to and accumulation of capital sources. Improving mechanisms and policies to facilitate economic concentration through M&A activities; Continuing to develop and diversify new capital mobilization channels for enterprises; Continuing to develop the stock market into a capital mobilization channel for enterprises; promoting the equitization of SOEs to offer "goods" for the stock market and at the same time developing strong private enterprises in the future.

- Strengthening support for SMEs in delivering human resource training courses on business start-up and corporate governance, vocational training courses, and improving research, negotiation, and strategy formulation skills.

- Encouraging and supporting SMEs in building regulations on corporate governance which is advanced and suitable with international practices. Improving mechanisms and policies corporate governance; Focusing on training and raising awareness on corporate governance.

- Creating favourable infrastructure conditions for SMEs to expand their markets and participate in domestic, regional and global value chains. Developing digital infrastructure, promoting the development of e-Government; Continuing to upgrade infrastructure and logistics systems.

- Conducting research to identify industries which are of strategic priority and have opportunities to expand markets through the implementation of FTAs as ground for building a program to support SMEs to effectively participate in supply chains in markets which have signed FTAs with Viet Nam.

- Improving the mechanism to attract domestic and foreign investment in connection with the formation of industry clusters, industry linkages; Adjusting policies in the direction associated with the formation and development of industry clusters; Developing value chains right in the Vietnamese market; Promoting the public-private partnership model in research and development activities; connecting SMEs with large domestic enterprises, multinational companies and FDI enterprises in Viet Nam.

- Promoting digital transformation to develop businesses capable of participating in regional and global value chains. Continuing to accelerate the implementation of the National Digital Transformation Program until 2025, vision to 2030 and the National Strategy on Developing Viet Nam's Digital Technology Enterprises until 2030; building and implementing a program to support businesses in digital transformation, popularizing successful digital transformation business models to create spillover effects in the business community.

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# ENHANCING COMPETITION LAW ENFORCEMENT FOR VIET NAM'S INTERNATIONAL TRADE DEVELOPMENT

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## **Abstract**

*The international economic integration, particularly international trade has brought numerous opportunities for Viet Nam by increasing resource efficiency, improving its ability to attract investment, and expanding markets. However, international trade has also created significant challenges in market competition that required Viet Nam to develop a strong competition policy to protect its business environment. It was necessary to observe close relationships between competition and trade policies to coordinate management of market operations and creating a driving force for the development of the country's trade liberalization activities. Viet Nam's competition legislation, notably the Competition Law 2018, has effectively promoted the creation of enabling business environment in an early stage of its implementation and left some good achievements. However, under the environment for strong economic integration and changes in the international markets, Viet Nam needs to make more efforts to strengthen the effective enforcement of its competition laws and policies to promote the development of international trade.*

**Keywords:** Competition policy, trade policy, Competition Law, international trade, trade liberalization.

## **I. INTRODUCTION**

After nearly 35 years of implementing Doi Moi, Viet Nam has been gradually integrating deeply and widely into the regional and global economies, expanding and deepening economic relations with a number of countries and region; while also becoming a member of key economic and trade organizations, thereby creating more and more favourable conditions for international economic integration. This is reflected in the import and export activities that are constantly expanding, both in terms of markets and the list of goods and services with rapid growth in commercial value, and the structure of goods quality is being improved in the direction of increasing the number of goods sold at high added value. In addition, Viet Nam has joined the World Trade Organization and signed many bilateral and multilateral agreements, etc. All these elements, the most prominent which is international trade, have been providing favourable conditions for Viet Nam's economy to thrive. International trade activities have increased as a result of the economic growth outcomes brought about by the Doi Moi process, as well as the liberalization and integration process, contributing more and more to the common objectives of the country.

However, as international trade activities expand, market competition will grow more diverse, complicated, and severe. In this context, to have an edge in international commerce, the State must not only have a smart, adaptable, and flexible international trade policy, but



also a solid competition policy to assist and establish a sustainable business environment and support the country's trade liberalization.

The introduction of the Competition Law 2018, which aims to regulate competitive acts, maintain a healthy competitive environment, ensure equal and non-discriminatory competitive opportunities for businesses, effectively use social resources, and promote sustainable economic development, has significantly contributed to the formation and development of Viet Nam's competition policy.

Although, since taking effect until now, competition law has initially played an active role in developing a healthy competitive environment, dealing with acts that falsify and hinder competition in the market. However, in reality, our country's enforcement of competition laws and policies has been ineffective in recent years, and there are still many limitations and shortcomings in the provisions of competition law, enforcement apparatus, as well as the ability to cooperate in dealing with anti-competitive behaviours in the region, etc., affecting the general development of the domestic market as well as trade activities with countries in the region and in the world. As a result, strengthening the effectiveness of law enforcement and competition policies to promote the development of Viet Nam's international trade activities in the next years is a matter of critical practical importance.

## **II. THEORETICAL RELATIONSHIPS BETWEEN COMPETITION AND TRADE POLICIES**

### **2.1. Competition and trade policies**

#### **(1) Competition policy**

As one of the socioeconomic development policies, competition policy is defined as a combination of measures taken by the state to maintain competition, on the one hand actively creating preconditions for competition, opening markets, removing barriers to market entry, and on the other hand taking measures against firms' anti-competitive strategies (Le Viet Thai, 1996). The competition policy of a country is shown through the ability to participate in the market, as well as the competitiveness of enterprises.

The goal of competition policy is to ensure that businesses have unrestricted and non-discriminatory access in all markets. In particular, in a market economy, the decisions of business entities affect the overall operation of the economy. In order for the market to be able to operate independently according to the rules while also being able to control itself through competition without any interference, the freedoms to decide the actions of individuals and entities must be ensured by the State and guaranteed by law. Therefore, competition law becomes an indispensable factor in regulating the market economy. Competition law is the foundation of competition policy and is also the legal basis for the enforcement of competition policy.

#### **(2) Trade policy**

Up to now, the concept of international trade policy has been approached with many different definitions. In academia, the concept of international trade policy is abbreviated as trade policy and is defined as "*Government's policy governing international trade*". In the current context of international economic integration, a country's international trade policy is based not only on its own economic conditions, but also on the practices and standards of bilateral and multilateral trade agreements that the country has signed. Therefore, the concept

of international trade policy can be understood as a system of appropriate policies, methods and measures that the State uses to regulate international trade activities, as constructed through the implementation of various instruments (tariff and non-tariff). The objective of trade policy is to regulate import and export activities in order to assist countries in achieving the macroeconomic goals stated in their socioeconomic development strategy.

## **2.2. The relationship between competition and trade policies**

Competition policy and trade policy are considered as effective tools of the State in regulating the economy. The distinctive feature of these policies is that they do not exist independently but are always part of a country's economic policy system. These two policies have interference and close relationship with each other and are always associated with related policies such as: industrial policy, monetary and financial policy, and science and technology policy.

In the current market economy, competition is a factor that stimulates business and is also a driving force to promote production development, increase labour productivity and the development of the economy. However, the process of international economic integration is deepening and widening, making the competition among business entities increasingly fierce. Therefore, in order to maintain a healthy competitive environment to promote trade liberalization, it is extremely important to harmonize competition policy and trade policy. Competition policy will have a complementary role to international trade policy, is a tool against the downside of trade policy in particular and against the manipulation of monopolistic enterprises in general. The implementation of competition policy is an objective necessity in the development of the market economy to create a legal corridor for businesses to be equal, promote all potentials in the process of economic integration, protect the interests of consumers and promote economic development.

To guarantee the healthy development of international trade market, governments' free trade policies and competition policies must constantly be implemented in a way that ensures harmonious support between these two tools. A comprehensive system of laws, regulations, international agreements, and negotiation positions set by the government to accomplish legal market openness, as well as a free trade policy, will serve as the foundation for constructing a dynamic competitive environment. In contrast, with the duty of preserving and insuring market health, competition policy will defend the process of trade liberalization and support international trade development.

From the above analysis, it can be seen that trade and competition policies have a close relationship with each other and both aim at enhancement of efficiency and productivity. Both are complementary in the sense that benefits of competition are transmitted through the medium of trade.

## **2.3. Impact of competition policy on Viet Nam's international trade development**

Competition policy theories have demonstrated that competition policy plays an extremely important role in promoting the rapid process of globalization, as well as promoting the development of international trade activities of a country. With the establishment of several international economic organizations, the process of economic globalization has facilitated the emergence of numerous large regional and global market areas through the elimination of tariff and non-tariff barriers. International trade relations, in particular, are reflected through the movement of capital investment sources and commercial values in the

form of goods or services across nations' markets based on the fundamental principles for most favoured nation (MFN) clause, National Treatment (NT) clause, in order to ensure that the principles of freedom and truly effective in international trade and to ensure the free flow of goods in a spirit of non-discrimination. The legal frameworks of GATT and WTO later also aimed to focus on developing an international economic system on the principle of “free trade” in order to minimize the interference of State into the cross-border trade flows, towards establishing a healthy, equitable and free common market.

However, the promotion of freedom is also unavoidably leading to problems in international trade, especially the issue of fair competition. In which the promotion of profit and the defence of the trade liberalization policy are considered as the causes that give rise to unfair behaviours and attempts in the market, including anti-competitive behaviours by companies, market planning that abuses the monopoly position of major financially affluent powers, and the association of business groups to establish a conglomerate to dominate the market. This greatly negatively affects the benefits derived from the trade liberalization process of countries. To overcome this problem, competition laws and policies play a very important role. As an effective legal tool used to eliminate unfair manifestations in the market, competition policy not only contributes to protecting the stability and self-empowered growth of the domestic economy, but also promote the formation of market relations between countries. At the same time, it is an effective instrument for regulating competitive processes, fostering the process of trade liberalization and promoting the development of international trade activities of countries.

### **III. LEGAL BASIS OF COMPETITION POLICY IN VIETNAM**

#### **3.1. Competition law**

On December 3, 2004, the National Assembly XI, Session 06 formally adopted Viet Nam's first Competition Law. The implementation of the Competition Law in 2004 was a significant milestone in the creation of an unified legal framework for firms' competitive activity in the market, particularly as an instrument for the State to regulate anti-competitive behaviour.

Despite certain achievements, after more than 14 years of implementation, with the change of the context and socio-economic conditions, the legal environment and the trend of international economic integration, the 2004 Law has gradually revealed limitations and inadequacies that need to be amended and supplemented to enhance enforcement efficiency and meet practical requirements. On that basis, on December 6, 2018, The National Assembly XIV, Session 05 officially approved the 2018 Competition Law, effective from July 1, 2019, with many amendments and supplements compared to the 2004 Competition Law. The Competition Law 2018 includes 118 articles, organized into 10 chapters<sup>9</sup>.

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<sup>9</sup>Chapter I. General provisions (Articles 1 to 8)

Chapter II. Relevant market and market share (Articles 9 to 10)

Chapter III. Agreement to restrict competition (Articles 11 to 23)

Chapter IV. Abuse of dominant market position, abuse of monopoly position (Articles 24 to 28)

Chapter V. Economic concentration (Articles 29 to 44)

Chapter VI. Acts of unfair competition (Article 45)

Chapter VII. National Competition Commission (Article 46 to 53)

Chapter VIII. Competition proceedings (Articles 54 to 109)

In comparison with the 2004 Competition Law, the 2018 Competition Law was built based on a close combination of economic and legal approaches, in which the goal of enhancing enforcement was emphasized. The Competition Law has expanded its scope and application; introducing new regulations on control of anti-competitive agreements and supplementing regulations on leniency policy to enhance enforcement efficiency; regulations on merger control and addressing unfair competition behaviours.

The introduction of the Competition Law in 2018 is a significant step that contributes to creating a solid legal foundation for the formation of Viet Nam's competition policy, as well as demonstrating that Viet Nam's competition law is progressing in the direction of harmonizing with international legal regulations and aligning with the process of international economic integration. Furthermore, the Competition Law 2018 is critical in promoting the development of international trade of our country since it shows other nations that Viet Nam has established a transparent, stability and consistency policy system based on principals of market economy. That is the foundation for developing, establishing, and promoting bilateral and multilateral trade cooperation partnerships with various nations across the world.

### **3.2. Viet Nam's commitments on competition policy in Free trade agreements (FTAs)**

In the current context of global economic integration and expansion of trade liberalization, the wave of signing of FTAs<sup>10</sup> is becoming strong around the world and becomes an inevitable trend in the process of integration and development that nations cannot ignore. Being well aware of this, over the years, Viet Nam has actively participated in the negotiation and signing of bilateral and multilateral FTAs. As of May 2021, Viet Nam has participated in negotiations, signed or is negotiating a total of 17 FTAs (WTO, 2021); in which, 14 FTAs have been in effect and are being implemented. Among these 14 FTAs, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the European Union – Viet Nam Free Trade Agreement (EVFTA) are the first new generation FTAs that Viet Nam joined. Compared with traditional FTAs, the new generation FTAs have a broader scope, content that extends beyond commitments on trade, services, and investment, and includes legal and institutional arrangements in a variety of new disciplines that have become key negotiating topics. One of these areas is competition policy.

Prior to 2010, only two FTAs negotiated by Viet Nam included provisions on competition policy: the Viet Nam - Japan Economic Partnership Agreement under the framework of the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) and the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA). However, in line with the worldwide trend of including competition laws into FTAs throughout the world, all of the Agreements Viet Nam has signed from 2010 and later contain a competition policy chapter with a deeper commitment than prior FTAs. The following are the specifics:

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Chapter IX Handling of Competition Law Violations (Articles 110 to 115)

Chapter X. Implementation provisions (Articles 116 to 118)

<sup>10</sup> A free trade agreement (FTA) is an agreement between two or more countries or territories for the purpose of liberalizing trade in one or several groups of goods by reducing tariffs, providing facilitate the exchange of goods, services and investments among members in addition to continuing to maintain an independent tariff regime on imports from countries outside the FTA

**(1) Japan - Vietnam Economic Partnership Agreement (JVEPA) (within the framework of the ASEAN - Japan Comprehensive Economic Partnership Agreement - AJCEP)**

Chapter on competition under the JVEPA<sup>11</sup> includes general provisions on cooperation with the following basic terms: (i) Promoting competition through dealing with anti-competitive acts; (ii) Competition definitions; (iii) Cooperation in promoting competition by regulating anti-competitive practices; (iv) Technical cooperation in the field of competition; (v) Not applicable and execution term.

**(2) ASEAN - Australia - New Zealand Free Trade Area Agreement (AANZFTA)**

The AANZFTA Agreement<sup>12</sup> has 18 chapters with specified commitment schedules. It covers areas such as trade in goods and services (including financial and telecommunications services), e-commerce, movement of natural persons, investment, dispute resolution mechanisms and specific provisions in other areas such as: phytosanitary measures, standards, technical regulations and conformity assessment procedures, intellectual property and competition. The Agreement has its own competition chapter, which includes (i) Fundamentals; (ii) Regulations on cooperation, (iii) Focal point for cooperation and (iv) Mechanism for consultation and dispute settlement.

**(3) Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)**

Chapter 16 on Competition Policy in the CPTPP Agreement<sup>13</sup> for the purpose of providing general principles<sup>14</sup> to ensure a fair competition framework in the free trade area, prevent and remove anti-competitive business conduct in the market, thereby promote the trade and investment objectives of the Agreement.

The CPTPP obligations on competition processes, in particular, include specific provisions on the right of firms to sue or request the competition authority to undertake an investigation to prevent or rectify violations of competition law, as well as specific rights in the proceedings. This is a new element in comparison to past FTAs, and it is an essential complement to protect firms' legitimate rights and interests in the market against anti-competitive or unfair competition acts.

**(4) European Union – Vietnam Free Trade Agreement (EVFTA)**

Competition policy in the EVFTA Agreement<sup>15</sup> consists of 2 main parts: (i) competition law<sup>16</sup> and (ii) subsidies<sup>17</sup>.

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<sup>11</sup> <https://trungtamwto.vn/chuyen-de/4649-hiep-dinh-doi-tac-kinh-te-giua-viet-nam-va-nhat-ban-vjepa>

<sup>12</sup> <https://trungtamwto.vn/chuyen-de/2571-hiep-dinh-thuong-mai-tu-do-asean---australianew-zealand-aanzfta>

<sup>13</sup> <https://trungtamwto.vn/chuyen-de/10835-van-kien-hiep-dinh-cptpp>

<sup>14</sup> Some general principles that CPTPP member countries commit to include: (1) Promulgating and enforcing national competition laws to deal with anti-competitive activities, ensuring economic efficiency and benefits of consumers; (2) Maintain competition authorities to enforce competition laws, act to protect competition on the principle of non-discrimination (with respect to nationality); (3) Enforce consumer protection policies; (4) Ensure fair procedures in competition proceedings (infringing parties must be allowed access to information, reasonable opportunity to present evidence in their defence, information collected by the competition authority must be protected). protect the infringing party's business secret); (5) Ensuring transparency in competition law enforcement; and (6) Cooperation and coordination among Member States through notification, consultation and exchange of information and experience on competition law and policy.

<sup>15</sup> <https://trungtamwto.vn/chuyen-de/8445-van-kien-hiep-dinh-evfta-evipa-va-cac-tom-tat-tung-chuong>

In general, provisions on competition policy are always an indispensable content in creating a foundation for businesses in trade agreements that Viet Nam has signed or is currently negotiating; trade partners are allowed to operate within the legal framework to ensure a healthy competitive environment in order to contribute to the achievement of the Agreement's trade and investment objectives. These commitments on competition policy are critical for Viet Nam, as they contribute to a wide range of good effects on the economy in general and the competition field in particular.

#### **IV. APPLICATION OF COMPETITION LAW AND POLICY IN VIET NAM**

##### **4.1. Achievements in the enforcement of competition law and policy in Viet Nam**

###### **(1) Introduction of guiding documents and enforcement of the Competition Law**

The Ministry of Industry and Trade presided over and collaborated with relevant agencies in developing and submitting to the Government for promulgation 02 Decrees guiding the implementation of the Competition Law 2018: (i) Decree No. 75/2019/ND-CP issued on September 26, 2019 on administrative infractions in the field of competition; and (ii) Decree No. 35/2020/ND-CP issued on March 24, 2020 detailing a number of provisions of the Competition Law. Simultaneously, the Ministry of Industry and Trade presented to the Government for promulgation a Decree defining the National Competition Commission's responsibilities, tasks, powers, and organizational structure.

###### **(2) On advocacy, dissemination, and legal guidance activities**

The authorities have organized a variety of seminars, training courses, printing documents, and manuals.

###### **(3) Regarding the control of economic concentration activities**

From 2019 to now, the Competition Authority has received and processed 125 dossiers of notification of economic concentration in accordance with the Competition Law 2018, with a total of 258 enterprises participating in the economic concentration, of which 131 are foreign enterprises (accounting for 51 per cent) and 127 are Vietnamese enterprises (accounting for 49 per cent); At the same time, actively investigate and access mergers and acquisitions transactions in the market; supervise the implementation of decisions on applying for exemption from economic concentration of enterprises. Regularly review economic concentration transactions on the market, update, compile statistics and synthesize data about mergers, acquisitions, consolidation, joint ventures of enterprises nationwide, foreign enterprises doing business in Viet Nam.

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<sup>16</sup> Regarding competition law, Vietnam and the EU are committed to applying and maintaining a comprehensive competition legal framework on the basis of self-determination in order to deal with anti-competitive acts such as agreements to restrict competition, abuse of position, etc. dominant position and economic concentration hinder competition significantly. Both Parties shall maintain the responsible, suitably equipped and competent authority necessary for the full and effective enforcement of competition laws. Competition Law must be enforced in a transparent and non-discriminatory manner, respecting the principles of fairness in competition proceedings as well as the rights of the subject to be protected. Exemptions from competition law should be limited to the extent consistent with public policy objectives.

<sup>17</sup> Regarding subsidies, Vietnam and the EU agree that each Party has the right to subsidize to realize public policy objectives when necessary. The two sides have agreed on a number of principles when setting out subsidy policies and programs on the basis of compatibility with WTO principles, similar to other FTA Agreements of the two Parties, and ensuring that they are compatible with the level of different expertise, development of each Party.

#### **(4) On the handling of competition restrictive behaviours**

The competition authority has proactively conducted pre-procedural investigations in around 100 cases across a wide range of markets, areas, and industries to gather and verify information and evidence of illegal activity. On that premise, the competition authority conducted an investigation into 05 cases and reported to the Competition Council to address 04 cases, which included issues that were timely and got a lot of attention. Such as the case of Grab - Uber's economic concentration and exploitation of a dominating position in the tourist business.

#### **(5) On the investigation and handling of unfair competition cases**

From 2017 to 2021, the competition authority investigated in accordance with competition procedures, with 18 cases exhibiting the breaching of unfair competition provisions under competition legislation, resulting in a total fine of 1,621,000,000 VND for the state budget. Unfair competitive activities are examined and prosecuted, with an emphasis on the following types of behaviour: unfair competition advertising, disparaging other firms, misleading indicators, and illegal multi-level marketing.

### **4.2. Inadequacies in Viet Nam's enforcement of competition laws and policies**

According to the above-mentioned results, the provisions of the Competition Law 2018 have been gradually implemented with certain successes. The Competition Law's new policies have emphasized their role in creating and maintaining a fair and healthy business environment, as a driving force for socioeconomic growth, and in promoting international trade. However, there are significant limits and flaws that must be addressed, notably as follows:

The number of competition cases noticed, investigated, and addressed by Viet Nam's competition authorities remains relatively low. This indicates the current limitations on the effectiveness of Viet Nam's competition lawsuit settlement procedures.

Some provisions of the laws and legislations in certain specific sectors are somehow incompatible with Viet Nam's FTA commitments, particularly those relating to providing a fair competition for domestic and foreign firms, as well as private and state enterprises.

The process of trade liberalization within the framework of FTAs is significantly increasing competitive activities in international trade, necessitating the enforcement of competition laws and policies to ensure the handling of cases objectively and strictly, while also ensuring an appealing investment business environment for foreign investors. However, the process of investigating and addressing competition complaints in our nation has been hampered in recent years due to the fact that the provisions of the 2018 Competition Law are still in short of specific regulations and criteria. The competition authority can examine the impact of competition actions, therefore avoiding and preventing them.

Viet Nam's current competition authority system has several weaknesses and considered as not ensure sufficient independency in handling competition disputes. Because the National Competition Commission has not yet been constituted as the time this paper is drafted, the investigation and handling of breaches of competition law cannot be carried out in accordance with legislation throughout the period 2019-2021.

In the Vietnamese market, a large number of state-owned enterprises continue to do business in a number of important protective sectors, creating certain legal barriers in the enforcement of competition policies and making it difficult to maintain a fair, equal, and attractive competitive environment for foreign enterprises in the context of globalization and international economic integration.

## **V. CONCLUSIONS AND RECOMMENDATIONS**

Over the past years, Viet Nam has achieved many important achievements in international trade development as a result of the effort to open up, integrate into the global economy, and actively participate in the network of FTAs. Viet Nam has moved from a trade deficit to a trade surplus, although the value of the trade surplus is not high. According to estimates, the total export and import turnover of goods increased 3.5 times, from \$157.1 billion in 2010 to \$544 billion in 2020. Despite being heavily affected by the COVID-19 pandemic in 2020-2021, the total export and import turnover of goods still recorded growth. One of the important factors contributing to these achievements is the effective execution of Viet Nam's competition policy and legal framework, which contributes to the establishment and preservation of a healthy competitive business environment for enterprises.

However, in addition to the positive effects, the recent enforcement of Viet Nam's competition laws and regulations has faced a number of barriers and certain restrictions, creating challenges to the country's economic integration and international trade development. This necessitates synchronous solutions to complete the legal corridor and strengthen the effectiveness of competition law and policy enforcement in the coming time to assist Viet Nam in taking the initiative in the process of international economic integration and implementing trade liberalization agreements, thereby ensuring the country's development in line with global economic trends.

*Some specific recommendations include:*

- To continue reviewing the provisions and contents of the 2018 Competition Law to identify any shortcomings that need to be amended or supplemented in order to perfect the competition legal system to fulfil the demand of the country's socioeconomic development, while also assisting in ensuring and maintaining a fair and healthy competitive environment for market participants. More crucially, it is required to be compatible with Viet Nam's new obligations on competition policy in bilateral and multilateral agreements, therefore establishing favourable conditions for the entrance of foreign firms, with the goal of encouraging the development of the country's international trade activities.

- To improve the Competition Authority's operating efficiency by establishing the National Competition Commission to ensure efficient competition law enforcement in the future. The significant increase in the number of competition cases, particularly in the context of economic integration, necessitates the competition authority expanding its capacity further to provide financial and human resources for execution.

- To strengthen cooperation with foreign competition authorities and actively participate in international competition law and policy forums such as ASEAN and APEC. Furthermore, actively cooperate with competition authorities in the region to address anti-competitive acts of a cross-border scale.



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# RESPONDING TO ANTI-SUBSIDY MEASURES AGAINST VIETNAM'S EXPORTS

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## Abstract

*As Viet Nam's international economic integration deepens with the signing of new-generation FTAs, together with the earlier FTAs most import tariffs between FTA partners have been eliminated. However, as the protectionism-trend increases with the complicated trade conflicts between major economies, there have been growing risks for Viet Nam's export industries either directly or indirectly. Specifically, Viet Nam had to constantly deal with trade remedy cases and investigations initiated by other countries on cases related to the adoption of 3 measures, i.e., self-defence, anti-dumping and anti-subsidy. Of these, "anti-subsidy" investigations look into the Vietnamese Government's policies and measures to subsidize and encourage exports, mainly targeting products for which Viet Nam has a competitive advantage such as agricultural products, seafood, wood, wood and steel products. This article reviews the anti-subsidy investigations on Vietnamese exports and how such investigations dealt with anti-subsidy cases on Vietnamese exports, the result of the investigations and the issues identified. Based on such a review, this article makes recommendations to Viet Nam's Government agencies, business associations and enterprises so that such cases are handled most appropriately and effectively. It is hoped that such recommendations will contribute to the formulation of the strategic framework and policies for import and export of goods to realize the goal of Viet Nam's sustainable export development.*

Keywords: Anti-subsidy, goods, exports, Viet Nam

## I. SUBSIDY, ANTI-SUBSIDY AND ANTI-SUBSIDY INVESTIGATION TRENDS IN THE WORLD

### 1.1. Subsidy and Anti-subsidy

According to Article VI of the General Agreement on Tariffs and Trade (GATT), the WTO Agreement on Subsidies and Countervailing Measures (SCM) and the Foreign Trade Management Law (Article 84), "**subsidy**" is a financial contribution by the government or any public institution in a country where goods are imported into Viet Nam, bringing benefits to organizations and individuals receiving subsidies. Therefore, anti-subsidy (also known as countervailing duty) is an additional import tax that has been imposed on subsidized imports<sup>1</sup>.

According to WTO regulations, trade remedy consists of 03 measures: (i) self-defence; (ii) anti-dumping and (iii) anti-subsidy, anti-subsidy is a measure towards policies and measures to subsidize and encourage exports of the exporting country's government.

Subsidies will only be taxed anti-subsidy if (i) It is prohibited (subsidies based on export results, subsidies that give priority to the use of domestic goods); or (ii) Satisfying the

requirement of specificity<sup>2</sup>, i.e., subsidies that are reserved for one or a limited number of specific businesses or industries. Besides, the anti-subsidy measure is applied only when causing significant damage or threatening to cause significant damage to the domestic manufacturing industry<sup>3</sup>. The purpose of the application of anti-subsidy or countervailing duty is to: (i) Adjust or eliminate subsidy programs of the Government of the Exporting Country, which subsidies are considered as anti-fair trade acts; and (ii) Recover and limit the damage caused by subsidized imports from the Government of the exporting country.

To be able to apply countervailing measures, the importing country must comply with the regulations of the SCM Agreement<sup>4</sup>. The procedure for investigating and applying countervailing measures is regulated in the SCM Agreement<sup>5</sup>, including initiating investigations, consultations, calculating damage, providing evidence, temporary countervailing measures, and formally applied countervailing measures.

### **1.2. Anti-subsidy investigation trends in the world**

The practice of handling foreign trade remedy cases shows that this is a complex and difficult activity that consumes a lot of manpower, time and finance. Besides, in recent times, many countries have continuously changed the regulations on anti-subsidy laws to strengthen domestic production protection.

Although anti-dumping is the most common trade remedy measure, anti-subsidy investigations are being used more by many countries<sup>6</sup>, especially some major economies such as the United States, EU, Canada, and Australia. Currently, the United States is the country that conducts the most anti-subsidy investigations in the world (in the period 1995-2000, the United States accounted for nearly 50% of the world's anti-subsidy measures). The scope of the anti-subsidy investigation has also been expanding, from the investigation of exchange rate policies (considering currency undervaluation is also a form of a subsidy<sup>7</sup>) to the investigation on the state's material supply policies and general inputs (electricity prices, gas prices, etc.). The subject of the investigation has also been expanded, currently, some countries are studying to add legal regulations so that they can investigate, impose taxes or have some restrictive measures on subsidies that countries give to enterprises operating abroad (such as preferential loans for enterprises operating abroad, subsidies to the parent company operating abroad, these parent companies then sponsor subsidiaries operating in countries through internal transactions, subsidies that help enterprises participate in bidding or investment abroad<sup>8</sup>).

Anti-subsidy investigation in the world forces state management agencies to comprehensively evaluate policies for foreign investment, import and export, coordination mechanisms in the process of foreign investigation to propose comprehensive solutions, ensure the effectiveness of anti-subsidy problem solving for its exports, ensure the economy effectively exploits the benefits of the international integration process, especially the participation in FTAs.

## **II. ANTI- SUBSIDY INVESTIGATIONS AGAINST VIETNAMESE EXPORTS**

Implementing the policy of proactive international economic integration, Viet Nam is an active member of the World Trade Organization (WTO), having trade relations with 55 partners through the participation in 17 Free Trade Agreements (FTAs). According to that, our economy has been deeply and widely integrated into the regional and global economy,

with import and export turnover in 2021 expected to exceed \$600 billion, twice as much as the gross domestic product (GDP), especially FTA markets accounting for over 75% of the country's total import and export turnover<sup>9</sup>.

With the participation of FTAs, the majority of import tariff lines between FTA partners have been eliminated. However, the protectionism trend tends to increase, the complicated development of trade conflicts between major economies has created potential risks, directly and indirectly affecting Viet Nam's export industries. Especially, Viet Nam has continuously had to deal with trade remedy cases. By the end of November 2021, Viet Nam has been initiated by other countries to investigate 208 cases (trade remedy) with the affected export turnover up to about \$18 billion; In particular, most of the cases are aimed at export products with Viet Nam's strengths such as agricultural products, seafood, wood and wood products, steel, etc.

For anti-subsidy investigations, as of October 2021, Viet Nam's exports are the subject of 23 anti-subsidy investigations. WTO members have conducted anti-subsidy investigations into Viet Nam's exports including the United States (8 cases), Australia (5 cases), Canada (5 cases), India (4 cases) and the European Union (1 case). Although the number of anti-subsidy investigations is not as high as the number of anti-dumping investigations, it has tended to increase rapidly in recent years. Since 2018, there have been 13 cases of anti-subsidy investigations into Vietnamese exports, including cases in markets that have never conducted anti-subsidy investigations before like India. One of the causes of this phenomenon is that the subject of anti-subsidy investigations related to government programs and policies. Therefore, it is easy to cause a contagion effect when in the following cases, the plaintiff can easily use the information in the previous investigation cases as a basis for accusations.

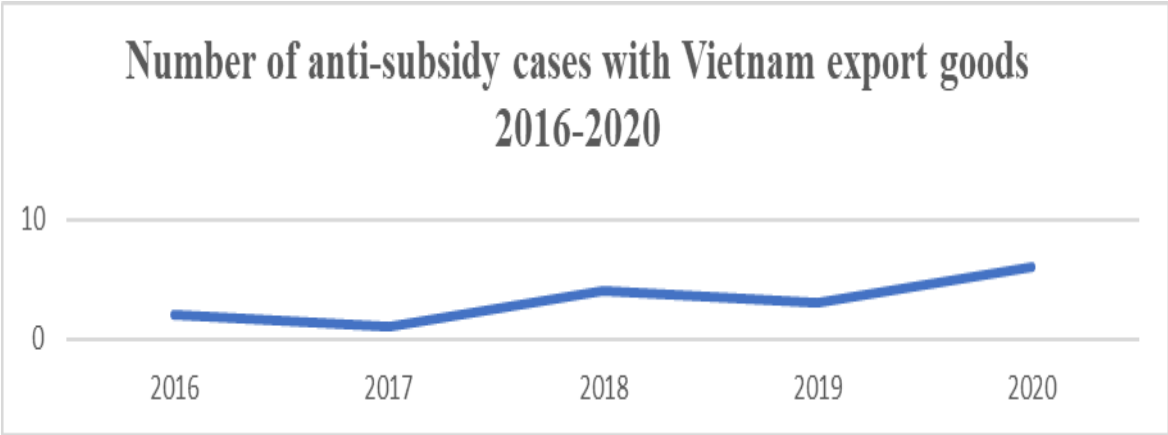
Normally, anti-subsidy investigations into Vietnamese exports are not initiated independently but are carried out in parallel with anti-dumping investigations at the request of the domestic manufacturing sector of the importing country. This creates more burdens for Vietnamese exporters to respond to and provide information at the request of foreign investigation agencies. At the same time, this also increases the risk of being applied trade remedy measures with high tax rates, which is detrimental to exporting enterprises.

In the anti-subsidy investigations that foreign countries have been conducting on Vietnamese exports, some of Viet Nam's programs and policies are very likely to be considered government subsidies for enterprises, including: (i) Policies of exemption and reduction of profit tax due to the satisfaction of some specific conditions such as being located in an industrial area, an export processing zone; in geographical areas with difficult or extremely difficult socio-economic conditions; in the fields of investment incentives; use a lot of labours; (ii) Policies on exemption and reduction of import duties on raw materials and imports of machinery and equipment for the production of exports; (iii) Policies on exemption and reduction of land rent and allocation due to meeting certain specific conditions; (iv) Programs and policies for preferential loans using state capital; (v) The national trade promotion program supports export promotion activities; and (vi) Policies related to exchange rates.

Among these programs and policies, the policy related to exchange rates is a new accusation that has been introduced into law by the United States and applied in the latest anti-dumping investigation involving tires imported from Viet Nam. In this case, for the first time, the U.S. plaintiff accused Viet Nam of "undervaluation" to bring advantages to exporters. It is worth noting that the United States has just amended a law (effective on April

6, 2020) that allows for a review of the content of "currency undervaluation" in anti-subsidy investigations<sup>10</sup>. According to the assessment, this provision of the DOC is not appropriate to the SCM Agreement.

It should be noted that when investigating accused programs of Viet Nam's subsidies, foreign investigation agencies not only examine policies and regulations that are in force or take effect during the investigation process but also assess policies and legal provisions that have expired or been replaced by other documents. Therefore, the Government should provide all information at the request of the investigation agency, even if the policy has expired.



Steel products are investigated most frequently for anti-subsidy with 11 cases, accounting for 47.8%; other metal products (copper, aluminium) were investigated with 4 cases, accounting for 17.4%; plastic products were investigated in 2 cases, accounting for 8.6%; The rest are other products.



Thus, anti-subsidy is a measure directed at the policies, measures to subsidize and encourage exports of the Government of the exporting country. Therefore, the Government must directly participate, clarify its programs and policies, assess the impact in detail on related exports to reject accusations of subsidy programs for specific manufacturing sectors. The role of the Government is decisive to the success of the case response and handling, contributing to protecting the interests of domestic manufacturing and export industries, stabilizing workers' jobs, towards sustainable export development.

### **III. VIET NAM' RESPONSES TO ANTI-SUBSIDY INVESTIGATIONS**

#### **3.1. Legal basis**

For the anti-subsidy investigation cases, state management agencies develop plans to coordinate with foreign investigation agencies according to the regulations of International Treaties to which Viet Nam is a member. In actual handling of cases, this means that the State management agencies of Viet Nam participates in the case as a “concerned party,” and answer questions of foreign investigation agencies to clarify the policies and programs that are considered as subsidies for enterprises by the foreign parties, and gives opinions to state that the plaintiff's accusations were unreasonable.

The Law on Foreign Trade Management No.05/2017/QH14 dated June 12, 2017, stipulates that the Ministry of Industry and Trade is the focal agency in presiding over and coordinating with relevant ministries, sectors and localities to carry out activities to support enterprises when enterprises are investigated by importing countries, applying trade remedy measures, including the anti-subsidy measure. The provisions on the principles of coordination and specific responsibilities of relevant ministries, sectors and localities are guided under the Government's Decree No.10/2018/ND-CP dated January 15, 2018, detailing several articles of the Law on Foreign Trade Management on trade remedy measures, including Article 93 of the Decree stipulating the principle of coordination between the Ministry of Industry and Trade as the unit in charge of handling trade remedy investigation cases of foreign countries with relevant ministries, branches, localities, associations, enterprises and organizations, as well as the responsibility of each unit in coordination with the Ministry of Industry and Trade.

#### **3.2. Participation and coordination of Agencies and Organizations in handling Anti-subsidy cases for Vietnamese exports**

In all foreign cases investigating anti-subsidy, the coordination of relevant agencies and organizations is necessary and plays an important role in achieving a good result. In these cases, Viet Nam's State management agencies participate as a stakeholder and answer questions of foreign investigators to clarify policies and programs considered to subsidize enterprises, and argue that the plaintiff's accusations are unreasonable, i.e., what Viet Nam has done should not be considered as subsidies for enterprises. These are financial benefits that have distinctiveness, use state resources to provide a company, a group of companies or a manufacturing industry. These benefits can be in the form of funding, non-refundable subsidies, loans with preferential interest rates, loan guarantees, tax exemptions, allowing late payment of taxes, providing public service goods at a price that lower than the market price.

In each specific case, the number of programs/policies that are requested by foreign investigation agencies to provide clear information can be different depending on the peculiarity of each industry of goods that is the subject of investigation. The information that needs to be provided includes not only the general regulatory documents on programs/policies but also actual numbers on the benefits that each business is received over the years during the investigation period. Therefore, it is necessary to have the coordination not only of relevant ministries and sectors but also the coordination of the People's Committees of localities, where enterprises register their business. Ministries and sectors within the scope of their functions and tasks can only provide and review legal documents related to the programs/policies, explaining the targets and purposes of the specific program, the issuance

date and the termination date of the program, how the program is managed and operated, the criteria and conditions for the business to benefit from the program. However, the actual numbers on the specific benefits that each enterprise is received to compare with the above information according to the decentralization under the management authority of the locality, so the People's Committees of provinces and cities are the appropriate state management agencies to provide this information.

After compiling information, completing the answers to the questions and providing it to the foreign investigation agency, the Ministry of Industry and Trade continues to monitor the progress of the investigation case, develop appropriate arguments against the plaintiffs' accusations. In case foreign agencies carry out the on-site examination and verification, the Ministry of Industry and Trade shall continue to preside over, coordinate with relevant companies preparing and working with foreign investigation agencies to clarify information about programs/policies under investigation scope.

### **3.3. Viet Nam's experiences in handling Anti-subsidy cases**

#### **(1) Results**

Since the Law on Foreign Trade Management officially took effect on January 1, 2018, until the end of October 2021, the Ministry of Industry and Trade has coordinated with agencies and organizations to handle 14 cases of foreign investigations of anti-subsidy and anti-dumping related to the "special market situation" factor (answering the same questions as anti-subsidy cases). Most have concluded, only 01 case will be concluded in December 2021.

Most cases with the coordinated participation of state management agencies in providing information and answering questions of foreign investigation agencies have positive results. As in the U.S anti-subsidy investigation of packaging bags woven from PE or PP coated with plastic, the anti-subsidy tax rate for nearly all Vietnamese enterprises is 3.02%<sup>11</sup>. In the case of Canada's anti-subsidy investigation of anti-corrosion sheet steel products imported from Turkey, UAE and Viet Nam, based on the information answered by the Government of Viet Nam, the Canadian investigation agency concluded that the Government of Viet Nam does not subsidize enterprises that produce and export anti-corrosion sheet steel, so Canada decided not to impose anti-subsidy duties on Vietnamese exporters<sup>12</sup>. In the case of India investigating anti-subsidy for stainless steel pipes imported from Viet Nam and China, two of the three enterprises with the largest export turnover of Viet Nam to India are not imposed anti-subsidy tax. In the case of India investigating anti-subsidy for copper rods and wires imported from Viet Nam, Indonesia, Malaysia and Thailand, all four countries cooperated and answered the questions at the request of the Indian investigation agency. Therefore, all four countries in this case have a low anti-subsidy tax rate, the anti-subsidy tax rate for Vietnamese exporters is 7.13%<sup>13</sup>.

Based on the actual results of the cases, it can be seen that if there is full cooperation and response, Vietnamese enterprises only have to pay a low anti-subsidy tax rate, there are even cases where the subsidy margin is negligible and enterprises are not imposed anti-subsidy tax.

From the achieved results in the handling of investigative cases, applying anti-subsidy measures to Vietnamese exports in recent years, it can be assessed to get the best results, in addition to the active participation of state management agencies, it is also necessary to have the cooperation and participation of related enterprises. If there is only the participation of

state management agencies but the enterprise itself does not cooperate well with foreign investigation agencies, there is still a risk of being applied high anti-subsidy tax rates. In addition, the coordination of handling anti-subsidy investigative cases should comply with a clear strategy, the information provided in the cases should be consistent.

## **(2) Issues**

Although the handling of cases investigating anti-subsidy for Vietnamese exports by foreign countries has achieved many positive results in recent years, coordination activities among state management agencies still have some limitations leading to prolonged processing time. The biggest limitation is the failure to meet the deadlines set by foreign investigation agencies. With the number of anti-subsidy investigations of Vietnamese exports is increasing and foreign investigation agencies tending to apply stricter procedures, the failure to meet the quality and deadlines will directly affect the result of the case.

The main reasons for the limitations in the response to foreign anti-subsidy investigations on Vietnamese exports in recent years are:

(i) *Some regulations and policies of Viet Nam are easily considered subsidies:* Some policies on profit tax exemption, preferential credit, import duty exemption for raw materials for exports production, sector planning if placed separately in the context of developing the domestic manufacturing industry can be considered appropriate and implemented by many other countries in the world. However, if these policies are related to the exporting enterprise and the enterprises with a sharp increase in exports to a particular market, affecting the domestic enterprises of that market, these policies are very likely to become a reason for the importing country to investigate, apply trade remedy measures to Vietnamese exports. Without cooperation and information provided by the Government and enterprises of Viet Nam, based on these policies, foreign investigation agencies can use available sources of information, usually from the plaintiffs' accusations, to calculate and apply a very high trade remedy tax rate to Vietnamese enterprises.

(ii) *There is no specific coordination mechanism for timely handling of foreign trade remedy cases:* This is an important cause, a major barrier to the speed and effectiveness of coordination and cooperation in handling foreign trade remedy investigation cases;

(iii) There is no financial mechanism for handling foreign trade remedy investigations;

(iv) Awareness of many domestic manufacturing sectors and enterprises about anti-subsidy measures is not high;

(v) The participation of enterprises is inefficient;

(vi) The coordination and sharing of information between domestic and foreign government agencies are not often and timely.

## **IV. SUGGETIONS AND RESPOND TO ANTI-SUBSIDY MEASURES AGAINST VIETNAMESE EXPORTS**

In the context that the application of anti-subsidy cases tends to increase in the coming time, in order to ensure effective handling of these cases and contribute to the achievement of the goal of sustainable export development, it is necessary to implement some solution groups as follows:



#### **4.1. For the Government**

- Reviewing preferential programs and policies on sector planning, profit tax exemption, preferential credit, import duty exemption, etc. in specific sectors, especially in export-oriented sectors and sectors, which export turnover has increased rapidly in recent times. Besides, policies on some common issues, having an important impact on exports such as exchange rates, should also be carefully evaluated and exchanged regularly with the importing country to reduce the risk of being considered subsidy programs. This is a key factor, ensuring the effectiveness of the response as well as ensuring sustainable exports in the coming time.

- Establishing an interdisciplinary working group to support the handling of trade remedy investigation cases in general and anti-subsidy investigations in particular to ensure the quality and efficiency of handling. The composition of the working group should include: Head of the agency in charge of handling trade remedy investigation cases of foreign countries as the chair, and departmental leaders and equivalents of specialized units under ministries and agencies related to programs and policies that are frequently investigated in trade remedies (policies related to tax exemption and reduction, land rent exemption and reduction, pricing policy, sector planning, trade promotion policies, policies for preferential loans using state capital, etc.) as members.

- Developing basic documents on programs and policies at risk of being investigated by foreign countries in self-defence to clarify arguments, scientific basis, practice and conformity with WTO regulations, ensuring the prompt and timely provision of this information in the process of handling cases.

- Establishing financial mechanisms for handling trade remedy investigations of foreign countries, including anti-subsidy investigations to timely handle arising cases.

- Strengthening the research and forecasting of policy changes to timely respond to the trend of increasing anti-subsidy cases as well as expanding the scope and subjects investigated by countries.

- Continuing to provide information and early warning to associations, industries and enterprises.

- Strengthening the participation and coordination of Vietnamese representative agencies abroad.

#### **4.2. For business Associations and Enterprises**

- Enhancing the competitiveness of exporting enterprises through major orientations such as deep participation in the value chain, diversification of export markets. This is a key factor, deciding on the ability to respond to developments in the export market, including the application of anti-subsidy measures.

- Considering trade remedy measures, including anti-subsidy measures as a part of the business environment in export markets, thereby setting out market strategies and appropriate and timely response strategies.

- Actively exploring the regulations on trade remedy and anti-subsidy because these are complex legal issues, frequently changing. The effective response to anti-subsidy cases requires enterprises to master the regulations on subsidies and anti-subsidy to prepare necessary documents for specific cases.

- Coordinating with partners in the export market to closely monitor the situation, and update the early warning information of the Ministry of Industry and Trade to assess the possibility of being investigated.

- Strengthening coordination with state management agencies. Businesses, associations and government agencies need effective coordination mechanisms to achieve good results in protecting legitimate rights and interests for Vietnamese enterprises. The coordination aims to exchange information and strengthen the capacity to respond to foreign trade remedy lawsuits.

- Being proactive and spending appropriate resources on responding to anti-subsidy investigation cases of foreign countries for Vietnamese exports. The practice has shown that businesses proactively and actively participating in lawsuits are the most important factor to reduce the negative impact of these cases. In many cases, proactively participating in lawsuits also helps businesses gain a competitive advantage due to lower taxes.

## **Conclusions**

Import and export goods of Viet Nam in 2021 and the following years still maintain high growth rates. In addition, free trade agreements, especially new-generation FTAs such as CPTPP, EVFTA and UKVFTA, are gradually being implemented in a more comprehensive and effective way, which is an important factor to support import and export activities in the coming time. At the same time, the negative impact of the COVID-19 epidemic, the on-going trade protectionism trend in many economies around the world will increase the number of trade remedy cases, including anti-subsidy cases for Vietnamese exports in the coming time. To realize the goal of sustainable export development, the response to anti-subsidy measures, especially of export markets such as the United States, EU, Canada, and India needs to be focused and strengthened. Solutions related to the policy system, state programs, handling and response capacity of management agencies and business associations are very important, contributing to building strategic orientations and policies to develop exports of goods in order to realize the goal of sustainable export development.

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# **DEVELOPING VIET NAM'S GOODS DISTRIBUTION NETWORKS ABROAD AND THE QUESTIONS TO BE ANSWERED FOR THE NEXT STAGE**

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## **Abstract**

*In the period 2016-2020, Vietnamese enterprises have realized significant progress in developing the international distribution networks with the support of the State, including through the signing of free trade agreements (FTAs) and adoption of trade-supportive foreign and investment policies to encourage exports and strengthen trade promotion activities. However, the number of enterprises that were successful in developing international distribution networks is relatively few, most of which are manufacturing enterprises. These enterprises focused on developing distribution networks through wholesale or export through large retail distributors without investing in retail or franchise networks. This article reviews the development of distribution networks of Vietnamese goods abroad evaluates both successes and failures. The report then identifies successes and failures and analyses the causes of the problems. Finally, the article discusses the issues that need to be addressed in developing effective distribution networks to further introduce Vietnamese goods to foreign markets in the coming period.*

Keywords: Development, goods distribution network, Viet Nam.

## **I. DEVELOPMENT OF VIET NAM'S GOODS DISTRIBUTION NETWORKS ABROAD IN 2016-2020**

### **1.1. Achievements**

In the period 2016-2020, Viet Nam has recorded important results in the development of distribution networks overseas. On the part of the Government, these results have been achieved thanks to the Government's efforts in (i) the negotiation and signing of free trade agreements (FTAs) and other related multilateral agreements; (ii) the development of legal framework on foreign direct investment; (iii) the preparation of master planning and investments in the development of border-gate economic zones, border-gate markets and border markets; (iv) the coordination between the central ministries and agencies and businesses in organization of trade fairs and trade promotion activities in foreign countries, thereby creating favourable conditions for Vietnamese enterprises to develop distribution networks to introduce Vietnamese goods foreign countries and territories.

*Firstly*, the number of Vietnamese enterprises participating in the development of distribution networks to distribute their goods to other countries tends to increase.

Although there are no official statistics on the number of Vietnamese enterprises participating in the development of overseas goods distribution networks, the observation from Vietnamese trade fairs in other countries shows that the number of Vietnamese enterprises that are trying to find their partners to develop overseas distribution networks has tended to increase sharply in recent years.

The number of Vietnamese enterprises becoming suppliers of goods exported through modern distribution networks of large international distributors present in Viet Nam tends to increase. And the number of Vietnamese enterprises participating in the development of overseas goods distribution networks through foreign direct investment also tends to increase.

*Secondly*, Vietnamese enterprises have been developing their goods distribution networks in many countries and regions around the world.

Vietnamese goods are exported through modern overseas distribution networks mainly to some fastidious markets such as Japan (AEON Group), the US (Wal-Mart), France (Big C), Thailand and Italy (Central Retail, MM Mega Market), etc. They are also exported to some other countries such as the UK, Korea, Singapore, Indonesia, China and some markets in African countries.

Asian countries such as Laos, Cambodia, Myanmar and some other Asian countries are key investment destinations of Viet Nam, including investment in the development of goods distribution infrastructure.

At the initial stage, Vietnamese enterprises developed goods distribution networks in some EU countries like France and Germany through the distributors investing in Viet Nam and then they started developing goods distribution networks in other EU markets such as Czech Republic, Sweden, Italy, etc. to exploit the potential of these markets. Many businesses are now looking for opportunities to develop distribution networks through trade fairs and exhibitions in Europe such as Anuga International Food Industry Fair 2019 in Germany, Food Industry Trade Fair (SIAL Paris), Seafood Expro Global in Belgium, International Trade Fair MAP - EXPO in the Netherlands.

*Thirdly*, the methods and approach of the development of goods distribution networks of Vietnamese enterprises in other countries are relatively diverse, suitable to the actual conditions and development level of Vietnamese enterprises.

*Developing direct export of goods into modern distribution networks:*

+ Most of the world's leading distributors present in Viet Nam such as Wal-Mart, Central Group, Aeon, Lotte, Decathlon are ready to support Viet Nam's SMEs to look for opportunities to export Vietnamese-origin products through foreign distribution networks which require rather strict goods selection criteria.

Vietnamese enterprises have been successful in developing the method of exporting goods through large supermarkets owned by large distribution corporations investing in Viet Nam, or in taking advantage of distribution channels of goods abroad with the support of enterprises owned by overseas Vietnamese in the countries with large communities of overseas Vietnamese such as the US, Germany, Czech Republic, etc. Vietnamese goods appear more and more in hypermarkets or modern distribution networks in foreign countries. The value of Vietnamese goods exported through the modern distribution network has increased gradually over the years during the research period.

The product category has grown in both quantity and quality. Vietnamese goods with a wide variety of types and designs are displayed at supermarkets abroad. Most of them are agricultural products, mainly fresh fruit products (such as coconuts, dragon fruits, mangoes, bananas, lychees, sweet potatoes, bell peppers, and beets) and seafood products (such as frozen pangasius, and squid); processed foods of Vietnamese brands (instant noodles, phở,

spices, beer, wine, and softdrinks); garments, consumer goods, and handicrafts. These Vietnamese goods are preferred and welcome by consumers of many countries.

- Developing goods distribution networks through foreign direct investment projects:

- + In recent years, Vietnamese enterprises have made positive progress in foreign direct investment with the number of projects and registered capital in the following year always higher than in the previous year. This indicates that Vietnamese enterprises not only focus on domestic investment but also expand investment activities abroad to affirm their brands and positions in the international arena, especially in the context of intensive international integration. Foreign direct investment is made in a wide variety of projects in various industries such as: information and communication, healthcare, education and training, finance and banking, real estate, warehousing, transportation, entertainment, art, etc.

Among these industries, the total amount of foreign direct investment capital in the distribution service sector has constantly increased reaching \$602.1 million by 2020. The distribution service sector (wholesale, retail, repairs of automobiles, motorcycles and other motor vehicles) is the industry with the highest number of foreign direct investment projects in the service sector.

Foreign investment activities are expanded in order to develop goods distribution networks of Vietnamese enterprises. At the initial stage, Vietnamese enterprises developed a cross-border goods distribution network in Laos and Cambodia thanks to the favourable condition of having a land border with Viet Nam. Later on, Vietnamese businesses have been promoting the development of goods distribution networks in Myanmar to exploit the potential of this market. For the Thai market, although Viet Nam has similarities in the structure of goods, along with limited competitiveness of the economy and businesses, Vietnamese enterprises have had some initial success in finding opportunities to develop distribution networks through trade fairs in Thailand.

In addition to Southeast Asian countries, some of Vietnamese businesses have opened their shops to sell and introduce their products, most of which are food products such as coffee and milk, to more developed countries such as Korea, Singapore, even Japan and the US. The increase of investment by Vietnamese enterprises in large markets with high technological and scientific development level like the US, Canada, and Europe is a good sign of improved quality of foreign investment by domestic firms.

*Vietnamese goods supplied through the distribution networks of enterprises overseas have increased in quantity and product structure, with diverse distribution methods and forms:*

- + The methods and forms of developing goods distribution networks of Vietnamese enterprises in other countries are suitable to the actual conditions and are relatively diverse in terms of the presence mode of business entities (traders carrying goods to sell at the border markets of Laos and Cambodia), as well as the way distribution services are used in foreign countries (Vietnamese traders sell goods at markets and supermarkets in border-gate economic zones to border residents of Laos and Cambodia).

- + Some large Vietnamese enterprises have initially developed distribution networks in other countries through their commercial presence (opening branches, building trade centres, supermarkets, retail stores) in the local market.

- + Regarding the forms of goods distribution network development, Vietnamese businesses also focus on developing distribution networks in the form of retail and wholesale agents along the border with Laos and Cambodia.

In general, in the period 2016-2020, Viet Nam enterprises have achieved important results in the development of goods distribution networks overseas thanks to the Government's support by adoption of foreign policies, investment policies creating favourable conditions to encourage the export together with the great efforts of businesses in the development of goods distribution networks in foreign countries and territories in the world.

## **1.2. Issues and Causes**

### **(1) Issues**

Although important initial results have been achieved, certain limitations in the development of goods distribution networks of Vietnamese enterprises in other countries remain, specifically:

- The distribution service sector accounts for a small proportion of Viet Nam's total foreign direct investment capital. In 2020, the proportion slightly increased reaching 2.81%. The average amount of investment/project is small compared to many other service industries. The average size of registered investment capital per project in the distribution service sector in 2020 reached \$1.48 million. Compared with the average size of registered capital of foreign investment projects, the average size registered capital/project in the distribution service sector has decreased sharply.

The loans for investment project overseas have increased. In some areas and sectors, there are potential legal risks which may lead to international lawsuits and disputes. Some investment projects are behind schedule and inefficient, especially investment projects of SOEs, while the progress in handling these projects is slow due to the fact that some of these projects are of large scale and involve complicated problems. The number of investment projects and the volume of foreign direct investment capital is still small and uneven over the years. The implementation progress of these projects is slow and they are not really operated with high efficiencies.

The number of Vietnamese enterprises developing goods distribution networks overseas is rather small compared to an estimated number of 400.000 enterprises in operations.

The absence of goods distribution enterprises, especially large ones in developing goods distribution networks overseas has limited the ability to mobilize sources of goods which Viet Nam has advantages in both production scale and structure.

The results achieved are still not commensurate with the number of goods categories as well as the production potential of Viet Nam. The list of goods exported through distribution networks of Vietnamese enterprises to other countries is rather modest.

In fact, the list of Vietnamese goods distributed in other countries is very short. For example, in the French market, there are only about 25 types of products of Viet Nam. On the other hand, the product categories mainly include processed foods, seafood, fresh fruits and vegetables, household electrical appliances, etc. While many items that Viet Nam has great production and export advantages such as garments, shoes, and processed agricultural products have not yet been put into the overseas distribution networks, or most of them are just "Made in Viet Nam" products but not Vietnamese brands or "make by Viet Nam" products.

- The production capacity of Vietnamese enterprises is very poor. The quality and diversity of manufactured goods is far to meet the needs and tastes of consumers in import markets, and strict requirements of the distributors and import markets. In many cases, they

were not able to deliver large orders from distributors.

- Vietnamese enterprises have just focused on developing distribution networks of goods in other countries in the form of wholesale or export through large retail distributors while no emphasis is put on investment in retail and franchising systems.

In developing goods distribution networks overseas, the development of retail systems will create advantages in exploitation of domestic sources of goods in terms of both the scale and structure and at the same time it helps receive information directly from customers to adjust distribution activities, structure, and prices of goods. Besides, franchising activities which will have the effect of promoting product brands, having quick access to new markets have not yet been implemented by enterprises. This is one of the limitations that Vietnamese businesses need more support from the Government to overcome in the coming period.

- For countries having land borders with Viet Nam such as Laos and Cambodia, the main form of trade activities is unofficial cross-border trade. This has led to the fact that Vietnamese goods are often delivered to consumers in small shipments or quantities. Most Vietnamese enterprises are not really interested in setting up their distribution networks in foreign markets, but mainly selling goods to Lao and Cambodian traders and letting them distribute on their own in their markets. This makes Vietnamese enterprises unable to control the distribution of goods especially in difficult times.

The goods distribution networks of Vietnamese enterprises in the areas along the border lines with Lao PDR and Cambodia focus on the retail network, mainly including small shops serving the needs of border residents. Supermarkets, trade centres and duty-free shops in Viet Nam's border-gate economic zones are currently inefficient. By 2019, only one standard border market invested by the Vietnamese Government in Cambodia was inaugurated.

Viet Nam's goods distribution service in Laos, Cambodia and Myanmar is quite monotonous, mainly based on the market network. The coverage of the distribution network of Vietnamese goods is far more limited than that of Thailand and China. Vietnamese businesses have not paid due attention to investment in and development of distribution networks in the form of commercial presence in their partners' markets.

## **(2) Causes**

On the side of Vietnamese enterprises, though the competitiveness of the Vietnamese economy and enterprises has improved significantly in the 2016-2020 period, it is still very poor compared to that of other countries around the world. The superiority in terms of the national competitiveness and the development level of businesses, and the similarity of enabling factors will create great competitive pressure on Vietnamese enterprises when developing distribution networks of goods abroad.

This is one of the main root causes of the limitations in the development of goods distribution networks of Vietnamese enterprises in other countries, especially developed countries in the EU.

The Government needs to further develop better policies for Vietnamese enterprises to directly invest in projects abroad or develop goods distribution networks abroad, especially specific policies for each type, category of products that Viet Nam has a competitive advantage. The legal framework and policies for foreign direct investment are to be further improved. Administrative procedures for foreign direct investment are still inadequate. The

Government has not yet taken sufficient measures to support enterprises to invest abroad. These are difficulties facing Vietnamese enterprises who want to expand their production and business activities in general and develop distribution networks to other countries in particular.

In addition, Decision No. 1513/QĐ-TTg of the Prime Minister issued on September 3, 2015 approving the Scheme to promote Vietnamese enterprises to directly participate in foreign distribution networks towards 2020 did not specify directions for Vietnamese enterprises to develop distribution networks abroad. The delay in formulating and implementing policies and directions has limited the participation of Vietnamese enterprises in developing distribution networks overseas.

Most Vietnamese enterprises are small and medium-sized enterprises having abundant human resources, but limited physical and financial resources and poor skills, and weak management capacity. This creates difficulties for them to operate in foreign markets.

Most Vietnamese enterprises have limited financial, technological and management capabilities. Vietnamese businesses often operate alone, lack business linkages, effective cooperation, information sharing with partners, and even face unfair competition among themselves. Those are the internal difficulties of enterprises in developing goods distribution networks in foreign countries.

Moreover, the awareness of Vietnamese manufacturers and enterprises of the necessity to develop a modern goods distribution network abroad is very poor leading to the situation where they are not really aware of or ready to participate in this form of exporting goods to foreign markets.

The demand and capacity to develop goods distribution networks of Vietnamese enterprises in other countries is still low. There have been very few brands of Viet Nam well-known in foreign markets. Meanwhile, the challenge that the transport infrastructure has not yet met the needs for developing goods distribution networks and there are still significant disparities in infrastructure development throughout the country namely poor quality roads, poor connection between road and railway systems, lack of seaports and airport facilities, lack of logistics services, lack of information systems connecting to foreign markets, thus disrupting the production process as well as the distribution of goods to foreign markets.

Regarding objective reasons from the foreign market, the biggest challenge for Vietnamese enterprises is that the standards required by foreign distributors are very high and strict. Most of the large distribution networks such as Wal-Mart, Central Group, and AEON have customer-centered criteria. Modern distribution channels in high-end markets often require their suppliers to meet standards to be accepted by the supermarket system and consumers. Therefore, based on the response of consumers, distributors set quite strict criteria for selecting goods. Besides, the majority of retailers have price criteria. This, in fact, has led to some cases where prices of goods to be ordered are very low while the standards set for the goods to be ordered are very high and strict resulting in very low profits for Vietnamese manufacturers. It is especially true for the case of Wal-Mart.

Therefore, bringing Vietnamese goods to supermarkets owned by large distribution groups in countries around the world, especially the markets with high standards such as Japan, EU, USA, Korea is really a tough competition between Vietnamese and foreign



enterprises, especially ones from China due to the high competitiveness and similarity of Chinese exports.

In addition, differences of the cultural, legal, social, and environmental settings between Viet Nam and the host countries have led to unexpected disputes, negatively affecting the implementation of projects and the reputation and image of Vietnamese investors in the region and in the world, as well as the rights and interests of local people. In fact, when Vietnamese businesses invest abroad, they often bring with them and do business with the typical mindset of Vietnamese people. For example, if an enterprise invests in Viet Nam, it will be supported by the State to recover land for their project. This fact becomes a kind of their old-fashioned thinking so when investing in Cambodia or another country, where the land ownership regime is different, they have lots of difficulties. Therefore, when developing a goods distribution network abroad or investing in a shop to sell and distribute products abroad, they should carefully consider how to best adapt to the culture, laws of the local country and habits of local consumers.

## **II. SUGGETIONS FOR FUTURE DEVELOPMENT OF VIET NAM'S GOODS DISTRIBUTION NETWORKS ABROAD**

*Firstly*, it is necessary to focus on improving the national competitiveness, the competitiveness of enterprises and Vietnamese goods to satisfy very high and strict standards of foreign distributors and to compete with goods of other countries in the ASEAN region and China. This will be a good condition for Vietnamese enterprises to develop goods distribution networks abroad.

In order for Vietnamese goods to penetrate the distribution network of foreign retailers and stand firm in foreign markets, and compete with other countries' goods, Vietnamese businesses need to implement synchronous solutions and focus on the standardization in all stages of the supply chain including production, distribution and sales.

At dialogues to connect Vietnamese businesses with foreign distributors, representatives of foreign retailers affirmed that Viet Nam has many products that are preferred by foreign consumers. However, "fastidious" markets such as Japan, EU, and US have very strict regulations on technical barriers, requirements for quality standards, food hygiene, residues of plant protection chemicals, banned substances, etc. Therefore, production of safe and high quality products has become a mandatory requirement for Vietnamese enterprises.

*Secondly*, it is necessary to formulate better policies to encourage Vietnamese enterprises to directly invest in projects abroad or develop goods distribution networks abroad. Appropriate legal framework and policies on foreign direct investment need to be developed and tailored for each type and category of prioritized exports which Viet Nam has a competitive advantage. In addition, administrative procedures applicable for foreign direct investment should be further simplified and specific support measures should be taken to encourage Vietnamese enterprises to invest abroad. This is seen as a good way to increase the percentage of the foreign investment put in the distribution service sector in the total foreign direct investment capital of Viet Nam, increase the average size of registered investment capital per project in this distribution sector, improve the investment efficiency of state-owned enterprises in terms of project progress and the quality of the projects abroad.

It is necessary to increase the awareness of Vietnamese manufacturers and enterprises of the benefit of a mechanism to export goods by participating in modern distribution networks overseas by focusing on outreach and awareness raising activities, supporting Vietnamese

enterprises to actively participate in modern distribution networks, supermarkets, and trade centres abroad to export their goods to new markets and promptly providing adequate information on export markets for enterprises; supporting them to strengthen the connection with foreign distributors.

In addition, in terms of state management, it is necessary to have state agencies with high level of competence, good conditions and capacity to manage, monitor and control the situation of investment, production and business activities of all Vietnamese enterprises operating abroad.

*Thirdly*, it is necessary to focus on building capacity for Vietnamese enterprises in terms of capital, technology, human resources with good management skills, qualifications, and strengthening linkages, cooperation, information sharing, market forecasting among Vietnamese enterprises, thereby limiting unfair competition and encouraging enterprises to jointly develop goods distribution networks abroad. Capital is a challenge facing Vietnamese businesses when exporting goods through overseas supermarket chains. Most of Viet Nam's manufacturing enterprises are SMEs with limited capital capacity. Meanwhile, if exporting directly to foreign supermarkets, the payment process is slow, usually taking from 1 to more than 3 months. This makes it difficult for businesses to secure revolving funds, not to mention discounts, costs of advertising and promotion activities.

*Fourthly*, it is necessary to focus on investing in the development of overseas goods distribution infrastructure, upgrading transport infrastructure to meet the needs of transporting goods abroad and developing goods distribution networks abroad and to fill the gap in infrastructure development with other countries, including roads, railways, seaports and airport infrastructure, logistics services, information systems connected to foreign markets.

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# PROMOTION OF COMMERCIAL ADVERTISING ACTIVITIES OF ENTERPRISES ON DIGITAL PLATFORMS

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## **Abstract**

*According to the General Statistics Office, Viet Nam had 810,000 enterprises in 2020, and 96.7% of them are small and medium enterprises. The COVID-19 pandemic, which appeared at the end of 2020 and continued to develop unpredictably, has left the economy with heavy consequences, seriously affecting the production and business activities of enterprises. Under such circumstances, undertaking commercial advertising activities to promote exports is no longer an option but a must for Vietnamese enterprises to survive and develop. The FTAs that Viet Nam is participating in and will join will also open up opportunities for businesses with the digital transformation to promote "online exports", participate in the global supply chain, and take advantage of technologies in the world to address issues.*

*The article reviews the current advertising activities of enterprises on digital platforms and discusses the advantages and disadvantages of using this new platform. It will then suggest promoting commercial advertising activities of enterprises on digital platforms, contributing to fostering business and export activities of enterprises in the context of international economic integration.*

**Keywords:** Commercial advertising, digital platforms, enterprises, Viet Nam.

## **I. COMMERCIAL ADVERTISEMENT ON DIGITAL PLATFORMS**

Article 2 of the Law on Advertising 2012 stipulates: *“Advertising is the use of means to introduce to the public products, goods and services for profit purposes; products and services with no profit purposes; organizations and individuals trading in introduced products, goods and services, except for current news; social policies; personal information”.*

Analysis of the definition of advertising in the Law on Advertising 2012 can be understood, the object of advertising activities can be the business of goods and services capable of bringing profits to organizations, individuals or other services, information to achieve a certain political, cultural or social goal. Organizations and individuals that have advertising needs can be traders or non-traders, and advertising activities can be performed by a variety of entities. Therefore, commercial advertising is only one of the general types of advertising.

Distinguished from advertising according to ordinary concepts, the concept of commercial advertising is stipulated in the Law of Viet Nam in Article 102 of the Commercial Law 2005: *“Commercial advertising is a commercial promotion activity of a trader to introduce to customers about their business activities of goods and services”.*

Advertising activities of businesses are efforts to influence the behaviour and buying habits of consumers or customers by providing sales messages in a persuasive manner about the seller's product or service in order to gain profit in the most effective way.

Therefore, it can be understood that *"commercial advertising on a digital platform is a form of advertising that businesses use the internet to bring products to consumers (including domestic and international consumers)"*. Commercial advertising on digital platforms is a measure to improve competitiveness to attract customers and dominate the market of enterprises; help enterprises introduce and promote their goods and services quickly. For consumers, advertising activities provide consumers with basic information about the market situation, goods and services in order to improve their ability to choose products in the market. In that sense, commercial advertising really plays an important role in the development of the economy and businesses.

## **II. ENTREPRISES' ADVERTISING ACTIVITIES ON DIGITAL PLATFORMS**

According to the Institute for Brand and Competitiveness Strategy, only in the last 3 years, the majority of surveyed businesses believed that they needed digital transformation and had to carry out digital transformation activities to be successful in their business. In recent years, due to the impact of the COVID-19 epidemic, according to a survey of 152,000 enterprises by the General Statistics Office, over 30% of Vietnamese enterprises have invested in technology, and especially digital technology, transforming the way of operating approaches, expand the customer file and propagate the business and its products at different levels. The survey also shows that enterprises' awareness of digital technology has been very good recently, more than 50% of enterprises have applied digital technologies before the COVID-19 epidemic; More than 25% of enterprises have started to apply digital technology since the COVID-19 epidemic and intend to continue using digital technology.

According to the survey results "The reality of digital transformation in enterprises in the context of COVID-19" conducted by the Viet Nam Chamber of Commerce and Industry (VCCI) in 2020, with over 400 small and medium enterprises as well as large-scale shows that Vietnamese enterprises have also begun to realize and apply digital technologies in stages such as internal management, purchasing, logistics, production, marketing, sales and payment.

### **2.1. Commercial advertising activities through digital marketing**

Popular digital platforms today include: Website; Social media; Digital Ads (Facebook Ads and Google Ads); search Engine (SEM and SEO); Email Marketing; mobile & games, App.

In popular digital platforms, website is the core and important foundation in Digital Marketing because the business or individual who owns the website is the real boss. The information about introduction, products, services, support, advice and contact is presented in the most detailed, clear and easy-to-view way, the website is considered as the business headquarters of the enterprise on the internet platform. Meanwhile, with platforms like Facebook, in fact, individuals or businesses only own a part, when Facebook changes their personal algorithms, businesses have to spend more money on advertising on their platforms.

Popular Digital Marketing tools:

- **SEO:** The process of optimizing a business' website to be "ranked" higher on the search engine results page, the most common is Google, thereby increasing non-paid (or free) traffic to the website. However, SEO is one of the forms of Digital Marketing that takes a lot of time and human resources to deploy.

The best methods to bring in quality followers for your website include:

- *SEO Onpage:* This SEO method focuses on the content and resources present "on the website" of the enterprises. By researching keywords with high search volume; at the same time, considering the search intent of these keywords, the website can write blogs that answer the questions that readers are interested in, thereby getting a higher ranking on the Google's search results.

- *SEO Offpage:* This SEO method focuses on activities that take place "outside the web" of the enterprise, namely the implementation of backlinks (links from other pages back to the enterprise's web). The number of websites and the reputation of the websites that enterprises receive backlinks have an effect on the ability to rank for keywords that you SEO, easier to understand than optimizing SEO off - internal link building pages, backlinks.

- *SEO technical:* Focusing mainly on the backend areas of the website and the way a website is coded, SEO technical includes compressing images, structured data, optimizing CSS files helps to increase the page load speed significantly.

- *Email Marketing:* An approach to conveying a commercial message to a group of people through email. Types of emails that enterprises can send in Email Marketing campaigns include: Subscribe to Blog newsletter; Emails reminding website visitors that something has been downloaded; Customer welcome email; Promotional announcement for loyal customers.

- *Content Marketing:* A form of marketing based on the creation and promotion of content to increase brand awareness, traffic growth, and lead generation. Channels commonly used for a content marketing campaign include: Blog post, Ebook, and Infographic.

- *SEM:* Is to put the website to the top of the search results by paying for keyword bidding, SEM includes Google Ads, Google Display Network, Youtube Ads. In other words, SEM is a combination of many marketing methods with the aim of helping your website or content appears more on search engines.

- *Marketing on social networking platforms:* A marketing activity performed on social media channels to promote business and its content, thereby increasing brand awareness, driving traffic and creating potential customers for businesses.

- *Pay-per-click advertising (PPC):* The form of appearing on search pages in a paid form to attract traffic to the website of the enterprise. The cost for each time someone clicks on the ad is called CPC (Cost Per Click), in this form, enterprises need to optimize so that the cost per click is minimal. One of the most popular PPC types is Google AdWords, which allows enterprises to pay to get to the top of Google's search results pages for a price based on "per click" of your links.

- *Affiliate Marketing:* Is a type of performance-based advertising where enterprises receive a commission to promote other people's products or services on their website, in which a distributor called a publisher does marketing, attracting customers to buy products

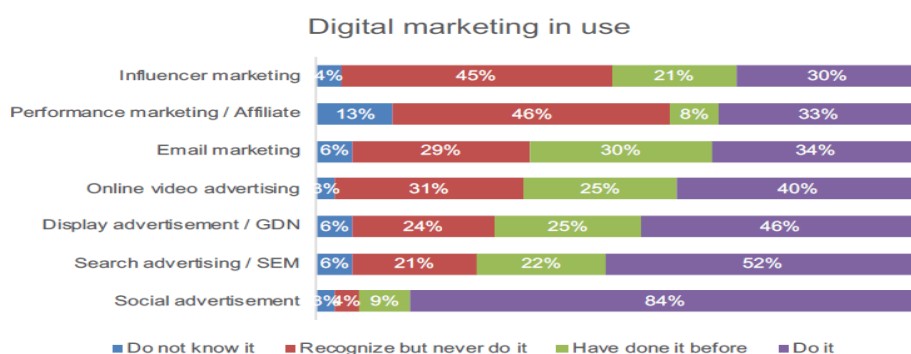
and services provided by the supplier. With each successful order, the publisher will receive a commission from product and service providers.

## 2.2. Commercial advertising activities of enterprises on digital platforms

According to the Digital Marketing Report 2020, Viet Nam has 145.8 million mobile subscribers (equivalent to 150% Viet Nam's population), 68.17 million Internet users and 65 million social network users. The percentage of Vietnamese people owning mobile devices is 94%, laptop/desktop is 65%, tablet is 32%. Therefore, the application of digital platforms in promoting commercial advertising activities to promote and market businesses and products is an extremely effective tool of enterprises.

Among current digital marketing activities, Vietnamese enterprises focus on advertising on social networks the most. According to a survey reflecting the popularity of Digital Marketing activities that Vietnamese enterprises use in 2020, conducted by VCCorp Joint Stock Company (VCCorp) - one of the leading units in the field of Internet advertising exploitation in Viet Nam, led by advertising on social networks with 84% of enterprises using this form; followed by search advertising (SEM) and display advertising (GDN) with usage rates of 52% and 46% respectively. According to statistics, up to 94% of medium/large enterprises spend on advertising on social networks, in addition 79% of small enterprises doing the same. In which, the remaining Digital Marketing activities are often used by medium/large enterprises. That is why Influencer Marketing is not used much, because up to 35% of medium/large enterprises use this type, while the figure is only 11% for small enterprises. The average investment of enterprises for digital marketing channels in 2020 accounts for about 17% of total revenue of enterprises.

**Figure 1. Investment level for Digital marketing channels**



*Source: Survey conducted by VCCorp Joint Stock Company in 2020*

The Viet Nam E-commerce Index 2020 report also shows the two most popular advertising methods chosen by enterprises, namely social networks and search engines, with the rating of enterprises at 46% and 39%, respectively. Up to 84% of enterprises surveyed confirm that they spend money on advertising on social networks. Specifically, small enterprises in areas such as beauty salons, dentistry, food stores, etc. have spent about 25-30% of their revenue on advertising activities on digital platforms, mainly through search engines and social networks.

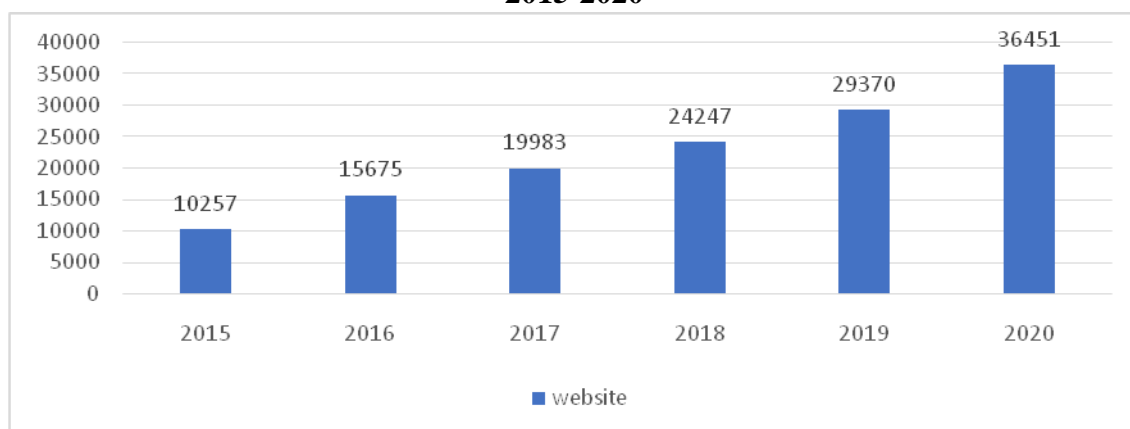
According to the report "Viet Nam digital advertising market 2021 - A strategy to catch up and break through" of Adsota, Facebook is the most popular advertising channel among social networks in Viet Nam today, with over 53% of respondents choosing to click on ads,

more than videos on Youtube (42%) and Mobile App (20%). The percentage of people deciding to buy after seeing the ad is up to 51%, much different than other advertising means. Spending on online advertising activities of enterprises in total revenue increases steadily every year in Viet Nam, specifically, in 2019 it is 22.5%, by 2020 it will increase to 23.4% and it is expected that this figure in 2021, 2022 is 24.2% and 24.7%, respectively.

Revenue from online advertising in Viet Nam in 2022 may reach approximately \$400 million, an increase of nearly \$116 million compared to 2019. In which, the industries that spend the most include retail, FMCG, automobiles, financial services, tourism, telecommunications, and technology. According to statistics of the Ministry of Information and Communications, Google and Facebook's advertising networks accounted for about 70% of online advertising market revenue in Viet Nam. Notably, although these two foreign technology firms do not have legal entities in Viet Nam, up to 70% of customers in Viet Nam sign a contract to buy advertising services directly with Facebook, ie not through an agency, while this rate with Google is more than 50%.

Regarding the website platform, by 2015 there were more than 10,000 websites confirmed and announced by the Ministry of Industry and Trade. This number has continuously increased from 2015 to 2020, reaching 36,451 websites, more than 3 times higher than 2015. This proves that Vietnamese enterprises have been more active and proactive in building websites such as tools to promote their business and products.

**Figure 2. Number of websites certified by the Ministry of Industry and Trade, 2015-2020**



*Source: Aggregated data from the IT Association and Vietnam E-commerce and Digital Economy Agency*

### **2.3. Digital platforms for commercial advertising activities through E-commerce**

According to data from the Ministry of Industry and Trade, in 2020, Viet Nam's e-commerce grew by 18% with a scale of \$11.8 billion, estimated to account for 5.5% of total retail sales of consumer goods and services revenue nationwide. Although this figure is lower than the previous forecast of \$14 - 15 billion, this is still a high growth rate compared to other countries in the region.

In order to grow domestic revenue and increase reach for target customers in the country, popular e-commerce platforms such as Shopee, Sendo, Lazada, and Tiki are always paid special attention and investment by enterprises. According to a survey of the E-commerce Association in 2020, among enterprises participating in the survey, 17% of

enterprises said that they have business activities through e-commerce platforms, an increase of 5% compared to the previous year and this is the highest rate in the last 5 years. Hanoi and Ho Chi Minh City are the two localities with the highest percentage of enterprises doing business through e-commerce platforms with the same rate of 23%.

For export activities, adapting to the general trend of the world, especially in the context of the COVID-19 pandemic, e-commerce in Viet Nam in recent years has had a positive development and has become one of the country has the fastest e-commerce growth in the world at a rate of 35% per year. While cross-border e-commerce is increasingly prevalent and growing strongly in Europe, Vietnamese enterprises, especially small and medium ones, will have the opportunity to succeed when exporting to this area if they know how to approach it methodically and build a long-term strategy.

For the EU market, recently, within the framework of implementing the cooperation program to support enterprises in exploiting the EVFTA Agreement using an e-commerce platform between the Viet Nam E-commerce and Digital Economy Agency - the Ministry of Industry and Trade and the Viet Nam Institute of Science in Business administration and Digital economy (VIDEM), the Viet Nam - EU business e-commerce platform (VEFTA) was officially launched, meeting the needs of business and goods trade between Viet Nam and the EU. When completed, this e-commerce platform has the ability to connect directly with existing e-commerce floors of provinces, cities and industries, thereby building a national database of capacity profiles, making transparent the origin of information about products and services of Vietnamese enterprises. Currently, Viet Nam's e-commerce transactions to the EU are still preliminary. But the good news is that recently, Vietnamese enterprises have had initial successes when they started to build their own cross-border e-commerce business models in the EU. Recently, the first 3 tons of lychee were exported to Germany through the Voso e-commerce platform.

According to data provided by Amazon Global Selling Viet Nam, there are already thousands of Vietnamese enterprises using this e-commerce channel with revenue in 2020 surpassing \$1 million, 3 times higher than in 2019. Similar to Alibaba e-commerce platform, currently, Vietnamese enterprises have more than 600,000 products being posted on Alibaba.com, including Viet Nam's strong products such as food and beverages, furniture, home & garden, agricultural products and garments. Evaluating the recent export efficiency through e-commerce of Vietnamese enterprises, Mr. Tran Dinh Toan, Deputy General Director of OSB Company, Official Authorized Agent of Alibaba.com in Viet Nam, Chairman of the Viet Nam Export Support Alliance (VESA) said that many Vietnamese enterprises have actively engaged in e-commerce activities and have signed contracts with great value. Especially, during the time when the COVID-19 epidemic spread, Vietnamese export enterprises knew how to make good use of e-commerce to take advantage of online import and export opportunities.

### **III. ADVANTAGES AND DISADVANTAGES OF DIGITAL PLATFORMS FOR COMMERCIAL ADVERTISEMENT**

#### **3.1. Advantages**

- Help enterprises reach a huge number of customers: The Internet connects people all over the world, so advertising on digital platforms is not limited in terms of time and



geographical location. Just need a computer or a smartphone with an internet connection, a large number of users can see the products/services of the enterprise.

- Help businesses save time and marketing costs: Promoting products/services on free social networking platforms will save a lot of costs compared to traditional advertising. As long as the enterprise owns a fan page or a large website, it will easily communicate and promote the image of the enterprise to a large number of customers around the world.

- Increase enterprise tracking: Enterprises that perform advertising on a digital platform can track users' behaviour towards their brands and learn the preferences and interests of prospective customers. Customer response can be recorded through: How many people saw your product advertisement? How many people clicked? What information did they see, in which section of the product website did they stay the longest? All of this important information is just a dream in traditional advertising, but will show up very clearly in the monthly report that the business receives from the website that has placed the banner. These metrics allow enterprises to identify customer tastes, thereby building a long-term advertising strategy tailored to their needs. This is very difficult to do with traditional advertising such as through television, newspapers and bulletin boards.

- Helps increase the time to connect customers with enterprises: Under any circumstance, as long as you have a computer or a phone connected to the Internet, customers can consult and order products/services of your enterprise anytime, anywhere. On the other hand, with this form of advertising, enterprises can always stay connected to answer questions for customers through online chat frames.

### **3.2. Disadvantages**

- The large amount of advertising information spreading on the Internet can easily make the advertising information of the enterprise confused. On digital platforms, there will be dozens, hundreds of diverse ads from different enterprises that distract customers' attention. Therefore, if you want your enterprise image to stand out, the content used in Online Marketing needs to be invested in quality and creativity, attracting the attention of customers.

- Need someone with knowledge and experience to use digital advertising tools effectively. People in charge of advertising activities must not only have basic knowledge, but also have skills in using advertising tools fluently, regularly updating changing trends from digital platforms.

- Confidential information is not completely protected. The development of the Internet creates conditions for hackers to easily steal customer information for malicious purposes, negatively affecting their privacy.

- The act of deceiving the shadow of advertising activities on digital platforms. The large customer network is a fertile ground for fraudsters to take advantage of this form of marketing to cheat money, sell fake and counterfeit goods, etc., thus negatively affecting the image of the business in the eyes of users.

## **IV. PROMOTION OF COMMERCIAL ADVERTISING ACTIVITIES OF ENTERPRISE ON DIGITAL PLATFORMS**

- Identifying commercial advertising on digital platforms is just one of the useful tools to help enterprises implement marketing strategies: Many enterprises mistakenly believe that

just implementing commercial advertising on digital platforms will sell goods, increase revenue. In fact, Facebook marketing is an online marketing tool, in the group of promotional communication tools, helping businesses reach and inform customers, helping customers know about products and enterprises. But the factors that motivate customers to buy products come from products, prices, shipping and sales policies. Therefore, if enterprises only focus on Facebook marketing but do not focus on doing well other marketing mix policies, it will not be effective in the long run.

- Regularly update information and innovation policies from digital platforms: In order to create a healthy social network space and attract users, digital platforms are increasingly tightening regulations on advertising, focusing on official information, creative, not duplicate, not shocking, sentence views or negative information. In addition, digital platforms regularly add new utility features to support businesses and users such as integrating email marketing with advertising accounts, helping ad creators receive information from the platform in a timely number. Therefore, enterprises must regularly update innovation policies from the digital platform to be able to maximize the efficiency that the digital platform brings to the enterprise.

- There is consistency in commercial advertising content, messages and images: Between online media such as social networks, messages, websites, and search engines and offline media such as television, newspapers, outdoor advertising, there should be consistency in the content, messages, commercial advertising images of products/services of the enterprise so that customers can easily identify the messages to the same brand.

- Some notes for enterprises when implementing advertising programs on digital platforms:

- + Define specific goals in advertising programs such as recognition, interaction, etc., thereby having the basis to evaluate the effectiveness of advertising objectives.

- + Select specific and detailed target audience. Besides demographic criteria such as age, gender, and marital status, enterprises should choose behavioural criteria such as interests, habits, and interests. These are related criteria related to the behaviour of customers searching for, purchasing and using products. Therefore, the advertising program will target the right audience more effectively, helping to spend the budget more effectively.

- + Design an easy-to-see interface, easy to access information, with call-to-action words such as calling, texting, and ordering in advertising articles.

- + The time to publish articles must be consistent with the time of using Facebook of the target audience, such as women with small children usually after 9 am and 7 pm, office workers usually from 8 am or 12 pm.

- + Digital platforms must regularly post new articles every hour, constantly interacting with customers. Users of digital platforms can like and follow many different digital platforms, but only the platforms and applications they interact with regularly will the information of that platform appear on the user's home page.

- + Deploying a variety of activities on digital platforms, besides articles, text, images, videos, enterprises can deploy many other activities such as live stream, organize events, create surveys, contest... to attract and motivate customers to interact more.

- + Provide value to users, because digital platforms are not only a place to sell goods, but also a place where customers know enterprises, learn information about products and

enterprises. Instead of only posting articles calling for purchase or shocking news, views, enterprises should focus on posts that provide value to customers such as how to use the product, positive information, humour, life value.

+ Focus on training professional advertising teams on digital platforms: The difficulty of small and medium enterprises is the limited budget for digital platforms and human resources. However, implementing advertising on digital platforms requires a methodical, thorough and continuous investment. Advertising activities on digital platforms not only require technical implementation of digital platform applications, but more importantly, implementers must understand customer behaviour when using digital platforms, be able to post, edit photos, videos, create ideas and organize continuous activities on digital platforms. Therefore, enterprises need to have specialized and knowledgeable personnel about digital platforms. If the cost to maintain a team of personnel with expertise in digital platform operations is too high, enterprises can hire external service companies or experienced individuals (freelancers) to support the enterprise in performing. However, when outsourcing, individuals and organizations may not clearly understand the product and the message the enterprise wants to convey, so it is necessary to clarify the program objectives before implementation.

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# VIETNAM'S EXPORTS AND OUTPUT GROWTH: A STRATEGIC POLICY MODELLING STUDY

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## Abstract

*Since its introduction of opening-up reforms Doi Moi in the late 1980s, Vietnam's growth which is attributable particularly to exports-oriented growth policy has achieved remarkable results (averaged annually 6.6 per cent during 2000-2019). This makes it one of the 'miracle' economies in Asia. In recent years however, due to the country's deep engagement in regional economic integration through free trade agreements and WTO membership, Vietnam's growth and especially exports have experienced the ups and downs of global developments, competitiveness, and crises that need investigation for sustainable strategic long term analysis. To address this, the paper is a rigorous study of Vietnam's exports determination and its causal relationship to the country's growth. The objective is to provide substantive evidence and credible inputs from a demand-side macroeconomic perspective, to complement other official supply-side studies for appropriate policy analysis and implementation. Significantly, for Vietnam, an important open and transition economy in Asia, the study is carried out from an economic integration (globalisation) growth framework, which is also the expenditure (as opposed to production or income) perspective of the United Nations System of National Accounts 1998/2003. Specifically, a multi-simultaneous equation model of Vietnam's endogenous growth and exports determination is developed. The model innovatively incorporates gravity theory and classical consumer demand contributors, Ironmonger-Lancaster new commodity attributes and Johansen policy impact add- and sub-factors (i.e., reforms and crises) explicitly in its economic integration structure. The model is then estimated by system methods with 2000-2019 official economic and trade data from national and international databases. Empirical findings, while acknowledging the importance of domestic policy and practices of national export strategy that affect the supply side of the export sector, provide also importantly significant evidence to support particularly focus on strategies affected by external or demand side determinants of Vietnam's exports. The research will contribute to advances in the international trade literature and the findings provide useful insights and appropriate and much needed evidence-based inputs on the determination and contributors of Vietnam's exports to national economy. These strategic recommendations are useful to key stake-holders such as policy-makers, government and academic researchers, and business analysts for national strategic policy analysis and practical implementation. The approach adopted has wide generic applications.*

**Keywords:** Vietnam's exports and growth, economic integration theory, econometric modelling, national strategic economic and trade policy.

**JEL:** C36, C51, C54, F14, F15, F62

## I. INTRODUCTION

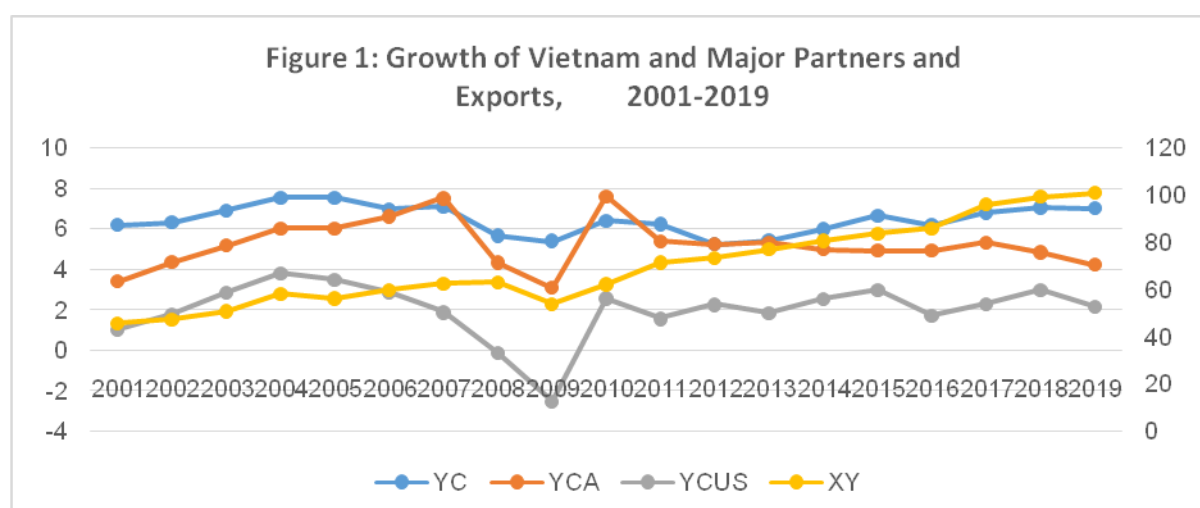
Since its introduction of opening-up reforms Doi Moi in the late 1980s, Vietnam's growth which is attributable particularly to exports-oriented development policy, has achieved remarkable results (averaged annually 6.6 per cent during the volatile period 2000-2019, ADB (2021)). This makes it one of the 'miracle' economies in East and South-East Asia. In recent years however, due to the country's deep engagement in regional economic integration in Asia and beyond through free trade agreements and WTO membership, Vietnam's growth and exports have experienced the ups and downs of global developments, regional competitiveness and crises that need investigation for sustainable strategic long term analysis. To address this, the paper is a serious rigorous study of Vietnam's exports determination and its causal relationship to the country's growth. The objective is to provide substantive evidence and credible inputs from a demand-side macroeconomic perspective, to complement other official supply-side studies (e.g., ITC (2021), VIOIT (2021a, 2021b)) for appropriate policy analysis and implementation.

Significantly, for Vietnam, an important open and transition economy in Asia, the study is carried out from an economic integration (globalisation) growth framework, which is also the expenditure (as opposed to production or income) perspective of the United Nations System of National Accounts 1998/2003 (for related studies in such other fields as trade, CO2 emissions, official development assistance and tourism, see Tran (2004), Tran (2007), Tran and Limskul (2013), Tran et al. (2018), Tran et al., 2020, Tran et al., 2021). Specifically, a multi-simultaneous equation model of Vietnam's endogenous growth and exports determination is developed. The model innovatively incorporates gravity theory and classical consumer demand contributors, Ironmonger-Lancaster new commodity attributes and Johansen policy impact add- and sub-factors (i.e., reforms and crises) explicitly in its economic integration structure. The model is then estimated by system methods with 2000-2019 official economic and trade data from national and international databases such as ADB (2021), ERS-USDA (2021) and UNCTAD (2021). The research will contribute both to advances in the trade literature and the findings provide useful insights and appropriate and much needed evidence-based inputs on the determination and contributors of Vietnam's exports to its growth. Strategic recommendations will be provided as complementary inputs to key stake-holders such as policy-makers, government and academic researchers, and business analysts for national strategic policy analysis and practical implementation.

The plan of the paper is as follows. Section 2 uses official international data to briefly survey the recent trends of Vietnam's growth, exports, economic integration and key export contributing factors, and importantly, the impact of regional and global crises and domestic reforms in Vietnam during the volatile period 2000-2019 where latest data are available. Section 3 briefly describes an appropriate and new multi-equation econometric model of endogenous growth and export determination for Vietnam and its special innovative and appropriate features, and previous related studies. Section 4 describes the data and estimation methods and presents the empirical findings and, importantly, their statistical modelling characteristics. Major strategic policy implications for sustainable exports and growth for Vietnam and their relevance to current studies and national interests are discussed in Section 5 and Section 6 concludes.

## II. RECENT TRENDS IN VIET NAM'S EXPORTS AND GROWTH

In recent years, Vietnam had experienced high and fairly stable growth and volatility in comprehensive trade due to number of factors. These include investment and trade liberalisation through 16 free trade agreements and other partnerships, enhanced development in domestic production capability, development of regional and global production networks, 2006 and 2014 investment legal reforms, regional and global crises, and relatively weak domestic service providers, to name a few. More specifically, the historical data for the study's key indicators in focus during the period 2000-2019 namely Vietnam's growth (YC), its main export partners' (Asia and Oceania and the US) economic conditions (YCA and YCUS respectively), and its merchandise exports/GDP (gross domestic product) denoted by XY are given in Figure 1. Vietnam's three main economic integration determinants of growth (WTO, 2021) also standardised by GDP for international comparison, namely merchandise imports/GDP (IMY), foreign direct investment/GDP (FDIY), and total services/GDP (SY) are given in Figure 2. The sum of XY and IMY is also known as an indicator of the country's openness. FDIY represents the country's capital inflows and SY its services including tourism.



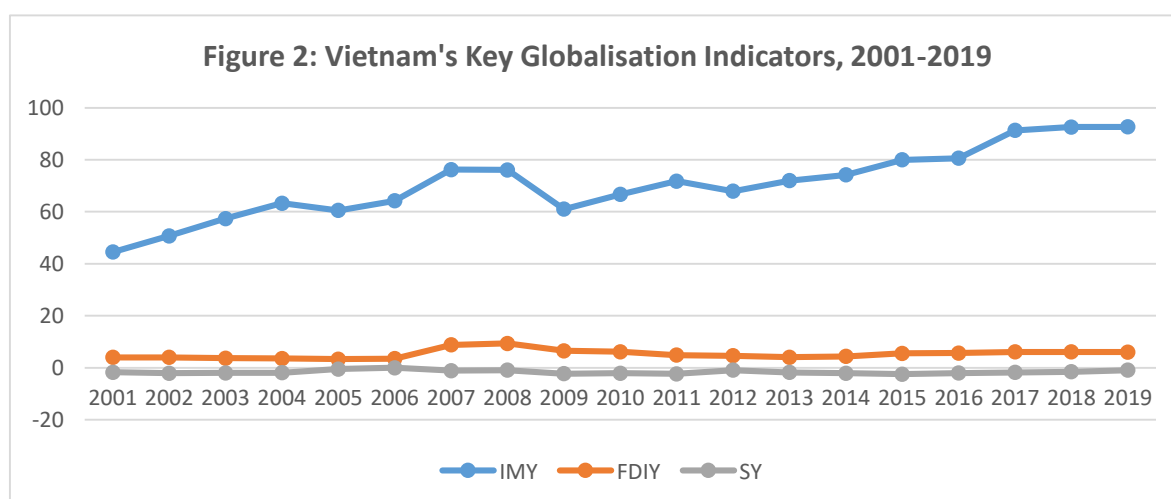
Notes: YC=Vietnam's growth, YCA=Asia and Oceania's growth, YCUS=US growth, XY=merchandise exports/GDP (secondary axis).

Sources for data in Figures 1-3: ADB (2021), ERS-USDA (2021), UNCTAD (2021).

From Figure 1, we note the country's high and fairly stable growth starting at 6.19 per cent in 2001 and ending at 7.02 per cent in 2019. Its annual average is relatively high at 6.46 per cent for the whole period 2001-2019. Interestingly, the effect of the country's WTO membership in 2007 was not beneficially reflected in its growth. But it was rather negatively impacted by the global financial crisis (GFC) of 2008 and the so-called euro crisis during 2012-2013. Vietnam's growth seems to have improved mildly in recent years however. The economic conditions of Vietnam's two major export markets, namely Asia and Oceania and the US as depicted in Figure 1, show a similar pattern of movements during 2001-2019: more volatility and a lower growth. While the annual average growth for Asia and Oceania is 5.29 per cent it is much weaker at only 1.99 per cent for the US. Both Asia and Oceania and the US experienced a severe downturn as a result of the GFC and a continuing mild decline in recent years. In contrast, Vietnam's merchandise exports (as a percentage of its GDP) in Figure 1 show an almost continuous rising trend during 2001-2019 starting at 46.00 per cent in 2001 and ending at 100.90 per cent in 2019 and with a high annual average of 70.01 per

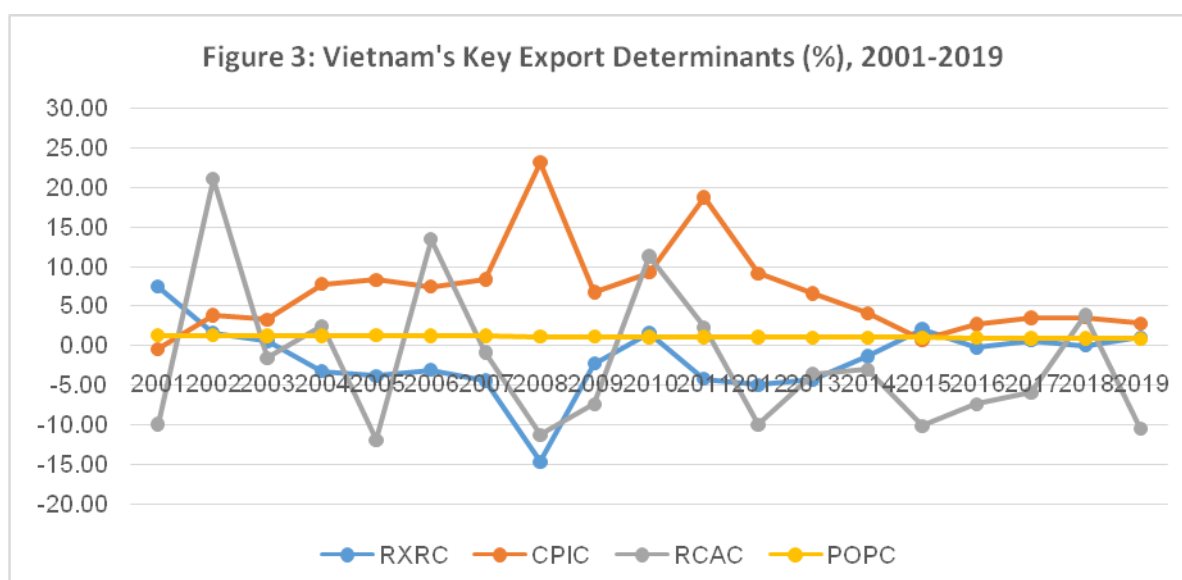
cent. While some benefits of its 2007 WTO membership were noticed, the negative impact of the GFC on Vietnam's exports fell by about 10 per cent in 2009. This setback seems to be the only temporary effect on the country's growing exports in recent years.

In Figure 2, we also note the almost continuous rising and high trend of Vietnam's merchandise imports as percentage of its GDP during 2001-2019 starting at 44.50 per cent in 2001 and ending at 92.70 per cent in 2019 and with an annual average of 70.72 per cent (indicating an average trade deficit). The impact of the GFC on imports was serious with a fall of about 15 per cent in 2009. This seems the only downturn of imports during the whole period under study. On the other hand, foreign direct investment (FDIY) is low but stable even with the country's need for capital inflows in support of its FDI-led growth policy and with various investment reforms in 2006 and 2014 (see Tran, 2020). As a country with early financial developments and relatively weak domestic service providers, services (SY) were in deficit but also low and stable. The annual average for FDIY is 5.26 per cent and for SY - 1.62 per cent. The adverse effect of the GFC on both FDIY and SY was mild. The performance of both FDIY and SY has improved in recent years.



Notes: IMY=merchandise imports/GDP, FDIY=FDI/GDP, SY=services/GDP.

Figure 3 describes the movements of the four representative key contributors to Vietnam's exports (see the conceptual rationale given in Tran (2002)) during the period 2001-2019. These contributors include, in addition to the country's usual human and natural endowments and policies (ITC, 2021) and economic conditions, importantly its main trading partners' economic demand conditions or growth (YCA and YCUS, see above). Vietnam's cost of living (CPIC), Vietnam's real exchange rates (RXRC), Vietnam's revealed comparative advantage index (RCAC), and Vietnam's population growth (POPC) representing an important gravity factor for trade time-series data (Frankel and Romer, 1999).



Notes: RXRC=change in real exchange rates (%), CPIC=Vietnam's cost of living or inflation (%). RCAC= Vietnam's revealed comparative advantage (%), POPC=population growth.

The picture from Figure 3 shows a complex group of indicators with diverse and fluctuating movements that may have potential collective impact on Vietnam's exports and subsequently growth. First, in addition to our discussion earlier on YCA and YCUS, the country's inflation shows on the other hand a highly volatile trend during the GFC and euro crisis period between 2008 and 2012 where it rose to 23.12 per cent and 16.68 per cent in 2008 and 2011 respectively, The annual average for CPIC is fairly high at 6.79 per cent (compared to 6.46 per cent for growth) during the whole period. Second, real exchange rates indicate a falling trend starting at 7.36 per cent in 2001 and bottoming at -14.62 per cent in 2008 during the onset of the GFC. With a recovery in 2010, RXRC had slowly improved in recent years ending at 1.00 per cent in 2019. The annual average of RXRC is -1.69 per cent for the whole period. Third, as an important feature to expand exports, Vietnam's revealed comparative advantage index change shows a wide level of fluctuations almost from year to year with an annual average of -2.97 per cent. Finally, by its policy, Vietnam's population growth had been kept low during the period 2001-2019 with an annual average of 1.12 per cent. The trend seems to be alarmingly continuingly declining starting at 1.32 per cent in 2002 and ending at 0.88 per cent in 2019.

The 2001-2019 statistical data and their statistical descriptive analysis from Figures 1-3 above for Vietnam's major potential determinants of exports and probably economic integration-based growth (through an indirect complex nation-wide interdependent transmission mechanism) during the country's economic integration or globalised and volatile period show a complex system of relationships. This would severely affect the utility of the graphical or correlation analysis or related applied computable equilibrium approaches (Johansen, 1982. See also below) for credible findings and reliable strategic policy analysis. In the sections below, we propose to use an econometric approach to empirically study the causality of Vietnam's export determination and growth and their structural relationship during deepening globalisation as postulated by modern international trade economics via gravity theories, classical and new consumer demand theories and Johansen policy-impacted factors and advanced econometric analysis.



### III. A NEW MODEL OF VIET NAM'S EXPORTS AND GROWTH UNDER GLOBALISATION

A limited number of studies have been carried out in recent years to investigate the contributing factors to Vietnam's exports and sometimes with growth. These include studies by Thanh and Kalirajan (2005) on the effect of exchange rates, Nguyen and Xing (2008) on the impact of foreign direct investment, Nguyen et al. (2018) on exports and growth, Narayan and Nguyen (2019) on the type of energies used, and, importantly and more recently, major official policy issues in exports and imports VIOIT (2021a, 2021b). In spite of these extensive and varied studies, rigorous studies of Vietnam's exports and growth under the country's current economic integration or globalisation stage and with appropriate data-based policy recommendations are, while highly desirable, have hardly been undertaken and reported. The gap is addressed by the paper in the sections below from an econometric approach using the data described in Section 2 and other related conceptually relevant contributing factors.

To rigorously explore the causal relationship between Vietnam's exports, growth, economic integration growth contributors (IMY, FDIY and SY), and also key testable economic-theoretic determinants (such as YCA, YCUS, RXR, RCA, and CPIC) and, importantly, major crisis events or reforms for Vietnam in an economic integration structure, an econometric model for Vietnam is developed as follows.

Adopting a new class of so-called economic integration models for growth causality study as proposed previously in Tran (2004, 2007; Tran and Limskul, 2013; Tran and Vu, 2018; Tran et al., 2018; Tran, 2019; Tran and Vu, 2020, Tran et al., 2020), we consider, for convenience and without loss of generality, a simple model of two simultaneous (circular causality) implicit or arbitrary functions for income (Y) and exports (X), (1) and (2), and their key testable determinant variables in an economic integration growth framework (WTO, 2021). In this model, the underlying theoretical assumptions and testable hypotheses are as follows. First, Vietnam's income (Y) is determined principally not by conventional production (i.e., capital and labour) or income (i.e., wages and profits) factors but by economic integration engines of growth (WTO, 2021), namely, trade openness (exports X and imports IM), FDI, services (F), and additionally economic policy (W), and shocks or reforms (S) (Johansen, 1982; Tran, 2004). Second, exports are simultaneously determined by the GDP of Vietnam (Y) and of its two major proxy export destinations' economic demand conditions such as Asia and Oceania (YA) and the US (YUS) (also known as the gravity factors, Frankel and Romer, 1999), Vietnam's cost of living or inflation (I), its real exchange rate (RXR) (Thanh and Kalirajan, 2005), FDI (Nguyen and Xing, 2008, VIOIT, 2021a), its demand attractions or revealed comparative advantage (RCA), W and other non-economic factors S. Conceptually, this model incorporates, in one important structural specification aspect, not only economic factors but also geographic or demographic attributes (Frankel and Romer, 1999), policy-impact factors (Johansen, 1982) or demographic dynamics (Kydland, 2006), and Ironmonger (1972) and Lancaster (1966)'s demand attributes. Thus for simplicity and importantly in implicit (function-free) functional form, the two functions for Y and X can be written for a sample N as:

$$Y_t = F1(a, X_t, IM_t, FDI_t, F_t, W_t, S_t), \quad t=1, \dots, N \quad (1)$$

$$X_t = F2(b, Y_t, YA_t, YUS_t, I_t, RXR_t, FDI_t, RCA_t, W_t, S_t) \quad t=1, \dots, N \quad (2)$$

where F1 and F2 are two implicit functions linking simultaneously income and exports to their theoretically plausible and empirically testable causal determinants (variables), and  $a$  and  $b$  are two vectors of parameters. In this model,  $Y$  may be defined as GNP (gross national product), per capita income (Easterly, 2007) or more popularly by convention real GDP which is adopted in this study.  $X$  and  $IM$  are defined as merchandise exports and imports respectively,  $FDI$  denotes foreign direct investment,  $F$  for services, and  $S$  is a vector representing shocks or policy reforms.  $W$  denotes other economic (fiscal, monetary, trade and export policy—see Sala-i-Martin, 1991), and  $S$  represents non-economic variables (e.g., country size or population, policy reforms and external shocks —see Johansen, 1982; Tran, 2005; for justification) relevant to Vietnam’s growth and export policy. Importantly for our feasible empirical study especially for developing or transition economies where data are often limited, in addition to the official time-series data for  $Y$ ,  $YA$ ,  $YUS$ ,  $X$ ,  $IM$ ,  $FDI$ , and  $F$ , and identification of relevant influencing national and global events in  $S$ , continuous or discrete data for  $W$  must be available and consistent with published time-series data from national statistical offices in a standard Kuznets-type accounting framework (e.g., System of National Accounts, SNA93/08), or the accounting system of Stone (1988), or the recent World Bank tables.

As (1) and (2) are in implicit form they assume importantly flexibility or no specific *a priori* functional form, and therefore are not statistically estimable. Since our purpose is ultimately to derive elasticities for their economic variables, we use planar approximations (thus ignoring higher-order differentials) and invariant transformations (e.g., see Allen 1960; and derivation in Tran, 1992; and previous related studies cited above) for (1) and (2) to write more explicitly in stochastic form and in terms of the rates of change for the continuous economic variables (denoted by  $y$ ,  $ya$ ,  $yus$ ,  $x$ ,  $im$ ,  $fdi$ ,  $f$ ,  $w$ ,  $i$ ,  $rxr$ , and  $w$ ) and binary  $S$  of all the included econometrically exogenous and endogenous variables as (for  $t=1, \dots, N$ )

$$y_t = a1 + a2x_t + a3im_t + a4fdi_t + a5s_t + a6w_t + a7S_t + u_{1t}, \quad (3)$$

$$x_t = b1 + b2y_t + b3ya_t + b4yus_t + b5i_t + b6rxr_t + b7fdi_t + b8rca_t + b9w_t + b10S_t + u_{2t} \quad (4)$$

In (3)–(4),  $y$  is growth (the rate of change in real GDP) and the equations are linear and interdependent or simultaneous, while  $a1$  and  $b1$  are constant terms,  $a2$ – $a6$  and  $b2$ – $b9$  are the elasticities (see Tran, 1992), and  $a7$  and  $b10$  are impact parameters. The  $u$ ’s are other unknown factors outside the model (Frankel and Romer, 1999), or the usual disturbances with standard statistical properties.

The main features of the model can be described as follows (see also Tran (2004, 2007; Tran and Limskul, 2013; Tran and Vu, 2018; Tran et al., 2018; Tran, 2019; Tran and Vu, 2020, Tran et al., 2020)). As specified in (1) and (2) and as testable hypotheses, the model in its implicit form can deal with any possible complex nonlinear functional relationship between growth and exports without requiring arbitrary and restrictive extraneous information about their relationship, and explicitly, in a causal economic integration growth framework. In its transformed form for empirical implementation given in (3)–(4), circular and instantaneous causality in the sense of Granger (1969) or Engle-Granger (1987) and within the economic integration framework exists, or is regarded in our study as a testable hypothesis. A system estimation method such as the 3SLS (three-stage least-squares) is therefore econometrically appropriate. In their exact or non-stochastic forms (in which all disturbances are idealistically zero), these estimated equations form the basic structure of a time-series data-based class of the computable general equilibrium/global trade analysis project (CGE/GTAP)) models of the

Johansen class, in which all elasticities and impact parameters are not assumed (calibrated) to be given or known *a priori* and the impact of endogenous or endogenised variables (say X) on Y is dependent on the exogenous variables and calculated system-wise, using such iterative procedures as the Gauss-Euler algorithm with a known sparse matrix of elasticities. In econometric studies, the impact is usually carried out by reduced-form analysis.

Significantly, it should be noted that, in the model's estimation construct (3)–(4) with the variables in the form of the rate of change or, equivalently, log-differences (for small changes), the resulting parameter estimates are the elasticities (see above and Tran, 1992) that may be regarded as short-run causality in the sense of Granger (1969) when the variables are integrated of degree 0 or they may be regarded as long-run causality or co-integration in the sense of Engle-Granger (1987) when the variables are integrated of degree 1. Other important properties of the approach are given for example in Tran et al. (2018). It can be verified that our so-called flexible (or function-free) growth and export Equations (3)–(4) in the model above are econometrically identified in the sense of mathematical consistency. The three-stage least-squares estimation method with relevant instrumental variables (see Table 1) is suitable and adopted.

## 4. EMPIRICAL IMPLEMENTATION AND SUBSTANTIVE FINDINGS

### 4.1. Data

Data sources -In addition to the key economic and export variables mentioned in Section 2 earlier, W in the export Equation (4) includes conventional demand—theoretically Vietnam's cost of living, international trade real exchange rates, FDI, and revealed comparative advantage for textiles and clothing as a proxy for the whole sector. Data for the estimation were obtained from the ADB (2021), UNCTAD (2021) and ERS-USDA (2021) databases. All economic and trade data are in real values or equivalent. In our study, all original data are obtained or derived as annual, and then transformed to their ratios (when appropriate). The ratio variables include merchandise exports and imports, FDI and services, all divided by the GDP. Other non-ratio variables include population (a gravity factor proxy for time-series models, Frankel and Romer, 1999), inflation, real exchange rates, revealed comparative advantage, and qualitative variables representing the occurrence of the economic, financial and other major crises, policy shift or reforms over the period 2001 to 2019.

Variables definition and data processing - The qualitative binary variables reflect, in a conventional manner, the major domestic, regional and global event dates, with the assumption of long-term non-decaying effects on growth and exports. All non-binary variables are then converted to their percentage rates of change. The use of this percentage measurement (which is equivalent to log-difference for small changes) is a main feature of our policy modelling and impact approach, as it deals with empirical implementation of the implicit functions (1) and (2) and avoids the problems of restrictive and potentially unsuitable *a priori* known linear or log-linear functional forms (see above), and also of logarithmic transformations for negative data (such as budget (fiscal) deficits, and real interest rates or current account deficits). In addition, in the model, we assume a unidirectional direction of comprehensive trade to growth in a “causal” context. That is, the model deals with Vietnam's exports and imports (in goods), FDI, and services and their causal impact on Vietnam's growth and not vice versa. Major reforms and crises and economic variables that have been identified or assumed as exogenous or acceptable instrumental variables, affecting

simultaneously Vietnam's growth and exports, are listed in the empirical findings table in the next section.

The p-values for the Phillips-Perron unit root test for all variables in the model are given as: Vietnam's growth = 0.711, Asia and Oceania growth = 0.470, US growth = 0.406, Vietnam's exports/GDP = 0.263, Vietnam's imports/GDP = 0.183, FDI/GDP = 0.441, services/GDP = 0.233, RXR = 0.557, Vietnam's inflation = 0.475, and population = 0.712. Showing all variables used in the estimation are stationary at the 1% significance level. The empirical findings reported below are thus not spurious.

#### 4.2. The estimated model and modelling performance

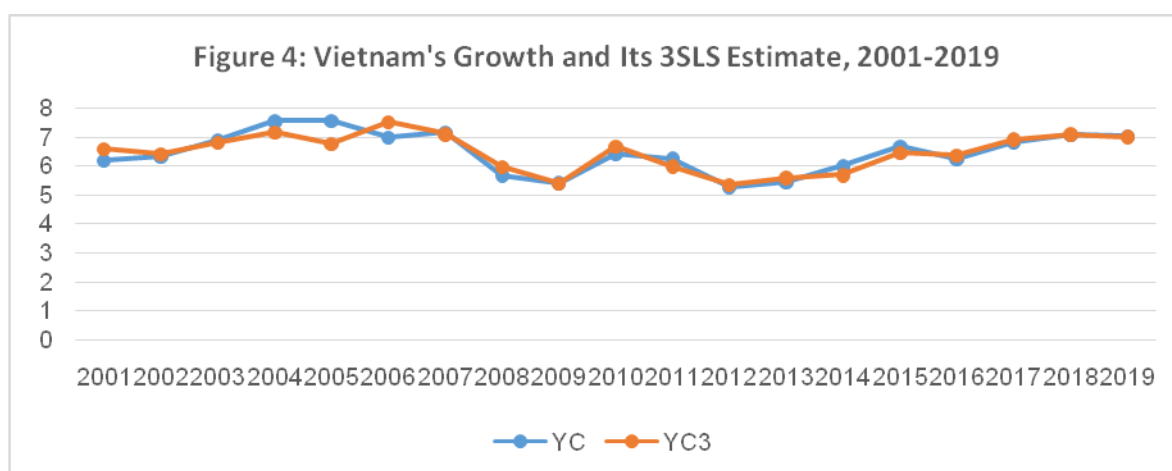
To provide insights into Vietnam's exports, and with the various key contributing factors to endogenous growth and exports (the instrumental variables), the model (3)–(4) has been appropriately estimated, as mentioned earlier, by the 3SLS using the available official data for the period 2001–2019. The basic findings on the parameter estimates (elasticities for economic, trade, and demographic variables and impact parameters for event variables) are reported in Table 1 below, and their standard graphical and statistical evaluations in this modelling approach are given in Figures 4 and 5 and Table 2. As mentioned above, the model is identified according to the order identification tests, and all included (non-binary) variables have been found to be statistically stationary according to the usual unit root tests.

**Table 1. Vietnam's exports and impact on growth. 3SLS Estimates. 2001-2019**

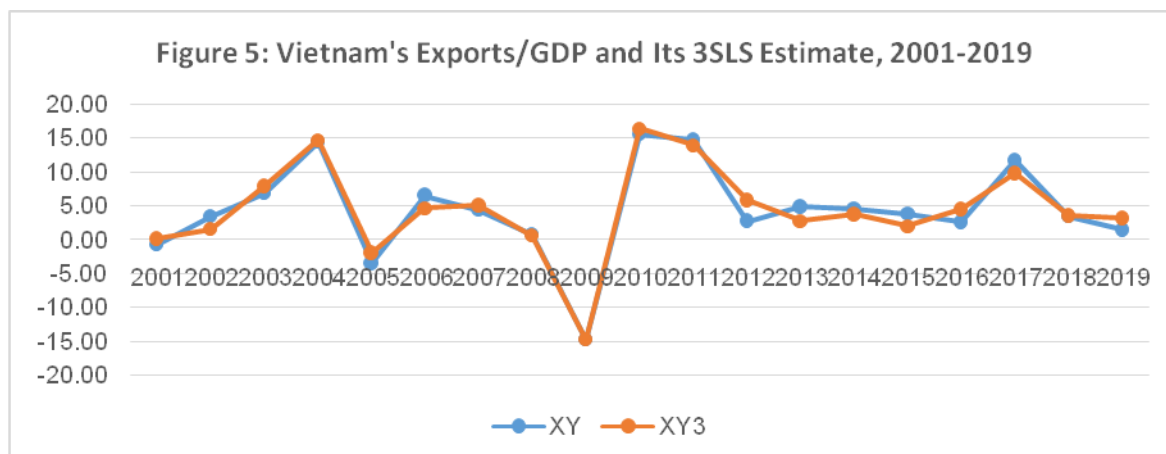
Variables	Growth	Variables	Exports/GDP
Const	-,1.063		-59.340
Exports/GDP	0.099**	Vietnam's Growth	12.252**
Imports/GDP	-0.016	Asia & Oceania's Growth	12.863**
FDI/GDP	0.009	US Growth	-5.174**
Services/GDP	0.0002	FDI/GDP	-0.110**
		Real Exchange Rates	5.734**
		RCA	0.155**
Inflation	-0.057**		5.799**
Population	5.815		-73.865**
		2004	-10.393**
2005	1.203**		-16.473**
Post GFC 2009	-0.245		8.514*
Euro Crisis 2010	-0.678		-53.071**
2012	0.202		70.363**
2015	1.275**		-7.122**
		2016	-16.111**
2018	1.079**		
RSQ	0.916		0.971
DW	2.192		3.102
PP-p value	0.803		0.870

Notes: GFC = Global Financial Crisis, RCA = Revealed comparative advantage, RSQ = R-squared, \*\* = Significant at the 5 per cent level, \* = Significant at the 10 per cent level, PP p-value = Phillips-Perron p-value of the unit root test on the residuals. Software used for estimation = TSP-Oxmetrics 6.

The modelling performance of the estimated equations for Vietnam's growth and exports using our approach has also been measured, importantly, by the Friedman (1953)-Kydland (2006) data-model compatibility or simply "empirical fit" criterion (Figures (4)–(5)) which, unlike many other empirical models in related studies, show excellent fits. More specifically, the estimated model, particularly exports, emulates very well the volatile peaks, troughs and the turning points of both growth and exports in Vietnam over the whole sample period and especially over the deeply turbulent 2002-2010 period covering wars and financial crises.



Notes to Figures 4–5: YC and YC3 = Vietnam's growth and its 3SLS estimate, XY and XY3 = Vietnam's exports/GDP and its 3SLS estimate.



In addition, modelling performance is measured by their empirical statistical characteristics, using Theil-MSE decomposition, and given in Table 2. Other standard diagnostic tests available for OLS estimation and residuals are not appropriate for 3SLS residuals. As assessed by these various modelling diagnostics reported in Figures (3)–(4) and Table 2, the estimated model first performs very well in emulating the trend and volatile movements of Vietnam's growth and export data over the whole sample period 2001–2019. Second, the Theil-MSE findings show the closeness of data in the form of the model's first two moments, that is, bias ( $m_b$ ), variance ( $m_s$ ), and especially the high covariance ( $m_c$ ) of

0.951 and 0.989 for the growth and export equations respectively. The model's residuals have also been tested for evidence of unit roots, with a Phillips-Perron p-value of 0.803 for growth and 0.870 for exports establishing statistical stationarity and modelling credibility for reliable analysis. In addition, in the estimated model, the values for  $R^2$  (0.838 for growth and 0.971 for exports) and DW (2.062 for growth and 3.102 for exports) appear acceptable and show no first-order autocorrelation or efficiency problem.

**Table 2. Modelling performance—THEIL-MSE decomposition**

	Growth		Exports/GDP	
	Actual	3SLS	Actual	3SLS
Mean	6.462	6.463	4.415	4.416
St. Dev.	0.702	0.636	7.001	6.889
Corr. Coef.	0.902		0.976	
RMSE	0.295		1.471	
Mean Error	0.001		0.001	
$m_b$	0.000		0.000	
$m_s$	0.049		0.011	
$m_c$	0.951		0.989	

Note:  $m_b + m_s + m_c = 1$ . See Pindyck and Rubinfeld (1998).

The discussions of the findings and strategic policy implications for Vietnam's growth and especially export determination are based on these robust empirical findings, and given in Section 5.

## 5. MAJOR FINDINGS AND STRATEGIC POLICY IMPLICATIONS

As mentioned earlier, the rigorous literature on exports determination and its impact and contribution to economic growth in general and with respect to Vietnam in particular has been limited. In recent years, fast rising globalisation and widespread economic integration through for example free trade agreements (WTO 2021) have focussed the sources of growth on international merchandise trade (or openness), FDI flows, and services rather than on the traditional production or income perspective of the economy as adopted by a large number of conventional studies. This requires new directions in fundamental and data-based research for policy analysis that better reflect these global developments and available statistics and provide appropriate and credible policy recommendations.

It is important to note that this study makes use of this contemporary development focus to develop a new generic approach to address these developments, the so-called economic integration or United Nations System of National Accounts (SNA 98/03) expenditure approach that has had wide applications (Tran, 2004; 2005, 2007; Tran and Limskul, 2013; Tran and Vu, 2018; Tran et al., 2018; Tran, 2019; Tran and Vu, 2020; Tran et al., 2020). The objective was to provide substantive evidence for credible and appropriate policy analysis in the specific case of Vietnam's sustainable exports, and its impact on the country's growth. The findings by 3SLS estimation using official 2001–2019 economic and trade data of the model's two equations (3)–(4) with reported results in Table 1 and their modelling characteristics in Figures (3) and (4) and Table 2, show interesting credible results and

insights. They are particularly useful for understanding Vietnam's export determination and the impact of globalisation, exports, domestic reforms, and regional and global crises on country's growth for meaningful strategic policy analysis.

It should be noted that, as these findings are from an endogenous and simultaneous multi-equation economic integration econometric study with acceptable empirical fit (see above), these time-series data-based findings represent another perspective of macro-economic modelling and using official real-life data, and, as expected, may not be consistent with expectations or with other findings from alternative approaches normally used by national and international researchers such as descriptive statistical analysis, input-output analysis, CGE simulation, Granger short-term causality, Engle-Granger long-term co-integration, regression analysis and related studies.

Significant and major implications of our findings above and particularly relevant to Vietnam's national export strategy 2021-2030 consist of several parts. First, important as empirical support are the findings that Vietnam's exports depend significantly on its domestic and sectoral characteristics known collectively as national economic conditions, reforms and developments and captured ultimately through an economy-wide transmission process by growth YC with elasticity of 12.252, and also on the country's major export sector revealed comparative advantage RCA with elasticity of 0.155 . (see further details on these domestic exporting issues in ITC (2021), VIOIT (2021a, 2021b)). Second, more important however are the findings that, from an external demand perspective, Vietnam's exports depend particularly on its trading partners' economic and international trade conditions such as their growth (YCA with elasticity of 12.863) and real exchange rates (RXR with elasticity of 5.734). For policy analysis, these external factors are dominant but largely outside the control of Vietnam. This makes related exporting strategy formulated by the country (VIOIT 2021a, 2021b) more complex and needs additional focus. On the issue of trading partners' economic conditions, the US which is Vietnam's top export destinations (with USD42.558m or 22.36 per cent of all exports in 2019, see ADB, 2021) exerts unexpectedly from our findings on the contrary a negative impact (with an elasticity of -5.174) on Vietnam's exports. While the finding may be of a short term nature, its policy implications would be that as the US's growth improves, it is likely to divert its demand for Vietnam's exports to other competitive exporting countries in the region and beyond.

Our study also finds that FDI somehow hampers Vietnam's exports with an elasticity of -0.110. This evidence seems to support the view of many researchers and analysts on Vietnam that some of the FDI into the country needs to be re-directed or attracted to the export-supporting activities (VIOIT, 2021a, 2021b). Relevant to this issue is the recommendation for digitalisation of the related industries to promote exports (see relevant discussion in Tran, 2019b, ITC, 2021). Finally, our findings indicate that domestic reforms and especially national, regional and global crises during the sampling period 2001-2019 do have a strong and varying impact (for example from -53.071 to 70.363 during the euro crisis and recovery) on Vietnam's exports. As these are essentially external influences or factors, they call for appropriate strategy and policy that mitigate their damaging occurrence or minimise their adverse impact not only nationally but also at the sectoral level whenever can be done. This point would make the strategy and policy for Vietnam's exports especially for the post-COVID-19 pandemic period more complex and need added attention and resources (see some related discussion in Tran, 2002).

On the macroeconomic perspective, Vietnam's exports are found in our study to have significantly contributed to the country's growth (with an elasticity of 0.099). This evidence lends support to the policy of exports-led growth of the government (see also Nguyen et al., 2018). As expected however, imports hinder the country's growth but the evidence is not statistically significant. The findings also indicate that generally Vietnam has not significantly benefitted as expected from the process of globalisation or regional economic integration via free trade agreements or related partnerships where FDI and services are considered important engines of growth (WTO, 2021). While the results may be due to our small sample, some obstacles to these benefits that have been suggested include misdirected or insufficient FDI or weak domestic services providers due to an early financial market. The findings that FDI and services are positive in our study are encouraging however. As in the study of exports, the strong impact of domestic reforms, national, regional and global crises on Vietnam's economic performance was validated. As a remedy, international co-operation on fiscal remedial policy has been suggested and an appropriate policy to address these issues including the current COVID-19 pandemic is necessary (see IMF, 2021)

### **Conclusion**

The paper addresses two important contemporary issues in Asia with a focus on its major economy, namely, export determination in Vietnam and its contribution to the country's economic growth amid the lack of rigorous studies that take into account the structure of modern economic integration theory appropriately for globally integrated economies. The aims of the study are to contribute rigorously and appropriately to the improvement of the quality, efficiency and suitability of Vietnam's current 2021-2030 national export strategy setting. The new approach introduced in the paper is particularly consistent with contemporary global economic and international trade policy developments and relevant modelling methodological advances. It is highly relevant to studying what causally motivated growing exports in Vietnam, and their important policy issues, and whether they have had any significant impact on its economy during the volatile period 2001–2019 where the country and region had experienced great shocks and reforms.

The study has provided a number of interesting and useful results for practical and sustainable export strategic policy analysis in Vietnam especially during the COVID-19 pandemic and applications to its post period. The findings and policy implications are also supported by rigorous economic-theoretic considerations and robust advanced econometric modelling analysis. Finally, the approach adopted is in the so-called economic integration class of econometric policy modelling and generic. It has wide applications in related fields of causality, impact research and credible strategic policy analysis.

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# ANALYSING OPPORTUNITIES AND CHALLENGES FOR VIETNAM'S POWER MARKET OPENING IN CONNECTION WITH ASEAN NEIGHBOURS

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## Introduction

*Vietnam's power sector has taken a major leap in its development by growing more than 152 times between 1964<sup>19</sup> and 2016, from 265 MW during the Vietnam War in the 1960s to over 40,000 MW today. Generated power slowly picked up until 1986 when the government decided to open the economy under 'Doi Moi'. Since then, Vietnam's GDP growth was at a constant strong rate of average 7.4% per annum until 2009<sup>20</sup>. The economy was transformed from agriculture-based to industry-intensive. In response to industrial demand, electricity supply multiplied. In comparison to 1986's capacity at 1075 MW, today's installed capacity is more than 37 times as much. This incredible supply growth however still could not satisfy the consumption demand<sup>21</sup>.*

*The electricity sector was subject to international and national pressures to liberalise, similarly seen in other then developing countries towards neoliberal economic models. Regarding international political pressures, in 1995, when Vietnam joined ASEAN and signed AFTA, the government agreed to implement trade liberalisation. In comparison to its neighbouring countries in the ASEAN, Vietnam offers many investment opportunities in the sector, especially when the economy is getting more open and connected with the world.*

*The paper discusses the power sector development pathway of Vietnam analysing actors and political economy environmental factors that affect the development trajectory of the sector so far. Looking forward to next steps in market liberalisation, the paper also discusses the opportunities and challenges for investment and cross-border trading in the sector when Vietnam opens the market to neighbouring ASEAN countries.*

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<sup>19</sup> Total capacity in 1964 excludes capacity of the 5 French Indochinese power plants that were not able to provide consistent power and were known to be heavily bombed during the war.

<sup>20</sup> Average 6.2% from 2000-2016

<sup>21</sup> Nguyen, X.T. and Dapice, D. (2010), Vietnam's Infrastructure Constraints, Vietnam Program, Ash Institute for Democratic Governance and Innovation, Harvard Kennedy School

## **I. ENABLERS OF POWER SECTOR DEVELOPMENT<sup>22</sup>: DOMESTIC vs. INTERNATIONAL FINANCIERS**

In 1986, Renovation Policy opened a new chapter of trade and industry reform for Vietnam to change from pure communism model to a market-based economy. In the 1990s, the country focused on rural electrification since over 80% population lived in the rural areas. In 2001, Decree No. 45 permits private investors to participate in the power grid via PPAs with EVN

(Electricity Vietnam). The Vietnamese government only officially committed to energy sector liberalisation from 2004.

In 2004, the government passed the Electricity Law outlining the framework for a competitive electricity market. But the actual implementation plan only came in 2006 under Prime Minister Decision 26. The electricity market was expected to be competitive in more than 20 years, passing three stages: first, a single buyer market from 2005-2014; second, wholesale market creation from 2015-2022 and third, introduction of retail market from 2022 onwards.

In 2006, after many failed attempts in the past since 1996 under other prime ministers, EVN was reorganised into a corporate group with more than 60 subsidiaries. EVN still holds complete ownership and control. Second, under the Prime Minister's Decision, EVN had to sell shares of five power generation subsidiaries on the stock exchange, but it keeps around 70% shares. These newly equitized joint-stock companies depend on PPAs granted by EVN. Third, EVN's corporatisation does not in fact benefit the industry. Taking advantage of its financial guarantee by the government in any case of loss, the corporation diversified into other industries, including telecommunication, banking, real estate development.

In 2007 when Vietnam joined WTO and signed GATS in January, public services including healthcare, education, electricity, and telecommunications became subject to liberalisation within a certain timeframe. Later that year, the 6th Master Plan pushing for a competitive market was passed and a single buyer market was created.

Little has been known about how the power sector grew and who enabled this growth throughout the years. Different official reports and research referred to 'investment' in different meanings, hence a controversy on actual policy impacts. Any power project would not be possible without an initial investment from an initial investor or group of equity investors as well as lender(s) (banks or institutions) at the initial stage of the power project. They are hereby referred to as 'initial investors' and 'lenders'. These institutions are pivotal to the growth of green investment into power generation. Most projects in other countries have 30% equity and 70% debt.

The Power Sector Database collects not only the power plants that are being in operation and visible on the map but also projects that were initiated, licensed, under

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<sup>22</sup> To the author's knowledge, the term 'Enabler' was first used in energy economics context by the U.S. Department of Energy's Electricity Advisory Committee (2008) when referring to Smart Grid as 'Enabler of the New Energy Economy'. Standish (2009) later referred to 'Digitization of the electric grid' as 'enabler of the energy efficiency and economic gain'. However, there has not been known yet that any other author or institution has used the term 'Enablers to Power Sector Development' as a framework to analyse the relationship and coordination between actors in the sector.

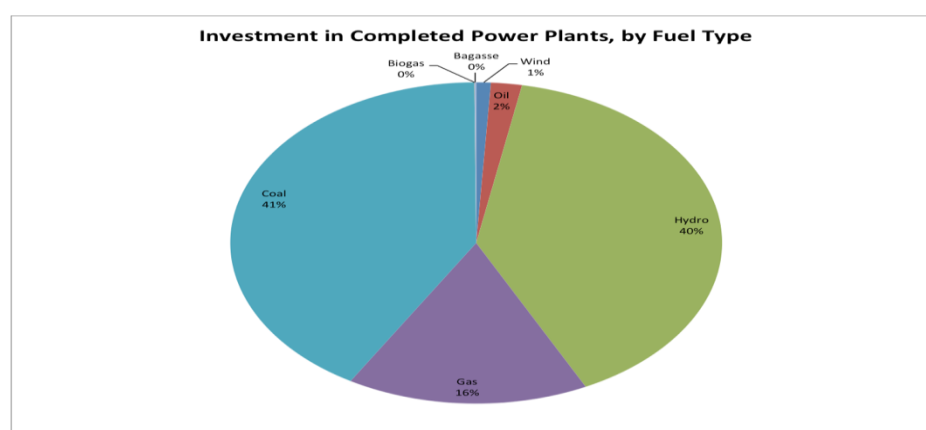
construction or cancelled. These projects are not unimportant. 189 out of 269 projects<sup>23</sup> are now in use. What is more apparent is that these 189 projects account for 56% of total financing costs. The total financing costs as calculated in this part includes costs of completed, under construction and licensed projects. So the costs of completed projects are historical costs while 44% of the total costs represents what would likely to come in the near future given all goes as planned. This overwhelming volume of potential financial inflow<sup>24</sup> into the sector throughout 55 years indicates the sheer amount of genuine interest of investors into the Vietnam's power sector.

**Table 1. Sources of finance in All Power Generation Projects in Vietnam<sup>25</sup>**

	Total Costs of Power Generation	Equity Investment	Debt
Proportion (%)	100	69%	31%
In Billion USD (2010 value) (up to 2 decimal places)	111.05	76.24	34.81

Looking at the development of the sector since 1964 to 2020<sup>26</sup>, the role of financiers is undeniably important. Without their financial contribution, there would not be any projects. But the term 'financier' encompasses both equity investors and lenders and their motivations as well as actions are different in nature. Investors often come first in the stage of project appraisal. Their contributions are in forms of equity. They look for long-term returns from profits. Their risks are higher than lenders. Lenders look for interest and principal payments. And their loans often must be guaranteed by investors' other properties, deposits or by a creditable institution.

**Figure A. Total Historical Investment in Completed Power Plants in Vietnam, by fuel Type<sup>27</sup>**



Figures below show the difference in the roles of investors vs. lenders in completed projects vs. all recorded projects. In both completed and expected projects, financial

<sup>23</sup> The Database contains data on 272 power plants from the very beginning of the Vietnam power sector but data is more complete from 1964 with 269 projects. So for analysis, we only look at post-1964 period.

<sup>24</sup> In the Database, if a project has not been completed and then cancelled, the financial contribution is marked at 0. There is one project (Song Nam-Song Bac) which was in use from 2010 to 2014 then got closed down.

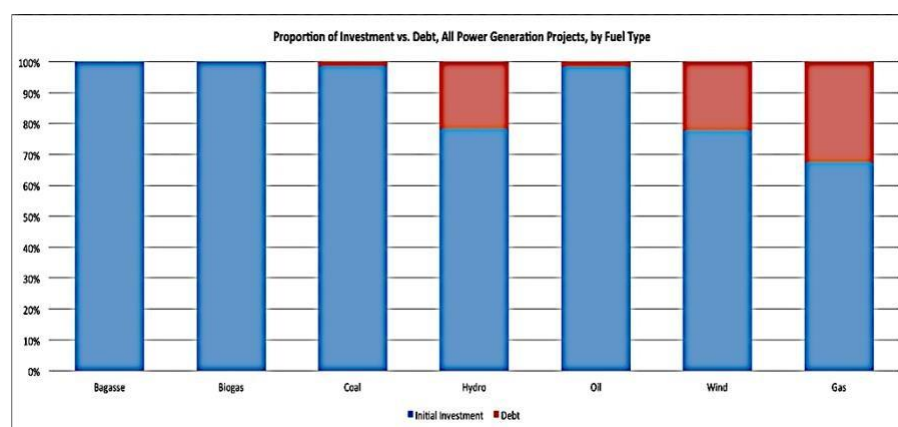
<sup>25</sup> All 269 recorded projects including completed and on-going projects

<sup>26</sup> Projected

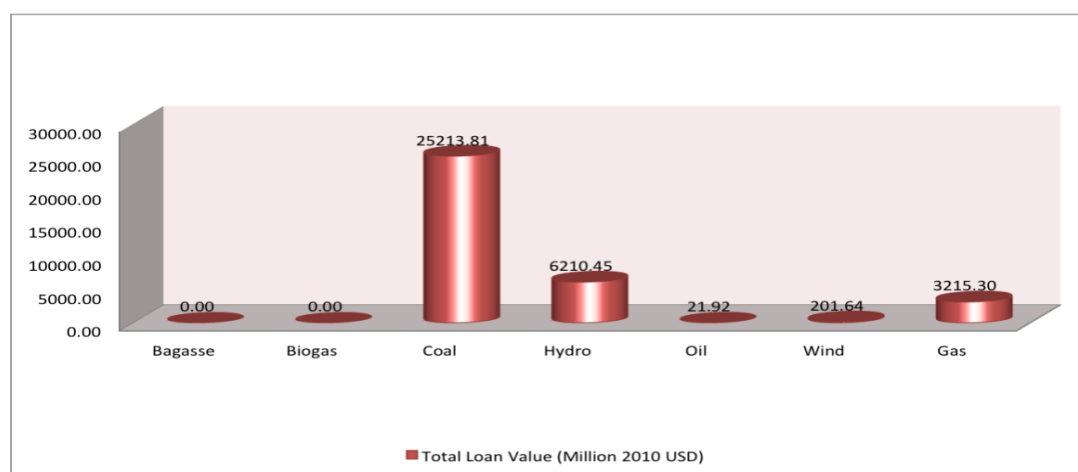
<sup>27</sup> Total of actual investment from 1961 to 2016

contributions by investors vs. lenders are 2:1. A possible explanation is that equity investors tend to carry out project appraisal based on historical records and lenders could accept what has become common in the sector. However, depending on the nature of each power generation projects, lending institutions could be more susceptible to agree on loans. Notably, biogas and bagasse power generation are by-product which tends to be self-funded by the manufacturers. Except for these 2 fuel types, it is illustrated that gas, hydro and wind power projects tend to get higher proportion of loans to support investment. However, it is not true that lenders prefer these types of generation. Figure below shows an overwhelming amount of loans given to coal-fired power stations which is 4 times as much as that to hydropower plants and much more than total of all other fuels together.

**Figure B. Proportion of Investment vs. Debt in All power Generation Projects, Vietnam**



**Figure C. Loan Values by Fuel Type, All Power generation projects in Vietnam**



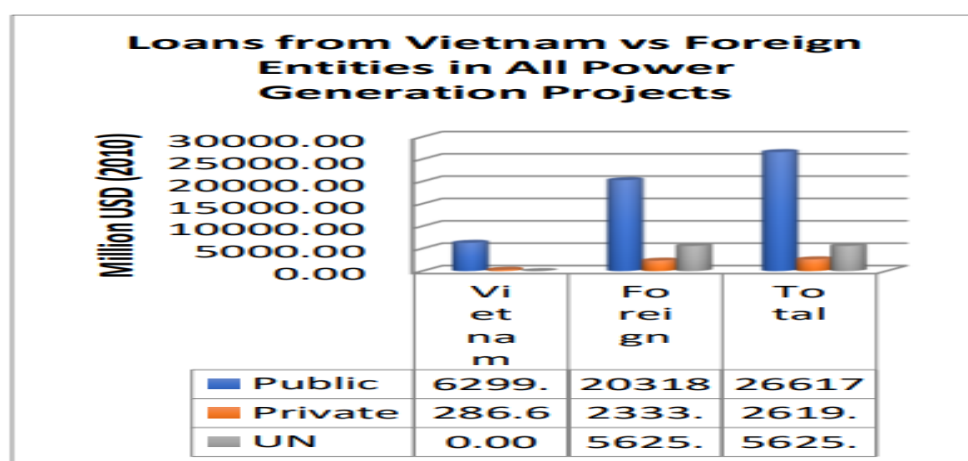
While the Database collects details regarding loans, the value of loans as well as details about lenders are also collected. Majority of loan values comes from foreign institutions<sup>28</sup>, accounting for an overwhelming 81% of total loan values. This figure could be explained by the fact that the Vietnamese banking system has only just been developed within the last 10 years and their capital is rather limited. Regardless of whether domestic or international, public institutions have been lending significantly more than private ones. Internationally, public funds lend 11 times more than private funds. This ratio is even bigger in Vietnam

<sup>28</sup> The Database shows no individual lenders.

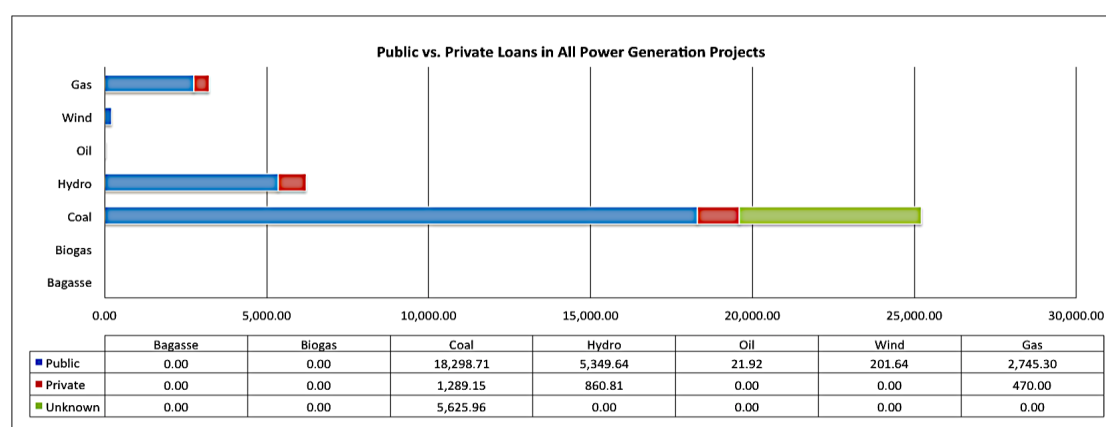
where public funds authorise more than 20 times what is done by private funds<sup>29</sup>. The role of public lenders is prominent in all types of generation. In looking at the fuel type of power generation, a pattern starts to appear in what lenders tend to choose. Domestic institutions support wind and hydropower while foreign lenders support the use of gas and coal. This may be a way to promote exports. And wind power projects have only obtained public funds. From the sectoral development analysis in the previous section, a possible explanation is that wind power is a new alternative source of energy being explored in Vietnam. The risks of investment are higher, in comparison to conventional sources. Only domestic public funding can afford to take the risk following the national strategy in developing sustainable energy.

Beside Vietnam, there are certain lenders whose funds have mattered to the power sector. The largest amount of loans comes from multilateral funds, mostly from the World Bank and the ADB. There is a common belief that Western banks have more capital hence their roles are more significant. On the contrary, Asian institutions from China, Korea and Japan are much more agreeable to supporting Vietnam. Chinese banks even lent more than Vietnamese banks in the power sector.

**Figure D. Loans from Vietnam vs. Foreign Entities in All Power Generation Projects from 1961<sup>30</sup>**



**Figure E. Public vs. private loans, by Fuel Type, in All power Generation Projects in Vietnam<sup>31</sup>**

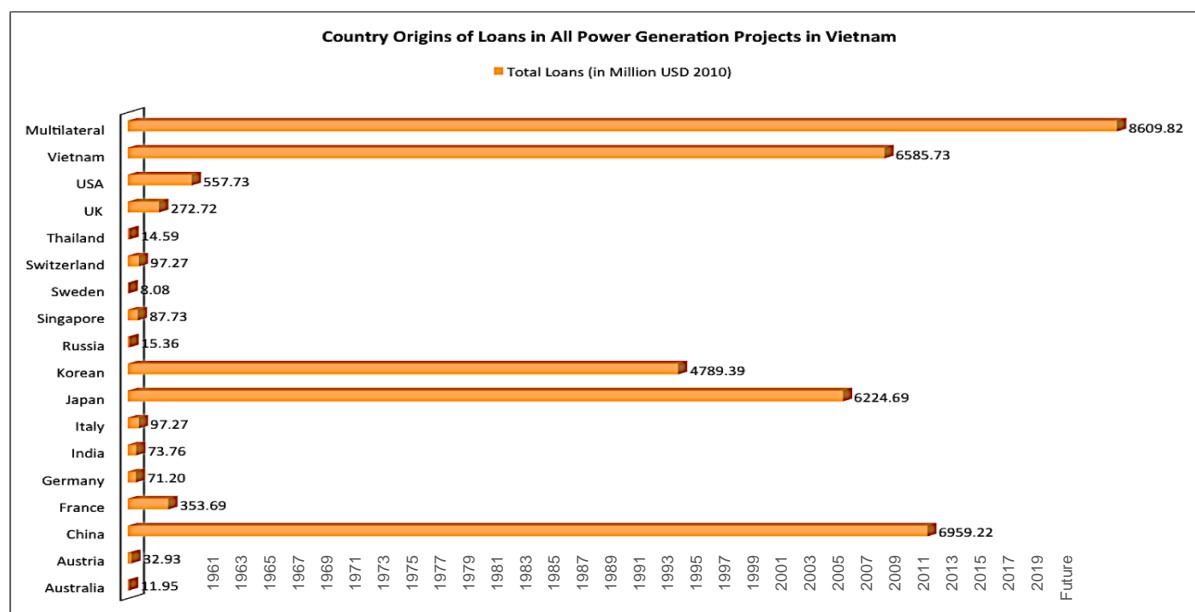


<sup>29</sup> The term 'authorise' is used because a loan is only recorded when there is a signed agreement.

<sup>30</sup> Source of Data: The Power Sector Database (2017). From 1961 (269 projects) in Million USD (Constant 2010 value)

<sup>31</sup> Source of Data: The Power Sector Database (2017). Data in Million USD (Constant 2010 value)

**Figure F. Country Origins of loans in all power generation projects in Vietnam<sup>32</sup>**



While 30% of finance comes from loans, 70% of total required funds come from investment. It is then of importance to understand what has happened in investment in power generation throughout the years. It could be said that this research presents the most comprehensive actual investment into power generation throughout the longest history of the power sector in Vietnam. Figure BB presents total actual investment in 5-year period from 1961 to 2015. The general trend is a significant increase in investment: starting to pick up from 1996 and multiplied from 2006. This falls into the strong economic growth period where power supply needs to grow faster than consumption demand. But looking further ahead, what is about to come in this 5-year period from 2016 to 2020 would possibly be 5 times as much of what has been observed before 2015. The power sector certainly attracts green investment<sup>33</sup> into power generation. Similar to lenders, investors have chosen coal and hydropower plants. 41% and 40% of total investment in power generation so far were made in these two fuel types, respectively, as seen in figure DD. While investment in wind power started to show as early as in 2009, the value of funds for fossil fuels (adding coal, oil and gas) would outweigh much of hydropower, let alone alternative energies. These strong preferences by both lenders and investors could be explained by the abundance of resources as well as technological expertise in relation to coal and hydro. It also reflects pressures from China and Japan and preferences within EVN rather than best economic/environmental solutions. These preferences have also been illustrated throughout the historical development of the power sector since 1894. Under pressure to provide much more power within a short time to meet economic growth, the choice towards conventional fuel is understandable. Yet, annually, from 2011, investment in coal power plants has surpassed that in hydropower and all other fuels. Therefore, what is worrying is that this ‘easy’ choice is not solving the decarbonisation challenge that Vietnam is facing and not utilising the opportunities in renewable energy that the country offers. Investors and lenders have shown that they are attracted to the sector here.

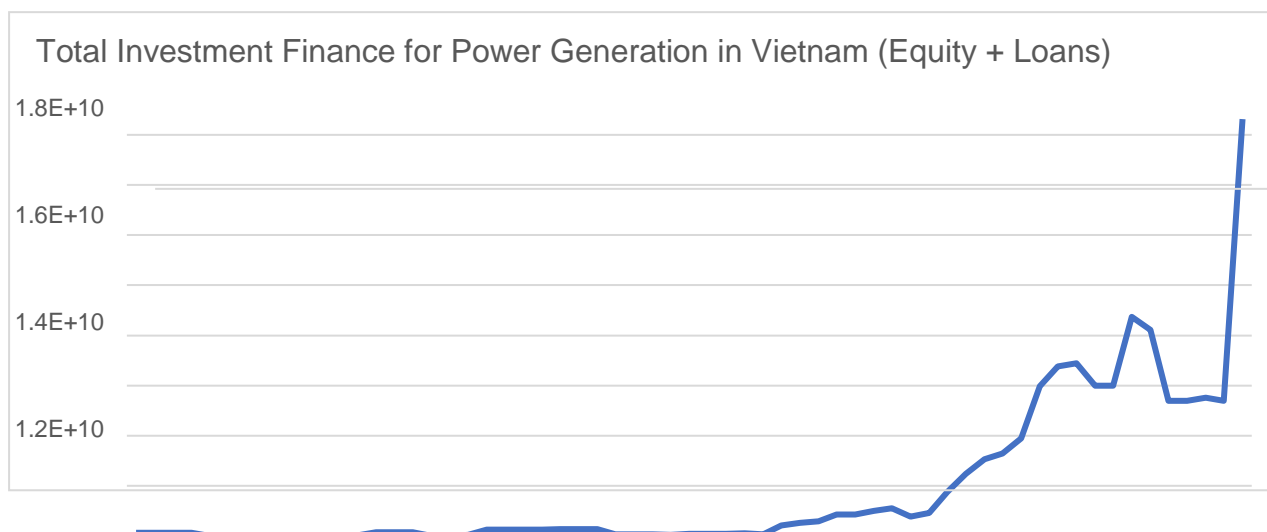
<sup>32</sup> Source of Data: The Power Sector Database (2017)

<sup>33</sup> Since the graph only counts new projects, these investments are green investment.

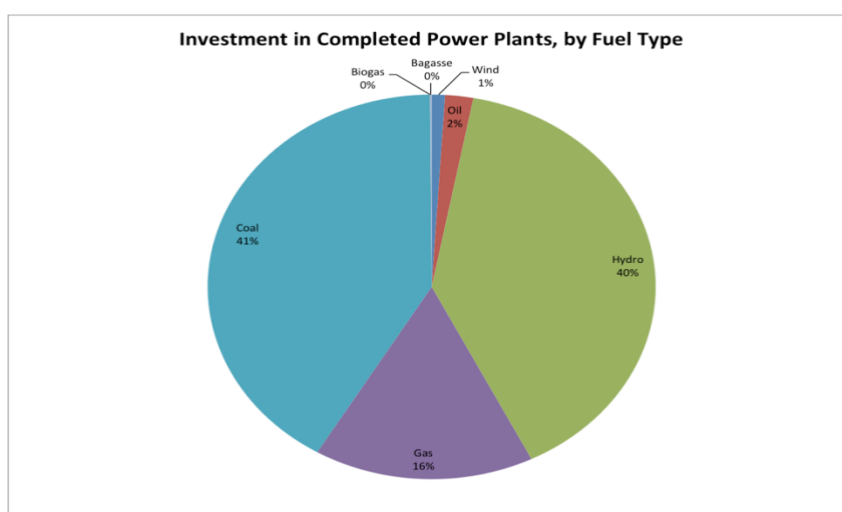


They have invested and would likely to do much more. But their choices are not balancing between easy short-term and difficult long-term objectives.

**Figure G. Looking ahead: investment in power Generation in Vietnam<sup>34</sup>**



**Figure H. Total Historical Investment in Completed Power Plants in Vietnam, by fuel Type<sup>35</sup>**



## II. VIET NAM AND ASEAN

### 2.1. Challenges in the power sector

#### ➤ Supply and Reliability

Vietnam has an almost perfect electrification rate. However, access to electricity also includes how quickly a household or business could get connected to the grid. And from this perspective, although it has improved much from 115 days from 2009-2014 to 59 days in 2015, the country is still behind.

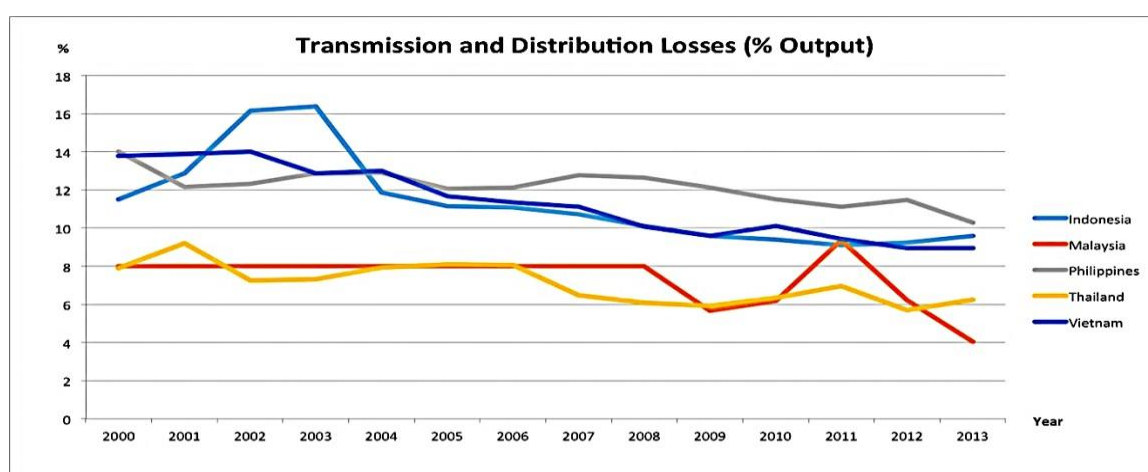
<sup>34</sup> Source of Data: The Power Sector Database (2017). From 2016 to 2020, this figure includes the power projects that are already being constructed and close to commencement. Beyond 2020 figure includes estimated commitment by investors that they put down to obtain license or in project plan.

<sup>35</sup> Total of actual investment from 1961 to 2016

**Table 2. Days Required to get Electricity<sup>36</sup>**

	2009	2010	2011	2012	2013	2014	2015
<b>Indonesia</b>	NA	NA	NA	NA	86.8	81.3	79
<b>Malaysia</b>	46	46	46	46	32	32	32
<b>Philippines</b>	42	42	42	42	42	42	42
<b>Thailand</b>	37	37	37	37	37	37	37
<b>Vietnam</b>	115	115	115	115	115	115	59

Another issue in the sector is the quality of the transmission system. The report by the ERAV forecasted that in 2012, the electricity industry would be able to meet national demand. However, in major urban cities, there were still blackouts because of system overloading, which was designed for only 77% of the current generation capacity. Since 2001, the Vietnamese government has acknowledged the need to increase generation capacity in the electricity sector. From 2001 to 2011, electricity supply grew in parallel with electricity consumption per capita. In 2012, there was a surge in power production but little change to actual electricity consumption. While system losses decrease consistently, the annual technical loss averaging 12% of output is still too high. In a World Bank's report from 2011, Vietnam only ranks at 88 out of 125 countries on quality of electricity supply (based on system losses). All 5 neighbouring ASEAN countries witnessed improvement in the system with reduction of transmission and distribution losses over the years/ However, Vietnam's service quality is only at the same level or marginally better than that of Indonesia and the Philippines where geographies of scattered islands naturally hindered electricity transmission. With unprecedentedly growing demand of 14% per annum, the electricity industry, however, commonly fails to deliver, especially during peak hours and dry seasons. It is reported that 'in the whole country there were 3,000 blackout incidents due to system overloading during the first 7 months of 2008', equivalent to '14 blackouts a day' (Nguyen and Dapice, 2010). They consider this as a 'pattern of blackouts', 'particularly in the dry season' by pointing out the great gap between peak and off-peak demand. The former one is almost twice as much as the latter. Thus, importantly, any efforts in increasing generation would be inadequate without properly maintaining and upgrading the transmission system. Given apparent excess generating capacity now, improving T&D may be the main point of strategic development.

**Figure I. Transmission and Distribution Losses In ASEAN-5 Countries<sup>37</sup>**

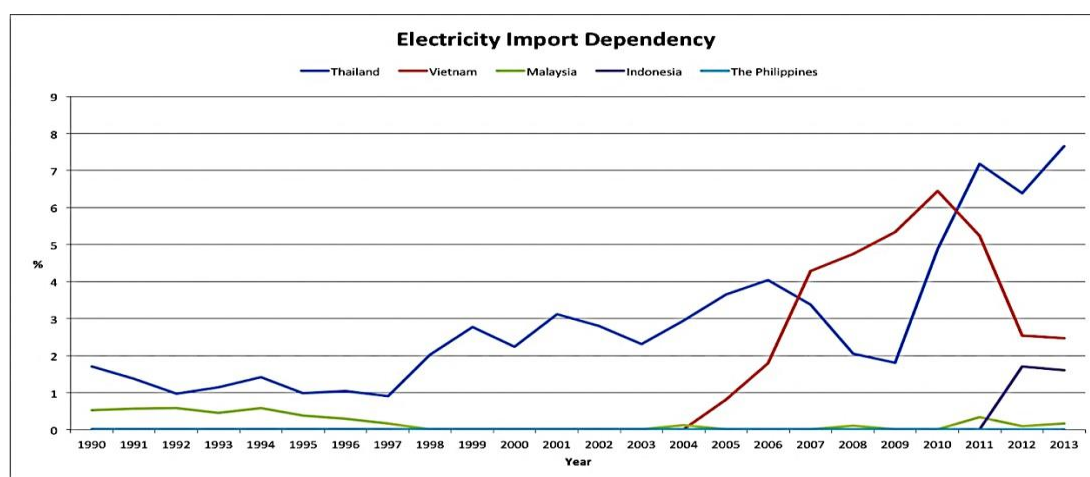
<sup>36</sup> Source of data: World Bank (2016). The World Bank defines 'time required to get electricity' is the number of days to obtain a permanent electricity connection. The measure captures the median duration that the electricity utility and experts indicate is necessary in practice, rather than required by law, to complete a procedure.

<sup>37</sup> Source of Data: World Bank (2016).

To mitigate this chronic electricity shortage, the industry's biggest player, Electricity Vietnam (EVN) must buy in all that is produced domestically and import from neighbouring countries such as Laos and China. Electricity is imported from China at a much higher price and under undesirable contract terms that cause it to be many times more expensive than building extra power capacity. Import Dependency is a good indicator for how much more electricity is

required to satisfy domestic consumption. And there was an 8-year period from 2004 to 2012, Vietnam was in significant power deficit, much higher than Malaysia, Indonesia and the Philippines. This deficit started to come down in 2013, coincidental with strong generation capacity growth since 2012. Electricity trade is bad if it costs more, not if it costs less.

**Figure J. electricity import dependency in Asean-5<sup>38</sup>**



### ➤ Pricing

In 2011 the Prime Minister agreed to adjust the electricity price on the basis of actual costs, resulting in gradual price increases until the average prices would truly reflect the costs. Within one year of the Prime Minister's decision, the price increased by 15.28%. EVN estimated that the 2012 price was around 62% less than the market price, for some inputs like gas, less than the production costs and was at an unsustainable low level compared to other countries. Yet, there are three other factors that will continue to push up the price of electricity in the short and medium term.

Firstly, there is the annual increase in base salaries. The base salary increased by 26% in early 2012 to make up for inflation in 2011 of 25% and by 13.6% in 2011 to make up for inflation of 11.75% in 2010 (calculations based on General Statistics Office of Vietnam, 2012). Input costs will increase and so will the electricity price. Secondly, the international price of oil, coal and gas inputs to electricity generation is likely to continue to rise, and the devaluation of the Vietnamese Dong will make these price rises even greater. Thirdly, the operation of new nuclear power plants in 2020, in contrast to what many people believe, will not reduce the price, because of the huge debt incurred in its construction will have to be paid off through the electricity price (World Nuclear Association, 2012). Salaries are not a big part of electricity costs; nuclear is dead in Vietnam for now; and gas prices have fallen by 50-70%

<sup>38</sup> Source of Input data: IEA (2016). Methodology for calculating Import Dependency is explained in Appendix C.

since 2012. I would re-write this paragraph! As for the future, often gas and coal are purchased under long-term contracts and renewables are predictable. There does not have to be a lot of price fluctuation.

Therefore, the retail price, if decided by the market mechanism, will sharply increase in the future – and it will constantly fluctuate under pressure of changes in input prices and the exchange rate. The clearest consequence of such increases is a continuous rise in living costs, which will hit poorest families the hardest. It will also increase costs for companies and so possibly have a negative effect on GDP. Many countries have a “lifeline subsidy” for low energy users. The first 30 to 60 kWh a month are cheap if that is all that is used. One can calculate the cost if (say) power price for poor is 5 cents and the cost is 10 cents. Say 5 million households at 50 kWh a month is \$150 million a year. As people get richer, the cost declines because fewer poor households buy little power.

The increase in the electricity price after the Prime Minister’s decision in 2011 shows that the government wants the sector to be able to finance itself. When the government budget is tightened and subsidies are re-allocated, negative economic and social impacts are likely to incur, hence offsetting the marginal financial gain by the withdrawal of subsidies. Simply, raising prices does not constitute an improvement in the economic situation.

#### ➤ **Inefficiency**

Not only cannot EVN satisfy its primary objective of ensuring a secure electricity supply, but it also suffers significant annual financial losses of hundreds of million dollars. EVN claims that too low average pricing of electricity is the cause of this loss. In addition, audit reports reveal that EVN’s diversification policy had caused further losses.

The inefficiency in infrastructure investment and inadequacy in organizational management have caused anger amongst the public, creating an extremely negative attitude towards the traditional monopoly structure of the electricity sector. Utilizing a popular measure, policy makers therefore choose to apply the ‘marketization’ or liberalization model that is, in theory, similar to the liberalization model that has been implemented in the UK and EU since the 1990s. The main reasons behind the policy are: 1) to assist the government in infrastructure investment; 2) to expose EVN to competitive forces through encouraging private and foreign investment which would force it to improve its financial and operational performance; and 3) to provide affordable and stably priced electricity. These 3 major objectives are thought to be the outcomes of introducing competition to the traditional monopolistic market structure. This causal link is, however, usually assumed rather than discussed and tested.

Bad managerial practices should be considered as one valid cause for the inefficiency of EVN and the bad image of state-owned companies in the public’s eyes. Since the beginning 2012, the government has tried to combat the issue of operational inefficiency by changing the organizational structure of EVN to avoid unprofitable businesses and lack of investment incentives. To avoid financial loss, it also increased the price. Possible cases of corruption are not yet revealed or officially judged. Any efforts in creating competition and improving efficiency will be wasted if the roots of the problems are ignored, such as bad management of the corporation, inadequacy in infrastructure investment and alleged corruption.

#### ➤ **Decarbonisation and Environmental Impacts**

One prominent issue in any power sector in the era is transition from fossil fuels to

renewables in generation. But it should especially be so in Vietnam where CO<sub>2</sub> intensity is higher than the world's average and its 2 metropolitans are in top 10 most polluted cities in the world.

In comparison to other countries in the region, the outlook seems promising for Vietnam since the country has a constant highest rate of renewables in total power out since 2000. A consistent increase in total installed capacity from renewable sources since 1964. However, further analysis into what has happened to different types of generation may reveal a less optimistic picture.

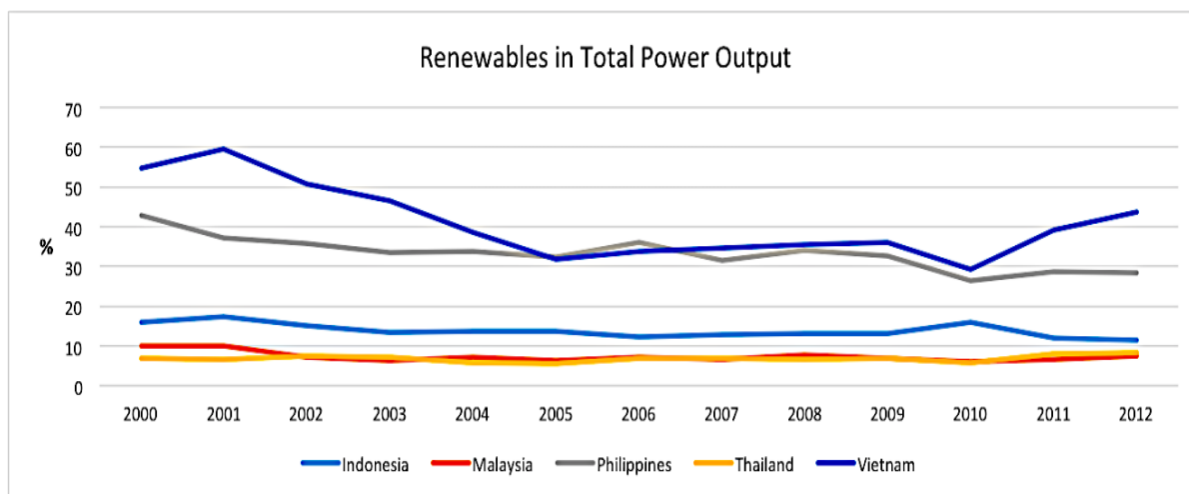
The growth in renewables has also been seen in fossil fuels in power generation. Since 2003, fossil fuelled power output has exceeded that from renewable sources. The scale would even be heavier on the side of fossil fuel vs. renewable sources excluding hydro.

However, the use of hydropower has been subject to debates on its environmental and social impacts including deforestation, disturbances to natural habitats, rehabilitation of local homes. In Vietnam, hydro power plants have been criticised for severe damages in the way they operate the reservoir in rainy seasons. The term 'deadly water discharge' came up often on newspapers around the same time every year. To name a few, A Vuong HPP released its dam that contributed to the death of 163 people and cost nearly \$800 million in property loss. Another disaster happened in 2013 with 41 deaths. Lately, in winter 2016, Ho Ho HPP released water during heavy rain and drowned 5000 houses and caused 9 deaths (VnExpress, 2016). In many cases, a water discharge should have been informed to local households to avoid costs of life but personal economic damage would still be likely to happen. Flood control becomes an essential duty of hydropower plants. And fairly speaking, 90% of Mekong Basin's flow (upstream) is generated and controlled from outside the country. Yet, frequent floods should have put a big question on the practice of flood control by hydropower plants. And if for a sufficiently long time there has not been a solution, an alternative energy source should be explored to start replacing this source. Better management of hydro can limit the problems described but diversifying to solar/wind is a good idea.

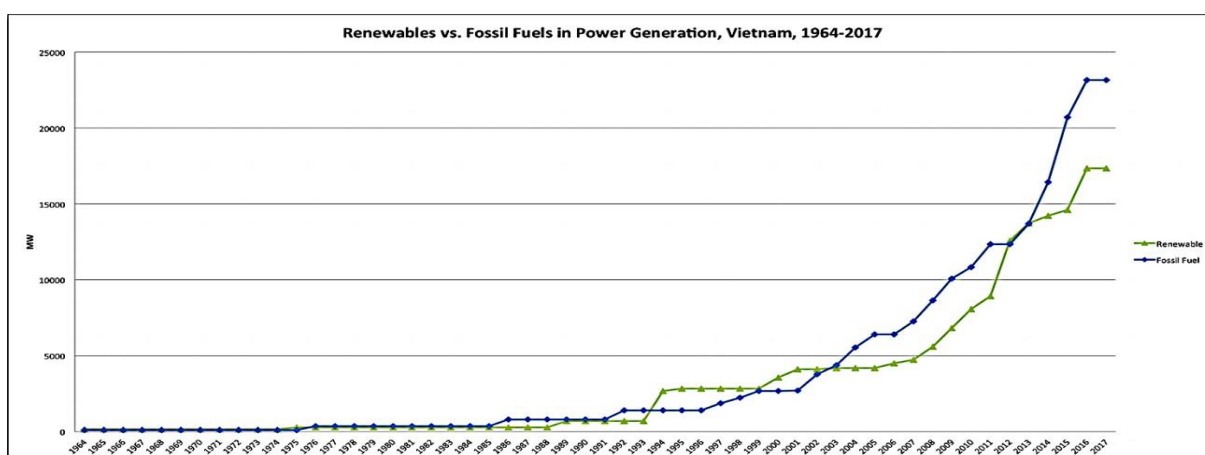
A closer look of composition of generation types shows the increasing use of coal, which is considered a major contribution to the pollution disaster in China so far. Coal is the main source of fuel input for power generation since early 2000s. ADB (2015) found that the price of coal in Vietnam is set to be below world market price, making it a cheaper input source and encouraging the use of coal in power generation. This rise also coincides with CO<sub>2</sub> intensity. Figure N depicts how Vietnam is going against the wave of reducing CO<sub>2</sub> Intensity. While on average, other countries are trying to reduce the emission of CO<sub>2</sub> per electricity output, Vietnam has seen a persistent increase from 2000.

This section aims to show that a quick glance at Renewables in the sector may mislead and cause misunderstanding of how ecologically friendly the power sector has been. Hence, it may cause the government to overlook this challenge to decarbonise power generation.

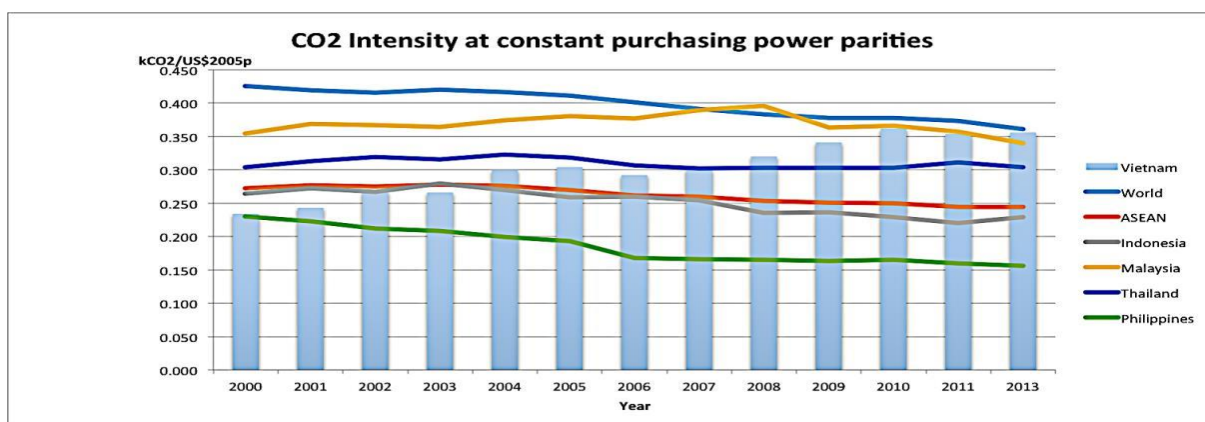
**Figure K. Renewables in Total Power output in ASEAN-5 countries**



**Figure L. Renewables vs. Fossil Fuels in Power Generation, Vietnam, 1964-2017<sup>39</sup>**



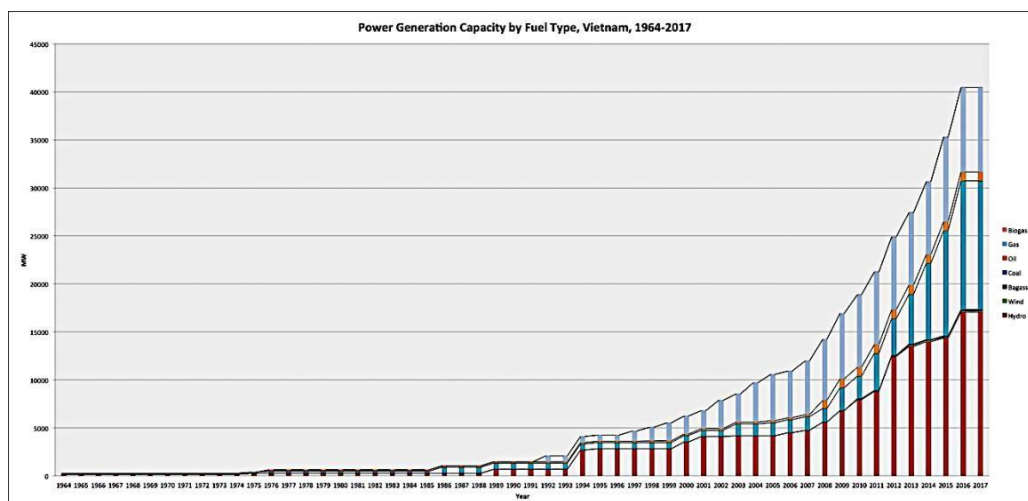
**Figure M. CO<sub>2</sub> intensity at constant purchasing power parities (world vs. ASEAN vs. Vietnam)<sup>40</sup>**



<sup>39</sup> Source of Data: The Power Sector Database (2017). Renewables include Hydro The next graph is of capacity, not actual generation?

<sup>40</sup> Source of Data: Enerdata (2016). The data was used with consent, but detailed data cannot be published. World and ASEAN data are average.

**Figure N. Power Generation Capacity by Fuel Type, Vietnam, 1964-2017<sup>41</sup>**

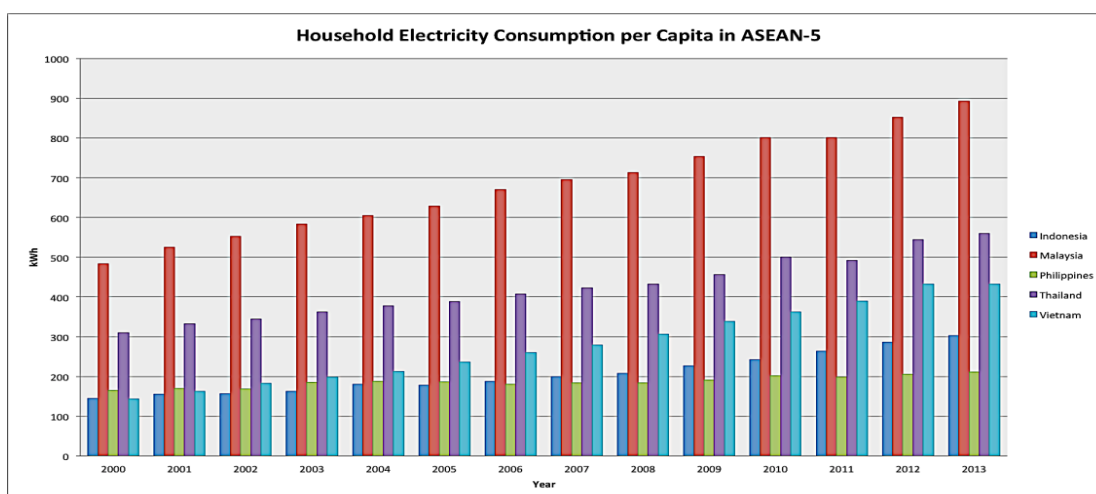


## 2.2. Opportunities in the power sector

### ➤ Increasing demand

A key driver for policy changes in the sector is how much economic growth has driven demand for electricity. While GDP growth p.a. is around 5-6% per year, energy demand has grown around 14% p.a. Power consumption per capita is ranging from 10-15% p.a. during this remarkable growth period. Power production has grown roughly 15% from 2000-2010 and shot up to above 25% from 2012. In fact, since 1990, electric supply growth has surpassed that of GDP (ADB, 2015). Besides, power consumption by households have increased steadily, reflecting penetration of electrical appliances and tools at home in the increasingly developing country. Vietnamese households are catching up with those in Thailand and have surpassed consumption in the Philippines and Indonesia though sharing similar economic development stages. There is further room for the sector to grow to meet these residential needs. Energy consumption per unit of GDP is very high. HH consumption is now approaching Thailand which has double the GDP per capita and has very much slower electricity growth.

**Figure O. Household Electricity Consumption per Capita in ASEAN-5 countries<sup>42</sup>**



<sup>41</sup> Source of Data: The Power Sector Database (2017)

<sup>42</sup> Sources of Input Data: IEA (National Residential Consumption Data), World Bank (Population Data). See Spreadsheet for Input and Calculated Data.

### ➤ **Abundant resources**

It is rational for Vietnam to develop hydropower generation when its estimated exploitable potential from this source is around 80-100 TWh with installed capacity of roughly 18-20,000 MW (Honningsvag et al, 2001). More optimistically, PECC1<sup>43</sup> estimated even up to 300TWh and 34, 647MW respectively. Its geography endows the country with 2,360 rivers that are longer than 10km. However, as pointed out above, the use of hydropower is controversial: generating low carbon but causing social damages. There are small in-river generators that have a much lower environmental impact - they are new.

Alternatively, the Vietnamese government has started to invest in wind turbines. Power output from wind has been almost unimportant in total electricity output. Another source that has been utilised popularly in sugar companies is biomass (including bagasse). Though power generated is a by-product and is of small scale, its importance is to show that this source is exploitable. Especially in Vietnam, biomass resources are abundant. They can be found in many forms in all regions, to name a few, rice straw, coffee husk, fuel woods, coconuts waste...Biomass energy from forestry and agricultural residues could create estimated potential at more than 2000 MW. Biogas is also being explored at a very small scale. Its potential is more than 100 MW. Some biomasses can remove organic material from the soil.

The country has not explored solar power at all so far despite being close to the equator with abundant solar potentials. The potential capacity generated from solar energy is estimated 4- 5000 kWh/m<sup>2</sup>. Another unexplored alternative is tidal power, which is estimated to produce 100-200 MW. Unsubsidized solar contracts are now in the 3-4 cent per kWh range in the Middle East, Arizona and Chile. While these may benefit from low lending rates, the cost in Vietnam should be competitive with fossil fuels. Storage costs, either in pumped hydro or batteries, are low enough to be commercially viable.

Realising the national potential, The Vietnamese government has introduced a combination of subsidy mechanisms to encourage investment in alternative energy sources. To start with, small-scale hydropower, which is within financial capabilities of domestic private investors, is not subject to standard PPAs and their output are guaranteed to be purchased by EVN. Then in 2011, the National PDP VII has indicated the government's direction towards a more sustainable power sector, aiming at 5% of RE in 2020 and 11% in 2050. In 2014, the Prime Minister made Decision No.31/2014/QD-TTg and Decision No.24/2014/QD-TTg to introduce subsidy mechanism for solid waste power and biomass power respectively. To say that energy resources are abundant and that institutions are favouring alternative sources is to acknowledge that investment in sustainable power production is a promising opportunity for investors of different interests and financial endowments.

### ➤ **Interconnected regional power market**

The region of the Association of Southeast Asian Nations (ASEAN) is one of the fastest developing regions in the world. With the substantial increase in electricity demand over the past decades, driven by social and economic development, these regions have been identified as playing an increasingly important role in world energy demand in the coming decades. In five largest energy consuming countries in ASEAN: Indonesia, Malaysia, the Philippines, Thailand and Vietnam (ASEAN-5). These countries have a combined population of around 0.5

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<sup>43</sup> PECC1 is a subsidiary of EVN whose main business is power generation project consultancy and design.



billion and their electricity demand accounts for more than 10 percent of the world's electricity demand. Table 7 shows how connected these 5 countries are already trading power with each other<sup>44</sup>. Cross-border trading could support the current power system by providing a cushion for the strained internal system during peak demands. Vietnam has signed this back-up contract with Chinese power providers for this purpose. It could also provide incentives for domestic generators to build larger-scale power plants, become more efficient, so that they can export to other countries. (Do you want coal pollution in Vietnam so others can buy coal power??) Figure R indicates an annual steady increase in power export from Vietnam. A profitable business that is being explored now in Vietnam is for Vietnamese companies to build their power plants in Laos PDR where the construction and labour costs are getting relatively cheaper, and it is fairly convenient for exporting back to Vietnam as well as entering a new market. HAGL is a private corporation that has pioneered in this business with 2 power plants in operation in Laos. A major project operating in this same principle is Nam Theun.

**Table 3. Cross-border power trading in ASEAN-5<sup>45</sup>**

Country	Cross-border Interconnections
Thailand	Malaysia , Laos PDR
Indonesia	Malaysia
Malaysia	Thailand, Singapore, Indonesia
Philippines	-
Vietnam	China, Laos PDR & Cambodia

**Table 4. Interconnection Projects between ASEAN-5 countries<sup>46</sup>**

Unit: MW	Existing	On-going	Future Plan
Indonesia	0	830	1620
Malaysia	830	1130	1720
Philippines	0	0	500
Thailand	3941	6187	16200
Vietnam	1098	3860	0

<sup>44</sup> Due to the location and geography, the Philippines could hardly construct transmission networks with its neighbouring countries yet. There cannot be much Malaysian-Indonesian trade either??

<sup>45</sup> Source of Data: IEA (2008), ADB (2009), AESIEAP (2009), ADB (2014)

<sup>46</sup> Source of Input Data: HAPUA Secretariat; ADB. There is no available data for all the power interconnection projects in ASEAN-5, therefore I searched data for APG and GMS projects, which should contain most of the interconnection projects these countries have. This table shows the total of existing and committed capacity from these projects.

**Figure P. Cross-border Power Trading among ASEAN countries**



### III. DISCUSSION

Throughout more than a century of development, Vietnam's power sector has shown remarkable growth in its capacity and structure. Despite a slow start due to the Wars, the sector

has become capable of supplying power to meet demand needs of a strong growing economy, comparably equal and sometimes better than its neighbouring countries. Endowed with abundant renewable resources and room to grow, financing power generation has proven attractive to international and domestic investors and lenders. However, there exist various issues that may deter the required long-term growth of generating and T&D capacity including inefficiency of monopolist EVN, lack of infrastructure investment, and inadequate pricing. The root causes of the sector's issues need to be addressed thoroughly, otherwise, true competition will not happen as foreign and private investors do not have incentive to invest without government support and ever-growing market price will depress national electricity consumption. However, raising the price of electricity to its marginal cost would be efficient and promote energy-saving technologies. Also, many financiers have been worryingly chosen the easier option of coal-fired power stations, deterring efforts to decarbonise the sector. Among lenders, international lenders, especially in Asian countries, have been particularly more committed than funds from Western countries. Multilateral funds including the World Bank and ADB have contributed even more than any other national funding institutions.

The sector has significantly attracted a lot more investment into power generation in the same period as it has started to open the electricity market. The sector structure has also become more complex and interconnected to accommodate private participation, in comparison to a closed door in previous periods. From this first glance, it is easy to correlate market liberalisation with these outcomes. However, the paper has only put the sectoral development in broader historical context, but not explained the driving force behind the pursuit of liberalisation model and what objective the government is aiming at.

When opening the market, challenges for Vietnam are mostly internal. Sectoral issues in catching up with demand can be dealt with by correcting T&D losses, inefficiency in SOE's financial management and environmental regulatory loopholes. Once they are realised, the opportunities for Vietnam to effectively pick up cross-border trading can be turned into long-run benefits. As ASEAN alone is getting more interconnected, there exists incentives for investors to come to the sector envisioning of not serving one single domestic market with a single buyer but also serving another market with different tariffs.

# HỘI THẢO QUỐC TẾ

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**DIRECTIONS FOR STRATEGIES AND POLICIES  
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SUSTAINABLE DEVELOPMENT TOWARDS 2030**

*Chịu trách nhiệm xuất bản*

Giám đốc - Tổng Biên tập

**Nguyễn Minh Huệ**

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