

WTO Accession and Domestic Reform: Vietnam's Trade Horizons to 2020

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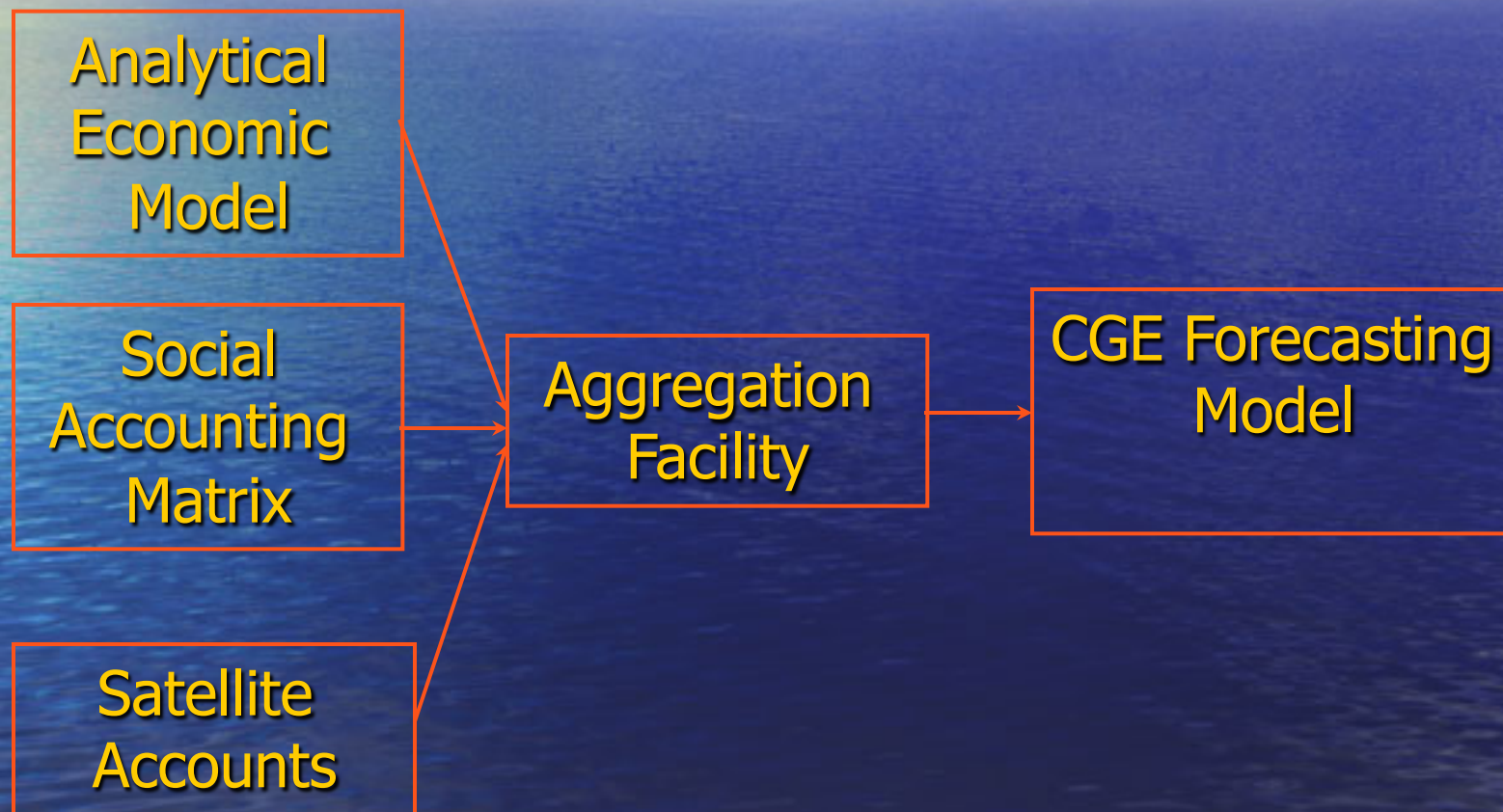
Mills College and University of California, USA

29 March 2004

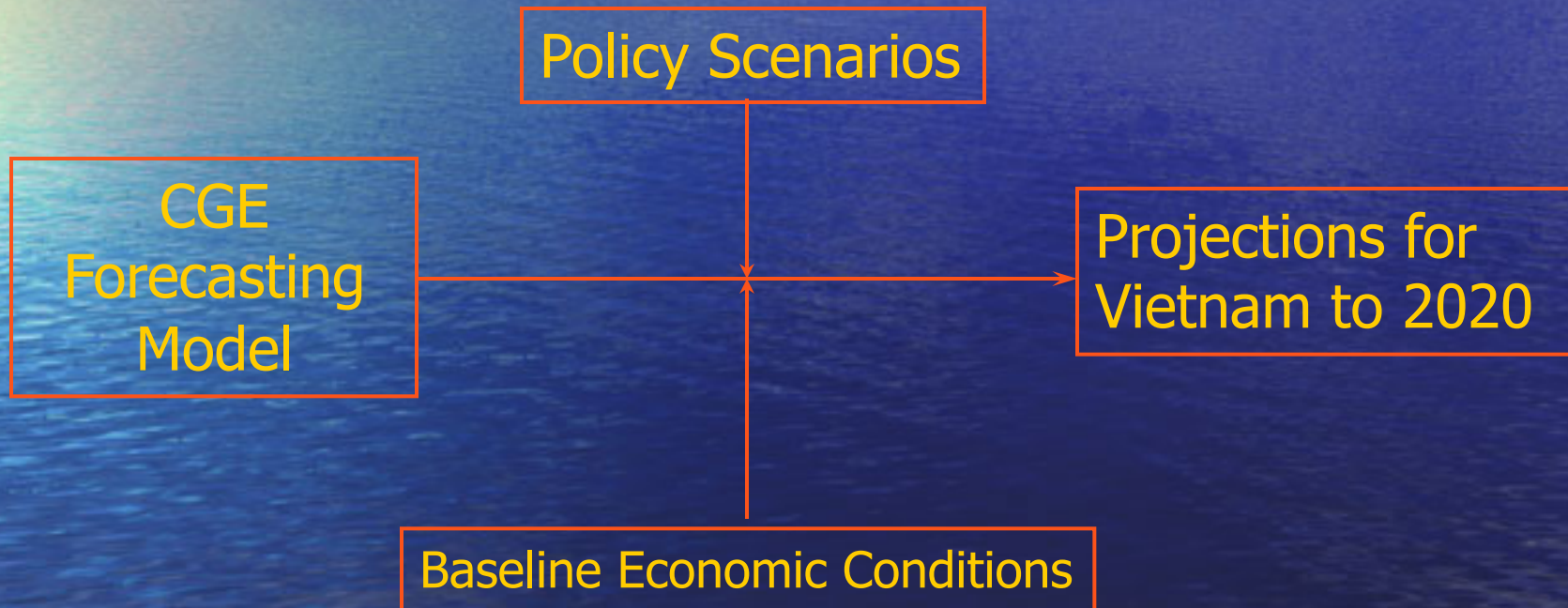
Central Institute for Economic Management (CIEM)

Hanoi

CNAM: The CIEM-NIAS Analytical Model



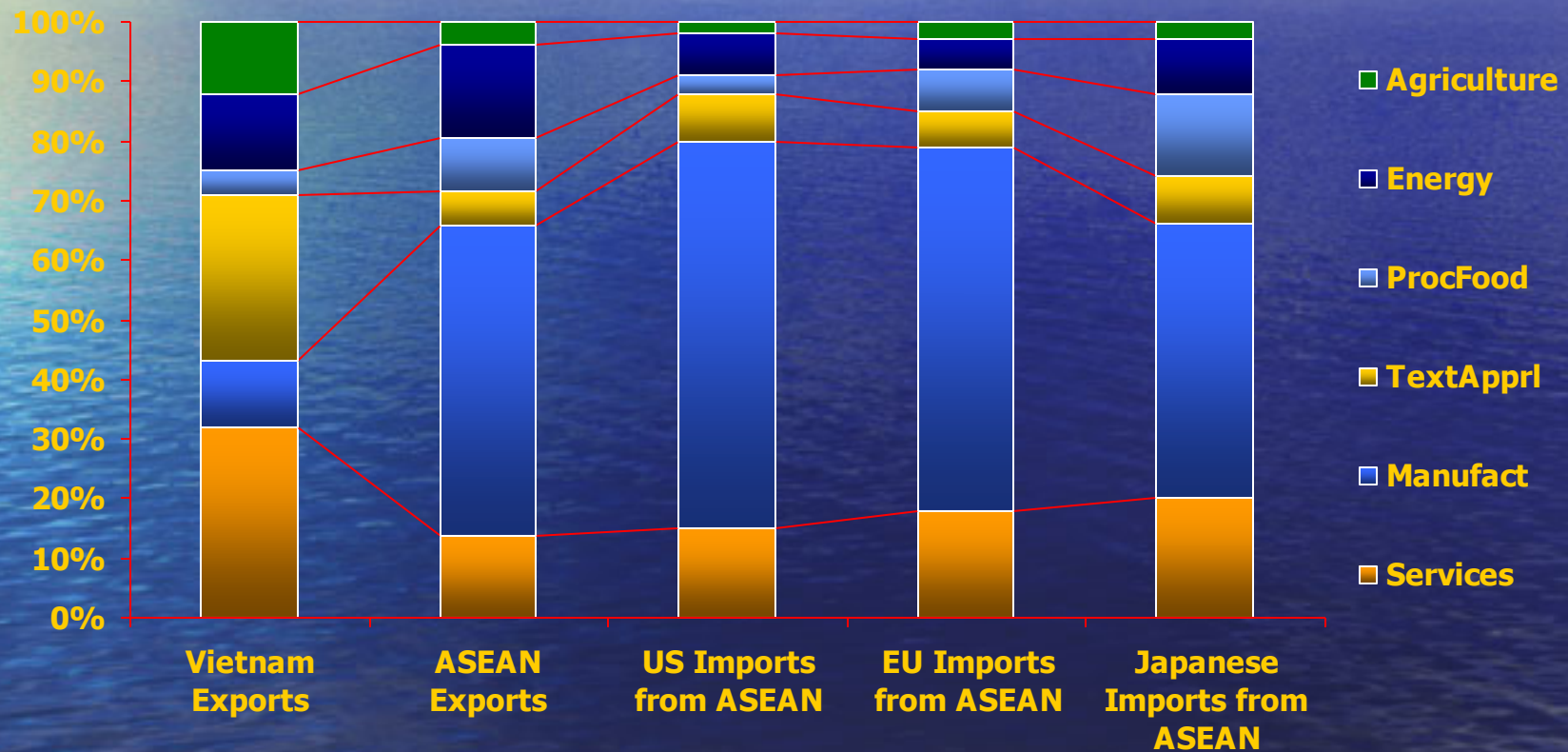
Forward-looking Policy Analysis



A New 2000 SAM for Vietnam

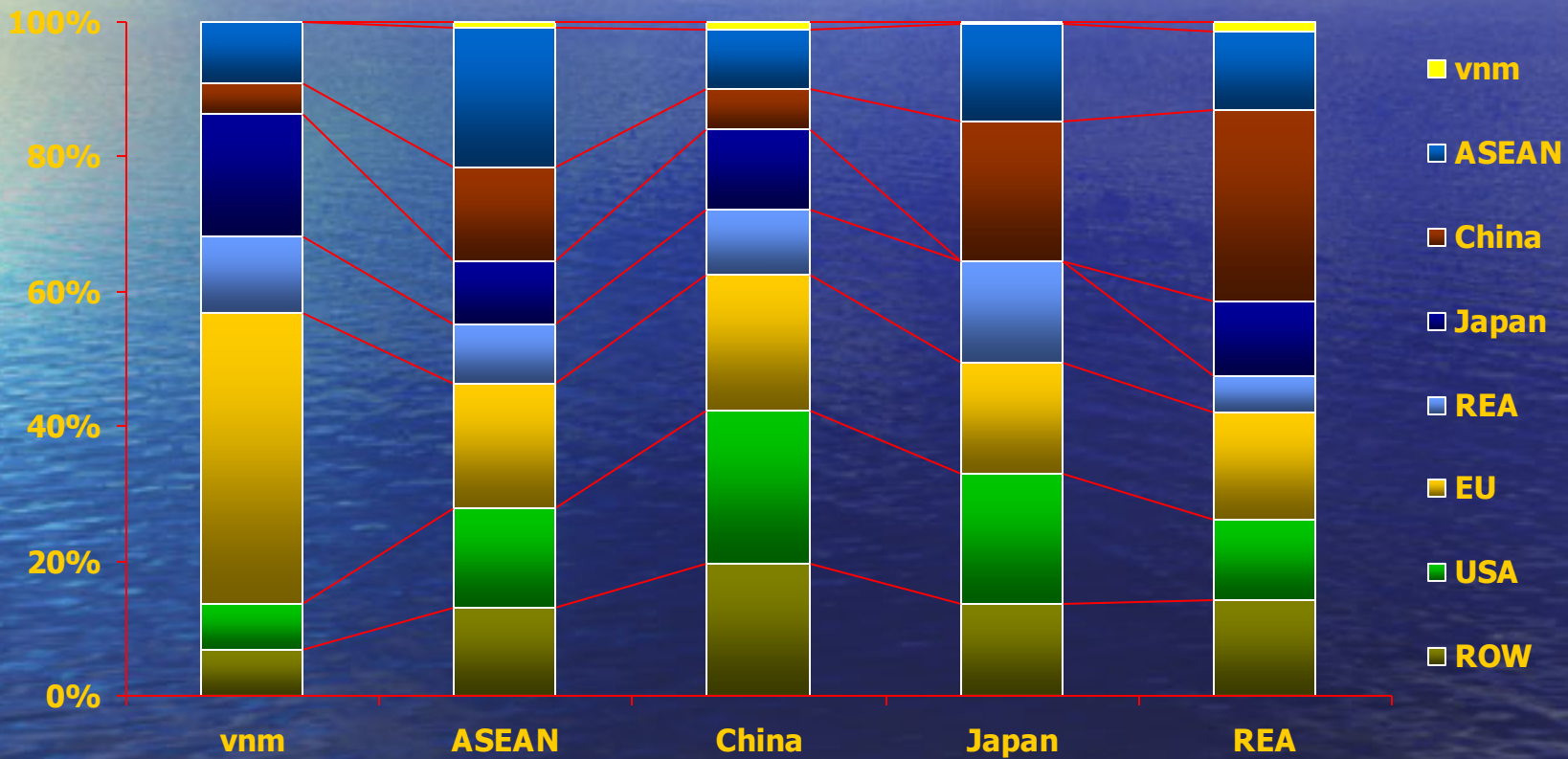
- ★ Includes the new 2000 GSO Input-Output Table
- ★ 112 domestic production activities
- ★ 114 commodities
- ★ 14 factors of production
 - 12 labor categories
 - Capital
 - Land
- ★ 12 household types, sampled from the VLSS
- ★ 3 enterprises (Private, Public, and Foreign)
- ★ State (detailed fiscal instruments)
- ★ Consolidated capital account
- ★ 194 international trading partners

Export and Import Composition by Partner (2000 SAM Data)



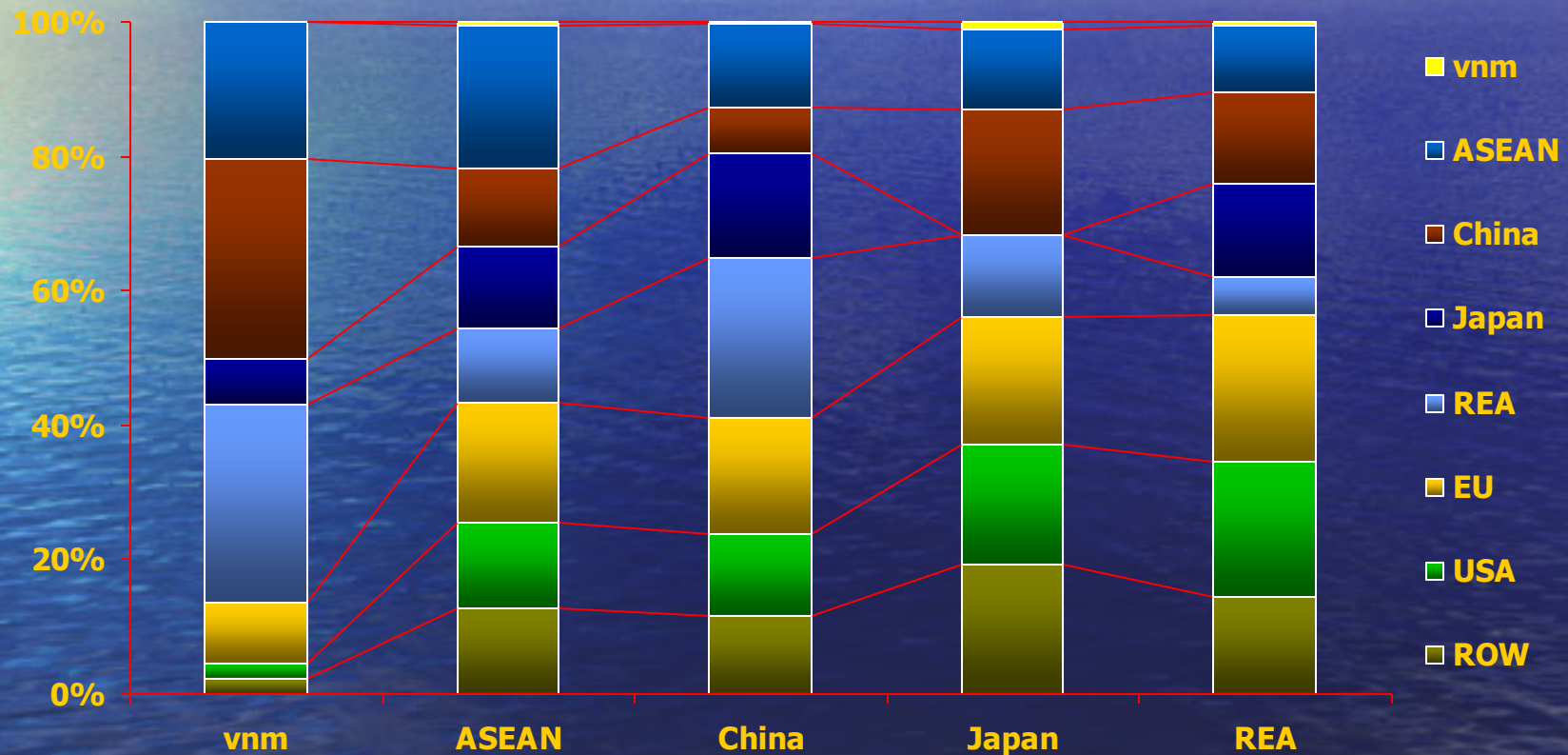
Direction of Trade: Exports by Destination

(2000 SAM Data)



Direction of Trade: Imports by Origin

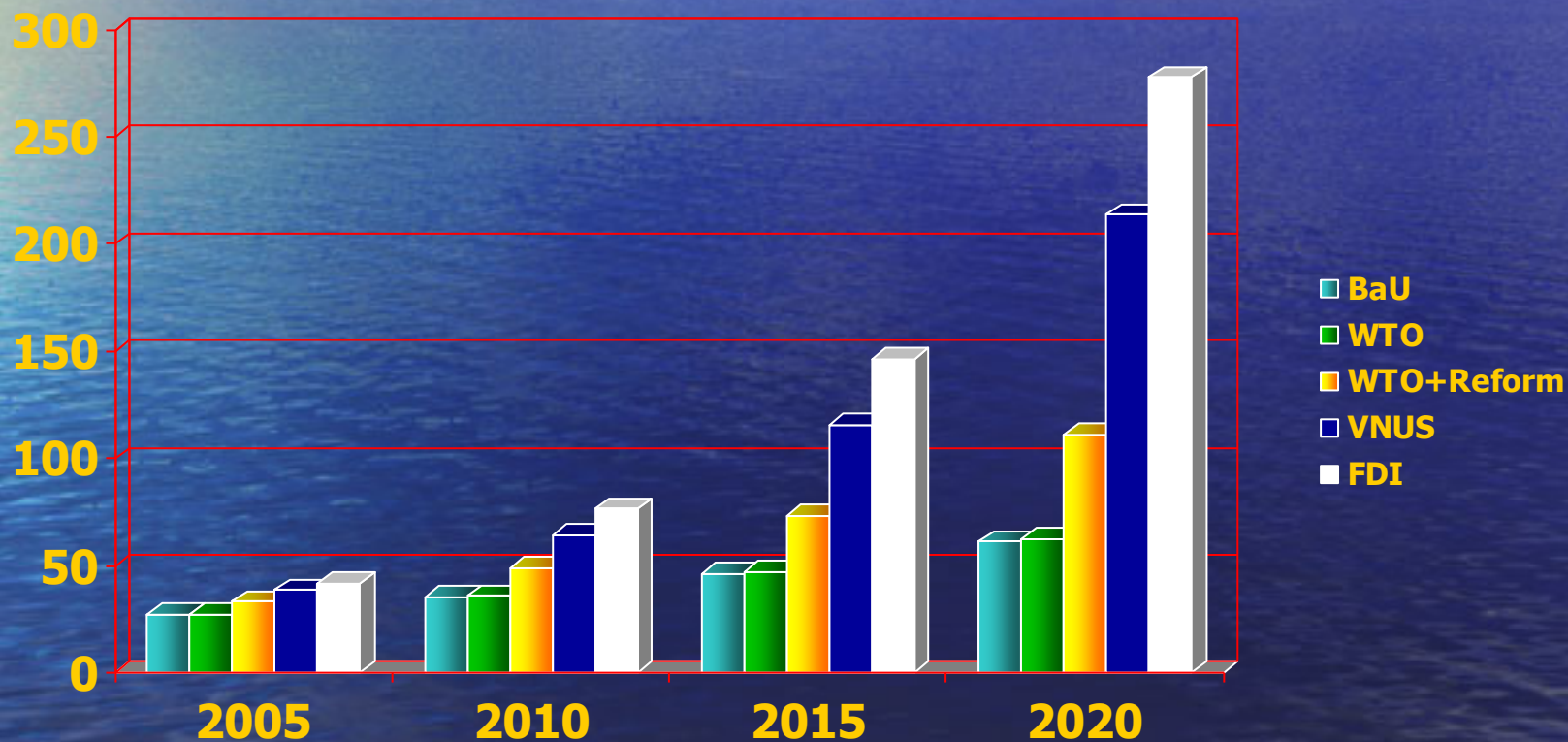
(2000 SAM Data)



Scenarios

1. BaU (Business as Usual) - calibrated macro trends without reform or WTO.
2. WTO – External reform only, via WTO accession.
3. WTO+Reform – Coordinated external and domestic reform.
4. VNUS – WTO+Reform coupled with realization of the Vietnam-US bilateral trade agreement.
5. FDI – VNUS coupled with foreign direct investment increasing at twice the rate of real GDP growth.

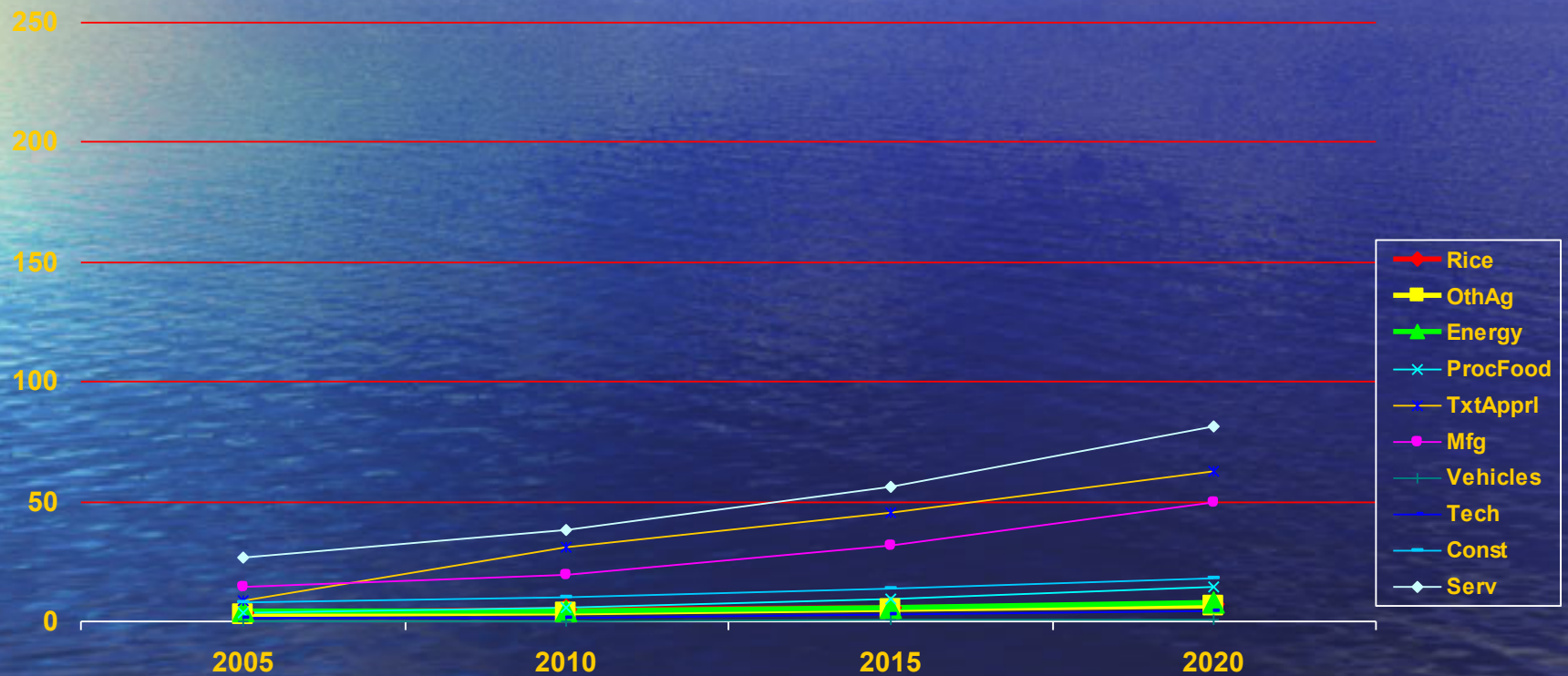
Trade and Economic Growth: Real GDP to 2020



This and all subsequent economic series in Trillions of 1999 VND.

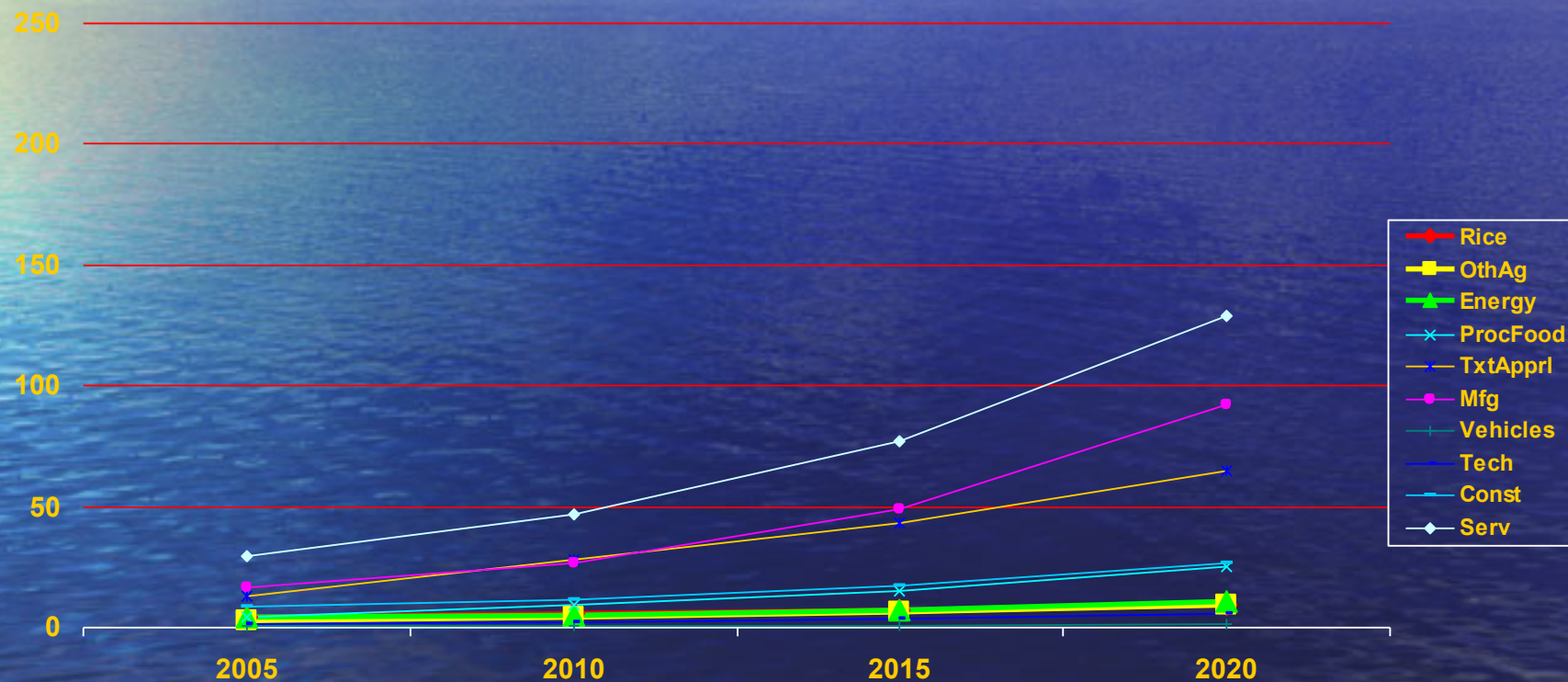
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Sectoral Output Trends: WTO+Reform



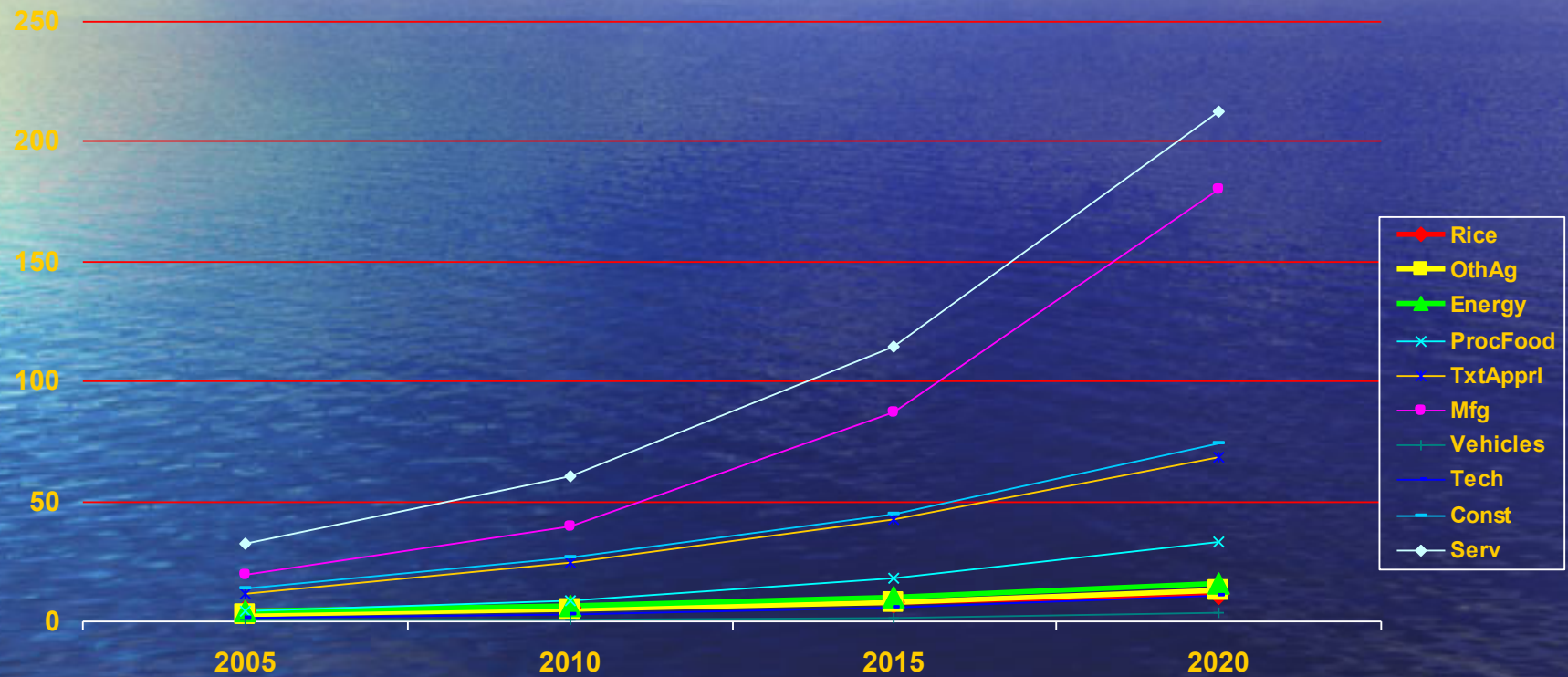
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Sectoral Output Trends: VNUS



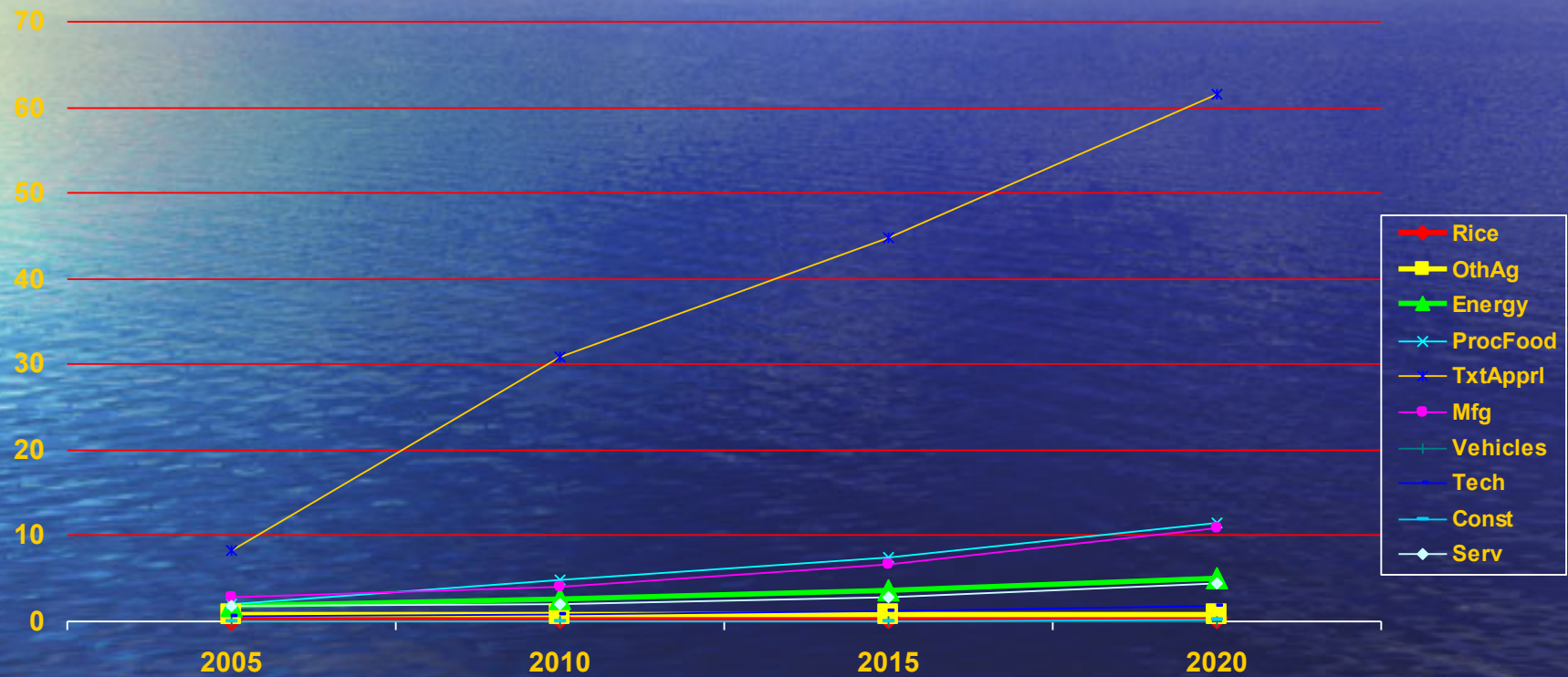
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Sectoral Output Trends: FDI



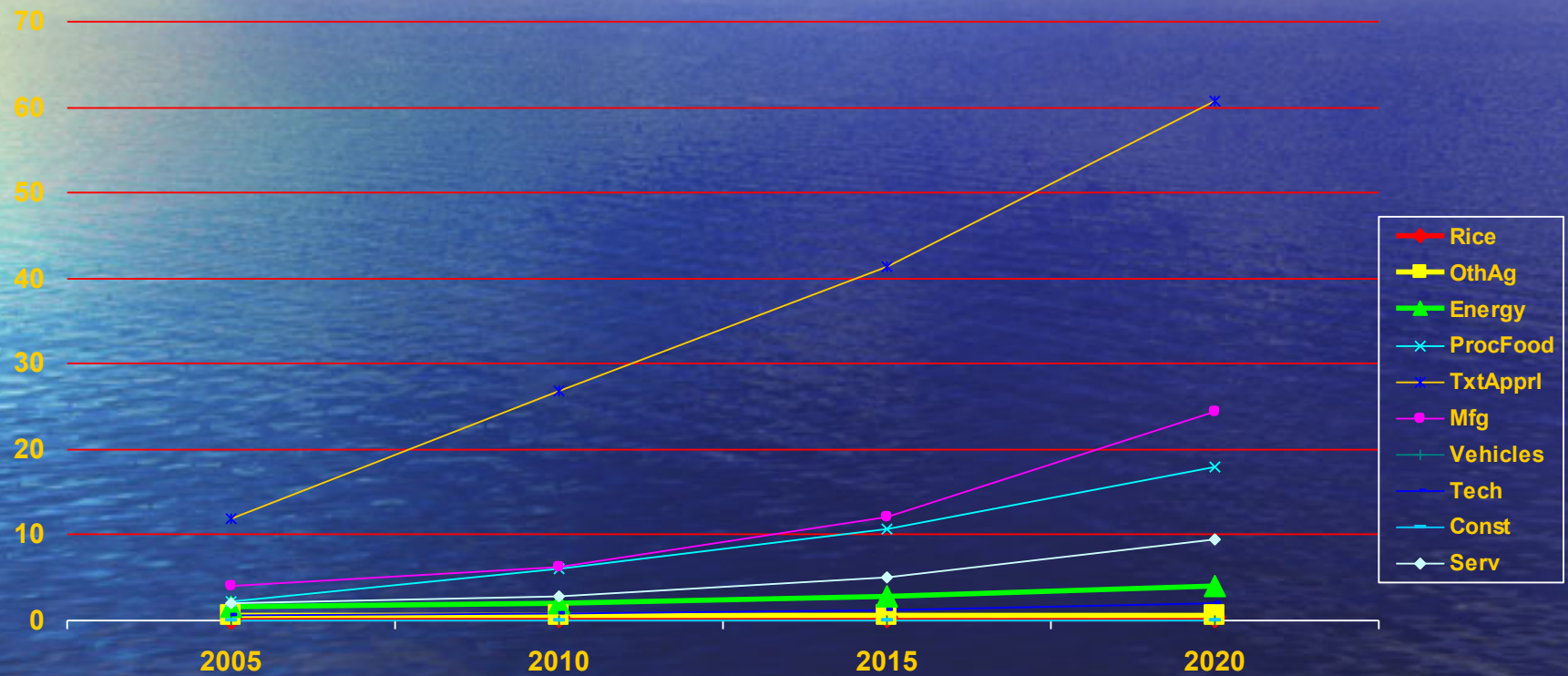
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Sectoral Export Trends: WTO+Reform



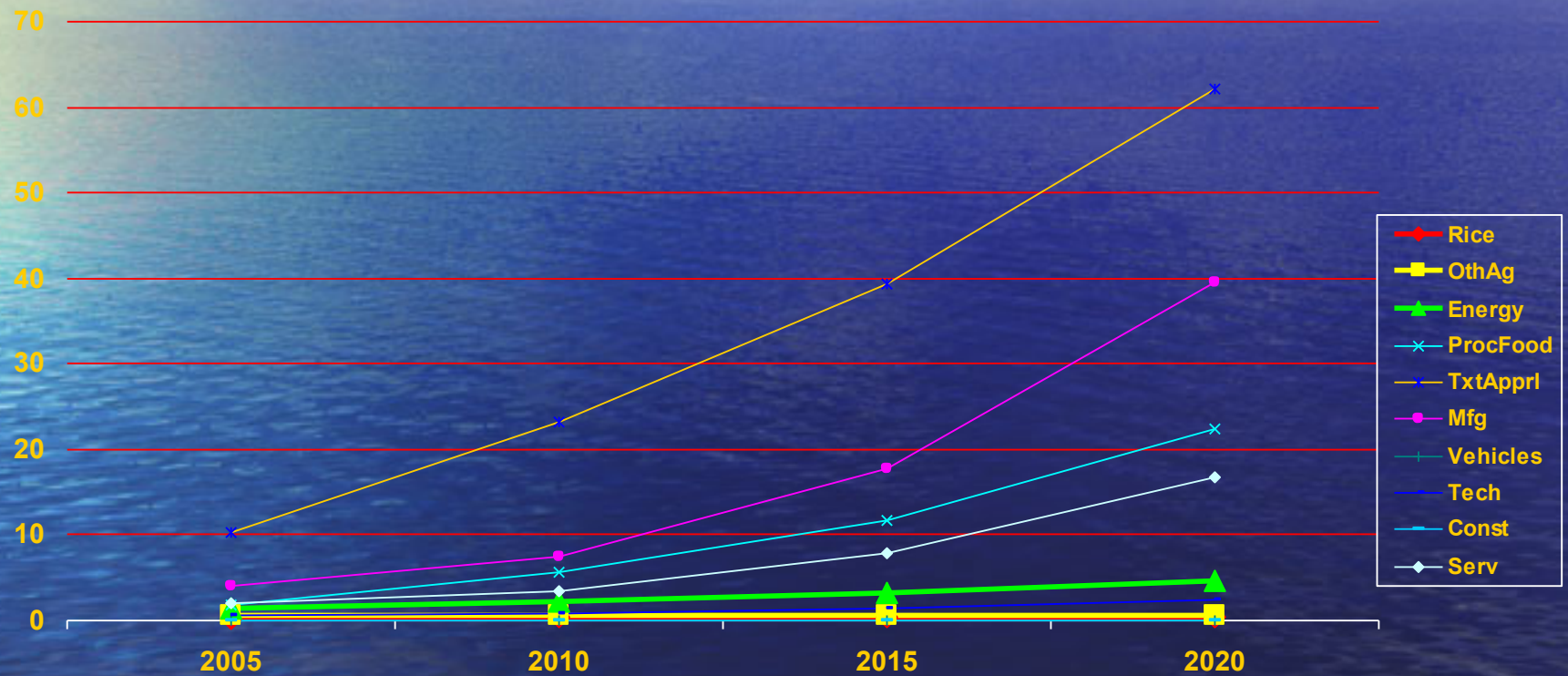
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Sectoral Export Trends: VNUS



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Sectoral Export Trends: FDI



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Conclusion 1

Vietnam's offer represents a substantial reduction in nominal import protection and other barriers to trade, but the gains the country could enjoy from external liberalization will be seriously limited unless they coincide with comprehensive and sustained domestic economic reform.

Conclusion 2

Our results indicate that the current WTO offer reduces average protection levels incompletely but substantially, and such a reduction could realize about 80% of the gains from complete removal of protection. Thus, this first phase of trade liberalization is by far the most important for the Vietnamese economy. However, the need for complementary domestic reforms is even greater if external liberalization is more gradual.

Conclusion 3

In the absence of other measures, the offer will lead to intensification of Vietnam's traditional comparative advantages. This would narrow the basis for development, modernization, and productivity growth, and not be in the economy's best long term interest. It can be avoided by complementary policies that promote economic diversification and negotiated external market access. Particular attention should be paid to intensifying bilateral and regional arrangements with prominent trade partners.

Conclusion 4

Expansion of trade, via WTO accession and other negotiated arrangements, will not confer all its economic benefits on Vietnam unless capital markets are reformed to allow more efficient allocation of investment across the economy and greater foreign capital inflows.

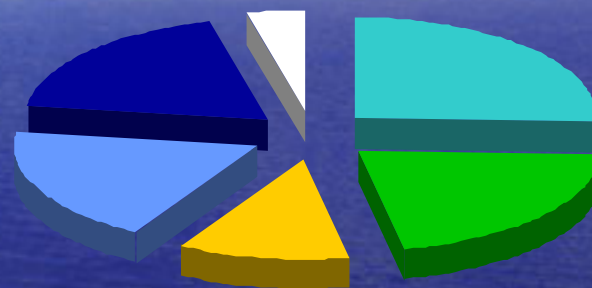
Conclusion 5

The most important insight emerging from this analysis is the essential complementarity between domestic and external economic reform. Both are necessary, but neither alone is sufficient, to realize the great economic potential of Vietnam. To put it another way, the effort to reform internally cannot be fully rewarded without external reform and, conversely, external reform efforts, like WTO accession, cannot be fully rewarded without commitment to complementary domestic reforms.

Human Resources, Trade, and Development

Vietnam has not yet fulfilled the economic potential of its people.

GDP

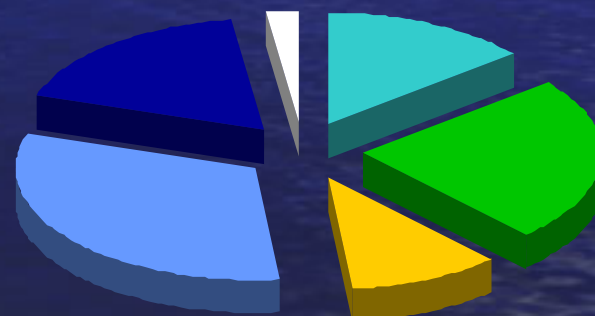


Population



- Indonesia
- Malaysia
- Philippines
- Singapore
- Thailand
- Vietnam

Exports



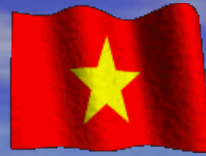
Human Resources, Trade, and Development

To avoid economic marginalization with trade-induced economic growth, labor productivity must be increased and the skill base of the economy must be diversified. This can be done

1. Publicly – extend and intensify commitments to education and training
2. Privately – let foreign and domestic private capital do the work. As the economy develops, so will the web of training opportunities for workers, particularly in emergent sectors with higher labor productivity and wages.

Priority Candidates for More Bilateral Negotiation

1. EU – Significant opportunities for negotiated market access and FDI.
2. Korea – An essential strategic partner in the WTO accession process and an important FDI partner.
3. Japan – The largest east Asian investor and regional consumer of east Asian exports.
4. US – An essential real and symbolic partner in both trade and investment.
5. China – The largest emergent regional trading opportunity.
6. ASEAN – Regional consolidation is an essential source of economic security.



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