



TRADE POLICY REVIEW

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1. Overview

FROM DOI MOI REFORMS TO WTO ACCESSION

1.1 The Government of the Socialist Republic of Vietnam is pleased to present its first report to the Trade Policy Review Body on recent developments in its trade policies. The Vietnamese Government attaches great importance to both external and domestic transparency in the conduct of its trade policies and therefore welcomes this review, which will contribute to further strengthen this important principle of the multilateral trading system. We also welcome this review as an opportunity to bring WTO Members' attention to the progress Vietnam has achieved in its trade policies since it became a Member in 2007. It also allows us to highlight both the vital role that its trade and trade-related domestic policies have played in the country's rapid economic and social development and its current challenges.

1.2 Viet Nam has made a long way to its first Trade Policy Review by the World Trade Organization. The foundation of Vietnam's current trade policy is rooted in the *Doi Moi* (Renovation) policy, began in 1986, that introduced a host of structural reforms aimed to transform Viet Nam from a centrally planned, command economy towards a socialist-oriented market economy. The *Doi Moi* reforms implied the overhaul of the entire economic system. This involved gradually replacing mandatory quotas and administered prices for goods and services and introducing market-based economic instruments. During the *Doi Moi* process, the Constitution explicitly sanctioned private ownership and recognized this sector as an important element of the economy whilst maintaining a lead role for state-owned enterprises (SOEs). Enterprise reforms have been extended to conversion of SOEs to public limited companies (equitization) of SOEs and privatization. Land reforms allowed households to have control and cash-flow rights on lands and, whilst maintaining state ownership over lands, legalized the sale, exchange, inheritance, mortgage, and rental of land use rights. *Doi Moi* also introduced a two-tier banking system with the State Bank relinquishing its commercial banking functions and concentrating instead on its central banking function. Other reforms concerned the fiscal regime, monetary policy (allowing the use of foreign currencies in commercial transactions), lawmaking, and administrative decentralization with delegating some of the major functions and competences of the central Government to the provincial authorities, to mention a few.

1.3 Reforming external trade and foreign direct investment regulations as well as progressive opening up of the economy to foreign goods and services were central to the *Doi Moi* policy. The trade reforms were inseparably linked with the reform of the enterprise sector to allow greater role of market forces in foreign trade instead of direct regulation by the State. Thus, the State's monopoly over foreign trade has been removed and the restrictions to establish Foreign Trading Companies (FTC) were gradually relaxed, allowing a rapid increase in the number of trading enterprises, and producers were allowed to export goods through any licensed FTC, and finally private companies were allowed to engage directly in foreign trade. In parallel, SOE-specific quotas and targets, which were at the base of the central planning system, have been progressively eliminated and replaced by new trade policy instruments like a price-based tariffs as well as quotas and licenses. The introduction of these new policy

instruments was subsequently followed by a gradual liberalization of import barriers allowing for progressive integration into the regional and world economy. Foreign exchange controls, including foreign exchange surrender requirements, have also been gradually reduced and the foreign exchange regime was ultimately liberalized.

1.4 Foreign direct investment (FDI) was likewise progressively liberalized since 1987. As a first step, 100 percent foreign ownership was permitted in most industries for Greenfield projects, as well as guaranteed free repatriation of profits, capital and assets. Through successive revisions of the FDI regime foreign investors' rights were widened and enhanced to make the investment environment more attractive. These successive liberalization measures have been largely induced by the need to facilitate more FDI inflows, to widen the number of sectors where FDI can contribute to increased production and exports, to achieve better performance of the FDI sector, to narrow the policy gap between foreign and domestic investors, as well as to comply with international commitments made on foreign investments. The FDI policy measures were comprehensive, ranging from registration procedures, investment licensing, land access, trading rights, foreign exchange control, and tax policies. Finally, in 2005 a more level-playing field has been established for all investors, while further simplifying FDI registration procedures.

1.5 Trade and FDI reforms and liberalization were key to improved competitiveness and the export-led growth strategy that Vietnam has opted for since the reforms implemented from the mid-1980's. Especially increased FDI inflows had a distinct role in this strategy as massive FDI inflows allowed by the better investment climate has resulted in large increase in industrial output and stimulated export growth. Most of FDI has been conducted under the form of joint ventures with SOEs, which helped the State to orientate international integration. FDI inflow into Vietnam increased from US\$0.32 billion in 1988 to approximately US\$4.0 billion in 2005, with an annual growth rate of 28%, resulting in the increase of FDI stock from US\$1.65 in 1990 to US\$33.45 in 2006 (and US\$72.78 in 211). As a result, Viet Nam ranked fourth in 2006 among the most attractive developing country locations for FDI. FDI had become a significant contributor to domestic investment (more than 10 percent of gross investment) and its contribution to exports amounted to 56 percent. FDI has therefore had a key contribution to the success of Vietnam's export-led growth strategy. FDI contributed to strong trade and economic growth by being at the core of the export base, by bringing capital, skills and training, by creating over one million jobs in foreign invested enterprises (FIEs) and raising incomes

1.6 During the two decades that elapsed between the launch of Doi Moi and WTO accession in 2007, market oriented economic reforms together with trade and investment liberalization have contributed to the considerable development of Viet Nam. Thanks to these reform policies, the country has achieved one of the most remarkable performances internationally in economic growth, raising standards of living, and poverty reduction and emerged as a lower middle-income economy by 2008. Between the start of the reforms in 1986 and 2006, Vietnam's growth rate has been among the highest worldwide: Average yearly GDP growth rate was 7,0% in between 1996 and 2000, and 7,8% in the period 2002-2006. In the period 1986 – 2006, foreign trade has expanded at the rate of nearly 20 percent per year and the country's high export growth has been by far the most dynamic among Asian exporters. The high economic growth over the last two decades has allowed

impressive progress in poverty alleviation, even though progress in poverty reduction was uneven. Overall national poverty headcount ratio has declined substantially from 58 percent in 1993 to 16 percent in 2006 and again to 14.5% in 2008 and extreme poverty and hunger had been halved.

1.7 Closely linked to the Doi Moi reforms, Vietnam has consciously pursued from the early 1990's a path towards international economic integration through trade agreements, which culminated in the conclusion of its WTO accession negotiations in 2006. During this period, Viet Nam has engaged successively in several bilateral (non-preferential) and regional trade agreements. The first major MFN agreement was concluded with the European Union in 1992, followed by the agreement with Japan in 1999, and with the United States in 2000. Viet Nam's regional integration efforts resulted in its ASEAN membership in 1995, under which it became party to the CEPT/AFTA liberalization schemes, later subsumed in the ASEAN Trade in Goods Agreement. Viet Nam has also been party to the ASEAN-China and the ASEAN-Japan FTAs since 2002.

1.8 ASEAN membership, the Vietnam-United States Bilateral Trade Agreement (BTA), as well as WTO accession negotiations have spurred legal and institutional reforms well beyond those that had occurred in the years 1986 – 2000. Not only did they result in WTO-compatible regulations in a host of areas, such as trade and investment rules, intellectual property, non-discrimination in pricing, but more importantly, brought about a rule of law mindset. The creation of a level playing field for domestic and foreign market players compelled significant changes in the legal system, which resulted in increased transparency, improved legislative and regulatory framework and strengthened legal predictability. These changes, which implied a radical departure from previous legal and institutional practices, in turn contributed significantly to the economic development of Viet Nam.

VIET NAM IN THE MULTILATERAL TRADING SYSTEM

1.9 After 11 years of accession negotiation, on 11 January 2007, Viet Nam became the 150th Member of the World Trade Organization, marking a milestone of Vietnam's international economic integration and openness process. WTO accession was a logical consequence of the domestic economic and trade reforms and trade liberalization that Viet Nam had been pursuing since the late 1980's - early 1990's and it crowned a process of reforms and efforts to integrate into the world economy. However, the Government of Viet Nam considers WTO accession not as the end of a process, but rather as a renewed basis for further domestic reforms. To Viet Nam, whose economic development is greatly dependent on foreign trade and access to open markets, the openness, stability and predictability that the WTO can provide in international trade is of utmost importance. But Viet Nam is also attached to the rules-based multilateral trading system as embodied in the WTO, because of the external support the rules and principles of the WTO can provide us to further our reform process and modernization policies.

1.10 Since its accession to the WTO in 2007, Viet Nam has greatly benefited from the multilateral trading system. Viet Nam now enjoys legally guaranteed MFN status in all WTO Members' markets, which creates a level playing field in our export markets. WTO membership has also ensured improved market access conditions for

Vietnamese goods, especially textiles and clothing, which have greatly benefited from the elimination of the quota system. As a result, since 2007, Viet Nam's textile and clothing export growth rate increased, and now the country ranks fourth among the exporters to the textile and clothing markets of the European Union, the United States, and Japan taken as a whole. However, apart from the textiles and clothing sector, a direct correlation between WTO accession and the increase in Viet Nam's exports cannot be established. On the other hand there is evidence that WTO accession had a strong and positive impact on Vietnam's imports and inward FDI and because of a strong bi-directional relationship between FDI and exports, the WTO accession may have indirectly influenced Vietnam's exports through the FDI channel. Viet Nam welfare gains from WTO membership appears considerable. The IMF has estimated the annual consumer gains from the availability of cheaper imports (i.e., the increase in the consumer surplus) at US\$1 billion (1.5 percent of GDP) in 2007, and US\$2.2 billion (1.7 percent of GDP) in 2012, and projected to rise to about US\$2.3 billion (0.9 percent of GDP) in 2019.

1.12 Beyond the direct economic benefits, the most important aim of Viet Nam's WTO accession was to enable improvement in development policies and the implementation of long-term changes envisaged for the economy. As a result of WTO accession, Viet Nam has succeeded in gaining institutional and policy reforms, moving towards improving its investment and business environment, and finding ways to increase its commodity and service exports.

1.13 We recognize the pivotal role of the multilateral trading system as well as its relevance for conducting our international trade activities. The Government reaffirms its full commitment to the principles and rules of the multilateral trading system as embodied in the WTO Agreements, and considers them as the foundation for its trade and economic integration policies. Since becoming a new WTO Member in 2007, Viet Nam has fully implemented its accession commitments. Even against a backdrop of an unfavorable world economic situation, the Government has exerted its best efforts in reforming the country's trade and investment regime in a WTO-consistent manner with a view to creating a more favorable business environment, contributing to the strength of the multilateral trading system.

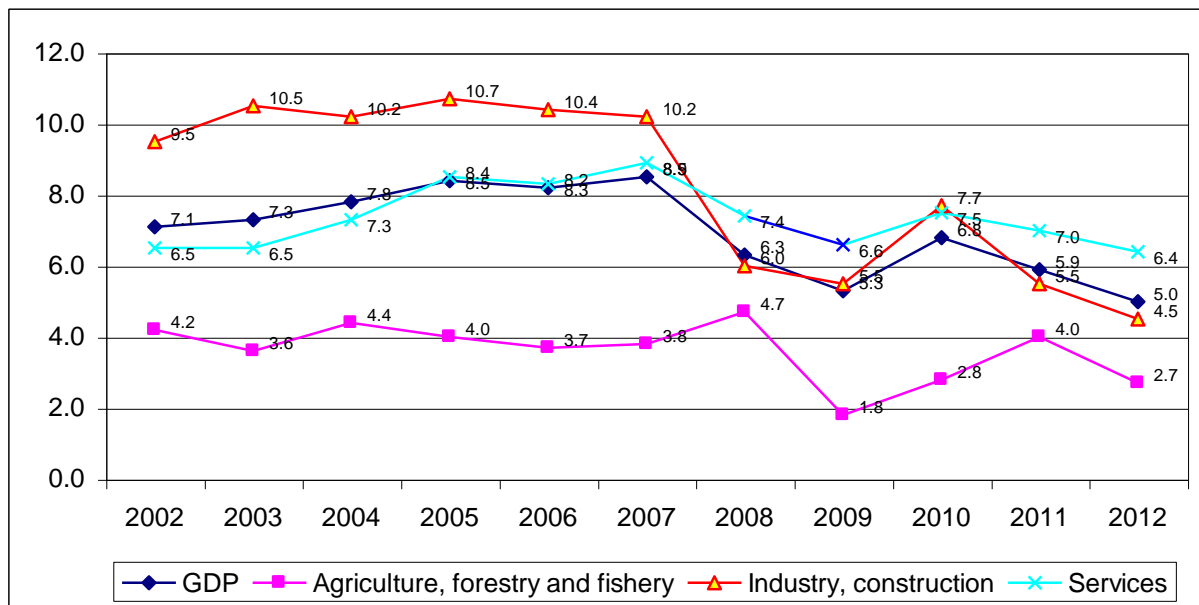
1.14 During its slightly longer than 7 years of WTO Membership, Viet Nam has attached a major interest to a successful completion of the Doha negotiations as the Government as Viet Nam has a great stake in the evolution and maintenance of a supportive external economic environment. Although the Doha Round has fallen short of our expectations, and we are disappointed to see the deadlock it is now facing, Viet Nam as a latecomer seriously and actively participated in, and contributed to the Round with proposals on important issues, either individually or together with like-minded WTO Members. Viet Nam considers that an early completion of the Doha round negotiations would allow Members to rebuild the confidence in the multilateral trading system, which could also be supportive to the ongoing major restructuring of the Vietnamese economy.

2. Economic developments and trade policies

ECONOMIC DEVELOPMENTS

2.1 It is widely recognized that Viet Nam has been among the most successful East Asian economies since the launch of the “Doi Moi” policy in 1986. Economic growth surpassed 9 percent per year just prior to the Asian financial crisis in 1997–1998, and exceeded 8 percent per year before the great recession and financial crisis in 2008–2009. Between 2005 and 2010 Viet Nam’s GDP has grown by 40 percent to which three major factors made roughly equal contributions: increase in labor force, sector reallocation and increase in productivity, whose contribution to GDP growth were respectively 36, 30 and 34 percent. However, in the 2nd half of the 2000’s, the economy started to experience a period of turbulence characterized by slow growth, weak international competitiveness and macroeconomic instability. In late 2007 and early 2008, Vietnam was confronted with the economic overheating resulting from massive capital inflows. Attempts to sterilize these inflows were not able to prevent a boom in banking credit, an acceleration of inflation, a ballooning trade deficit and asset price bubbles. In addition, in 2008, Vietnam economy, besides the domestic challenges, was caught in the midst of the global financial crisis. A determined reaction by the government from March 2008 onwards succeeded in stabilizing the economy and reducing the trade deficit to manageable levels.

Table: Growth of output 2002 – 2012



Source: Dr. Pham Lan Huong: Assessing Vietnam’s economic growth after 5 years accession to the World Trade Organization

2.2 Weak domestic demand weighed on real GDP growth, which slowed from 6¼ percent in 2011 to 5 percent (y/y) in 2012, its slowest pace of expansion since 1999. This decelerating growth was due to various factors. Spiraling inflation in 2011 changed consumer expectations, and this caused private consumption growth to weaken to 5% last year, from an average of 7.5% annually in 2007-11. Furthermore, inward FDI, which had been one of the main drivers of economic growth also seen a lacklustre expansion. As a positive sign for renewed growth, Headline inflation has declined from double digits to about 7 percent (y/y) in March 2013. Calm has returned to financial markets with the SBV’s efforts to provide liquidity and the

merger of several small weak banks. The current account surplus surged to over US\$9 billion in 2012, in part due to weak activity and low imports. With this, gross international reserves rose at end-February 2013 to more than 2½ months of prospective imports of goods and non-factor services.

2.3 In the 1st quarter of 2013, GDP grew by an estimated 4.89 % compared to the same period of 2012, which is slightly higher than the corresponding figure of 4.75 % for the 1st quarter of 2012. Growth of agriculture, forestry and fishery output has attained 2.24 % in Q1/2013, down from 2.81% growth in Q1/2012, contributing a modest 0.31 percentage point to the general GDP growth rate. However, within this sector forestry rose by 5.38 %, which is higher than the growth rate of 4.97 % in the corresponding period of 2012. Growth of industry also decreased in Q1/2013, attaining 4.95 % against 5.80 % realized in Q1/2012, contributing 1.98 percentage point to GDP growth. In contrast, construction output has considerably soared in the 1st quarter of this year relative to the same period of 2012, as the sector's output grew by 4.79 %, against a modest 0.77 % increase in Q1/2012. The growth of the service sector is also higher as its output rose by 5.65 %, which is higher than the growth rate of 4.99 % in the same period of 2012, contributing to 2.60 percentage point to GDP growth.

Table: Economic growth forecast 2013 - 2017

	2013	2014	2015	2016	2017
GDP	6.3 ^a	5.9	7.0	7.1	7.2
Private consumption	5.9	6.5	7.2	7.1	7.2
Government consumption	7.2	7.2	7.2	7.9	8.1
Gross fixed investment	7.0	8.5	9.2	9.5	9.3
Exports of goods and services	12.0	10.6	12.6	13.2	13.9
Imports of goods and services	11.4	10.8	12.9	12.9	13.4
Domestic demand	6.1	6.6	8.0	7.9	7.8
Agriculture	3.2	3.1	3.3	3.3	3.3
Industry	8.5	8.0	8.0	7.0	7.0
Services	2.7	4.7	7.3	8.5	8.8

Source: Economist Intelligence Unit, Vietnam Country Report, March 2013

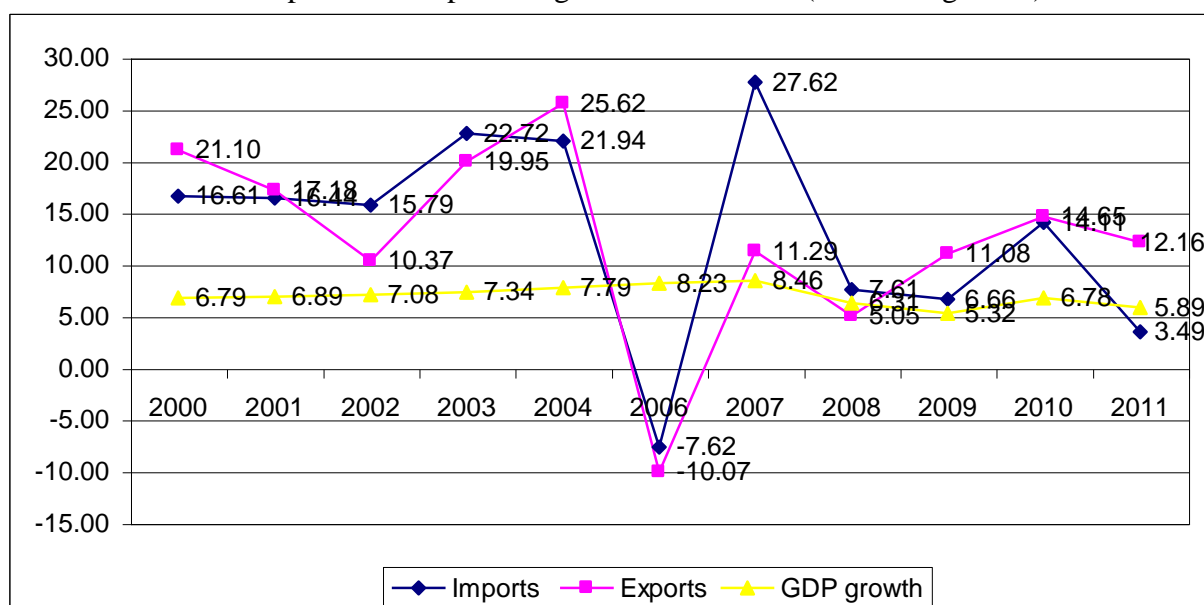
^a IMF

2.4 Rapid growth was accompanied by extraordinary increases in trade. The continuous domestic economic reforms and trade openings were at the heart of the explosion of FDI inflow and trade from the early 1990s until 2008. Between 1990 and 2000, the yearly average growth rate of exports of goods and services reached 19,61 %, and the import growth rate was on average 16 %. As a result, the share of trade in the GDP grew from 23 % in 1986 to 67 % in 1991, then to 97 % in 1998 and 171 % in 2007. Yearly average export and import growth rates have fallen to 13,47 % and 13,91 % respectively during the period 2001 – 2006, which further decreased between 2007 and 2011 to reach only 10.85 % and 11.90 % mainly due to slowing of GDP and trade growth rates in 2008, and declines in both imports and exports for 2009.

2.5 Evidence shows that in the period 2007 – 2011, export growth has been mainly driven by external demand and trade expansion; trade liberalization, as well as improved competitiveness, while the WTO accession had insignificant impacts. In terms of geographical destinations, overall, export markets have not been diversified, as major exports markets remained Viet Nam’s traditional markets (ASEAN, US, EU, Japan), although exports are increasingly concentrated on newly opened markets (China and Republic of Korea) as a result of regional FTAs. Imports have expanded rapidly immediately after WTO accession, albeit slowing down recently due to domestic economic hardship, changes in the nominal exchange rate of the dong, and slower investment inflows.

2.6 Throughout the whole period since the opening of the economy, Viet Nam has been facing a persistent and continuously widening trade deficit closely related to considerable domestic savings-investment gap, as well as macroeconomic (fiscal, monetary, exchange rate) and trade policies. However, the trade deficit narrowed since 2009 mostly because of domestic economic downturn.

Table: Evolution of exports and imports of goods and services (annual % growth)



Source: WB World Development Indicators

ECONOMIC AND TRADE POLICIES

Macroeconomic and structural policies

(i) Monetary and exchange rate policies

2.7 The design and implementation of monetary policy is the task of the State Bank of Viet Nam (SBV). The regulation of the foreign exchange market and exchange rate management is also the prerogative of the SBV. As prescribed by the Law on the State Bank of Vietnam (No: 46/2010/QH12), the ultimate goal of monetary policy is to maintain the stability of the value of the national currency, in line with inflation targets. The National Assembly is to decide on annual inflation

target through consumer price index and is supervising the implementation of national monetary policy.

2.8 Viet Nam's monetary policy has been facing in 2007 and 2008 the challenges of fighting inflation and maintaining credit growth within reasonable levels in an already overheated economy fueled by extraordinary capital inflows following its accession to the WTO. The SBV took a number of measures to stabilize the overheating economy in 2008, among others by increasing policy rates aggressively, tightening market liquidity conditions, and restricting bank lending activities. However, the resulting stabilization of the economy was subsequently hit by the global crisis, which resulted in a decline in FDI commitments, which, together with falling external demand for exports, prompted the government toward a policy supporting growth. Monetary policy was drastically loosened and a sizable fiscal package (5 percent of GDP) was implemented.

2.9 Since 2011, the foremost priority task of monetary policy was to implement the comprehensive policy package decided on by Resolution No. 11/NQ-CP dated February 24 of the Government on "Key solutions for controlling inflation, stabilizing macro-economy, and ensuring social welfare". This resolution calls for the conduct of tight and cautious monetary policy and to link it to the Government's fiscal policy to rein in inflation. The SBV is invited to keep credit growth rate at less than 20%, and achieve a money supply growth target of around 15-16%. As a result of tightened monetary policies, inflation – after peaking in August 2011 – has been declining and international reserves started to recover.

2.10 Viet Nam operates a floating exchange rate mechanism to determine the value of the Vietnamese dong, which is administered by the SBV on the basis of a currency basket comprising the countries having trade, borrowing, debt-payment and investment relations with Viet Nam, in accordance with specific macro-economic objectives. Viet Nam is an IMF Article VIII member and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. Vietnam's foreign exchange market consists of official and parallel markets. The trading rate at commercial banks is determined freely among the licensed banks, subject to the requirement that buying and selling rates remain within the ceilings and floors established around the official rate. In contrast, exchange rates in the parallel market are determined by demand and supply conditions. The SBV is using various exchange rate policy measures, such as setting the official exchange rate, average inter-bank exchange rate adjustments, regulating the trading band, market interventions, and strict control of the parallel foreign exchange market.

2.11 The period 2007-2011 has seen high volatility of the VND/USD exchange rate. After Viet Nam's accession to the WTO, the Vietnamese dong experienced appreciation pressure throughout 2007 as a result of buoyant direct and equity investment inflows, followed by depreciation pressures as from 2008 due to a variety of deteriorations in the economy as from the first half of the year: a rate of inflation reaching more than 28 percent (year on year), falling equity and real estate prices respectively by 70 percent and 50 percent, market interest rates rising from 7.5 percent in January to 19 percent in July for 3-month deposits, and finally a large trade deficit of US\$ 14.21 billion during the first six months of the year. Despite a package of measures introduced by the SBV in mid-2008, depreciation pressure continued

throughout the period, to which SBV responded by a great variety of measures, which included *inter alia* several devaluations of the official exchange rate of the dong, widening or narrowing of the trading band, and stricter controls on parallel market transactions to prevent speculation. The latest and so far greatest adjustment measure was taken on 11 February 2011 consisting of the devaluation of the dong by 9.3 percent (with ceiling rate increased by 7.1 percent) and the narrowing of the exchange rate range from $\pm 3\%$ to $\pm 1\%$.

(ii) Fiscal Policy

2.12 Since the launch of *Doi Moi* policy, Viet Nam has carried out three important tax reforms to make them better contribute to the country's socio-economic development. Each of these reforms had the objective to allow macroeconomic adjustment, promote production of goods and services, encourage investment and export, promote structural changes in the economy and increase tax revenues to become the major source of state budget.

2.13 The first tax reform had been implemented in the period 1990-1995 in order to introduce a unified tax system comprising 9 taxes in the state-owned sector, the privately owned industries and trade sector and the agriculture sector, which each had previously subject to different taxation. The second phase of tax reforms took place between 1997 and 2005 in the context of Viet Nam joining the ASEAN Free Trade Agreement (AFTA) preparing to for WTO accession. This second reform phase aimed to introduce modern taxes, such as the value-added tax (VAT) and the corporate income tax (CIT), reflecting the Government's policy to implement market economy oriented taxes. During this reform the regulations on import and export duties as well as on special consumption (excise) taxes (SCT) have been amended to ensure internal consistency of the tax system. The third phase of tax reform (2006-2010) had the objectives to encourage domestic production, investment and export activities, ensure adequate level of revenue collection for the State budget, make taxes more coherent Viet Nam's international economic integration, ensure fairness and equity, and contribute to the process of tax administration reform. The main reform measures included the amendment of VAT legislation (2008) to widen the tax base by reducing the number of goods and services exempt of VAT and reforming the tax rate structure; the amendment of the SCT legislation (in 2005 and 2008) reduced the taxes on beer and alcohol products to open the market and ensure non-discrimination between imported and domestic goods in line with our WTO accession commitments; the reform of the corporate income tax (CIT) in 2008 reduced the tax rate from 28 to 25 percent and simplified certain tax incentives by narrowing the scope of tax exemptions and reductions. Moreover new taxes have been introduced such as the Personal Income Tax (2009), the natural resource tax (2009), the non-agricultural land use tax (2010), and the environment protection tax (2010).

2.14 More recently, in May 2011, the Prime Minister issued Decision No. 732/QĐ-TTg ("Decision 732") approving the tax reform strategy for the period 2011-2020 regarding tax policy and tax management. Under the Decision, there are 10 tax categories that shall be reformed, including (1) value-added tax (VAT), (2) corporate income tax (CIT), (3) personal income tax (PIT), (4) special consumption tax, (5) import-export taxes, (6) environmental tax, (7) duty on agricultural land use rights; (8) duty on non-agricultural land use rights; (9) environmental protection tax, and (10)

fees and charges. Accordingly, license tax shall be no longer valid and changed to a management fee for the annual business. VAT on goods and services would gradually be reformed until a single tax rate could be applied by 2020. Regarding the special consumption tax, a road map to reduce tax on tobacco, beer, liquor and automobiles would ensure regulation of the domestic market as well as the requirements of global integration. Export tax would be restructured to encourage high value-added exports while restraining exports of raw materials and minerals. Import tax and related trade barriers would be reduced to facilitate free trade. Corporate income taxes would be reformed under the roadmap to help companies enhance their capital and production and sharpen their competitive edge. Under the plan, tax revenues are expected to increase by 70% of total state budget by 2015 and 80% by 2020. By 2015, the state budget would be equal to about 23-24% of gross domestic product (GDP). By 2015, tax administration would also be modernized to meet global standards by ensuring that at least 65% of total enterprises use electronic-tax filing. Tax policies would be used to encourage investment in high value-added production, support industries, biotechnology, and high-quality services. The tax reform strategy would also aim to make Viet Nam one of the four Southeast Asian nations with the most favorable conditions for doing business in terms of taxation.

(iii) *Economic restructuring*

2.15 In 2012, the Government took renewed efforts to help stabilize the macro-economy, which resulted in the comprehensive “Master Plan on Economic Restructuring 2013-2020”, adopted on 19 February 2013. The Master Plan aims to achieve the socialist-orientated market economy, create a system of sound, stable and long-term economic growth, especially relying on tax incentives and other investment measures, promote the distribution and use of social resources in favour of competitive sectors and products, and improve labour productivity and competitiveness.

2.16 The policy document sets the main parameters for macro-economic and trade policies, amongst others, and provides the broad guidelines for structural reforms. It calls for a prudent monetary policy, which is to be linked to a tight fiscal policy to control inflation while ensuring macroeconomic stability and sound growth. Regarding trade policy, the Government is to promote exports, while closely controlling import of commodities that are not encouraged, or are produced domestically. The Master Plan also envisages support to the up development of supporting industries, and the domestic production of consumer goods. At the same time, the document foresees the strengthening of price and market controls, and instructs to ensure the balancing of supply and demand of essential commodities.

2.17 The Master Plan provides guidance for restructuring the economy in order to address the structural factors for the current economic difficulties, namely slow and inefficient growth, weak international competitiveness and macroeconomic instability. The three key areas of concern, identified as the most in need of urgent reforms, are the State enterprise sector, the financial system, and public investment, where the Government intends to implement reforms over the short run (2013 – 2015). Through these reforms, it is expected that the economy would be restructured in such a way that creates a new, faster growth paradigm by 2020 that that results from enhanced efficiency and improved international competitiveness. The Master

Plan indicates that the new growth model is expected to make Viet Nam a modern industrialized country by this time.

2.18 The Master Plan envisages the restructuring of investment, with focus on public investment. It calls for the mobilization of different sources of capital for development investment, so that the total investment accounts for 30-35% of the GDP with State investment maintained at the level of 35-40% of total social investment. The Government is to provide the greatest possible scope and opportunity for private – especially domestic – investment, and encourage and facilitate private investment in infrastructure and key economic zones, as well as in sectors and products with high development potential.

2.19 As Viet Nam's banking system is grappling with one of the region's highest bad debt ratios, the Master Plan provides for the restructuring of the banking system with a view to making healthier the financial situation of the credit organizations by clearing their bad debts. Bad debt should be cut to below 3 percent of loans by 2015. In addition, the credit institutions will be restructured in the period of 2013-2015 so that their activities concentrate on their core functions, their solvency is secured, their operations are more transparent, and cross-ownerships become visible. The system of credit organizations will be reorganized so that by 2020, it is possible to develop a network of modern multi-functional credit organizations, which can operate safely and effectively. Finally, the Government will improve the position of credit institutions operating in lead markets so as to ensure that State commercial banks and commercial banks in which the State holds a dominant share become the principal force the system of credit institutions. It will also strive to form, by 2015, at least one or two State commercial banks or commercial banks in which the State holds the dominant shares which meet regional qualification standards regarding the scope of activities, administration, technology and competition.

2.20 Regarding the reorganization of the State enterprise sector, the Master Plan follows the project on “Restructure of State-owned enterprises, focusing on State economic groups, corporations in the period 2011 – 2015” approved by the Prime Minister in 2012, and which instructed the ministries to classify SOEs according to the nature of their activities, their role in the economy, and the desired level of State ownership. The classification would provide the basis for further equitization of SOEs as well as for rationalization of the structure of the State enterprise sector. The decisive factor for the classification would be the role that the State wishes to play in the economy. The project gave initial restructuring priority to enterprises in commerce, construction, lottery, telecom, water supply, urban sanitation, irrigation, maintenance of roads and railways. In turn, the Master Plan reiterates the classification and re-organization of State-owned enterprises, now with the objective that SOEs are concentrated in the defense industries, natural monopolies, basic industries with a large pervasiveness, high-tech sectors, and in industries supplying primary goods and services. The Government will speed up the equitization and ownership diversification in SOEs in which full State ownership is not necessary. As a result, the State would equitize nearly half of the 1,309 SOEs. The remaining 692 SOEs would later be reorganized into 44 groups and corporations with 150 subsidiary companies. The Master Plan instructs SOEs to restructure their investment portfolio and business lines so as to reduce the scope of their activities on their core business

functions, and to divest in their non-core businesses and in joint-stock companies in which the State does not need to be the dominant shareholder.

(iv) Competition policy and consumer protection

2.21 The Government of Viet Nam recognizes the indispensable role of effective competition policy in a market economy, as well as the benefits of competitive markets for economic efficiency and economic development. The momentum for the adoption of a competition law has been created by the advances achieved during the transition towards a socialist-oriented market economy in which, according to the Constitution, private ownership and the right to set up enterprises and freely engage in business are clearly recognized and protected. The progressive opening up of the Vietnamese market to foreign goods, services and investment called for protecting the economic benefits from regional and global trade integration against possible anti-competitive behaviors. The process of accession to the WTO has played a distinguished role in the way towards the adoption of a competition law in Viet Nam. Enacted on 3 December 2004 and entered into effect on 1 July 2005, the Vietnamese Law on Competition (VLC), was the result of a four-year drafting process, with reference to the statutes of nine foreign jurisdictions and the model laws promoted by UNCTAD and the World Bank.

2.22 The overall goal of the VLC is to promote a competitive business environment and socio-economic development in Viet Nam as well as to protect the legitimate interests of the State, enterprises, and consumers. The VLC applies to anti-competitive agreements (concerted practices), abuse of dominant and monopoly positions, and mergers and acquisitions, as well as to unfair competition. According to the Article 2, the Law applies to all business enterprises and professional and trade associations in Viet Nam; overseas enterprises and associations registered in Viet Nam; public utilities and state monopoly enterprises; and State administrative bodies. It has superseding power over all other enacted laws regarding restrictive business practices and unfair trade practices. Therefore, VLC is applicable to every business without discrimination towards ownership types of enterprises (domestic and foreign, State-owned or privately-owned).

2.23 The Government of Viet Nam attaches great importance to the role of the Competition Law as an indispensable element in furthering the reform process towards an effective competitive economy. Therefore, one of the priorities of the “Strategy for the Development and Improvement of Vietnam’s Legal System to the Year 2010 and Direction for the Period up to 2020” is to further improve the VLC to create more freedom for business activities and establish comprehensive markets. In a similar vein, the “Socio-economic Development Strategy for the Period 2011-2020”, states that VLC and its enforcement should be improved in order to establish a competitive market, effectively control abuse of dominant or monopoly positions, and protect consumers.

2.24 Closely linked to effective competition in Viet Nam, the National Assembly has passed in 2011 the Law on Protection of Consumer Rights, which marked a significant milestone in consumer protection in Viet Nam. So far, the Vietnamese Competition Authority (VCA), which is to implement both the VLC and the Law on Protection of Consumer Rights, has handled more than 70 consumer protection cases.

IMPLEMENTATION OF WTO ACCESSION COMMITMENTS

2.25 As a strong supporter of the multilateral trading system, Viet Nam has been seriously implementing all of its accession commitments. Even against the backdrop of the international financial and economic crises, the Government gave priority to reforming the country's trade and investment regime with a view to full compliance with our WTO accession commitments. Viet Nam has started to prepare for the implementation of its accession commitments long before the official day of its membership. The Government has commenced set an action plan preparing the administrations concerned at both central and provincial government levels for the implementation of our accession commitments.

2.26 The legislative work to implement our accession commitments required not only revisiting the whole body of national law, but also reviewing the legal system itself. To ascertain that no loophole remains in the transposition of our accession commitments in domestic legislation, a clause has been systematically entered in legislative acts providing that, in case of inconsistency, an international treaty would prevail over domestic law.

(i) Tariffs

2.27 Vietnam has made ceiling binding on its entire tariff nomenclature (10,600 lines). As a result, the average *ad valorem* tariff rate of 17.5% was to be reduced to 11.4% by 2019. For agricultural products, the tariff reductions had to made from 22.4% to 20.9%, and for non-agricultural products tariff the reductions will result in average tariff being brought down from 13.1% to 12.6% within the implementation period.

2.28 As all other newly acceded countries, Vietnam has committed to participate in a number of sectoral liberalization agreements and initiatives. Those sectors in which Vietnam committed to make full participation are the Information Technology Agreement (ITA), textiles and medical devices. Vietnam committed to partially participate in aircraft equipment, chemicals and construction equipment.

2.29 Viet Nam has regularly taken the necessary legislative measures to implement its tariff reduction commitments in accordance with its Schedule.¹ Progress of tariff reduction commitments has been made either in accordance with the Schedule or faster than scheduled. In general, tariff rates applied to agricultural products were equal or lower than those committed until 2009. Meat and meat products were commodities subject to fastest tariff reduction, and our roadmap for tariff reduction since mid 2007 has been significantly faster than that in WTO commitments. Tariff on

¹ Commitments to reduce tariffs and export taxes on goods are stipulated in Decision No. 39/2006/QD-BTC dated 28th July 2006 on *Promulgating the export tax table and the preferential import tariff, table* Decision No. 106/2007/QD-BTC dated 20th December 2007 on *Promulgating the export tax table and the preferential tariff table* and Decision No. 123/2008/QD-BTC dated 26th December 2008 on *Adjusting export tax rates, preferential tariff rates for some types of products in the export tax table and the preferential tariff table*, Circular No. 216/2009/TT-BTC dated 12th November 2009 on *Stipulating tax rates of the export tax table and the preferential tariff table on applicable lines*, Decision No. 1474/QD-BTC dated 15th June 2009 on *Correcting Decision No. 106/2007/QD-BTC dated 20th December 2007*.

poultry was reduced from 20 percent to 12 percent, beef - from 20 percent to 12 percent, pork - from 30 percent to 20 percent, corn - from 5 percent to 3 percent, eggs - from 30 percent to 20 percent, which were as low as the rates committed by 2012. For a number of commodities, after some tariff reduction, the Government has decided to raise their tariffs, specifically, 40 percent for chicken, 20 percent for beef, 30 percent for pork, 5 percent for corn and 40 percent for eggs.

2.30 For non-agricultural products, in general the current applied tariff rates were lower than those committed until the end of 2009. The highest tariff reduction was applied for seafood, textiles, garment, wood and paper, iron and steel, electronic and other manufactured products. For seafood, around two third of applied tariff lines are lower than committed, the remaining equal to those in commitments.

2.31 Tariff quotas are applicable for bird and poultry eggs, refined and raw sugar, tobacco materials and salt. Vietnam has implemented these commitments on schedule.²

(ii) Other commitments on trade in goods

2.32 Viet Nam made numerous accession commitments on trade in goods other than tariffs. This section provides information on the implementation of the most notable ones.

2.33 Regarding excise duties, such as on alcoholic beverages, the pre-existent tax differentials between domestically produced and imported goods have been removed through amendment to the Law on Excise Duty that took effect on 1 April 2009 and its implementing Decree No. 26/2009/ND-CP.

2.34 Vietnam has abolished upon WTO accession all kinds of export subsidies for both agricultural and non-agricultural products.. However, in accordance with the Agreement on Agriculture, Vietnam is still able to reserve two forms of export subsidies permitted by WTO to developing countries to: (i) reduce the costs of marketing agricultural exports and the costs of international transport and freight; and

2.35 Concerning trading rights (the right to import and export), Viet Nam's committed to grant full import trading rights on par with Vietnamese traders to foreign individuals and Foreign Invested Enterprises (FIEs) from 1 January 2007 except for some products for which full trading rights were to be granted from 1 January 2009 and other that would remain under permanent exception. Since its WTO accession, Viet Nam has adopted several legislative acts to give effect to this accession commitment, such as Government Decree 23/2007/ND-CP (12 February

² Legal documents on tariff quotas include Decision No. 35/2006/QD-BTM dated 8th December 2006 on *Volume of 2007 tariff quotas for imports*; Decision No. 77/2006/QD-BTC dated 29th December 2006 on *Promulgating the list of commodities and their tariff rates subject to tariff quotas*; Decision No. 46/2007/QD-BTC dated 6th June 2007 on *Amending and Augmenting Decision No. 77/2006/QD-BTC dated 29th December 2006*; Decision No. 014/2007/QD-BCT dated 28th December 2007 on *Volumes of tariff quota applicable to imported goods in 2007*; Decision No. 23/2008/QD-BCT dated 31st July 2008 on *Augmentation to tariff quota for imported salt in Article 1 of Decision No. 014/2007/QD-BCT*; Circular No. 16/2008/TT-BCT dated 9th December 2008 *Guiding importation of commodities under the list of tariff quota control in 2009*; Circular No. 18/2009/TT-BCT dated 3rd July 2009 on *Amending and Augmenting Circular No. 16/2008/TT-BCT*.

2007) implementing the Commercial Law regarding trading and distribution activities by FIEs in Viet Nam, Circular 09/2007/TT-BTM (7 July 2007) providing guidance on Decree 23, Circular No. 05/2008/TT-BCT (14 April 2008) amending and supplementing Circular 09. On 22 April 2013, the Minister of Industry and Trade issued Circular No. 08/2013/TT-BCT (Circular 08) providing guidelines on the import, export, and distribution of goods by FIEs in Viet Nam. Accordingly, FIEs are allowed to

- Exercise export and import rights;
- Exercise distribution rights;
- Establish retail outlets;
- Engage in the trading of goods and related activities with an export processing enterprise;
- Contribute capital to, or purchase shares in, Vietnamese enterprises that engage in the trading of goods and related activities.

Circular 08, which replaced Circular 09 and Circular No. 05, took effect on 7 June 2013.

(iii) Trade in services

2.36 In its services Schedule, Viet Nam made specific commitments in 11 sectors covering about 110 out of the 155 sub-sectors of the WTO classification (as listed in document W/120). All Market Access and National Treatment commitments have been implemented.

2.37 For commitments, which provided higher levels of Market Access or National Treatment to foreign services and service providers than the pre-existing regulations, the Government has issued new legal documents to implement the commitments. The sectors concerned are distribution³, banking⁴, insurance⁵, and telecommunication⁶, and services relating to securities⁷ (part of banking services in the WTO services

³ Decree No. 23/2007/ND-CP dated 12th February 2007 on *Guiding implementation of Commercial Law regarding purchase and sale of goods and activities directly related to the purchase and sale of goods by foreign invested enterprises in Viet Nam*; Circular No. 09/2007/TT-BTM dated 17th July 2007 *Guiding implementation of Decree No. 23/2007/ND-CP*, amended and augmented by Circular No. 05/2008/TT-BCT dated 14th April 2008; Decision No. 10/2007/QD-BTM dated 21st May 2007 *Promulgating roadmaps of WTO commitments on merchandise trade and directly related activities* and Circular No. 08/2013/TT-BCT providing *Guidelines on the Import, Export, and Distribution of Goods by Foreign Invested Enterprise in Viet Nam*, replacing the two aforementioned Circulars.

⁴ Decree No. 22/2006/ND-CP dated 28th Feb. 2006 on *Organization and operation of foreign bank branches, joint-venture banks, banks with 100% foreign capital, and representative offices of foreign credit institutions in Viet Nam*; Circular No. 03/2007/TT-NHNN dated 5th June 2007 *Guiding implementation of some articles of Decree No. 22/2006/ND-CP*; Decree No. 69/2007/ND-CP dated 20th April 2007 on *Foreign investors' purchase of shares of Vietnamese commercial banks*; Circular No. 07/2007/TT-NHNN dated 29th November 2007 *Guiding implementation of Decree No. 69/2007/ND-CP*.

⁵ Decree No. 45/2007/ND-CP dated 27th Mar. 2007 on *Detailed guidelines for implementation of a number of articles of Law Regulating Businesses in Insurance Activity*.

⁶ *Law on Telecommunication* dated 23rd Nov. 2009, Decree No. 121/2008/ND-CP dated 3rd December 2008 on *Investment activities in the postal and telecommunication sector*.

⁷ Decision No. 55/2009/QD-TTg dated 15th April 2009 on *Participation rate of foreign investors' in Vietnamese securities market*.

classification list). For the remaining services, the commitments have been implemented complied with Law on Signatory of, Accession to and Implementation of International Treaties No. 41/2005/QH11 dated 24 June 2005.

2.38 A review of the progress in the implementation of commitments shows that the sectors which have been relatively quickly liberalized (i.e. with no or short transition period) are banking services, distribution services, construction, healthcare, tourism, insurance, business services (audit, legal, information technology, research and development (R&D)).

2.39 In banking, 100 percent foreign-owned banks were allowed to be established as from 1 April 2007.

2.40 In the telecommunication sector, right after the accession, foreign investors were allowed to establish joint ventures with registered telecommunication service providers in Viet Nam. For services with network infrastructure, the foreign ownership in joint venture cannot exceed 49 percent of chartered capital of the joint-venture company; and ownership of 51 percent is considered as the party has controlling power over its governance. For services without network infrastructure, the foreign ownership in a joint venture cannot exceed 51 percent of the chartered capital of the joint-venture company.

2.41 In the distribution sector, the establishment of 100 percent foreign-owned enterprises was allowed as from 1 January 2009. Recent noteworthy development in the retail sub-sector is that, for the first time, foreign invested enterprises (FIEs) are exempted from the economic needs test (ENT) process when opening a retail outlet beyond the first one if the outlet is of less than 500 sqm in size and is located in designated areas for trading activities. In addition a clearer licensing process and new guidelines regarding the establishment of an Economic Needs Assessment Committee will help to improve transparency in the overall licensing process. The new regulation also establishes simpler procedures to obtain licences for existing retail outlets, and provides for rules to permit FIEs to export goods that have been imported into Vietnam. These new regulations create rights to foreign retailers and distributors that go beyond Viet Nam's scheduled commitments.

(iv) Trade-related intellectual property rights

2.42 In the area of trade-related intellectual property rights, Viet Nam undertook to fully comply with all of the provisions of the TRIPS Agreement from the date of accession to the WTO, without recourse to any transitional period. In June 2009, the National Assembly adopted the amended Intellectual Property Law revising some provisions of the Intellectual Property Law 2005 with a view to fully complying with international standards provided for in the TRIPS Agreement. All laws and regulations relating to intellectual property rights and their enforcement have been notified to and reviewed by the TRIPS Council and no objections were made.

*TRADE POLICY DEVELOPMENTS SINCE WTO ACCESSION***Multilateral Trading System**

2.43 After joining the WTO in January 2007, Vietnam pursued renewed efforts to further integrate into the global trading system as a means to achieve sustained and pro-poor economic growth. Viet Nam, whose economy has been increasingly oriented towards international trade since the launch of the *Doi Moi* policy, is a strong supporter of an open, transparent and predictable, rules-based multilateral trading system. As a lower middle-income developing country with an economy in transition, we have a great stake in a credible and strengthened multilateral trading system under the WTO to provide us external support to our further reforms. Therefore, our attachment to the multilateral trading system was and remains a central piece of our trade policy. Viet Nam is convinced that the WTO has a natural central role to play in international trade rule-making, ensuring the stability and openness of global trade system thereby contributing to the growth of the world economy, and in the settlement of trade disputes.

2.44 Viet Nam supports, and is committed to play its part in the efforts to reinforce the role of WTO by bringing the **Doha Round** to a conclusion, the single most pressing issue currently facing the multilateral trading system. As a newly acceded WTO Member, Viet Nam has been disappointed since its accession to see the successive attempts to conclude the round fail one after the other which inevitably eroded the confidence in the multilateral trading system. Therefore we strongly support the idea that a consensus should emerge through renewed negotiating efforts on or around the mini-package to be brought to the Bali Ministerial Conference. We are confident that WTO Members could successfully converge to a consensus on the proposals in the mini-package of Agriculture, Trade Facilitation, and Special and Differential Treatment, provided there is a firm commitment of all to undertake an appropriate post-Bali work to address other outstanding issues of the round.

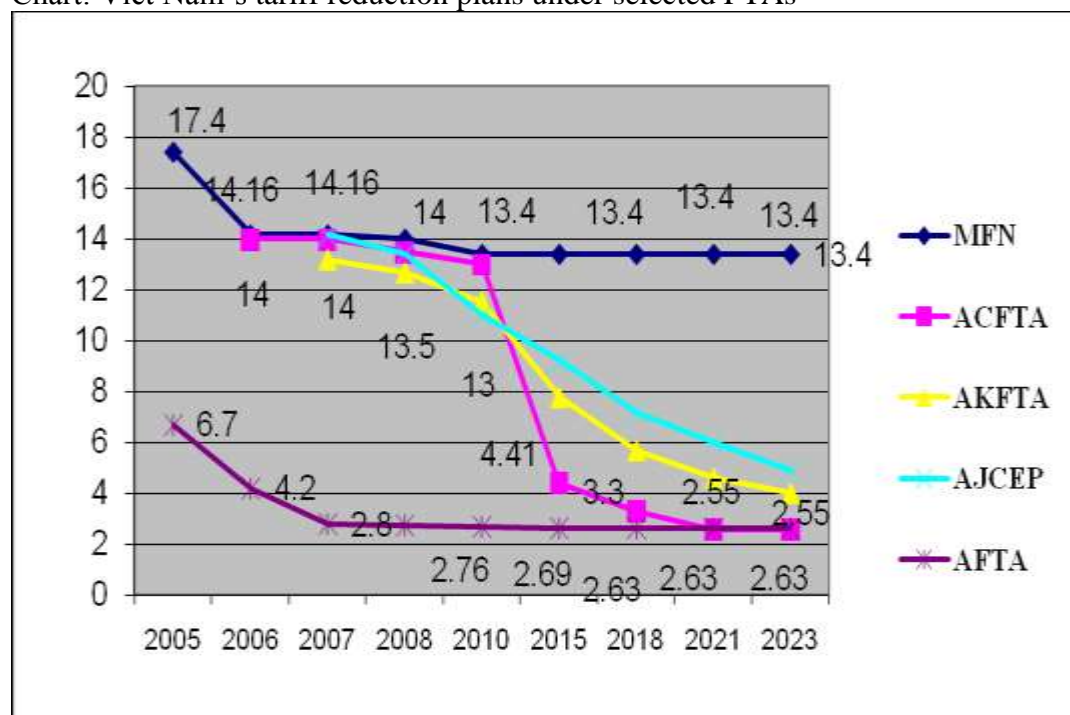
2.45 We consider the Dispute Settlement System as a cornerstone of the WTO, which has proven that it benefits all WTO Members, provided that panel rulings and/or Appellate Body decisions are complied with in good faith. Unfortunately this is not always the case and therefore we consider that it is essential to improve the efficiency of the mechanism. During its less than seven years of membership, Viet Nam had initiated recourse to the DSU provisions to protect its interests in two cases as complainant and in 16 cases as third party. Viet Nam attached great interest to the Doha negotiations on the revision of the Dispute Settlement Understanding with a view to reinforce the compliance with WTO obligations and reinforce the integrity multilateral trading system.

Bilateral and regional agreements

2.46 As a complement to the multilateral trading system, bilateral and regional trade agreements played a growing role in Viet Nam's recent trade policy. However, Viet Nam believes in open regionalism. It sees the trade liberalization achieved by regional FTAs as complementary to the liberalization efforts pursued in the WTO in a global framework. The rationale for more active use of preferential trade liberalization by Viet Nam lies in the need to accelerate the liberalization of trade and investment

with our most important trading partners. A bilateral or regional setting seems more conducive to results as compared with the growing complexity of the moving forward with multilateral trade negotiations, as seen in the Doha Round. Nevertheless, the Government of Viet Nam believes that bilateral or regional PTAs cannot be substitute, just complement, to the multilateral trading system. We would also like to stress that the regional trade agreements that the Government of Viet Nam has negotiated or is negotiating are not meant to be trade fortresses. We are convinced that by creating more trade, these preferential arrangements also create opportunities for traders of non-members. Furthermore, as these new generation trade agreements provide for “deep integration” by removing beyond-the-border trade barriers, they directly benefit all WTO Members.

Chart: Viet Nam’s tariff reduction plans under selected FTAs



Source: CIEM

2.47 Currently Viet Nam participates in the following preferential trade agreements:

1. ASEAN Trade in Goods Agreement (ATIGA)
2. ASEAN Framework Agreement on Services (AFAS)
3. ASEAN Comprehensive Investment Agreement (ACIA)
4. ASEAN - China FTA on trade in goods
5. ASEAN - China FTA on trade in services
6. ASEAN – Korea FTA
7. ASEAN – Japan FTA
8. ASEAN – Australia New Zealand FTA
9. ASEAN – India FTA
10. Viet nam – Chile FTA
11. Viet Nam – Japan EPA

The following regional trade agreements are currently under negotiation:

1. Trans-Pacific Partnership (TPP) Agreement
2. Viet Nam – European Union Comprehensive FTA
3. Viet Nam – EFTA FTA
4. Viet Nam – Republic of Korea FTA
5. Viet Nam – Customs Union of Belarus, Kazakhstan and Russian Federation FTA
6. Regional Comprehensive Economic Partnership (RCEP) [negotiated by ASEAN members, China, Japan, Rep. of Korea, India, Australia and New Zealand]

Recent trade and trade related policy developments

- Trade strategy:

2.48 The Government has adopted in 2011 the “Import/export Strategy for the Period 2011-20 with an Orientation towards 2030” which specifies the country's trade targets by 2020. Accordingly, it is expected that Viet Nam will achieve a balance of trade by 2020 and that the total export turnover in that year will be three times higher than in 2010 with a per capita average of over US\$2,000. In order to attain this goal the Strategy foresees that the average growth rate of exports should be 11-12% per year in 2011-2020, or 12% in 2011- 2015 and 11% in 2016-2020. This figure should be kept at 10% in 2021-2030. Another prerequisite to realize is that the growth rate of imports be lower than that of exports, standing at 10-11% on average per year in 2011-2020, or below 11% in 2011-2015 and below 10% in 2016-2020.

2.49 The strategy focuses on four commodity groups: fuel and minerals, agro-forestry and seafood products, processing and manufacturing items and new and high value-added products. Regarding the commodity composition of trade, the proportion of fuels and minerals in the structure of exports is expected to fall from 11.2% in 2010 to 4.4% in 2020, and the share of agro-forestry and aqua products in exports is also likely to be cut from 21.2% in 2010 to 13.5% in 2020. Processing and manufacturing industries producing hi-tech and high-intelligence products should see their

proportion in exports raise from 40.1% in 2010 to 62.9% in 2020. Similarly, the share of new products in exports should be increased from 12% in 2010 to 19.2% in 2020.

- Customs modernization

2.50 As a major step towards enhanced trade facilitation, the Government adopted in 2011 the ambitious “Strategy for Customs development through 2020” which sets the overall objectives for Vietnam Customs to become by the year 2020 a modern customs organization that meets the standards equivalent to those of the customs organizations of the developed countries of ASEAN. The Strategy build on previous Vietnam Customs Modernization Project supported by the World Bank, which built the capacity of the General Department of Vietnam Customs (GDVC) in the areas of trade facilitation, revenue collection, production of foreign trade statistics, community protection and national security. The 2011 Strategy sets specific objectives as follows:

- (1) build and complete the necessary institutional, organizational and legal frameworks that are in conformity with Viet Nam’s administration reform objectives and comply with international standards and commitments;
- (2) customs techniques and procedure must be, by 2020, simplified, made effective, and harmonized with international standards and best practices; as from 2020, process of centralization of customs clearance in a Customs Department database need to be operational; a national customs single window needs to be implemented and the ASEAN Single Window integrated; adopt post clearance audit techniques and effective risk management methods using IT applications;
- (3) set up modern customs organization according to centralization rules, and build a professional customs force meeting the criteria of transparency, integrity, and effective performance;
- (4) set up modern IT customs systems based on centralized data processing, and using e-documents, e-manifest, e-payment, e-certificate;
- (5) specific objectives:
 - by 2015, all Customs Departments and all key Customs Branches must apply electronic customs procedure and e-customs procedures;
 - the time of customs clearance must be by 2015 as short as the average of developed countries in the ASEAN region was in 2010, and by to 2020 the time of customs clearance shall be the same as in developed countries.

- Energy, in particular electric power sector

2.51 In order to attain the objectives of the national socioeconomic development strategy and in particular to help the process of national industrialization and modernization in market economy conditions, the Government has adopted in 2007 the “National Energy Development Strategy Up To 2020 with 2050 Vision”. The

strategy provides that the national energy system should be developed in line with the trend of international integration, by efficiently using domestic energy sources and rationally exploiting and using foreign resources, while effectively creating regional and global energy cooperation and developing an independent and self-reliant economy. It requires the creation of an energy market conducive to fair competition, the promotion of new and renewable energies, bio-energy and nuclear power in order to meet the requirements of socio-economic development. It also requires accelerating the removal of energy subsidies and energy monopoly striving to end to the pursuit of social policies through energy prices.

2.52 For the electric power industry, the Strategy has clearly set radical measures towards a more market economy friendly system. It required the development of the sector by diversifying the ownership forms. The Strategy requires the separation of Vietnam Electricity Group's public utility activities from its production and business activities and that EVN would be responsible for developing electricity sources and operating the national transmission system, while the electricity generation and distribution would be open for domestic and foreign economic operators. The strategy also provides for the continued application on a trial basis of the equitization of power plants and distribution units.

2.53 The "National Master Plan for Power Development in the 2011-2020 Period, with Considerations to 2030" adopted in 2011 requires that electricity sales prices will be defined in accordance with market mechanisms, aiming to encourage investment in the development of the electricity sector while encouraging electricity conservation. Regarding the market structure of the electric power sector, the Master Plan goes beyond the stated objective of the 2007 Strategy by envisioning the progressive development of a competitive electricity market in which the State has only a monopoly in the electricity transmission grid in order to ensure security of the national energy system.

2.54 To promote the use of environmentally friendly energy resources in power generation, the Government is encouraging the development of renewable electric power plants. In June 2011 the Government has set up a support mechanism for wind energy project developments that obliges distributors to buy electric power generated from wind energy and introduces feed-in tariffs for grid-connected wind power projects as follows under which the buyer is responsible to buy all electricity generated from wind power projects at the price equivalent to 7.8 US\$ for which the Government supports the buyer with 1.0 US cent/kWh from the Environmental Protection Fund (VEPF).

- Telecommunications

2.55 The telecommunication sector went through a gradualist reform since the early steps of market opening for foreign investors in 1988 in the form of Business Cooperation Contract (BCC), which allowed foreigners to provide infrastructure deployment and financing while the state-owned partner provided services, with the revenue shared among them. The telecommunication services market has experienced substantial liberalization with the Viet Nam-US Bilateral Trade Agreement of 2002, under which Viet Nam undertook to allow US investments in joint ventures with an equity cap of 49%, and to adopt the pro-competitive regulatory principles of the

GATS Reference Paper on Basic Telecommunications. The major milestone in the sector's reforms was achieved with Viet Nam's WTO accession. Viet Nam committed to provide on an erga omnes basis to all WTO members better market access conditions than under Viet Nam-US BTA. Accordingly, joint ventures with foreign participation can provide telecommunications services related to network infrastructure such as telephone services, packet-switched data transmission services, circuit-switched data transmission services, telex services, telegraph services, facsimile services and private leased circuit services. Viet Nam's specific commitments required maximum equity caps on foreign participation, which vary between 49% and 70% depending on the services and the time of implementation. Viet Nam has implemented all of its specific commitments in due time.

2.56 Since its accession to the WTO, Viet Nam has introduced a number of regulatory changes, which were either directly linked to the implementation of accession commitments or went beyond those commitments to establish even better regulatory conditions for operators. The Law on Telecommunications and the Law on Radiofrequency, which made radical changes in the regulatory framework of the telecommunications sector, have been adopted to promote investment and to implement Viet Nam's accession commitments. Article 18 Law on Telecommunications provides that the forms and conditions for investment in telecommunications services applicable to foreign investors must comply with Vietnamese laws and Viet Nam's WTO commitments. The Law also incorporates the GATS' pro-competition regulatory regime. It provides for obligations to provide access and interconnection to essential network facilities, lessens restrictions on private ownership in facilities-based service providers, introduces an open and transparent licensing regime, and establishes a new regulatory body, the Vietnam Telecommunications Authority (VNTA), to comply with the GATS requirement with respect to regulators.

2.57 While the State holds ownership directly or indirectly in all telecom operators, the market structure is that of a competitive market. For example, while the State has ownership in each of the eight mobile services providers, competition is fierce among them, especially in terms of prices. Though the telecommunications sector is still protected by equity caps on foreign ownership and the State's involvement in the form of capital contribution in a number of enterprises operating in the telecom sector remains significant, Viet Nam is committed to grant full national treatment to foreign invested enterprises in all market segments.

- Business Services

Current challenges

2.58 Since 2007-08 the Vietnamese economy entered a period of macroeconomic turmoil and a relatively slower growth (still averaging an annual 6% growth) partly due to weaker domestic and external demand, high inflation, strict monetary policies, but also due to two main, somehow interrelated, longer-term structural causes that became more apparent recently under tighter macroeconomic policy conditions.

2.59 The first issue, posing a threat to the whole economy, is the large amount of non-performing loans (NPLs) concentrated in the largest banks, especially in the

state-owned commercial banks (SOCBs) which have proliferated because of rapid growth in lending over several years followed by the squeeze on credit in 2011, the downturn in the economy and property market, and poor performances by some highly leveraged state-owned enterprises (SOEs). NPLs became a burden to the lending banks and the State budget when they suddenly surged as bad debts after the tightening of monetary policy and resulting curtailing of bank lending on easy terms precipitated sharp reversals in the prior booms in domestic asset markets in 2011 and the first eight months of 2012. Banks reported in October 2012 that NPLs were about 4.8% of total loans, but based on closer surveillance of the banking system the central bank estimated that the ratio of bad loans was 8.8% at midyear. (The estimate was reduced to 6.0% in February 2013.) The deterioration in financial conditions has highlighted broader weaknesses in the banking sector's structure, governance and supervisory oversight. The financial performance of Viet Nam's banking sector declined sharply over the first eight months of 2012. The return on equity (ROE) of the industry decreased from 12.5% in 2011 to 4.14%. The build-up of bad debt has undermined the profitability of the banking sector, especially for the joint stock commercial banks (JSCBs). The building-up of bad debt remains a crucial problem that prevents banks from functioning as the key lender to the economy.

2.60 Regarding the State economy sector, SOEs are a vital pillar of the economy contributing more than one-third to GDP, and about 50% to exports, and they play an important role in macroeconomic policy, social security, poverty reduction as well as in providing essential products and services. However, some of the SOEs, especially those operating in non-competitive sectors, appear to use less efficiently their resources, including capital and labour than the private sector. Therefore, reforming SOEs is also critical for longer-term growth prospects

2.61 The Government of Viet Nam has recognized the need for structural reforms in these two key sectors, as well as in public investment, in order to improve factor allocation and raise productivity growth and to create the conditions to restart rapid economic growth, and therefore has adopted the Master Plan on Economic Restructuring 2013-2020, which is meant to meet these challenges.

3. Outlook

3.1 The Government of Viet Nam is determined to pursue its policy of economic and trade openness and through liberalisation on the multilateral, regional and bilateral levels. In the WTO framework, despite the deadlocks of the Doha negotiations, we remain committed to restart the works in all negotiating groups, including on Agriculture, NAMA and Services, as we wish to achieve commercially-meaningful global improvements in market access conditions to which we are willing to contribute. Regarding ASEAN and ASEAN+ trade in goods and trade in services agreement, as well as other FTAs entered into by Viet Nam, our Government is firmly committed to fully implement its liberalization commitments according to the agreed schedules and time plans. Regarding the bilateral and regional free trade agreements that are under discussion, such as the Comprehensive Free Trade Agreement with the European Union, the Trans-Pacific Partnership Agreement, or the FTA with the EFTA countries, we will strive to conclude them at an early stage so that our economic operators could reap the benefits from them as soon as possible.

3.2 The Government of Viet Nam is resolved to further pursue the structural reforms of the financial sector, the State economy and the public investments as announced in the “three pillar” Master Plan. Reforming these sectors are necessary in order to create better conditions for efficient resource allocations, level playing field for market players and reinvigorated economic growth.