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THE IMPACT OF WTO ACCESSION:
-Case study of Vietnam-

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Hoang Chi Cuong

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LIST OF ABBREVIATIONS

AANZFTA:	**ASEAN-Australia-New Zealand Free Trade Agreement**
ACFTA:	**ASEAN-China Free Trade Area**
ADB:	**Asian Development Bank**
AFTA:	**ASEAN Free Trade Area**
AIFTA:	**ASEAN-India Free Trade Agreement**
AJCEP:	**ASEAN-Japan Comprehensive Economic Partnership Agreement**
AKFTA:	**ASEAN-Korea Free Trade Agreement**
AoA:	**Agreement on Agriculture**
ASEAN:	**Association of South East Asian Nations**
ASEM:	**Asia-Europe Meeting**
ATC:	**Agreement on Textiles and Clothing**
CA:	**Civil Aircraft Equipments Agreement**
CEPT:	**Common Effective Preferential Tariff**
CH:	**Chemical Harmonization Agreement**
CVC:	**Customs Valuation Agreement**
DSU:	**Dispute Settlement Understanding**
EU:	**European Union**
FDI:	**Foreign Direct Investment**
FTA:	**Free Trade Agreement**
GATT:	**General Agreement on Tariffs and Trade**
GDP:	**Gross Domestic Product**
GNP:	**Gross National Product**
GSO:	**General Statistics Office**
GSP:	**Generalized System of Preferences**
IMF:	**International Monetary Fund**
ITA:	**Information Technology Agreement**
ITO:	**International Trade Organization**
JVEPA:	**Japan Vietnam Economic Partnership Agreement**
LDC:	**Least Developed Country**
ME:	**Medical Equipments Agreement**
MNC:	**Multinational Corporation**
MOIT:	**Ministry of Industry and Trade**
MPI:	**Ministry of Planning and Investment**

NTR:	**Normal Trade Relations**
PSI:	**Pre-Shipment Inspection**
ROO:	**Rules of Origin**
SCM:	**Agreement on Subsidies and Countervailing Measures**
SG:	**Agreement on Safeguard Measures**
SPS:	**Sanitary and Phytosanitary Measures**
TBT:	**Technical Barriers to Trade**
TNCs:	**Trans National Companies**
TPP:	**Trans-Pacific Partnership**
TRIMS:	**Agreement on Trade-Related Investment Measures**
TRIPS:	**Agreement on Trade-Related Aspects of Intellectual Property Rights**
TXT:	**Textiles Agreement**
UN:	**United Nations**
UNSD:	**United Nations Statistics Division**
USA:	**The United States of America**
USBTA:	**United States-Vietnam Bilateral Trade Agreement**
VCFTA:	**Vietnam-Chile Free Trade Agreement**
VEFTA:	**Vietnam-European Union Free Trade Agreement**
VKFTA:	**Vietnam-Korea Free Trade Agreement**
WB:	**World Bank**
WTO:	**World Trade Organization**

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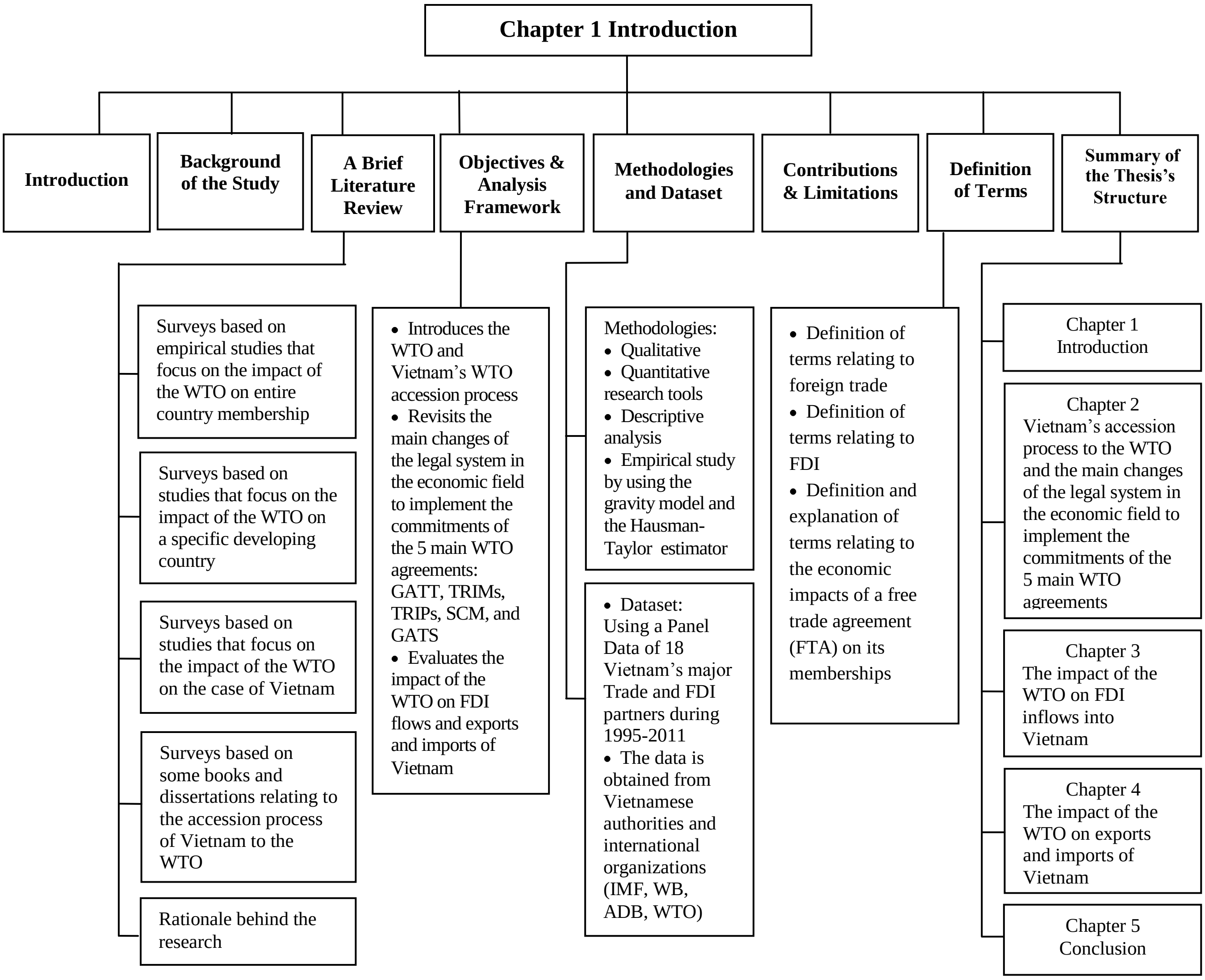
Chapter 1

INTRODUCTION

1.1. INTRODUCTION

This chapter serves as the introductory part of my doctoral thesis. First, it presents the background of the study. Second, it depicts a brief literature review that comprises surveys of studies conducted in the past by a specific author or a group of authors, including general conclusions of these studies which are related to the impact of the World Trade Organization (WTO) on its member countries, and draws out the rationale behind my research. Third, it indicates the objectives to be accomplished and establishes the analysis framework in the academic field. Fourth, it describes the methodologies and dataset adopted in the conduct of the research. Fifth, it outlines the contributions and limitations of the research. Sixth, it refers to the definition of terms. Finally, the summary of the thesis's structure is also given at the end of this chapter. Figure 1.1 below details the structure of Chapter 1.

Figure 1.1: The Structure of Chapter 1



Source: Author's compilation.

1.2. BACKGROUND OF THE STUDY

In the 1980s, Vietnam was one of the poorest countries in the world, dealing with internal difficulties such as super inflation, poverty, and an economic crisis. To stimulate economic development, control inflation, and catch up with other countries in the region that were rapidly advancing, Vietnam started transforming its centrally planned economy into a market-economy since 1986, which is the so-called Renovation Policy ("Doi moi" in Vietnamese).

The country started opening "the door" to the World in the early 1990s. Since the end of the embargo of the USA in February 1994, Vietnam has engaged successively in several regional trade agreements and international organizations. The country joined the Association of South East Asian Nations (ASEAN) in 1995. Vietnam signed a bilateral trade agreement with the USA (USBTA) in 2000, the ASEAN Free Trade Area (AFTA) in 2001, and the ASEAN-China Framework Agreement on Comprehensive Economic Cooperation (ACFTA) in 2002. It signed/joined the ASEAN-Korea Free Trade Agreement (AKFTA) and the WTO in 2007, the ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEP) and the Japan-Vietnam Economic Partnership Agreement (JVEPA) in 2008. It also signed the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) and the ASEAN-India Free Trade Agreement (AIFTA) in 2009. At the moment, Vietnam has prepared/implemented the negotiation process to sign/join a Free Trade Agreement with the European Union (EU), the Republic of Korea and the Trans-Pacific Partnership Agreement (TPP) with its partners as well.[1] The timeline for trade liberalization and economic integration of Vietnam from 1986 to 2012 is presented in Figure 1.2 below.

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[1] The ongoing 2008 global financial and economic crisis revealed both the strengths and weaknesses of the global trading system under the WTO regime. It is known that the global trade liberalization under the WTO is the best existing policy for the world as a whole. However, the current round of multilateral trade negotiations under the WTO, the Doha Development Agenda (DDA), has been deadlocked. Thus, a large number of countries have become unsatisfied with the WTO due to the slow progress in multilateral trade liberalization and limited coverage of the WTO rules. Faced with these concerns, many countries (including Vietnam) have turned to free trade agreements (FTAs) such as Trans-Pacific Partnership (TPP), Vietnam-European Union Free Trade Agreement (VEFTA), Vietnam-Korea Free Trade Agreement (VKFTA), Comprehensive Economic Partnership in East Asia (CEPEA), etc., under which trade barriers are removed among the member countries.

Figure 1.2: Timeline for Trade Liberalization and Economic Integration of Vietnam from 1986 to 2012

1986	Renovation Policy (Doi moi)-Economic reforms begin
1987	Foreign Investment Law is issued
1988	Import tariffs introduced
1989	Market oriented reforms; Unified Exchange Rate; state monopoly of foreign trade eliminated
1990	Export Processing Zones established
1991	Law on Import and Export Duties-preferential tariffs established
1992	The European Union trade agreement
1993	
1994	Quotas introduced
1995	WTO Accession Working Party established; joins ASEAN
1996	Asia-Europe Meeting (ASEM) established
1997	Asian Financial Crisis began; reduced requirements on firms to enter foreign trade
1998	Joins the Asia-Pacific Economic Cooperation (APEC)
1999	Most Favored Nation (MFN) agreement with Japan
2000	The United States-Vietnam Bilateral Trade Agreement (USBTA) signed
2001	CEPT/AFTA implementation plan under the ASEAN begins
2002	ASEAN-China Free Trade Area established; implementation of the USBTA begins
2003	The Framework Agreement for Comprehensive Economic Partnership between ASEAN and Japan signed
2004	The EU-Vietnam Bilateral Agreement on WTO Accession signed
2005	Law on Investment and Enterprise Law in tandem with other law documents are issued/amended
2006	Final bilateral agreements for WTO Accession reached; CEPT/AFTA implementation plan under ASEAN to be completed;
2007	Officially joins the WTO; ASEAN-Korea Free Trade Agreement (AKFTA) signed and enters into force; the Global Financial Crisis begins
2008	Japan-Vietnam Economic Partnership Agreement (JVEPA) signed; ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEP) signed
2009	ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) and ASEAN-India Free Trade Agreement (AIFTA) signed
2010	
2011	
2012	Vietnam-Chile Free Trade Agreement signed and comes into effect (VCFTA) Starts negotiations to sign the Vietnam-Korea Free Trade Agreement (VKFTA) Starts negotiations to join the Trans-Pacific Partnership Agreement (TPP) Starts negotiations to sign the Vietnam-European Union Free Trade Agreement (VEFTA)

Source: Abbott, P. et al. (2009, p. 343) and updated by Author.

Over the two decades since the start of the Renovation, from a nation once ravaged by wars, Vietnam has emerged as one of the most successful countries in terms of economic development in Asia. The economy has posted an annual growth of around 7 percent. The country has also prospered since its accession to the WTO in 2007. In particular, accession to the WTO is regarded as an historic milestone for Vietnam to further integrate with the global economy.

The World Trade Organization (WTO), the successor of the General Agreement on Tariffs and Trade (GATT), is an international organization dealing with the rules of trade between nations. The function of the WTO is to ensure that trade flows as smoothly, predictably and freely as possible. This multilateral trading system is also an attempt by governments to make the business environment stable and predictable. In addition, it commits to policy stability, predictability and good governance through membership to the WTO.[2] Its objective is to help producers of goods and services, exporters, and importers conduct their business more effectively and freely.[3] The WTO may have possible impact on member countries in the fields of foreign trade, FDI attraction and legal reform. This is because the WTO has enough influence to dictate not only on the changes of trade and investment policies but also on many fundamental rules of law and governance. This institution provides a critical benchmark for facilitating global trade and focuses on securing a more transparent, predictable, and stable investment environment.

The accession of Vietnam to the WTO might be considered a major challenge to its government administration in various areas including the content of its trade policies. The process of WTO accession involved years of detailed examination by a Working Party and lengthy rounds of negotiations. However, the operation of the WTO should be of interest to Vietnam because the rules that are being decided therein have an impact on the country and on everything that relates to what the citizens of Vietnam eat, dress, and buy and sell in their daily lives. As for the business sector and the society at large, the lack in experience with the WTO and apprehension over the consequences of market liberalization, demand more details about the benefits of the membership and question the possible impact of the WTO rules on the country's economy. Particularly this begs the question, what are the effects of the WTO regime on Vietnam in the aspects of the economic institutional changes, foreign direct investment (FDI) attraction, and foreign trade expansion? Using this inquiry as a starting point, this research titled "**The Impact of WTO Accession: Case Study of Vietnam**" will seek to comprehensively answer this question.

The aim of this research is to assess the possible impact of the WTO on economic

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[2] Retrieved from website http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr00_e.htm, accessed December 7, 2012.

[3] Retrieved from website http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm, accessed April 8, 2013.

institutional changes, FDI flows, and exports and imports of Vietnam. To achieve reliable and persuasive outcomes and to enhance the significance of the research, the author will employ the gravity model using the Hausman-Taylor (1981) estimator and updated figures from trustworthy sources (e.g., WTO negotiation documents of Vietnam, relevant research papers, state agencies and international organizations such as the Asian Development Bank, the International Monetary Fund, the World Bank, etc.) for the analysis in this research. This will have an important implication for Vietnam to further integrate into the global trading system in the post-WTO accession. The author hopes to arrive at a more profound understanding on the impact of the WTO on a developing country that joined the WTO after 1995. The main findings presented in this research can contribute to the existing literature concerning the possible impact of the WTO on a specific developing member in terms of testable implications from gravity models. The next section will present a brief literature review that comprises surveys of studies conducted in the past by a specific author or a group of authors, including general conclusions of these studies which are related to the impact of the WTO on its member countries, and draw out the rationale behind my research.

1.3. A BRIEF LITERATURE REVIEW ON THE IMPACT OF THE GATT/WTO ON ITS MEMBER COUNTRIES

Following the establishment of the WTO in 1995, a successor of the GATT (1947), some studies have sought to evaluate the impact of this multilateral trading system on acceding countries. This section starts with a presentation on some surveys based on important researches including main conclusions drawn by those studies. It then conducts a critical review of some notable studies on the case of Vietnam to draw out the rationale behind this research.

Table 1.1 below will first present surveys based on empirical studies that focus on the GATT/WTO trade effects on its entire country membership. Then, Table 1.2 depicts surveys based on studies that call attention to the GATT/WTO effects on a specific developing member. After that, Table 1.3 delivers surveys based on studies that emphasize the GATT/WTO effects on the case of Vietnam. The final table, Table 1.4 refers to some books and dissertations related to the accession process of Vietnam to the WTO.

Table 1.1: Surveys Based on Empirical Studies that Focus on the GATT/WTO Trade Effects on its Entire Country Membership

Author	Year	Data and Methodologies	Main findings
Rose	2004	• Panel data of 178 countries from 1948 to 1999 • Gravity model	• Found no statistically significant impact of the GATT/WTO on member countries
Gowa and Kim	2005	• Data of bidirectional trade flows before and after World War II • Gravity model	• The benefits of the GATT were highly skewed than conventional assumes • The postwar regime increased trade between only five of its member states • The GATT regime replaced the interwar system de jure but not de facto
Tomz et al.	2007	• Data and Method of Rose (2004) • Reclassified countries into: *formal membership, colonies, de facto members, and provisional members*	• The GATT increased the trade of both formal members and non-member participants • The effects were positive across time and geographic regions and robust to changes in methods of estimation
Subramanian and Wei	2007	• Data of Rose (2004) • Gravity model • The WTO, FTA, and GSP dummies are further decomposed according to importer-exporter relations	• The WTO has had a strong and positive impact on trade • The impact has, however, been uneven: - Industrial countries witnessed a large increase in trade - Bilateral trade was greater when both partners undertook liberalization than when only one partner did - Sectors that did not witness liberalization did not see an increase in trade
Felbermayr and Kohler	2007	• Panel data • Probit model and Tobit model	• When both countries are WTO members; their trade is 31 percent higher than it would be otherwise • A surprising finding is that the effects of GATT participation are greater when one economy is a member than both are members (about 144 percent higher)
Liu	2007	• Panel dataset from 1948 to 2003 of 210 countries • Gravity model/econometric methods: Poisson Pseudo-Maximum Likelihood, FE, RE estimation	• The GATT/WTO has been very effective in promoting world trade at both the intensive (70% of the world imports) and the extensive (30% of the world imports) margins
Helpman et al.	2008	• Data of international trade with heterogeneous firms • Gravity model with a two - step estimator	• When both partners are WTO members, trade is around 35 percent higher than it otherwise would be
Martin et al.	2009	• The dataset of Subramanian and Wei (2007) in the period from 1950 to 2000 • Gravity model	• The effects of the GATT/WTO are disproportionately large for the Asia-Pacific countries
Eicher and Henn	2011	• Large bilateral trade data set • Unified the Rose, Tomz et al., and Subramanian and Wei specifications	• The WTO membership boosts trade prior to PTA formation and increases trade among proximate developing countries • Countries with greater incentives to bargain for tariff reductions before WTO accession subsequently experience positive and significant WTO trade effects
Chang and Lee	2011	• Data set by Rose (2004) • Nonparametric methods including pair-matching, permutation tests, and a Rosenbaum (2002) sensitivity analysis	• The GATT/WTO has a significant trade - promoting effect for dyads (country pairs) that have both chosen to be members • The effect is larger than bilateral trade preference arrangements, Generalized System of Preferences and larger than when only one country in a dyad has chosen to be a member

Source: Author's compilation.

Table 1.2: Surveys Based on Studies that Focus on the GATT/WTO Effects on a Specific Developing Membership

Author	Year	Data and Methodologies	Main findings
Oxana and Maurel	2004	• Dataset that contains 42 countries over 8 years • Gravity equation and the Hausman-Taylor (1981) estimator	• In the Russian Federation, the potential increase in trade due to improvements in institutions is 66.2%. The benefit from joining the WTO comes only from adherence to WTO standards and rules and from pursuing the reforms initiated in the nineties
Walmsley et al.	2006	• Data on China's FDI • Quantitative and descriptive analysis	• With China's accession to the WTO becoming a reality, FDI has once again picked up. The investment and capital stocks increase substantially • Foreign ownership of Chinese assets doubles by 2020 • Central to this increase is the expected catch-up in the productivity of the services sectors driven by reforms
Qin	2007	• Data on China • Qualitative research tool and descriptive analysis	• China's WTO accession has made its foreign trade and investment regime far more liberalized and less opaque than a decade ago • The accession has institutionalized the process of China's domestic reform externally through the force of WTO obligations • The WTO membership ensures that the course of China's economic development will be charted within the disciplines of the WTO system
Jensen et al.	2007	• Data on Kazakhstan • Computable General Equilibrium model (CGE model)	• These authors estimated that Kazakhstan would gain about 6.7% of the value of Kazakhstan consumption in the medium run and up to 17.5% in the long run
Bussea and Gröning	2011	• Panel data on Jordan and 137 country partners from 1980 to 2007 • Gravity model and the Hausman-Taylor (1981) estimator	• The WTO accession has led to an increase in the country's imports • There was no statistically significant impact of this accession on the country's exports
Shepotylo and Tarr	2012	• Trade data at the ten digit level of the Russian Federation • Qualitative and descriptive analysis	• The WTO commitments will lower the applied tariffs of the Russian Federation • The tariffs will fall from 11.5 percent to 7.9 percent on an un-weighted average basis or from 13.0 percent to 5.8 percent on a weighted average basis • The average "bound" tariff rate under its WTO commitments will be 8.6 percent, that is, 0.7 percentage points. The Russian Federation's commitments represent a significant tariff liberalization, but the commitments are not unusual, especially when compared with other Transition countries

Source: Author's compilation.

Table 1.3: Surveys Based on Studies that Focus on the GATT/WTO Effects on the Case of Vietnam

Author	Year	Data and Methodologies	Main findings
Nguyen, Van Canh	2006	• Data about Vietnam • Qualitative and descriptive analysis	• Regulations and legal documents that violate WTO rules must be modified (e.g., dual pricing mechanism, export subsidies etc.) • Reform is necessary to fit the requirements of the main WTO agreements (e.g., GATT, GATS, TRIPS, SCM, and TRIMs)
Ngo, Duc Manh	2007	• Data about Vietnam • Qualitative and descriptive analysis	
Nguyen, Van	2007	• Data about Vietnam • Qualitative and descriptive analysis	
Nguyen, Van Tuan	2009	• Data about Vietnam • Qualitative and descriptive analysis	
Nguyen, Dang Thanh	2010	• Data about Vietnam • Qualitative and descriptive analysis	
Dinh, Trung Thanh	2005	• Data about Vietnam • Qualitative and descriptive analysis	• There will be/has been a “flood” of FDI capital flowing to Vietnam. This resulted from the transparency, stability, and predictability of the policies & trade openness of the country within the framework promised to the WTO
Nguyen, Khanh Duy	2006	• Data about Vietnam • Qualitative and descriptive analysis	
Nguyen, Sinh Cuc	2009	• Data about Vietnam • Qualitative and descriptive analysis	
Vo, Tri Thanh et al.	2010	• Data about Vietnam • Qualitative and descriptive analysis	
Nguyen, Dinh Chien et al.	2012	• Panel data of 64 provinces/cities in Vietnam • Economic model, FE estimation	• Promulgating Unified Enterprises and the amended Investment Law in 2005, as well as access to the WTO in 2007 have had a positive effect in attracting FDI in the period 2006-2010 • The Law factor has a more positive and stronger impact on FDI attraction of Vietnam than the WTO accession
Luong, Van Tu	2005	• Data about Vietnam • Qualitative and descriptive analysis	• The WTO will stimulate the country’s exports through attracting FDI capital • The WTO will also promote the country’s imports
To, Huy Rua	2005	• Data about Vietnam • Qualitative and descriptive analysis	• The WTO will expand Vietnam’s foreign trade through attracting more FDI • The WTO will speed up the reform of many legal documents
Nguyen, Thi Nhieu	2007	• Data about Vietnam • Qualitative and descriptive analysis	• The WTO will increase Vietnam’s foreign trade through attracting FDI capital
Dordi et al.	2008	• Data about Vietnam • Qualitative and descriptive analysis	• The WTO boosted Vietnam’s imports faster than exports causing the trade deficit of the country
Vo, Tri Thanh et al.	2010	• Data about Vietnam • Qualitative and descriptive analysis	• The WTO increased Vietnam’s exports (e.g., textiles, garments, agricultural and other processing products) • The WTO also induced the country’s imports and motivated FDI flows
Pham, Thi Hong Hanh	2011	• Panel data about Vietnam and 17 country partners from 1990 to 2008 • Gravity model, OLS and RE estimations	• The WTO increased FDI flows to Vietnam • The WTO stimulated the country’s imports • The WTO did not induce the country’s exports

Source: Author’s compilation.

Table 1.4: Surveys Based on Some Books and Dissertations Relating to the Accession Process of Vietnam to the WTO

Author	Publisher/University	Year	Name of the Book/Thesis title	Pages
Anderson, Kym	Institute of Southeast Asian Studies-Singapore Publisher	1999	Vietnam's transforming economy & WTO accession: implications for agricultural and rural development	-
International Studies Department - University of Social Science and Humanity - Hanoi National University	NXB The gioi (The gioi Publisher)	2005	Vietnam & tien trinh gia nhap WTO (Vietnam and the Accession Process to the WTO)	438
Vo, Dai Luoc	NXB Khoa hoc Xa hoi (Khoa hoc Xa hoi Publisher)	2005	Trung Quoc gia nhap WTO va Kinh nghiem cho Viet Nam (China Joining the WTO and the Experiences for Vietnam)	350
The Ministry of Industry and Trade	NXB Lao dong Xa hoi (Lao dong Xa hoi Publisher)	2006	Bo van kien cac cam ket cua Viet Nam gia nhap To chuc Thuong mai The gioi - WTO (The Documents about Vietnam’s Commitments to the WTO)	716
The Ministry of Industry and Trade	NXB Lao dong Xa hoi (Lao dong Xa hoi Publisher)	2006	Thoi co va thach thuc khi Viet Nam gia nhap To chuc Thuong mai The gioi (WTO) (Opportunities and Challenges when Vietnam Accesses the World Trade Organization (WTO))	662
Wiemann, Jurgen	German Development Institute	2006	Vietnam - the 150th WTO Member: implications for industrial policy and export promotion	-
Nguyen, Viet Hung	NXB Van Hoa Thong Tin (Van Hoa Thong Tin Publisher)	2007	Thue quan nhap khau toi hue quoc sau gia nhap WTO (MFN Import Tariffs in the Post-WTO Accession)	716
Le, Thanh Kinh	NXB Tai chinh (Tai chinh Publisher)	2007	Gia nhap WTO-Co hoi vang trong Dau tu chung khoan va Thi truong chung khoan (WTO Accession-the Golden Chance for Stock Investment and Stock Market)	555
Pham, Duy Tu	NXB Tuoi tre (Tuoi tre Publisher)	2007	Giai quyet nhung thach thuc khi gia nhap WTO (Challenges Solving when Acceding to the WTO)	366
The Ministry of Industry and Trade	NXB Lao dong Xa hoi (Lao dong Xa hoi Publisher)	2007	Qua trinh gia nhap WTO (The WTO Accession Process)	-
Pham, Hong Quat	Yokohama National University, Japan	2007	How to Comply with the TRIPS and WTO law: the new challenges to Vietnam's patent legislation from WTO dispute settlement practice (PhD. thesis)	-
Nguyen, Viet Quoc	University of Glasgow, the UK	2008	Enhancing the Effectiveness of the Vietnamese Judicial System in Dealing with Intellectual Property Rights cases toward the compliance with the TRIPS Agreement (MA. thesis)	-
Tran, Thi Lan Anh	University of Leeds, the UK	2009	Vietnam’s membership of the WTO: an analysis of the transformation of a socialist economy into an open economy with special reference to the TRIPS regime and the patent law (MA. thesis)	-
Pham, Thi Hong Hanh	University of Rouen, France	2010	Opportunities and Challenges of Vietnam’s accession to the WTO: An investigation of the relationship between trade and finance (PhD. thesis)	-

Source: Author’s compilation.

Overall, much of the information that exists concerning the overarching objective of the WTO-a successor of the GATT which is based on the tenets of helping trade flow smoothly, freely, fairly and predictably between its member countries.[4] "Trade increasing courtesy of this institution may seem self-evident" (Subramanian and Wei, 2007). However, we know much less about the real impact of its accession on acceding countries themselves. Therefore, a careful analysis is necessary to evaluate the real impact of this institution on its member countries.

The surveys presented in Table 1.1 suggest that the question on whether the WTO increases trade of its member countries has been documented in some well-known empirical studies with remarkably diverse answers. Rose (2004) concluded that there was "no statistically significant impact" of the WTO on its member's bilateral trade flows in fifty years (1948-1999). The author called his finding as an "interesting mystery". The "mystery" lies in understanding who actually participated in the GATT. The author has overlooked a large proportion of countries in which the agreement is applied to, and mistakenly classified them as nonparticipants when in fact they had both rights and obligations under the agreement (treating nonmember participants as outsiders). This causes a downward bias in his estimates of GATT's effect on trade. Particularly, Rose's gravity regressions compare trade levels of formal members to trade levels of a group that includes some participants (Tomz et al., 2007). Rose (2005) generated positive WTO trade effect after accounting for the diverse trade impact produced by individual preferential trade agreements (PTAs). Despite some drawbacks, Rose has set a very important foundation for the latter empirical studies on the possible impact of the WTO on its member's trade flows. Rose's contribution is conspicuous because he has assembled a large dataset and performed a myriad of analyses.

Gowa and Kim (2005) used the data on bilateral trade flows both before and after World War II to examine the impact of the GATT on trade between its members and on the system of interwar trade blocs. Their results show that: (i) "the distribution of the benefits the GATT produced was much more highly skewed than conventional wisdom assumes"; (ii) "the postwar regime increased trade between only five of its member states"; and, (iii) "the GATT regime replaced the interwar system de jure but not de facto since several interwar blocs continued to influence trade patterns after 1945".

Tomz et al. (2007) used the same data and methods as Rose (2004) but reclassified countries according to their *participation status* in the GATT/WTO (*formal membership, colonies*, *de facto members, and provisional members*) indicating that: (i) "the GATT

[4] See Understanding the WTO item, website: http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm, accessed April 8, 2013.

considerably increased the trade of both formal members and nonmember participants, compared with countries outside the agreement". And that (ii), "its effects were positive across time and geographic regions and robust to changes in methods of estimation".

Subramanian and Wei (2007) re-examined Rose's findings using *import data*, rather than the *average value* of real bilateral trade estimates favored by Rose. These authors set a properly specified gravity model using Rose's data, and differentiated the effects by subsets of the sample (e.g., developed versus developing countries) and found robust evidence that: (i) "the WTO had a strong and positive impact on trade". And, (ii) "the impact has, however, been uneven. Industrial countries that participated more actively than developing countries in reciprocal trade negotiations witnessed a large increase in trade. Bilateral trade was greater when both partners undertook liberalization than when only one partner did". Conversely, "sectors that did not witness liberalization did not see an increase in trade".

All of those studies thus by far took the traditional gravity model approach of focusing on non-zero trade flows. A number of recent studies have taken into account the fact that "very large fractions of trade flows are frequently zero, and that so-called extensive-margin growth associated with new trade flows may be an important dimension of trade growth" (Martin et al., 2009). Thus, Felbermayr and Kohler (2006) suggested that "omitting cases with zero trade results in downward-biased estimators of the impact of the WTO on trade" and their numerical estimates indicate this effect may be very large.

Felbermayr and Kohler (2007) used a combination of a Probit model and a Tobit model to predict the level of trade and found that "when both countries are WTO members, their trade is 31 percent higher than it would be otherwise". *A surprising finding from their results is that "the effects of GATT participation are greater when one economy is a member than when both are members".* Liu (2007) also focused on extensive-margin of trade growth for the period from 1948 to 2003 in tandem with a dataset designed to allow tracking of extensive-margin as well as intensive-margin of trade growth. Like Rose (2004), the author used official membership of the GATT/WTO, rather than the broader concept of participation favored by Tomz et al. (2007). He concluded that "the GATT/WTO has been very effective in promoting world trade at both the intensive (70% of the world imports) and the extensive (30% of the world imports) margins".

Helpman et al. (2008) developed a simple model of international trade with heterogeneous firms that are consistent with a number of stylized features of the data. Their model predicts positive as well as zero trade flows across pairs of countries and it allows the number of exporting firms to vary across destination countries. The authors included a WTO membership dummy in their widely cited study of extensive and intensive-margin trade growth. They found that, "when both partners are WTO members, trade is 35 percent higher than it would be otherwise". A key innovation of their study is a two-step estimator that takes into account not only the distinction between zero and non-zero trade flows. It extends the Heckman (1979) estimator that is designed to deal with sample-selection problems to include an extensive-margin in which increasing numbers of firms participate in trade.

Martin et al. (2009) used the dataset of Subramanian and Wei (2007) covering the period from 1950 to 2000 to investigate whether formal membership in the multilateral trading system had an effect on trade in the Asia-Pacific region.[5] These authors found, like Subramanian and Wei (2007), that: (i) "GATT/WTO membership alone was not significant". After including a dummy for countries in the region, namely PAFTAD, these authors found (ii) "these countries traded much more than other countries". When these authors added an interaction term between GATT/WTO membership and the PAFTAD dummy, they found a strongly significant and economically large effect. This may suggest that membership in a multilateral system has been particularly important in promoting the growth of trade in the Asia-Pacific region.

Eicher and Henn (2011) unified the Rose, Tomz et al., and Subramanian and Wei specifications in one comprehensive approach that minimized omitted variable bias. This paper is the first to combine all three controls (multilateral resistance, unobserved bilateral heterogeneity, and individual PTA trade effects) in a large bilateral trade dataset to re-examine WTO trade effects. These authors stated that: (i) "all specifications produced one consistent result: WTO effects on trade flows are not statistically significant", while PTAs produced strong but uneven trade effects. After extending the gravity model to address specific avenues in which WTO may have affected trade flows, they found that (ii) "WTO membership boosts trade prior to PTA formation and increases trade among proximate developing countries". An augmented gravity model that accounts for WTO terms-of-trade theory showed that (iii) "countries with greater incentives to bargain for tariff reductions before WTO accession subsequently experience positive and significant WTO trade effects". Another notable finding is that (iv) "*individual PTA trade effects are constrained to an average coefficient associated with one aggregate PTA dummy"*.

Chang and Lee (2011) used the dataset by Rose (2004) et al. to re-examine the GATT/WTO membership effects on bilateral trade flows. These authors employed the nonparametric methods including pair-matching, permutation tests, and a Rosenbaum (2002) sensitivity analysis.[6] Their

[5] The countries included are: Australia, Canada, Cambodia, Chile, China, Indonesia, Hong Kong, Japan, the Republic of Korea/South Korea, Laos, Malaysia, Mexico, Myanmar, Papua New Guinea, Peru, the Philippines, Singapore, Thailand, the USA and Vietnam.

[6] The authors argued that parametric gravity and nonparametric matching estimators rely on the assumption of "selection on observables"; non-random selection into membership based on unobservable is assumed away. This assumption may fail if there are important omitted variables. The Rosenbaum (2002) sensitivity analysis

results suggest that: (i) “membership in the GATT/WTO has a significant trade-promoting effect for dyads (country pairs) that have both chosen to be members”; (ii) “the effect is larger than bilateral trade preference arrangements, Generalized System of Preferences; and (iii) larger than when only one country in a dyad has chosen to be a member”.[7]

Along with a vast amount of empirical studies that is built on the gravity model that used many estimated techniques and datasets for most of the GATT/WTO membership to test the effects of this institution on trade flows (see Table 1.1), is the paucity of studies on the impact of its accession on a specific case of a developing member (see Table 1.2). The surveys suggest that only some papers assessed the impact of the WTO on economic performance and social well-being of developing economies that have joined the WTO since 1995 (e.g., China, Jordan, Kazakhstan, the Russian Federation and Vietnam, etc.).

Particularly, Oxana and Maurel (2004) stated that in the Russian Federation, “the potential increase in trade due to improvements in institutions is 66.2%. The benefits from joining the WTO come only from adherence to the WTO standards and rules and from pursuing related reforms.” Walmsley et al. (2006) concluded that “with China's accession to the WTO becoming a reality, FDI has once again picked up”. Moreover, “the investment and capital stocks have increased substantially. Foreign ownership of Chinese assets will double by 2020. Central to this increase is the expected catch-up in the productivity of the services sectors driven by reforms”. Qin (2007) found that: (i) “China’s WTO accession has made its foreign trade and investment regime far more liberalized and less opaque than a decade ago”; (ii) more importantly, “the accession has institutionalized the process of China’s domestic reform externally through the force of WTO obligations”; and, (iii) “the WTO membership ensures that the course of China's economic development will be charted within the disciplines of the WTO system”. Jensen et al. (2007) estimated that “Kazakhstan would gain about 6.7% of the value of Kazakhstan consumption in the medium run and up to 17.5% in the long run”. Bussea and Gröning (2011) concluded that: (i) “the WTO accession led to an increase in imports of Jordan”; and, (ii) “there was no statistically significant impact of this accession on the country’s

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partly addresses this problem. In addition, Bagwell and Staiger (2010, pp. 245-247) suggest heterogeneous membership effects on trade are important implications (uneven levels of trade negotiation participation). So, the authors suggest using nonparametric methods/Permutation tests for heterogeneous membership effects and unobserved selection bias/complicated panel data (there is no clear theoretical justification for the linear relation among the various trade-resistance measures and heterogeneity takes on highly nonlinear functional forms). These methods provide an estimation framework that is robust to misspecification bias, allows general forms of heterogeneous membership effects, and addresses potential hidden selection bias. This is in contrast to most conventional parametric studies on this issue.

[7] However, while the estimates for the main gravity covariates (such as distance and GDP) remain stable across specifications estimates for the other covariates/coefficients are not. This suggests that the nonparametric model is problematic. Thus, allowing the membership dummies to interact with observed covariates (and hence allowing the membership effects to vary with dyad-year characteristics), Chang and Lee found the parametric effect estimates to become significant and positive.

exports". Another group of authors, Shepotylo and Tarr (2012) suggested that "WTO commitments would progressively and significantly lower the applied tariffs of the Russian Federation but compared with other countries that have acceded to the WTO, the commitments of the country are not unusual, especially when compared with the transition countries".

For the case of Vietnam - a new developing WTO member, there are also some studies using the qualitative, quantitative research tools, and descriptive analysis to evaluate the potential impact of the WTO on Vietnam's economy in various economic aspects (see more in Table 1.3 above). Generally, the author divides them into three groups below.[8]

First, Nguyen, Van Canh (2006), Ngo, Duc Manh (2007), Nguyen, Van (2007), Nguyen, Van Tuan (2009), Nguyen, Dang Thanh et al. (2010) share a common vision that a number of regulations and legal documents that do not fit the WTO rules need to be modified (e.g., dual pricing mechanism and export subsidies, etc.). And, institutional reform is necessary to qualify the provisions of the WTO agreements (e.g., GATT, GATS, TRIPS, SCM, and TRIMs).

Second, Dinh, Trung Thanh (2005), Nguyen, Khanh Duy (2006), Nguyen, Sinh Cuc (2009), and Vo, Tri Thanh et al. (2010) stated that "there would be a "flood" of FDI capital flowing into Vietnam resulting from improved transparency and the stability of the domestic market and business environment". Nguyen, Dinh Chien et al. (2012) based their study on a panel dataset of 64 provinces and cities in Vietnam and used the fixed-effects estimation for their econometric models concluded that: (i) "Promulgating Unified Enterprises and the amending Investment Law in 2005, as well as accession to the WTO in 2007 have had a positive impact on FDI attraction in the period 2006-2010"; in addition, (ii) "the Law factor has had a more positive and stronger impact on FDI attraction than the WTO accession".

Third, Luong, Van Tu (2005) predicted that "there would be an increase in Vietnam's exports through improved market access for the WTO members and foreign investment inwards together with the institutional reforms". Dinh, Trung Thanh (2005) indicated that "Vietnam would attract more foreign investment capital and enlarge foreign trade after its accession to the WTO". To, Huy Rua (2005) suggested that "there would be an increase in exports of agricultural and labor-intensive products in tandem with a boom in FDI capital". Nguyen, Thi Nhieu et al. (2007) stated that "Vietnam's exports would increase resulting from FDI attraction and the expansion of Vietnamese enterprises to the world market". Dordi et al. (2008) suggested that "joining the WTO induced Vietnam's imports faster than exports causing the trade deficit of the country". Vo, Tri Thanh et al. (2010) assumed that "the elimination of trade barriers of country partners for

[8] The first group of authors focuses on the impact of the WTO on economic institution changes of Vietnam. The second group of authors emphasizes on the impact of the WTO on FDI inflows into Vietnam. The third group of authors concerns about the effect of the WTO on FDI flows and exports and imports of the country.

Vietnam's merchandises (e.g., textiles, garments, agricultural and other processing products) after WTO accession has led to an increase in the country's exports. In the import side, a foreseen but underestimated impact of the WTO accession has caused an increase in import value and trade deficit. In addition, more equal and transparent legal environments, as well as higher level of openness after Vietnam's accession to the WTO and regional trade/investment agreements are the most important factors that could attract a considerable amount of FDI capitals. At the same time, joining the WTO has imposed significant impact on economic institutions in Vietnam".[9] Pham, Thi Hong Hanh (2011) used a panel data in the period from 1990 to 2008 of 17 country partners to assess the effects of the WTO accession on the dynamics of FDI and foreign trade in Vietnam.[10] First, the author found that "the WTO accession has made significant and positive effects on both Vietnam's imports and FDI inwards". Second, "this accession has seemed to indirectly encourage the country's exports through FDI and imports channels due to a strong existing relationship among these three".

Besides that, there are also a number of books and dissertations relating to Vietnam's accession to the WTO. They concentrate on the introduction to the WTO and Vietnam or on an analysis on the opportunities and the challenges that Vietnam may be faced with after joining this institution. Some of them focus on the accession process of Vietnam to the WTO or propose some experiences of regional countries in the WTO accession process. Other works are concerned with the implication of WTO accession on Vietnam. A few dissertations analyze the possible impact of the WTO on Vietnam in the aspects of intellectual property rights, dispute settlement or finance.

Generally, my surveys suggest that a large body of studies focuses on the WTO trade effects on its entire country membership, and surprisingly, there are very few studies devoted to specific cases of developing countries. This inspires me to examine the case of Vietnam. For the case of Vietnam, almost all the previous studies employed the qualitative and descriptive research tools with old data. Hence, the research results were not very persuasive. Even though there are two notable studies by Pham, Thi Hong Hanh (2011) and Nguyen, Dinh Chien et al (2012) using the economic models for empirical analysis, the authors assumed that the effects of all FTAs that Vietnam has signed/joined recently are the same and are associated with one aggregate FTA dummy. *This could inflate or deflate the impact of the WTO on foreign trade and FDI inflows into Vietnam*. As shown in Eicher and Henn (2011) above, *individual PTA trade effects are*

[9] This reflects in (i) continuous development and improvement of the legal framework; (ii) enhanced organizational structures in implementing and governing economic activities; and (iii) continuous formulation and improvement of the policy implementation arrangements, including administrative procedures and process, implementation instruments…to promote a fairly competitive business environment and to ensure that government interventions are minimal and made only where required such as to address the market failures.

[10] The countries included are: China; Hong Kong-China; Japan; the Republic of Korea, Taiwan, Canada, the USA, Australia, EU-15 (excluding the United Kingdom), the United Kingdom, Cambodia, Lao PDR, the Philippines, Malaysia, Thailand, Singapore, and Indonesia.

constrained to an average coefficient associated with one aggregate PTA dummy. In other words, this could deflate the impact of each individual FTA. Moreover, we cannot observe the impact of each FTA on FDI and trade flows. Thus, these studies used widely traditional estimation techniques such as the Ordinary Least Square (OLS), the Fixed-Effects (FE) or the Random-Effects (RE) which have their own disadvantages.

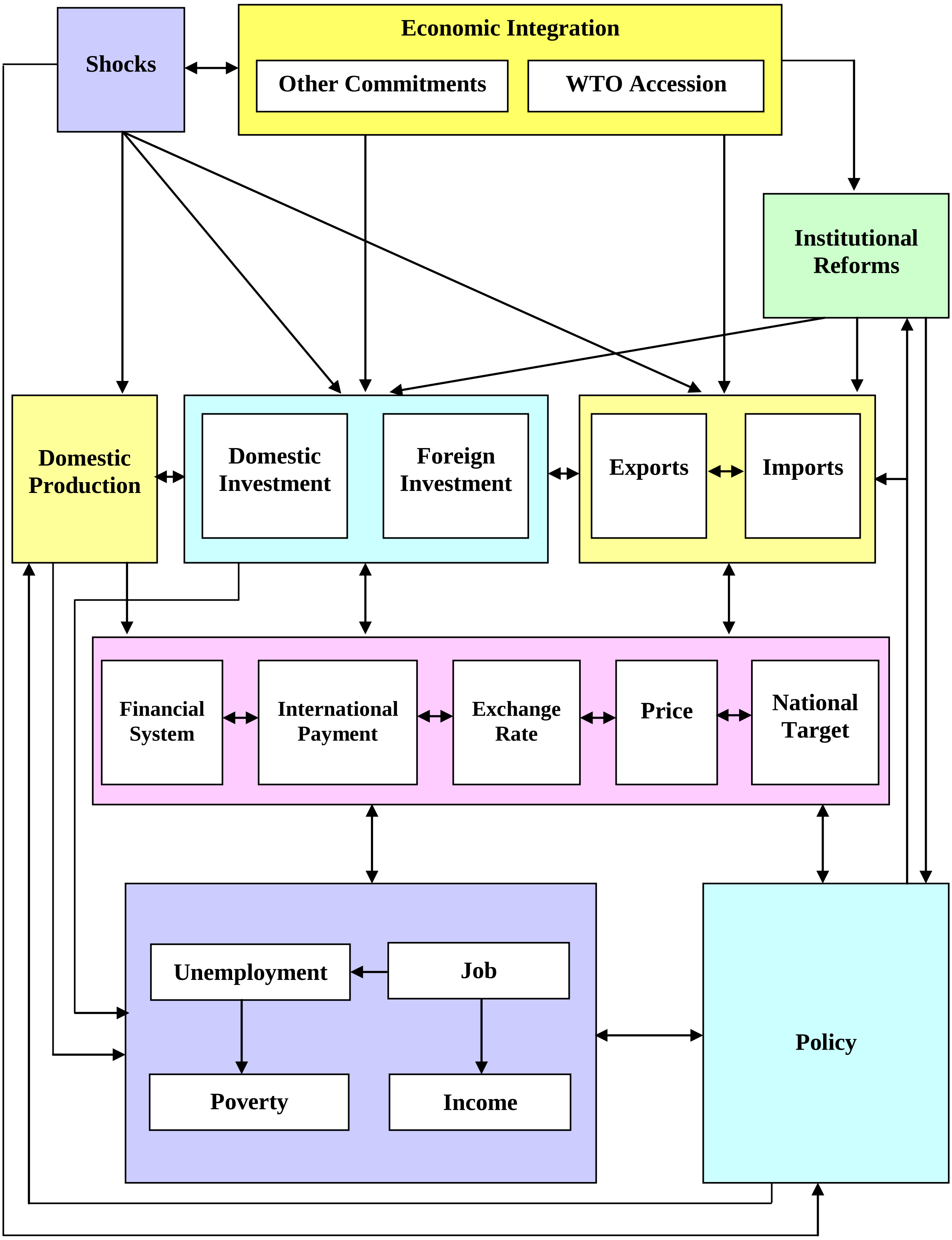
Specifically, an OLS analysis only asks about cross-sectional variation: does trade vary between members that join the GATT/WTO in contrast with countries that do not. Thus, with a panel dataset, the OLS method is not very reliable for it can lead to a significant bias. A fixed- effects analysis addresses a time-series question: what is the effect on trade in joining the GATT/WTO between members? A fixed-effects analysis avoids the problems that unobserved heterogeneity can create. However, a fixed-effects model could not estimate coefficients of time invariant variables since they reveal the *distance* between two countries and reveal whether they *share a land border*. In fact, these variables are quite interesting in a gravity model. A random-effects model can give us estimates of coefficients of the time invariant variables but it cannot incorporate country fixed-effects, which are likely to be presented in a heterogeneous country sample. From this approach, employing *optimal economic models, superior estimation techniques*, and *updated data* to examine the probable impact of the WTO on the case of Vietnam - a new developing member is necessary.

Vietnam offers a particularly interesting case study for several reasons. First, there are plenty of previous studies focusing on the impact of the WTO on trade of its entire memberships, while there are a few studies concerning the impact of the WTO on a specific case of a developing country since its establishment in 1995. Second, among many developing countries, Vietnam has maintained high levels of foreign trade growth since the 1990s. The country has also attracted a considerable amount of FDI capital since the Foreign Investment Law entered into force. Third, an understanding of the impact of the WTO on Vietnam's economic institution, FDI attraction, and foreign trade expansion will have an important implication for the design of supporting policies to achieve a professional development in the post-WTO accession and to promote the country's integration into the global economy.

1.4. THE OBJECTIVES AND ANALYSIS FRAMEWORK OF THE RESEARCH

The potential effects of the WTO on Vietnam are presented in Figure 1.3 below. However, the author will focus on only three main fields. These include economic institution changes, FDI attraction, and foreign trade expansion. The author would like to put the blame on the lack of data and time. To be precise, this thesis aims to: (1) give an overview of the WTO; describe the accession process of Vietnam to the WTO; revisit the main changes of the legal system in the economic field to implement the commitments of the 5 main WTO agreements (GATT, TRIMS, TRIPS, SCM, and GATS); (2) assess the possible impact of the WTO regime on FDI inflows into Vietnam; and (3) evaluate the impact of the WTO on exports and imports of the country.

Figure 1.3: Theoretical Framework about the Potential Effects of the WTO on Vietnam



Source: The Central Institution for Economic Management (CIEM), 2010.

1.5. METHODOLOGIES AND DATASET

1.5.1. Methodologies

The methodologies taken in this research are a combination of qualitative, quantitative research tools and descriptive analysis. To acquire reliable and persuasive results compared with the previous studies on the case of Vietnam, this research also provides an empirical study through employing the gravity model using the Hausman-Taylor (1981) estimator.

The gravity model is employed for three main reasons: First, the estimated effects of distance and output (the traditional gravity effects) are sensible, statistically significant, and reasonably consistent across studies. Second, the gravity model explains most of the variation in international trade and FDI flows between countries. Third, the gravity model seems reliable and fits the data well as it has been widely used by Deardorff (1998), Anderson and van Wincoop (2003), Rose (2004), Tomz et al. (2007), Subramanian and Wei (2007), etc.

The author employs the Hausman-Taylor (1981) estimator for the empirical analysis presented in this research for its superior than the OLS, FE and RE estimation techniques. Historically, Hausman and Taylor (1981) and Wyhowki (1994) proposed a different model that could *incorporate the advantages of the random-effects and the fixed-effects models*. Egger (2005) stated that the Hausman-Taylor (1981) estimator is consistent and the performance is at least equivalent to the random-effects and the fixed-effects estimators. McPherson and Trumbull (2003) also tested different estimators and found the Hausman-Taylor (1981) estimator to be superior in the estimation results.

1.5.2. Dataset

The research is based on a panel dataset in the period from 1995 (the year that the WTO was established) to 2011 (5 years after Vietnam's WTO accession). Notably, as shown in some previous studies (e.g., Tomz et al. 2007; Subramanian and Wei 2007) that 5 years after WTO accession is the best duration of time to examine the possible impact of this organization on acceding members. The panel data involves 17 Vietnam's major/stable trading and FDI partners. It includes: Australia, Belgium, Canada, China, France, Germany, Hong Kong, Japan, Malaysia, the Netherlands, the Philippines, Singapore, the Republic of Korea, Taiwan, Thailand, the United Kingdom, and the USA. 17 partners listed above amount to around 80% of Vietnam's foreign trade and FDI sources in the period from 1995 to 2011. The data has been obtained from different reliable sources such as Vietnam's authorities (e.g., the General Statistics Office (GSO), the Ministry of Industry and Trade (MOIT), the Ministry of Planning and Investment (MPI)), and the international organizations (e.g., the Asian Development Bank (ADB), the International Monetary

Fund (IMF), the United Nations Statistics Division (UNSD), the World Bank (WB), and the World Trade Organization (WTO)).[11]

1.6. CONTRIBUTIONS AND LIMITATIONS

By using optimal economic models, superior estimation techniques, and updated data, the main findings in this research will be more reliable and persuasive compared with previous studies on the case of Vietnam which used the qualitative, descriptive research tools and old data. The results can contribute to the existing literature on the impact of the WTO regime on a developing country in the aspects of economic institutional changes, FDI attraction, and foreign trade expansion in terms of testable implications from gravity models. Since existing data is quite limited, evaluating the impact of the WTO on a specific industry or commodity of Vietnam merits further research to understand how this institution transforms the country's foreign trade.

1.7. DEFINITION OF TERMS

This section provides some important terms used in this research. The definition of terms will be helpful to understand the main contents within the analysis framework of the research. Firstly, it presents the definition of terms relating to foreign trade. Secondly, it offers definition of terms relating to foreign direct investment (FDI). Finally, the possible economic effects of a free trade agreement (FTA) on its memberships are also given at the end of this section.

Definition of Terms Relating to Foreign Trade

Foreign Trade: Foreign trade is the exchange of goods and services between the domestic sector of a given nation and its foreign sector (other nations or the rest of the world).[12]

Export: Goods and services produced by the domestic sector of a nation are purchased by the foreign sector/nation.

Import: Goods and services produced by the foreign sector/nation are purchased by the domestic sector.

Net Exports: Net exports are the differences between exports and imports.

The Balance of Trade (Trade Balance): The balance of trade is the difference between the value of goods exported out of a country and the value of goods imported into the country.[13]

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[11] In case there are differences between many data sources, I respect the figures published by Vietnam's authorities. This is because, sometime, international organizations take the original statistics figures from Vietnam's authorities.

[12] Also termed international trade when viewed from the perspective of the global economy, in which the nations of the world are players in the exchange game. Foreign trade is usually viewed from the perspective of the domestic sector of a given economy.

[13] The balance of trade is actually one component of a more extensive set of international current account termed the Balance of Payments. The balance of payments is the difference between all payments coming into a country and all payments going out of the country. Many of these payments are for exports and imports, but other payments are for capital assets or simply gifts between foreign and domestic citizens.

Balance of Trade Surplus (Trade Surplus): A surplus in the balance of trade arises if the value of exports exceeds the value of imports.

Balance of Trade Deficit (Trade Deficit): A deficit in the balance of trade arises if the value of imports exceeds the value of exports.

Closed Economy: Closed Economy is an economy with no foreign trade, meaning that the economy is totally self-sufficient. All goods consumed are produced by domestic economy and all goods produced within the domestic economy are consumed domestically as well.

Open Economy: Open economy is an economy with that engages in foreign trade, meaning that some goods produced by the domestic economy are purchased by other nations and some goods purchased in the domestic economy are produced by other nations.

Domestic: "Domestic" is activity that takes place within the political boundaries of a given nation. Usually, not always but usually, this activity is undertaken by resources owned by citizens of the nation. The domestic sector, or domestic economy, includes producers, consumers, and even government residing in the given nation.

Foreign: "Foreign" is, in contrast, any activity that takes beyond the political boundaries of a given nation, that is, activity in other nations. The foreign sector includes producers, consumers, and even governments of other nations.[14]

The Law of Comparative Advantage: This law states that every nation has a production activity that incurs a lower opportunity cost compared with that of in another nation. This means that any given nation is bound to find some products that it can export as well as other products that it can import.[15]

Opportunity Cost: The cost of an alternative that must be forgone in order to pursue a certain action. Put another way, the benefits one could have received by taking an alternative action.

Absolute Advantage: A country is said to have an absolute advantage if it can, in general, produce more goods using fewer resources. An absolute advantage arises when a country is technically efficient or technologically superior.

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[14] While the domestic view distinguishes between imports and exports, the global view sees both as essentially two sides of the same coin. The import of one nation is the export of another. All imports are exports and all exports are imports. And while one nation might have more exports than imports (trade surplus), or more imports than exports (trade deficit), the global economy always has a balance between exports and imports. Short of trading with another planet, net exports for the global economy are always zero.

[15] The law of comparative advantage works because every nation has at least one good that it can produce at a relative lower opportunity cost than that incurred by another nation. This is the key to foreign trade, because it also means that other nations can benefit by importing that good rather than producing it domestically. It's a win-win for exporters and importers.

Comparative Advantage: A country is said to have a comparative advantage if it can produce one good at a relatively lower opportunity cost than other goods, compared with the production in another country.

Foreign Trade Policies: Most nations around the globe are inclined to implement trade protectionist policies. Because all nations prefer a balance of trade surplus with exports exceeding imports, they are inclined to implement policies that restrict imports and promote exports. These measures are basically divided into three areas: tariffs, quotas, and subsidies.

Tariffs: One common trade policy is the imposition of tariffs on imports. Tariffs are simply taxes placed on imports (or customs duties levied on imports). Tariffs work like any other taxes.

Quotas: An alternative to tariffs is to simply restrict the quantity of imports coming in a country. The technical term for this is an import quota. Quota is restriction on the quantity of commodity imported.

Subsidies: A third policy is for the domestic government to subsidize a domestic industry facing competition from imports. That is, the government pays domestic producers for each good produced. In the export side, that is, the government pays exporters for each good exported or for a given value earned from exports.[16]

Definition of Terms Relating to Foreign Direct Investment (FDI)

International Investment includes two main types: Foreign Direct Investment (FDI) and Portfolio Investment or Foreign Indirect Investment (FII). The International Monetary Fund (IMF) defines Foreign Direct Investment as "cross border investment" in which an investor that is "resident in one country has control or a significant degree of influence on the management of an enterprise that is resident in another economy".[17]

Definition and Explanation of Terms Relating to the Economic Impacts of a Free Trade Agreement (FTA) on its Memberships[18]

One can classify the economic impacts of a FTA into two groups: "**Static Effects**" and "**Dynamic Effects**".

The "**Static Effects**" include the "***Trade Creation***" and "***Trade Diversion***". "Trade creation is defined as the replacement of higher cost domestic production by lower cost sources of supply

[16] The definition of terms are acquired/adopted from FOREIGN TRADE, AmosWEB Encyclonomic WEB*pedia, http://www.AmosWEB.com, AmosWEB LLC, 2000-2013, accessed April 17, 2013.
[17] IMF, Balance of Payments and International Investment Position Manual 100 (6^{th} edition 2009); see also: http://www.law.cornell.edu/wex/foreign_direct_investment, accessed April 7, 2013.
[18] A Free Trade Agreement here refers to a Bilateral Free Trade agreement (signed by two parties like the United States-Vietnam Bilateral Trade Agreement (USBTA), JVEPA, etc.) or regional/multilateral Free Trade Agreement/Area (signed by at least three parties such as the AFTA, ACFTA, AKFTA, AJCEP and AANZFTA, etc.).

within the new union". "Trade diversion means that trade has been diverted by discriminatory tariffs from a low-cost external source to higher cost source within the new union".

The **"Dynamic Effects"** consist of three main effects in the long-term. First, the increased size of the domestic market, now including other member countries, will enable producers to exploit economy of large-scale production, leading to an expansion into the international market. Second, there will be increase in competitive pressure on stagnant industries.[19] Third, it will stimulate investment.[20]

1.8. THE SUMMARY OF THE THESIS'S STRUCTURE

Chapter 1 serves as the introductory part of my doctoral thesis. First, it presents the background of the study. Second, it provides surveys about studies that individual authors or groups of authors have done in the past, including the collecting of their main findings relating to the impact of the WTO on its member countries, and draws out the rationale behind my research. Third, it indicates the objectives to be accomplished and establishes the analysis framework in the academic field. Fourth, it describes the methodologies and dataset adopted in the conduct of the research. Fifth, it outlines the originality and expected outcomes, as well as limitations of the research. Sixth, it refers to the definition of terms. Finally, the summary of the thesis's structure is also given at the end of this chapter.

Chapter 2 will first give an introduction to the WTO. Then, it systematizes the accession process of Vietnam to the WTO from 1995 to 2006. After that, it summarizes the major commitments of Vietnam and the main changes of the legal system in the economic field to implement the commitments of the 5 main WTO agreements. These include: the General Agreement on Tariffs and Trade (GATT); the Agreement on Trade-Related Investment Measures (TRIMs); the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs); the Agreement on Subsidies and Countervailing Measures (SCM); and the General Agreement on Trade in Services (GATS). An understanding of the WTO and the changes in regulations of Vietnam's trade and FDI policies will support the empirical analysis in Chapter 3 and Chapter 4. The methodologies used in this chapter are the qualitative research tool and descriptive analysis.

Chapter 3 starts by providing the legal framework and FDI policy of Vietnam. Then, it analyzes FDI inflows into Vietnam from 1988 to 2011. In which, the author will break the FDI figures into two periods: the first period is from 1988 to 2006 (the pre-WTO accession) and the second one is from 2007 to 2011 (the post-WTO accession). This is to observe the overall trends of FDI flows to the country before and after WTO accession in the aspects of approved FDI

[19] This spurs firms to sustain higher rates of investment/or devoting more resources to research leading to technological change.

[20] Freeman III, A., 1971, pp. 176-187; Salvatore, D., 1999, pp. 299-306; see also Urata, S., 2010, pp. 11-12.

capital, FDI by economic sectors, FDI by countries, and FDI by regions in Vietnam. After that, a gravity model will be constructed using the Hausman-Taylor (1981) estimator to assess the impact of the WTO on FDI inflows into Vietnam. The methodologies used in this chapter include qualitative and quantitative research tools, descriptive analysis, and empirical study.

Chapter 4 is one of the most important chapters of the thesis. Firstly, it highlights the growth trends of Vietnam's overall foreign trade, export-import markets, export-import structures, and Vietnam's trade balance with its major trade partners. Secondly, it analyzes the trade deficit of Vietnam in relationship with the National Balance of Payment. Finally, two gravity models will be constructed using the Hausman-Taylor (1981) estimator to evaluate the impact of the WTO on exports and imports of Vietnam. The methodologies utilized in this chapter are qualitative and quantitative research tools, descriptive analysis, and empirical study.

Chapter 5 outlines some concluding remarks and recommendations.

Chapter 2

VIETNAM'S ACCESSION PROCESS TO THE WTO AND THE MAIN CHANGES OF THE LEGAL SYSTEM IN THE ECONOMIC FIELD TO IMPLEMENT THE COMMITMENTS OF THE 5 MAIN WTO AGREEMENTS

2.1. INTRODUCTION

The World Trade Organization (WTO), the successor of the General Agreement on Tariffs and Trade (GATT), is one of the most important international organizations dealing with the rules of trade between nations. The WTO administers trade agreements negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. Its primary functions are to promote foreign trade liberally, to settle disputes arising from issues related to abiding by WTO rules and to serve as a platform for multilateral negotiations of nations. Its goal is to help producers of goods and services, exporters, and importers conduct their business more effectively and freely.[21] The operation of this multilateral trading system should be of interest to us because the rules that are being designed therein affect our countries and everything related to our daily lives.

Though "no one is perfect" and "every coin has two sides", it is known that the global trade liberalization under the WTO is the best existing policy for the world as a whole. As such, the Government of Vietnam has had to make every effort to join this institution. The WTO accession process took years of detailed examination by a working party and long-lasting rounds of negotiations with its most important trading partners (e.g., the USA, the European Union, and Japan). It was a "grueling" procedure requiring a careful preparation of a detailed memorandum on Vietnam's foreign trade policies and practices in tandem with convincing commitments to implement the WTO agreements.

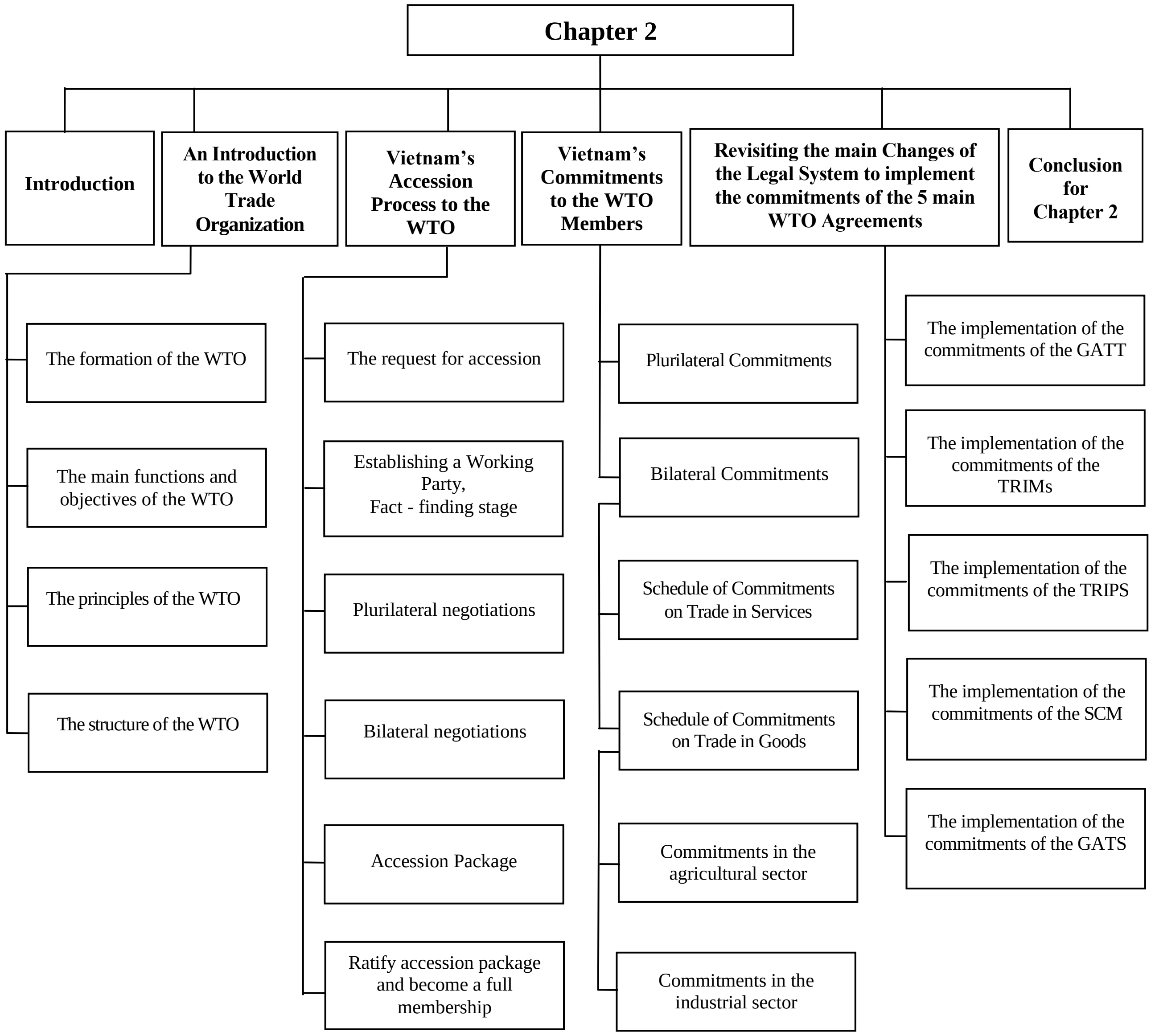
The aims of this chapter are to provide an introduction to the WTO, describe the accession process of Vietnam to the WTO, summarize its major commitments, and revisit the main changes of the legal system in the economic field to implement the commitments of the 5 main WTO agreements. An understanding of the WTO (e.g., its functions, objectives, principles, etc.) will support the empirical analysis in Chapter 3 and Chapter 4 of the thesis. The implementation of the commitments to the 5 main WTO agreements by Vietnam reflects the major changes in its trade and FDI policies and regulations that have had an impact on FDI attraction and foreign trade expansion of the country. The impact will be assessed in Chapter 3 and Chapter 4 of this thesis.

The remainder of this chapter is organized as follows. Section 2.2 will first provide an introduction to the WTO. Then, section 2.3 describes the accession process of Vietnam to the WTO from 1995 to 2006. After that, section 2.4 summarizes the major commitments of Vietnam with the WTO members. Section 2.5 revisits the main changes of the legal system in the economic field to implement the commitments of the 5 main WTO agreements. The final section outlines

[21] See Understanding the WTO item, http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm, accessed April 8, 2013.

some concluding remarks. The methodologies used in this chapter are the qualitative research tool and descriptive analysis. Figure 2.1 below details the structure of Chapter 2.

Figure 2.1: The Structure of Chapter 2



Source: Author's Compilation.

2.2. AN INTRODUCTION TO THE WORLD TRADE ORGANIZATION (WTO)

Based on the information published on the official website of the WTO and some standard books, the author is going to give a brief introduction to the WTO in four main items that include: (i) the formation of the WTO; (ii) the main functions and objectives of the WTO; (iii) the principles of the WTO; (iv) and the structure of the WTO.

2.2.1. The Formation of the WTO

The Great Depression of the 1930s was basically triggered as a result of recourse by states to implement excessive trade protectionism and mercantilism (maximizing exports and minimizing imports) and World War II brought about fundamental changes in the architecture of the global economy with the establishment of the "Bretton Woods Institutions" which was comprised of three pillars: the International Monetary Fund-IMF (fiscal and monetary issues), the World Bank-WB (Reconstruction and Development), and the International Trade Organization-ITO (international economic cooperation).[22] The draft of the ITO Charter was ambitious and included rules on employment, commodity agreements, restrictive business practices, international investment, and services. The aim was to create the ITO at a United Nations (UN) Conference on Trade and Employment in Havana, Cuba in 1947. Meanwhile, 15 countries had begun talks in December 1945 to reduce and bind customs tariffs. After World War II ended, these countries wanted to give an early boost to trade liberalization, and began dismantling the legacy of protectionist measures which remained in place from the early 1930s.[23]

The first round of negotiations resulted in a package of trade rules and about 45,000 tariff concessions affecting USD 10 billion of trade, about one fifth of the world's total trade turnover.[24] The group had expanded to 23 countries by the time the deal was signed on October 30, 1947. And so, the new General Agreement on Tariffs and Trade (GATT) was born with 23 founding members (officially called "contracting parties").[25]

The Havana Conference began on November 21, 1947. The ITO Charter was finally agreed upon in Havana in March 1948. Unfortunately, the USA Congress refused to agree to the ITO on the grounds that it would cede too much sovereignty to an international body. In 1950, the USA Government announced that it would not seek Congressional ratification of the Havana Charter, and the ITO was effectively dead. It meant that GATT became the only multilateral instrument governing international trade from 1948. An International Trade Organization never came into effect but GATT would over the years "transform itself" into a "de facto" international organization. For almost half a century, GATT's basic legal principles remained much as they were in 1948. There were additions in the form of a section on development added in the 1960s

[22] The Bretton Woods Conference took place in a New Hampshire resort, USA in July 1944 with the participations of over 50 countries. The victor countries sought to create an institution, the so-called Bretton Woods Institutions, which would eliminate the causes of war. Their principles were to resolve or prevent war through the United Nations and to eliminate the economic causes of war by establishing three international economic institutions: WB, IMF, and ITO.

[23] Retrieved from Understanding the WTO, http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm, accessed April 8, 2013.

[24] The tariff concession came into force by June 30, 1948 through a "Protocol of Provisional Application".

[25] Retrieved from Understanding the WTO, http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm, accessed April 8, 2013.

and "plurilateral" agreements in the 1970s, and efforts to reduce tariffs continued. Much of this was archived through a series of multilateral negotiations known as "trade rounds".[26]

Since the establishment of GATT, it has focused on breaking down tariffs resulting from GATT trade rounds of negotiations. Later, governments started turning their attention to other aspects of international trade because of the complex growth and disputes of trade relations increasing among nations. The Kennedy Round brought about a GATT Anti-Dumping Agreement. The Tokyo Round was the first major attempt to tackle trade barriers that did not take the form of tariffs, and to improve the system. The Uruguay Round (1986-1994) was the last and most extensive of all, as it mentioned tariffs, non-tariff measures, rules, services, intellectual property rights, dispute settlement, textiles, agriculture, etc. (see more in Table 2.1 below). It led to a new set of agreements. On April 15, 1994, a deal was signed by ministers from most of the 123 participating governments at a meeting in Marrakesh, Morocco resulting in the formation of the World Trade Organization (WTO). The WTO was officially established on January 1, 1995. The WTO replaced GATT as an international organization, but the General Agreement on Tariffs and Trade (GATT) still existed as the WTO's umbrella treaty for the trade in goods, updated as a result of the Uruguay Round of negotiations.[27]

Table 2.1: The GATT Trade Rounds

Year	Place/name	Subjects covered	Countries
1947	Geneva	Tariffs	23
1949	Annecy (France)	Tariffs	13
1951	Torquay (the UK)	Tariffs	38
1956	Geneva	Tariffs	26
1960-1961	Dillon	Tariffs	26
1964-1967	Kennedy	Tariffs and anti-dumping measures	62
1973-1979	Tokyo	Tariffs, non-tariff measures, "framework", agreements	102
1986-1994	Uruguay	Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of the WTO, etc.	123
2001-	Doha	Agriculture, industrial tariffs and non-tariff barriers, services, and trade remedies, etc.	150

Source: WTO's website.[28]

What are the major functions and objectives of this institution since its establishment? In the next item, we will partly find the answer.

[26] Retrieved from Understanding the WTO, http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm, accessed April 8, 2013.
[27] Retrieved from Understanding the WTO, http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm, accessed April 8, 2013.
[28] Retrieved from website http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm, accessed April 8, 2013.

2.2.2. The Main Functions and Objectives of the WTO

It is known that the former GATT was not really an organization. It was merely a legal arrangement/agreement. The WTO is relatively new international organization set up as a permanent body. It is designed to play the role of a watchdog in the spheres of trade in goods, trade in services, foreign investment, intellectual property rights, etc. The main functions of the WTO are regulated by the Marrakesh Agreement which established the World Trade Organization. The WTO has the following functions:

• Administering and implementing WTO trade agreements: the WTO shall facilitate the implementation, administration and also provide the framework for the implementation, administration of the plurilateral trade agreements.

• Forum for trade negotiations: the WTO shall provide the forum for negotiations among its members concerning their multilateral trade relations.

• Handling trade disputes: the WTO shall administer the understanding on rules and procedures governing the settlement of disputes.

• Monitoring national trade policies: the WTO shall administer a trade policy review mechanism.

• Technical assistance and training for developing countries: the WTO shall provide technical assistance and training programs for developing countries.

• Cooperation with other international organizations: the WTO shall cooperate with the IMF, WB and its affiliated agencies with a view to achieving greater coherence in global economic policy making.

The objectives behind these functions are also set out in the preamble to the Marrakesh Agreement for the purpose of establishing the World Trade Organization. These include: (i) to enforce a new world trade regulation system; (ii) to promote world trade in a manner that benefits each country; (iii) to remove all the hurdles/bottlenecks in the way of an open world trade system; (iv) to encourage competition among all trade partners for the benefit of the consumer and help in global integration; (v) to increase productivity commensurately with the level of production in view of ensuring a level of employment in the world; (vi) to explore and to maximize the utilization of the world’s resources; (vii) to improve the living standards of the global population and speed up economic development of member countries; (viii) to assist developing countries, especially the least developed countries (LDCs), in securing a growing share of international trade. These objectives are to be achieved while allowing for the optimal use of the world’s resources in accordance with the objective of sustainable development. To ensure these objectives, many principles were set up. The subsequent items will describe the WTO’s principles.

2.2.3. The Principles of the WTO

The WTO has many agreements. The WTO agreements are lengthy and complex because they are legal texts covering a wide range of activities. They deal with agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food sanitation regulations, intellectual property rights, and much more. But a number of simple, fundamental principles run throughout all of these documents. The WTO embodies the following main principles.[29]

2.2.3.1. Most-Favoured-Nation (MFN): treating other partners equally

Under the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour and they have to do the same for all other WTO members (such as lowering tariffs [customs duty or tax] for one of their products). This principle is known as Most-Favoured-Nation (MFN) treatment. The principle is so important that it is mentioned in the First article of the General Agreement on Tariffs and Trade (GATT), which governs trade in goods of member countries. The MFN treatment is also referred to in Article 2 of the General Agreement on Trade in Services (GATS) and Article 4 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). Of course, the principle is handled slightly differently in each agreement. Those three agreements cover three main areas of trade administered by the WTO.[30]

2.2.3.2. National Treatment (NT): treating foreigners and locals equally

Imported broadly and domestic-manufactured commodities should be treated equally at least after the foreign commodities have entered the domestic markets. The same treatment should be applied to both foreign and domestic services as well as to foreign and domestic trademarks, copyrights and patents. This NT principle (giving others the same treatment as one's own nationals) can be found in all the three main WTO agreements (e.g., Article 3 of GATT, Article 17 of GATS, and Article 3 of TRIPs). Once again, the NT principle is handled slightly differently in each agreement. Notably, NT treatment only applies once a product, service or commodity with intellectual property rights that has entered the domestic market. Hence, changing customs duty

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[29] See Understanding the WTO item, http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm, accessed April 8, 2013.

[30] However, exceptions are allowed in certain cases. For instance, some countries can sign a free trade agreement (FTA) that imposes only on commodities traded within the group – discriminating against commodities outside the agreement (this is permitted under GATT Article XXIV). Some developed countries can give developing countries special access to their local markets. Some countries also can raise barriers against products that are considered to be traded unfairly from specific countries in international trade. But the Agreements only permit these exceptions under strict conditions. Generally, MFN principle ensures that every time a country member lowers its trade barriers or opens up markets, it has to do so for the same commodities or services from all other trading partners, retrieved from website http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm, accessed April 8, 2013.

on a product imported is not a violation of NT treatment even if domestic-manufactured products are not charged an equivalent tax.[31]

2.2.3.3. Free Trade: gradually, through negotiations

As long as countries uphold notions of sovereignty, there won't truly be free trade. Hence the WTO strives towards free trade in order to ensure efficiency gains which translate into a rise in global welfare. Lowering trade barriers is one of the most obvious means of encouraging free trade. Major achievements are the abolition of quantitative restrictions, the tariff reduction through negotiation by the WTO members, and the application of more transparent tariffs as forms of protection in most countries.[32]

2.2.3.4. Predictability: through binding and transparency

The WTO has greatly improved predictability through the binding of tariffs. Member countries can raise their tariffs but not exceed a certain ceiling. The WTO has also enhanced the transparency in the trade regime of member countries. The Trade Policy Review Mechanism provides for a regular review by the WTO on individual countries' trade policies. The goals of this process are: (i) to increase the transparency and understanding of countries' trade policies and practices through regular monitoring; (ii) to improve the quality of public and intergovernmental debate on the issues; (iii) to enable a multilateral assessment of the effects of policies on the world trading system. With predictability and transparency, foreign trade and investment are encouraged, and consumers can fully enjoy the benefits of competition – more choices and lower prices. The WTO is an attempt by governments to make the business environment more stable and predictable.[33]

2.2.3.5. Fair Competition

The WTO member countries have also strived towards establishing a level playing field in international trade transactions. But, in fact, some countries are more powerful than others and could therefore benefit more than other countries. Hence, there exists the concept of special and differential treatment. While the concept of "fair" is relative and not subject to a generally

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[31] See Understanding the WTO item, http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm, accessed April 8, 2013.

[32] Since GATT's creation in 1947-1948 there have been eight rounds of trade negotiations. A ninth round, under the Doha Development Agenda, is now underway. At first these focused on lowering tariffs on imported goods. As a result of the negotiations, by the mid-1990s industrial countries' tariff rates on industrial goods had fallen steadily to less than 4%. By the 1980s, the negotiations had expanded to cover non-tariff barriers on goods, and to new areas such as services and intellectual property rights. The WTO agreements allow countries to introduce changes gradually, through "progressive liberalization". Developing countries are usually given more time to fulfill their obligations, retrieved from website http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm, accessed April 8, 2013.

[33] See Understanding the WTO item, http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm, accessed April 8, 2013.

accepted interpretation, the multilateral trading system has made great progress compared with the situation before the establishment of the WTO. The establishment of common rules and principles of nondiscrimination have contributed to make trade at least fairer than before. The rules on nondiscrimination here refer to the MFN and NT treatments mentioned in the previous items. These treatments are designed to secure fair conditions of trade. So too are those on dumping (exporting at below cost to gain market share) and subsidies for exports. These issues are complex, and the rules try to define what is fair and unfair, and how governments can respond, in particular by charging additional import duties calculated to compensate for damage caused by unfair trade. Many WTO agreements aim to support fair competition in agriculture, intellectual property, and services such as the Agreement on Government Procurement which extends competition rules to purchases by thousands of government entities in many countries.[34]

2.2.3.6. Encouraging Development and Economic Reform

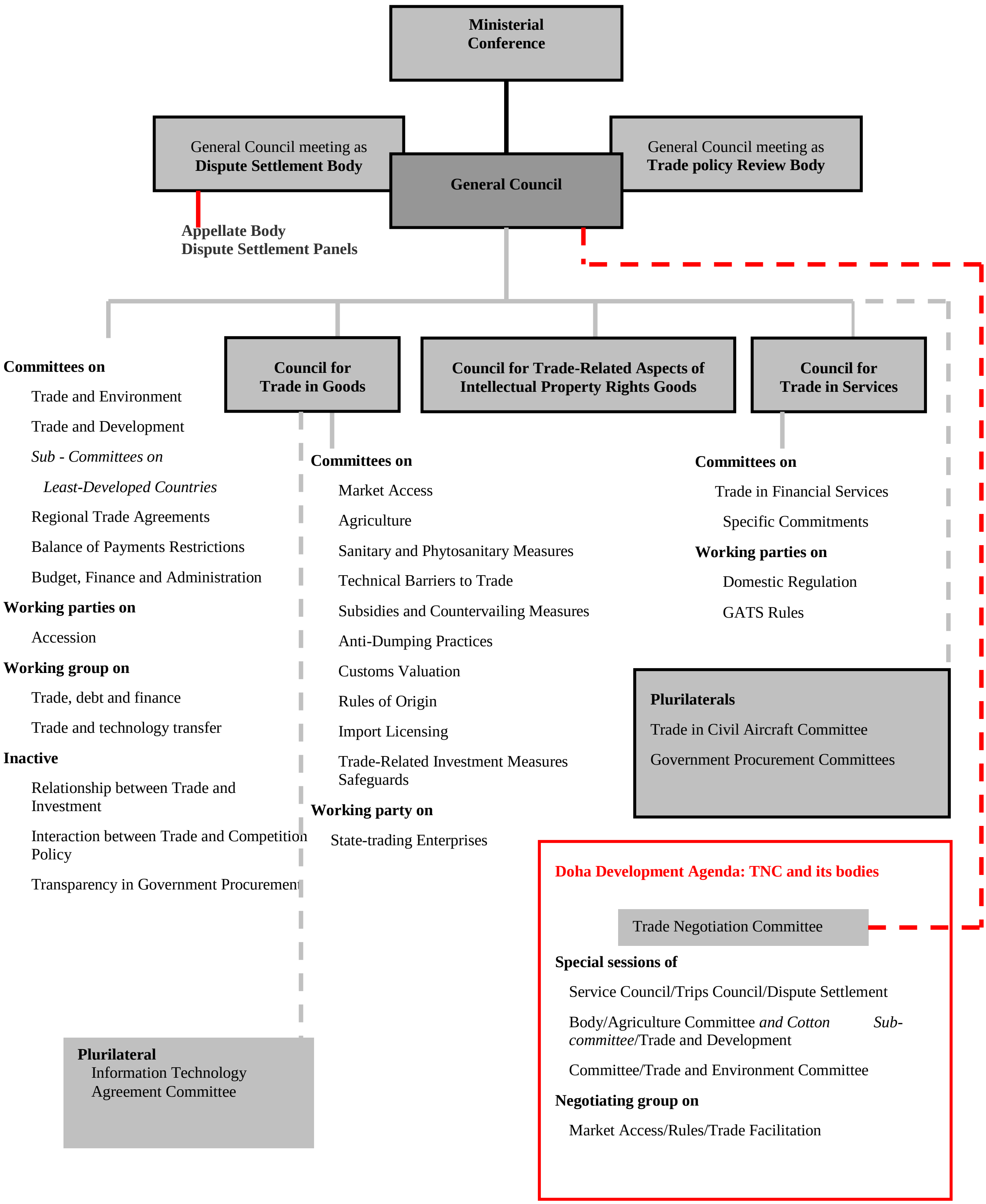
Through accession to the WTO and obligation to implement the WTO agreements, many member countries have received a major boost and more legitimacy to their reform process. Through the WTO, technical assistance schemes exist for these countries, especially for developing and least developed countries. Indeed, there are many exceptions for developing and least developed countries which routinely are exempt from reduction commitments. Over three quarters of the WTO members are developing countries and countries in transition to market economies. Developing and transition economies were much more active and influential in the Uruguay Round. At the end of the Uruguay Round, these economies were prepared to take on most of the obligations that were required from developed countries. On top of all of this, the WTO and its members are still going through a learning process. However, there is no doubt that the multilateral trading system under the WTO regime contributes to development and reform process of developing countries, LDCs as well as developed WTO members.[35] How is the WTO constructed? The next item will introduce the structure of the WTO.

2.2.4. The Structure of the WTO

[34] Retrieved from Understanding the WTO, http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm, accessed April 8, 2013

[35] Retrieved from Understanding the WTO, http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm, accessed April 8, 2013.

Figure 2.2: The Structure of the WTO



Reporting to General Council (or a subsidiary)

Reporting to Dispute Settlement Body

Plurilateral committees inform the General Council or Goods Council of their activities, although these agreements are not signed by all WTO members

Trade Negotiations Committee reports to General Council

Source: WTO's website.[36]

The structure of the WTO is presented in Figure 2.2 above. All the WTO members may participate in all councils, committees, etc., except in the Appellate Body, Dispute Settlement Panels, and Plurilateral Committees. The WTO is run by its member governments. The chief administrator is the Director-General. The highest decision-making body of the WTO is the Ministerial Conference.

The General Council consists of representatives of the member governments and is in charge of the day-to-day management and work in between the ministerial conferences. It also acts as the Dispute Settlement Body and Trade Policy Review Body and the main Trade Negotiations Committee in the Doha negotiations. Under the General Council are the three Councils monitoring the three main agreements: (i) the Council for Trade in Goods (Goods Council), (ii) the Council for Trade in Services (Services Council), and (iii) the Council for Trade-Related Aspects of Intellectual Property Rights (TRIPs Council).

Under the Councils, there are a variety of committees where most of the work is done. Under the Goods Council there are committees on market access (dealing with market access of nonagricultural products), agriculture (overseeing the Agreement on Agriculture as well as conducting the Doha negotiations on agriculture in special sessions), and committees on each of the WTO agreements on goods. There is also a plurilateral committee on the Information Technology Agreement and a Working Party on State-Trading Enterprises. The TRIPs Council has no subsidiary bodies but the Services Council has committees on trade in financial services and on specific commitments, as well as working parties on domestic regulation and GATS rules. The Doha negotiations on anti-dumping, subsidies and countervailing duties and regional trade agreements are conducted in the Negotiating Group on Rules.

Directly under the General Council there are a number of committees dealing with trade and environment, trade and development (with its sub-committee on least developed countries), regional trade agreements, balance of payment restrictions, and on budget, finance and administration. For the accession of each new prospective member, special working parties are

[36] Retrieved from http://www.wto.org/english/thewto_e/whatis_e/tif_e/org2_e.htm, accessed April 8, 2013.

formed which last until the accession of that particular economy is completed. Finally, there are working parties which do not conduct negotiations but study certain trade related aspects such as debt and finance, and technology transfer.

All decisions made in the WTO bodies are by consensus, a practice continued from GATT days. When consensus cannot be reached, voting is possible in specific situations on the basis of "one country, one vote". For instance, the accession of new members requires a two-thirds majority in the General Council or Ministerial Conference, while a waiver of a certain obligation for a member can be made by three-quarters majority.[37] To join the WTO, it took Vietnam 11 years with over 200 sessions of negotiations. What were the main landmarks of Vietnam's accession process to the WTO? The following section will point out the milestones in undergoing this procedure.

2.3. VIETNAM'S ACCESSION PROCESS TO THE WTO

Policymakers from both Vietnam and the vast number of countries seeking to join the WTO give a range of economic and political reasons for doing so. For some, the rationale is to *further integrate their country into the world economy*. Here, the hope is to have a more *predictable access to foreign markets* through WTO membership and subsequently *result in higher exports*. Another economic rationale is *to attract more foreign direct investment (FDI)* and, more generally, to use WTO membership as *a seal of approval recognized by the international business community*. It is also the case, however, that many nations join the WTO for political reasons. Transitional economies, for example, often see WTO membership as a means to *signal their commitment to joining the international community of market - based economies*. In short, many see WTO accession as facilitating both *political and economic reform* processes within their countries.[38]

There is some overlap between these stated rationales and the potential benefits of WTO accession, in particular as they relate to *bolstering exports and foreign direct investment inflows*. Economists would also point to the benefits that flow from better foreign access to the acceding nation's markets, specifically in terms of *lower prices for and a greater variety of imports*. By binding national tariffs, committing to eliminating quotas on imports, and reforming other state measures, the credibility of an acceding nation's policies can be enhanced and the private sector faces less uncertainty. In principle, WTO accession can improve important components of the national business environment which, in turn, has sizeable domestic payoffs.[39]

The aim of this section is to give an overview about the WTO accession process of Vietnam. The necessary steps for WTO accession are mentioned in Figure 2.3 below. This process requires

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[37] UN ESCAP, 2013. *Introduction to the WTO*, pp. 12-14.
[38] Evenett, S.J. et al., 2005. *WTO accession: Lesson from Experience, Trade note*, pp. 1-2.
[39] Evenett, S.J. et al., 2005. *WTO accession: Lesson from Experience, Trade note*, pp. 1-2.

the careful preparation of a detailed memorandum on an applicant's foreign trade policies and practices in tandem with a convincing commitment to implement the WTO agreements.

Figure 2.3: The Accession Process to the WTO

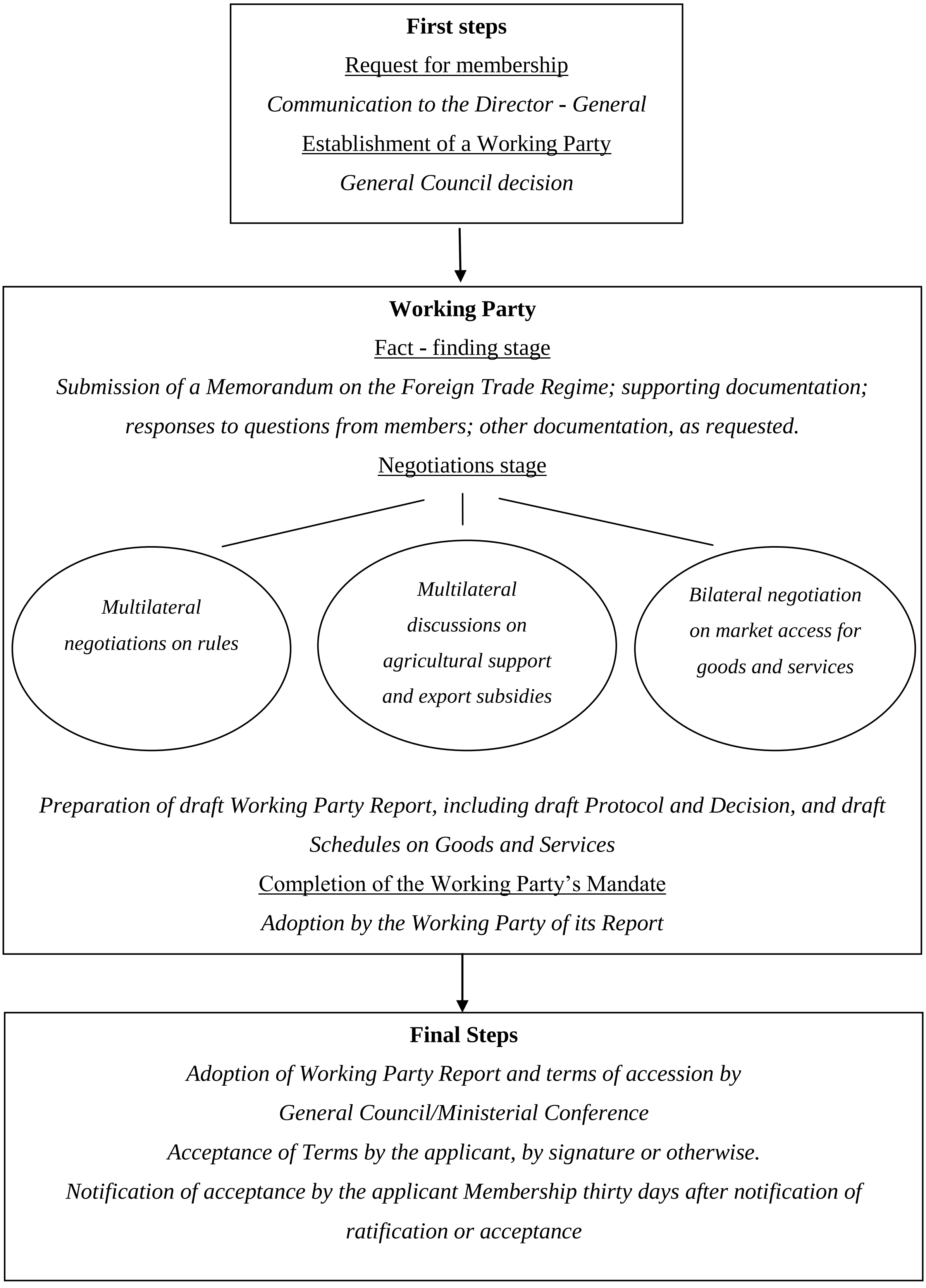

Table 2.2: Timeline for Vietnam's Accession Process to the WTO

1.	**Application Received**	January 4, 1995
2.	**Working Party Established** Chairpersons: 1998-2004, H.E. Mr. Seung Ho (the Republic of Korea); 2005-2006, H.E. Mr. Eirik Glenne (Norway)	January 31, 1995
3.	**Memorandum**	September 24, 1996
4.	**Questions and Replies**	March 4, 1998 March 12, 1998 August 20, 1998
5.	**Meetings of the Working Party**	July 30-31, 1998 December 3, 1998 July 22-23, 1999 November 30, 2000 April 10, 2002 May 12, 2003 December 10, 2003 June 15, 2004 December 15, 2004 September 15, 2005 March 27, 2006 July 19, 2006 October 9, 2006 October 26, 2006
6.	**Other Documentation**	
	(a) Additional Questions & Replies	April 20, 1999 July 16, 1999 June 26, 2000 August 6, 2001 March 6, 2003 October 30, 2003 April 28, 2004 October 13, 2004 April 7, 2005 April 7, 2005 July 26, 2005 September 2, 2005 December 20, 2005 June 9, 2006 September 28, 2006 October 3, 2006 October 12, 2006
	(b) Agriculture (WT/ACC/4)	November 5, 2002 April 28, 2004 April 28, 2004 October 13, 2004 May 20, 2005 August 2, 2006 July 21, 2005
	(c) Services (WT/ACC/5)	August 24, 1998
	(d) SPS/TBT (WT/ACC/8)	June 26, 2000 October 11, 2004 October 31, 2002 April 23, 2004
	(e) TRIPS (WT/ACC/9)	June 26, 2000 November 5, 2001 April 23, 2004
	(f) Legislative Action Plan	June 26, 2000 April 23, 2004 November 5, 2001 December 23, 2002 May 15, 2003 June 26, 2001 October 31, 2003 December 5, 2001 April 26, 2004 October 24, 2002 November 4, 2003 November 4, 2003 July 14, 2006
7.	**Market Access Negotiations**	
	(a) Goods Offer	January 7, 2002 April 27, 2004 July 26, 2005
	(b) Draft Goods Schedule	August 11, 2006 October 5, 2006
	(a) Services Offer	January 7, 2002 April 27, 2004
	(b) Draft Services Schedule	October 10, 2006 October 19, 2006
8.	**Factual Summary**	September 19, 2001
9.	**Draft Working Party Report**	November 22, 2004 October 19, 2006
	Accession Package Adopted by the General Council Working Party Report Goods Schedule Services Schedule	 November 7, 2006 November 7, 2006 November 7, 2006

Source: Retrieved from website http://www.wto.org/english/thewto_e/acc_e/a1_vietnam_e.htm, accessed April 9, 2013.

Table 2.2 above presents the timeline for Vietnam's accession process to the WTO from January 4, 1995 to November 7, 2006. The followings are some landmarks in the process of Vietnam's WTO accession.

First steps: the request for accession

In June 1994, Vietnam was accepted to be an observer of the WTO. The Government of Vietnam applied for the WTO membership on January 4, 1995. The General Council established a Working Party to examine the application of the Government of Vietnam to accede to the World Trade Organization under Article XII of the Marrakesh Agreement establishing the WTO at its meeting on January 31, 1995.

Working Party, Fact-finding stage:

On September 24, 1996, Vietnam submitted a "Memorandum on the Foreign Trade Regime" that covers all aspects of trade, economic policies and institutions relating to the agreements of the WTO to the Secretariat and Working Party. The first two meetings of the Working Party were held on July 30-31, 1998 and December 3, 1998. Before that, members of the Working Party asked hundreds of questions on foreign trade regime on goods, Vietnam's economic policies, the political system and the treatment of state owned enterprises (SOEs), private enterprises, foreign invested companies as well as monetary policies. It also submitted numerous questions relating to the bilateral and plurilateral trade agreements that could affect the competitiveness of Vietnamese merchandises and the capacity to implement the principles of the WTO. In response to those questions, the Government of Vietnam submitted answers in rounds through documents in its preparation for acceding to the WTO. Vietnam started negotiating with trading partners on November 7, 1998. The process of negotiations to join the WTO was conducted in two parallel methods, the bilateral and plurilateral negotiations.[40] The following outlines the plurilateral negotiation.

Vietnam's Process of plurilateral negotiations

Plurilateral negotiations related to the implementation of WTO agreements after Vietnam joining this global organization. 14 meetings were held by the Working Party since 1998: July 30-31 and December 3, 1998; July 22-23, 1999; November 30, 2000; April 10, 2002; May 12 and December 10, 2003; June 15 and December 15, 2004 under the Chairmanship of Mr. Seung Ho (the Republic of Korea); and on September 15, 2005; March 27, July 19, October 9, and October 26, 2006 under the Chairmanship of Mr. Eirik Glenne (Norway).[41] Through 14 multilateral rounds

[40] Wiemann, Jurgen, 2006. "*Vietnam-the 150th WTO-Member: implications for industrial policy and export promotion*", German Development Institute Publisher, Bonn, p. 31.

[41] Wiemann, Jurgen, 2006. "*Vietnam-the 150th WTO-Member: implications for industrial policy and export promotion*", German Development Institute Publisher, Bonn, pp. 31-32.

of negotiations, Vietnam was basically able to implement fully the WTO agreements after accession.[42]

Vietnam's Process of bilateral negotiations

Bilateral negotiations helped Vietnam by shedding light on what WTO members were seeking, and by enabling Vietnam to explain its position. The Working Party worked in parallel with several rounds for bilateral negotiations in regards to opening the markets of goods and services. In 2004, the results of the questions and answers were complied with in a Draft Report of the Working Party. Meanwhile, bilateral agreements had been completed with all important trade partners such as the EU, Japan, China, Brazil, Mexico, Argentina, and Chile. Vietnam finished bilateral negotiations with the USA in May 2006. The last round of negotiations took place in October 2006 with the consultation on documents accepted in the Working Party's last meeting.[43]

The final "accession package"

Vietnam's accession package consists of: (i) Vietnam's draft commitments on goods-the 560-page list (or "schedule"); (ii) Vietnam's draft commitments on services-the 60-page document (also a "schedule"); and (iii) the working party's 260-page report-describing Vietnam's legal set up for trade, along with commitments it has made in many of these areas.[44]

Final steps-Adoption of Working Party Report and terms of accession by General Council/Ministerial Conference:

WTO members negotiating the terms of Vietnam's membership completed their task on October 26, 2006.[45] The documents went to the full membership in the General Council, which met on November 7, 2006 to decide on accepting Vietnam. Vietnam informed the WTO on December 12, 2006 that it had ratified the Membership Agreement. Vietnam became the 150th WTO member on January 11, 2007. What are the main commitments of Vietnam to its trading partners in the WTO? The next section will describe some major commitments of the country to the WTO members.

2.4. VIETNAM'S MAIN COMMITMENTS TO THE WTO MEMBERS

All of Vietnam's commitments have been included and presented in three main documents: (i) Vietnam's commitments on goods-the 560-page list of tariffs, quotas and ceilings on

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[42] Vietnam Ministry of Industry and Trade, 2007. "*Vietnam's commitments after joining the WTO*", Internal reference Document, p. 3.

[43] Wiemann, Jurgen, 2006. "*Vietnam-the 150th WTO-Member: implications for industrial policy and export promotion*", German Development Institute Publisher, Bonn, pp. 31-32.

[44] Retrieved from http://www.wto.org/english/thewto_e/acc_e/a1_vietnam_e.htm, accessed January 11, 2011. Four documents have been released to be downloaded (WT/ACC/VNM/48/Add.1; WT/ACC/VNM/48/Add.1 Part 2; WT/ACC/VNM/48/Add.2 and WT/ACC/VNM/48).

[45] Wiemann, Jurgen, 2006. *"Vietnam-the 150th WTO-Member: implications for industrial policy and export promotion"*, German Development Institute Publisher, Bonn, p. 32.

agricultural subsidies, and the timetable for phasing in the cuts (WT/ACC/VNM/48/Add.1 and WT/ACC/VNM/48/Add.1 Part 2); (ii) Vietnam's commitments on services-the 60-page document describing in which services is giving access to foreign service providers and any additional conditions, including limits on foreign ownership (WT/ACC/VNM/48/Add.2); and (iii) the working party's 260-page report-describing Vietnam's legal and institutional set up for trade, along with commitments it has made in many of these areas (WT/ACC/VNM/48).[46] Figure 2.4 below briefly summarizes Vietnam's commitments to the WTO members.

Figure 2.4: The Summary of Vietnam's WTO Commitments

Vietnam's WTO Commitments

Plurilateral Commitments
(Related to abiding by all WTO Agreements)

- Vietnam basically accepted full implementation of WTO agreements after accession. These include:
  - Agreement of WTO on Antidumping
  - Agreement on Agriculture (AOA)
  - Agreement on Import Licensing Procedures
  - Agreement on Safeguard Measures (SG)
  - Agreement on Subsidies and Countervailing Measures (SCM)
  - Agreement on Textiles and Clothing (ATC)
  - Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)
  - Agreement on Trade-Related Investment Measures (TRIMs)
  - Customs Valuation Agreement (CVC)
  - Dispute Settlement Understanding (DSU)
  - General Agreement on Tariffs and Trade (GATT)
  - General Agreement on Trade in Services (GATS)
  - Pre-Shipment Inspection (PSI)
  - Rules of Origin (ROO)
  - Sanitary and Phytosanitary Measures (SPS)
  - Technical Barriers to Trade (TBT)
- Other Plurilateral Agreements (only some WTO members signed these Agreements):
  - Chemical Harmonization Agreement (CH)
  - Civil Aircraft Equipments Agreement (CA)
  - Information Technology Agreement (ITA)
  - Medical Equipments Agreement (ME)
  - Textiles Agreement (TXT)

…

Bilateral Commitments
(Related to open markets of Goods and Services)

- **Vietnam's Commitments on Trade in Services:**

Vietnam committed with WTO members on 110/155 sub – sectors of 11 service sectors, these include:

- Business services: legal, accounting, auditing, computer, advertising services, etc.
- Communication services: telecommunication, audio, visual, delivery services, etc.
- Construction services
- Distribution services: wholesale, retail, etc.
- Educational services
- Environmental services
- Financial services
- Health related and social services
- Tourism and related travel services
- Recreational, cultural, and sporting services
- Transport services

- **Vietnam's Commitments on Trade in Goods:**

Vietnam agreed to set ceiling rates for its 10,600 tariff lines (the average tariff rate will be reduced from 17.2% to 13.4%), in which:

- Vietnam's Commitments in the Agricultural sector:

The average bound rate at the date of accession is 25.2%; and the average final bound rate is 21%.

- Vietnam's Commitments in the Industrial sector:

The average bound rate at the date of accession is 16.1%; and the average final bound rate is 12.6%.

Source: Author's compilation.

[46] Retrieved from WTO News Item, http://www.wto.org/english/thewto_e/acc_e/a1_vietnam_e.htm, accessed January 11, 2011. Four documents have been released to be downloaded from website (WT/ACC/VNM/48/Add.1; WT/ACC/VNM/48/Add.1 Part 2; WT/ACC/VNM/48/Add.2 and WT/ACC/VNM/48).

Vietnam's commitments include the plurilateral commitments related to abiding by the WTO agreements and bilateral commitments with trading partners concerning the market access for goods and services. The subsequent item, 2.4.1 will first highlight the plurilateral commitments, and then item 2.4.2 will point out Vietnam's major commitments on trade in goods and trade in services.

2.4.1. Vietnam's Plurilateral Commitments to the WTO

According to the results of negotiations, Vietnam agreed to abide by all major agreements and rules of the WTO from the date of accession. These include: Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS); Agreement on Trade-Related Investment Measures (TRIMs); Agreement on Agriculture (AoA); Agreement on Textiles and Clothing (ATC); Agreement of WTO on Antidumping; Agreement on Subsidies and Countervailing Measures (SCM); Agreement on Safeguard Measures (SG); Agreement on Import Licensing Procedures; Sanitary and Phytosanitary Measures (SPS); Technical Barriers to Trade (TBT); Customs Valuation Agreement (CVC); Pre-Shipment Inspection (PSI); Rules of Origin (ROO); Dispute Settlement Understanding (DSU) etc.[47] The following provides some more details:

Monetary - finance policies, forex and payment

Vietnam will abide by the IMF and WTO rules.[48]

Pricing and price controls

Vietnam will comply with WTO agreements and notify the WTO of actions it takes to control prices.[49]

Policy-making and enforcing framework

Firstly, in the process of ratifying the Protocol of Accession, Vietnam will determine the modalities in implementing the commitments (direct application or internal codifying) and claims priority in the application of the terms of international commitments. Secondly, the WTO rules are applied to the whole country. Laws and provisions under the laws and other measures including the provisions and measures of local provinces have to abide by WTO rules. Thirdly, the judicial authorities will hold an independent/impartial and objective status when making judgments in areas under adjustments by the WTO.[50]

Trading rights (the rights to import and export)

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[47] Vietnam Ministry of Industry and Trade, 2007. "*Vietnam's commitments after joining the WTO*", Internal reference Document, p. 6.

[48] Vietnam Ministry of Industry and Trade, 2007. "*Vietnam's commitments after joining the WTO*", Internal reference Document, p. 6.

[49] Vietnam Ministry of Industry and Trade, 2007. "*Vietnam's commitments after joining the WTO*", Internal reference Document, p. 7.

[50] Vietnam Ministry of Industry and Trade, 2007. "*Vietnam's commitments after joining the WTO*", Internal reference Document, p. 7.

This was a subject of tough negotiations partly because of different registration procedures for foreign and domestic traders. Among the many additional details is a commitment that all foreign firms and individuals will be able to engage in importing and exporting as importers or exporters so long as they register. Vietnam still maintains import-export controls on some products in their list of state commerce (e.g., gasoline, cigarettes, cigars, video tapes, newspapers, wood products and minerals) and several other sensitive items that will be allowed only after a transitional period (e.g., rice, pharmaceuticals, etc.) to prevent illegal exploitation. Foreign individuals and firms without representative offices [51] in Vietnam have the rights to register the rights to import-export under international rules. Import-export right allows the person making a customs declaration under his name for import and export procedures, and not including the domestic distribution rights. In all cases, foreign companies and individuals will not be automatically involved in domestic distribution systems.[52]

Import tariffs and other tariffs and charges

Vietnam will apply the import tariffs conforming to the non-discrimination principle (treating other partners equally) except for the cases allowed by the WTO. If an increase of import tariffs happens, Vietnam will comply with the WTO rules. Vietnam will not maintain the other tariffs and surcharges applied separately for imported goods (in fact, those surcharges were removed).[53]

Fees and charges for public services

Vietnam will apply them as required by WTO rules. The fees and charges will be based on the true value of public services.[54]

Tariff quotas (or tariff rate quotas)

Vietnam is committed to applying, allocating and managing tariff quotas in a transparent manner and without discrimination.[55] Only a handful of products are being protected with tariff quotas (higher duties for quantities exceeding the quotas and lower duties for quantities within the quotas): eggs, tobacco, sugar, and salt (in which Vietnam says is the main income source for 100,000 poor farmers in coastal areas). But Vietnam will expand the quotas until they disappear

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[51] Representative office is a subordinate unit of foreign enterprises, established under the Vietnamese law in order to seek, promote trade and tourism opportunities but is not allowed to engage in any direct profit-making activities (WT/ACC/VNM/48/Add.2).

[52] Vietnam Ministry of Industry and Trade, 2007. "*Vietnam's commitments after joining the WTO*", Internal reference Document, p. 7.

[53] Vietnam Ministry of Industry and Trade, 2007. "*Vietnam's commitments after joining the WTO*", Internal reference Document, pp. 7-8.

[54] Vietnam Ministry of Industry and Trade, 2007. "*Vietnam's commitments after joining the WTO*", Internal reference Document, p. 8.

[55] Vietnam Ministry of Industry and Trade, 2007. "*Vietnam's commitments after joining the WTO*", Internal reference Document, p. 8.

according to agreed timetables. The tariffs within quotas are the same with MFN tariffs (eggs: 40%, raw sugar: 25%, pure sugar: 40-50%, tobacco: 30%, and salt: 30%).[56]

Internal tariffs and excise duties

Vietnam has agreed to simplify the structure within three years by applying a single rate for all kinds of beers and a single rate for all spirits containing 20% of alcohol or more (this has allayed concerns from some countries where the previous structure might discriminate against imported beers that have different packaging, or against imported spirits with higher alcohol content).[57]

Privatization and equitization of state-owned enterprises

This will be handled transparently, and Vietnam will supply annual reports on the progress of equitization as long as it maintains this program.[58] For state-owned enterprises (SOEs), state trading enterprises, commitments in this area mean that the Government will not intervene directly or indirectly in SOEs operations. However, the Government will maintain the right to interfere in businesses operations as other shareholders. Purchase of SOEs is not Government procurement. Commercial enterprises will be conducted on commercial terms without interference from the Government. A number of products are listed as subject to state trading enterprises because of consumption restrictions, such as for cultural and moral reasons, or because they are "natural monopolies": tobacco products, petroleum, cultural products such as newspapers, journals and audio-visual materials, and aircraft. Vietnam agreed to remove the bans on imported cigarettes and cigars from the date of accession. But there will be only one state enterprise that has the right to import cigarettes and cigars.[59]

Transparency commitments

To make the policies more transparent, Vietnam will publish the draft of legal documents issued by the National Assembly, National Assembly Standing Committee and other Government documents to gather citizens' comments. Time limits for comments and amendments to a minimum of 60 days. Vietnam has also committed to publishing the legal documents in journals and websites provided by authorities and ministries.

Vietnam also signed some "plurilateral" agreements ("plurilateral" meaning only some WTO members have signed). Under the terms of these agreements, and for related products,

[56] Vietnam Ministry of Industry and Trade, 2007. "*Vietnam's commitments after joining the WTO*", Internal reference Document, p. 11.
[57] Vietnam Ministry of Industry and Trade, 2007. "*Vietnam's commitments after joining the WTO*", Internal reference Document, p. 8.
[58] Vietnam Ministry of Industry and Trade, 2007. "*Vietnam's commitments after joining the WTO*", Internal reference Document, p. 7.
[59] Vietnam Ministry of Industry and Trade, 2007. "*Vietnam's commitments after joining the WTO*", Internal reference Document, p. 8.

Vietnam has agreed to allow imports in duty-free. In some cases, the zero duty will apply immediately; in others it will be achieved gradually over periods ending within the period 2010 and 2014. Table 2.3 below details these agreements.

Table 2.3: Vietnam's Commitments on Some "Plurilateral" Agreements

Plurilateral Agreements	Tariff lines	MFN tariffs (%)	Final bound (%)
1. Information Technology Agreement (ITA)	330 (100%)	5.2	0
2. Chemical Harmonization Agreement (CH)	1,300/1600 (81%)	6.8	4.4
3. Civil Aircraft Equipments Agreement (CA)	89 (appropriate 100%)	4.2	2.6
4. Textiles Agreement (TXT)	1,170 (100%)	37.2	13.2
5. Medical Equipments Agreement (ME)	81 (100%)	2.6	0

Source: Ministry of Finance, 2006.

Table 2.3 above shows that Vietnam has fully joined in the three agreements. They are the ITA, TXT and ME. The agreements that Vietnam has partly joined are the CH and CA. The ITA is the most important agreement in which Vietnam undertakes to reduce its tariff rates to zero on a number of electronic and IT products over a period of four to seven years depending on each product. It means that the tariff rate of the product such as computers, mobile phones, cameras, digital cameras, etc. will be 0% in the maximum of 7 years.[60] The next item presents Vietnam's major bilateral commitments to the WTO members.

2.4.2. Vietnam's Bilateral Commitments to the WTO Members

This item presents Vietnam's bilateral commitments with trading partners. Due to its importance, it took years and difficult policy decisions and admirable work by both Vietnam and trading partners before it bore any direct benefits for the stakeholders. Vietnam's bilateral commitments include Specific Commitments on Trade in Services and Specific Commitments on Trade in Goods. The next item will proceed to describe Vietnam's Schedule of Specific Commitments on Trade in Services.

2.4.2.1. Vietnam's Commitments on Trade in Services[61]

[60] Joining the TXT also leads to significant tariff reductions of goods in this group. Tariff rates of fabrics will be reduced from 40% to 12%; Clothes fall from 50% to 20%, and fibers drop from 20% to 5%. These potentially increase Vietnam's imports of those products.

[61] According to the WTO, the followings are Trade Services and Modes of Supply:

Mode 1-Cross-border supply: from the territory of one Member into the territory of any other Member (e.g., a user in country A receives services from abroad through its telecommunications or postal infrastructure. Such supplies may include consultancy or market research reports, tele-medical advice, distance training, or architectural drawings, etc.).

Mode 2-Consumption abroad: in the territory of one Member to the service consumer of any other Member (e.g., Nationals of A have moved abroad as tourists, students, or patients to consume the respective services, etc.).

Services are divided into 11 sectors, and each sector is divided into many small sub-sectors via the WTO Rules. There are a total of 155 small sub-sectors. This division is mentioned in MTN.GNS/W/120 documents of the WTO. These 11 sectors include: business services: legal, accounting, auditing, computer, advertising services, etc.; communication services: telecommunication, audio, visual, delivery services, etc.; construction services; distribution services: wholesale, retail, agent, etc.; educational services; environmental services; financial services; health related and social services; tourism and related travel services; recreational, cultural, and sporting services; transport services. In total, Vietnam has committed with the WTO members on 110 per 155 sub-sectors of 11 service sectors.[62] The following provides details on some of the services:

(1) Business services: GATS divided this sector into 46 sub-sectors. Vietnam has commitments in 26 sub-sectors. The following presents two notable services: legal services and taxation services.

Legal services[63]

Mentioned under Mode 3 (commercial presence): Foreign lawyer's organizations[64] are permitted to establish commercial presence in Vietnam in the following forms: branches of foreign lawyer's organizations; subsidiaries of foreign lawyer's organizations; foreign law firms[65]; partnerships between foreign lawyer's organizations and Vietnam's law partnerships. Commercial presences of foreign lawyer's organizations are permitted to make consultations on Vietnamese laws if the consulting lawyers have graduated from a Vietnamese law college and satisfy requirements applied to Vietnamese law practitioners.

Taxation services

Mentioning Mode 3 (commercial presence):

Mode 3-Commercial presence: by a service supplier of one Member, through commercial presence, in the territory of any other Member (e.g., the service is provided within A by a locally-established affiliate, subsidiary, or representative office of a foreign-owned and controlled company (bank, hotel group, construction company, etc.).

Mode 4-Presence of natural person: by a service supplier of one Member, through the presence of natural persons of a Member in the territory of any other Member (e.g., a foreign national provides a service within A as an independent supplier (e.g., consultant, health worker) or employee of a service supplier (e.g., consultancy firm, hospital, construction company, etc.), retrieved from Definition of Services Trade item, accessed January 19, 2011, http://www.wto.org/english/tratop_e/serv_e/cbt_course_e/c1s3p1_e.htm.

[62] Vietnam Ministry of Industry and Trade, 2007. "*Vietnam's commitments after joining the WTO*", Internal reference Document, p. 13.

[63] Excluding: participation in legal proceedings in the capacity of defenders or representatives of their clients before the courts of Vietnam; legal documentation and certification services of the laws of Vietnam.

[64] A "foreign lawyer's organization" is an organization of practicing lawyers established in any commercial corporate form in a foreign country (including firms, companies, corporations, etc.) by one or more foreign lawyers or law firms (WT/ACC/VNM/48/Add.2, p. 9).

[65] Foreign law firm is an organization established in Vietnam by one or more foreign lawyer's organizations for the purpose of practicing law in Vietnam (WT/ACC/VNM/48/Add.2, p. 9).

For the period of 1 year from the date of accession, licensing shall be made on a case by case basis and the number of service providers shall be decided by Ministry of Finance based on the need and development scope of Vietnam's market.[66]

For the period of 1 year from the date of accession, foreign-invested enterprises providing taxation services are only permitted to supply services to foreign-invested enterprises and foreign funded projects in Vietnam.[67]

(2) Communication services:

Mentioning Mode 3 (commercial presence): Foreign ownership in joint ventures may be limited to 51% within the first 5 years after accession. After 5 years from the date of accession, 100% foreign-invested enterprises shall be permitted.[68]

(3) Construction services:

Mentioning Mode 3 (commercial presence): For the period of 2 years from the date of accession, 100% foreign-invested enterprises could only provide services to foreign-invested enterprises and foreign-funded projects in Vietnam. Foreign enterprises have to be juridical persons of a WTO Member. After 3 years from the date of accession, branching is allowed.[69]

(4) Distribution services (wholesale, retail, commission agents' services):[70]

Mentioning Mode 3 (commercial presence): A joint venture with a Vietnamese partner(s) is required, and foreign capital contribution shall not exceed 49%. As of January 1, 2008, the 49% capital limitation shall be abolished. As of January 1, 2009, enterprise with 100% foreign-owned capital is allowed.

Upon accession, foreign-invested companies engaging in distribution services will be permitted to engage in the commission agents, wholesale and retail business of all legally imported and domestically produced products except for: cement and cement clinkers; tyres (excluding tyres of airplanes); papers; tractors; motor vehicles; cars and motorcycles; iron and steel; audiovisual devices; wines and spirits; and fertilizers.

As of January 1, 2009, foreign-invested companies engaging in distribution services will be permitted to engage in the commission agents, wholesale and retail business of tractors; motor vehicles; cars and motorcycles. Within 3 years of Vietnam's accession, foreign-invested companies engaging in distribution services will be permitted to engage in the commission agents, wholesale and retail business of all legally imported and domestically produced products. The

[66] The main criteria include the number and the operation of enterprises in the market and their impact on the stability of the market and the economy (WT/ACC/VNM/48/Add.2, p. 10).
[67] Retrieved from WT/ACC/VNM/48/Add.2, p. 10. For more commitments see WT/ACC/VNM/48/Add.2, pp. 10-18.
[68] Retrieved from WT/ACC/VNM/48/Add.2, p. 19. For more commitments see WT/ACC/VNM/48/Add.2, pp. 19-30.
[69] Retrieved from WT/ACC/VNM/48/Add.2, p. 31.
[70] Retrieved from WT/ACC/VNM/48/Add.2, pp. 32-33.

establishment of outlets for retail services (beyond the first one) shall be allowed on the basis of an Economic Needs Test (ENT).[71]

(5) Educational services:

Mentioned under Mode 3 (commercial presence): only in technical, natural sciences and technology, business administration and business studies, economics, accounting, international law and language training fields. Upon accession, they came only in the form of joint-ventures. Majority foreign ownership of such joint ventures is allowed. As of January 1, 2009, 100% foreign-invested education entities are permitted. Foreign invested institutions have to abide by the provisions made on foreign teachers, and training programs must be ratified by the Vietnam Ministry of Education and Training (MoET).[72]

(6) Environmental services:

For the purpose of ensuring public welfare, foreign-invested enterprises are restricted from collecting refuse directly from households. They are only permitted to provide services at the refuse collection points as specified by local municipal and provincial authorities.

Mentioning Mode 3 (commercial presence): Vietnam has allowed foreign investors to set up a joint venture company with Vietnamese partners with eventual limits on legal capital up to 49% or 50% since the date of accession and 100% after 4-5 years in supplying sewage services; refuse disposal services, cleaning services of exhaust gases, noise abatement services, and environmental impact assessment services.[73]

(7) Financial services:

Insurance and insurance-related services including:

Under Mode 3 (commercial presence): Direct insurance (life insurance, excluding health insurance services; Non-life insurance services); reinsurance and retrocession; insurance intermediation (such as brokerage and agency); services auxiliary to insurance (such as consultancy, actuarial, risk assessment and claim settlement); insurance services provided to enterprises with foreign-invested capital, foreigners working in Vietnam; reinsurance services; insurance services in international transportation, including insurance of risks relating to: (i) international maritime transport and international commercial aviation, with such insurance to cover any or all of the following: the goods being transported, the vehicle transporting the goods and any liability arising there-from; and (ii) goods in international transit; insurance brokerage

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[71] Applications to establish more than one outlet shall be subject to pre-established publicly available procedures, and approval shall be based on objective criteria. The main criteria of the ENT include the number of existing service suppliers in a particular geographic area, the stability of market and geographic scale (WT/ACC/VNM/48/Add.2. p. 33).

[72] Retrieved from WT/ACC/VNM/48/Add.2, p. 34.

[73] Retrieved from WT/ACC/VNM/48/Add.2, p. 35.

and reinsurance brokerage services; consultancy, actuarial, risk assessment and claim settlement services; 100% foreign-invested insurance enterprises shall not be allowed to engage in statutory insurance business, including motor vehicle third party liability, insurance in construction and installation, insurance for oil and gas projects, and insurance for projects and construction works of high danger to public security and the environment. As of January 1, 2008, this limitation shall be abolished. After 5 years from the date of accession, non-life branches of foreign insurance enterprises shall be permitted and subject to prudential regulations.[74]

Banking and other financial services:

Under Mode 3 (commercial presence): foreign credit institutions are only permitted to establish commercial presence in Vietnam in the following forms: (i) with respect to foreign commercial banks: representative office, branch of foreign commercial bank, commercial joint venture bank with foreign capital contribution not exceeding 50% of chartered capital, joint venture financial leasing company, 100% foreign-invested financial leasing company, joint venture finance company and 100% foreign-invested finance company, and, beginning on April 1, 2007, 100% foreign-owned banks are permitted; (ii) with respect to foreign finance companies: representative office, joint venture finance company, 100% foreign-invested finance company, joint venture financial leasing company and 100% foreign-invested financial leasing company; and (iii) with respect to foreign financial leasing companies: representative office, joint venture financial leasing company and 100% foreign-invested financial leasing company.

In the 5 years following the date of accession, Vietnam may limit the right of a foreign bank branch to accept deposits in Vietnamese Dong from Vietnamese natural persons with which the bank does not have a credit relationship to a ratio of the branch's paid-in capital according to the schedule below:

- January 1, 2007: 650% of legal paid-in capital;
- January 1, 2008: 800% of legal paid-in capital;
- January 1, 2009: 900% of legal paid-in capital;
- January 1, 2010: 1,000% of legal-paid-in capital;
- January 1, 2011: Full national treatment.

Equity participation: Vietnam may limit equity participation by foreign credit institutions in equitized Vietnamese state-owned banks to the same level as equity participation by Vietnamese banks. For capital contribution in the form of buying shares, the total equity held by foreign institutions and individuals in each Vietnam's joint-stock commercial bank may not exceed 30% of the bank's chartered capital, unless otherwise provided by Vietnam's laws or authorized by a

[74] Retrieved from WT/ACC/VNM/48/Add.2, pp. 37-38.

Vietnamese competent authority. A branch of foreign commercial bank is not allowed to open other transaction points outside its branch office. Upon accession, foreign credit institutions are allowed to issue credit cards on a national treatment basis.[75]

(8) Health related and social services:

Under Mode 3 (commercial presence): Foreign service suppliers are permitted to provide services through the establishment of 100% foreign-invested hospital, joint venture with Vietnamese partners or through a business cooperation contract (BCC). The minimum investment capital for a commercial presence in hospital services must be at least USD 20 million for a hospital, USD 2 million for a policlinic unit and USD 200,000 for a specialty unit.[76]

(9) Tourism and travel related services:

Under Mode 3 (commercial presence): Foreign service suppliers are permitted to provide services in the form of joint ventures with Vietnamese partners with no limitation on foreign capital contribution. For a period of 8 years from the accession date, the services provided should be in parallel with investment in hotel construction, renovation, restoration or acquisition.[77]

(10) Recreational, cultural and sporting services:

Under Mode 3 (commercial presence): after 5 years from the date of accession, joint ventures with foreign capital contribution not exceeding 49% are permitted and only through a business cooperation contract or joint-venture with Vietnamese partners who are specifically authorized to provide these services. Foreign capital contribution shall not exceed 49% of the legal capital of the joint ventures.[78]

(11) Transport services:

Maritime transport services (passenger transportation less cabotage and freight transportation less cabotage).

Mentioning Mode 3 (commercial presence): After 2 years from the date of accession, foreign service suppliers are permitted to establish joint-ventures with foreign capital contribution not exceeding 49% of total legal capital. Foreign seafarers may be permitted to work in ships under the national flag of Vietnam (or registered in Vietnam) owned by joint-ventures in Vietnam but not exceeding one-third of total employees of the ships. The master or first chief executive must be a Vietnamese citizen.[79]

Maritime auxiliary services

Mentioning Mode 3 (commercial presence):

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[75] Retrieved from (WT/ACC/VNM/48/Add.2, pp. 39-41).
[76] Retrieved from WT/ACC/VNM/48/Add.2, p. 43.
[77] Retrieved from WT/ACC/VNM/48/Add.2, p. 43.
[78] Retrieved from WT/ACC/VNM/48/Add.2, p. 44.
[79] Retrieved from WT/ACC/VNM/48/Add.2, p. 45.

Container handling services:[80]

Upon accession joint ventures with foreign capital contribution not exceeding 51% can be established. After 5 years, joint ventures can be established with no foreign ownership limitation.

Container station and depot services:[81]

Upon accession joint ventures with foreign capital contribution not exceeding 51% can be established. Seven years upon accession, 100% foreign own capital enterprise is allowed.[82]

Internal waterways transport *(passenger transport and freight transport)*

Under Mode 3 (commercial presence): Upon accession, foreign service suppliers are permitted to provide services only through the establishment of joint ventures with Vietnamese partners in which the capital contribution of the foreign side does not exceed 49% of total legal capital.[83]

Air transport services

Sales and marketing air products service (mode 3): airlines are permitted to provide service in Vietnam through their ticketing offices or agents in Vietnam.

Computer reservation services (mode 1): foreign service suppliers must use public telecommunication networks under the management of the Vietnam telecommunication authority.

Maintenance and repair of aircraft (mode 3): upon accession, joint-ventures are permitted with capital contribution from the foreign side not exceeding 51%. After 5 years from the date of accession, 100% foreign-invested enterprises shall be allowed.[84]

Rail transport services

Under Mode 3 (commercial presence): unbound except foreign suppliers are permitted to provide freight transport services through the establishment of joint ventures with Vietnamese partners in which the capital contribution of the foreign side not exceeding 49% of the total legal capital.[85]

Road transport services

Under Mode 3 (commercial presence): Upon accession, foreign service suppliers are permitted to provide passenger and freight transport services through business cooperation contracts or joint-ventures with the capital contribution of the foreign side not exceeding 49%.

[80] Public utility concession or licensing procedures may apply in case of occupation of the public domain (WT/ACC/VNM/48/Add.2, pp. 47-48).
[81] “Container station and depot services” means activities consisting of storing containers, whether in port areas or inland, with a view to their stuffing/stripping, repairing and making them available for shipments (WT/ACC/VNM/48/Add.2, pp. 47-48).
[82] Retrieved from WT/ACC/VNM/48/Add.2, pp. 47-48.
[83] Retrieved from WT/ACC/VNM/48/Add.2, p. 48.
[84] Retrieved from WT/ACC/VNM/48/Add.2, p. 49.
[85] Retrieved from WT/ACC/VNM/48/Add.2, p. 50.

After 3 years from the date of accession, subject to the needs of the market,[86] joint-ventures with foreign capital contribution not exceeding 51% may be established to provide freight transport services. 100% of joint-venture's drivers shall be of Vietnamese citizen.[87]

Services auxiliary to all modes of transport

Under Mode 3 (commercial presence): *container handling services, except services provided at airports:* Upon accession, foreign service suppliers are only permitted to provide services through the establishment of joint ventures with Vietnamese partners with the capital contribution of foreign side not exceeding 50%.[88]

Storage and warehouse services and freight transport agency services [89]

Mentioning Mode 3 (commercial presence): Upon accession joint ventures with foreign capital contribution not exceeding 51% can be established. Seven years after accession, 100% foreign-invested enterprises shall be allowed.[90]

Other [91]

Mentioning Mode 3 (commercial presence): Upon accession, foreign service suppliers are only permitted to provide services through the establishment of joint ventures with Vietnamese partners with capital contribution from the foreign side not exceeding 49%. After 3 years from the date of accession, this limitation shall increase to 51%. Four years thereon, this capital limitation shall be abolished.[92]

Overall, Vietnam has made commitments on a wide range of services. In some cases Vietnam reserves the right to set the business limitation for foreign companies in Vietnam-for example in the telecommunication service sector, the eventual limits can be 49% or 65%, depending on the service. In a few cases, 100% foreign ownership is immediately permitted (for example in accountancy). In many cases, the permitted foreign ownership is phased in to reach 100% after a few years (for example express delivery courier services after five years). As is normal in this sector, the effect of the commitments depends also on complex relationships with domestic regulations-for example in the first two years, 100%-foreign-owned architectural firms

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[86] The criteria taken into account are among others: creation of new jobs; positive foreign currency balance; introduction of advanced technology, including management skills; reduced industrial pollution; professional training for Vietnamese workers; etc. (WT/ACC/VNM/48/Add.2).
[87] Retrieved from WT/ACC/VNM/48/Add.2, p. 50.
[88] Retrieved from WT/ACC/VNM/48/Add.2, p. 51.
[89] Including freight forwarding services. These services mean the activities consisting of organizing and monitoring shipment operations on behalf of shippers, through the acquisition of transport and related services, preparation of documentation and provision of business information (WT/ACC/VNM/48/Add.2, p. 51).
[90] Retrieved from WT/ACC/VNM/48/Add.2, p. 51
[91] Includes the following activities: bill auditing; freight brokerage services; freight inspection, weighing and sampling services; freight receiving and acceptance services; transportation document preparation services. These services are provided on behalf of cargo owners (WT/ACC/VNM/48/Add.2, p. 51).
[92] Retrieved from WT/ACC/VNM/48/Add.2, p. 52.

can only serve foreign companies. These commitments and some of the regulations are in the "schedule" of commitments and other information on the regulations is in the working party report. The next item summarizes Vietnam's commitments on trade in goods to the WTO members.

2.4.2.2. Vietnam's Commitments on Trade in Goods

Table 2.4: Vietnam's Commitments on Trade in Goods to the WTO Members

Commodity groups	Number of tariff lines	MFN tariffs (%)	Bound rate at date of accession (%)	Final bound (%)
1. Agricultural products	1,219	23.5	25.2	21.0
2. Industrial products	-	16.8	16.1	12.6
3. Fish and fish products	176	29.3	29.1	18.0
4. Petroleum	37	36	36.8	36.6
5. Wood and paper	630	15.6	14.6	10.5
6. Textiles	1,159	37.3	13.7	13.7
7. Leather and rubber	341	18.6	19.1	14.6
8. Metal	1,201	8.1	14.8	11.4
9. Chemicals	1,579	7.1	11.1	6.9
10. Transport equipments	1,026	35.3	46.9	37.4
11. Machinery and metal equipments	1,436	7.1	9.2	7.3
12. Machinery and electrical equipments	766	12.4	13.9	9.5
13. Minerals	396	14.4	16.1	14.1
14. Other manufactured goods	723	14.0	12.9	10.2
Entire tariff	**10,689**	**17.4**	**17.2**	**13.4**

Source: Vietnam Ministry of Industry and Trade, 2007.

According to Table 2.4 above, Vietnam has agreed to set ceiling rates for its over 10,600 tariff lines. Vietnam has also committed to binding its tariffs on most products at rates between 0% and 37.4%. The reductions of the bound rates, which will be reduced from 17.2% (at the date of accession) to 13.4% in 2018, and will be spread over a period of 12 years. As for commitments, Vietnam will reduce about 3,800 tariff lines (accounting for 35.5% of entire tariff lines), maintain about 3,700 tariff lines (accounting for 34.5% of entire tariff lines), and bound ceilings at around 3,170 tariff lines (covering 30% of entire tariff lines). Tariff rates on automobiles, motorbikes, petroleum, and transport equipments still remain higher, since Vietnam would like to protect these national infant industries. Certain sensitive products (e.g., eggs, tobacco, sugar and salt) remain protected by tariff rate quotas.[93] Specific commitments are to reduce immediately tariffs on some products whose current tariffs are more than 20-30% upon accession. According to Table 2.4

[93] In trade policy, import quotas and tariff rate quotas have been used in Vietnam, side by side with import tariffs in order to limit imports which directly compete with domestic production. Before joining the WTO, nine major products remained under import quotas: petroleum, fertilizer, steel, cement, construction glass, motorbikes, cars with 12 seats, paper, sugar and liquor. Seven agricultural commodities were brought under tariff rate quotas: raw milk, condensed milk, poultry, eggs, maize, raw tobacco, salt, and cotton.

above, the commodity groups which witness greater tariff reductions are: textiles, fish and fish products, wood and paper, machinery and electrical equipments, leather and rubber, and some other manufactured goods. The following presents more details on Vietnam's commitments on agricultural and industrial products.

Table 2.5: Vietnam's Commitments on Some Main Agricultural Products

Number	Products/Items	MFN tariff (%)	Vietnam's commitments		
			Bound rate at date of accession (%)	Final bound (%)	Duration
1	Beef	20	20	14	5 years
2	Pork	30	30	15	5 years
3	Raw milk	20	20	18	2 years
4	Refined milk	30	30	25	5 years
5	Refined meat	50	40	22	5 years
6	Candy (average tax)	39.3	34.4	25.3	3-5 years
7	Beer	80	65	35	5 years
8	Wine	65	65	45-50	5-6 years
9	Cigarettes	100	150	135	3 years
10	Cigars	100	150	100	5 years
11	Animal feed	10	10	7	2 years

Source: Vietnam Ministry of Industry and Trade, 2007.

Commitments on agricultural products in the WTO are quite complex and are related to the general principles of MFN, NT, and Transparency, etc. The commitments of Vietnam in agriculture include: (i) market accession (bound tariffs and eliminate non-tariff barriers to open market); (ii) agricultural policies; (iii) implementing Sanitary and Phytosanitary Measures (SPS); (iv) abiding by UPOV (International Union for the Protection of New Varieties of Plant) rules established in 1961; and (v) joining Technical Barriers to Trade (TBT) and Customs Valuation Agreement (CVA). Table 2.5 shows that Vietnam is promising ceilings or "bound" rates on duties ranging between 0% and 35%. Some of these involve reductions phased over periods up to 2014 (see Table 2.5 for the precise end date which varies from product to product). Table 2.5 also indicates that Vietnam imposes higher tariff rate for wine, cigarettes, and cigars. This is on the grounds that those products are harmful to people's health. Vietnam has promised not to subsidize exports that violate the WTO rules. However, it has the right to support farmers domestically of up to Vietnamese Dong 3,961.5 billion (currently about USD 246 million). This is a usual allowance for developing countries (known as "de minimis") amounting up to 10% of the total value of domestic agricultural production. As with all WTO members, Vietnam can also spend unlimited amounts on support that do not distort trade rules ("Green Box" supports).[94]

Table 2.6: Vietnam's Commitments on Some Main Industrial Products

Number	Products	MFN tariff (%)	Vietnam's commitments		
			Bound rate at date of accession (%)	Final bound (%)	Duration
1	Petroleum (average tax)	0-10	38.7	38.7	-
2	Steel	7.5	17.7	13	5-7 years
3	Cement	40	40	32	4 years
4	Fertilizer	0-5	6.5	6.4	2 years
5	Paper (average tax)	22.3	20.7	15.1	5 years
6	TV	50	40	25	5 years
7	Air conditioner	50	40	25	3 years
8	Washing machine	40	38	25	4 years
9	Textiles (average tax)	37.3	13.7	13.7	-
10	Shoes	50	40	30	5 years
11	Automobiles				
	Over 2500 cc and using gasoline	90	90	52	12 years
	Over 2500 cc, using gasoline, type 2 "cầu"	90	90	47	10 years
	Under 2500 cc and other types	90	90	70	7 years
12	Truck				
	No more than 5 tons	100	80	50	10 years
	Other types with current tax rate of 80%	80	80	70	7 years
	Other types with current tax rate of 60%	60	60	50	5 years
13	Car equipments	20.9	24.3	20.5	3 - 5 years
14	Motorbikes				
	Types from over 800 cc and above	100	100	40	8 years
	Other types	100	95	70	7 years

Source: Vietnam Ministry of Industry and Trade, 2007.

Table 2.6 above depicts Vietnam's commitments on some main industrial products. Generally, Vietnam's socio-economic development strategy has been orientated towards industrialization and modernization. The country has also concentrated on rehabiliting, upgrading and constructing infrastructure such as electricity and water supply, roads, airports, sea-ports and post and telecommunications facilities. Most of Vietnam's industries are at the initial stage of development and frequently suffered from poor competitiveness. Paper, motorbikes, automobiles, household electrical industries are some examples. To attract FDI flows into these industries in the hope to have motorbikes and automobiles industries in the near future, Vietnam still maintains high tariff rates and import control measures to protect these industries (see more in Table 2.6). The next section will revisit the main changes of the legal system on economic field to implement the commitments of the 5 main WTO agreements.

[94] Vietnam Ministry of Industry and Trade, 2007. "*Vietnam's commitments after joining the WTO*", Internal reference Document, p. 20.

2.5. REVISITING THE MAIN CHANGES OF THE LEGAL SYSTEM IN THE ECONOMIC FIELD TO IMPLEMENT THE COMMITMENTS OF THE 5 MAIN WTO AGREEMENTS

The WTO has, in many ways, affects the domestic legal system of member countries. Experiences drawn from recent WTO members reveal that how soon a country can access this organization depends largely on how it implements policies/regulations/legal reforms towards a market economy. Recognizing the importance of the legal system for the operation of a market economy and the responsibility of a new WTO member, Vietnam has made tremendous efforts in the creation of a legal framework to implement what she has committed to trading partners. The agenda for legal reforms expresses the changes of trade and FDI policies (including tax reforms, the elimination or the loosening of quotas, and abolishing prohibited subsidies/regulations, etc.) to make the trade regime and investment environment of Vietnam compatible with the requirements of the WTO. The country has enacted and revised a large number of laws and sub-law documents since the launching of the WTO accession negotiation process.

This section will revisit the main changes of the legal system in the economic field to implement the commitments of the 5 main WTO agreements. These include: General Agreement on Tariffs and Trade (GATT), Agreement on Trade-Related Investment Measures (TRIMs), Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), Agreement on Subsidies and Countervailing Measures (SCM Agreement), and General Agreement on Trade in Services (GATS).[95] The purposes are to clarify the main changes in trade and FDI policies of Vietnam towards WTO accession. These could have had impact on FDI inflows and foreign trade expansion of the country, which will be analyzed and tested using the economic models in Chapter 3 and Chapter 4 of the thesis. The subsequent item will first mention the major changes of the legal system in the economic field to qualify for the provisions of the GATT.

2.5.1. The Main Changes of the Legal System in the Economic Field to Implement the Commitments of the General Agreement on Tariffs and Trade (GATT)

The General Agreement on Tariffs and Trade (GATT) is a multilateral agreement among WTO member countries providing the framework for the implementation of international trade. It

[95] As mentioned in the Definition of terms item in Chapter 1, trade policy of one country consists of three main instruments: (i) Tariff System, (ii) Quota, Tariff Rate Quota, and (iii) Subsidies. This item would like to revisit the main changes of the legal system in the economic field to implement the commitments of the 5 main WTO agreements: GATT, TRIMs, TRIPs, SCM, and GATS. In which, the changes of the legal system related to GATT reflect the changes of Vietnam's trade policy on the first instrument: (i) Tariff System. The changes of the legal system related to SCM describe the changes of Vietnam's trade and investment policy on the third instrument: (iii) Subsidies. The changes of the legal system related to TRIMs, TRIPs, and GATS present the changes of Vietnam's trade and investment policy. As a whole, these may have impact on Vietnam's FDI attraction and foreign trade expansion that will be tested in Chapter 3 and Chapter 4 of the thesis.

has been amended and supplemented from time to time. The latest effort was made in the Uruguay Round, resulting in the foundation of the WTO in 1995. GATT contains the rules related to the trade in goods. The purpose of GATT is the "substantial reduction of tariffs and other trade barriers, on a reciprocal and mutually advantageous basis".[96] GATT offers a framework for negotiations on binding the tariff levels. GATT also allows countries to apply some non-tariff measures (NTMs) or protective measures against unfair trade practices and disguised restrictions on trade.[97]

After joining the WTO, Vietnam has modified, supplemented and issued many legal documents to implement tariff reductions on goods to satisfy the provisions of GATT. Specifically, the Minister of the Ministry of Finance issued the Decision No. 78/2006/QD-BTC dated on December 29, 2006 about amending the preferential import tariffs on goods to implement the Vietnam's Protocol of Joining the World Trade Organization. This was issued together with the List of Preferential Export-Import Tariffs. Accordingly, in 2007, Vietnam cut down on about 1800 tariff lines. In which, textiles and garments had the greatest tariff reduction of about 63% compared with current tariff rates (see more in Table 2.7 below).

Table 2.7: Tariff Reductions of Some Commodities in 2007

No.	Commodities	Ratio of tariff reduction in comparison with current tariff rates
1	Flowers and plants	25%
2	Some vegetables (eggplant, mushrooms, and peppers)	40%
3	Green tea	20%
4	Frying corn	40%
5	Some vegetable oils	20-40%
6	Processing meat (canning)	20%
7	Confectionery	20-30%
8	Beers	20%
9	Cosmetic and soap	20-40%
10	Household plastic products	20%
11	Newsprint	12%
12	Other types of paper and carton paper	10-20%
13	Textiles and garments	63%
14	Footwear and hats	20%
15	Tiles	17%
16	Porcelain	17-20%
17	Crystal and glass	10%
18	Thermos	17%
19	Jewelry, precious metals, precious stones, and pearls	25%
20	Some metal products, (car chain, metal pipes, hand tools)	15-40%
21	Electrical fans	20%
22	Water purification equipment	20%
23	Battery	20%
24	Main components of automobiles	10-17%
25	Watches	25%
26	Some groceries	20-25%

[96] See GATT/WTO item, http://www.law.duke.edu/lib/researchguides/gatt.html, accessed May 29, 2012.
[97] Lal Das, Bhagirath, 1998. "*An Introduction to The WTO Agreements*", Zed Books Ltd. Publisher, p. 1.

Source: Pham, Hang, 2007. “Lo trinh cat giam thue theo cam ket WTO: Nguoi tieu dung se loi hon” (The Schedule on tariff reduction towards commitments with the WTO: consumers will experience more benefits).[98]

In 2007, the Ministry of Finance also issued the Decision No. 106/2007/QD-BTC dated on December 20, 2007 about promulgating the List of Preferential Export-Import Tariffs to implement the tariff reductions within the Schedule of Specific Commitments to the WTO members. In accordance to the Schedule, in 2008, Vietnam cut down on around 1740 tariff lines in 26 groups of items with the ratios of reductions were in-between 1 and 7%. The tariff reductions were applied for many agricultural/industrial products such as fresh vegetables, coffee, vegetable oil, processed meat, beer, wine, cigarettes, cement, etc. Most all of them had the ratio of tariff reduction of about 2 or 3%.

In 2008, the Ministry of Finance issued Decision No.123/2008/QD-BTC dated on December 26, 2008. The Decision was issued together with the List of Export Tariffs amended and Preferential Import Tariffs. Consequently, in 2009, Vietnam cut down on about 1770 tariff lines in 337 groups of items. The ratio of tariff reduction fluctuated between 1 and 10%. The Amendment of Export Tariffs and Preferential Import Tariffs were for the implementation the Schedule of Specific Commitments to the WTO members in the context of the launching of the 2008 global financial and economic crisis.

In 2009, the List of Preferential Export-Import Tariffs was issued together with Circular No. 216/2009/TT-BTC dated November 12, 2009 by the Ministry of Finance forwarding the Schedule of Specific Commitments to the WTO. From which, in 2010, Vietnam cut down on about 1650 tariff lines with the ratio of tariff reduction in-between 1-6%.

In 2010, the Ministry of Finance issued Circular No. 184/2010/TT-BTC dated November 15, 2010 together with the List of Preferential Export-Import Duty Rates applicable to a number of items. According to the Ministry of Finance, in 2011, Vietnam has cut down on about 924 tariff lines following the Schedule of Specific Commitments to the WTO members. The ratio of tariff reduction was between 1 and 10%. In which, cigars had the greatest reduction rate of 10%, and other items had ratios rating from 1 to 3%. Vietnam continued to hold the ceiling tariffs under the WTO commitments for some items such as tobacco (135%), cigar (110%), and alcohol (77%).

In 2011, the Ministry of Finance issued Circular No. 157/2011/TT-BTC dated November 14, 2011 together with the List of Preferential Export-Import Duty Rates applicable to a number of items. As a result, in 2012, Vietnam cut down on about 945 tariff lines with the ratio of reduction

[98] Retrieved from website http://www.cpv.org.vn/cpv/Modules/News/NewsDetail.aspx?co_id=0&cn_id=66830, accessed April 22, 2013.

was from 1 to 3%. These included items such as aquatic products, fruits, processed food, confectionery, wine, cigarettes, etc.

In 2012, the Ministry of Finance issued Circular No. 193/2012/TT-BTC dated November 15, 2012 together with the List of Preferential Export-Import Duty Rates applicable to a number of items. Also according to the Ministry of Finance, in 2013, Vietnam continues to cut down on about 214 tariff lines with the ratio of reduction will be between 0 and 5% (for more information about the tariff reductions on specific items under the Schedule of Commitments with the WTO, see more in Appendix 1, 2, 3, and 4 at the end of the thesis). Generally, Vietnam has fully implemented the commitments within GATT by bounding/cutting the tariffs of many items following the Designed Agenda. The next item outlines the implementation of the TRIMs commitments.[99]

2.5.2. The Main Changes of the Legal System in the Economic Field to Implement the Commitments of the Agreement on Trade-Related Investment Measures (TRIMs)

Agreement on Trade-Related Investment Measures **(**TRIMs) came into effect on January 1, 1995 resulting from the Uruguay Negotiation Round. This agreement applies only to measures that affect Trade in Goods (does not cover Trade in Services). It states that no WTO Member shall apply measures that are prohibited by the provisions under Articles III (National Treatment) and XI (Quantitative Restrictions) of GATT 1994. The prohibited investment measures under the provisions of Articles III and XI of GATT 1994 related to Trade in Goods which are spelled out in the Annex's Illustrative List (Annex 1) of TRIMs.[100] The application of TRIMs to prevent the prohibited investment measures is very important for overseas investors.

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[99] According to the Vietnam General Tariffs Office, excise taxes set on liquor (wine) and beer had come under two stages. For liquor (wine) from 20 degrees (20% alcohol) or more, a 45% tax rate was applied for the period from January 1, 2010 to December 31, 2012. The tax rate has been 50% since January 1, 2013. As for liquor (wine) below 20 degrees (20% alcohol), from January 1, 2010, the tax rate is 25%. For beer, from January 1, 2010 to December 31, 2012, the tax rate was 45%. Then, since January 1, 2013, this tax has been 50%. Tax rates applied in duration of 2008-2009 was from 40%-75%, depending on each type. The prices on alcohol, beer are the prices without VAT and do not exclude the value of shell packaging, retrieved January 27, 2012 from website http://www.tin247.com/ruou%2C_bia_bat_dau_chiu_thue_tieu_thu_dac_biet_45-3-21540184.html.

[100] Under the TRIMs Agreement, the certain measures that violate the National Treatment and Quantitative Restrictions requirements of the General Agreement on Tariffs and Trade (1994) may include requirements to:

- achieve a certain level of local content;
- produce locally;
- export a given level/percentage of goods;
- balance the amount/percentage of imports with the amount/percentage of exports;
- transfer technology or proprietary business information to local persons; or
- balance foreign exchange inflows and outflows

These requirements may be mandatory conditions for investment, or can be attached to fiscal or other incentives. Among several conditions on foreign investments used by developing countries, like Vietnam, the three most frequently used are domestic content requirement, export obligation, and foreign exchange balancing (Lal Das, Bhagirath 1998, pp. 101-103).

According to Article 5 of TRIMs, developing countries have a 5-year transitional period since January 1, 1995. Vietnam joined the WTO in January 2007, so the country had to fully implement the TRIMs since the date of accession without a transitional period as mentioned in paragraph 332 of the Working Party Report.[101]

Prior to the WTO accession, Vietnam had issued, amended and supplemented many laws and legal documents to comply fully with the TRIMs Agreement. Particularly, Vietnam issued the Investment Law (Luat Đau tu in Vietnamese) No. 59/2005/QH11 on November 29, 2005. The Investment Law was drafted based on the consolidation of the Domestic Investment Promotion Law and the Foreign Investment Law. The Enterprise Law (Luat Doanh nghiep in Vietnamese) No. 60/2005/QH11 was also issued on November 29, 2005. The Enterprise Law was issued based on the consolidation of the Enterprise Law 1999 (Luat Doanh nghiep 1999 in Vietnamese) and the State Enterprise Law (Luat Doanh nghiep Nha nuoc in Vietnamese).

The Investment Law and the Enterprise Law, which entered into force on July 1, 2006, have been applied to investors and enterprises of all economic sectors, in the direction of: (i) expanding the business autonomy (such as selecting the investment fields, the form of investment, investment scale, investment partners), the access to using investment resources (such as land capital and resources), the import and export rights as well as rights to buy technology, mortgage, access public services on the principle of non-discrimination; (ii) removing the barriers related to investment as the provisions relating to the localization rate, export proportion, and the raw materials purchased domestically; (iii) diversifying the forms of investment; (iv) strongly reforming investment procedures in the direction of expanding the decentralization on the granting of investment certificates and state management of investment activities; simplifying the verification procedures for granting investment certificates, etc.[102] To some extent, the issues mentioned not only match international standards but also qualify for the provisions under the TRIMs.

Before the issuance of the 2005 Investment Law that concerns investment licenses/certificates of investment, Vietnam had required foreign investors to export with a certain proportion of their outputs or to achieve a certain localization rate of domestically manufactured commodities.[103] These were considered to be local content policies, obliging foreign investors to

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[101] "The representative of Vietnam confirmed that, without prejudice to Vietnam's commitments in paragraphs 286 and 288 of this Report, Vietnam would comply fully with the TRIMs Agreement upon its accession to the WTO (WT/ACC/VNM/48 paragraph 332, p. 86).

[102] Invenco, 2012. "Policies to attract foreign investment of Vietnam", retrieved from website http://invenco.com.vn/eng/index.php?vc=tintuc&pl=chitiet&tintuc=159, accessed December 12, 2012.

[103] For instance:

Cong van so 3815/BKH-KCN cua Bo Ke hoach va Dau tu ngay 27/6/1997 (Official Dispatch No. 3815/BKH-KCN dated June 27, 1997 of the Ministry of Planning and Investment) regulates the proportion of exportation as follow:

raise the local content of their products within the given time range. These policies were implemented to reduce the share of imported inputs with the purpose of increasing the use of input materials from domestic ancillary industries as well as to encourage foreign investors to invest in ancillary industries locally. The abolishment of indirect import restrictions through local-contents, export obligations (foreign investors have to achieve certain export targets to balance the import content of domestic manufacturing) and other indirect incentives (differential tariff rates depending on the domestic content obtained) that violate the provisions of Articles III (National Treatment) and XI (Quantitative Restrictions) of GATT in 1994 is an obligation WTO members have to follow to prevent trade distortion.[104] These requirements of Vietnam were abolished which were mentioned in Article 8 of the 2005 Investment Law.[105]

For consumer goods such as shoes, casual clothing or other goods in the country that have met relatively sufficient quantities, such as sanitary ware, ceramic tiles, electric cables, batteries, detergent, cosmetic, pesticides, household plastic: at least 80%

For other items: at least 50%;

Quyet dinh so 718/2001/QD-BKH ve viec Ban hanh danh muc cac san pham cong nghiep phai dam bao xuat khau it nhat 80% san pham (Decision No. 718/2001/QD-BKH included the list of goods subject to the 80 percent ratio requirement for export). It means foreign-invested enterprises appeared to have been requested to maintain export sales ratio for their products up to 80%.

Quyet dinh so 28/2004/QĐ-BKHCN ngay 1 thang 10 nam 2004 ve phuong phap xac dinh ty le noi dia hoa cho o to (Decision No. 28/2004/QD-BKHCN dated October 1, 2004 about methods to determine the localization rate for automobiles), in which the regulations implemented as follow:

To popular car (equivalent to passenger cars and trucks defined in Vietnam Standard 7271:2003): The localization rate is 40% in 2005, 45% in 2006, 50% in 2007, 55% in 2008 and 60% in 2010.

To engines, achieving a localization rate of 30% in 2005, 35% in 2006, 40% in 2007, 45% in 2008 and 50% in 2010 and the transmission is 65% in 2005, 70 % in 2006, 75% in 2007, 80% in 2008, 85% in 2009 and 90% in 2010.

To all types of special purpose vehicles (defined in Section 3.3 of ISO 7271:2003 Vietnam Standards): The localization rate is 40% in 2005, 45% in 2006, 50% in 2007, 55% in 2008 and 60% in 2010.

To the high-class automobiles: travel cars by joint ventures (corresponding to cars defined in Section 3.1.1 of the Vietnam Standard TCVN 7271:2003) achieving a localization rate of 20-25% in 2005 and 30-35% in 2007 and 40-45% in 2010.

For luxury bus, reaching the localization rate of 20% in 2005, 30% in 2007 and 35-40% in 2010.

Quyet dinh so 38/2004/QD-BKHCN ngay 28 thang 12 nam 2004 ve viec sua doi, bo sung Quyet dinh so 28/2004/QD -BKHCN ngay 1 thang 10 nam 2004 ve phuong phap xac dinh ty le noi dia hoa cho o to (Decision No. 38/2004/QD-BKHCN dated December 28, 2004 about amending and supplementing Decision No. 28/2004/QD-BKHCN October 1, 2004 on methods to determine the rate of localization for automobiles).

[104] Particularly, these are the provisions stipulated in the annex of TRIMs: "Annex: Illustrative List

1. TRIMs that are inconsistent with the obligation of national treatment provided for in paragraph 4 of Article III of GATT 1994 include those which are mandatory or enforceable under domestic law or under administrative rulings, or compliance with what is necessary to obtain an advantage, and what is required:

(a) the purchase or use by an enterprise of products of domestic origin or from any domestic source, whether specified in terms of particular products, in terms of volume or value of products, or in terms of a proportion of volume or value of its local production; or

(b) that an enterprise's purchases or use of imported products be limited to an amount related to the volume or value of local products that it exports.

2. TRIMs that are inconsistent with the obligation of general elimination of quantitative restrictions provided for in paragraph 1 of Article XI of GATT 1994 include those which are mandatory or enforceable under domestic law or under administrative rulings, or compliance with which is necessary to obtain an advantage, and which restrict:

Before joining the WTO, the discrimination between foreign and domestic investors had been a long standing issue. While foreign investors enjoyed more favorable corporate income tax rates than that of domestic investors, they were required to pay higher fees for public utilities such as telecommunication, electricity, transportation, and land leases. Efforts to eliminate this discrimination have taken shape. The Ordinance on the MFN and National Treatment in 2002 allowed foreign investors to be treated the same as domestic investors. The dual price policy was also removed as mentioned in Article 10 of the 2005 Investment Law.[106] Decision No. 43/2006/QD-BTC dated August 29, 2006, abolished policies which applied preferential import tariff rates contingent upon localization ratios with respect to products and parts of mechanical/electric/electronic industries as from October 1, 2006 as well.[107] Foreign investors can equally access or use credit capital, funds, land, and other resources as prescribed by law. Foreign investors can rent or purchase equipment, machinery, input materials, etc. in or out of the country sources to implement investment projects, hire local labor, foreign labor, and experts, for managerial activities, technical works based on the demands of production and businesses. In the case of an international treaty in which the Socialist Republic of Vietnam is a member, it has its own provisions to apply to the provisions of international treaties.[108]

(a) the importation by an enterprise of products used in or related to its local production, generally or to an amount related to the volume or value of local production that it exports;

b) the importation by an enterprise of products used in or related to its local production by restricting its access to foreign exchange to an amount related to the foreign exchange inflows attributable to the enterprise; or

(c) the exportation or sale for export by an enterprise of products, whether specified in terms of particular products, in terms of volume or value of products, or in terms of a proportion of volume or value of its local production."

[105] To conform to the provisions of the international treaties and Agreement on Trade-Related Investment Measures **(**TRIMs) of the WTO which the Socialist Republic of Vietnam is a membership, Vietnam ensures the foreign investors the following provisions prescribed in Article 8 of the 2005 Investment Law:

"1. Opening Investment market in line with the roadmap already committed;

2. Investors are not required to perform the following requirements:

a) Give priority to buying and using domestic goods and services or have obligation to purchase goods and services from domestic manufacturers or service providers;

b) Export goods or services reaching a certain proportion; limited amount, value, type of goods and services in exporting or manufacturing, domestic supplying;

c) Import goods with the value and quantity corresponding to the value and quantity of exported goods or have to self balance foreign currency from exports to meet demand of imports;

d) Obtain the certain rate of localization in good manufacturing;

e) Obtain a certain level or value in research and development domestically;

e) Supply goods and services at a particular location inside the country or abroad;

g) Headquartered in a particular location."

[106] "Dieu 10. Ap dung gia, phi, le phi thong nhat: trong qua trinh hoat dong dau tu tai Vietnam, nha dau tu duoc ap dung thong nhat gia, phi, le phi doi voi hang hoa, dich vu do Nha nuoc kiem soat (Article 10. Uniform application for prices, fees and charges: while doing investment activities in Vietnam, investors are applied uniform prices, fees and charges for goods and services controlled by the State).

[107] Retrieved from WT/ACC/VNM/48, paragraph 331, p. 86.

[108] See more Article 14 of 2005 Investment Law. And, the Ministry of Trade, now is the Ministry of Industry and Trade, also issued the Circular No. 09/2007/TT-BTM dated July 17, 2007 on guidance the implementation of

The Government of Vietnam also issued the Law on Personal Income Tax in 2007 (Luat Thue Thu nhap ca nhan 2007 in Vietnamese). It entered into force on January 1, 2009. This Law does not discriminate taxpayers, be it they are Vietnamese or foreigners. Every person, Vietnamese or foreigners, who work and have income in Vietnam, must pay personal income tax following the provisions of this Law. In other words, common personal income tax rates are imposed on both the Vietnamese and foreigners alike. Overall, Vietnam has abided by all the provisions of TRIMs since the date of accession as promised in its commitments to trading partners of the WTO, which has also been stipulated in paragraph 331 and 332 of the Working Party Report.[109]

2.5.3. The Main Changes of the Legal System in the Economic Field to Implement the Commitments of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)

Now a days, most of the value of new products lies in the amount of invention, innovation, research, design and testing involved such as those found in medicine, software and other advanced technology. Some products (e.g., films, music recordings, books, etc.) can easily be copied, modified and sold without the permission of right holders. Authors can be given the right to prevent others from using their inventions, designs or other creations-and to use that right to negotiate a payment in return for people who want to use them. These are known as “intellectual property rights”. They take a number of forms. For example, books, paintings and films come under copyright; inventions can be registered as patents; brand names and product logos are registered as trademarks; and so on.[110]

Decree No. 23/2007/ND-CP dated February 12, 2007 regulated in detail the Trade Law (Luat Thuong mai) about the sale and purchase of goods and activities related to the sale and purchase of goods of enterprises with foreign investment capital in Vietnam. This is an important Circular for foreign investors in implementation the right of export and import.

[109] “331. The representative of Vietnam submitted an action plan for the implementation of the TRIMs Agreement in document WT/ACC/VNM/18, and a revised action plan in document WT/ACC/VNM/18/Rev.1 of October 31, 2003. He stated that, in accordance with the revised action plan, the import duty preferences contingent on localization ratio with respect to enterprises producing and assembling motorcycles specified in the Inter-Ministry Circular No. 176/1998/TTLT-BTC-BCN-TCHQ had been eliminated in 2003. Decision No. 43/2006/QD-BTC of August 29, 2006 also abolished policies of preferential import tariff rates contingent upon localization ratios with respect to products and parts of mechanical/electric/electronic industries as from 1 October 2006. In addition, the export ratio requirement had been eliminated by Decree No. 27/2003/ND-CP of 19 March 2003, and the 2005 Investment Law and its Implementing Decree no longer conditioned the granting of investment licenses or the receipt of investment incentives in the manner described in the TRIMs Agreement. 332. The representative of Vietnam confirmed that, without prejudice to Vietnam’s commitments in paragraphs 286 and 288 of this Report, Vietnam would comply fully with the TRIMs Agreement upon its accession to the WTO (Working Party Report–WT/ACC/VNM/48, paragraph 331, 332, p. 86).

[110] Retrieved from “Into the rule-based trade system” Item, accessed May 29, 2012 website: http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm7_e.htm.

The WTO's TRIPs Agreement came into effect on January 1, 1995. The TRIPS Agreement is an attempt to narrow the gaps in the way these rights are protected by covering five broad issues: first, applying basic principles of the trading system and international intellectual property agreements; second, giving adequate protection to intellectual property rights; third, enforcing those rights adequately in each own territory; fourth, settling disputes on intellectual property between members of the WTO; and finally, giving a special transitional period to implement those. The TRIPs Agreement includes Basic Principles: National Treatment, Most-Favoured-Nation (MFN), and balanced protection, common ground-rules to protect Intellectual Property, Copyright, Trademarks, Geographical Indications, Industrial Designs, Patents, Integrated Circuits Layout Designs, Undisclosed Information and Trade Secrets, Curbing Anti-Competitive Licensing Contracts, Enforcement: tough but fair Technology Transfers.[111]

Before joining the WTO, the main legal instruments for the protection of intellectual property in Vietnam had been:

- The Civil Code of 1995 (Part Six).
- Government Decree No. 63/CP dated October 24, 1996 on Detailed Regulations on Industrial Property which was supplemented and amended by Decree No. 06/2001/ND-CP dated February 1, 2001.
- Circular No. 3055/TT-SHCN dated December 31, 1996 by the Ministry of Science, Technology and Environment on guiding the implementation of the provisions on the procedures for establishing industrial property rights, and a number of other procedures in Decree No. 63/CP.
- Government Decree No. 76/CP dated November 29, 1996 on guiding the implementation of the provisions on copyright in the Civil Code.
- Circular No. 23-TC/TCT dated May 9, 1997 by the Ministry of Finance on Industrial Property Fees; and Circular No. 166/1998/TT-TC dated December 19, 1998 by the Ministry of Finance on Copyright Registration Fees.[112]

Vietnam had promulgated amendments to the Civil Code, which reaffirmed the basic civil principles of intellectual property rights (Part VI of the Code), as well as an Intellectual Property Law governing all aspects of intellectual property rights. The Civil Code (Law No. 33/2005/QH11 on June 14, 2005 replacing the 1995 Civil Code-thereafter referred to as the 2005 Civil Code) had come into effect on January 1, 2006. The Intellectual Property Law, Law No. 50/2005/QH11 on November 29, 2005-thereafter referred to as the 2005 Intellectual Property Law that was designed with two main varieties like the TRIPs Agreement of the WTO, which became effective on July 1,

[111] See TRIPs, http://www.wto.org/english/docs_e/legal_e/27-trips_01_e.htm, accessed April 23, 2013.
[112] Retrieved from WT/ACC/VNM/48, paragraph 377, p. 95.

2006. These two laws formed a complete and uniform system of regulations on intellectual property, which would replace previous legislation. To ensure intellectual property protection in the transferring of technology, Vietnam also issued the Technology Transfer Law in 2006 and Decree No. 119/2010/ND-CP dated December 30, 2010 by the Government on amending and supplementing a number of articles in the Government's Decree No.105/2006/ND-CP dated September 22, 2006. These legal documents detail and guide the application of a number of articles regarding the Intellectual Property Law.

The new law system related to intellectual property protection is, to a large extent, based on the previous one.[113] Various decisions and decrees on copyright, industrial property, plant varieties and enforcement of intellectual property rights of the 2005 Intellectual Property Law had been adopted in September 2006.[114] In addition, the Ministry of Culture and Information, now the Ministry of Culture, Sport and Tourism, the Ministry of Science and Technology, and the Ministry of Agriculture and Rural Development are responsible for promulgating circulars guiding the implementation of procedures on copyright registration and related rights, industrial property rights, and plant varieties; on industrial property representatives; and on transfer of industrial property.[115]

In regards to the participation in international intellectual property agreements**,** Vietnam has been a party to the Paris Convention for the Protection of Industrial Property and the Madrid Agreement on International Registration of Marks since 1949; the Convention establishing the World Intellectual Property Organization since 1976; and the Patent Cooperation Treaty since March 1993. Vietnam has become an official party to the Berne Convention since October 26, 2004, the Geneva Convention since July 6, 2005, the Brussels Convention since January 12, 2006, and the Protocol relating to the Madrid Agreement concerning the international registration of marks since July 11, 2006. Vietnam has been a member of bilateral agreements on the protection

[113] In case of conflict between the 2005 Intellectual Property Law and the provisions on intellectual property of the 2005 Civil Code, the former would apply Article 5.2 of the 2005 Intellectual Property Law.

[114] Decree No. 100/2006/ND-CP of September 21, 2006 guiding the implementation of a number of articles of the Civil Law and Intellectual Property Law concerning copyright and related rights;

Decree No. 103/2006/ND-CP of September 22, 2006 providing detailed provisions and guidelines for implementing certain articles of the 2005 Intellectual Property Law concerning industrial property;

Decree No. 104/2006/ND-CP of September 22, 2006 providing detailed provisions and guidelines for implementing certain articles of the 2005 Intellectual Property Law concerning rights to plant varieties;

Decree No. 105/2006/ND-CP of September 22, 2006 providing detailed provisions and guidelines for implementing certain articles of the 2005 Intellectual Property Law regarding the protection of intellectual property rights and State management of intellectual property;

Decree No. 106/2006/ND-CP of September 22, 2006 on handling administrative violations in the industrial property field;

Decision No. 69/2006/QD-BNN of September 13, 2006 of the Minister of the Ministry of Agriculture and Rural Development on data confidentiality of testing data of agro-chemical products;

Decision No. 30/2006/QD-BYT of September 30, 2006 of the Minister of the Ministry of Health on promulgation of regulations on data protection applied to Drug Registration Dossiers.

[115] Retrieved from WT/ACC/VNM/48, paragraph 378, pp. 95-96.

of intellectual property with the USA and Switzerland. Vietnam joined the Rome Convention and the International Union for the Protection of New Varieties of Plants (UPOV) Convention in late 2006. In case of differences between Vietnamese laws on intellectual property rights and international treaties to which Vietnam is a party to, the provisions of the latter would apply, as prescribed in Article 5.3 of the 2005 Intellectual Property Law.[116]

In respect of application of National Treatment and Most-Favoured-Nation (MFN) treatment to foreign nationals, Vietnam applies the National Treatment principle in accordance with the Paris Convention for the Protection of Industrial Property. It provides MFN treatment to other countries consistent with international agreements to which Vietnam is a party to.[117] Overall, Vietnam has made efforts to ensure the intellectual property protection towards TRIPs Agreement via codifying in law documents and joining the international treaties.

2.5.4. The Main Changes of the Legal System in the Economic Field to Implement the Commitments of the Agreement on Subsidies and Countervailing Measures (SCM Agreement)

The Agreement on Subsidies and Countervailing Measures (SCM Agreement) addresses two separate but closely related topics: multilateral disciplines regulating the provision of subsidies, and the use of countervailing measures to offset injury caused by subsidized imports.[118] Subsidies and Countervailing Measures Agreement applies to agricultural as well as industrial products. It mentions Anti-Dumping, Subsidies and Safeguards: emergency protection from imports.[119]

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[116] Retrieved from WT/ACC/VNM/48, paragraph 381, pp. 96-97.

[117] Retrieved from WT/ACC/VNM/48, paragraph 383, p. 97.

[118] Subsides and Countervailing Measures: Overview, http://www.wto.org/english/tratop_e/scm_e/subs_e.htm, accessed May 25, 2012.

[119] In brief, Article 1-Part I of SCMA defines Subsidies as follows:

"(a)(1) there is a financial contribution by a government or any public body within the territory of a Member (referred to in this Agreement as "government"), i.eg., where:

(i) a government practice involves a direct transfer of funds (e.g., grants, loans, and equity infusion), potential direct transfers of funds or liabilities (e.g., loan guarantees);

(ii) government revenue that is otherwise due is foregone or not collected (e.g., fiscal incentives such as tax credits);

(iii) a government provides goods or services other than general infrastructure, or purchases goods;

(iv) a government makes payments to a funding mechanism, or entrusts or directs a private body to carry out one or more of the type of functions illustrated in (i) to (iii) above which would normally be vested in the government and the practice, in no real sense, differs from practices normally followed by governments; or

(a)(2) there is any form of income or price support in the sense of Article XVI of GATT 1994; and

(b) a benefit is thereby conferred."

Also according to the provisions of SCMA, subsidies were divided into three groups:

First group includes prohibited subsidies mentioned in Article 3 of SCMA as follows:

"3.1 Except as provided in the Agreement on Agriculture, the following subsidies, within the meaning of Article 1, shall be prohibited:

(a) subsidies contingent, in law or in fact 4, whether solely or as one of several other conditions, upon export performance, including those illustrated in Annex I;

(b) subsidies contingent, whether solely or as one of several other conditions, upon the use of domestic over

Subsidies play an important role in developing countries, especially in the transformation of centrally-planned economies to market economies.

Before 2004, Vietnam had no provisions on anti-dumping, countervailing duty or safeguard measures in its legislation. However, the Law on Amendment and Revision of a number of Articles in the Law on Import and Export Duties (Articles 2 and 9), passed by the National Assembly on May 20, 1998, allowing for the imposition of additional duties on goods imported at a price lower than the "normal price as a result of dumping practices, and consequently causing difficulties to domestic producers of like products" or "normal price resulting from subsidy in the exporting country, consequently causing difficulties to domestic producers of like products". Vietnam also imposed additional duties on goods originating in countries that applied "discriminatory treatment against Vietnamese goods with respect to tariff rates and/or any other measures".[120] Anti-Dumping Ordinance on goods imported into Vietnam No. 20/2004/PL-UBTVQH11 dated April 29, 2004 was promulgated. Other legal documents related to anti-dumping, countervailing, and safeguard

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imported goods.

3.2 A Member shall neither grant nor maintain subsidies referred to in paragraph 1." (see more in Annex 1 - Agreement on Subsidies and Countervailing Measures of the WTO).

Prohibited subsidies are those that require recipients to meet certain export targets, or to use domestic goods instead of imported goods. They are prohibited because they are specifically designed to distort international trade, and are therefore likely to hurt other countries' trade. They can be challenged in the WTO dispute settlement procedure where they are handled under an accelerated timetable. If the dispute settlement procedure confirms that the subsidy is prohibited, it must be withdrawn immediately. Otherwise, the complaining country can take counter measures. If domestic producers are hurt by imports of subsidized products, countervailing duty can be imposed, retrieved from website http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm8_e.htm, accessed March 9, 2011.

Second group includes Actionable subsidies mentioned in Article 5, 6, 7 of SCMA (See more on Article 5, 6, 7 - Agreement on Subsidies and Countervailing Measures of the WTO). These actionable subsidies can be sued if they cause adverse effects to the interests of other Members. In this category the complaining country has to show that the subsidy has an adverse effect on its interests. Otherwise the subsidy is permitted. The agreement defines three types of damage they can cause. One country's subsidies can hurt a domestic industry in an importing country. They can hurt rival exporters from another country when the two compete in third markets. And domestic subsidies in one country can hurt exporters trying to compete in the subsidizing country's domestic market. If the Dispute Settlement Body rules that the subsidy have an adverse effect, the subsidy must be withdrawn or its adverse effect must be removed. Again, if domestic producers are hurt by imports of subsidized products, countervailing duty can be imposed (Retrieved from Antidumping Actions, http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm8_e.htm, accessed March 9, 2011).

Third group includes Non-Actionable Subsidies mentioned in Article 8 of SCMA. Base on the regulations of Article 8 of SCMA, assistance for research activities conducted by firms or by higher education or research establishments on a contract basis with firms if the assistance covers not more than 75 percent of the costs of industrial research or 50 percent of the costs of pre-competitive development activity, assistance to disadvantaged regions within the territory of a Member and assistance to promote adaptation of existing facilities to new environmental requirements imposed by law and/or regulations which result in greater constraints and financial burden on firms are allowed (Article 8 - Agreement on Subsidies and Countervailing Measures of the WTO).

[120] Retrieved from WT/ACC/VNM/48, paragraph 251, pp. 64-65.

measures have been also issued.[121]

Before joining the WTO, Vietnam had maintained the prohibited subsidies as follows: Vietnam provided preferential import tariff rates contingent upon localization ratios with respect to products and parts of two-wheel motorbikes following Joint Circular No. 167/1998/TTLT-BTC-BCN-TCHQ; preferential import tariff rates contingent upon localization ratios with respect to products and parts of mechanical-electric-electronic industries mentioned in Decree No. 24/2000/ND-CP; investment incentives contingent upon export performance for domestic businesses; investment incentives contingent upon export performance for foreign-invested enterprises; preferential development credit for investment contingent upon localization ratios; support for the development of the textile and garment sector; support for the shipbuilding industry; assistance for commercial development in mountainous, island and ethnic minority areas; and incentives for investment projects in science and technology.

Two other programmes target labor-intensive domestic enterprises and enterprises employing a large number of female employees. Subsidies granted under the programme for labor -intensive domestic enterprises included exemption from or reduction of land rental and land use tax, and extended corporate income tax exemptions and reductions. As for domestic and foreign-invested enterprises employing a large number of female employees, they were entitled to corporate income tax reductions.[122]

Most of these subsidy programmes of Vietnam were based on reduction or exemptions from taxes (corporate income tax, land rental tax, land use tax, personal income tax, etc.). However, in

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[121] Nghi dinh so 90/2005/ND-CP cua Chinh phu ngay 11/07/2005 quy dinh chi tiet thi hanh mot so dieu cua Phap lenh Chong ban pha gia hang hoa nhap khau vao Vietnam (Decree No. 90/2005/ND-CP of the Government dated November 17, 2005 detailing the implementation of some articles of the Ordinance on Anti-dumping on Imported Goods into Vietnam).

Nghi dinh so 04/2006/ND-CP cua Chinh phu ngay 09/01/2006 ve viec Thanh lap va quy đinh chuc nang, nhiem vu va co cau to chuc cua Hoi dong xu ly vu viec chong ban pha gia, chong tro cap va tu ve (Decree No. 04/2006/ND-CP of the Government dated September 01, 2006 on the establishment and regulation functions, tasks and organizational structure of the Council of Handling Anti-Dumping, Countervailing and Safeguard Measures).

Nghi dinh so 06/2006/ND-CP cua Chinh phu ngay 09/01/2006 quy dinh chuc nang, nhiem vu va co cau to chuc cua Cuc Quan ly canh tranh (Decree No. 06/2006/ND-CP of the Government dated September 01, 2006 on functions, tasks and organizational structure of the Competition Management Department).

Thong tu so 106/2005/TT-BTC cua Bo Tai chinh ngay 05/12/2005 ve huong dan thu, nop, hoan tra thue chong ban pha gia, thue chong tro cap va cac khoan dam bao thanh toan thue chong ban pha gia, thue chong tro cap (Circular No. 106/2005/TT-BTC dated December 05, 2005 of the Ministry of Finance guiding the collection, payment, anti-dumping, countervailing tax refund and the payment guaranty of anti-dumping and countervailing duties.

Chi thi so 20/2005/CT-TTg cua Thu tuong Chinh phu ngay 09/06/2005 ve viec Chu dong phong, chong cac vu kien thuong mai quoc te (Directive No. 20/2005/CT-TTg of the Prime Minister dated September 6, 2005 on the initiative in the fight against the international trade case).

[122] Retrieved from WT/ACC/VNM/48, paragraph 272, p. 70.

its assessment, most of the programmes provided only minor subsidies.[123] Tax incentives were listed in the investment licenses for foreign invested enterprises. Domestic and foreign-invested enterprises were eligible for incentives on an equal basis. Vietnam's 2005 Investment Law had eliminated the practice of granting prohibited subsidies to encourage investment; granted investment incentives on equal terms to both foreign and domestic investors. Moreover, Decision No. 43/2006/QD-BTC dated August 29, 2006 abolished programmes of preferential import tariff rates contingent upon localization ratios with respect to products and parts of mechanical/electric/electronic industries as from October 1, 2006. The programmes of preferential import tariff rates contingent upon localization ratios with respect to two-wheel motorcycles and parts had been terminated as of January 1, 2003.[124] It provided that if the provisions of an international treaty to which Vietnam was a signatory are different than the provisions of the 2005 Investment Law, the provisions of the international treaty would prevail.[125]

In relation to export subsidy programmes in Vietnam, Vietnam had established an Export Promotion Fund to assist, encourage and promote exportation of Vietnamese products. Subsidies were provided in the form of interest rate support (full or partial refund of interest incurred on ordinary bank loans); direct financial support, particularly to first-time exporters, for exports to new markets, or goods subject to major price fluctuations; and export rewards and bonuses. Total expenditure from the Export Promotion Fund had amounted to VND 193 billion in 2004.[126] Vietnam stated that the Export Promotion Fund had also been providing support to enterprises for expenditures on trade promotion activities such as participation in trade fairs and exhibitions, market surveys, consultancy fees and the opening of trade promotion centres and representative offices abroad since early 2001. Payments under this Fund were determined on the basis of exported value (0.1-0.2 percent), but the support could not exceed 50 to 70 percent of the actual expenditures of enterprises on such activities. Decision No. 279/2005/QD-TTg established a new trade promotion programme for 2006-2010 and confirmed that this new programme would be applied in conformity with WTO rules.[127]

Vietnam had operated a duty drawback regime to refund duties paid on imported products used in the manufacturing of goods for exports. The volume of products entering Vietnam's territory under a duty drawback arrangement were not considered as part of, or linked to, any

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[123] Information on investment incentives granted during the period 1996-2003 according to the type of enterprise, the number of investment projects and the investment areas having benefited from investment incentives between 2001 and 2003 were mentioned in Tables 20(a), (b) and (c) of WT/ACC/VNM/48.
[124] Retrieved from WT/ACC/VNM/48, paragraph 275, p. 71.
[125] Retrieved from WT/ACC/VNM/48, paragraph 273, pp. 70-71.
[126] Retrieved from WT/ACC/VNM/48, paragraph 276, p. 71.
[127] Retrieved from WT/ACC/VNM/48, paragraph 277, p. 71.

tariff rate quota. Vietnam allowed traders to apply for tariff rate quotas or import directly the goods to be used in the manufacture of products for exports, in both cases benefiting from duty drawback and from the date of accession, Vietnam applied import duty exemptions and drawback practices in full conformity with the SCM Agreement, in particular, Annexes I and II there to, consistent with the commitments undertaken in paragraphs 286 and 288.[128]

Decision No. 55/2001/QD-TTg provided prohibited subsidies to Vietnam's textile and garment industries. Decision No. 55/2001/QD-TTg had been repealed on May 30, 2006. Vietnam eliminated all prohibited subsidies (e.g., subsidies contingent upon export performance or the use of domestic over imported goods) to the textile and garment industries, including investment incentives contingent upon export performance for domestic businesses, investment incentives contingent upon export performance for foreign-invested enterprises, export promotion subsidies contingent upon export performance, as of the date of accession.[129]

The Government of Vietnam issued Decree No. 24/2007/ND-CP dated February 14, 2007 about detailed provisions concerning the implementation of the Law on Corporate Income Tax (Luat Thue Thu nhap doanh nghiep in Vietnamese). Following the provisions of this law, Vietnam removed the preferences on corporate income tax based on export achievement that does not qualify the WTO's principles. Generally, Vietnam has removed many prohibited subsidies; incentive programmes as well as issued, supplemented and amended many legal documents to qualify for the provisions of SCM Agreements.

2.5.5. The Main Changes of the Legal System in the Economic Field to Implement the Commitments of the General Agreement on Trade in Services (GATS)

GATS forms part of the Final Act rests on three components resulting from the Uruguay Round Package. The first component is a Framework Agreement including basic obligations that apply to all WTO members. The second component mentions national schedules on promises containing specific national commitments which will be subject to trade liberalization in services. The third component includes annexes addressing the special situations of individual services sectors.[130]

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[128] Retrieved from WT/ACC/VNM/48, paragraph 281, p. 72.

[129] Retrieved from WT/ACC/VNM/48, paragraph 286, p. 73.

[130] Part I of the basic agreement defines its scope - specifically, services supplied from the territory of one party to the territory of another (cross-border supply: mode 1; e.g., telecommunications); services supplied in the territory of one party to the consumers of any other (consumption abroad: mode 2; e.g., tourism); services provided through the presence of service providing entities of one party in the territory of any other (commercial presence: mode 3; e.g., banking); and services provided by nationals of one party in the territory of any other (presence of natural person: mode 4; e.g., construction projects) as mentioned in Vietnam's commitments in services (item 2.4.2.1).

Part II points out general obligations and disciplines. A basic Most Favoured Nation (MFN) obligation states that each party "shall accord immediately and unconditionally to services and service providers of any other

Most service sectors are in the early stages of development in Vietnam and accounts for around 40 percent of Vietnam's GDP. The main Vietnamese ministries and agencies involved in the regulation of services activities are the Ministry of Agriculture and Rural Development; Industry and Trade; Planning and Investment; Transportation; Culture, Sport and Tourism; Finance; Construction; Science and Technology; Natural Resources and Environment; Labour, War Invalids and Social Affairs; Health; Education and Training; Information and communications; the State Bank; the General Department of Tourism; and the Directorate for Standards and Quality. In addition to governmental agencies, provincial people's committees are also authorized to administer local services industries in conformity with the national legal system. Vietnam confirmed that foreign service suppliers are free to choose their partners unless specified otherwise in Vietnam's Schedule of Specific Commitments. However, foreign investors are not obliged to establish a representative office in Vietnam.[131]

The provisions of GATS relate to most of Vietnam's legal documents (e.g., Investment Law, Enterprise Law, Insurance Business Law, Credit Organization Law, Maritime Law, Civil Aviation Law, etc.). Vietnam has fulfilled its WTO commitments in this area. For typical types of services that have commitments of joining higher than the legal framework before accession, the Government has issued legislation to implement these commitments. These include services in the field of distribution services[132], banking services[133], postal-telecommunication services[134],

Party, treatment no less favourable than that it accords to like services and service providers of any other country". However, it is recognized that MFN treatment may not be possible for every services, and it is envisaged that WTO members can indicate specific MFN exemptions. Conditions for such exemptions include an annex and provide for reviews after five years and a normal limitation of 10 years in their duration. Retrieved from GATS, http://www.wto.org/english/docs_e/legal_e/ursum_e.htm#General, accessed March 9, 2011.

[131] Retrieved from WT/ACC/VNM/48, paragraph 475, p. 118.

[132] The main legislation enacted to implement WTO commitments in this sector is Decree No. 23/2007/ND-CP dated February 12, 2007 guiding the implementation of the Commercial Law on goods trading activities and activities directly related to the purchase and sale of goods by enterprises with foreign investment capital in Vietnam; Circular No. 09/2007/TT-BTM dated July 17, 2007 guiding the implementation of Decree No. 23/2007/ND-CP, amended by Circular No. 05/2008/TT-BCT dated April 14, 2008; Decision No. 10/2007/QD-BTM dated May 21, 2007 announcing the schedule for implementation of WTO commitments on trading activities of goods and activities directly related to buying and selling goods.

[133] The main legislation enacted to implement WTO commitments in this area as Decree No. 22/2006/ND-CP dated February 28, 2006 on organization and operation of foreign bank branches, venture banks, banks with 100% foreign capital and representative offices of foreign credit institutions in Vietnam; Circular No. 03/2007/TT-NHNN dated May 06, 2007 guiding the implementation of some articles of Decree No. 22/2006/ND-CP and Decree No. 69/2007/ND-CP on April 20, 2007 on the foreign investor purchase of shares of commercial banks of Vietnam; Circular No. 07/2007/TT-NHNN dated November 29, 2007 guiding the implementation of Decree No. 69/2007/ND-CP.

[134] The main legislation enacted to implement WTO commitments in this sector is the Telecommunications Law dated November 23, 2009 and Decree No. 121/2008/ND-CP dated December 03, 2008 on the investment activities in telecommunications field.

securities services [135], insurance services. [136] For the remaining types of services, the implementation of WTO commitments comply with the Law on Signing, Accession to and implementation of international treaties No. 41/2005/QH11 dated June 24, 2005.

In reviewing the integration of commitments in this area, it appears that areas that have opened up relatively quickly are telecommunication services, banking services, distribution services. In the telecommunications sector, immediately after accession, foreign investors were allowed to have joint ventures with other providers of telecommunications services licensed in Vietnam. For network infrastructure services, capital contribution by the foreign investors in joint venture shall not exceed 49% of legal capital of the joint venture and 51% level is considered to be in control in the management of joint ventures. For services without network infrastructure, the capital contribution from the foreign side in the joint venture does not exceed 51% of legal capital of the joint venture. In the distribution sector, since January 1, 2009, distributed enterprises with 100% foreign owned capital could have been established in Vietnam. For banking, banks with 100% foreign capital investment have been allowed in Vietnam since 2007.

Overall, Vietnam has made efforts to reform its investment and trade policies to implement the commitments made to the WTO. The results of reforms have been remarkable. Trade and investment reforms have been carried out through four processes: (i) administrative reforms,[137] (ii) removal of restrictions on investment and trade, (iii) improvement of legal transparency, and (iv) harmonization of the tariff and legal systems with fundamental principles on international laws and practices. Many restrictions on investment and trade have been removed. The new laws and regulations are more transparent and accessible to the public. Evidently, these have three main objectives. The first objective is to attract FDI capital of overseas investors by creating a secure and healthy investment environment. The second objective is to promote the country’s foreign trade by liberalizing trade within the Committed Schedule to the WTO members. Last but not the least is speeding up economic reforms.

[135] The main legal document issued for the implementation of WTO commitments in this area is Decision No. 55/2009/QD-TTg on April 15, 2009 on the rate of participation of foreign investors on stock market in Vietnam.

[136] The main legal documents issued for the implementation of WTO commitments in this area as Decree No. 45/2007/ND-CP dated March 27, 2007 on the detailing implementation of some articles of Law on Insurance Business.

[137] The Government of Vietnam has also applied a “one door” policy, which means instead of working with dozens of state agencies each in charge of issues related to investment approval, the investors could now send their application only to the licensing authority. The licensing authority is now responsible for obtaining all required approvals from other state agencies. The investment licensing process has also been decentralized. Provincial authorities, now, gain the power to grant licenses to small scale investments and investment in low importance sectors. Only large scale investments or investment in strategic sectors are authorized by the Ministry of Planning and Investment with the approval of the Prime Minister. The time for obtaining a license is reduced to around one month and a half depending on investment scales and investment sectors.

The case of

HSBC

Established in Hong Kong in March 1865 and in Shanghai the following month, the Hong Kong and Shanghai Banking Corporation is the founder and a principal member of the HSBC Group. It is the Group's flagship company in the Asia-Pacific region and the largest bank incorporated in Hong Kong.

On December 29, 2005, HSBC acquired 10 percent share capital of Vietnam Technological and Commercial Joint Stock Bank (Techcombank), one of the largest joint stock commercial banks in Vietnam by equity. In July 2007, HSBC became the first foreign bank to increase its stake in Techcombank to 15 percent. In September 2008, HSBC completed the increase of its stake in Techcombank to 20 percent and became the first foreign bank in Vietnam to hold a 20 percent interest in a domestic bank.

On January 1, 2009, HSBC started operating its locally incorporated entity and became the first foreign bank to be incorporated in Vietnam. The new entity, HSBC Bank (Vietnam) Ltd. is 100 percent owned by the Hong Kong and Shanghai Banking Corporation Limited. HSBC Bank (Vietnam) Ltd. is also the first wholly foreign-owned bank to operate both branches and transaction offices in Vietnam. The Bank's network now includes one transaction center, one branch and five transactions offices in Ho Chi Minh City; one branch, three transaction offices, and one deposit office in Ha Noi, one branch in Binh Duong, one branch in Can Tho, one branch in Da Nang, one branch in Dong Nai and two representative offices in Hai Phong and Vung Tau (retrieved from "HSBC Bank (Vietnam) Ltd.", accessed May 30, 2013, http://www.hsbc.com.vn/1/2/about-hsbc_en/about_HSBC?changelanguage.language=en&changelanguage.country=US&chglang.x=en). HSBC is currently one of the largest foreign banks in Vietnam in terms of investment capital, network, product range, staff and customer resulting from Vietnam's opening policy in Financing and Banking system as committed with the WTO members.

Table 2.8: The Summary of Chapter 2

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<tr><th>2.2. Introduction to the World Trade Organization (WTO)</th><th>2.3. Vietnam’s Accession Process to the WTO</th><th colspan="2">2.4. Vietnam’s Main Commitments to the WTO Members</th></tr>
<tr><td>2.2.1. The Formation of the WTO:
• The establishment of the Bretton Woods Institutions led to the formation of three institutions: IMF, WB, and ITO.
• The ITO was dead for being unapproved by the US. Congress. However, GATT was still signed in 1947 by 23 contracting parties. GATT over the years transformed itself as an international organization governing the international trade among members.
• The WTO was established on January 1, 1995 after the end of the Uruguay Round (1986-1994).
• The WTO is regulated by the Marrakesh Agreement Establishing the World Trade Organization.</td><td>Request for Accession:
• Vietnam was accepted to be observer of the WTO in 1994
• On January 4, 1995, Vietnam applied for WTO member.</td><td colspan="2">2.4.1. Vietnam’s Plurilateral Commitments to the WTO:
• Vietnam agreed to abide all WTO agreements from the date of accession. These include: Agreement on Trade–Related Aspects of Intellectual Property Rights; Agreement on Trade Related Investment Measures; Agreement on Agriculture; Agreement on Textiles and Clothing; Agreement of WTO on Antidumping; Agreement on Subsidies and Countervailing Measures; Agreement on Safeguard Measures; Agreement on Import Licensing Procedures; Sanitary and Phytosanitary Measures; Technical Barriers to Trade; Customs Valuation Agreement; Pre-Shipment Inspection; Rules of Origin; Dispute Settlement Understanding etc.</td></tr>
<tr><td rowspan="2">2.2.2. The Major Functions and Objectives of the WTO:
• Administering and implementing WTO trade agreements
• Forum for trade negotiations among countries
• Handling the trade dispute
• Monitoring national trade policies through conducting the trade policy review
• Technical assistance and training for developing countries
• Cooperation with other international organizations
• The major objectives of the WTO are to promote trade effectively and freely</td><td rowspan="2">Establishment of a Working Party:
• On January 31, 1995, a Working Party was established.</td><td colspan="2">2.4.2. Vietnam’s Bilateral Commitments to the WTO members</td></tr>
<tr><td>2.4.2.1. Vietnam’s Commitments on Trade in Services</td><td>2.4.2.2. Vietnam’s Commitments on Trade in Goods</td></tr>
<tr><td>2.2.3. The Principles of the WTO:
• Most - Favored - Nation (MFN): treating other partners equally
• National treatment (NT): Treating foreigners and locals equally
• Free trade: gradually, through negotiation
• Predictability: through binding and transparency
• Fair competition
• Encouraging development and economic reform</td><td>Negotiation Process (Plurilateral and Bilateral Negotiations):
• Plurilateral Negotiations (Plurilateral negotiations related to implementation of WTO agreements):
14 meetings were held by the Working Party from 1998 to October 26, 2006.
• Bilateral Negotiations (Bilateral negotiations related to opening the markets of goods and services):
Negotiations ended with 28 partners in May 2006.</td><td rowspan="3">Vietnam committed with WTO members on 110/155 sub – sectors of 11 service sectors. These include:
• Business services
• Communication services
• Construction services
• Distribution services:
• Educational services
• Environmental services
• Financial services
• Health related and social services
• Tourism and related travel services
• Recreational, cultural, and sporting services
• Transport services</td><td rowspan="3">• Vietnam agreed to set ceiling rates for its 10,689 tariff lines (the average tariff rate will be reduced from 17.2% to 13.4%).
- Vietnam’s commitments in agricultural sector:
The average bound rate at the date of accession is 25.2%; and the average final bound is 21%.
- Vietnam’s commitments in industrial sector:
The average bound rate at the date of accession is 16.1%; and the average final bound is 12.6%.
• Generally, the tariff reduction is quiet modest. And, tariff reduction of industrial products is greater than that of agricultural products.</td></tr>
<tr><td rowspan="2">2.2.4. The Structure of the WTO (see Figure 2.2 in Chapter 2)</td><td>Adoption the Accession Package:
• WTO members negotiating the terms of Vietnam’s membership completed their task on October 26, 2006.</td></tr>
<tr><td>Ratification the Protocol of Accession & Accession Package & become the full Membership:
• Vietnam informed the WTO on December 12, 2006 that it had ratified its Protocol of Accession & Accession package.
• Vietnam became 150th WTO member on January 11, 2007.</td></tr>
</table>

Source: Author’s compilation.

Table 2.8: The Summary of Chapter 2 (to be continued)

<table>
<tr><th colspan="2">2.5. Revisiting the Main Changes of the Legal System in the Economic Field to Implement the Commitments of the 5 Main WTO agreements</th></tr>
<tr><th colspan="2">2.5.1. The Summary of the Main Changes of the Legal System to Implement the GATT</th></tr>
<tr><th>Vietnam’s commitments</th><th>Legal documents issued before or after Vietnam’s accession to the WTO</th></tr>
<tr><td rowspan="7">• Vietnam agrees to set ceiling rates for its 10,689 tariff lines. Vietnam has committed to binding its tariffs on most products at rates of between 0% and 37.4%. The reductions of the bound rates, which will be reduced from 17.2% (at the date of accession) to 13.4% in 2018, will be spread over a period of 12 years. As of commitments, Vietnam will cut down/reduce about 3,800 tariff lines (accounting for 35.5% of entire tariff lines), maintain about 3,700 tariff lines (accounting 34.5% of entire tariff lines), and bound ceiling around 3,170 tariff lines (covering 30% of entire tariff lines).</td><td>• Decision No. 78/2006/QD-BTC dated December 29, 2006 about amending the preferential import tariffs on goods to implement the Vietnam’s Protocol of Joining the World Trade Organization. Accordingly, in 2007, Vietnam cut down on 1800 tariff lines.</td></tr>
<tr><td>• Decision No. 106/2007/QD-BTC dated December 20, 2007 about promulgating the List of Preferential Export-Import Tariffs to implement the tariff reduction within the Schedule of Specific Commitments to the WTO members. Accordingly, in 2008, Vietnam cut down about 1740 tariff lines.</td></tr>
<tr><td>• Decision No.123/2008/QD-BTC dated December 26, 2008. Accordingly, in 2009, Vietnam cut down on 1770 tariff lines.</td></tr>
<tr><td>• Circular No. 216/2009/TT-BTC dated November 12, 2009 by the Ministry of Finance forwarding the Schedule of Specific Commitments to the WTO. Accordingly, in 2010, Vietnam cut down on 1650 tariff lines.</td></tr>
<tr><td>• Circular No. 184/2010/TT-BTC dated November 15, 2010 together with the List of Preferential Export-Import Duty Rates applicable to a number of items. Accordingly, in 2011, Vietnam cut down on about 924 tariff lines.</td></tr>
<tr><td>• Circular No. 157/2011/TT-BTC dated November 14, 2011 together with the List of Preferential Export-Import Duty Rates applicable to a number of items. Accordingly, in 2012, Vietnam cut down around 945 tariff lines.</td></tr>
<tr><td>• Circular No. 193/2012/TT-BTC dated November 15, 2012 together with the List of Preferential Export-Import Duty Rates applicable to a number of items. Accordingly, in 2013, Vietnam cut down on about 214 tariff lines.</td></tr>
</table>

Source: Author’s compilation.

Table 2.8: The Summary of Chapter 2 (to be continued)

2.5.2. The Summary of the Main Changes of the Legal System to Implement the TRIMs	
Vietnam's commitments/regulations before WTO accession	**Legal documents issued before or after Vietnam's WTO accession & regulatory changes**
• Vietnam promises to fully implement the TRIMs since the date of accession without a transitional period as mentioned in paragraph 332 of the Working Party Report.	• The 2005 Investment Law (Luat Đau tu in Vietnamese) No. 59/2005/QH11 dated November 29, 2005. This applies on both Vietnamese and Foreign investors in all economic sectors.
	• The 2005 Enterprise Law (Luat Doanh nghiep in Vietnamese) No. 60/2005/QH 11 dated November 29, 2005. This also applies on enterprises of both Vietnamese and foreigners in all economic sectors.
• Vietnam promises to remove prohibited requirements applied to foreign investors such as exporting with a certain proportion or to achieve a certain localization rate of domestically manufactured commodities.	• These requirements/policies of Vietnam were abolished mentioning in Article 8 of the 2005 Investment Law.
• Vietnam promises to remove the dual price policy applied to foreigners and foreign invested enterprises.	• The dual price policy was also removed mentioning in Article 10 of the 2005 Investment Law. Ordinance of MFN 2002.
• Vietnam promises to implement the National Treatment principle on investment.	• The Government of Vietnam also issued the Law on Personal Income Tax in 2007 (Luat Thue Thu nhap ca nhan 2007 in Vietnamese). It entered into force on January 1, 2009 and applied on both Vietnamese and foreigners. The 2005 Investment Law and the 2005 Enterprise Law are applied on both domestic and foreign investors in all economic sectors.

Source: Author's compilation

Table 2.8: The Summary of Chapter 2 (to be continued)

2.5.3. The Summary of the Main Changes of the Legal System to Implement the TRIPs	
Vietnam's commitments	**Legal documents issued before or after Vietnam's accession to the WTO**
• Vietnam makes assurances that intellectual property will be protected in adherence to the TRIPS provisions.	• Civil Code Law No. 33/2005/QH11 on June 14, 2005
	• The Intellectual Property Law No. 50/2005/QH11 on November 29, 2005
	• Technology Transfer Law in 2006 and Decree No. 119/2010/ND-CP dated December 30, 2010 by the Government on amending and supplementing a number of articles in the Government's Decree No.105/2006/ND-CP dated September 22, 2006.
	• Vietnam is a member of some international treaties such as Paris Convention, Berne Convention etc. In case of differences between Vietnamese laws on intellectual property rights and international treaties to which Vietnam is a party to, the provisions of the latter would apply.

Source: Author's compilation.

Table 2.8: The Summary of Chapter 2 (to be continued)

2.5.4. The Summary of the Main Changes of the Legal System to Implement the SCM	
Vietnam's commitments/regulations before WTO accession	**Legal documents issued before or after Vietnam's accession to the WTO**
• Vietnam provided preferential import tariff rates contingent upon localization ratios with respect to products and parts of two-wheel motorbikes following Joint circular No. 167/1998/TTLT-BTC-BCN-TCHQ; • Preferential import tariff rates contingent upon localization ratios with respect to products and parts of mechanical-electric-electronic industries mentioned on Decree No. 24/2000/ND-CP.	• The programmes of preferential import tariff rates contingent upon localization ratios with respect to two-wheel motorcycles and parts had been terminated as of January 1, 2003. • Decision No. 43/2006/QD-BTC dated August 29, 2006 abolished programmes of preferential import tariff rates contingent upon localization ratios with respect to products and parts of mechanical/electric/electronic industries as from October 1, 2006.
• In relation to export subsidy programmes in Vietnam, Vietnam had established an Export Promotion Fund to assist, encourage and promote exportation of Vietnamese products. Subsidies were provided in the form of interest rate support (full or partial refund of interest incurred on ordinary bank loans); direct financial support, particularly to first-time exporters, for exports to new markets, or goods subject to major price fluctuations; and export rewards and bonuses.	• Decision No. 279/2005/QD-TTg established a new trade promotion programme for 2006-2010 and confirmed that this new programme is applied in conformity with WTO rules.
• Decision No. 55/2001/QD-TTg provided prohibited subsidies to Vietnam's textile and garment industries. Vietnam promised to eliminate all prohibited subsidies (*e.g.*, subsidies contingent upon export performance or the use of domestic over imported goods) to the textile and garment industries, including investment incentives contingent upon export performance for domestic businesses, investment incentives contingent upon export performance for foreign-invested enterprises, export promotion subsidies contingent upon export performance, as of the date of accession.	• Decision No. 55/2001/QD-TTg had been repealed on May 30, 2006.
	• Decree No. 24/2007/ND-CP dated February 14, 2007 about detail provisions the implementation of the Law on Corporate Income Tax (Luat Thue Thu nhap doanh nghiep in Vietnamese). Following the provisions of this Law, Vietnam removed the preferences on corporate income tax basing on export achievement that does not qualify the WTO's principles. • Anti-Dumping Ordinance on goods imported into Vietnam No. 20/2004/PL-UBTVQH11 dated April 29, 2004 was promulgated.

Source: Author's Compilation.

Table 2.8: The Summary of Chapter 2 (to be continued)

2.5.5. The Summary of the Main Changes of the Legal System to Implement the GATS Cigarettes and cigars, books, newspapers and magazines, video records on whatever medium, precious metals and stones, pharmaceutical products and drugs,[138] explosives, processed oil and crude oil, rice, cane and beet sugar are excluded from the commitments.		
Review the implementation of commitments for post and telecommunication services		
Vietnam's commitments		**Legal documents issued before or after Vietnam's accession to the WTO**
Telecommunication services		
Foreign capital contribution	• *Non Facilities-based services:* Upon accession joint ventures with telecommunications service suppliers duly licensed in Vietnam will be allowed. Foreign capital contribution shall not exceed 51% of legal capital of the joint ventures. Three years after accession: joint venture will be allowed without limitation on choice of partner. Foreign capital contribution shall not exceed 65% of legal capital of the joint ventures. • *Facilities-based services*: Upon accession, business cooperation contracts or joint ventures (JV) with telecommunications service suppliers duly licensed in Vietnam will be allowed. Foreign capital contribution shall not exceed 50% of legal capital of the joint ventures. • Fifty-one % gives management control of the joint venture.	• Telecommunication Law No. 41/2009/QH12 dated November 23, 2009 (Article 18 Paragraph 2). • Decree 121/2008/ND-CP dated December 3, 2008 about investment activities in post-telecommunication sector (Article 8, 9).
Post services		
Commercial presence (mode 3) of Courier Services.	• Foreign ownership in joint ventures may be limited to 51% within the first 5 years after accession. • After 5 years from the date of accession, 100% foreign-invested enterprises shall be permitted.	• Decree 121/2008/ND-CP dated December 3, 2008 about investment activities in post-telecommunication sector (Article 11).
Review the implementation of commitments for securities services		
Foreign capital contribution	• Upon accession, foreign securities service suppliers shall be permitted to establish representative offices and joint ventures with Vietnamese partners in which foreign capital contribution not exceeding 49%. • After 5 years from the date of accession, securities service suppliers with 100% foreign-invested capital shall be permitted.	• Decision No. 55/2009/QD-TTg dated April 15, 2009 about joining the stock market in Vietnam of foreign investors (Article 3).

Source: CIEM (2010) and (WT/ACC/VNM/48/Add.2).

[138] For the purposes of this schedule "pharmaceuticals and drugs" do not include non-pharmaceutical nutritional supplements in tablet, capsule or powdered form (WT/ACC/VNM/48/Add.2).

Table 2.8: The Summary of Chapter 2 (to be continued)

2.5.5. The Summary of the Main Changes of the Legal System to Implement the GATS (to be continued)		
Review the implementation the commitments for commission agents' services; wholesale trade services; retailing services; franchising services		
Vietnam's commitments		**Legal documents issued before or after Vietnam's accession to the WTO**
A. Commission agents' services B. Wholesale trade services C. Retailing services	• A joint venture with a Vietnamese partner(s) is required, and foreign capital contribution shall not exceed 49%. As of January 1, 2008, the 49% capital limitation shall be abolished. As of January 1, 2009, none.	• Decree No. 23/2007/ND-CP dated Feb. 12, 2007 • Circular No.09/2007/TT-BTM dated July 17, 2007 • Decision No.10/2007/QD-BTM dated May 21, 2007
	• Upon accession, foreign-invested companies engaging in distribution services will be permitted to engage in the commission agents', wholesale and retail business of all legally imported and domestically produced products except for: cement and cement clinkers; tyres (excluding tyres of airplanes); papers; tractors; motor vehicles; cars and motorcycles; iron and steel; audiovisual devices; wines and spirits; and fertilizers.	• Decree No. 23/2007/ND-CP dated Feb. 12, 2007 • Circular No.09/2007/TT-BTM dated July 17, 2007 • Decision No.10/2007/QD-BTM dated May 21, 2007
	• As of January 1, 2009, foreign-invested companies engaging in distribution services will be permitted to engage in the commission agents', wholesale and retail business of tractors; motor vehicles; cars and motorcycles. • Within 3 years of Vietnam's accession, foreign-invested companies engaging in distribution services will be permitted to engage in the commission agents', wholesale and retail business of all legally imported and domestically produced products. • The establishment of outlets for retail services (beyond the first one) shall be allowed on the basis of an Economic Needs Test (ENT).[139]	• Decree No. 23/2007/ND-CP dated Feb. 12, 2007 • Circular No.09/2007/TT-BTM dated July 17, 2007 • Decision No.10/2007/QD-BTM dated May 21, 2007
Franchising services	• A joint venture with a Vietnamese partner(s) is required, and foreign capital contribution shall not exceed 49%. As of 1 January 2008, the 49% capital limitation shall be abolished. As of January 1, 2009, none. After 3 years from the date of accession, branching is allowed.	• Decree No. 23/2007/ND-CP dated Feb. 12, 2007 • Circular No.09/2007/TT-BTM dated July 17, 2007 • Decision No.10/2007/QD-BTM dated May 21, 2007

Source: CIEM (2010) and (WT/ACC/VNM/48/Add.2).

[139] Applications to establish more than one outlet shall be subject to pre-established publicly available procedures, and approval shall be based on objective criteria. The main criteria of the ENT include the number of existing service suppliers in a particular geographic area, the stability of market and geographic scale.

Table 2.8: The Summary of Chapter 2 (to be continued)

2.5.5. The Summary of the Main Changes of the Legal System to Implement the GATS (to be continued)		
Review the implementation of commitments for banking services		
Vietnam's commitments		**Legal documents issued before or after Vietnam's accession to the WTO**
Commercial presence (mode 3)	• With respect to foreign commercial banks: representative office, branch of foreign commercial bank, commercial joint venture bank with foreign capital contribution not exceeding 50% of chartered capital, joint venture financial leasing company, 100% foreign-invested financial leasing company, join venture finance company and 100% foreign-invested finance company, and, beginning on April 1, 2007, 100% foreign-owned banks are permitted.	• Decree No. 22/2006/ND-CP dated February 28, 2006 (Article 3). • Circular 03/2007/TT-NHNN (Article 53)
Conditions for the establishment	• The conditions for the establishment of a branch of a foreign commercial bank in Vietnam: The parent bank has total assets of more than USD 20 billion at the end of the year prior to application. • The conditions for the establishment of a joint venture bank or a 100% foreign-owned bank: The parent bank has total assets of more than USD 10 billion at the end of the year prior to application.	• Decree No.22/2006/ND-CP dated February 28, 2006 (Article 8, Paragraph 2, 3) • Circular 03/2007/TT-NHNN (Article 5)
Ceiling limit of raising capital	• During 5 years from the date of accession, Vietnam may limit the right of a foreign bank branch to accept deposits in Vietnamese Dong from Vietnamese natural persons with which the bank does not have a credit relationship to a ratio of the branch's paid-in capital.	• On February 7, 2007, the State Bank of Vietnam issued legal document No. 1210/NHNN-CNH. Following this document, a branch of a foreign bank was allowed to accept deposits in Vietnamese Dong from Vietnamese natural persons with which the bank does not have a credit relationship to a ratio of the branch's paid-in capital according to the schedule below: - January 1, 2007: 650% of legal paid-in capital; - January 1, 2008: 800% of legal paid-in capital; - January 1, 2009: 900% of legal paid-in capital; - January 1, 2010: 1,000% of legal-paid-in capital; - January 1, 2011: Full National Treatment.
Capital contribution	• For capital contribution in the form of buying shares, the total equity held by foreign institutions and individuals in each Vietnam's joint-stock commercial bank may not exceed 30% of the bank's chartered capital, unless otherwise provided by Vietnam's laws or authorized by a Vietnam's competent authority.	• Decree No. 69/2007/ND-CP dated April 20, 2007 (Article 4). • Circular 07/2007/TT-NHNN dated November 29, 2007 provides guidelines for the implementation of Decree No. 69/2007/ND-CP dated April 20, 2007.

Source: CIEM (2010) and (WT/ACC/VNM/48/Add.2).

2.6. CONCLUSION FOR CHAPTER 2

The WTO officially formed on January 1, 1995 under the Marrakesh Agreement, replacing GATT (1947) and became a real international institution. The WTO provides a framework for negotiating and formalizing trade agreements, and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements which are signed by representatives of member governments. Most of the issues that the WTO focuses on derive from the previous trade negotiations.

To be treated equally in international trade and to participate actively in making policies, as well as to gain benefits from the WTO membership in terms of legal reforms, FDI attraction, and foreign trade expansion, Vietnam officially became a WTO member on January 11, 2007. Accordingly, Vietnam committed with WTO members to market access on 110 sub-sectors of 11 service sectors. It also has committed to reducing about 3,800 tariff lines, maintain current rates on about 3,700 tariff lines, and bind ceiling rates for 3,170 tariff lines. Average tariff rates have been reduced from 17.2% to 13.4% after 5 to 7 years since the date of accession.

Revisiting the implementation of the commitments of the 5 main WTO agreements shows that Vietnam has reduced or bound ceiling tariff rates for thousands of items in accordance with the Specified Schedule it has committed to. Many items experienced tariff reductions faster than scheduled (see more in appendixes 1, 2, 3 and 4). The country has also issued or amended, supplemented a number of new laws, sub-law documents, removed many prohibited measures applied on foreign investors, and abolished the prohibited subsidies as well as set up the legal instruments for ensuring intellectual property rights to qualify for the requirements of the TRIMs, TRIPs, and SCM agreements. Thus, Vietnam has, step by step, opened up its domestic service markets for foreign service providers under the GATS.

The results of Vietnam's investment and trade policy reforms in accordance with international standards and WTO practices have made its trade regime and business environment more stable, transparent and predictable. Those results could have effects on FDI attraction and foreign trade expansion of the country recently. The next two chapters will assess the possible impacts of the WTO on FDI inflows into Vietnam and the expansion of the country's foreign trade.

Chapter 3

THE IMPACT OF THE WTO ON FDI INFLOWS INTO VIETNAM

3.1. INTRODUCTION

As stated in the previous chapter, Vietnam has made efforts to reform its investment and trade policy to implement the commitments with the WTO members. The results of the reforms have been remarkable and were demonstrated through administrative reforms, removal of restrictions on investment and trade, improvement of legal transparency, and harmonization of the tariff and legal systems based on fundamental principles on international laws and WTO practices. Intellectual property rights have been also secured. As a whole, this could have impact on Vietnam's FDI attraction after WTO accession.[140] In reality, after just 5 years of accession (2007-2011), Vietnam attracted about USD 143,950.3 million of FDI capital. This raises the research questions: ***what are the main trends of such large amount of FDI capital flowing to Vietnam?*** And, ***does the WTO accession really induce the FDI flows to the country?*** We already know much about the function of the WTO which is to *ensure trade flows as smoothly, predictably and freely as possible*.[141] This multilateral trading system is also *an attempt by governments to make the business environment stable and predictable*.[142] Moreover, this institution makes *sure the conditions for trade are stable, predictable and transparent* as well.[143] And, it commits to *policy stability, predictability and good governance* through WTO membership.[144] However, we know much less about its impact on the country members.

The aims of this chapter are to ***investigate the trends of FDI inflows into Vietnam*** after WTO accession (2007-2011) in comparison with the previous duration (1988-2006) and ***evaluate the possible impact of the WTO regime on FDI inflows into the country***. My hypothesis is that

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[140] The International Monetary Fund (IMF) defines Foreign Direct Investment (FDI) as "cross border investment" in which an investor that is "resident in one country has control or a significant degree of influence on the management of an enterprise that is resident in another economy".

FDI has many forms. Broadly, FDI includes mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans. In a narrow sense, FDI refers to building new facilities. In Vietnam, FDI is usually formed as: Joint Venture Enterprise; Joint-Stock Company; Enterprise with 100% foreign owned capital; Building-Operating-Transfer (BOT); Building-Transfer-Operating (BTO); Building-Transfer (BT); Business Cooperation Contract (BCC); Code Share; Production Sharing Contract (PSC) etc. There are two types of FDI, inward and outward, resulting in net FDI inflow and stock of FDI, which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares.

As a part of the national accounts of a country, and in regard to national income equation $Y = C + I + G + (X - M)$ for an open economy, "I" is investment plus foreign investment. In that case, FDI is defined as net inflows of investment (inflow minus outflow) to acquire a lasting management interest in an enterprise operating in an economy. FDI is sum as the equity capital (direct investment), other long-term capital, and short-term capital as shown in Balance of Payment of a country or territory. The BOP will be analyzed in Chapter 4 of the thesis.

[141] Retrieved from WTO in Brief, http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr00_e.htm, accessed December 7, 2012.

[142] Retrieved from WTO in Brief item, http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr00_e.htm, accessed December 7, 2012.

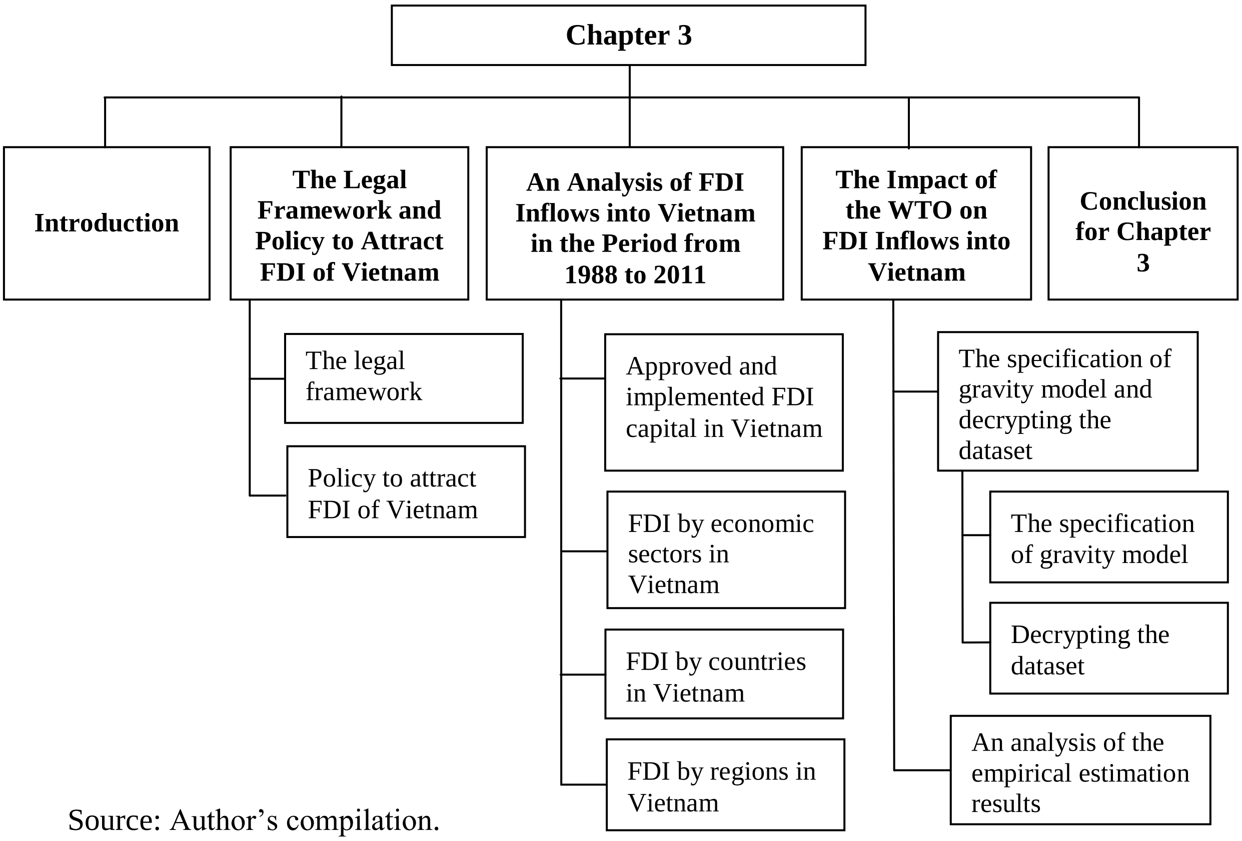
[143] Retrieved from WTO in Brief item, http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr00_e.htm, accessed December 7, 2012.

[144] Retrieved from WTO in Brief item, http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr00_e.htm, accessed December 7, 2012.

trade liberalization under the WTO regime will stimulate the FDI inflows into the country, reflecting the "dynamic effect" of this institution to Vietnam. It can be argued on the grounds that the WTO has had a deep impact not only on the changes of Vietnam's trade and investment policies but also on many fundamental rules of law and governance. These changes result in a critical benchmark and focus on having a more transparent, predictable and stable investment environment, which serves as a magnet for overseas investors. Besides that, overseas investors can also enjoy advantage of Vietnam's WTO commitment execution in various sectors. This hypothesis will be tested in section 3.4 of this chapter using the gravity model and the Hausman-Taylor (1981) estimator.

This chapter is organized as follows. The subsequent section, 3.2 will first start by portraying the legal framework and policy to attract FDI of Vietnam. Then, section 3.3 investigates the trends in regards to the growth/shift of approved and implemented FDI capital, FDI by economic sectors, FDI by countries, and FDI by regions in the post-WTO accession (2007-2011) in comparison with the previous duration (1988-2006). After that, section 3.4 details a gravity model, decrypts the dataset and gives an analysis on the empirical estimation results. The final section, 3.5 refers to some conclusions for this chapter. The methodologies used in this chapter include qualitative and quantitative research tools, descriptive analysis, and the empirical study. Figure 3.1 below details the structure of Chapter 3.

Figure 3.1: The Structure of Chapter 3



Source: Author's compilation.

3.2. THE LEGAL FRAMEWORK AND POLICY TO ATTRACT FDI OF VIETNAM

3.2.1. The Legal Framework

Due to its success generated by regional neighbor countries (e.g., China, Hong Kong, Malaysia, Singapore, the Republic of Korea, and Taiwan), Vietnam has recognized the role of FDIs and has put particular emphasis on it since the early 1990s. In the context of Renovation and to attract foreign resources, the Foreign Investment Law was issued in 1987. Since then, investment activities in Vietnam were regulated by four main legal instruments including the Enterprise Law (1999), Law on State Enterprises, Law on Domestic Investment Promotion, and Foreign Investment Law. Nonetheless, in the late 1990s, many regulations and requirements were imposed on foreign invested enterprises (e.g., achieve a certain localization rate, export with certain proportion, self balance the foreign currency from exports to meet the demand of imports, and so on) in investment licensing. These regulations violate the provisions of Article III (National Treatment) and XI (Quantitative Restriction) of the General Agreement on Tariffs and Trade (GATT) 1994. As analysis was made in the previous chapter, upon complaints made by foreign investors and to qualify the provisions of the WTO, the 2005 Investment Law (Luat Dau tu 2005) and the 2005 Enterprises Law (Luat Doanh nghiep 2005) were promulgated.

The 2005 Investment Law and the 2005 Enterprise Law, which came into effect on July 1, 2006, have been applied to both domestic and foreign investors in all economic sectors. They are directed towards (i) expanding business autonomy (such as selecting the investment fields, the form of investment, investment scale, investment partners), the access to using investment resources (such as land capital and resources), the import and export rights as well as rights to buy technology, mortgage, access public services on the principle of non-discrimination; (ii) removing barriers related to investment such as the provisions related to the localization rate, export proportion, the raw materials purchased domestically; (iii) diversifying the forms of investment: other than the forms of 100% foreign investment, joint venture, business cooperation contracts as before, the law stipulates such additional forms as business investment and development, capital contribution for share purchase, merger and acquisition (M & A); (iv) strongly reforming investment procedures in the direction of extending the registration forms for certification of investment; expanding the decentralization of the granting of investment certificates and state management of investment activities; simplifying the verification procedures for granting investment certificates etc.[145] Vietnam has been also speeding up reform in the business sector in order to eliminate state monopoly and its exclusive control over a business, and also to create

[145] Invenco, 2012. “Policies to attract foreign investment of Vietnam”, retrieved from website http://invenco.com.vn/eng/index.php?vc=tintuc&pl=chitiet&tintuc=159, accessed December 12, 2012.

conditions for all economic sectors to have equal access to resources for development (e.g., land, credit capital, science and technology, information), and promote healthy competition. At the same time, it seeks to create conditions for foreign investors to participate in the equitization/privatization directly or through the Stock Exchange.[146]

3.2.2. Policy to Attract FDI of Vietnam

The followings are some key notes of FDI Policy of Vietnam to encourage overseas investors to invest in the country:

(1) Investment guarantees:

The State of Vietnam committed to ensuring the implementation of the investment (in accordance with the 2005 Investment Law):

- *Ensuring capital and assets*: the legitimate investment capital and assets of investors shall neither be nationalized nor confiscated by administrative measures (except in absolutely necessary cases for reasons of national defense, security and interests when there would be specific regulations).
- *Protection of Intellectual Property*: the State shall protect the intellectual property rights in the activities of investment, ensuring the legitimate interests of investors in technology transfer in Vietnam in accordance with the Law of Intellectual Property and other legal provisions involved.
- *Opening markets and trade-related investment*: in line with the provisions in international treaties to which Vietnam is a member.
- *Transfer of capital and assets abroad*: foreign investors are able to remit abroad the profits, capital, funds and assets lawfully owned by investors after fulfilling financial obligations to the State of Vietnam.
- *Applying consistent prices, fees and charges*: in the course of investment activities in Vietnam, investors are subject to uniformly applied rates, fees and charges for goods and services controlled by the State.
- Ensuring investment in case of changes in the laws and policies.[147]

(2) Fields of investment preferences:

Foreign direct investment is an important resource in the total social investment capital in Vietnam. The Government of Vietnam has been furthering the attraction of capital flow from foreign direct investment; improving the quality and effectiveness of this attraction and use of

[146] Invenco, 2012. "Policies to attract foreign investment of Vietnam", retrieved from website http://invenco.com.vn/eng/index.php?vc=tintuc&pl=chitiet&tintuc=159, accessed December 12, 2012.
[147] Invenco, 2012. "Policies to attract foreign investment of Vietnam", retrieved from website http://invenco.com.vn/eng/index.php?vc=tintuc&pl=chitiet&tintuc=159, accessed December 12, 2012.

foreign direct investment. Vietnam prioritizes foreign direct investment attraction in the following sectors and industries:

- Production of new materials; new energy; production of hi-tech products, biotechnology, information technology, and manufacturing engineering; use of modern technology and science; and ecological environment production.
- Growing and processing agricultural, forestry and aquatic products; and producing consumer goods for domestic demand and exports.
- Building and developing the infrastructure system such as transport, seaports, electricity and water supplies, construction of infrastructure for industrial zones, urban areas, etc.; and other important and sizeable projects to create a breakthrough in the infrastructure system.
- Projects to develop human resources related to education, training and health, sports; labor-intensive projects.
- Projects of investment in industrial areas, export processing zones, hi-tech zones, economic zones; and investment in areas of socio-economic disadvantages.[148]

(3) Investment preferences:

In order to attract investment into sectors and regions with developmental priorities of each period, the Government of Vietnam shall apply a series of incentives for investors and investment projects including:

- *Tax preferences*: investors with projects entitled to investment preferences under the Law shall enjoy preferential tax rates, the duration of preferential tax rates, and the duration of tax reduction or exemption in accordance with the tax legislations.

The corporate income tax: the preferential tax rates of 10% and 20% (the normal rate is 25%) shall be applied from 15 to 30 years (some fields can enjoy life-long project preferences). In addition, investors may be exempt from corporate income tax up to 4 years and 50% of corporate income tax up to 9 years after the expiration of corporate income tax exemption.

Investors shall enjoy tax preferences for income earned from capital contribution, and purchase of shares in economic organizations in accordance with the tax legislation after the economic organizations have paid enough corporate income tax.

Investors are exempt from import duties for equipment, materials, transport vehicles and other goods for the implementation of investment projects in Vietnam in accordance with the Law on Import and Export Tax.

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[148] Invenco, 2012. "Policies to attract foreign investment of Vietnam", retrieved from website http://invenco.com.vn/eng/index.php?vc=tintuc&pl=chitiet&tintuc=159, accessed December 12, 2012.

Income from projects related to technology transfer and subject to investment incentives is exempt from income tax under the provisions of the tax law.

- *Loss shifting*: investors after finalizing their tax payment with the tax authorities suffer from losses. Such losses would be transferred to the following year and shall be deducted from taxable corporate income in accordance with the corporate income tax law. The duration of loss shifting must not exceed five years.
- *Depreciation of fixed assets*: investment projects in the field or geographical area of investment incentives and business projects with efficiency are subject to accelerated depreciation for fixed assets. The maximum depreciation rates can be twice the rate under the depreciation of fixed assets.
- *Preferences on land use*: investors in the fields and areas of investment incentives are subject to exemption or reduction of land rent, land use fees, and land use tax in accordance with the Land Law and the Tax Law.
- *Incentives for investors in industrial parks, export processing zones, hi-tech parks, and economic zones*: based on the socio-economic development conditions in each period and the principles stipulated in this Law, the Government shall give preferential treatment to investors in industrial parks, export processing zones, hi-tech parks, and economic zones.[149]

3.3. AN ANALYSIS OF FDI INFLOWS INTO VIETNAM IN THE PERIOD FROM 1988 TO 2011

This section will investigate the trends of FDI inflows into Vietnam after its WTO accession (2007-2011) in regards to the growth/shift of approved and implemented FDI capital, FDI by economic sectors, FDI by countries, and FDI by regions in comparison with the previous duration (1988-2006).

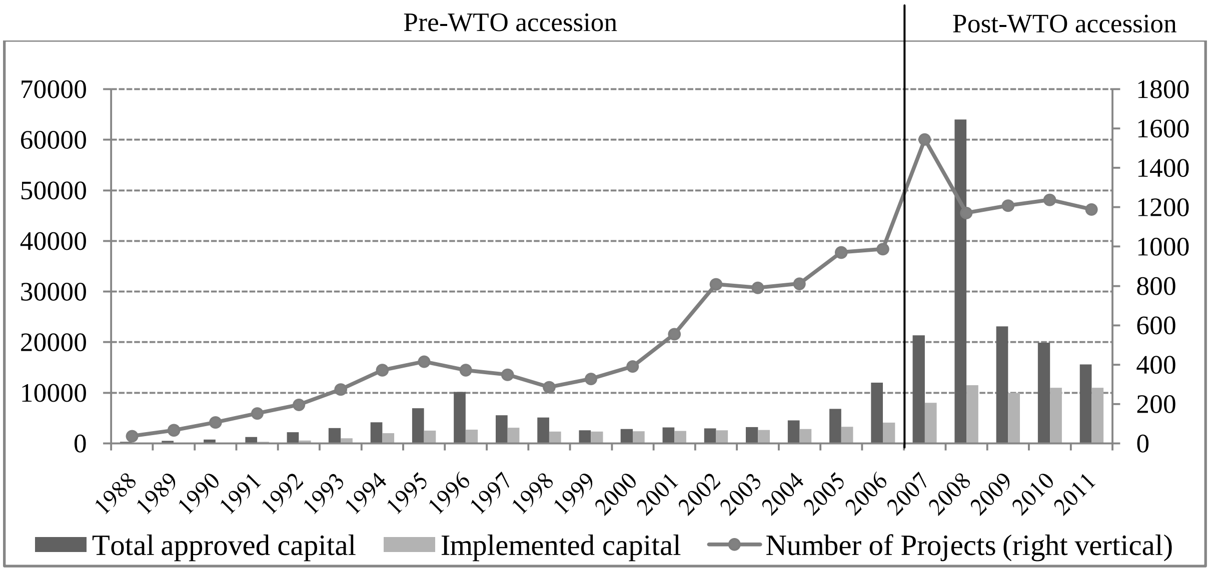
3.3.1. Approved and Implemented FDI Capital in Vietnam during 1988-2011

Figure 3.2 below presents the overall trends of FDI inflows into Vietnam by the number of projects, the amount of approved capital and implemented capital in the period from 1988 to 2011. Generally, both the number of newly licensed projects and approved capital soared rapidly in the first half of the years, and then declined dramatically in the second half of the 1990s. FDI picked up again in the early years of the new millennium, and then suddenly rocketed after Vietnam joined the WTO. Specifically, from 37 projects and USD 341.7 million was approved in 1988, these figures reached 372 projects and USD 10,164.1 million in 1996. The first half of the

[149] Invenco, 2012. "Policies to attract foreign investment of Vietnam", retrieved from website http://invenco.com.vn/eng/index.php?vc=tintuc&pl=chitiet&tintuc=159, accessed December 12, 2012 (This is reference for doing research only. In case foreign investors would like to enjoy these provisions in doing investment in Vietnam, please refer to the valid provisions of related laws issued by Vietnam's authorities).

1990s is usually referred to as the first "investment boom" period in attracting FDI for Vietnam. In the period between 1988 and 1995, Vietnam attracted 1,620 investment projects and USD 19,265.2 million approved capital. Compared with the increase of approved capital, implemented capital was far lower at only about USD 6,517.8 million.

Figure 3.2: Approved and Implemented FDI Capital in Vietnam during 1988-2011 (USD million)



Note: Including supplementary capital to licensed projects in previous years

Source: The General Statistics Office & the Ministry of Industry and Trade of Vietnam.

After the 1997 Asian financial crisis, FDI inflows into Vietnam were reduced slightly in the second half of the 1990s, even though the positive factors remained unchanged. Wherein, Japanese and other foreign investors diversified their investment sites, turning their attention from advanced ASEAN countries such as Thailand and Malaysia, to tapping into the potential of Vietnam. Regulatory and legal shortcomings had not been improved as expected. Particularly, the complicated, inefficient bureaucratic administrations had disappointed overseas investors. [150] Although Vietnam remained a relatively closed economy during the 1997 Asian financial crisis, the FDI capital from the Asian countries tended to decrease, causing a drop of FDI flows to Vietnam.[151] The FDI approved capital bottomed out in 1998. In the period from 1996 to 2000, there were 1,724 investment projects with approved capital of around USD 26,259 million. Implemented capital was some USD 12,944.8 million, nearly double in comparison with the previous duration, which was at USD 6,517.8 million.

[150] Tran, Van Tho, 2004. "Foreign Direct Investment and Economic Development: The Case of Vietnam", Working paper, p. 4.

[151] Nguyen, Ngoc Anh and Nguyen, Thang, 2007. "Foreign direct investment in Vietnam: An overview and analysis the determinants of spatial distribution across provinces", MPRA Paper No. 1921, p. 7. Retrieved from website *mpra.ub.uni-muenchen.de/.../MPRA_paper_1921.pdf*, accessed May 4, 2012.

To confront the difficult conditions brought about by the continuing decline of FDI inflows, the Government of Vietnam proposed some assistance policies since 1998. In 1999, a Prime ministerial directive stimulated the implementation of a series of policies that focused on improving the investment climate including reductions in electricity and telephone charges, and office opening approval fees for foreign-affiliated businesses, cutting down the personal income tax for foreign residents.[152] The Foreign Investment Law was amended as well. The amendment had made Vietnam's investment more comparative with neighboring countries. Legal changes, first, helped to facilitate the establishment of joint ventures; domestic enterprises were eligible to participate in FDI projects as Vietnamese partners. Second, foreign owned enterprises business activities became more advantageous owing to the new provisions on value-added tax. Third, concerning the registration regulations, the "negative list" was mentioned to which investment fields were divided into areas where inspections of applications were necessary and those that were not, and latter a certificate of approval would be issued after registration. However, the implementation of laws was still not very transparent and frequent changes in industrial policies made the investment unpredictable.[153] However FDI inflows, then, started to rebound as countries in the region recovered after the 1997 Asian financial crisis, together with the signing of the US-Vietnam Bilateral Trade Agreement (USBTA) in 2000. Obviously, the USBTA took an important role in stimulating the USA investors to invest in Vietnam. FDI flows grown steadily from USD 3,142.8 million in 2001 to USD 6,839.8 million in 2005. The total FDI capital flowing to Vietnam from 2001 to 2005 was USD 20,702.2 million; lower than that of in the period from 1996 to 2000, USD 26,259 million. However, the implemented capital was higher, at USD 13,852.8 million compared with USD 12,944.8 million.

To qualify for the provisions of the TRIMs and SCM agreements, a large number of laws, sub-law documents have been supplemented, amended, and issued to facilitate institutional reform (e.g., 2005 Investment Law and the 2005 Enterprise Law). The Master Plan of Administrative Procedure Simplification in the fields of state management for the period 2007-2011 (the so-called Project 30) has been carried out comprehensively. The Government of Vietnam has determined to implement the administrative reform program, of which reforms in the administrative procedures proved to be a breakthrough in improving the efficiency of state management and effectively preventing all the acts of corruption as the key tasks in the socio-economic management of the country. The Government is steering the review and sum-up of the obstacles in the administrative procedures at all stages and levels in moving towards transparency,

[152] Directive No. 11/1998/CT-TTG dated March 16, 1998 about the implementation the Decree No. 10/1998/ND-CP of the Government of Vietnam and improvement the procedures related to foreign direct investment in Vietnam.

[153] Tran, Van Tho, 2004. "Foreign Direct Investment and Economic Development: The Case of Vietnam", Working paper, pp. 4-5.

simplicity and convenience for citizens and businesses; especially in the areas of land, construction, investment, planning, business registration, construction of one-door mechanism. Also, the Government has further decentralized the management of investment, land and state budgets for ministries, provinces coupled with the enhancement of the mode of service, training and retraining staff and public officials.[154] As a result, we witnessed the "abrupt increase" of FDI inflows in both approved capital and the number of new projects after Vietnam's accession to the WTO. In the period 2007-2011, average annual FDI flows into Vietnam surged to USD 28,790 million. Vietnam attracted a total amount of approved FDI capital of about USD 143,950.3 million at the same period, nearly double than that of in duration of 1988-2006, USD 78,248.7 million, and amounting for 62.61% of the total FDI capital flowed into Vietnam from 1988 to 2011, USD 229,913.7 million.[155] The total implemented capital of this duration was USD 51,530 million, 1.38 times higher than that of in the phase of 1988-2006, which was at USD 37,415.5 million. Duration of 2007-2011 can be referred to as the second "investment boom" period of FDI in Vietnam.

Notably, the ratios of implemented capital remained quite low comparing with approved capital, 47.81% during the period 1988-2006, and 35.80% for the period 2007-2011, expressing the limited FDI capital absorptive capacity of Vietnam's economy mostly due to the country's poor infrastructure, lack of skilled labor force, and weak institution. This suggests that the promotional efforts will help little to attract and absorb FDI capital if economic fundamentals (i.e., physical infrastructure and labor force) are not conducive the FDI flows.

3.3.2. FDI by Economic Sectors in Vietnam during 1988-2011

Table 3.1 below illustrates the detailed breakdown of FDI capital by smaller economic sectors, number of projects, approved capital, and their shares in Vietnam during the period 1988-2011. This figure provides a clearer picture on the main trends of FDI inflows into Vietnam. In the years between 1988-2006, FDI inflows focused on the *industry and construction* sector (sharing 68.29% of total projects and 67.33% of total approved capital) in which the *processing and manufacturing* and the *construction* sectors dominated the field covering 66.76% total projects and 60.42% of total approved capital. This was followed by the s*ervice* sector (sharing 23.75% of total projects and 27.74% of total approved capital) wherein three main service sectors ((1) real estate, renting business activities; (2) hotels and restaurants; and (3) transport, storage, and communication) took the majority, 18.26% of total projects and 23.57% of total approved capital. The Agriculture, forestry, and fishery sector shared the minority, 7.96% of total projects and 4.93% of total approved capital. It is not a surprise that Vietnam's economy structure has

[154] Invenco, 2012. "Policies to attract foreign investment of Vietnam", retrieved from website http://invenco.com.vn/eng/index.php?vc=tintuc&pl=chitiet&tintuc=159, accessed December 12, 2012.
[155] Accumulation of projects having effect as of December 31, 2011; Figures published by the Vietnam GSO, 2012.

been dedicated towards processing-manufacturing based industries dictated by garment, textile, footwear, electronic, automobile, motorbike assembling using cheap labor, and industries consuming large amounts of energy and materials such as cement, steel, etc. (Nguyen, Quang Thai, 2011). Furthermore, exports and FDI in Vietnam are complementary which explains the reason why FDI is mainly concentrated on the export-oriented manufacturing sector (Anwar and Nguyen, Phi Lan, 2010, pp. 197-198).

Table 3.1: FDI by Economic Sectors in Vietnam during 1988-2011

The Pre-WTO accession (1988-2006)	Number of projects	In percent	Approved capital (USD million)	In percent
1. Agriculture, forestry, and fishery	**658**	**7.96**	**3,854**	**4.93**
2. Industry and Construction (= 2.1 + 2.2 + … + 2.4)	**5,645**	**68.29**	**52,686.1**	**67.33**
2.1. Mining and quarrying	103	1.25	3,480.5	4.45
2.2. Processing and manufacturing	5,338	64.57	41,462.8	52.99
2.3. Electricity, gas and water supply	23	0.28	1,928.1	2.46
2.4. Construction	181	2.19	5,814.7	7.43
3. Services (= 3.1 + 3.2 + … + 3.9)	**1,963**	**23.75**	**21,708.2**	**27.74**
3.1. Wholesale and retail trade; repair of motor vehicles, motor cycles and personal and household goods	97	1.17	512	0.65
3.2. Hotels and restaurants	253	3.06	5,652.5	7.22
3.3. Transport; storage and communications	242	2.93	4,715.8	6.03
3.4. Financial intermediation	61	0.74	830.4	1.06
3.5. Real estate, renting business activities	1,014	12.27	8,077	10.32
3.6. Education and training	88	1.06	135.2	0.18
3.7. Health and social work	42	0.51	478.9	0.61
3.8. Recreational, cultural and sporting activities	103	1.25	1,273.2	1.63
3.9. Others	63	0.76	33.2	0.04
Total	**8,266**	**100**	**78,248.3**	**100**
The Post-WTO accession (2007-2011)				
1. Agriculture, forestry, and fishery	**101**	**1.59**	**594.3**	**0.41**
2. Industry and Construction (= 2.1 + 2.2 + … + 2.4)	**3,528**	**55.58**	**76,361.3**	**53.05**
2.1. Mining and quarrying	34	0.54	7,604.1	5.28
2.2. Processing and manufacturing	2,770	43.63	57,495.8	39.94
2.3. Electricity, gas and water supply	62	0.98	6,011.6	4.18
2.4. Construction	662	10.43	5,249.8	3.65
3. Services (= 3.1 + 3.2 + … + 3.9)	**2,719**	**42.83**	**66,994.7**	**46.54**
3.1. Wholesale and retail trade; repair of motor vehicles, motor cycles and personal and household goods	539	8.49	1407	0.98
3.2. Hotels and restaurants	164	2.58	13,267.4	9.22
3.3. Transport; storage and communications	382	6.02	4,498.2	3.12
3.4. Financial intermediation	10	0.16	254	0.18
3.5. Real estate, renting business activities	1,086	17.11	45,323.8	31.49
3.6. Education and training	58	0.91	214.6	0.15
3.7. Health and social work	42	0.66	824.5	0.57
3.8. Recreational, cultural and sporting activities	43	0.68	738.8	0.51
3.9. Others	393	6.19	466.4	0.32
Error	2	0.03	0	0
Total	**6,348**	**100**	**143,950.3**	**100**

Source: Author calculated from figures published by the GSO & MPI of Vietnam, 2012.

During the period of 2007-2011, the volatility of the investment structure was fairly discernible after Vietnam's WTO accession. The share of FDI capital in the *industry and construction* sector has diminished slightly from 67.33% covering the period 1988-2006 to 53.05% after Vietnam's WTO accession. Approved FDI capital in the *processing and manufacturing* and *construction* sectors conquered the field but dropped from 60.42% to 43.59%. The share of the *agriculture, forestry, and fishery* sector of total approved FDI capital declined sharply from 4.93% to 0.41% at the same time. FDI flows turned significantly and positively to the *service* sector, especially in the *real estate, renting business activities.* The ratio of the *service* sector in total approved FDI capital swelled from 27.74% between 1988 and 2006 to 46.54% after Vietnam joined the WTO, in which the *real estate and renting business activities* experienced strident growth from 10.32% to 31.49%. This implies that Vietnam is not only a competitive place for processing-manufacturing projects, but is also a potential destination for foreign services providers.

What are the factors which have induced the FDI inward to the *real estate, renting business activities*? Firstly, Vietnam has opened its domestic service markets for foreign investors following the framework promised to the WTO and signed Free Trade Agreements.[156] Secondly, the potential on reaping large amounts of profit has also been a factor in making those services attractive to overseas investors. Thirdly, the real estate market in Vietnam is still a very bright potential. Vietnam's economy continues to develop with a high growth rate (around 7% in average over the two decades from the Renovation Policy conducted since 1986). Its investment environment has been further improved. The speed of urbanization in booming economic cities has been accompanied by a considerable number of foreign experts working for foreign invested enterprises, Trans National and Multi-National Corporations (TNCs, MNCs). Besides that, the headquarters of domestic and foreign invested enterprises tend to be upgraded into modern offices, especially in banking, financing, and insurance fields. So, in the coming times, the demand for offices, apartments for rent will continue to increase. Fourthly, at the moment, the real estate market in some Asian countries has almost saturated. It will be no longer profitable for investors. Vietnam is still in the early stages of the urbanization process. Demands for houses, offices, shopping centers, amusement parks, hotels, restaurants, resorts are going to increase.[157] However, with the current world economic recession, this sector will be faced with challenges.

[156] Vietnam committed to open 11 Service sectors and about 110 sub-sectors including sensitive services such as Business services, Communication services, Financial services, Distribution, Tourism and related Travel services etc. Generally, the level of market openness remains at the same level of the USBTA. Those have been analyzed in Chapter 2.

[157] See more on "FDI do manh vao bat dong san-Vi sao?" (Why did FDI flow into the real estate sector?), http://tintuc.xalo.vn/001541715484/FDI_do_manh_vao_bat_dong_san_Vi_sao.html, accessed June 18, 2011.

In contrast to the *real estate and renting business activities*, restrictions applied on other service sectors such as in *finance, banking, insurance; transport*, *storage*, and *education and training,* has limited the amount of FDI inflows. The ratios of FDI capital in the *transport, storage*, and *education and training* were around 3.12% and 0.15% respectively. The share in the *finance, banking, insurance (financial intermediation)* sector is some 0.18%. Vietnam seeks to gain these fields for domestic investors. This suggests that the sectors/fields that have experienced liberalization seem to attract greater amounts of FDI capital compared with other service sectors.

On the whole, besides *industry and construction* and *service* sectors, which have attracted large amounts of FDI capital, there are industries/sectors that have been neglected such as the *agriculture, forestry, and fisheries* sectors in both the pre-and-post of WTO accession. It means that FDI in Vietnam is quiet focused, while the Government of Vietnam has been inviting foreign investors in all economic sectors and areas. At the moment, there have been around 50 countries/territories investing in the agriculture sector in Vietnam such as Japan, the Republic of Korea, and Thailand, etc. Most of the investment projects are small in size and they lack sustainability. As shown in Table 3.1 above, the ratio of approved FDI capital in the *agriculture, forestry, and fisheries* sector has been reduced from 4.92% in the pre-WTO accession to 0.41% in the post-WTO accession. The amount of approved capital has dropped from USD 3,854 million to USD 594.3 million in the same period. It is apparent that poor infrastructure in the agriculture field is a "friction" preventing the FDI flows. Furthermore, the high risk level due to the dependence on weather and climate, slow capital recovery, and the barriers in procedures of land renting have led foreign investors to "shrink hands" when considering to invest in agriculture. Additionally, agricultural projects are often undertaken in rural areas with hardly any assistance and poor labor quality. That is why overseas investors tend to invest in fields with lower risk and shorter times needed to gain capital payback such as those more typically found in animal food manufacturing and processing agricultural products (vegetables and fruits) serving as exports (according to figures on media network, these fields cover around 75% of total FDI capital in agriculture sector). Attracting FDI in agriculture is meaningful for Vietnam, as FDI may take an important role in establishing production with large scale, enhancing the value of agricultural products, creating jobs, transferring new technology, and participating in the global value chain. What's more, a large amount of Vietnam's labor force is in rural regions. This suggests that the Government of Vietnam, authorities, and stakeholders should develop policies focusing on improving the efficiency and quality of planning for each department, and each product, and on creating preferential support mechanism to encourage FDI in the agricultural field (e.g., capital and credit, land renting, commercial promotion, development infrastructure, training human resources in rural regions, etc.).

3.3.3. FDI by Countries in Vietnam during 1988-2011

Table 3.2: Top 15 Investors in Vietnam during 1988-2011

Order	Countries or Territories	No. of projects	In percent	Approved capital (USD million)	In percent
Top 15 investors in Vietnam during 1988-2006 (the Pre-WTO accession)					
1	Singapore	543	6.57	10,002.9	12.78
2	Taiwan	1,743	21.09	9,502.3	12.14
3	The Republic of Korea	1,438	17.40	9,251.9	11.82
4	Japan	838	10.14	8,397.6	10.74
5	Hong Kong	548	6.63	6,400.3	8.18
6	British Virgin Island	329	3.97	5,361.0	6.85
7	The USA	374	4.52	3,121.2	3.99
8	France	236	2.86	2,902.5	3.72
9	The Netherlands	91	1.10	2,765.7	3.53
10	The United Kingdom	99	1.20	2,065.5	2.64
11	Malaysia	239	2.89	1,863.8	2.38
12	The Russian Federation	95	1.15	1,854.5	2.37
13	Thailand	199	2.41	1,783.7	2.28
14	Australia	176	2.13	1,539.1	1.97
15	Cayman Islands	22	0.27	1,481.9	1.89
Top 15		**6,970**	**84.33**	**68,293.9**	**87.28**
Others		1,296	15.67	9,954.3	12.72
Total		**8,266**	**100**	**78,248.2**	**100**
Top 15 investors in Vietnam during 2007-2011 (the Post-WTO accession)					
Order	**Countries or Territories**	**No. of projects**	**In percent**	**Approved capital (USD million)**	**In percent**
1	Malaysia	197	3.10	17,314.7	12.03
2	Taiwan	652	10.27	15,000.2	10.42
3	Singapore	529	8.33	14,883.1	10.34
4	Japan	737	11.62	14,700.6	10.21
5	The USA	301	4.74	14,088.4	9.79
6	The Republic of Korea	1,631	25.69	13,411.7	9.32
7	British Virgin Island	196	3.09	10,884.6	7.56
8	Cayman Islands	22	0.35	5,708.8	3.97
9	Hong Kong	285	4.49	5,500.7	3.82
10	Thailand	140	2.21	4,819.2	3.35
11	Brunei	77	1.21	4,635.3	3.22
12	Canada	58	0.91	4,509.5	3.13
13	The Netherlands	74	1.17	3,230.6	2.24
14	China	469	7.39	2,768.4	1.92
15	Samoa	39	0.61	2,606.9	1.81
Top 15		**5,407**	**85.18**	**134,062.7**	**93.13**
Others		941	14.82	9,887.6	6.87
Total		**6,348**	**100**	**143,950.3**	**100**

Source: Author calculated from figures published by the GSO of Vietnam, 2012.

Table 3.2 above indicates the division of FDI by the top 15 biggest investors in Vietnam during 1988-2011. In the period 1988-2006, the top 15 foreign investors accounted for around 84.33% of total projects and 87.28% of total approved capital. Foreign investors in Vietnam in this duration were subjected by Asia-Pacific investors (Singapore, Taiwan, Japan, the Republic of Korea, Hong Kong, British Virgin Island, and the USA etc.). Asian investors accounted for 67.13% of total projects and 60.32% of total approved capital. Although, the USA was a late comer, its investment has increased significantly since 2001 after signing the USBTA.[158] The European investors as a whole covered around 10.28% of total projects and 19.11% of total registered capital. This was followed by Cayman Islands.

In the period of 2007-2011, top 15 investors covered about 85.18% of total projects and up to 93.13% of total approved capital, in which Malaysia was the largest investor covering 12.03% total approved capital. The next in order was Taiwan, holding 10.42%. This was followed by Singapore, sharing 10.34%. Japan and the USA hold 10.21% and 9.79% respectively.

Generally, the pattern of source FDI countries in both the pre-and-post of WTO accession indicates the strong presence of Asian New Industrial Economies (NIEs), Japan, EU countries, and later the USA. To Asian NIEs, since the mid-1980s, they became the net exporters of capital and started to undertake FDI in ASEAN countries owing to their declining comparative advantage in labor intensive industries in their own countries. Thus, in the context of Renovation and Vietnam's "open-door policy", the abundance of a relatively cheap and young labor force have created the opportunities for NIEs as promising location of labor-intensive industries like garment, textile, footwear etc. We should also be aware that, the USA embargo imposed on Vietnam until 1995 made firms from Japan and other advanced economies that had a diplomatic alliance with the USA could not have sustainable move, and leaving the chance for Asian NIEs. The end of the USA sanction, joining the ASEAN in 1995, together with signing a series of FTAs (AFTA, USBTA, ACFTA, AKFTA, JVEPA, AJCEP, AANZFTA), and the WTO have stimulated the various investors worldwide from the USA, Japan, EU economies, East Asia countries investing in Vietnam. Probably, this is compatible with Vietnam's integration into the global economy, with an emphasis in the Asian-Pacific region. Moreover, these countries are the net exporters of capital and advanced technology. In which, the USA, Japan, the Republic of Korea, and Singapore firms tend to undertake investment in more capital-intensive industries such as automobile/motorcycle and metal mechanics, and electronics that are Vietnam's import-substitute industries. The firms from these advanced countries are usually large in sizes as well. Enterprises from other countries such as Hong Kong, Taiwan, etc. have concentrated in labor-intensive industries such as in shoes, apparel, and textiles, which are characterized by medium and small enterprises. This is consistent with their technology level (Tran, Van Tho, 2004, pp. 8-9).

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[158] Tran, Van Tho, 2004. "Foreign Direct Investment and Economic Development: The Case of Vietnam", Working paper, p. 7.

3.3.4. FDI by Regions in Vietnam during 1988-2011

Table 3.3 below expresses the FDI inflows into Vietnam by regions during 1988-2011. For the period 1988-2006, FDI inflows passed over the provinces and cities in the entire country. However, FDI inflows during this duration concentrated in two regions which included booming economic cities such as Ho Chi Minh City, Ba Ria-Vung Tau, Dong Nai, Binh Duong in the Southeast, and Ha Noi, Hai Phong, Hai Duong, Hung Yen, Vinh Phuc in the Red River Delta. Those two main regions covered around 80% of both total approved capital and total FDI projects.

Table 3.3: FDI by Regions in Vietnam during 1988-2011

FDI by regions in Vietnam during 1988-2006 (the Pre-WTO accession)					
Order	**Region**	**Number of projects**	**In percent**	**Approved capital (USD million)**	**In percent**
1	Red River Delta	1,781	21.55	20,241.1	25.87
2	North East	358	4.33	2,445.2	3.12
3	North West	27	0.33	115.4	0.15
4	North Central Coast	125	1.51	1,472.6	1.88
5	South Central Coast	349	4.22	5,275.8	6.74
6	Central Highlands	113	1.37	1,041.3	1.33
7	Southeast	5,126	62.01	42,337.2	54.11
8	Mekong River Delta	334	4.04	2,315.3	2.96
9	Oil and gas	53	0.64	3,004.8	3.84
Total		**8,266**	**100**	**78,248.7**	**100**
FDI by regions in Vietnam during 2007-2011 (the Post-WTO accession)					
Order	**Region**	**Number of projects**	**In percent**	**Approved capital (USD million)**	**In percent**
1	Red River Delta	2,062	32.48	20,617.5	14.32
2	North East	191	3.01	4,312.1	2.99
3	North West	28	0.44	279.3	0.19
4	North Central Coast	126	1.98	18,051.2	12.54
5	South Central Coast	235	3.70	22,593.6	15.70
6	Central Highlands	67	1.06	500.6	0.35
7	Southeast	3,167	49.89	68,284.6	47.44
8	Mekong River Delta	455	7.17	8,636	6.00
9	Oil and gas	16	0.25	1,623	1.13
	Errors	*(+1)*	0.02	*(-947.6)*	(-0.66)
Total		**6,348**	**100**	**143,950.3**	**100**

Source: Author calculated from figures published by the GSO of Vietnam, 2012.

Concerning regional FDI in Vietnam after WTO accession, like the previous duration, FDI inflows tend to be located in booming economic cities in the Red River Delta and the Southeast of Vietnam. In the period 2007-2011, the Red River Delta and the Southeast regions attracted 82.37% of total projects and 61.76% of total approved capital. However, it is useful to note that the North Central Coast (including Thanh Hoa, Nghe An, Ha Tinh, Quang Binh, Quang Tri, Hue) and the South Central Coast (including Da Nang, Quang Nam, Quang Ngai, Binh Dinh, Phu Yen, Khanh Hoa) are two new regions that have attracted a considerable amount of FDI capital. Those two regions covered 5.68% of total projects and around 28.24% of total approved FDI capital.

This leaves us with the question why FDI is mostly focused in these regions in Vietnam. The answer lies in the following explanation. Concerning Vietnam's development strategy, three economic regions have been prioritized for infrastructure investment. They are the Red River Delta (surrounding North economic triangles Ha Noi, Hai Phong and Quang Ninh), the Central region (surrounding Da Nang), and the Southeast region (surrounding Ho Chi Minh City). As a result, these regions have better infrastructure in terms of roads, airports, seaports, telecommunication systems, fast economic growth, an abundance of skilled labor and input material in comparison with others. The significant differences are easily observed between these regions in Vietnam. Three economic regions are mostly concentrated in industrial zones, export processing zones, and economic zones (Nomura, Thang Long, Noi Bai, Ha Noi Dai Tu, Sai Dong, Dai An, etc. in the Red River Delta; Dung Quat, Chu Lai, in the Central; Tan Thuan, Tan Tao, Vietnam Singapore, Bien Hoa 1,2, Song Than, etc. in the Southeast). These are also the locations of Vietnam's large universities. Ha Noi, Hai Phong, Da Nang and Ho Chi Mich City are the four largest cities in Vietnam with international airports such as Noi Bai, Tan Son Nhat, Da Nang, and with seaports such as Hai Phong, Da Nang, Sai Gon. Some previous empirical studies (e.g., Dang, Nguyet Anh (1999), Nguyen, Ngoc Anh and Nguyen, Thang (2007), Esiyok and Ugur (2011), etc.) have proven that uneven allocation of FDI inflows has been attributed to the infrastructure conditions, the quality of the labor forces, and the magnitude of local markets of provinces. Thus, the policies in attracting FDI inflows of the cities/provinces in these regions are usually better than those of others in terms of encouraging the foreign investors. Notably, Lei and Chen (2011, pp. 338-352) examined the location choice behavior of Taiwanese firms in Vietnam and China and concluding that: (i) firms with stronger ownership advantages prefer to invest in more developed than less developed regions; (ii) firms occupying favorable positions in their network prefer to invest in more developed than less developed regions; (iii) firms with a high degree of networking prefer to invest in less developed than more developed regions; (iv) firms choose to invest in more developed than less developed regions to gain access to a large market; and (v) firms with strong resource-seeking motives prefer to invest in more developed than less developed regions to access their resources. This is also consistent with the hypothesis of Paul Krugman on firm's behavior. He argues that firms tend to locate in big cities to acquire markets and benefits resulting from "returns to the scale" (larger scale promotes greater benefit) and motivating their "monopolistic competition" due to an intrinsic love of variety itself.[159]

As analysis in the previous items reveals, Vietnam has attracted a considerable amount of FDI capitals amounting up to USD 143,950.3 million in just 5 years after WTO accession. What are the determinants for such a large amount of FDI capital flowing into Vietnam? Does the WTO accession have a positive impact on Vietnam's FDI inflows? According to the author's prediction, WTO could be an important factor in drawing large amounts of FDI capital into the country. The next section will provide a preliminary answer to such questions with the help of both theoretical modeling and an empirical estimation.

3.4. THE IMPACT OF THE WTO ON FDI INFLOWS INTO VIETNAM – A GRAVITY MODEL APPROACH

3.4.1. The Specification of Gravity Model and Decrypting the Dataset

The gravity model in international economics, similar to other gravity models in social science, can be employed to predict bilateral trade or FDI flows based on the sizes of the economy (often using the Gross Domestic Product (GDP) measurements, GDP per capita, Gross National Product (GNP), and GNP per capita), and the distance between two trade/FDI partners. The model was first used by Tinbergen in 1962.[160] It was given the name "gravity model" for its analogy with the Newton Law of universal gravitation which also takes into consideration the distance and physical size between two objects. The basic theoretical model for trade/FDI flows between two countries i and j takes the following formula:

$$\mathbf{F_{ij} = G(M_iM_j)/D_{ij}} \quad \mathbf{(3.1)}$$

In which:

- F_{ij} is the bilateral trade/FDI flow between country i and country j
- M_i is the economic mass of country i (often using GDP, GNP measurements)
- M_j is the economic mass of country j (often using GDP, GNP measurements)
- D_{ij} is the distance between country i and country j, and
- G is a constant.

The model has also been used in international relations to evaluate the impact of treaties or alliances on trade, FDI flows, and it has been used to test the effectiveness of trade agreements

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[159] See more Dinh, Phuong Linh, 2009. "Tiep can ly thuyet cua Paul Krugman ngay ong den Viet Nam" (Approaching the Theory of Paul Krugman when he comes to Vietnam), retrieved from website http://tuanvietnam.vietnamnet.vn/chu-nhan-nobel-kinh-te-2008-noi-ve-viet-nam-dong-a, accessed December 6, 2012.

[160] Jan Tinbergen (April 12, 1903 – June 9, 1994) was a Dutch economist. He was awarded the first Bank of Sweden Prize in Economic Sciences in Memory of Alfred in 1969, which he shared with Ragnar Frisch for having developed and applied dynamic models for the analysis of economic process, retrieved from website: http://en.wikipedia.org/wiki/Jan_Tinbergen, accessed June 12, 2012.

and organizations such as the North American Free Trade Agreement (NAFTA) or the World Trade Organization as well.

In the original gravity model, two opposing forces that determine the trade and FDI flows between two countries are based on the levels of their economics (usually measured by GDP, GNP, $GDP_{per\ capita}$, $GNP_{per\ capita}$ or "Economic space" calculated by the sum of GDPs of two countries, etc.) and the distance between them. For further development, many other variables can be added in the model such as:

- Exchange rate regime
- Cultural differences: colonial history, language diversity (number of languages used) and literacy rates (%)
- Institution, uncertainty (conflict intensity, terrorism, and crisis), various bottlenecks (aggregated indicators that reflect the macroeconomic, political stability, governance effectiveness, etc.)
- Preference schemes (Generalized System of Preferences (GSP), Preferential Trade Agreements (PTAs))
- Market access, openness (tariff line at average level (%), ratio measured by (Exports + Imports)/GDP), WTO, FTA, etc.)
- Index of country similarity in size, Economic size similarity, Differences in relative endowments ([$\ln(GDP/Pop_{it}) - \ln(GDP/Pop_{jt})$] or [$\ln(GDP_{per\ capita\ it}) - \ln(GDP_{per\ capita\ jt})$]).[161]

The gravity model has been used comprehensively in many empirical studies in international economics (e.g., Poyhonen 1963; Linnemann 1966; Anderson 1979; Bergstrand 1985; Bayoumi and Eichengreen 1995; Deardorff 1998; Mauro 2000; Aderson and van Wincoop 2003; Rose 2004; Subramanian and Wei 2007; Tomz et al. 2007; Urata and Okabe 2007; Helpman et al. 2008; Eicher and Henn 2011; Pham 2011, Medvedev 2012, etc.). Unlike previous studies (e.g., Pham, Thi Hong Hanh 2011 and Nguyen, Dinh Chien et al. 2012, etc.) which assumed that the effects of all FTAs are the same and are associated with one aggregate FTA dummy that can *inflate* or *deflate* the impact of the WTO and other independent variables on dependent variable, I disaggregate them to individual FTA to capture the effects of each on FDI flows to Vietnam. And, as mentioned in the introductory chapter, the author uses the Hausman-Taylor (1981) estimator for its superior than fixed-effects and random-effects estimation. The Hausman-Taylor (1981) estimator is basically a hybrid of the fixed-effects and the random-effects models and takes the following formula:

[161] International Trade Central-UNCTAD/WTO, Market Analysis Section, "Trade Sim (second version), a gravity model for the calculation of trade potentials for developing countries and economies in transition", Explanatory notes, 2003, p. 1.

$$\mathbf{y_{it} = \beta_1 x'_{1it} + \beta_2 x'_{2it} + \alpha_1 z'_{1i} + \alpha_2 z'_{2i} + \varepsilon_{it} + u_i} \quad \mathbf{(3.2)}$$

In which, y_{it} reflects the dependent variable for country i in period/time/year t; x'_{1it} denotes variables that are time varying and uncorrelated with the error term in the random-effects model (u_i); x'_{2it} refers to a set of variables that are time varying and correlated with u_i; z'_{1i} represents the time invariant variables that are uncorrelated with u_i; z'_{2i} describes the time invariant variables that are correlated with u_i; β_i and α_i are the vectors of coefficients associated with the covariates; and ε_{it} is the random error. Accordingly, one of the main assumptions of the Hausman-Taylor (1981) estimator is that the explanatory variables that are correlated with u_i can be identified.

Concerning the variables in the equation (3.2), the author uses the FDI flow (implemented capital) from country partner j at year t to Vietnam as the dependent variable for y_{it} (the variable is labeled FDI_{jt}). Apart from the impact of trade liberalization on FDI inflows into Vietnam, the author is interested in the impact of the WTO.

For x'_{1it} (*variables that are time varying and uncorrelated with* u_i), the author constructs a set of dummy variables. Particularly, the impact of the WTO on Vietnam's FDI inward is taken in forms of the $Bothin_{VNjt}$ and $Onein_{VNjt}$ dummies. $Bothin_{VNjt}$ dummy takes the value of 1 if both Vietnam and country partner j are WTO members at year t and otherwise. $Onein_{VNjt}$ dummy takes the value of 1 if country partner j is a WTO member at year t and otherwise. Other dummies, the *AFTA*, *USBTA*, *ACFTA*, *AKFTA*, *JVEPA*, *AJCEP* and the *AANZFTA*, are added to capture the probable affects of bilateral/regional trade agreements on Vietnam's FDI inward. The author relies on the fact that the FTAs and the WTO involve different degrees of liberalization, and hence define them in order to isolate the impact of each, and purge them of any "contamination" from each other.[162] Each dummy takes the value of 1 if Vietnam and country partner j have signed/joined the bilateral/regional trade agreement at year t and otherwise. Two more variables *that are time varying and uncorrelated with* u_i are added. The author employs the $RER_{CURj/VNDt}$ and the $ins_{VNt} * ins_{jt}$ variables.

Firstly, the $RER_{CURj/VNDt}$ designates the real exchange rate between VND and currency of country j at year t. An increase/decrease of real exchange rate means the devaluation/overvaluation of VND may affect to FDI flows. Specifically, an increase of the real exchange rate (the devaluation of VND) may attract FDI flows and vice versa. The real exchange rate is calculated by the following formula:

$$\mathbf{RER_{CURj/VNDt} = e_{CURj/VNDt} * (CPI_{jt} / CPI_{VNt})} \quad \mathbf{(3.3)}$$

[162] AFTA: ASEAN Free Trade Area; USBTA: The US-Vietnam Bilateral Trade Agreement; ACFTA: ASEAN China Free Trade Area; AKFTA: ASEAN Korea Free Trade Agreement; JVEPA: Japan Vietnam Economic Partnership Agreement; AJCEP: ASEAN-Japan Comprehensive Economic Partnership Agreement; and AANZFTA: ASEAN-Australia-New Zealand Free Trade Agreement.

In which:

- $RER_{CURj/VNDt}$ is the Real Exchange Rate between VND and Currency of country j at year t
- $e_{CURj/VNDt}$ is the Nominal Exchange Rate between VND and Currency of country j at year t (this expresses the number of VND used to exchange with 1 currency unit of country j at year t)
- CPI_{jt} is the Consumer Price Index of country j at year t
- CPI_{VNt} is the Consumer Price Index of Vietnam at year t

Secondly, the $ins_{VNt}*ins_{jt}$ is an institutional variable. In which, ins_{VNt} and ins_{jt} are the values of the governance indicators of Vietnam and country partner j respectively at year t. Each of them will be taken from the average of five indicators: (1) the Political Stability and Absence of Violence/Terrorism; (2) Government Effectiveness; (3) Regulatory Quality; (4) Rule of Law; and (5) Control of Corruption indicators, which is provided by the World Bank. Percentile rank among all countries ranges from 0 to 100. The higher the figure means the better the governance. The institutional variable in this study reveals the interaction in governance between Vietnam and country partners. It reveals that better governance may facilitate the FDI inward.

For x'_{2it} (*variables that are time varying and correlated with u_i*), GDP of Vietnam, GDP of country partners, and Vietnam's exports and imports are employed as it might be argued that the FDI flows are not only influenced by the total output (GDP) of two countries and by Vietnam's exports and imports, but also can have an influence on Vietnam's GDP and on exports and imports of the country. Higher GDP figures and export-import volumes are expected to be positively associated with the FDI flows. To avoid the endogenous issues such as the exits of bidirectional causality between the added variables and GDP in the gravity model, the author used a one time period lag for the real Exports and real Imports variables.

For the z'_{1i} (*variables that are time invariant and uncorrelated with u_i*), the author employs standard gravity variables, the distance between two countries and whether they share land borders namely, the DIS_{VNj}, and the BOR_{VNj}. Wherein, the expected sign of DIS_{VNj} is negative being a proxy for transport and transaction costs. This will be adopted from the work of CEPII[163] using the weighted distance between Vietnam and country partners. The BOR_{VNj} dummy is included depending on whether Vietnam and country j share a land border or not - this is - highly expected to affect FDI flows in to the country.

For the final category of variables z'_{2i} (*variables that are time invariant and correlated with u_i*) has been omitted, as none of my variables fit this definition. The values of the quantitative variables such as the GDP, FDI, Exports, and Imports, are converted in constant prices (2005

163 Centre d'Etudes Prospectives et d'Informations Internationales (CEPII)-Institute for Research on the International Economy.

prices). All the variables, except the dummies, are in natural logarithm form in the gravity equation. My benchmark specification model takes the following formula:

$$\mathbf{LnFDI_{jt} = \beta_{10} + \beta_{11}LnDIS_{VNj} + \beta_{12}LnGDP_{VNt} + \beta_{13}LnGDP_{jt} + \beta_{14}LnEX_{jt-1} + \beta_{15}LnIM_{jt-1} + \beta_{16}LnRER_{CURj/VNDt} + \beta_{17}Ln(ins_{VNt}*ins_{jt}) + \gamma_{11}AFTA + \gamma_{12}USBTA + \gamma_{13}ACFTA + \gamma_{14}AKFTA + \gamma_{15}JVEPA + \gamma_{16}AJCEP + \gamma_{17}AANZFTA + \gamma_{18}Bothin_{VNjt} + \gamma_{19}Onein_{VNjt} + \gamma_{110}BOR_{VNj} + \varepsilon_{1VNj}} \quad \textbf{(3.4)}$$ [164]

For the dataset, the empirical analysis presented in this chapter is based on a panel data of country pairs set in the period from 1995 to 2011 which involves 17 Vietnam's major/stable FDI partners including: Australia, Belgium, Canada, China, France, Germany, Hong Kong, Japan, Malaysia, the Netherlands, the Philippines, Singapore, the Republic of Korea, Taiwan, Thailand, the United Kingdom (UK), and the USA. 17 FDI partners listed above amount to around 80% of Vietnam's FDI sources. The data is obtained from different reliable sources such as Vietnam's authorities (e.g., the General Statistics Office (GSO), the Ministry of Industry and Trade (MOIT), the Ministry of Planning and Investment (MPI)), and international organizations (e.g., the Asian Development Bank (ADB), the International Monetary Fund (IMF), the United Nations Statistics Division (UNSD), the World Bank (WB), the World Trade Organization (WTO)). In regards to

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[164] In which:

- FDI_{jt} is the amount of implemented FDI capital of country j at year t in Vietnam in USD (2005 price).
- DIS_{VNj} is the weighted distance between Vietnam and country j in km (obtained from CEPII).
- GDP_{VNt} is the real GDP of Vietnam at year t in USD (2005 price).
- GDP_{jt} is the real GDP of country j at year t in USD (2005 price).
- EX_{jt-1} is the real Vietnam's exports to country j at year t-1 in USD (2005 price).
- IM_{jt-1} is the real Vietnam's imports from country j at year t-1 in USD (2005 price).
- $RER_{CURj/VNDt}$ is the real bilateral Exchange Rate between Vietnam Dong and currency of country j at year t.
- ins_{VNt} is the average value of government indicator of Vietnam at year t.
- ins_{jt} is the average value of government indicator of country j at year t.
- AFTA is a binary dummy variable which is unity after Vietnam and partners have joined/signed the ASEAN Free Trade Area at year t and otherwise.
- USBTA is a binary dummy variable which is unity after Vietnam and the USA have signed the Bilateral Trade Agreement at year t and otherwise.
- ACFTA is a binary dummy variable which is unity after Vietnam and partners have joined/signed the ASEAN-China Free Trade Area at year t and otherwise.
- AKFTA is a binary dummy variable which is unity after Vietnam and partners have joined/signed the ASEAN Korea Free Trade Agreement at year t and otherwise.
- JVEPA is a binary dummy variable which is unity after Vietnam and Japan have signed the Japan-Vietnam Economic Partnership Agreement at year t and otherwise.
- AJCEP is a binary dummy variable which is unity after Vietnam and partners have joined/signed ASEAN-Japan Comprehensive Economic Partnership Agreement and otherwise.
- AANZFTA is a binary dummy variable which is unity after Vietnam and partners have joined/signed the ASEAN-Australia-New Zealand Free Trade Agreement at year t and otherwise.
- $Bothin_{VNjt}$ is a binary dummy variable which is unity if both Vietnam and country j are WTO members at year t and otherwise.
- $Onein_{VNjt}$ is a binary dummy variable which is unity if country j is a WTO member at year t and otherwise.
- BOR_{VNj} is a binary dummy which is unity if Vietnam and country j share the land border and otherwise.
- ε_{1VNj} is random error.

the special case of Taipei China (Taiwan), the figures are collected from ADB and the World Economic Outlooks October 2012, available on Knoema's website. The detailed description of those resources of the data is listed in Appendix 8.

3.4.2. An Analysis of the Empirical Estimation Results

The empirical estimation results are summarized and reported in Table 3.4 below using the econometrical software-Stata 11 and the Hausman-Taylor (1981) estimator. The inclusion of 5 equations (from FDI-1 to FDI-5) is to observe the interaction between the WTO and other factors that could have impact on FDI inflows into Vietnam.

Table 3.4: The Gravity Model Estimations of the $LnFDI_{jt}$ Equation Using the Hausman-Taylor (1981) Estimator

Explanatory variables	**Dependent variable: $LnFDI_{jt}$**				
	(FDI-1)	**(FDI-2)**	**(FDI-3)**	**(FDI-4)**	**(FDI-5)**
Time varying exogenous					
$LnRER_{CURj/VNDt}$	-	0.0753551	-	-	0.0605428
$Ln(ins_{VNt}*ins_{jt})$	-	2.225503*	-	-	2.316686**
FTA	-	-	0.0501712	-	-
AFTA	-	-	-	-0.81477***	-0.4948234
USBTA	-	-	-	0.5503159	0.5060926
ACFTA	-	-	-	0.4050078	0.3706749
AKFTA	-	-	-	0.8583061**	0.8203441**
JVEPA	-	-	-	0.3947027	0.2439291
AJCEP	-	-	-	0.1826161	0.4056076
AANZFTA	-	-	-	-0.945124**	-0.9352514**
$Bothin_{VNjt}$	1.316866*	1.203153**	1.362397*	1.076479**	1.066118**
$Onein_{VNjt}$	0.70540 ***	0.693822***	0.73860***	0.6367677	0.7305899***
Time varying endogenous					
$LnGDP_{VNt}$	-1.607289*	-2.210821*	-1.572192*	-1.350076*	-2.038916*
$LnGDP_{jt}$	1.532595*	1.429185*	1.374662*	1.220402*	0.9642687**
$LnEX_{jt-1}$	-	0.1501034	-	-	0.1351719
$LnIM_{jt-1}$	-	0.1526851	-	-	0.1812063
Time invariant exogenous					
$LnDIS_{VNj}$	-2.320106*	-2.490305*	-2.138411*	-2.04556*	-1.947559**
BOR_{VNj}	-2.74641***	-1.629444	-2.4761***	-2.509634***	-0.937514
Constant	34.1975*	28.6521**	36.07285*	34.21456*	31.64125**

*Notes: *, **, and *** indicate significance at the levels of 1%, 5%, and 10% respectively.*

Table 3.5: The Gravity Model Estimations of the $LnFDI_{jt}$ Equation Using the Fixed-Effects (FE) and the Random-Effects (RE) Techniques

Explanatory variables	Dependent variable: $LnFDI_{jt}$									
	Fixed-Effects (FE)					**Random-Effects (RE)**				
	FE-1	**FE-2**	**FE-3**	**FE-4**	**FE-5**	**RE-1**	**RE-2**	**RE-3**	**RE-4**	**RE-5**
$LnRER_{CURj/VNDt}$	-	0.5388598	-	-	0.6927384	-	-0.0301813	-	-	0.0384801
		(0.880973)			(0.9306161)		(0.095383)			(0.1233535)
$Ln(ins_{VNt}*ins_{jt})$	-	2.018382**	-	-	2.192462**	-	2.380483*	-	-	2.358998*
		(0.8224761)			(0.9013408)		(0.644194)			(0.687087)
FTA	-	-	0.0905554	-	-	-	-	0.0864032	-	-
			(0.2705465)					(0.2763911)		
AFTA	-	-	-	-0.6981***	-0.3892263	-	-	-	-0.79587**	-0.5089***
				(0.343892)	(0.3103906)				(0.3426068)	(0.2819573)
USBTA	-	-	-	0.626890**	0.4865039	-	-	-	0.5851255*	0.5165076
				(0.2301289)	(0.3780467)				(0.2216423)	(0.3769666)
ACFTA	-	-	-	0.304869	0.3428633	-	-	-	0.411591***	0.398699***
				(0.297309)	(0.2635502)				(0.2502151)	(0.2142656)
AKFTA	-	-	-	0.8259879*	0.7732028*	-	-	-	0.8571561*	0.8239068*
				(0.233355)	(0.2459771)				(0.224283)	(0.2265012)
JVEPA	-	-	-	0.4496631	0.3018514	-	-	-	0.4065164	0.2359318
				(0.516201)	(0.531039)				(0.5099313)	(0.5178599)
AJCEP	-	-	-	0.2112772	0.467402	-	-	-	0.1898993	0.407377
				(0.3881084)	(0.4595535)				(0.3841216)	(0.4192112)
AANZFTA	-	-	-	-0.98468**	-0.99990***	-	-	-	-0.941774**	-0.92357**
				(0.4345495)	(0.4623649)				(0.4314273)	(0.4573317)
$Bothin_{VNjt}$	1.407892**	1.428423*	1.424116*	1.085035**	1.306043*	1.431559*	1.260579*	1.433253*	1.116838*	1.084462*
	(0.5070053)	(0.3895357)	(0.497981)	(0.4281103)	(0.4003436)	(0.4973387)	(0.3481347)	(0.4863057)	(0.4240024)	(0.3219902)
$Onein_{VNjt}$	0.7867253**	0.8253805*	0.7960743**	0.651551**	0.8496176*	0.796006**	0.7547114*	0.794594**	0.6713063**	0.7472951*
	(0.3733383)	(0.2386584)	(0.3575671)	(0.2824911)	(0.1636099)	(0.3997063)	(0.2778884)	(0.379102)	(0.3085649)	(0.2002749)
$LnGDP_{VNt}$	-1.579501*	-2.127622*	-1.604462*	-1.497067*	-2.069447*	-1.475324*	-2.108146*	-1.519562*	-1.351067*	-2.009311*
	(0.489092)	(0.6202329)	(0.5050065)	(0.499843)	(0.6546611)	(0.4969969)	(0.5426297)	(0.516000)	(0.5114979)	(0.6162535)
$LnGDP_{jt}$	1.436844**	1.268525**	1.364288**	1.520002**	1.086682***	1.208409*	0.8721228*	1.18772*	1.174976*	0.8908287*
	(0.5628557)	(0.5652606)	(0.505308)	(0.540313)	(0.6358102)	(0.3221791)	(0.3160717)	(0.308516)	(0.3129713)	(0.3396126)
$LnEX_{jt-1}$	-	0.1523293	-	-	0.1591557	-	0.129432	-	-	0.1417373
		(0.1586671)			(0.170444)		(0.1630893)			(0.1803734)
$LnIM_{jt-1}$	-	0.1112865	-	-	0.0918041	-	0.24546***	-	-	0.171803
		(0.1651478)			(0.1645002)		(0.1301485)			(0.1335695)
$LnDIS_{VNj}$	omitted	omitted	omitted	omitted	omitted	-1.963115*	-1.700624*	-1.927183*	-1.992199*	-1.848291*
						(0.529424)	(0.4818466)	(0.497428)	(0.4849889)	(0.5271553)
BOR_{VNj}	omitted	omitted	omitted	omitted	omitted	-2.158335*	-0.6088901	-2.145104*	-2.415758*	-0.7841617
						(0.6906935)	(0.7093936)	(0.675484)	(0.5911834)	(0.7701069)
Constant	16.67025	8.876066	19.2255	12.55095	9.990206	36.71374*	32.80744**	38.04202*	34.98908*	31.95932**
	(15.43)	(19.79096)	(15.29707)	(16.19036)	(21.07358)	(11.09862)	(13.1611)	(11.62273)	(11.97193)	(13.27614)

Notes: *, **, and *** indicate significance at the levels of 1%, 5%, and 10% respectively; values in parentheses are robust standard errors.

The results reported in Table 3.4 indicate that a large share of the variation in the FDI flows to Vietnam recently could be explained by a considerable number of factors, namely, GDP, Distance, FTA, and accession to the WTO. The coefficients of both the $Bothin_{VNjt}$ and $Onein_{VNjt}$ dummy variables are stably positive and statistically significant across 5 gravity equations (from FDI-1 to FDI-5). Importantly, as mentioned in the introductory chapter, associating the impact of all FTAs with one aggregate FTA dummy as done in the previous studies (e.g., Pham, Thi Hong Hanh, 2011) could *inflate* the impact of the WTO on FDI flows to Vietnam. Moreover, we cannot observe the impact of each FTA on FDI flows. My estimated results are sufficient for this statement. In taking a look at the equation FDI-3 and FDI-4 in Table 3.4 above, when the author uses only one aggregate FTA dummy to capture the impact of all FTAs, this dummy variable is positive but not significant. Also in this gravity equation (FDI-3), the magnitudes of the significant coefficients of both the $Bothin_{VNjt}$ and $Onein_{VNjt}$ variables (1.362397 and 0.73860 in order) are the *largest* compared with that of in other gravity equations (e.g., 1.066118 and 0.7305899 in order in the equation FDI-5). In the equation FDI-4, when the author disaggregates them down into specific cases (each FTA dummy assesses the impact of a specific FTA), interestingly, the author observes the possible impact of the AFTA, AKFTA, and AANZFTA on FDI flows to Vietnam. The same trends can be seen in the fixed-effects models and random-effects models reported in Table 3.5 above. However, as argued in the introductory chapter, these traditional estimation techniques may be faced with some disadvantages compared with the Hausman-Taylor (1981) estimator, hence the author prefers to use the Hausman-Taylor (1981) estimation for its superior than FE and RE techniques. In one way or another, the author respects the results of the equation FDI-5 in Table 3.4 for it includes all the factors that could affect to Vietnam's FDI attraction and uses it for the empirical analysis in this chapter.

We, now, start by the discussion on the positive impact of the WTO on FDI inflows into Vietnam. Generally, we can observe the stability and significance of the coefficients of both the $Bothin_{VNjt}$ and $Onein_{VNjt}$ variables through 5 gravity equations in Table 3.4 above. It means the models seem to fit the data well and the estimated results are reliable. Thus, the correlation matrix proves that the variables employed in the gravity equation are quite reasonable. In the gravity equation FDI-5, the estimated coefficients of the $Bothin_{VNjt}$ and $Onein_{VNjt}$ variables are positive and significant at the level of 5% and 10% respectively indicating that the WTO has a "strong" and positive impact on FDI inflows into Vietnam. The empirical results are consistent with the descriptive analysis and the author's prediction. In other words, the empirical results also support my hypothesis brought up in the preamble of this chapter. Being WTO membership of Vietnam's FDI partners has helped to increase FDI inflows into the country at about 107.6% [= EXP (0.7305899) - 1]. Accession to the WTO of both Vietnam and partners increased FDI inflows into the country at about 190.4% [= EXP (1.066118) – 1]. The explanation is elaborated upon in the arguments below.

Firstly, it is known that WTO accession has been accompanied by the development of tariff reduction expertise when tracking the institution's history since 1947 (see Table 3.6).

Table 3.6: The GATT/WTO Rounds of Negotiation and Tariff Cuts

Round	Dates	Length (months)	Tariff cuts [a]	Round "productivity" [b]	Number of GATT members	
					AII [c]	G-77 [d]
Geneva I	1947	8	26.0	39.0	19	7
Annecy	1949	8	3.0	4.5	20	8
Torquay	1950-1951	8	4.0	6.0	33	13
Geneva II	1956-1956	16	3.0	2.3	35	14
Dillon	1960-1961	10	4.0	4.8	40	19
Kennedy	1964-1967	42	37.0	10.6	74	44
Tokyo	1973-1979	74	33.0	5.4	84	51
Uruguay	1986-1994	91	38.0	5.0	125	58

Notes:

[a] *Average cuts in bound tariffs (Preeg 1970, Baldwin 1986, WTO 1994, 2007). Import-weighted tariff cuts of industrial countries for industrial products (petroleum excluded). The five first figures refer to the average tariff cuts of the U SA.*

[b] *Average tariff cut per year of negotiations*

[c] *GATT members at the end year of the negotiations (WTO website)*

[d] *G-77 membership is taken as a proxy for defining "developing" GATT members.*

Source: Martin, W., and Messerlin, P., (2007, pp. 347-366).

From Table 3.6, it is obvious that the Geneva I round witnessed greater tariff reduction by the USA. The later four rounds, Annecy, Torquay, Geneva II, and Dillon, offered modest tariff cuts. The next three rounds, Kennedy, Tokyo, and Uruguay, have brought about a much larger tariff reduction than ever before. Vietnam as a late "comer" is not an exceptional case. As of commitments which were analyzed in the previous chapters, Vietnam has cut down on/reduced about 3,800 tariff lines (accounting for 35.5% of entire tariff lines), maintains current tariff rates on about 3,700 lines (accounting 34.5% of entire tariff lines), and bound ceiling tariff rates of 3,170 tariff lines (covering 30% of entire tariff lines). Average tariff rate will be reduced gradually from 17.2% to 13.4% up to 2015. A tariff reduction will always benefit imports of intermediary goods and final goods. Lower tariffs mean lower prices. The lower prices of foreign imported goods in manufacturing (intermediary goods) and trade (final consumer goods) favor stronger competitiveness and profits in businesses, and hence attracts foreign firms to come and invest in a host country that has higher levels of trade liberalization like Vietnam. Besides that, Vietnam has also committed to opening domestic service markets for foreign service providers. An economy that is open to trade is attractive to overseas investors for two main reasons: (i) the openness signals that the government has policies in place that welcome both trade and competition; and (ii) it may help reassure investors that they can repatriate their profits.

Secondly, the overarching/main function of the WTO is not only to *ensure that trade flows as smoothly, predictably and freely as possible*, but also this multilateral trading system is *an attempt by governments to make the business environment stable and predictable.* And, it commits to *policy stability, predictability and good governance* through its membership to the WTO. As analyzed in Chapter 2, Vietnam has made efforts to reform its investment and trade policies. The results of reforms have been remarkable towards meeting international standards and abiding to WTO practices. This offers a more predictable and transparent business environment that draws the attention of overseas investors.

We, now, turn to the possible impacts of other factors on Vietnam's FDI inward. First, the estimated coefficient of the $LnGDP_{jt}$ variable presented in the equation FDI-5 also offers a positive impact of this factor on FDI flows to Vietnam. The coefficient is positive and significant at the level of 5%. As predicted, an increase in the GDP of Vietnam's FDI partners has led to an increase of FDI inflows into Vietnam. This suggests that the convergence in income levels could be one cause in the growth/variation of multinationals in making direct investment abroad[165], and that Vietnam is an attractive destination. By contrast, the author does not observe the positive impact of the $LnGDP_{VNt}$ variable. The coefficient is negative and statistically significant at the level of 1%. It means FDI in Vietnam might not be market seeking FDI. In other words, the size of Vietnam's economy might not be an important factor in attracting overseas investors. Recent survey conducted by the Vietnam Chamber of Commerce and Industry (VCCI, 2011) on 1970 FDI enterprises from 45 countries/territories in 61 provinces/cities in Vietnam shows that foreign investors choose Vietnam for its lower labor costs and political stability, as well as tax incentives rather than other factors such as corruption control or the protection of intellectual property rights, and economic size.[166]

To the $LnIM_{jt-1}$ and $LnEX_{jt-1}$ variables, their coefficients are not significant, indicating that an increase of Vietnam's exports and imports has not induced FDI flows. As for the distance between Vietnam and country partner, $LnDIS_{VNj}$, the impact on FDI flows is clearly

[165] See more in Fukao, Kyoji, 2003. "Vertical Intra-Industry Trade and Foreign Direct Investment in East Asia", working paper.
[166] See more in "Khao sat ve FDI o Vietnam" (Survey of FDI in Vietnam), accessed April 19, 2013 website: http://195.188.87.10/vietnamese/vietnam/2012/02/120224_viet_fdi_report.shtml.

negative, being a proxy for transport and transaction costs. It is obvious that transport and transaction costs are likely to increase if two countries are located far away from each other. The author does not observe the negative impact of the BOR_{VNj} variable from the estimated results. This implies that FDI flows to Vietnam could not depend on FDI flows to China. Contrary to expectation, the coefficient of the $LnRER_{CURj/VNDt}$ variable is not statistically significant suggesting that the exchange rate regime has not motivated FDI inflows to Vietnam. The coefficient of the $Ln(ins_{VNt}*ins_{jt})$ variable is significant at the level of 5% suggesting that the institutional factor has positive impact on FDI inflows into Vietnam. This is quite consistent with the fact that Vietnam has tried to make its investment environment more stable, predictable and transparent forwarding the international standard and WTO rules as analyzed in Chapter 2 of my thesis.

Finally, we discuss the possible impact of the various FTAs on FDI flows to the country. The estimated results indicate that the AFTA, USBTA, ACFTA, JVEPA and the AJCEP have not facilitated FDI inflows into the country. Their coefficients are statistically insignificant. The coefficients of the AANZFTA dummy variables is significant but in the negative sides. This could be explained that after signing the AANZFTA, the investors from ASEAN, Australia, and New Zealand might export directly to Vietnam due to lower tariff rates. And, they seem to reduce their foreign investment in the host country to avoid the high tariff barriers as in the time before signing the AANZFTA. The coefficient of the AKFTA dummy variable is positive and significant at the level of 5% suggesting that only this FTA induced the FDI flows to Vietnam of about 127.1% [= EXP (0.8203441) – 1].

The ASEAN-Korea Free Trade Agreement entered into force in 2007. Before that, ASEAN and the Republic of Korea signed the ASEAN Korea Framework Agreement on Comprehensive Economic Cooperation in 2005. The objectives of this Agreement are to: "(i) strengthen and enhance economic, trade and investment cooperation among the parties; (ii) progressively liberalize and promote trade in goods and services as well as create a transparent, liberal and facilitative investment regime; (iii) explore new areas and develop appropriate measures for closer economic cooperation and integration; (iv) facilitate the more effective economic integration of the new ASEAN member countries and bridge the development gap among the parties; and (v) establish a cooperative framework to further strengthen economic relations among the parties" (Article 1.1-Objectives, Framework Agreement between ASEAN countries and The Republic of Korea). Through which, ASEAN countries and the Republic of Korea committed to the "establishment of an open and competitive investment regime that facilitates and promotes investment among the parties" (Article 1.3, Measures for Comprehensive Economic Partnership, Framework Agreement between ASEAN countries and the Republic of Korea). The Republic of Korea accorded to all ASEAN member countries which are not WTO members, the MFN treatment consistent with the WTO rules and disciplines upon when the Framework Agreement came into force (Article 2.4, Most-Favoured-Nation Treatment, Framework Agreement between ASEAN countries and the Republic of Korea).[167] ASEAN and the Republic of Korea completed the Framework Agreement on Comprehensive Economic Cooperation with the signing of the ASEAN-Korea Investment Agreement in June 2009 in Jeju Island. This agreement has promoted investment flows and created a liberal, facilitative and competitive investment regime in ASEAN and in the Republic of Korea. As a member of the AKFTA, Vietnam has attracted a considerable amount of FDI capital from the Republic of Korea and ASEAN economies. Up to December 31, 2011 ASEAN countries (ASEAN - 4 including Malaysia, the Philippines, Singapore, and Thailand) and the Republic of Korea have committed to invest in Vietnam with a total capital of about USD 63,886.4 million worth of 4,701 projects covering 32.09% of total approved capital and 34.98% of total projects (author calculated from figures published by the GSO of Vietnam).

Overall, various factors have motivated the FDI inflows into Vietnam recently. They are the economic space of Vietnam and country partners, the distance between them, the FTAs, and Vietnam's accession to the WTO. Among them, the WTO accession could be one of the most important factors that have boosted such large amounts of FDI capital to the country. This is consistent with the main motivation of the Government of Vietnam in promoting Vietnam's entry into the WTO, and to use foreign competition to speed up economic reform and attract FDI capital. By contrast, there is no evidence that demonstrates convincingly that various FTAs in which Vietnam has signed/joined recently increased FDI capital into the country except for the case of the AKFTA. Despite the fact that Vietnam has been considered as one of the most attractive destinations for overseas investors especially after it joined the WTO, there have been some issues that should be addressed to attract more high quality FDI projects in the coming years.

Firstly, the lack of a skilled labor force and poor infrastructure in Vietnam are taken into consideration by foreign investors. Those are the "bottle necks" of the economy. Infrastructure (airports, seaports, roads, bridges, electricity, water supply, telecommunication service, internet access, etc.) is very important to a country in terms of attracting FDI and to a company on deciding where to locate an investment, build a factory, establish a regional office,

[167] Framework Agreement on Comprehensive Economic Cooperation among the Governments of the Member Countries of the Association of Southeast Asian Nations and the Republic of Korea, Kuala Lumpur, December 13, 2005, retrieved from website http://trungtamwto.vn/cachiepdinhkhac/doi-thoai-asean-han-quoc, accessed December 17, 2012.

etc. How easy a country is to travel to and the modernity and efficiency of its air and seaports is always something a company and its executives need to consider. A well developed transport and communications infrastructure network is a prerequisite for the access of less-developed communities to core economic activities and services. Effective modes of transport enable workers to the most suitable jobs. Economies also depend on electricity supplies that are free from interruptions and shortages so that businesses and factories can work unimpeded. Finally, a solid and extensive telecommunications network allows for a rapid and free flow of information, which increases overall economic efficiency by helping to ensure that businesses can communicate and decisions are made by economic actors taking into account all available relevant information (WEF, 2010), and therefore stimulates FDI inflows.

A recent survey conducted by the Vietnam Chamber of Commerce and Industry (VCCI, 2011) also shows that quality of labor continues to be one of the major concerns of foreign investors. FDI enterprises identified education and training has not improved in the last 2 years. On a national scale, 26% of employees of FDI enterprises have a university degree and 44% were trained. As for businesses, 72% of workers are likely to be able to read, write and understand the labor contract. In order to satisfy the quality of education and training, nearly 40% of FDI enterprises have had job training for their employees. There is a fact that only 66% of employees after training return to work for the enterprise. Foreign companies have spent about 7.4% costs for labor training, while this ratio is 5% of domestic companies. If education and training have better quality, companies can cut down the costs in training. The enterprises in the manufacturing and financial sectors have had the highest expenses for labor training.[168]

Secondly, in mentioning the problematic factors for doing business in Vietnam, Figure 3.3 indicates the most problematic factors for doing business in Vietnam offered by WEF (2010). It is obviously that *inadequate supply of infrastructure* and *educated workforce* are in top five factors that are considered to be the most problematic factors in Vietnam. The others in top five are *policy instability*, *inflation*, and *access to financing*. These especially have been the weaknesses of Vietnam's business environment for years and efforts are needed to resolve them to make the country more attractive in the eyes of foreign investors in the near future.[169]

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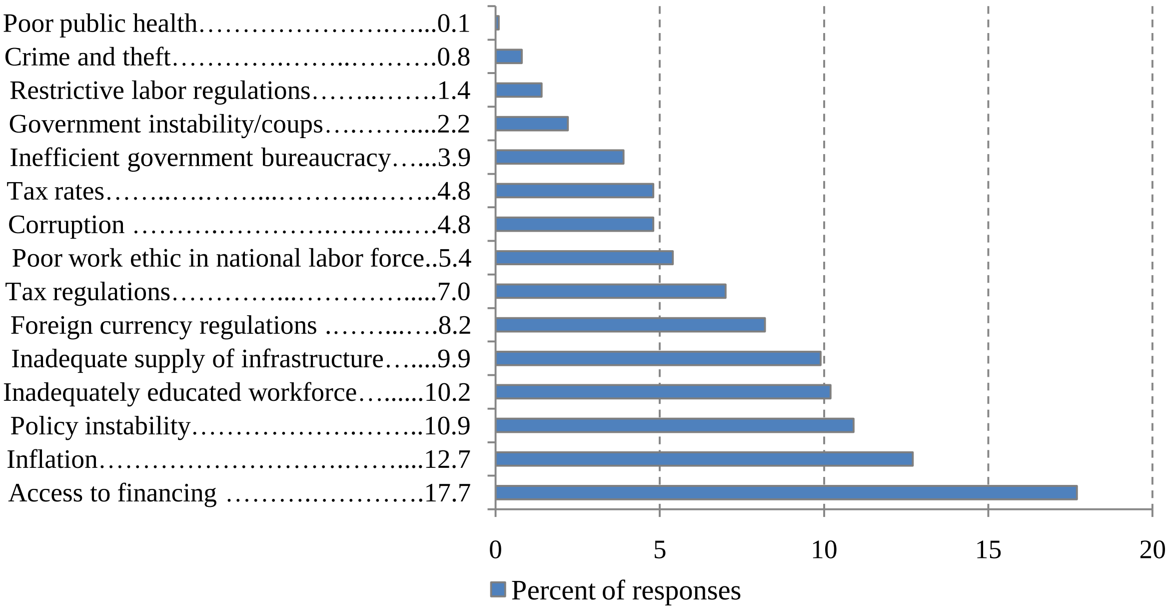
[168] See more in "Doanh nghiep FDI "ngan gi" nhat khi dau tu vao Viet Nam" (What do FDI enterprises fed up with when they invest in Vietnam? Retrieved February 29, 2012 from website: http://www.petrotimes.vn/thuong-truong/2012/02/doanh-nghiep-fdi-%E2%80%9Cngan%E2%80%9D-gi-nhat-khi-dau-tu-vao-viet-nam.

[169] The stability of the macroeconomic policy is important for business and, therefore, is important for the overall competitiveness of a country. An efficient financial sector allocates the resources saved by a nation's citizens, as well as those entering the economy from abroad, to their most productive uses. It channels resources to those entrepreneurial or investment projects with the highest expected rates of return rather than to the politically connected. A thorough and proper assessment of risk is therefore a key ingredient. Business investment is critical to productivity. Therefore economies require sophisticated financial markets that can

Figure 3.3: The Most Problematic Factors for Doing Business in Vietnam



Notes: From a list of 15 factors, respondents were asked to select the five most problematic for doing business in the country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

Source: World Economic Forum, 2010. "*The Global Competitiveness Report 2010-2011*", p. 346.

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make capital available for private-sector investment from such sources as loans from a sound banking sector, properly regulated securities exchanges, venture capital, and other financial products. The importance of such access to capital was recently underscored by the liquidity crunch experienced by businesses and the public sector in both developing and developed countries. In order to fulfill all those functions, the banking sector needs to be trustworthy and transparent, and-as has been made so clear recently-financial markets need appropriate regulation to protect investors and other actors in the economy at large (WEF, 2010).

Overall, Vietnam's inflation has maintained a high rate since 2004. Inflation rate is usually higher than the economic growth rate. The average GDP growth rate for the period from 2006 to 2010 is about 7.0 % while the average rate of inflation is nearly 11%. Vietnam's inflation rate is much higher than that of compared with other regional countries. For example, the average inflation rate of China in the phase 2006-2009 is about 3%, and 8.4% for Indonesia, 3.1% for Thailand, 2.7% for Malaysia, and 5.8% for the Philippines. Economists suggested that Vietnam should prioritize fighting against inflation to push the inflation rate down to a one-digit level. It means the Government of Vietnam has to slowdown the target for economic growth and use the tightening monetary policy. Retrieved from website: http://tuyengiao.vn/Home/MagazineStory.aspx?mid=68&mzid=502&ID=1241, accessed March 9, 2012.

Table 3.7: The Summary of Chapter 3

<table>
<tr>
<th>3.2. The Legal Framework and Policy to Attract FDI of Vietnam</th>
<th>3.3. An Analysis of FDI Inflows into Vietnam in the Period from 1988 to 2011</th>
<th>3.4. The Impact of the WTO on FDI Inflows into Vietnam</th>
</tr>
<tr>
<td>3.2.1. The Legal Framework
• FDI in Vietnam is regulated by two main law documents: the 2005 Investment Law and the 2005 Enterprise Law, which came into effect since July 1, 2006. They apply to both domestic and foreign investors in all economic sectors.</td>
<td rowspan="2">3.3.1. Approved and Implemented FDI Capital in Vietnam during 1988-2011
• Vietnam attracted a total FDI capital of about USD 143,950.3 million in duration of 2007-2011, nearly double than that of in duration of 1988-2006, USD 78,248.7 million, and amounting for 62.61% of the total FDI capital flowed into Vietnam from 1988 to 2011, USD 229,913.7 million.
• The total implemented FDI capital in duration of 2007-2011 was USD 51,530 million, 1.38 times higher than that of in the period from 1988 to 2006, which was at USD 37,415.5 million.
• Notably, the ratios of implemented FDI capital remained low compared with the approved capital, 47.81% in duration of 1988-2006, and 35.80% for the interval 2007-2011.</td>
<td rowspan="3">3.4.1. The Specification of Gravity Model and Decrypting the Dataset
$\mathbf{LnFDI_{jt} = \beta_{10} + \beta_{11}LnDIS_{VNj} + \beta_{12}LnGDP_{VNt} + \beta_{13}LnGDP_{jt} + \beta_{14}LnEX_{jt-1} + \beta_{15}LnIM_{jt-1} + \beta_{16}LnRER_{CURj/VNDt} + \beta_{17}Ln(ins_{VNt}*ins_{jt}) + \gamma_{11}AFTA + \gamma_{12}USBTA + \gamma_{13}ACFTA + \gamma_{14}AKFTA + \gamma_{15}JVEPA + \gamma_{16}AJCEP + \gamma_{17}AANZFTA + \gamma_{18}Bothin_{VNjt} + \gamma_{19}Onein_{VNjt} + \gamma_{110}BOR_{VNj} + \varepsilon_{1VNj}}$
Dataset: empirical analysis is based on a panel data of country pairs set in the period from 1995 to 2011 which involves 17 Vietnam's major/stable FDI partners.</td>
</tr>
<tr>
<td rowspan="4">3.2.2. Policy to Attract FDI of Vietnam
(1) Investment guarantees
Vietnam commits to ensuring the implementation of investments (in accordance with the 2005 Investment Law): ensuring the capital and assets; protection of intellectual property; opening markets and trade-related investment; transfer of capital and assets abroad; applying consistent prices, fees and charges; ensuring investment in case of changes in the laws and policies.
(2) Fields of investment preferences
Vietnam prioritizes the foreign direct investment attraction in the following sectors and industries:
• Production of new materials, new energy; production of hi-tech products, biotechnology, information technology, manufacturing engineering; use of modern technology and science; ecological environment production.
• Growing and processing agricultural, forestry and aquatic products; producing consumer goods for domestic demand and exports.
• Building and developing the infrastructure system such as transport, seaports, electricity and water supplies, construction of infrastructure for industrial zones, urban areas, etc.
• Projects to develop human resources related to education, training and health, sports; labor - intensive projects.
• Projects of investment in industrial areas, export processing zones, hi-tech zones, economic zones; investment in areas of socio-economic disadvantages.
(3) Investment preferences
Tax preferences; loss shifting; depreciation of fixed assets; preferences on land use; incentives for investors in industrial parks, export processing zones, hi-tech parks, and economic zones.</td>
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<td>3.3.2. FDI by Economic Sectors in Vietnam during 1988-2011
• The share of FDI capital in industry and construction sector has diminished slightly from 67.33% in duration of 1988-2006 to 53.05% after Vietnam's WTO accession.
• The share of the agriculture, forestry, and fishery sector of total approved capital declined severely from 4.93% to 0.41% at the same time.
• The ratio of service sector in total approved capital swelled from 27.74% in duration of 1988-2006 to 46.54% after Vietnam accessed to the WTO, in which the real estate and renting business activities boosted stridently from 10.32% to 31.49%.</td>
</tr>
<tr>
<td>3.3.3. FDI by Countries in Vietnam during 1988-2011
• Foreign investors in Vietnam in this duration were subjected by Asia-Pacific investors (Singapore, Taiwan, Japan, the Republic of Korea, Hong Kong, British Virgin Island, and the USA). Asian investors accounted for 67.13% of total projects and 60.32% total capital.
• In duration of 2007-2011, Malaysia was the largest investor covering 12.03% total approved capital. The next in order was Taiwan holding the proportion of 10.42%. This was followed by Singapore sharing 10.34%. Japan and the USA had 10.21% and 9.79% respectively.</td>
<td rowspan="2">3.4.2. An Analysis of the Empirical Estimation Results
• Being the WTO membership of Vietnam's partners has helped to increase FDI flows to the country by about 107.6%.
• Accession to the WTO of both Vietnam and partners increased FDI flows to the country by about 190.4 %.
• The empirical results also support my hypothesis referred to in the preamble of this chapter.
• Other factors, namely, GDP of partners, FTAs, and the distance between Vietnam and FDI partners, also have had effects on increasing FDI flows into the country, but in diverse ways.</td>
</tr>
<tr>
<td>3.3.4. FDI by Regions in Vietnam during 1988-2011
• During 1998-2006, the geographical location of this duration was characterized by a concentration in two regions the Southeast, and the Red River Delta. Those two main regions covered around 80% of both total approved capital and total FDI projects.
• In duration of 2007-2011, the Red River Delta and the Southeast regions attracted 82.37% of total projects and 61.76% of total approved capital. The North Central Coast and the South Central Coast covered 5.68% of total projects & 28.24% of total approved FDI capital.</td>
</tr>
</table>

3.5. CONCLUSION FOR CHAPTER 3

Just 5 years after Vietnam's accession to the WTO, a large amount of FDI capital flowed into the country which reached up to USD 143,950.3 million. Wherein, there was a switch of FDI capital from the manufacturing sector to the service sector in tandem with a downward trend in agriculture. Like the previous duration, Vietnam's FDI capital sources came mostly from the Asia-Pacific region and European economies (net capital and technology exporters) probably caused by Vietnam's integration that emphasized on capitalizing on the dynamics of the Asia-Pacific region. The geographical location of FDI was characterized by a concentration in three key economic regions: the Red River Delta (surrounding Ha Noi, Hai Phong, and Quang Ninh), the Central region (surrounding Da Nang), and the Southeast of the country (surrounding Ho Chi Minh City) owing to better infrastructure, abundance of a skilled labor force, and large market size.

By employing a gravity model and a panel dataset by Vietnam's authorities and international organizations during the period from 1995 to 2011 of 17 Vietnam's major FDI partners, the author finds evidence broadly consistent with the prediction that the WTO has had a positive impact on FDI inflows into Vietnam. This strongly supports the author's hypothesis. Notably, other factors, namely, economic mass (GDP of partners), FTAs, and the distance between Vietnam and FDI partners, also have had effects in increasing FDI inflows into the country, but in diverse ways. Among them, the WTO may take the central role.

<u>Chapter 4</u>

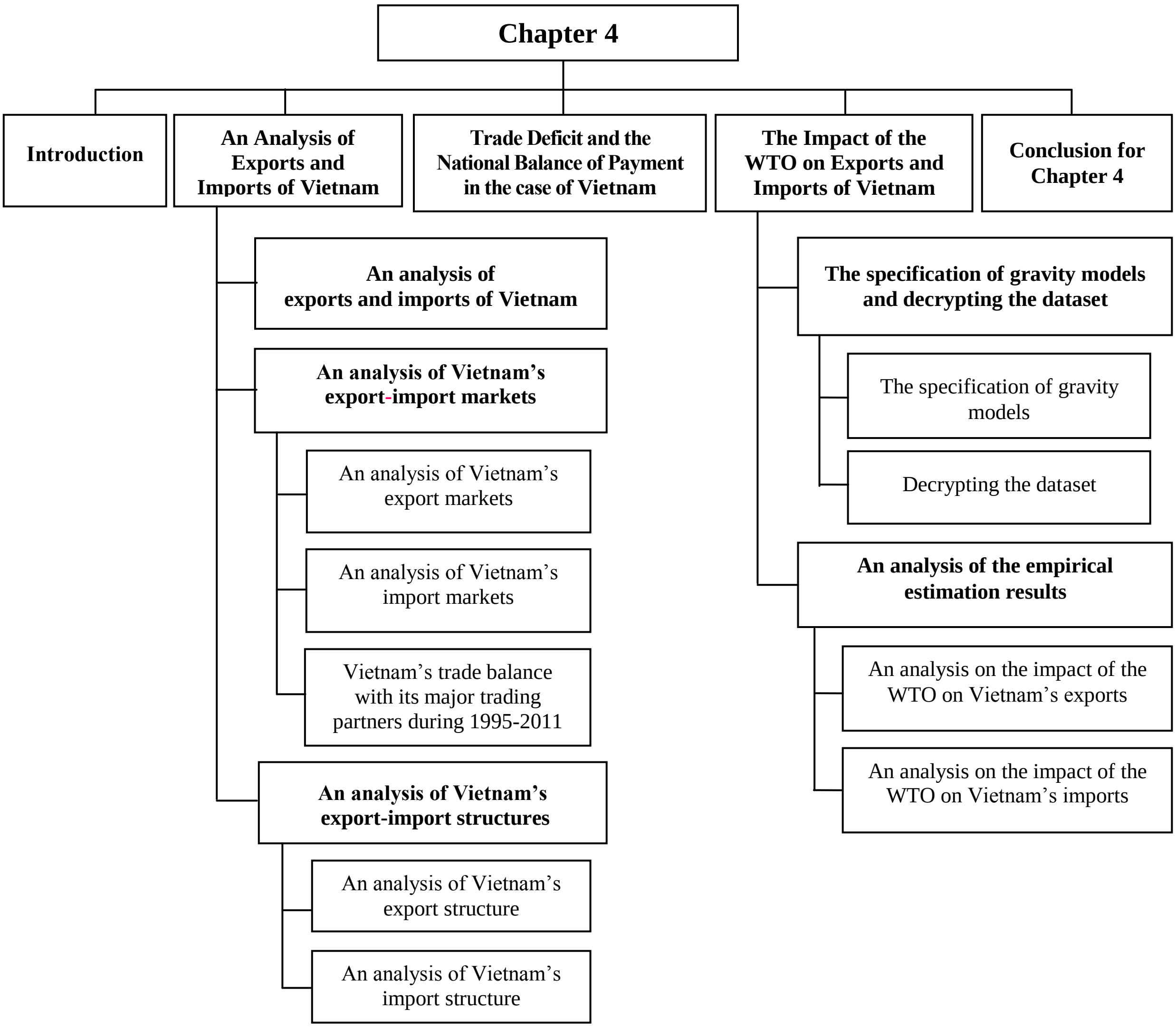
THE IMPACT OF THE WTO

ON EXPORTS AND IMPORTS OF VIETNAM

4.1. INTRODUCTION

This is one of the most important chapters of the thesis. It focuses on assessing the impact of the WTO on exports and imports of Vietnam. Section 4.2 will first give an analysis of Vietnam's foreign trade during the period from 1995 to 2011 in terms of the overall trends of exports and imports, export-import markets, export-import structures, and its trade balance with major trading partners. Section 4.3 analyzes Vietnam's trade deficit in relationship with the National Balance of Payment (BOP). Section 4.4 constructs two gravity models to evaluate the impact of the WTO on exports and imports of Vietnam. The final section refers to some conclusions for this chapter. The methodologies utilized in this chapter are the qualitative and quantitative research tools, descriptive analysis, and the empirical study. Figure 4.1 below details the structure of Chapter 4.

Figure 4.1: The Structure of Chapter 4



Source: Author's compilation.

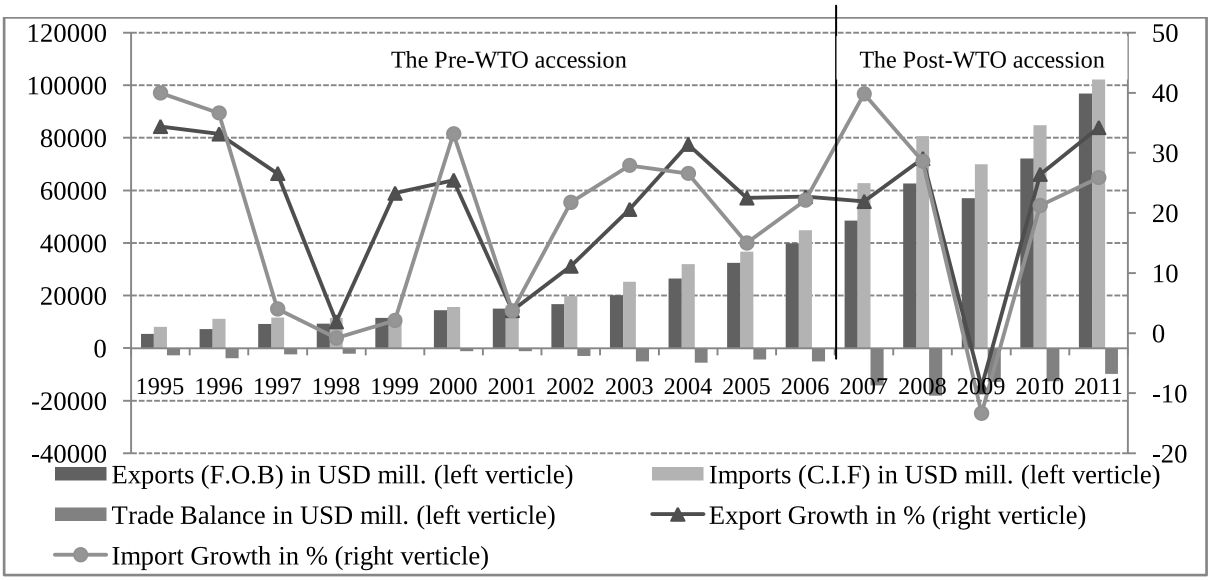
4.2. AN ANALYSIS OF EXPORTS AND IMPORTS OF VIETNAM IN THE PERIOD FROM 1995 TO 2011

The purpose of this section is to give an analysis of Vietnam's foreign trade during the period from 1995 to 2011 in terms of the overall trends in exports and imports, export-import markets, export-import structures, and Vietnam's foreign trade balance with its major trading partners. The subsequent item starts by outlining the overall trends of exports and imports of Vietnam.

4.2.1. An Analysis of Exports and Imports of Vietnam during 1995-2011

This item will analyze the overall trends of Vietnam's exports and imports in the 5 years following WTO accession (2007-2011) in either values or percentage changes in comparison with the previous duration (1995-2006).

Figure 4.2: Values and Percentage Changes of Vietnam's Exports and Imports from 1995 to 2011



Notes:

F.O.B, Free on board price, refers to the charge to deliver goods at the border of the exporting country, including value of goods and the value of services performed to deliver goods to the port and loading on to a means of transport.

C.I.F, Insurance, Freight Price, refers to the charge to deliver goods at the border of the importing country, including value of goods, cost of insurance and freight of goods, delivery to the border of importing country, excluding cost of unloading from a means of transport.

Source: Author calculated from figures published by the GSO of Vietnam, 2012.

Figure 4.2 above presents Vietnam's exports and imports in either values or percentage changes from 1995 to 2011. Generally, it is clear that Vietnam's exports and imports kept accelerating after accession to the WTO in either values or percentage changes. Specifically, Vietnam's total trade (exports plus imports) have increased from USD 84,717.3 million in 2006 to

USD 203,665.6 million in 2011, 15 times greater than 1995 (USD 13,604.3 million), 6.76 times higher than that of in 2000 (USD 30,119.2 million) and a 2.4-fold increase in comparison with total trade in 2006. Its exports rose from USD 39,826.2 million in 2006 to USD 96,905.7 million in 2011, and its imports increased from USD 44,891.1 million to USD 106,749.9 million at the same time. 5 years following WTO accession, the values of both exports and imports of Vietnam were 2.4 times higher than that of in 2006. The average growth rates of total trade, exports and imports in duration of 2007-2011 were 20.22%, 20.36% and 20.20% respectively. Those rates were equivalent compared with that of in duration of 2000-2006, 20.55%, 19.67%, and 21.46% in order.

It is also obvious that Vietnam's balance of trade deficit had experienced an upward trend together with the increase of trade size. Trade deficit has increased from USD 1,153.8 million in 2000 to USD 5,064.9 million in 2006 and leveled off at USD 9,844.2 million in 2011, 8.53 times higher than that of in 2000 and 1.94 times better in comparison with 2006. The average percentage of trade deficit per exports in duration of 2000-2006 was around 15% compared with about 21% 5 years after joining the WTO. The trade balance has a close relationship with the National Balance of Payment (BOP) for it is a part/component of the Current Account in the BOP.[170] This will be discussed in Section 4.3 of this chapter. Thus, the author constructs the second hypothesis as follows: ***The WTO could be an important factor in expanding the country's foreign trade in recent years, especially on the import side.***

4.2.2. An Analysis of Vietnam's Export-Import Markets during 1995-2011

In this item, the author will analyze the Vietnam's export-import markets after WTO accession (2007-2011) in comparison with the previous duration (1995-2006).

4.2.2.1. An Analysis of Vietnam's Export Markets during 1995-2011

Table 4.1: Values (USD million) and Shares (%) of Vietnam's Exports by Destinations during 1995-2011

<Insert Table 4.1 below here>

Notes: ASEAN 4 includes Malaysia, the Philippines, Singapore and Thailand covering around 70% of Vietnam's total exports to ASEAN 9 during 1995-2011

EU 5 includes Belgium, France, Germany, the Netherlands and the United Kingdom (UK) covering about 70% of Vietnam's total exports to all EU members during 1995-2011

Source: Author calculated from figures published by the Vietnam's General Statistics Office (GSO), 2012.[171]

[170] Current Account of BOP includes four main components: Trade in Goods, Trade in Services, Investment Income, and Current Transfers. This will be partly analyzed in Section 4.3 of this chapter of the thesis.

[171] Retrieved from websites http://www.gso.gov.vn/default.aspx?tabid=393&idmid=3&ItemID=13172, accessed November 28, 2012.

	The Pre-WTO accession							The Post-WTO accession									
Countries/Territories	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Australia	55.4	64.8	230.4	471.5	814.6	1272.5	1041.8	1328.3	1420.9	1884.7	2722.8	3744.7	3802.2	4351.6	2386.1	2704	2519.1
Belgium	34.7	61.3	124.9	212.3	306.7	311.9	341.2	337.1	391.4	515.7	544.1	687.5	849	1019.2	831.7	848.8	1199.7
Canada	17.8	32.6	63.9	80.2	91.1	98.7	107.3	138.1	171.3	270.1	356	440.5	539.2	656.4	638.5	802.1	969.4
China	361.9	340.2	474.1	440.1	746.4	1536.4	1417.4	1518.3	1883.1	2899.1	3228.1	3242.8	3646.1	4850.1	5403	7308.8	11125.0
France	169.1	145	238.1	297.3	354.9	380.1	467.5	437.9	496.1	555.1	652.9	797.2	884.4	970.8	809.6	1095.1	1658.9
Germany	218	228	411.4	552.5	654.3	730.3	721.8	729	854.7	1064.7	1085.5	1445.3	1854.9	2073.4	1885.4	2372.7	3366.9
Hong Kong	256.7	311.2	430.7	318.1	235.7	315.9	317.2	340.2	368.7	380.1	353.1	453	582.5	877.2	1034.1	1464.2	2205.7
Japan	1461	1546.4	1675.4	1514.5	1786.2	2575.2	2509.8	2437	2908.6	3542.1	4340.3	5240.1	6090	8467.8	6335.6	7727.7	10781.1
Malaysia	110.6	77.7	141.6	115.2	256.5	413.9	337.2	347.8	453.8	624.3	1028.3	1254	1555	2030.4	1775.2	2093.1	2832.4
The Netherlands	79.7	147.4	266.8	304.1	342.9	391	364.5	404.3	493	581.9	659.2	857.4	1182.1	1577.4	1355.6	1688.3	2148.0
Philippines	41.5	132	240.6	401.1	393.2	478.4	368.4	315.2	340	498.6	829	782.8	965.1	1824.7	1461.9	1706.4	1535.3
Singapore	689.8	1290	1215.9	740.9	876.4	885.9	1043.7	961.1	1024.7	1485.3	1917	1811.7	2234.4	2713.8	2075.6	2121.3	2285.7
The Republic of Korea	235.3	558.3	417	229.1	319.9	352.6	406.1	468.7	492.1	608.1	663.6	842.9	1243.4	1793.5	2077.8	3092.2	4715.4
Taiwan	439.4	539.9	814.5	670.2	682.4	756.6	806	817.7	749.2	890.6	935	968.7	1139.4	1401.4	1120.6	1442.8	1843.3
Thailand	101.3	107.4	235.3	295.4	312.7	372.3	322.8	227.3	335.4	518.1	863	930.2	1030	1288.5	1314.2	1182.8	1792.2
The UK	74.6	125.1	265.2	335.8	421.2	479.4	511.6	571.6	754.8	1010.3	1015.8	1179.7	1431.3	1581	1329.2	1681.9	2398.2
The USA	169.7	204.2	286.7	468.6	504	732.8	1065.3	2452.8	3938.6	5024.8	5924	7845.1	10104.5	11886.8	11407.2	14238.1	16927.8
ASEAN 4	943.2	1607.1	1833.4	1552.6	1838.8	2150.5	2072.1	1851.4	2153.9	3126.3	4637.3	4778.7	5784.5	7857.4	6626.9	7103.6	8445.6
EU 5	576.1	706.8	1306.4	1702	2080	2292.7	2406.6	2479.9	2990	3727.7	3957.5	4967.1	6201.7	7221.8	6211.5	7686.8	10771.7
Top 17	4516.5	5911.5	7532.5	7446.9	9099.1	12083.9	12149.6	13832.4	17076.4	22353.6	27117.7	32523.6	39133.5	49364	43241.3	53570.3	70304.1
Others	932.4	1344.4	1652.5	1913.4	2442.3	2398.8	2879.6	2873.7	3072.9	4131.4	5329.4	7302.6	9427.9	13321.1	13855	18621.6	26601.6
Total	**5448.9**	**7255.9**	**9185**	**9360.3**	**11541.4**	**14482.7**	**15029.2**	**16706.1**	**20149.3**	**26485**	**32447.1**	**39826.2**	**48561.4**	**62685.1**	**57096.3**	**72191.9**	**96905.7**
In Percents	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Australia	1.02	0.89	2.51	5.04	7.06	8.79	6.93	7.95	7.05	7.12	8.39	9.40	7.83	6.94	4.18	3.75	2.60
Canada	0.33	0.45	0.70	0.87	0.79	0.68	0.71	0.83	0.85	1.02	1.10	1.10	1.11	1.05	1.12	1.11	1.00
China	6.64	4.69	5.16	4.70	6.47	10.61	9.43	9.09	9.35	10.95	9.95	8.14	7.51	7.74	9.46	10.12	11.47
Hong Kong	4.71	4.29	4.69	3.40	2.04	2.18	2.11	2.04	1.83	1.44	1.09	1.14	1.20	1.40	1.81	2.03	2.27
Japan	26.81	21.31	18.24	16.18	15.48	17.78	16.70	14.59	14.44	13.37	13.37	13.16	12.54	13.51	11.10	10.70	11.13
The Republic of Korea	4.32	7.69	4.54	2.45	2.77	2.43	2.70	2.81	2.44	2.30	2.05	2.12	2.56	2.86	3.64	4.28	4.87
Taiwan	8.06	7.44	8.87	7.16	5.91	5.22	5.36	4.89	3.72	3.36	2.88	2.43	2.35	2.24	1.96	2.00	1.90
The USA	3.11	2.81	3.12	5.00	4.37	5.06	7.09	14.68	19.55	18.97	18.26	19.70	20.81	18.96	19.98	19.72	17.47
ASEAN 4	17.31	22.15	19.96	16.58	15.93	14.85	13.79	11.08	10.67	11.81	14.28	12.01	11.91	12.53	11.61	9.84	8.72
EU 5	10.57	9.74	14.22	18.18	18.02	15.83	16.02	14.84	14.85	14.07	12.20	12.47	12.77	11.52	10.87	10.65	11.12
Top 17	82.88	81.46	82.01	79.56	78.84	83.43	80.84	82.8	84.75	84.41	83.57	81.67	80.59	78.75	75.73	74.2	72.55
Others	17.12	18.54	17.99	20.44	21.16	16.57	19.16	17.2	15.25	15.59	16.43	18.33	19.41	21.25	24.27	25.8	27.45
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Table 4.1 illustrates Vietnam's exports by destinations during 1995-2011 in both values and shares. Generally on the export side, Vietnam's exports have concentrated in the Asia-Pacific region and the EU. Comparing the pre-and-post WTO accession, there have been some changes in the relative importance in order of Vietnam's major export markets. In 2000, Japan was the largest export market with an export value of USD 2,575.2 million, taking 17.78% of total exports. This was followed by the EU 5, ASEAN 4, China, Australia, Taiwan, the USA and the Republic of Korea. In 2006, we witness the appearance of the USA as the largest export market of Vietnam. The proportion of Vietnam's exports to the USA has increased from 5.06% in 2000 to 19.70% in 2006. The export value rose from USD 732.8 million to USD 7,845.1 million at the same time, more than ten-fold over the 6 years. Large as it is, the magnitude of the export response is no surprise given the size of the USA market in the world. This was a result from the positive impact of the USBTA signed in 2000. The signing of the USBTA opened the "window" for Vietnam's exports to the vast USA markets. In the same year, Japan, the EU, ASEAN, Australia, China, Taiwan and the Republic of Korea were also major export markets of Vietnam.

In 2011, the USA still dominated the largest market share of Vietnam's exports taking 17.47% of the total. Due to the negative impact of the 2008 global financial and economic crisis, though the absolute values of Vietnam's exports still increased, the ratios of its exports to major markets decreased slightly. The proportions of the EU 5 and the ASEAN 4 declined from 12.47% and 12.01% in 2006 to 11.12% and 8.72% respectively in 2011. The ratio of Vietnam's exports to Japan also reduced from 13.16% to 11.13% in the same period. Exports to Australia gradually declined from 9.40% in 2006 to 2.60% in 2011. There have been slight changes in the cases of China, the Republic of Korea and Taiwan. Top 17 major export markets covered around 80%, and the others shared about 20% of Vietnam's total exports in both pre-and-post of WTO accession. Overall, despite the negative effects of the 2008 global financial and economic crisis, there have been only some changes in the relative importance in the order of Vietnam's major export markets. The Asia-Pacific region (including the USA, ASEAN, Japan, Australia, China, Taiwan, and the Republic of Korea) and the EU economies were still the most important export markets of Vietnam in the post-WTO accession. Those markets covered around 80% of Vietnam's total exports. This is consistent with Vietnam's economic integration focusing on the dynamic Asia-Pacific region and EU economies, in which, Vietnam exported mostly raw materials (e.g., coal, crude oil, rubber, cotton) and agricultural products (vegetables, seeds, etc.) to China, and merchandises (e.g., textiles, garments, footwear, agricultural and sea products) to ASEAN, Japan, the USA, and the EU (GSO, 2012). The question is why the USA is the largest export market of Vietnam recently? And, does the

USBTA induce such large amounts of Vietnam's exports to this country? The explanation partly comes from the following analysis.

An overview of the trade relations between Vietnam and the USA

The Bilateral Trade Agreement between the United States of America and the Socialist Republic of Vietnam, herein called the US-Vietnam Bilateral Trade Agreement (USBTA), came into force on December 10, 2001. It has raised bilateral trade and investment relations between two countries to new heights. The USBTA has created opportunities for Vietnam's enterprises to enter into the vast markets of the USA. Specifically, this USBTA helps to develop traditional products which Vietnam has comparative advantage in such as garment, textile, footwear and aquatic products. After the USBTA came into force, the USA immediately extended Normal Trade Relations/Most-Favoured-Nation status (NTR/MFN) to Vietnam and reduced its average made a commitment to initiate comprehensive reforms that would bring its laws, regulations, and administrative practices much more in line with international practices, and to liberalize market access. The following lists some key provisions based on the country's agreement to open up the right to import and export for the first time. It allowed: (i) all Vietnamese companies the right to trade immediately; (ii) all the USA invested companies the right to trade, in connection with their operations; (iii) the USA invested companies the right to trade any products (subject to some exception) in 3 years; (iv) American nationals to form joint ventures for the purpose of trading, in three years, with maximum 49% share; in six years, the maximum the USA share is 51%. Vietnam committed to MFN tariff treatment on all the USA imports. Vietnam has also agreed to cut tariffs (typically reduced anywhere between one-third to one-half) on a broad range of products of interest to exporters of the USA, including toiletries, film, air conditioners and refrigerators, electrical motors, valves, mobile phones, papers, video games, lamb, cheese, potatoes, tomatoes, onions, garlic, other vegetables, grapes, apples and pears, other fresh fruits, certain floors, soybeans, vegetable oils, processed meats and fish, pasta, fruit juices. This was to be done in phases covering a period of 3 years.[172] Notably, Vietnam committed to cut down on about 261 tariff lines.

On non-tariff barriers, Vietnam agreed to eliminate all quantitative restrictions on a range of industrial and agricultural products (e.g., auto parts, citrus, and beef), over a period of 3-7 years, depending on the product. It also eliminated all discretionary import licensing, in accordance with the WTO agreements. Thus, the country promised to comply with the WTO rules-using

[172] Summary of Key Provisions of the US-Vietnam Bilateral Trade Agreement (BTA), accessed December 27, 2012 website: http://www.usvtc.org/trade/bta/key_provisions.htm.

transactions value for customs valuation, and limiting customs fees for cost of services rendered-in 2 years.[173]

Vietnam also ensured full compliance to TRIPs in all areas in a short time frame including TRIPs-level Patent and Trademark protection (to comply within 12 months) and TRIPs-level Copyright and Trade Secrets Protection (to comply within 18 months). Vietnam agreed to liberalize trade in services in many sectors such as legal, accounting, architecture, engineering, computer and related areas, advertising, market research, telecommunications, audio visual, construction-related, distribution, education, finance, banking, and insurance services, etc.[174]

One of the most important regulations in the USBTA is the provision related the investment of USA investors. Accordingly, Vietnam phased out all the WTO inconsistent TRIMs (local content, export performance requirements, and discriminatory pricing) and applied the general national treatment. Vietnam ensured that USA persons can conduct routine business practices, such as setting up offices, importing products for office use, advertising, and conducting market studies. Vietnam provided advance notices on all laws and regulations and other administrative procedures relating to any matter covered in the agreement and requiring their publication, and an indication therein of effective dates and government contact points.[175]

Overall, Vietnam was not required to make significant tariff cuts under the USBTA. However, it was asked to reform its commercial laws and regulations in tandem with improving market access for USA firms in key service sectors as described earlier. These reforms would be expected to attract investment by USA investors and expand Vietnam's exports to the vast USA markets due to the grant of the MFN and lower tariff rates (under 4%) as well as increase imports from the USA as the following review of bilateral trade between two countries.[176]

After the end of the USA embargo in 1994, most of Vietnam's exports to the USA were items that either received duty-free treatment (zero tariffs) or had identical tariffs of MFN and

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[173] Summary of Key Provisions of the US-Vietnam Bilateral Trade Agreement (USBTA), accessed December 27, 2012, website: http://www.usvtc.org/trade/bta/key_provisions.htm

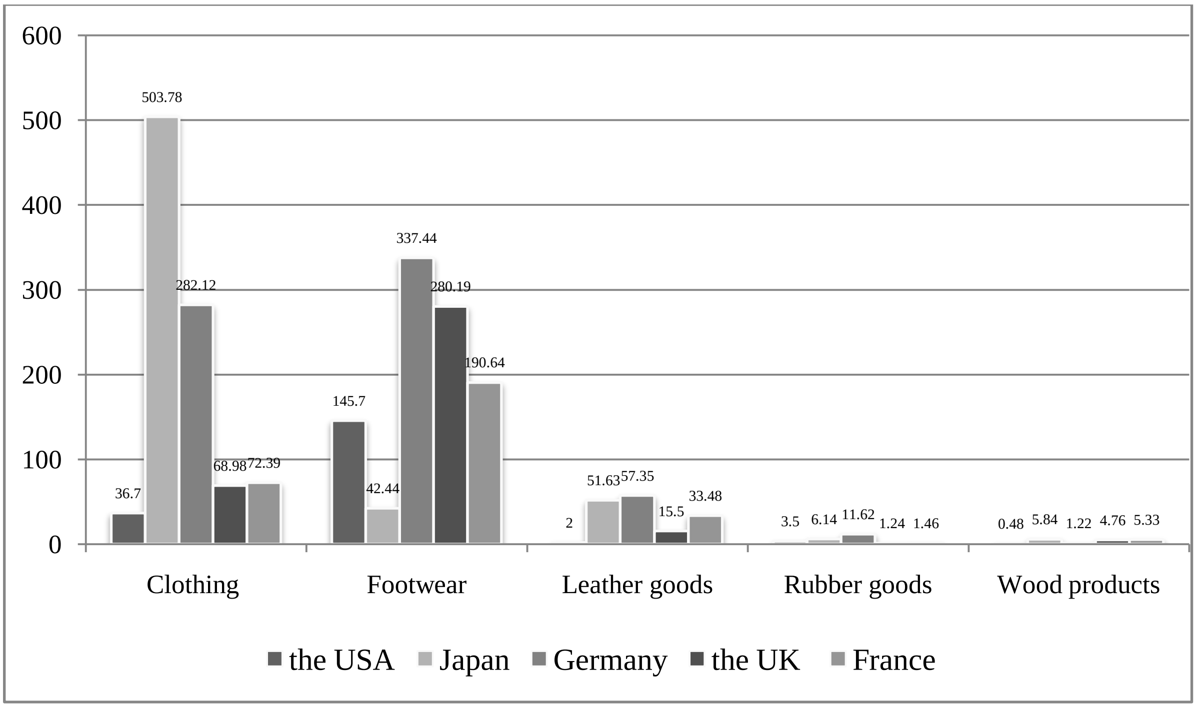
[174] Summary of Key Provisions of the US-Vietnam Bilateral Trade Agreement (USBTA), accessed December 27. 2012, website: http://www.usvtc.org/trade/bta/key_provisions.htm

[175] Summary of Key Provisions of the US-Vietnam Bilateral Trade Agreement (USBTA), accessed December 27, 2012, website: http://www.usvtc.org/trade/bta/key_provisions.htm.

[176] "Following the signing of the Agreement, Clinton Administration officials and business representatives were careful not to argue that the USBTA will significantly boost USA exports and investment to Vietnam in short term. Rather, they stressed that USA exporters and investors will benefit most in the medium and long-term, as Vietnam continues market-oriented reforms, becomes more developed and integrated to global economy, and as Vietnam phases in more and more of the USBTA's requirements. Moreover, exports to and investment in Vietnam are expected to increase as Hanoi and other members of the Association of Southeast Asian Nations (ASEAN)-a 10 country, 500-million person market-follow through on commitments to reduce trade barriers by 2006. Ultimately, USA trade and investment opportunities in the future will depend on a) Hanoi's implementation of the USBTA; b) Vietnam progress on moving toward a more market-oriented economy; and c) Vietnam's rate of economic growth" (Manyin, M.E. 2002, p. 6).

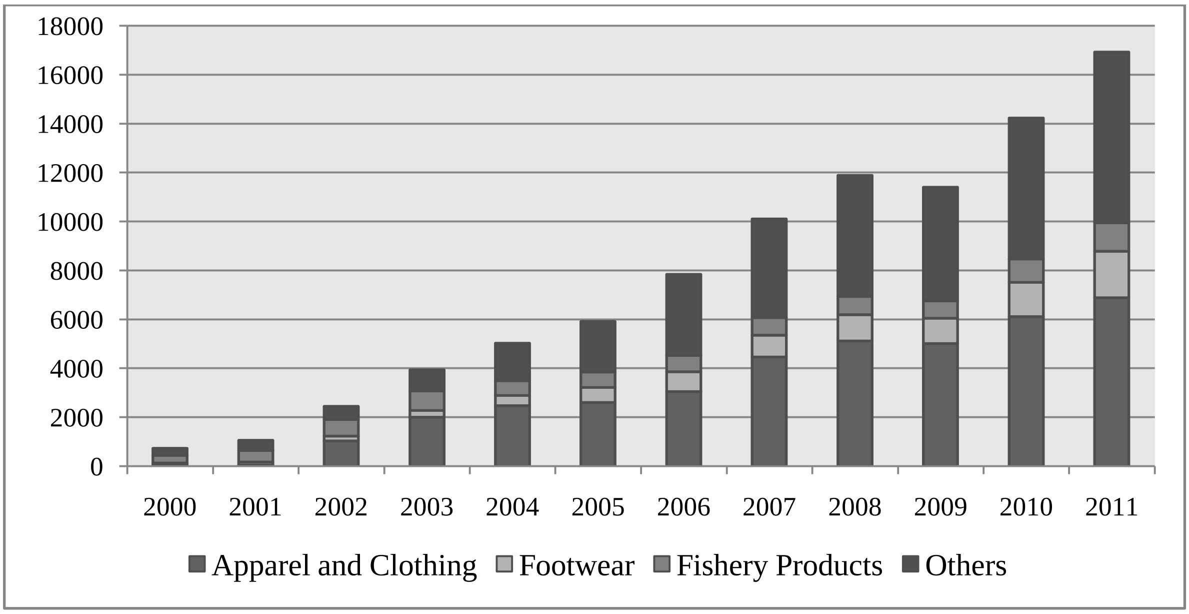
non-MFN countries (Manyin 2002, p. 9). As of 2000, the USA only absorbed 5.06% of total Vietnam's exports. Since the USBTA came into effect in 2001, Vietnam's exports to the USA have increased dramatically from USD 732.8 million in 2000 to USD 16,927.8 million in 2011 (23 times fold after 10 years). The USA has become the largest export market covering around 17.47% of total Vietnam's exports in 2011.

Figure 4.3: Some Exported Products of Vietnam to Selected Countries in 1999 (USD million)



Source: Manyin, M.E., 2002.

Figure 4.4: Vietnam's Exports to the USA during 2000-2011 (USD million)



Source: The GSO of Vietnam, 2012.

From Figure 4.3 and 4.4 above, it is clear that the USBTA has helped increasing Vietnam's exports in labor-intensive manufacturing but it also brings to light the large differences between the MFN and non-MFN tariff rates. Judging by Vietnam's leading exports to the European economies and Japan before signing the USBTA (see Figure 4.3). After the USBTA came into effect in 2001, apparel and clothing, footwear, fishery products, and others have increased substantially. The USA has become one of the most important export markets of Vietnam. Does the USBTA really promote Vietnam's exports to and imports from the USA? This will be examined by using the gravity model in section 4.4.

4.2.2.2. An Analysis of Vietnam's Import Markets during 1995-2011

Whether or not Vietnam's import markets share the same trends with its export markets after WTO accession will be examined in this item by looking at the growth trends of Vietnam's import markets 5 years after its WTO accession in comparison with the previous duration.

Table 4.2 below presents Vietnam's imports by sources during 1995-2011 in both values and shares. On the import side, a similar trend can be easily observed for the changes in the relative importance of the main import sources of Vietnam. Vietnam's imports have mainly concentrated in the Asia-Pacific region and the EU that include Vietnam's main FTA trading partners such as the USBTA, AFTA, ACFTA, AKFTA, JVEP, AJCEP, and AANZFTA.

In contrast with the export side, the USA was not the largest import source of Vietnam, while China, ASEAN 4, the Republic of Korea, Japan and Taiwan have been the most important import sources for Vietnam before and after joining the WTO. Specifically, the proportion of Vietnam's imports from the USA was only 2.34% in 2000, 2.19% in 2006 and 4.24% in 2011. Vietnam's imports from China have increased gradually in both absolute value and ratio recently, especially after Vietnam joined the ASEAN China FTA (ACFTA) and the WTO. The import value increased from USD 1,401.1 million in 2000 to USD 7,391.3 million in 2006 and USD 24,593.7 million in 2011. The share of its total imports rose from 8.96% in 2000 to 16.46% in 2006 and 23.04% in 2011. This could be partly explained by China's impact on the ASEAN neighbor countries after it joined the WTO in 2001 and the ACFTA went into effect in 2002. It is indubitable that, China's role has increased sharply and has become the most powerful engine in bringing trade expansion to the region and the world economy in both export and import trading. China's role is increasingly becoming more important to ASEAN countries due to the implementation of ASEAN-China Free Trade Area (Chen 2009, pp. 27-28). Moreover, the close geographical location between Vietnam and China "could be" a factor for such increase in Vietnam's imports due to low transport and transaction costs and abundance of Chinese products with comparative prices. Having said this, the argument needs rigorous testing using the gravity model and this will be conducted in section 4.4 of this chapter.

Table 4.2: Values (USD million) and Shares (%) of Vietnam's Imports by Sources during 1995-2011

	Pre-WTO accession											Post-WTO accession					
Year	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Australia	100.6	132.8	192.6	253.9	215.7	293.5	266.4	286.3	278	458.8	498.5	1099.7	1059.4	1357.9	1045.9	1443.6	2123.3
Belgium	21.7	59.9	80	69.5	85.2	92	72.2	94.7	167.8	137.6	171.2	225.4	312.2	348.3	300.9	320.2	346.9
Canada	24.9	35.1	36.9	41.3	49.5	37.6	56.8	63.7	76.6	96.8	173.6	178.6	287.2	297.8	235.8	349.3	342.1
China	329.7	329	404.4	515	673.1	1401.1	1606.2	2158.8	3138.6	4595.1	5899.7	7391.3	12710	15973.6	15411.3	20018.8	24593.7
France	276.6	416.8	550.8	379.8	309.3	334.2	300.4	299.2	411	617.4	447.7	421.1	1155.4	816.5	753.9	969	1205.0
Germany	175.5	288.2	280.8	359.9	268.7	295.2	396.7	558.1	614.6	694.3	661.9	914.5	1308.5	1479.9	1421.5	1742.4	2198.6
Hong Kong	419	795.4	598.9	557.3	504.7	598.1	537.6	804.8	990.9	1074.3	1235	1440.8	1950.7	2633.3	2120.9	860.4	969.7
Japan	915.7	1260.3	1509.3	1481.7	1618.3	2300.9	2183.1	2504.7	2982.1	3552.6	4074.1	4702.1	6188.9	8240.3	6836.4	9016.1	10400.3
Malaysia	190.5	200.3	226.8	249	305	388.9	464.4	683.3	925	1215.3	1256.5	1482	2289.9	2596.1	2561.3	3413.4	3919.7
The Netherlands	36.3	51.4	51.5	54	48.5	84.6	114.6	114.3	324.9	179.4	312.1	360.8	510.3	710.5	701.4	527.8	669.4
Philippines	24.7	28.9	36.3	67.7	47.5	62.9	53.5	100.6	140.9	188.4	209.9	342.6	414.2	389.1	450.7	700.3	805.1
Singapore	1425.2	2032.6	2128	1964	1878.5	2694.3	2478.3	2533.5	2875.8	3618.4	4482.3	6273.9	7613.7	9378	7015.2	4101.1	6390.6
The Republic of Korea	1253.6	1781.4	1564.5	1420.9	1485.8	1753.6	1886.8	2279.6	2625.4	3359.4	3594.1	3908.4	5340.4	7255.2	6707.6	9761.3	13175.9
Taiwan	901.3	1263.2	1484.7	1377.6	1566.4	1879.9	2008.7	2525.3	2915.5	3698.3	4304.2	4824.9	6946.7	8362.6	6112.9	6976.9	8556.8
Thailand	439.8	494.5	575.2	673.5	561.8	810.9	792.3	955.2	1282.2	1858.6	2374.1	3034.4	3744.2	4905.6	4471.1	5602.3	6383.6
The UK	50.7	83.7	103.9	96.4	109.2	149.9	171.6	166.5	219.8	227.7	182.4	202.1	237	386.3	342.5	511.1	646.1
The USA	130.4	245.8	251.5	324.9	322.7	363.4	410.8	458.3	1143.3	1133.9	862.9	987	1700.5	2646.6	2710.5	3766.9	4529.2
ASEAN 4	2080.2	2756.3	2966.3	2954.2	2792.8	3957	3788.5	4272.6	5223.9	6880.7	8322.8	11132.9	14062	17268.8	14498.3	13817.1	17499
EU 5	560.8	900	1067	959.6	820.9	955.9	1055.5	1232.8	1738.1	1856.4	1775.3	2123.9	3523.4	3741.5	3520.2	4070.5	5066
Top 17	6716.2	9499.3	10076.1	9886.4	10049.9	13541	13800.4	16586.9	21112.4	26706.3	30740.2	37789.6	53769.2	67777.6	59199.8	70080.9	87256
Others	1439.2	1644.3	1516.2	1613.2	1692.2	2095.5	2417.6	3158.7	4143.4	5262.5	6020.9	7101.5	8995.5	12936.2	10749	14720.3	19493.9
Total	**8155.4**	**11143.6**	**11592.3**	**11499.6**	**11742.1**	**15636.5**	**16218**	**19745.6**	**25255.8**	**31968.8**	**36761.1**	**44891.1**	**62764.7**	**80713.8**	**69948.8**	**84801.2**	**106749.9**
In Percents	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Australia	1.23	1.19	1.66	2.21	1.84	1.88	1.64	1.45	1.10	1.45	1.36	2.45	1.69	1.68	1.50	1.70	1.99
Canada	0.31	0.31	0.32	0.36	0.42	0.24	0.35	0.32	0.30	0.31	0.47	0.40	0.46	0.37	0.34	0.41	0.33
China	4.04	2.95	3.49	4.48	5.73	8.96	9.90	10.93	12.43	14.37	16.04	16.46	20.25	19.79	22.03	23.61	23.04
Hong Kong	5.14	7.14	5.17	4.84	4.30	3.83	3.31	4.08	3.92	3.36	3.36	3.21	3.12	3.26	3.03	1.01	0.90
Japan	11.23	11.30	13.01	12.88	13.78	14.71	13.46	12.68	11.80	11.12	11.08	10.47	9.86	10.21	9.77	10.63	9.74
The Republic of Korea	15.37	15.99	13.49	12.36	12.65	11.21	11.63	11.54	10.40	10.51	9.78	8.70	8.50	8.98	9.58	11.51	12.34
Taiwan	11.05	11.34	12.80	11.97	13.35	12.02	12.39	12.79	11.54	11.56	11.70	10.76	11.06	10.36	8.73	8.23	8.02
The USA	1.60	2.21	2.18	2.83	2.75	2.34	2.54	2.32	4.54	3.54	2.35	2.19	2.71	3.28	3.87	4.44	4.24
ASEAN 4	25.51	24.73	25.58	25.69	23.78	25.30	23.36	21.64	20.68	21.52	22.64	24.79	22.40	21.39	20.73	16.29	16.39
EU 5	6.88	8.08	9.21	8.35	6.99	6.11	6.51	6.25	6.88	5.80	4.84	4.74	5.62	4.65	5.04	4.81	4.74
Top 17	82.36	85.24	86.91	85.97	85.59	86.6	85.09	84	83.59	83.54	83.62	84.17	85.67	83.97	84.62	82.64	81.73
Others	17.64	14.76	13.09	14.03	14.41	13.4	14.91	16	16.41	16.46	16.38	15.83	14.33	16.03	15.38	17.36	18.27
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Notes:

ASEAN 4 includes Malaysia, the Philippines, Singapore and Thailand covering around 90% of Vietnam's total imports from ASEAN 9 during 1995-2011

EU 5 includes Belgium, France, Germany, the Netherlands, the United Kingdom covering 70% of Vietnam's total imports from all EU members during 1995-2011

Source: Author calculated from figures published by the Vietnam's General Statistics Office (GSO), 2012.

Also from Table 4.2 above, the ratio of Vietnam's imports from ASEAN 4 has decreased from 24.79% in 2006 to 16.39% in 2011. The ASEAN 4 was still the second largest import source for Vietnam just after China. It means Vietnam has diverted its imports from ASEAN 4 to China. Vietnam's import value from the Republic of Korea has increased from USD 3,908.4 million in 2006 to USD 13,175.9 million in 2011 covering 12.34% of its total imports of this year. In the same period, the ratios of Vietnam's imports from Japan and EU 5 remained stable at around 10% and 5% respectively. Top 17 Vietnam's major import sources covered around 80%, and the others shared about 20% of its total imports in both the pre and post-WTO accession. Wherein, China and Taiwan have been Vietnam's suppliers of products in the categories of machines (inclusive equipments and spare parts), computer goods, electronic products and equipments, and some other groups. Goods imported from the USA, Japan, the Republic of Korea, and the EU mainly were advanced technology sources, important input materials, and luxury consumption goods (GSO, 2012).

Overall, Vietnam's major import sources still focused on traditional trading partners in the Asia-Pacific region and the EU economies such as China, ASEAN, the Republic of Korea, Japan, and Taiwan before and after WTO accession. The USA and Australia were also important import sources but held minor percentages in comparison with the others listed in the top 17 of Vietnam's import sources.

Based on the analysis in item 4.2.1 above, Vietnam's balance of trade deficit has experienced an upward trend after WTO accession. This has attracted the attention of Vietnam's macro-economic policymakers and researchers recently. What is the reality of Vietnam's trade balance with its major trading partners after WTO accession? The next item will refer to this matter.

4.2.2.3. Vietnam's Trade Balance with its Major Trading Partners during 1995-2011

Table 4.3 below indicates the pattern of Vietnam's trade balance with its major trading partners from 1995 to 2011. It is obvious that the trade deficit with China has grown rapidly from USD 188.8 million in 2001 to USD 13,468.7 million in 2011, amounting to over 100% of Vietnam's total trade deficit in the same year (USD 9,844.2 million). Vietnam continued to run substantial trade deficits with ASEAN 4, the Republic of Korea and Taiwan. Trade deficits with ASEAN 4 seem to have decreased but still remained at a high volume of about USD 9,053.4 million in 2011. In contrast, Vietnam has had a steady trade surplus with the USA, the EU 5, and Australia. In 2011, trade surplus with the USA and the EU 5 reached USD 12,398.6 and USD 5,705.7 million respectively. The trade surplus with Australia was USD 395.8 in 2011. With Japan, there has been a fluctuation in the trade balance (see more in Table 4.3 below).

Table 4.3: Vietnam's Trade Balance with its Major Trading Partners during 1995-2011 (USD million)

	The Pre-WTO accession											The Post-WTO accession					
Trade Balance	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Australia	-45.2	-68	37.8	217.6	598.9	979	775.4	1042	1142.9	1425.9	2224.3	2645	2742.8	2993.7	1340.2	1260.4	395.8
Canada	-7.1	-2.5	27	38.9	41.6	61.1	50.5	74.4	94.7	173.3	182.4	261.9	252	358.6	402.7	452.8	627.3
China	32.2	11.2	69.7	-74.9	73.3	135.3	-188.8	-640.5	-1255.5	-1696	-2671.6	-4148.5	-9063.9	-11123.5	-10008.3	-12710	-13468.7
Hong Kong	-162.3	-484.2	-168.2	-239.2	-269	-282.2	-220.4	-464.6	-622.2	-694.2	-881.9	-987.8	-1368.2	-1756.1	-1086.8	603.8	1236
Japan	545.3	286.1	166.1	32.8	167.9	274.3	326.7	-67.7	-73.5	-10.5	266.2	538	-98.9	227.5	-500.8	-1288.4	380.8
The Republic of Korea	-1018.3	-1223.1	-1147.5	-1191.8	-1165.9	-1401	-1480.7	-1810.9	-2133.3	-2751.3	-2930.5	-3065.5	-4097	-5461.7	-4629.8	-6669.1	-8460.5
Taiwan	-461.9	-723.3	-670.2	-707.4	-884	-1123.3	-1202.7	-1707.6	-2166.3	-2807.7	-3369.2	-3856.2	-5807.3	-6961.2	-4992.3	-5534.1	-6713.5
The USA	39.3	-41.6	35.2	143.7	181.3	369.4	654.5	1994.5	2795.3	3890.9	5061.1	6858.1	8404	9240.2	8696.7	10471.2	12398.6
ASEAN 4	-1137	-1149.2	-1132.9	-1401.6	-954	-1806.5	-1716.4	-2421.2	-3070	-3754.4	-3685.5	-6354.2	-8277.5	-9411.4	-7871.4	-6713.5	-9053.4
EU 5	15.3	-193.2	239.4	742.4	1259.1	1336.8	1351.1	1247.1	1251.9	1871.3	2182.2	2843.2	2678.3	3480.3	2691.3	3616.3	5705.7
Top 17	-2199.7	-3587.8	-2543.6	-2439.5	-950.8	-1457.1	-1650.8	-2754.5	-4036	-4352.7	-3622.5	-5266	-14635.7	-18413.6	-15958.5	-16510.6	-16951.9
Others	-506.8	-299.9	136.3	300.2	750.1	303.3	462	-285	-1070.5	-1131.1	-691.5	201.1	432.4	384.9	3106	3901.3	7107.7
Total	**-2706.5**	**-3887.7**	**-2407.3**	**-2139.3**	**-200.7**	**-1153.8**	**-1188.8**	**-3039.5**	**-5106.5**	**-5483.8**	**-4314**	**-5064.9**	**-14203.3**	**-18028.7**	**-12852.5**	**-12609.3**	**-9844.2**

Notes:

ASEAN 4 includes Malaysia, the Philippines, Singapore and Thailand

EU 5 includes Belgium, France, Germany, the Netherlands and the United Kingdom (UK)

Source: Author calculated from figures published by the Vietnam General Statistics Office (GSO), 2012.

Overall, despite having a trade surplus with the USA, the EU 5, and Australia, Vietnam still had a trade deficit in the total trade balance after joining the WTO, especially with China. Vietnam's recent trade deficit with its major trading partners could be explained as follows. Firstly, Vietnam's domestic producers have not met the demands in both manufacturing and final consumption yet. Secondly, the capacity of competition of domestic products is quite limited. These created huge imports to satisfy domestic demands. Thirdly, it is resulted from the slow change in Vietnam's export-import structure. Vietnam's economy still focuses on processing and assembling products using a cheap labor force and medium and low technology. Domestic manufacturing depends too much on the world's input material markets: 80-90% input materials imported from abroad covers for two-thirds of the factory price. Export increase was accompanied by the rise of imports from foreign markets.[177] Vietnam's exports concentrated on raw materials (e.g., crude oil, coal, iron ore, etc.), agriculture, forestry and aquatic products (e.g., rice, coffee, cashew nut, pepper, cash fish, etc.) and on some light industry products (e.g., garment, textile, footwear, etc.) with low added value while it imported mostly input/manufacturing materials (e.g., machines, equipments, instruments, parts and components, fuels, raw materials, etc.) and luxury consumption goods (automobiles, cosmetics, mobile phones, etc.) which covered for over 70% of the total imports (this will be discussed further in item 4.2.3). The question is why has Vietnam had a huge trade deficit with China recently? The answers partly come from the following analysis.

An overview of the trade relations between Vietnam and China

"In the late 1990s, almost all of the ASEAN countries sailed past the severity of the 1997 Asian financial crisis but started to ponder again about the process of their own integration within the regional and global context. On the other hand, China, having been admitted to the WTO, was still growing and was developing deeper integration with the Asian region and the world economy. With China' dominance, ASEAN needed to reassess its own position and relative strength like other countries. At the ASEAN summit in November 2000, the leaders of ASEAN and China agreed to study the implications of China's accession to the WTO and improve the means and ways to enhance the economic cooperation and integration between the two. The creation of the ASEAN-China Free Trade Area was proposed as one of the key initiatives to foster areas of complementarities while capitalizing on existing strengths" (Chirathivat 2002, p. 2). ASEAN and China began to implement the ASEAN-China Free Trade Area (ACFTA) by signing a framework agreement on a comprehensive economic cooperation in November 2002. To make

[177] This has been modeled in Hoang, Chi Cuong and Bui, Thi Thanh Nhan, 2013. "Tac dong cua khung hoang tai chinh – kinh te toan cau 2008 toi ngoai thuong Vietnam" (The Impact of 2008 Global Financial and Economic Crisis on Foreign Trade of Vietnam), *Journal of Science and Development*, Vol. 11, No. 5, pp. 751-766.

concrete this framework agreement, ASEAN and China negotiated and signed the ASEAN-China Trade in the Goods Agreement in November 2004, the ASEAN-China Trade in Services Agreement in 2007, and the ASEAN-China Investment Agreement in 2009. The ACFTA is the first free trade agreement in which ASEAN signed with a country partner. It provides a comprehensive legal framework to regulate economic, investment, and commercial relations between ASEAN and China, creating a dynamic free trade area with around 1.9 billion people and a total GDP amounting to over USD 6 trillion. Under this agreement, ASEAN and China have had to cut down their tariffs according to the Early Harvest Program (EHP), the Normal Track (NT) and the Sensitive Track (ST). Due to different development standards, Cambodia, Laos, Myanmar and Vietnam were offered preferences. Specifically, the roadmap of tariff reductions set for Vietnam was slower and more flexible than that of for China and ASEAN-6. Vietnam committed to eliminate about 90% of tariff lines gradually up to 2015. The remaining 10% of tariff lines will be reduced over an extended period without any commitments to reduce them to zero percent until 2018.[178]

Under the ACFTA, the categories of goods in which Vietnam still maintains strong protectionist measures over include eggs, tobacco, cigarettes, petrol and oil, tires, steel and iron, fully-assembled automobiles, motorbikes and spare parts. Categories of goods which are protected for a longer duration include processed food, alcoholic drinks, certain kinds of oil and gas products, cement, plastics, textile, automobile and motorbike spare parts, machinery and equipment. In the period from 2005 to 2010, the average tariff rate under the ACFTA was almost equivalent to the MFN tariffs. In the duration of 2010-2015, the tariff reductions have been accelerated. And since 2015, Vietnam's ACFTA commitments will be equivalent to CEPT/AFTA commitments. The following summarizes Vietnam's commitments for tariff cuts within the ASEAN-China Trade in Goods Agreement.

Table 4.4: Vietnam's Tentative Timetable for Tariff Cuts in the Early Harvest Program (EHP) (mainly including agriculture and fishery products)

MFN Tariff rates (%)	Tariff rates of Early Harvest Program (EHP) (%)				
	2004	2005	2006	2007	2008
MFN ≥ 30	20	15	10	5	0
15 ≤ MFN < 30	10	10	5	5	0
MFN < 15	5	5	0-5	0-5	0

Source: Summary of Vietnam's commitments in the ACFTA.[179]

[178] EU-Vietnam MUTRAP III, 2011. "Impact of the ASEAN-China FTA". Retrieved from website: http://ven.vn/impact-of-the-aseanchina-fta_t77c198n22368tn.aspx, accessed December 28, 2012.
[179] Retrieved from website http://trungtamwto.vn/cachiepdinhkhac/tom-tat-cac-cam-ket-cua-viet-nam-trong-khu-vuc-mau-dich-tu-do-asean-trung-quoc-acfta, accessed December 28, 2012.

Table 4.5: Vietnam's Tentative Timetable for Tariff Cuts in the Normal Track (NT)

MFN tariff rates (%)	ACFTA tariff rates at the date no later than January 1 of the year (%)							
	2005	2006	2007	2008	2009	2011	2013	2015
MFN ≥ 60	60	50	40	30	25	15	10	0
45 ≤ MFN < 60	40	35	35	30	25	15	10	0
35 ≤ MFN < 45	35	30	30	25	20	15	5	0
30 ≤ MFN < 35	30	25	25	20	17	10	5	0
25 ≤ MFN < 30	25	20	20	15	15	10	5	0
20 ≤ MFN < 25	20	20	15	15	15	10	0-5	0
15 ≤ MFN < 20	15	15	10	10	10	5	0-5	0
10 ≤ MFN < 15	10	10	10	10	8	5	0-5	0
7 ≤ MFN < 10	7	7	7	7	5	5	0-5	0
5 ≤ MFN < 7	5	5	5	5	5	5	0-5	0
MFN < 5	Unchanged							0

Source: Summary of Vietnam's commitments in the ACFTA.[180]

According to the Memorandum of Understanding between Vietnam and China signed on July 18, 2005, a number of specific items (in the Normal Track and the Sensitive Track) have implemented tariff reductions faster than common provisions. Some items on the Sensitive Track which have experienced tariff reductions faster than scheduled are included in Table 4.6 below.

Table 4.6: Vietnam's Tentative Timetable for Tariff Cuts in the Sensitive Track (ST)

Items	Tariff rates	
	%	Year
Large tonnage truck	30	2012
Small tonnage truck	45	2014
Motorbikes	45	2012
Motorbike spare parts	13	2013
Construction Steel	15	2014
Electronics, Refrigeration Appliances	10-15	2012-2013
Oil and gas	20	2009

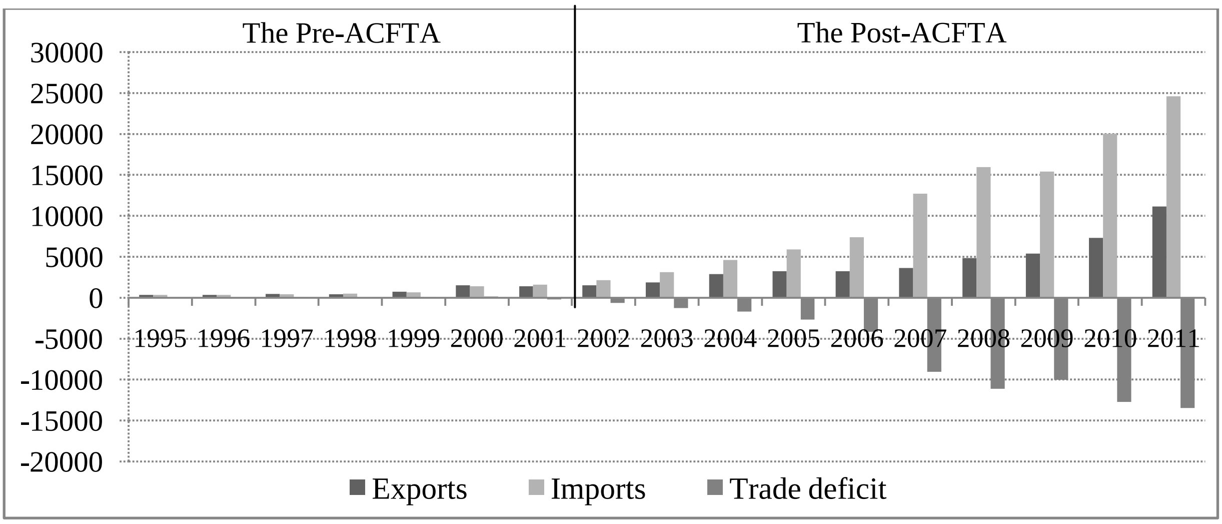
Source: Summary of Vietnam's commitments in the ACFTA.[181]

[180] Retrieved December 28, 2012 from website: http://trungtamwto.vn/cachiepdinhkhac/tom-tat-cac-cam-ket-cua-viet-nam-trong-khu-vuc-mau-dich-tu-do-asean-trung-quoc-acfta (further details on tariff rates of items in the NT are mentioned in Annex 1, the ASEAN-China Trade in Goods Agreement, available on website: http://wtocenter.vn/other-agreement/asean-china).

[181] Retrieved December 28, 2012 from website: http://trungtamwto.vn/cachiepdinhkhac/tom-tat-cac-cam-ket-cua-viet-nam-trong-khu-vuc-mau-dich-tu-do-asean-trung-quoc-acfta (further details of tariff rates on items in the ST are mentioned in Annex 2 of ASEAN-China Trade in Goods Agreement, available on website: http://wtocenter.vn/other-agreement/asean-china).

Overall, in duration of 2002-2011, the ACFTA could have had impact on Vietnam's imports of goods in the Early Harvest Program (mainly including agriculture and fishery products that have 0% tariff rates). However, the shares and values of these goods in Vietnam's total trade are quite modest, judging by their absence in the List of Some of Vietnam's Main Merchandises Imported. So, the ACFTA could have had impact on the goods in the Normal Track that Vietnam committed to have tariff reductions from 5-60% in 2005 to 5-15% in 2011 as shown on Table 4.5 above (cuts in tariff rates will be accelerated and eliminated by 2015). The impacts of the ACFTA on the goods in the Sensitive Track could be modest due to the fact Vietnam still maintains high tariff rates over a longer period under the preferences (up to 2018). Within the impacts of the ACFTA on Vietnam's imports from ASEAN countries and China, it is notable that the country's imports from ASEAN declined consistently from 21.63% in 2002 (% of total Vietnam's imports) to 16.39% in 2011, while imports from China increased dramatically from 10.93% in 2002 to 23.38% in 2011 (see more in Table 4.2 above). It means Vietnam has diverted its imports from ASEAN-4 to China. In other words, Vietnam has more imports from China than from ASEAN-4. This will be partly decoded by an analysis made on the relationship in foreign trade between Vietnam and China below.

Figure 4.5: Exports, Imports and Trade Balance between Vietnam and China (USD million)



Source: The Vietnam General Statistics Office (GSO), 2012.

Figure 4.5 presents Vietnam's exports, imports and trade balance with China during 1995-2011. As trade flow increases between the two countries, it was made apparent that Vietnam's trade deficit increases with China. Vietnam's exports to China have risen from USD 361.9 million in 1995 to USD 11,125 million in 2011 (30.7 times fold). But, imports from China have also climbed from USD 329.7 million to USD 24,593.7 million (74.59 times fold) in the same period. Vietnam's trade deficit with China started to increase between the years 2001-2002 (the year the

ACFTA came into force). It rose from USD 188.8 million in 2001 to USD 13,468.7 million in 2011, appropriating over 100% of Vietnam's total balance of trade deficit of the same year.

Concerning the export and import structure between Vietnam and China, Vietnam exported mostly *raw materials and semi-finished goods* and some *processed and refined goods* with low added value such as: rubber, coal, computers and components, cassava, wood, gasoline, crude oil, other machineries, parts and components, cashew nuts, aquatic products, footwear, ores and minerals, garments and textiles, steel, vegetables, etc. (these goods covered around 80% of Vietnam's total exports to China in 2010, author calculated from figures published by the Vietnam's GSO, 2011). By contrast, Vietnam imported habitually from China *processed or refined goods* such as: machineries, equipments, tools, spare parts, computers, electronic products and components, steel, gasoline, input materials for garments, textile and footwear industries, fertilizers, chemicals, chemical products, plastic products, vehicles and spare parts, liquefied petroleum gas, fibers and yarns, etc. (these goods amounted to about 75% of Vietnam's total imports from China in 2010, author calculated from figures published by the Vietnam's GSO, 2011). These goods, with higher added value, provided Vietnam with the material to manufacture exported goods and also for domestic consumption. Vietnamese industries that have high Importation Penetration Rate (IPR)[182] of Chinese goods recently are: machinery and equipment; coke and refined petroleum; radio, television and telecommunication equipment; and office equipment and computers (see more in Table 4.7 below). It means Chinese goods have high competitiveness in Vietnam's domestic markets due to their competitive prices and their suitability with Vietnam's technology level.

The goods imported from China in textile, electric equipment, radio, and telecommunication industries have been complementary for domestic manufacturing because

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[182] *The Export ratio is the percentage of domestic output that is exported. The Import Penetration Rate (IPR) is the percentage of domestic demand fulfilled by import* (OECD, 2003). The export ratio and import penetration rates are important concepts in considering a country's trade structure. The oldest of these is by James Hughes and A.P. Thirlwall (1977). The concept of Import Penetration Rate is important to particular industries. At the industry level, the export ratio and import penetration rate reflect a country's industrial structure. Developing countries often have high export ratios for primary goods and high import penetration rates for industrial goods. In contrast, developed/industrial countries often have high export ratios for industrial goods and high import penetration rates for primary goods. Retrieved from http://what-when-how.com/social-sciences/import-penetration-social-science/, accessed June 16, 2012.

Tu et al. (2011) used the following formula to calculate the Importation Penetration Rate (IPR):

$$\mathbf{IPR_{ij} = IM_{ij}/(Domestic\ out\ put_i + IM_i - EX_i)}$$

In which:

IPR_{ij} is the Importation Penetration Rate of good i from China
IM_{ij} is total import of good i from China
Domestic out put_i is the total domestic output of good i of Vietnam
IM_i is the Vietnam's total import of good i
EX_i is the total Vietnam's export of good i

domestic output could not satisfy all demands. Other goods imported from China have been complementary or replaced for domestic manufactured products depending on each period. A notable finding is that Chinese goods which had a high IPR in 2008 were those with a strong emphasis on electric, oil and gas, metallurgical, mining, chemical, and consumer goods in the manufacturing sectors (see more in Table 4.7).[183]

Table 4.7: The IPR of some Chinese Goods in Vietnam's Markets in 2008

Order	Industries	IPR (%)	Manufacturing sectors
1	Machinery and equipment	85.9	Mechanical
2	Coke and refined petroleum	71.8	Oil, gas, and metallurgical
3	Radio, television and telecommunication equipment	28.6	Mechanical
4	Office equipment and computer	27.7	Mechanical
5	Textile	20.3	Consumer goods
6	Electrical equipment	10.7	Electricity
7	Motor vehicles repair	10.4	Mechanical
8	Medical instruments, optical instruments, and watches	8.0	Mechanical
9	Metal	6.1	Metallurgical
10	Wood and wood products	4.4	Consumer goods
11	Crude oil and natural gas	4.3	Oil and gas
12	Chemicals and chemical products	4.0	Chemical
13	Papers and paper products	3.4	Consumer goods
14	Non-metallic minerals products	3.2	Mining
15	Tobacco and pipe tobacco	2.0	Consumer goods

Source: Tu, Tu Anh and Nguyen, Binh Duong, 2011.

What are the determinants of such increases in Vietnam's imports from China recently? Among all, the following are some main causes. As partly mentioned above, first, the domestic suppliers could not fulfill existing manufacturing and consumption demands, so the country has had to seek from foreign sources. Second, it resulted from the slow change in Vietnam's manufacturing and exporting structures that concentrated in processing and assembling products with 80%-90% of input materials imported from abroad.[184] Third, another important reason for the increase in Vietnam's imports from China is that some Chinese enterprises have been big contractors in Vietnam. According to some Chinese enterprises, their strategy is to become the main contractors in the form of EPC-Engineering, Procurement, and Construction.[185] Vietnam's

[183] Tu, Tu Anh and Nguyen, Binh Duong, 2011. "Phan tich cau truc tham hut can can thuong mai Viet Nam – Trung Quoc" (An Analysis of the trade deficit structure between Vietnam and China) in Nguyen, Duc Thanh, 2011. *"Nen kinh te truoc nga ba duong"* (The economy before crossroad), NXB Dai hoc Quoc gia Ha Noi, p. 268.
[184] Tu, Tu Anh and Nguyen, Binh Duong, 2011. "Phan tich cau truc tham hut can can thuong mai Viet Nam – Trung Quoc" (An Analysis of the trade deficit structure between Vietnam and China) in Nguyen, Duc Thanh, 2011. *"Nen kinh te truoc nga ba duong"* (The economy before crossroad), NXB Dai hoc Quoc gia Ha Noi, p. 274.
[185] These have been also proven in Chapter 3 – The impact of the WTO on FDI inflows into Vietnam that China was not the biggest investors in Vietnam.

bidding mechanism is based on competitive prices, which is an advantage to large enterprises such as those from China that can win contracts through low bids. Under which, Chinese enterprises have won a series of large EPC projects in Vietnam such as Quang Ninh 1 and 2 Thermal Power, Vinh Tan 2 Thermal Power, Hai Phong 1 Thermal Power, Duyen Hai 1 Thermal Power, Kien Luong Thermal Power, Lam Dong Bauxite Aluminum Combination, Aluminum Nhan Co Dak Nong, Ca Mau Fertilizer, Sinh Quyen (Lao Cai) Mining and Copper Metallurgical Plant.[186] Total values of these contracts may reach to billions of US dollars. During the implementation of EPC projects in Vietnam, Chinese enterprises have imported machineries, technology, equipments, material, labor, etc. from its home country causing import increases from China. According to an estimation made by Vietnam Metal Association, three industries (electric, cement, and aluminum) will spend about USD 107 billion for buying machineries, equipments and technologies up to 2025, wherein, importing from abroad amounts up to USD 10-12 billion annually. Until now, Vietnam has not applied any technical barriers in international trade to limit foreign imported goods. That is why China's products can easily penetrate Vietnam's markets even if they have not, in some circumstances, reached quality and safety standards.

As stated by Tran, Van Tho (2012), on one hand, the serious trade deficit of Vietnam's foreign trade balance resulted from the less competitive capacity of Vietnam's merchandises in both domestic and international markets. On the other hand, weak governance demonstrated by some leaders and authorities has been another cause for such increase in the trade deficit. Vietnam's industries are considerably "fragile". Many depend heavily on mediate goods imported from China. The calculated figures of trade flows between the two countries only reflect the "surface of the iceberg" and the rest of the iceberg (smuggled trade) remains unknown.

Vis-à-vis the process of industrialization and economic development, China's process of industrialization has been undertaken in many cities throughout the country. There have been existences of numerous industries, which have experienced high growth rates for years such as in appliances, automobiles, personal computers, etc. The ratio of industrial goods of total exports has been increasing rapidly since China's accession to the WTO in 2001 (amounting up to 90%). This suggests that Chinese industrial goods have penetrated the global markets due to their high competitive capacity. China's economic growth relies mostly on investment and exports. These result in the overlapping of investment and overproduction between many cities/provinces in China. Accordingly, for Vietnam and countries which have small economic sizes in Southeast Asia, the Chinese overproduction is one of the main factors causing the flood of cheap industrial

[186] Tu, Tu Anh and Nguyen, Binh Duong, 2011. "Phan tich cau truc tham hut can can thuong mai Viet Nam – Trung Quoc" (An Analysis of the trade deficit structure between Vietnam and China) in Nguyen, Duc Thanh, 2011. *"Nen kinh te truoc nga ba duong"* (The economy before crossroad), NXB Dai hoc Quoc gia Ha Noi, p. 275.

goods in their domestic markets. Overall, the rise of China is not only a challenge for the Asian region but also for the rest of the world (Tran, Van Tho, 2002).

Above all, the lack of domestic supply, the slow change of Vietnam's manufacturing and export-import structure, the less competitive capacity of Vietnam's merchandises, the low effectiveness in governance, the policy of Chinese enterprises, and overproduction resulting from China's process of industrialization and economic growth are the crucial factors leading to the rise of Vietnam's trade deficit with China recently. The subsequent items will portray the structures of Vietnam's exports and imports in duration of 1995-2010.

4.2.3. An Analysis of Vietnam's Export-Import Structures during 1995-2010

4.2.3.1. An Analysis of Vietnam's Export Structure during 1995-2010

Table 4.8 below presents Vietnam's merchandise exports by standard foreign trade classification (SITC) during 1995-2010. It is clear that the proportion of raw materials and semi-finished goods has declined from 67.24% in 1995 to 34.88% in 2010. However, the ratio still covered a considerable share in its total exports. The ratio of processed or refined goods has risen from 32.76% in 1995 to 65.09% in 2010. The WTO accession and economic integration have had indirect impact on the shifts in Vietnam's export structure, promoting the stimulation in the competitiveness of domestic enterprises and enhancing the efficient allocation of resources. The export structure has moved forward from exporting raw materials and semi-finished goods to processed or refined goods. Overall, there was quite a significant change in Vietnam's export structure at the "dawn" of the WTO accession. However, the structure of Vietnam's exports has been still constructed by a focus on traditional products with the country's comparative advantages in natural resources like raw materials (e.g., crude oil, coal, and iron ore, etc.), agriculture, forestry and aquatic products (e.g., rice, coffee, cashew nut, pepper, cash fish, etc.) and some light industry products (e.g., garment, textile, and footwear, etc.) with low added value.

Table 4.8: Vietnam's Exports by Standard Foreign Trade Classification (SITC) during 1995-2010

	The Pre-WTO accession												The Post-WTO accession			
Year	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Total Export (USD million)	**5449**	**7255.9**	**9185**	**9360.3**	**11541.4**	**14482.7**	**15029.2**	**16706.1**	**20149.3**	**26485**	**32447.1**	**39826.2**	**48561.4**	**62685.1**	**57096.3**	**72236.7**
Raw materials and semi - finished goods	**3664.1**	**4537.7**	**4780.9**	**5006.4**	**5996.2**	**8078.8**	**8009.8**	**8289.5**	**9397.2**	**12554.1**	**16100.7**	**19226.8**	**21657.7**	**27698.7**	**22266.1**	**25187.5**
Food, meat, and live animals (live stock)	2064.2	2424.1	2691.9	3158.1	3283.8	3779.5	4051.6	4117.6	4432	5277.6	6345.7	7509.2	9191.7	12164.3	11514.6	13432.5
Beverages and tobacco	5	7	33.8	4.9	15	18.8	45.5	75.2	159.8	174	150	143.5	155.1	190.8	237.8	301.3
Raw materials, not for eating, except for fuels	370.5	499.6	376.7	283.1	302.2	384	412.6	516.5	631.3	830.9	1229.1	1845.3	2199.8	2491.7	1928.3	3373.8
Fuels, lubricants and related materials	1210.6	1572	1653.5	1543.5	2372.5	3824.7	3468.5	3567.8	4151.1	6233.2	8358	9709.4	10061	12750.5	8507.1	7979.7
Oil, grease, fats, waxes of plants and animals	13.8	34.9	25	16.7	22.6	71.8	31.6	12.5	23	38.4	17.9	19.4	50.1	101.4	78.3	100.2
Processed or refined goods	**1784.8**	**2710.5**	**4401.3**	**4350.1**	**5540.6**	**6397.5**	**7019**	**8414.6**	**10747.8**	**13927.6**	**16341**	**20592**	**26886.1**	**34625.5**	**34007.6**	**47012.5**
Chemicals and related products	30.9	65.9	106.6	93.6	147	158.5	222.1	262.2	339.9	421.3	536	791.9	1028.5	1449.9	1270.4	1881.9
Processed goods classified by material	349.8	382.6	563	441.1	864.8	911.1	989.7	1124.9	1354.8	1889.6	2165.4	2926.3	3975.7	6398.4	5226	8485.6
Machinery, vehicles and spare parts	89.4	414.6	752.7	808.8	978	1276	1399	1336.9	1792.8	2562.1	3145.1	4194.7	5601.2	7368.4	7398.8	11476.1
Other manufactured goods	1314.7	1847.4	2979.1	3006.7	3550.8	4051.9	4408.2	5690.6	7260.3	9054.6	10494.5	12679.1	16280.7	19408.8	20112.4	25168.9
Goods not on the above groups	**0**	**7.7**	**2.8**	**3.7**	**4.6**	**6.4**	**0.4**	**2**	**4.3**	**3.3**	**5.4**	**7.4**	**17.6**	**360.9**	**822.6**	**36.7**
In percents	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Raw materials and semi - finished goods	**67.24**	**62.55**	**52.05**	**53.48**	**51.96**	**55.79**	**53.30**	**49.62**	**46.63**	**47.40**	**49.63**	**48.27**	**44.59**	**44.19**	**39.01**	**34.88**
Food, meat, and live animals (live stock)	37.88	33.41	29.31	33.74	28.45	26.10	26.96	24.65	22.00	19.93	19.56	18.85	18.93	19.41	20.17	18.60
Beverages and tobacco	0.09	0.10	0.37	0.05	0.130	0.13	0.30	0.45	0.79	0.66	0.46	0.36	0.32	0.30	0.42	0.42
Raw materials, not for eating, except for fuels	6.80	6.89	4.10	3.02	2.62	2.65	2.75	3.09	3.13	3.14	3.79	4.63	4.53	3.98	3.38	4.67
Fuels, lubricants and related materials	22.22	21.67	18.00	16.49	20.56	26.41	23.08	21.36	20.60	23.53	25.76	24.38	20.71	20.34	14.90	11.05
Oil, grease, fats, waxes of plants and animals	0.25	0.48	0.27	0.18	0.20	0.50	0.21	0.07	0.11	0.14	0.06	0.05	0.10	0.16	0.14	0.14
Processed or refined goods	**32.76**	**37.35**	**47.91**	**46.47**	**48.00**	**44.17**	**46.70**	**50.36**	**53.32**	**52.58**	**50.35**	**51.71**	**55.37**	**55.23**	**59.57**	**65.09**
Chemicals and related products	0.57	0.91	1.16	1.00	1.27	1.09	1.48	1.57	1.67	1.59	1.65	1.99	2.12	2.31	2.23	2.61
Processed goods classified by material	6.42	5.27	6.13	4.71	7.49	6.29	6.58	6.73	6.72	7.13	6.67	7.35	8.19	10.21	9.15	11.75
Machinery, vehicles and spare parts	1.64	5.71	8.19	8.64	8.47	8.81	9.31	8.00	8.90	9.67	9.69	10.53	11.53	11.75	12.96	15.89
Other manufactured goods	24.13	25.46	32.43	32.12	30.77	27.98	29.33	34.06	36.03	34.19	32.34	31.84	33.53	30.96	35.23	34.84
Goods not on the above groups	**0**	**0.10**	**0.04**	**0.05**	**0.04**	**0.04**	**0.00**	**0.02**	**0.05**	**0.02**	**0.02**	**0.02**	**0.04**	**0.58**	**1.42**	**0.03**

Source: Author calculated from figures published by the Vietnam's General Statistics Office (GSO), 2012.[187]

[187] Retrieved from website http://www.gso.gov.vn/default.aspx?tabid=393&idmid=3&ItemID=13174, accessed November 28, 2012

4.2.3.2. An Analysis of Vietnam's Import Structure during 1995-2010

Table 4.9 below illustrates Vietnam's imports by standard foreign trade classification (SITC) during 1995-2010. In contrast with the export structure, processed or refined goods accounted for a large share of Vietnam's imports, while raw materials and semi-finished goods covered a minor share. The ratio of processed or refined goods was 76.53% in 1995, 70.24% in 2006, and 75.32% in 2010. This structure has been a result of the fact that Vietnam has been in the process of industrialization and modernization with a backward technological background. Hence, it needs to import much more technologies, machines as well as input materials that domestic enterprises cannot supply. Moreover, the increase in foreign investments, especially with the boom that came with the inflow of FDI capital after WTO accession, has led to an increase in the import of those goods to produce merchandise for exports. This has been proven in the previous chapter where FDI has close linkages with both imports and exports of Vietnam. Overall, there was no significant shift in Vietnam's import structure in the pre-and post-WTO accession where machines, equipments, instruments, parts and components, fuels, input materials, and some consumer goods have been main import's merchandises of Vietnam.

Table 4.9: Vietnam's Imports by Standard Foreign Trade Classification (SITC) during 1995-2010

	The Pre-WTO accession												The Post-WTO accession			
Year	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Total Import (USD million)	**8155.4**	**11143.6**	**11592.3**	**11499.6**	**11742.1**	**15636.5**	**16217.9**	**19745.6**	**25255.8**	**31968.8**	**36761.1**	**44891.1**	**62764.7**	**80713.8**	**69948.8**	**84838.6**
Raw materials & semi-finished goods	**1914.5**	**2145.6**	**2136.5**	**1982.8**	**2264.5**	**3527.6**	**3686.1**	**4200.6**	**5282.7**	**7317.5**	**9308.2**	**11481.3**	**15420.8**	**21766.1**	**16340.8**	**19962.6**
Food, meat, and live animals (live stock)	379.9	408.5	430.3	461.7	505.9	626.5	834.2	939.2	1262.2	1495.2	1955.2	2299.3	3279.6	4525	4631.2	6225.1
Beverages and tobacco	80.9	43.1	83.2	122.1	85.7	102.8	108.4	149.3	152.7	162.6	175.8	145	183.3	269.4	341.6	292.9
Raw materials, not for eating, except fuels	456.9	407.3	369.7	381.8	452.8	590.8	690.1	816.1	1001	1454.3	1623.2	2084.3	2740.8	4005.8	3388.5	4622.3
Fuels, lubricants and related materials	901.6	1238	1194.5	964.4	1120.3	2121	1970.3	2165.4	2714.4	3981.8	5365.7	6699	8744.2	12329.7	7497.4	8140.3
Oil, grease, fats, waxes of plants and animals	95	48.6	58.8	52.9	99.8	86.5	83.1	130.6	152.4	223.6	188.3	253.7	472.9	636.2	482.1	682
Processed or refined goods	**6240.9**	**8973.1**	**9428.6**	**9512**	**9470.5**	**12101.2**	**12531.8**	**15531.8**	**19791.9**	**24084.3**	**26633.1**	**31531**	**46027.8**	**56219.4**	**53225.4**	**63910.6**
Chemicals and related products	1285.2	1814.6	1948.5	2153.8	2040.4	2401.7	2490	2932.6	3622.9	4693.5	5309.9	6317.4	8368.7	10297.8	10225.4	12491.3
Processed goods classified by material	1511.8	2389.2	2676.2	2379.9	2736	3402.1	3729.4	5414.8	6672.1	8859.1	10172.2	12164	17062.3	20112.8	17777.4	22449.6
Machinery, vehicles and spare parts	2343.3	3400.3	3432.6	3487.3	3452.7	4711	4865.1	5757.6	7921.5	8736.6	9252.3	10805.7	17859.8	22425.3	21908	24713.5
Other manufactured goods	1100.6	1369.1	1371.3	1491.1	1241.3	1586.4	1447.3	1426.8	1575.4	1795.1	1898.7	2243.9	2737	3383.5	3314.6	4256.2
Goods not in the above groups	**0**	**24.9**	**27.3**	**4.8**	**7**	**7.7**	**0**	**13.2**	**181.2**	**567**	**819.8**	**1878.8**	**1316.1**	**2728.3**	**382.6**	**965.4**
In percentages	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Raw materials & semi-finished goods	**23.47**	**19.27**	**18.43**	**17.24**	**19.29**	**22.56**	**22.73**	**21.28**	**20.91**	**22.90**	**25.33**	**25.57**	**24.57**	**26.97**	**23.36**	**23.54**
Food, meat, and live animals (live stock)	4.66	3.67	3.71	4.01	4.31	4.01	5.14	4.76	5.00	4.68	5.32	5.12	5.23	5.61	6.62	7.34
Beverages and tobacco	0.99	0.39	0.72	1.06	0.73	0.66	0.67	0.76	0.60	0.51	0.48	0.32	0.29	0.33	0.49	0.35
Raw materials, not for eating except for fuels	5.60	3.66	3.19	3.32	3.86	3.78	4.26	4.13	3.96	4.55	4.42	4.64	4.37	4.96	4.84	5.45
Fuels, lubricants and related materials	11.06	11.11	10.30	8.39	9.54	13.56	12.15	10.97	10.75	12.46	14.60	14.92	13.93	15.28	10.72	9.60
Oil, grease, fats, waxes of plants and animals	1.16	0.44	0.51	0.46	0.85	0.55	0.51	0.66	0.60	0.70	0.51	0.57	0.75	0.79	0.69	0.80
Processed or refined goods	**76.53**	**80.52**	**81.34**	**82.73**	**80.65**	**77.40**	**77.27**	**78.69**	**78.37**	**75.33**	**72.44**	**70.24**	**73.33**	**69.65**	**76.09**	**75.32**
Chemicals and related products	15.76	16.28	16.81	18.73	17.38	15.36	15.35	14.85	14.34	14.68	14.44	14.07	13.33	12.76	14.62	14.72
Processed goods classified by material	18.54	21.44	23.09	20.70	23.30	21.76	23.00	27.42	26.42	27.71	27.67	27.10	27.18	24.92	25.41	26.46
Machinery, vehicles and spare parts	28.73	30.51	29.61	30.33	29.40	30.13	30.00	29.19	31.37	27.33	25.17	24.07	28.46	27.78	31.32	29.13
Other manufactured goods	13.50	12.29	11.83	12.97	10.57	10.15	8.92	7.23	6.24	5.61	5.16	5.00	4.36	4.19	4.74	5.01
Goods not in the above groups	**0**	**0.21**	**0.23**	**0.03**	**0.06**	**0.04**	**0**	**0.03**	**0.72**	**1.77**	**2.23**	**4.19**	**2.10**	**3.38**	**0.55**	**1.14**

Source: Author calculated from figures published by the Vietnam's General Statistics Office (GSO), 2012.[188]

[188] Retrieved from website http://www.gso.gov.vn/default.aspx?tabid=393&idmid=3&ItemID=13170, accessed November 28, 2012.

4.3. TRADE DEFICIT AND THE NATIONAL BALANCE OF PAYMENT IN THE CASE OF VIETNAM

Balance of Payments (BOP) accounts are an accounting record of all monetary transactions between a country and the rest of the world.[189]

Since 2002, Vietnam has had balance of trade deficit. The trade deficit volume has reached a historical high in 2008 at about USD (-12,783) million (see more in Table 4.10 below). The trade deficit has had a negative impact on the Current Account balance which has fallen into a deficit status in recent years. Ultimately, this has caused a huge burden for the Balance of Payments (BOP) of the country. Although Vietnam's BOP situation has not been considered seriously, it does need a rigorous analysis for better adjustments in both economic and trade policies of Vietnam. This section will point out the effects of the trade deficit to Balance of Payment in Vietnam after its accession to the WTO.

Table 4.10 below presents the summary of Vietnam's BOP in the period from 1994 to 2011. Overall, the Current Account balance experienced a deficit in the first 4 years after Vietnam's WTO accession. Particularly, the deficit of Current Account balance increased from USD (-7,092) million in 2007 to USD (-10,823) million in 2008, and then it decreased to USD (-6,608) million in 2009, and USD (-4,287) million in 2010 (see Table 4.10 below, item 10: Current Balance).

The status of Current Account balance consists mainly of (i) the Trade in goods balance, (ii) Current transfers balance (Unrequited transfers balance), (iii) Trade in services balance, and (iv) Investment income balance. It is likely that the deficit of trade in goods has been one of the main factors causing the deficit in Current Account. The trade in goods deficit was at USD (-10,438) million in 2007, USD (-12,783) million in 2008, USD (-7,607) million in 2009, USD (-5,147) million in 2010, and dropped to USD (-450) million in 2011. Accession to the WTO could promote Vietnam's imports faster than exports (this will be tested in section 4.4 below) causing the trade in goods deficit, in turn having a negative impact on the Current Account balance.

Another factor that caused the Current Account deficit was the Investment Income balance. The remittance of the profits of overseas investors out of the country has helped to increase the Current Account deficit. Trade related to services is closely linked to the trade in goods. The statistics of services primarily included freight and insurance despite the fact that the trade in

[189] These transactions include payments for the country's exports and imports of goods, services, financial capital, and financial transfers. The BOP accounts summarize international transactions for a specific period, usually a year, and are prepared in a single currency, typically the domestic currency for the country concerned. Sources of funds for a nation, such as exports or the receipts of loans and investments, are recorded as positive or surplus items. Uses of funds, such as for imports or to invest in foreign countries, are recorded as negative or deficit items, retrieved from http://en.wikipedia.org/wiki/Balance_of_payments, accessed November 11, 2011.

services also included the tourism and financial services. This balance was usually in the deficit status (see *4. Other goods, services, and income* [u] *item* of the BOP below).

The Current Transfers (here refers to *7. Unrequited transfers* [v] item of the BOP) have declined from USD 7,311 million in 2008 to USD 6,488 million in 2009 partly due to the 2008 global financial crisis. Then, Current Transfers came back in to an upward trend in 2010 and 2011 leveling off at USD 7,885 million and USD 8,685 million respectively. The factor that contributed mostly to Current Transfers was Private Transfer (*8. Private* item of the BOP). This included the money that Vietnamese people abroad sent back to the country every year. It is clear that Current Transfer was a factor that helped to reduce the deficit of the Current Account of Vietnam.

Table 4.10: Vietnam’s National Balance of Payment (BOP) in USD million

	The Pre-WTO accession													The Post-WTO accession				
Year	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
1. Merchandise exports, f.o.b	4054	5198	7255	9185	9361	11540	14448	15027	16706	20149	26485	32447	39826	48561	62685	57096	72192	96906
2. Merchandise imports, c.i.f	-5244	-7543	-10030	-10432	-10350	-10568	-14072	-14546	-17760	-22730	-28722	-34886	-42602	-58999	-75468	-64703	-77339	-97356
3. Trade balance [t] (=1+2)	-1190	-2345	-2775	-1247	-989	972	376	481	-1054	-2581	-2237	-2439	-2776	-10438	-12783	-7607	-5147	-450
4. Other goods, services, and income [u] (=5+6)	-278	-150	-445	-1166	-1207	-976	-1001	-1049	-1470	-1589	-1763	-1501	-1437	-3084	-5351	-5449	-7025	-8009
5. Credit	...	...	2383	2666	2743	2635	3033	3128	3115	3397	4055	4540	5768	7196	8363	6519	7916	9274
6. Debit	...	...	-2828	-3832	-3950	-3611	-4034	-4177	-4585	-4986	-5818	-6041	-7205	-10280	-13714	-11968	-14941	-17283
7. Unrequited transfers [v] (=8+9)	302	627	1200	885	1122	1181	1732	1250	1921	2239	3093	3380	4049	6430	7311	6448	7885	8685
8. Private	170	474	...	...	...	...	...	1100	1767	2100	2919	3150	3800	6180	6804	6018	7569	8326
9. Official	132	153	...	...	...	...	...	150	154	139	174	230	249	250	507	430	316	359
10. Current balance (=3+4+7)	**-1166**	**-1868**	**-2020**	**-1528**	**-1074**	**1177**	**1107**	**682**	**-603**	**-1931**	**-957**	**-560**	**-164**	**-7092**	**-10823**	**-6608**	**-4287**	**226**
11. Capital Account (=12+13+14+15+16)	**897**	**1807**	**2306**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**3087**	**3088**	**17730**	**12341**	**6755**	**6201**	**5921**
12. Direct investment	1048	1780	2395	2220	1671	1412	1298	1300	1400	1450	1610	1889	2315	6516	9279	6900	7100	6480
13. Portfolio investment	...	...	...	...	...	...	...	...	...	...	...	865	1313	6243	-578	-71	2370	1412
14. Other short-term capital	124	311	...	-520	-293	-117	-29	-22	7	26	-54	46	-30	79	1971	256	1043	1615
15. Other long-term capital [w]	-275	-284	...	356	228	2	65	139	-51	457	1162	921	1025	2269	992	4473	2751	3226
16. Money and deposits	...	...	...	-112	-537	-787	-2088	-1197	624	1372	35	-634	-1535	2623	677	-4803	-7063	-6812
17. Net errors and omissions	**-140**	**-115**	**-629**	**-279**	**-218**	**-917**	**-676**	**-862**	**-1020**	**777**	**-913**	**-396**	**1398**	**-439**	**-1045**	**-9022**	**-3679**	**-4998**
Overall balance (=10+11+17)	**-409**	**-176**	**13**	**137**	**-223**	**770**	**-323**	**40**	**357**	**2151**	**883**	**2131**	**4322**	**10199**	**473**	**-8875**	**-1765**	**1149**
Monetary movements [x]	409	176	-13	-137	223	-770	323	-40	-357	-2151	-883	-2131	-4322	-10199	-473	8875	1765	-1149

Notes: ... = Data not available at cutoff date

t: *Trade with the former Council of Mutual Economic Assistance has been denominated in convertible currencies.*

u: *From 1996 onward, item refers to net services and income only (investment income).*

v: *Prior to 1996, item includes services. From 1996 onward, item actually refers to net current transfers.*

w: *Includes medium-term loans.*

x: *Refers to change in net foreign assets of central bank, arrears, and rescheduling.*

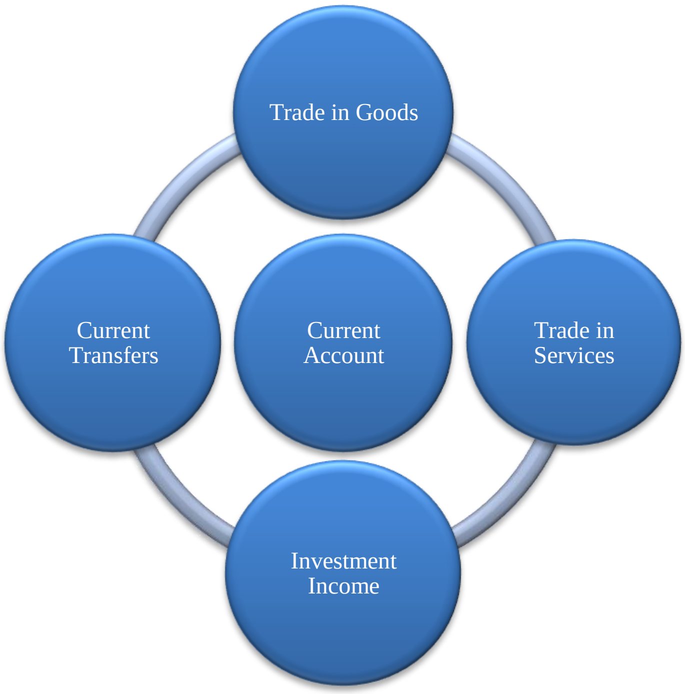
Source: Asian Development Bank, 2012.

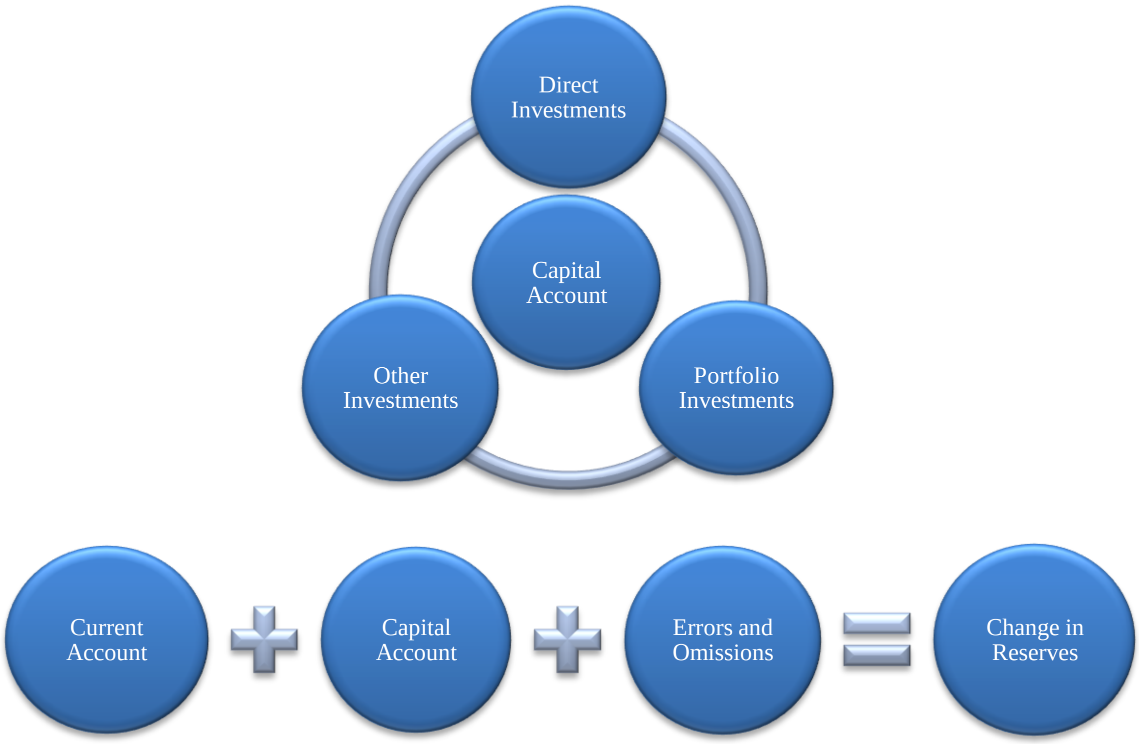
Concerning the Capital Account balance of Vietnam (or as the IMF prefers to call it, the Financial Account balance), the data for most lines in it are missing. Nonetheless, it is possible to get a broader picture on international financial flows in Vietnam in recent years. Generally, this account balance is usually in surplus status due to recent flows of foreign direct investment (FDI) to Vietnam. As proven in the previous chapter, after Vietnam's accession to the WTO, a large number of FDI capital flowing into the country, an amount reaching USD 143,950.3 million, of which the number of implemented FDI capital was about USD 51,530 million in duration of 2007-2011. Here, it is evident that the Direct Investment has also been a factor in improving the Overall balance of the Vietnam's BOP.

According to Article XVIII (B) of GATT 1994, BOP measures may be applied only temporarily, based on the base price (such as import surcharges apply) and ensuring transparency which is generally applicable to all imports. The level of import restrictions shall not exceed the level needed to address shortcomings in the BOP. From this perspective, Vietnam may apply a number of measures to resolve the shortcomings of its BOP (such as import limitations on select merchandises that are not essential for daily consumption but use large amounts of foreign exchange like with automobiles, mobile phones, wine, cosmetics, etc.) but does not exceed levels needed as regarded in the WTO agreements.

Figure 4.6 below presents the components of Current Account and Capital Account. They are two main parts of the BOP of an economy (this is to help the analysis above more clearly).

Figure 4.6: Components of Current Account and Capital Account (Financial Account)





4.4. THE IMPACT OF THE WTO ON EXPORTS AND IMPORTS OF VIETNAM – A GRAVITY MODEL APPROACH

4.4.1. The Specification of Gravity Models and Decrypting the Dataset

The author adopts the models suggested by Pham (2011) with some modifications in which the author will decompose trade flows between Vietnam and its trading partners into export and import relations. Thus, the previous empirical studies (e.g., Pham, T.H.H., 2011; Nguyen, D.C. et al, 2012 for the case of Vietnam) often assume that the effects of all FTAs are the same and are associated with one aggregate FTA dummy. This could *inflate* or *deflate* the impact of the WTO on Vietnam's trade flows (the same with the situation that occurred in the $LnFDI_{jt}$ equation mentioned in Chapter 3). And, individual FTA trade effects are constrained to an average coefficient associated with one aggregate FTA dummy. To avoid this issue, the author breaks them down into specific cases (each FTA dummy will assess the impact of a specific FTA). Moreover, some variables are added (e.g., SIMSIZE) or changed (e.g., institution) to produce better models and empirical results. Finally, the author uses the Hausman-Taylor (1981) estimator for its superior than OLS, FE, or RE estimation techniques. The Hausman-Taylor (1981) estimator is basically a hybrid of fixed-effects and random-effects models and takes the following form:

$$\mathbf{y_{it} = \beta_1 x'_{1it} + \beta_2 x'_{2it} + \alpha_1 z'_{1i} + \alpha_2 z'_{2i} + \varepsilon_{it} + u_i \quad (4.1)}$$

In which, y_{it} reflects the dependent variable for country i in period/time/year t; x'_{1it} denotes variables that are time varying and uncorrelated with the error term in the random-effects model

(u_i); x'_{2it} refers to a set of variables that are time varying and correlated with u_i; z'_{1i} represents the time invariant variables that are uncorrelated with u_i; z'_{2i} describes the time invariant variables that are correlated with u_i; β_i and α_i are the vectors of coefficients associated with the covariates; and ε_{it} is the random error with the hope that its value is appropriate zero. Accordingly, one of the main assumptions of the Hausman-Taylor (1981) estimator is that the explanatory variables that are correlated with u_i can be identified.

Concerning the variables in equation (4.1), the author uses the real Vietnam's exports to and imports from country partner j at year t as the dependent variables for y_{it} (the variables are labeled EX_{jt} and IM_{jt} respectively).

For x'_{1it} (*variables that are time varying and uncorrelated with u_i*), the author constructs a set of dummy variables. Particularly, the impacts of the WTO on Vietnam's exports and imports are taken in forms of the $Bothin_{VNjt}$ and $Onein_{VNjt}$ dummies. $Bothin_{VNjt}$ dummy takes the value of 1 if both Vietnam and country partner j are WTO members at year t and otherwise. The $Onein_{VNjt}$ dummy takes the value of 1 if country partner j is a WTO member at year t and otherwise. Other dummies, the *AFTA*, *USBTA*, *ACFTA*, *AKFTA*, *JVEPA*, *AJCEP* and the *AANZFTA*, are added to capture the probable effects of bilateral/regional trade agreements on Vietnam's exports and imports. The author relies on the fact that the various FTAs and the WTO involve different degrees of liberalization, and hence define them in order to isolate the impact of each, and purge them of any "contamination" from each other.[190] Each dummy takes the value of 1 if Vietnam and the country partner have signed/joined a bilateral/regional trade agreement at year t and otherwise. Four more variables *that are time varying and uncorrelated with u_i* are added. The author employs the $RER_{CURj/VNDt}$, *SIMSIZE*, CRI_j^{1997}, and CRI_j^{2008} variables.

Firstly, the $RER_{CURj/VNDt}$ designates the real exchange rate between VND and currency of country j at year t. An increase/decrease of real exchange rate means the devaluation/overvaluation of VND may affect Vietnam's exports and imports. Specifically, an increase of the real exchange rate (the devaluation of VND) may stimulate the country's exports and reduce the country's imports and vice versa. The real exchange rate is calculated by the following formula:

$$\mathbf{RER_{CURj/VNDt} = e_{CURj/VNDt} * (CPI_{jt} / CPI_{VNt})} \quad \mathbf{(4.2)}$$

In which:

- $RER_{CURj/VNDt}$ is the real exchange rate between VND and Currency of country j at year t

[190] AFTA: ASEAN Free Trade Area; USBTA: United States-Vietnam Bilateral Trade Agreement; ACFTA: ASEAN China Free Trade Area; AKFTA: ASEAN Korea Free Trade Agreement; JVEPA: Japan Vietnam Economic Partnership Agreement; AJCEP: ASEAN-Japan Comprehensive Economic Partnership Agreement; AANZFTA: ASEAN-Australia -New Zealand Free Trade Agreement.

- $e_{CURj/VNDt}$ is the nominal exchange rate between VND and Currency of country j at year t
- CPI_{jt} is the Consumer Price Index of country j at year t
- CPI_{VNt} is the Consumer Price Index of Vietnam at year t

Secondly, SIMSIZE is the *index of country similarity in size* that takes the value in the phase (-∞, -0.69). In case of perfect dissimilarity (GDP_{VN} has a huge difference with the GDP_j at year t), then $Ln[1- (GDP_{VNt}/(GDP_{VNt} + GDP_{jt}))^2 - (GDP_{jt}/(GDP_{VNt} + GDP_{jt}))^2] \approx$ ln (near Zero) = -∞. In case of perfect similarity (GDP_{VN} has a very small difference with the GDP_j at year t, or $GDP_{VNt} \cong GDP_{jt}$), then $Ln[1- (GDP_{VNt}/(GDP_{VNt} + GDP_{jt}))^2 - (GDP_{jt}/(GDP_{VNt} + GDP_{jt}))^2] \approx \ln (0.5) = -0.69$. The *index of country similarity in size* should have positive impact on foreign trade, especially on exports. If these predictions hold true, my empirical study will support "New trade theory" models where countries similar in size/or at similar levels of development will trade more. In other words, international trade is not only driven by differences in factor endowments (hence price) as stated in neoclassic theories (presented by David Ricardo, Eli Heckscher and Bertil Ohlin) but also by the identical factor endowments. This can explain for the occurrence of the intra-industry trade (the two-way exchange of goods within standard industrial classifications) in international trade that Ricardo's "Theory of comparative advantage" and "Heckscher-Ohlin theory" (H-O theory) cannot do.[191]

Thirdly, CRI_j^{1997} and CRI_j^{2008} dummy variables are used to separate the impact of the WTO and the relevant shocks of the 1997 and 2008 financial crises on the economic aspect. Each dummy will take the value of 1 if country j has suffered from the 1997 Asian financial crisis or the 2008 global financial and economic crisis respectively and otherwise.

For x'_{2it} (*variables that are time varying and correlated with u_i*), GDP of Vietnam, GDP of country partner, and implemented FDI capital of country partner are employed as it might be argued that Vietnam's exports and imports are not only influenced by the GDP of two countries and implemented FDI capital of the country partner, but also can have an influence on Vietnam's GDP and FDI attraction. Higher figures of GDP and implemented FDI capital are expected to be positively associated with Vietnam's exports and imports. To avoid the endogenous issues such as the exits of bidirectional causality between the FDI and GDP variables in gravity models, the author uses a one time period lag for the FDI variable.

For the z'_{1i} (*variables that are time invariant and uncorrelated with u_i*), the author employs standard gravity variables, the distance between two countries and whether they share land borders namely, the DIS_{VNj}, and the BOR_{VNj}. Wherein, the expected sign of DIS_{VNj} is negative

[191] See more in Mauro, F.D., 2000. "The impact of economic integration on FDI and Export: A Gravity approach", Working Paper No. 156, pp. 6-7. These have been refreshed and used from the original study of Helpman et al. and Brainard etc.

being a proxy for transport and transaction costs. This will be adopted from the work of CEPII using the weighted distance between Vietnam and country partner. The BOR_{VNj} dummy is involved with the fact that Vietnam and country j share a land border or not-this is-highly expected to induce Vietnam's exports and imports.

For the final category of variables z'_{2i} has been omitted (*variables that are time invariant and correlated with u_i*), as none of my indicators fit this definition. The values of the quantitative variables such as the GDP, FDI, Exports, and Imports, are converted in constant prices (2005 prices). All the variables, except the dummies, are in natural logarithm form in the gravity equations. My benchmark specification models take the following formulas:

$$\mathbf{LnEX_{jt} = \beta_{10} + \beta_{11}LnDIS_{VNj} + \beta_{12}LnGDP_{VNt} + \beta_{13}LnGDP_{jt} + \beta_{14}\,Ln[1- (GDP_{VNt}/(GDP_{VNt} + GDP_{jt}))^2 - (GDP_{jt}/(GDP_{VNt} + GDP_{jt}))^2] + \beta_{15}LnFDI_{jt-1} + \beta_{16}LnRER_{CURj/VNDt} + \gamma_{11}AFTA + \gamma_{12}USBTA + \gamma_{13}ACFTA + \gamma_{14}AKFTA + \gamma_{15}JVEPA + \gamma_{16}AJCEP + \gamma_{17}AANZFTA + \gamma_{18}Bothin_{VNjt} + \gamma_{19}Onein_{VNjt} + \gamma_{110}BOR_{VNj} + \gamma_{111}CRI_j^{1997} + \gamma_{112}CRI_j^{2008} + \varepsilon_{1VNj}} \quad \mathbf{(4.3)}$$

$$\mathbf{LnIM_{jt} = \beta_{20} + \beta_{21}LnDIS_{VNj} + \beta_{22}LnGDP_{VNt} + \beta_{23}LnGDP_{jt} + \beta_{24}\,Ln[1- (GDP_{VNt}/(GDP_{VNt} + GDP_{jt}))^2 - (GDP_{jt}/(GDP_{VNt} + GDP_{jt}))^2] + \beta_{25}LnFDI_{jt-1} + \beta_{26}LnRER_{CURj/VNDt} + \gamma_{21}AFTA + \gamma_{22}USBTA + \gamma_{23}ACFTA + \gamma_{24}AKFTA + \gamma_{25}JVEPA + \gamma_{26}AJCEP + \gamma_{27}AANZFTA + \gamma_{28}Bothin_{VNjt} + \gamma_{29}Onein_{VNjt} + \gamma_{210}BOR_{VNj} + \gamma_{211}CRI_j^{1997} + \gamma_{212}CRI_j^{2008} + \varepsilon_{2VNj}} \quad \mathbf{(4.4)}$$

For the data, the empirical analysis presented in this chapter is based on a panel data of country pairs set in the period from 1995 to 2011 which involves 17 Vietnam's major/stable trading partners as mentioned in the previous chapter.

4.4.2. An Analysis of the Empirical Estimation Results

The empirical results are summarized and reported in Table 4.11 and Table 4.13 below using the econometrical software-Stata 11 and the Hausman-Taylor (1981) estimator. Again, the empirical results provide some support for my arguments that when we use one FTA dummy to capture the impacts of all FTAs can *inflate* or *deflate* the impacts of the WTO on Exports and Imports of Vietnam. It becomes clear when we compare the magnitudes of the coefficients of the $Bothin_{VNjt}$ and $Onein_{VNjt}$ variables between the EX-3 and EX-5 equation in Table 4.11. We also observe the same trends when comparing the magnitudes of the coefficients of the $Bothin_{VNjt}$ and $Onein_{VNjt}$ variables between the IM-3 and IM-5 equation in Table 4.13 below. And, those trends also happen when the author uses the FE and RE techniques (please refer to the empirical results in Table 4.12 and Table 4.14). The subsequent item will first analyze the impact of the WTO and some other factors on Vietnam's exports, and then the second item discusses the impact of the WTO and some other factors on Vietnam's imports.

4.4.2.1. An Analysis on the Impact of the WTO on Vietnam's Exports

Table 4.11: The Gravity Model Estimations of the $LnEX_{jt}$ Equation Using the Hausman-Taylor (1981) Estimator

Explanatory variables	Dependent variable: $LnEX_{jt}$				
	EX-1	EX-2	EX-3	EX-4	EX-5
Time varying exogenous					
LnSIMSIZE	-	1.93597**	-	-	0.9184781
$LnRER_{CURj/VNDt}$	-	0.1174159	-	-	0.1054633
FTA	-	-	0.0688519	-	-
AFTA	-	-	-	-0.1758372	-0.0270398
USBTA	-	-	-	1.504769*	1.446955*
ACFTA	-	-	-	0.0170654	0.0018743
AKFTA	-	-	-	0.1027675	0.1159645
JVEPA	-	-	-	-0.0340665	-0.0085332
AJCEP	-	-	-	-0.0390555	-0.1056205
AANZFTA	-	-	-	-0.1349732	-0.1098954
$Bothin_{VNjt}$	-0.564724*	-0.6303389*	-0.6168741*	-0.4275806	-0.3626161
$Onein_{VNjt}$	-0.5234174*	-0.566592*	-0.5690903*	-0.4421496**	-0.439374**
CRI_j^{1997}	-	-	-	0.220075*	0.2543705*
CRI_j^{2008}	-	-	-	-0.0420042	-0.0999105
Time varying endogenous					
$LnGDP_{VNt}$	2.224816*	0.6519799	2.14669*	2.211013*	1.469922**
$LnGDP_{jt}$	0.7679879*	2.406568*	0.8635006*	0.8293187*	1.543947**
$LnFDI_{jt-1}$	-	0.0597087**	-	-	0.0601236**
Time invariant exogenous					
$LnDIS_{VNj}$	-0.82521*	-1.035409*	-0.9386249*	-1.013851*	-1.04677*
BOR_{VNj}	-	-0.6978363	-0.7547305	-0.6832711	-0.5885475
Constant	-47.66166*	-49.50799*	-47.33826*	-47.54587*	-48.43155*

Notes: *, **, and *** indicate significance at the levels of 1%, 5%, and 10% respectively.

Table 4.12: The Gravity Model Estimations of the $LnEX_{jt}$ Equation Using the Fixed-Effects (FE) and the Random-Effects (RE) Techniques

Explanatory variables	Dependent variable: $LnEX_{jt}$									
	Fixed–Effects (FE)					Random–Effects (RE)				
	FE-1	FE-2	FE-3	FE-4	FE-5	RE-1	RE-2	RE-3	RE-4	RE-5
$LnDIS_{VNj}$	omitted	omitted	omitted	omitted	omitted	-0.7233064* (0.2129933)	-0.9078305* (0.3105404)	-0.6723908* (0.2322083)	-0.7716023 * (0.2227954)	-0.577698** (0.2681518)
$LnGDP_{VNt}$	2.185446* (0.3393998)	0.5752065 (1.295564)	2.168312* (0.3431298)	2.088435* (0.2827454)	1.552359 (1.554706)	2.272681* (0.3330842)	1.288572 (1.088666)	2.222775* (0.3467995)	2.282826* (0.3366475)	2.251985** (1.147905)
$LnGDP_{jt}$	0.8740174*** (0.4221996)	2.553841*** (1.466995)	0.824215*** (0.4570848)	1.19316* (0.3215897)	1.706774 (1.438956)	0.6585078* (0.1691447)	1.719637 (1.228374)	0.6268322* (0.1643902)	0.6184573* (0.1611836)	0.5791989 (1.104611)
LnSIMSIZE	-	1.967829 (1.662279)	-	-	0.6847579 (1.691961)	-	1.206434 (1.342799)	-	-	0.1432691 (1.243911)
LnFDIjt-1	-	0.0618661** (0.0230692)	-	-	0.0594452* (0.0193465)	-	0.06203* (0.0219351)	-	-	0.0622539** (0.0256231)
$LnRER_{CURj/VNDt}$	-	0.1687812 (0.3211981)	-	-	0.0766735 (0.3275197)	-	0.1028606 (0.0704244)	-	-	0.0400874 (0.0562521)
FTA	-	-	0.0621576 (0.248077)	-	-	-	-	0.1046759 (0.227216)	-	-
AFTA	-	-	-	-0.1321561 (0.2717006)	-0.0043358 (0.2693519)	-	-	-	-0.2005165 (0.273881)	-0.0805178 (0.2587652)
USBTA	-	-	-	1.546383* (0.1564285)	1.492842* (0.1453659)	-	-	-	1.47463* (0.1421164)	1.29682* (0.1724926)
ACFTA	-	-	-	-0.082364 (0.2054041)	-0.0986199 (0.2056301)	-	-	-	0.0748013 (0.2258384)	0.0658962 (0.2326471)
AKFTA	-	-	-	0.0829914 (0.115461)	0.0881057 (0.1002158)	-	-	-	0.1142995 (0.1094144)	0.123639 (0.0882804)
JVEPA	-	-	-	-0.0061959 (0.1919861)	0.0144072 (0.1921452)	-	-	-	-0.0272859 (0.2022933)	0.1937406 (0.2297358)
AJCEP	-	-	-	-0.0303633 (0.1396986)	-0.0963258 (0.1250842)	-	-	-	-0.0474579 (0.1379481)	-0.1592857 (0.1504522)
AANZFTA	-	-	-	-0.18288*** (0.1060542)	-0.1514102 (0.1046987)	-	-	-	-0.1020114 (0.0845256)	0.0056322 (0.0718262)
$Bothin_{VNjt}$	-0.6215973 (0.4617777)	-0.6792697 (0.4296234)	-0.6104611 (0.4537342)	-0.5077378 (0.446365)	-0.456107 (0.439473)	-0.5428434 (0.4493302)	-0.62278 (0.4026958)	-0.5435415 (0.4279211)	-0.383557 (0.4519805)	-0.308721 (0.4161215)
$Onein_{VNjt}$	-0.5715333 (0.3910578)	-0.6117*** (0.3468452)	-0.5651162 (0.3779901)	-0.5132693 (0.3890269)	-0.5228184 (0.369021)	-0.5089089 (0.3950383)	-0.56751*** (0.3438194)	-0.5136305 (0.3734182)	-0.3995805 (0.4088736)	-0.3807798 (0.3645749)
CRI_j^{1997}	-	-	-	0.2242515*** (0.1161588)	0.2529117** (0.1184085)	-	-	-	0.2197079** (0.1100504)	0.260417** (0.112129)
CRI_j^{2008}	-	-	-	-0.0536288 (0.0945011)	-0.1127947 (0.0736438)	-	-	-	-0.0325929 (0.0931558)	-0.0968068 (0.0661345)
BOR_{VNj}	omitted	omitted	omitted	omitted	omitted	-0.3644039 (0.2934845)	-0.5251664 (0.3981738)	-0.337913 (0.2936575)	-0.3290945 (0.3741236)	0.0007445 (0.412462)
Constant	-56.37198* (12.37996)	-60.58654* (12.18722)	-54.61804* (13.86845)	-62.80942* (13.01146)	-63.78679* (12.75268)	-46.68967* (9.017322)	-49.05771* (8.857358)	-45.04967* (9.170093)	-45.63673* (8.839298)	-46.58165* (8.224861)

*Notes: *, **, and *** indicate significance at the levels of 1%, 5%, and 10% respectively; values in parentheses are robust standard errors.*

The estimated results of the $LnEX_{jt}$ gravity equation are presented in Table 4.11 above. The inclusion of 5 equations is to observe the interaction between the WTO and other factors that may have an impact on Vietnam's exports. The author respects the results of the equation EX-5. The results of the equation EX-5 reported in table 4.11 indicate that a large share of the variation of Vietnam's exports recently could be explained by a considerable number of factors, namely, GDP, distance, FTA, FDI, 1997 Asian financial crisis and the WTO accession. We, now, start by the discussion on the possible impact of the WTO on Vietnam's exports. As aforesaid, the $Bothin_{VNjt}$ and $Onein_{VNjt}$ dummies capture the probable impact of the WTO on Vietnam's exports. The coefficient of the $Onein_{VNjt}$ dummy is negatively significant at the level of 5% suggesting that there was a "trade diversion" from Vietnam to other WTO members. Specifically, Vietnam's trading partners had diverted their imports from Vietnam to other WTO members for lower tariff rates. This is consistent with the theory of the impact of the WTO on trade flows (Vietnam's exports to trading partners had been reduced to an amount of around 55.17% [=EXP (0.439374) - 1] since trade partners became WTO members while Vietnam still was an outsider). The estimated coefficient of the $Bothin_{VNjt}$ dummy is statistically insignificant (see equation EX-5). It means joining the WTO by both Vietnam and its trading partners has not increased Vietnam's exports. The explanation comes partially from Subramanian and Wei (2007, p. 157) arguments that when Vietnam liberalizes its imports under the WTO's agreements, there is reason to expect Vietnam's imports from the WTO members to increase but there is no theoretical reason for its exports to the WTO members to increase as well. In other words, the trade effect of the WTO in fact is related to imports rather than exports, and Vietnam is not an exceptional case. Other reasons are the limited competition of Vietnam's merchandises in international markets and the economic down turn of the world economy after 2008 global financial and economic crisis.

Now, we turn our discussion to the possible impact of other variables on Vietnam's exports. First, the estimated coefficient of the *USBTA* dummy is positive and statistically significant at the level of 1% indicating that the *USBTA* has had a strong and positive impact on Vietnam's exports. This is quite consistent with the theoretical impact of a FTA on its participants through "market expansion effect" within the "dynamic effects". It is undeniable that a FTA could present the culmination of trade integration. The USBTA has helped to increase Vietnam's exports about 325% [= EXP (1.446955) – 1]. This strongly supports the descriptive analysis of the trade relations between Vietnam and the USA in item 4.2.2.1 above. By contrast, the estimated coefficients of other FTAs including the *AFTA*, *ACFTA*, *AKFTA*, *JVEPA*, *AJCEP* and the *AANZFTA* are not significant. This indicates that these FTAs have not motivated Vietnam's exports.

Second, my empirical results again support the linkages between FDI and Vietnam's exports. The estimated coefficient of the $LnFDI_{jt-1}$ variable is positive and significant at the level of 5% but with a pretty small magnitude (0.0601236). This suggests that FDI has stimulated the country's exports and FDI in Vietnam is seeking for export-orientation. In fact, the FDI enterprises play an important role for Vietnam's export activities. Vietnam has attracted a considerable amount of FDI capitals since the launch of the Renovation (around USD 222,198.6 million). Just during 2007-2011, FDI flowing into Vietnam reached USD 143,950.3 million, wherein the total implemented capital of this duration was around USD 51,530 million. The share of the FDI sector in Vietnam's exports reached 53.82% in average in duration of 2007-2011. As proven in Chapter 3, the WTO accession strongly motivated FDI flows to Vietnam. This advocates that the WTO indirectly increased Vietnam's exports through the FDI channel.

Third, for the $LnGDP_{jt}$ and $LnGDP_{VNt}$ variables, theoretically when the GDP of a country partner grows (in this situation, the income of its domestic consumers also increases) resulting in an increase in the demand of foreign imported goods. Consequently, a country partner is likely to import more from abroad. It means an increase of a country partner's GDP will potentially motivate Vietnam's exports. The estimated coefficients of the $LnGDP_{jt}$ and $LnGDP_{VNt}$ variables are positive and statistically significant at the levels of 5% indicating that an increase of GDP of Vietnam and country partners strongly motivated Vietnam's exports. This implies that for a small price-taking economy, like in Vietnam's case, it is more likely that the growth of GDP is the engine of trade expansion than the reverse.

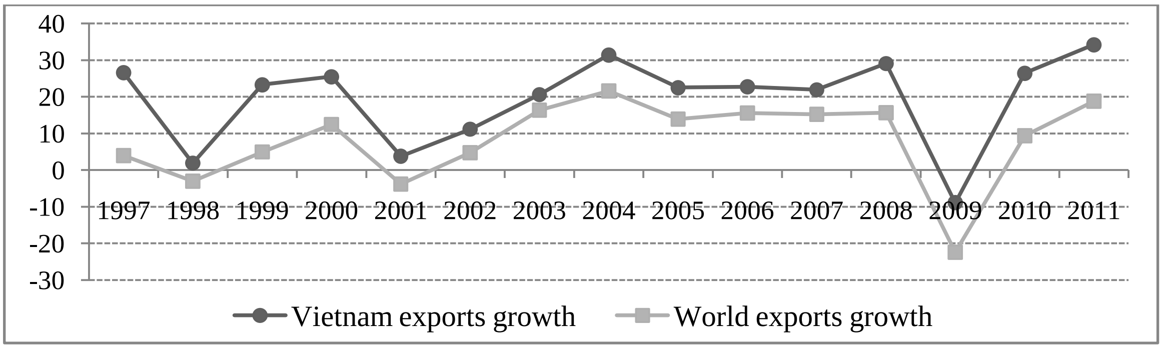
Fourth, the estimated coefficient of $LnDIS_{VNj}$ variable is negative and statistically significant at the level of 1% indicates that Vietnam's exports are negatively affected by the distance between Vietnam and its trade partners. It is obvious that transport and transaction costs are likely to increase if two countries are located far away from each other. The further the distance between the two countries, the less the export volume Vietnam receives. This is consistent with the results of other empirical studies using the gravity model.

Fifth, contrary to expectations, the estimated coefficients of the *LnSIMSIZE*, $LnRER_{CURj/VNDt}$, and the BOR_{VNj} variables are not statistically significant. This suggests that the sharing of the land border between Vietnam and China has not encouraged Vietnam's exports to this neighboring country due to the sunk-cost of transport and transaction. And, the index of country similarity in size and the exchange rate regime have not induced the country's exports either.

Finally, the author focuses on discussing the impact of the 1997 Asian financial crisis and the 2008 Global financial and economic crisis on Vietnam's exports. The positive relationship between trade liberalization/openness to trade and growth has a solid theoretical foundation.

However the channel that transmits the forces that raise growth also transmits forces that lower growth when world markets weaken and decline. The fact is that the more open an economy is to trade, the faster it can grow when world demand is expanding. But when there is a crumple/collapse in world demand; the more open an economy is, the more exposed it is to negative external shocks. If we use the rate of growth of the world exports as a measure of world market conditions, we find it bears a close relationship to the growth of Vietnam's exports as Figure 4.7 below indicates.

Figure 4.7: Vietnam Exports and World Exports Annual Percentage Changes (%)



Source: Author calculated from data compiled from the UN International Merchandise Trade Statistics and the GSO of Vietnam, 2012.[192]

Firstly, the estimated coefficient of the 1997 Asian financial crisis variable, namely CRI_j^{1997}, is statistically significant and positive but with considerably a small value shows that the 1997 crisis did not have a negative impact on Vietnam's exports as predicted. The 1997 Asian financial crisis started in Thailand and raised fears of a worldwide economic meltdown due to financial contagion. Indonesia, Thailand, the Republic of Korea, Hong Kong, Malaysia, the Philippines (Vietnam's traditional trade partners) were the most affected, while China, Singapore, Taiwan, Brunei and Vietnam were less affected, although all suffered from a loss of demand and confidence through the region. At that time, Vietnam's economy was still a relatively closed one with a small scale of exports (around USD 10,000 million) and a low openness level ([exports + imports]/GDP is around 0.9). This explains why Vietnam's exports had not suffered as much from the 1997 Asian financial crisis. Moreover, the poor structure of Vietnam's exports is also a sufficient factor for this statement (Vietnam exported mostly crude oil, coal, tin, footwear, textiles and garments, coffee, rice, rubber, and seafood [natural resources, materials, agriculture, and sea products – primary goods] with a relative low elasticity of demand forwarding the changes of market price).

Secondly, the estimated coefficient of the 2008 global financial and economic crisis, labeled CRI_j^{2008}, is insignificant. It indicates that the 2008 crisis has not affected to Vietnam's exports as

[192] Retrieved from website http://www.gso.gov.vn/default.aspx?tabid=393&idmid=3&ItemID=13172 and http://comtrade.un.org/pb/, accessed December 2012.

predicted. The answer partially comes from the structure of Vietnam's exports. It exported mostly the natural resources like raw materials (e.g., crude oil, coal, and iron ore, etc.), agriculture, forestry and aquatic products (e.g., rice, coffee, cashew nut, pepper, cash fish, etc.) and some light industry products (e.g., garment, textile, and footwear, etc.) which have very low elastic of demand. As a result, when the crisis happened, it did not impact on Vietnam's exports. Though the author could not find the direct effect of the 2008 crisis on Vietnam's exports from the empirical results, this crisis could have negatively affected Vietnam's exports through a decrease in the country's imports which will be discussed in the subsequent item (impact on Vietnam's imports).

4.4.2.2. An Analysis on the Impact of the WTO on Vietnam's Imports

Table 4.13: The Gravity Model Estimations of the $LnIM_{jt}$ Equation Using the Hausman-Taylor (1981) Estimator

Explanatory variables	Dependent variable: $LnIM_{jt}$				
	IM-1	IM-2	IM-3	IM-4	IM-5
Time varying exogenous					
LnSIMSIZE	-	-0.3993434	-	-	0.0657589
$LnRER_{CURj/VNDt}$	-	0.1485851	-	-	0.1208685
FTA	-	-	0.2195104*	-	-
AFTA	-	-	-	-0.2050548	-0.097925
USBTA	-	-	-	0.461896*	0.4469156*
ACFTA	-	-	-	0.5107721*	0.4859765*
AKFTA	-	-	-	-0.0767694	-0.0804554
JVEPA	-	-	-	0.2577209	0.3145337
AJCEP	-	-	-	-0.1447753	-0.212482
AANZFTA	-	-	-	0.1269618	0.1671734
$Bothin_{VNjt}$	0.4918023*	0.479222*	0.5311835*	0.7351007*	0.7877818 *
$Onein_{VNjt}$	0.3021154**	0.2739412**	0.323587*	0.2548223***	0.250974***
CRI_j^{1997}	-	-	-	0.0948877	0.1239098**
CRI_j^{2008}	-	-	-	-0.2297479	-0.271356***
Time varying endogenous					
$LnGDP_{VNt}$	1.60222*	2.00896*	1.551853*	1.552042*	1.541878*
$LnGDP_{jt}$	1.102094*	0.6267316	0.9049076*	0.8665782*	0.8287191
$LnFDI_{jt-1}$	-	0.0495253*	-	-	0.0581889*
Time invariant exogenous					
$LnDIS_{VNj}$	-1.887858*	-1.895831*	-1.65984*	-1.627061*	-1.624041*
BOR_{VNj}	-	-0.4288211	-0.3801243	-0.5176104	-0.329246
Constant	-33.66979*	-33.56223*	-29.00875*	-28.20689*	-28.83678*

Notes: *, **, and *** indicate significance at the levels of 1%, 5%, and 10% respectively.

Table 4.14: The Gravity Model Estimations of the $LnIM_{jt}$ Equation Using the Fixed-Effects (FE) and the Random-Effects (RE) Techniques

Explanatory variables	Dependent variable: $LnIM_{jt}$									
	Fixed–Effects (FE)					Random–Effects (RE)				
	FE-1	**FE-2**	**FE-3**	**FE-4**	**FE-5**	**RE-1**	**RE-2**	**RE-3**	**RE-4**	**RE-5**
$LnDIS_{VNj}$	omitted	omitted	omitted	omitted	omitted	-1.789656*	-1.794555*	-1.627927*	-1.566988*	-1.583384*
						(0.2925365)	(0.3364863)	(0.2731895)	(0.2464673)	(0.3236503)
$LnGDP_{VNt}$	1.611134*	2.263386*	1.548568*	1.563454*	1.863231***	1.648161*	1.772274**	1.55983*	1.570462*	1.465176
	(0.223359)	(0.7655339)	(0.2353841)	(0.2283708)	(0.981649)	(0.2075295)	(0.8028409)	(0.2239606)	(0.2178326)	(1.043822)
$LnGDP_{jt}$	1.078086**	0.3307447	0.8962242**	0.8013879**	0.4244035	0.9922758*	0.8679113	0.8766154*	0.8133492*	0.9140101
	(0.4036888)	(0.7955222)	(0.3846308)	(0.3132523)	(0.9472521)	(0.2966969)	(0.8291971)	(0.2775002)	(0.1999389)	(1.030592)
LnSIMSIZE	-	-0.7285767	-	-	-0.3315528	-	-0.0905749	-	-	0.1629247
		(0.9731445)			(1.201522)		(0.982808)			(1.237246)
$LnFDI_{jt-1}$	-	0.0531521**	-	-	0.0602489*	-	0.0523848**	-	-	0.0584244*
		(0.0215101)			(0.0178328)		(0.0212766)			(0.0180961)
$LnRER_{CURj/VNDt}$	-	0.4011198	-	-	0.3858363	-	0.0761894	-	-	0.0825111
		(0.2975221)			(0.2771299)		(0.1430772)			(0.1541629)
FTA	-	-	0.226980***	-	-	-	-	0.2247346***	-	-
			(0.1184049)					(0.1189732)		
AFTA	-	-	-	-0.1941121	-0.0682022	-	-	-	-0.2144893	-0.102467
				(0.1653916)	(0.1610688)				(0.1663406)	(0.1661035)
USBTA	-	-	-	0.4920029*	0.4578179*	-	-	-	0.4639762*	0.4406715*
				(0.1105821)	(0.1096357)				(0.1091341)	(0.1048346)
ACFTA	-	-	-	0.5257991*	0.479985 *	-	-	-	0.5258244*	0.4895462*
				(0.1371999)	(0.1416984)				(0.1355133)	(0.1436733)
AKFTA	-	-	-	-0.0791725	-0.0891905	-	-	-	-0.0723668	-0.0776396
				(0.1007092)	(0.0928624)				(0.0977375)	(0.0962413)
JVEPA	-	-	-	0.2521921	0.3491512***	-	-	-	0.2558104	0.3073307***
				(0.1635233)	(0.1661817)				(0.1677202)	(0.1668358)
AJCEP	-	-	-	-0.1393972	-0.207028**	-	-	-	-0.1466884	-0.2143491**
				(0.0914205)	(0.0894055)				(0.0929026)	(0.09897)
AANZFTA	-	-	-	0.1342483	0.1587663	-	-	-	0.1329867	0.1688883
				(0.1274536)	(0.1146663)				(0.1231082)	(0.1166946)
$Bothin_{VNjt}$	0.5046796	0.5303472	0.5453456***	0.7748616*	0.8192952*	0.5243299	0.4644535	0.5426682**	0.7432818*	0.7829601*
	(0.3511005)	(0.3181877)	(0.3082243)	(0.258423)	(0.2244754)	(0.3638554)	(0.334821)	(0.3141689)	(0.2685668)	(0.2419522)
$Onein_{VNjt}$	0.3130099	0.2885439	0.3364434	0.2856274	0.2909989	0.3267686	0.271192	0.3327921	0.2636925	0.2449481
	(0.3235224)	(0.289590)	(0.2822059)	(0.2200244)	(0.1881448)	(0.3391143)	(0.3130503)	(0.2901742)	(0.2301506)	(0.2009174)
CRI_j^{1997}	-	-	-	0.1007157**	0.1360031*	-	-	-	0.094251**	0.1218871*
				(0.0424874)	(0.0467347)				(0.0420386)	(0.0466027)
CRI_j^{2008}	-	-	-	-0.2314712*	-0.2124337**	-	-	-	-0.2262749*	-0.2800614*
				(0.0595542)	(0.0787318)				(0.0604889)	(0.0734868)
BOR_{VNj}	omitted	omitted	omitted	omitted	omitted	-0.473941	-0.3950705	-0.3297245	-0.429712	-0.3349356
						(0.4894671)	(0.456845)	(0.4681341)	(0.4313342)	(0.4463523)
Constant	-48.87928*	-50.31388*	-42.47445*	-40.25293*	-42.27953*	-32.61412*	-33.93509*	-28.71123*	-27.7212*	-29.08512*
	(9.418068)	(8.750797)	(9.503024)	(8.208485)	(7.463163)	(6.855017)	(6.215107)	(6.912576)	(6.318274)	(5.619776)

*Notes: *, **, and *** indicate significance at the levels of 1%, 5%, and 10% respectively; values in parentheses are robust standard errors.*

Correlation coefficients of variables in $LnIM_{jt}$ gravity equation are presented in Table 4.13 above. Many of them are statistically significant at the levels of 1% and 5% (or better). The author still respects the estimated results of the equation IM-5.

We now get to empirically analyze our concern about the impact of the WTO on Vietnam's imports. First, the estimated coefficients of the $Bothin_{VNjt}$ and $Onein_{VNjt}$ dummies are positive and statistically significant at the levels of 1% and 10% respectively. These results are sufficient for the hypothesis that the WTO has had a positive impact on Vietnam's imports. Being the WTO membership of Vietnam's trade partners increased the country's imports by about 28.52% [= EXP (0.250974) -1]. This consideration is also consistent with the one of Tomz et al. (2007), which suggests that the benefits of the GATT/WTO extend not only to formal members but also to a wide range of non-member participants. Belonging to the WTO by both Vietnam and trade partners has motivated the country to import goods by 119.85% [= EXP (0.7877818) – 1]. This expresses the "trade creation effect" (replaces the higher cost of domestic production by lower cost sources of supply from abroad through importation). Why does the WTO strongly affect a member's trade flows, specifically on the import side? As we know, the overarching objectives of the WTO are to *ensure that trade flows as smoothly, predictably and freely as possible*.[193] In order to achieve this, the trade negotiation function of its predecessor, the General Agreement on Tariffs and Trade (GATT), was designed to allow country members to reach a consensus on concessions not to increase protection above the agreed level (tariff bindings for the merchandise trade among members). This is to reduce tariff barriers in international trade. Late country members/observer governments are also forced to increase transparency and predictability in their trading systems/environments and to further reduce their tariffs and nontariff barriers. Such expertise was developed in the following important rounds of negotiation since 1947.

Table 4.15: The GATT/WTO Rounds of Negotiation and Tariff Cuts

Round	Dates	Length (months)	Tariff cuts [a]	Round "productivity" [b]	Number of GATT members	
					All [c]	G-77 [d]
Geneva I	1947	8	26.0	39.0	19	7
Annecy	1949	8	3.0	4.5	20	8
Torquay	1950-1951	8	4.0	6.0	33	13
Geneva II	1956-1956	16	3.0	2.3	35	14
Dillon	1960-1961	10	4.0	4.8	40	19
Kennedy	1964-1967	42	37.0	10.6	74	44
Tokyo	1973-1979	74	33.0	5.4	84	51
Uruguay	1986-1994	91	38.0	5.0	125	58

193 Retrieved from website http://translate.google.com.vn/?hl=vi&tab=wT#en/vi/overarching, accessed December 7, 2012.

Notes: [a] Average cuts in bound tariffs (Preeg 1970; Baldwin 1986; WTO 1994, 2007). Import-weighted tariff cuts of industrial countries for industrial products (petroleum excluded). The five first figures refer to the average tariff cuts of the USA.

[b] Average tariff cut per year of negotiations

[c] GATT members at the end year of the negotiations (WTO website)

[d] G-77 membership is taken as a proxy for defining "developing" GATT members.

Source: Martin and Messerlin (2007, pp. 347-366).

From Table 4.15, it is obvious that the Geneva I round witnessed greater tariff reduction by the USA. The later four rounds (Annecy, Torquay, Geneva II, and Dillon) offered modest tariff cuts. The next three rounds, Kennedy, Tokyo, and Uruguay, have brought about a much larger tariff reduction than ever before.[194] The Uruguay round also brought the agricultural trade back to the GATT system.[195] It is noted that, most of the industrial economies, for example, the USA, Japan, the EU, etc., made a greater commitment in bounding tariff of industrial good import (94%) compared with developing economies (13%).[196] Consequently, the differences in tariff reductions between industrial and developing countries and among products under the GATT/WTO system have been considered as causality in the significant differences in trade flows.[197]

Vietnam being a late member is not an exceptional case. The WTO accession has been accompanied by tariff reductions as analyzed in Chapter 2. This has led to an increase of imports of industrial goods from advanced countries. One should be aware that Vietnam's demand for advanced technology and industrial goods (construction machines, machines and equipments for communication, electronic components, computer and accessories, chemicals and plastic, footwear accessories, garment accessories, paper, fertilizer, fabric, and metals) is quite high. This has been proven in Vietnam's foreign trade structure: export primary products and import industrial goods. Moreover, on the business side, tariff reduction stimulates the "trade creation effect" due to the fact that foreign merchandises are now more competitive (cheaper). As a result, industries which tend to import input materials from abroad to provide for export-oriented

[194] The move from a request-and-offer system to a formula-based approach has been a large part of the reason for the greater success of these rounds in reducing tariffs (Baldwin, 1986).

[195] See more in Martin and Messerlin (2007, pp. 347-366).

[196] According to Abreu (1996), the average industrial products tariff in industrial countries was 4.1%, with the average tariff of 5.1% applied against exports from developing countries, and 3.9% against exports from industrial countries at the beginning of the Uruguay Round. Moreover, in developing countries, average tariff on industrial product was 18.8%, wherein, 19.6% levied on exports from industrial countries and 13% against a developing country's exports.

[197] As shown in Subramanian and Wei (2007, pp. 151-175) industrial countries that had participated more actively than developing countries in reciprocal trade negotiations, witnessed a large increase in trade. Bilateral trade was greater when both partners undertook liberalization than when only one partner did. And, sectors that did not witness liberalization did not see an increase in trade.

manufacturing (textiles, garments, footwear, electronics, etc.) and domestic consumers will experience more benefits than other industries.

To examine whether Vietnam has imported more industrial goods from developed/industrial WTO members compared with developing WTO members, the author replaced the $Bothin_{VNjt}$ and $Onein_{VNjt}$ dummies with *Bothindev* and *Bothindevp* dummies. *Bothindev* takes the value of 1 if both Vietnam and the industrialized country are WTO members and otherwise. *Bothindevp* takes the value of 1 if both Vietnam and the developing country are WTO members and otherwise.[198] The estimated results show that the coefficients of the *Bothindev* dummy is significant at the levels of 1%. Interestingly, the magnitude of the coefficient of the *Bothindev* dummy (0.5743646) is over double compared with the coefficient of the *Bothindevp* dummy (0.1972686), which is not significant. This advocates that Vietnam has demonstrated a stronger tendency to import more industrial goods from developed/industrial WTO members compared with those from developing WTO members. Particularly, the WTO has increased Vietnam's imports from industrial WTO members by about 77.60% [= EXP (0.5743646) – 1]. This is consistent with the theoretical analysis above.

Now we turn to the other variables in the $LnIM_{jt}$ equation:

Firstly, as expected, the estimated coefficient of the $LnGDP_{VNt}$ variable is positive and significant at the level of 1%. This suggests that the development of Vietnam's domestic market (economic growth), in turn, led to an increase in the country's imports to serve this process. In other words, local suppliers could not satisfy all demands for domestic manufacturing, hence the country had to seek for and import foreign sources. The insignificant coefficient of the $LnGDP_{jt}$ variable means an increase in the GDP of Vietnam's trade partners has no impact on the country's imports.

Secondly, the author finds the possible impact of some FTAs on Vietnam's imports. Particularly, the author observes considerable impact of both the *USBTA* and the *ACFTA* on Vietnam's imports. By contrast, the author finds no evidence that demonstrates convincingly that the *AFTA, AKFTA, JVEPA, AJCEP* and the *AANZFTA* have promoted the country's imports. The *USBTA* and the *ACFTA* have increased Vietnam's imports by about 56.34% [= EXP (0.4469156) – 1] and 62.57% [= EXP (0.4859765) – 1] respectively. These results are also sufficient for the descriptive analysis of the trade relations between Vietnam and China and Vietnam and the USA, in which the USBTA and the ACFTA has had a positive impact on Vietnam's imports from China and the USA.

[198] Following WTO practices, I refer to the following as industrial countries: Australia, Belgium, Canada, France, Germany, Japan, the Netherlands, the United Kingdom, and the USA; China, Hong Kong, Malaysia, the Philippines, Singapore, the Republic of Korea, Taiwan, and Thailand are developing countries (codified in this research only).

Thirdly, again my empirical results find the linkages between FDI and imports of Vietnam. The estimated coefficient of the $LnFDI_{jt-1}$ variable is positive and statistically significant at the level of 1%. This proves that the FDI has been a contributing factor in increasing Vietnam's imports recently. Why so? The FDI sector plays quite an important role not only in Vietnam's exports but also in imports. The share of the FDI sector in Vietnam's imports has increased from 18% in 1995 to 36.7% in 2006 and to 45.7% in 2011 (GSO, 2012). In addition, the investment boom of FDI in Vietnam during 2007-2011 (USD 143,950.3 million) caused an import increase. The flood of FDI capital created imports to supply this sector due to the lack of ancillary industries. Even the industries in which Vietnam possesses a comparative advantage in terms of exports (*e.g.*, textiles and garments, and footwear) still import a large part of input materials from abroad. In fact, Vietnam's imports are mainly to supply the demand for inputs for exports-oriented industries. It means exports have a strong relationship with imports. Imports increase results in an expansion of exports and vice versa. Joining the WTO has helped the FDI sector to import more from overseas to improve efficiency in business activities. Exports, imports, and FDI are complementary. Overall, FDI has no doubt expanded Vietnam's foreign trade recently.

Fourthly, as not predicted, the estimated coefficients of the *LnSIMSIZE* and $LnRER_{CURj/VNDt}$ variables are statistically insignificant. These allow us to conclude that the exchange rate regime and the index of country similar in size between Vietnam and trade partners have not affected the country's imports.

Fifthly, the estimated coefficient of the BOR_{VNj} variable is insignificant, suggesting that the close geographical location between Vietnam and China has not motivated Vietnam's imports from this neighboring country.[199] The coefficient of the $LnDIS_{VNj}$ variable is clearly negative and significant at the level of 1% indicating that Vietnam has imported less from more distant countries owing to higher transport and transaction costs. Transport and transaction costs are likely to increase if two countries are located far away from each other. This is also aligned with the results in many empirical studies using the theory of gravity.

Finally, the author confers the impact of two financial crises on Vietnam's imports. As stated above, to separate/capture the impact of the WTO, the other determinant factors, and the external shocks on Vietnam's trade flows (exports and imports), I took into account two dummies

[199] Theoretically, the close geographical location between Vietnam and China will promote trade volume between two nations for lower transport and transaction costs. However, the BOR_{VNj} variable is insignificant in the estimation results suggesting that there is no evidence to conclude that this factor promotes trade flows between the two. This could be explained by the following argument: In the country samples, only China shares the land border with Vietnam. It means the BOR_{VNj} variable only takes the value of 1 for the case of China. This is not enough for it to be significant in the gravity model estimation results (if the author employs Cambodia and Laos-two other countries which share the land border with Vietnam, the estimation results of the BOR_{VNj} variable might be changed).

$CRI_j^{1997}$and CRI_j^{2008}. To determine the values of these dummies, the author employed the work of Laeven and Valencia (2008) together with other studies (e.g., Bartram and Bodnar 2009; Naudé 2009; Erkens et al. 2012; Rose and Spiegel 2012) as well as related information from the public media. The author admits that to define exactly the extent of the impact of those crises on each country is not an easy task. With a little bias, the author considered the 1997 crisis affecting Vietnam's trade partners during 1997-2000, and the 2008 crisis has affected most of its country's partners from 2007 to 2011. Thus, the 2008 global financial and economic crisis which can be dated from August 7, 2007 when BNP Paribas terminated withdrawals from three hedge funds citing "a complete evaporation of liquidity" still exists and leaves negative legacies worldwide.

The first channel in which the crisis was transmitted from was from the USA to the rest of the world (other economies) through the financial linkages between the USA and other economies. Due to the rise in demand of the housing market in the 2000s, a considerable number of financial institutions in the USA approved loans to buyers without any financial background requirements and credit history. When housing prices kept on rising, there were limited concerns on loans that were not based on normal credit conditions (the so-called subprime-mortgages). To offer loans, the US financial institutions issued their bonds to get financial sources from both domestic and international financial markets leading to the involvement of not only other economies but also individuals abroad investing in the USA financial institution's bonds. Consequently, overseas economies and individuals have suffered when the USA housing market collapsed.

The second channel in which the housing market crisis was transmitted through was foreign trade. The collapse of the USA housing market bubble resulted in the bankruptcy of a large number of financial institutions i.e., Bear Sterns and Lehman Brothers, and the downturn of stock markets around the world. The crisis took a central role in the failure of key businesses, declines in consumer wealth, and the increase of unemployment rates leading to the 2008-2012 global economic recession. Economic recession caused a decrease in import demand in the USA and the EU economies - the major foreign export markets of many Asian products of China, Japan, and Vietnam.

The empirical results of the IM-5 equation in Table 4.13 show that the estimated coefficient of the CRI_j^{1997} dummy is positively significant at the level of 5%. This indicates that the 1997 Asian financial crisis did not have a negative impact on Vietnam's imports. As explained in the previous item, at the time of the raging 1997 Asian financial crisis, Vietnam suffered less due to the small import scale (around USD 11,000 million) and low openness level ([exports + imports]/GDP is about 0.9). In other words, the economy was relatively a closed one. By contrast, the estimated coefficient of the CRI_j^{2008} dummy is negative and significant at the level of 10%. This suggests that the 2008 global financial and economic crisis negatively influenced Vietnam's imports (reducing Vietnam's imports by about 31.17% [= EXP (0.2713562) – 1]). As analyzed in the $LnEX_{jt}$ equation, the author could not find any evidence about the negative impact of the 2008 crisis on Vietnam's exports. However the 2008 crisis could have indirectly affected Vietnam's exports by decreasing Vietnam's imports owing to the existing reciprocal relationship between them. To some extent, Vietnam's trade flows are more vulnerable (at risk) by external factors such as "shocks" from world crises.

Overall, various/complicated factors widely impacted Vietnam's exports and imports recently. They are the economic space of Vietnam and country partners, the distance between them, the FTAs, the FDI sector, the country's degree of openness of the economy within the framework promised to the WTO and the external shocks from the world market. Among them, the WTO accession and belonging to some regional FTAs (e.g., USBTA, ACFTA) as well as economic growth could be the most important factors that boosted the country's exports and imports recently.

Table 4.16: The Summary of Chapter 4

4.2. An Analysis of Exports and Imports of Vietnam in the Period from 1995 to 2011

4.2.1. An Analysis of Exports and Imports of Vietnam during 1995-2011

- Vietnam's total trade (exports plus imports) has increased from USD 84,717.3 million in 2006 to USD 203,665.6 million in 2011.
- Its exports rose from USD 39,826.2 million in 2006 to USD 96,905.7 million in 2011, and its imports increased from USD 44,891.1 million to USD 106,749.9 million at the same time.
- The average growth rates of total trade, exports and imports in duration of 2007-2011 are 20.22%, 20.36% and 20.20% respectively. Trade deficit has increased from USD 1,153.8 million in 2000 to USD 5,064.9 million in 2006 and leveled off at USD 9,844.2 million in 2011.
- The author designs the second hypothesis as follows: ***The WTO could be an important factor in expanding the country's foreign trade in recent years, especially on the import side.***

4.2.2. An Analysis of Vietnam's Export-Import Markets during 1995-2011

4.2.2.1. An Analysis of Vietnam's Export Markets during 1995-2011

- Generally on the export side, Vietnam's exports have concentrated in the Asia-Pacific region and the EU.
- In 2000, Japan was the largest export market with an export value of USD 2,575.2 million, taking in 17.78% of total exports. This was followed by the EU 5, ASEAN 4, China, Australia, Taiwan, the USA and the Republic of Korea.
- In 2006, we witness the appearance of the USA as the largest export market of Vietnam.
- In 2011, the USA still dominated the biggest market share of Vietnam's exports taking in 17.47% in total. The proportions of the EU 5 and the ASEAN 4 declined from 12.47% and 12.01% in 2006 to 11.12% and 8.72% respectively in 2011. The ratio of Vietnam's exports to Japan was also reduced from 13.16% to 11.13%. The exports to Australia tended to decline gradually from 9.40% in 2006 to 2.60% in 2011. There have been narrow changes in the cases of China, the Republic of Korea and Taiwan.

An overview of trade relations between Vietnam and the USA

- Vietnam was not required to make significant tariff cuts under the USBTA. However, it was asked to reform its commercial laws and regulations in tandem with improving market access for the USA firms in key service sectors.
- These reforms would be expected to attract investment of USA investors and expand Vietnam's exports to the vast USA markets due to the grant of the MFN and lower tariff rates (under 4%).
- After the USBTA came into effect in 2001, apparel and clothing, footwear, fishery products, and others have increased substantially. The USA has become one of the most important export markets of Vietnam.

4.2.2.2. An Analysis of Vietnam's Import Markets during 1995-2011

- On the import side, a similar trend can be easily observed for the changes in the relative importance in the order of some main import sources of Vietnam. Vietnam's imports have mainly concentrated on the Asia-Pacific region and the EU that include main trading partners of FTAs in which Vietnam is a member.
- China, ASEAN 4, the Republic of Korea, Japan and Taiwan have been the most important import sources of Vietnam before and after joining the WTO.
- Ratio of Vietnam's import from ASEAN 4 has decreased from 24.79% in 2006 to 16.39% in 2011.
- Vietnam's imports from China have increased gradually from USD 1,401.1 million in 2000 to USD 7,391.3 million in 2006 and USD 24,593.7 million in 2011. The share of its total imports rose from 8.96% in 2000 to 16.46% in 2006 and 23.04% in 2011.

Table 4.16: The Summary of Chapter 4 (to be continued)

4.2.2.3. Vietnam's Trade Balance with its Major Trading Partners during 1995-2011

- The trade deficit with China has grown rapidly from USD 188.8 million in 2001 to USD 13,468.7 million in 2011, amounting to over 100% of Vietnam's total trade deficit in the same year (USD 9,844.2 million).
- Vietnam continued to run substantial trade deficits with the ASEAN 4, the Republic of Korea and Taiwan.
- In contrast, Vietnam has had a steady trade surplus with the USA, the EU 5, and Australia. In 2011, trade surplus with the USA and the EU 5 reached USD 12,398.6 and USD 5,705.7 million respectively.
- The trade surplus with Australia was USD 395.8 in 2011. With Japan, there have been fluctuations in the trade balance.
- Overall, Vietnam still gains the balance of trade deficit.

An overview of the trade relations between Vietnam and China

The followings are the determinants of such increases in Vietnam's imports from China recently:

- First, the domestic suppliers could not fulfill all demands in manufacturing and consuming for the time being, so the country has had to seek foreign sources.
- Second, it resulted from the slow change in Vietnam's manufacturing and exporting structures that focus on processing and assembling with 80%-90% of input materials imported from abroad.
- Some Chinese enterprises have been big contractors in Vietnam in the form of EPC– Engineering, Procurement, and Construction. Chinese enterprises have won a series of large EPC projects such as Quang Ninh 1 and 2 Thermal Power, Vinh Tan 2 Thermal Power, Hai Phong 1 Thermal Power, Duyen Hai 1 Thermal Power, Kien Luong Thermal Power, Lam Dong Bauxite Aluminum Combination, Aluminum Nhan Co Dak Nong, Ca Mau Fertilizer, Sinh Quyen (Lao Cai) mining and copper metallurgical Plant. Total values of these contracts may reach billions of US dollars. During the implementation process of the EPC projects, Chinese enterprises have imported machineries, technologies, equipments, materials, labor, etc. from their home country causing import increase from China.
- China has been beneficial in the implementation of the ASEAN-China Free Trade Area (ACFTA).
- The overproduction resulting from China's process of industrialization and economic growth.

4.2.3. An Analysis of Vietnam's Export-Import Structure during 1995-2010

4.2.3.1. An Analysis of Vietnam's Export Structure during 1995-2010

- The proportion of raw materials and semi-finished goods has declined from 67.24% in 1995 to 34.88% in 2010. However, the ratio still covered a considerable share in its total exports.
- The ratio of processed or refined goods has risen from 32.76% in 1995 to 65.09% in 2010.

4.2.3.2. An Analysis of Vietnam's Import Structure during 1995-2010

- In contrast with the export structure, processed or refined goods accounted for a large share in Vietnam's imports, while raw materials and semi-finished goods covered a minor share. The ratio of processed or refined goods was 76.53% in 1995, 70.24% in 2006, and 75.32% in 2010.

Table 4.16: The Summary of Chapter 4 (to be continued)

4.3. Trade Deficit and the National Balance of Payment in the Case of Vietnam

- The status of Current Account balance consists mainly of (i) the Trade in goods balance, (ii) Current transfers balance (Unrequited transfers balance), (iii) Trade in services balance, and (iv) Investment income balance.
- It is quite likely that the deficit of trade in goods has been one of the main factors causing the deficit of Current Account.
- The trade in goods deficit was at USD (-10,438) million in 2007, USD (-12,783) million in 2008, USD (-7,607) million in 2009, USD (-5,147) million in 2010, and dropped to USD (-450) million in 2011.
- Accession to the WTO promoted Vietnam's imports faster than exports (this has been tested in section 4.4 below) causing the trade in goods deficit, in turn having negative impact on the Current Account balance.

4.4. The Impact of the WTO on Exports and Imports of Vietnam – A Gravity Model Approach

4.4.1. The Specification of Gravity Models and Decrypting the Dataset

$$\mathbf{LnEX_{jt} = \beta_{10} + \beta_{11}LnDIS_{VNj} + \beta_{12}LnGDP_{VNt} + \beta_{13}LnGDP_{jt} + \beta_{14}Ln[1- (GDP_{VNt}/(GDP_{VNt} + GDP_{jt}))^2 - (GDP_{jt}/(GDP_{VNt} + GDP_{jt}))^2] + \beta_{15}LnFDI_{jt-1} + \beta_{16}LnRER_{CURj/VNDt} + \gamma_{11}AFTA + \gamma_{12}USBTA + \gamma_{13}ACFTA + \gamma_{14}AKFTA + \gamma_{15}JVEPA + \gamma_{16}AJCEP + \gamma_{17}AANZFTA + \gamma_{18}Bothin_{VNjt} + \gamma_{19}Onein_{VNjt} + \gamma_{110}BOR_{VNj} + \gamma_{111}CRI_j^{1997} + \gamma_{112}CRI_j^{2008} + \varepsilon_{1VNj}} \quad \textbf{(4.3)}$$

$$\mathbf{LnIM_{jt} = \beta_{20} + \beta_{21}LnDIS_{VNj} + \beta_{22}LnGDP_{VNt} + \beta_{23}LnGDP_{jt} + \beta_{24}Ln[1- (GDP_{VNt}/(GDP_{VNt} + GDP_{jt}))^2 - (GDP_{jt}/(GDP_{VNt} + GDP_{jt}))^2] + \beta_{25}LnFDI_{jt-1} + \beta_{26}LnRER_{CURj/VNDt} + \gamma_{21}AFTA + \gamma_{22}USBTA + \gamma_{23}ACFTA + \gamma_{24}AKFTA + \gamma_{25}JVEPA + \gamma_{26}AJCEP + \gamma_{27}AANZFTA + \gamma_{28}Bothin_{VNjt} + \gamma_{29}Onein_{VNjt} + \gamma_{210}BOR_{VNj} + \gamma_{211}CRI_j^{1997} + \gamma_{212}CRI_j^{2008} + \varepsilon_{2VNj}} \quad \textbf{(4.4)}$$

Using a panel data of country pairs set in the period from 1995 to 2011 which involves 17 Vietnam's major/stable trading partners including: Australia, Belgium, Canada, China, France, Germany, Hong Kong, Japan, Malaysia, the Netherlands, the Philippines, Singapore, the Republic of Korea, Taiwan, Thailand, the United Kingdom (UK), and the USA.

4.4.2. An Analysis of the Empirical Estimation Results

4.4.2.1. An Analysis on the Impact of the WTO on Vietnam's Exports

- The estimated coefficient of the $Bothin_{VNjt}$ dummy is statistically insignificant (equation EX-5).
- The coefficient of the $Onein_{VNjt}$ dummy is negatively significant at the level of 5% suggesting that there has been a "trade diversion" from Vietnam to other WTO members.
- Specifically, Vietnam's trading partners has diverted their imports from Vietnam to other WTO members for lower tariff rates. Vietnam's exports to trading partners has been reduced to an amount of around 55.17% [= EXP (0.439374) - 1] since trade partners were WTO memberships while Vietnam still was an outsider.

4.4.2.2. An Analysis on the Impact of the WTO on Vietnam's Imports

- The estimated coefficients of the $Bothin_{VNjt}$ and $Onein_{VNjt}$ dummies are positive and statistically significant at the levels of 1% and 10% respectively. These results are sufficient for the hypothesis that the WTO has had a positive impact on Vietnam's imports.
- Being the WTO membership of Vietnam's trade partners increased the country's imports by about 28.52% [= EXP (0.250974) - 1]. This suggests that the benefits of the GATT/WTO extend not only to formal members but also to a wide range of non-member participants.
- Belonging to the WTO by both Vietnam and trade partners has motivated the country to import goods by 119.85% [= EXP (0.7877818) - 1].

4.5. CONCLUSION FOR CHAPTER 4

After WTO accession, Vietnam has tried to accelerate the pace in foreign trade with its important partners in the Asia-Pacific region and European Union in which, the USA has been the biggest export destination of Vietnam's merchandises while China has been the largest import source of the country. At the "dawn" of joining the WTO, there have not been significant changes in the country's export-import markets as well as export-import structures. The trade deficit has had experienced an upward trend in tandem with the expansion of total foreign trade, especially with China. Vietnam's foreign trade has also exposed its internal weaknesses such as low competitive capacity, slow change in export-import structures, small scope, and vulnerability to external shocks.

In this chapter, two gravity models were also constructed using the Hausman-Taylor (1981) estimator, and applied to recent panel data that includes 17 Vietnam's major trading partners during the period from 1995 to 2011. This was for the purpose to examine the possible impacts of the WTO regime on exports and imports of Vietnam. The author finds evidence broadly consistent with the hypothesis that the WTO has strongly induced the country to increase its imports. By contrast, there is no evidence that the WTO has expended the country's exports. This is consistent with theoretical models of the WTO. Other notable finding is that the US-Vietnam Bilateral Trade Agreement has motivated strongly Vietnam's exports and imports while the ASEAN-China FTA has induced Vietnam's imports only.

<u>Chapter 5</u>

CONCLUSION

The Government of Vietnam has made considerable efforts to enhance the integration of its economy into the global economy. Over the course of two decades since the start of the Renovation in 1986, several regional FTAs have been ratified and put into force such as the AFTA, USBTA, ACFTA, AKFTA, JVEPA, AJCEP and the AANZFTA. The country also joined the WTO in 2007. Administrative reforms, removal of restrictions on investment and trade, improvement of legal transparency, and harmonization of the tariff and legal systems are some of the remarkable outcomes resulting from the WTO accession. Furthermore, intellectual property rights have been also secured and improved. As a result, these have had deep impacts on FDI attraction and foreign trade expansion of the country. Table 5.1 below summarizes the gravity model estimation results using the Hausman-Taylor (1981) estimator.

Table 5.1: The Summary of the Gravity Model Estimation Results using the Hausman-Taylor (1981) Estimator

Explanatory variables	Dependent variables		
	$LnFDI_{jt}$	**$LnEX_{jt}$**	**$LnIM_{jt}$**
Time varying exogenous			
LnSIMSIZE	-	0.9184781	0.0657589
$LnRER_{CURj/VNDt}$	0.0605428	0.1054633	0.1208685
$Ln(ins_{VNt}*ins_{jt})$	2.316686**	-	-
AFTA	-0.4948234	-0.0270398	-0.097925
USBTA	0.5060926	1.446955*	0.4469156*
ACFTA	0.3706749	0.0018743	0.4859765*
AKFTA	0.8203441**	0.1159645	-0.0804554
JVEPA	0.2439291	-0.0085332	0.3145337
AJCEP	0.4056076	-0.1056205	-0.212482
AANZFTA	-0.9352514**	-0.1098954	0.1671734
$Bothin_{VNjt}$	1.066118**	-0.3626161	0.7877818 *
$Onein_{VNjt}$	0.7305899***	-0.439374**	0.250974***
CRI_j^{1997}	-	0.2543705*	0.1239098**
CRI_j^{2008}	-	-0.0999105	-0.271356***
Time varying endogenous			
$LnGDP_{VNt}$	-2.038916*	1.469922**	1.541878*
$LnGDP_{jt}$	0.9642687**	1.543947**	0.8287191
$LnEX_{jt-1}$	0.1351719	-	-
$LnIM_{jt-1}$	0.1812063	-	-
$LnFDI_{jt-1}$	-	0.0601236**	0.0581889*
Time invariant exogenous			
$LnDIS_{VNj}$	-1.947559**	-1.04677*	-1.624041*
BOR_{VNj}	-0.937514	-0.5885475	-0.329246
Constant	31.64125**	-48.43155*	-28.83678*

*Notes: *, **, and *** indicate significance at the levels of 1%, 5%, and 10% respectively.*

Generally, the empirical results give us an idea on the opening up of the country's economy through the means of FTAs and the WTO which has led to diverse FDI and trade effects. Nonetheless, these may not always be intended or appreciated.[200]

First, the WTO has increased the country's imports, motivated the FDI flows, but has not expanded the country's exports as predicted.[201] However, the WTO could indirectly generate exports through the boom of FDI and import increase due to the "reciprocal" relationships among these three.[202] Notably, imports and FDI flows were greater when both Vietnam and its partners joined the WTO than when only one partner did.[203] The "fast" increase of the country's imports after WTO accession has been one cause for the country's balance of trade deficit. This, in turn, has created pressure (has negative impact) on the National Balance of Payment. In addition, some FTAs have created "strong" trade and FDI flows but unevenly across individual agreements. The magnitude of an individual FTA estimate resolves a number of empirical puzzles that previous empirical studies in the case of Vietnam could not answer (e.g., Pham, T.H.H. 2011; Nguyen. D.C. et al 2012). Most markedly, momentum from the implementation of the USBTA is branded to stimulate both the country's exports and imports while tariff-reducing under the ACFTA is revealed to encourage the country's imports only. In contrary to the AANZFTA, the AKFTA is recognized as the only regional free trade agreement inducing the FDI flows to the country. Notably, the insignificant coefficients of other FTA variables do not mean those agreements are not important.[204] Moreover, it is also useful to note that, the close geographical location between

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[200] Many people believed that WTO entry would result in substantial benefits in terms of trade expansion, FDI attraction and economic institutional reform. After half a decade as a WTO member, it seems that Vietnam has not reaped the benefits it may have expected from international integration. My analysis presented in this research suggests that the nature of international integration will always see some fields/sectors of the economy prosper while others may not. FDI attraction and economic institutional reform are remarkable benefits resulting from the WTO accession. And, foreign-invested enterprises (FIEs) are the ones who may benefit the most, as they can take the advantage of Vietnam's WTO commitment execution in various sectors. This accession process has also provided more variety and reduced prices of goods for domestic consumers through import increase.

[201] As analysis in Chapter 4, these impressive figures in export turnover, the country's exports increasing around 2.4-fold, from USD 39,826.2 million in 2006 to USD 96,905.7 million in 2011, could be primarily attributed to rising GDPs of both Vietnam and trading partners and free trade agreements signed such as the USBTA.

[202] The empirical results indicate that FDI has a positive impact on both exports and imports of Vietnam. Foreign-invested enterprises (FIEs) have accounted for up to 50-60% of both exports and imports of the country recently. And, Vietnam's imports are mainly to supply the demand for inputs for exports-oriented industries. It means exports have a strong relationship with imports. Imports increase results in an expansion of exports and vice versa. The WTO has strongly increased the country's imports and motivated the FDI flows suggesting that the WTO has indirectly generated the country's exports.

[203] The significant coefficient of the $Bothin_{VNjt}$ variable is higher than the significant coefficient of the $Onein_{VNjt}$ variable in both the $LnFDI_{jt}$ and $LnIM_{jt}$ gravity equations.

[204] Though author could not find the significant impact of some FTAs (e.g., JVEPA, AJCEP) on FDI flows, exports and imports of Vietnam, these FTAs still provide important legal framework for FDI and trade flows between their memberships. And, the fact is that ASEAN and Japan are important trade and FDI partners of Vietnam.

Vietnam and China has not provoked Vietnam's imports and exports as had in mind.[205] Thus, the exchange rate regime and the index of country similarity in size "could not" be factors affecting Vietnam's exports and imports. And, for a small price-taking economy, like Vietnam's, it is more likely that the growth of GDP is an "engine" of trade expansion than the reverse.[206]

Second, the analysis presented in this research also indicates that the capacity of absorbing FDI capital of Vietnam's economy is quite limited (slow disbursement) mostly due to the poor infrastructure, lack of skilled full labor force and weak institution.[207] This suggests that the boom of FDI notwithstanding in Vietnam recently is only in the first step. Promotional efforts will help little to attract and absorb FDI capital, if economic fundamentals are not conducive to the FDI flows. And, after WTO accession, Vietnam's foreign trade also exposed internal weaknesses such as low competitive capability, slow change in export-import structures, and vulnerability to external shocks. Judgment comes from the negative impact of the 2008 global financial and economic crisis on the country's imports.

To this end, what are the implications for Vietnam? It must be noted that to facilitate the competitive ability of Vietnam's merchandises in international markets and sustain an effective paradigm of foreign trade as well as to secure an attractive investment environment is not a simple task. It requires a careful analysis of related information (e.g., information on each industry, each merchandise and investment environment, etc.) that the author could not cover in a short time. Generally, the followings are some recommendations to allow Vietnam to achieve sustainable development in the post-WTO accession.

Firstly, Vietnam should develop an effective and efficient physical infrastructure in terms of roads, railways, ports, airports, electric, water supply system, etc. This creates convenient conditions for trade by reducing time and costs in both transportation and transactions. Good infrastructure may also induce FDI that has taken an important role in diversifying Vietnam's exports and in improving the quality and competitiveness of Vietnam's merchandises in international markets.

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[205] It is said that the close geographical location between Vietnam and China is a factor promoting the foreign trade between two countries for lower transport and transaction costs. In fact, the empirical estimation results show that this factor has no impact on trade flows between two states because the coefficient of the BOR_{VNj} variable is insignificant in three gravity equations (see more on Table 5.1 above).

[206] This conclusion seems to fail logically because trade is often portrayed as an "engine" of GDP growth in developing country. However, my empirical results prove that the coefficient of the $LnGDP_{VNt}$ variable is positive and significant at the levels of 5% and 1% respectively in both the $LnEX_{jt}$ *and* $LnIM_{jt}$ gravity equations (see more on Table 5.1 above). This suggests that the growth of Vietnam's GDP is an "engine" of its trade expansion than the reverse.

[207] This study does not focus on these concerns (infrastructure, labor force, etc.). However, the recent surveys based on these factors conducted by the World Economic Forum (2010) and the Vietnam Chamber of Commerce and Industry (2011) support this statement (this has been also regarded at the end of Chapter 3).

Secondly, the investment environment should be further improved, with an emphasis on regulatory reform, administrative procedural reform, etc. The aims are to reduce the number of obstacles resulting from weak institution (bureaucracy), and to create a healthy business environment to sharpen its competitiveness with regional countries in attracting FDI.

Thirdly, Vietnam ought to focus on training a skilled labor force. At the moment, attracting FDI based on an abundance of a cheap labor force, industrial land, and natural resources are advantages to Vietnam. After joining the WTO, these advantages will sooner or later come to a halt. Hence, the strategy for raising a skilled labor force using various fiscal sources is necessary.

Fourthly, the WTO accession has brought both opportunities (e.g., FDI attraction, foreign trade expansion, economic institutional reform) and challenges (e.g., the pressure to implement the commitments with the WTO members and direct competition of imported goods) to Vietnam. So, the country should speed up the changes of export-import structures by taking it to the next level in the global value chain. Low competitiveness and disadvantageous export-import structures can hinder or prevent Vietnam from reaping the possible benefits of trade liberalization under the WTO regime and FTAs.[208]

Overall, the literature assessing the effects of the WTO on acceded countries has produced remarkably diverse results. Rose (2004) found the effectiveness and hence the usefulness of the GATT/WTO. Recent studies (e.g., Tomz et al. 2007; Subramanian and Wei 2007; Eicher and Henn 2011; Chang and Lee 2011; etc.) show that the GATT/WTO has done a significant role of promoting its member's trade. But this trade promoting role of the GATT/WTO has, however, been uneven. Industrial/developed WTO members are likely to witness a large increase in trade (Subramanian and Wei, 2007). My empirical analysis provides evidence on the impact of the WTO on Vietnam – a new developing WTO member. The impact is clearly strong on the import side and FDI attraction as well as on economic institutional reform. This implies that a developing country derives benefits from WTO membership. Importantly, economic models should be constructed to evaluate the real impact of this multilateral trading system on its members. However, the effects were robust to changes in methods of estimations and in economic models

[208] Membership of the WTO is essential for Vietnam because nowadays it is very hard for a developing country to stay outside of the global trading system, bearing in mind that without the WTO rules-based system the country would remain confined to its limited markets while the WTO opens up the doors of opportunity. But, it is not an end itself. Also, it is not a "magic wand" of "Harry Potter" that fixes ails of an economy or protects it from global ups and downs. And, one should remember that accession to the WTO is just one step in a long-term development strategy introduced in the process of Renovation ("Doi moi" in Vietnamese) since the late 1980s. Again, to maximize the benefits offered by the WTO, Vietnam should undoubtedly continue to retain its commitments to the WTO members while reviewing its long-term strategies to enhance the country's competitiveness. FDI attraction and export increase, to some extent, are indicators of national competitiveness over the long-term, as the factors that make the country attractive to FDI and export increase are also those that determine its competitiveness.

employed. Hence, the results and analyses will be more reliable and persuasive if optimal models and superior estimation techniques are carefully/rigorously employed.

In conclusion, there is no doubt that my investigations can contribute to the existing literature on the impact of the WTO regime on economic institutional reform, FDI attraction, and export-import trading of a developing country in terms of testable implications from gravity models. However, the research on the impacts of the WTO on the economic institution, FDI attraction and foreign trade of Vietnam is just the beginning of the study. Since, existing data is quite limited, evaluating the impacts of the WTO on a specific industry, commodity, industrial policy of Vietnam, or on Vietnam's economic efficiency, competitiveness, the changing attitude of industrialists etc. merits further research to understand how this institution effects to its member country.

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APPENDIXES

Appendix 1: Review of the Tariff Reduction Schedule for some Processed Wood Products

HS Code	Description	Bound rate at date of accession (%)	Final bound (%)	Implementation (year)	Committed bound as of 01/01/2009 (%)*	Applied as of 01/01/2009 (%)**	Progress compared to commitment
4405	Wood wool; wood flour	5	No commit	-	5	1	Faster than Scheduled
4409	Wood (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rebated, chamfered, V-jointed, beaded, moulded, rounded or the like) along any of its edges, ends or faces, whether or not planed, sanded or end-jointed	5	No commit	-	5	3	Faster than Scheduled
4410	Particle board and similar board (for example, oriented strand board and Wafer board) of wood or other ligneous materials, whether or not agglomerated with resins or other organic binding substances	10	9	2008	8	8	On Schedule
4411	Fibreboard of wood or other ligneous materials, whether or not bonded with resins or other organic substances	10	8.5	2008	8.5	8	Faster than Scheduled
4412	Plywood, veneered panels and similar laminated wood	10	9	2008	8	8	On Scheduled
4414	Wooden frames for paintings, photographs, mirrors or similar objects	40	25	2012	34	34	On Scheduled
4415	Packing cases, boxes, crates, drums and similar packings, of wood; cable-drums of wood; pallets, box pallets and other load boards, of wood pallet collars of wood	30	20	2010	23.33	23	Faster than Scheduled
4416	Casks, barrels, vats, tubs and other coopers' products and parts thereof, of wood including staves	30	20	2010	23.33	23	Faster than Scheduled
4417	Tools, tool bodies, tool handles, broom or brush bodies and handles, of wood	30	20	2010	23.33	23	Faster than Scheduled
4418	Builders' joinery and carpentry of wood, including cellular wood panels, assembled parquet panels, shingles and shakes, others	5	3	2008	3	3	On Schedule
4419	Tableware and kitchenware, of wood	40	25	2012	34	34	On Schedule
4420	Wood marquetry and inlaid wood; caskets and cases for jewelry or cutlery, and similar articles, of wood; statuettes and other ornaments of wood; wooden articles of furniture not falling under Chapter 94	40	20	2010	26.67	26	Faster than Scheduled
4421	Other articles of wood	40	25	2010-2012	30.5	30.5	On Schedule
9403	Other furniture and parts thereof	35	25	2012	31	27	Faster than Scheduled

Notes: Using information of NCIEC (2006b); Decision No. 39/2006/QD-BTC dated July 28, 2006 on Promulgating the export tax table and the preferential import tariff table; Circular No. 216/2009/TT-BTC dated November 12, 2009 on Stipulating tax rates of the export tax table and the preferential tariff table on applicable lines, Decision No. 123/2008/QD-BTC dated December 26, 2008 on Adjusting export tax rates, preferential tariff rates for some types of products in the export tax Table and the preferential tariff table; Decision No. 106/2007/QD-BTC dated December 20, 2007 on Promulgating the export tax table and the preferential tariff table; And Decision No. 1474/QD-BTC dated June 15, 2009 on Correcting Decision No. 106/2007/QD-BTC dated December 20, 2007.

**: Indicating the tariff rate (%), which Vietnam committed with the WTO members as of January 1st, 2009; **: Indicating the tariff rate (%), which Vietnam really applied.*

Source: Calculated by the authors of CIEM, 2010.

Appendix 2: Review of the Tariff Reduction Schedule for some Agricultural Products

HS Code	Description	Bound rate at date of accession (%)	Final bound (%)	Implementation (year)	Committed bound as of Jan. 01, 2009 (%)	Applied as of Jan. 01, 2009 (%)	Progress compared to commitment
0102	Live bovine animals.	5	-	-	-	5	On Schedule
0103	Live swine.	5	-	-	5	5	On Schedule
0104	Live sheep and goats.	5	-	-	5	5	On Schedule
0105	Live poultry, that is to say, fowls of the species Gallus domesticus, ducks, geese, turkeys and guinea fowls.	10	-	-	10	5	Faster than Scheduled
0201	Meat of bovine animals, fresh or chilled	20	14	2012	17.6	15	Faster than Scheduled
0202	Meat of bovine animals, frozen	20	14	2012	17.6	15	Faster than Scheduled
0203	Meat of swine, fresh, chilled	30	25	2012	28	24	Faster than Scheduled
0203	Meat of swine, frozen	30	15	2012	24	24	On Schedule
0207	Meat and edible offal, of the poultry of heading 01.05, fresh, chilled or frozen	40	-	-	40	15	Faster than Scheduled
0210	Meat and edible meat offal, salted, in brine, dried or smoked; edible flours and meals of meat or meat offal. Meat of swine.	20	10	2012	16	16	On Schedule
0210	Meat and edible meat offal, salted, in brine, dried or smoked; edible flours and meals of meat or meat offal. Meat of bovine animals	20	15	2010	16.7	16	Faster than Scheduled
0401	Milk and cream, not concentrated nor containing added sugar or other sweetening matter.	20	18	2009	18	15	Faster than Scheduled
0403	Buttermilk, curdled milk and cream, yogurt, kephir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavoured or containing added fruit, nuts	30	25	2012	28	6.3	Faster than Scheduled
0406	Cheese and curd	10	-	-	10	10	On Schedule
0407	Birds' eggs, in shell, fresh, preserved or cooked.	80	-	-	80.1	30	Faster than Scheduled
0408	Birds' eggs, not in shell, and egg yolks, fresh, dried, cooked by steaming or by boiling in water, moulded, frozen or otherwise preserved, whether or not containing added sugar or other sweetening matter	20	-	-	20	20	On Schedule
0504	Guts, bladders and stomachs of animals (other than fish), whole and pieces thereof, fresh, chilled frozen, salted, in brine, dried or smoked	5	3	2009	3	3	On Schedule
0507	Ivory, tortoise-shell, whalebone and whalebone hair, horns, antlers, hooves, nails, claws and beaks, simply prepared but not cut to shape; powder and waste of these products	5	3	2009	3	3	On Schedule
0701	Potatoes, fresh or chilled.	20	-	-	20	16	Faster than Scheduled
0702	Tomatoes, fresh or chilled	20	-	-	20	20	On Schedule
0703	Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or chilled.	30	20	2010	23.3	19	Faster than Scheduled
0704	Cabbages, cauliflowers, kohlrabi, kale and similar edible brassicas, fresh or chilled	20	-	-	20	20	On Schedule
0705	Lettuce (Lactuca sativa) and chicory (Cichorium spp.), fresh or chilled	20	-	-	20	20	On Schedule
0706	Carrots	20	17	2010	18	18	On Schedule
0707	Cucumbers and gherkins, fresh or chilled	20	-	-	20	20	On Schedule
0708	Leguminous vegetables, shelled or unshelled, fresh or chilled.	30	20	2010	23.3	22	Faster than Scheduled

Appendix 2: Review of the Tariff Reduction Schedule for some Agricultural Products (to be continued)

HS Code	Description	Bound rate at date of accession (%)	Final bound (%)	Implementation (year)	Committed bound as of Jan. 01, 2009 (%)	Applied as of Jan. 01, 2009 (%)	Progress compared to commitment
0709	Other vegetables, fresh or chilled.	15	-	-	15	14.4	Faster than Scheduled
0710	Potatoes, frozen.	20	10	2012	16	16	On Schedule
	Leguminous vegetables, shelled or unshelled	25	17	2010	19.7	18.4	Faster than Scheduled
0712	Dried vegetables, whole, cut, sliced, broken or in powder, but not further prepared	30	-	-	30	30	On Schedule
0713	Dried leguminous vegetables, shelled, whether or not skinned or split.	25	20	2010	21.7	23	Slower than Scheduled
0801	Shelled cashew nuts	40	25	2012	34	34	On Schedule
0805	Oranges, lemons, fresh or dried	40	20	2012	32	32	On Schedule
	Citrus, fresh or dried	40	30	2010	33.3	32	Faster than Scheduled
0807	Melons (including watermelons) and papaws (papayas), fresh.	40	30	2010	33.3	33	On Schedule
0901	Coffee, roasted	40	30	2011	35	35	On Schedule
0902	Tea, whether or not flavoured	40	-	-	40	40	On Schedule
0903	Maté	30	-	-	30	30	On Schedule
0904	Pepper of the genus Piper; dried or crushed or ground fruits of the genus Capsicum or of the genus Pimenta.	30	20	2010	23.3	23	On Schedule
1005	Popcorn	30	-	-	30	30	On Schedule
1006	Rice	40	-	-	40	40	On Schedule
1601	Sausages and similar products, of meat, meat offal or blood; food preparations based on these products.	40	22	2012	32.8	32	Faster than Scheduled
1701	Cane, in solid form.	100	85	2010	90	25	Faster than Scheduled
	Beet sugar	100	-	-	100.1	25	Faster than Scheduled
	Chemically pure sucrose	100	85	2012	94	40	Faster than Scheduled
2002	Tomatoes prepared or preserved otherwise than by vinegar or acetic acid, whole or in pieces	40	30	2012	36	32	Faster than Scheduled
2002	Tomatoes prepared or preserved otherwise than by vinegar or acetic acid.	40	20	2012	32	32	On Schedule
2003	Mushrooms and truffles, prepared or preserved otherwise than by vinegar or acetic acid	40	-	-	40	40	On Schedule
2004	Potatoes	35	13	2013	28	27	Faster than Scheduled
2101	Instant coffee	50	40	2010	43.3	43	On Schedule

Notes: Using information of NCIEC (2006b); Decision No. 39/2006/QD-BTC dated July 28, 2006 on Promulgating the export tax table and the preferential import tariff table; Circular No. 216/2009/TT-BTC dated November 12, 2009 on Stipulating tax rates of the export tax table and the preferential tariff table on applicable lines, Decision No. 123/2008/QD-BTC dated December 26, 2008 on Adjusting export tax rates, preferential tariff rates for some types of products in the export tax table and the preferential tariff table; Decision No. 106/2007/QD-BTC dated December 20, 2007 on Promulgating the export tax table and the preferential tariff table; and Decision No. 1474/QD-BTC dated June 15, 2009 on Correcting Decision No. 106/2007/QD-BTC dated December 20, 2007.

Source: Calculated by the authors of CIEM, 2010.

Appendix 3: Review of the Tariff Reduction Schedule for some Aquatic Products

HS Code	Description	Bound rate at date of accession (%)	Final bound (%)	Implementation (year)	Committed bound as of Jan. 01, 2009 (%)	Applied as of Jan. 01, 2009 (%)	Progress compared to commitment
0301	Live fish						
30110	Ornamental fish						
3011010	Fish fry	20	15	2010	16.7	16	Faster than Scheduled
03011020	Other, marine fish	30	20	2009	20	20	On Schedule
3011030	Other, freshwater fish	30	20	2009	20	20	On Schedule
	Other live fish						
03019100	Trout	30	20	2010	23.3	23	Faster than Scheduled
3019200	Eels (Anguilla spp.)	30	20	2010	23.3	23	Faster than Scheduled
030193	Carp						
03019310	Carp breeder						
03019390	Other	30	20	2010	23.3	23	Faster than Scheduled
030199	Other						
03019919	Other	30	20	2010	23.3	23	Faster than Scheduled
03019940	Other fresh water fish	30	20	2010	23.3	23	Faster than Scheduled
0302	Fish, fresh or chilled, excluding fish fillets and other fish meat of heading 03.04						
	Salmonidae, excluding livers and roes						
03021100	Trout (Salmo trutta, Oncorhynchus mykiss, Oncorhynchus clarki, Oncorhynchus aquabonita, Oncorhynchus gilae, Oncorhynchus apache and Oncorhynchus)	30	10	2014	24.3	22	Faster than Scheduled
03021200	Pacific Salmon	30	10	2012	22	22	On Schedule
03021900	Other	30	20	2010	23.3	22	Faster than Scheduled
	Flat fish (Pleuronectidae, Bothidae, Cynoglossidae, Soleidae, Scophthalmidae and Citharidae), excluding livers and roes:						
03022100	Halibut (Reinhardtius hippoglossoides, Hippoglossus hippoglossus, Hippoglossus stenolepis)	30	20	2010	23.3	22	Faster than Scheduled
03022200	Plaice (Pleuronectes platessa)	30	20	2010	23.3	22	Faster than Scheduled
03022300	Sole (Solea spp)	30	20	2010	23.3	22	Faster than Scheduled
03022900	Other	30	15	2011	22.5	22	Faster than Scheduled
	Tunas (of the genus Thunnus), skipjack or stripe-bellied bonito (Euthynus (Katsuwonus) pelamis), excluding livers and roes:						
03023100	Albacore or longfinned tunas (Thunnus alalunga)	30	15	2011	22.5	22	Faster than Scheduled
03023200	Yellowfin tunas (Thunnus albacares)	30	15	2011	22.5	22	Faster than Scheduled
03023300	Skipjack or stripe-bellied bonito	30	20	2011	25	22	Faster than Scheduled
03023400	Bigeye tunas (Thunnus obesus)	30	15	2011	22.5	22	Faster than Scheduled
03023500	Bluefin tunas (Thunnus thynnus)	30	15	2011	22.5	22	Faster than Scheduled
03023600	Southern bluefin tunas (Thunnus maccoyii)	30	15	2011	22.5	22	Faster than Scheduled
03023900	Other	30	15	2011	22.5	22	Faster than Scheduled
03024000	Herrings (Clupea harengus, Clupea pallasii), excluding livers and roes	30	20	2011	25	22	Faster than Scheduled
03025000	Cod (Gadus morhua, Gadus ogac, Gadus macrocephalus), excluding livers and roes	30	20	2011	25	22	Faster than Scheduled
	Other fish, excluding livers and roes:	30	20	2010	23.3	22	Faster than Scheduled

Source: Calculated by the authors of CIEM, 2010.

Appendix 3: Review of the Tariff Reduction Schedule for some Aquatic Products (to be continued)

HS Code	Description	Bound rate at date of accession (%)	Final bound (%)	Implementation (year)	Committed bound as of Jan. 01, 2009 (%)	Applied as of Jan. 01, 2009 (%)	Progress compared to commitment
03026100	Sardines (Sardina pilchardus, Sardinops spp.), sardinella (Sardinella spp.), brisling or sprats (Sprattus sprattus)	30	20	2010	23.3	22	Faster than Scheduled
03026200	Haddock (Melanogrammus aeglefinus)	30	20	2010	23.3	22	Faster than Scheduled
03026300	Coalfish (Pollachius virens)	30	20	2010	23.3	22	Faster than Scheduled
03026400	Mackerel (Scomber scombrus, Scomber australasicus, Scomber japonicus)	30	15	2011	22.5	22	Faster than Scheduled
03026500	Dogfish and other sharks	30	15	2011	22.5	22	Faster than Scheduled
03026600	Eels (Anguilla spp.)	30	20	2010	23.3	22	Faster than Scheduled
	Tword fish xiphias gladius						
	Toothfish-Dissostichus spp.						
030269	Other						
03026910	Marine fish	30	12	2012	22.8	22	Faster than Scheduled
03026920	Freshwater fish	30	20	2010	23.3	22	Faster than Scheduled
3027000	Livers and roes	30	20	2010	23.3	22	Faster than Scheduled
03031100	Sockeye salmon (red salmon) (Oncorhynchus nerka)	30	15	2010	20	20	On Schedule
03031900	Other	30	12	2011	21	20	Faster than Scheduled
	Other salmonidae, excluding livers and roes:						
03032100	Trout	30	10	2014	24.3	20	Faster than Scheduled
03032200	Atlantic salmon (Salmo salar) and Danube salmon (Hucho hucho)	30	10	2014	24.3	20	Faster than Scheduled
03032900	Other	30	15	2017	27	20	Faster than Scheduled
	Flat fish						
03033100	Halibut (Reinhardtius hippoglossoides, Hippoglossus hippoglossus, Hippoglossus stenolepis)	30	13	2012	23.2	22	Faster than Scheduled
03033200	Plaice (Pleuronectes platessa)	30	20	2010	23.2	22	Faster than Scheduled
03033300	Sole (Solea spp.)	30	20	2010	23.2	22	Faster than Scheduled
03033900	Other	30	15	2011	22.5	22	On Schedule
	Tunas (of the genus Thunnus), skipjack or stripe-bellied bonito (Euthynnus (Katsuwonus) pelamis), excluding livers and roes:						
03034100	Albacore or longfinned tunas (Thunnas thynnus)	30	12	2011	21	21	On Schedule
03034200	Yellowfin tunas (Thunnus albacares)	30	20	2010	23.3	21	Faster than Scheduled
03034300	Skipjack or stripe-bellied bonito	30	15	2011	22.5	21	Faster than Scheduled
03034400	Bigeye tunas (Thunnus obesus)	30	20	2010	23.3	21	Faster than Scheduled
03034500	Bluefin tunas (Thunnus thynnus)	30	20	2010	23.3	21	Faster than Scheduled
03034600	Southern bluefin tunas (Thunnus maccoyii)	30	15	2011	22.5	21	Faster than Scheduled
03034900	Other	30	15	2011	22.5	21	Faster than Scheduled
	Other, excluding livers and roes						

Source: Calculated by the authors of CIEM, 2010.

Appendix 3: Review of the Tariff Reduction Schedule for some Aquatic Products (to be continued)

HS Code	Description	Bound rate at date of accession (%)	Final bound (%)	Implementation (year)	Committed bound as of Jan. 01, 2009 (%)	Applied as of Jan. 01, 2009 (%)	Progress compared to commitment
03037200	Haddock (Melanogrammus aeglefinus)	30	14	2012	23.6	21	Faster than Scheduled
03037300	Coalfish (Pollachius virens)	30	14	2012	23.6	21	Faster than Scheduled
03037400	Mackerel (Scomber scombrus, Scomber australasicus, Scomber japonicus)	30	13	2012	23.2	21	Faster than Scheduled
03037500	Dogfish and other sharks	30	15	2011	22.5	21	Faster than Scheduled
03037600	Eels (Anguilla spp.)	30	15	2011	22.5	21	Faster than Scheduled
03037700	Sea bass (Dicentrarchus labrax, Dicentrarchus punctatus)	30	20	2010	23.3	21	Faster than Scheduled
03037800	Hake (Merluccius spp. Urophycis spp.)	30	12	2011	21	21	On Schedule
030379	Other						
03037910	Marine fish	30	10	2012	22	21	Faster than Scheduled
03037920	Freshwater fish	30	20	2010	23.3	21	Faster than Scheduled
030380	Livers and roes:						
03038010	Livers	30	12	2012	22.8	22	On Schedule
03038020	Roes	30	12	2012	22.8	22	On Schedule
0305	Fish, dried, salted or in brine; smoked fish, whether or not cooked before or during the smoking process; flours, meals and pellets of fish, fit for human consumption.						
03052000	Livers and roes of fish, dried, smoked, salted or in brine	30	20	2012	26	26	On Schedule
03053000	Fish fillets, dried, salted or in brine but not smoked	30	20	2010	23.3	23	Faster than Scheduled
	Smoked fish, including fillets:						
03054100	Pacific Salmon	30	15	2012	24	23	Faster than Scheduled
03054200	Herrings (Clupea harengus, Clupea Pallasii)	30	20	2012	26	23	Faster than Scheduled
03054900	Other	30	20	2010	23.3	23	Faster than Scheduled
	Dried fish, whether or not salted but not smoke						
03055100	Cod (Gadus morhua, Gadus ogac, Gadus macrocephalus)	30	20	2012	26	23	Faster than Scheduled
030559	Other						
03055910	Sharks' fins	30	20	2010	23.3	23	Faster than Scheduled
03055990	Other	30	20	2010	23.3	23	Faster than Scheduled
	Fish, salted but not dried or smoked and fish in brine:						
03056100	Herrings (Clupea harengus, Clupea Pallasii)	30	20	2012	26	23	Faster than Scheduled
03056200	Cod (Gadus morhua, Gadus ogac, Gadus macrocephalus)	30	20	2012	26	23	Faster than Scheduled
03056300	Anchovies (Engraulis spp.)	30	20	2012	26	23	Faster than Scheduled
03056900	Other	30	20	2012	30	20	2012
	Crustaceans, whether in shell or not, live, fresh, chilled, frozen, dried, salted or in brine; crustaceans, in hell, cooked by steaming or by boiling in water, whether or not chilled, frozen, dried, salted or in brine; flours, meals and pellets of crustaceans, fit for human .						
	Frozen						
03061100	Rock lobster and other sea crawfish	30	15	2011	22.5	21	Faster than Scheduled
03061200	Lobsters (Homarus spp.)	30	20	2010	23.3	21	Faster than Scheduled
03061400	Crabs	30	15	2012	24	23	Faster than Scheduled
03061900	Other, including flours, meals and pellets of crustaceans, fit for human consumption	30	20	2010	23.3	23	Faster than Scheduled

Source: Calculated by the authors of CIEM, 2010.

Appendix 3: Review of the Tariff Reduction Schedule for some Aquatic Products (to be continued)

HS Code	Description	Bound rate at date of accession (%)	Final bound (%)	Implementation (year)	Committed bound as of Jan. 01, 2009 (%)	Applied as of Jan. 01, 2009 (%)	Progress compared to commitment
	Not frozen:						
030621	Rock lobster and other sea crawfish (Palinurus spp., Panulirus spp., Jasus spp.):						
03062120	Other, live	30	10	2012	22	21	Faster than Scheduled
03062130	Fresh or chilled	30	15	2011	22.5	21	Faster than Scheduled
030622	Lobsters (Homarus spp.):						
03062220	Other, live	30	20	2010	23.3	21	Faster than Scheduled
03062230	Fresh or chilled	30	20	2010	23.3	21	Faster than Scheduled
030623	Shrimps and prawns						
03062320	Other, live	30	15	2012	24	21	Faster than Scheduled
030624	Live	30	20	2010	23.3	23	Faster than Scheduled
03062420	Fresh or chilled	30	20	2010	23.3	23	Faster than Scheduled
030629	Other, including flours, meals and pellets of crustaceans, fit for human consumption:						
03062910	Live	30	20	2010	23.3	23	Faster than Scheduled
03062920	Fresh or chilled	30	20	2010	23.3	23	Faster than Scheduled
0307	Molluscs, whether in shell or not, live, fresh, chilled, frozen, dried, salted or in brine; aquatic invertebrates other than crustaceans and molluscs, live, fresh, chilled, frozen, dried, salted or in brine; flours, meals and pellets of aquatic invertebrates other than crustaceans, fit for human consumption.						
030710	Oysters:						
03071010	Live	30	12	2011	21	21	On Schedule
03071020	Fresh, chilled or frozen	30	15	2011	22.5	21	Faster than Scheduled
03071030	Dried, salted or in brine	30	15	2011	22.5	21	Faster than Scheduled
	Scallops, including queen scallops, of the genera Pecten, Chlamys or Placopecten:						
030721	Live, fresh or chilled:						
03072110	Live	30	20	2010	23.3	22	Faster than Scheduled
03072120	Fresh or chilled	30	20	2010	23.3	22	Faster than Scheduled
030729	Other						
03072910	Frozen	30	15	2011	22.5	22	Faster than Scheduled
03072920	Dried, salted or in brine	30	15	2011	22.5	22	Faster than Scheduled
	Mussels (Mytilus spp., Perna spp.):						
03073110	Live	30	12	2011	21	21	On Schedule
03073120	Fresh or chilled	30	15	2011	22.5	21	Faster than Schedule
030739	Other						
03073910	Frozen	30	10	2012	22	21	Faster than Scheduled
03073920	Dried, salted or in brine	30	15	2011	22.5	21	Faster than Scheduled
	Cuttle fish (Sepia officinalis, Rossia macrosoma, Sepiola spp.) and squid (Ommastrephes spp., Loligo spp.,						
030741	Live, fresh or chilled:						
03074110	Live	30	20	2010	23.3	22	Faster than Scheduled
03074120	Fresh or chilled	30	15	2011	22.5	22	Faster than Scheduled

Source: Calculated by the authors of CIEM, 2010.

Appendix 3: Review of the Tariff Reduction Schedule for some Aquatic Products (to be continued)

HS Code	Description	Bound rate at date of accession (%)	Final bound (%)	Implementation (year)	Committed bound as of Jan. 01, 2009 (%)	Applied as of Jan. 01, 2009 (%)	Progress compared to commitment
03074910	Frozen	30	10	2012	22	22	On Schedule
03074920	Dried, salted or in brine	30	15	2011	22.5	22	Faster than Scheduled
	Octopus (Octopus spp.):						
030751	Live, fresh or chilled:						
03075110	Live	30	20	2010	23.3	22	Faster than Scheduled
030759	Other						
03075910	Frozen	30	20	2010	23.3	22	Faster than Scheduled
030760	Snails, other than sea snails:						
03076010	Live	30	20	2010	23.3	22	Faster than Scheduled
03076020	Fresh, chilled or frozen	30	20	2010	23.3	22	Faster than Scheduled
03076030	Dried, salted or in brine	30	20	2010	23.3	22	Faster than Scheduled
	Other, including flours, meals and pellets of aquatic invertebrates other than crustaceans, fit for human consumption						
030791	Live, fresh or chilled:						
03079110	Live	30	20	2010	23.3	22	Faster than Scheduled
03079120	Fresh or chilled	30	15	2011	22.5	22	Faster than Scheduled
030799	Other						
03079910	Frozen						
	Other						
1604	Prepared or preserved fish; caviar and caviar substitutes prepared from fish eggs.						
	Fish, whole or in pieces, but not minced:						
160411	Salmon:						
16041110	In airtight containers	40	30	2010	33.3	33	Faster than Scheduled
16041190	Other	40	30	2010	33.3	33	Faster than Scheduled
160430	Caviar and caviar substitutes:						
16043010	In airtight containers	40	35		40	33	Faster than Scheduled
16043090	Other	40	35		40	33	Faster than Scheduled
1605	Crustaceans, molluscs and other aquatic invertebrates, prepared or preserved.						
16053000	Lobster	40	35	2009	35	33	Faster than Scheduled
16059010	Abalone	40	25	2012	34	33	Faster than Scheduled
16059090	Other	40	25	2012	34	33	Faster than Scheduled
Average		40	32.1		34.7	33	Faster than Scheduled

Source: Calculated by the authors of CIEM, 2010.

Appendix 4: Review of the Tariff Reduction Schedule for some other Manufactured Products

HS Code	Description	Bound rate at date of accession (%)	Final bound (%)	Implementation (year)	Committed bound as of Jan. 01, 2009 (%)	Applied as of Jan. 01, 2009 (%)	Progress compared to commitment
2102	Bread yeasts	20	10	2012	16	16	On Schedule
2103	Soya sauce	45	31	2011	38	37	Faster than Scheduled
2105	Ice cream and other edible ice, whether or not containing cocoa.	45	20	2012	35	35	On Schedule
2106	Autolysed yeast preparations	26	17	2010	19	20	Slower than Scheduled
2201	Mineral waters and aerated waters	50	35	2012	44	44	On Schedule
2202	Sparkling mineral waters and aerated waters, flavoured	40	30	2011	35	33	Faster than Scheduled
2203	Stout and porter	65	35	2012	53	53	On Schedule
2204	Sparkling wine	65	51	2012	59	59	Faster than Scheduled
2205	Of an alcoholic strength by volume not exceeding 15% vol.	65	55	2012	61	59	Faster than Scheduled
2206	Cider and perry	65	55	2012	61	59	Faster than Scheduled
2208	Brandy of an alcoholic strength by volume not exceeding 46% vol.	65	45	2013	58	55	Faster than Scheduled
2402	Beedies	150	128	2010	138	138	On Schedule
2523	For white cement	39	32	2011	35	29	Faster than Scheduled
2709	Condensate 15 10 2009 10 0 Faster than sched.	15	10	2009	10	0	Faster than Scheduled
2917	Dioctyl orthophthalates	10	5	2012	8	1	Faster than Scheduled

Source: Calculated by the authors of CIEM, 2010.

Appendix 5: Top 15 Vietnam's Merchandises Exported to China in 2010

Merchandises	Unit	Quantity	Value (USD 1000)	Proportion in total exports (%)
Rubber	ton	464,372	1,420,789	19.44
Coal	ton	14,644,571	961,855	13.16
Computer and Components	USD 1000	-	659,433	9.02
Cassava and Cassava products	ton	1,584,190	516,296	7.06
Wood and Wood products	USD 1000	-	404,909	5.54
Gasoline (various types)	ton	556,077	391,325	5.35
Crude oil	ton	593,997	367,632	5.03
Machinery and equipments, tools, accessories	USD 1000	-	250,386	3.43
Cashew nuts	ton	32.132	183,367	2.51
Sea food (Aquatic products)	USD 1000	-	162,558	2.22
Footwear	USD 1000	-	154,971	2.12
Ores and Minerals	ton	1,399,846	101,915	1.39
Textiles	USD 1000	-	93,552	1.28
Iron and Steel	ton	111,038	87,383	1.20
Fruits and Vegetables	USD 1000	-	74,901	1.02
Total of 15			**5,831,272**	**79.77**
Others			**1,477,528**	**20.23**
Vietnam's total exports to China			**7,308,800**	**100**

Source: Author calculated from figures published by the Vietnam General Statistics Office.

Appendix 6: Top 15 Vietnam's Merchandises Imported from China in 2010

Merchandises	Unit	Quantity	Value (USD 1000)	Proportion in total imports (%)
Machineries and equipments, tools, accessories	USD 1000	-	4,477,616	22.37
Fabrics	USD 1000	-	2,218,368	11.08
Computers, electronic products, components	USD 1000	-	1,682,616	8.41
Irons, steels	ton	2,188,545	1,519,044	7.59
Gasoline	ton	1,523,028	1,060,888	5.30
Raw materials for textiles, leather, and footwear	USD 1000	-	671,007	3.35
Fertilizers	ton	1,712,004	603,400	3.01
Products from Irons and Steels	USD 1000	-	532,553	2.66
Chemical (material for manufacturing)*	USD 1000	-	506,749	2.53
Chemical Products (finished products)**	USD 1000	-	405,583	2.03
Plastic Products	USD 1000	-	356,376	1.78
Vehicle Parts and accessories	USD 1000	-	285,072	1.42
Liquefied Gas	ton	318,375	246,795	1.23
Fibers and Yarns	ton	108,136	239,450	1.20
Other normal Metals	ton	73,364	228,340	1.14
Total of 15			**15,033,857**	**75.1**
Others			**4,984,970**	**24.9**
Vietnam's total imports from China			**20,018,827**	**100**

*Note: *, **: Author's judgments (these were translated from figures published by Vietnam's GSO)*

Source: Author calculated from figures published by the Vietnam's General Statistics Office.

Appendix 7: The WTO Accession Date of 157 Members in August 24, 2012

1	Albania 8 September 2000
2	Angola 23 November 1996
3	Antigua and Barbuda 1 January 1995
4	Argentina 1 January 1995
5	Armenia 5 February 2003
6	Australia 1 January 1995
7	Austria 1 January 1995
8	Bahrain, Kingdom of 1 January 1995
9	Bangladesh 1 January 1995
10	Barbados 1 January 1995
11	Belgium 1 January 1995
12	Belize 1 January 1995
13	Benin 22 February 1996
14	Bolivia, Plurinational State of 12/9/1995
15	Botswana 31 May 1995
16	Brazil 1 January 1995
17	Brunei Darussalam 1 January 1995
18	Bulgaria 1 December 1996
19	Burkina Faso 3 June 1995
20	Burundi 23 July 1995
21	Cambodia 13 October 2004
22	Cameroon 13 December 1995
23	Canada 1 January 1995
24	Cape Verde 23 July 2008
25	Central African Republic 31 May 1995
26	Chad 19 October 1996
27	Chile 1 January 1995
28	China 11 December 2001
29	Colombia 30 April 1995
30	Congo 27 March 1997
31	Costa Rica 1 January 1995
32	Côte d'Ivoire 1 January 1995
33	Croatia 30 November 2000
34	Cuba 20 April 1995
35	Cyprus 30 July 1995
36	Czech Republic 1 January 1995
37	Democratic Republic of the Congo 1/1/1997
38	Denmark 1 January 1995
39	Djibouti 31 May 1995
40	Dominica 1 January 1995
41	Dominican Republic 9 March 1995
42	Ecuador 21 January 1996
43	Egypt 30 June 1995
44	El Salvador 7 May 1995
45	Estonia 13 November 1999
46	European Union 1 January 1995
47	Fiji 14 January 1996
48	Finland 1 January 1995
49	France 1 January 1995
50	Gabon 1 January 1995
51	The Gambia 23 October 1996
52	Georgia 14 June 2000
53	Germany 1 January 1995
54	Ghana 1 January 1995
55	Greece 1 January 1995
56	Grenada 22 February 1996
57	Guatemala 21 July 1995
58	Guinea 25 October 1995
59	Guinea-Bissau 31 May 1995
60	Guyana 1 January 1995
61	Haiti 30 January 1996
62	Honduras 1 January 1995
63	Hong Kong, China 1/1/1995
64	Hungary 1 January 1995
65	Iceland 1 January 1995
66	India 1 January 1995
67	Indonesia 1 January 1995
68	Ireland 1 January 1995
69	Israel 21 April 1995
70	Italy 1 January 1995
71	Jamaica 9 March 1995
72	Japan 1 January 1995
73	Jordan 11 April 2000
74	Kenya 1 January 1995
75	Korea, Republic of 1/1/1995
76	Kuwait, the State of 1/1/1995
77	Kyrgyz Republic 20/12/1998
78	Latvia 10 February 1999
79	Lesotho 31 May 1995
80	Liechtenstein 1 September 1995
81	Lithuania 31 May 2001
82	Luxembourg 1 January 1995
83	Macao, China 1 January 1995
84	Madagascar 17 November 1995
85	Malawi 31 May 1995
86	Malaysia 1 January 1995
87	Maldives 31 May 1995
88	Mali 31 May 1995
89	Malta 1 January 1995
90	Mauritania 31 May 1995
91	Mauritius 1 January 1995
92	Mexico 1 January 1995
93	Moldova, Republic of 26/7/2001
94	Mongolia 29 January 1997
95	Montenegro 29 April 2012
96	Morocco 1 January 1995
97	Mozambique 26 August 1995
98	Myanmar 1 January 1995
99	Namibia 1 January 1995
100	Nepal 23 April 2004
101	Netherlands 1 January 1995
102	New Zealand 1 January 1995
103	Nicaragua 3 September 1995
104	Niger 13 December 1996
105	Nigeria 1 January 1995
106	Norway 1 January 1995
107	Oman 9 November 2000
108	Pakistan 1 January 1995
109	Panama 6 September 1997
110	Papua New Guinea 9 June 1996
111	Paraguay 1 January 1995
112	Peru 1 January 1995
113	Philippines 1 January 1995
114	Poland 1 July 1995
115	Portugal 1 January 1995
116	Qatar 13 January 1996
117	Romania 1 January 1995
118	Russian Federation 22 August 2012
119	Rwanda 22 May 1996
120	Saint Kitts and Nevis 21 February 1996
121	Saint Lucia 1 January 1995
122	Saint Vincent & the Grenadines 1 January 1995
123	Samoa 10 May 2012
124	Saudi Arabia, Kingdom of 11 December 2005
125	Senegal 1 January 1995
126	Sierra Leone 23 July 1995
127	Singapore 1 January 1995
128	Slovak Republic 1 January 1995
129	Slovenia 30 July 1995
130	Solomon Islands 26 July 1996
131	South Africa 1 January 1995
132	Spain 1 January 1995
133	Sri Lanka 1 January 1995
134	Suriname 1 January 1995
135	Swaziland 1 January 1995
136	Sweden 1 January 1995
137	Switzerland 1 July 1995
138	Chinese Taipei 1 January 2002
139	Tanzania 1 January 1995
140	Thailand 1 January 1995
141	Yugoslav Republic of Macedonia 4/4/2003
142	Togo 31 May 1995
143	Tonga 27 July 2007
144	Trinidad and Tobago 1 March 1995
145	Tunisia 29 March 1995
146	Turkey 26 March 1995
147	Uganda 1 January 1995
148	Ukraine 16 May 2008
149	United Arab Emirates 10 April 1996
150	United Kingdom 1 January 1995
151	United States of America 1 January 1995
152	Uruguay 1 January 1995
153	Vanuatu 24 August 2012
154	Venezuela, Bolivarian Republic of 1 January 1995
155	Viet Nam 11 January 2007
156	Zambia 1 January 1995
157	Zimbabwe 5 March 1995

Source: Retrieved from http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm, accessed December 4, 2012.

Appendix 8: Variables and Data Resources

Variables	Data Resources
$LnFDI_{jt}$, $LnFDI_{jt-1}$	Vietnam Ministry of Planning and Investment (MPI), Vietnam General Statistics Office
$LnEX_{jt}$, $LnEX_{jt-1}$	Vietnam Ministry of Industry and Trade, Vietnam General Statistics Office, ADB
$LnIM_{jt}$, $LnIM_{jt-1}$	Vietnam Ministry of Industry and Trade, Vietnam General Statistics Office, ADB
$LnDIS_{VNj}$	CEPII (the French Institute for Research on the International Economy)
$LnGDP_{VNt}$	United Nations Statistics Division, World Bank
$LnGDP_{jt}$	United Nations Statistics Division, World Bank
$LnRER_{CURj/VNDt}$	United Nations Statistics Division, World Bank, Asian Development Bank
$Ln(ins_{VNt}*ins_{jt})$	World Bank
AFTA	WTO's website page, Vietnam WTO central website page
USBTA	WTO's website page, Vietnam WTO central website page
ACFTA	WTO's website page, Vietnam WTO central website page
AKFTA	WTO's website page, Vietnam WTO central website page
JVEPA	WTO's website page, Vietnam WTO central website page, Japan Customs website page
AJCEP	WTO's website page
AANZFTA	WTO's website page, Vietnam WTO central website page
$Bothin_{VNjt}$	WTO's website page
$Onein_{VNjt}$	WTO's website page
CRI_j^{1997}	Laeven and Valencia (2008)
CRI_j^{2008}	Laeven and Valencia (2008); Rose and Spiegel (2012); etc.

Appendix 9: Summary the Statistics (Period: 1995-2011; Countries: 17; Observations: 289)

Variables	Observations	Mean	Standard Deviation	Min	Max
$LnFDI_{jt}$	289	18.0240	1.8452	10.6048	21.7692
$LnFDI_{jt-1}$	289	18.0012	1.8665	10.6048	21.7692
$LnEX_{jt}$	289	20.5201	1.1501	16.7017	23.5033
$LnEX_{jt-1}$	289	20.3200	1.2547	15.2265	23.4143
$LnIM_{jt}$	289	20.4010	1.4905	16.8974	23.8168
$LnIM_{jt-1}$	289	20.2259	1.5313	16.1206	23.7405
$LnDIS_{VNj}$	289	8.2815	0.9503	6.7140	9.5226
$LnGDP_{VNt}$	289	24.5363	0.3192	23.9940	25.0309
$LnGDP_{jt}$	289	27.2646	1.3901	24.9592	30.2141
LnSIMSIZE	289	-2.2820	1.1671	-5.1491	-0.7707
$LnRER_{CURj/VNDt}$	289	7.9673	2.1171	2.2857	10.3280
$Ln(ins_{VNt}*ins_{jt})$	289	8.0069	0.2793	7.0925	8.3058
AFTA	289	0.1522	0.3598	0	1
USBTA	289	0.0415	0.1998	0	1
ACFTA	289	0.1730	0.3789	0	1
AKFTA	289	0.0865	0.2815	0	1
JVEPA	289	0.0138	0.1170	0	1
AJCEP	289	0.0692	0.2542	0	1
AANZFTA	289	0.0519	0.2222	0	1
$Bothin_{VNjt}$	289	0.2941	0.4564	0	1
$Onein_{VNjt}$	289	0.6608	0.4742	0	1
BOR_{VNj}	289	0.0588	0.2357	0	1
CRI_j^{1997}	289	0.1522	0.3598	0	1
CRI_j^{2008}	289	0.2802	0.4499	0	1

Appendix 10: The Correlations Matrix ($LnFDI_{jt}$ Equation)

Correlations	$LnFDI_{jt}$	$LnDIS_{VNj}$	$LnGDP_{VNt}$	$LnGDP_{jt}$	$LnEX_{jt-1}$	$LnIM_{jt-1}$	LnRER.	Ln(inst.)	AFTA	USBTA	ACFTA	AKFTA	JVEPA	AJCEP	AANZFTA	$Bothin_{VNjt}$	$Onein_{VNjt}$	BOR_{VNj}
$LnFDI_{jt}$	1.0000																	
$LnDIS_{VNj}$	-0.3075	1.0000																
$LnGDP_{VNt}$	-0.0011	0.0000	1.0000															
$LnGDP_{jt}$	0.0892	0.7167	0.1222	1.0000														
$LnEX_{jt-1}$	0.2891	-0.0508	0.7038	0.3524	1.0000													
$LnIM_{jt-1}$	0.5549	-0.4520	0.5456	0.0850	0.7457	1.0000												
$LnRER_{CURj/VNDt}$	-0.3371	0.5559	-0.0075	0.2002	-0.1097	-0.4422	1.0000											
$Ln(ins_{VNt}*ins_{jt})$	0.1416	0.5274	-0.0193	0.2696	-0.0438	-0.1348	0.4833	1.0000										
AFTA	-0.0406	-0.5228	0.2620	-0.4857	0.1205	0.2115	-0.1334	-0.4110	1.0000									
USBTA	0.1212	0.2723	0.1067	0.4320	0.3106	0.0759	0.1605	0.0770	-0.0882	1.0000								
ACFTA	0.0074	-0.5016	0.3311	-0.3207	0.2376	0.3497	-0.1325	-0.5551	0.8247	-0.0952	1.0000							
AKFTA	0.1222	-0.3172	0.3696	-0.2363	0.2221	0.3187	-0.2400	-0.2566	0.5548	-0.0640	0.5101	1.0000						
JVEPA	0.1403	-0.0034	0.1485	0.1679	0.2294	0.1975	-0.1772	0.0527	-0.0502	-0.0247	-0.0542	-0.0365	1.0000					
AJCEP	0.0891	-0.2707	0.3418	-0.1410	0.2734	0.2987	-0.1538	-0.2145	0.4916	-0.0568	0.4520	0.6921	0.4345	1.0000				
AANZFTA	-0.0302	-0.2049	0.2988	-0.1728	0.2125	0.2066	-0.0308	-0.1737	0.4219	-0.0487	0.3878	0.5939	-0.0277	0.6737	1.0000			
$Bothin_{VNjt}$	0.0654	0.0000	0.7753	0.1027	0.5334	0.4460	-0.0169	0.0146	0.1492	0.0560	0.2067	0.4767	0.1835	0.4224	0.3625	1.0000		
$Onein_{VNjt}$	-0.0852	0.0645	-0.6436	-0.0833	-0.4974	-0.4399	0.0669	0.0768	-0.1033	-0.0341	-0.1555	-0.4296	-0.1654	-0.3807	-0.3266	-0.9012	1.0000	
BOR_{VNj}	0.0016	-0.1373	-0.0000	0.1887	0.1752	0.2140	-0.0482	-0.5382	-0.1059	-0.0520	0.2744	-0.0769	-0.0296	-0.0682	-0.0585	0.0000	-0.1626	1.0000

Appendix 11: The Correlations Matrix ($LnEX_{jt}$ Equation)

Correlations	$LnEX_{jt}$	$LnDIS_{VNj}$	$LnGDP_{VNt}$	$LnGDP_{jt}$	$LnSIMSIZE$	$LnFDI_{jt-1}$	$LnRER.$	$AFTA$	$USBTA$	$ACFTA$	$AKFTA$	$JVEPA$	$AANZFTA$	$AJCEP$	$Bothin_{VNjt}$	$Onein_{VNjt}$	BOR_{VNj}	CRI_j^{1997}	CRI_j^{2008}
$LnEX_{jt}$	1.0000																		
$LnDIS_{VNj}$	-0.0305	1.0000																	
$LnGDP_{VNt}$	0.6960	0.0000	1.0000																
$LnGDP_{jt}$	0.3856	0.7167	0.1222	1.0000															
$LnSIMSIZE$	-0.2470	-0.6897	0.1053	-0.9694	1.0000														
$LnFDI_{jt-1}$	0.2791	-0.3043	-0.0198	0.0796	-0.0907	1.0000													
$LnRER_{CURj/VNDt}$	-0.1146	0.5559	-0.0075	0.2002	-0.1986	-0.3356	1.0000												
$AFTA$	0.1001	-0.5228	0.2620	-0.4857	0.4967	-0.0528	-0.1334	1.0000											
$USBTA$	0.3528	0.2723	0.1067	0.4320	-0.4428	0.1266	0.1605	-0.0882	1.0000										
$ACFTA$	0.2341	-0.5016	0.3311	-0.3207	0.3551	-0.0092	-0.1325	0.8247	-0.0952	1.0000									
$AKFTA$	0.2267	-0.3172	0.3696	-0.2363	0.2976	0.0848	-0.2400	0.5548	-0.0640	0.5101	1.0000								
$JVEPA$	0.2415	-0.0034	0.1485	0.1679	-0.1371	0.1278	-0.1772	-0.0502	-0.0247	-0.0542	-0.0365	1.0000							
$AJCEP$	0.2705	-0.2707	0.3418	-0.1410	0.1919	0.1022	-0.1538	0.4916	-0.0568	0.4520	0.6921	0.4345	1.0000						
$AANZFTA$	0.1908	-0.2049	0.2988	-0.1728	0.2254	-0.0069	-0.0308	0.4219	-0.0487	0.3878	0.5939	-0.0277	0.6737	1.0000					
$Bothin_{VNjt}$	0.5445	0.0000	0.7753	0.1027	0.0750	0.0131	-0.0169	0.1492	0.0560	0.2067	0.4767	0.1835	0.4224	0.3625	1.0000				
$Onein_{VNjt}$	-0.5090	0.0645	-0.6436	-0.0833	-0.0714	-0.0280	0.0669	-0.1033	-0.0341	-0.1555	-0.4296	-0.1654	-0.3807	-0.3266	-0.9012	1.0000			
BOR_{VNj}	0.1917	-0.1373	-0.0000	0.1887	-0.1817	-0.0238	-0.0482	-0.1059	-0.0520	0.2744	-0.0769	-0.0296	-0.0682	-0.0585	0.0000	-0.1626	1.0000		
CRI_j^{1997}	-0.1295	-0.2290	-0.3896	-0.1494	0.0513	0.1062	-0.1931	-0.1796	-0.0399	-0.1938	-0.1304	-0.0502	-0.1156	-0.0992	-0.2736	0.1408	0.0578	1.0000	
CRI_j^{2008}	0.5497	-0.0170	0.7560	0.1143	0.0587	0.0640	-0.0288	0.1430	0.0632	0.2034	0.4657	0.1898	0.4369	0.3749	0.9668	-0.8712	0.0077	-0.2645	1.0000

Appendix 12: The Correlations Matrix ($LnIM_{jt}$ Equation)

Correlations	$LnIM_{jt}$	$LnDIS_{VNj}$	$LnGDP_{VNt}$	$LnGDP_{jt}$	*LnSIMSIZE*	$LnFDI_{jt-1}$	*LnRER.*	*AFTA*	*USBTA*	*ACFTA*	*AKFTA*	*JVEPA*	*AANZFTA*	*AJCEP*	$Bothin_{VNjt}$	$Onein_{VNjt}$	BOR_{VNj}	CRI_j^{1997}	CRI_j^{2008}
$LnIM_{jt}$	1.0000																		
$LnDIS_{VNj}$	-0.4608	1.0000																	
$LnGDP_{VNt}$	0.5236	0.0000	1.0000																
$LnGDP_{jt}$	0.0912	0.7167	0.1222	1.0000															
LnSIMSIZE	0.0175	-0.6897	0.1053	-0.9694	1.0000														
$LnFDI_{jt-1}$	0.5548	-0.3043	-0.0198	0.0796	-0.0907	1.0000													
$LnRER_{CURj/VNDt}$	-0.4544	0.5559	-0.0075	0.2002	-0.1986	-0.3356	1.0000												
AFTA	0.2139	-0.5228	0.2620	-0.4857	0.4967	-0.0528	-0.1334	1.0000											
USBTA	0.0809	0.2723	0.1067	0.4320	-0.4428	0.1266	0.1605	-0.0882	1.0000										
ACFTA	0.3644	-0.5016	0.3311	-0.3207	0.3551	-0.0092	-0.1325	0.8247	-0.0952	1.0000									
AKFTA	0.3167	-0.3172	0.3696	-0.2363	0.2976	0.0848	-0.2400	0.5548	-0.0640	0.5101	1.0000								
JVEPA	0.1966	-0.0034	0.1485	0.1679	-0.1371	0.1278	-0.1772	-0.0502	-0.0247	-0.0542	-0.0365	1.0000							
AJCEP	0.2877	-0.2707	0.3418	-0.1410	0.1919	0.1022	-0.1538	0.4916	-0.0568	0.4520	0.6921	0.4345	1.0000						
AANZFTA	0.1992	-0.2049	0.2988	-0.1728	0.2254	-0.0069	-0.0308	0.4219	-0.0487	0.3878	0.5939	-0.0277	0.6737	1.0000					
$Bothin_{VNjt}$	0.4356	0.0000	0.7753	0.1027	0.0750	0.0131	-0.0169	0.1492	0.0560	0.2067	0.4767	0.1835	0.4224	0.3625	1.0000				
$Onein_{VNjt}$	-0.4381	0.0645	-0.6436	-0.0833	-0.0714	-0.0280	0.0669	-0.1033	-0.0341	-0.1555	-0.4296	-0.1654	-0.3807	-0.3266	-0.9012	1.0000			
BOR_{VNj}	0.2395	-0.1373	-0.0000	0.1887	-0.1817	-0.0238	-0.0482	-0.1059	-0.0520	0.2744	-0.0769	-0.0296	-0.0682	-0.0585	0.0000	-0.1626	1.0000		
CRI_j^{1997}	-0.0394	-0.2290	-0.3896	-0.1494	0.0513	0.1062	-0.1931	-0.1796	-0.0399	-0.1938	-0.1304	-0.0502	-0.1156	-0.0992	-0.2736	0.1408	0.0578	1.0000	
CRI_j^{2008}	0.4553	-0.0170	0.7560	0.1143	0.0587	0.0640	-0.0288	0.1430	0.0632	0.2034	0.4657	0.1898	0.4369	0.3749	0.9668	-0.8712	0.0077	-0.2645	1.0000