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DAC WORKSHOP: TOWARDS GOOD PRACTICES FOR DONORS ON CAPACITY DEVELOPMENT FOR TRADE

VIETNAM CASE STUDY

This document is submitted as background material for discussion at the Workshop, to be held in Paris on 29-30 May 2000 and should be considered together with the background paper [DCD(2000)10].

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VIETNAM CASE STUDY

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I. Vietnam's Trade Policy and Institutions

A. Background

1. Vietnam is a densely-populated country with the great majority of its population working in agriculture and living in rural areas. The country is poor, though the rapid economic growth of the 1990s has nearly doubled per capita incomes from their level a decade ago. Following the economic reforms of the late 1980s, Vietnam has entered quickly into the world trading system. Its exports grew at the remarkable average rate of 22% per year between 1990 and 1999, rising from \$1.7 billion to \$11.5 billion.

2. The entry of Vietnam into the world trading system began with the *doi moi* ("renewal") policies adopted by the Sixth Congress of the Communist Party of Vietnam (CPV) in 1986. These reforms, mostly implemented several years later, moved the government's policy away from collectivised approaches and toward the use of prices and a market economy. Two changes in particular were critical. Agriculture was de-collectivised, leading to the rapid replacement of rural co-operatives by individual family plots; and prices of most agricultural goods were freed. The immediate result was a sharp rise in food production, bringing the country back from the verge of famine. The country moved quickly from rice importer to second-largest rice exporter in the world. In international trade, the government changed quickly and decisively from primary reliance on state trading with the socialist bloc to participation in competitive world markets, in part by encouraging foreign investment in the export sector.

B. Economic Policies

Evolution and Current Status

3. Following *doi moi*, the Vietnamese economy took off. Economic growth averaged 8% per year between 1990 and 1997, fuelled by the agricultural revolution, the turn to market pricing, and large inflows of foreign investment and foreign aid. Following the Asian financial crisis, Vietnamese growth slowed to 5.8% in 1998 and to about 4.5% in 1999, and raising fears that the years of rapid growth have ended. Throughout the 1990s, policies continued a gradual shift toward a larger role for market forces and for the private sector. Macroeconomic management has gradually strengthened and fiscal deficits brought under control. Burdened by rapid inflation during earlier periods, Vietnam stabilised its economy and brought inflation rates below 10% per year from 1996 onwards. Inflation in 1999 was about 3%.

4. Most economic activity takes place in the private sector, through individual farms and household-level enterprises. Above the household sector, State-Owned Enterprises (SOEs) are dominant, followed by foreign firms. Firms in export processing zones are wholly-owned by foreign investors. Until recently,

most other foreign investment was in joint ventures with SOEs, some of which have become wholly foreign-owned, which is currently the preferred form of investment by outsiders. Privately-owned Vietnamese firms other than households account for only about 7% of GDP and 10% of manufacturing GDP (World Bank 1999, p. 11), but household businesses and sole proprietorships amount to another 33% of GDP.

5. SOEs pose the major economic policy challenge for the government. Most of the 5,500 SOEs suffer from weak finances, high debt, obsolete plant and equipment, poor management, poorly trained staff, low labour productivity, and low product quality. They are protected by an array of tariff and non-tariff barriers. The government's concern about these companies stands in the way of further trade reform and investment liberalisation.[1]

6. The SOEs also pose a threat to the country's financial system. They receive most of the credit from the official banks, and have tended to operate with a "soft budget constraint." In effect, credit has tended to flow to the worst-performing of these enterprises, limiting credit (and opportunities for expansion) for the better performing SOEs. This process is thereby steadily eroding the quality of the banks' portfolios, creating serious potential solvency problems. The government has committed itself to reform. This is to include conversion of as many of the SOEs as possible into "equitized" companies, with ownership shares distributed among employees, other individuals and firms, and the government. The SOEs' possible loss of their preferred access to credit has been one of the impediments to equitization, which has proceeded slowly.

7. The policymaking process is complex and opaque to outsiders. While government officials administer the country's policies and institutions, the Communist Party of Vietnam (CPV) exercises real authority over policy. The Party's central committee provides general oversight of the government, but all important decisions are made by the Party's Politburo. In principle, the CPV has accepted the rule of law in Vietnam as a limit on the Party's authority, but the legal system is neither complete nor transparent, and the Party is the *de facto* interpreter of Vietnamese laws. The question of what is permitted and what is not consequently is often uncertain and ambiguous. The common view is that private activity is easier in the South than in the North. This reflects both the concentration of entrepreneurs in the South and the willingness of these entrepreneurs and Party and government officials to reach official and unofficial accommodations.

8. The ambivalence of Vietnam's overall policy stance is illustrated by recent statements by senior officials of the government and of the Communist Party of Vietnam (CPV). In early February, Le Kha Phieu, General Secretary of the CPV, in a speech celebrating the 70th anniversary of the founding of the party, stated that "…we will build a highly developed economy with modern production forces and with state ownership of all key production means," adding later that the state should "implement the market-oriented economy under the state management with a socialist orientation."[2] On the other hand, the prime minister, Phan Van Khai, was quoted about the same time as saying that the three principal priorities for the country were poverty reduction, accelerating the development of a market economy, and boosting international integration.[3]

[1] Sida (1999) is an excellent account of the problems one donor faced over several decades in working with a Vietnamese SOE. The project, in which the Swedish government put nearly $1 billion, began to make progress toward sustainability only in the 1990s, after the *doi moi* reforms had begun to take effect. Even so, the enterprise now has annual sales of only about $40 million.

[2] Reported by Foreign Broadcast Information Service from speech on Radio Vietnam, February 2, 2000.

[3] Viet Nam News, February 24, 2000, p. 1.

9. Vietnam's legal-institutional framework poses serious constraints on economic activity. Businesses complain that regulations are often inconsistent or inconsistently applied, with frequent changes that create considerable uncertainty.[4] A new enterprise law that went into effect in January 2000 may clear up some of the ambiguities. It reportedly has led to a large increase in registrations of new businesses. The use of land for business activity is a particularly serious obstacle. Property rights for individual farms and for residential housing are well-established for use, though not for sale or transfer. Land for businesses is allocated through local People's Committees, historically only to SOEs, and it can reportedly take years to obtain leases to use land for private Vietnamese or wholly-owned foreign businesses outside of industrial parks. Firms sometimes are forced into the position of constructing buildings on property for which they have rights only for a short time into the future. The property-rights question plays a major role in the forms in which foreign investment takes in Vietnam. The great majority of foreign firms either enter into joint ventures with an SOE, which contributes land use rights – the rough equivalent of title to real property in a system in which there is no private title to real property – as its share of the enterprise's capital, or they operate in export processing zones where property rights are settled.

Assessment

10. There is widespread dissatisfaction in the donor community about the pace of reform in Vietnam. It is difficult for an outsider with little time in country to make a judgement on such matters, but it appears to this observer that there has been a steady progression toward more market-oriented policies over a span of more than a decade. There have been periods of relative inaction, but none during which there was a sharp step backwards. Moreover, even during periods like the present, when policy is moving slowly, economic processes at the firm and household level continue to move (inexorably?) toward greater decentralisation of economic power. It is at least plausible to believe that caution at the top can slow, but not reverse, the movement to a market economy.

11. At its most public-minded, the Party's caution may be operating to reduce the risk of big dislocations that could result from an excessively exuberant embrace of free markets. The Vietnamese perception is that the transition from socialism in the Soviet bloc had disastrous consequences for the welfare of many people and for the stability of economies. Consequently, they believe prudence requires a more measured movement away from state ownership and control. Their time horizon is perhaps longer than that of donor representatives (who want to achieve results during their tenure), due to a preoccupation with the long-term interests of the Party as the only proper political authority in Vietnam and a decision-making process that emphasises unanimity and eschews internal compromise. State ownership and control of the economy are considered critical to the Party's power.

C. Trade Policy

Evolution and Current Status

12. *Tariff structure.* Vietnam has a high tariff structure by current world standards, though tariffs have been lowered significantly in recent years. Tariffs are also supplemented by an extensive array of import restrictions and other non-tariff barriers. There is an overall lack of transparency in the import

[4] The Director of Vietnam's Legal Institute recently announced that "his office had found 3,339 legal documents issues by various government agencies last year that contravened relevant regulations." Most were at the communal or district level, but the list included 32 ministerial actions. (Viet Nam News, February 18, 2000)

regime. The average tariff for all 7,000 lines of the tariff code is in the 15-20% range, but is above 40% for two-fifths of all goods. Tariffs are based on reference prices rather than actual transaction prices. Only Vietnamese firms are currently allowed to hold general import licenses. Foreign investors in manufacturing can obtain import licenses for the intermediate goods needed to make their products. The system of controls on purchase and holding of foreign exchange provides an additional non-market mechanism that can be used to influence import levels.

13. *Exchange rate policy.* The Vietnamese currency, the Dong, is not convertible, and the government has extensive controls over acquisition and holding of foreign exchange. In recent years, the government has sought to maintain the competitiveness of the exchange rate. The exchange rate has been depreciating steadily recently, though perhaps a bit too slowly to be in line with the differential inflation in Vietnam compared to its trading partners. There has also been some concern that the devaluations of other Asian countries made the exchange rate overvalued in relation to its main competitors.

14. *Foreign investment.* Foreign investment has been a significant factor in Vietnam's export development over the last decade. Vietnam first began to permit inward foreign investment in 1988, as part of the *doi moi* reforms. Since then, Vietnam has received more than $36 billion in investment commitments. Less than half of the commitments have so far led to disbursements, for more than 2,100 projects. Vietnam's large population, its low wage base, and its strong macroeconomic performance after 1988 were all factors in the massive inflow.

15. New foreign investment commitments fell sharply after the Asia financial crisis -- from $8.6 billion in 1996 to $4.7 billion in 1997, to $3.9 billion in 1998 and to $1.5 billion in 1999. The fact that new commitments fell again in 1999, when investment had begun to recover in the crisis countries, suggests that other factors are also important. These could include disappointment by foreign investors with the profitability of earlier investments in Vietnam, concern over the slow pace of economic reform, or (in the import-substituting industrial sector) concern that import liberalisation was proceeding too rapidly.

16. It is difficult to know how to treat the commitment numbers on foreign investment. The Vietnamese government appears to pay much more attention to commitments than to actual disbursements on foreign investment, but only the latter can have a real impact on the economy. Disbursements have fallen, but much less sharply -- peaking in 1997 at $3.2 billion, then falling to $2 billion in 1998 and to $1.5 billion in 1999. The 1999 disbursement rate brought foreign investment to a level only modestly higher than the inflow of ODA, which was $1.3 billion in 1998 and $1.2 billion in 1999. (A substantial share of ODA commitments also fail to materialise. Commitments have exceeded $1.9 billion in each of the last seven years, but disbursements exceeded $1 billion only in 1998 and 1999.)

17. Further analysis of the foreign investment data is required to separate export-related investment and efficient investment for the domestic market from foreign investment prompted solely by the prospect of access to a highly-protected domestic market. The most extreme case of this may be the automobile industry, where eleven assembly plants were established for a domestic market that is minuscule. There has been conflict between firms that have made investments in the expectation of tariff protection and the trade liberalisation reforms being pursued by the Vietnamese government. Some foreign investors -- Japanese firms most strongly, but also others, including American firms -- have complained to the Vietnamese government (and perhaps to their own governments) about the negative impact of trade liberalisation. No evidence was found that donor governments have taken up the cause of these investors.

18. Firms doing business in Vietnam regard it as a difficult investment environment. The government is committed to moving from a totally command economy to a "state-supervised" market economy in which the state sector retains a "leading role." In practice, the ambivalence about foreign investment and the lack of clearly defined rules regarding foreign investment mean that foreign investors

must cope with continual procedural problems. The legal and financial systems are under-developed and cumbersome. The bureaucracy is unwieldy, regulations are non-transparent, start-up costs are high, and land acquisition and transfer procedures are arcane. The issuance of investment licenses and the implementation of projects are often lengthy processes during which the investment environment and official rules frequently change.

19. The government implemented a number of reforms in 1998 and 1999 aimed at improving Vietnam's attractiveness to foreign investors. These reforms eliminated a variety of taxes and discriminatory pricing arrangements and made other procedural simplifications. Foreign investment in Vietnam is regulated by the Ministry of Planning and Investment (MPI), though lower levels of government have acquired increased authority in recent years. The Prime Minister's office retains authority over larger and "sensitive" projects.

20. *Position on trade negotiations.* Vietnam has moved steadily toward increased participation in the world trading system in recent years. It concluded bilateral trade agreements with Japan, the European Union and other trading partners in the early 1990s, and has moved closer to multilateral arrangements.

21. *The Asia Free Trade Area (AFTA).* In July 1995, Vietnam became a member of the Association of South East Asian Nations (ASEAN). ASEAN members – which include Brunei, Philippines, Indonesia, Laos, Myanmar, Malaysia, Singapore, Thailand, and Cambodia -- have agreed to reduce tariffs among themselves as a step towards an AFTA. Under the harmonisation process called CEPT -- the Common Effective Preferential Tariff Scheme -- intra-regional tariffs, especially for manufactured goods, would be reduced to a level of no higher than 5% by year 2003. Vietnam has complied with the first stage of AFTA cuts by binding one-quarter of its tariff lines at 5% or less for its AFTA partners. This first stage required little actual reduction, because MFN tariffs were already below 5% for most of the required number of lines. Future cuts will affect categories with higher tariffs. Vietnam has been granted an extension until 2006 to comply with the requirement for all tariff categories.

- *The U.S. bilateral trade agreement*. Vietnam and the United States negotiated a bilateral trade agreement between 1996 and 1999, and a draft was agreed at the technical level. The formal agreement was expected to be signed during the APEC Summit meeting in September 1999. The Vietnamese government backed away shortly before the meeting, however, and the matter has been in abeyance since then. The treaty is needed to give Vietnam normal trade relations with the United States. Vietnam added a non-MFN column to its tariff structure in 1999, with duty rates 50% higher than for countries with which it has bilateral trade agreements. But Vietnam has unilaterally waived these high duties on U.S. goods, putting imports from the United States on a par with those of countries with which it has bilateral agreements. The conventional wisdom in early 2000 is that the Vietnamese government still seeks a bilateral trade agreement with the United States, but will request renegotiation of some sections of the current draft.

- *World Trade Organization (WTO).* The Vietnamese government has committed itself to joining the WTO, and has initiated the membership accession process. It was due to make an initial offer to the WTO in January 2000, but had not yet done so by the end of February 2000.

Assessment

22. Vietnamese trade policy has moved dramatically during the last decade toward market-based participation in the world trading system. There is still much to do, but most observers believe that

Vietnam will continue to make progress toward WTO membership. The AFTA timetable is the most demanding at present, requiring Vietnam to eliminate almost all barriers to trade with other AFTA members within six years.

23. Policy towards foreign investment suffers from a lack of clear conceptualisation. Some foreign investment in import substitution industries seems unlikely to serve the Vietnamese national interest, and joint ventures between foreign investors and SOEs provide many opportunities for corruption and rent-seeking behaviour (i.e., the use of monopolies or other government-generated privileges to gain private profits). The Vietnamese government needs to reconsider the structure of incentives available to foreign investors, and to set rules that will attract the types of foreign investment that make substantial contributions to Vietnamese economic growth.

D. Trade Institutions

Evolution and Current Status

24. At present, there is a dearth of institutions supporting exporters in Vietnam. In practice, establishment of private-sector associations is seldom possible. Vietnamese law permits creation of a new association only if there is not one already in existence that was established to serve the same purpose.

25. *The Ministry of Trade.* The Ministry of Trade is the commanding presence in the export sector. During the 1980s, its role was preponderant, and only SOEs belonging to the MOT were allowed to export. When export orders were received from other Socialist countries, the Ministry would allocate them among these enterprises. Its role in arranging export orders has largely disappeared, however, as enterprises have gained greater autonomy. But the Ministry still acts as the policymaking body for exports, and administers the various forms of administrative control over exports and imports. It also maintains an overseas presence, with export promotion offices in about 30 countries. The government is considering creating an export promotion body that would assume responsibility for these positions.

26. *The Vietnamese Chamber of Commerce and Industry (VCCI).* The VCCI is the largest centrally-organised institution representing business firms in Vietnam. It has some 2,200 member firms, from both the SOE and private sectors, and its operations, except for the salaries of its government-paid officers and staff, are financed by fees collected from public events and from foreign users of its services. It has a monthly publication for the business community, several annual directories, and a web page. One subcommittee of the VCCI is made up of exporters. VCCI describes itself as a private association that can represent the concerns of the business community to the government. It does so in the same manner that other organisations -- such as the Women's Union and the Farmer's Union -- represent their constituencies in government and Party deliberations. Staffed by government officials and included in relevant inter-ministerial committees, VCCI is essentially a government association, giving it an insider status that some observers view as an asset. (Viewing VCCI as a "normal" business association, the Vietnamese government has a difficult time understanding the independence of foreign business groups from their governments.)

27. *The Foreign Trade and Investment Development Center, Ho Chi Minh City.* This government agency is responsible to the Ho Chi Minh City People's Committee, but it is self-financed, and is considered to be the most entrepreneurial organisation supporting exporters. It has a well-appointed showroom for Vietnamese goods in downtown Ho Chi Minh City, it operates a variety of training programs for exporters, and it is developing a web page that will serve as a source of basic information for exporters.

28. *Other organisations.* There are a number of other organisations that support exporters, mostly organised on a sectoral basis. These are generally weak top-down government entities, rather than associations created and directed by member enterprises. Exceptions include some Ho Chi Minh City associations under the umbrella Industrial and Commercial Association, such as the plastics manufacturer and packaging and apparel associations, which include some private-sector members. Only the apparel and coffee exporters' associations are considered to be of significant value to exporters.

Assessment

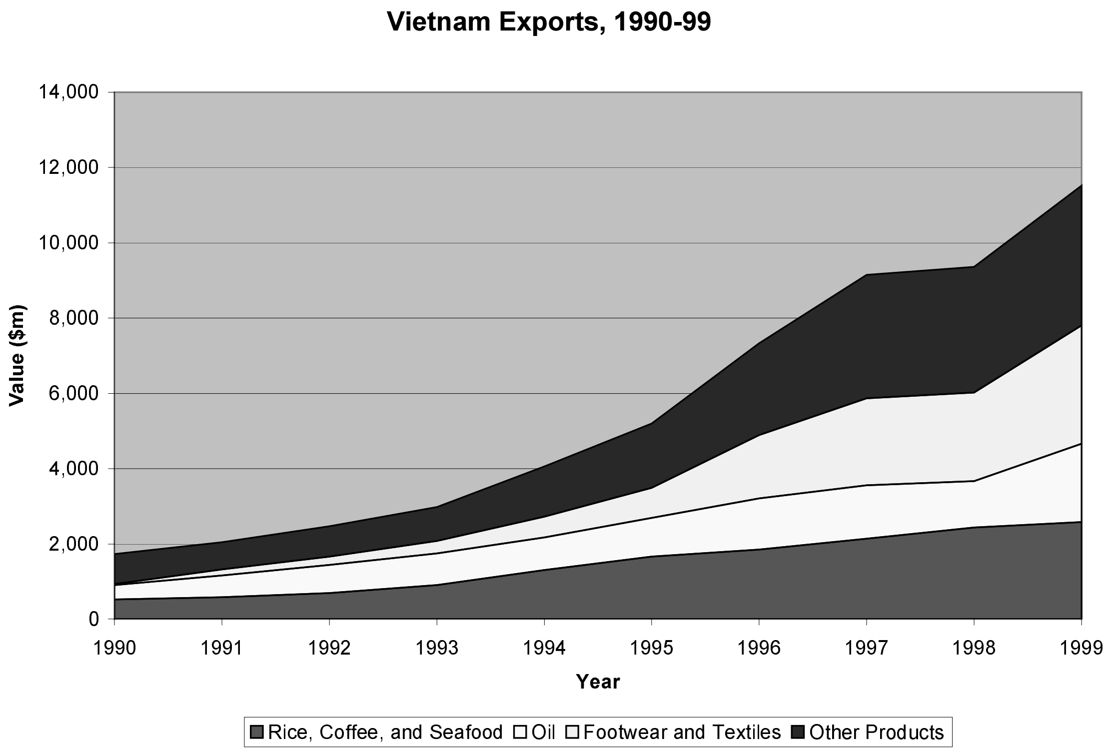
29. Vietnam's institutional base for services to exporters is extremely weak. The information base available to potential exporters is very limited and difficult to access. Private associations of exporters, a major source of information for exporters in most countries, barely exist in Vietnam. Major importing countries attach to their Vietnamese embassies and consulates trade officials who have modest information resources, but most of these officials focus on increasing exports to Vietnam. Widespread access to the internet is very recent. It is growing rapidly, but high costs, limited knowledge of English, and unfamiliarity with the technology are obstacles. There also is a lingering belief among even many private sector businesses that it is very difficult to penetrate export markets and that it is the government's role to provide market information and business contacts and to subsidize exports

II. Vietnamese Trade Performance

A. Overall Trends

30. Vietnam's export performance over the past decade has been very impressive, with exports rising from $1.7 billion in 1990 to $11.5 billion in 1999. The trends by major categories are shown in Chart 1 and Table 1. The growth in trade has been broad-based, with several primary products (notably rice, coffee, seafood, and petroleum) and several manufactured categories (apparel and footwear) all showing spectacular rates of growth.

Chart 1



31. This rapid growth is reminiscent of the earlier growth of the Asian tigers, but several differences might be mentioned. First, much of Vietnam's trade during the 1980s was with the Socialist bloc, where standards of quality, packaging, and delivery were less demanding than world markets. Transitioning to world standards is difficult, and Vietnam has been able to do this more successfully than most of the countries of the former Socialist bloc. Yet Vietnam was a very closed economy in the 1980s, so the liberalisation of trade might have been expected to lead to rapid growth in the early years. Finally, Vietnam has not adopted pro-export policies nearly to the extent that other Asian countries have. The government still presents formidable obstacles to exporting, so the rapid growth in this environment is even more surprising.[5]

32. It would be interesting to know the breakdown of Vietnamese exports by type of firm -- SOEs, private Vietnamese, joint-venture, and foreign investor – but such data was not found. The principal agricultural products (coffee and rice) are mostly produced in the private sector, but exported by SOEs. Among manufactured products, the conventional wisdom is that the private sector is a much larger force in exporting than it is in the economy generally, but no data was found to support this. Hill (200, p. 291) reports unpublished data from the Ministry of Planning and Investment that the state sector represented 55% of the gross value of all manufacturing, followed by the private sector, with 30%, and foreign investors, with 17%.

[5] This is a point well-documented by Hill (2000) with respect to the apparel export sector.

Table 1

Vietnam Exports, 1990-1999

($ Million)

Year	Total Exports	Rice, Coffee, and Seafood	Oil	Footwear and Textiles	Other Products
1990	1,731	517	390	20	804
1991	2,042	584	581	156	721
1992	2,475	688	756	221	810
1993	2,985	900	844	336	905
1994	4,054	1308	866	550	1,330
1995	5,198	1664	1024	800	1,710
1996	7,331	1843	1364	1680	2,444
1997	9,145	2142	1413	2314	3,276
1998	9,361	2436	1232	2352	3,341
1999	11,520	2576	2092	3138	3,714

Source: World Bank and UNDP

B. Trends in Specific Sectors

33. *Rice.* With the de-collectivisation of agriculture in 1989 and the freeing of prices for rice, rice production began to rise rapidly. The country changed from a rice importer to an exporter. Rice exports have risen steadily, to an estimated 5 million tons in 1999. Vietnam has become the world's second largest exporter of rice, after Thailand. The country still has export controls on rice, reflecting a continuing government preference for administrative controls instead of market forces as the means to assure food security. The export controls gave SOEs a monopoly on exports, at least until late 1998. Private firms were to be given rights to export in 1999, but this appears to have operated in a very limited and uncertain way. Vietnamese rice is said to command low prices on world markets because of problems of quality and reliability (Minot 1998).

34. *Coffee.* Vietnam began producing coffee, mainly for the French market, around the beginning of the 20th century, but the industry only acquired a significant volume of production from the mid-1980s. At the cost of widespread deforestation in the Central Highlands, the growth of production has been spectacular during the 1990s, rising from 43,000 tons in 1989 to nearly 500,000 tons in 1999, with export earnings rising from $25 million to $600 million. The country has become the third largest exporter of coffee in the world, after Brazil and Colombia. Vietnam mainly produces the cheaper robusta varieties, but its average export prices are low compared to other robusta producers. Low quality of supply is given as the primary reason (Minot 1998).

35. *Textiles and Apparel.* Exports of textiles and apparel have grown at a rate of more than 60% per year since 1990, making this the fastest-growing of the major export sectors. This occurred without a major advantage of most developing countries -- access to the U.S. market. Vietnam has had to penetrate the more difficult markets of Japan and the European Union. The apparel sector is composed of large, low-end SOE manufacturers, a smaller number of foreign-invested firms producing at the high end, and numerous private Vietnamese apparel makers, most of which are SMEs. SOEs have had a virtual monopoly on quotas for exporting apparel to the industrial countries. Much of the exporting is done through Korean or Hong Kong intermediaries, who handle the marketing. This leaves the Vietnamese producers at a disadvantage in understanding the needs of foreign consumers, and reduces their margin.

C. Trends in Geographical Distribution

36. Vietnam's trade during the 1980s was primarily with the Socialist bloc, but has shifted dramatically away from those countries during the 1990s. Vietnam's primary trading partners today are other Asian countries, led by Japan, but trade with the European Union has grown rapidly since the first bilateral agreement on textiles in 1992. The EU countries have become the largest market for footwear exports and second after Japan as a market for textiles and apparel.

37. Vietnam exports relatively less to the United States than do its neighbours. Whereas Thailand, Malaysia and Indonesia send, on average, 18% of their exports to the United States, the corresponding share for Vietnam is only 4.5%. A U.S. export share equivalent to its neighbours would represent an additional $1.6 billion in annual export earnings for Vietnam. The U.S. trade embargo prior to 1994, and the lack of MFN treatment for Vietnamese imports since then, account for this difference. The sector where Vietnamese exports have been most affected has probably been apparel. Whereas most Asian countries have developed exports to the large U.S. market first, and then moved into other developed countries, Europe and Japan have been the main markets for Vietnamese apparel exports.

D. Impact of Trade Growth on Poverty and Wages

38. The level of poverty in Vietnam declined sharply over the past decade, as the rural sector was de-collectivised and other market reforms were introduced. The most compelling evidence of changing conditions comes from two living standards surveys, conducted in 1992-93 and 1997-98 under the supervision of the World Bank. Overall, the share of the population living in poverty fell from 55% to 37% between the two surveys. The urban poverty rate fell most sharply, from 23% to 9%, but the greatest numerical reduction in poverty was in rural areas, where the rate fell from 63% to 45%. In numerical terms, the number of people in poverty fell from 38 million to 28 million, while the number of people living above the poverty line shot up from 31 million to 48 million.

39. With the dearth of reliable economic statistics in Vietnam, no data were found to link the decline in poverty more closely to the development of exports, but several things are suggestive. First, average incomes are highest in Ho Chi Minh City, which accounts for about half of the country's exports and has the largest private sector. Second, there has been steady job creation in Ho Chi Minh City's two EPZs, with wages said to have been rising significantly over the past several years.

E. Assessment of Trade Performance and Challenges

40. Vietnam's trade performance over the past decade has been outstanding when compared to developing countries generally, but more ordinary in comparison to other countries in its neighbourhood. Most of the sectors that have grown rapidly in the past -- coffee, rice, apparel, footwear -- still have great potential for either increased production, or improvements in quality that will permit a steady rise in the average price, or both. Thus, there is no reason why the rapid growth should not continue into the future, for much can still be done to increase productivity, to improve quality and responsiveness to market opportunities, and gradually to move up the value chain.

41. Several factors seem to account for this competitive advantage: a strong work ethic, relatively high levels of education, a willingness to focus on the longer term, and high levels of entrepreneurship. In light of the substantial obstacles that government policies still pose to exports, Vietnam's recent trade performance is testimony to the resourcefulness and improvisational skills of Vietnamese entrepreneurs.

42. The principal challenge is on the policy side. Signing a bilateral trade agreement with the United States and joining the WTO are the two activities in the trade field that would yield the highest payoff in the near term. Over the longer term, the challenge is to eliminate the obstacles that prevent Vietnamese producers of exportable products from developing closer relationships with foreign buyers and foreign markets. These obstacles include difficulty in obtaining foreign exchange for business travel or for expatriate technical advice, difficulty in accessing the internet, the lack of access to financing for good investment projects, and a variety of constantly changing procedures.

III. Donor Activities and their Relevance

43. The principal recent and ongoing donor activities in trade development are summarised in Table 2. Expenditures for these activities total about $30 million. The discussion that follows describes those activities for which information was obtained, in the order that the donor appears in Table 2.

Table 2

Donor Activities in Trade Development

Donor	Project Purpose	Amount ($ '000)
	Policy Formulation and Negotiations	
European Union	Trade Policy in Ministry of Trade	3,400
Switzerland	Advice to Ministry of Trade	500
Canada – CIDA	Training for Ministry of Foreign Affairs	300
	Policy Implementation and Agreement Implementation	
UNDP/Switzerland	WTO Preparations, Ministry of Trade	1,200
USA	U.S. trade agreement, ASEAN, WTO	1,200
Finland	Capacity Building in Ministry of Trade	766
Canada – CIDA	Training for Ministry of Foreign Affairs	600
UNDP	Strengthening Customs operation	500
Canada – IDRC	Studies, database of trade issues	300
Australia	APEC–related Training, Studies	100
New Zealand	Training, Studies	50
	Export Competitiveness	
IFC (funded by various donors)	Mekong Project Development Facility	20,000
UNIDO	Industry studies, policy	500
Netherlands	Trade fairs, Firm-level matching	100

Excluded from the table, and from this review, are donor activities that are sector or commodity-focused, even though some of these have substantial export consequences. Numerous donor projects in agriculture (coffee, tea, rubber, rice) provide technology to farmers or develop new technologies to increase productivity. The Danish government has worked extensively in fisheries, and its activities received favourable comments from several interviewees. Several donors have given assistance to promote specific industrial sectors.[6] Such production-oriented activities need to be evaluated with an eye toward commodity-specific technical issues; the focus here is on trade policy issues and on services provided to exporters that are more specifically related to exporting.

A. Donor Assistance Programs

44. *European Commission*. The purpose of the European Commission's Multilateral Trade Assistance Program (MUTRAP) is to help the Vietnamese Government to formulate multilateral trade policy, particularly with respect to WTO accession. It has provided *ad hoc* technical assistance for the formulation of trade policy, especially in the elaboration of commitments in agriculture and services. It has also provided training for Vietnamese officials managing trade policy, including seminars in Brussels and Hanoi for government officials.

45. The main phase of the project has just begun, with the training of 25 Vietnamese officials in eight-week courses in Europe. A contract is due to be awarded soon for the establishment of a Project Management Unit to undertake research, to build up the information base of the Ministry by improving the library and expanding internet capabilities, and to provide long and short-term technical assistance to the Ministry. The goal of the program is to deepen Vietnamese officials' expertise on international trade policy matters in a free-trade environment; strengthen expertise on WTO provisions, rules, and disciplines and on specific features of regional multilateral arrangements (AFTA); and provide Vietnamese officials with the economic and trade tools necessary to formulate trade policies that are consistent with international trade rules and Vietnam's development strategies.

46. *Switzerland*. Besides the joint project with UNDP, the Swiss government has financed high-level technical assistance to the Ministry of Trade. This has principally been delivered through periodic consultative visits by Arthur Dunkel, former Director General of GATT. The Swiss government has also recently started a project to promote Vietnamese imports by linking Swiss buyers with potential Vietnamese exporters.

47. *UNDP*. UNDP has just completed one project, financed jointly with Switzerland, and is currently designing a follow-on project. This project has provided training and technical assistance to the Ministry of Trade, mostly focused on WTO accession. The project helped the MOT prepare accession documents and begin market access negotiations with WTO members.

48. *Finland*. The Finnish government finances trade capacity-building in the Ministry of Trade. This includes training of MOT staff in economics, trade policy issues, negotiations, and policy formation.

49. *United States*. The United States has provided specialised technical assistance on commercial law, and sent numerous groups of Vietnamese to the United States to learn about various trade issues.

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[6] One of the most interesting of these projects is described well in SIDA 1999. This was a Swedish project to construct a paper mill. During the first decade or more of Swedish assistance, the enterprise lacked clear objectives, and made no progress toward economic viability, making it a continued drain on donor resources. After *doi moi*, the enterprise gradually became economically sustainable. Nevertheless, the entire activity cost about $1 billion, while the enterprise now generates annual sales of about $40 million.

50. *Canada*. Canada's CIDA is financing language and professional training for Ministry of Foreign Affairs officials and diplomats, to help promote Vietnam's integration into regional and multilateral organisations.

51. *New Zealand*. New Zealand has provided technical assistance in some specialised areas, mostly relating to ASEAN.

52. *The Mekong Project Development Facility (MPDF)*. This is the most interesting ongoing project designed to improve competitiveness. Though administered by the IFC since its establishment in 1997, it is funded by grants from bilateral donors, including the EC, Japan, Australia, Sweden and Norway. The $25 million facility also works in Cambodia and Laos, but perhaps four-fifths of its activity is in Vietnam. The MPDF has two main programs: enterprise-level assistance and business support services. The enterprise level program makes loans to individual firms. Most of the 35 firms being supported are exporters. The business support services program provides training for SMEs, local banks, and research and advocacy. It has published ten papers, widely available in Vietnam, that have substantially increased the knowledge base and public understanding of the problems of the business sector, and particularly of SMEs.

53. *UNIDO*. UNIDO funded several sectoral studies for the Ministry of Planning and Investment. These included studies of the main export sectors -- apparel and clothing, rice, coffee, and seafood -- and of several import-substitution sectors, including automobiles, metal mechanic products and electronics. The studies of the export sectors are of very high quality and identify the main challenges facing these sectors.

54. The UNIDO-funded studies of the import-substituting industries are more uneven, with the automobile and metal-mechanical studies giving little attention to resource allocation and opportunity cost issues. (Vietnam has attracted eleven automobile assembly plants to the country. They have an installed capacity of about 85,000 cars, but have been operating at about 10% of capacity during the last several years.) The study's policy recommendation -- to maximise new investment before the country has to liberalise its import regime -- seems a recipe for attracting investment that is wrong for the longer haul.

B. The ITC Needs Assessment

55. In 1999, the UNDP financed a needs assessment of the trade sector by several experts from the International Trade Centre (ITC) in Geneva (Chevalier, et al., 1999). The ITC team made three trips to Vietnam over a period of several months, meeting with government officials and businesspeople. The needs assessment made several valuable contributions. It brought together considerable information about the export sector and the institutions involved in that sector and documented the main problems. Since the ITC report is intended to lay the groundwork for a follow-on UNDP/Swiss project and is the only current blueprint for future donor activity, discussion of its main recommendations is warranted.

56. The report makes four main recommendations:

- **Development of an Export Policy and Sectoral Strategies**. The Ministry of Trade should take the lead in developing an export policy and taking it down to lower levels of government and to the enterprises.

- **Development of an information infrastructure for exporters**. This would be centred in the MOT, and would draw upon the Ministry's overseas trade representatives.

- **Development of a strong network of support institutions**. Support institutions need to be strengthened, and learn how to help enterprises with such matters as trade missions and exhibitions and quality improvement, and they need to be brought into the MOT's information and intelligence network as intermediaries between the Ministry and exporters.

- **Enterprise-level strengthening**. Firms need to learn how to develop their export capacity, to look for customers, and to ensure that their products meet foreign market requirements.

57. The report calls for these results to be achieved through partnerships at three levels of export activity: Ministry of Trade, export service providers, and exporters. It also calls for gradual implementation of the approach, with initial activities, such as a national export conference, laying a foundation for the development of a more comprehensive project once the various actors have gained experience.

58. In principle, these recommendations are sound. Vietnam needs a national policy that gives structure to its export efforts. Exporters need much better information on foreign markets and a network of intermediary institutions that (among other things) can distribute information to them. Finally, exporters need to learn more about how to meet foreign market requirements.

59. It is in the implementation of these recommendations in the specific case of Vietnam that considerable care is needed. Unless implemented carefully, with appropriate sequencing, and with special concern for building up the weakest elements of the trade nexus first, the recommendations could inadvertently reinforce undesirable characteristics of the current situation. The central problem relates to the manner in which the Ministry of Trade should be the central player and manager of the export sector. In the Vietnamese context, where there is a long history of top-down decision-making and centrally-planned quantitative goals and targets, a national export strategy could bring forth additional activity of the same sort.

60. The weakness of the country's export institutions, with the exception of the Ministry of Trade, makes a top-down approach likely under current conditions. The Ministry of Trade can argue that giving up functions would be unwise until other institutions become stronger. This could become a self-fulfilling prediction. The priority for the next several years should be to strengthen other actors -- particularly associations of exporters organised along sectoral or geographic lines. Completely private associations of domestic exporting firms apparently do not now exist in Vietnam, and some observers claim that such organisations currently cannot be legally established. Elimination of any government obstacles to the creation of such groups would be a useful first step.

61. As the ITC report suggests, development of a national export strategy should occur incrementally, with the help of "bottom-up" approaches wherever possible. A gradual sectoral approach is especially appropriate in the half-dozen export sectors that are most important today. In each of these sectors, researchers would try to identify the main obstacles to faster export growth, to higher prices for Vietnamese goods, and to moving up the value chain to higher quality, and therefore higher value, products. As good studies already exist for most of these sectors, the next step is to develop plans of action to operationalize their recommendations. After some years of experience with this approach -- with the Ministry of Trade as the servant, rather than the master, of exporters -- the time will be ripe for it to develop a national export strategy that recognises the central role of the exporting firm, supported by a variety of service providers, including trade associations and government institutions at both the local and national level.

62. Finally, at the enterprise level, the experience so far in Vietnam -- and the experience in other countries that have achieved rapid export growth -- is that many exporters need to learn not so much what foreign buyers want, but how to find out for themselves what they want. Internet access is one important

vehicle for this, and any firm that wants to export needs it. But more direct contact with foreign buyers is also essential -- both through more foreign travel by Vietnamese businessmen and through more opportunities for entrepreneurs to meet directly with foreign buyers. For most countries, overseas nationals can play an important linkage role in this area. In this case, the overseas Vietnamese pose a special problem, for many are opposed to the Vietnamese government. This hostility will disappear only gradually, but greater economic collaboration between firms in Vietnam and interested overseas Vietnamese will hasten its disappearance.

C. Assessment of Donor Performance

63. Most of the attention of donors has been on trade policy formation and on supporting Vietnam's entry into the world trading system. Overall, as described in more detail below, donor performance has been quite good. Donors have largely focused on useful activities, and have co-ordinated their work sufficiently to avoid serious conflicts of purpose.

64. At the outset, it is important to recognise that the major decisions in this area will be taken by Vietnamese officials through their own debates and internal processes, and donor influence on outcomes is probably marginal. Vietnamese leaders, seeking to determine the proper direction for their country in light of its history and traditions, may attach only limited value to the economic benefits of trade liberalisation.[7] The potential costs of liberalisation in terms of other national goals may weigh much more heavily, and foreigners may not be able to offer much advice that will be useful in these deliberations. Nevertheless, it should be recognised that donors in Vietnam are pushing in the proper direction, and using a variety of tools to increase the knowledge base of Vietnamese officials who will participate in decision-making.

65. This area is one in which the value of a variety of independent donors is evident. The presence as leading donors of Finland, New Zealand, and Switzerland surely provides more comfort to the Vietnamese government than would advice from countries with histories of conflict with Vietnam.

66. The largest gap in current donor programs is at the institution-building level, particularly below the national government level. The MPDF is the most effective in this area at present, but much more needs to be done. The new UNDP project should also help fill the gap. But there is a need for a considerably greater effort, working below the Ministry of Trade level. Particularly important is creating the legal basis for associations of exporters,[8] and then helping them to develop their capabilities. Municipal and provincial authorities also need help identifying and eliminating obstacles to exports, and these authorities and exporter associations need to improve services and information access for exporters.

67. There is another gap in foreign investment policy, where the recent debates over how to stimulate greater foreign investment ignores the wide variation in the impact of different types of foreign investment on the Vietnamese economy. Donors could help the government analyse the problems that the current incentive structure causes for the country's ability to attract the type of foreign investment from abroad that will make the greatest contribution to national development, while avoiding inflows that contribute little.

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[7] Foreign training imparts useful skills to some Vietnamese government officials, but such skills development does not necessarily lead their views to be sought by older officials who gained their perspective on the national interest through years of armed struggle.

[8] Apparently, only foreign firms are currently permitted to establish associations. More generally, true domestic NGOs apparently are virtually absent in Vietnam (Gray, 1999), as such entities can only exist and operate with the approval of a cautious government.

Donor Co-ordination

68. The first observation about donor co-ordination in Vietnam is that the need for co-ordination is smaller than elsewhere. All major donors appear to share the same broad perspective on Vietnam: that the country should move as rapidly as possible toward free markets, more liberal trade, greater openness of government, increased rule of law, and more democracy.[9] This shared vision is particularly striking among the multilateral donors. UNDP, UNIDO, the World Bank and the IMF have all offered consistent advice to the government. A UNDP staff paper (UNDP 1998) prepared to help the government think about the Asian financial crisis could have been written by an IMF economist. Sectoral studies of Vietnam's foreign trade, prepared by UNIDO, were of a very high quality and consistent with the World Bank's views on such issues. The World Bank's analysis of poverty and social issues reflects concerns often found in UNDP reports but sometimes absent from Bank reports. Similarly, the bilateral donors all appear to be pressing for the same policy actions: signing a bilateral trade agreement with the United States and joining the WTO. The fact that small countries like Finland and New Zealand are offering the same prescription as the large countries surely improves the clarity of the message.

69. In addition to this meeting of the minds, actual donor co-ordination appears to be excellent in Vietnam. At the general level, the annual consultative group meetings provide a formal mechanism for exchanging information and co-ordinating approaches to the country's problems. The basic documents for the CG meetings from the government and the World Bank are widely distributed, as are the summaries of the discussions. The CG process extends beyond donors to NGOs and (as discussed below) the business community. For the December 1999 CG meeting, international NGOs participated in a report that endorsed World Bank ideas about the major policy problems.[10]

70. At a somewhat more concrete level, UNDP is also important in donor co-ordination. It chairs monthly donor meetings, has organised a number of sectoral committees, and plays an important information-gathering and dissemination role. The internet has become an important vehicle for this. The UNDP/Vietnam web site includes numerous documents that offer a sound information base for all who wish to use it. This includes an up-to-date reference document on donor assistance to Vietnam. It includes a two-page summary of each donor's goals, its program levels, and areas of focus. All donor programs in the country, including both official donors and international NGOs, seem to be included. The web site also includes the UNDP's annual summary of actual donor program expenditures by sector. Programming documents for UNDP activities are included as well.

71. The World Bank's web site is also valuable, including copies of the Bank's Country Assistance Strategy, its recent studies of Vietnam, and information about recent consultative group meetings. The biggest weakness in the site is the fact that the statistical tables it provides have not been updated in eighteen months. Individual Bank reports on the web site have more recent statistics.[11]

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[9] This differs sharply from the El Salvador case, where donors had quite different points of view about the country's major problems. It would seem that this difference in vision, rather than the degree of donor coordination, leads to donors working at cross-purposes.

[10] When it comes to specifics, however, some divergences between the NGOs and the official donors begin to appear, with the NGOs more fearful of the adverse consequences of policy change, and thereby adopting more conservative attitudes toward change.

[11] This is a more serious inconvenience for researchers because of the dearth of alternative sources of statistics on Vietnam. No government of Vietnam site was found with such data in English, and Vietnam is one of only a small number of IMF members for which a monthly page of economic statistics is not published.

72. Besides the formal meetings of donors, there are a variety of *ad hoc* activities that have improved information flow among donors and co-ordination with the Vietnamese government. Two such efforts might be mentioned. First, at the end of Arthur Dunkel's periodic visits to Vietnam, the Swiss Embassy organises a briefing for representatives of other interested countries. Second, one small country has organised a group of "friends of Vietnamese accession to the WTO," a group of ambassadors from a number of countries, both developed and developing, that meets regularly with Vietnamese government officials for discussions of WTO accession and related issues. The United States, Japan and Germany are not participants.

73. An important caveat should be introduced to this picture. Foreign assistance is not an unblemished contribution to Vietnam's development, but a free or low-cost tool for the host country. Several problems might be mentioned. First, there is indeed competition among donors for access to the most competent and influential government officials. Each donor wants to train the best people, and wants to show that it is the most responsive partner that Vietnam has. This inevitably leads to some withholding of information from other donors, and allows the host government to exploit each donor's desire to be responsive. One donor mentioned cases in which technical expertise was being used by a ministry to fight inter-ministerial battles, or to obtain information in preference to requesting it from another government agency.

74. Second, some foreign training is likely to be used by the recipient to reward people for good work (or to dispose of a troublesome colleague) rather than because the trainee needs the particular courses being offered by the donor. Third, recipients will accept donor projects for the fringe benefits they typically bring (computers, or modems, or funds for extra supplies), even if the donor's project is thought to be of insignificant value.

75. These problems are inherent in the foreign aid business, and the goal of donors has to be to minimise their prevalence. Based on the available evidence, these problems are less common in Vietnam than in the typical developing country.

Host Country Ownership

76. In a broad sense, host country ownership is very strong in Vietnam. The government is clearly in charge of its relations with donors, and donors are unlikely to undertake activities that do not have strong government support. At the same time, the difference between government ownership and broader host-country ownership cannot easily be determined. The CPV sees itself as the authentic representative of the peoples' interests, and views donor programs from the perspective of furthering those interests.

77. At the project level, no trade policy or competitiveness projects were identified where there was not a host-country interest in the activity. Nor was there evidence of preconceived, or "cookie-cutter," approaches by donors to activities in Vietnam. Donors -- again speaking only of the trade development area -- seemed to be genuinely struggling to identify the best activities for the specific country context.

Private-Public Sector Relations

78. The role of the private sector in Vietnam is still very controversial. Even the term "private sector" was reportedly considered to be inappropriate in official policy circles as recently as 18 months ago (when "non-state sector" was used in polite company.) The World Bank has taken the lead in promoting dialogue between the public and private sectors in Vietnam. The 1998 Consultative Group meeting included a separate private sector dialogue. That meeting featured mainly foreign investors, but Vietnamese firms participated in the private sector component of the December 1999 CG meeting.

Foreign investors in Vietnam are well-organised, and make representations to the government concerning their interests. There are at least a dozen such associations, mostly organised on a national basis, including groups representing firms from the United States, France, Germany, the United Kingdom, Singapore, Australia, Japan, and Korea. The legal status of most of these groups is uncertain. The American Chamber of Commerce reported that its Ho Chi Minh City branch had recently acquired legal recognition, after five years of effort, but the Hanoi branch had yet to obtain all the necessary approvals.

79. Public-private dialogue would be much more effective if there were a wider variety of private sector associations. But this is not the only problem. The issue of the proper role of the private sector goes beyond the relationship of private firms with the government to the matter of popular perceptions. One MPDF study (MPDF 1999, p. v) reports the findings of a series of surveys and focus group discussions among Vietnamese from a variety of backgrounds and geographical locations:

80. But, in fact, Vietnam's private sector suffers from a serious image problem. The general public does not trust the entrepreneurs who open and operate the country's new private companies and is consistently ready to think the worst of them.

Sustainability

81. No major sustainability issues were identified in Vietnam. Donor programs were generally focused on increasing the capacity of the country to participate economically in the world economy along the lines of Vietnam's comparative advantage. There seems little doubt that Vietnam has great potential for increasing its exports, and donors have been supporting efforts to do so efficiently. It is also clear that Vietnamese culture encourages learning, making donor training likely to pay off more handsomely than in many other developing countries.

Donor Influence and Self-Image

82. In some countries, donors are able to use conditionality and pressure to force government action. In a country like Vietnam, where national self-determination is a central feature of the government's worldview, there is little that donors can do to push the government to take action that it considers dubious. Donors can encourage and inform, but even these activities need to be carried out with sensitivity, lest they be seen as external pressure.

83. In Vietnam and elsewhere, donor project documents typically exaggerate the likely impact of donor assistance. They understate the capacity of the host government to carry out policy effectively, they overstate the access that donor-funded technical advisors have to policymakers, and they also overstate the influence that flows from that access. In the interest of perspective, it is useful to consider the actual problems faced by donor-funded technical experts and training programs.

84. The typical donor mechanism for technical assistance is to establish an office staffed by foreign technical experts on a long-term contract. This office provides advice to the local government that draws upon the experts' wide experience and on the office's capacity to bring in short-term advisors to deal with specific questions. Nevertheless, the analytical questions that foreign advisors are best able to answer are seldom those that are pressing to policymakers. Instead of waiting breathlessly for the foreign advisors to tell them what to think, the host government officials -- like their counterparts everywhere else in the world -- are actually engaged in an intense struggle over policy that involves ideologies, personalities, institutional jealousies, and poor inter-ministerial communication, among other things. Advice by an expert is frequently unhelpful, because these policy debates seldom proceed in terms in which the foreign expert is knowledgeable. The expert seldom understands enough of the local policy debate to give the

proper ammunition to his/her principal to allow the principal to prevail. The minister's statement that "our foreign advisors say we should do A instead of B or C" will never be determinative in policy debates. It will seldom be given much weight unless the foreign expert has acquired stature among the participants as a person with both technical capacity and good judgement of the local political environment.

IV. Conclusions and Lessons Learned

85. Vietnam has enormous potential for rapid growth in exports, and for using exports as an engine for the country's development. Its export performance during the last decade has been outstanding despite huge obstacles -- big internal impediments to exporting, and a trade embargo for part of the decade, and high import tariffs for the rest, by the country with the largest market in the world. Vietnam has shown the capacity for labour-intensive exports that can lead to rapid increases in productive employment, and to a steady rise in productivity that will raise incomes.

86. The major obstacles to Vietnam's export potential are primarily in the policy area. Further trade liberalisation is needed, along with the elimination of obstacles, like uncertain property rights, that constrain the development of private-sector exporters. The government fears the consequences of rapid liberalisation for its control over the economy. The future of the SOEs is of particular importance. Trade liberalisation will threaten the viability of many SOEs, and the government has been moving slowly to reform the SOE sector.

87. Although the problem is one of policy, conditionality does not seem to be a desirable approach for donors. Donor pressure is likely to be less successful than in many other developing countries, and may actually be counterproductive. Discussions that allow exploration of the issues facing Vietnam, but leave policy choices squarely in the hands of the Vietnamese, are likely to be more fruitful.

88. Donor assistance to promote Vietnamese participation in the world trading system has been effective and co-ordinated. Donors share a common perspective on Vietnamese problems, and have co-operated well. UNDP and the World Bank have shown leadership in the donor community in this area.

89. There is a need for donor assistance in the area of services for exporters. Support for private associations of exporters, and for sub-national units of government, is needed to fill an information gap that hinders the capacity of exporters to take advantage of opportunities. Exporters also need greater ability to link with foreign buyers, both through the internet and through greater foreign travel.

90. The biggest risk for donors is that they will help perpetuate an excessive government role in the promotion of exports. This problem confronts donors with a dilemma: if exports are to be promoted, the government must somehow be involved. As in other countries, the government's first impulse is likely to be to use donor help to strengthen its own institutions. Donor assistance to sub-national levels of government and to non-governmental entities could act to counterbalance this tendency.

91. Donors should draw upon the experience of the most successful countries in assisting the development of Vietnamese institutions -- for example, the Irish and Singaporean investment promotion agencies. Those investment promotion efforts were targeted on the types of investment most appropriate for each country, and they included good systems for monitoring and evaluating progress.

92. More broadly, the development path followed by Taiwan, where rapid export growth was based primarily on SMEs, appears to be much closer to the preferences of Vietnamese officials than the large enterprise-dominated path followed by most other East Asian countries. The Taiwanese approach should be studied for lessons relevant to Vietnam.

93. The problem of corruption is likely to worsen steadily unless the government liberalises regulation. The combination of considerable economic and profit-making potential with a series of administrative regulations that are uncertain or opaque multiplies opportunities for extortion and bribery.

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APPENDIX 1

CHRONOLOGY OF MAJOR EVENTS IN VIETNAM

1975	Re-unification of Vietnam.
1986	Approval of *doi moi* economic reforms; most not effectively implemented until 1989.
1993	First donor meeting, leading to establishment of Vietnam Consultative Group.
1994	United States lifts embargo on Vietnamese trade.
1995	Vietnam joins the Association of Southeast Asian Nations (ASEAN).
July 1998	All firms permitted to export by registering with Customs

APPENDIX 2

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