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Changes in export structure in Vietnam : impacts on Vietnamese maritime transport

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CHANGES IN EXPORT STRUCTURE IN VIETNAM

Impacts on Vietnamese maritime transport

By

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DECLARATION

I certify that all the material in this dissertation that is not my own work has been identified, and that no material is included for which a degree has previously been conferred on me.

The contents of this dissertation reflect my own personal views, and are not necessarily endorsed by the University.

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ABSTRACT

Title of Dissertation: **Changes in export structure in Vietnam – Impacts on Vietnamese maritime transport**

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This study is an analysis of export structure in Vietnam, its trends over the past years and expectations in the coming time.

The overall macro-economic policy of the Government, especially the economic renovation policy including changes in trade and investment policies, and its impacts on structural changes in export performance are a major aspect of this study. Besides, external factors play a very important role as well, bringing in a lot of opportunities and also challenges to Vietnam. The future depends very much on how Vietnam continues its reforms as well as makes suitable policies under its particular conditions.

The results of this analysis show that Vietnam has the potential to export various products and in the export composition processed products and labour-intensive manufacturing tend to grow quickly and much faster than raw materials and fresh food. In terms of demand for maritime transport, this coincides with the fast growth of containerised cargoes; however, the volume for other types of cargo will still be significant in the medium term. Therefore, it is the role of the national shipping industry to take advantage of these developments and make suitable changes in developing its fleet and the necessary infrastructure for the national benefit.

KEYWORD: Seaborne trade, foreign trade, export structure, manufactured products, primary products, Vietnam.

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AmchamVietnam	American Chamber of Commerce in Vietnam
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CEPT	Common Effective Preferential Tariff
CFR	Cost and freight
CIF	Cost, insurance and freight
CMEA	Council for Mutual Economic Assistance
DWT	Deadweight
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FOB	Free on board
GDP	Gross Domestic Product
GT	Gross tonnage
GSP	General System of Preference
IAP	Individual Action Plans
IMF	International Monetary Fund
LPG	Liquefied Petroleum Gas
MDF	Maritime Dependence Factor
MFN	Most-Favored Nation
MoT	Ministry of Trade
NIEs	Newly Industrializing Economies
OECF	Japanese Overseas Economic Development Fund
RCA	Revealed Comparative Advantage
SITC	Standard International Trade Classification
SWOT	Strengths, weaknesses, opportunities, and threats

Tcf	Trillion cubic feet
TEU	Twenty-foot equivalent unit
TNCs	Transnational Corporations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
US	United States
US$	United States Dollars
VICT	Vietnam International Container Terminal
Vinacoal	Vietnam National Coal Corporation
VINALINES	Vietnam National Shipping Lines
VINAMARINE	Vietnam National Maritime Bureau
VND	Vietnamese Dong
Vtic	Vietnam Trade Information Centre
WB	World Bank
WTO	World Trade Organization

CHAPTER 1

INTRODUCTION

Vietnam is an emerging economy in Southeast Asia. Its development has been remarkable over the past decade since the Vietnamese Government started its economic renovation policy in the late 1980s. Vietnam has been taking steps to become integrated in the region and in the world.

Vietnam itself has an abundance of natural resources, which are potential for exporting agricultural products and minerals. Besides, with a population of nearly 80 million people, Vietnam can provide a large labour force for labour-intensive industries. The open-door policy since the late 1990s has been a driving force for the export of Vietnamese products based on such available resources. Together with this, changes inside the export structure are also happening as a result of the integration process and in response to the new market conditions.

What are the important factors which will effect the future of Vietnamese exports and the possible changes that may happen in the medium term? In what way will they impact on such changes? What kinds of products can a bring bright future to Vietnamese export performance, and in terms of demand for maritime transport, what types of cargoes will bring a high volume in the future? What are the projections for the development of different cargoes? The answers to these questions will be clarified in the chapter-by-chapter analyses in this dissertation. Finally, changes in trade certainly create impacts on the transportation activities and particularly maritime transport, which is considered as the dominating transport mode for Vietnamese international trade. What is the current situation of Vietnamese shipping industry and its role in providing transportation services for the national cargoes? Opportunities for the national shipping are plenty; however, the challenges are big as well.

Chapter 2 entitled ‘Economic and trade policies – bases for export development’ gives a global picture of the Vietnamese economy: the changes happening inside Vietnam, the difficulties Vietnam is facing and steps it has been taking for future development. It is the longer steps in the economic and trade reforms together with benefits of participating in trade agreements that can bring bright prospects for the national economy in general and positive changes in export structure in particular.

Chapter 3 entitled ‘Export dynamics’ shows how Vietnam exploits its comparative advantages in promoting exports. General trends in export activities in East Asian countries are examined as a typical development model in Asia, which Vietnam is now following up at the early stages. Recent changes show that export of processed food and labour-intensive manufactured products are growing quite fast in Vietnam.

Chapter 4 entitled ‘Market factors in export structure changes’ examines the main export markets for Vietnamese goods and possible changes in the market structure in the coming years. There is a lot of potential for Vietnamese exports being able to enter into regional markets as well as big markets like the European Union (EU) and the United States (US). The market with the most potential is the US as a result of the recent conclusion of Vietnam-US bilateral trade agreement. However, competition is also very tough for Vietnamese exports in exploiting these potential markets.

Chapter 5 entitled 'Demand for maritime transport' links the development of exports to the potential cargo volume for shipping. Containerised cargoes have been growing dramatically and are expected to further develop in the coming time. However, given Vietnam's abundant natural resources, the export volume of liquid bulk like crude oil or other dry cargoes like coal still offer great potential for maritime transport.

Chapter 6 entitled 'Impacts on national maritime transport' shows that the Vietnamese shipping industry has been developing much slower compared with the national trade development. If Vietnam wishes to benefit from high cargo movements in the country, many tasks must be done. The difficulties are quite large, especially the matter of capital sources. Therefore, the role of the Government is very important in producing appropriate policies as directions for the national shipping industry.

Chapter 7 gives the conclusion and recommendations.

This study has been carried out with information collected from different sources such as the Ministry of Trade of Vietnam (MoT), Vietnam National Maritime Bureau (VINAMARINE), and Vietnam National Shipping Lines (VINALINES). Discussions with some officials of these bodies were also carried out. In addition, the World Maritime University Library, the Internet, and lecture notes were the other major sources of information for this study. However, it must be noted that it was impossible to have an in-depth analysis of all factors that can contribute to the changes in Vietnam's export structure, particularly when the matters concerned are mainly at the macroeconomic level of the Vietnamese economy, foreign trade, and shipping. Furthermore, many efforts have been made but more detailed data relating to cargo traffic from Vietnam for different types of cargo was very difficult to collect.

CHAPTER 2

ECONOMIC AND TRADE POLICIES – BASES FOR EXPORT PROMOTION

2.1 Prospects for the Vietnamese economy

2.1.1 Renovation policy

The Vietnamese economy after unification in 1975 was characterized by the centrally planned model that greatly hampered the country's development. With the serious economic crisis in the mid-1980s, Vietnam recognized the pressing need to reorient its economic policy. The process of market reform, known as *doi moi* in Vietnamese, started being carried out after the sixth party congress in 1986, aiming at restructuring Vietnam's regulatory, legal, administrative, business, investment, and foreign trade regime and policies to produce a market economy. *Doi moi* produced immediate results, enabling the country to turn the economy around dramatically, restore stability, accelerate growth to 8.6 percent during 1992-1997, and attract public and private foreign capital commitments, which were unprecedented in Vietnam's history. During the 1990-1997 period, there was a three-fold increase in investment and a five-fold increase in domestic savings. Agriculture production doubled, transforming Vietnam from a net food importer to one of the world's largest exporters of rice. Economic reforms also resulted in a dramatic increase in Vietnam's foreign trade, which now represents 80 percent of GDP. In addition, foreign direct investors kept pouring their money into this newly emerging market. The average level of foreign investment inflows for the 1995-1997 period reached US$2 billion a year. Vietnam appeared to be the next "Asian tiger".

2.1.2 Slowdown since 1997 and three-year reform program (2001-2003)

Despite of the above mentioned achievements in the economy, it is important to know that the past two years (1998-1999) marked a big drop in Vietnam's growth rate within this decade, from 8-9 percent during 1990-1997 period to around 4 percent in both 1998 and 1999. In fact, Vietnam is facing twin challenges, one from the effects of the East Asian economic crisis, and one from serious structural problems such as its high current account deficit and a high level of external indebtedness at 23 percent of GDP in 1997.

As a result, the growth rate of exports and foreign direct investment (FDI) fell to levels not seen since the early 1990s. Regarding exports, it only grew at 0.9 percent in 1998, compared with the 20-30 percent annual growth of previous years. The reasons were partly due to lower Asian demand for Vietnamese goods (70 percent of Vietnam's exports have gone to other Asian countries in recent years) and partly to falling world commodity prices. Besides, Vietnam's principal engine of economic growth, FDI inflows also shrank dramatically, falling to US$800 million in 1998 and US$600 million in 1999 from US$2 billion in 1997.

The future for Vietnam partly depends on what happens in Asia and the world, especially in Asia, which includes its main partners in exports, and FDI. In fact, there are some good signals for the recovery of East Asian crisis countries since the 2nd part of 1999, which, therefore, Vietnam can benefit from. However, with the existing structural problems, Vietnam’s future relies more on the decisions it makes with the aim of accelerating its reform process. There are some warnings that without a clear and firm direction in the reform of banks, state-enterprises, trade, and private investment, Vietnam may not benefit fully from the strong regional recovery. The reason is that existing and potential exporters of manufactured products and processed agriculture may not make the investments in additional capacity that are needed to meet rising regional demands and to sustain the high export growth rate. Potential foreign investors will not get the signal they need to come to Vietnam, which is reflected recently by the returning of investments to the Republic of Korea, Malaysia and Thailand.

Recognizing such challenges, during the past time, the Vietnamese Government has been quickly considering the adoption of a three-year reform program (2000-2002) developed by its ministries in consultation with international financial institutions with the aim to improve the efficiency of scarce investment resources. This program includes:

* creating a supportive environment for private investment;
* creating a sound banking system;
* reforming the state enterprise system;
* and opening up to international trade.

The adoption and implementation of such a program will support the growth of Vietnam and avoid the continuing slowdown. With accelerated reforms and the additional external financing that would accompany such reforms, exports and imports will grow at a sufficient rate to permit higher investment and growth. Growth projections of Vietnam under the accelerated reform can be seen in Table 2.1.

In fact, there have been some improvements in the Vietnamese economy in the early months of the year 2000. GDP grew at 6.2 percent in the first half of this year, industrial growth was at 14.7 percent, and exports increased by 26.2 percent.

Table 2.1: GDP growth rate *(%)*

Item	1992-1997	1998	1999	2000 (projected)	2001 (projected)	2002 (projected)
Total GDP	8.6	4.0	4.0	4.0 – 5.0	5.5 – 6.5	6.0 – 7.0
Agriculture	4.4	2.8	4.8	3.5	3.5	3.5
Industry	12.8	7.0	5.7	5.8 – 7.4	9.0 – 9.8	8.8 – 10.0
Services	9.0	2.0	1.6	2.7 – 3.9	5.1 – 6.7	4.9 – 6.3

Source: World Bank

2.2 Changes in the structure of the economy

The growth in the Vietnam economy brings with it the changes in the economic structure, which are in turn an important factor to ensure the economic development in the direction of industrialization and modernization happening now in Vietnam. As usually seen in any country during the initial phase of industrialization, Vietnam's macroeconomic structure has started to change in the direction in which industry and services have increased in both absolute numbers and proportions while agriculture has increased in absolute number but has decreased relatively in proportion. (Table 2.2)

Table 2.2: Macroeconomic structure of Vietnam *(%)*

	1986-1990	1991	1992	1993	1994	1995	1996	1997	1998
Agriculture									
Share in GDP	40.8	39.2	38.6	37.1	27.4	26.2	25.0	24.2	23.8
Growth rate	2.9	2.2	7.1	3.8	3.9	4.8	4.4	4.3	2.8
Industry									
Share in GDP	21.0	23.1	24.2	25.4	28.8	29.9	31.3	32.6	34.0
Growth rate	3.2	9.0	14.0	13.1	14.0	13.6	14.5	12.6	7.0
Services									
Share in GDP	33.2	37.7	37.1	37.5	43.7	43.8	43.6	43.2	42.2
Growth rate	9.6	8.3	7.0	9.2	10.2	9.8	8.8	7.1	2.0

Source: combined from different sources

Industry and services are the fastest growing economic sectors. Agriculture employs 70 percent of the labour force but contributes an ever-shrinking proportion of national economic output, 23.8 percent in 1998 from 40.8 percent on average during the 1986-1990 period. Industry contributed 34 percent of the economic pie in 1998, while services accounted for 42.2 percent.

However, Vietnam is still at lower level of development and industrialization in comparison with other Asian nations (Table 2.3). For example, Vietnam's GDP composition in 1998 was equivalent to that of Malaysia in 1980, i.e. around 20 years lagging behind; and equivalent to that of earlier developed countries like the Republic of Korea in the mid 1970s, i.e. 25 years behind. Nevertheless, usually, later developed countries can move at a faster rate. Therefore, under the recent growth, Vietnam's economic structure might reach the 1992 level of Malaysia in 2005, in which the ratio among the three sectors is around 16:44:40.

Table 2.3: Structure of GDP of some Asian countries *(%)*

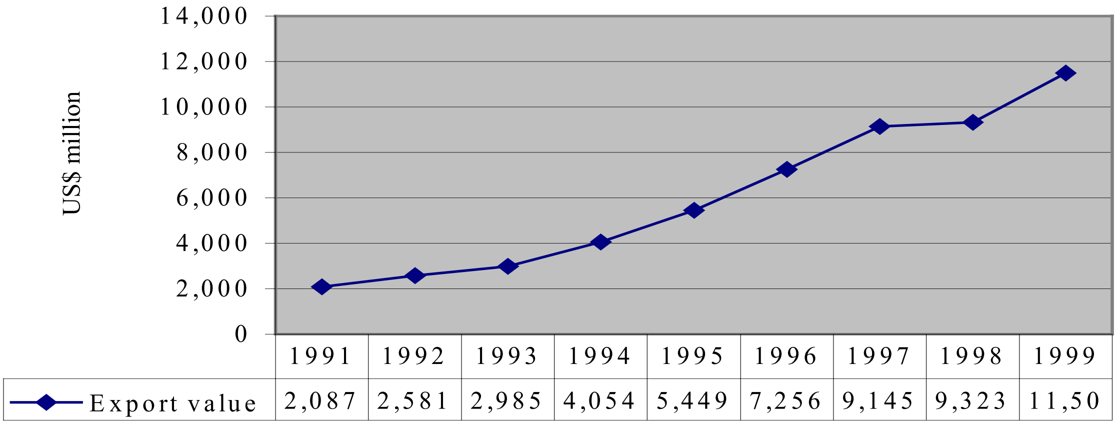
	Agriculture			**Industry**			**Service**		
	1970	1980	1992	1970	1980	1992	1970	1980	1992
China	42.2	25.6	16.7	44.6	51.7	58.4	13.2	22.7	24.9
Indonesia	35.0	24.4	17.9	28.0	41.3	42.9	37.0	34.3	39.3
Philippines	28.2	23.5	22.6	33.7	40.5	35.0	38.1	36.0	42.5
Malaysia	…	22.9	16.1	…	35.8	43.9	…	41.3	40.0
Thailand	30.2	20.6	13.1	25.7	30.7	37.4	44.1	46.7	49.5
Republic of Korea	29.8	14.2	7.0	23.8	37.8	46.2	46.4	48.3	46.8
Singapore	2.2	1.1	0.3	36.4	38.8	37.5	61.4	60.0	62.2

Source: Asian Economic Outlook 1993.

2.3 Trade policy reform and integration process

Before the renovation policy in 1986, the Vietnam economy was a closed economy. Foreign trade activities, mainly with the Soviet Union and other CMEA (Council for Mutual Economic Assistance) member countries, were characterized by barter trade or assistance rather than trading of goods for commercial purpose. Since the opening up of the economy, by reducing state intervention, encouraging private enterprises and foreign investment, and liberalizing prices and trade, foreign trade has been dramatically increasing and has become one of the key elements for the country's growth during the past decade. Vietnam two-way trade now represents about 80 percent of GDP, an indication of country's notable integration within the world economy. Vietnam has increased its export capacity dramatically (Figure 2.1). The average export growth in 1991-1997 was impressively 28 percent. After a drop in 1998 at 2 percent, it increased at 23 percent in 1999.

Figure 2.1: Vietnam's exports in the 1990s



Source: United Nations Development Program

Improvements in trade policies as a result of the open door policy have driven the growth of trade and will continue to bring a lot of opportunities for Vietnamese goods penetrating into various countries and regions in the world.

2.3.1 Trading reforms in the 1989-1999 period

Over the past 10 years, there has been significant liberalization of foreign trade in Vietnam. Appendix 3 in the last page of this dissertation shows various measures taken in each year since 1989 relating to this matter. Categories over the black horizontal line show steps taken to liberalize trade and the categories below the line show the opposite. It can be realized that trade liberalization has been done continuously. Export restrictions as seen in 1990 and 1995 were actually reduced in the following years.

During the 1992-1997 period, tariffs were decreased remarkably, which helped to promote exports and imports. The maximum tariff rate was reduced to 80 percent and the number of bands reduced to 35. The share of imports subject to non-tariff barriers fell from four-fifths to two-fifths. The lower import prices created cheaper inputs for export production so that investments increased and thus helped promote exports. Partly in response to those measures the share of exports plus imports to GDP rose from 0.5 to 0.8 (World Bank, 1999, p. 10). Concerning exports alone, on the whole duties on exports are very attractive, for instance crude oil (4 percent), rice (0-1 percent), coffee (0 percent), garments (0 percent).

However, despite such improvements, by the end of 1997, some major constraints were still considered to hamper the continuing growth of Vietnam's foreign trade activities. If not solved immediately, they would have caused a negative effect on foreign trade in particular and the general development in general. First of all, the trading rights were not automatically obtained but must be through the Ministry of Trade, which obviously favoured the access of state enterprises to such rights, not the private sector (foreign invested and domestic private enterprises). Second, non-tariff barriers on imports such as licences, bans, and quotas provided high protection for some inefficient domestic industries such as petroleum, fertilizer, cement etc. and thus, the investment in these industries diverted funds to other processed agriculture and light manufacturing sectors where Vietnam has a potential to export. Third, on the export side, the allocation of quotas on garments and rice was an administrative nature, discouraging the exports of such commodities.

With the aim to recover and sustain the high growth of the import-export activities as an essential factor for the country's growth, over the last two years (1998-1999), the

Vietnamese Government took a number of steps to further reduce the restrictions on trade. They included the freeing up of trading rights, the liberalization of exports and the reductions in maximum tariff rate and the number of tariff rates. These have improved the transparency, reduced rents to state enterprises, expanded access to all importers and exporters, as well as increased competition among trading and manufacturing firms.

Regarding exports, export taxes on several products including rice were eliminated. Moreover, the private sector has more access to export quotas on rice and garments. Regarding imports, the maximum import tariff decreased from 80 percent to 50 percent, and the number of tariff bands from 35 to 12. Access to foreign exchanges was eased.

Table 2.4: Private participation in foreign trade

Enterprise	Share of Enterprises in trade (%)		Share of Exports (%)		Share of imports (%)	
	1998	1999	1997	1999*	1997	1999*
State owned enterprises	38	27	70	57	68	53
Non state enterprises	35	58	10	15	4	14
Foreign invested enterprises	27	15	20	28	28	33
Total	***5,100 enterprises***	***8,177 enterprises***	***9,145 US$ mil***	***8,175 US$ mil***	***11,622 US$ mil***	***8,225 US$ mil***

Source: Ministry of Trade and General Department of Customs
* Related to 9 months trade value

A very significant step in this period is the freeing up of trading rights because it promotes the potential contribution of the private sector. The immediate result was that the private sector accounted for nearly three-quarters of all trading firms and nearly half of all export and import trade in 1999 (Table 2.4). The private sector will potentially provide a significant base for future growth in exports; for example, currently private companies that are employing more than 100 workers in sectors such as garments, footwear, seafood and so on, are, on average, exporting more than 75 percent of their production.

2.3.2 Opening up to International Trade: A Three- Year Agenda

As mentioned earlier, for future development, "Opening up to International Trade", a comprehensive reform of Vietnam's trade policy, is one of main subjects in the three-year reform for 2001-2003. This subject has been approved by the MoT, the International Monetary Fund (IMF) and the World Bank (WB). The main aims of this program are to remove import-licensing restrictions (on at least 17 of the 19 products), continue to liberalize trading rights, and to sign the Vietnam-US trade agreement, which in turn, is an important step towards joining the WTO.

This trade reform agenda, when implemented, will bring several improvements to Vietnam's trade. First, because trading rights are more liberalized, there will be more competition among trading companies, both private and state firms, improving the quality of import-export activities. Second, access to imports will be easier as some non-tariff barriers, like import licensing, are removed. Third, lower import protection together with lower taxes on exports will improve incentives for investors to move towards processed agriculture and manufactured exports.

2.3.3 Participation in trade agreements

The potential for export activities in Vietnam is increased when Vietnam is step by step becoming integrated into the regional and international economy by its participation or its potential participation in trade agreements at all national, regional, and global levels. Until now, Vietnam has signed trade agreements with over 30 different countries. It signed the Framework Agreement on Cooperation with the EU in 1995. It also enjoys membership status in the Association of the Southeast Asian Nations (ASEAN) and Asia-Pacific Economic Cooperation (APEC). Vietnam has negotiated with the US to conclude the bilateral trade agreement between the two countries, which is considered an important step for Vietnam's entry into WTO. Being a member of the trade agreements, Vietnam has to continue to be committed to trade reform, further opening its trading activities with the outside world.

ASEAN. Together with the accession into ASEAN in 1995, Vietnam jointed the ASEAN Free Trade Area (AFTA). Therefore, Vietnam committed itself to reducing tariffs along with other AFTA member countries (Malaysia, Indonesia, Brunei, Singapore, Thailand, Philippines) to 0-5 percent by 2006. When AFTA is implemented, Vietnamese goods will have more opportunities to penetrate into the markets of other ASEAN member countries.

APEC. It is not a long time since Vietnam joined APEC. The participation of Vietnam in APEC since 1998 with the status of a full and equal member is opening new opportunities for Vietnam's economy and its foreign trade. The APEC countries are all main partners and major investors in Vietnam. Trade between Vietnam and the other countries in the Asian-Pacific region accounts for more than 80 percent of Vietnam's total international trade. On the one hand, by joining APEC Vietnam can make the fullest use of the privileges given by APEC to developing countries; on the other hand, Vietnam also needs to formulate concrete plans for trade liberalization in the future. Though APEC's trade liberalization program works on a voluntary basis, every member has to submit its Individual Action Plans (IAPs) every year to report on its progress and show future plans for trade and investment liberalization.

Vietnam-US trade agreement. As mentioned earlier, the conclusion of the Vietnam-US trade agreement has been set forth in the agenda of the Vietnamese Government. Given the current economic situation and difficulties Vietnam is now facing, it is very important for Vietnam to sign this agreement in order to encourage more foreign investments in Vietnam and to obtain a Most-Favored Nation (MFN) status for Vietnamese exports in the huge US market. In recent years, the lack of MFN status from the US, which is granted to most other developing countries, has put Vietnamese products at a competitive disadvantage in the US market. In reality, the signing of the Vietnam-US trade agreement has just been completed on 13 July 2000, earlier than planed, bringing a lot of bright potential to the Vietnamese economy in general, and Vietnamese trade in particular.

WTO. Vietnam submitted its proposal to join the World Trade Organization (WTO) in January 1995. The future for the admission of Vietnam into the world's largest trade organization is not so far away, especially after the recent signing of the bilateral trade agreement between Vietnam and the United States. Becoming a WTO member will certainly be beneficial for Vietnam. The advantages might include unconditional MFN status, a lower tariff on exports, and better access to the world market of Vietnamese goods.

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The above analyses have shown us a picture of the prospects of Vietnam's trade and particular exports in the future. Vietnam's exports can be expected to potentially increase on the basis of the changes and trends in the economy, trade policies, investment, international integration. It is such changes and trends, together with some external factors, that not only contribute to the growth of exports as a whole, but also create changes within the export structure itself. The rest of this paper will aim to show in more detail projections of Vietnam's export potential based on structural changes in exports which have been happening and will happen in the short and medium terms. Longer predictions are not the aim of this work.

CHAPTER 3

EXPORT DYNAMICS

3.1 Export patterns in East Asian countries

During the past decades, East Asia has been emerging as a new growth pole in the world economy. There has been what is called a 'flying geese paradigm' in this region, which was led by Japan. The first-tier newly industrializing economies (NIEs) include the Republic of Korea, Taiwan, Hong Kong and Singapore, which started their industrialization in the 1960s, and then the second-tier NIEs include Thailand, Malaysia and Indonesia, and more recently some other emerging economies in Asia like China, India and Vietnam.

It is important to understand the export patterns of these countries in order to find the general trend in the regional industrialization in which Vietnam is step by step participating. Exports play a major role in industrialization and economic growth in NIEs. Exports themselves have experienced changes in structure in compliance with the different levels of industrialization and development. Today, exports from the first-tier NIEs consist mainly of manufactured products. However, most of them, especially in the case of the Republic of Korea and Taiwan, were originally rural economies until the mid-1960s. They then began to diversify away from crude agricultural and mineral exports to processed resource-based products. Import substitution industries emerged after that in activities where local resources, including labour, could be quickly mobilized. Labour-intensive exports as a share of their domestic production rose steadily and rapidly and soon accounted for the bulk of exports. Meanwhile, the share of primary commodities in total exports fell rapidly in both economies. As wages tended to rise with economic development, such initial comparative advantages of first-tier NIEs were unlikely to persist. First-tier NIEs began upgrading their structure of manufacturing output towards scale- and skill-intensive activities. By the second half of the 1980s, the share of these activities in total manufacturing output surpassed that of resource- and labour-intensive activities.

Regarding the second-tier NIEs, their initial comparative advantages can be seen as natural resources which are much richer compared with the first-tier ones (exports of primary commodities still account for almost one third of their total export earnings (other than fuels)). That is why there was initially considerable scope for them to accelerate growth through diversification and increased processing of natural-resource-based products. Beginning in the early 1970s, the second-tier NIEs also developed those export-oriented manufacturing industries where lower labour costs gave them a competitive edge such as in textiles, clothing and footwear. Table 3.1 shows the trend of declining exports of primary and low-skill labour intensive products in some developing countries.

Changes in the pattern of East Asian exports can be explained by shifts in comparative advantages in response to which industries is relocated from one country to another through trade and foreign investment. For example, export expansion in labour-intensive industries like textiles and clothing in the Republic of Korea, Taiwan and Hong Kong leveled off while it took off in other developing countries at the slower stage of industrialization like Indonesia and Thailand because investments moved to where labour is cheaper (UNCTAD, 1996, p. 115).

Table 3.1: Primary commodities and labour-intensive and resource-based exports as a share of total non-oil exports of selected developing countries and regions, 1965-1994

	First-tier NIEs [a]	Second-tier NIEs	Latin America [b]	Brazil	Mexico
Primary commodities [c]					
1965	51.4	96.6	94.6	92.3	84.3
1975	18.4	87.5	81.6	74.0	64.8
1985	7.2	67.6	84.0	52.8	33.9
1994	6.1	31.4	69.5	43.9	13.1
Primary commodities [c] ***plus resource-based and low-skill labour-intensive goods*** [d]					
1965	86.5	97.7	96.6	94.2	89.2
1975	69.4	93.2	87.7	83.4	75.0
1985	47.6	82.9	89.6	64.1	44.7
1994	31.6	59.0	82.0	58.1	22.8

Source: UNCTAD, Trade and Development Report, 1996

a Republic of Korea and Taiwan

b Argentina, Chile and Colombia

c Excluding petroleum and including non-ferrous metals

d Wood and paper products; non-metallic mineral products; textiles and clothing (including footwear); and toys and sports equipment.

However, a more important element behind the economic transformation in general and export development of East Asia is the policies pursued by governments in the region. Not only based on market driving forces, these countries have established measures relating to investment, trade and industries aimed at restructuring the market in compliance with their specific conditions. For instance, the first-tier NIEs' policies focused from an early date on manufacturing, initially in low-skill industries but shifting to more sophisticated industries as the economies matured. In contrast, the potential contribution of natural resource rents to economic growth in Southeast Asia led policymakers to continue investments in the primary sector together with efforts to accelerate other industries.

3.2 Exploiting comparative advantages for export development in Vietnam

3.2.1 Initial comparative advantages

Compared with other countries in East Asia, Vietnam did not begin its industrialization until the late 1980s. It has gained a lot of experience from NIEs during its economic development, especially industrialization strategies. Vietnam also carried out export-oriented policies right at the beginning. The clear reason behind this is the necessity of foreign currency to serve its industrialization process that requires importing a large volume of capital goods and intermediate goods. Export earnings in foreign currency become a very important source to overcome the balance of payment constraints. Looking at the major exports of Vietnam (Table 3.2), it can be easily recognized that most of them are agricultural or mining products like crude oil and rice (based on natural resources), and light manufactured products like garments and leather products (mainly labour intensive). The natural resources and labour are Vietnam's comparative advantages that are being exploited for export development. Here, Vietnam's exports look like those of East Asian countries in their early stages.

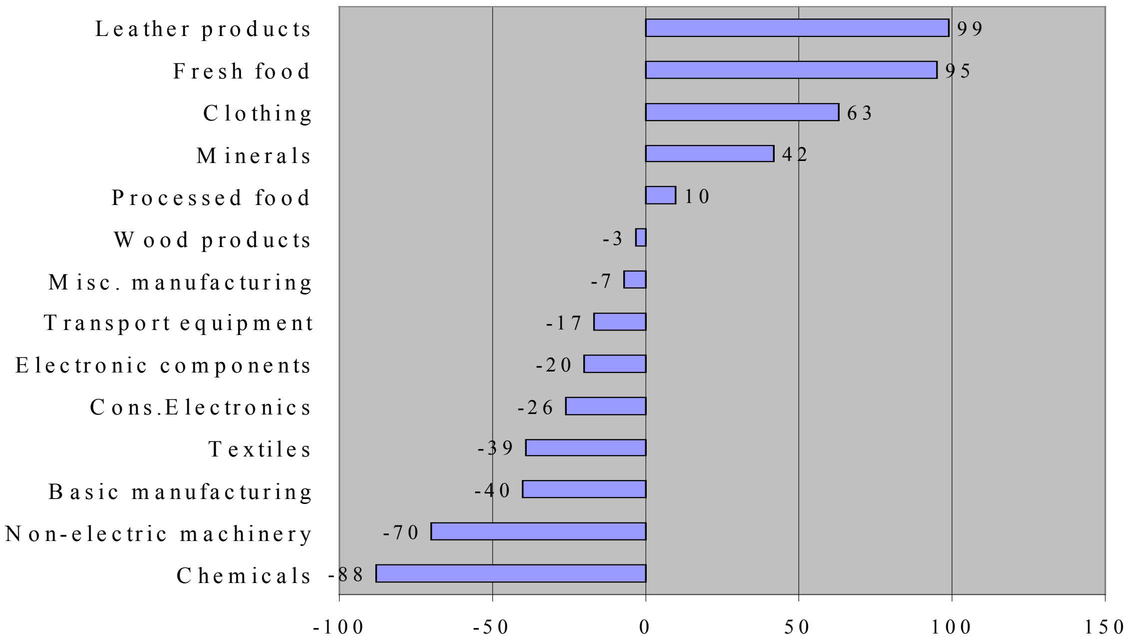
Table 3.2: Merchandise exports by commodity *(US$ million)*

	1990	1991	1992	1993	1994	1995	1996	1997	Average Growth (%)
Rice	272	225	300	363	429	549	855	870	20 %
Petroleum	390	581	756	844	866	1,024	1,346	1,413	21 %
Coal	38	48	47	70	75	81	115	111	18 %
Rubber	16	50	54	74	133	181	163	191	54 %
Tea	2	14	16	26	16	33	29	48	114 %
Coffee	25	74	86	110	328	495	337	491	72 %
Marine products	220	285	302	427	551	620	651	781	20 %
Textiles and Garments	20	156	221	336	550	800	1,150	1,349	135 %
Leather and footwear		10	17	68	115	296	530	965	126 %

Source: Ministry of Trade and World Bank

Comparing the comparative advantages of Vietnamese products, the Revealed Comparative Advantage (RCA) index can give us a better overview. This indicator aims at measuring specialization, showing how a country allocates its resources to its various industries. In Figure 3.1, it is clear that Vietnam has specialized more in leather products, fresh food, clothing, minerals and processed food, which can be categorized as primary, natural-based and labour-intensive products, compared with other products belonging to technology or capital-intensive groups.

Figure 3.1: Revealed Comparative Advantage (RCA): VIETNAM



Source: International Trade Center (WTO/UNCTAD), 2000

3.2.2 Moving towards processed agricultural exports

Like some second-tier NIEs and China which have rich natural resources, there is a trend in Vietnamese commodity exports to focus on processing those products with the aim to diversify export products and increase the value for export, while taking take advantage of the generally higher price elasticity of demand for the less volatile prices of more processed products. The labour factor is also a comparative advantage Vietnam can exploit in developing the processing industry. Processed export products accounted for just 7-8 percent of total exports before 1990, but they went up to 29 percent in 1996 and 36.5 percent in 1997.

Typical is Vietnamese rice. Though ranking second in export performance in the world after Thailand, it is on average not of as good quality as Thai rice. The reality shows that Vietnamese and Thai rice have the same quality from the fields but the poorer processing activities of Vietnam have resulted in a lower quality of rice. Therefore, the Government has encouraged a lot of investment in rice processing factories.

Another example is rubber. Over the past time rubber has been usually exported in the form of raw materials, which has caused waste and low export profits. At the moment, the capacity of the rubber processing industry is able to process all local rubber production; therefore, the Government is considering to stop exporting non-processed rubber, mainly to China, and seeks new export markets like ASEAN, the US, and Africa.

A lot of investments, both from internal and external sources have also been recently done in processing fruit, seafood etc.

3.2.3 Promoting the export of manufacturing products

For the number of developing countries, the diversification of the primary sector is not enough to ensure sustained development. It usually requires a shift in the structure of economic activity toward the production and export of manufactured products. In Vietnam, it has become evident during the past years that given the paucity of natural resources, efforts to promote export industries have been concentrated more and more on manufacturing products. Again, like many East Asian countries at the initial stages, manufacturing exports from Vietnam are mainly of the light variety, characterized by labour intensify. Vietnam has a comparative advantage in labour-intensive products because its labour force of about 40 million people (in 1998) is relatively cheap, and mainly unskilled. As a result, major manufactured exports for the time being are garments and shoes and leather products.

3.2.3.1 The role of FDI

Vietnam's industrialization course has depended much on FDI, which is considered as the main engine of the growth of the Vietnam economy in the past. Foreign investors themselves find Vietnam a potentially big market with cheap labour, abundant natural resources, and low cost of land utilization where they can allocate their investments. The structure of FDI in Vietnam can be seen in Table 3.3.

Table 3.3: Investment by sector (1/1/88 - 25/4/98) ***(US$ billion)***

Rank	Sector	No. of Projects	Total Capital
1	Industries	1,104	14.700
2	Hotel, Office, Apts.	264	8.500
3	Industrial Zones	16	3.900
4	Telecom/Transport	56	1.800
5	Oil & Gas	24	1.200
6	Agriculture, Forestry	61	0.438
7	Health/Education	30	0.284
8	Finance/Banking	20	0.271
9	Export Processing Zones	60	0.203
10	Services	96	0.191
11	Construction	32	0.091
12	Aqua-culture	21	0.058
	Total	***1,784***	***31.620***

Source: Ministry of Planning and Investment

We can see here that the majority of foreign investments are concentrated in industries and services. However, in reality, there have been significant changes in the domain of investments. From 1988 (the first foreign investment law was launched in 1987) until the early 1990s, natural resource development and oil and gas exploration in particular constituted the main preoccupation of foreign investors (accounting for 32.2 percent of the total investment capital). However, as from 1991 onward, the service sector and other industries, including processing and manufacturing industries for exports, have occupied a predominant position.

It is important to note that Vietnam has, step-by-step, now been participating in the general waves of economic development in the region. The fact that major investors in Vietnam are mainly from Asia including Singapore, Taiwan, Hong Kong, Japan, Republic of Korea, and even some second-tier NIEs like Thailand and Malaysia, which are at a higher level of industrialization than Vietnam, can prove this trend.

TNCs based in these more advanced economies shift their production and their simple processes to the less advanced economies like Vietnam, which have cheaper and more abundant labour. From early 1990s, firms from Taiwan, Republic of Korea, Hong Kong and elsewhere in Southeast Asia set up factories to make shoes, clothes, and toys. Japanese companies bid feverishly to build 'investment zones' to house even more foreign factories etc. Compared with other countries in the Southeast Asia region, Vietnam's labour force is the cheapest by the Government's setting the national minimum wage at US$30 per month for unskilled labour and US$35 per month for skilled labour.

3.2.3.2 Export processing zones (EPZs)

With the aim to move towards manufacturing exports, Vietnam has so far tried its best to benefit from TNCs' strategies by attracting parts of its comparative advantages in those TNCs' production chain. As a result, since the early 1990s, the Government has emphasized establishing EPZs in different parts of the country as a strategy to develop export-oriented manufacturing (Fujita, 1996, p. 6).

In order to attract domestic and international investment into these zones, the Government offers various incentives relating to income tax, export duties, and withholding tax, especially for manufacturing enterprises. For example, all manufacturing enterprises in EPZs are exempt from export duties levied on exports, and are also exempt from import duties levied on imports of equipment, supplies and raw materials.

As of 1997, Vietnam had 6 EPZs. They have succeeded in attracting various foreign companies from Japan, Republic of Korea, Taiwan, Thailand, Singapore, Europe, and North America. The main activities in the EPZs are to produce textiles, garments, electricity, electronics, precision machinery, plastics, food, alcohol, medical equipment, and software. The two biggest EPZs of Vietnam are Tan Thuan EPZ and Linh Trung EPZ. Tan Thuan EPZ has been selected by Corporate Location, a leading British newspaper, as one of the best EPZs of the Asia Pacific region. It exported US$76 million last year (1999). During the last few years, Linh Trung EPZ has been seeing a steady increase in its exports: US$9.6 million in 1996, US$42 million in 1997, US$80 million in 1998, and over US$106 million last year.

3.3 Structural changes

3.3.1 Recent trends in export structure

Looking at Vietnam's export structure by product group (Table 3.4), we can see that those products of high shares in the national exports are food (fresh or processed), minerals, and leather products and clothing. In general, labour-intensive manufacturing products like clothing and leather products have developed very quickly (20 percent and 46 percent respectively). Primary products like food and minerals have developed less quickly (7 percent for fresh food, 12 percent for processed food, and 6 percent for minerals). It is also worth noting that technology intensive manufacturing like electronics products take a small share but have been growing dramatically (around 300 percent).

Table 3.4: Export structure by product group in Vietnam

	Products	Trend of exports (average growth %)	Share in national export (%)
1	Fresh food	7	21
2	Processed food	12	10
3	Wood products	97	2
4	Textile	38	2
5	Leather products	46	21
6	Basic manufacturing	49	2
7	Non-electric machinery	69	1
8	Cons. electronics	291	1
9	Electronics components	317	5
10	Clothing	20	15
11	Misc. manufacturing	55	3
12	Minerals	6	16

Source: International Trade Centre (UNCTAD/WTO), 1998 (http//: intracen.org)

As a whole, Vietnam's export structure in terms of factor intensify can be seen in Table 3.5. During the 1994-1998 period, manufactured exports grew very fast (31 percent for labour-intensive and 78 percent for technology-intensive manufacturing), while primary exports grew only 7 percent.

Table 3.5: Indicators on export performance by some Asian countries (1994-1998)

Group of products	Vietnam		China		Thailand		Malaysia		Singapore	
	Share in exports	Growth	Share in exports	Growth	Share in exports	Growth	Share in exports	Growth	Share in exports	Growth
Primary products	46	7	11	1	22	0	19	0	5	-3
Natural-res. Int. manuf.	1	12	4	10	3	-2	4	0	3	12
Labour int. manuf.	44	31	43	9	17	2	8	5	4	-4
Technology int. manuf.	7	78	27	22	42	12	55	11	70	6
Human capital int. manuf.	2	42	15	12	13	9	13	-3	10	-5

Source: International Trade Center (WTO/UNCTAD), 1998 (http//: intracen.org)

In reality, Vietnam's export structure is moving in the same way as other more advanced economies in the region. However, one should keep in mind that Vietnam is far behind these countries in terms of development level. Therefore, its export structure is somewhat like that of other countries in the initial period of export-oriented industrialization.

Primary and labor-intensive exports in Vietnam have accounted for 90 percent of total exports, which stand only at 54 percent in China, 39 percent in Thailand, 27 percent in Malaysia and 9 percent in Singapore. In the case of Singapore, its main exports now are technology intensive manufacturing and human capital intensive manufacturing, the general structure we can see in first-tier NIEs. Second-tier NIEs like Thailand and Malaysia have also shifted more and more to technology and human capital intensive manufacturing, though the ratio is still smaller than of that of Singapore, while labour–intensive manufacturing and primary products are still significant in the export performance.

We make a simple forecast based on the statistics in Table 3.1 and the fact that Vietnam is lagging 20 years behind second-tier NIEs at the moment but might move faster. It might be expected that in around 2010 Vietnam's export structure will be equivalent to that of second-tier NIEs in 1994 in which primary commodities account for about 31 percent of total non-oil exports, and primary products plus resource-based and low-skilled labour-intensive goods account for 59 percent. Or if in comparison with China, whose industrialization began 10 years before Vietnam in the late 1970s, Vietnam could, therefore, expect the present situation of China (Table 3.5) in the next ten years.

3.3.2 Effects of the 'Opening up to the International Trade' program

Our expectation only comes true if Vietnam continues and quickens its reform, which has showed a slowdown since 1997. Although exports have improved from a sluggish 2 percent in 1998 to 14 percent in 1999 and 26.2 percent in the first half of 2000, continuous decline in investments could hamper future development.

Vietnamese investments have been falling sharply recently, from 29 percent of GDP in 1997 to 19 percent in 1999, due in large to a precipitous drop in FDI. Since foreign-invested manufacturing accounts for about 20 percent of exports, the drastic decline in investment will have less direct but farther-reaching effects on export growth. This is because the existing foreign-invested capacity may be limited going into the next few years without new investments. In addition, domestic manufacturers depend much on flows of foreign investment to develop their production capacity. The manufacturing trend may be in trouble then, since it jeopardizes Vietnam's development strategy, which envisions low-tech export industries, like shoe-making, providing the first big step in a progression away from a farming-based economy.

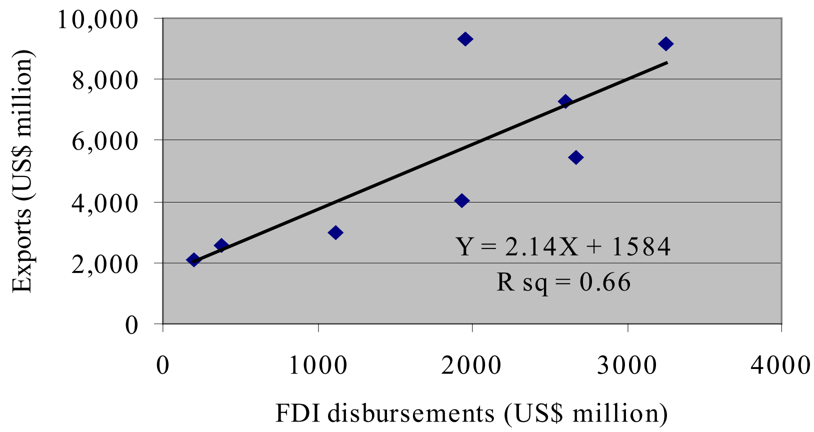
Therefore, further reform has become a necessity for the development of the Vietnamese economy in general and exports in particular, which can create a more attractive environment for investment inflows. Otherwise, Vietnam would continue its difficulties for the time being and the general trend of development could not be reached.

In reality, Vietnam itself has begun its initial steps to respond to the current situation. On May 16, 2000, the National Assembly approved the Amended Foreign Investment Law for the purpose of attracting more foreign investors, which took effect as from 1st July 2000. And, most importantly, if the 'Opening up to the international trade' program is implemented, Vietnam will move more away from import substitution to an export-oriented economy.

Like any other developing countries, Vietnam applies policies to domestic production protection, mainly through tariff and non-tariff measures. The current trade policies provide high protection to capital-intensive products like cars, consumer durables, steel, cement as well as other consumer goods and encourage over-investment in these areas. Foreign invested enterprises and state enterprises prefer investing in these sectors. On the contrary, those policies discourage exports of processed agriculture and light manufacturing, both of which are critical for sustaining rural growth in particular and higher export growth in general. High protection industries generate little employment for each dollar invested, and divert funds from potential export-sectors.

Figure 3.2 below shows the correlation between FDI inflows and the growth of exports from Vietnam during the 1991-1998 period. FDI had a low correlation with exports with a correlation coefficient of 0.66 only. This can be explained by the fact that in the past, FDI has been not much effective in promoting Vietnamese exports, which mainly include primary and labour intensive manufactured products.

Figure 3.2: FDI and exports correlation (1991-1998)



The current situation shows that it is impossible for Vietnam to return to the years before 1997 even after the Asian crisis has blown over a few years from now. The tougher competition for FDI and export shares from Vietnam's ASEAN neighbours – who will have devaluated their currencies and restructured their economies by that time – will simply make it more difficult to finance import substitution. (Ari, 1998, p. 325).

The announcement that import barriers will be reduced over the next two-to-three years under the reform program will discourage further flows of investment to current protected sectors and encourage existing producers in those sectors to begin adjusting to the announced change. More importantly, the announced liberalization will lead to increasing flows of investment - both foreign and domestic - into labour-intensive exports, processed agricultural exports and rural industry, areas where Vietnam is most competitive.

This trend will be certainly promoted in Vietnam when the deadline for the tariff reductions under AFTA for Vietnam is in 2006. Domestic producers, therefore, should try their best to improve the efficiency or move to the sectors of Vietnam's competitiveness before they are kicked out by import products. The expected implementation of the Vietnam-US trade agreement also requires more openness of the economy, and in turn it will generate additional export demand from Vietnam to the vast American market and thus foreign investments in processed agriculture manufactured exports. This will be analysed more in the next chapter.

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In brief, Vietnam' economic development has been just in the first stages. Export structure changes have shown the similarities to that of countries in the region in the initial period and would expect to continue the general trend if Vietnam continues its economic reform. Vietnam will export more and more manufactured products, and still a great volume of primary products based on its endowment of natural resources, at least in the short and medium future.

CHAPTER 4

MARKET FACTORS IN EXPORT STRUCTURE CHANGES

In the previous parts of this dissertation, characteristics and changes in export structure of Vietnam have been discussed. The analysis mainly comes from the angle of the general trend in Vietnam's economy and trade, internal factors promoting the changes like trade policy, investments and economic reform. This chapter will try to analyse opportunities and new directions in the export performance with different partners, i.e. the external factors that can also be important to contribute to export structure changes. Important trade agreements, both bilateral and regional, will be focused on in order to assess their possible effects on Vietnamese exports.

4.1 Market expansion policy and changes in export market structure

If we look at Vietnam's trading partners, the most significant shift was made after the collapse of the CMEA and Vietnam's adoption of an open door policy. Before 1990s, Vietnam largely depended on trade with CMEA countries with 40 percent of its exports to and 64 percent of imports from the Eastern European market in 1989 (Fujita, 1996, p. 9). However, trade with the CMEA countries dropped substantially after that, and East and Southeast Asia countries have emerged as Vietnam's biggest trading partners. Asian markets have always accounted for more than half of Vietnam's exports and imports during the past decade (e.g. 73 percent in 1996).

Meanwhile, the roles of the two big world markets, EU and the US, are much smaller, even though they have increased during recent times. Exports to the EU increased from 5 percent in 1989 to 17 percent in 1996. Vietnam's trade with the US also increased, especially if we take into account the fact that it was virtually non-existent in 1989; however, the increase seems limited by the lack of the trade agreement (just 4 percent in 1996).

However, what are more interesting are recent changes in the Vietnamese export markets and expectations for the future.

It is undeniable that in the last 10 years, export turnover to countries in Asia has seen significant growths, especially in 1995 and 1996 when this figure reached 30 percent (Table 4.1). However, looking at such growths year by year, one can recognize the diminishing trend in the share of this region in Vietnam's total exports, especially considerable decreases during recent years, down by around 10 percent.

Table 4.1: Vietnam's export turnover to Asian countries

Year	Export turnover (US$ million)	Ratio over the total (%)	Annual growth rate (%)
1991	1,601.5	76.3	-
1992	1,880.5	72.8	17.4
1993	2,180.5	73.0	15.9
1994	2,922.7	72.0	34.0
1995	3,924.7	72.0	34.2
1996	5,150.0	70.9	31.2
1997	5,879.6	64.3	14.5
1998	6,014.0	64.2	2.0
1999*	6,342.6	63.4	5.4

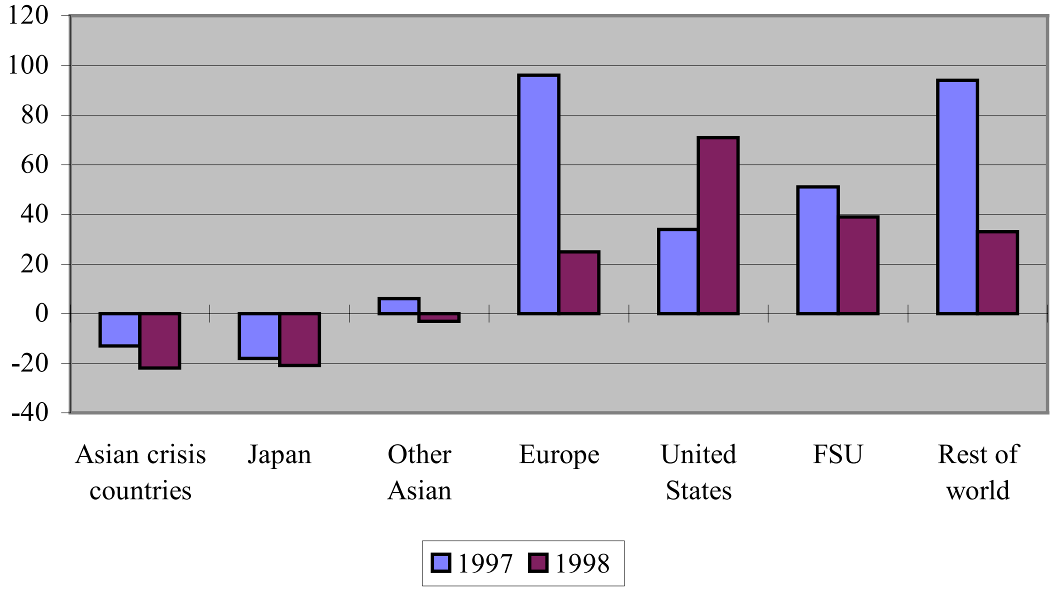
Source: Vietnam Trade Information Centre (Vtic), 2000
* Expert estimation

One reason is the declining role of intermediate markets including Japan and Singapore, the two biggest importers of Vietnam in Asia. It is estimated that more than 50 percent of Vietnamese exports to Japan are in forms of raw materials or semi-processed products, which are then reprocessed for exporting to third countries. Similarly, the majority of exports to Singapore, especially garments and footwear, have been re-exported to third markets. Current Vietnamese policies are trying to access direct consuming markets, moving away from intermediate markets. Typically, crude oil is one big currency earner for Vietnam from Japan; however, its share has decreased in recent years, for example from 25 percent in 1998 down to 20 percent in 1999. Besides, in reality, the Singaporean share in total Vietnamese exports to ASEAN has been decreasing in recent years: 83.89 percent in 1996, 63.14 percent in 1997, 47.5 percent in 1998 and only 37.61 percent in the first ten months of 1999.

Another clear reason is the effects of the Asian economic crisis. Due to the effects of the crisis, Vietnam's exports to Asia (i.e. East Asia and Japan) fell by 5 and 20 percent in 1997 and 1998, respectively. Too much dependency on Asian markets brought unavoidable consequences on its exports when there was a sharp fall in demand from this major market. Moreover, Vietnamese products lost their competitiveness due to dramatic currency depreciation in Asian crisis countries.

This reality has forced Vietnamese exporters to expand export markets outside Asia. Exports to Europe grew by more than 90 percent in 1997 and more than 25 percent in 1998. Exports to the US are growing at a rapid rate too, 25 percent in both years (Figure 4.1). This geographic diversification has helped to maintain some growth in export earnings.

Figure 4.1: Export growth by partner

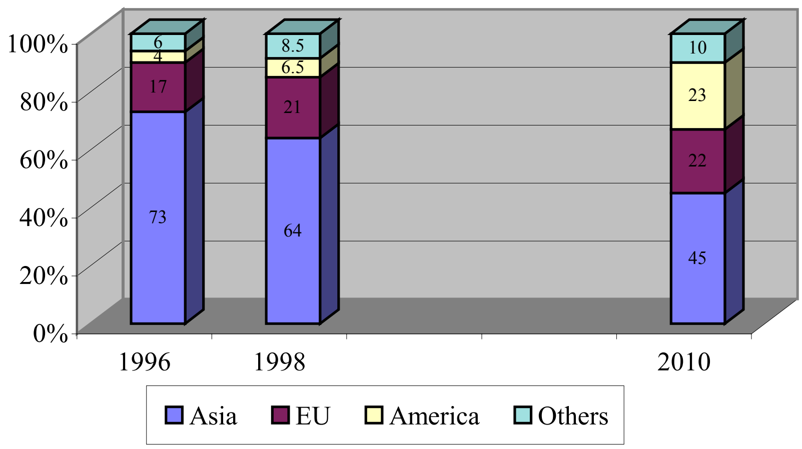


Source: Ministry of Trade, 1999

In the coming years, the share of Asian markets will continue to slow down. The most important factor is because of the Government's direction of expanding export markets outside Asia. "Expanding export markets in the direction of multilateralization is an urgent task on the basis of sustaining and developing existing markets, re-establishing traditional markets (*i.e. Eastern European ones*), making great efforts in expanding new markets in North America, Middle East and Africa...". (Government Report in the 5th Session of the 10th National Assembly in 1999). Market expansion policy is the right direction for the purpose of diversification of buyers, which will help insulate national exports against international shocks. It is also in accordance with Vietnam's integration trend in the world economy. Moreover, current potentials can bring a lot of hopes for the increase in exports to the EU, especially the US with the recent signing of Vietnam-US Trade Agreement (to be elaborated upon later).

Forecasts for the export market structure by 2010 can be seen Figure 4.2.

Figure 4.2: Export structure by market



Source: Ministry of Trade

4.2 Effects of Japanese MFN status and AFTA participation

4.2.1 MFN status by Japan

Japan is the biggest importer of Vietnamese products at the moment. Export values from Japan reached US$3 billion in 1998, equivalent to 32.8 percent of Vietnam's total exports. A very good new recently is that the MFN status was finally granted to made-in Vietnam goods by the government of Japan on May 26, 1999. The result of this is that Vietnamese exports of various kinds are subject to tax reductions of 10-100 percent compared to those prior to May 26, 1999. However, the grant of MFN status by Japan is not assessed to help push up Vietnamese exports to the Japan market immediately. Only a modest rise in Vietnam-Japan trade is expected in the short term. Forecast for Vietnam's export turnover from the Japanese market is some 17 percent in 2000 (after MFN) from 15 percent last year.

The reason is that the existing Vietnamese export structure is just not geared to it right now. The structure is relatively simple. Five main exports are crude oil, marine products, garments, rice and coal, which have occupied around 70 percent of total exports to Japan in recent years. Meanwhile, the tariff differential for those is slight or nothing. The most potential export item of Vietnam to Japan is crude oil (accounting for 25 percent of Vietnam's crude oil exports in 1998), but the tax rate applied before and after the date of granting MFN status was zero percent. The same can be seen in the case of coal. Regarding rice, which also currently has great potential to be exported to Japan, a fixed tariff rate (US$3/kg) is applied to all exporters. Regarding processed products, as much as 90 percent of the second and third largest Vietnamese exports to Japan - seafood and garments - have been granted GSP (General System of Preference which offers a tax rate lower than that fixed by MFN) since 1998, and only 10 percent enjoy MFN preferences.

However, after the MFN status is granted, expenses for imports from Japan are lower; therefore, Vietnamese producers can benefit from the decreasing price of Japanese made materials and machinery, which then helps promote Vietnamese products' competitiveness in Japan as well as other markets. Furthermore, in order to benefit from the MFN status, Vietnam will try to promote the export of other products of its strength to Japan like footwear and leather products (rates for these products have decreased from 20 percent to 10 percent), souvenir products including fine arts (at the rate of 0-3 percent). For instance, although Vietnam annually exports nearly US$1 billion of footwear, the Japanese market has been accounting for only 6 percent of the total.

In short, MFN from Japan will be beneficial for exports from Vietnam in the medium and long term, especially manufacturing products.

4.2.2 ASEAN market and the effects of AFTA

Vietnam's export turnover to ASEAN countries in 1991-2000 seems to be stable and these nations have accounted for 20 percent of Vietnam's export-import turnover over the past years, in particular 25.1 percent in 1998. This has proved that ASEAN is an important and main market of Vietnam in Asia.

It is important to notice that the objective of establishing an ASEAN Free Trade Area or AFTA is being carried out among ASEAN member countries. Therefore, it is necessary to assess the effects of AFTA participation on Vietnam's exports to ASEAN countries.

The Common Effective Preferential Tariff (CEPT) Agreement for AFTA requires that tariff rates levied on a wide range of products traded within the region are reduced to 0-5 percent. Quantitative restrictions and other non-tariff barriers are to be eliminated. The target of a free trade area has been continuously moved forward. From the original schedule in 2008, AFTA will now be fully completed by the year 2002 for six original signatories to CEPT (Indonesia, Philippines, Thailand, Malaysia, Singapore and Brunei). Vietnam is among new ASEAN members entering into ASEAN in 1995; therefore, the deadline for tax reduction to 0-5 percent is up to 2006.

Looking at the Vietnam's current exports to ASEAN countries, AFTA participation has not been assessed to have much effect on Vietnam's exports to ASEAN, at least in the initial stage.

First, in terms of export markets, Singapore is Vietnam's biggest export market in ASEAN. However, Singapore was already a free market before AFTA; therefore, CEPT participation will not create great effects on Vietnamese exports to Singapore.

Second, in terms of export commodities, manufactured products are main tariff lines enjoying tariff preferences under the CEPT schemes. Meanwhile, manufactured products exported to ASEAN from Vietnam at the moment are insignificant. According to the MoT's statistics, export of agricultural products and raw materials usually take up 50-60 percent of the total exports to ASEAN, while the share of processed products was less than 4 percent in 1996-1998. (Table 4.2 shows Vietnam's large exports to ASEAN in 1998 and their share in Vietnam's total exports). Regarding raw materials like coal and crude oil, the effects of CEPT are not remarkable because import tariffs of most ASEAN countries are low (0-5 percent) before AFTA participation. In addition, agri-exports, typically rice and coffee (accounting for around 75-85 percent of total agricultural products) will not be included in CEPT until 2010.

Table 4.2: Vietnam's large exports to ASEAN in 1998

Items	Volume/Value	% of total exports
Rice	2.05 million tons	55
Coffee	50.068 tons	13.1
Rubber	26.711 tons	14
Vegetable and fruits	US$8.14 million	15.2
Textiles and garments	US$43.2 million	3.2
Crude oil	2.74 million tons	22.6
Coal	275.022 tons	8.7

Source: Vietnam Trade Information Center, 1999

Therefore, given the current export composition, Vietnam would derive only negligible benefits from AFTA. What Vietnam appears to benefit most from AFTA is the ability to better access the ASEAN markets for its agricultural exports. However, such benefits can not be obtained until 2010.

Nevertheless, it is interesting to point out that AFTA participation will help promote changes in production as well as export composition in Vietnam. That is because a substantial tariff cut of manufactured goods would be a good incentive to producers of manufactured exports and then it contributes to Vietnam's export composition restructure in such a way as it would bring about a strong growth of manufactured goods. Investments in industries that are favourable to the CEPT scheme, such as foodstuffs, electricity, electronics and mechanics, will be concentrated on. On the other hand, local businesses, especially those with high protection before, recognizing the Government’s goal of entering AFTA in 2006, must try to undertake the necessary measures to improve the competitiveness of their products before 2006 when imports from other ASEAN countries can freely enter into Vietnamese market.

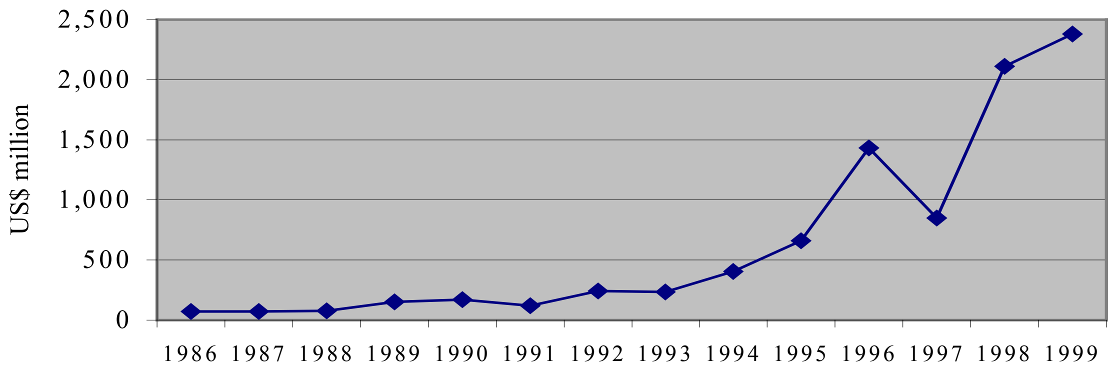
However, this process will take time and we can not expect much improvements in Vietnam's exports to ASEAN, at least in the short term. Vietnam's goods are now in danger of severe competition in the Vietnamese market after the year 2006, especially manufactured products.

4.3 Potential of the EU market

In terms of export partners of Vietnam, the EU only ranks after the groups of East Asia and ASEAN countries.

Looking at Figure 4.3, it is obvious that exports to the EU have not strongly increased until the last few years, after the signing of the Framework Agreement on Economic Cooperation between Vietnam and the EU five years ago. The average growth of exports to the EU was 46.5 percent per year during the 1994-1998. The unusual decrease in 1997 resulted from the Asian economic crisis in which Vietnamese exports lost great competitiveness compared with exports from some Asian crisis countries.

Figure 4.3: Exports to EU



Source: Ministry of Trade
1999's figure is estimated

It is worth mentioning that the import-export structures between Vietnam and the EU favours Vietnam's national economic development. Compared with Asia, light industrial products and consumer goods are main exports to the EU, accounting for 80 percent of Vietnam's exports. Major Vietnam's exports to the EU include textiles-garments, leather and footwear. Vietnam has a lot of potential to promote its exports to the EU because the EU's share in Vietnam's total exports is still low (17 percent in 1998) while the EU is a market for a larger percent of the world's exports. Besides, Vietnam's current policy aims to promote the access to this big direct consuming market. Hopefully, that can further raise the export of manufactured products including garments and footwear, and agricultural processed products like seafood from Vietnam to this market.

4.3.1 Garments

At the moment, EU accounts for around 50 percent of the total Vietnamese garment exports. The potential for exporting garments to this market is still big in the coming years.

Following the 1992 signing and 1993 implementation of the Agreement on Textiles and Garments between the EU and Vietnam, export revenue has increased sharply at an average annual growth rate of 23 percent and volume grew by an average of 43.5 percent per year. Especially, in contrast to a declining demand in Asia for Vietnamese garment and textile exports during the crisis period, the EU and Vietnam signed a new trade deal in September 1998, which allows Vietnam to export one third more textiles and clothes than previously to Europe. This is a significant boost for Vietnamese manufacturers because the European market is quite large and a significant amount of its exports go to this market.

More recently on 31st March, 2000, the EU agreed to increase the quotas for Vietnam's garments and textiles by 27 percent, equivalent to 4,324 tons, being in force since 15 June 2000. Although the previous agreement does not expire until the year 2001, the newly signed agreement is the recognition of the good quality of Vietnamese products. This brings more opportunities for the Vietnamese textile industry.

It must be noted that quotas applied by EU are a measure to limit the imports into this market. However, for Vietnam still with a small quantity of exports to the EU, this is a big opportunity and ensures the stability of the market factor. On the other hand, in reality, "European quotas have been raised several times but they are not fully used and the Vietnamese actual share of European imports is significantly lower than comparable countries" (World Bank, 1999, p. 39). Vietnam's administration of garment export quotas to Europe is neither transparent nor efficient. The Government has been solving that problem by the application of quota auctions and quota distribution based on export achievements of exporters.

Increasing the competitiveness of garments is another important matter, especially with the fact that quota system will be eliminated in 2005.

4.3.2 Footwear

Currently, GSP tariffs of between 5 and 12 percent have been applied to Vietnamese footwear in the EU market. That is why EU is the biggest footwear importer of Vietnam, accounting for around 75 percent of its total footwear exports. However, it is important to note that such tariff preferences will be eliminated by 2004. By then, Vietnamese footwear producers will suffer from fierce competition from big footwear producing countries like China and other countries in Southeast Asia.

4.3.3 Seafood

While seafood is among the major exports of Vietnam, the EU is still not Vietnam's major export market for seafood products, making up only 10 percent of the total seafood export in 1998 and 9.17 percent in the first 10 months of 1999. The EU is the world's largest shrimp market, each year importing over 400,000 tons of shrimp of several varieties (Vietnam Trade Information Center, 2000). However, Vietnam only exported 11,528 tons of shrimp into the EU in 1997 and 12,995 tons in 1998, only accounting for roughly 5 percent of the EU's total imports from developing countries (around 60 percent of shrimp imports into the EU is from developing countries).

In reality, Vietnam's seafood exports have had a bright spot by recent approval of the Veterinary Steering Committee of the European Union to place 18 Vietnamese aqua-product exporters in Group 1. This includes those countries authorized to directly export unlimited volumes of their products to the EU and whose products will be checked only once. This provides an ample opportunity for Vietnam's seafood exporters since this large market always imports stable quantities of seafood at a high price. Furthermore, entering Group 1 will facilitate their exports to the US and Japan who also agree with the technical requirements of the EU.

However, the most important thing is that the competitiveness of Vietnamese seafood is not so high compared with products from other countries to the EU like Thailand, India, Bangladesh, and Indonesia. Moreover, 18 businesses that have been permitted to export seafood directly into the EU accounted for only 32 percent of Vietnam's total seafood export to the EU in the first 10 months of 1999, of which exports of shrimp only accounted for 20 percent. Therefore, the ability to boost this export to the EU market will depend much on Vietnam's improvements of its products and limiting the internal competition among domestic businesses.

In general, the EU market is quite a potential for Vietnamese products; however, there also exist difficulties regarding the competitiveness of the export products.

4.4 US market and effects of MFN status

Perhaps the biggest potential and the biggest change of Vietnamese export activities within the next decade are the access to the US market. The US is the world's biggest market to which any developing country wishes to promote its exports. It is estimated that the US market consumes a total import value of over US$1,200 billion every year. The US currently is among the biggest importers of countries in Asia, bringing around ten billion dollars of export values to ASEAN countries like Malaysia, Thailand and Indonesia, and around 20 billion dollars to Singapore or China in 1994 (Voon, 1998, p. 275). Meanwhile, Vietnam’s export earnings from the US market reached only US$468 million in 1998.

In reality, Vietnamese access to the American market is limited because of no MFN status, which is reflected in the modest 6.5 per cent of Vietnam's exports to American markets in 1998, up from 4 per cent in 1996. The general tariff rates that the United States imposes average 35 percent compared with 4.9 percent for the MFN rate. However, surprisingly, Vietnam’s exports to the US market have increased rapidly over recent years (after the lifting of the US’s embargo on Vietnam in 1994). It grew at around 178 percent in the 1995-1998 period, even higher than the growth of exports from the US to Vietnam. Hence, when MFN status is given, the trend will be accelerated strongly. The WB estimates that Vietnam's export earnings will increase by US$800 million in the first year of MFN alone.

MFN status requires the signing of the Vietnam-American Trade Agreement, which has been done recently on 13 July 2000. The agreement is to be implemented right after the approval of the US’s Congress, which is hopefully to be done next year. By then, exports to the US should increase significantly, particularly in the garments and footwear industries; rice, coffee, coal and oil exports are likely to increase as well (American Chamber of Commerce in Vietnam, 2000). The American market share is projected to increase to 23 percent in 2010.

Table 4.3 below shows that in 1996 Vietnam exported over US$2.3 billion to Japan and US$1.4 billion to Europe compared with only US$300 million to the US. Exports to the US are low mainly because of high tariff rates. That is reflected by the fact that export of garments, leather, wood and ceramic products to the US are way below levels of those to Europe and Japan. "Since neither Japan nor Europe applies discriminatory tariff rates to products from Vietnam, Vietnamese exports to the US should approach the levels in Japan and Europe soon after MFN status is granted" (Taylor & Brasher, 1996).

Table 4.3: Vietnam's exports to the US for major commodities *(US$ million)*

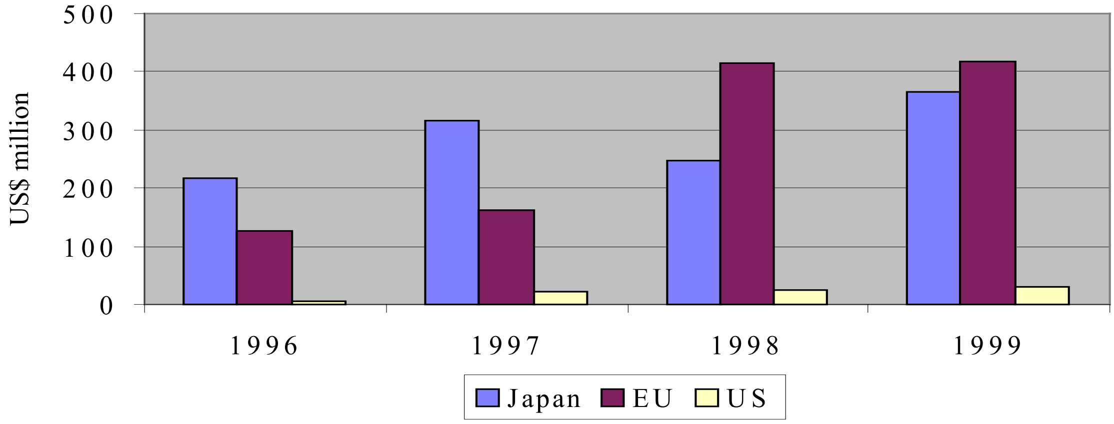
Description	US 1996	EU-12* 1995	Japan 1996	MFN tariff	Non-MFN tariff
Vietnam total	310.127	1,408.679	2,288.502		
Fish and seafood	29.159	28.106	390.080	0%	0%
Spices, coffee and tea	123.068	257.288	37.554	0%	0%
Mineral fuel, oil etc.	73.999	21.490	786.316	-	-
Luggage & leather prod	0.608	83.005	70.694	17.0%	65%
Knit apparel	3.285	37.644	173.153	20.7%	45%
Woven apparel	20.962	290.890	389.999	8.5%	90%
Footwear	32.631	459.520	49.444	20.0%	35%
Ceramic products	0.764	31.733	5.257	*Big difference*	
Furniture and bedding	0.300	25.043	69.465	*Big difference*	
Total	284.776	1,234.719	1,971.961		
% of all imports	91.8%	87.6%	86.2		

Source: Global Trade Information Services, Inc.
* EU-12 does not include Austria, Finland and Sweden.

4.4.1 Garments - a strong growth to be expected

Regarding garment products, US imports are much lower that those of Japan and the EU and they have grown slowly (Figure 4.4) because of the high tariffs on many apparel items. The non-MFN tariff on many wearing apparel items is ten times the MFN rate. For example, the non-MFN tariff on woven apparel is 90 percent, while the MFN tariff is 8.5 percent. Non-MFN tariff for knit apparel has also more than doubled. Vietnam's exports to Japan and the EU are indicators of future trade growth to the US. Japan imported around US$300 million in woven apparel from Vietnam in 1998, much higher than exports to the US of only about US$20 million (imports of garments into the US total around US$50 billion per year). The same goes for knit apparel. Japan imported US$130 million of these items, compared to US$7 million in the US.

Figure 4.4: Garment exports to Japan, EU and the US



Source: Vietnam General Department of Customs

A significant increase in clothing exports to the US is consistent with Cambodia's recent experience. The United States granted MFN status to Cambodia on September 25, 1996. Cambodia's exports of textiles and apparel "exploded" by over 2000 percent, from US$7.7 million in 1996-97 to US$171 million in 1997-98 (Irvine, 1999, p. 9). Vietnam with much greater production capacity than Cambodia's can push up strongly its exports by the time the MFN is obtained.

4.4.2 Footwear

Footwear makers should also see marked gains in exports. In reality, imports of footwear from Vietnam into the United States has jumped dramatically over the past years, from over US$3 million in 1995 to over US$115 million in 1998. Part of the reason for the increase in footwear imports can be found in the differences between the MFN and non-MFN tariffs on footwear. For most footwear imports, US tariffs are 35 percent or less, while the MFN tariff rates are 20 percent for many footwear products. This relatively small differential allows Vietnam to compete with countries that have MFN status. In addition, the high labour content in footwear gives Vietnam a comparative advantage. With or without MFN status, the potential for Vietnamese footwear imports into the United States is enormous because of its big quantity of exports, for example US$770 million of export earnings from the EU in 1998. Companies like Nike and Reebok have been producing shoes in Vietnam for over five years. Nike makes some 20 million pairs of shoes a year in Vietnam worth US$400 million in exports, but little of that goes to the US because of import duties. Once tariffs fall, it is certain that exports will go more to the US from these plants in Vietnam.

4.4.3 Seafood

The tariff category for "fish and seafood", which is mostly frozen shrimp, is free of duty, so MFN status will not affect these products and imports should continue at high levels as they have in Europe and Japan. In reality, shrimp exports to the US have been increasing quickly over recent years (Table 4.4) and should continue to increase. Several domestic businesses that have exported products into the US market reported that quite a few customers from the US wish to purchase shrimp from Vietnam but the country failed to meet their requirements owing to insufficient material volume. Hence if the sources of material are well prepared, export volume into the US market will be boosted. Therefore, the potential for exporting this product to the US is dependent on Vietnam's production capacity and its comparative advantages.

Table 4.4: Export of aquatic products to Japan, EU and the US *(US$1000)*

	1996	1997	1998	1999	Average growth (%)
Japan	232,835	295,432	250,872	244,746	3 %
EU	26,283	45,562	62,268	49,500	30 %
US	24,013	36,551	56,411	74,229	46 %

Source: Vietnam General Department of Customs

Vietnam shows considerable potential in other product sectors such as luggage and leather products, crude oil, coffee, rice, ceramic and wooden products, which should also increase rapidly with MFN status.

Besides the benefits of tariff reductions, another important benefit of the Vietnam-US trade agreement is the increase in foreign investments in Vietnam. Expected rise of exports to the US will encourage investments in Vietnam to produce export products. Especially the investors from the US will have more opportunities to exploit the Vietnamese market of nearly 80 million people. This can bring long-term perspectives for Vietnamese economy in general and exports in particular.

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In short, market factors can be considered as an important driving force to the development of Vietnam's exports. The major factors that may effect Vietnam's exports in the future, as seen above, include market expansion policy, new market conditions with important trading partners in Asia, Europe and America. It proves that in general, there are a lot of opportunities for the export of Vietnamese products, especially to the EU and US markets. More importantly, it is those market factors that can drive forward changes in the export structure in favour of the national benefit, particularly with the trend towards promoting more manufactured and agricultural processed products. While effects of other factors may come in the longer term, the MFN status granted by the US may create a boost to Vietnam's exports right after it is obtained, with the strong growth of light manufacturing of, for example, garments and footwear.

CHAPTER 5

DEMAND FOR MARITIME TRANSPORT

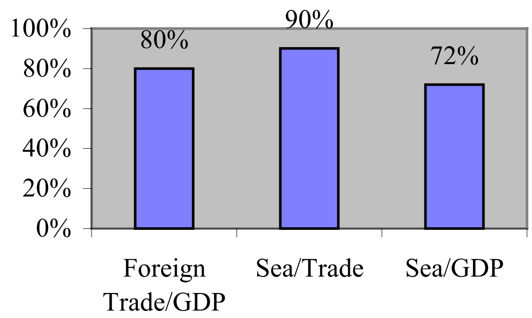
Foreign trade is the momentum to the rapid growth of Vietnam during the past decade. In consideration of transport, and more specifically shipping, it also plays a special role because shipping demand is derived from trade. However, it is important to note that for transport, volume of trade is more relevant than its value. This will be the topic to be discussed in this chapter.

5.1 The importance of seaborne trade

5.1.1 Sea trade in economic development

Vietnam is located in the centre of Southeast Asia, looking out over the Pacific Ocean both to the east and the south. It has a long coastal line of over 3200 km throughout the country's length. Its location is very convenient for maritime services and international trade by sea, especially with Southeast Asia and the pacific region. That is why shipping has long been the major form of transport as well as an essential communication link connecting Vietnam to the region and the rest of the world. It has also been the main cargo artery between Vietnam and various countries of the region, and in some, to domestic commerce as well. At the moment, Vietnam is among maritime economies with a high dependency on maritime sector. Its Maritime Dependence Factor (MDF) of Vietnam currently reached 72 percent in 1998. (Figure 5.1).

Figure 5.1: Overseas Seaborne Trade Dependence



Source: calculated based on different sources

90 percent of total import and export cargoes go through Vietnamese seaports, which is a significant figure. That ratio is expected to be maintained in the future to reach 90-92 percent by 2010 (Vu, 1998, p. 11). There are enough reasons to believe this will be so. Shipping always plays an important role in the international trade of all nations in the world by its advantages compared to other modes of transport, among which are cheaper costs and economies of scale. The growth of Vietnam has been, and will be, in the long run based on trade development. Moreover, the sea geographical conditions of Vietnam are suitable and convenient for it to depend on, and develop, sea transport.

Cargo volumes have been registering steady increases over the past decade in tandem with the economic growth experienced by the country. Figure 5.2 and Figure 5.3 show the relationship between industrial production, GDP and the volume of international seaborne trade during the 1990-1997 period. Both models suggest that seaborne trade and industrial production, as well as seaborne trade and GDP move together in a linear way. The model in Figure 5.2 tells us that the 'fit' of the equation is excellent, with a correlation coefficient of 0.98, which means that changes in industrial production explain 98 percent of the changes in sea trade. The same can be seen in Figure 5.3 with a correlation coefficient of 0.97, which means changes that in GDP explain 97 percent of the changes in sea trade.

Figure 5.2. Industrial production and international sea trade correlation (1990-1997)

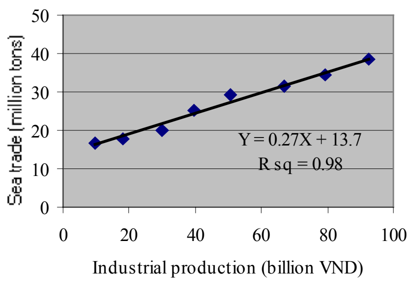
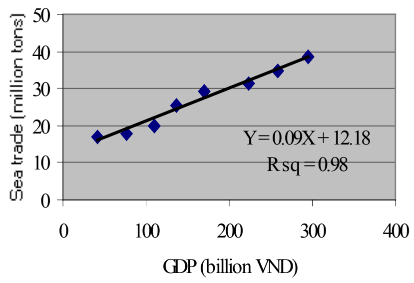


Figure 5.3. GDP and international sea trade correlation (1990-1997)



Considering the reliability of the models, a test was made by carrying out a simulation analysis. We feed the actual industrial production and GDP for the year 1998 (98.82 billion VND (Vietnam Dong) and 307.52 billion VND respectively). The predicted level of sea trade is 40.38 million tons in model 1 and 39.86 million tons in model 2, while the actual volume in 1998 was 42.8 million tons. The errors in the two models, therefore, are not much: 5.6 percent and 6.8 percent accordingly.

5.1.2 Sea trade structure changes

It is important to see that the open door policy created remarkable changes in the structure of trade, especially exports in Vietnam. Table 5.1 below shows changes in cargo throughput structure in Vietnamese ports before and after the economic renovation. Before 1988, the volume of exports was low at only 15-16 percent and biased to decreasing, while the volume of imports and domestic commerce were very high in the total cargo volume. However, export volume increased quickly after that year at around 40 percent and there was a trend towards the balance between export and import volume and lower domestic volume in total trade volume.

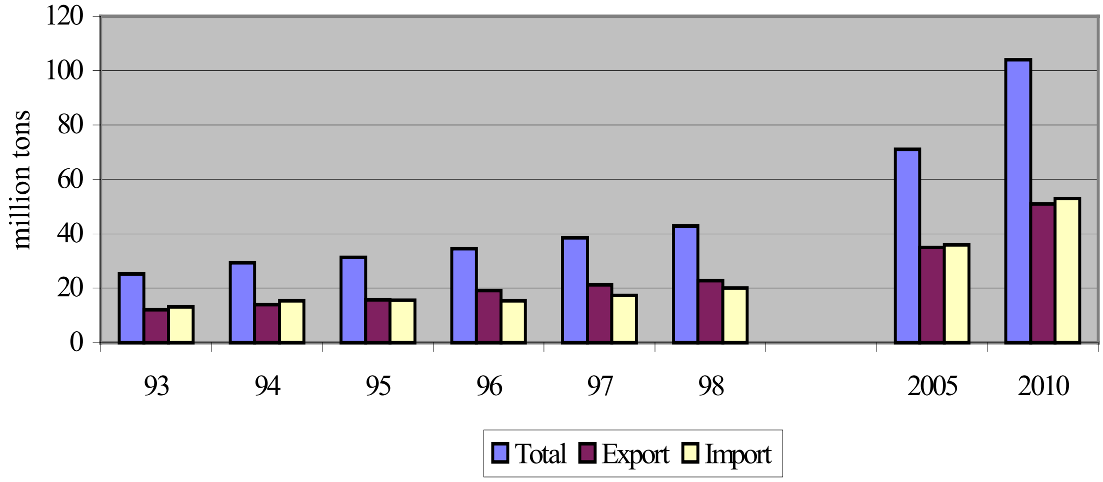
Table 5.1: Cargo structure in metric ton

	Before 1988 (share in total)	1988-1994 (share in total)	1986-1993 (growth rate)
Export	15-16 %	35-42 %	17.7 %
Import	50-55 %	33-41 %	2.3 %
Domestic goods	8-34 %	20-30 %	1.15 %
Total			6.65 %

Source: Vietnam National Maritime Bureau

A clearer picture can be seen in Figure 5.4 below. During recent years, both import and export volumes have increased at relatively equal levels. They are expected to increase strongly also over the next decade, from 22.78 million tons in 1998 to 35 million tons in 2005 and to 51 million tons in 2010 for exports, and from 20.02 million tons to 36 million tons and to 53 million tons for imports. The increase in export volume would result from the increase in all kinds of seaborne trade cargoes, especially containerised cargoes, which will be explained later. The reason for the high level of imports and even a little bit bigger than exports is because Vietnam will be still dependent on import products, especially capital goods and intermediate products such as petroleum products, machinery, fertilizers, and iron for its growth and industrialization. In reality, the slower increase in the import volume compared with export volume during recent years (1996-1998) was due to the slow-down of the economy.

Figure 5.4: Overseas cargo volume and forecast



Source: compiled from sources of Vietnam National Maritime Bureau.

5.2 Export cargoes

5.2.1 Non-containerised cargoes

Non-containerised cargoes include dry bulk cargo, liquid bulk cargo, and break bulk cargo. Crude oil (liquid bulk), rice (break bulk) and coal (dry bulk) are the three largest traffic volume in this sector in Vietnam. During the 1990-1998 period, crude oil increased at 22 percent in terms of volume, rice at 17 percent, and coal at 15 percent (Table 5.2).

Table 5.2: Volume of some main non-containerised exports (1000 tons)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Growth (%)
Crude oil	2,600	3,917	5,400	6,153	6,942	7,652	8,705	9,574	12,145	22 %
Rice	1,455	989	1,860	1,725	1,950	2,052	3,003	3,553	3,749	17 %
Coal	1,075	1,173	1,580	1,940	2,319	2,800	3,647	3,449	3,161	15 %

Source: General Statistical Office, Statistical Yearbooks 1996-1998, General Department of Customs

5.2.1.1 Dry cargo

Vietnam has been the second largest rice exporter in the world following Thailand, accounting for around 14 percent of total world rice export. The recent decision of the Government to remove restrictions on rice export quota is surely a positive signal to improve the export situation of this product.

Regarding coal, according to the Vietnam National Coal Corporation (Vinacoal), Vietnam's coal reserves are estimated at 3.6 billion short tons. New coal exploration and new contracts have also been signed with Canada, Japan and other countries, which will help boost this export of this dry bulk cargo.

Besides rice and coal, some other dry cargoes with a smaller volume like cement, appetite, iron ores, steel are also potential exports in the future. According to VINAMARINE, the expected volume for all dry cargoes is 11 million tons in 2005 and 13 million tons in 2010.

5.2.1.2 Liquid bulk cargo

Crude oil

At the moment, crude oil is single liquid bulk cargo bringing the biggest amount of foreign currency into Vietnam (US$1.4 billion in 1997). It also provides a great volume for maritime transport (Table 5.2). The potential for crude oil export is still big in the future. First, there are still available untapped reserves. Vietnam contains 600 million barrels of proven oil reserves, with probable and possible reserves ranging as high as several billion barrels. Second, so far all the major corporations have expressed interest in developing this area in Vietnam and the Vietnamese Government has responded by granting exploratory rights and the formation of joint ventures. Although oil exploration began in 1987, this industry has not begun developing until now and a substantial increase, as much as 10 percent, in oil production can be expected in the future years. According to VINAMARINE, it is expected that 14 and 18 million tons of crude oil will be exported in 2005 and 2010 respectively. In the longer term, export of crude oil may be reduced because of the operation of Vietnam's first oil refinery, which is expected to begin in the next 3 or 4 years.

Gas

Perhaps the most promising of Vietnamese energy resources is the gas industry, which is still relatively new in Vietnam at the moment. Vietnam's proven natural gas reserves are estimated at 6 trillion cubic feet (Tcf) and some industry experts believe gas reserves to be as high as 10 Tcf. Vietnam intends to become a major exporter of liquefied petroleum gas (LPG) by 2005. Two plants are scheduled to come on line, one this year and another in 2004, with a total capacity of 960,000 tons per year of LPG. If the expected internal demand for LPG rises from 35,000 tons per year in 1995 to 369,000 tons in 2005 and to 527,000 tons in 2010 (US Department of Commerce, 1998), the rest for export may create a significant demand for liquid bulk transportation.

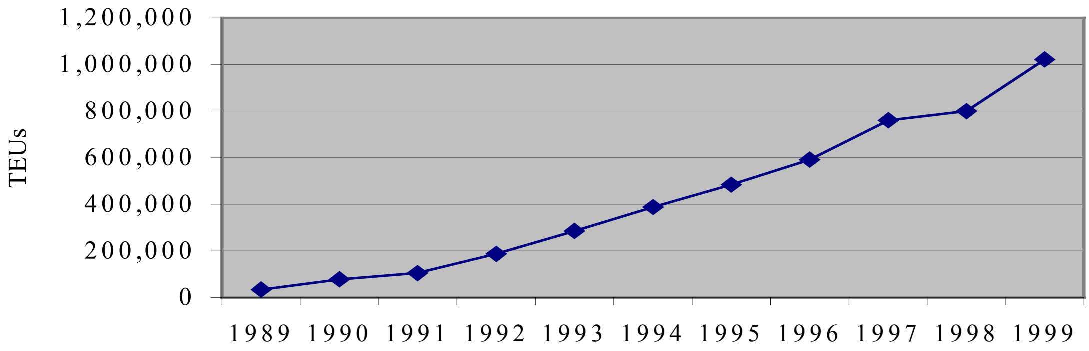
5.2.2 Containerised cargoes

5.2.2.1 Containerisation in Vietnam

The renovation policy has essentially influenced various aspects of the Vietnamese economy and containerisation in transport is also one result of such. However, while containerisation has developed for several decades in the world, the emergence of the Vietnamese economy just over the past decade has put its containerisation process far behind that of the region and the world. Nevertheless, the achievements over recent years in containerisation have been remarkable and brought a lot of hopes in the future in parallel with Vietnam's continuous economic development.

Container shipping was firstly applied in Vietnam in 1989 with the establishment of the Vietnam-France Shipping Joint-venture Company (Germatrans). Since then, more and more foreign shipping lines have invested in Vietnam. More than 30 foreign shipping companies are operating in Vietnam including big container lines like Maersk-Sealand, Evergreen, P&O-Netloy, APL etc. The leading shipping corporation in Vietnam, Vietnam National Shipping Lines, has also caught up with the general trend by its investments in container ships during the past 3 years and further plans in the coming years. Together with the shipping business, maritime services and port operations have also been developing, especially with investments in container terminals. Thanks to those, the volume of containerised cargo in Vietnam increased at around 34 percent on average during the 1990-1999 period.

Figure 5.5: Containerization in Vietnam (1989-1999)



Source: complied from sources of Vietnam National Maritime Bureau

However, currently, the ratio of containerised cargo in total seaborne trade of Vietnam is low at around 20 percent, while such a ratio in the world is 60 percent and in the region 65 percent (Nguyen, C., 1999, p. 8). For example, in 1998, out of 56 million tons of cargo throughput in Vietnamese ports, only 820,000 TEUs (equivalent to 10 million tons) were containerised cargoes. Such a ratio is estimated to increase to 30-35 percent by 2010. By that time, Vietnam's total container volume would have reached 3.6 million TEUs (Table 5.3).

Table 5.3: Container traffic forecast, by country

Country	Container Traffic (000 TEUs)			
	1997	**2004**	**2010**	**2020**
Brunei Darussalam	79	200	300	800
Cambodia	36	100	300	900
Indonesia	2,792	3,800	7,100	14,800
Malaysia	3,070	5,000	9,500	19,600
Myanmar	96	300	1,200	3,300
Philippines	2,631	4,900	8,700	15,300
Singapore	14,750	20,600	31,200	52,500
Thailand	2,181	3,700	6,200	12,300
Vietnam	**733**	**1,700**	**3,600**	**9,400**
		(132%)	***(112%)***	***(161%)***
Total	26,368	40,300	68,100	128,900
		(53%)	*(69%)*	*(89%)*

Source: ASEAN Transport Cooperation Framework Plan, July 1999, National Maritime Bureau.

According to this forecast, the total container traffic of ASEAN countries is expected to increase by 53 percent in 2004 compared to 1997, 69 percent in 2010, and 89 percent in 2020. Vietnam will be among the countries in the region with the largest increase, 132 percent in 2004, 112 percent in 2010, and 161 percent in 2020.

5.2.2.2 Containerised exports

Together with the general trend in containerisation growth in maritime transport, export products from Vietnam have also been achieving a high-containerised rate. This increased by 48 percent in 1996, 69 percent in 1997, a little bit faster than the import container volume, 47 percent and 56 percent respectively (Table 5.4). Unfortunately, the trend was broken by the regional economic crisis in 1998, down to a negative growth of minus 2 percent and 1 percent for the total traffic. However, recovery was achieved in the following year with an increase in the container trade as a whole of 29.2 percent (Vietnam National Maritime Bureau, 2000, p. 1).

Table 5.4: Container trade (1995-1998)

	1995	1996		1997		1998	
	No. TEU	No. TEU	Growth rate/year	No. TEU	Growth rate/year	No. TEU	Growth rate/year
Export	152,500	225,527	48%	381,399	69%	375,674	-2%
Import	162,634	239,322	47%	372,313	56%	381,817	3%
Total	315,134	464,849	48%	753,712	62%	757,491	1%

Source: Vietnam National Maritime Bureau

Given the data over recent years, container exports could be projected to increase at least at the rate of the total container trade. By then, based on the forecast in Table 5.3, at least around 884 thousand TEUs and 1.87 million TEUs would be exported in 2004 and 2010 respectively.

Changes inside Vietnamese economy together with potential from the outside have contributed to increasing Vietnamese containerised exports. The main product groups suitable for being transported in containers are processed food and agriculture, and manufacturing products.

From general cargo to containerised cargo

There has been a trend in which some break-bulk cargoes have started to be carried in containers. One example is rubber. The Government's policy towards exporting processed rather than non-processed rubber has made rubber exports more suitable for containerisation. Rice, a major export of Vietnam, could be carried more and more in containers in response to the customers' needs and increasing delivery quality. Also in the case of timber, existing regulations stipulate that the export of timber must be in forms of processed products. As a result, wooden products reached US$77 million in terms of export value in 1998 and increased by 69 percent in volume during 1994-1998.

Food and agricultural products

Vietnam is a major exporter of various kinds of agricultural products, consisting of rice, rubber, coffee, tea, vegetables, fruits, coconuts, corn, sugar cane, cashew nuts, soybeans, groundnuts, cassava and pepper. Until now, most agricultural products have been carried in containers except for rice and rubber mainly in break-bulk type as mentioned above.

Typical for reefer container shipping are seafood, vegetable, fruits and protein-based products like meat and milk. All of them are potential for future export. A project named "Vegetables, fruits and ornamental plants development in the period of 1999-2010" has been approved with a total investment capital of over US$1,000 million. If successfully achieved around 1.4 million tons of vegetables and 1.6 million tons of fruit will be expected to be exported by 2010.

The aqua-product industry has been considered to obtain a very high growth rate in terms of export performance during the last 10 years. After 10 years, aqua-products production for export has increased 600 percent. A program to promote the fishery sector has been also approved by the Government. Accordingly, the country's seafood output could reach two million tons by the year 2010. Moreover, Vietnamese seafood exports have a lot of potential to penetrate the big markets like Japan, the EU and the US as seen in the previous chapter.

Manufacturing products

The most important source for container trade is manufacturing products. The potential for these products is very bright based on the analysis in Chapter 2 and 3 above. Labour-intensive products like garments and footwear will still make the biggest contribution to the container export volume.

Garments is one of the industries that has been growing fastest in Vietnam during recent years. On average, it grows at over 10 percent annually. Exports, in particular, have increased at nearly 50 percent per year (from US$200 million in 1990 to US$1.5 billion in 1999), making garments to be one of the main sources generating foreign currencies for the country.

The leather and shoe industry is expected to become a concentrated and autonomous economic sector by 2010. Several well-known shoe producers such as Nike, Adidas and Reebok have built plants in Vietnam. Export revenues have increased annually by 58 percent on average. Last year, export revenues reached US$1.25-1.35 billion. They are targeted to reach US$2.5 billion in 2005 and US$4.7 billion in 2010.

5.3 Volume structure trend

Nowadays, the general trend in the world is that countries trade more manufactured products with each other, especially technology intensive manufactured products. The main reasons are manufacturing brings more benefits to national economies than primary products. Moreover, the changing economic structure in industrialized countries create less demand for the trade of raw materials because the production activities are now more and more carried out in the resource countries. Therefore, total seaborne trade becomes higher in value and lower in volume (Shuo, 1999, p. 31).

However, if we consider the export development of Vietnam during the past years and compare value trends and volume trends, it is found that the volume increased faster than the value. For example, while the trend in value was at 18 percent per year during the 1994-1998 period, that in volume reached 56 percent per year (Table 5.5). That is why in fact the trade deficit in terms of volume in Vietnam is not as marked as it is in US$ terms during recent times. There was even a 'trade surplus' in terms of cargo volume in the period from 1996 to 1998. This reality can be explained by the fact that Vietnam mainly exports low-value cargoes like raw materials, agricultural products, manufactured products including mainly labour-intensive products which are certainly of less value compared with technology-intensive products. In addition, the foreign material value is remarkable in export contents of Vietnam. For instance, 80 percent of materials for producing garments and footwear exports are from foreign sources. Nevertheless, in considering demand for transport, high volume is always of significant concern.

The volume trend in turn has different characteristics for different kinds of products. Looking at Table 5.5, it is clear that volume increased more in products which are relevant to the container trade like garments, footwear, sea products, and coffee and less in other dry cargoes like rice and coal. Furthermore, value trend as well as trend stability of containerised cargoes is also higher than that of other dry cargoes. It proves that there is a trend towards exporting more containerised cargo in Vietnam's export structure.

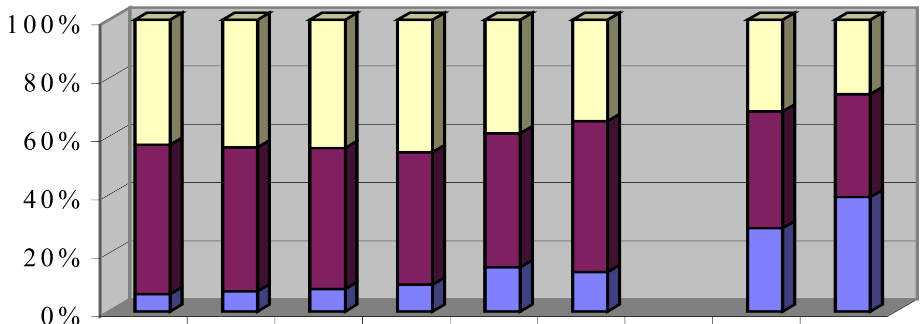
Table 5.5: Compared value and volume trend of major exports (1994-1998)

Product	Value trend (%)	Trend stability	Volume trend (%)
All goods	**18**	**High**	**56**
Crude oil	10	Med	16
Coffee	6	Low	40
Coal	3	Low	22
Rice	4	Low	14
Shrimps and pawns	10	High	12
Footwear (outer soles/upper of rubber or plastics, nes)	42	High	112
Footwear (outer soles of rubber/plastics uppers of leather, nes)	57	High	103
Sports footwear (w outer soles of rubber or plastics & upper of tex mat)	75	High	108
Footwear o/t sports (w outer soles of rubber/plastics & upper of tex mat)	27	High	65
Mens/boys anoraks	22	High	66
Women/girls anoraks	14	High	59
Men/boys shirts	23	High	42

Source: International Trade Center (WTO/UNCTAD), 1998 (http//:www.intracen.org)
Note: Trend stability indicates whether growth trends have been stable or volatile. It is classified as 'High', 'Med.' Or 'Low' based on the percentage of variation in export value by the trend. High stability is defined as .70 to 1.00, medium as .35 to .69, and low as .00 to .34.

Figure 5.6 shows us the current trend of export structure and projections until 2010. Accordingly, containerised exports will increase their share from 15 percent of the total exports in 1997 to 29 percent in 2005 and 40 percent in 2010. Meanwhile, the share of liquid bulk will be down from 46 percent to 40 percent and then to 35 percent, and of dry bulk down from 39 percent to 31 percent and then to 25 percent.

Figure 5.6: Vietnamese export cargo structure and forecast
(figures in the table in million tons)



	93	94	95	96	97	98		2005	2010
Other dry cargo	5.18	6.1	6.9	8.7	8.2	7.9		11	13
Liquid bulk	6.2	6.9	7.6	8.7	9.7	11.8		14	18
Containerized cargo	0.71	0.96	1.2	1.77	3.2	3.08		10	20

Source: compiled from documents of ASEAN and National Maritime Bureau

CHAPTER 6

IMPACTS ON VIETNAMESE MARITIME TRANSPORT

The above analysis shows us the developments of export cargoes from Vietnam and trends in the future. It is obvious that such developments are beneficial for maritime transport in general. It is up to the Vietnamese Government to create an environment in which cargo movements are served best by maritime transport. Given Vietnam's rather poor shipping industry at the moment, it becomes a necessity that the industry should develop quickly in order to catch up with the increasing flow of different types of cargo in Vietnam if it wants to be involved in the international shipping of Vietnamese cargoes.

6.1 Vietnam's transportation share and necessary cooperation from domestic traders

6.1.1 Transportation market

During recent years, around 30 - 40 million tons of import-export cargoes have been going through Vietnamese ports, of which more than 10 percent has been carried by Vietnamese vessels. For example, Vietnam's transportation share was 12 percent in 1997 (Table 6.1).

Table 6.1: Vietnamese share of sea transportation in 1997 ***(million tons)***

	Cargoes	Total volume	Share	
			%	Volume
A	**Exports**	**21.1**	**11.8**	**2.5**
1	Dry cargoes	8.2	15	1.3
2	Containerised cargoes	3.2	4	0.2
3	Crude oil	9.7	11	1
B	**Imports**	**17.2**	**12.2**	**2.1**
1	Dry cargoes	7.5	14	1.1
2	Containerised cargoes	3.4	5	0.2
3	Petroleum	6.3	14	0.8
	Total A+B	**38.3**	**12**	**4.6**

Source: Vietnam National Maritime Bureau

The shares among exports and imports as well as among different types of cargoes were equal. It is important to recognize that Vietnam carried very little of its containerised cargoes, both in the case of imports and exports, being only around 4-5 percent.

In reality, Vietnamese shipping companies are in great difficulties to find employment for their ships from Vietnamese cargoes. The market for Vietnamese vessels has been dominated by foreign ships. They are miserably watching the local cargoes being transported by foreign vessels. "Foreign vessels now transport 89 percent of Vietnam's exports and imports, although the present capacity of domestic vessels would allow them to handle at least 20 percent of the total volume" ('Vietnam shipping traffic increases but improvements needed', 1999). On the contrary, 70 percent of the market for Vietnamese vessels is under charter contracts with foreign partners, i.e. for carrying non-Vietnam sourced goods ('Privatization in Vietnamese maritime transport sector: two obstacles to its implementation', 2000).

6.1.2 Cargo reservation

A system of reserved cargoes exists in Vietnam as in all developing Asian economies. This policy is linked to a wider policy of reducing the huge outflow of currency caused by the need to use foreign tonnage for the majority of the country's trade. It is estimated that "if domestic carriers can manage to capture 40 percent of the market by the year 2000, they will be generating US$400 million in revenue for the country, that is now being paid to foreign ship owners" (Jepsen, 1997).

Under the system, the percentage reserved for the domestic fleet varies between commodities. In reality, the system is not adhered to. For example, around 20 percent of crude oil exports are reserved for local tankers. However, in 1996, Vietnamese ships carried less than one million tons out of the total 8 million tons of crude oil exported from Vietnamese oil fields ('Maritime modernization is key policy', 1997). In 1999, VINALINES, the leading shipping corporation in Vietnam, carried only 12.07 percent of total crude oil exports, 14.63 percent of rice, and 1.47 percent of coal. The main reason for this is simply because there is currently insufficient Vietnamese tonnage. Besides, trading customs is also an important factor. All of these should be paid attention to with the aim to increase the Vietnamese transportation share. Furthermore, the solutions must be based on the general trend in trade developments.

6.1.3 Trading terms in foreign trade contracts

At the moment, most international trade contracts in Vietnam are signed under the trading terms that are not favourable to the domestic shipping companies. Export contracts are at FOB prices, and import contracts are at CIF or CFR prices.

In general, it has become the habit for Vietnamese traders to prefer to sign "simple" contracts as mentioned above. They are afraid of being involved in other matters beyond their cargo interests. Moreover, there has been no link or relationship between domestic businesses and domestic shipping companies. However, it must be also noted that low capital profile can be an important reason. For instance, if local exporters sell their goods under the CIF term, their debts are extended by the period the cargoes are on the way.

Therefore, export expansion may help increase national shipping in one way in which domestic exporters try to reserve cargo transportation for domestic carriers. In this matter, the Government should establish policies and measures to create a cooperative environment between the shipping and trading businesses. Besides, policies supporting exporters in the field of capital should be made to include interest rate preferences, lower tariffs for cargo values under CIF export contract etc.

6.2 Shipping fleet development

It is undeniable that the main reason why Vietnamese customers do not choose Vietnamese vessels to carry their goods is the poor quality and services of the domestic shipping fleet. Higher freight rates, insufficient shipping space, and inadequate services provided by the national ships has led to the exporters to look for better services in the international shipping market. In reality, the national fleet has failed to keep pace with the rapid growth in Vietnam's seaborne trade.

6.2.1 Shipping fleet structure

According to the Vietnam Register Book of Ships, by the end of 1999, Vietnam had 549 vessels with a total capacity of 1,142,977 DWT. In general, Vietnamese ships are small and old with an average age of 19.6 years old, even though modernization has taken place during recent years. Dry bulk carriers, tankers and reefer vessels are on average over 20 years old. Most of the ships are less than 2000 DWT. The structure of the national shipping fleet can be seen as follows:

Table 6.2: Vietnam's shipping fleet structure by the end of 1999

	Type of vessel	No.	Gross tonnage	Deadweight	Share of GT/DWT
1	Oil tankers	59	205,979 *(Crude oil: 56,359)*	368,551 *(Crude oil: 88,362)*	*28%/32%*
2	Containerships	6	62,061	73,981	*8%/6%*
3	General cargo ships	468	401,053	601,016	*55%/53%*
4	Dry bulk carriers	4	54,983	92,119	*8%/8%*
5	Reefer ships	12	7,700	7,373	*1%/1%*
	Total	**549**	**731,776**	**1,142,977**	***100%***

Source: Vietnam Register Book of Ships, 1999

The structure above is clearly inappropriate with the current export structure in Vietnam and trends in the future. Most of the ships are general cargo ships, accounting for 55 percent in total tonnage and 53 percent in total deadweight. With the trend towards containerised cargoes, general cargo ships are becoming obsolete. They are less suitable for carrying Vietnamese goods when main break-bulk cargoes like rice and rubber are being containerised and their volume is growing slower than other types of cargoes. Moreover, they are also too small compared with the volume of exports like rice.

Among 59 tankers, only two are used for carrying crude oil exports, the rest being used for oil product imports. In reality, before 1998, with only one small crude oil tanker with 27,402 DWT, Vietnam hardly had tanker tonnage to serve crude oil exports of around 7.8 million tons annually. Recently, Vietnam bought one more crude oil tanker with a capacity of 60,960 tons, which has been running since late 1998.

Regarding the existing dry bulk carriers, they are too small compared with the volume for Vietnamese exports. Reefer vessels are also very small and too old (26 years old on average). Furthermore, they have not been able to compete with reefer containers.

Vietnam has an oversupply of general cargo ships but lacks containerships. Looking at container vessels, they are both small in number (6 ships) and in capacity, accounting for only 8 percent of total tonnage and 6 percent of total deadweight. Most containerships are between 400 - 600 TEU capacity, with only one with around 1,000 TEU capacity. This illustrates a big imbalance with the increasing flow of containerised cargoes in Vietnam.

In order to be involved more in the national cargo transport, it is clear that Vietnam needs to acquire more big ships which are suitable for modern transportation modes, including specialized ships for dry bulk cargo, crude oil, and especially containerships. According to Lloyd's List, issue Apr. 2000, "to carry a reasonable amount of its trade, Vietnam's maritime sector badly needs dry bulk ships ranging between 6,500 - 10,000 tons and 15,000 - 20,000 tons containerships". The expected big volume of gas exports by 2010 might be a signal for the investment in gas tankers.

In reality, Vietnam has become much more concerned about the development of its shipping fleet in recent years. And it is important to notice that those 6 containerships have just been acquired over recent years with the establishment of VINALINES. However, fleet development has still been limited because of the lack of capital. Therefore, in the future, fleet renewal should be continued by exploiting loans from international organizations or banks or bare-boat charter method as what is being done in Vietnam recently.

6.2.2 Competitiveness and scope of activities

Concerning shipping operations, the current national shipping fleet is also not able to catch up with changes in sea borne trade. Most Vietnamese shipping companies are working in dry bulk or general cargo transport sections, which are characterised by tramp shipping. Only recently, has container shipping been developing with the operation of 2 joint ventures (Germartrans and APM-Saigon Shipping) and

VINALINES. With the increasing demand for container shipping in Vietnam, Vietnamese shipping should move further towards this kind of modern transport, which has been actually developing for several decades in the world.

Besides, with the majority of small ships, Vietnamese ships are mostly operating on short routes within the region. If looking at the recent trends of Vietnam's market expansion outside Asia, especially to the EU and the US, it might be a wish of domestic shipping to quickly expand the fleet. Longer-term investments could be made, for instance, in big containerships of over 3,000 TEU for transporting cargoes from Vietnam to Europe and the US.

However, it will be the role of the Government to choose the shipping scope it should focus on. Shipping is an international market with tough competition. Moreover, it is also a capital-intensive industry that not all developing countries like Vietnam can afford.

Therefore, given the status of a very small player in the shipping market, it could be a good idea and acceptable if Vietnam concentrates on coastal shipping for domestic shipping, and short sea shipping within the region for international trade (our concern here). Deep-sea shipping, which requires strong financial sources and professional experience, should be left to international shipping companies.

For example, Vietnamese container shipping is newly established with small volumes, fleet and market share. In the future, Vietnam only can focus on short container trading routes in the region (feeder services). Expected cargo volume to EU and the US can increase the cargo movements to transshipment ports in the region like Singapore and Hong Kong. Vietnamese container services could find more employment in those centers. For this, they might need to find some form of cooperation with foreign maritime carriers on the Asia-Pacific routes.

Competitiveness is another matter. Domestic shipping should be able to provide competitive freight that can compete with foreign shipping companies. In this matter, there should be some form of support from the Government as like that being done by many Asian developing countries like Malaysia and Indonesia. It can be the exemption or reduction of income tax; preferential handling cargo rates or other forms of financial assistance.

Particularly, Vietnam should move towards container shipping based on current trends. Therefore, measures should be taken such as cargo reservation for Vietnamese containerships. In addition, the Government should control the issuance of licences for foreign lines operating in Vietnam, with the aim to stop unnecessary imbalances in tonnage supply and demand which lead to destructive competition and oversupply of tonnage. At the same time, unfair competition or violation of regulations on trading routes and freight registration should be strictly settled. Such regulations are similar to those adopted by developing East Asian nations such as the Republic of Korea many years ago.

It should be noted that Vietnam is carrying out an integration process with the world, especially with the liberalization agreements for AFTA in 2006, APEC in 2020, and the coming Vietnam-US Trade Agreement and then possibly the WTO. Then, domestic shipping will face more competition. And supporting measures by the Government shall not be done for a long time. Increasing the effectiveness of domestic shipping companies is becoming very important now.

6.3 Port development

Trends in export development in Vietnam have an impact not only on Vietnamese shipping development but also on the development of ports. It is quite understandable, based on the fact that ports have always been considered as bottlenecks for the movement of goods to and from a country. On the one hand, low productivity and long time in ports prevents the smooth passage of goods. On the other hand, the increase in cargo flows pushes the respective changes in port facilities and services. On this matter, relatively speaking, ports are more affected than shipping because while foreign ships can undertake the transportation of Vietnamese cargoes, the matter in cargoes at ports is entirely dependent on the part played by Vietnam.

Looking at Vietnamese ports, Vietnam has around 80 seaports; however, the majority of them are small and outdated. No Vietnamese port is suitable for ships of over 30,000 tons. Throughput productivity of Vietnamese ports is not high. Only 4 ports had the capacity of more than 1 million ton per year in 1999 viz. Saigon (8.3 million tons), Haiphong (6.5 million tons), Danang (1.1 million tons), and Quang Ninh (1.05 million tons) (Vietnam National Shipping Lines, 2000, p. 3). It is expected that in 2005, the capacity of Saigon port will increase to 15 million tons, Haiphong port to 7 million tons, and Danang to 2 million tons.

Concerning port facilities to serve containerised cargo movements, they are also newly developed like in the case of the Vietnamese container shipping fleet. Before the birth of the Vietnam International Container Terminal (VITC) in late 1998, Vietnam did not have "real" container terminals but mainly terminals that have been upgraded from the conventional facilities at the existing ports and at low productivity. VITC is considered as "Vietnam's sole containerisation project in a country of over 75 million people" ('Vietnam ready at last for start of operations container terminal', 1999). It is capable of handling up to 150,000 TEU a year and receiving ships of 20,000 tons.

In general, in order to catch up with the development of cargoes, still a vast quantity of investments is needed in Vietnamese ports and container facilities should be focused on more. Recently, Vietnam has paid a lot of attention to this matter like encouraging joint ventures with foreign partners. For example, the Vung Tau – Thi Vai port complex under the joint venture with American firms is expected to handle 20-30 million tons of goods in 2010. Besides investments in port facilities, administrative procedures should be improved too with the aim of reducing the constraints of the ports. This would greatly benefit from training, education, and the implementation of modern information technology.

Again, capital is an important factor. And Vietnam is trying to exploit soft loans and aid from donor agencies like Asian Development Bank (ADB), Japanese Overseas Economic Development Fund (OECF), etc. for such requirements.

Under the existing situation of Vietnamese maritime sector, the impacts of international sea trade expansion can be seen quite clearly on its development. Both the shipping fleet and infrastructure, like ports, should be improved. It is easy to say this. However, it is the role of the Government to direct the development of maritime transport activities for the national benefit so that it can best serve the country's seaborne trade expansion. It is very difficult to develop all at one time. Concerning the economic effectiveness for the whole country and also for trade expansion in particular, the choice could be to focus more on shipping or on infrastructures for transport like ports, roads etc. or create a balance among them.

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In short, how Vietnamese shipping is going to change and, more importantly, how it is going to cope with the changes in the trade structure, after having understood the essence of the likely changes in the future, are subjects that are left for the Vietnam maritime sector to tackle in real earnest at this point of time. Vietnamese shipping is called on to anticipate these changes on short, medium and long-term bases, undertake the construction or chartering of suitable vessels, and scrapping of unsuitable vessels at the right times, and thereby to actively secure a large enough cargo volume with a cost-competitive fleet. Above all, the development should follow the general trend of containerisation in shipping. Though Vietnamese shipping, especially VINALINES, has already moved in this direction by ordering new ships, these moves have only very recently begun.

For this purpose, the role of the Government is very important to coordinate different partners like cargo owners, ship-owners, shipbuilders, financial institutions and the government authorities in their respective areas of competence, and have a clear direction of the national maritime sector. Through this, national shipping can benefit best and trade expansion will not be obstructed by transportation.

CHAPTER 7

CONCLUSION

The following main changes can be seen in the Vietnamese export structure recently and in the medium future:

- Primary products and unskilled labour-intensive products account for the majority of total exports. They are mainly based on Vietnamese available resources and cheap labour cost. This proves Vietnam is still at a low economic development and has just started its initial steps to penetrate into the world market.

- Primary products are quite a potential given Vietnam's rich natural resources. The main mining exports are crude oil, coal and various ores. Agricultural products are moving towards more and more processed products like seafood, coffee, and cashew nuts. However, the ratio of primary products in total exports is diminishing.

- The recent fastest export growth is from the labour-intensive manufacturing of, for example, garments and footwear. There is still a lot of potential to continue in the future.

- Manufactured products of technology intensify like electronics occupy a very modest share in the national export performance. However, the growth rate has been dramatic over recent years, showing that Vietnam is moving in the same way as other more advanced Asian economies.

- In general, the volume of exports is growing faster than the value. The most impressive growth is from containerised cargoes. Processed and manufactured products, which are of higher value compared with other types of products, are particularly suitable for being containerised. The container shipping market that has been developing very fast in Vietnam has contributed to promote the containerisation process. Some break-bulk cargoes like rice and rubber tend to be carried in containers.

- Liquid bulk cargo like crude oil and natural gas or some other dry cargoes still bring a very high volume for maritime transport.

- Export markets for Vietnamese goods have been changing remarkably with a low share of the major markets in Asia and moving to markets farther afield in Europe and America. The US is the biggest potential export market in the future.

The following changes are the result from various factors, both internal and external. The study revealed that reform policies of the Vietnamese Government, which have effected various aspects of the economy, have played the most important role in changes within the economy in general and foreign trade in particular. The structure of the economy is changing in a way in which the agricultural sector plays a less important role in the whole economy while industry and services are raising their shares, especially the industry component. The Government has applied a lot of incentives for exports including tax and financial assistance. More and more priorities have been put on the manufacturing sector like the establishment of EPZs.

Foreign investors come to Vietnam to open factories in order to take advantage of Vietnamese cheap labour costs and other investment incentives.

In addition, the study also examines opportunities for Vietnamese exports in the main export markets. Vietnam's integration in the region and in the world has been bringing a lot of opportunities for its goods. Vietnam can exploit benefits from participating in AFTA and other trade agreements. The markets of the EU and the US can absorb a big volume of Vietnamese light manufacturing such as garments and footwear. Processed agricultural products have been gaining a good position in various markets as well. Particularly, the implementation of the Vietnam-US trade agreement will bring a surge in Vietnamese exports of manufactured products and processed food to this big market owing to a sharp reduction in tariffs and an increase in foreign investments in Vietnam.

However, many problems and difficulties exist and they should be looked at carefully for appropriate solutions to be made. Vietnamese reforms are showing some slowdown. Export-oriented and import-substitution strategies go at the same time with the dominating role being the latter. Foreign investments have been declining for the past 3 years. The implementation of the Government's commitments to further reforms under the three-year agenda is essential under the current situation and also in order to meet the requirements of the integration process. If it is carried out, more and more investments will be poured into sectors of Vietnamese comparative advantages rather than import-substitute ones. Agricultural processed products and labour-intensive manufactures will gain much therein.

There exist weaknesses in Vietnamese export products as well. The products are not so diversified and still relatively low quality compared with the same products of competitors. Vietnamese products are facing fierce competition in the world market. Furthermore, participation in AFTA would facilitate the imports, particularly manufactured products, from other ASEAN member countries in Vietnam. Agricultural products of Vietnamese strength need 10 years more to enjoy tariff preferences. The EU will stop import quotas on Vietnamese garments in 2005. The economies of crisis East Asian countries are showing recovery signals and their products are gaining competitiveness in the international market.

Here, one model of SWOT analysis can be recognized with the mixture of all strengths, weaknesses, opportunities, and threats for Vietnamese export development.

In order to achieve positive developments in export performance as projected in the figures in the study, Vietnam should continue and push up its current reform process, especially with policies to encourage foreign investments as well as domestic sources from different economic sectors. More policies should be established to encourage the participation of the private sector in the economy in general and foreign trade activities in particular. Moreover, although the tariff structure and non-tariff barriers have been considerably improved, they should be further reduced or removed in order to facilitate the movement of trade. The economy should be developed more towards an export-oriented one, step by step moving away from the import substitution policy. Relating to markets for exports, the Government should direct the expansion of export markets outside Asia towards, for example, the American and European markets. And above of all, the increase in the competitiveness of export products should be paid attention to.

This study also examines the implications of changes happening in the export cargo structure from Vietnam on its national shipping industry. The national maritime transport sector still lacks a great number of suitable ships, of all tonnage, quality, and services for carrying its export cargoes. In order to participate in the transportation of national foreign trade, investments in the national shipping fleet, especially containerships are necessary. Obsolete transport methods like general cargo shipping should be eliminated. And taking into account the lack of capital resources, short-sea shipping within the region should be paid attention to. Port infrastructures including container terminals are also very important to facilitate container movements. The Government is in charge of directing this development of national shipping for the nation's good.

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The writer believes that for the time being the study is sufficient in order to have an overall look at the changes in Vietnam's export structure and more specifically in the seaborne exports from Vietnam. The study is necessary for those working in the Vietnamese maritime sector to focus on the future demand for maritime transport from Vietnam and to establish the appropriate strategies in their working sectors. The recent signing of the Vietnam-US trade agreement, which can be considered to be important to have impacts on the Vietnamese economy and trade, should be further studied, especially when it is implemented in reality.

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APPENDIX 1

List of Vietnamese exports by SITC (Standard International Trade Classification) groups, as of 1998

1. Food items

Fish fillets frozen
Shrimps and prawns, frozen, in shell or not, including boiled in shell
Cuttle fish and squid, shelled or not, frozen, dried, salted or in brine
Cashew nuts, fresh or dried, whether or not shelled or peeled
Coffee, not roasted, not decaffeinated
Pepper of the genus piper, ex cubeb pepper, neither crushed nor ground
Rice, semi-milled or wholly milled, whether or not polished or glazed

2. Non-food primary commodities

Anthracite, whether or not pulverised but not agglomerated
Petroleum oils and oils obtained from bituminous minerals, crude
Containers, with outer surface of sheeting of plastic or tex materials, nes

3. Manufactured products

Pullovers, cardigans and similar articles of man-made fibres, knitted
Men/boys anoraks and similar articles of man-made fibres, not knitted
Women/girls anoraks & similar article of man-made fibres, not knitted
Mens/boys shirts, of cotton, not knitted
Mens/boys shirts, of cotton, not knitted
Women/girls garments nes, of other textile materials, not knitted
Toilet & kitchen linen, of terry towel or similar terry fab, of cotton
Sports footwear, outer soles and upper of rubber or plastics, nes
Footwear, outer soles/uppers of rubber or plastics, cover the ankle, nes
Footwear, outer soles/uppers of rubber or plastics, nes

Sports footwear, o/t ski, outer sole of rubber/plastic/leather & upper of leather

Footwear, outer soles of rubber/plastic uppers of leather cover ankle nes

Footwear, outer soles of rubber/plastics uppers of leather, nes

Sports footwear, outer soles of rubber or plastics & uppers of tex mas

Statuettes and other ornamental articles of ceramics nes

Printed circuits

Ignition wire sets & other wire sets used in vehicles, aircraft etc

Seats with wooden frames, nes

Furniture, wooden, nes.

Source: International Trade Center (UNCTAD/WTO)

APPENDIX 2

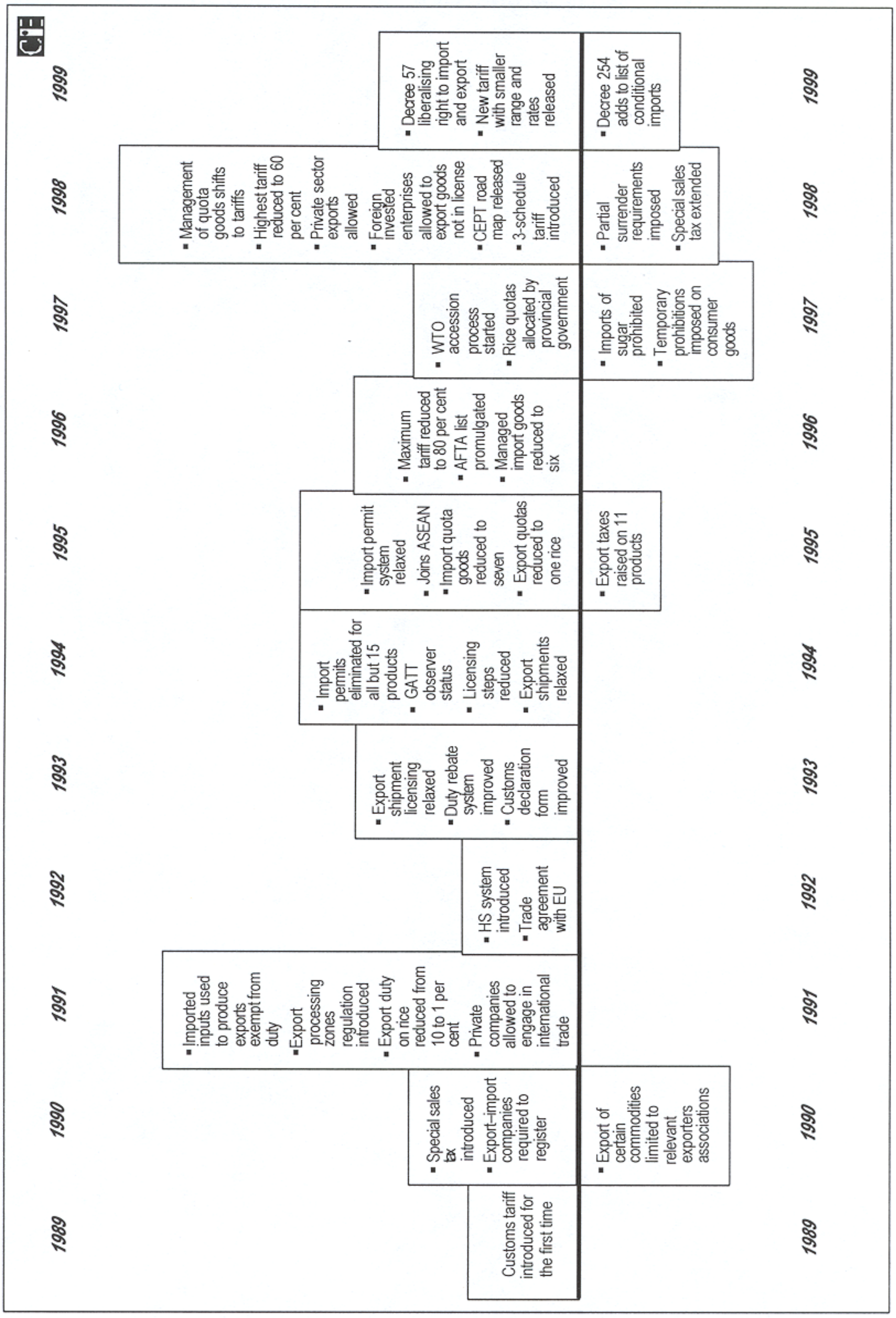
Vietnamese main trading partners *(% of total)*

	1995	1996	1997
Exports			
Australia	3.7	4.4	2.2
Canada	1.0	1.0	0.7
France	4.9	4.9	2.6
Germany	9.0	8.1	4.4
Hong Kong	2.8	2.6	5.3
Indonesia	1.5	2.7	0.5
Japan	27.3	26.4	18.1
Malaysia	2.0	2.0	1.6
Netherlands	1.6	1.7	2.8
Singapore	7.1	5.7	13.0
Taiwan	4.3	4.1	8.8
Thailand	0.7	0.9	2.5
United Kingdom	2.7	3.3	2.9
Imports			
Australia	1.4	1.3	1.7
France	3.0	6.0	4.9
Germany	2.2	2.7	2.5
Hong Kong	6.0	4.8	5.4
Indonesia	2.0	2.7	1.8
Italy	1.0	1.3	0.9
Japan	8.7	9.2	12.7
Korea, Republic	12.7	12.9	13.8
Malaysia	2.5	2.6	1.9
Singapore	16.8	13.8	18.4
Taiwan	9.5	9.5	12.3
Thailand	4.4	3.8	5.0

Source: IMF, Vietnam: Statistical Appendix (July 1999)

APPENDIX 3

Time table for trade reform



Source: World Bank, 1999