



## **Vietnam's Accession to the WTO: the Way Ahead** by Ta Minh Tuan

In Nov. 7, 2006, Vietnam was officially admitted to the World Trade Organization (WTO), becoming its 150<sup>th</sup> member of the world's largest trading block after 11 years of negotiations. Vietnam Deputy Premier Pham Gia Khiem led a large high-ranking delegation to the admission ceremony in Geneva. Back home, the Vietnamese media envisioned rather rapid economic development for Vietnam once the country gained entrance to the WTO: there has been much fanfare in the last few weeks and the event has been hailed "a turning point" and even "a sacred moment." Many in Vietnam talk about "Vietnam taking off" and of it becoming "a new Asian tiger."

There are reasons for enthusiasm. Vietnam's economy has sustained a high growth rate in the last decade, averaging 7.25 percent a year. Economic growth is projected at 8.2 percent in 2006. Exports surged to \$32.2 billion in 2005 and is expected to register \$100 billion in the next seven years. Last year, Vietnam attracted \$5.8 billion in foreign direct investment (FDI). So far this year, Vietnam has received \$6.5 billion in FDI, and the amount could reach \$7 billion by the year end. As a result of fast economic development, GDP per capita has doubled that of 1995 although it is still modest in absolute terms.

But the sense of joy cannot obscure the challenges that lie ahead. First, Vietnam's economy is still in transition. It will not be recognized as a full market economy for 12 years. Despite the fact that Vietnam has joined the ASEAN Free Trade Area (AFTA) and signed a Bilateral Trade Agreement with the United States (BTA), a large number of Vietnamese businesses and entrepreneurs are not used to international business practices and customs. For Vietnam, joining the WTO is like a small fish swimming from a river to the ocean. Now the playing field is at a different level and Vietnam must abide by the same rules as other members. The way the government runs the economy and Vietnamese entrepreneurs do business will be completely changed. Outside pressure will be put on Vietnam's economic policy. How Vietnam quickens the pace of reform to cope with its WTO commitments remains a big question.

Second, the immediate impact of WTO membership is on Vietnam's tax policy. The average import tax will be reduced from the current 17.4 percent to 13.4 percent between three and five years. As the competitiveness of Vietnamese enterprises is fairly weak, they will confront more serious competition from foreign counterparts when Vietnam further opens its market to international companies. In the long run, tariffs will be cut even further, pushing more Vietnamese businesses to the verge of bankruptcy, especially in agriculture. Two thirds of Vietnam's population lives in rural

areas and farming produces 20 percent of its GDP. Moreover, the Vietnamese government can no longer provide subsidies to exported agricultural products. Consequently, Vietnam's major exports such as rice, coffee, and cashew nuts will find it increasingly difficult to compete in foreign markets.

Manufactured commodities like garments, shoes, and automobiles will also face the possibility of losing domestic markets. Vietnamese producers should also be prepared for more anti-dumping lawsuits by foreign producers. Service providers hitherto protected by government policy and heavy investments will be exposed to fierce competition from giant corporations in telecommunications, banking, logistics forwarding, and insurance.

Third, the government will not be able to intervene in the working of more than 2,000 state-owned enterprises (SOEs) that still form the backbone of Vietnam's economy. They account for 38 percent of GDP. WTO membership will force Vietnam to hasten the pace of privatization of these SOEs or eliminate their state protection. If the government's control over them slips, it will have direct repercussions on the power of the communist party. This seems to be politically sensitive, but the government will not have many choices.

These are a few examples of the long and difficult road ahead that Vietnam is going to take. The current enthusiasm may last until the Vietnamese realize that they will have to come to terms with the real force of globalization.

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