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# SERVICES POLICIES AND INTERNATIONAL TRADE INTEGRATION IN VIET NAM <sup>1</sup>

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## Introduction

A small but fast-growing literature on Viet Nam's economic reform process has been developing since the early 1990s (see e.g. Fforde and de Vylder 1996, Kolko 1997, Kokko 1998, Van Arkalde 2001; Masina, 2002a and 2003), focusing mainly – albeit not exclusively – on two central and related questions: Is Viet Nam pursuing a strategy broadly resembling that of many of its neighbours, commonly interpreted as centred along the lines of the “Asian developmental state”<sup>2</sup>? If so, should Viet Nam maintain such a strategy, or should she rather abandon it in favour of a more orthodox neo-liberal one, following the prescriptions of the Washington Consensus?<sup>3</sup>

The scope of this paper is less ambitious than those of the studies mentioned above, as it concentrates only on one sector of the Vietnamese economy, namely, services, which so far has not been the object of extensive research, in the framework of the country's increasing international economic integration. Its aim is to analyse services policies as part of Viet Nam's overall development strategy and to evaluate their effectiveness and consistency, both in terms of achieving universally accepted social and economic objectives, and with respect to the ultimate strategic goal officially declared by the Vietnamese Government: the development of a strong market economy with a socialist orientation.<sup>4</sup>

Taking into account its sectoral and therefore relatively narrow-scope, the paper must necessarily adopt an interpretative framework, based on a few working assumptions relative to the broader economic scenario. With respect to the two crucial aforementioned questions, the answer, in my view, is a clear “yes” to both. It is true that the strategic planning capabilities of the Vietnamese State are commonly and correctly acknowledged to be lower than those of the most successful protagonists of the “Asian miracle”, on one hand, and of China, on the other hand. However, there is little doubt that Viet Nam is actually pursuing a “developmental state-inspired” strategy, strongly resembling the peculiar version of that strategy being carried out in China<sup>5</sup>. It is also my opinion that Viet Nam has little alternative but to continue to do so, both because the achievement of development objectives would not be helped by a radical change in its economic policy stance, and because a full withdrawal of the state from the economic sphere would not be compatible with the “socialist orientation” which the Vietnamese economy is expected to maintain and develop. With respect to the interpretation of the latter expression, a few words are also warranted, stated again in terms of a simplified working assumption. In my opinion, the “socialist orientation” requires a strong role of the state in the economy, and as a component of such a role it also calls for a reconfirmation and strengthening of state-owned enterprises' (SOEs) presence in strategic sectors. However, although this issue is not directly related to the focus of the present paper, it also requires a distribution of income and productive assets which is distinctively and structurally more egalitarian than that of a non-socialist

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<sup>2</sup> Some authors apply the term “developmental state” only to capitalist countries, others to both capitalist and socialist countries (see Masina 2003, p. 27). This paper chooses the second option and therefore refers to the “developmental state” also in the case of socialist (or socialist-oriented) countries like China and Viet Nam (see footnote 3).

<sup>3</sup> The literature on the “Asian developmental state” and its controversial relationship with mainstream economic theory is very extensive. For some of its pioneers, see Chalmers Johnson 1982, Amsden 1989 and Wade 1990. The World Bank's Japanese-funded report on the “Asian miracle” is also a quasi-classical reference (World Bank 1993a). For a re-assessment of the nature of the Asian developmental state and its prospects after the 1997-1998 crisis, see Stiglitz and Yusuf 2001, Masina 2002a).

<sup>4</sup> Vietnam's policies in the area of two important services sub-sectors – telecommunications and health – are examined more specifically in (Gabriele 2003a, b).

<sup>5</sup> At the same time, perceiving the Chinese reform process as one centered around a “socialist developmental state” without controversy.

country<sup>6</sup>, and which is characterized by a very high degree of universality of effective access to basic social services.

## **Economic and Social Development and the Role of Services in the Vietnamese Economy**

### **The Vietnamese economy from war to doi moi: Basic facts**

Viet Nam is a large,<sup>7</sup> low-income, East Asian country, whose present modest level of economic development is historically attributable mainly to the successive wars which have plagued it during most<sup>8</sup> of the past century. Such wars, besides inflicting enormous human and material losses and leaving productive facilities and infrastructure in shambles at the moment of reunification, did not allow Viet Nam to participate in the so-called “Asian miracle”, nor to pursue a self-centred, Soviet-style<sup>9</sup> socialist development path as China did until the death of Mao Tze Dong.

After reunification, Vietnamese economic policies initially followed a traditional, socialist development strategy. However, after a rather short period of time<sup>10</sup> that strategy was perceived by policy makers to be unsustainable, due both to its intrinsic weaknesses (which, by and large, were common to all twentieth century’s Soviet-style experiments) and to profound changes in the international political and economic scenario. Not very differently from what was happening in China, and accordingly with traditional Vietnamese pragmatism, market-oriented reforms were initially launched in an ad hoc fashion, pressed by the urgency to avoid economic collapse. Yet, after over two decades,<sup>11</sup> a relatively consistent, albeit fast-evolving, model has emerged, and the Vietnamese government is presently committed to a long-term strategy based on developing a market economy with a socialist orientation.<sup>12</sup>

The reforms allowed Viet Nam to overcome the late-1970s’ crisis and to achieve respectable growth over the 1980s,<sup>13</sup> but high inflation and large macroeconomic imbalances persisted. Since the success

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<sup>6</sup> There is, of course, a functional relationship between the degree of state control on the economy and the ownership of the main means of production, on one hand, and the distribution of monetary and non-monetary entitlements to consumption possibilities, on the other hand. Yet, such a relationship is far from being a mechanical one. Also for this reason, distributive goals should be pursued as distinct and clearly-identifiable objectives.

<sup>7</sup> Vietnam’s population was over 80 million in 2002, ranking 13th among all countries in the world.

<sup>8</sup> The anti-colonialist movement started long before the August 1945 revolution, and Vietnam’s heavy military engagement in Cambodia ended only in 1989.

<sup>9</sup> The term “Soviet-style” is a broad, non-specific one, referring to a number of standard characteristics common to all centrally-planned socialist economies since the abandonment of NEP in the Soviet Union in the early 1920s and until the launching of reforms in China in the late 1970s. It is well known that, within that broad paradigm, profound structural differences existed between the various socialist countries. In particular, the level of economic centralization and the relative weight of production quotas-based physical planning were very high in the Soviet Union, much lower in China, and even lower in Vietnam.

<sup>10</sup> The economic policies of the Democratic Republic of Vietnam between 1945 and 1975 are to be seen as war economy policies, rather than socialist development policies (and, as such, were effective and largely inevitable in their own way, and not very different from those pursued even by many capitalist countries under comparable dramatic circumstances). Unified Vietnam’s “Soviet-style” period lasted for barely a decade, the shortest record among all presently-existing Communist-led developing countries.

<sup>11</sup> To face the systemic crisis conditions which prevailed in the late 1970s, in the autumn of 1979 the 6<sup>th</sup> Plenum of the Central Committee sanctioned already going-on reforms from below, mainly in the agricultural sector. Stop-and-go reforms continued to be implemented in the early 1980s, and the “doi moi” (renewal) policy was officially launched in the important 6<sup>th</sup> Party Congress in December 1986.

<sup>12</sup> Such commitment appears to be paralleled by an implicitly acknowledgement that full-fledged ideological and theoretical systemic coherence is neither attainable nor desirable under present circumstances.

<sup>13</sup> National income growth rates per year averaged 6.4 per cent in 1981-1985 and 4.4 per cent in 1986-1990.

Agricultural production outpaced population growth, and industrial production expanded at over 9 per cent per

of the 1989-1990 stabilization plan, with inflation subdued, basic macroeconomic and systemic stability was achieved, and Viet Nam became one of the fastest-growing countries in the world (see table 1).<sup>14</sup>

**Table 1. Viet Nam: GDP growth and inflation rate, 1990-1998**

	1990	1991	1992	1993	1994	1995	1996	1997	1998
GDP growth	5.1	6.0	8.6	8.1	8.8	9.5	9.3	9.2	5.8
Inflation	67.5	67.6	1.5	5.2	14.4	12.7	4.5	3.6	9.2

*Source:* Masina 2003

Owing mainly such to factors as the initially very egalitarian distribution of productive assets at the inception of doi moi, the moderate pace of the market-driven concentration of such assets thus far, and the full participation of agriculture to the process of economic development, “the growth path experienced by Viet Nam in the 1990s was remarkably pro-poor” (World Bank 2003, p. vi). The virtuous combination of very fast growth and the absence of a strong anti-poor bias led Viet Nam to achieve extraordinarily good results in the domain of poverty reduction, and reasonably good results in improving social indicators. In fact, Viet Nam has achieved one of the sharpest declines in poverty of any developing country on record, as its (absolute) poverty rate fell from about 70 per cent in the 1980s to 29 per cent in 2002<sup>15</sup> (World Bank 2003a, Larsen *et al.* 2003).

### Recent economic developments and the evolving role of services

In the most recent period, the Vietnamese economy has progressively recovered from the slowdown caused by the impact of the Asian crisis, achieving a sustained growth path. In 2001 and 2002, in particular, Viet Nam’s gross domestic product (GDP) growth was second only to China’s among countries in the region.

**Table 2. Viet Nam: GDP growth by major sectors, 1999–2002**

	1999	2000	2001	2002
<b>Growth rates</b> (in 1994 constant prices)				
GDP	4.8	6.8	6.9	7.0
Agriculture, forestry, aquaculture	5.2	4.6	3.0	4.1
Industry and construction	7.7	10.1	10.4	9.4
Services	2.3	5.3	6.1	6.5
<b>Sectoral shares in GDP</b>				
<i>In current prices</i>				
Agriculture, forestry, aquaculture	25.4	24.3	23.2	23.0
Industry and construction	34.5	36.6	38.1	38.6
Services	40.1	39.1	38.7	38.4
<i>In 1994 prices</i>				
Agriculture, forestry, aquaculture	23.7	23.2	22.4	21.8
Industry and construction	34.4	35.4	36.6	37.4
Services	41.9	41.4	41.0	40.8

*Source:* CIEM 2003

\* Estimates

year in the first half of the decade, although it slowed at a little more than 4 per cent rate in 1986-1990. (*Source:* Fforde and de Vylder 1996, quoted in Masina 2003, table 2.1., p.57).

<sup>14</sup> According to UNDP 2003 (Table 12) the highest GDP per capita annual growth rate in 1990-2001 was recorded by Equatorial Guinea with an astonishing 18.8 per cent. Apart from this statistical curiosity, the highest rate was that of China (8.8 per cent), followed by Vietnam (6 per cent).

<sup>15</sup> According to an alternative methodology, which sets the absolute poverty line slightly lower, Vietnam’s poverty rate is below 20 per cent. In terms of the Human Poverty Index Vietnam ranks 39th out of 94 countries (UNDP 2003).

To be interpreted correctly, data in Table 2 need an important qualification. According to a classification criterion common to many countries, Viet Nam's General Statistical Office (GSO) includes "Electricity and Water" and "Construction" in the "Industry and Construction" macro-sector, rather than in the "Services" one. Both of them are important "service industries" – activities which, albeit producing services rather than goods, require the use of heavy machinery, the organization of which closely resembles that of industry proper<sup>16</sup>. Consistently, according to World Trade Organization (WTO) international trade classifications, which is relevant for the focus of the present paper, "Electricity and Water" and "Construction" are considered as services. As the combined GDP share of "Electricity and Water" and "Construction" is about 9 per cent, the very aggregate figures in Table 2 underestimate the true contribution of services to GDP, which is much larger than those of either industry proper or agriculture, and approaches 50 per cent.

Employment patterns, as is normal in a still quite rural and subsistence-oriented such economy as Viet Nam's, diverge markedly from those of its GDP contribution. Over 2/3 of the Vietnamese labour force is still in agriculture. Industry accounts for about 12 per cent of total employment, and services for almost 20 per cent (in 2000). Services' employment share has been rising slowly, up from less than 16 per cent in 1990 (EAEP 2003). Yet, these figures underestimate services' contribution to employment, as they fail to account for urban and rural informal services employment. In practice, as industry is developing fast while – especially in the still dominant state-owned sector – following a path characterized by high productivity growth but relatively little job creation, most non-rural workers are formally or informally employed in services activities.

Following a pattern which has been constant since the earlier stages of the doi moi reform period, GDP in the services (macro)-sector (as narrowly-defined, i.e. excluding electricity, water, and construction) has been expanding at an intermediate rate between the very fast one of industry (as widely-defined<sup>17</sup>) and the lower – yet healthy – one of agriculture, forestry, and aquaculture (Table 2.I). The contribution of narrowly-defined services to overall GDP growth, after recovering from a lackluster performance in 1999, has been increasing, and reached almost 40 per cent in 2002, while the contribution of industry has averaged about one half (Table 2.II). As a result, services'<sup>18</sup> sectoral share in GDP has been slowly declining, and in 2002, for the first time, narrowly-defined services<sup>19</sup> have been overtaken by industry as the largest sector of the Vietnamese economy (Table 2.II.A).<sup>20</sup> In fact, the share of most services subsectors, except real estate and trade, decreased or remained unchanged. Yet, the share of services<sup>21</sup> in the economy is not small in Viet Nam, taking into account its level of development. It is in fact higher than in China (33.6 per cent) and Indonesia (37.1 per cent) (CIEM 2003, p. 19).

These trends, taking into account the early stage of industrialization that Viet Nam is presently going through, show a fairly healthy and balanced growth pattern: the services sector is growing fast, but industry is growing faster.<sup>22</sup> Therefore, while developing its services activities at an adequate rate, Viet Nam is avoiding the trap of unwarranted and perverse earlier "servicization" of the economy, which leads many developing countries, especially least developed countries (LDCs), to superficially resemble the productive structure of the most advanced industrialized countries.<sup>23</sup> While in some

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<sup>16</sup> This definition is narrower than that common especially in American economic jargon, where the term "industry" refers indifferently to any commercially-oriented activity.

<sup>17</sup> Including electricity, water, and construction and construction.

<sup>18</sup> Narrowly-defined.

<sup>19</sup> Narrowly-defined.

<sup>20</sup> Also the combined GDP share of electricity, water, and construction remained basically the same (at 9 per cent) between 1995 and 2001 (GSO 2002).

<sup>21</sup> Narrowly-defined.

<sup>22</sup> The fact that agricultural growth has also been sustained, albeit inevitably slower, is also important, taking into account that over 70 per cent of Vietnamese still live in the countryside.

<sup>23</sup> While in very poor countries unhealthy "servicization" is simply the mirror image of a failure to industrialize, in more advanced countries it can be the result of "premature de-industrialization". This is the case, in particular, in many Latin American countries (UNCTAD 2003, Chapter V).

cases such “servicization” might in fact suit to some extent the resource endowments and comparative advantages of less-advanced countries (many of which, for instance, rely heavily on tourism), it also signals a failure to advance on the path of industrialization, and is usually an omen of an unbalanced and poorly integrated overall development pattern.

Finally, a comparison between Tables 2.II.A and 2.II.B shows that the relative prices “scissor” moved against services,<sup>24</sup> as their GDP share in 2002 was higher if measured at 1994 prices (40.8) than at current prices (38.4). The opposite is true for agriculture and industry. This trend is also to be interpreted as a positive one, as backwardness and high prices in key services sectors have been identified among the main causes of relatively high production and distribution costs and – generally speaking – “costs of doing business”, thereby hampering Viet Nam’s international competitiveness. One important factor in this trend in relative prices is the progressive lowering of tariffs for public services, which are still high but diminishing (see below, subsection 2.4.).<sup>25</sup>

### **The main services sectors in the Vietnamese economy**

Turning to the various services sectors, it is useful to focus first on the two mentioned above which the General Statistics Office (GSO) classifies outside the services macro-sector: “Electricity and Water” and “Construction”. Both are rather large, especially the latter, which is actually the third largest services sector after “Trade” and “Hotels and Restaurants”. As its fortunes are heavily dependent on the short-term trends in the economy as a whole, the construction sector contracted in 1998 due to the macroeconomic slowdown caused by the Asian crisis,<sup>26</sup> but it subsequently recovered and it grew particularly fast in 2001. Yet, construction’s GDP share was still lower than in the mid-1990s. “Electricity and Water” was one of the fastest growing sectors of the Vietnamese economy in this period, expanding even more rapidly than the booming and increasingly export-oriented manufacturing sector. It was, indeed, the only services sector whose GDP share increased in 1995–2001 (see Table 3).<sup>27</sup> This is consistent with its key role as a core infrastructural sector, and particularly as one of the two mature capital-intensive services industries (the other being transportation, which GSO lumps along with a relatively new and ITC-intensive services industry, telecommunications, in the “Transportation and telecommunications” sector). Moreover, the power industry in particular is still relatively underdeveloped,<sup>28</sup> and therefore deserves a high priority in investment allocation to prevent it from becoming a bottleneck to further industrial development.

Among the other services sectors, by far the largest is that of “Trade”, the relative GDP share of which was 14 per cent in 2001. However, that share, as well as that of “Hotels and Restaurants”, has been decreasing to some extent since the mid-1990s, possibly pointing towards an ongoing diversification process inside the services sector. Such a trend is not clearly emerging yet as an established one (the GDP shares of other services sectors also either stagnated or slowly declined between 1995 and 2001); but an encouraging signal comes from the embryonic “Science and Technology” subsector, which has been growing very fast since 2000,<sup>29</sup> and from “Education and Training” (see Table 3). Both sectors have been selected as key ones by the Government for the promotion of human capital formation. Of more immediate macroeconomic relevance is the growth of the tourism sector (imperfectly captured by the GSO statistical classification), which boomed in 2002, with over 2.6 million international visitors and a revenue growth rate of 20 per cent over 2001,

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<sup>24</sup> Narrowly-defined.

<sup>25</sup> This trend appears to be have been continuing in 2003. It can be assumed that the relative prices trend stems basically from efficiency gains and price policies of large utilities (such as telecommunications, transport, and energy) rather than from the small-scale, competitive, and largely non-state owned small services sector activities.

<sup>26</sup> This is the only case of a sector recording negative growth in the 1995–2002 period.

<sup>27</sup> Table 3 shows that the “Party and association” sector grew even faster than electricity and water. Yet, it is a very small sector with negligible economic significance.

<sup>28</sup> Although increasing, the GDP share of “Electricity and water” is still small, around 3 per cent (see table 3).

<sup>29</sup> According to preliminary estimates, Science and Technology and Education and Training grew respectively 9.5 per cent and 8.5 per cent in 2002 (CIEM 2003).

assisted by the fact that Viet Nam was recognized as the safest destination in Asia<sup>30</sup>(CIEM 2003, p.18).

Such overall encouraging trends in the domain of services, however, are still inadequate to sustain the development of many skill-intensive services with a high potential for value added generation, and which can contribute to a large extent to raising the country's overall competitiveness and to securing the industrialization process (among them, "service industries" such as telecommunications, energy, transport, financial services, and several specialized business-supporting services).

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<sup>30</sup> The tourist sub-sector was severely hit by the SARS epidemic in the spring of 2003, but recovered thereafter.

**Table 3**

GDP contribution GDP share (%)  
Billions of VND, current

	1995		1998		2001		Average Growth rate 1996–2001
							In current prices
SERVICES (macro-sector)	100.8	44.0	150.7	41.7	186.8	38.6	10.8
Trade	37.5	16.4	55.8	15.5	67.9	14.0	10.4
Hotels & Restaurants	8.6	3.8	12.4	3.4	15.8	3.3	10.7
Transportation & Telecom	9.2	4.0	14.1	3.9	19.4	4.0	13.2
Finance, Banking & Insurance	4.6	2.0	6.3	1.7	8.8	1.8	11.4
Science & Technology	1.4	0.6	2.0	0.6	2.7	0.6	11.6
Real Estate and Renting	12.4	5.4	17.7	4.9	21.6	4.5	9.7
Public Administration	8.3	3.6	11.9	3.3	12.6	2.6	7.2
Education & Training	8.3	3.6	13.2	3.7	16.5	3.4	12.1
Healthcare and Social Welfare	3.6	1.6	5.0	1.4	6.4	1.3	10.1
Culture and Recreation	1.3	0.6	2.1	0.6	2.7	0.6	13.0
Party and Association	0.2	0.1	0.6	0.2	0.7	0.1	23.2
Community and Social service	5.0	2.2	8.9	2.5	10.7	2.2	13.5
Private Household							
Employment	0.5	0.2	0.8	0.2	1.0	0.2	12.2
Electricity and Water	4.7	2.1	10.3	2.9	16.2	3.3	22.9
Construction	15.8	6.9	20.9	5.8	27.4	5.7	9.6
GDP	228.9	100.0	361.0	100.0	484.5	100.0	13.3

Source: GSO 2002

# Service Policies in the Framework of the doi moi Reform Process

## Services policies in Viet Nam: A function-oriented approach

In order to review the policies affecting service activities, in the framework of the overall reform process aimed at progressively liberalizing the Vietnamese economy, and to increase its degree of international integration, it is useful to distinguish among three categories of services sectors. These categories are not new, yet they coincide neither with the WTO classification of services sectors nor with that of the GSO. They rather approach the various services sectors according to their basic economic and social functions, which are quite heterogeneous.

The first category is constituted by intrinsically social services, or those services whose main function, from the point of view of social welfare, is the direct satisfaction of basic needs (where “basic” refers to that minimum level of satisfaction which a society deems indispensable for each individual’s vital “functioning”, both as a citizen and as a producer). In many cases, efficiency considerations, stemming from the limited scope for reaping benefits from market competition, the relevance of economies-of-scale and -scope, and the search for uniform standards in order to minimize transaction costs and maximize universal access, militate in favour of a dominant – or exclusive – role of the state in providing social services. Nevertheless, in principle, they could as well be provided by private firms (domestic or foreign) on a commercial basis, as far as the efficient functioning of the market, combined with public subsidization, allows the universality of access<sup>31</sup> which is intrinsic to the very concept of social service.

A second category is that of strategic services. For their direct and indirect supporting and enabling functions and their crucial role in providing physical and human capital, strategic services are instrumental – and in fact indispensable – both for the everyday functioning and for the long-run development of the economy as a whole. By definition, strategic services have a strong and recognizable impact on each country’s development perspectives, and therefore no government can simply leave them to the vagaries of the market. Yet, state intervention in strategic services can take various forms, be compatible with diverse forms of market structure and regulation, and involve or not their direct provision through SOEs. The core of strategic services is constituted by mature and advanced capital- and skill-intensive infrastructural services industries, such as energy industries, transportation and telecommunications, besides a number of other infrastructural services characterized by a wide range of technologies, among which the network of large- and small-scale irrigation facilities is particularly important in a largely rural developing country like Viet Nam. Yet, in a slightly more indirect sense, the financial sector is also a strategic one, taking into account its crucial role in enabling investment activities, reducing transaction costs, and fostering macroeconomic stability.<sup>32</sup> Other strategic services, aimed at fostering the accumulation of highly-skilled human capital and the absorption and development of new<sup>33</sup> technologies, are “lighter” in nature: this is the case of R&D and higher education activities (in the GSO classification, they would broadly correspond to the Science and Technology sector and to the higher echelons of the Education and Training sector respectively). While the strategic importance of R&D is self-evident, the policy approach to higher education activities faces particularly complex challenges, as the strategic nature of this service overlaps with its social dimension, and the very boundary between basic and higher

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<sup>31</sup> In the case of environmental protection, for instance, universality of access is to be interpreted as the ability of all citizens to benefit from it.

<sup>32</sup> By the same token, also public administration services, and more broadly all the services supplied by the whole set of non (directly) productive public and private institutions are strategic. In fact, and taking into account the central role presently attributed to the issue of “governance”, they are in fact “the” most strategic of all services, especially in the context of an institutionalist approach to development problems. However, administrative and institutional reforms constitute an area of government policies which, due to its very specificity and complexity, is quite distinct to that of economic policies in the other services sectors.

<sup>33</sup> In the context of developing countries, “new” technologies are those new to the country, even if they might not be so in more advanced countries. In the early stages of development, the ability to absorb and adapt already existing technologies from abroad is more important than the ability to innovate in the proper sense.

education is a matter of policy choice. Besides that, uneven access to higher education, along with the possibility of inheriting material productive assets, constitutes the most important channel through which social inequalities can become entrenched and even exacerbated in an inter-generational perspective.

The third category is that of commercial services. It is a residual category, constituted by those service activities which are neither social nor strategic, and are normally carried out by individuals or firms in a strictly market-oriented fashion, in the pursuit of subsistence and/or profit. Consequently, the policy approach to these services, as a general rule, should not go beyond regulation and the implementation, when needed, of appropriate “industrial” policies aimed at fostering sectoral development. The role of SOEs in commercial services, in particular, given the absence of major social or strategic tasks to be fulfilled, can only be justified as far as such enterprises are genuinely profitable and able to compete successfully in the market.<sup>34</sup> In Viet Nam, the most important commercial services are trade (essentially, small-scale domestic trade, as international trade activities, albeit in a process of fast liberalization, retains a strategic dimension<sup>35</sup>) and tourism-related activities.

As a sub-set of the wider process of economic reforms, the Vietnamese Government’s policy approach to the services sectors appears to internalize the above-mentioned classification in a rather coherent and effective manner. Thus, both in the domestic and the international arena, major planning and negotiating efforts are focused on strategic sectors, striving to optimize the positive contribution which can stem from the participation of TNCs in a context of gradually increasing market competition, without renouncing strategic control.

### **Main reform initiatives affecting services in the doi moi period**

The doi moi reform strategy<sup>36</sup> was officially launched in the important 6<sup>th</sup> VCP Congress in December 1986. Besides increasing SOE’s managerial and operational autonomy, the Congress also unleashed a major liberalization drive in two crucial services areas: private (mainly small-scale) commercial activities were allowed, along with productive activities, and the official state monopoly on foreign trade was formally abolished. Thus, commercial services in Viet Nam (which, as a legacy from the American War period, were more developed in the southern part of the country) came to be increasingly, and in fact almost exclusively, regulated by market forces. Commercial service enterprises are mostly individual or family businesses and, small and medium-sized enterprises (SMEs), although some larger private services enterprises are also emerging. Nonetheless, SOEs have continued to be active, and some of them are still in a relevant, although relatively declining position, in several commercial subsectors (among them international trade and tourism), while cooperatives play a complementary role. Social sectors, severely weakened by the reforms especially in rural areas, were also opened to market forces and private participation, although the role of public education and health systems remained central.

Since the 6th Party Congress, a number of major market-oriented and liberalizing reforms have been launched during the doi moi period, many of them affecting directly or indirectly service activities. Agricultural growth was greatly helped by the reform of land use rights initiated in the mid-1980s and other market-oriented policy initiatives. Yet it would not have been possible without the maintenance and strengthening of an effective network of agricultural production and distribution support services.

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<sup>34</sup> There are examples of this kind in Vietnam. For instance, the state-owned company Saigon Tours appears to be successful in the very competitive tourist services market.

<sup>35</sup> To assume that the whole trade services sector is a commercial one entails a certain degree of simplification. It is worth mentioning, in particular, the important exception constituted by state-owned enterprises engaged in international trade, which are in fact fulfilling a strategic function. Yet, in the context of liberalization and market-oriented reforms, their role in Vietnam is becoming less and less important, as trade policy is being left mostly to instruments such as macroeconomic policies, regulations, and overall strategic planning.

<sup>36</sup> At the launching of doi moi the central definition of the new fundamental strategic goal was the development of a “socialist market economy”, like in China. Presently, the correspondent definition is slightly different: “market economy oriented towards socialism”.

Private participation increased in marketing and processing activities, but many support services, among them the maintenance and expansion of irrigation and rural transportation networks, agricultural research, and the promotion and diffusion of innovations in crop and cultivation methods, continued to be provided mainly by public bodies.<sup>37</sup> (State organizations played a pivotal role in agricultural breakthroughs such as the introduction of cashew cultivation, the coffee development program in the Central Highlands, and the introduction of new varieties of paddy (Van Arkalde 2001)).

In 1987, a new law on foreign investment was promulgated, paving the way for a surge in foreign direct investment (FDI) which would mainly be channelled towards industry and services. In the late 1980s, encouragement of private enterprise became an official policy, most forms of direct subsidization of production and price control were phased out, and foreign trade was liberalized. In the early 1990s, the 7<sup>th</sup> Party Congress ratified the political commitment to *doi moi*, new measures further improved the legal and incentive regime, and private companies were allowed to engage directly in international trade. In 1995 Viet Nam joined ASEAN. Policies in the second half of the decade continued to strengthen the legal framework and ameliorate the operating conditions for both foreign and domestic investors, and trade was further liberalized. The 8<sup>th</sup> Party congress in 1996, among other ambitious economic targets, envisaged radically improving the structure of Vietnamese exports, focusing on an increase in the proportion of manufactures but setting as a priority also the development of international trade in services, including tourism. In 1998, domestic enterprises were authorized to directly export their products without an import/export license. The crucial role of foreign trade reforms in the overall *doi moi* strategy can hardly be overemphasized: “the government of Viet Nam vigorously pursued an export development strategy since the early stages of the reforms process.... Transformation in the foreign trade regimes was perhaps the most potent force for change in the economic structures of the Vietnamese economy” (Van Arkalde 2001, p. 25)

However, the policy approach to strategic sectors was very cautious, and a significant yet gradual and partial degree of market liberalization in core infrastructural areas such as energy or telecommunications dates only from the late 1990s. In the domain of financial services, affected by the burden of numerous non-performing loans (NPLs), reforms were initiated in the late 1980s, with a shift from a mono-bank system to a two-tier system, as the function of the Central Bank was separated from those of four State-owned commercial banks (SOCBs). Thereafter, other types of private actors, such as joint stock banks (JSBs), joint venture banks and representative offices, as well as branches of foreign banks, were gradually allowed to enter the Vietnamese financial market. Yet, still in 1998, four SOCBs accounted for about 80 per cent of total assets and loans and deposits. In 2000, NPLs were estimated by the Central Bank at over 150 per cent the amount of total lending. Further reforms of the financial sector figure high in the Governments’ agenda. A clear option in favour of the Asian model, in which the state retains its ability to channel resources towards strategic sectors through the control of the financial system, or towards a neutral, *laissez-faire* alternative, has not yet been made explicit. However, the Government is careful to avoid the risks of hasty financial liberalization, a *fortiori* especially after learning the sobering lesson from the Asian crisis, from which Viet Nam substantially escaped thanks to its relative insulation from unregulated international financial flows.

### **The “healthy” impact of the Asian crisis and the 9th Party Congress**

In the 1990s, Viet Nam began attracting an increasing flow of foreign direct investment, a large part of which went to services and service-related activities. The investment flow was modest in absolute size, but large with respect to the limited level of development and sheer dimension of the Vietnamese economy. In fact, following at a smaller scale a pattern common to other Asian countries, an excessive amount of foreign financing went to scarcely productive service activities, such as real estate, urban construction, hotels and tourism. When the regional crisis erupted, FDI inflows

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<sup>37</sup> Public agencies active in the domain of agricultural support activities are becoming more diversified, and often complement their scarce funding from the state budget through the sale of their services to individuals and firms.

experienced an abrupt decline, causing Viet Nam's overall investment rate to fall from 29 per cent to 19 per cent between 1997 and 1999. However, Viet Nam did not suffer a GDP drop in 1998 but instead resumed rather easily a fast development path and, to some extent benefited indirectly from the FDI realignment caused by the crisis.<sup>38</sup> Most of the overall FDI decline in Viet Nam was in fact caused more by the dramatic cash needs on the part of East Asian investors, hit by the regional crisis in their home countries, than by domestic factors. The result was a halt of what was becoming a classical real estate bubble, mainly concentrated in office property and apartments. Such foreign investments, already nearly at U.S.\$1.9 billion in 1995, ballooned to U.S.\$3.4 billion in 1996 and fell to just U.S.\$0.2 billion in 1997. As a percentage of total FDI, real estate dropped from over 40 per cent in 1995 and 1996 to less than 8 per cent in 1997 (Masina 2003, pp. 76-77). Yet, commitments to other services sectors, including telecommunications, increased. These figures show that commercial services were already becoming an important recipient of FDI. They also suggest that if external factors (such as the regional crisis) or decisive policy interventions had not put a halt to such an unhealthy trend of speculative financial inflows, the risk of a sudden financial crisis of the kind that hit Thailand and Indonesia could have become a real possibility. Another paradoxically positive effect of the regional crisis on Viet Nam's services sector was that it helped to re-balance the sectoral composition of FDI, helping to avoid a disproportionate expansion of scarcely productive and speculation-prone services subsectors such as real estate.

In the aftermath of the crisis, Viet Nam's economic policy stance did not experience major shifts. Policy makers were actively promoting Viet Nam's regional and international economic integration, leading to the signing of the major Asian Free Trade Area (AFTA) agreement and the Viet Nam–U.S. Bilateral Trade Agreement (BTA), and continuing WTO accession negotiations. The most important policy measure was the approval of the new enterprise law, operational since January 2000. The law made it much easier to launch new individual and private enterprises, and to legalize existing informal ones. In just two years, the law led to the licensing of 36,000 new private SMEs, six times more than in 1998–1999. Most of these new firms were small and active in commercial services, although an increasing minority were private industrial firms, some of them relatively large.

The 9th Party Congress, held in April 2000, confirmed the established tenets of Viet Nam's development strategy. After a long preparatory debate and consultancies process, carried out both with internal constituencies and international organizations, the congress approved two important long-term strategic documents, the Strategy for Socio-economic Development 2001/2010 (GOV 2000) and the five-year plan for Socio-economic Development 2000/2005 (GOV 2001a).<sup>39</sup> The two documents provide little indication of precise ways to achieve the approved goals and targets, and they contain few clear-cut strategic formulations. Yet, taking into account that they reflect a sort of compromise, or mutual understanding with international financial institutions, both documents are significant, as they mark a shift away from structural adjustment jargon towards a broad poverty-reduction strategy. Therefore, they signal some distancing from previous Washington Consensus formulae and the emergence of a new emphasis on poverty reduction as the true goal of economic development.

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<sup>38</sup> Even before crisis, many observers argued that Vietnam's economy was reaching an impasse and without further dramatic liberal reforms growth would falter, blaming as usual inefficient SOEs and banks, insufficient export-orientation, and a persisting protectionist bias in trade policies in favour of import substitution. These views were proved wrong by Vietnam's resilience to the crisis and the swift recovery in GDP and export growth (Masina 2003, Kokko 1998).

<sup>39</sup> The Congress also prepared the ground for the preparation and approval of other important policy documents, among them the Hunger Eradication and Poverty Reduction Strategy (GOV 2001b), the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) (GOV 2002), and two important directives in the domain of social services: the Vietnamese Education and Training Development Strategy to the Year 2010 for the Cause of the Industrialization and Modernization of Vietnam (GOV 2001c) and the Prime Minister's Decision on Approval of Strategy for People's Health Care and Protection 2001–2010 (GOV 2001d).

## Services policies: The international trade dimension

### The defensive stance of Viet Nam's international trade policies on services

Yusuf and Stiglitz, two scholars otherwise critical of the uneven and often destabilizing character of the ongoing worldwide process of globalization and trade liberalization, wrote as late as 2001: "... the WTO ... allows nations to lock in unilateral trade liberalization – a vital action for development. Of equal importance will be institutional steps to stimulate trade in services, which is likely to be the fastest-growing component in the future" (Yusuf and Stiglitz 2001). The spectacular fiasco of the WTO meeting in Cancun in September 2003, although not directly due to service-related disputes, invites more prudence, both in not taking for granted the sustainability of a smooth path of further multilateral liberalization of trade in services, and in considering such an eventuality an unambiguous blessing for developing countries. It was in fact developing countries' progressive realization of the risks and imbalances implied by accepting the accelerated liberalization agenda put forward by industrialized countries – which has at its core mainly the so-called Singapore issues and the overall question of fully liberalizing international trade in services – which, coupled with the lack of flexibility on moderating agricultural protectionism, led to the breakdown of the Cancun negotiations.

In sum, the future of the overall process of multilateral trade liberalization, which until the late 1990s could be seen as an unstoppable and universally benign force, is now mired in deep uncertainty, especially in the area of negotiations on international trade in services. The recent developments in the multilateral arena appear to vindicate the wisdom of Viet Nam's cautiousness and defensiveness<sup>40</sup> in approaching negotiations on international trade in services.<sup>41</sup>

In fact, the "external dimension" of Viet Nam's services policies so far has focused mainly on managing successfully the transition from closed and often monopolistically-oriented regimes to fully or partially competitive market structures, involving the participation of foreign enterprises. In other words, the emphasis has been a defensive one, centred on domestic markets, rather than an offensive one aimed at conquering foreign markets. This bias is necessary and correct, given the present and even prospective level of international competitiveness of Vietnamese strategic services sectors. In the case of the BTA with the United States, as well as in that of the on-going WTO accession negotiations, it is even a well-known fact that the crucial bargaining game has been one in which Viet Nam offers concessions on services in order to obtain concessions on goods.

Consistent with this policy focus, in the domain of goods, a number of direct and indirect policy measures, along with the inter-sectoral balance and the overall stance of Vietnamese economic strategy, strongly promote and prioritize the exportation of light manufactures, in which the country does have comparative advantage. This is notwithstanding the fact that there is little in Viet Nam's economic policy which resembles specific measures aimed at fostering the exportation of services.<sup>42</sup> Nevertheless, especially with respect to tourism and to other potentially foreign-exchange-earning

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<sup>40</sup> Such prudent attitudes have not held back Vietnam from making a bold, possibly hazardous, but probably inevitable step in signing the BTA, which is analyzed in the following sub-section.

<sup>41</sup> The Vietnamese government carefully avoids confronting on ideological grounds the mainstream, quasi-Panglossian view on globalization and the magic of markets trumpeted by donors and international financial institutions (Masina 2003). Yet, such pragmatism is not grounded in a naïve perception of the reality of international economic relations. The Strategy for Socio-Economic Development 2001–2010, for instance, recognizes that "Economic globalization and international economic integration constitute a process of cooperation for development on the one hand, and complicated struggle on the other, especially the struggle of developing countries in defense of their interests, for an equitable international economic order, against unreasonable impositions by economic powers and transnational corporations"(Government of Vietnam (GOV), 2000, Section I).

<sup>42</sup> Taking into account the constraints constituted by Vietnam's limited capabilities as a developmental state, and by the low degree of flexibility in policy interventions allowed by the present international economic and trade context, many of such interventions can be interpreted as consistent with the classical Asian outward-oriented industrial policies paradigm.

commercial services sectors, some additional attention might be accorded in the future to aspects of negotiations on trade in services which can improve the ability of Vietnamese operators to obtain more direct and effective access to foreign markets. However, on balance, Viet Nam's policies in the domain of trade in services can essentially be understood by analysing its trade diplomacy activities.

Although Viet Nam has been involved in an increasing number of trade negotiations, leading to the signing of many bilateral and multilateral agreements, the most important one so far has been the BTA with the United States. This is particularly true with respect to services, as the AFTA agreement, which is also important, contains little on services liberalization. With respect to WTO negotiations, they are still in a fluid state, but a brief analysis of Viet Nam's offer on services can shed some light on negotiators' positions and priorities at the multilateral level. Therefore, the remainder of this section focuses on the most important provisions of the BTA on bilateral trade in services and on Viet Nam's offer on services, with particular attention to the pivotal telecommunications sector.

### **The BTA: a gradual but very deep process of liberalization of trade in services**

The BTA is the most comprehensive and extensive trade agreement ever signed by not only Viet Nam but also the United States (STAR-CIEM 2003, p. 111). Some commitments on the part of the Vietnamese were due immediately at the entry into force of the agreement (10 December 2001), but most were phased in over a three to four year period, and one over a ten-year period. The United States, on its part, gave Viet Nam a normal trade relations and most favoured nation (NTR/MFN) trade status, effective immediately, thereby reducing average U.S. tariff rates for Vietnamese exports to the United States from 40 per cent to around 3–4 per cent. Notwithstanding this relatively favourable temporary asymmetry in the implementation schedule, the fact remains that Viet Nam's BTA commitments go far beyond what the reform process had accomplished at the time of signing the agreement, thus placing "significant demands on Viet Nam's legal system" (STAR-CIEM 2003, pp. 112–115). Besides according MFN and national treatment to U.S. companies and nationals, in fact, Viet Nam is expected to:

- reform its customs systems and procedures;
- refrain from using administrative procedures and technical regulations for protective purposes;
- liberalize and streamline licensing and other trading rights and commitments;
- conduct state trading activities on a commercial basis;
- upgrade commercial dispute settlement procedures;
- liberalize and safeguard foreign investment, eliminating, *inter alia*, export-performance and technical-transfer requirements;
- facilitate business, providing non-discriminatory access to necessary business-related activities such as advertising, renting office space, etc.;
- increase transparency for laws, regulations and administrative procedures;
- establish a system for appealing administrative action;
- enhance substantially the legal framework for intellectual property rights (IPR) protection.<sup>43</sup>

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<sup>43</sup> IPR protection provisions in BTA are wide and deep. All conventions on IPR, starting with the Geneva one, are to be "given effect as a minimum" and the national treatment principle is strongly affirmed (Chapter II, Art.3). Copyright protection, extending *inter alia* to audiovisual works, is quite extensive and detailed (Art 4). Patent protection is also strong: as a general rule, patents are protected for a period of no less than 20 years—much longer than the period established in Vietnam's ordinary IPR legislation (7 years), although the government has expressed the intention to revise it upwards (VBF 2003). Yet, potentially relevant limitations on patentability of medical and biological technologies are stated in comma 2, Art 7: it says "Parties may exclude from patentability..." diagnostic, therapeutic and surgical methods ...essentially biological processes for the

Viet Nam's commitments provide several forms of guarantees to U.S. investors.<sup>44</sup> Yet horizontal liberalization is not fully unconstrained; some limitations remain, the most significant being those related to market access,<sup>45</sup> as U.S. service providers are subject to licensing.<sup>46</sup> Another indirect limitation, which applies to any enterprise in Viet Nam, stems from the fact that U.S. service providers cannot own Vietnamese land, but will be allowed to lease it for specifically authorized business purposes.<sup>47</sup>

Along with such extensive "horizontal" commitments, the core of Viet Nam's BTA concessions is the undertaking to carry out a sweeping and profound liberalization of trade in services. Over 20 services sectors are specifically targeted for liberalization, including:

- (a) business services (including legal, accounting/auditing, tax, consulting, architectural, engineering, advertising, market research, management consulting and computer);
- (b) communication services such as telecommunications (value-added and internet, basic, and voice) and audiovisual services;
- (c) construction and related engineering services;
- (d) distribution services (wholesale, retail and franchising);
- (e) education services;
- (f) financial services, such as insurance and banking;
- (g) health services;
- (h) tourism and travel-related services.<sup>48</sup>

Among these services sectors, telecommunications are the most delicate and strategically important.<sup>49</sup> The most substantial liberalization will take place in the domain of the commercial presence of foreign enterprises in the Vietnamese telecommunications market, although a few residual but crucial limitations are maintained. For example, the commercial presence of U.S. corporations is initially

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production of plants or animals other than non-biological and microbiological processes; animal varieties; plant varieties..." (BTA 2001).

<sup>44</sup> To ensure these commitments are effective, BTA calls for transparent and objective domestic regulation for services, limiting abusive behavior of monopoly suppliers and buyers, and includes many obligations mutuited from GATS, incorporating in full the GATS Annex on Telecommunications, the WTO telecommunications Reference Paper, the GATS Annex on Financial Services, and the GATS Annex on the Movement of Natural Persons.

<sup>45</sup> Article 6 of Chapter III regulates market access in trade in services. It establishes that parties shall not maintain or adopt measures to restrict market access, in sectors where market-access commitments are undertaken. A potentially delicate principle is established in a note to paragraph 1 ( Note 4) of article 6, which establishes that, if a party undertakes market-access commitments in relation to the supply of a services, it must allow cross-border capital movements if they are " essential" parts of the service itself . Although sensible and advisable per se, an unwise and unwarrantedly automatic application of this principle might conflict with the basic prudential and sovereignty-related objective of preserving a basic control on the capital account of the balance of payments, the crucial importance of which has been emphasized by the Asian crisis.

<sup>46</sup> Licenses shall be issued in on a non-discriminatory basis.

<sup>47</sup> Vietnam's BTA commitments on services can also be compared to the corresponding WTO commitments of China and several other countries which acceded in recent years. (Taiwan, Jordan, Oman, Armenia, Macedonia, Moldova, Lithuania, Croatia, Albania). Broadly speaking, Vietnam's commitments appear to be relatively cautious and quite similar to those of China and, to a lesser extent, to those of Taiwan. In the case of telecommunications, in particular, Both Vietnam's and China's commitments are particularly complex, articulated, and gradual (US Vietnam Trade Council 2003).

<sup>48</sup> Most commitments are phased in over periods varying between year 2 (December 2003) and year 7 (Dec 2008), but one (relative to commercial presence in banking) extends to year 10 (Dec 2011).

<sup>49</sup> Telecommunications also rank very high among the priorities of Vietnamese and WTO members' delegations engaged in the country's ongoing WTO accession negotiations

allowed only in the form of a business cooperation contract (BCC) with an authorized Vietnamese partner; and joint ventures are not permitted to construct their own long-distance and international circuit but are required to lease from Vietnamese operators.

### **Is an evaluation of BTA's impact possible?**

In sum, the BTA, like the WTO agreements, is “modern”, as it includes extensive obligations referring not only to tariffs and quotas, but also to issues such as transparency, dispute settlement, investment, IPR protection, business facilitation and, of course, market access for services. In fact, BTA obligations go far beyond ordinary WTO standards, as the agreement contains specific and detailed chapters on a number of issues which are still only partially covered in the WTO Agreements and/or are presently the object of intense multilateral negotiations, such as intellectual property rights, trade in services, investment relations, business facilitation and transparency. Yet the BTA is less precise in how it might discipline bilateral trade relations with respect to the eventuality of one of the parties resorting to what the other might consider unfair trade practices. For instance, it does not contain specific provisions on anti-dumping measures, and hence it proved ineffective in preventing the ugly dispute on catfish which erupted in 2002–2003. The dispute ended up with the United States imposing very high tariffs on Vietnamese catfish exports, on the unlikely ground that Vietnamese producers would have been unfairly subsidized by the Government. This protectionist measure caused Vietnamese exporters (most of them rural household-sized businesses or SMEs) a huge loss.

In spite of this less than exalting example, there is little doubt that the impact of the BTA on the Vietnamese economy has been a success in the short term. Viet Nam's total exports to the American market more than doubled between 2001 and 2002, and manufactured exports increased 500 per cent. Garment exports, in particular, reached U.S.\$0.9 billion in 2002, surging by over 1,700 per cent<sup>50</sup> (see STAR-CIEM 2003, fig. 14, p.120). However (as the Vietnamese planners very well know) these initial results, while heartening, cannot be considered as fair predictors of the long-run impact of the BTA. The reason, basically, is that because thus far, from the Vietnamese vantage point, only the benefits have started to manifest themselves, while the costs have yet to materialize; most of Viet Nam's obligations are due to mature only later, starting from end 2003. The long-run impact of the agreement on the Vietnamese economy, and especially on Viet Nam's services sector, is still an open question.

### **Viet Nam's WTO offer on services**

Viet Nam is presently in an advanced stage of its WTO accession negotiations. The determination and clearness of political will on the part of the Vietnamese Government to achieve a positive result, which is seen also symbolically as crowning and final vindications of all the trade policy reforms carried out since the start of *doi moi*, are increasingly apparent. Yet negotiations have been dragging on for a while, especially on trade in services, as WTO members (following a pattern fairly characteristic in negotiations with new WTO candidates) utilize their bargaining power to push the acceding country towards a degree of multilateral trade liberalization which goes far beyond the one to which the founding WTO countries originally committed or are willing to commit to in the foreseeable future. In the case of Viet Nam, this means that WTO members, and especially non-U.S. OECD countries, (i.e. member countries of the organisation for Economic Co-operation and Development) take it for granted that it is not worth talking about anything less than “BTA-plus”, e.g. a degree of multilateral commitments that fully matches those already undertaken bilaterally with the U.S., and possibly going further. Up to mid-2003, Viet Nam did not appear to have fully accepted the merits of such a *realpolitik* approach, as its March 2003 Offer on Specific Commitments in Services, while quite generous in general terms, fell short of some WTO members' expectations, especially in

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<sup>50</sup> Garments are now by far the most important component of Vietnam's merchandise exports to the US, followed by fish and seafood and footwear.

the domain of market access in trade in services.<sup>51</sup> The most controversial sector, again, was telecommunications. Here Viet Nam pledged to permit commercial presence only through BCCs (as is presently the case) in voice telephone and basic telecommunications, while joint ventures with Vietnamese partners would be allowed in the subsector of value-added services after the date of accession, with a permanent limitation of 49 per cent on the foreign side's capital contribution (GOV 2003a). WTO members' complaints were obviously framed in an overall context characterized by extremely unequal bargaining strengths, exacerbated by the permanent coordination of negotiating strategies among OECD (and especially Western<sup>52</sup>) members. Nevertheless, the fact is that, if the March offer had been accepted without changes, it would practically have left even already-established non-U.S. players (such as the Australian telecommunications company TELSTRA) at a competitive disadvantage vis-à-vis U.S. companies, as presently only the latter are permitted under the BTA to form joint ventures with Vietnamese partners.

In October 2003, Viet Nam put forward a revised offer on services which contained a further degree of specification regarding the proposed liberalization schedule, its technical modalities, timing, and transparency requirements. The revised offer also contained new sector-specific pledges in sectors such as financial services, maritime transport, audio-visual and cultural services and telecommunications. In the latter sector, in particular, foreign companies were allowed the possibility of forming joint ventures with Vietnamese partners (GOV 2003b).

In spite of the delays caused by the remaining disagreements over Viet Nam's commitments on trade in services,<sup>53</sup> it is easy to forecast that – barring major disruptions in either the domestic or the international political and economic situation – a solution will be found before long. The solution will result from a compromise that will see Viet Nam concede still more ground to current WTO members in terms of trade liberalization, especially in the domain of services. Prospect that accession will be completed by the target year 2005 now appear fairly high.

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<sup>51</sup> According to some observers, Vietnam's negotiating strategy might have been also influenced by two factors, both of which militated against hastening the accession process. One is the desire to wait for China's access, in order to have some time to observe its initial impact and to draw some lessons from the neighbor's experience (as Vietnam appears to have done in many other domains since the inception of *doi moi*), and also in the hope that China's presence among WTO members might somehow help Vietnam's negotiating position. The other is the eventuality of a failure in the new round of WTO negotiations, which might enhance Vietnam's bargaining strength. As mentioned above in sub-section 3.1., WTO negotiations in Cancun did in fact fail spectacularly: however, the assumption that Vietnam is bound to benefit from this new development in the international world trade scenario is far from obvious.

<sup>52</sup> I am not aware of any specific position taken by Japan on this specific negotiating issue. Yet, it is apparent that Japan's attitude towards bilateral trade relations and its intellectual and lobbying influence on the formulation and implementation of Vietnam's national development strategy has been consistently different from that of other major OECD countries, favoring an "Asian developmental state" style approach rather than the standard Washington Consensus prescriptions.

<sup>53</sup> A new round of negotiations, initially scheduled to take place in September, 2003, is now expected to take place in early 2004. Vietnamese negotiators are preparing a new offer on services.

## Policies in the Area of Strategic Services

### The high user cost of core infrastructural services

Notwithstanding the market-oriented reforms and the extraordinary rate of development of the Vietnamese economy as a whole, and in particular of prioritized infrastructural sectors, by the early 2000s the costs and efficiency of key service industries such as energy, telecommunications and (to a lesser extent) transportation still tended to penalize enterprises operating in the Vietnamese market vis-à-vis those active in many other Asian countries. Such a disadvantage stems in part from the relative underdevelopment of these service industries, and in part from a deliberate tariff policy (now being gradually revised) which aimed to strengthen financially large, strategic SOEs, especially in the energy and telecommunication subsectors.

Comparatively high telecommunication tariffs are constantly mentioned by Vietnamese and foreign businesspeople alike as a major constraint to their ability to compete successfully in both domestic and international markets. One recent occasion where these grievances were aired with particular emphasis was the mid-year Consultative Group Meeting of the Viet Nam Business Forum, held in Hanoi on 6 June 2003. During that meeting, a series of data were presented to substantiate the claim that the relative underdevelopment and high cost of telecommunications and a few other key services was pushing up the “cost of doing business”, thereby undermining the competitiveness of Vietnamese industry.

It is worth taking a closer look at these figures, which are also helpful in visualizing Viet Nam’s business climate conditions in comparison to those of other Asian countries. Table 4 shows that telephone and electricity costs are much higher in Viet Nam than in other countries. Yet, in the 1998–2002 period, electricity and transportation costs decreased significantly, and telecommunications tariffs were shed drastically. Progress in lowering telephone costs in Viet Nam has been good, although surpassed by both China and the Philippines. Rents appear to be relatively expensive in Viet Nam, taking into account its lower-than-average GDP. Transport costs, on the contrary, are broadly in line with regional standards.

**Table 4. Business operating costs in Viet Nam and other Asian countries**

<b>Viet Nam and other countries</b>						
	Office rent U.S.\$/m2/month	Telephone Cost of 3-minute call to Japan (U.S.\$)	% change 2002–2002	Electricity cent/Kwh	Transport Cost of 40 foot container to Yokohama (U.S.\$)	
Hanoi	22.0	5.6	-29	6.0	1 470	
HCMC	21.0	5.6	-29	6.0	1 078	
Manila	7.5	1.2	-42	3.5	700	
Beijing	37.0	2.9	-33	4.0	734	
Jakarta	17.0	3.8	+25	4.0	820	
Bangkok	10	2.1	-17	4.0	104	
KL	16.3	1.4	63	5.0	884	
<b>Progress within Viet Nam</b>						
Business cost changes 1998–2002						
	Monthly wage for worker (U.S.\$)			+ 9%		
	Office rent (U.S.\$/month/m2)			-1%		
	3-minute call to Japan (U.S.\$)			-72%		
	Power cost (cent/kwh)			-20%		
	40-foot container to Yokohama (U.S.\$)			-20%		

Source: VBF 2003

In sum, the analysis of comparative “cost of doing business” data shows that the above-mentioned businesspeople claims are by-and-large true, although in themselves, they constitute no indictment of

wrong policy-making on the part of the Government. A country at the overall development level of present-day Viet Nam cannot be expected to match much richer neighbours in the technological advancement and efficiency of service industries.<sup>54</sup> Still, it is encouraging to note that Viet Nam has made significant progress in this area since the late 1990s, and especially so with respect to telecommunications costs. Yet there is clearly no room for complacency, and it is crucial that the announced policy of gradual tariff reductions and homologation continues to be consistently implemented.<sup>55</sup>

Tariff policy is only one aspect of Viet Nam's policy approach to the development of strategic services sectors which strive to balance various potentially conflicting requirements. On the one hand, key infrastructural sectors are being opened up and partially liberalized to enable a mutually acceptable compromise with trading partners, with a view to fostering efficiency and technology upgrading and to improving Viet Nam's systemic competitiveness via a progressive abatement of core business operating costs. On the other hand, the Government does not underestimate the critical need to maintain in the long run a certain degree of strategic control over the development of core service industries.

The following subsections examine policy developments in the area of telecommunications, which are presently both "the" most strategic infrastructural service and the one in which Viet Nam faces the strongest pressures in international trade negotiations. The remainder of the present subsection briefly examines recent developments in another basic infrastructural sector: energy, showing the broad consistency of Viet Nam's policy approach in the whole gamut of strategic services industries.

### **De-monopolization and internationalization of the Vietnamese energy industry**

Notwithstanding the strong growth achieved in the 1990s (with energy and electricity demands growing 30 per cent and 70 per cent faster than GDP respectively), Viet Nam has one of the lowest rates of consumption of modern forms of energy per capita in the world.<sup>56</sup> About two thirds of total energy consumption still stems from traditional energy (wood and other biomass), and more than half the population lacks access to electricity. Therefore, a fast expansion of the energy sector continues to be a high priority. This task is facilitated by Viet Nam's ample natural energy resources in oil, coal, gas and hydropower. Recent discoveries put gas reserves at U.S.\$7–8 billion, about one quarter of Viet Nam's GDP. Only one fourth of hydro-potential is exploited thus far. Oil and coal exports account for a large, if declining,<sup>57</sup> share of foreign exchange earnings. Viet Nam presently produces about 20 million tons of oil and gas per year<sup>58</sup>. The relatively new gas subsector, in particular, can provide 1.7 billion cubic meters of gas, 350,000 tons of LPG and 130,000 condensate per year. Gas

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<sup>54</sup> *Ceteris paribus*, poorer countries' comparative advantages are mainly, almost by definition, determined by lower labor costs. In 2002, Vietnam's monthly wages for unskilled workers were US\$ 97.5 and US\$ 117.5 respectively in Hanoi and HCMC, against US\$ 108 in Jakarta, US\$ 120 in Beijing, US\$ 150 in Manila, US\$ 163 in Bangkok, and US\$ 208 in Kuala Lumpur.

<sup>55</sup> The government Pricing Committee presented to the Forum a schedule for the phasing out of dual pricing. The schedule shows that, between 1998 and 2003, previously large differences between prices for locals and for foreigners have been progressively eliminated in water (from 117 per cent to 0), and much reduced in power and air transport. The corresponding in difference in telephone installation was smaller (6 per cent) and was eliminated in 1999. Yet, it remains high (100 per cent) in TV advertising. In 2003, dual pricing was scheduled to be totally eliminated in airfares, rail and sea port fares, and in 2004 in electricity.

<sup>56</sup> Vietnam's energy consumption per capita in 1998 was only 144 kg. of oil equivalent, about one seventh of Thailand's. India's energy consumption was 248 kg., China's 664 Kg., Korea 2982 kg. (World Bank. 1999).

<sup>57</sup> The relative decline of hydrocarbons' contribution to total exports is due to the fast expansion and diversification of agricultural, seafood, and manufacturing exports.

<sup>58</sup> Author's estimate based on the production results of the first half of 2003 (10.4 million tons of oil and gas). These results suggest that the 10 per cent growth target for the whole energy sector were exceeded in January-June 2003, increasing the likelihood that GDP growth of 7 per cent-7.5 per cent could be achieved for the year as a whole (Viet Nam News, 4 July 2003).

now fuels 17 per cent of total power generation, and is expected to reach 40 per cent (10-12 billion cubic meters per year ) by 2010.

Among the main challenges facing Viet Nam's energy sector, apart from accelerated supply growth, are better distribution to rural areas<sup>59</sup>, efficiency improvements, optimal exploitation of existing resources, and environment protection. To reach these goals, Viet Nam will need to invest over 5 per cent of its GDP in the energy sector (twice as much as its South Asian neighbours, already endowed with a more developed energy infrastructure). In order to match such huge financing needs, the World Bank argues that Viet Nam, besides progressively restructuring its tariff policies, must be able to attract foreign funds, both as FDI flows and as state-guaranteed loans, creating an "enabling business environment" and a supportive legal framework (World Bank 1999).

The core of Viet Nam's energy sector is constituted by few very large SOEs – Electricity of Viet Nam (EVN), PetroViet Nam, Vinacoal, and Petrolimex – which employ over 200,000 workers and have a combined turnover over U.S.\$2.5 billion. In 1995 they were made state corporations under the State Enterprise Law in order to facilitate the separation of ownership and management. Property rights were entrusted to an independent management board. Yet state corporations, and EVN in particular, failed to achieve an adequate degree of effective independence. Interference by ministries did not cease, and the separation of responsibilities and decision-making powers lacked clarity because ownership and other functions were diffused among various government agencies and ministries (Sedin 1998).

Previously fully-monopolistic energy subsectors have undergone major changes in recent years, and large energy SOEs are partially changing their roles. PetroViet Nam, an efficient SOE which contributes substantially to Viet Nam's balance of payments,<sup>60</sup> plans to complete by 2005 a major gas-power-fertilizer project in Ca Ma. This will include a 332 km pipeline to carry 2 million cubic meters of gas per year, a 720 megawatt power plant (which is expected to use 1.5 billion cubic meters of gas per year) and an 800,000 ton fertilizer plant. PetroViet Nam is also growing more internationalized. It already operates several joint ventures, and is seeking other cooperation contracts with foreign investors interested in Viet Nam's energy resources. It also ventured in Iraq and Algeria, and has bought shares of international oil corporations in Mongolia and Malaysia (Viet Nam News, 4 July 2003).

The state retains a monopoly on transmission for many reasons, security included, but production and generation are being gradually opened to competition. EVN's monopoly in electricity generation has been superseded since 1998, when the fully foreign-owned 375-MW Hiep Phuoc Plant began operating. EVN has also been experimenting with divesting some distributor units, but the equitization process has been hampered by difficulties in the price-setting mechanism, as rural electricity prices are lower than corresponding production costs.

Presently, EVN is buying electricity from many domestic and foreign-invested firms,<sup>61</sup> which operate under 'build-operate-transfer' (BOT) agreements. Other foreign- and locally-invested energy plants are scheduled to be put into operation soon. Thirty plants have been already identified for investment by domestic enterprises other than EVN, with a total capacity of 3,684 MW in the next seven years.<sup>62</sup> EVN is also seeking to attract FDI to help finance six joint ventures expected to create 2,623 MW of combined additional generation capacity. According to plans, foreign and domestic non-EVN energy firms will provide over 60 per cent of total investment in power generation for the 2002–2010 period

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<sup>59</sup> An ambitious rural electrification program envisages to reach 60 per cent of rural households by 2010.

<sup>60</sup> Crude oil exports in January- June 2003 were almost 8.6 million, 3 per cent up on same period in 2002 year (Viet Nam News, 4 July 2003).

<sup>61</sup> EVN presently buys energy from 5 foreign-invested plants. Other 40 non-EVN plants will sell energy to EVN from next year.

<sup>62</sup> As a result, Vietnamese private investors are expected to finance 36 per cent of total investment in power generation in the 2002–2010 period.

(Dao Van Hung 2003). The Vietnamese Government has also recently embarked on a power-saving programme.<sup>63</sup>

The power subsector strategy is aimed at relieving EVN of part of the burden constituted by the need to meet ever-increasing investment needs, taking into account that its pricing policy is constrained by the public service nature of electricity services, which must be kept affordable especially for rural users. However, EVN's dominating position, rather than being superseded by competition, will have to be re-focused towards expanding the distribution network and ensuring a regulated exploitation of energy resources. EVN management, aware of the frequent failures of privatized and poorly regulated energy systems in both developed and developing countries, realize that the new strategy is not without risk, as new energy-generating enterprises lack experience and often exhibit high operating costs. Moreover, due to the tightness of the overall supply-demand balance, power shortages cannot be ruled out, unless a very accurate planning and coordination of the decentralized generation system can be assured (Dao Van Hung 2003).

Further reform in the domain of energy services, for the purpose of achieving an adequate degree of competition and of mobilizing the vast financial resources needed to fuel Viet Nam's industrialization process, might require further steps towards stressing energy SOEs' commercial orientation and improving their corporate governance. This could contribute to de-bunking more generation, transmission, and distribution functions, restructuring energy markets, and developing an effective legal and regulatory framework (World Bank 1999). Yet, as numerous experiences in reforming energy utilities in other developing countries have shown, it is also imperative that the State maintain a strong, albeit more flexible, strategic control on the development of the energy sector (Gabriele 2003).

### **The gradual liberalization of the telecommunications sector in Viet Nam<sup>64</sup>**

The Vietnamese telecommunications sector is one of the fastest-developing in the world, second only to China in terms of growth (over 20 per cent per year since the early 1990s), coverage expansion and technology renewal. New fixed-line provision increased from 80,000 in 1986 to over 4 million in 2002. Massive telecommunications investment has been financed to a large extent through external funding in the form of structured loans, ODA and FDI (over U.S. 1 billion) channeled into BCCs and joint venture arrangements. As a result, the Vietnamese telecommunications market reached 600 US\$ millions in 2001.

In spite of fast development in the last decade, the tele-density rates are still low (5.44 lines per 100 people in 2002).<sup>65</sup> Yet mobile telephony and the Internet are booming after a later start: there are now over two million mobile users in Viet Nam, a figure expected to double by 2005 (Viet Nam News, 2 July 2003), and Internet subscribers number in the hundreds of thousands.<sup>66</sup> These figures, while testifying to the impressive modernization effort carried out in recent years, indicate the huge growth potential of the telecommunications market in Viet Nam, taking into account the size of its population and the rapid growth path on which the economy has embarked.

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<sup>63</sup> The Vietnamese government has approved a technical assistance project on management of power supply and power saving. The project is worth US\$6.23 million, out of which US\$5.5 million are granted by the Global Environment Facility (GEF) via the World Bank. The first stage of the project is aimed at reducing peak loadings by 120 megawatt during the next three years, installing 5,600 electronic electricity meters for heavy power consumers, and launching a pilot power management program to reduce power demand on the part of 2,000 consumers. It also intends to save 500 gigawatt/hour by selling 1,000 energy-saving lights to households located in areas with peak load demand. The second stage of the project is designed to assist industrial and commercial power consumers in order to reduce production costs for domestic productive businesses and to enhance the competitiveness of their products ( Viet Nam News, 29 May 2003).

<sup>64</sup> A more detailed sectoral analysis on Vietnam's telecommunication policies can be found in a twin paper (Gabriele 2003a).

<sup>65</sup> Thailand has 7 lines per 100 people, Malaysia 15 (BICA 2003, p. 223)

<sup>66</sup> Internet users in Internet cafes are probably in the millions.

The structure of the Vietnamese telecommunications sector is complex, on the one hand, due to the numerous players in the market, and simple, on the other hand, as the Government is still fundamentally in control.

The Ministry of Post, Telecommunications and Information Technology (DGPT) – split in two in 2003 between a body governing the post system as such and another supervising the telecommunications and information sector proper – operated directly as business operator until the mid-1990s through the state-owned Viet Nam Post and Telecommunications Corporation (VNPT) in what was effectively a fully monopolistic market, both in the domain of services provision and in that of infrastructure development. In 1996 a process to promote limited internal competition in the telecommunications sector began when operating licenses were issued to the Saigon Post and Telecommunications Services Corporation, a joint stock company in which VNPT held a large share of the equity. Subsequently, operating licenses were issued to Viettel, the army's telecommunications company, the Viet Nam Maritime Communications and Electronics Company (VISHIPEL), and the Electric Telecommunications Company (ETC).<sup>67</sup>

However, the DGPT substantially retains, to date, its ability to vet foreign purchase agreements, and network structures, and to issue operating licenses; and VNPT is still the dominant player in the telecommunications market. VNPT also controls, either directly or via equity arrangements and joint ventures, over 200 subsidiary companies, active in the areas of equipment, manufacturing and sourcing and in a number of support services such as R&D, infrastructure construction, fixed-line installation, and transportation. As a result, Viet Nam's telecommunications sector has a very high degree of vertical integration (BICA 2003, p. 224).

With respect to policy initiatives, apart from the implications of the BTA and of ongoing WTO access negotiations (see above, Section 3), the most important recent policy measure is the Ordinance on Posts and Telecommunications No. 43, issued in 2002, which formally established the legal conditions for the development of a competitive market in telecommunications services.<sup>68</sup> The Ordinance distinguishes among three different types of telecommunications networks and enterprises. Public networks, which provide services to the public at large and are the only ones allowed to set up international communication networks, can only be established by Vietnamese telecommunications enterprises. Private networks provide services to only a limited group of users. Telecommunications enterprises (all of which must obtain licenses) are to be either Network Infrastructure Providers (NIP) or Service Providers (SP). Only NIPs, which must be an SOE or controlled by the State, can supply all categories of telecommunications services, and may set up the necessary network infrastructure.<sup>69</sup> The Ordinance also mandates setting up an open interconnection regime, to which all operators can connect under "fair and equitable" conditions, supervised by a regulator.<sup>70</sup> Telecommunications tariffs remain subject to stringent regulation.

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<sup>67</sup> Other important developments took place in mid-2003 in the newest segments of the telecommunications market. The mobile phone network monopoly was broken, with the entry of broadband S- Fone service in July 2003. Internet telephony was also formally allowed with much lower prices.

<sup>68</sup> As mentioned above in sub-sections 4.1 and 4.2., the telecommunications market had already been de facto de-monopolized.

<sup>69</sup> A NIP is broadly similar to what in other countries' regulatory regimes is called a "Carrier". The Explanation Memo attached to the Ordinance further explains why only SOEs can be NIP: "For telecommunications, network infrastructure is the most important factor relating to national sovereignty, therefore only certain SOEs or other enterprises where the state makes controlling capital contributions are allowed to construct, operate and manage the network". Yet, foreign enterprises may enter into investment cooperation arrangements with Vietnamese firms, NIPs included, according to Vietnam's undertakings in bilateral and multilateral trade agreements.

<sup>70</sup> Time limits for negotiations are set, after which the regulator will intervene.

## **Main goals of policies in the domain of strategic services sectors**

The preceding subsections have reviewed the major changes and policy initiatives in two strategic services sectors, energy and telecommunications. In both sectors, it appears that a model with some distinctive characteristics is taking shape, following closely the – so far successful – example of China. It is structured around several SOEs (one of which retains a dominant position), acting in cooperation with foreign TNCs (via BCCs, joint ventures, and/or similar legal arrangements) in a moderately competitive market jointly molded by government policy guidelines and by a WTO-compatible independent public regulatory agency.

In this endeavour, Viet Nam's policy makers are implicitly carrying out a complex exercise of constrained dynamic optimization, which inevitably implies significant trade-offs, and can only pragmatically lead (in the best scenario) to what might be considered a second-best solution.<sup>71</sup> Planners' goals are multiple and, while not mutually incompatible, imply reciprocal trade-offs and thus must be assigned proper weights. The major ones can be assumed to be as follows:

- (1) to maintain strategic policy control;
- (2) to maximize the rate of service improvements and cost reduction, thereby contributing to diminishing the “cost of doing business” and to improving the country's international competitiveness and FDI-attractiveness;
- (3) to promote technical progress and technological absorption;
- (4) to build up a “nationally-owned” entrepreneurship, mainly centred on a few large SOEs;
- (5) to enhance synergies between the energy and telecommunications industries and other domestic industrial sectors;
- (6) to ensure a high investment rate, channeling sufficient domestic resources towards strategic services sectors, attracting FDI on the part of large foreign telecommunications enterprises, and obtaining funds from official and private lenders;
- (7) to minimize the capture of monopolistic and quasi-monopolistic rents on the part of foreign TNCs;
- (8) to ensure the fulfillment of public services and equity-oriented obligations.

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<sup>71</sup> Such an exercise is similar to that carried out by planners in other core infrastructural sectors, such as energy or transportation, but in the case of telecommunications it is made more difficult by the fast rate of technological change and the related crucial importance of the technological implications of the sector's development on the economy as a whole.

## Concluding Remarks

This study has reviewed some basic features of Viet Nam's services sector and of the policies that have been implemented in the area of services.

On this basis, it has attempted to interpret and evaluate the role and consistency of both domestic and trade policies affecting services in the framework of the country's broader strategic framework of outward-oriented reforms aimed at fostering industrialization and building up a strong market economy oriented towards socialism. The main conclusions are as follows.

In the area of infrastructural strategic services, Viet Nam has committed to a fair degree of liberalization and to opening up to international trade in the telecommunications sector (more so than in the energy and transport sectors). Besides responding to pressure stemming from actual and prospective trading partners in the complex web of trade negotiations which led to the signing of the BTA with the United States (negotiations that are expected to pave the way to Viet Nam's accession to the WTO), policymakers strive to achieve a certain degree of regulated competition in the market. Their two pivotal goals are capturing competition-related benefits in terms of efficiency and competitiveness and absorbing more advanced technologies from foreign companies. Yet, even after the phasing out of state monopolies, the Vietnamese telecommunications market, like those of most other countries, retains a strongly oligopolistic structure, although more open and sharpened competition is likely to emerge in a few marginal niches. The role of the State, far from being minimized, is expected to be strengthened in a new and modernized way, with a division of tasks between different public actors. SOEs are expected to enhance their direct entrepreneurial and managerial role as the largest firms and the main partners of TNCs in the domestic market. The Ministry of Planning, the line ministries and the other bodies and committees which directly supervise telecommunications and the other infrastructural industries try to streamline, rationalize and make more effective their strategic planning role. Finally, sectoral regulatory functions are being transferred to a separate agency which, according to policy design, should enjoy a high degree of autonomy, thereby being able to safeguard an acceptable measure of competition (an outcome which, by its very oligopolistic nature, the telecommunications market would not produce spontaneously), and to protect the legitimate interests of both home and business users.

Another important component of telecommunications policies is tariff policy. The policy choice of gradually lowering tariffs, in telecommunications as in other key public services, constitutes a progressive transfer of resources from the dominantly state-owned, large-scale, capital-intensive and arguably import-substituting infrastructural services sectors, towards other areas of the economy, and especially towards labor-intensive, small-scale, and mostly non-state-owned manufacturing and services activities. Such a transfer amounts to a progressive lowering of the level of effective protection for the telecommunications industry (or, at least, of the impact of one of the most powerful instruments traditionally used to enforce it), which is necessary to strengthen the competitiveness of those sectors of the Vietnamese economy which do enjoy a comparative advantage under present circumstances, besides attracting FDI. Yet, it is important that such re-orientation of inter-sectoral transfers in favour of the full exploitation of static comparative advantages is balanced off by a strengthened commitment to allow telecommunications SOEs to retain sufficient investment funds, and by a reconfirmation at the highest planning level of the strategic priority accorded to the development of the national telecommunications industry.

In the area of the international trade dimension of services policies, Vietnamese policymakers strive to achieve a certain degree of consistency with the diverse strategic goals pursued in the different services sectors. The focus of negotiations on infrastructural and financial strategic services, which are the core component of overall negotiations on trade in services, is on the domestic market. Viet Nam needs to strengthen already-existing but insufficiently competitive, efficient and technologically advanced national firms, and must be careful not to allow them to be swallowed by powerful TNCs,

thereby losing strategic control and risking ending up as a hostage of foreign private monopolies.<sup>72</sup> Policy makers realize they have to walk a fine line, striving to open up the market to foreign operators to a significant but not unlimited extent. In this endeavour, on the one hand, they try to reap the benefits of competition and facilitate the absorption of more advanced technologies and management techniques, and on the other hand, necessarily, they are responding to external negotiating pressures in a zero-sum game.

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<sup>72</sup> Abstracting from the role of SOEs, the main “defensive” instruments which the Vietnamese government is bound to maintain, apart from the role of SOEs, are the licensing policy and the broad planning and regulatory functions of the State. Yet, such instruments will have to be employed in a conservative, cautious, and WTO-compatible fashion.

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