EXHIBIT 1

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THROUGH: Jeffrey May
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DATE: March 25, 2002

SUBJECT: Antidumping Duty Investigation of Silicomanganese from Kazakhstan - Request for Market Economy Status

SUMMARY

In connection with the above-captioned investigation, the sole Kazakhstan respondent, Transnational Company Kazchrome ("Kazchrome"), and the Government of Kazakhstan ("GOK") submitted requests to graduate Kazakhstan to market-economy status. Our analysis indicates that Kazakhstan has successfully made the transition to a market economy.

As a result of economic and institutional reforms undertaken since the breakup of the Soviet Union in 1991, Kazakhstan's currency is now fully convertible for current account purposes. Wage reforms are well advanced in Kazakhstan, with workers able to unionize and negotiate wages and benefits on an individual and collective basis. Kazakhstan is open to foreign investment, and investors have responded, particularly into the oil, gas, and metals sectors. The GOK has privatized most sectors of the economy, although a number of large companies remain in majority state ownership. The allocation of resource decisions in Kazakhstan now rests with the private sector, with the GOK largely limiting price regulation to natural monopolies. In addition, the commercial banking sector behaves as a financial intermediary.

Despite Kazakhstan's successful reforms, some problems remain. Foremost among these is that privatization efforts in Kazakhstan's remaining state-owned enterprises ("SOEs") have slowed markedly since 1997, in part because of GOK concerns about possible social unrest if it acts too quickly in forcing those SOEs that are insolvent into bankruptcy. In addition, wage arrears are a direct result of the slowdown in privatization efforts, and until recently, they were largely responsible for dragging down living standards.

Overall, the changes in the Kazakhstan economy demonstrate that Kazakstan has completed the transition to a market economy. Based on these economic changes in Kazakhstan, as analyzed under section 771(18)(B) of the Tariff Act of 1930, as amended (the Act), we recommend that the U.S. Department of Commerce ("the Department") finds that Kazakhstan has operated as a market-economy country as of October 1, 2001, and that this finding be effective for all current and future administrative proceedings.

BACKGROUND

On April 6, 2001, the Department published a notice of initiation of an antidumping investigation on silicomanganese from Kazakhstan. On June 28, 2001, the Department received a request from the sole Kazakhstan respondent, Transnational Company Kazchrome ("Kazchrome"), requesting that the Department revoke the nonmarket economy ("NME") country-status of Kazakhstan under section 771(18)(A) of the Act. On July 5, 2001, the GOK also submitted a letter requesting that Kazakhstan's NME status be revoked in the context of this proceeding.

The GOK and Kazchrome presented arguments that market-oriented reforms in Kazakhstan justify graduation to market economy status. Reforms that were cited include: a freely convertible, and now more stable, currency; legal guarantees to workers of the rights to organize in trade unions and collectively bargain as well as the reality of rising wage rates and declining unemployment; price and interest rate liberalization; substantial privatization of small- and medium-scale enterprises and of many of the largest enterprises; the elimination of trade distortions such as quantitative restrictions and pronounced integration into the international trading and investment systems; and the introduction of new laws, including a tax code based on international standards, an effective bankruptcy law, laws on competition and the securities market, and other components of the essential legal framework for a market economy.

On July 30, 2001, August 23, 2001, and August 29, 2001, the petitioners',(1) responded to Kazakhstan's request for market economy status. The petitioners(2) argued that there is extensive government ownership and control of the means of production a. , and that the state is the sole or majority owner of a very large number of large and medium-sized enterprises. Petitioners also contended that the state is exercising control over the means of production through large stakes in privatized enterprises and by other means, and that privatization has slowed. Further, they argued that there is extensive government control over price and output decisions and the allocation of resources. Petitioners added that the government controls prices of many key commodities and prices are held below cost-recovery levels; companies are allowed to continue operating without paying suppliers and workers; and, state support of enterprises and industries distort prices, output decisions, and resource allocation. The argument was also made that the government is still heavily involved in financing business activities, and that more reform is required to dismantle the still dominant public sector in Kazakhstan.

Petitioners further contended that there is extensive government interference with foreign investment and joint ventures, and that the GOK uses a variety of means to interfere with foreign investors and joint ventures. They argued that the investment process is not transparent and open; that there have been many instances of foreign investment failures due to arbitrary GOK action; that the government is granting preferences to domestic investors and tightening restrictions on foreign investors; and, that wage rates are not determined by free bargaining between labor and management.

In issuing the preliminary determination in the silicomanganese investigation, the Department invited public comment on Kazakhstan's NME status. Comments were due December 10, 2001. Among the comments received by the Department were several from various U.S. businesses operating in Kazakhstan. Comments from Chevron Texaco Corporation, DHL International, Exxon Mobil Corporation, the International Tax and Investment Center, AES Corporation, the law firm of LeBoeuf, Lamb, Greene & MacRae, as well as from Motorola all supported Kazakhstan's market economy request based on their actual favorable business experience operating in Kazakhstan.

The American Chamber of Commerce in Kazakhstan and the United States Chamber of Commerce also submitted comments in favor of NME revocation based on their members' collective experience operating in Kazakhstan. A single Kazakhstan producer, the Ust-Kamenogorsk Titanium and Magnesium

Plant, submitted general comments supporting Kazakhstan's market economy request.

The GOK submitted additional information to support its original request for market economy status, providing a list of recent developments that have taken place in the economic life of Kazakhstan. The Department also received a cable from the U.S. embassy in Kazakhstan stating that Kazakhstan's currency is fully convertible; the GOK does not interfere with free bargaining between labor and management; the GOK is very liberal in allowing foreign investment and joint ventures in Kazakhstan; private companies produce most of the Gross Domestic Product ("GDP") and dominate almost all economic sectors in Kazakhstan; and, the GOK has been working to build private markets across all sectors.

Comments against revocation of Kazakhstan's NME status were submitted by several U.S. steel producers: Bethlehem Steel Corporation, LTV Steel Company, Inc., National Steel Corp., and United States Steel LLC ("Steel Group"). The comments in opposition discussed the following issues in Kazakhstan:

- Congress did not intend to limit NME status to countries in which only the central government exercises pervasive control.
- Barter is prevalent, and capital flight is widespread.
- Kazakhstan's legal foundation for labor relations is weak, and unions are ineffective.
- Kazakhstan's failure to uniformly enforce laws deters foreign direct investment ("FDI").
- Only a small percentage of Kazakstan's major enterprises are privatized, and privatization efforts are not moving forward.
- Kazakhstan continues to directly control prices through price controls.
- Other factors cited included widespread bribery and corruption.

In its preliminary determination, the Department also invited rebuttal comments on Kazakhstan's market economy request, which were due on January 24, 2002. Rebuttal comments were made on behalf of petitioners and respondents in the investigation, and by the Steel Group.

ANALYTICAL APPROACH

In making a NME-country determination under section 771(18)(A) of the Act, Section 771(18)(B) requires that the Department take into account the following six factors.

1. The extent to which the currency of the foreign country is convertible into the currency of other countries.
2. The extent to which wage rates in the foreign country are determined by free bargaining between labor and management.
3. The extent to which joint ventures or other investments by firms of other foreign countries are permitted in the foreign country.
4. The extent of government ownership or control of the means of production.
5. The extent of government control over the allocation of resources and over the price and output decisions of enterprises.
6. Such other factors as the administering authority considers appropriate.

These factors have a common focus which is to ensure that market forces in the country are developed sufficiently to rely on a country's prices and costs in the Department's antidumping process. Prices and costs are central to the Department's dumping analysis and calculation of fair value. Prices and costs that the Department uses must therefore be meaningful measures of value. However, NME prices and costs are not, as a general rule, meaningful measures of value because they do not sufficiently reflect demand conditions or the relative scarcity of resources used in production. The problem with NMEs is not one of distorted prices, per se, since few, if any, market economy prices are perfect measures of value, free of all distortions (e.g., taxes, subsidies, other government regulatory measures). The problem, instead, is the price formation process in NMEs (i.e., the absence of the demand and supply elements that individually and collectively make a market-based price system work and make the resulting prices reliable).

In evaluating the six factors listed above, the Department recognizes that it is not sufficient that a country's economy is no longer controlled by the state. Rather, the Department must determine whether the facts applied to the factors as a whole demonstrate that the economy is operating under market principles. This test, however, does not require that countries be judged against a theoretical model or a perfectly competitive laissez-faire economy. Instead, the Department must evaluate the totality of facts in determining whether a country has met the standard of a market economy. The Department's determination is based on comparing economic reforms in the country to how other market economies operate, recognizing that market economies around the world have many different forms and features. Although it is not necessary that the country fully meet every factor relative to other market economies, the Department must determine that economic reforms have reached a threshold level such that the country can be considered to have a functioning market economy in which prices and costs exist that can be tied to the U.S. antidumping law.

OVERVIEW OF ECONOMIC REFORMS

Historically, Kazakhstan was rarely united as a single nation or economic group, consisting mainly of disparate ethnic groups and nomadic tribes.(3) In the 18th century, Russia conquered Kazakhstan, which became a Soviet Republic in 1936.(4) For the ensuing 55 years, Soviet economic planners implemented a command system found throughout the Soviet Union, meaning they collectivized agricultural land and nationalized urban land and business enterprises. The Soviet ruble became Kazakhstan's currency, and economic activity in Kazakhstan was dictated by Soviet five-year plans drawn up in Moscow. Industrial production in Kazakhstan, as in other republics, was highly specialized. Kazakhstan's narrow economic base consisted primarily of agriculture, oil and gas production, metallurgy, and metalworking.

Among Kazakhstan's designated products for the general all-union market were phosphate fertilizer, rolled metal, radio cables, aircraft wires, train bearings, tractors, and bulldozers.(5) Kazakhstan also had a well developed network of factories producing military goods that supplied about 11 percent of the total military production of the Soviet Union.(6) In some areas of military production, Kazakhstan had a virtual monopoly. As a result of Soviet economic planning priorities, Kazakhstan's service sector was poorly developed.

The breakup of the USSR and the collapse of demand for Kazakhstan's traditional heavy industry products resulted in a short-term contraction of the economy, with the steepest annual decline occurring in 1994. The Kazakhstan economy contracted by 44 percent between 1990 and 1994, particularly after the ruble zone collapsed and the GOK was forced to implement policies to combat hyper-inflation.(7)

From 1995-97, Kazakhstan's president since independence, Nursultan Nazarbayev, undertook comprehensive and systematic reforms designed to radically transform Kazakhstan into a market economy. The pace of the government program of economic reform and privatization quickened, resulting in a substantial shifting of assets into the private sector.

Today, services is the largest sector in Kazakhstan's economy; however it largely supports the oil sector. For example, one of the largest ongoing construction services project in Kazakhstan is an oil pipeline, while a significant amount of commercial bank lending is for oil sector projects.(8) Kazakhstan's economic growth is largely fueled by the export oriented oil and metals sectors.(9) Other industrial production includes a growing light industry sector. While many sectors of the economy have grown, agricultural production has declined since the early 1990s when it was the second largest sector in the economy, contributing over a third of GDP and 18 percent of the workforce. In 1999, it accounted for only 10 percent of GDP.(10)

The following section discusses each of the six statutory factors for determining NME-country status and the current state of Kazakhstan's economy as it relates to each of those factors.

ANALYSIS OF SECTION 771(18)(B) FACTORS

The extent to which the currency of the foreign country is convertible into the currency of other countries.

A particular country's integration into world markets is highly dependent upon the convertability of its currency. The greater the extent of currency convertibility, for both trade and investment purposes, the greater are the supply and demand forces linking domestic market prices in the NME country to world market prices. The greater this linkage, the more market-based domestic prices tend to be.

Legal framework

Since the breakup of the Soviet Union, Kazakhstan has put in place a legal framework that ensures the full convertability of its currency. In 1995, the GOK implemented the Law of the Republic of Kazakhstan on the National Bank of the Republic of Kazakhstan, which separates the functions and obligations of the state from the National Bank of Kazakhstan ("NBK") regarding monetary policy, including currency regulation and management of the money supply.

A year later, Kazakhstan adopted Article 8 of the IMF Articles of Agreement, which required the tenge to be fully convertible on the current account.(11) In the same year, the GOK implemented Article 10 of the Law on Currency Regulation, permitting commercial banks in Kazakhstan to freely exchange, buy, and sell foreign currency both in Kazakhstan and abroad, with the appropriate licenses from the NBK (virtually all banks possess such licenses).(12) In 2001, the Rules for Conducting Currency Transactions set procedures for currency transactions by and/or domestic and foreign entities via Kazakhstan banks and for the export and import of currency.

Developments in the Economy

Kazakhstan's implementation of its laws governing currency has been effective, as discussed below. Following the dissolution of the Soviet Union in 1991, Kazakhstan continued to use the Soviet ruble. In order to establish Kazakhstan's own monetary and exchange rate policies, the GOK phased out the ruble in 1993, introducing the tenge. For the next several years, the fledgling tenge remained pegged to the ruble, and could not be freely exchanged for another currency or for gold.(13)

Since 1996, Kazakhstan has abided by the provisions contained in Article 8 of the IMF Articles of Agreement, and the tenge has remained fully convertible for current account purposes.(14) The NBK still has controls on some capital account transactions, such as requiring NBK approval prior to importing or exporting currency amounts over $100,000. However, these types of capital account controls are common in many countries.

At the beginning of 1999, the NBK abolished its peg to the ruble and shifted to a floating exchange rate regime.(15) Today, the NBK establishes official exchange rates on the basis of rates in the FOREX market, and interbank markets, and exchange rates remain market based in accordance with supply and demand.

Since adopting a market driven exchange rate, the NBK's only significant influence on the value of the currency has been to control inflation by limiting nominal appreciation of the tenge and controlling foreign exchange rate fluctuations.(16) For example, when increases in dollar-denominated oil revenues led to upward pressure on the tenge exchange rate, the NBK's foreign exchange intervention was limited to moderating the rate of change and preventing undue fluctuations in the exchange rate.(17) In addition, after oil price increases in 2000 caused a surge in the currency supply, the NBK reaction was limited to dampening inflationary pressures by issuing short-term NBK notes to absorb the excess liquidity.(18) The result has been that although the tenge has remained relatively stable in nominal terms vis-a-vis the US dollar, it has remained market-based.(19)

Assessment of factor

Overall, Kazakhstan's currency regime is essentially liberalized, as evidenced by a fully convertible currency (the tenge) for current account purposes, as well as a market-based exchange rate regime. We believe that Kazakhstan has made significant progress under this factor.

The extent to which wage rates in the foreign country are determined by free bargaining between labor and management.

This factor focuses on the manner in which wages are set because they are an important component of producers' costs and prices, and in turn are an important indicator of a country's overall approach to setting costs and prices in the economy. The reference to "free bargaining between labor and management" reflects concerns about the extent to which wages are market-based, i.e., about the existence of a market for labor in which mobile labor service providers and employers are free to bargain over the terms and conditions of employment.

Legal framework

Kazakhstan does not have laws which prescribe that the GOK administer wages in the economy, except in SOEs and in the establishment of a minimum wage. Moreover, Kazakhstan has in place a series of laws regarding labor that collectively provide a framework for free bargaining between labor and management. Labor reform since 1991 has included extensive legislative action, including the 1992 Law on Collective Bargaining Agreements, which provides for free bargaining between parties to reach a collective agreement. In 1993, the GOK adopted Article 17 of the Law on Professional Labor Unions, which gives unions the right to develop social and economic protection plans to protect their members. The law permits unions to establish programs to combat unemployment, to determine minimum wages, pensions, stipends and welfare benefits.(20) The GOK subsequently adopted the Law on Labor Disputes and Strikes in 1996, which allows strikers to demand and receive wage increases.

The most significant labor reform legislation implemented in Kazakhstan to date is the 1999 Law on Labor.(21) The law replaces collective agreements previously negotiated by unions with separate employment contracts negotiated between individual employees and employers. However, employees or employers who wish to have collective agreements may still bargain for such agreements. In collective bargaining, both trade unions and other organizations established by non-union members may represent the employees' side. The law stipulates that a collective agreement is valid only for those on whose behalf it was signed. The Law on Labor also states that wages may not be lower than the minimum monthly wage established by the GOK.(22)

Developments in the Economy

Today, workers in Kazakhstan largely negotiate their own wages, and market forces establish wage rates. Moreover, the labor force is mobile and free to pursue new employment opportunities, as evidenced by the rapid expansion of certain sectors (e.g., oil), and the contraction of others (e.g., agriculture).

The success of wage reforms in Kazakhstan has been attenuated by a longstanding problem with wage arrears. Wage arrears in Kazakhstan can be attributed largely to a slowdown in privatization reforms in certain sectors. The GOK has been reluctant to allow insolvent firms - mainly SOEs - to enter bankruptcy, instead enabling them to continue operating without promptly paying their creditors or workers.(23) Largely as a result of delayed industrial restructuring in Kazakhstan, companies that are effectively bankrupt have been able to amass wage arrears that erode living standards.(24)

Although wage arrears remain a problem in Kazakhstan, there have been recent and dramatic improvements, partly due to a strong economy that led to rising output, and also due to a looser monetary policy. The reduction in wage arrears can also be attributed to a mobile workforce, insofar as workers are free to leave insolvent firms for more remunerative opportunities. The level of reported wage arrears was halved between 1999 and 2000, and continued to decline in 2001.(25) The stock of all wage arrears declined from 1.3 percent of GDP in June 1999 to 0.4 percent of GDP in February 2001.(26)

In addition to contributing to lower wage arrears, the generally buoyant economy in Kazakhstan lowered the official rate of unemployment by over 11 percent between July 2001 and the year before. Although the actual rate of unemployment remains high at 10 percent, the trend is downward. As the growing pool of workers who are paid on time increases, the national standard of living has begun to increase significantly.(27) Between the first quarters of 2000 and 2001, average monthly real wages increased by 16.3 percent.(28)

Assessment of factor

Wage reforms are well advanced in Kazakhstan, with workers able to unionize and negotiate wages and benefits on an individual and collective basis. Since 1999, real wages have been increasing rapidly, while unemployment and wage arrears have declined. Overall, the progress made by Kazakhstan under this factor supports market forces in the country.

The extent to which joint ventures or other investments by firms of other foreign countries are permitted in the foreign country.

Opening an economy to foreign investment tends to expose domestic industry to competition from market-based suppliers and the management, production and sales practices that they bring. It also tends to limit the scope and extent of government control over the market, since foreign investors, as a general rule, demand a certain degree of autonomous control over their investments.

Legal framework

In 1994, the GOK implemented the Law on Foreign Investment, which provides guarantees for stability in the legal regime, non-expropriation, freedom to utilize profits made in Kazakhstan, and currency convertibility. The law also provides for access to international arbitration and protection against unlawful acts of government agencies and officials. Foreign and private domestic entities have the same right to establish and own business enterprises in Kazakhstan, and to engage in all forms of remunerative activity.(29) Private individuals can freely buy and sell interest in business enterprises.(30) Further, foreign enterprises are free to repatriate investment profits.(31)

In addition to providing legal guarantees for foreign investors, the GOK has taken steps to provide certainty with respect to tax treatment, and to encourage direct investment. The 1995 Tax Code introduced a value added tax, income taxation of both individuals and enterprises, and a variety of excise taxes, which are clearly spelled out. In 1997, the GOK implemented the Law on State Support for Direct Investment, which provides incentives in certain priority sectors, including production infrastructure, processing industries, enterprises located in the capital city of Astana, housing and enterprises related to the social sector, and agriculture.(32) As described below, Kazakhstan's relatively high level of FDI is a strong indicator that the GOK effectively enforces these laws at the national level and actively encourages foreign investment.

Developments in the Economy

In many ways, Kazakhstan is an investor-friendly country with a generally consistent policy to improve the domestic investment climate. FDI is welcome in virtually all economic sectors, except in areas designated as natural monopolies (e.g., utilities).(33) Kazakhstan's oil and gas sectors have attracted much of the FDI flowing into Kazakhstan, however, other areas (e.g., the banking and metals sectors) have also attracted substantial foreign investment.(34) Between 1995 and 1999, the level of per capita FDI inflows into Kazakhstan exceeded the levels achieved in several market economies, such as in the Slovak Republic.(35)

U.S.-based enterprises are the largest foreign investors in Kazakhstan, accounting for over 50 percent of investment in 1999. U.S.-based firms are engaged in about 300 registered U.S. joint ventures in Kazakhstan, twenty of which are large-scale projects in the oil and gas, mining, and energy sectors. These joint ventures are primarily responsible for the bulk of Kazakhstan's oil exports. Other large foreign investors in Kazakhstan include enterprises from Japan, South Africa, the United Kingdom, Germany, Turkey, and Switzerland.(36)

Kazakhstan has high FDI inflows notwithstanding some local problems. For example, foreign investors generally perceive that sub-national governments eschew FDI in favor of domestic ownership.(37) There is some evidence that sub-national governments in Kazakhstan help local interests oust foreign investors who were allowed into downstream activities by the GOK.(38) It appears that resistance to FDI by some sub-national governments is based on fears about losing economic control of local enterprises to foreign ownership, however, such behavior has so far not dampened the high level of FDI into Kazakhstan. It is instructive that a range of U.S.-businesses operating in Kazakhstan have commented in the instant investigation, and all appear favorably disposed to the country's investment climate.(39)

Assessment of factor

Joint ventures and other forms of investment are permitted in Kazakhstan, and the GOK has been successful in promoting substantial FDI, in particular into the oil, gas, and metals sectors. While foreign investors generally perceive that sub-national governments in Kazakhstan favor domestic ownership, FDI levels are strong, and foreign industry's participation in Kazakhstan's economy is an important dynamic supporting market forces in the country. Overall, we believe that Kazakhstan has made significant progress under this factor.

4. The extent of government ownership or control of the means of production.

The right to own private property is fundamental to the operation of a market economy. In addition, the scope and extent of private sector involvement in the economy often is an indicator of the extent to which the economy is market-driven.

Legal framework

In assessing this factor, there are two significant determinants of the extent to which the private sector is thriving in Kazakhstan: (1) privatization of industrial enterprises, and (2) land reforms.

Privatization reforms. In 1995, the GOK implemented the Law on Privatization to enable the GOK to privatize virtually all segments of the economy. Specifically, the Law on Privatization gives the State the right to sell a number of government-owned enterprises.(40)

Land reforms. In 2000, the GOK implemented the Law on Land Ownership, which recognizes the following concepts of ownership interests with respect to land: right of ownership, right of permanent land use, right of temporary use of a land plot which is in private ownership, easement, and other rights.(41) The Law of Land Ownership is an important reform because it codifies the right to own property, including land, which is important to the development of an effective private sector.

Developments in the Economy

As with other former Soviet republics in 1991, the state in Kazakhstan initially owned and controlled virtually all land, property, and enterprises. The GOK subsequently undertook comprehensive and systematic reforms which privatized a large portion of the means of production.

Privatization reforms. Privatization reforms in Kazakhstan were quickly implemented from 1995-1997, with the private sector share of the economy climbing from 25 percent to 55 percent.(42) Privatization during this period included enterprises in virtually all sectors of the economy, and drastically reduced the share of state ownership.

Privatization efforts have slowed since 1997. Between 1998-2000, the private sector share in Kazakhstan grew from 55 percent to 60 percent.(43) As a result, a number of large companies remain in majority state ownership.(44) In addition, the GOK continues to have minority holdings in enterprises operating in various sectors of the economy.(45)

The causes for the slowdown in privatization reforms since 1997 are varied. One reason is that the GOK appears reluctant to quickly force insolvent SOEs into bankruptcy that are the major employers in certain towns or regions due to possible resulting social unrest.(46) Another reason for the slowdown in privatization is the fear of local vested interest groups and state managers in many sectors that privatization will lead to the imposition of foreign management and control and additional scrutiny.(47) The GOK is also now facing less budgetary pressure to privatize as a result of high oil revenues. The decreased rate in privatization is also in part due to Kazakhstan's weak bankruptcy laws, which allows weak SOEs to avoid insolvency.(48)

Although the slowdown in Kazakhstan's privatization reforms has raised concerns that the GOK's policies will lead to a continued long term misallocation of resources, such concerns appear to be unfounded. Kazakhstan's SOEs operate in major sectors of the economy that are subject to market forces in the form of foreign and domestic private competition. For example, the oil sector is subject to extensive foreign competition, such that SOEs in that sector operate in an overall market environment. Furthermore, in the service sectors, commercial banks are also subject to foreign competition, while in the construction sector, domestic private enterprises provide a market-based alternative to SOEs.(49) Therefore, the existence of SOEs in these sectors does not prevent their prices and costs from being reliable measures of value.

Another concern that has been raised is the GOK's view that certain industries are in "strategic sectors" requiring government involvement. The GOK recently announced that it intends to retain ownership of 17 SOEs.(50) Although many of these are natural monopoly providers (e.g., utilities, transportation), they also include enterprises in commercial sectors.(51) It appears that the GOK has embarked upon an industrial policy designed to diversify the economy away from overdependence on the oil sector by developing other enterprise sectors, including light industry.(52) However, in contrast to when Kazakhstan's economy was centrally planned, the GOK's industrial policy appears to be targeted to particular sectors with the purpose of reviving depressed markets and rejuvenating industrial growth, rather than to institute government control of the means of production. It is also fairly common for governments in Western countries to engage in such industrial policy, such as when market-based oil producing countries direct oil revenues into industrial projects in a strategy to diversify the economy. Therefore, such policies are not a per se indicator of a non-market economy.

Land reforms. Only Kazakhstan citizens may own plots of land for personal farming, gardening and dacha construction. Foreign citizens and legal entities may own land designated for industrial and residential construction and may rent all other categories of land. The Law on Land prohibits private ownership of land plots designated for commercial agriculture (other than those for personal auxiliary farming, gardening and dacha construction, as pointed out above), land needed for defensive purposes and, among others, forestry and water reserves. Land plots designated for agriculture may be granted to foreign citizens for land use for a term not exceeding 10 years. Foreign citizens and legal entities cannot rent out land plots to which they have land use rights. The land use rights (which can be either permanent or temporary, alienable or inalienable, acquired for payment or free of charge) are a remnant of the old Soviet system when the State owned all land and granted rights to its land users. Unlike the Soviet system, a land user may now sell, mortgage or otherwise dispose of its land use rights received from the State. However, in all cases, the title to the land held under land use rights belongs to the State.

Assessment of factor

Most sectors of the economy are privatized, and many sectors benefit from robust foreign and domestic competition. However, privatization efforts have slowed markedly since 1997, in part because of GOK concerns about possible social unrest if it acts too quickly in forcing insolvent firms into bankruptcy. Nevertheless, Kazakhstan's lack of recent progress under this factor does not alter the fact that remaining SOEs operating in major sectors of the economy are subject to market forces in the form of foreign and domestic private competition. Competition in major sectors of the economy indicates that market forces are largely dictating output and pricing decisions in Kazakhstan.

5. The extent of government control over the allocation of resources and over the price and output decisions of enterprises.

Decentralized economic decision-making is a hallmark of market economies, where the independent investment, input-sourcing, output and pricing actions of individuals and firms in pursuit of private gain collectively ensure that economic resources are allocated to their best (most efficient) use. Prices in such economies tend to reflect both demand conditions and the relative scarcity of the resources used in production.

Legal framework

For purposes of this factor, the Department is evaluating three main issues: (1) the degree to which individuals and businesses can engage in entrepreneurial activities, (2) the extent of price liberalization, and (3) resource allocation, specifically, the status of commercial banking reform.

Entrepreneurship. Soon after emerging from the Soviet system, the GOK implemented a series of reforms designed to encourage private entrepreneurship and reduce government influence on the allocation of resources. The 1993 Law On Protection and Support of Private Entrepreneurship grants freedom of entrepreneurial activities, sets state measures to support private entrepreneurship, and prohibits state intervention into activities of private businesses. Private entrepreneurs have the right to make independent investment, production, distribution and pricing decisions.(53) The law prohibits issuance of legal acts that put government-owned companies in a more advantageous position than private companies.

The 1996 Presidential Decree, On Additional Measures to Realize State Guarantees for the Freedom of Entrepreneurial Activities, limits the number of financial inspections (including tax inspections) to one a year and orders dismissal of officials who illegally interfere with entrepreneurial activities or issue illegal rulings or orders that impede entrepreneurial activities. A further Presidential Decree in 1998, On Protection of the Rights of Citizens and Legal Entities for the Freedom of Entrepreneurial Activities, prohibits local and national authorities from interfering with the work of individual entrepreneurs and small businesses. Kazakhstan's entrepreneurial laws are important because they establish the basis for property ownership and protection of property rights without government interference.

Price liberalization. Price liberalization in Kazakhstan began in 1992 when the GOK implemented a decree on price liberalization introducing market prices for most goods.(54) With the exception of a few policy reversals during a limited currency devaluation, price liberalization was practically completed by the mid-1990s.(55) Exceptions were codified in 1998, when the GOK implemented the Law on Natural Monopolies and, in 2001, when the GOK adopted the Law on Competition and Limitation on Monopolistic Activities, both of which establish government control over natural monopolies, including the establishment of price regulation. Kazakhstan's price liberalization laws are significant in that they delineate the sectors in which the GOK may regulate prices, while other prices in the rest of the economy operate according to market forces.

Banking reforms. An important measure of government control over production decisions and the allocation of resources is the degree to which the government is involved in allocating capital. Given that banks are an important allocator of capital, we need to evaluate the degree to which the State exercises control over the commercial banking sector, as opposed to allowing market forces to determine lending decisions.

Banking legislation enacted between 1993 and 1999 includes the Law on Banks and Banking Activity, the Law on the National Bank of Kazakhstan, and the National Bank Normative Acts and Decrees.(56) These reforms focused on consolidation of the banking system, privatization of banks, and entry of foreign banks.(57) Banks with foreign participation (those having over one-third foreign capital) cannot be more than 50 percent of total registered capital of all banks in Kazakhstan. Companies registered in offshore zones are not allowed to own shares in Kazakhstan banks. Further, foreign banks may not operate in Kazakhstan through branches and are required to have either representative offices or subsidiary banks. The aforementioned laws strengthen Kazakhstan's private banking sector and help make it an effective allocator of capital.

Developments in the Economy

Prior to independence in 1991, Kazakhstan's economic output was highly specialized. Kazakhstan's narrow economic base consisted primarily of agriculture, energy production, metallurgy and metalworking. The breakup of the Soviet Union caused the centrally planned system to collapse, and led to a reconfiguring of the national economy. Today, the economy has a large services sector, led partly by expanding construction and commercial banking sectors. The industrial sector is more concentrated than ever, with the export-oriented energy and metals sectors dominating industrial output.(58) Other sectors, such as agriculture, have declined in importance.

Entrepreneurship. In many developed and developing countries, small- and medium-sized enterprises (SMEs) often are an engine of economic growth without which development would be slowed. In Kazakhstan, SMEs today play a much less important role compared to developed countries or advanced transition economies.(59) This is in part due to occasional criminal network activity, as well as tax evasion schemes that have led many small-scale businesses to operate only in the informal economy.(60)

Another reason why SMEs are underdeveloped in Kazakhstan is that entrepreneurs are unable to raise sufficient capital to underwrite new ventures. The large oil and gas sectors in particular have drawn such a large share of investment capital from the banking sector that non-energy related SMEs have had difficulty raising capital.(61) Although SMEs are generally small and undercapitalized in Kazakhstan, it appears that this is less a result of governmental control than the allocation of resources to Kazakhstan's most profitable sectors by its banking sector.

Price liberalization. Overall, the laws that Kazakhstan has put in place to liberalize prices have been effectively implemented, and the GOK does not set prices, except for natural monopolies. The list of natural monopolies includes companies that are involved in: oil and oil products transportation via main pipelines; gas and gas condensate products transportation via pipelines; transmission and distribution of heat and power; operation of main railroads, provision of air navigation, airport and sea and river ports services; provision of telecommunication services via local line networks; operation of water supply and sanitation systems; and postal services. Companies included in the list of natural monopolies may not change their prices more often that once every three months. Their prices are subject to governmental review and approval. Although the list of natural monopolies subject to price controls appears to be extensive, the sectors subject to price controls in Kazakhstan are the same as those in which many Western countries exercise price regulation, i.e., the transportation, utilities, telecommunications, and postal sectors.

Commercial bank reforms. Kazakhstan's commercial banks are fundamentally sound but small. The strength of progress and reform in Kazakhstan's banking sector has significantly increased the extent to which capital is allocated according to market forces.

The NBK has methodically implemented a bank consolidation program that reduced the number of banks from 130 at the end of 1995 to 48 by mid-2000, and it intends to keep reducing the number to between 15 and 30 banks.(62) Foreign lending institutions are involved in 16 of Kazakhstan's banks.(63)

Despite ambitious banking reforms and the involvement of foreign banks, Kazakhstan's early commercial banking experience was stymied by a lack of confidence in the system brought on by hyperinflation. Kazakhstan's early experience with inflation eroded both the value of bank loans and deposits because returns on investment failed to keep pace with price increases. However, inflationary concerns appeared to have finally been overcome beginning in 2000, largely as a result of Kazakhstan's strong economy.

As price stability reduced the risk that future returns might be eroded by inflation, banks have increased their number of commercial loans, while the total asset base of commercial banks at the end of 2000 equaled 21 percent of GDP, up 63 percent year on year.(64) Bank lending rose by 85 percent between 1999 and 2000.(65) In the first half of 2001, bank lending grew by 88 percent to $2.7 billion (around 13 percent of GDP).(66) Total banking sector assets grew by 60 percent in the first half of 2001.(67) Although bank lending in Kazakhstan is on a market basis, total bank assets remain low, with the result that banks continue to play a relatively small role in financing the economy.(68) However, the relatively low asset base of commercial banks has not adversely affected economic development in Kazakhstan, largely because investment capital has been available in the form of FDI.

Between 1999 and 2000, bank deposits also increased rapidly, growing by 72 percent.(71) Bank deposits are still exceeded by individual cash holdings in U.S. dollars, although this is not surprising considering the economy's earlier inflationary instability.(72)

Commercial bank lending is primarily to commercial borrowers, with the industrial sector taking 28.5 percent of all credit outstanding by April 1, 2001, with a further 36.7 percent lent to other businesses in trade, while agriculture received 8.4 percent of the total. As investor concerns about inflation abate, banks are lending more in the national currency, with 48.6 percent of credit extended in local currency by March 2000.(73)

The ratio of sub-standard loans in commercial bank portfolios has declined dramatically as debt restructuring and banking reform have borne fruit. Between 1996 and 2000, the percent of non-performing loans declined from 19 percent to 2 percent of total bank assets.(74) This compares to bad loan rates during 2000 of 3 percent in Hungary, 19 percent in the Czech Republic, and 5 percent in Latvia.(75)

A potential problem for the large banks (about 80 percent of the banking system) is their concentrated and undiversified loan portfolios, which persist in part because risk averse banks focus their lending on blue-chip customers. The top ten borrowers account for 30 to 50 percent of the loan portfolio of five of the largest banks; the top twenty borrowers account for 40 to 75 percent of the loan portfolio.(76)

Unlike Kazakhstan businesses, local citizens are wary of the reliability of Kazakh banks and generally keep their savings at home "under the mattress." Further, risk averse Kazakhstan banks have tended to offer consumer loans at high interest rates, which often frustrate small, budding enterprises.(77) The combination of consumers' reluctance to put savings in banks and persistently high lending rates neither promotes private bank savings nor private investments.(78)

Assessment of factor

The allocation of resource decisions now rests with the private sector, with the GOK largely limiting price regulation to natural monopolies. Further, market-based entrepreneurial activity is developing. In addition, the commercial banking sector is behaving as a financial intermediary. Overall, Kazakhstan has made significant progress under this factor.

6. Such other factors as the administering authority considers appropriate.

Legal framework and developments in the economy

Under this factor, the Department can address any additional issues relevant to consideration of market economy status. A number of economic considerations in Kazakhstan do not readily fit into any of the preceding five factors, and are therefore discussed in this section. These issues include the problem of corruption in Kazakhstan, barter, and Kazakhstan's bid to join the World Trade Organization ("WTO").

Corruption. Some commenters in the instant investigation asserted that corruption in Kazakhstan is pervasive and undermines Kazakhstan's claims that it is a market economy. The Department recognizes that corruption is a serious issue. Although we find the level of corruption to be a matter of note, it does not alter the fact that prices and costs in Kazakhstan are being generated through market forces. Moreover, we note that even in market economies, there exist varying degrees of corruption. According to one index, although Kazakhstan registers high levels of perceived corruption, it is no higher than levels for a number of market economies.(79)

Barter. If the degree of barter transactions is sufficiently high, it can undermine confidence that prices reflect the true market value for goods and services. Although barter is not specifically a factor in a market economy analysis, its potential impact on the availability of price data is important in the context of applying the Department's application of the antidumping duty law. Barter in Kazakhstan, at both the consumer and commercial level, appears to be primarily caused by the persistence of commercial non-payments and wage arrears. However, the recent reduction in non-payments and wage arrears have reduced the need for barter transactions, as producers and workers are able to pay for goods and services in cash (generally either in tenge or U.S. dollars).(80)

WTO accession. Kazakhstan's accession to the WTO is an important consideration insofar as it is indicative of the GOK's commitment to market openness and its integration into world markets, both of which help support market forces. Kazakhstan's accession bid remains subject to negotiation, however, the GOK has taken some steps to adopt trade policies and legislation which it hopes will bring its trade closer into conformity with WTO standards. For example, the GOK has adopted several normative-legislative acts in the foreign economy sphere, including laws that establish the legal, organizational, and economic basis for the creation and functioning of farms in Kazakhstan; a legal definition of partnerships with limited and other responsibilities, obligations of participants, and reorganization and liquidation of partnerships; a definition of unfair competition, including mechanisms for preventing and eliminating unfair competition; a code regulating the relations arising in the process of carrying out payments and money transfers in Kazakhstan; a law to protect the interests of consumers and entities of natural monopolies; and, a law to provide a legal basis for the foundation, obligations, protection of shareholders dealing with joint stock companies.(81)

Assessment of factor

While there are substantial concerns about corruption in Kazakhstan, we do not find it to be a significant factor differentiating Kazakhstan from other market economies. Barter transactions remain a problem in Kazakhstan, but barter appears to be declining in importance. Lastly, as part of its WTO accession bid, Kazakhstan can point to trade policies and legislation which it hopes will bring its trade closer into conformity with WTO standards.

ASSESSMENT

Although section 771(18)(B) of the Act enumerates six factors that the Department must consider in determining whether a country operates on market principles, the statute provides no direction or guidance with respect to the relative weight that should be placed on each factor in assessing the overall state of the economy. Therefore, the Department must weigh the degree to which economic reforms have been implemented based upon the unique facts in each case.

The Kazakhstan economy, having emerged from a centrally planned system, has made reforms throughout its economy. Kazakhstan has transitioned from its former heavy, ubiquitous and "all-encompassing" central government to a new supportive, mainly regulatory state which basically aims at supplying infrastructure. Overall, functioning markets have replaced controls in the economy.

As discussed in the preceding sections, an analysis of Kazakhstan's economic reforms indicates support for market economy status. Kazakhstan today has a fully convertible currency for current account purposes, and exchange rates are market based. Legislation on wage reforms is well advanced in Kazakhstan, with workers able to unionize and engage in collective bargaining, negotiating wages and benefits; further, the mobile workforce is free to pursue new employment opportunities. The GOK has been successful in promoting foreign direct investment, primarily in the oil and metals sectors. The allocation of most resource decisions in Kazakhstan now rests with the private sector, with the GOK largely limiting price regulation to natural monopolies; the state's involvement in Kazakhstan's banking system is now limited to NBK supervision of commercial banks; further, recent increases in bank assets and deposits, and bank consolidation all indicate that Kazakhstan's banks are behaving as financial intermediaries. In addition, price liberalization is practically completed in Kazakhstan.

For one of the factors - the extent of government ownership - Kazakhstan's economic development presents a less straightforward picture.

Although Kazakhstan has successfully reformed much of its economy, its privatization efforts have recently slowed. However, this does not preclude Kazakhstan prices and costs from being reliable measures of value because of the substantial progress that the GOK has made in privatizing its economy, as well as in fostering competition in major sectors.

Given the totality of Kazakhstan's reforms in liberalizing its economy, we believe that Kazakhstan has completed the transition to a market economy. Overall, deregulation and a new regulatory framework for the normal operation of a market economy has progressively replaced the old system of regulation. Therefore, we recommend that the Department no longer consider Kazakhstan to be a non-market economy, and instead treat it as a market economy with regard to U.S. antidumping and countervailing duty laws.

RECOMMENDATION

Based on the evidence on reforms in Kazakhstan to date, analyzed as required under section 771(18)(B) of the Act, we recommend that the Department determine that (1) revocation of Kazakhstan's non-market economy status under section 771(18)(A) is warranted, (2) Kazakhstan has operated as a market-economy since October 1, 2001, and (3) this finding is effective for all current and future administrative proceedings.

Agree _____ Disagree _____

Faryar Shirzad
Assistant Secretary
for Import Administration

Signed: March 25, 2002

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footnotes:

1. The petitioners in this case are Eramet Marietta Inc., and the Paper, Allied-Industrial, Chemical and Energy Workers International Union, Local 5-0639 represented by Verner, Liipfert, Bernhard, Mcpherson, and Hand.

2. See letter to the Department from Verner, Liipfert, Bernhard, Mcpherson, and Hand dated July 30, 2001.

3. An Ancient Land of Kazakhs, see URL http://www.kz/eng/history/hist6.html

4. Central Intelligence Agency, The World Factbook, 2001, Kazakhstan.

5. U.S. Library of Congress, Kazakhstan - A Country Study Online, See URL: http://history1900s.about.com/gi/dynamic/offsite.htm?site=http://lcweb2.loc.gov/frd/cs/kztoc.html

6. Id.

7. Kazakhstan Country Report (London: Economist Intelligence Unit (EIU)Ltd., October 1, 2001), 48.

8. Kazakhstan Economic Sectors (London: EIU, September 14, 2001).

9. Kazakhstan Economy (London: EIU, September 14, 2001), 8.

10. Kazakhstan Investment Profile (London: European Bank for Reconstruction and Development (EBRD), 2001), 20.

11. Kazakhstan Investment Profile (London: EBRD, 2001), 9.

12. Kazakhstan law databank (US embassy Kazakhstan) in response to Department request.

13. Transition Report (London: EBRD, 2000), 174.

14. Annual Report on Exchange Arrangements and Exchange Restrictions, (Washington DC: International Monetary Fund (IMF), 2000), 468.

15. Kazakhstan Investment Profile (London: EBRD, 2001), 9.

16. Annual Report on Exchange Arrangements and Exchange Restrictions, (Washington DC: IMF, 2000), 468.

17. The NBK retains the right to impose restrictions on the payment currency for a resident's export operations. For this reason, the tenge is not considered fully convertible for certain capital account transactions, in contrast to current account transaction convertability.

18. Country Report, Kazakhstan, (London: EIU, January 2001), 11.

19. U.S. Agency of International Development, The Removal of Constraints to Investment in Kazakhstan Project, p.3; and, Memorandum of the President of the International Bank for Reconstruction and Development and the International Finance Corporation to the executive Directors on a Country Assistance Strategy for the Republic of Kazakhstan, January 16, 2001, p.4.

20. Kazakhstan law databank (US embassy Kazakhstan) in response to Department request.

21. Id.

22. As of December 2001, Kazakhstan has ratified 15 International Labor Organization Conventions: Conventions number 29, 81, 87, 88, 98, 100, 105, 111, 122, 123, 129, 138, 144, 148 and 155.

23. Kazakhstan Economy (London: EIU, September 14, 2001).

24. Between 1989-1998, per capita income (PPP) fell from $4,424 to $2,791.

25. Kazakhstan Country Report (London: EIU, October 1, 2001), 4.

26. Kazakhstan Economy (London: EIU, September 14, 2001) .66.

27. Id.

28. Kazakhstan Economic Trends (London: EIU, October 1, 2001), 7.

29. U.S. Department of State, FY 2000 Country Commercial Guide: Kazakhstan, p.50.

30. Id.

31. Kazakhstan Investment Profile(London: EBRD, 2001), 9.

32. Kazakhstan law databank (US embassy Kazakhstan) in response to Department request.

33. In April 1999, with the devaluation of the tenge, a 50 percent surrender requirement on export proceeds was introduced. However, this measure has since been rescinded. Earlier, the GOK conceded to domestic pressures and adopted temporary protectionist measures by re-imposing trade restrictions, including a ban on imports of food products from neighboring countries and high tariffs on food products, spirits, and tobacco. (See Kazakhstan Public Expenditure Review (Washington DC: World Bank June 27, 2000), Report No. 20489-KZ Volume I, Annexes and Statistical Appendices).

34. Transition Report (London: EBRD, 2001), 160.

35. International Monetary Fund, International Financial Statistics, August 2001.

36. Kazakhstan Investment Profile (London: EBRD, 2001), 8.

37. Country Report, Kazakhstan (London: EIU October 2000), 8, 22.

38. Id.

39. Comments in the instant investigation from Chevron Texaco Corporation, DHL International, Exxon Mobil Corporation, the International Tax and Investment Center, AES Corporation, the law firm of LeBoeuf, Lamb, Greene & MacRae, and Motorola (December 10, 2001).

40. The law provided that the following types of government property could not be privatized: land (unless otherwise stipulated by other laws - discussed below); specially protected nature reserves; military

organizations and objects and their property that are necessary for ensuring national security; main rail lines, international and military motor roads, navigable waterways, beacons and maritime navigation equipment; oil and gas pipelines, power transmission lines; natural and artificial water reservoirs and dams; rural medical hospitals and specialized medical organizations, and hospitals that are natural monopolies in their districts; social welfare objects; primary and secondary schools that fulfill the constitutional right for education; and, objects of cultural and historic significance that are protected by the state [from Kazakhstan law databank (US embassy Kazakhstan) in response to Department request.]

41. Id.

42. At current levels, Kazakhstan's private sector share of GDP is slightly lower than for countries which the Department previously graduated to market economy status. For example, upon graduation to market economy status, the percent of GDP in private hands was 65 percent in Latvia, and 75 percent in the Czech Republic and Slovakia. [Transition Report (London: EBRD, 2001), Country Tables.]

43. Transition Report (London: EBRD, 2001), 160.

44. Kazakhstan: Joint Private Sector Assessment (Washington DC: World Bank), 4.

45. Memorandum of the President of the International Bank for Reconstruction and Development and the International Finance Corporation to the executive Directors on a Country Assistance Strategy for the Republic of Kazakhstan, January 16, 2001, p.14.

46. Country Report, Kazakhstan (London: EIU, October 2000).

47. Country Report, Kazakhstan (London: EIU, October 2000).

48. Weak bankruptcy procedures mean that firms cannot be forced into insolvency, allowing them to keep operating despite financial difficulties, by either not paying or delaying payments to their suppliers, creditors or workers. Country Report, Kazakhstan (London: EIU, July 2001), 22.

49. Kazakhstan Economic Sectors, (London: EIU, September 14, 2001), 110.

50. Kazakhstan Economy (London: EIU, September 14, 2001), 110

51. Id.

52. The World Factbook, Central Intelligence Agency, online version p.6.

53. Kazakhstan law databank (US embassy Kazakhstan) in response to Department request.

54. Id.

55. In April 1999, with the devaluation of the tenge, a 50 percent surrender requirement on export proceeds was introduced. However, this measure has since been rescinded. Earlier, the GOK conceded to domestic pressures and adopted temporary protectionist measures by re-imposing trade restrictions, including a ban on imports of food products from neighboring countries and high tariffs on food products, spirits, and tobacco. ((See Kazakhstan Public Expenditure Review (Washington DC: World Bank June 27, 2000), Report No. 20489-KZ Volume I, Annexes and Statistical Appendices).

56. Transition Report (London: EBRD, 2001), 160.

57. Memorandum of the President of the International Bank for

Reconstruction and Development and the International Finance Corporation to the executive Directors on a Country Assistance Strategy for the Republic of Kazakhstan, January 16, 2001, p.70.

58. Kazakhstan Country Profile (London: EIU, September 14, 2001).

59. Memorandum of the President of the International Bank for Reconstruction and Development and the International Finance Corporation to the executive Directors on a Country Assistance Strategy for the Republic of Kazakhstan, January 16, 2001, p.67.

60. Id.

61. Kazakhstan Country Report, (London: EIU, October 1, 2001), 12.

62. Kazakhstan Country Report (London: EIU, October 1, 2001), 95.

63. Transition Report (London: EBRD, 2001), 160.

64. Country Report, Kazakhstan (London: EIU, July 2001), 18-19.

65. Economic Policy Outlook: Kazakhstan (London: EIU, April 10, 2001).

66. Transition Report (London: EBRD, 2001), 159.

67. Id.

68. Kazakhstan's bond market is also quickly expanding. The greater stability in monetary and fiscal policy and the rise in oil prices in 2000 have restored confidence in the government debt market. As a result, investors are now willing to buy tenge-denominated paper and the GOK has been able to extend the maturity of its debt.(69)

69. Country Report, Kazakhstan, The Economist Intelligence Unit, July 2001, p.16. - - - (70)

70. Country Report, Kazakhstan, The Economist Intelligence Unit, October 2000, p.18.

71. Economic Policy Outlook: Kazakhstan (London: EIU, April 10, 2001).

72. Kazakhstan Country Report (London: EIU, October 1, 2001), 95.

73. Country Report, Kazakhstan (London: EIU, July 2001), 18-19.

74. Transition Report (London: EBRD, 2001), 159.

75. Transition Report (London: EBRD, 2001).

76. Memorandum of the President of the International Bank for Reconstruction and Development and the International Finance Corporation to the executive Directors on a Country Assistance Strategy for the Republic of Kazakhstan, January 16, 2001, p.70.

77. U.S. Department of State, FY 2000 Country Commercial Guide: Kazakhstan, p.66.

78. Kazakhstan Public Expenditure Review (Washington DC: World Bank, June 27, 2000), Report No. 20489-KZ, Volume I, Ch.1.

79. Transparency International online, March 20, 2002.

80. Measuring Governance, Corruption, and State Capture: How Firms and Businesses Shape the Business Environment in Transition Economies (Washington DC: World Bank, April 2000) Policy Research Working Paper, Exhibit I.

81. Kazakhstan Investment Profile (London: EBRD, 2001), 11.

EXHIBIT 2

THE WORLD BANK GROUP

A World Free of Poverty

HOME

Vietnam Data Profile

Click on the indicator to view a definition	**1997**	**2000**	**2001**
People			
Population, total	75.5 million	78.5 million	79.5 million
Population growth (annual %)	1.5	1.3	1.3
National poverty rate (% of population)	..	..	..
Life expectancy at birth (years)	68.1	69.1	..
Fertility rate, total (births per woman)	2.4	2.2	..
Mortality rate, infant (per 1,000 live births)	30.0	27.5	..
Mortality rate, under-5 (per 1,000 live births)	39.0	34.2	..
Births attended by skilled health staff (% of total)	77.0	..	..
Malnutrition prevalence (% of children under 5)	..	33.8	..
Urban population (% of total)	22.9	24.1	24.5
Prevalence of HIV (female, % ages 15-24)	..	..	..
Illiteracy rate, adult male (% of males 15+)	4.8	4.5	4.4
Illiteracy rate, adult female (% of females 15+)	9.8	8.6	8.3
Net primary enrollment (% of relevant age group)	87.8	..	..
Girls in primary school (% of total enrollment)	..	..	..
Net secondary enrollment (% of relevant age group)	54.2	..	..
Girls in secondary school (% of total enrollment)	..	..	..
Environment			
Surface area (sq. km)	331.7 thousand	331.7 thousand	331.7 thousand
Forest area (sq. km)	..	98,190.0	..
Annual deforestation (% of change)	..	-0.5	..
Freshwater resources per capita (cubic meters)	..	11,349.6	..
CO2 emissions (metric tons per capita)	0.6	..	..
Improved water source (% of total population with access)	..	56.0	..
Improved sanitation facilities, urban (% of urban population with access)	..	86.0	..
Energy use per capita (kg of oil equivalent)	446.3	..	..
Electricity use per capita (kwh)	202.8	..	..
Economy			
GNI, Atlas method (current US$)	25.6 billion	30.5 billion	32.6 billion
GNI per capita, Atlas method (current US$)	340.0	390.0	410.0
GDP (current $)	26.8 billion	31.3 billion	32.9 billion
GDP growth (annual %)	8.1	5.5	6.0
Inflation, GDP deflator (annual %)	12.1	5.3	2.9
Agriculture, value added (% of GDP)	25.8	24.3	..
Industry, value added (% of GDP)	32.1	36.6	..
Services, etc., value added (% of GDP)	42.2	39.1	..
Exports of goods and services (% of GDP)	43.6	..	..
Imports of goods and services (% of GDP)	51.7	..	..
Gross capital formation (% of GDP)	28.3	27.4	..
Current revenue, excluding grants (% of GDP)	19.7	17.7	..
Overall budget balance, including grants (% of GDP)	-1.7	-2.5	..
Technology and infrastructure			
Fixed lines and mobile telephones (per 1,000 people)	19.5	41.7	..
Telephone average cost of local call (US$ per three minutes)	0.1	0.0	..
Personal computers (per 1,000 people)	4.6	8.8	..
Internet users	3,000.0	200.0 thousand	..
Paved roads (% of total)	25.1	..	..
Aircraft departures	33,500.0	28,000.0	..
Trade and finance			
Trade in goods as a share of GDP (%)	75.3	96.0	..
Trade in goods as a share of goods GDP (%)	..	..	..

Net barter terms of trade (1995=100)	..	..	..
Foreign direct investment, net inflows in reporting country (current US$)	2.2 billion	1.3 billion	..
Present value of debt (current US$)	..	11.1 billion	..
Total debt service (% of exports of goods and services)	7.7	7.5	..
Short-term debt outstanding (current US$)	2.3 billion	924.9 million	..
Aid per capita (current US$)	13.2	21.6	..

Source: *World Development Indicators database*, April 2002

THE WORLD BANK GROUP

A World Free of Poverty

HOME

Kazakhstan Data Profile

Click on the indicator to view a definition	1997	2000	2001
People			
Population, total	15.3 million	14.9 million	14.8 million
Population growth (annual %)	-1.6	-0.4	-0.3
National poverty rate (% of population)	..	..	..
Life expectancy at birth (years)	64.5	65.5	..
Fertility rate, total (births per woman)	2.0	2.0	..
Mortality rate, infant (per 1,000 live births)	24.9	21.1	..
Mortality rate, under-5 (per 1,000 live births)	32.6	27.7	..
Births attended by skilled health staff (% of total)	..	..	..
Malnutrition prevalence (% of children under 5)	..	..	..
Urban population (% of total)	56.2	55.8	55.9
Prevalence of HIV (female, % ages 15-24)	..	..	..
Illiteracy rate, adult male (% of males 15+)	..	..	..
Illiteracy rate, adult female (% of females 15+)	..	..	..
Net primary enrollment (% of relevant age group)	..	..	..
Girls in primary school (% of total enrollment)	..	..	..
Net secondary enrollment (% of relevant age group)	..	..	..
Girls in secondary school (% of total enrollment)	..	..	..
Environment			
Surface area (sq. km)	2.7 million	2.7 million	2.7 million
Forest area (sq. km)	..	121.5 thousand	..
Annual deforestation (% of change)	..	-2.2	..
Freshwater resources per capita (cubic meters)	..	7,371.0	..
CO2 emissions (metric tons per capita)	8.9	..	..
Improved water source (% of total population with access)	..	91.0	..
Improved sanitation facilities, urban (% of urban population with access)	..	100.0	..
Energy use per capita (kg of oil equivalent)	2,573.8	..	..
Electricity use per capita (kwh)	2,535.6	..	..
Economy			
GNI, Atlas method (current US$)	21.2 billion	18.8 billion	20.1 billion
GNI per capita, Atlas method (current US$)	1,380.0	1,260.0	1,360.0
GDP (current $)	22.2 billion	18.3 billion	22.6 billion
GDP growth (annual %)	1.7	9.8	13.2
Inflation, GDP deflator (annual %)	16.1	17.4	12.8
Agriculture, value added (% of GDP)	11.8	9.2	9.1
Industry, value added (% of GDP)	26.8	42.9	48.3
Services, etc., value added (% of GDP)	61.3	47.9	42.7
Exports of goods and services (% of GDP)	34.9	58.8	50.6
Imports of goods and services (% of GDP)	37.4	47.3	47.8
Gross capital formation (% of GDP)	15.6	13.9	12.8
Current revenue, excluding grants (% of GDP)	14.0	11.3	..
Overall budget balance, including grants (% of GDP)	-3.6	-0.6	..
Technology and infrastructure			
Fixed lines and mobile telephones (per 1,000 people)	110.4	125.2	..
Telephone average cost of local call (US$ per three minutes)	..	..	..
Personal computers (per 1,000 people)	..	..	..
Internet users	10,000.0	100,000.0	..
Paved roads (% of total)	82.8	94.7	..
Aircraft departures	10,300.0	8,000.0	..
Trade and finance			
Trade in goods as a share of GDP (%)	48.7	77.8	..
Trade in goods as a share of goods GDP (%)	117.4	142.2	..

Net barter terms of trade (1995=100)	..	..	..
Foreign direct investment, net inflows in reporting country (current US$)	1.3 billion	1.3 billion	..
Present value of debt (current US$)	..	6.7 billion	..
Total debt service (% of exports of goods and services)	6.2	16.8	..
Short-term debt outstanding (current US$)	349.0 million	533.2 million	..
Aid per capita (current US$)	9.2	12.7	..

Source: *World Development Indicators database*, April 2002

Kazakhstan

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Kazakhstan Introduction

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Background: Native Kazakhs, a mix of Turkic and Mongol nomadic tribes who migrated into the region in the 13th century, were rarely united as a single nation. The area was conquered by Russia in the 18th century and Kazakhstan became a Soviet Republic in 1936. During the 1950s and 1960s agricultural "Virgin Lands" program, Soviet citizens were encouraged to help cultivate Kazakhstan's northern pastures. This influx of immigrants (mostly Russians, but also some other deported nationalities) skewed the ethnic mixture and enabled non-Kazakhs to outnumber natives. Independence has caused many of these newcomers to emigrate. Current issues include: developing a cohesive national identity; expanding the development of the country's vast energy resources and exporting them to world markets; and continuing to strengthen relations with neighboring states and other foreign powers.

Kazakhstan Geography

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Location: Central Asia, northwest of China

Geographic coordinates: 48 00 N, 68 00 E

Map references: Commonwealth of Independent States

Area: *total:* 2,717,300 sq km

land: 2,669,800 sq km

water: 47,500 sq km

Area - comparative: slightly less than four times the size of Texas

Land boundaries: *total:* 12,012 km

border countries: China 1,533 km, Kyrgyzstan 1,051 km, Russia 6,846 km, Turkmenistan 379 km, Uzbekistan 2,203 km

Coastline: 0 km (landlocked); note - Kazakhstan borders the Aral Sea, now split into two bodies of water (1,070 km), and the Caspian Sea (1,894 km)

Maritime claims: none (landlocked)

Climate: continental, cold winters and hot summers, arid and semiarid

Terrain: extends from the Volga to the Altai Mountains and from the plains in western Siberia to oases and desert in Central Asia

Elevation extremes: *lowest point:* Vpadina Kaundy -132 m

highest point: Khan Tangiri Shyngy (Pik Khan-Tengri) 6,995 m

Natural resources: major deposits of petroleum, natural gas, coal, iron ore, manganese, chrome ore, nickel, cobalt, copper, molybdenum, lead, zinc, bauxite, gold, uranium

Land use: *arable land:* 12%

permanent crops: 11%

permanent pastures: 57%

forests and woodland: 4%

other: 16% (1996 est.)

Irrigated land: 22,000 sq km (1996 est.)

Natural hazards: earthquakes in the south, mudslides around Almaty

Environment - current issues: radioactive or toxic chemical sites associated with its former defense industries and test ranges are found throughout the country and pose health risks for humans and animals; industrial pollution is severe in some cities; because the two main rivers which flowed into the Aral Sea have been diverted for irrigation, it is drying up and leaving behind a harmful layer of chemical pesticides and natural salts; these substances are then picked up by the wind and blown into noxious dust storms; pollution in the Caspian Sea; soil pollution from overuse of agricultural chemicals and salination from poor infrastructure and wasteful irrigation practices

Environment - international agreements: *party to:* Air Pollution, Biodiversity, Climate Change, Desertification, Endangered Species, Ozone Layer Protection, Ship Pollution

signed, but not ratified: Climate Change-Kyoto Protocol

Geography - note: landlocked; Russia leases approximately 6,000 sq km of territory enclosing the Baykonur Cosmodrome

Kazakhstan People

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Population: 16,731,303 (July 2001 est.)

Age structure: *0-14 years:* 26.73% (male 2,271,866; female 2,200,078)

15-64 years: 66.03% (male 5,358,535; female 5,688,550)

65 years and over: 7.24% (male 412,761; female 799,513) (2001 est.)

Population growth rate: 0.03% (2001 est.)

Birth rate: 17.3 births/1,000 population (2001 est.)

Death rate: 10.61 deaths/1,000 population (2001 est.)

Net migration rate: -6.43 migrant(s)/1,000 population (2001 est.)

Sex ratio: *at birth:* 1.05 male(s)/female

under 15 years: 1.03 male(s)/female

15-64 years: 0.94 male(s)/female

65 years and over: 0.52 male(s)/female

total population: 0.93 male(s)/female (2001 est.)

Infant mortality rate: 59.17 deaths/1,000 live births (2001 est.)

Life expectancy at birth: *total population:* 63.29 years

male: 57.87 years

female: 68.97 years (2001 est.)

Total fertility rate: 2.07 children born/woman (2001 est.)

HIV/AIDS - adult prevalence rate: 0.04% (1999 est.)

HIV/AIDS - people living with HIV/AIDS: 3,500 (1999 est.)

HIV/AIDS - deaths: less than 100 (1999 est.)

Nationality: *noun:* Kazakhstani(s)

adjective: Kazakhstani

Ethnic groups: Kazakh (Qazaq) 53.4%, Russian 30%, Ukrainian 3.7%, Uzbek 2.5%, German 2.4%, Uighur 1.4%, other 6.6% (1999 census)

Religions: Muslim 47%, Russian Orthodox 44%, Protestant 2%, other 7%

Languages: Kazakh (Qazaq, state language) 40%, Russian (official, used in everyday business) 66%

Literacy: *definition:* age 15 and over can read and write

total population: 98%

male: 99%

female: 96% (1989 est.)

Kazakhstan Government

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Country name: *conventional long form:* Republic of Kazakhstan

conventional short form: Kazakhstan

local long form: Qazaqstan Respublikasy

local short form: none

former: Kazakh Soviet Socialist Republic

Government type: republic

Capital: Astana; note - the government moved from Almaty to Astana in December 1998

Administrative divisions: 14 oblystar (singular - oblysy) and 3 cities (qala, singular - qalasy)*; Almaty, Almaty*, Aqmola (Astana), Aqtobe, Astana*, Atyrau, Batys Qazaqstan (Oral), Bayqongyr*, Mangghystau (Aqtau; formerly Shevchenko), Ongtustik Qazaqstan (Shymkent), Pavlodar, Qaraghandy, Qostanay, Qyzylorda, Shyghys Qazaqstan (Oskemen; formerly Ust'-Kamenogorsk), Soltustik Qazaqstan (Petropavl), Zhambyl (Taraz; formerly Dzhambul)

note: administrative divisions have the same names as their administrative centers (exceptions have the administrative center name following in parentheses); in 1995 the Governments of Kazakhstan and Russia entered into an agreement whereby Russia would lease for a period of 20 years an area of 6,000 sq km enclosing the Baykonur space launch facilities and the city of Bayqongyr (Baykonyr, formerly Leninsk)

Independence: 16 December 1991 (from the Soviet Union)

National holiday: Republic Day, 25 October (1990)

Constitution: adopted by national referendum 30 August 1995; first post-independence constitution was adopted 28 January 1993

Legal system: based on civil law system

Suffrage: 18 years of age; universal

Executive branch: *chief of state:* President Nursultan A. NAZARBAYEV (chairman of the Supreme Soviet from 22 February 1990, elected president 1 December 1991)

head of government: Prime Minister Kazymzhomart TOKAYEV (since 2 October 1999)

cabinet: Council of Ministers appointed by the president

elections: president elected by popular vote for a seven-year term; election last held 10 January 1999, a year before it was previously scheduled (next to be held NA 2006); note - President NAZARBAYEV's previous term had been extended to 2000 by a nationwide referendum held 30 April 1995; prime minister and first deputy prime minister appointed by the president

election results: Nursultan A. NAZARBAYEV reelected president; percent of vote - Nursultan A. NAZARBAYEV 81.7%, Serikbolsyn ABDILDIN 12.1%, Gani KASYMOV 4.7%, other 1.5%

note: President NAZARBAYEV expanded his presidential powers by decree: only he can initiate constitutional amendments, appoint and dismiss the government, dissolve Parliament, call referenda at his discretion, and appoint administrative heads of regions and cities

Legislative branch: bicameral Parliament consists of the Senate (47 seats; 7 senators are appointed by the president; other members are popularly elected, two from each of the former oblasts and the former capital of Almaty, to serve six-year terms) and the Majilis (67 seats; the addition of 10 "Party List" seats brings the total to 77; members are popularly elected to serve five-year terms); note - with the oblasts being reduced to 14, the Senate will eventually be reduced to 37; a number of Senate seats come up for reelection every two years

elections: Senate - (indirect) last held 17 September 1999 (next to be held NA 2001); Majilis - last held 10 and 24 October and 26 December 1999 (next to be held NA 2004)

election results: Senate - percent of vote by party - NA%; seats by party - NA; 16 seats up for election in 1999, candidates nominated by local councils; Majilis - percent of vote by party - NA%; seats by party - Otan 23, Civic Party 13, Communist Party 3, Agrarian Party 3, People's Cooperative Party 1, independents 34; note - most independent candidates are affiliated with parastatal enterprises and other pro-government institutions

Judicial branch: Supreme Court (44 members); Constitutional Council (7 members)

Political parties and leaders: Agrarian Party [Romin MADENOV]; Alash [Soverkazhy AKATAYEV]; AZAMAT Movement [Petr SVOIK, Murat AUEZOV, and Galym ABILSIITOV, cochairmen]; Civic Party [Azat PERUASHEV, first secretary]; Communist Party or KPK [Serikbolsyn ABDILDIN, first secretary]; Forum of Democratic Forces [Nurbulat MASANOV, Deputy Chairman of the Republican People's Party of Kazakhstan (RNPK); Amirzhan KOSANOV, RNPK activist; Seidakhmet KUTTYKADAM, Orleu Movement; cochairmen]; Labor and Worker's Movement [Madel ISMAILOV, chairman]; Orleu Movement [Seidakhmet KUTTYKADAM]; Otan [Sergei TERESCHENKO, chairman]; Pensioners Movement or Pokoleniye [Irina SAVOSTINA, chairwoman]; People's Congress of Kazakhstan of NKK [Olzhas SULEIMENOV, chairman]; People's Cooperative Party [Umirzak SARSENOV]; People's Unity Party or PUP [Nursultan A. NAZARBAYEV]; Republican People's Party of Kazakhstan or RNPK [Akezhan KAZHEGELDIN]

Political pressure groups and leaders: Kazakhstan International Bureau on Human Rights [Yevgeniy ZHOVTIS, executive director]

International organization participation: AsDB, CCC, CIS, EAPC, EBRD, ECE, ECO, ESCAP, FAO, IAEA, IBRD, ICAO, IDA, IDB, IFAD, IFC, ILO, IMF, IMO, Intelsat, Interpol, IOC, IOM (observer), ISO, ITU, NAM (observer), OAS (observer), OIC, OPCW, OSCE, PFP, UN, UNCTAD, UNESCO, UNIDO, UPU, WFTU, WHO, WIPO, WMO, WToO, WTrO (observer)

Diplomatic representation in the US: *chief of mission:* Ambassador Kanat SAUDABAYEV

chancery: 1401 16th Street, NW, Washington, DC 20036

telephone: [1] (202) 232-5488

FAX: [1] (202) 232-5845

consulate(s): New York

Diplomatic representation from the US: *chief of mission:* Ambassador Richard H. JONES

embassy: 99/97A Furmanova Street, Almaty, Republic of Kazakhstan 480091

mailing address: American Embassy Almaty, Department of State, Washington, DC 20521-7030

telephone: [7] (3272) 63-39-21, 50-76-23, 50-76-27 (emergency number)

FAX: [7] (3272) 63-38-83, 50-76-24

Flag description: sky blue background representing the endless sky and a gold sun with 32 rays soaring above a golden steppe eagle in the center; on the hoist side is a "national ornamentation" in gold

Kazakhstan Economy

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Economy - overview: Kazakhstan, the second largest of the former Soviet republics in territory, possesses enormous fossil fuel reserves as well as plentiful supplies of other minerals and metals. It also is a large agricultural - livestock and grain - producer. Kazakhstan's industrial sector rests on the extraction and processing of these natural resources and also on a growing machine-building sector specializing in construction equipment, tractors, agricultural machinery, and some defense items. The breakup of the USSR in December 1991 and the collapse of demand for Kazakhstan's traditional heavy industry products resulted in a short-term contraction of the economy, with the steepest annual decline occurring in 1994. In 1995-97, the pace of the government program of economic reform and privatization quickened, resulting in a substantial shifting of assets into the private sector. The Caspian Pipeline Consortium agreement to build a new pipeline from western Kazakhstan's Tengiz oil field to the Black Sea increases prospects for substantially larger oil exports in several years. Kazakhstan's economy again turned downward in 1998 with a 2% decline in GDP due to slumping oil prices and the August financial crisis in Russia. The recovery of international oil prices in 1999, combined with a well-timed tenge devaluation and a bumper grain harvest, pulled the economy out of recession in 2000. Astana has embarked upon an industrial policy designed to diversify the economy away from overdependence on the oil sector by developing light industry.

GDP: purchasing power parity - $85.6 billion (2000 est.)

GDP - real growth rate: 10.5% (2000 est.)

GDP - per capita: purchasing power parity - $5,000 (2000 est.)

GDP - composition by sector: *agriculture:* 10%

industry: 30%

services: 60% (1999 est.)

Population below poverty line: 35% (1999 est.)

Household income or consumption by percentage share: *lowest 10%:* 2.7%

highest 10%: 26.3% (1996)

Inflation rate (consumer prices): 13.4% (2000 est.)

Labor force: 8.8 million (1997)

Labor force - by occupation: industry 27%, agriculture 23%, services 50% (1996)

Unemployment rate: 13.7% (1998 est.)

Budget: *revenues:* $3.1 billion

expenditures: $3.6 billion, including capital expenditures of $NA (1999 est.)

Industries: oil, coal, iron ore, manganese, chromite, lead, zinc, copper, titanium, bauxite, gold, silver, phosphates, sulfur, iron and steel, nonferrous metal, tractors and other agricultural machinery, electric motors, construction materials

Industrial production growth rate: 14.9% (2000 est.)

Electricity - production: 44.36 billion kWh (1999)

Electricity - production by source: *fossil fuel:* 87.12%

hydro: 12.65%

nuclear: 0.23%

other: 0% (1999)

Electricity - consumption: 44.132 billion kWh (1999)

Electricity - exports: 200 million kWh (1999)

Electricity - imports: 3.077 billion kWh (1999)

Agriculture - products: grain (mostly spring wheat), cotton; wool, livestock

Exports: $8.8 billion (f.o.b., 2000 est.)

Exports - commodities: oil 40%, ferrous and nonferrous metals, machinery, chemicals, grain, wool, meat, coal

Exports - partners: EU 23%, Russia 20%, China 8% (1999)

Imports: $6.9 billion (f.o.b., 2000 est.)

Imports - commodities: machinery and parts, industrial materials, oil and gas, vehicles

Imports - partners: Russia 37%, US, Uzbekistan, Turkey, UK, Germany, Ukraine, South Korea (1999)

Debt - external: $12.5 billion (2000 est.)

Economic aid - recipient: $409.6 million (1995)

Currency: tenge (KZT)

Currency code: KZT

Exchange rates: tenge per US dollar - 145.09 (January 2001), 142.13 (2000), 119.52 (1999), 78.30 (1998), 75.44 (1997), 67.30 (1996)

Fiscal year: calendar year

Kazakhstan Communications

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Telephones - main 1.818 million (1997)

lines in use:

Telephones - mobile cellular: 11,202 (1997)

Telephone system: *general assessment:* service is poor; equipment antiquated

domestic: intercity by landline and microwave radio relay; mobile cellular systems are available in most of Kazakhstan

international: international traffic with other former Soviet republics and China carried by landline and microwave radio relay; with other countries by satellite and by the Trans-Asia-Europe (TAE) fiber-optic cable; satellite earth stations - 2 Intelsat

Radio broadcast stations: AM 60, FM 17, shortwave 9 (1998)

Radios: 6.47 million (1997)

Television broadcast stations: 12 (plus nine repeaters) (1998)

Televisions: 3.88 million (1997)

Internet country code: .kz

Internet Service Providers (ISPs): NA

Internet users: 70,000 (2000)

Kazakhstan Transportation

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Railways: *total:* 13,601 km in common carrier service; does not include industrial lines

broad gauge: 13,601 km 1.520-m gauge (3,661 km electrified) (2000)

Highways: *total:* NA km

paved: 150,000 km (these roads are said to be hard-surfaced, and include, in addition to conventionally paved roads, some that are surfaced with gravel or other coarse aggregate, making them trafficable in all weather) (2000)

unpaved: NA km (these roads are made of unstabilized earth and are difficult to negotiate in wet weather)

Waterways: 3,900 km

note: on the Syr Darya (Syrdariya) and Ertis (Irtysh) rivers

Pipelines: crude oil 2,850 km; refined products 1,500 km; natural gas 3,480 km (1992)

Ports and harbors: Aqtau (Shevchenko), Atyrau (Gur'yev), Oskemen (Ust-Kamenogorsk), Pavlodar, Semey (Semipalatinsk)

Airports: 449 (2000 est.)

Airports - with paved runways: *total:* 28

over 3,047 m: 6

	2,438 to 3,047 m: 14
	1,524 to 2,437 m: 5
	under 914 m: 3 (2000 est.)
Airports - with unpaved runways:	*total:* 421
	over 3,047 m: 11
	2,438 to 3,047 m: 18
	1,524 to 2,437 m: 45
	914 to 1,523 m: 101
	under 914 m: 246 (2000 est.)

Kazakhstan Military

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Military branches:	General Purpose Forces (Army), Air Force, Border Guards, Navy, Republican Guard
Military manpower - military age:	18 years of age
Military manpower - availability:	*males age 15-49:* 4,509,179 (2001 est.)
Military manpower - fit for military service:	*males age 15-49:* 3,598,859 (2001 est.)
Military manpower - reaching military age annually:	*males:* 163,628 (2001 est.)
Military expenditures - dollar figure:	$322 million (FY99)
Military expenditures - percent of GDP:	1.5% (FY99)

Kazakhstan Transnational Issues

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Disputes - international:	Caspian Sea boundaries are not yet determined among Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan
Illicit drugs:	significant illicit cultivation of cannabis and limited cultivation of opium poppy and ephedra (for the drug ephedrone); limited government eradication program; cannabis consumed largely in the CIS; used as transshipment point for illicit drugs to Russia, North America, and Western Europe from Southwest Asia; developing heroin addiction problem

Vietnam

Vietnam Introduction

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Background: France occupied all of Vietnam by 1884. Independence was declared after World War II, but the French continued to rule until 1954 when they were defeated by communist forces under Ho Chi MINH, who took control of the north. US economic and military aid to South Vietnam grew through the 1960s in an attempt to bolster the government, but US armed forces were withdrawn following a cease-fire agreement in 1973. Two years later North Vietnamese forces overran the south. Economic reconstruction of the reunited country has proven difficult as aging Communist Party leaders have only grudgingly initiated reforms necessary for a free market.

Vietnam Geography

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Location: Southeastern Asia, bordering the Gulf of Thailand, Gulf of Tonkin, and South China Sea, alongside China, Laos, and Cambodia

Geographic coordinates: 16 00 N, 106 00 E

Map references: Southeast Asia

Area: *total:* 329,560 sq km

land: 325,360 sq km

water: 4,200 sq km

Area - comparative: slightly larger than New Mexico

Land boundaries: *total:* 4,639 km

border countries: Cambodia 1,228 km, China 1,281 km, Laos 2,130 km

Coastline: 3,444 km (excludes islands)

Maritime claims: *contiguous zone:* 24 NM

continental shelf: 200 NM or to the edge of the continental margin

exclusive economic zone: 200 NM

territorial sea: 12 NM

Climate: tropical in south; monsoonal in north with hot, rainy season (mid-May to mid-September) and warm, dry season (mid-October to mid-March)

Terrain: low, flat delta in south and north; central highlands; hilly, mountainous in far north and northwest

Elevation extremes: *lowest point:* South China Sea 0 m

highest point: Ngoc Linh 3,143 m

Natural resources: phosphates, coal, manganese, bauxite, chromate, offshore oil and gas deposits, forests, hydropower

Land use: *arable land:* 17%

permanent crops: 4%

permanent pastures: 1%

forests and woodland: 30%

other: 48% (1993 est.)

Irrigated land: 18,600 sq km (1993 est.)

Natural hazards: occasional typhoons (May to January) with extensive flooding

Environment - current issues: logging and slash-and-burn agricultural practices contribute to deforestation and soil degradation; water pollution and overfishing threaten marine life populations; groundwater contamination limits potable water supply; growing urban industrialization and population migration are rapidly degrading environment in Hanoi and Ho Chi Minh City

Environment - international agreements: *party to:* Biodiversity, Climate Change, Desertification, Endangered Species, Environmental Modification, Hazardous Wastes, Law of the Sea, Ozone Layer Protection, Ship Pollution, Wetlands

signed, but not ratified: Climate Change-Kyoto Protocol, Nuclear Test Ban

Geography - note: extending 1,650 km north to south, the country is only 50 km across at its narrowest point

Vietnam People

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Population: 79,939,014 (July 2001 est.)

Age structure: *0-14 years:* 32.13% (male 13,266,585; female 12,415,384)

15-64 years: 62.44% (male 24,357,343; female 25,556,187)

65 years and over: 5.43% (male 1,722,094; female 2,621,421) (2001 est.)

Population growth rate: 1.45% (2001 est.)

Birth rate: 21.23 births/1,000 population (2001 est.)

Death rate: 6.22 deaths/1,000 population (2001 est.)

Net migration rate: -0.49 migrant(s)/1,000 population (2001 est.)

Sex ratio: *at birth:* 1.07 male(s)/female

under 15 years: 1.07 male(s)/female

15-64 years: 0.95 male(s)/female

65 years and over: 0.66 male(s)/female

total population: 0.97 male(s)/female (2001 est.)

Infant mortality rate: 30.24 deaths/1,000 live births (2001 est.)

Life expectancy at birth: *total population:* 69.56 years

male: 67.12 years

female: 72.19 years (2001 est.)

Total fertility rate: 2.49 children born/woman (2001 est.)

HIV/AIDS - adult prevalence rate: 0.24% (1999 est.)

HIV/AIDS - people living with HIV/AIDS: 100,000 (1999 est.)

HIV/AIDS - deaths: 2,500 (1999 est.)

Nationality: *noun:* Vietnamese (singular and plural)

adjective: Vietnamese

Ethnic groups: Vietnamese 85%-90%, Chinese, Hmong, Thai, Khmer, Cham, mountain groups

Religions: Buddhist, Hoa Hao, Cao Dai, Christian (predominantly Roman Catholic, some Protestant), indigenous beliefs, Muslim

Languages: Vietnamese (official), English (increasingly favored as a second language), some French, Chinese, and Khmer; mountain area languages (Mon-Khmer and Malayo-Polynesian)

Literacy: *definition:* age 15 and over can read and write

total population: 93.7%

male: 96.5%

female: 91.2% (1995 est.)

Vietnam — Government

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Country name: *conventional long form:* Socialist Republic of Vietnam

conventional short form: Vietnam

local long form: Cong Hoa Xa Hoi Chu Nghia Viet Nam

local short form: Viet Nam

abbreviation: SRV

Government type: Communist state

Capital: Hanoi

Administrative divisions: 58 provinces (tinh, singular and plural), 3 municipalities* (thu do, singular and plural); An Giang, Bac Giang, Bac Kan, Bac Lieu, Bac Ninh, Ba Ria-Vung Tau, Ben Tre, Binh Dinh, Binh Duong, Binh Phuoc, Binh Thuan, Ca Mau, Can Tho, Cao Bang, Dac Lak, Da Nang, Dong Nai, Dong Thap, Gia Lai, Ha Giang, Hai Duong, Hai Phong*, Ha Nam, Ha Noi*, Ha Tay, Ha Tinh, Hoa Binh, Ho Chi Minh*, Hung Yen, Khanh Hoa, Kien Giang, Kon Tum, Lai Chau, Lam Dong, Lang Son, Lao Cai, Long An, Nam Dinh, Nghe An, Ninh Binh, Ninh Thuan, Phu Tho, Phu Yen, Quang Binh, Quang Nam, Quang Ngai, Quang Ninh, Quang Tri, Soc Trang, Son La, Tay Ninh, Thai Binh, Thai Nguyen, Thanh Hoa, Thua Thien-Hue, Tien Giang, Tra Vinh, Tuyen Quang, Vinh Long, Vinh Phuc, Yen Bai

Independence: 2 September 1945 (from France)

National holiday: Independence Day, 2 September (1945)

Constitution: 15 April 1992

Legal system: based on communist legal theory and French civil law system

Suffrage: 18 years of age; universal

Executive branch: *chief of state:* President Tran Duc LUONG (since 24 September 1997) and Vice President Nguyen Thi BINH (since NA October 1992)

head of government: Prime Minister Phan Van KHAI (since 25 September 1997); First Deputy Prime Minister Nguyen Tan DUNG (since 29 September 1997); Deputy Prime Ministers Nguyen Cong TAN (since 29 September 1997) and Pham Gia KHIEM (since 29 September 1997)

cabinet: Cabinet appointed by the president on the proposal of the prime minister and ratification of the National Assembly

elections: president elected by the National Assembly from among its members for a five-year term; election last held 25 September 1997 (next to be held when National Assembly meets following legislative elections in NA 2002); prime minister appointed by the president from among the members of the National Assembly; deputy prime ministers appointed by the prime minister

election results: Tran Duc LUONG elected president; percent of National Assembly vote - NA%

Legislative branch: unicameral National Assembly or Quoc-Hoi (450 seats; members elected by popular vote to serve five-year terms)

elections: last held 20 July 1997 (next to be held NA 2002)

election results: percent of vote by party - CPV 92%, other 8% (the 8% are not CPV members but are approved by the CPV to stand for election); seats by party - CPV or CPV-approved 450

Judicial branch: Supreme People's Court (chief justice is elected for a five-year term by the National Assembly on the recommendation of the president)

Political parties and leaders: only party - Communist Party of Vietnam or CPV [Le Kha PHIEU, general secretary]

Political pressure groups and leaders: none

International organization participation: ACCT, APEC, ARF, AsDB, ASEAN, CCC, ESCAP, FAO, G-77, IAEA, IBRD, ICAO, ICRM, IDA, IFAD, IFC, IFRCS, ILO, IMF, IMO, Inmarsat, Intelsat, Interpol, IOC, IOM (observer), ISO, ITU, NAM, OPCW, UN, UNCTAD, UNESCO, UNIDO, UPU, WFTU, WHO, WIPO, WMO, WToO, WTrO (observer)

Diplomatic representation in the US: *chief of mission:* Ambassador Nguyen Tam CHIEN

chancery: 1233 20th Street NW, Suite 400, Washington, DC 20036

telephone: [1] (202) 861-0737

FAX: [1] (202) 861-0917

consulate(s) general: San Francisco

Diplomatic representation from the US: *chief of mission:* Ambassador (vacant); Charge d'Affaires Robert PORTER

embassy: 7 Lang Ha Road, Ba Dinh District, Hanoi *mailing address:* PSC 461, Box 400, FPO AP 96521-0002

telephone: [84] (4) 772-1500

FAX: [84] (4) 772-1510

consulate(s) general: Ho Chi Minh City

Flag description: red with a large yellow five-pointed star in the center

Vietnam Economy

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Economy - overview: Vietnam is a poor, densely populated country that has had to recover from the ravages of war, the loss of financial support from the old Soviet Bloc, and the rigidities of a centrally planned economy. Substantial progress was achieved from 1986 to 1996 in moving forward from an extremely low starting point - growth averaged around 9% per year from 1993 to 1997. The 1997 Asian financial crisis highlighted the problems existing in the Vietnamese economy but, rather than prompting reform, reaffirmed the government's belief that shifting to a market oriented economy leads to disaster. GDP growth of 8.5% in 1997 fell to 6% in 1998 and 5% in 1999. Growth continued at the moderately strong level of 5.5%, a level that should be matched in 2001. These numbers mask some major difficulties in economic performance. Many domestic industries, including coal, cement, steel, and paper, have reported large stockpiles of inventory and tough competition from more efficient foreign producers; this problem apparently eased in 2000. Foreign direct investment fell dramatically, from $8.3 billion in 1996 to about $1.6 billion in 1999. Meanwhile, Vietnamese authorities have moved slowly in implementing the structural reforms needed to revitalize the economy and produce more competitive, export-driven industries.

GDP: purchasing power parity - $154.4 billion (2000 est.)

GDP - real growth rate: 5.5% (2000 est.)

GDP - per capita: purchasing power parity - $1,950 (2000 est.)

GDP - composition by sector: *agriculture:* 25%

industry: 35%

services: 40% (1999 est.)

Population below poverty line: 37% (1998 est.)

Household income or consumption by percentage share: *lowest 10%:* 3.5%

highest 10%: 29% (1993)

Inflation rate (consumer prices): -0.6% (2000 est.)

Labor force: 38.2 million (1998 est.)

Labor force - by occupation: agriculture 67%, industry and services 33% (1997 est.)

Unemployment rate: 25% (1995 est.)

Budget: *revenues:* $5.3 billion

expenditures: $5.6 billion, including capital expenditures of $1.8 billion (1999 est.)

Industries: food processing, garments, shoes, machine building, mining, cement, chemical fertilizer, glass, tires, oil, coal, steel, paper

Industrial production growth rate: 10.7% (2000 est.)

Electricity - production: 22.985 billion kWh (1999)

Electricity - production by source: *fossil fuel:* 47.71%

hydro: 52.29%

nuclear: 0%

other: 0% (1999)

Electricity - consumption: 21.376 billion kWh (1999)

Electricity - exports: 0 kWh (1999)

Electricity - imports: 0 kWh (1999)

Agriculture - products: paddy rice, corn, potatoes, rubber, soybeans, coffee, tea, bananas, sugar; poultry, pigs; fish

Exports: $14.3 billion (f.o.b., 2000 est.)

Exports - commodities: crude oil, marine products, rice, coffee, rubber, tea, garments, shoes

Exports - partners: China, Japan, Germany, Australia, US, France, Singapore, UK, Taiwan

Imports: $15.2 billion (f.o.b., 2000 est.)

Imports - commodities: machinery and equipment, petroleum products, fertilizer, steel products, raw cotton, grain, cement, motorcycles

Imports - partners: Japan, Singapore, South Korea, Taiwan, China, Thailand, Hong Kong, Malaysia, Indonesia, France, US, Sweden

Debt - external: $13.2 billion (2000)

Economic aid - recipient: $2.1 billion in credits and grants pledged by international donors for 2000

Currency: dong (VND)

Currency code: VND

Exchange rates: dong per US dollar - 14,530 (January 2001), 14,020 (January 2000), 13,900 (December 1998), 11,100 (December 1996), 11,193 (1995 average), 11,000 (October 1994)

Fiscal year: calendar year

Vietnam Communications

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Telephones - main lines in use: 2.6 million (2000)

Telephones - mobile cellular: 730,155 (2000)

Telephone system: *general assessment:* Vietnam is putting considerable effort into modernization and expansion of its telecommunication system, but its performance continues to lag behind that of its more modern neighbors

domestic: all provincial exchanges are digitalized and connected to Hanoi, Da Nang, and Ho Chi Minh City by fiber-optic cable or microwave radio relay networks; since 1991, main lines in use have been substantially increased and the use of mobile telephones is growing rapidly

international: satellite earth stations - 2 Intersputnik (Indian Ocean region)

Radio broadcast stations: AM 65, FM 7, shortwave 29 (1999)

Radios: 8.2 million (1997)

Television broadcast stations: at least 7 (plus 13 repeaters) (1998)

Televisions: 3.57 million (1997)

Internet country code: .vn

Internet Service Providers (ISPs): 5 (2000)

Internet users: 121,000 (2000)

Vietnam Transportation

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Railways: *total:* 3,142 km

standard gauge: 209 km 1.435-m gauge

narrow gauge: 2,625 km 1.000-m gauge

dual gauge: 308 km three-rail track combining 1.435-m and 1.000-m gauges (2001)

Highways: *total:* 93,300 km

paved: 23,418 km

unpaved: 69,882 km (1996)

Waterways: 17,702 km

note: more than 5,149 km are navigable at all times by vessels up to 1.8 m draft

Pipelines: petroleum products 150 km

Ports and harbors: Cam Ranh, Da Nang, Haiphong, Ho Chi Minh City, Ha Long, Quy Nhon, Nha Trang, Vinh, Vung Tau

Merchant marine: *total:* 143 ships (1,000 GRT or over) totaling 705,388 GRT/1,071,902 DWT

ships by type: bulk 8, cargo 108, chemical tanker 1, combination bulk 1, container 2, liquefied gas 2, petroleum tanker 18, refrigerated cargo 3 (2000 est.)

Airports: 34 (2000 est.)

Airports - with paved runways: *total:* 17

over 3,047 m: 8

2,438 to 3,047 m: 3

1,524 to 2,437 m: 4

under 914 m: 2 (2000 est.)

Airports - with unpaved runways: *total:* 17

over 3,047 m: 1

1,524 to 2,437 m: 1

914 to 1,523 m: 7

under 914 m: 8 (2000 est.)

Vietnam Military

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Military branches: People's Army of Vietnam (PAVN) (includes Ground Forces, Navy, and Air Force), Coast Guard

Military manpower - military age: 17 years of age

Military manpower - availability: *males age 15-49:* 21,704,588 (2001 est.)

Military manpower - fit for military service: *males age 15-49:* 13,673,438 (2001 est.)

Military manpower - reaching military age annually: *males:* 961,124 (2001 est.)

Military expenditures - dollar figure: $650 million (FY98)

Military expenditures - percent of GDP: 2.5% (FY98)

Vietnam Transnational Issues

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Disputes - international: maritime boundary with Cambodia not defined; involved in a complex dispute over the Spratly Islands with China, Malaysia, Philippines, Taiwan, and possibly Brunei; maritime boundary agreement with China in the Gulf of Tonkin awaits ratification; Paracel Islands occupied by China but claimed by Vietnam and Taiwan; portions of boundary with Cambodia are in dispute; agreement on land border with China was signed in December

1999, but details of alignment have not yet been made public

Illicit drugs: minor producer of opium poppy with 2,100 hectares cultivated in 1999, capable of producing 11 metric tons of opium; probable minor transit point for Southeast Asian heroin; opium/heroin/methamphetamine addiction problems

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EXHIBIT 3

THE WORLD BANK, VIETNAM

Vietnam Economic Monitor

Autumn 2001[1]

[1] The **Economic Monitor**, prepared by the World Bank in Vietnam twice a year (spring and autumn), reports on recent economic developments and policy changes (part I), and progress on the Government's reform agenda (part II). This Autumn 2001 edition covers the first three quarters of 2001.

Table of Content

PART 1: RECENT ECONOMIC DEVELOPMENTS

Deterioration in External Environment

The rapidly deteriorating external environment poses a near-term threat to Vietnam's goal of faster growth and poverty-reduction. The cyclical downturn in world economic activity that had begun in 2001, has worsened further following the September events and its aftermath.

World economic growth in 2001 is a mere third of its rate in 2000 -- 1.3 percent compared to 3.8 percent -- an eight year low. World trade growth has undergone its severest deceleration in modern times, falling from 13 percent to around 1 percent this year. Growth in the US (representing 30 percent of world GDP) will hover around 1 percent for the next two years, and Japan (around 15 percent of world GDP) is in recession.

Table 1: GDP Growth

year-on-year change in percent

	2000 *Estimate*	2001 *Forecast*	2002 *Forecast*
World	**3.8**	**1.3**	**1.6**
High Income Countries	**3.7**	**0.9**	**1.0**
United States	4.1	1.1	1.0
Japan	1.5	-0.8	0.1
Euro Area	3.5	1.5	1.3
East Asia 5	**7.0**	**2.3**	**3.4**
Indonesia	4.8	3.3	3.5
Korea	8.8	2.4	3.4
Malaysia	8.3	0.9	3.7
Philippines	4.0	2.5	3.5
Thailand	4.4	1.6	3.0
Singapore	9.9	-0.6	4.7
China	8.0	7.1	6.8
Vietnam	*5.5*	*4.8*	*5.5*

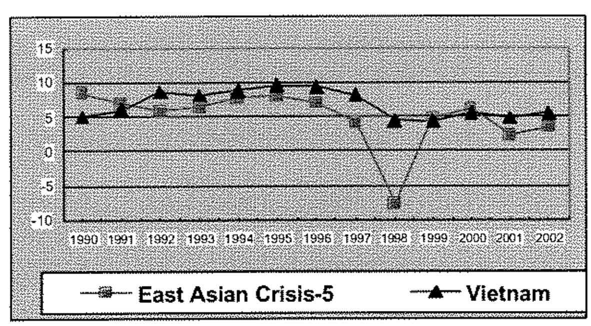
Source: *World Bank (DEC Prospects Group, October 10, 2001).* ***Note****: These forecasts may be revised down further as events continue to unfold, and the impact is more accurately assessed.*

Overall, the prospects for a recovery in world trade and in East Asian exports has been pushed back by 6-9 months at least. Thus aggregate growth in the East Asian crisis economies of Indonesia, Korea, Malaysia, the Philippines and Thailand is expected to fall to 2.3 percent in 2001 from 7.0 percent in 2000, and to recover only mildly to about 4.5 percent in 2002.

Improvements in Vietnam's policy environment in 2000 and in 2001 have mitigated somewhat the adverse impact of the global slowdown. Implementation of reform measures last year like the Enterprise Law, the revised Foreign Investment Law, the US-Vietnam bilateral trade agreement (USBTA) as well as the adoption of a multi-year policy reform program earlier this year have improved business sentiments. This is reflected in the rapid growth of newly registered domestic private enterprises, in the recent approval of three large foreign investment projects in energy and in an increased share of private firms in exports and imports. Domestic private investment as well private manufacturing employment have shifted to a higher gear.

However, the external slowdown does mean that Vietnam's economic growth in 2001 and 2002 will be slower, but will still be the second highest among the region's large economies (see table 1). Maintaining this position will require concerted domestic efforts to implement the policy reform program (see Part II: Structural Reforms), especially to sustain growth in domestic investment and reduce cost for exporters. Indeed, in the present external context implementation of planned reforms has become even more vital, in order to unlock the domestic private investment potential and harness the scarce resources of Vietnam. This will also position Vietnam to participate wholly in the economic recovery late next year.

Figure 2: Growth of East Asian Crisis Economies and Vietnam 1990 - 2001, percent change



Source: *World Bank, 2001.*

Trimmed growth in 2001

After growing at 4.0 percent, 4.5 percent, and 5.5 percent in 1998, 1999, and 2000 respectively, it was reasonably anticipated that growth would rise to 6.5 percent in 2001 and 7.5 percent in 2002. However, while the internal drivers of this growth are now in place, it also requires continued rapid export growth, which now cannot be assumed. In 2001 GDP growth is expected to slow to 4.8 percent, reflecting weaker external demand than was expected just six months ago.

Industry and construction were the main contributors to this growth, with an expected real expansion of 8.3 percent in 2001. Real annual growth in construction increased three-fold between 1999 and 2000, from 2.4 percent to 7.5 percent. In 2001 the expansion rate is expected to increase further to 12 percent. Non-state domestic industrial production almost doubled its growth rate between 1999 and 2000 – from 11 percent in 1999 to 19 percent in 2000. This growth increased to almost 20 percent in the first three quarters of 2001, which is also expected for the whole year.

The service sector continued to expand at a healthy 4.3 percent, as in 2000. While real GDP in the agricultural sector disappointed, with a sluggish 0.3 growth rate expected for the whole of 2001.

There are good indications that domestic investment increased in 2001. The revised Law on Domestic Investment, in conjunction with the Enterprise Law, amplified domestic investment to around US$ 1 billion, by inducing newly registered enterprises to deepen their capital investments. As of September 2001, the registered investment capital of newly founded businesses was 1.7 times higher than in the same period last year. Also, imports continue to feed an expanding and still more investment hungry domestic production sector. Growth in imported volumes of intermediary goods continued to increase in 2001. In volume terms imports of steel billet expanded by 39 percent compared to 16 percent last year, growth of cotton imports increased to 43 from 23 percent, and imports of petroleum, plastics and fiber also showed growth rates commensurable with healthy domestic production levels.

However, there are also signs that domestic private consumption is growing slowly in 2001. Until June, growth of retail sales were on par with their expansion rate in 2000. However, in latter months, retail sales have been rising less than in 2000, and the Government now projects growth in retail sales to be somewhat lower in 2001 than in 2000. Import statistics also point to slowing consumption demand. Volume growth in imports of consumer durables such as motorcycles decreased from several hundred percent to 56 percent. Three quarters of the labor force is involved in farming. Agricultural growth and rural incomes are therefore important determinants of private consumption. With decade low prices in commodity markets, eroding farmers terms of trade, and agricultural GDP expanding at about a third its rate in 2000, there is little prospect for domestic consumption to haul the economy back on a higher growth track.

Foreign Direct Investment

Two BOT power projects of $800 million and the US$ 1.5 billion Nam Con Son gas pipeline project are the main foreign direct investments in Vietnam this year. Inflows of foreign investment, are estimated to amount to approximately US$ 1 billion in 2001.

We expect a pullback in private capital flows to emerging markets – including of foreign investments in East Asia – due to 9-11 and its aftermath. Vietnam is not only vulnerable to the fall in the overall availability of foreign investment for emerging markets but also to economic weaknesses in countries that have been major providers of foreign investment. Thus recession in Singapore, Taiwan (China) and Japan, as well as a slowdown in Hong Kong, Korea and Malaysia will depress foreign investment inflows further.

However, in the last two years Europe has become a significant provider of foreign investment, especially the UK, France and the Netherlands. It is quite possible that these investment sources may find Vietnam to be a more stable and safer place for their foreign investments in this region than many other countries where there is higher risk of instability.

Weaker Demand for Vietnam's Exports in 2001

Total export earnings growth will be around 7 percent this year, compared to 25 percent in 2000. Falling world prices of oil and agricultural commodities, led to declines in export earnings from these products, comprising nearly 40 percent of total exports. Vegetable and fruits (comprising of 17 percent of agricultural exports) and seafood (comprising around 10 percent of non-oil exports) are expected to grow at double digit rates.

Manufactured export earnings are expected to perform poorly, rising by 1 percent only, because of the collapse in the volume of footwear, electronic and computer exports. Garment exports are expected to grow by 8 percent, the same as last year.

Export components	Value, US$ millions	Share	Growth in percent	
	2000	2000	2000	2001/e
Crude oil	3,503	24.2	67.5	(3.0)
Non-oil	10,946	75.8	16.1	10.2
Of which "Other"	3,055	21.1	30.4	27.0
Total export earnings	**14,448**	**100**	**25.2**	**7.0**
Identified export items				
Agricultural products	1,932	13.4	-9.8	(2.5)
Seafood	1,479	10.2	55.5	21.0
Mining products	102	0.7	2.7	13.8
Garment	1,893	13.1	8.3	8.0
Footwear	1,465	10.1	5.2	2.0
Electronics & computers	783	5.4	33.8	(20.0)
Handicraft & fine arts	237	1.6	40.8	(5.0)

Table 2: Export Performance

Source: *Actual data: General Statistical Office; Projections: World Bank Staff*

Good Export Prospects for 2002

Though it is difficult to forecast export earnings growth in 2002, a year of great uncertainty in the world economy, there are at least three factors that augur well for Vietnam's export prospects. First, the ratification of the USBTA and its implementation by end of this year, means that Vietnam will have "normal access" for the first time to the large US market. Tariffs facing Vietnamese exporters in the American market will come down from around 40 to 4 percent. This means, that despite a weakening US economy, Vietnam may see growth in its exports to this market, especially if a lower-priced niche market for manufactures could be developed. Second, opportunities for Vietnamese exports to China appear more promising than before. China is not only the fastest growing economy in the region, it is also opening up its markets to imports under WTO accession. Vietnam has demonstrated considerable ability to push export volumes of products, such as agricultural crops, seafood and garments, despite weakening external demand. The Chinese market should present a good opportunity to continue along this line. Third, Vietnam has announced a multi-year reform program that is expected to ease private entry into export trade and production as well as to reduce costs for exporters.

Supportive economic policies in 2001 and 2002

There is an important role for stimulating economic policies in the remainder of 2001 and for 2002 to buttress domestic demand. The source of stimulus will have to come overwhelmingly from fiscal sources, as credit policy will have to be restrained, in view of the poor financial health of the state-owned banks and the overall vulnerability of the system. Encouragingly, there is room for a substantial increase in budgetary spending in the remainder of 2001 and over 2002, without endangering the sustainability of public finances. Expansionary fiscal policies may thus be seen as a complementary policy that will permit Vietnam to make progress on the structural reform agenda, by alleviating the negative impact of the current depressed external environment.

Accommodative credit policies – Inflation remains in check

State Bank of Vietnam adopted expansionary monetary policies in 2001 – although credit growth was slower than in 2000. Credit grew by 38 percent in 2000, and was tightened to 29 percent in the first half of 2001, with a view of targeting a yearly credit growth rate of around 21 percent. Despite this very rapid pace of credit growth over the last couple of years there has been little inflationary pressure in the economy. Year-on-year inflation was negative at 1.6 percent by end 2000 and just slightly positive at 0.8 percent by September 2001. This reflects falling food prices, given two years of consecutive bumper rice harvests and depressed rice prices in world markets (food prices account for 60 percent of the current CPI, with rice comprising most of the food basket). Food prices continued to fall in the first half of 2001, but have begun a recovery since July resulting in a year-on-year decline in the food-CPI of only 0.4 percent in September 2001. Core inflation, as measured by non-food prices, stood at around 1.1 percent in September 2001, suggesting the absence of deflationary pressures.

More flexible exchange and interest rates

The foreign exchange surrender requirement has been relaxed from 50 to 40 percent, and as of September the exchange rate had depreciated 6.2 percent against the dollar, year-on-year. Lower international interest rates on dollars, provided room for SBV to cut interest rates on both dollar and dong deposits and lending, while still maintaining the interest spread in favor of the dong. This spread has helped inhibit households' demand for dollars. However, the corporate sector continues to favor dollars over dong, putting downward pressure on the currency, as the interest margin in favor of dong is not large enough to off-set expectations of further dong depreciations in the near term. The dong was also allowed to weaken in response to depreciations in currencies of regional competitors. This has helped recover some of the price competitiveness of Vietnamese exports.

The interest rate ceiling on foreign loans has been abolished. This gives Vietnamese enterprises and foreign lenders the liberty to freely negotiate and fix interest rates and fees on overseas loans. Banks that operate in Vietnam have also been granted discretion to set the interest rate on currency lending based on international market rates and the domestic demand and supply situation. For lending in Vietnamese dong Banks have for some time been allowed to offer any interest-rate up to a new ceiling rate, defined as the base rate plus 0.3 percent for short-term loans, and plus 0.5 percent for medium- and long-term loans. This means that banks can price their loans below the SBV base rate for their prime customers and apply higher rates for non-prime customers, subject to that ceiling. This is an important move that will pave the way for increased lending to private SMEs, which have difficulties in accessing fixed-interest loans due to insufficient credit history or collateral.

Room for fiscal expansion

The overall fiscal deficit in 2001 is expected to be lower than budgeted because of higher-than-planned revenue and slower implementation of capital spending. The deficit is therefore only estimated to stand at 2.7 percent of GDP compared to the budgeted plan of 4.1 percent, thereby reducing the expansionary impact of fiscal policy on the economy. There is thus considerable scope for increasing public spending in the remaining months of this year to compensate in part for weaker external demand.

PART II: STRUCTURAL REFORMS

Integrating into the World Economy

The Government of Vietnam has adopted a strategy of gradual integration with the world economy. For the coming years Vietnam has committed -- under the Asian Free Trade Area (AFTA) and the Bilateral Trade Agreement with the United States (USBTA) -- to liberalize its trade and investment rules, abolish quantitative restrictions on all but five items, lower tariffs and gradually develop a transparent rules based trading and investment system that will be required for later entry into the WTO. The USBTA was signed by President Bush on October 17, and now only awaits final ratification by Vietnam's National Assembly before coming into force. 60 days after this final ratification tariffs facing Vietnamese products in the American market will come down from around 40 to 4 percent. Annex 1 provides a list of actions that Vietnam has committed to under the AFTA and USBTA agreements.

The Government has issued Decision 46/2001 regarding the management of imports and exports of goods for the period from 2001 to 2005. The Decision provides consistent and transparent, long-term directions for all export-import businesses. This is the first time a long-term import and export policy has been prepared. Previously, an import and export plan was drawn up annually. From January 1st 2002 import of construction steel, construction glass, and refined vegetable oil will no longer require a license. From January 1st 2003, cement, motorcycles, passenger cars with up to 9 seats, and passenger-cargo vans can be imported freely.

In an other bid to further liberalize the trading system, the trade law has been amended (Decree 44/ND-CP, August 2001) to permit all legal entities (companies and individuals) to export most goods, including rice, without having to acquire a special license. Also, restrictions on importing fertilizer were removed earlier this year.

These trade policies will lead the way for a greater influx of new ideas, technologies, and opportunities for Vietnamese companies, and contribute to an increasingly competitive economy, in which productive investments generate new jobs by making the most of Vietnam's comparative advantages.

Improving the Climate for Enterprise

Private firms are now the fastest growing part of the manufacturing sector and employs four times as many workers as the state sector. In its 10-Year Socio-Economic Development Strategy the

Government emphasizes its intention to accelerate the transition to a socialist market economy, with equal treatment of private, foreign and state enterprises. As Deputy Prime Minister Nguyen Tan Dung recently stated in his address to the National Assembly, the Government is strongly committed to facilitating all types of enterprise in Vietnam.

The Enterprise Law has been implemented nationwide. The response has been unprecedented with more than 20,000 private SMEs registered since January 2000 -- compared to just 3000 registrations a year, for the last three years. However, the absence of information on sectoral break-down makes it difficult to asses the exact structure of these emerging private businesses. The expansion of private SMEs have raised private investment and employment and over the medium term, labor-reallocation to off-farm activities will raise productivity and average incomes for the rural poor. In this relation 145 discriminatory business licenses of various kinds been revoked or modified to be conditions to be fulfilled in order to ease entry under the Enterprise Law, and a further 43 licenses are planned to be repealed in the near future.

The Land Law has been revised to align compensation for nationalized land with its true market value. The authority for allocating land has been decentralized as has also the right to grant land-use certificates for individual households and businesses to ease local government's control and monitoring of the use of land. Overseas Vietnamese have been given the right to buy houses with attached land-use rights. The revised law is expected to become effective October 1, 2001.

A National Register Agency for Secured Transaction under the Ministry of Justice has been launched with Decision 104/2001/QD-TTg. There will be two offices -- one in Hanoi and one in HCM City. These will conduct and record the registrations, keep a database and provide information related to such transactions. The Hanoi Office is expected to start functioning by November 2001 and the one in HCM City by March 2002. A Circular guiding the procedures for foreign invested enterprises' mortgage of land-use-rights and assets attached thereto was issued in June 2001.

The Government has issued guidelines for the implementation of the Ordinance on Commercial Paper from 1999, including on the form and language of, and conditions for, guaranteeing and pledging commercial paper, and the respective obligations of the different parties to such commercial transactions (Decree 32/2001/ND-CP, July 5, 2001).

To attract investments from overseas Vietnamese, by ending price discrimination and lowering their costs of doing business, a plan to unify domestic airfares over the next 3 years has been laid out. Vietnam Airlines' dual pricing policy for Vietnamese nationals and Overseas Vietnamese has ended with Decision 114/2001/QD-TTg aa is also the case for electricity prices and visa fees.

The largest ever water treatment plant in Vietnam has secured international financing under a 25-year BOT contract. The project, which is to increase HCM City's water supply by a third, will be the first infrastructure BOT project to secure international commercial financing. The co-financers of the project include three international banks that are providing commercial loans under guarantees from France's Coface, Belgium's ONDD, and Malaysias Export-Import Bank. ADB will lend US$106 million of the estimated total of US$ 154 million.

The Development plan for the electricity sector in Vietnam for the 2001-2010 period, Electricity Master Plan No.5, has been set forth in Decision 95/2001/QD-TTg. The plan contains lists of planned power generation plants by 2005 and, other projects where feasibility studies are still required by 2010.

Saigon Hotel Joint Stock Company was listed on Vietnam's securities market on July 9, 2001, to become the sixth public listing in Vietnam. This latest addition brings the total number of listed companies to six.

The emergence of a vibrant private sector will be crucial to complement reform measures that are being taken in other areas. Estimates suggest that if Vietnam is to attain its long-term growth and employment goals, domestic private investment will need to almost double over the coming decade. To do this, the climate for private domestic and foreign investors must be improved -- as indeed it has been over the past year.

Reforming State-Owned Enterprises

With the ongoing trade liberalization, private sector and banking sector reforms, and moves towards greater fiscal transparency, the Government plans a transition to a more competitive enterprise climate over the coming years. In this process one third of the current 5571 SOEs are to be divested over the next three years, and the remaining ones are required to become competitive.

The number of completed equitizations has increased steadily over the last few years, but slowed significantly in 2001. As of August 2001, a mere 113 SOEs had been equitized, of which 78 sold more than 65% of the shares to non-state shareholders (see Table 3). This year only 7 SOEs have been sold and 4 transferred to new owners.

Table 3: Completed SOE Equitizations as of August 2001

	1998	1999	2000	M8-2001	Total
Less than 51% of shares sold	13	19	46	23	101
51-65% of shares sold	12	15	37	12	76
More than 65% of shares sold	27	117	142	78	364
Number of completed equitizations	**52**	**151**	**225**	**113**	**541**

The existing system for management information on SOE-performance of the Ministry of Finance is being improved with assistance from external consultants. This will improve reporting on SOE performance to the higher levels of Government. In addition, the Ministry of Finance is also implementing a process to monitor growth in credit and in budgetary support for the 200 large and highly indebted SOEs.

Consultants have completed a preliminary report on the three General Corporations – Vinatex, Vinacafe, and Seaprodex. Fuller analysis as well as development of a detailed restructuring-plan is expected to start later this year.

Hai Phong Agricultural Manufacturing Company has been selected to be the first SOE to auction its shares as a method of equitization. All relevant data will be publicized 30 days prior to the auction date in order to attract outside buyers. The preparation process leading up to the auction has been underway for two years with support from the IFC.

SOE and trade reform will increase efficiency and employment in the medium term, but it will also lead to significant job losses in the short term. It is therefore important to have social safety nets for the poor and the vulnerable.

The Government has established an Enterprise Restructuring Fund to assist and compensate displaced workers. The fund is not yet operational, but the regulations for its use are being modified to increase its effectiveness. These modifications include a more generous level of assistance to displaced workers than currently stipulated in the labor code. To deal with gender bias and discrimination against younger workers, the compensation package to displaced workers will have a substantial lump-sum element in addition to a sum based on the number of years of service and the in-service salary level.

Strengthening the Banking System

Banking reform is critical to ensure efficient intermediation between domestic savings and investment. Without reform, savings will be inadequate and channeled towards sub-optimal investments. The Government has adopted a comprehensive banking reform program that relies on market-based actions and coordinated implementation of state enterprise reform.

The objective of the reform program is, in the short-term, to ensure the stability of the banking system, and in the medium-to-long term, to promote better mobilization of domestic resources by improving allocation of those resources to commercially viable activities, and expanding banking services for all Vietnam. Many recent initiatives have been taken to enhance the efficiency of the system.

The State Bank of Vietnam has reinstated the currency swap with Decision 893/2001/QD-NHNN. This facility allows all banks operating in Vietnam to swap dollars for dong with maturities of between seven and 90 days. The swap is an attempt to ease the shortage of dong liquidity being encountered by banks in Vietnam. However, until now only three SOCBs have made use the facility, and it is not clear that these swap contracts are driven by liquidity considerations.

Decision 980/2001/QD-NHNN has abolished interest rate ceilings on foreign loans. This gives Vietnamese enterprises and foreign lenders the liberty to freely negotiate and fix interest rates and fees on overseas loans. Banks that operate in Vietnam have also been granted discretion to set the interest rate on currency lending based on international market rates and the domestic demand and supply situation (Decision 718/2001/QD-NHNN).

Effective as of June 2001, regulations that simplify procedures governing deferred L/Cs by cutting the number of requirements from six to two have taken effect. Also, the scope for financial leasing has been broadened and regulations improved to create a more attractive operating environment for domestic and foreign leasing companies (Decree 16/2001/ND-CP).

Detailed restructuring plans for the four large SOCBs (Vietcombank, Vietnam Bank for Agricultural and Rural Development, Industry and Construction Bank, and Bank for Investment and Development of Vietnam) including annual milestones (i.e. actions and targets) that need to be achieved to obtain phased re-capitalization funds from Government have been adopted. These milestones will include IAS audits for fiscal year 2000.

Managing Public Resources Better

Improved public spending is an important instrument to offset the incipient trends towards increased inequality in Vietnam and to reach marginalized groups who do not directly benefit from overall economic growth. Fiscal transparency is vital for accountability to citizens for the use of public resources, for accountability for the quality of overall public expenditure management, and to provide individuals and enterprises with the necessary information to make sound economic decisions and long-term planning. Vietnam has implemented significant improvements in public expenditure management and in transparency of public spending by enacting the Budget Law in 1997 and removing the secrecy of budgetary information in 1999.

A first joint Government-donor Public Expenditure Review, *Managing Public Resources Better,* was completed and presented to the Consultative Group in December 2000. Subsequent to completion of the PER 2000, Government has adopted an action plan of measures to improve public expenditure management, with a detailed timetable for the next three years, including the revision of the 1997 Budget Law by next year.

Part of this program has been included in the comprehensive reform package that is supported by the IMF, the World Bank and several bilateral donors. Crucial elements of reform include improving data reporting and transparency by designating treasury as the main agency responsible for a comprehensive management information system for all expenditures; to publicize more budgetary information on a sectoral level; secure that all communes post budgets outside commune offices; and draw up an annual inventory of all "off-budget" accounts to assess the extent of contingent liabilities.

Annex 2 provides boxes on the key reform measures taken by the Government since 1998 in the areas of trade liberalization, private sector development, SOE reform, banking reform, and management of public resources.

ANNEX 1 : Vietnam's Commitments under AFTA and USBTA

AFTA

- Overall tariff reductions. Tariffs on the vast majority of tariff lines (95 percent, according to preliminary estimates) on ASEAN imports will be reduced to at most 20 percent by the start of 2003, and to 0-5 percent by beginning of 2006.
- Tariff reductions on manufactures. By early 2004 average tariffs on manufactures from ASEAN countries will be cut by 50 percent.
- Reduced average tariffs. By early 2004, average tariffs on ASEAN imports of textiles, leather, wood products, non-metallic mineral products (e.g. glass and ceramic products), and food products will fall by more than 60 percent.

USBTA

- Liberalizing trading rights for U.S. firms in three to six years.
- Reducing current tariff rates on a limited range of industrial and agricultural items (about 250) by 30 to 50 percent over three years.
- Removing QRs on most products in three to seven years -- steel and cement after six years and petroleum products after seven years.
- Opening up the services sector. Vietnam will be providing more market access than low and middle income countries under the Uruguay round and only slightly less than the larger transition economies.
- Freeing entry in banking services, by allowing U.S. equity in joint ventures (with up to a 49 percent stake) once the agreement becomes effective. After nine years 100 percent U.S. owned subsidiary banks will be allowed to operate in Vietnam. In addition, U.S. equity in privatized Vietnamese banks will be allowed at the same levels as Vietnamese investors. Finally, in eight years U.S. banks will be permitted to accept dong deposits from business clientele and after ten years from retail depositors.
- Non-bank financial services. 100 percent U.S. equity in financial leasing and in other leasing will be introduced after three years.
- Insurance. Joint ventures will be able to start up in three years time; 100 percent U.S. equity insurance will be possible in five to six years.
- Other services. Immediate introduction of 100 percent U.S. equity in a range of technical services, including in legal, accounting, engineering, computer-related, and construction areas.
- Trade-related investment measures. All WTO-inconsistent measures (e.g. local content requirements) will be phased out within five years.
- Intellectual property rights. WTO-consistent protection of intellectual property rights are to be introduced in 12-18 months.
- Transparency. All laws and decisions governing issues in the agreement will be published; administrative or judicial tribunals for review will be established, as will the right of appeal.

ANNEX 2 : Reform actions 1998 - 2001

Integrating into the World Economy, 1998 – October 2001

Government actions include:

1998

- Lowering the maximum import tariff to 50 percent (exceptions remain for six groups) and reducing the number of tariff-rates to 15;
- Liberalizing trading rights of domestic firms by allowing them to export and import goods directly, without a license, though residual restrictions remain for importers;
- Allowing private firms to import fertilizer;

1999

- Allocating rice export quotas to non-state firms for the first time (by listing 5 private firms and 4 joint-ventures among the 47 authorized primary rice exporters Decision 273/1999/QD-TTg, December, 24, 1999) and allowing foreign firms to buy rice directly from farmers for export purposes;
- Auctioning 20 percent of garment export quotas;
- Encouraging trading activities by reducing the foreign exchange surrender requirement from 80 percent to 50 percent of foreign exchange earnings (Decision 180/1999/QD-NHNN1, August 30, 1999);

2000

- Removing quantitative import restrictions on 8 out of remaining 19 groups of products i.e. including fertilizer, liquid soda, ceramic goods, plastic packaging, DOP plasticizer, ceramic sanitary ware, electric fans, and bicycle (Decision 242/1999/QD-TTg, December 30, 1999, effective April 1, 2000);
- Signing a bilateral trade agreement with the US in July paving the way for MFN access of Vietnamese exports to the US market, gradual opening up of Vietnam's economy, for goods and services as well as investments;
- Approving a roadmap for AFTA tariff reduction during 2001-2006 wherein most tariff lines will lines will have their tariff reduced to 20% by early 2003 and to 5% by early 2006;

2001

- Issuing Decision 46/2001 on the long-term management of exports and imports of goods in the period 2001-2005, instead of the hitherto one year schemes. Decision 46 adopted a plan to remove QRs multilaterally by May 2001 on all tariff lines of the following groups of products: liquor, clinker, paper and floor tiles; QRs on construction glass, some types of steel, and vegetable oil will be abolished by end 2001; cement, motorcycles, automobiles (under 9 seats) will be license-free by the end 2002 (Decision 46/2001 dated April 4, 2001);
- Issuing Decision 46/2001 on the long-term management of exports and imports of goods in the period 2001-2005, instead of the hitherto one year schemes (April 4, 2001);
- Reducing the foreign exchange surrender requirement from 50 to 40 percent (Decision 61/2001/QD-TTg April 25, 2001);
- Abolishing the quota allocation for rice exports and fertilizer imports (Decision 46/2001/QD-TTg April 4, 2001);

- Promulgating Vietnam's 2001 List of commodities and their tariff rates for implementation of the Agreement on Common Effective Preferential Tariffs (CEPT) of the ASEAN countries (Decree 28/2001/ND-CP of June 6, 2001). Based on the schedule, 713 tariff lines were moved from the Temporary Exclusion List (TEL) to the Inclusion List (IL). Among the 4,986 tariff lines in IL, 3,228 lines are at rate of between 0% to 5%, and 1,758 lines at the rate between 5% to 20%;

- Permitting all legal entities (companies and individuals) to export most goods without having to acquire a special license by revising the implementing decree of the Trade law (Decree 44/2001/ND-CP, August 2, 2001);

- Preparing an initial offer of market opening commitments that will be presented in negotiations to join the World Trade Organization (WTO) (October 16, 2001).

Improving the Climate for Enterprise, 1998 – October 2001

Government actions include

1998

- Issuing a new Decree on foreign investment providing additional incentives to foreign investors;
- Initiating the private sector donor dialogue under auspices of the Consultative Group of donors in order to better understand the constraints faced by the private sector, especially foreign investors;
- Amending the Law on Promotion of Domestic Investment, allowing domestic and foreign organizations, and individuals, to buy shares or to contribute capital to domestic enterprises, including equitized SOEs, and provided additional incentives for new domestic investment;

1999

- Approving the Enterprise Law and issuing decrees to implement it, eliminating a number of discretionary restrictions on the establishment of private business (May 99);
- Providing regulations on secured transactions (Decree 165/1999/ND-CP), enabling mortgages of land-use rights and houses, and collateralized lending on the back of assets ranging from materials, machines, and production equipment to bonds, shares, and property rights;
- Providing regulations on the organization and operation of a Development Support Fund (Decree 50/1999/ND-CP on July 8, 1999). The Fund is a point of access for medium and long term development finance for private and public enterprises;
- Revising the Land Law to convert, transfer, lease, provide as collateral and capital contribution of land use-rights to banks or to joint-ventures;

2000

- Implementing the Enterprise Law effectively by revoking unnecessary business licensing restrictions in 145 industries, trades and services, and easing private entry;
- Revising the Foreign Investment Law to create more favorable conditions for foreign investors. Improving access to foreign exchange, allowing mortgaging of land by foreign bank branches in Vietnam (although implementing decrees still not in place), permitting automatic registration for export-oriented foreign investment, and making provisions for the Government to issue guarantees for large infrastructure projects;
- Amending the 1993 Law on Petroleum making the investment and regulatory environment for foreign investment in the oil and gas sector more attractive;
- Establishing the first stock exchange center in Ho Chi Minh City, which is dealing in treasury bonds and shares of five listed companies. The Government further plans to open the second transaction center in Hanoi and develop the OTC market (Over-the-Counter) for companies prior to listing;

2001

- Establishing an Enterprise Information Center under MPI to develop and manage a database of enterprises registered under the Enterprise Law (Decision 75/2000/QD-BKH of Feb 28, 2001)
- Approving two BOT projects in energy sector: US$400 million Phu My 2.2 power plant with EdF led consortitium of TEPCO and GEC and US$450 million Phu My 3 combined cycle power project with Statoil/BP (Jan, 2001);
- Providing detailed guidelines and listing all necessary documentations for foreign invested enterprises to mortgage land-use rights and assets attached thereto to Vietnamese credit institutions and joint-venture banks (Inter-Circular 772 NHNN/TCDC, May 2001);

- Amending the land law to align compensation for nationalized land with its market value, allowing overseas Vietnamese the right to hold land-use rights, and decentralizing control and monitoring of land-use rights (June 2001);
- Ending dual pricing policy for overseas Vietnamese in aviation fares, electricity, and visa fees starting this year (Decision 114/2001/QD-TTg, July 31, 2001);
- Establishing a National Register Agency for Secured Transaction under the Ministry of Justice (Decision 104/2001/QD-TTg July 10, 2001). There will be two offices (Hanoi and HCM city) conducting and recording the registrations, keeping register database and providing information related to such transactions; the Hanoi office is expected to start functioning by November 2001 and the one in HCM City by March 2002.
- Proposing a list of business licenses in 43 sub-sectors to be revoked/modified to be conditions to be fulfilled. The list now is circulated among related government agencies and line ministries for comments before finalizing for approval from the Prime Minister (July, 2001);

Reforming State-Owned Enterprises, 1998 – October 2001

Government actions include

1998

- Issuing Decree 44 to simplify the process of equitization and allow limited foreign shareholding in equitized SOEs;
- Issuing Directive 20 to adopt a wider menu of reform options for SOEs, e.g. outright sale, transfer to employees competitive bidding, for purchasing SOEs on SOE shares, leases, management contract etc.;
- Announcing annual targets for equitizations for 1998 – 2000;
- Equitizing 52 SOEs;

1999

- Completing classification of SOEs into three groups: profitable, temporary loss-makers and permanent loss-makers;
- Issuing decree and regulations for outright sale, transfer to employees, and lease of small SOEs, without requiring conversion of SOEs into joint-stock companies as required for equitization;
- Selecting 100 large troubled SOEs for independent diagnostic audits (i.e. operational reviews);
- Equitizing 151 SOEs;

2000

- Selecting three general corporations (Seaprodex, Vinatex, and Vinacafe) for developing specific action restructuring plans and completing preliminary consultancy work;
- Expanding authority of provinces to decide on divestiture of SOEs with capital up to five billion VND instead of 1 billion permitted before;
- Establishing an Assistance Fund for Restructuring and Equitizing SOEs to finance severance payments, early pension payments and retraining for redundant workers -- minimizing the negative social impact of SOE reforms on workers;
- Adopting a comprehensive five-year SOE-reform plan with annual target for the first three years.
- Equitizing 225 SOEs;

2001

- Establishing a quarterly monitoring system for 200 large highly-indebted SOEs, and revising a decision to clarify reporting requirements and introducing sanctions against late reporting;
- Issuing government's instruction for a moratorium on establishing new SOEs by local People Committees and line ministries until further notice (Official Dispatch 574/CP of June 25, 2001);
- Equitized a total of 130 SOEs only.

Strengthening the Banking System, 1998 – October 2001

Government actions include

1998

- Establishing a Bank Restructuring Committee and initiating restructuring of non-state Joint-Stock Banks (JSBs) in HCM City;
- Issuing regulations for intervening in troubled banks including conditions for "Special Control Regime" of the central bank;

1999

- Completing SBV's financial assessment of all JSBs and independent audits of 4 large SOCBs by international auditors and developing preliminary restructuring plans for all JSBs;
- Closing and merging 4 JSBs in HCM City;
- Issuing prudential egulations for banking operations, financial ratios for safe operation of credit institutions; authority of banking inspectors; deposit insurance and collateral;

2000

- Issuing new regulations for operations of banks in respect of calculating provisions against their non-performing loans on a quarterly basis (Decision 488) assigning full responsibility and accountability for all aspects of the credit cycle to banks; requiring loan officers in commercial banks to check not only the capacity of the borrower to repay a loan but also to check the feasibility and viability of the project that is to be financed (Decision 284, August 2000); lending on an unsecured basis to state owned enterprises and foreign invested enterprises (Decision 266, August 2000);
- Replacing fully administered interest rates on dollar and dong loans by a more flexible interest-rate system under which the dollar rate is anchored in SIBOR, while the dong rate is allowed to vary around a SBV base rate subject to a ceiling rate (Decision 241 to 244, August 2000);
- Issuing regulations for the organization of SBV's supervision of the banking sector -- the State Bank Inspectorate (Decision 270, August 2000);
- Supplementing the existing legislation for foreign banks with detailed provisions concerning the organization and operations of state owned banks and JSBs, broadening the range of non-core activities (Decree 49, September 2000);
- Clarifying provisions for registering secured transactions (Circular 10, September 2000);

2001

- Issuing Circular to provide guidelines for the realization, either through sale or seizure of secured property, for recovery of debts by credit institutions (Joint Circular 03/2001, April 23, 2001).
- Issuing regulations that simplify procedures governing deferred L/Cs, by cutting the number of requirements from six to two -- effective June 10, 2001.
- Adopting a detailed restructuring plan for the four large SOCBs including annual milestones (i.e. actions and targets) that need to be achieved to obtain phased re-capitalization funds from Government.
- Broadening the scope for financial leasing and improving regulations to create a more attractive operating environment for domestic and foreign leasing companies (Decree 16/2001/ND-CP, May 17,2001);
- Giving banks that operate in Vietnam the right to set the interest rate on currency lending based on international market rates and the domestic demand and supply situation (Decision 718/2001/QD-NHNN, May 29, 2001);

- Issuing guidelines for the implementation of the Ordinance on Commercial Paper from 1999, including on the form and language of, and conditions for guaranteeing and pledging commercial paper, and the respective obligations of the different parties to such commercial transactions (Decree 32/2001/ND-CP, July 5, 2001);

- Removing interest rate ceilings on foreign loans, giving Vietnamese enterprises and foreign lenders the liberty to freely negotiate and fix interest rates and fees on overseas loans (Decision 980/2001/QD-NHNN, August 1, 2001).

Managing Public Resources Better, 1998 – October 2001

Government actions include:

1998

- Publishing 1997 final accounts and the 1999 budget plan by the General Statistical Office, in the form of a freely available booklet;

- Providing fiscal information to international organizations and donors in a GFS-consistent format as well as to all relevant Government agencies (Decision 225 and 1581);

1999

- Improving fiscal management by requiring improved accounting of foreign grants and clarification of roles in management of external debt and in debt monitoring (Decree 90 in 1998 and Circular 22 in 1999);

- Clarifying processes for managing fees, charges and revenues raised and spent by spending agencies;

2000

- Completing and publishing the Public Expenditure Review – Managing Public Resources Better.

- Issuing a regulation on commune budget management and a simplified budget classification to provide a framework for improved accounting, reporting and management of budget commune and other financial activities at commune level;

2001

- Developing a detailed public expenditure management improvement action plan with a timetable for next three years.

- Establishing an inter-agency working group to coordinate implementation of PER-2000 recommendations.

Conducting provincial PERs for Hochiminh City and Quang Binh.

ANNEX 3 : Economic work funded by the worldbank and by other donors

(recently completed, ongoing and planned)

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
I. Integrating with the World Economy			
The Government of Vietnam is committed to integration with the region and the world. Over the next three-to-eight years this process will be dominated by implementation of Vietnam's commitments under AFTA and the USBTA, as well as removal of QRs multilaterally and expansion of private participation in exports.	• Implement the US Bilateral Trade Agreement (USBTA) • Implement the approved annual road map for tariff – reductions under AFTA • Implement removal of QRs multilaterally by early 2003 • Prepare for WTO accession	• Study on likely impact of USBTA on Vietnam's exports (completed in 1999 with WB funding) • Study on impact of AFTA on Vietnam's imports and exports (completed in 1999 with WB funding) • Trade Reform in Vietnam (with IMF) • Study on impact of planned trade liberalization on the poor (ongoing, with AusAID – final report expected in Dec 01)	• International commercial law training program (AusAID) • Assistance on formulation implementation of USBTA (USAID) • Long term vision and strategy for integration (UNDP/UNIDO) • Multilateral trade policy assistance for WTO accession (EU) • Capacity building for WTO accession and policy advice (Switzerland) • TA in enforcement of Intellectual Property Rights as set forth in international treaties. (Switzerland) • Capacity building for MOT (FINNIDA) • Policy advice to PM's Research Group on

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
			External Economic Relations (SIDA) • Trade assistance program (New Zealand) • Stocktaking of Vietnam's external commitments on trade policy and needed actions by different Government agencies (UNDP)
a. Promoting Exports Though most quantitative restrictions and restrictions on trading rights for exports have been liberalized, there is need to open up exports further for the private firms. Also there is a need to ensure that exporters of labor-intensive manufactures and processed agricultural products have access to imported inputs at world prices and to supports of various kinds.	• Allow more private participation in rice and garment exports by liberalizing quotas • Ensure that customs is supportive of exporters e.g. access to imported inputs at world market prices, ease of shipment, etc	• Review of Vietnam's export performance in 1999 and beyond (for Mid-term CG 2000) • Study on ways of improving the auction of garment export quotas (planned) • Study on export policy and performance to develop a more detailed export strategy for achieving the export targets (planned with AusAID)	• Assistance to the Government on export promotion for specific products (UNDP/ITC) • Web site on Vietnam's economic integration (SIDA)
b. Liberalizing Imports Moving towards a tariff-based import regime and opening up the services sector – more transparent and more accessible to all importers – with domestic prices reflecting world market prices.	• Continue removing QRs multilaterally	• Study on Non-Tariff Import barriers in Vietnam, with case studies of cement, steel, plastics etc (completed in 1999 with AusAID) Studies on: • Impact of planned	• Awareness campaigns aimed at provincial leaders and SOE managers (SIDA)

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
		trade liberalization on key SOE sub-sectors (planned) • Petroleum price & marketing – (ongoing – June 01) • Sugar sector's trade and non-trade policies (with AusAID, June 01)	
c. Modernizing Customs Comprehensive changes in customs procedures are required.	• Announce a program for computerization of all 142 custom points		• Assistance to upgrade Customs operation (USA) • Support for modernizing Customs (UNDP)
2. Strengthening the Banking System			
To make the banking system more transparent and accountable and to improve financial intermediation, the Government has adopted a four-track banking reform program, as shown in the key benchmarks.	• Improve legal, regulatory and supervisory framework, and level the playing field for all banks • Restructure joint-stock banks (JSBs) • Restructure State Owned Commercial Banks (SOCBs) • Build capacity and develop human resources in banking	• Advisory services and training materials for SBV (with European ASEM)	• Help SBV prepare long term strategy for the financial sector (ADB) • Support to SBV (GTZ, Germany) • Support to SBV (New Zealand) • Support for training of central bankers (Switzerland)
a. Improving legal, regulatory and supervisory environment Inadequate legal framework for creditor rights, poor regulatory and supervisory framework and weak accounting system have not encouraged prudent and modern banking. There is need to bring banks up to international standards.	• Adopts IAS in commercial banking, including revision of decision 284 to move loan classification and loan loss provisioning toward IAS standards • Implement CAMEL procedures and policies for risk based	• Support to reform of the banking system regulations (with European ASEM) • Support for improving banking supervision by drafting manuals for on-site inspection (with Japan PHRD) and for improving	• Support for banking inspection system (GTZ, Germany) • Support for strengthening banking supervision (planned by SIDA and

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
	banking supervision • Start training programs for SBV staff to enhance supervisory skills	organization (with European ASEM) • Support to expand regulations, especially on loan classification and provisioning (with ASEM)	Austria)
b. Restructuring Joint-Stock Banks (JSBs) Restructuring seeks to ensure that remaining JSBs have larger capital, lower NPLs, better management and improved financial health and are in compliance with existing regulations. There are currently 48 JSBs (12 percent of bank liabilities) after recent closure of 3 JSBs. Weak capital bases, related-lending, and high levels of NPLs make them highly vulnerable.	• Close 9 JSBs that do not comply with regulations, especially chartered capital requirements • Restructure JSB-sector to reduce the number of JSBs significantly and assess compliance of all JSBs with existing regulations • Ensure level playing field for all banks and promote growth of a sound non-state JSB sector	• Financial assessments & audits of 10 large JSBs (with European ASEM) • Review of the actual closure and merger process for JSBs (with European ASEM) • MIS for monitoring progress in restructuring and improvements in health of JSBs (with ASEM)	
c. Restructuring State Owned Commercial Banks(SOCBs) To move SOCBs away from policy lending to commercial lending and to make management of banks accountable for the performance of their loans. For this purpose, each SOCB will finalize restructuring plans with annual milestones (relating to the key benchmarks) that have to be met, to make SOCBs operate on a commercial basis and to allow their phased re-capitalization over 3 years. The four large SOCBs account for 70-80% of the banking system assets and have only	• Complete IAS audits for four SOCBs for 2000, and annually thereafter, to ensure that performance is transparent to all levels of managers and provisioning follows international standards • Phase out policy lending from SOCBs and use explicit MOF guarantees for such lending in the transition. • Establish SOCB-owned AMCs for	• Support to the development of restructuring plans for SOCBs (with ASEM and Japanese PHRD) • Develop a MIS for monitoring progress on achievement of annual milestones and receipt of re-capitalization funds cited in individual SOCB restructuring plans (June 01) • Support to ICBV for establishing various systems indicated in	• Support to independent IAS audits of VCB and ICBV for 2000 (USAID and Danida, Denmark) • Support for TA to help ICB implement its restructuring plans (planned ADF, France) • Support to twinning arrangement for VCB (planned – Netherlands)

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
recently begun to move away from predominant policy-lending.	collateralized bad loans and LWU for non-collateralized loans and develop & achieve debt recovery targets • Implement better credit risk assessment processes and internal audits consistent with commercial banking • Increase lending to non-state sector, especially private SMEs • Implement phased re-capitalization over three years, conditional on each SOCB meeting its annual milestones in restructuring plans	the restructuring plan (with ASEM)	Netherlands) • Support to establishing internal audit systems in SOCBs (Ongoing - GTZ, Germany) • Strengthen corporate governance of VBARD (ADB)
	3. Reforming SOEs		
In their current form SOEs pose a serious threat to the growth perspectives of Vietnam. Comprehensive reforms are necessary to stop the drain on public finances and prepare industry for the competition implied by the trade regime Vietnam has signed up to. Implementation of social safety nets for displaced workers must follow hand-in-hand as a prerequisite for the viability of reforms.	• Improve performance accountability of SOE management • A hard budget constraint on SOEs through banks' adoption of commercial criteria for lending • Government's eligibility conditions for debt-relief • Credit ceilings and monitoring of 200 highly indebted SOEs	• Support to National Enterprise Reform committee (ASEM)	• Support to Steering Committee for Enterprise reform and Development (Danida, Denmark)
a. Equitizing and Divesting SOEs to reduce losses and improve governance Diversification of ownership is an important building block to	• Amend Decree 44 to increase transparency and effectiveness of the equitization process,	• Support equitization and divestiture in sector ministries -- MOI, MOC,MARD, MOT & people's	• Support to industry restructuring and Enterprise Development in

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
improve management, and gradually cut the ties to Government finance and policy. Equitization of smaller labor intensive SOEs in competitive sectors could yield substantial early gains. Momentum has increased recently.	including removal of shareholding caps • Move responsibility for issuing and selling shares away SOE-managers	comttees i.e. Hanoi (with ASEM European) • Pilot program for small SOE divestiture, including auctions in Haiphong & Dak Lak (Danida/IFC)	the Ministry of Fisheries (Danida, Denmark) • Support to equitizationof Agricultural SOEs in Qunag Tri Province (GTZ, Germany) • Support to financial audits of SOEs to be equitized, for listing on the stock market (ADB)
b. Liquidating non-viable SOEs to reduce losses. Substantial resources for other Government initiatives and priorities will be freed up as the loss-making SOEs are liquidated. Progress in this area is slow as the legal framework is cumbersome	• Adopt improved regulations for bankruptcy and liquidation • Complete the set target of 300 liquidations over 3 years		• Support to review of existing bankruptcy and liquidation regulations and their revision (ADB)
c. Restructuring SOEs that remain in Government control For reasons of national security and special interest a number of SOEs are to remain in Government hands including the General Corporations. It is vital that these receive immediate attention, in order to stop debt build up and bring them on a commercially viable course. Also, economies of scale could be reaped by merging smaller SOEs.	• Initiate diagnostic audits of the first 30 SOEs and complete audits of 100 large SOEs in 3 years	• Diagnostic audits of large troubled SOEs (Japanese PHRD)	• Enhancing institutional capacity of key agencies in diagnostic audits (ADB) • Diagnostic audits of large SOEs (Danida, AusAID, CIDA) • Pilot restructuring of 3 General Corporations , Seaprodex, Vinatex and

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
			Vinacafe (DfID, UK) • Capacity building for management of state Capital and Assets in MOF, including MIS for SOEs (UNDP) • Support to restructuring SOEs in agriculture (GTZ, Germany)
d. Providing financial support to displaced workers to ease transition A total of 400.000 workers with a peak of 100.000 in one year are expected to be displaced as a consequence of reforms. This impact is manageable within budget limits without threatening the inflation objective. The Government has established an Assistance Fund, which among other things is to compensate displaced workers.	• Announce the portion of funds designated for displaced workers • Agree on the size of severance packages • Establish criteria for early retirement /retraining	• Social safety net program (ASEM 1 European)	
4. Promoting the Private Sector			
The private sector is constrained in Vietnam. The recent implementation of the Enterprise law has helped enormously, but more needs to be done.	• Improve overall climate for private enterprises in various ways	• Study on 95 SMEs with more than 200 employees (MPDF)	• Study on economic development policy in the transition towards a market oriented economy (JICA, Japan)
a. Improving Private Sector Climate	• Continue removing or modifying restrictive business licensing restrictions in various sub-sectors to ease private entry • Implement the	• Study on attracting FDI (completed, IFC) • Study on the private construction industry	• Assistance to CIEM to improve regulatory business environment (UNDP)

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
	revised law on FDI, especially for automatic registration of export oriented FDI • Top levels of Government should take the lead in speaking well of the private sector in public • Allow formation of private business association		• Support to monitor business registrations in the provinces every month (UNDP). • Credit and finance for private SMEs (DfID, UK and EU)
b. Facilitating access to and transactions in land-use rights	• Establish registration offices and a national data system for implementing secured transactions • Complete issuing titles to land-use rights • Ease restrictions for converting agricultural land into industrial land		• Support for registration offices and national data system (UNDP)
c. Improving Corporate Governance Reforms are needed at many levels in the corporate sector. In order to change the managerial spirit, financial accountability of managers should be secured - in the largest enterprises by introducing corporate boards. Extended foreign participation in existing and new enterprises also among SMEs will bring more managerial expertise.	• Adopt international accounting and auditing systems in phases over the next three years • Enforce the requirement that private SMEs maintain proper accounts	• Support to MOF for preparing various IAS systems	• Corporate Governance Development in Vietnam (ADB) • Vocational training programs on business skills (ADB) • Support for conversion to IAS (EU)
5. Improving Public Expenditure Management			
Timely and coherent budget data is of vital importance to asses the efficiency of public expenditures; for all decision makers in Vietnam; and to	• Designate treasury in MOF as department responsible for maintaining comprehensive public	• Public Expenditure Review (with five other donors & government)	• Capacity building in MOF (CIDA) • Treasury

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
enhance the legitimacy of tax collection in the eyes of the public. The Government has embarked on the process towards greater fiscal transparency.	accounts. • Implement a fully integrated MIS and accounting system in treasury • Publish detailed budgets annually at the central and local level, covering at least 75% of total spending		Computerization (France) • Review of revising the State Budget Law (GTZ, Germany) • Capacity building for central and local level public spending(UNDP) • External debt management (UNDP and Switzerland)
a. Increasing tax revenue collection Revenue as a share of GDP has decreased in recent years. Reasons include a slowing economy, weakening enterprise performance and some weaknesses in tax administration. Revenue must be increased in order not to put too much pressure on poverty reduction efforts or put the prudent fiscal stance at risk. Planned SOE and banking reform will also require additional revenue to cover costs.	• Implement measures to raise revenue-collections in the medium term • Unify corporate income tax rate for domestic and foreign invested enterprises • Remove discretionary tax exemptions		
b. Improving expenditure management Reforms should aim at simplifying administration while accounting clearly for the use of revenue including foreign grants and loans and disclosing possible future financing gaps. Furthermore the budget should take into account all financial liabilities of the government.	• Prepare a medium-term fiscal outlook, making all assumptions explicit • Make inventory of all "off-budget" funds, accounts and guarantees • Develop reporting and MIS for SOEs		
c. Reallocating expenditures There may be scope for more efficient prioritization of	• Coordinate capital and recurrent spending between		

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
expenditures to promote growth and reduce poverty. Recurrent budget implications of planned capital spending should be enhanced so as to increase over all efficiency. Existing safety nets are not very effective or well targeted to the poor.	MPI and MOF • Finance fee-exemptions for primary health treatment and education of the poor directly from the state budget • Reallocate within sectors to achieve better balance between capital and recurrent spending		
6. Building Legal Institutions			
Legal documentation is issued by different levels of law, leading authorities to cause conflict, unclear regulations and rules, and delays in implementation. An important task for the government is to provide the market with a sound legal system including institutions to implement and enforce laws, and resolve disputes under them. A sound legal system will reduce the risks associated with, and hence promote, longer term investments e.g. in the manufacturing sector.	• Deepen and strengthen legal reforms • Enforce rules and regulations to avoid corruption and distrust		• Support for Public Administration Reform (UNDP, Danida, Sida, ADB) • Support to the Office of the National Assembly, Supreme People's Court and Supreme People's Procuracy (Danida, Denmark) • Legal needs assessment (UNDP)