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Asian Development Outlook 2002 : II. Economic Trends and Prospects in Developing Asia : Southeast Asia

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Viet Nam

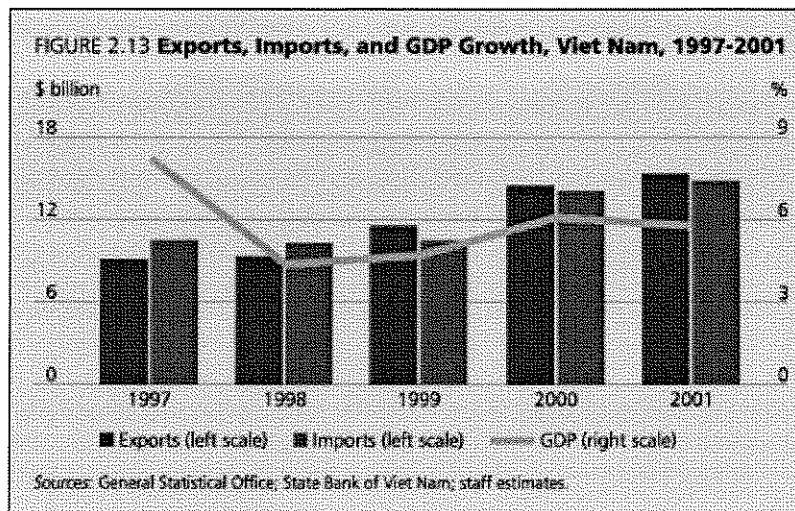
GDP growth slowed moderately to around 6% in 2001, due to weakening exports and agricultural output. In spite of this, the economy remained fast growing, with stable prices and solid indicators of public finance and external debt. Steadier progress in state enterprise and banking sector reform is needed for the economy to maintain its international competitiveness, while policymakers should pay more attention to balanced regional development to consolidate past achievements in poverty reduction.

Macronomic Assessment

Despite the slowdown in the global economy, preliminary staff estimates for 2001 suggest that GDP in Viet Nam grew by 5.8% (6.8% according to preliminary official estimates), representing one of the highest rates of expansion in the region. As external demand weakened throughout the year, particularly in the aftermath of the events of September 11th, domestic demand—mainly investment—became the main source of growth.

On the supply side, the agriculture sector recorded weaker growth than the government target. The moderate 2.3% increase was due to a 1.7% decrease in rice output, a fall in the price of agricultural goods, and estimated growth of 5% in fisheries, the best-performing subsector.

However, the deceleration in agriculture was more than offset by a strong performance in industry and construction. Growth in industry was estimated at 9.7% in 2001, on the back of manufacturing and construction strength. Manufacturing is estimated to have increased by 9.2% while construction recorded a robust performance of 13%, due to the implementation of infrastructure projects, urban development projects in major cities, particularly Hanoi and Ho Chi Minh City, and real estate boom. Within industry generally, the foreign-invested subsector grew at its lowest rate in recent years, namely 12.1%. Nonstate activities grew by 20.3% in 2001, partly due to the vigorous impact of the Enterprise Law, which streamlined administrative procedures for doing business. The Law abolished 145 out of 400 licenses in 2000, and government decree no. 30 issued that year required 60 licenses to be abolished in 2001. Registration requirements were also simplified. As a result, the number of private enterprises surged in both 2000 and 2001. In the improved business environment, capital investment also increased.



In 2001, services sector growth was estimated at 4.4%. Wholesale and retail trade maintained its modest improvement of 3.3%. Real estate services were the leading area, strengthening by an estimated 8% due to the buoyant real estate market. The easing of procedures for issuing land-use certificates, the granting of permission to buy land to overseas Vietnamese, and the recognition of Viet Nam as one of the safer countries in the region all promoted land transactions. As a result, land prices in major urban centers such as Hanoi and Ho Chi Minh City increased by three or four times during the year.

On the demand side, domestic demand was the main source of economic expansion in 2001, led by strong growth in investment stemming from low interest rates, the continuing creation of a large number of SMEs, an increase in government capital spending, and a rise in FDI inflows. Investment's strong growth offset the deceleration in consumption, which rose by only 4.9% in 2001, due to declining rural incomes resulting from the weakening performance of the agriculture sector.

Official data based on the new national poverty line introduced in 2001 by the Ministry of Labor, Invalids, and Social Affairs show a further decline in poverty to 16% by end-2001, from 17.2% at end-2000. While these data are not internationally comparable, the draft Comprehensive Poverty Reduction and Growth Strategy released in January 2002 suggests that poverty—as measured by an international poverty line developed by the General Statistical Office and the World Bank—has also continued to decline since the last household survey, from 37% in 1998 to about 32% in 2000. Given the emerging disparities between urban and rural areas and among regions, the Government will need to ensure equitable distribution of the benefits of growth. The urban unemployment rate fell somewhat from 6.4% in 2000 to 6.3% in the first 7 months of 2001. The gradual shift in labor from agriculture continued, and was directed mainly toward the services sector.

The fiscal deficit in 2001, including onlending, was estimated at 4.9% of GDP, lower than budgeted because revenues strengthened more than expected, to 21.2% of GDP. On the expenditure side, the fiscal stimulus stance translated into higher capital spending, primarily on infrastructure projects. Overall expenditure was estimated at 25.6% of GDP in 2001.

The consumer price index remained fairly stable over the year with a slight increase of 0.8% by end-December 2001 on a year-on-year basis. Food prices fell through the first half of the year due both to the fall in world prices of agricultural commodities, particularly rice, and to 2 years of bumper rice harvests at home. Food prices recovered in the second half of 2001, and the food price index rose by 6% by the end of the year, reversing the downtrend of the previous 2 years. The transport and communications price index declined by 4.7%, reflecting, among other elements, lower Internet and telephone prices, as the market became more competitive and tariffs were

reduced. So that trends in the prices of nonfood goods and services could be more fully captured, the weighting of food items in the consumer price index basket was reduced from 60% to 47% in July 2001.

Though interest rates fell during 2001, it is estimated that credit growth to the economy decelerated from a high 38.1% in 2000 to 21% in 2001. Credit growth to SOEs slowed significantly, while accelerating by 27.5% to other sectors. This partly reflects the impact of the ongoing restructuring of the SOE sector on lending decisions by commercial banks. Broad money (M2) expanded by 23.2%. Within M2, the increase in foreign currency deposits fell by more than half to 27.7% from 60.5% in 2000. This reflects the disincentive to holding foreign currencies as opposed to local currency, as the interest rate spread between foreign currencies and dong deposits widened significantly in favor of the dong due to the fall in global interest rates.

The number of companies listed on the stock exchange increased from five in 2000 to 11 by the end of 2001. The market is still at a very early stage of development. Share trading constituted almost all transactions in the market; bond trading accounted for only 6.4% of the total. The stock exchange market was volatile as the index soared to 500 by mid-2001 and then fell sharply to 235 by the end of the year.

Since, during the early months of 2001, currencies of other countries in the region depreciated against the dollar even faster than did the dong, in real terms the dong appreciated against them. In view of this, attempting to accelerate export growth, the Government allowed foreign exchange management to become progressively more flexible, and the dong depreciated more rapidly in the second half of the year. Just before the events of September 11th, the dong was trading at 15,150 to the dollar. It then appreciated slightly, and remained at the 15,130 level until the end of 2001. This represented a depreciation of about 4% during the year.

In 2001, export growth was estimated at 6.5% compared with 25.2% in the previous year (Figure 2.13). The fall in international crude oil prices accounted for a large part of this deceleration. However, non-oil export growth was also slower than in 2000. Agricultural exports remained depressed, particularly rice and coffee, whose higher volumes were insufficient to offset declining world prices. Manufactured exports fared relatively poorly, with slowing export growth of footwear and garments due to subdued demand from within the region and from the EU. Against a broad-based weakening in export performance, marine products were among the few strong performers. Import expansion too was sluggish at 6%. Petroleum import growth was slower, due in part to the decline in world oil prices but also to the slowing domestic economy, which also accounted for the decline in imports of machinery and equipment.

On the current account, foreign exchange remittances surged in 2001, reflecting the impact of liberalization of regulations on foreign currency accounts and the permission granted to overseas Vietnamese to buy land. Current official transfers have remained broadly constant over the last few years. The current account surplus, excluding official transfers, was estimated at 1.5% of GDP in 2001.

On the capital account, FDI commitments rose. During 2001, 458 foreign-invested projects were licensed with a total registered capital of \$2.2 billion, representing an increase of 12% over the 2000 level. The pickup in FDI commitments reflects the improved climate for foreign enterprises following amendments to the Foreign Investment Law and the successful conclusion of prolonged negotiations on a number of large energy projects. Another positive trend was the increasing share of FDI in light industries and agriculture, as these are more labor intensive and have export potential. For 2001, the surplus on both the current and capital accounts contributed to a rise in official reserves from \$3.3 billion in 2000 to \$3.5 billion in 2001, representing 11 weeks of imports.

Policy Developments

The lower fiscal deficit than earlier projected in 2001 gives room for phasing in some of the costs of implementing SOE and banking reforms in 2002. By some estimates, the capital cost of such reforms could come close to 3-4% of GDP this year. The Government also took steps to strengthen expenditure management, by endorsing, in September 2001, the Master Plan of Public Administration Reform for 2001-2010, which includes suggestions for public finance reform. In this regard, in an initial trial, the Government plans to replicate the success of a pilot scheme of lump-sum allocations for operational costs of administrative agencies to major cities such as Hanoi and Ho Chi Minh City. In addition, to enhance predictability and strengthen budget allocation for operation and maintenance, multiyear expenditure programming for education and transport was piloted in 2001, as opposed to the usual annual expenditure budgeting.

The Government has been gradually moving toward market-determined interest rates. The base rate, which replaced the ceiling on dong borrowings, is based on information on lending rates collected from nine commercial banks. Since June 2001, banks have been able to set dollar lending rates in line with the international market. Further, on 1 August 2001, the State Bank of Viet Nam liberalized its policy on the rates at which locally based companies may borrow from overseas lenders. This practice will require close monitoring, however; the experience of several countries during the Asian financial crisis demonstrated its potential dangers.

The State Bank of Viet Nam responded to the fall in global interest rates by lowering its base rate on dong loans on four occasions, from 0.75% to 0.6% per month. To increase banks' liquidity of dong holdings, currency swap operations between dollars and dong were reintroduced in August 2001. Reserve requirements on foreign currency holdings were raised from 12% to 15% in May 2001, but were lowered to 10% in November.

The Government adopted an overall reform framework for SOCBs in March 2001 and developed restructuring plans for individual SOCBs. The main challenges in this area are twofold: implementation of financial restructuring plans through resolution of nonperforming loans and recapitalization, and operational restructuring to strengthen corporate governance and risk management. Resolving the nonperforming loan problem is related to SOE reform in that much of the bad debt is owed by loss-incurring SOEs. With regard to developing the nonbank financial sector, the Government has broadened the scope of financial leasing and strengthened regulations to improve the business environment for domestic and foreign leasing companies.

The Government initiated, also in March 2001, a 3-year SOE reform framework that provides for the equitization, liquidation, and merger of around 1,800 small and medium SOEs, but progress in implementing plans and achieving targets has been slow. Against the 2001 target of 450-500, only 113 enterprises were equitized in the first 8 months of the year. Factors accounting for the slow pace include problems in resolving inter-enterprise debt; valuation of land, buildings, and equipment; decisions over the management structure of equitized enterprises; and difficulties in handling redundancies. There is a risk that the larger and more capital-intensive SOEs, which account for 90% of the SOE debt, will remain largely untouched by the reforms.

Significant progress was made in trade reform in 2001. Among the various measures introduced were lifting quantitative restrictions on all but a few items, abolishing quota allocations for rice exports and fertilizer imports, further liberalizing trading rights, and lowering the foreign exchange surrender requirement from 50% to 40%. The bilateral trade agreement with the US was ratified, and active preparations started toward the goal of WTO accession by 2004.

TABLE 2.13 Major Economic Indicators, Viet Nam, 1999–2003 (%)

Item	1999	2000	2001	2002	2003
GDP growth	4.7	6.1	5.8	6.2	6.8
Gross domestic investment/GDP	22.2	23.9	25.9	26.8	28.0
Gross domestic savings/GDP	26.3	25.5	27.4	27.1	27.8
Inflation rate (consumer price index)	0.1	-0.6	0.8	3.0	4.0
Money supply (M2) growth	39.3	39.0	23.2	25.0	26.0
Fiscal balance/GDP*	-2.8	-3.0	-4.9	-5.4	-6.5
Merchandise export growth	23.2	25.2	6.5	8.5	12.0
Merchandise import growth	1.1	34.5	6.0	10.0	13.0
Current account balance/GDP	4.1	1.6	1.5	0.3	-0.2
Debt service ratio	12.8	11.2	10.2	8.3	6.8

* Excluding grants and including net lending.

Sources: General Statistical Office; Ministry of Finance; State Bank of Viet Nam; staff estimates.

Outlook for 2002–2003

Viet Nam's medium-term growth is expected to remain robust and sustained, as domestic demand continues to expand. GDP is projected to rise by 6.2% in 2002 and by 6.8% in 2003. The lagged impact of the fall in interest rates in 2001 and possibly in the first half of 2002, as well as the improvement in the business environment, should provide impetus for further development of the private sector.

As public sector debt is manageable, it is expected that, to ease the impact of the global slowdown on export demand and to accelerate SOE and banking reforms, the Government will continue its cautiously expansionary fiscal stance. Consequently, investment is likely to increase in all subsectors—namely private, foreign-invested, and public. Gross domestic investment is projected to reach nearly 27% of GDP in 2002 and 28% in 2003. Consumption is forecast to continue growing moderately at about 4.5%, as incomes in rural areas remain depressed due to the weak prices of agricultural commodities projected for 2002.

On the supply side, industry and construction together are projected to grow at about 10% annually in 2002–2003, acting as the main drivers of growth. Construction is expected to continue performing strongly in the medium term due to ongoing infrastructure projects, such as the Truong Son highway and urban development projects in major cities. The services sector, which is still dominated by the more traditional wholesale and retail trade and by transport services, is expected to post moderate growth of 5–6%—a rate somewhat higher than in recent years—in spite of a more steady increase in tourism.

It is expected that the Government will continue its cautious fiscal stimulus. Revenues are projected to grow, reflecting broadly stable but slightly rising oil prices in 2002. Given the higher rates of expenditure, and the implementation costs of some of the proposed reforms in the areas of public administration, SOCBs, and SOEs, the overall government deficit may increase to 5–6% of GDP in 2002–2003. Inflation rates are expected to increase, but to remain below 4%. Given the attempt to reduce nonperforming loans and to strengthen risk management by banks, credit restraint is expected to continue over the period.

Viet Nam's already rather high level of trade as a proportion of GDP is expected to rise further as a result of the bilateral trade agreement with the US and diversification toward manufactured

exports. This should bring higher growth but also greater exposure to the risks and fluctuations of the external environment. External demand is anticipated to strengthen modestly in 2002, when the global economy is expected to gather momentum for a more robust expansion in 2003. The expectation of stable oil prices with an upward bias projected throughout 2002 and a projected increase of exports to the US and EU, particularly of footwear and garments, will support export growth in 2002–2003. Exports are forecast to increase to \$16.7 billion in 2002 and to \$18.7 billion in 2003, representing growth of 8.5% and 12%, respectively.

The recent trade liberalization measures and the expected rise in goods and machinery imports for the implementation of FDI projects approved in the oil, gas, and power sectors will result in medium-term import growth, projected at 10% in 2002 and 13% in 2003. The current account surplus, excluding official transfers, is projected to narrow to 0.3% of GDP in 2002 and move to a deficit of 0.2% in 2003, as imports pick up along with the expected economic recovery.

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Thailand

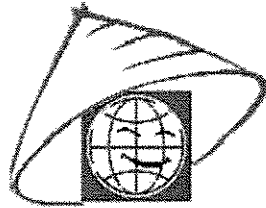
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South Asia



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EXHIBIT 6



Vietnam

Economic Monitor

Spring 2002

The World Bank in Vietnam

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INTRODUCTION¹

Overall, the economic outlook for Vietnam continues to improve. The adoption and implementation of a phased program of specific reform measures in early 2001 – in trade policy, private sector development, banking, state-enterprises (SOEs) and public expenditure management – and the Government’s announcement of a master-plan on Public Administration Reform and Legal System Development has improved business sentiment and put Vietnam on a healthier medium-term growth trajectory. The recent Party Plenum provided the strongest political endorsement yet for the development of the private sector. Domestic private investors have already expressed higher confidence in the economy by increasing their investments significantly. A renewal of foreign investor interest is also apparent. The recent rise in ratings of Vietnam by various foreign rating agencies confirm a significantly improved perception abroad.

However, the worst global recession in nearly 40 years has depressed Vietnam’s export growth and real GDP growth in 2001 and in the first quarter of 2002. This has reduced the pace of poverty-reduction too. There will be a modest recovery in the remaining three-quarters of this year, due mainly to buoyant domestic private consumption and investment. But not until 2003 and beyond, will Vietnam’s growth rate reap the full benefits of implementing reforms, when world recovery will be in full swing.

Vietnam’s determination to continue removing impediments to faster growth and poverty-reduction, while waiting for world recovery to take hold, is appropriate and timely. The challenge is to continue implementing these reforms expeditiously to sustain investor confidence and promote faster growth and in poverty-reduction.

This *Monitor* assesses economic performance in 2001 and the first quarter of 2002 and takes stock of the implementation of structural reforms in the last six months. Annex 1 shows the various policy reform measures implemented each year since 1998, including 2002. Annex 2 shows technical assistance and analytical and advisory work that is done in support of reforms in various areas.

¹ The **Vietnam Economic Monitor**, issued by the World Bank in Vietnam twice a year (spring and autumn), reports on recent economic performance (part I), and progress on the Government’s reform agenda (part II). This Spring 2002 edition covers economic performance for 2001 and the first quarter of 2002. It has been prepared by Theo Larsen and Viet Dinh Tuan with inputs from Duc Pham Minh and Minh Nguyen under the overall supervision of Kazi M. Matin.

PART I. RECENT ECONOMIC DEVELOPMENTS

In 2001 Vietnam's economy grew by 4.8 percent in real terms²-- slower than in 2000. It is expected to recover to 5.2 percent in 2002. The external environment had worsened sharply in 2001, especially after September 11th and continues to pose a downside risk this year. The fall-off in exports in the fourth quarter of 2001 and substantial negative growth in the first three months of 2002 limits the extent of recovery in GDP growth and thus to the number of people that can be lifted out of poverty in 2002. Only relatively buoyant domestic demand and increasing confidence among domestic and foreign investors will maintain the modest recovery.

External difficulties and opportunities

The deceleration in world GDP growth in 2001 was the sharpest in the last 40 years except for the first oil crisis in 1974. This slowdown coincided with an unprecedented 14 percentage point deceleration in world trade, from 13 percent growth in 2000 to a 1 percent contraction in 2001.

**Table 1: GDP Growth in Selected Countries,
year-on-year change in percent**

	2000	2001	2002 forecast
World	3.9	1.2	1.3
High Income Countries	3.5	0.8	0.8
United States	4.1	1.1	1.7
Japan	2.2	-0.8	-1.5
Euro Area	3.5	1.4	1.1
East Asia 5	7.0	2.4	3.5
Indonesia	4.8	2.9	3.5
Korea	8.8	2.3	4.0
Malaysia	8.3	0.4	2.8
Philippines	4.0	1.7	3.0
Thailand	4.4	1.2	2.2
Singapore	9.9	-3.8	2.5
China	8.0	7.4	7.0
Vietnam	5.5	4.8	5.2

Source: *World Bank (2002)*

² This estimate of GDP growth is lower than that of the Government due to different methodologies, but the overall direction is the same.

Vietnam's economy was adversely affected by these developments due to its openness, with exports accounting for half of GDP. Several important trading partners, such as Korea, Taiwan (China), Singapore, and Malaysia experienced sharp economic declines last year (see table 1). These countries are highly reliant on hi-tech exports to the US, which slowed sharply in 2001 and at the same time are important sources of foreign investment to Vietnam and destinations for its exports. Japan and Europe are also important for both investment and exports.

At the same time, Vietnam suffered a second blow due to its dependence on commodity exports, with prices for rice, coffee and pepper at historical lows.

In the fourth quarter of 2001 and early 2002, Vietnam experienced a very large decline in external demand for its exports with the growth rate in export-weighted import demand from trading partners falling from 16 percent in 2000 to only 0.5 percent in 2001. However, external demand for Vietnamese exports are projected to increase in 2002, with recovery taking hold in the US and in the region. Leading indicators suggest that industrial country production and import demand will strengthen over 2002.

Industrial Sector Leads Growth

The industrial and construction sectors were the main contributors to growth in 2001, with an estimated real expansion of 7.2 percent. This trend looks set to continue in 2002, as the first quarter of this year recorded growth of 14 percent. Non-state domestic industrial production grew the fastest at 20 percent in 2001; in the first quarter of 2002, industrial output grew by 21 percent, thus repeating the rapid expansion of the previous two years. The state and foreign-invested sectors experienced more modest, but still vigorous, growth rates of around 12 percent respectively.

Together the non-state domestic and the foreign invested sector now produce almost 60 percent of industrial output.

The service sector maintained its real growth rate of just over 4 percent in 2001.

Agricultural Growth Slows

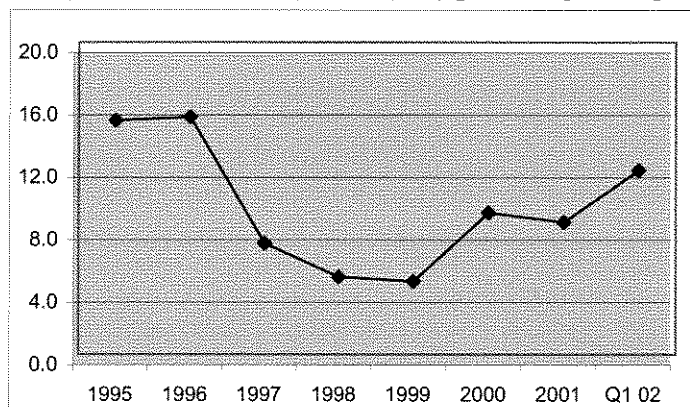
Real growth in agricultural GDP was somewhat lower in 2001 than in 2000, with an expansion of roughly 2.5 percent in 2001. The sector comprises farming, forestry, and fisheries. Of these, fisheries saw the most significant growth, but only accounts for 12 percent of the sector's GDP. Farming, which accounts for 4/5 of agricultural GDP, showed close to no growth in 2001; rice output actually declined by 600,000 tons in 2001.

This is the first time in a decade that rice production has not increased. The decrease in rice production is attributable to a 2.4 percent reduction in the land area under rice cultivation, as lower yield areas are increasingly being shifted from rice into aquaculture and other crops. However, rice production still accounts for around 65 percent of crop farming in Vietnam. So despite higher output of cash crops, such as coffee (5.5 percent volume growth), tea (18 percent volume growth), and cashews (4 percent volume growth) these increases have not been sufficient to offset the decline in rice production.

Domestic Drivers of Growth

Domestic demand has been the main driver of GDP growth in 2001 and the first quarter of 2002. Private consumption remains buoyant. Growth in retail sales flattened in 2001, remaining above the rate in 1997. But the first quarter of 2002 shows a significant rise in retail sales growth.

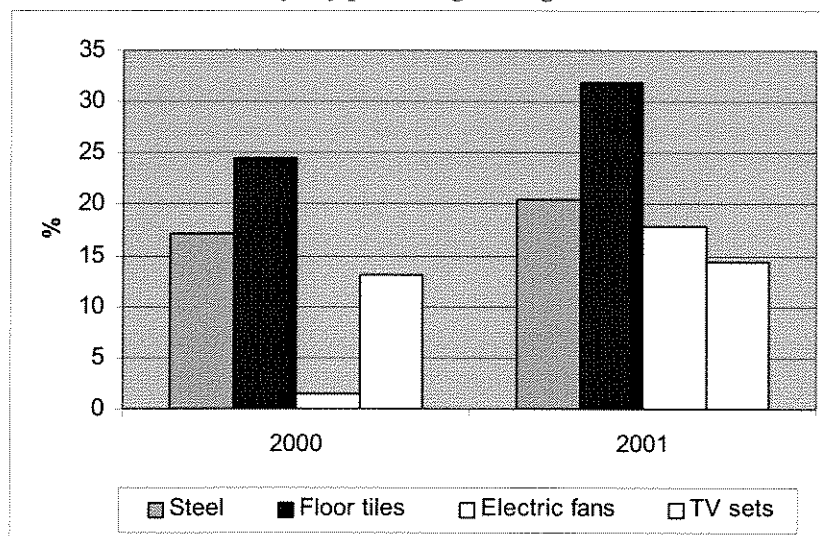
Figure 1: Retail sales growth, y-o-y percentage change



Source: General Statistical Office

Available information on production and sale of selected consumer goods and consumer durables confirm a rise in consumption. The number of produced cars, televisions, electric fans and floor tiles continued to show vigorous growth in 2001 (see figure 2).

Figure 2: Production of selected consumer goods and consumer durables, y-o-y percentage change



Source: General Statistical Office

Sales of domestically produced vehicles rose by 40 percent in 2001, according to the Vietnam Automotive Manufacturing Association. This was supported by increased imports of cars and trucks in 2001 relative to 2000. Rising consumer affluence and increasing demand from new businesses are decisive factors behind this increase. As a further indication of resilient domestic activity, electricity production is reported to have increased by 13 percent in 2000 and 15 percent in 2001, bringing annual power production to 31 trillion kWh.

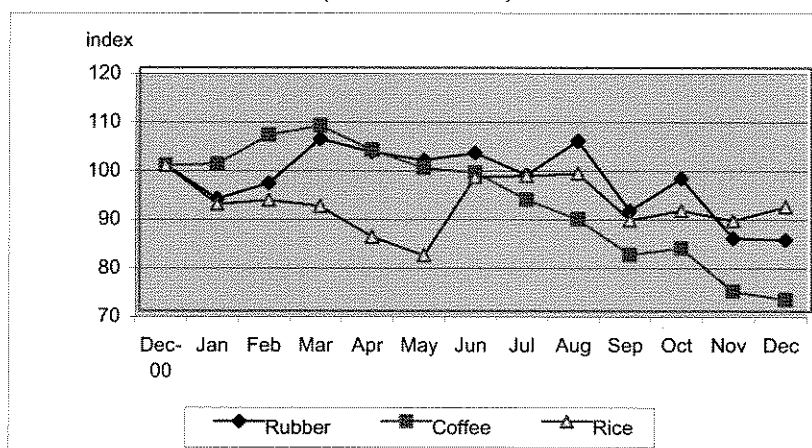
In addition to increasing imports of cars, motorbikes, and other consumer durables, materials for the expanding construction industry, such as steel and construction glass, were imported in increasing volumes in 2001. This also reflects the removal of QRs on these products in 2001. Growth in imported investment goods such as machinery, equipment and spare parts leveled off in 2001. Production inputs to the heavily export oriented garment and footwear industries, such as cotton, synthetic fibers and leather expanded at a slower rate in 2001 compared to 2000. Oil imports grew by 2.5 percent in volume terms over 2001, compared to 19 percent the year before. These developments are commensurable with the lower, but still sound growth rate in real GDP in 2001.

Confidence about 2002-income levels is generally strong in urban areas. According to a survey published in the weekly Saigon Marketing in early January, 73 percent of respondents in HCM City expect better business and production prospects in 2002 compared to 2001, 25 percent think it will stay the same; in Hanoi the numbers were a bit less upbeat with the corresponding rates of 55 and 39 percent.

While this optimism and general confidence is heartening and holds good omens for continued growth, 74 percent of the population live in rural areas where GDP growth has been low in 2001. Rural incomes have come under pressure with falling commodity

prices in world markets. The rural economy has lost because of reduced inflow of resources. From 1999 to 2001, receipts from rice exports alone are estimated to have been reduced by US\$ 220 million due to this price deterioration. The actual loss to rural areas was greater since urban consumers also paid lower prices, and other commodity prices also fell sharply in 2001.

**Figure 3: Price Indexes for Selected Commodities, 2001
(Dec 2000 = 100)**



Source: General Statistical Office

Investment

More than 21,000 new enterprises registered in 2001 up from 14,000 in 2000; capital formation of these new enterprises roughly doubled over the period from an increase of VND 13 trillion in 2000 to an increase of VND 26,5 trillion in 2001 (i.e. 6 percent of GDP).

The state budget contributed around VND 36 trillion (8 percent of GDP) to total investments in 2001. This represents an increase of 23 percent from the VND 30 trillion state investments in 2000.

Foreign direct investments are estimated at around US\$ 1 billion in 2001, up from around 800 million in 2000. Enquiries among foreign business associations in Vietnam suggest that over 2001, and especially in the 4th quarter of 2001, foreign companies have shown increasing interest in Vietnam as an investment location. Political stability and the potential for exports to the US under the BTA (which became effective in December), are the most cited reasons for the renewed interest among foreign investors.³ Also, according to Vietnam's National Administration of Tourism more than 440,000 people entered

³ A recent poll among 44 foreign invested enterprises in HCM City showed that all but one expected business to improve in 2002. 91 percent of respondents referred to political stability as an asset for Vietnam.

Vietnam to “explore business opportunities” in 2001. This is a 17 percent increase compared to the previous year. FDI is expected to continue to strengthen over 2002, to reach approximately US\$ 1.2 billion. FDI inflows from 3 ongoing foreign investment projects in the energy sector will assure Vietnam of around US\$ 800 million a year in 2002-2003 period.

Box 1: Improved risk ratings

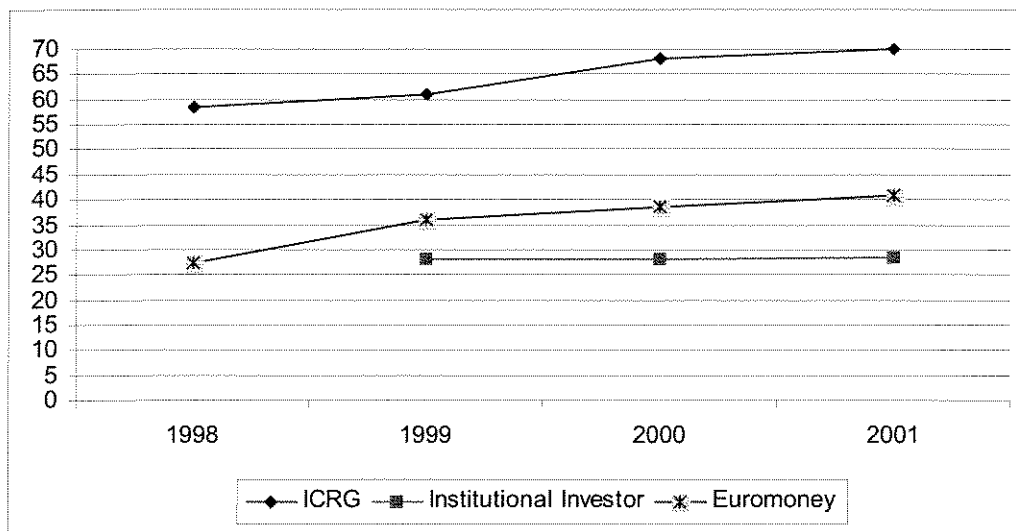
Vietnam’s risk ratings have improved steadily over the last four years. The most important event has in this relation been the 1999 Paris Club rescheduling of Vietnam’s debt to the Russian Federation, lowering Vietnam’s debt burden and debts service ratio. Other positive developments include progress on the economic reform process, political stability, and last year’s signing of the BTA with the US.

The **International Country Risk Guide** is a monthly publication that monitors and rates political, financial, and economic risk. Each country is rated on a scale of zero to 100, with 100 representing the lowest risk.

Institutional Investor magazine publishes country credit ratings based on information provided by leading international banks, money management firms and economists. The scale is zero to 100, with 100 representing the least risk of default.

Euromoney Publications rate countries’ creditworthiness based on nine factors, including access to finance, political risk, economic performance, and debt indicators. 100 is the best risk and zero the worst risk.

Figure 4: Improved Risks Rating



Moody’s Investors Service is a global credit analysis and financial opinion firm. It provides the international investment community with consistent ratings of the risk of lending to governments. The ability to meet senior financial obligations is rated from Aaa (offering exceptional financial security) to C (usually in default, with potential recovery values low). Modifiers 1-3 are applied to ratings from Aa to B, with 1 indicating a high ranking in the rating category; the rating is further qualified by either “negative, stable or positive outlook”.

In 1999 Moody’s upgraded Vietnam from B1 to Ba3, and in 2001 the outlook was upgraded from “negative” to “stable”.

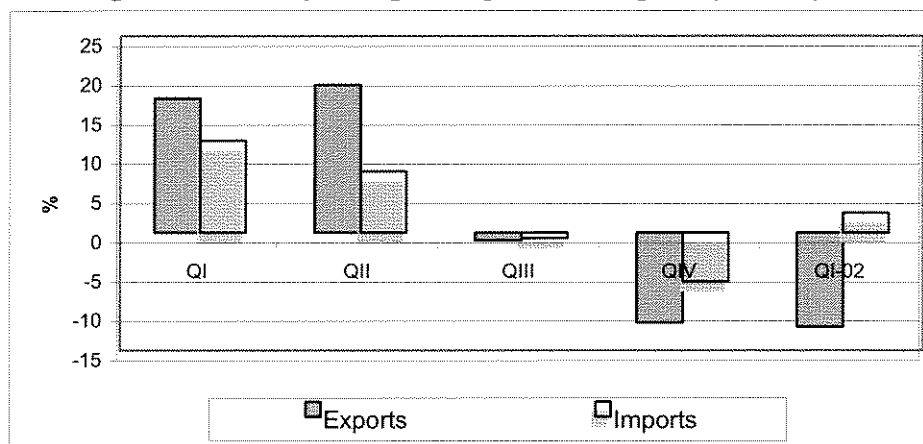
Several smaller scale foreign investors in production and manufacturing made commitments in Vietnam last year. In addition the tourism industry, trade development,

and the education sector have been favored by foreign investors. New foreign investments stem both from companies that are increasing their capacity as well as from newly established enterprises, some of which are relocations to Vietnam from other countries in the region. Japan, Taiwan, the UK, the Netherlands and Singapore were the top investors in Vietnam in 2001, accounting for around 44 percent of disbursed investments.

Weakness in external demand -- 2001 and first quarter 2002

Like other countries in the region, Vietnam's exports slowed sharply in the second half of 2001. Export growth rates climbed in the first two quarters of 2001 and then fell by 1 percentage point in the third quarter and by 12 percentage points in the fourth quarter (see figure 5). Overall, export growth was a mere 4.0 percent in 2001, compared to 25 percent the year before. This was mainly because oil prices fell by 13 percent in 2001.

Figure 5: Quarterly Change in Exports and Imports, year-on-year



Source: General Department of Customs

Growth of non-oil exports was also halved relative to 2000, as world demand fell precipitously. Exports of seafood and garments grew more slowly and value of agricultural exports continued to fall.

Table 2: Export performance: growth in percent, year-on-year

Exports	2001 Value	Growth in %		
	US\$ bn, est.	2000	2001	Q1 2002
Total export earnings	15.03	25.2	4.0	-12.0
Crude oil	3.1	67.5	-10.8	-25.5
Non-oil	11.9	16.1	8.7	-8.0
Agricultural products	1.9	-9.9	-5.1	-39.1
Seafoods	1.8	55.5	20.2	-5.1
Mining products	0.1	2.7	3.1	53.2
Garment	2.0	8.3	4.4	1.4
Footwear	1.6	5.2	6.5	8.6
Electronics & computers	0.6	33.8	-23.9	-42.2
Handicraft & fine arts	0.2	40.8	-0.7	9.0
Other	3.8	30.8	23.3	0.5

Source: General Statistical Office and Staff estimates

Overall export growth in the first quarter of 2002 was running at negative 12 percent. Oil and non-oil exports plummeted even as agricultural commodity prices were finally firming on the back of supply uncertainties and expectations of higher demand in the latter half of this year. Non-oil exports are expected to recover modestly in the remaining three quarters with total export earnings growing at the low rate of 5 percent in 2002.

While export growth to Japan fell from a robust 46 percent in 2000, to a reduction of 4 percent in 2001, exports to the United States remained strong in 2001. It expanded at a robust 45 percent annually comprising mainly crude oil, seafood, and footwear.

Though exports of garments and footwear to China increased significantly in 2001, Vietnam's total exports to China fell by 7 percent due to the lower dollar value of oil exports.

Weaker dong

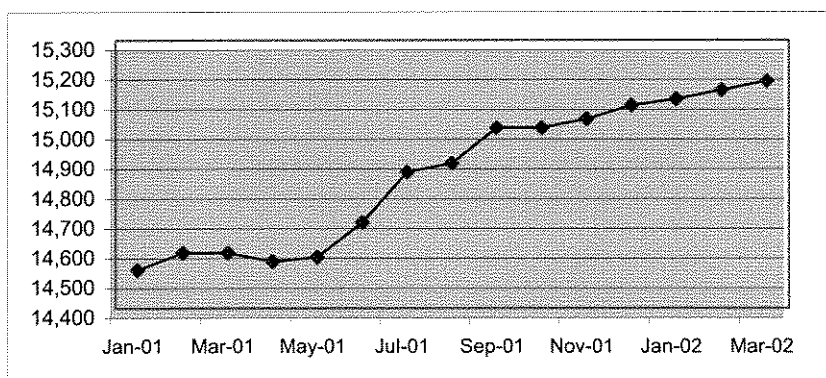
Lower oil prices in 2001 and slower growth in non-oil exports combined with a continued high dollar value of imports, reflecting strong domestic demand, means that the trade deficit in 2001 stands at around US\$ 1 billion -- equivalent to about 3 percent of GDP.

Partly as a result of this the Vietnamese dong lost 3.9 percent of its value against the US dollar in 2001. This rate of depreciation is slightly higher than the 3.5 percent that was recorded in 2000. Though the widening trade deficit, and the authorities concern with price competitiveness, explain some of the accelerated decline of the dong, other factors may be at play as well. One of the main dynamics could be the recent rise in the price of gold in Vietnam following September 11th. According to the World Gold Council, gold demand in Vietnam rose to a new high of 73 tons in 2001, up from the 60 tons the

previous year. Gold is used for larger transactions such as in the real estate market, which has been buoyant in 2001. Households also continue to favor gold as a savings vehicle. Due to restrictions on gold imports and resilient demand, the price of gold in Vietnam is at times higher than in world markets. This price differential induces smuggling of gold into Vietnam, which in turn increases demand for dollars to pay for the gold, effectively contributing to the relative depreciation of the dong.

Nominal interest rates on time deposits favor dong savings over dollars. However, real interest rates -- corrected for inflation and currency depreciation -- back dollar deposits. In the first three months of 2002 the dong weakened by about 130 dong to the dollar, representing an annualized rate of depreciation of about 2.9 percent. Over the past four weeks the dong has lost an average of 16 dong per week, implying an annualized depreciation rate of over 5 percent.

Figure 6: VND/USD, 2001 (average)



Source: General Statistical Office

Japan-Vietnam trade is denominated in dollars. The Japanese yen has weakened to a three year low, since the Japanese Government signaled its willingness to allow a weaker currency. This has caused an appreciation of around 11 percent of the dong vis-à-vis the yen as measured in relative cross-rates with the dollar between January 2001 and January 2002. Japanese businesses source production inputs and buy certain foods from Vietnam, which have now become more expensive. This could potentially push the dong lower still. However, the weaker yen lowers both Vietnam’s import bill from Japan (the second highest) and the external liabilities, with around a ¼ of Vietnam’s long-term external debt denominated in yen, reflecting concessional ODA loans.

Inflation

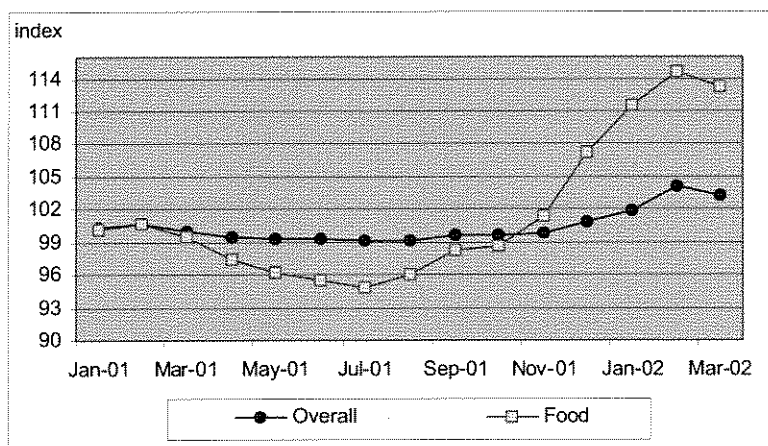
After being subdued at near zero or even slightly negative levels for the past few years, signs of inflationary pressures surfaced in 2001. Given enduring domestic demand, a weakening currency, and lenient monetary policies, this would be expected. In 2001, State Bank of Vietnam adopted a more restrained credit policy. Last year, credit growth to the economy was around 20 percent -- a robust rate -- but substantially slower than in 2000. Much of this credit has taken the form of directed lending to enable commodity

traders to stockpile rice and coffee in wait for prices to recover in world markets, effectively taking pressure off domestic prices.

Prices increased by 0.8 percent in 2001 compared to a fall of – 0.6 percent the year before. In December 2001 the CPI increased by 1 percent, compared to only 0.1 percent in December 2000. In January 2002, this rate accelerated to 1.1 percent, and in March it reached 3.4 percent – the highest rate in three years. The rise in inflation in late 2001 and early 2002 is driven by increasing food prices. Prices of food and foodstuffs increased 7.1 percent over March 2001 and 4.8 percent since the beginning of 2002.

Food (essentially rice) accounts for 47 percent of the goods basket that makes up the CPI. Changes in rice prices therefore translate into corresponding movements in the CPI. Low rice inventories have pushed prices up by around 30 percent in early 2002. The coming rice crop will be decisive in determining the direction of prices for the coming months. Core inflation, as measured by removing food from the index, has shown very little upwards pressure in 2001.

Figure 7: Price index: general and food prices in 2001 (Dec 2000 = 100)



Source: General Statistical Office

Fiscal Policies

The overall budget deficit for 2001 was around 3.3 percent of GDP, excluding on-lending. The deficit widens to 4.4 percent if on-lending is included.

Table 3. Fiscal Summary, 1999-2002

Share of GDP (%)	1999	2000	2001 Est.	2002 Plan
Total revenues & grants	19.6	20.4	20.6	19.5
Tax revenues	14.4	14.7	15.2	15
Non-tax revenues	3.9	5.2	5.0	4.1
Grants	0.6	0.5	0.4	0.4
Total expenditures	21.2	23.2	23.8	22.3
Current expenditures	13.2	15	15.2	13.4
Excluding: Interests				
Social sector expenditures	6.4	6.9	7.5	8.0
Capital expenditures (exc. on-lending)	6.7	6.7	7.8	7.2
Interest (paid)	0.6	0.8	0.9	1.2
On lending	1.8	2.2	1.1	1.8
Overall Balance (exc. On lending)	-0.8	-2.8	-3.3	-2.8

Source: Ministry of Finance and Staff estimates

Revenue continued to hover around 20.5 percent of GDP in 2001. Economic recovery together with enhanced tax collection efforts at the provincial level contributed to the revenue performance. Falling oil prices kept overall revenue at the same level as 2000. Revenue is projected to decline next year.

Capital expenditures increased by 0.6 percentage points over 2000, and current expenditures by 0.2 points. Capital expenditures were essentially directed at rehabilitation of infrastructure damaged by floods. Wage and salary expenditures rose by 11 percent, thereby squeezing other current expenditures, mainly operations and maintenance expenditures.

PART II. STRUCTURAL REFORMS

Vietnam has not only continued to implement the reform agenda it adopted in early 2001 in trade, private sector, banking, state enterprises and public expenditure management, but also developed reform programs in public administration and legal system development. Implementation of the program of reform actions supported with financial assistance by the IMF, the World Bank and donors like the UK, Netherlands, Denmark and Sweden has been good, except for slippages in SOE reform.

Integrating into the World Economy

Progress in liberalizing the import regime has been faster than envisaged. Instead of removing QRs from the two items (clinker and paper) that were scheduled this year, the Government removed QRs from seven items (i.e. paper, clinker, construction white glass, remaining steel products, vegetable oil, granite and ceramic tiles, and cement). Under the AFTA program of tariff reduction, the government announced changes in tariff lines and

reduction in tariffs effective from January 2001. More than 700 items were transferred from the Temporary Exclusion List (TEL) to the Inclusion List (IL).

The Government has, for the first time, announced plans for the management of imports and exports of goods for a five-year period, instead of an annual plan importing more stability to the regime.

Improving the Climate for Private Enterprise

Several actions were taken in 2001 to improve the climate for private enterprise and investment. Access to land and credit has been facilitated by decentralizing allocation of land, aligning compensation with the true value of land and creating the appropriate infrastructure for mortgaging land. When the National Register Agency for Secured Transaction under the Ministry of Justice, which is to conduct, record and register all transactions and to maintain a database, becomes operational it will be possible to implement mortgages for the first time.

Box 2: Outcome of Party Plenum on Private Sector Development

- Recognized the private sector as an important contributor to job creation, income generation, and budget revenues, to help maintain political and social stability;
- Allowed party members, who own private businesses, to retain their membership of the Communist party, thereby providing a strong endorsement of private business.
- Called on the leaders of the country to take the lead in encouraging and praising private businessmen and businesses for their positive contributions to the socio-economic development, so as to improve the image and perceptions of the private sector;
- Proposed various changes to make it easier to do private business: (i) amend the Enterprise Law and withdrawal of irrelevant legal provisions so as to eliminate remaining discriminatory treatment of the private sector; (ii) review and remove unnecessary and burdensome licenses and certificates, which harass enterprises in their operations
- Amend laws and regulations, to distinguish clearly between civil and criminal violations, thereby avoiding the prevalent criminalization of commercial decisions and disputes of enterprises' and banks;
- Reconfirmed private enterprises right to mortgage their land use rights for bank loans or to use the land use rights as their contribution to the capital of joint ventures formed between domestic and foreign enterprises;
- Instructed expeditious issuing of certificates of residence land use rights and residence ownership and land-titles. While waiting for the necessary amendments and supplements in the Land Law and relevant regulations, this instruction can be used to implement on a pilot basis.
- Simplify lending procedures, including the provision of guarantees and consultancy services for the private sector, as well as removal of interest-rate ceiling on dong-loans by banks;
- Recommended amendment of existing accounting system so as to encourage private enterprises to use auditing services and to disclose financial accounts, annually.

SMEs' access to credit has also been improved through the liberalization of interest rates that occurred in 2001. In June interest rate caps on currency loans were removed, and the margins above the base lending rates that can be applied to loans seem to have improved access to credit.

The Government has identified 29 additional sub-sectors where business licensing restrictions need to be removed or modified and the process for removal has been initiated.

Box 3: The Emerging Private Sector

Employment in the formal private sector more than doubled between 1996 and 2000. This new corporate sector created more than three times as many jobs as the SOEs and almost twice as many as the informal household sector.

Domestic private companies now account for eight percent of GDP and two to three percent of employment in Vietnam. This compares to the SOEs that make up 30 percent of GDP and five percent of employment.

The robust growth in the number of new enterprise registrations over the past 2 years continues and is likely to speed up growth in private sector activities in the next few years. The private sector already contributed 15 percent to industrial growth between 1995 and 2000, and 43 percent of export growth in the past two years. Increased private sector activity in labor-intensive and export oriented industries is a good portent that Vietnam's economy and its workers will continue to benefit from trade liberalization and further integration into the global economy.

The gap between North and South has steadily decreased in recent years, but it remains large. Also, the gap between rural and urban private sector development is increasing. Vietnam may be able to address this by drawing on China's success in rural industrialization.

Source: *Steer & Taussig (2001)*

More than 36,000 private SMEs have registered since January 2000, compared to 6000 SMEs registered in the two years before 2000. This brings the total formation of enterprises to 70,000. These firms had a total registered capital equivalent to US\$2 billion, or 6 percent of GDP. Estimates suggest that close to one million people are employed in this private corporate sector in Vietnam. This is about half as many as in the SOEs. In addition to these 70,000 corporate sector enterprises comes approximately 2 million households that are engaged in business operations, and 4,000 non-agricultural co-operatives.

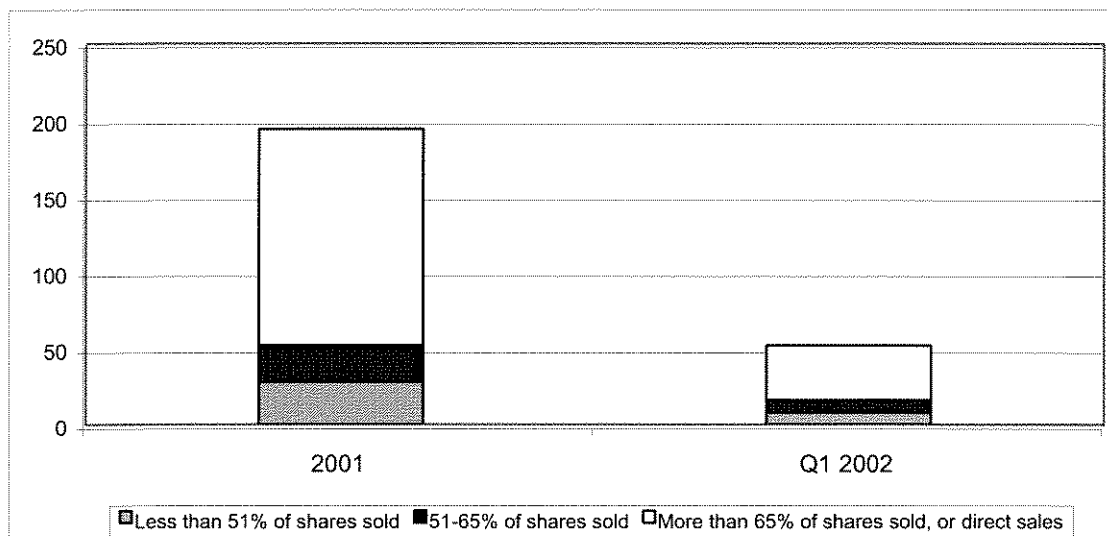
Nearly 70 percent of the newly registered SMEs are new entities, implying significant new investment; the remaining 30 percent have transformed themselves from informal household enterprises to formal SMEs which suggest that confidence in the formal system has improved.

Reforming State-Owned Enterprises

The climate for SOE reform has improved significantly in the last six months, even if actual implementation of SOE reform lags. This is largely due to the strong endorsement by the Party Plenum in August – September 2001 and subsequent Prime Minister's decision to implement the Plenum resolution. This decision issued in November 2001 covers more actions than were envisaged in early 2002.

The implementation of equitization slowed last year. Since the beginning of 2001, 246 enterprises have completed equitization of which 178 SOEs have sold more than 65% of its shares to non-state shareholders.

Figure 8: Number of Completed Equitizations



Source: National Steering Committee for Enterprise Reform and Development & Ministry of Planning and Investment

There are another 70 SOEs where valuation has been completed and decision to convert/register under the Enterprise Law issued; their equitizations are expected to be completed before June 2002.

Strengthening the Banking System

In general the State Bank of Vietnam has set out to grant commercial banks more autonomy in 2002 by adopting the view that ‘what is not explicitly forbidden is allowed’ in relation to lending operations. This is the first step towards a fundamentally new way of regulating the banking industry.

The Government has adopted a comprehensive banking reform program focused on the restructuring of banks and on improvements in the regulatory and supervisory framework. In the short-term, the reforms will ensure the stability of the banking system, and in the medium-to-long term it will promote better mobilization of domestic resources and improve allocation of those resources to commercially viable activities.

The restructuring of non-state joint-stock banks (JSBs) has picked up momentum after a delayed start. As of February 2002, 13 JSBs had been closed or merged, reducing their number to 39 from 52. Several JSBs are also being rehabilitated with private shareholders providing additional capital.

Implementation of detailed restructuring plans developed by Vietcombank (VCB), Incombank (ICB), Vietnam Bank for Agriculture and Rural Development (VBARD), and the Bank for Investment and Development (BIDV) are underway. The State Bank of Vietnam (SBV) has issued the decision that would govern the phased and conditional recapitalization of the SOCBs. Several SOCBs have established credit committees and others are in the process of establishing them. Financial audits of large SOCBs by international auditors using International Accounting Standards have been completed for VBARD and BIDV, the other two are expected to be completed by May 2002.

The new rules for classifying non-performing loans (NPLs) consistent with international standards, have been issued. The recognition of all NPLs using new rules is expected to be completed this year while the provisioning is expected to be phased.

Public Expenditure Management

Following the first joint Government-donor Public Expenditure Review in 2000 (PER-200), the Government has adopted a comprehensive program to strengthen public expenditure management with a views of improving comprehensiveness, consistency and transparency of budgetary information as well as equity and efficiency of public spending. Good progress is being made by the Government in implementation of the reform program. Actions to expand public's access to budgetary data are being taken. Central ministries and local governments have begun to disclose more detailed budgetary data in accordance with the revised fiscal transparency regulations. The Ministry of Finance posted for the first time on its website (www.mof.gov.vn) 2000 final accounts as well as the 2002 plan of the state budget. Detailed sectoral breakdown of budgetary outturns for 1996-2000 is now available on the same website. Detailed data were also published in a book form for wider circulation.

To further streamline the budget process to provide greater autonomy to spending units and encourage more efficient use of public resources, a decision was made on expanding Ho Chi Minh City pilot on block grant budgeting to administrative agencies in others provinces and central agencies as well as applying this approach to service delivery agencies nation-wide. So far about 20 provinces and one sector ministry have registered to participate in the pilot. Specific policies to support the poor in two poorest regions in Vietnam-the Northern Mountainous and Central Highlands-to have better access to education and health care were issued. And funding to cover the costs of these new policies have been fully incorporated in the 2002 budget allocation.

Work on developing draft revised budget law, on modifying the cash transfer system to provinces and making inventory of "off-budget" accounts is in advanced stages and is expected to be completed by June. Preparation of a project to integrate budget reform with a budget management information system is underway. This will help to overcome the problems with timely availability of budgetary information and consistency of that information thereby permitting greater accountability.

Formulating a Legal Reform Strategy

Vietnam's legal sector strategy has been driven by fundamental goals to move from a centrally planned to a market economy, achieve rapid and sustained economic development, and build a rule of law state.

The CG meeting in December 2000 recommended that a comprehensive needs assessment be undertaken in order to formulate a long-term strategy for the development of Vietnam's legal system. A Legal Needs Assessment (LNA) is now being finalized by key State Legal Agencies under an Inter-Agency Steering Committee chaired by the Minister of Justice. The LNA is receiving assistance from a consortium of key international and bilateral donors in the legal field including the World Bank, ADB, UNDP, Sida, DANIDA, France, JICA and AusAid.

The main areas in need of reform include: (i) The legal framework of laws, regulations, and treaties; (ii) The law and treaty making process; (iii) Legal institutions to enforce and implement laws such as courts, other dispute settlement tribunals, law enforcement and legal aid agencies, prosecutors, lawyers, bar associations, public registers for land and building rights, and secured transactions; (iv) Legal education and training of lawyers, judges and other legal professionals; (v) Legal information systems to improve transparency and educate the public about the law.

The final draft of the LNA was discussed at a conference of Vietnamese state legal agencies and donors in April 2002. The final report will be submitted to the Prime Minister and the President in May 2002. The strategy for the development of Vietnam's legal system, based on the LNA, will be submitted to the Prime Minister and the President in September this year and is expected to be approved by the National Assembly before the end of 2002.

ANNEX 1 : Reform actions 1998 – March 2002

Box 4: Integrating into the World Economy, 1998 – March 2002

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 the 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 have their tariff reduced to 20% by early 2003 and to 5% by early 2006;

2001

- Enhancing the scope for long-term planning among traders by drawing up export and import plans for the period 2001-2005, instead of the hitherto one year schemes (Decision 46/2001, April 4, 2001);
- Removing QRs multilaterally on all tariff lines of the following groups of products: liquor, clinker, paper, floor tiles, construction glass, some types of steel, and vegetable oil. (Decision 46/2001 dated 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);
- Moving 713 tariff lines from the Temporary Exclusion List (TEL) to the Inclusion List (IL) (Decree 28/2001/ND-CP)
- 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);
- Establishing an export support credit sourced from the State Development Assistance Fund, aiming to support enterprises, economic organizations and individuals to promote exports (Decision 133/2001QD-TTg, September 10, 2001);
- Reducing the number of items that FIEs have to export from 24 to 14, including such items as tiles, ceramics, footwear, electric fans, plastic products, and common paints (Decision No. 718/2001/QD-BKH);
- Permitting FIEs to engage in exports of coffee, minerals, certain wood products, and certain textiles and garments (Circular 26/2001/TT-BTM, December 2001);

2002

- Detailing a list of goods and tax rates for implementing the Agreement on the Common Effect Preferential Tariffs (CEPT) Scheme of ASEAN countries for the year 2002. Based on the schedule, 481 items were moved in to Inclusion list with tariff lower than 20%. To date there are 5558 lines in the Inclusion List, 770 in the Temporary Exclusion List, 53 in the Sentitive Agricultural List and 139 in General Exclusion List (Decree 21/2002/ND-CP, February 2002)
- A Government negotiation team has started working sessions on WTO accession in Geneva (April 2002)

Box 5: Improving the Climate for Enterprise, 1998 – March 2002

Government actions include

1998

- Issuing a new Decree on foreign investment providing additional incentives to foreign investors;
- Initiating the private sector donor dialogue under the 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, 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 listed companies.

2001

- Increasing openness and information by establishing an Enterprise Information Center under MPI on enterprises registered under the Enterprise Law (Decision 75/2000/QD-BKH of Feb 28, 2001);
- Approving two BOT projects in the energy sector: Phu My 2.2 power plant with EdF led consortium of TEPCO and GEC (US\$ 400 million) and Phu My 3 combined cycle power project with BP (US\$450 million), thereby creating precedents for more BOTs in infrastructure (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);
- Allowing overseas Vietnamese to hold land-use rights, and decentralizing control and monitoring of land-use rights to enhance the functioning of the real estate market (June 2001);

- Phasing out the dual pricing policy for overseas Vietnamese in aviation fares, electricity, and visa fees (Decision 114/2001/QD-TTg, July 31, 2001);
- Unifying train fares for foreigners, overseas Vietnamese, and Vietnamese nationals as of January 2002 (Decision 114/2001/QD-TTg, July 31, 2001);
- Amending Decree 17 dated March 24, 1999 to improve transparency and legalize the real estate market, by providing official regulations for sale, lease, mortgage and transfer of land-use-rights (Decree 79/2001/ND-CP, November 2001);
- Giving overseas Vietnamese the right to own and dispose of property in Vietnam, provided they have invested in, or otherwise contributed to the economy, or have been invited by the Government to take up residence and work in Vietnam (Decree No. 81/2001/ND-CP effective November 20, 2001);
- Recognizing the importance of SMEs by updating the decree to support the development and continued growth of these enterprises by specifying regulations and support mechanisms (Decree 90/2001/ND-CP, November 2001).

2002

- Amending the constitution of Vietnam to provide the private sector status equal to that of the state sector;
- Introducing a Website (www.business.gov.vn) - the first ever e-government site in Vietnam - on business registration, providing information on procedures for registration and providing downloadable application forms (January 11, 2002);
- Proposing to eliminate 16 business licenses in the following sectors: transport, trade, healthcare, telecommunications, industry, environment, and culture; and modify 13 current licenses into conditions to be fulfilled in the following sectors: internet provision, advertisement, culture, healthcare and medicine (the decision is pending prime ministerial approval);
- Setting-up the website: “Investment Information and Opportunities in Vietnam” (www.khoahoc.vnn.vn/mpi_website) under MPI in partnership with MIGA, to provide timely and clear information to domestic and foreign investors. The site also includes an online investment application facility (January 2002);
- Permitting foreign portfolio investors to remit dividends from investments in the domestic securities markets (Document 74/CV-Q1.NH, March 2002)

Box 6: Reforming State-Owned Enterprises, 1998 – March 2002

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 (Scaprodex, 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 185 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);
- Establishing the Financial Investment Company under the Enterprise Law, to represent the interests of the State as owner and co-owner of SOEs and issuing decree 63 on transforming SOEs into one-member limited liability companies as steps towards disentangling the complex ties between Government and SOEs (October 2001);
- Equitized a total of 194 SOEs.

2002

- Allowing managers of equitizing enterprises to purchase shares in excess of the number of shares subscribed by employees, requiring 30 days public notice prior to announcement of equitization, and clarifying potential conflicts between the SOE Law and the Enterprise Law (Decree expected to be issued by May 2002);
- Issuing Decree 41/2002/ND-CP, April 2002 on the policies towards employees made redundant because of SOE reform

Box 7: Strengthening the Banking System, 1998 – March 2002

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 banks;

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 regulations 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);
- Allowing 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);

Box 7: Strengthening the Banking System, 1998 – March 2002 (cont'd)

2001

- Providing 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);
- Simplifying 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);
- Freeing interest rates on foreign currency lending by banks in Vietnam and off-shore banks (Decision 718/2001/QD-NHNN, May 29, 2001, and Decision 980/2001/QD-NHNN, August 1, 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);
- Increasing autonomy of commercial banks by allowing them to set up internal systems for clearing payment transactions without State Bank involvement, but with State Bank permission (Decree 64, September 20, 2001)
- Providing a framework for cross-border payment transactions, recognizing, for the first time, that international practices can be used to govern cross-border transactions if Vietnamese law does not require otherwise (Decree 64 and its implementing decision, September 20 2001)
- Allowing all joint-venture and foreign banks operating in Vietnam to take collateral in the form of land from local clients, i.e. in the form of land use rights and land certificates (Decree 79/2001/ND-CP, effective November 16, 2001) ;
- Allowing joint-venture banks to receive hard-currency deposits from Vietnamese clients (Decision 1380/2000/QD-NHNN, effective November 20, 2001);

2002

- Establishing a National Register Agency for Secured Transaction under the Ministry of Justice to facilitate transactions by credit institutions and entitling third parties to access information related to secured transactions. The registry opened for business March, 12 2002;
- Enhancing the process for resolution of bad loans by allowing domestic commercial banks and credit organizations to sell collateral backing loans directly in the market at market determined prices instead of going through state-owned agencies (Directive 01/2002/CT-NHNN, January 2002);
- Bringing banking regulations closer to international accounting norms, by stating that should customers fail to repay an installment the entire loan can be accelerated and classified as overdue, and giving banks more discretion in setting interest rates on overdue debt (Decision 1627/2001/QD-NHNN, effective February 1, 2002);
- Permitting banks to make decisions on the terms of any given loan, including domestic banks' lending to foreign borrowers in Vietnam, such as maturity and interest rate, and generally devise new forms of lending provided they are not forbidden by law, including, for the first time, the possibility of overdraft lending (Decision 1627/2001/QD-NHNN, effective February 1, 2002);

Box 8: Managing Public Resources Better, 1998 – March 2002

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 (MOF’s Circular 118/2000/TT-BTC) 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
- Starting a pilot of block grant budgeting for administrative agencies in Ho Chi Minh City to permit more autonomy to pilot agency and encourage efficient use of resources and appropriate re-allocation where needed.

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.
- Completing provincial PERs for Hochiminh City and Quang Binh.
- Issuing a revised regulations (PM’s Decision 182/2001/QD-TTg) on fiscal transparency to allow more budgetary information to be made public and to enforce implementation by lower level of government.
- Initiating pilot development of MTEF for education sector.
- Adopting a decision (PM’s Decision 192/QD-TTg) to expand Ho Chi Minh City’s block grant budgeting pilot to other provinces and central agencies.
- Passing an amendment to the Constitution to provide a full autonomy to Provincial People’s Council to approve and allocate its budget.

2002

- Posting, for the first time, budgetary information on MOF’s Website.
- Issuing a Decree (Government’s Decree 10/2002/ND-CP) on new financial management mechanism for public service delivery agencies to provide greater degree of autonomy, flexibility and certainty to these agencies in managing their financial resources.

Annex 2. Economic Work Funded by the World Bank 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>1. Integrating with the World Economy</i>			
<p>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.</p>	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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) • The effect of Chinese WTO membership on Vietnam's exports – in VDR 2002 • Study on impact of planned trade liberalization on the poor (ongoing, with AusAID) 	<ul style="list-style-type: none"> • 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 External Economic Relations (SIDA)

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
			<ul style="list-style-type: none"> • Trade assistance program (New Zealand) • Stocktaking of Vietnam's external commitments on trade policy and needed actions by different Government agencies (UNDP)
<p>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.</p>	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 (ongoing with AusAID) 	<ul style="list-style-type: none"> • Assistance to the Government on export promotion for specific products (UNDP/ITC) • Web site on Vietnam's economic integration (SIDA)
<p>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.</p>	<ul style="list-style-type: none"> • Continue removing QRs multilaterally 	<ul style="list-style-type: none"> • Study on Non-Tariff Import barriers in Vietnam, with case studies of cement, steel, plastics etc (completed in 1999 with AusAID) <p>Studies on:</p> <ul style="list-style-type: none"> • Impact of planned trade liberalization on key SOE sub-sectors (planned) • Petroleum price & 	<ul style="list-style-type: none"> • 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
		marketing – (ongoing – June 01) • Sugar sector’s trade and non-trade policies (with AusAID,) – Report presented in February 02.	
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 banking supervision • Start training programs for SBV staff to enhance	• 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 organization (with European ASEM) • Support to expand regulations,	• Support for banking inspection system (GTZ, Germany) • Support for strengthening banking supervision (planned by SIDA and Austria)

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
	supervisory skills	especially on loan classification and provisioning (with ASEM)	
<p><i>b. Restructuring Joint-Stock Banks (JSBs)</i> 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 39 JSBs (10 percent of bank liabilities) after closure of 13 JSBs. Weak capital bases, related-lending, and high levels of NPLs make them highly vulnerable.</p>	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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) 	
<p><i>c. Restructuring State Owned Commercial Banks(SOCBs)</i> 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 recently begun to move away from predominant policy-lending.</p>	<ul style="list-style-type: none"> • 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 collateralized bad loans and LWU for non-collateralized loans and develop & achieve debt recovery targets 	<ul style="list-style-type: none"> • 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 the restructuring plan (with ASEM) • Support to the establishment and operation of banks' AMCs 	<ul style="list-style-type: none"> • 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) • Support to establishing internal audit systems in SOCBs (Ongoing - GTZ,

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
	<ul style="list-style-type: none"> • 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 	<p>AMCs</p> <p>– Workshop held in Hanoi Dec 01.</p>	<p>Germany)</p> <ul style="list-style-type: none"> • Strengthen corporate governance of VBARD (ADB)
3. Reforming SOEs			
<p>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.</p>	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Support to National Enterprise Reform committee (ASEM) • Study of performance of equitized SOEs (ASEM) 	<ul style="list-style-type: none"> • Support to Steering Committee for Enterprise reform and Development (Danida, Denmark)
<p><i>a. Equitizing and Divesting SOEs to reduce losses and improve governance</i> Diversification of ownership is an important building block to 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.</p>	<ul style="list-style-type: none"> • Amend Decree 44 to increase transparency and effectiveness of the equitization process, including removal of shareholding caps • Move responsibility for issuing and selling shares away from SOE-managers 	<ul style="list-style-type: none"> • Support equitization and divestiture in sector ministries -- MOI, MOC, MARD, MOT & people's committees i.e. Hanoi (with ASEM European) • Pilot program for small SOE divestiture, including auctions in Haiphong & Dak 	<ul style="list-style-type: none"> • Support to industry restructuring and Enterprise Development in the Ministry of Fisheries (Danida, Denmark) • Support to equitization of Agricultural SOEs in Quang

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
		Lak (Danida/IFC)	Tri Province (GTZ, Germany) <ul style="list-style-type: none"> • Support to financial audits of SOEs to be equitized, for listing on the stock market (ADB)
<p><i>b. Liquidating non-viable SOEs to reduce losses.</i> 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</p>	<ul style="list-style-type: none"> • Adopt improved regulations for bankruptcy and liquidation • Complete the set target of 300 liquidations over 3 years 		<ul style="list-style-type: none"> • Support to review of existing bankruptcy and liquidation regulations and their revision (ADB)
<p><i>c. Restructuring SOEs that remain in Government control</i> 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.</p>	<ul style="list-style-type: none"> • Initiate diagnostic audits of the first 30 SOEs and complete audits of 100 large SOEs in 3 years 	<ul style="list-style-type: none"> • Diagnostic audits of large troubled SOEs (Japanese PHRD) • Pilot restructuring of 3 General Corporations , Seaprodex, Vinatex and Vinacafe (DfID, UK) 	<ul style="list-style-type: none"> • Enhancing institutional capacity of key agencies in diagnostic audits (ADB) • Diagnostic audits of large SOEs (Danida, AusAID) • Capacity building for management of state Capital and Assets in MOF, including MIS for SOEs (UNDP) • Support to restructuring SOEs in agriculture (GTZ, Germany)
<p><i>d. Providing financial support to</i></p>	<ul style="list-style-type: none"> • Announce the portion 	<ul style="list-style-type: none"> • Social safety net 	

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
<p><i>displaced workers to ease transition</i> 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.</p>	<p>of funds designated for displaced workers</p> <ul style="list-style-type: none"> • Agree on the size of severance packages • Establish criteria for early retirement /retraining 	<p>program (ASEM 1 European)</p>	
<p>4. Promoting the Private Sector</p>			
<p>The private sector is constrained in Vietnam. The recent implementation of the Enterprise law has helped enormously, but more needs to be done.</p>	<ul style="list-style-type: none"> • Improve overall climate for private enterprises in various ways 	<ul style="list-style-type: none"> • Study on 95 SMEs with more than 200 employees (MPDF) • Private sector study (IFC, MPDF & WB) 	<ul style="list-style-type: none"> • Study on economic development policy in the transition towards a market oriented economy (JICA, Japan)
<p><i>a. Improving Private Sector Climate</i></p>	<ul style="list-style-type: none"> • Continue removing or modifying restrictive business licensing restrictions in various sub-sectors to ease private entry • Implement the 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 	<ul style="list-style-type: none"> • Study on attracting FDI (completed, IFC) • Study on the private construction industry 	<ul style="list-style-type: none"> • Assistance to CIEM to improve regulatory business environment (UNDP) • Support to monitor business registrations in the provinces every month (UNDP). • Credit and finance for private SMEs (DfID, UK and EU)
<p><i>b. Facilitating access to and transactions in land-use rights</i></p>	<ul style="list-style-type: none"> • Establish registration offices and a national data system for implementing 		<ul style="list-style-type: none"> • Support for registration offices and national data

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
	<p>secured transactions</p> <ul style="list-style-type: none"> • Complete issuing titles to land-use rights • Ease restrictions for converting agricultural land into industrial land 		<p>system (UNDP)</p>
<p><i>c. Improving Corporate Governance</i> 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.</p>	<ul style="list-style-type: none"> • Adopt international accounting and auditing systems in phases over the next three years • Enforce the requirement that private SMEs maintain proper accounts 	<ul style="list-style-type: none"> • Support to MOF for preparing various IAS systems 	<ul style="list-style-type: none"> • Corporate Governance Development in Vietnam (ADB) • Vocational training programs on business skills (ADB) • Support for conversion to IAS (EU)
<i>5. Improving Public Expenditure Management</i>			
<p>Timely and coherent budget data is of vital importance to assess the efficiency of public expenditures; for all decision makers in Vietnam; and to enhance the legitimacy of tax collection in the eyes of the public. The Government has embarked on the process towards greater fiscal transparency.</p>	<ul style="list-style-type: none"> • Designate treasury in MOF as department responsible for maintaining comprehensive public 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 	<ul style="list-style-type: none"> • Public Expenditure Review (with five other donors & government) 	<ul style="list-style-type: none"> • Capacity building in MOF (CIDA) • Treasury 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)

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
<p><i>a. Increasing tax revenue collection</i> 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.</p>	<ul style="list-style-type: none"> • 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 		
<p><i>b. Improving expenditure management</i> 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.</p>	<ul style="list-style-type: none"> • 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 		
<p><i>c. Reallocating expenditures</i> There may be scope for more efficient prioritization of expenditures to promote growth and reduce poverty. Recurrent budget implications of planned capital spending should be enhanced so as to increase overall efficiency. Existing safety nets are not very effective or well targeted to the poor.</p>	<ul style="list-style-type: none"> • Coordinate capital and recurrent spending between 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			
<p>Legal documentation is issued by different levels of law, leading authorities to cause</p>	<ul style="list-style-type: none"> • Deepen and strengthen legal reforms 		<ul style="list-style-type: none"> • Support for Public Administration

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
<p>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.</p>	<p>reforms</p> <ul style="list-style-type: none"> • Enforce rules and regulations to avoid corruption and distrust 		<p>Reform (UNDP, Danida, Sida, ADB)</p> <ul style="list-style-type: none"> • Support to the Office of the National Assembly, Supreme People's Court and Supreme People's Procuracy (Danida, Denmark) • Legal needs assessment (UNDP)

EXHIBIT 7



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News Brief No. 02/53
June 21, 2002

International Monetary Fund
700 19th Street, NW
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IMF Completes Second Review of Vietnam's PRGF Program and Approves In Principle US\$53 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Vietnam's arrangement under the Poverty Reduction and Growth Facility (PRGF). The Board also determined that Vietnam's Comprehensive Poverty Reduction and Growth Strategy (CPRGS) provides a sound basis for Fund concessional financial assistance.

The Board's decision will become effective after the World Bank's review of the CPRGS, which is currently scheduled for July 2, 2002. Vietnam will be able to draw SDR 41.4 million (US\$53 million) from the arrangement.

Vietnam's three-year IMF-supported program was approved on April 6, 2001 (see [Press Release No. 01/12](#)). It amounts to SDR 290 million (US\$370 million), of which SDR 82.8 million (US\$106 million) has been disbursed.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a [Poverty Reduction Strategy Paper \(PRSP\)](#). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty.

PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

After the Executive Board's discussion on Vietnam, Shigemitsu Sugisaki, Deputy Managing Director and Acting Chairman, made the following statement:

"The Vietnamese authorities have continued to make progress in implementing their three-year program, which seeks to improve

competitiveness and spur investment in order to foster high growth and rapid poverty reduction. Economic performance under the first-year program was relatively strong and based on generally sound macroeconomic policies and progress in structural reforms. However, delays continued to be experienced in reforming state-owned enterprises (SOEs).

"The second-year program is therefore appropriately centered on a firmer implementation of the structural reform agenda, along with continued discipline in macroeconomic management. To promote growth and investment, the authorities will need to press ahead with steps to further open the economy to the private sector and to reform the trade regime and the state-owned commercial banks (SOCBs) and SOEs.

"The budget deficit will be capped at a financeable level, but adhering to this limit and ensuring medium-term sustainability will require strengthened revenue performance and spending discipline. Credit growth will continue to be restrained, to keep inflation low and to protect banks' asset quality. External debt management will remain prudent and will continue to rely primarily on concessional financing.

"The authorities are expected to press ahead with restructuring the four large SOCBs, bringing loan classification and provisioning in line with international best practices. Under the bank restructuring program, strategic equity participation by a foreign investor in one of the SOCBs is envisaged to take place by end-2003.

"To advance SOE reform, more forceful implementation of the authorities' three-year reform plan will be required. Recent steps taken to accelerate the pace of equitization will need to be fully implemented, and over time, the reform plan should be extended to cover the larger, heavily indebted SOEs.

"The authorities' Comprehensive Poverty Reduction and Growth Strategy has been prepared in a commendable participatory process. Its successful implementation will require careful prioritization and costing, strong expenditure management and monitoring, and a full assessment of the social impact of reform.

"In view of the encouraging progress thus far and the authorities' commitment to accelerate reforms in critical program areas, the Executive Board completed the second review under the arrangement, and granted waivers for the nonobservance of a number of performance criteria under the program, as well as for a minor incident of misreporting of reserves data," Mr. Sugisaki said.

IMF EXTERNAL RELATIONS DEPARTMENT

Public Affairs: 202-623-7300 - Fax: 202-623-6278
Media Relations: 202-623-7100 - Fax: 202-623-6772

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EXHIBIT 8



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Socialist Republic of Vietnam—Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

Hanoi, June 3, 2002

The following item is a Letter of Intent of the government of Vietnam, which describes the policies that Vietnam intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Vietnam, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431 U.S.A.

Dear Mr. Köhler

On November 21, 2001, the Executive Board of the IMF concluded the first review of the three-year arrangement for Vietnam under the Poverty Reduction and Growth Facility (PRGF) approved on April 13, 2001. The purpose of this letter is to inform you of the progress in implementing the first-year economic program, and to request the third loan disbursement following the completion of the second review under the arrangement.

The attached Memorandum of Economic and Financial Policies (MEFP) sets out the objectives and policies that the Government of Vietnam intends to pursue during 2002.

Vietnam's economic performance in 2001 was positive, despite the external weakness. Macroeconomic policies were prudent and progress was made in the key structural areas. As a result, the program targets for the second PRGF review have been achieved for the most part. The Government of Vietnam believes that the policies it intends to implement during 2002, as described in the MEFP, will build on this favorable performance, help lift rates of economic growth and poverty

reduction, and further strengthen Vietnam's resilience to external shocks. On this basis, it requests completion of the second review under the arrangement; and waivers for the nonobservance of the end-December 2001 performance criteria on net domestic assets of the banking system, bank credit to state-owned enterprises, net claims on government by the banking system, and net international reserves, taking into account the policy measures that have been taken to address the slippages and the satisfactory performance relative to the March 2002 benchmarks.

The government believes that the policies and measures set forth in the MEFP are adequate to achieve the objectives of the program supported by the PRGF arrangement, but will take further measures if deemed necessary. During the remaining period of the arrangement, Vietnam will continue to consult with the Managing Director on the adoption of measures that may be appropriate, at the initiative of the government or whenever the Managing Director requests such a consultation. The government will continue to provide the IMF with such information as it requires to assess Vietnam's progress in implementing the economic and financial policies under the program.

The government intends to make these understandings public and authorizes the IMF to provide this letter and the attached memorandum to all interested parties that so request them, including through the IMF's external website.

We can assure you that the Government of Vietnam is determined to fully implement the program, and we hope we can count on the continued support of the IMF in our endeavors.

Sincerely yours,

/s/

Le Duc Thuy
Governor
State Bank of Vietnam

**Memorandum of Economic and Financial Policies
of the Government of Vietnam for 2002**

June 3, 2002

I. Introduction

1. This memorandum lays out the economic and financial policies for 2002, the second-year program under the PRGF arrangement approved in April 2001, and the policy framework covering 2002-04. This framework is consistent with our Comprehensive Poverty Reduction and Growth Strategy (CPRGS) (dated May 21, 2002), which has been prepared in a broadly participatory process.

II. Performance and Policy Implementation in 2001

2. While not immune to the global downturn, Vietnam's economy performed relatively well in 2001. In line with program assumptions, real GDP growth moderated owing to a significant weakening in the external environment. Growth was supported by cautiously accommodative fiscal and monetary policies and a renewal of private investment, which buoyed domestic demand. At the same time, inflation was kept low at only 1 percent ([Table 1](#)). Reflecting the progressive slowing of export growth (to 4 percent at end year compared with 25 percent in 2000), gross reserves grew by less than programmed to US\$3.4 billion, or nine weeks of prospective imports.

3. Macroeconomic policy implementation in 2001 was broadly on track. The 2001 budget was eased slightly relative to the program to better support activity. The overall budget deficit (excluding onlending and amortization, and based on *GFS*) is estimated at 3.5 percent of GDP, against 2.9 percent programmed. Revenue performance was much stronger than budgeted, thanks to improved collection from corporate income tax and import duties, and from higher oil prices. This permitted us to step up spending in key social and infrastructure areas. At the same time, however, wages and pensions were 0.6 percent of GDP above budget, reflecting one-time payments to war heroes, incorporation of local security forces into the state budget, and wage spending on education and health care. Nonetheless, the December performance criterion on bank credit to the government was missed marginally ([Table 2](#)).

4. Bank credit was restrained in line with the program through most of the year. Growth of credit to the economy fell from 38 percent in 2000 to 21½ percent by end year ([Table 3](#)). Credit growth was on course until December, when it rose above programmed due to overruns in credit to state-owned enterprises (SOEs). As a result, the December performance criteria on net domestic assets and on SOE credit were missed. This outcome reflects the difficulties in containing lending to SOEs through indirect means, as our interest rate and refinancing policies adhered to program commitments. Notably, the base interest rate was reduced cautiously and the State Bank of Vietnam (SBV) gross refinancing was kept at D 3.5 trillion as programmed.

5. Exchange rate management was flexible for the most part in 2001. From April

through November, the dong depreciated by 4 percent against the U.S. dollar. However, in December, the exchange rate did not move due in part to inflow of remittances. The December performance criterion on the buildup in net international reserves was missed, given a large depreciation of regional currencies and a rapid weakening in exports late in the year.

6. On the structural front, good progress was made in the trade area and in promoting private sector development. As programmed, quantitative restrictions (QRs) on imports of three additional items (construction white glass, certain steel products, and vegetable oil) were removed effective January 1, 2002; this move brought to eight the total number of items whose QRs have been removed since the start of the program. Tariff reductions were also introduced in line with commitments under the ASEAN Free Trade Area (AFTA). In addition, reflecting the successful implementation of the new Enterprise Law, a further 22,000 small and medium-sized enterprises were registered during 2001.

7. State-owned commercial bank (SOCB) restructuring has also been improved, although with some delays. The four large SOCBs started implementing their restructuring plans, aimed at meeting milestones set under an SBV directive (Annex I describes the status). At end-December, the criteria for loan classification were adapted (Decision 1627) to move closer to international standards (a structural performance criterion), and external audits for all four SOCBs will be completed by end-June, somewhat behind schedule. In addition, a special unit in the SBV to monitor SOCB reform was made operational in November 2001 (a structural benchmark) (Table 4). However, progress in strengthening credit risk management fell short of the milestones established with banks.

8. SOE reform has proceeded below expectations. In particular, the number of equitizations in 2001 fell well short of the target under the three-year SOE reform framework. Also, the structural benchmarks on the approval of implementation guidelines for SOE debt settlement and for safety nets and on strengthening SOE reform oversight were not observed at end-December. The December benchmark on debt and budget support for the 200 large SOEs was also missed.

III. Medium-Term Macroeconomic Framework

9. We remain committed to the medium-term reform strategy laid out in our 2001 MEFP dated March 14, 2001. To lift growth rates and reduce poverty, we will pursue sound macroeconomic policies and foster efficient state and private sector development and global integration. Priority will be given to accelerating banking and SOE reforms, complemented by private sector deregulation and trade opening measures. The macroeconomic framework for 2002–04 aims at raising GDP growth to 7 percent, keeping inflation under 5 percent, and increasing the import coverage of reserves to 9½ weeks. The external current account deficit (excluding official transfers) is projected to average 2 percent of GDP, and remains financeable given prospective support under the PRGF, the PRSC, and donor assistance.

10. Our fiscal stance will aim at protecting sustainability, focusing more on poverty reduction and minimizing domestic bank financing. This stance will be underpinned by further efforts to boost non-oil revenue, expenditure on poverty-reducing programs, and external concessional support. The budget deficit is projected to average 3½ percent of GDP during 2002–04, compared with 2½ percent during the previous three years, reflecting the current costs of structural reform; the underlying budget position, exclusive of these costs, will remain prudent. Monetary policy will be moderately tightened, the exchange rate will be managed flexibly, and exchange restrictions will be further reduced.

IV. Macroeconomic Policies for 2002

11. Under the 2002 program, real GDP growth is projected to benefit from a slight recovery in external demand and continued strength in domestic demand. Despite a sharp weakening in the first quarter, export performance is expected to improve, owing to the recent upturn in oil prices and given signs of a global rebound. In addition, policies will be geared to improving competitiveness. Inflation is targeted at 3–4 percent and the external current account is expected to be in a deficit of 2 percent of GDP, with gross reserves increasing to US\$3.8 billion (9 weeks of imports).

12. **Fiscal policy** will stay cautiously accommodative while providing for structural reform costs. The overall deficit will be capped at 4 percent of GDP and domestic bank financing limited to D 3.5 trillion (Table 5). We are targeting revenue and grants at 21 percent of GDP and keeping expenditure under 25 percent of GDP. The key policy elements are:

- Strengthening VAT and customs collection, and setting domestic prices for petroleum products so as to safeguard revenue, as in 2001. For the 2003 budget, we intend to reduce the number of rates and the scope for exemptions under the VAT in a revenue-neutral way, in line with Fund technical assistance. Moreover, a pilot self-assessment for large taxpayers will be implemented, starting with Ho Chi Minh City and Quang Ninh provincial offices, also drawing on Fund technical assistance.
- Improving public expenditure policy and management by ensuring adequate spending for structural reform as well as for poverty reduction. In line with this, we will cap the government wage and pension payments at the budgeted level of D 37 trillion. An initial effort at incorporating a basic medium-term expenditure framework has also been made for the CPRGS. Moreover, in light of revenue uncertainty, we will closely monitor spending, and a set of low priority spending items has been identified in case of revenue shortfalls.
- Enhancing fiscal reporting and transparency to better track spending, including moving toward *GFS* standards for centralizing reporting in the Treasury, and bringing into the budget extrabudgetary revenue (and

associated expenditure).

13. We have approved the cost estimates of banking and SOE reforms at D 35 trillion (6 percent of GDP). These costs will be adjusted at the time of the third PRGF review, based on classification of nonperforming loans (NPLs) consistent with international standards. On this basis and including debt resolution for SOEs not undergoing ownership transformation, Fund staff have tentatively estimated total reform costs at D 70 trillion (12 percent of GDP). The main financing sources include banks' internal resources, concessional external support, and other budgetary resources, as well as through bank recapitalization bonds that will be appropriately structured and will rebuild the banks' capital in stages as planned.

14. **Monetary policy** will continue to be restrained, consistent with the inflation and reserves objectives, and also to safeguard the banking system. Credit growth will be contained at 20.5 percent year-on-year by end 2002, and will be provided only to efficient projects of creditworthy borrowers—state and nonstate—in line with the monetary program under the PRGF. Consistent with these targets, the performance criteria for net domestic assets of the banking system for end-June and end-December 2002 are set out in [Table 5](#). To achieve these targets, the SBV will limit its additional gross refinancing to banks to no more than D 3.5 trillion in 2002. It will also further move to indirect instruments, and will further rationalize interest rate policy, with the first step taken on May 30, 2002 by promulgating a decision to remove the margins on lending rates for dong loans.

15. The SBV will manage the **exchange rate** more flexibly, giving a greater role to market forces and minimizing administrative measures. In particular, the band for the maximum movement of the daily interbank exchange rate will be widened. The SBV will intervene in the interbank market only to stem disorderly conditions, and will gear its foreign exchange sales toward meeting the quarterly reserve targets agreed under the program. Furthermore, the surrender requirement was lowered from 40 percent to 30 percent effective May 2002, and will be phased out as and when economic circumstances permit and at the latest by the end of the PRGF arrangement. Also, to limit external vulnerability, the SBV will closely monitor the quality and liquidity of foreign assets held by banks, given the potential volatility of foreign currency deposits. With respect to the exchange system, we intend to submit to the National Assembly at the latest by September 2002 a proposal to remove the tax on profit remittances of foreign-invested enterprises (FIEs). This is later than initially programmed but consistent with our ongoing efforts to harmonize tax treatment between foreign-invested and domestic enterprises. All remaining restrictions on current international transfers and payments will be removed, subject to National Assembly approval, by end 2002 in order to pave the way for acceptance of the obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.

16. We will continue our prudent **external debt** management policy, focusing government borrowing primarily on concessional terms. In view of improved market sentiment for Vietnam and the need for foreign capital for investment, we

are considering issuing our first and only international bond in 2002. In order to keep our debt service within sustainable limits and to contain fiscal risks, we will cautiously structure the scale and terms of the bond issue and will institute appropriate safeguards for the use of its proceeds. In line with this, we will transfer the proceeds into a separate account to effectively track their usage. Furthermore, in order to minimize risks, these proceeds (i) will not be used for budgetary purposes, (ii) will be onlent only to projects that have been carefully appraised by our authorities according to the government regulation on investment project appraisal, and (iii) will be concentrated on projects that generate foreign exchange. The Ministry of Finance (MoF) will be responsible for putting together the list of eligible projects based on commercial criteria.

V. Structural Policies

17. Our structural reform agenda is centered on strengthening competitiveness across all sectors, opening up the economy, and attracting investment, both domestic and foreign. The CPRGS and its policy matrix spell out the envisaged reforms over the rest of the PRGF arrangement period.

18. We are resolved to advance our **trade agenda**, giving top priority to successful implementation of the bilateral trade agreement with the United States (USBTA) and active preparations for earliest possible accession to the WTO. In line with this policy, we have adopted a timetable to establish the proper legal framework to implement the USBTA. Preparations for bilateral negotiations for WTO accession have also begun. With respect to trade in goods, QRs on three out of five remaining items¹ will be removed by end-December 2002 (cement, motorcycles, and passenger vehicles up to nine seats). We also intend to effect tariff reductions already announced under the AFTA roadmap. In addition, timely implementation of commitments under the USBTA regarding services and intellectual property rights will be important, since many of these meet WTO norms and can be applied on a multilateral basis. To facilitate this process, we will assess the potential impact of global integration on the most vulnerable sectors, drawing on donor technical assistance.

19. We recognize the **private sector** as an important component of Vietnam's economy, and are taking steps to further boost domestic and foreign investment. The business climate will be made more open, fair, and predictable. In particular, and in advance of the timeframes under the USBTA, we are preparing regulations to further open to foreign investors areas in the services (including most retail sales and distribution), agribusiness, and fishery sectors. The dual pricing system for FIEs will be phased out by 2003 for almost all charges and fees, except those for power, which will be removed by 2004. Performance requirements for FIEs will also be phased out. In addition, tax incentives for FIEs will be streamlined and rationalized relative to domestic enterprises.

20. **Banking reform** remains central to our strategy. Our reform approach has

been designed to minimize fiscal costs, avoid moral hazard, and maintain systemic stability. Strong efforts will be made to stem the flow of bad loans, phase out policy lending from commercial banks, and put commercial bank operations on a commercial basis. Success here will depend on coordinating SOCB reform with SOE reform.

21. To allow a realistic assessment of NPLs, guidelines were issued in April 2002, which apply Decision 1627 to all loans, except policy loans. We will issue a supplementary guideline to apply this decision to policy loans by July 1, 2002, and will resolve these loans within SOCBs. The new classification standards under this decision will be phased in starting in July 2002 and be completed by year-end. To facilitate this, banks will provide monthly information under the guidelines to the SBV starting in June. Loan provisioning will be brought fully onto the new standards in stages, starting in December 2002, and will be completed by 2003 subject to the availability of funding resources.

22. The four large SOCBs are implementing individual restructuring plans, striving to meet milestones agreed with the SBV in order to qualify for phased recapitalization (Annex I describes these milestones). In particular:

- SOCBs have established credit risk management and internal audit committees. Technical assistance is being sought from the Bank and Fund to improve the structure and operations of these functions, including the independence of the audit committees. We intend to ensure that credit is extended on the basis of objective credit analysis and commercial criteria.
- By March 2002, banks resolved NPLs of D 1.6 trillion, against the minimum of D 1.4 trillion targeted under the milestones.

23. Further progress will be made in bank restructuring in line with the agreed quarterly milestones. Specifically:

- By end-July, subject to donor financing the SOCBs will sign contracts for IAS audits by international auditing firms for the year 2001, and by end-year, we intend to remove agreed qualifications from audits of their 2000 accounts. The SOCBs will make changes necessary to prevent similar qualifications for the audits of the 2001 accounts. We intend to continue IAS audits until accounting standards are brought up to IAS, with donor financial assistance.
- We have set NPL resolution targets for end-September 2002. We intend to set, by December, NPL resolution targets for end-March 2003 based on the new classification standards.
- We will closely monitor progress in strengthening credit risk management in banks.
- In addition, we remain committed to seek for one of the SOCBs strategic

equity participation with a reputable foreign partner by end 2003.

24. With respect to the JSBs, following the closure/merger of 11 banks so far (remaining total of 38), further progress will be made to consolidate the system and strengthen the financial conditions of these banks, toward the aim of reducing by about 50 percent their number.

25. **SOE reform** will be reinvigorated, in order to make up for slippages so far. To this end, we will rephase our original three-year roadmap and will soon announce an SOE reform program covering 2002–04. In consultation with Bank staff, our agenda of actions is as follows:

- We have put in place in April 2002 Decree 41 which specified guidelines on safety nets for all SOEs, and in June 2002 will adopt a decree on debt settlement for those SOEs being equitized and consistent with budget resources earmarked for such reforms.
- A new equitization decree will also be issued in June 2002, which provides for, among others, the removal of caps on first-time shareholdings in equitized enterprises.
- We will equip as of June the special monitoring and coordinating unit in the National Steering Committee for Enterprise Reform and Development with enforcement powers to oversee implementation of the SOE reform plan.
- We are redoubling efforts to complete our equitization sale, and liquidation of 400 SOEs as targeted under the PRSC through end-June 2002. In line with the original SOE reform framework, the roadmap will lay out an additional 1,400 SOEs subject to ownership transformation over the next two years. We will also set a target through June 2003 on equitization, sale, and liquidation in consultation with Bank staff in the context of the follow-up PRSC.

26. Further progress will be made to strengthen the financial discipline on SOEs through the quarterly monitoring system for a targeted group of 200 large SOEs on their outstanding debt to banks and to the government and other budget support. The MoF will work more closely with provincial financial offices to enforce reporting requirements, including sanctions, so as to reduce delays. In addition, we will make fuller use of such data and will take appropriate measures to contain risks posed by excessive leveraging among these enterprises.

VI. Statistical Issues and Policy Transparency

27. To strengthen **policy transparency and data quality**, we are continuing to upgrade the statistical system, drawing on Fund technical assistance. In particular, we intend to participate in the GDDS by July 2002. We also will embark on a work program to further strengthen national account statistics within two years, and will improve budget data in line with *GFS* standards as a key element of strengthening

expenditure management, including the monitoring of pro-poor spending. We are committed to further policy transparency by providing additional information on the website for the MoF, and by initiating a website for the SBV. Publication of IMF staff reports for Vietnam will continue.

28. With respect to the Fund's **safeguards assessment**, we remain committed to completing by the state auditor an audit of the SBV 2001 financial statements by June 2002, to restating these audited financial statements in accordance with IAS by June 2002 for internal use, and to publishing all future audited financial statements of the SBV on an IAS basis. At the latest by the third PRGF review, we will agree with the Fund staff an appropriate timeframe for adapting the SBV's accounting framework permanently onto international accounting standards; we will seek Fund technical assistance for this purpose. Before completion of the second PRGF review, we will provide the Fund staff with a progress report from the State Auditor on the external audit of the SBV to ensure its completion by June 2002.

VII. Program Monitoring

29. Prior actions for the IMF Executive Board consideration of the second PRGF review are summarized in [Table 6](#). [Table 5](#) contains quantitative performance criteria for end-June and end-December 2002 and quantitative benchmarks for end-September 2002; key structural policy undertakings are in [Table 6](#). Program monitoring and reporting requirements are detailed in the [Technical Memorandum of Understanding \(Annex II\)](#). The third review under the PRGF arrangement will be completed by November 2002, which will focus on progress in implementing the second-year program under the PRGF arrangement and progress in accelerating SOCB and SOE reforms. To help strengthen program implementation, technical assistance is being sought from the IMF and the World Bank in bank restructuring and supervision, and from the IMF in tax policy and administration and statistics.

Attachments

Table 1	Medium-Term Macroeconomic Framework, 1999-2004
Table 2	Quantitative Performance Criteria and Benchmarks Under the First-Year PRGF Program Through December 2001
Table 3	Monetary Program, 2000–2002
Table 4	Status of Key Structural Actions Under the First-Year PRGF-Supported Program
Table 5	Quantitative Performance Criteria and Benchmarks Under the Second-Year PRGF Program Through December 2002
Table 6	Key Structural Policy Undertakings for the Second PRGF Review and Structural Benchmarks and Performance Criteria for the Second-Year PRGF-Supported Program

<u>Annex I</u>	Milestones for State-Owned Commercial Banks in 2002
<u>Annex II</u>	Technical Memorandum of Understanding
<u>Table 7</u>	Monitoring and Reporting Requirements
<u>Table 8</u>	List of 200 Large Debt State-Owned Enterprises in the Debt Monitoring System Under the Second-Year PRGF-Supported Program

¹Besides other currently banned imports as stipulated in Decision 46/2001/QĐ-TTg, dated April 4, 2001.

ANNEX I

Vietnam—Milestones for State-Owned Commercial Banks in 2002

(Adopted on June 3, 2002)¹

The "Milestones for SOCBs" listed below are the minimum conditions in the context of the first and second PRGF reviews, as agreed by the State Bank of Vietnam (SBV) with the staffs of the International Monetary Fund and the World Bank, for the purpose of recapitalization of the four large state-owned commercial banks (SOCBs). Bank-specific milestones are expected to be developed consistent with these overall milestones and issued as a directive by the SBV.

Milestones for end-March 2002:

- Establish credit risk management and internal audit committees (where they do not already exist) and submit to the SBV for review the manual of procedures for those committees, revised to incorporate improvements relevant to each SOCB's recent experience.

Status: Credit risk management and internal audit committees have been set up, but three of the four SOCBs have not yet submitted manuals of procedures for those committees to the SBV for review. There are some legal issues concerning the independence of the audit committee. Technical assistance from the Bank and the Fund is being sought.

- Resolve at least D 1.4 trillion of potentially recoverable nonperforming loans (NPLs) of the four large SOCBs. Resolution targets for individual SOCBs will be agreed by the SBV and SOCBs and communicated to the World Bank and the International Monetary Fund.

Status: Two of the four large SOCBs submitted reports on NPL resolution as of end-March 2002 as required under Decree 01/2002/CT-NHNN. A third one submitted a report as of end-February 2002.

Milestones for end-June 2002:

- Agree audit qualifications from year 2000 audit that are to be eliminated by year-end and sign contracts for external audits for year 2001.

Status: Signing of contracts for IAS audits of 2001 financial statements by international auditing firm moved to end-July.

- Agree on September 2002 targets for loan resolution.

Milestones for end-September 2002:

- Resolve at least D 3.5 trillion of potentially recoverable NPLs of the four large SOCBs. *Resolution targets for individual SOCBs will be agreed by the SBV and SOCBs and communicated to the World Bank and the International Monetary Fund.*

Milestones for end-December 2002:

- Complete year 2001 external audit, eliminating qualifications agreed in June.
- Pass a special SBV examination of credit file documentation. (Examples of *features to monitor are: inclusion of appropriate signatures on credit documents; centralization at headquarters of credit extensions throughout the branch network to a single borrower; existence of a cash flow analysis of borrowers, even for collateralized loans; existence of written government guarantees for directed lending; etc.*)
- Agree on March 2003 targets for loan resolution based on the new loan *classification as defined in Decision 1627.*

Future milestones will be specified on the basis of experience with the implementation of earlier milestones and developments in SOCB conditions. The SOCBs will continuously improve performance against these milestones over three years, in addition to meeting these first-year milestones.

Technical Notes and Definitions Related to the Milestones²

Potentially recoverable loans are defined as: all collateralized loans + commercial noncollateralized loans to active borrowers + directed loans to active borrowers. The amount of resolved loans is the sum of:

- 1. Payments received from borrowers (after payment of any past due interest).*
- 2. For all collateralized loans the sum of (1) proceeds from the sale or lease of collateral, and (2) the loss written-off after the sale or other disposal of all*

collateral.

3. For collateralized loans to active borrowers and noncollateralized loans to active non-SOE borrowers, the amount of the loan that is restructured, if the active borrower negotiates with the SOCB a restructuring of business operations to improve debt-servicing capability.

4. For noncollateralized loans to active SOEs—the amount of the loan that is restructured if an approved SOE restructuring plan with appropriate conditions exists or provisions are made against the loan after an active SOE is closed.

5. Proceeds from the sale of debt (or another asset for which the debt was exchanged) to third parties.

6. For all loans—the amount of provisions made against the loan, if they are matched by "independent" capital injections, i.e., sources other than the government, the IMF, or the World Bank.

¹Italics indicate status of milestones or amended milestones relative to those agreed at the first PRGF review in November 2001.

²The technical definition for measuring NPL resolution from June 2002 onwards has been modified to conform with the results-based definition (Decree 07/2002/CT-NHNN). Performance against the March 2002 targets is measured against the original effort-based definition (MEFP, Annex I; November 1, 2001).

ANNEX II

Vietnam—Technical Memorandum of Understanding

June 3, 2002

1. This memorandum sets out (i) the definitions of quantitative performance criteria and benchmarks for the second-year PRGF-supported program (Table 5), and (ii) related reporting requirements to the Fund's Asia and Pacific Department (Table 7).

I. Definitions¹

Item 1: Net domestic assets (NDA) of the banking system

- Defined as total liquidity minus net foreign assets of the banking system.
- Total liquidity is defined as the sum of dong liquidity (currency outside the

banks, deposits, and deposit substitutes) and foreign currency deposits with the banking system; deposits are defined to exclude government deposits.

- Net foreign assets of the of the banking system are the sum of net foreign assets of the SBV and net foreign assets of the deposit money banks (DMBs).
- Net foreign assets of the DMBs are defined as foreign assets minus foreign liabilities. Foreign assets comprise gold, foreign currency holdings, and claims on nonresidents. Foreign liabilities comprise all liabilities to nonresidents.

Item 2: Net claims on the government of the banking system

- Defined as the claims on government minus deposits of the government with the banking system.
- Claims comprise advances to the state budget, investment in government securities, and any other forms of credit to the state budget.
- Government securities will be measured at the transaction price. Repayments of government securities will exclude interest payments, either as coupon interest or the discount.
- Government onlending funds financed by ODA and deposits of all proceeds from the issuance of international government bonds are excluded from government deposits.

Item 3: Credit to the state-owned enterprises from the banking system

- Defined as the sum of all claims on the state-owned enterprises (SOEs) by the banking system and any transfer of funds from the government or government agencies to SOEs in excess of US\$200 million in 2002. These funds comprise proceeds from the issuance of international bonds and exclude onlending from ODA disbursements.
- SOEs are defined as wholly state-owned enterprises.

Item 4: Credit from the banking system and from the budget and budget support to the 200 targeted large SOEs

- Credit from the banking system will be derived and verified from Report Form 1 (Report on Debt Situation of the Enterprise) of the Ministry of Finance (MoF) *Decision No. 47/2001/QD/BTC on Promulgating Criteria to Monitor State-Owned Enterprises with Large Debts* (issued on May 25, 2001 and amended on September 21, 2001).
- Credit from the budget and budget support will also be derived and verified

from Report Form 1.

- The list of targeted large SOEs is given in Table 8.

Item 5: Contracting or guaranteeing of nonconcessional external debt by the government

- Defined as the sum of all new foreign currency loans or other external debt to nonresidents contracted or guaranteed by the central government (including the SBV), that have a grant element of less than 35 percent of the overall value of the loan's original principal. Local governments and agencies cannot contract external debt, and SOEs cannot guarantee such debt.
- This performance criterion applies not only to debt as defined below, but also to commitments contracted or guaranteed for which value has not been received. For the purpose of this memorandum, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this memorandum, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.
- The grant element is to be calculated by using the currency-specific discount rates reported by the OECD as Commercial Interest Reference Rates (CIRR)

as of December 31, 2001; for maturities of less than 15 years, the grant element will be calculated based on six-month averages of the commercial interest rates, and for maturities of 15 years or longer, the grant element will be calculated based on 10-year averages. Maturity will be determined on the basis of the original loan contract.

- For maturities of up to one year, the ceiling will apply to the amount of the stock of foreign currency loans or other external debt to nonresidents contracted or guaranteed by the government.
- Excluded from the limits are changes in indebtedness resulting from rescheduling operations (including the deferral of interest on commercial debt) and normal import related credits, and credits extended by the IMF.
- Debt falling within the limit of this definition shall be valued in U.S. dollars at the bilateral market exchange rate prevailing at the time the contract or guarantee becomes effective.

Item 6: External payments arrears

- Defined as the stock of overdue payments (interest and principal payments) on short-term debt in convertible currencies with an original maturity of up to and including one year (spot, money market, letters of credit, and others) and medium- and long-term debt contracted or guaranteed by the government (including the SBV).
- The limit excludes those overdue payments that relate to debts which are subject to rescheduling or a stock-of-debt operation.
- As of end-December 2001, there were no reported external arrears, except for arrears totaling US\$60.6 million with Algeria currently under negotiation.

Item 7: Net official international reserves (NIR)

- Defined as foreign assets minus foreign liabilities of the SBV, expressed in U.S. dollars and valued at the program monitoring exchange rates (see Section II).
- Foreign assets comprise gold, foreign currency holdings, and claims on nonresidents. As such, these assets must be readily available, i.e. sellable at any time and free of any pledges or encumbrances, and directly and exclusively controlled by the SBV. These assets will exclude holdings of nonconvertible currencies, claims on nonresident financial institutions denominated in nonconvertible currencies, holdings of foreign exchange of government ministries, the foreign currency deposits of deposit money banks held at the SBV, assets to be resold under a swap arrangement or forward contract, foreign exchange sold to the SBV from the proceeds of the issuance

of international government bonds, and such other claims that are not readily available and/or are encumbered.

- Foreign liabilities are liabilities to nonresidents contracted by the SBV, including deposits of foreign governments, foreign central banks, foreign DMBs, and international organizations, irrespective of their maturity. They also include IMF purchases and disbursements.

II. Program monitoring exchange rates

30. Foreign assets and liabilities and all other elements of the items defined above that are denominated in foreign currency will be valued at the program monitoring exchange rates, unless specified otherwise.

- Holdings in gold will be valued at Vietnamese dong (D) 506,000 per Vietnamese chi (equivalent to 3.75 grams).
- Assets and liabilities denominated in SDRs, including the SDR value of gold holdings and assets and liabilities resulting from transactions with the IMF will be converted at the rate of US\$1.2567 per SDR.
- Assets and liabilities denominated in currencies other than the U.S. dollar will be converted into U.S. dollars at the market rates of the respective currencies prevailing on December 31, 2001, as published in *International Financial Statistics* (IFS).
- The U.S. dollar value of assets and liabilities will be converted into Vietnamese dong at the official rate of the SBV on December 31, 2001, which was D 15,070 per U.S. dollar.

VIII. Performance Criteria and Benchmarks

31. **Performance criteria** include Items 1 to 3 and 5 to 7 as defined above. For external payments arrears (Item 6), the performance criterion will be measured on a continuous basis throughout 2002. The other performance criteria will be measured on the last day of June 2002 and December 2002. **Quantitative benchmarks** include Items 1 to 5 and 7 as defined above. They will be measured on the last day of September 2002. Item 4 is also a quantitative benchmark to be measured on the last day of June 2002 and December 2002.

IX. Monitoring and Reporting Requirements

32. For the purposes of program monitoring, the following information, including any revisions to historical data, will be provided by the SBV, unless specified otherwise, to the Asia and Pacific Department of the Fund, through the office of the Senior Resident Representative of the IMF in Vietnam, as set out in Table 5.

Attachments

[Table 7](#) Vietnam: Monitoring and Reporting Requirements

[Table 8](#) Vietnam: List of 200 Large Debt State-Owned Enterprises in the Debt Monitoring System Under the Second-Year PRGF-Supported Program

¹These definitions, except Items 4, 5, and 6, adhere to the existing classification schemes used for the monetary derivation tables of the State Bank of Vietnam (SBV) covering 84 credit institutions and the SBV, and the associated monetary survey tables. More specifically, the banking system is defined as the SBV and the deposit money banks (DMBs), which consist of six state-owned commercial banks (SOCBs), 42 joint stock banks, 4 joint venture banks, 26 foreign bank branches, 5 finance companies, and the Central People's Credit Fund.

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EXHIBIT 9



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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release July 13, 2000

REMARKS BY THE PRESIDENT
ON THE ANNOUNCEMENT OF VIETNAM BILATERAL TRADE AGREEMENT
The Rose Garden
4:10 P.M.

THE PRESIDENT: Good afternoon, ladies and gentlemen. Just a few moments ago, Ambassador Barshefsky and Minister Vu Khoan signed an agreement between the United States and Vietnam that will dramatically open Vietnam's economy, further integrate it into the international community and increase trade between our two nations. And so from the bitter past, we plant the seeds of a better future.

This is another historic step in the process of normalization, reconciliation and healing between our two nations. Improvements in the relationship between the United States and Vietnam have depended from the beginning upon progress in determining the fate of Americans who did not return from the war.

In 1994, with the support of the members of Congress standing with me here and others, I lifted the trade embargo on Vietnam in response to its cooperation on the POW/MIA issue. A year later, I normalized diplomatic relations between our two nations to further this goal. As further progress was made in 1996, I appointed former Congressman Pete Peterson -- himself, a former prisoner of war -- to be our United States Ambassador in Vietnam.

With the indispensable help of key congressional allies, especially Senator John Kerry and Senator John McCain, Senator Bob Kerrey and Senator Chuck Hagel and Senator Chuck Robb; Representative Rick Boucher, Representative Reyes, who is here, Representative Manzullo, Representatives Lane Evans, Kolbe, Bereuter and McDermott, this process has worked.

Since 1993, we have undertaken 39 joint recovery operations with Vietnam, and the number of 40 is underway as we speak. One hundred and thirty-five American families have received the remains of their loved ones, and we're in the process of identifying another 150 possible sets of remains. Time and again, the Vietnamese people have shared their memories with Americans. And we, too, have sought to help Vietnam in its own search for answers.

Our nation has also felt a special sense of responsibility to those people in Vietnam whose families were

torn apart during and after the war. In the last few years, we've made tremendous progress in resettling tens of thousands of Vietnamese refugees in the United States, closing yet another painful chapter.

And Vietnam has done much to turn its face toward a changing world. It has worked to open its economy and move into the mainstream of Southeast Asia as a member of the Association of Southeast Asian nations and APEC. Our trading relations have also grown. When I took office our exports to Vietnam totaled just \$4 million. Today, they stand at \$291 million.

The agreement we signed today will dramatically open Vietnam's markets on everything from agriculture to industrial goods to telecommunications products, while creating jobs both in Vietnam and in the United States.

With this agreement, Vietnam has agreed to speed its opening to the world; to subject important decisions to the rule of law and the international trading system; to increase the flow of information to its people; by inviting competition in, to accelerate the rise of a free market economy and the private sector within Vietnam, itself. We hope expanded trade will go hand in hand with strength and respect for human rights and labor standards. For we live in an age where wealth is generated by the free exchange of ideas and stability depends on democratic choices. By signing this agreement, Vietnam takes an important step in the right direction.

We've been working on this agreement since 1996, and there are many people who deserve recognition. I want to say a special thanks to our Trade Representative, Ambassador Barshefsky; our Deputy USTR, Richard Fisher; Joe Damond, of USTR, for working so hard in the last four years to turn this agreement into reality.

I would also like to thank their Vietnamese counterparts: Trade Minister Vu Khoan; Chief Negotiator Nguyen Dinh Luong. And I want to say a special word of thanks also to Vietnamese Ambassador La Van Bang and to our Ambassador Pete Peterson, who have worked so hard to build ties among our nations and our people.

And let me say, again, it is my opinion that none of this would have been possible had it not been for the visionary and brave and reconciling leadership of the Americans in the United States Congress who served, many of whom suffered, in Vietnam; especially those who are here with me and the others whose names I mentioned earlier. Our debt to them as a nation is immense.

This agreement is one more reminder that former adversaries can come together to find common ground in a way that benefits all their people, to let go of the past and embrace the future, to forgive and to reconcile. As all of you know, that is what we are now trying to achieve at Camp David in what many believe is the most difficult of all historical circumstances.

This day is encouraging to me, and I will take the energy I feel here from all these people back to Camp David and make the argument that they should follow suit. Thank you very much.

Q Mr. President, you've talked about going to Vietnam. Are you planning to go to Vietnam after the APEC ministerial in November?

THE PRESIDENT: I haven't made a decision yet.

Q Mr. President, have you seen the videotape of the beating that a suspect apparently took at the hands of the Philadelphia police yesterday, and are you concerned about it? Have you asked any of the

authorities to look into it?

THE PRESIDENT: No, I haven't seen it, because I've been pretty isolated in the peace talks; but I've been briefed about it. The Justice Department is looking into it. And when I was in Baltimore on the way down here today, I spoke briefly with Mayor Street. And he assured me that he was going to go home and handle it in the appropriate way, and I trust him. He's a strong man and a good man, and I think he will do what is right.

Q Sir, is any substantial progress being made at Camp David? And there seems to be some confusion about whether you will allow the Palestinian opposition figures to come in to see Chairman Arafat.

THE PRESIDENT: I think I should say nothing about what's going on at Camp David; the less I say, the greater our chances of success.

Thank you very much.

END 4:16 P.M. EDT

EXHIBIT 10

THE U.S.-VIETNAM BILATERAL TRADE AGREEMENT

**Testimony of Ambassador Charlene Barshefsky
U.S. Trade Representative**

**House Subcommittee on Asian and Pacific Affairs
House Subcommittee on International Economic Policy and Trade
Washington, DC**

September 19th, 2000

Chairman Bereuter, Chairwoman Ros-Lehtinen, Congressmen Lantos and Menendez, Members of the Subcommittees, thank you very much for inviting me to testify on the conclusion of our Bilateral Commercial Agreement with Vietnam, and our support for extension of Normal Trade Relations.

This July, after nearly four years of negotiation, we signed a Bilateral Trade Agreement with Vietnam. Under the Jackson-Vanik Amendment, such an agreement is necessary, together with certification of freedom of emigration, for the United States to maintain conditional Normal Trade Relations with non-market economies. This is the most comprehensive such agreement ever negotiated, covering all the major trade issues on our agenda and, when approved by Congress through extension of annually renewable Normal Trade Relations, bringing about over time significant reforms in Vietnam's trade and economic policies. As it does so, the agreement will fully normalize our trade relationship with Vietnam, contributing to a broader process of normalization with both great symbolic and strategic importance for the United States.

U.S.-VIETNAM TRADE AGREEMENT AND U.S. REGIONAL POLICY GOALS

Let me begin my testimony by placing the agreement in the context of our broader relationship with and policy toward Vietnam and its neighbors.

Our first priority, like that of previous Administrations, has been a full accounting for American service personnel listed as Missing in Action in the aftermath of the Vietnam War. As Ambassador Peterson noted in testimony before the Ways and Means Committee earlier this year, this work is proceeding with full cooperation from Vietnam, through joint field activities and review of material evidence.

With this continuing, we believe normalized ties between the United States and Vietnam, Cambodia and Laos, together with their full engagement in ASEAN and the broader Pacific economy, serves American goals in several ways.

- First, integrating these countries into U.S.-Pacific trade contributes to American strategic goals in Asia. A stable and cohesive Southeast Asia is a major contribution to peace and security in the broader Asia-Pacific region. The entry of Vietnam, Laos and Cambodia into ASEAN has already made a major contribution to this goal. A growing trade and investment relationship with the United States, together with greater economic integration within Southeast Asia as the Indochinese nations participate in the ASEAN Free Trade Area, will continue and strengthen this trend.
- Second, we can help create substantial new trade opportunities for American businesses, farmers and working people in a region of 100 million people. Vietnam in particular, as ASEAN's second-largest country and the fourth-largest nation in Asia, has the potential to develop into a rapidly growing economy with significant demand for our products.
- Finally, our trade agreements make a contribution to economic reform and the rule of law in commercial areas in these countries. In doing so, they tend over time to reduce arbitrary state power, offer individuals greater economic opportunities and more freedom to determine their own future, complementing (although in no way substituting for) our human rights initiatives.

REGIONAL TRADE POLICY

Thus, since the mid-1990s and beginning with the lifting of post-Vietnam War trade embargoes, we have been working toward full normalization of our trade relationships with each country. Though the three economies are quite different -- Vietnam being a larger and relatively more industrialized country -- each presented some similar issues:

- All had non-market economies and highly closed trade regimes;
- In the aftermath of the Cold War, all were interested in moving toward varying degrees of domestic economic reform and opening economic relations with the United States; and

- All three, as non-market economies, were ineligible for Normal Trade Relations without negotiation of a Bilateral Commercial Agreement (BCA).

Our goal, therefore, was to negotiate agreements with each country that would lead to significantly more open markets, contribute to domestic reform and liberalization, and (assuming success in freedom of emigration in the Vietnamese case) allow us to endorse Normal Trade Relations. As with other transitional economies in Europe and Asia, we will not move on to requests for permanent NTR until Vietnam joins the WTO, a number of years from now.

CAMBODIA AND LAOS

With respect to the two smaller countries, we were able to move relatively quickly. We succeeded first with Cambodia, with a Bilateral Commercial Agreement that entered into force on the Congressional grant of NTR in 1996. As this agreement was negotiated before completion of the Uruguay Round, it is less comprehensive than the Laos and Vietnam agreements. However, it does contain comprehensive intellectual property commitments and ensures national treatment for imports.

With respect to Laos, we completed a Bilateral Commercial Agreement in 1997. This agreement, using the completion of the Uruguay Round as a foundation, is more comprehensive, covering market access for goods and services, and intellectual property rights. It has not yet come into force, however, as Laos has not yet been granted NTR by Congress. The Administration will continue to work with Members to find an appropriate vehicle and time for its implementation.

CONTEMPORARY U.S. TRADE RELATIONSHIP WITH VIETNAM

Vietnam, with nearly 80 million of the region's approximately 100 million people, is by far the largest of the three countries. Our work here has proceeded step-by-step, beginning with President Clinton's decision to authorize resumed international lending and allow US firms to join in development projects in 1993, and continuing through the lifting of the economic embargo in 1994, and the opening of normal diplomatic relations in 1995. These in turn build upon earlier decisions in 1991 and 1992 to open organized travel, allow commercial sales to Vietnam for basic human needs and open telecommunications links.

These steps have enabled us to begin the development of a trade and investment relationship with Vietnam. Vietnam has become our sixth largest trading partner in Southeast Asia -- in 1999, we exported approximately \$300 million worth of goods to Vietnam, with the major U.S. exports being industrial machinery, fertilizers and semiconductors; and our imports from Vietnam totalled approximately \$600 million, most of this in crude oil, footwear, shrimp and coffee. A number of American firms have invested in Vietnam as well, with approximately \$183 million worth of investment at the end of 1998.

Two factors have severely limited the growth of this relationship, however. First, Vietnam remains one of the very few countries which do not enjoy Normal Trade Relations Status. (These are Vietnam, Laos, Cuba, North Korea, Afghanistan and Serbia.) As a result, imports from Vietnam face Smoot-Hawley tariff levels averaging 40% -- more than ten times our current applied tariff levels for countries with NTR.

Second, economic reform within Vietnam has progressed slowly, weakening the economy's overall potential and creating obstacles for American exporters. Vietnam had made a degree of progress on reform in the early 1990s. However, this has been slowed by the effects of the Asian financial crisis, as Vietnam's exports to and investment from East Asia have both dropped. Vietnam's rates of economic growth, high in the early 1990s, have slowed to 4.0 - 4.5% per year since the financial crisis.

As this occurred, the momentum of domestic reform slowed as well. This has left Vietnam with a series of policy challenges: state enterprises make up approximately 30% of GDP and are in many cases in a financially weak position, highly protectionist policies in many sectors, and non-transparent administration.

THE U.S.-VIETNAM BILATERAL TRADE AGREEMENT

Our Bilateral Commercial Agreement addresses many of these issues as it also takes up the major trade issues and sectors of concern to Americans. It thus it marks a major shift of economic policy direction for Vietnam, setting a course for greater openness to the outside world; promoting economic reform and market principles, transparency in law and regulatory policy, and helping Vietnam to both integrate itself into the Pacific regional economy and build a foundation for future entry into the World Trade Organization. The agreement is divided into six chapters: (1) market access for industrial goods and farm products; (2) intellectual property; (3) trade in services; (4) investment; (5) business facilitation; and (6) transparency. In each case, it sets clear and specific commitments and timetables, which will go into effect after the agreement is implemented

through a Congressional decision to extend Normal Trade Relations to Vietnam.

The details of the agreement are as follows.

Chapter 1. Market Access for Goods

In goods, Vietnam has committed to general trade principles consistent with WTO practices, including reducing tariffs and abolishing non-tariff restrictions such as quotas, ensuring trading rights for foreign and Vietnamese businesses, and others. Some of the major commitments include:

Trading Rights: Vietnam will grant, for the first time, rights for both Vietnamese and foreign businesses to import and export, generally phased in over 3-6 years.

National Treatment -- Vietnam will apply national treatment for imports in areas including standards, taxes and commercial dispute settlement.

Tariffs -- Vietnam will guarantee MFN-level tariffs for U.S. goods, and cut tariffs on a wide range of agricultural and manufactured goods of interest to American exporters from most cases by a third to a half, from current levels averaging approximately 20%.

Non-tariff Measures: Vietnam has agreed to eliminate all quantitative restrictions on a range of industrial and agricultural products (e.g., auto parts, citrus, beef), over a period of 3-7 years, depending on the product.

Import Licensing: Vietnam will eliminate all discretionary import licensing, in accordance with the WTO agreement.

Customs Valuation and Customs Fees. Vietnam will comply with WTO rules -- using transactions value for customs valuation, and limiting customs fees to cost of services rendered -- in 2 years.

Technical Standards and Sanitary and Phytosanitary Measures: In accordance with WTO standards, technical regulations and sanitary and phytosanitary measures will be applied on a national treatment basis, to the extent necessary to fulfill legitimate objectives (e.g., to protect human, animal or plant life or health).

State Trading: State trading will be carried out in accordance with WTO rules (e.g., state trading enterprises make any sales and purchases only in accordance with commercial considerations).

Chapter 2. Intellectual Property Rights

Vietnam will implement WTO-level patent and trademark protection within one year, and copyright and trade secret protection within 18 months. It will also take further measures to strengthen intellectual property protection in other areas, for example protection of encrypted satellite signals.

Chapter 3. Trade in Services

Vietnam will accept the rules of the WTO's General Agreement on Trade in Services, guarantees protection for the existing rights of all foreign service providers in Vietnam, and making specific commitments in a range of sectors. Some of the major areas include:

Telecommunications -- Vietnam will accept the principles of the WTO's Basic Telecommunications Reference Paper, requiring a pro-competitive regulatory regime and cost-based interconnection fees. It will also make commitments to liberalize the basic and value-added telecommunications markets, as follows:

Basic Telecom (including mobile cellular and satellite) -- Vietnam will allow U.S. firms to form joint ventures four years after implementation of the agreement, with a 49% US equity limit.

Value-added Telecom -- U.S. firms will be allowed to form joint ventures two years after implementation of the agreement (3 years for Internet services), with a 50% limit on US equity.

Voice Telephone services -- U.S. firms will be allowed to form joint ventures after six years, with a 49% equity limit.

In all these fields, Vietnam and the U.S. will discuss a potential increase in the level of U.S. equity participation when the agreement is reviewed in three years.

Financial Services -- Vietnam agreed to the General Agreement on Trade in Services financial annex, and made the following specific commitments:

Insurance: In life and other "non-mandatory" sectors, U.S. firms will be able to form joint ventures with a 50% equity limit after three years, and to hold 100% equity after five years. In "mandatory" sectors such as motor vehicle and construction insurance, U.S. firms will be able to hold 100% equity after six years.

Banking and related financial services -- Vietnam has also agreed to:

Non-bank and leasing company providers: Joint ventures will be allowed on implementation of the agreement; after three years, Vietnam will permit 100% US equity shares.

Banks -- US banks will be allowed to open branches in Vietnam. U.S. banks will be able to form joint ventures with equity between 30% and 49%; after 9 years, 100% US subsidiary banks will be allowed. Vietnam will also allow U.S. banks to hold equity shares in privatized Vietnamese banks at the same level as allowed Vietnamese investors. Over time, Vietnam will also allow U.S. banks to offer such services as deposits in local currency, credit cards, ATM machines and others.

Securities-related services -- U.S. securities firms will be allowed to open representative offices in Vietnam.

Professional: Vietnam has made specific commitments across the range of professional services industries. These include:

Legal -- Vietnam will allow 100% US equity in legal firms, including branches. Law firms opening branches in Vietnam will receive 5-year, renewable licenses, and may consult on Vietnamese laws.

Accounting -- U.S. accounting firms will be able to hold 100% equity. Vietnam will grant licenses to U.S. accounting firms on a case-by-case basis for three years, with no limits afterwards. U.S. firms will be able to provide services to foreign invested firms for the first two years, and to Vietnamese firms afterwards.

Architectural -- U.S. architectural firms will be able to hold 100% equity. U.S. firms will be able to provide services to foreign invested firms for the first two years, and to Vietnamese firms afterwards.

Engineering -- U.S. engineering firms will be able to hold 100% equity. U.S. firms will be able to provide services to foreign invested firms for the first two years, and to Vietnamese firms afterwards.

Audio Visual -- U.S. firms will be able to form joint ventures with 49% equity on implementation of the agreement; the equity limit will rise to 51% after five years. Services opened under this commitment include film production and distribution, and motion picture projection services.

Distribution -- For wholesale distribution, U.S. firms will be able to form joint ventures after three years with a 49% equity limit; this equity limit will be eliminated after six years. All U.S. retailers wishing to participate in the Vietnam market will be allowed to open one outlet, with further approvals on a case-by-case basis.

Other -- Vietnam has also made specific commitments in a wide range of other services fields, including computer services, advertising, market research, management consulting, construction, distribution, private education, health services such as hospital and clinics, and the travel and tourism sector.

Chapter 4. Investment

Vietnam will make a series of commitments that will ease investment, reduce paperwork and in almost all cases ensure national treatment for foreign investors. These include protection against expropriation of U.S. investments in Vietnam, and rights to repatriate profits and conduct other financial transfers on a national treatment basis; phasing out such measures as

local content requirements and export performance requirements within 5 years; ending almost all investment screening and discriminatory pricing; and reducing government controls and screening requirements for joint ventures.

Chapter 5: Business Facilitation

Vietnam will guarantee the right for U.S. persons to conduct routine business practices, such as setting up offices, advertise, and conduct market studies.

Chapter 6: Transparency and Right to Appeal

This chapter of the agreement is as significant as any in the agreement. Under its provisions, Vietnam will make an extensive set of commitments to transparency. In sharp contrast to past practices and a major reform of administrative policies, Vietnam will now provide advance notice of all laws, regulations and other administrative procedures relating to any matter covered in the agreement; publish all laws and regulations; and inform the public of effective dates and government contact points. Specific commitments include:

- All laws governing issues covered in the agreement must be made public and readily available.
- Vietnam will designate an official journal in which all such measures will be published.
- Vietnam will commit to uniform, impartial and reasonable application of all laws, regulations and administrative procedures.
- Vietnam will form administrative or judicial tribunals for review and correction (at the request of an affected person) of all matters covered in the agreement, and afford the right to appeal the relevant decision. Notice of decisions upon appeal and reasons for decisions appealed will be provided in writing.

CONCLUSION

Taken as a whole, this agreement is an historic step forward in our economic relationship with Vietnam -- bringing U.S.-Vietnam trade onto the same terms we afford nearly every other country in the world, and marking an important turning point in Vietnam's domestic economic policies. Over time, it will help speed Vietnam's integration into the world and Pacific economies, and move it toward ultimate membership in the World Trade Organization.

As it promotes this transformation of our economic relationship, the U.S.-Vietnam Trade Agreement thus serves each of our major goals in Southeast Asia. Completion of this agreement, and approval of annual NTR for Vietnam, will open significant new opportunities for Americans. More important still, it will contribute to aspirations for economic liberalization and the rule of law in these countries; complement the work we are pursuing in human rights; and advance our long-term vision of a peaceful, stable Asia.

Finally, of course, this agreement marks a decisive moment in our normalization with Vietnam and its neighbors. This process, over the past decade, has contributed to the end of the Cambodian conflict; an accounting for Americans missing in action during the Indochina wars; and the reopening of hope for millions of the region's people; and Congressional approval will mark the final step in this process. When the agreement is submitted to Congress, we look forward to working with you to ensure its approval.

Thank you very much.

EXHIBIT 11



United States Embassy Hanoi, Vietnam



7 Lang Ha Street, Ba Dinh District, Hanoi, Vietnam * Tel:84-4-772-1500 * Fax: 84-4-772-1510

06 September 2002

Tiến

VIETNAM CHAMBER OF COMMERCE AND INDUSTRY PRESENTATION BY AMBASSADOR RAYMOND BURGHARDT SEPTEMBER 6, 2002

Thank you for inviting me to speak with you tonight about U.S.-Vietnam economic relations. Thank you Professor Phan Cu De (Chairman of the International Economic Cultural Exchange Club), and Mr. Doan Duy Thanh (Chairman Vietnam Chamber of Commerce and Industry) it's a pleasure to be here and to address the members of VCCI.

I would like to talk first about the U.S.-Vietnam relationship in general. Some of you may know that I started my diplomatic career in Vietnam from 1970 to 1973. Now, 30 years later I am very pleased to return to a Vietnam at peace, in the process of economic reform and development, and ever more prosperous and integrated into the international community.

It's important to remember that this is a very new relationship and that every day, we are creating, expanding, refining our cooperation with each other. To establish full diplomatic relations, both sides had to overcome memories of a bitter history. On both sides, many people remained suspicious and hostile. That distrust still exists in some quarters in both Vietnam and the United States. In our country, our foreign policy is heavily influenced by interest groups that have a strong interest in particular issues. While the President sets the direction of our policy, the executive branch of our government must take account of the concerns of interest groups. The long, complicated history of this bilateral relationship has resulted in many well-organized groups who take a keen interest in different aspects of Washington's relationship with Hanoi. Groups which advocate for a full accounting for servicemen missing in action demand that the Bush Administration push for greater access to Vietnamese documents that can explain what happened to soldiers whom we know were captured alive. Human rights organizations and Vietnamese American groups regularly write to me to urge that I speak out publicly about abuses of human rights or religious freedom in Vietnam. Advocates for refugees urge the administration to reopen the doors to our country people who had a special relationship with the U.S. government.

And now, business groups pressure us to open the Vietnamese market faster, to resolve trade disputes and to award contracts for their firms. Like all lobbying groups everywhere, some of these people may sometimes overstate their case. But, they all do have legitimate points. They raise serious issues that concern the American people and the American government. This is not some sinister plot of "peaceful evolution." This is simply how a democracy works. A steady improvement in our relations requires that there is steady progress on the issues that concern the American people.

During the last year, after the Bilateral Trade Agreement (BTA) went into effect, one has heard a lot about the "normalization" of U.S.-Vietnam relations. The process of normalization of our relationship actually began even before diplomatic relations did. In the early 1990's, our unofficial relationship was a three-issue relationship - a search for Missing in Action (MIA); a USAID-funded program to assist war victims, particularly children; and a military refugee and immigration programs. In 1994, the U.S. liaison office was established in Hanoi to manage the broadening relations and to prepare for establishment of diplomatic relations. In July 1995, we reestablished diplomatic relations. Relations at the Ambassadorial level started only 5 years ago - I am only the 2nd Ambassador to a unified Vietnam. Our Consulate General in Ho Chi Minh City also only opened 5 years ago and at its present site

1999.

In the early days of our new, official relationship, the U.S. and Vietnam worked together on many cooperative humanitarian programs, such as assistance for the disabled and orphans, disaster relief, child nutrition program traffic safety and helmets, HIV/AIDS, environment, and weather management. Those programs continue and are even being expanded. Our cooperation in the search for MIA's also continues and remains a key aspect of U.S. - Vietnam relations.

But as we continue the original elements of our relationship, we have steadily broadened and deepened our ties. The U.S.-Vietnam Bilateral Trade Agreement is, of course, one very important element of our increased and broadened cooperation, but it is not the only one. We are working with Vietnam to truly normalize our relations in all areas, and I would like to talk a little about some of those non-commercial areas before I address the BTA.

One of the most important areas of collaboration is in education. Vietnam is a nation of young people and they are the key to future development. The US offers a wide variety of educational and professional exchange programs in Vietnam which contribute to the development of Vietnam's human potential in many vital areas including economics and business, law, policy making, science and technology. For example, the Fulbright program with Vietnam is the largest such program in the world. And sometime next year, we hope to inaugurate the new \$ 5 million/year Vietnam Education Foundation, which is designed to offer Vietnamese students new opportunities for graduate education in science, technology and medicine.

As I mentioned before, our humanitarian assistance programs through USAID continue and are expanding, growing steadily during the last decade to about \$15 million today. USAID activities include trade, investment and economic development as well as health, urban environmental protection, flood mitigation, assistance to war victims, particularly children, and emergency assistance to help Vietnam cope with disasters, such as flooding and forest fires.

Our bilateral Science and Technology Cooperation Framework agreement with Vietnam entered into force in March 2001 creating the basis for future cooperation and exchange on a broad range of Science and Technology issues. Existing or planned programs under this agreement will work in the following areas - public health, hydrology and meteorology, environmental protection, marine research and fisheries, and research on the peaceful and safe use of nuclear energy. The U.S.-Asian Environmental Partnership, (USAEP), a public-private partnership funded by the USG, is working to complement our support for Vietnam's economic reform and development to improve the management of the urban/industrial environment. Through USAEP, the USG is helping Vietnam improve its environmental regulatory framework, develop clean air and water standards, improve pollution monitoring and develop public awareness of environmental issues. The U.S. has also agreed with Vietnam to begin joint scientific research on the impact of dioxins (including Agent Orange) on health and the environment in Vietnam.

The U.S. Defense Attaché Office at the Embassy, in coordination with USAID, oversees a large program of disaster related assistance, such as airlifts of needed food and supplies and disaster mitigation like surveys of needed dikes, improved weather forecasting, design and construction of flood resistant clinics to name a few. The Defense Attaché Office is helping meet Vietnam's everyday medical needs. Funds have supported modern ambulance services, medical research on endemic diseases and acquisition of technology permitting early detection of disease outbreaks. And finally, the Defense Attaché's office coordinates Vietnam's participation in the State Department Humanitarian Demining program. To date, this program has provided almost \$5 million in equipment and other assistance, including computer mapping software and hardware. Yesterday morning, I visited some of those activities in Quang Tri Province and was impressed by the progress they have made.

We are working together on labor issues. In November 2000, the U.S. and Vietnam signed a Memorandum of Understanding establishing a program of labor cooperation and dialogue. The U.S. is providing technical assistance worth roughly \$6 million to assist Vietnam in areas such as improving industrial relations, enhancing Employment Service Center capacity, child labor, social insurance systems, employment for persons with disabilities, and HIV/AIDS prevention programs.

Another area where we are expanding our cooperation is on law enforcement issues. The Vietnamese government is deeply concerned with fighting crime, and we are trying to assist in providing training. In the last two years,

approximately 130 Vietnamese police officers have attended courses at the regional U.S. International Law Enforcement Academy (ILEA) in Bangkok. And we hope to do more in the future, especially in the areas of counter narcotics, trafficking in persons, and repatriation of convicted felons. The United States Immigration and Naturalization Service has worked closely with the Vietnamese Government to combat fraudulent international adoption of children.

We carry out a steady dialogue with Vietnam, including once a year in formal talks, on regional and world issues. A similar dialogue process exists on human rights issues. The U.S. special envoy for religious freedom just visited Hanoi and the next human rights dialogue meeting will take place in Washington this fall.

And finally, the U.S.-Vietnam Bilateral Trade Agreement. The BTA is an important element of the normalization effort between the U.S. and Vietnam. Five years from negotiation to ratification and entry into force, it is one of the most comprehensive agreements that we have undertaken on a bilateral basis. On December 10, 2001, that historic agreement came into force -- 5 days before I arrived at post and the implementation of the agreement will be a main focus of the Embassy's work over the next few years.

What is the BTA? The BTA is a bilateral trade and investment agreement that covers 6 major areas: market access for industrial and agricultural goods, protection of intellectual property, market access for services, investment protection, business facilitation, and transparency.

The measures that Vietnam will apply to implement the BTA represent some of the most important steps that it has taken to advance economic reform since it began its program of economic "restructuring" in the late 1980s. The Agreement is significant for several reasons.

First, because the agreement commits Vietnam to badly needed reform efforts and provides access to the Vietnamese market for U.S. firms at the same time it provides access to the U.S. market for the Vietnamese. It also lays the groundwork for the additional economic reforms that Vietnam will need to take to join the World Trade Organization.

Second, the Agreement will help transform Vietnam's economy into one that is more open and transparent. In the long term, the BTA will help improve the business climate for both domestic and foreign companies. Finally, of course, the Agreement creates new and significant commercial opportunities for U.S. firms and Vietnamese firms in both markets. But, BTA is not a magic wand - it only opens the door for firms. Vietnamese companies are going to still have to put a lot of effort and learning to do business in the U.S.

The BTA broke new ground by including investment, in addition to the traditional trade provisions. Clearly, in order for Vietnam to really benefit from the trade liberalization, it needs greater foreign investment and greater access to liberalized services. One need not look far - most of the countries in Asia have demonstrated how important it can be to accelerate economic development. As economic growth is the single most important factor affecting poverty reduction, it's clear that investment must be a central factor in Vietnam accomplishing its development goals.

One of the more interesting and promising areas of change in Vietnam is the government's effort to increase transparency. In the BTA, Vietnam committed upon entry-into-force to publish all laws, regulations, and administrative practices. Vietnam is making significant, if slow, progress in its efforts to enhance transparency. This is something that will benefit Vietnamese businesses even more than foreign firms because it will make dealing with the government predictable and fair.

Vietnam faces a number of technical as well as political challenges in implementing the BTA. To assist Vietnam in facing those challenges, we are doing something a little unusual - technical assistance directly linked to the implementation of a trade agreement. This is the only program of its kind anywhere and is a sign of our desire to work with Vietnam as it reforms and liberalizes its market and moves toward a more market oriented economy. We are working with around 20 different Vietnamese government agencies to provide technical assistance in many areas, including trade liberalization, legal reform, transparency, and regulatory reform.

We are providing this technical assistance to Vietnam through a number of channels. First and foremost are the

daily efforts of the entire U.S. Mission and many U.S. Government agencies. Second, through the U.S. Agency for International Development, the US is funding the STAR project (worth 8 million over 3 years) to provide technic expertise to the GVN on implementation issues throughout Vietnam. We are also funding programs through the Vietnam Trade Council, the U.S. Department of State Public Affairs Bureau, and Boise State University.

Another important aspect of the BTA is that it can serve as a practical roadmap for Vietnam's accession to the World Trade Organization. The Vietnamese government has stated that it seeks membership by 2005. That is a difficult challenge. However, I should note that the BTA would be just the starting point - WTO members will certainly seek greater commitments from Vietnam on tariff reductions, services and market access. They are all watching very, very closely how Vietnam is meeting its obligations under the BTA as a measure of Vietnam's seriousness in the WTO accession process.

At the latest round of WTO accession talks last April in Geneva, I think the message came through loud and clear that a number of countries, including the U.S., want to help Vietnam in its accession process. But it was also clear that Vietnam has a lot of work to do. There is a lot of competition for WTO membership and there are basic standards of accession, even for developing countries like Vietnam. As the U.S. Delegation told Deputy Prime Minister Cam, Vice Minister Tu and others in Geneva, the U.S. will work with Vietnam on these issues.

Lastly, I would like to say that we are seeing real results from the BTA and the increased interaction between the U.S. and Vietnam on economic issues. Certainly trade between the U.S. and Vietnam has seen a significant increase since the BTA went into effect. According to U.S. trade figures, if we look at the first six months of 2002, compared with the first six months of 2001, we see that Vietnam's exports to the United States increased by an amazing 8% from \$428 million to \$792 million. And we fully expect that trend to continue for the rest of the year. This is due to a period when Vietnam's exports to the rest of the world decreased or remained stagnant. U.S. exports to Vietnam also increased by [34% from 165 million in the first six months of 2001 to 222 million over the same period in 2002 - I'm checking this figure]. That shows that there is a robust two way trade relationship developing. As trade increases, so will the opportunities for disputes. That's a normal part of joining the world trading community, unfortunately! As we move ahead, we need to keep the overall relationship in perspective and continue to work cooperatively together on all issues.

I look forward to this task and I look forward to helping move the U.S.-Vietnam relationship forward to the next higher level of engagement. Thank you again for your time.

American Embassy Hanoi
Key Officers | Consular Section | Public Affairs Section
U.S. Foreign Commercial Service | U.S. Agricultural Service | Fulbright Program in Vietnam
U.S.-Vietnam Relations | Bilateral Trade Agreement
irchano@pd.state.gov

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