WILLKIE FARR & GALLAGHER

1875 K Street, N.W.
Washington, DC 20006-1238
Tel: 202 303 1000
Fax: 202 303 2000

October 15, 2002

A-552-801
Total Pages: 207
Investigation
PUBLIC DOCUMENT

BY HAND DELIVERY

The Honorable Donald L. Evans
Secretary of Commerce
U.S. Department Of Commerce
Attn: Import Administration
Central Records Unit, Room 1870
14th Street & Constitution Avenue, NW
Washington, DC 20230

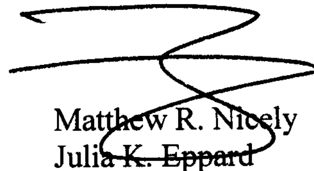
Re: Rebuttal Comments of the Government of Vietnam on the Market Economy Status of Vietnam in the Antidumping Investigation of Certain Frozen Fish Fillet from Vietnam

Dear Secretary Evans:

On behalf of the Government of Vietnam ("GOV"), an interested party in the current proceeding, we hereby submit our rebuttal comments in opposition to Petitioners' allegation that Vietnam should be considered a non-market economy ("NME"). See Investigation of Certain Frozen Fish Fillets From the Socialist Republic of Vietnam: Opportunity To Comment on Petitioner's Allegation That Vietnam Has a Non-Market Economy, 67 Fed. Reg. 52942 (August 14, 2002).

If you have any questions concerning this submission, please contact one of the undersigned.

Respectfully submitted,



Matthew R. Nicely
Julia K. Eppard

Frozen Fish Fillets from Vietnam **A-552-801**

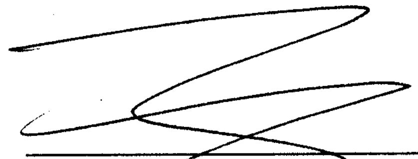
PUBLIC CERTIFICATE OF SERVICE

I, Matthew R. Nicely, hereby certify that a copy of the foregoing public submission has been served by hand delivery, this day, upon the following persons:

On Behalf of the Counsel for Catfish Farmers of America; America's Catch, Inc.; Consolidated Catfish Co., L.L.C.; Delta Pride Catfish, Inc.; Harvest Select; Heartland Catfish; Pride of the Pond; Simmons Farm-Raised Catfish; Southern Pride Catfish:
Valerie A. Slater, Esq.
AKIN, GUMP, STRAUSS, HAUER & FELD, LLP
1333 New Hampshire Avenue, N.W.
Washington, DC 200036

On Behalf of the Counsel for Vietnam Association of Seafood Exporters and Producers and its individual members:
William J. Clinton, Esq.
WHITE & CASE
601 Thirteenth Street, NW
Suite 600, South
Washington, Dc 20005-3807

On behalf of the Counsel for Piazza Seafood World L.L.C.:
John M. Gurley, Esq.
COUDERT BROTHERS LLP
1627 I Street, NW
Washington, DC 20006-4007



Matthew R. Nicely
WILLKIE FARR & GALLAGHER
1155 21st Street, N.W., Suite 600
Washington, D.C. 20036

Dated: October 15, 2002

161594.1-February 23, 1998

PUBLIC DOCUMENT
Inv. No. A-552-801

REBUTTAL COMMENTS ON THE DEPARTMENT'S CONSIDERATION OF THE MARKET ECONOMY STATUS OF VIETNAM

SUBMITTED ON BEHALF OF
THE GOVERNMENT OF VIETNAM

Matthew R. Nicely
Julia K. Eppard

WILLKIE FARR & GALLAGHER
1875 K Street, N.W.
Washington, D.C. 20006
(202) 303-1000

Dated: October 15, 2002

INTRODUCTION

To read Petitioners' October 2, 2002, comments is to take a trip back in time. They appear to long for the time when countries were on one side of the Cold War or the other. But, such labels are not particularly meaningful today. With the Cold War behind us, it has become increasingly clear that the world's economies cannot be defined in black and white terms. The world is made up of economies of all stripes, none of which is easily categorized, few of which are isolated from the market forces of globalization. Vietnam's is one such economy, and the fact that the Communist Party remains active in Vietnam does not change that fact.[1]

Rather than apply the blunt instrument of Cold War rhetoric, as Petitioners propose, the Department's job in this inquiry is to undertake a sophisticated economic analysis that accounts for the reality of today's global market place. Fortunately, the six factor approach the Department applies in its analysis of a country's economic status reflects this reality. We urge the Department not be to be swayed by the ideological battles of the last century, but to focus on the facts that matter -- Vietnam's economic reforms and their proven performance in creating a market economy where one did not exist 20 years ago.

As commenting on the socio-political system is not appropriate for the purpose of the Department's analysis, we should not waste the Department's or our time doing so. However, as Petitioners have focused heavily on the issue, before moving to that analysis we wish to correct some of the mischaracterizations set forth in the cover letter to Petitioners' comments. First and

---

[1] Indeed, Petitioners' first exhibit to their comments contains a September 10, 2002 article from Agence France Presse that depicts Vietnam as a "socialist-leaning market economy." Comments of Catfish Farmers of America (Octobe 2, 2002 ("Petitioners' Comments"), Exhibit A. Such delineations certainly show that nominally socialist and capitalist systems are not as mutually exclusive as Petitioners suggest.

foremost is the notion that the Communist Party does not support the market-oriented reforms currently being undertaken by our Government. To the contrary, the Communist Party not only supports the legal and economic reforms initiated to facilitate development of Vietnam's market economy; the Party initiated the "doi moi" or renovation policy during its 6th Congress in 1986. The Party has confirmed that the market economy system is inevitable in today's world and must exist irrespective of political regimes. The Party views these developments as consistent with the theories of Ho Chi Minh, Vietnam's President and Founder of the Communist Party in Vietnam.

Vietnam's Constitution clearly states our country's determination to develop a socialist market economy [2] and to provide equal positions for all economic sectors, including the state sector, the collective sector, the private sector, and the foreign invested sector.[3] Our Constitution praises the power of the people and the rule of law, encourages wealth creation, respects and protects the basic rights of its citizens as well as foreigners (including rights to private ownership, freedom of business, freedom of association and religion), and guarantees the rights of workers to form trade unions and to bargain collectively.[4] The Constitution also calls for Government action through economic policy in order to make "the people rich and the country strong."[5]

---

[2] The Constitution of Vietnam (1992 as amended in 2002), Article 15.

[3] Id. Article 16.

[4] Id. Article 15-21

[5] Id. Article 16.

The Vietnamese Government's intentions in this regard are not so different from those of the various market economies throughout the world. When announcing our own Declaration of Independence on September 2, 1946, Ho Chi Minh quoted favorably from the U.S. Declaration, where it states: "We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness." Our Government, like the U.S. Government, seeks to ensure that these words have meaning. As such, the Government is not entirely silent when it comes to the economy, just as the U.S. Government is not silent. It is widely recognized that governments must sometimes intervene in the market to support economic development and correct market failures if necessary. The United States itself was forced to intervene to address the causes and effects of corporate failures of such companies as Enron, Worldcom, and Xerox, to name just a few. We, like the U.S. Government, view such intervention as necessary to abide by government's promise to protect the people.

As for Petitioners' claim that the laws promulgated by our National Assembly must be viewed with "skepticism," we obviously disagree. Petitioners simply misunderstand the facts. Under our Constitution, the National Assembly -- as the representative of the people -- has supreme power and holds exclusive constitutional and legislative powers.[6] The National Assembly exercises its powers on the basis of democracy and transparency. All bills of law are widely publicized so that the public may comment before a final decision is made by the National Assembly. The Assembly engages in transparent debate as most sessions are broadcast live on public television and radio. When enacting a law, Assembly members' vote are recorded

---

[6] Id. at Article 83.

either electronically or in writing. Upon approved by the National Assembly, the law is posted in the Official Gazette and otherwise publicized by the media. And, as our economic performance demonstrates, the laws the National Assembly has passed are, in fact, being implemented.

As for the allegation that international organizations like the World Bank and the IMF "rel[y] heavily on anecdotal evidence and incomplete data that often are compiled by the Vietnamese Government," this just isn't true. In order to provide the Department with an objective view, we refer in our comments to information and assessments mostly provided by respected independent international organizations such as the IMF, the World Bank, and the ADB, all of which have undertaken their own analysis. Petitioners' argument underestimates the reputation, objectivity, and independence of these organizations, whose data compilation and analyses are routinely relied upon throughout the world. These sources, which are plentiful, are certainly more appropriate than some of the outdated and/or market-purist sources on which Petitioners rely in making their most outrageous arguments.

The Department can see from the our initial comments of October 2, 2002, that Vietnam's reforms are not merely reflected in the laws that have been passed, but in the business activities that are occurring under those laws. To suggest that Vietnam has undertaken *de jure* changes that have not yet resulted in *de facto* improvements in market-oriented freedoms, as

petitioners allege,[7] is just false. Indeed, in some instances, Vietnam's economic performance outpaces the legal reforms the Government has implemented.[8]

The Government of Vietnam ("GVN") fully admits, as Petitioners quote from the World Bank, that Vietnam is an "extremely poor country." The misinterpretation by Petitioners that Vietnam has poor policies because it is a poor country is wrong. The remarkable achievements that Vietnam has accorded in its economic development during recent years are a testimony to the sound policies of the Government and the tireless efforts of its people. To be sure, Vietnam is in no different position from a multitude of other developing countries whose policies do not meet the standards of developed nations, either in terms of wealth or in terms of policy making. More to the point, judging policies by looking at the level of development of a country is simply inappropriate. But, as the Department is well aware, this is not the standard used to determine whether a country is a market economy or not. Plenty of developing countries in the world are treated as market economies in the Department's antidumping analysis, and Vietnam should be no different.

---

[7] Petitioners' Comments at 6 (cover letter).

[8] Petitioners, for instance, argue that Vietnam's labor laws are poorly drafted (Petitioners' Comments at II-5), yet the vast majority of the population moves freely from one job to the next, ably negotiating the terms of their employment. In this instance, *de facto* reforms may be outpacing *de jure* reforms.

I. FACTOR 1: VIETNAM'S CURRENCY IS CONVERTIBLE

In their October 2 submission, Petitioners note the existence of Vietnam's currency restrictions and argue these "limits on currency convertibility have significant impact on the ability of demand and supply forces to determine domestic market prices in Vietnam."[9] However, in order to evaluate the legitimacy of this argument, it is necessary to understand that the Department's analysis of the currency factor depends on a relevant contextual framework, something which petitioners fail to provide. Consider Petitioners' contention that the existence of current-account restrictions, evidenced by Vietnam's non-ratification of the IMF's Article VIII, proves that the Vietnamese VND, or dong, is not convertible.[10] However, the Department considers Colombia, Egypt, and Iran, all of whom are non-compliant with Article VIII, and Brazil and India both all of whom possess current-account restrictions, as market economies.[11] The same is true for Petitioners' argument on capital-account restrictions; Colombia, Egypt, India, Indonesia, Iran, Malaysia, and Russia all maintain significant capital-account restrictions, and yet the Department still treats each of these countries as market-economies.[12]

If the Department really considered the existence of both current and capital-account restrictions alone to be dispositive proof of a distorted currency such that domestic prices could

---

[9] Petitioners' Comments at I-2.

[10] Article VIII prohibits the use of current-account restrictions and discriminatory currency practices (i.e., a dual exchange rate) while guaranteeing the availability of funds for current-account transactions.

[11] See Certain Fresh Cut Flowers From Colombia; Final Results of Antidumping Duty Administrative Reviews, 61 FR 42833 (August 19, 1996); see also Notice of Preliminary Determination of Sales at Less Than Fair Value: Urea Ammonium Nitrate Solutions from the Russian Federation, 67 FR 62008 (October 3, 2002) ("Urea Ammonium Nitrate from Russia") (where the Department used Egypt as a surrogate country for Russia).

[12] International Monetary Fund, Annual Report or Exchange Arrangements and Exchange Restrictions at 1038-1044 (2001) ("IMF Exchange Report").

not reflect global market prices, then the Department would surely not use Egyptian prices as a surrogate for NME prices.[13] Yet, the Department does so, indicating that the existence of either or both of these restrictions tell very little about a country's currency regime. Therefore, placing their argument in a relevant context, it becomes apparent that the Petitioners' submission does not provide any useful manner to inform the Department's analysis of currency convertibility.

To be clear, while ratification of Article VIII and the non-existence of capital-account restrictions would certainly suggest that a country's currency is freely convertible, it does not follow that the exact opposite means that a currency is non-convertible. As Department practice demonstrates, there are mitigating circumstances in which the presence of both types of restrictions do not fully restrict the convertibility of a restriction, or in other words, there is a context which would explain these circumstances. In the case at hand, the context is Vietnam's status as a developing, low-income country, which is recognized by virtually every international aid agency. World Bank, IMF, and Asian Development Bank ("ADB") aid programs all focus on the reduction of poverty.[14] Moreover, as noted in a joint World Bank, ADB, and United Nations Development Program report, Vietnam fits the profile of a developing country: an

---

[13] Notice of Final Determination of Sales at Less Than Fair Value: Silicomanganese from Kazakhstan, 67 FR 15535 (April 2, 2002). See also Urea Ammonium Nitrate from Russia.

[14] Vietnam currently accepts aid from the IMF under the Poverty Reduction and Growth Facility, from the ADB under the Poverty Reduction Partnership Agreement, and the World Bank under a variety of development related programs. See IMF Vietnam: Second Year Review Under The Three-Year Agreement Under The Poverty Reduction And Growth Facility And Request For Waiver Of Performance Criteria, IMF Country Report 02/151 (July 2002) ("IMF Second Review"); see also ADB Poverty Reduction Partnership Agreement (October 10, 2001) (available at http://www.adb.org/Documents/Poverty/pa_ vie.pdf). World Bank in Vietnam website has more information concerning World Bank programs in Vietnam (available at http://lnweb18.worldbank.org/eap/eap.nsf/81a3222fd954f1c4852567c90077b8e9/e06eccf9350a04c4852567cb000ea937?OpenDocument).

agrarian-based economy that needs to develop its industry and services.[15] The report further compares that Vietnam's development mirrors that of several more-developed Asian economies like South Korea in the late 1970s through the early 1980s and Thailand in the 1980s.[16]

Vietnam and other developing countries face a unique set of economic circumstances that can skew the evaluation of a country's currency system. Although the academic ideal is typically a laissez-faire economy, economists have long understood that free and open currency markets are not necessarily the best development course for low-income countries. To put it another way, developing countries often need some sort of currency restrictions to guard against global financial shocks and other exogenous distortions in the global market. The debilitating effects of the recent Asian Financial Crisis and its aftershocks exemplify the enormous risks of completely open currency markets. Thailand, Indonesia, Malaysia, Singapore, Hong Kong and Korea, many of whom were praised as open market economies,[17] saw their economies collapse as speculation and capital flight became rampant -- the Asian financial crisis led to a $109 billion turnaround in the region as $97 billion in inflows transformed into $12 billion in outflows during the period of *one year*, or roughly ten percent of the regions' pre-crisis GDP.[18] The financial crisis changed the way mainstream economists viewed currency controls -- capital flight-restrictions, which are often viewed as an anathema to market economists, became somewhat

---

[15] Joint Report of the World Bank, ADB, and UNDP, Vietnam 2010: Entering the 21st Century (2001) at 3-4 (available at http://www.adb.org/Documents/Reports/VietNam_2010/Overview.pdf)

[16] Id. at 3-4.

[17] James Surowiecki, The Asian About Face (January 23, 1998) (available at http//:slate.msn.com/?id=2637).

[18] Jeffery Sachs and Steven Radelet, Consulting Assistance on Economic Reform What Have We Learned, So Far, From the Asian Financial Crisis? at "The Origins of the Crisis" (March 1999) ("Sacks Asian Financial Crisis") (available at http://www.cid.harvard.edu/caer2/htm/framsets/fr_loc.htm).

acceptable. Respected mainstream economists like Paul Krugman of MIT and Jeffery Sachs of the Harvard Institute for International Development even advocated their use.[19] The recent economic woes of Brazil and Argentina, each of whom was often idolized as the poster child of the IMF's free market policies,[20] further raised serious questions about mainstream economic arguments concerning the benefits of full financial liberalization.[21] The financial crisis, then, changed the way mainstream economists viewed the neoclassical policies -- as often exemplified by the IMF -- of complete market liberalization:

> First and foremost, the Asian crisis is a cautionary tale about financial liberalization in emerging markets. The Asian economies had gone far in creating a stable macroeconomic environment and in liberalizing trade and investment regimes… Most of their vulnerabilities in the mid-1990s arose as a result of rapid financial liberalization undertaken in the late 1980s and early 1990s. Well-functioning financial systems require a much stronger legal and regulatory infrastructure than do regimes for open trade and foreign direct investment. In all of the more advanced industrialized economies, financial transactions are heavily supervised and regulated to a much greater degree than trade and investment transactions. Financial markets are far from being free and open, as is sometimes supposed.[22]

---

[19] Paul Krugman, Capital Control Freaks: How Malaysia Got Away with Economic Heresy (September 27, 1999) (available at http://slate.msn.com/?id=35534). See also Sachs Asian Financial Crisis at Section "Some Policy Implications."

[20] See Paul Krugman Don't Laugh at Me, Argentina: Serious lessons from a silly crisis (July 20, 1999) ("Krugman Argentina") (available at http://slate.msn.com/?id=32173). See also Paul Krugman, Don't Blame it on Rio… or Brasilia Either (February 12, 1999) ("Krugman, Brazil") (available at http://slate.msn.com/?id=19110).

[21] In lieu of capital-flight controls, the IMF required countries accepting emergency loans to raise interest rates in order to keep foreign capital in each respective country and limit the exchange-rate plunge. Yet, by raising interest rates, these countries effectively guaranteed a bad recession by choking off domestic economic recovery. Malaysia, however, used capital-flight controls instead of interest rates. The debate over the benefits of capital-flight restrictions still rages on. See Krugman, Brazil. See also Paul Krugman, The Confidence Game: How Washington Worsened Asia's Crash (October 5, 1998). (Available at http://www.pkarchive.org/crises/krugman1.html.)

[22] Sachs Asian Financial Crisis at Section "Some Policy Implications."

Moreover, Petitioners even cite an article which significantly undercuts their argument on currency restrictions and reflect their lack of understanding over this issue. In International Financial Architecture, Capital Account Convertibility and Poor Developing Countries, Christopher Gilbert, Gregor Irwin, and David Vines write in conclusion, "We have suggested that what matters most importantly {to poor developing countries} for growth is foreign direct investment rather than capital account liberalisation."[23]

The lesson then is that while open financial markets are the ideal, fully open and integrated markets can often be more detrimental to developing countries than beneficial, a fact which the Department has recognized in its previous market economy determinations, most notably in the case of Kazakhstan.[24] Moreover, other developing market-economy countries like Brazil and India also use extensive current-account controls similar to those of Vietnam. With regard to capital-account transactions, Colombia, India, Indonesia, Kazakhstan, Malaysia, and Russia, among others, also possess significant controls.

---

23 Christopher Gilbert, Gregor Irwin, and David Vines of the Overseas Development Institute, International Financial Architecture, Capital Account Convertibility and Poor Developing Countries (June 2000) at 20.

24 In particular, Kazakhstan also subjects current-account payments to a review process and restricts investment-related payments. See IMF Exchange Report at 483-484. Russia also uses some limited forms of current-account controls. See Russian Determination at 9 (internet pagination). Russia requires: 1) importers to "deposit a ruble equivalent of the imported goods to clear customs"; 2) that import and export-related transactions must be "screened and processed by government-authorized banks acting as currency control agents"; and 3) that "exporters must repatriate their foreign-exchange earnings and must surrender 50 percent."

Table 1: Capital-Account Controls Among Developing Countries and Russia[25]

Capital Transactions Controls On:	Colombia	India	Indonesia	Kazakhstan	Malaysia	Russia	Vietnam
Capital Market Securities	•	•	•	•	•	•	•
Money market instruments	•	•	•	•	•	•	•
Collective investment securities	•	•	•	•	•	•	•
Derivatives and other instruments	•	•	•	•	•	•	•
Commercial Credits	•	•	•	•	•	•	•
Financial Credits	•	•	•	•	•	•	•
Guarantees, sureties, and financial backup facilities	•	•	•	•	•	•	•
Direct Investment	•	•	•	•	•	•	•
Liquidation of direct investment	•	•		•		•	—
Real estate transactions	•	•	•	•	•	•	•
Personal capital movements	•	•	•	•	•	•	•
Provisions specific to:	•	•	•	•	•	•	•
Commercial banks and other credit institutions	•	•	•	•	•	•	•
Institutional investors	•	•	•	•	•	•	—

• Indicates that the specified practice is a feature of the exchange system.

— Indicates that data were not available at time of publication.

[25] IMF, Exchange Report at 1038-1044.

In each of the above cases, except for the two which were just recently graduated to market economy status, the Department has not revoked, reconsidered, or questioned their market economy designation, implicitly recognizing that Department practice allows for consideration of mitigating circumstances.

Even given its status as a developing country, Vietnam has made significant strides within the past two years to raise its currency regime up to international standards, a point which Petitioners conveniently ignore. The Economist notes that foreign investors "may now purchase foreign currencies at prescribed banks in Vietnam without an SBV permit" and that "ordinary foreign-currency accounts may be used to service current-account transactions, and no regulatory approval is needed."[26] Contrary to Petitioners' claim that "Vietnam is one of the few member countries that has not agreed to assume Article VIII obligations," Vietnam has pledged to remove all policies inconsistent with Article VIII by the end of 2002, including the tax on profit and remittances (investment-related current-account transactions) and all approval requirements for payments abroad (general current-account transactions).[27] As part of the bilateral trade agreement with the United States, all limits on availability of foreign exchange for payments of imports **[will be]** removed.[28] Moreover, Vietnam has faithfully complied with all requirements of the various international aid organizations from which it receives money, including the IMF

---

[26] Economist Intelligence Unit, Country Commerce Vietnam at 39.

[27] Remaining procedural requirements remain in place to prevent capital flight and tax avoidance. See Government of Vietnam Comments of the Government of Vietnam on the Market Economy Status of Vietnam in the Antidumping Investigation of Certain Frozen Fish Fillet from Vietnam (October 2, 2002) at 23. These requirements are similar to Russia's licensing requirements for capital-account transactions. See Russia Determination at 9 (internet pagination).

[28] Article 11, Chapter IV of the U.S.-Vietnam BTA.

which often requires a country to substantially liberalize its financial markets in exchange for aid.[29] Therefore, by 2003, Vietnam will be virtually indistinguishable from other market-economy countries like Kazakhstan, Russia, India, Malaysia, and Indonesia in terms of its currency regime.[30]

Instead of objectively evaluating Vietnam's currency regime and its continuing evolution, Petitioners choose to mischaracterize it egregiously by selectively focusing on a few restrictions, a practice which leads to contradictory conclusions. For instance, Petitioners' argument regarding capital-account restrictions ignores the reality that there is a legitimate and logical reason for their use and that many market economies utilize these restrictions, but more importantly it leads to an interesting result -- Petitioners' claim that the extent of Vietnam's capital-account restrictions are "in sharp contrast to Russia… where the Department found that the ruble is convertible for capital account purposes."[31] Oddly enough, the IMF reports that

---

[29] The IMF is often criticized for attaching strings on this money. In fact, the IMF recently placed severe strings on its recent aid to Brazil in anticipation of a leftist victory in the elections. See Dow Jones Business News Brazil President Candidate: IMF Money Won't End Econ Crisis (September 18, 2002) (available at http://story.news.yahoo.com/news?tmpl=story&u=/dowjones/20020919/bs_dowjones /200209182135000991). See also Business AP Finance Ministers Portray Optimism (September 28, 2002) (available at http://story.news.yahoo.com/news?tmpl=story&u=/dowjones/20021003/bs_dowjones /200210022258000909). The World Bank also makes the funding conditional on reforms for countries including Vietnam. See Catherine McKinley, Dow Jones Newswire Interview: Vietnam "Question has changed," says WB head (September 3, 2002) ("McKinley, Vietnam Question has Changed") (available at http://www.usvtc.org/News/Sep%2002/interview.htm).

[30] Like all these other market-economy countries, Vietnam will be compliant with Article VIII while also imposing various capital account restrictions.

[31] Petitioners' Comments at I-7.

Russia uses the *same* types of capital-account restrictions as Vietnam.[32] Therefore, by extension, the VND is also convertible for current-account transactions.

Petitioners' focus on Vietnam's surrender requirements are similarly off base. While it is true that Vietnam does have a 30 percent surrender requirement, it is simultaneously true that 82 other IMF members, including Russia, also have surrender requirements. In fact, Russia has a 50 percent surrender requirement,[33] which would suggest that Russia's requirement "distorts the supply and demand balance for {the ruble} relative to foreign currency, and thus, the exchange rate"[34] more than Vietnam's. Moreover, Petitioners claim that the surrender requirement's purpose is to "increase its reserve of hard currency so that it can allocate the currency" to state-owned enterprises ("SOEs") ignores the reality of the VND which is pegged to the dollar. The surrender requirement was instituted during the Asian financial crisis, and thus, was intended to provide the State Bank of Vietnam ("SBV") sufficient financial liquidity to defend the VND from massive devaluation.[35] Additionally, as part of the Poverty Reduction And Growth Facility Aid Program, the IMF *requires* the SBV to maintain a certain level of foreign currency (known as the Net International Reserves target) in order to guarantee the relative stability of the VND and protect Vietnam's developing financial framework from exogenous monetary shocks.[36]

---

[32] See Table 1 above. Russia also applies capital account restrictions to almost all types of transactions involving stock, bond, derivates, real estate, and other assets. See also IMF, Exchange Report at 762-766.

[33] **[Russia case.]**

[34] Petitioners' Comments at I-5.

[35] Therefore, Vietnam's surrender requirement is no different from that of Russia, Thailand, and Malaysia, which did the same thing. See IMF Exchange Report at 1041-1043.

[36] IMF, Second Review at 16.

Therefore, the SBV does not maintain the surrender requirement to funnel foreign currency to SOEs. Indeed, the IMF's close work with Vietnam during the past three years effectively prevents this. It stretches the limits of credulity to believe that the IMF would allow such behavior.[37] Moreover, Petitioners even cite articles which acknowledge this situation: Vietnam is indeed "'hard-currency strapped.'"[38]

Petitioners' misguided arguments concerning currency restrictions seem to reflect a larger misunderstanding of exchange-rate regimes and the Department's standard on currency. Petitioners criticize Vietnam for using a managed float exchange rate regime, citing in a footnote that "{t}ransitions to floating rate regimes require some central bank independence" which suggests that Petitioners believe that Vietnam should have a free floating exchange rate regime.[39] However, this is clearly not the standard. To be absolutely unambiguous on this point, the Department considers numerous countries which do not have free floating rate regimes to be market economies, including Argentina, Egypt, Honduras, Israel, Malaysia, Trinidad and Tobago, Uruguay and Venezuela.[40] Indeed, only 43 percent of all IMF members have floating

---

[37] Such behavior would seriously undermine the IMF's reform effort, and therefore, place the IMF's investment in Vietnam at serious risk. As the paragon of Western Banks, it would be difficult to believe that the IMF would not protect its investment. In fact, as the structure of the recent IMF loan to Brazil shows, the IMF will go to great lengths to protect its investment. Anticipating a victory of Luiz Inácio Lula da Silva of the leftist Workers' Party, the IMF granted loans where the majority of the aid would be paid to Brazil after the next election and only if Brazil is able to meet the IMF's harsh requirements. See Corpwatch Brazil: IMF Loan Leaves Next President Little Room to Maneuver (August 21, 2002) (available at http://www.corpwatch.org/news/PND.jsp?articleid=3609).

[38] Petitioners' Comments at I-6.

[39] Id. at I-5 at footnote 16.

[40] IMF, Exchange Report at 1035-1036.

exchange rates, and Vietnam is one of them.[41] It is also noteworthy that the IMF does not stipulate or restrict the type of exchange rate a country can choose. Rather, the IMF recognizes that each country possesses the sovereign right to choose an exchange system best suited for each respective country.[42] The IMF's recognition of sovereign choice reflects the fact that economic theory on exchange rate regimes has vacillated greatly during the past half century as developed countries moved from the gold-standard to managed floating or free floating currencies[43] and that no consensus exists on exchange rate regimes especially with regard to developing countries.[44] As Paul Krugman notes, "the big issues of monetary economics – fixed vs. flexible exchange rate, whether countries should have independent currencies at all -- are still wide open. It's an eternal controversy, and not even the pope can resolve it."[45] Therefore, Petitioners' concern over Vietnam's exchange rate regime is irrelevant in the Department's analysis of whether Vietnam's currency system is market oriented.

In this respect, Petitioners' criticism of the SBV is also erroneous and irrelevant. Petitioners claim "the SBV remains under state control." What central bank doesn't? Even the

---

[41] The IMF has reclassified Vietnam's currency system from a "Pegged Exchange Rate within horizontal bands" to "Managed floating with no pre-announced path for exchange rate." This reflects that Vietnam has made enormous progress in terms of adopting market-oriented monetary policy. It is also important to note that Vietnam's monetary system is "IMF supported." See IMF Annual Report 2002: Appendixes 2002 at 28-29 (2002) (available at http://www.imf.org/external/pubs/ft/ar/2002/eng/pdf/file4.pdf).

[42] IMF, Articles of Agreement at Article IV (available at http://www.imf.org/external/pubs/ft/aa/aa04.htm).

[43] John Williamson, Senior Fellow at the Institute of International Economics, From Bretton Woods to Bipolarity: The Evolution of Thought on Exchange Rate Regimes, 1971-2001 (July 20, 2001) (available at http:www.iie.com/papers/williamson0801.htm).

[44] This is also reflected by the IMF's highly controversial move to peg the Argentinean peso to the dollar in 1991 in an effort to stem hyperinflation. Although it succeeded in stopping inflation, it also prevented Argentina from effectively using monetary policy to fight off a recession or promote stable growth. See Krugman Argentina.

[45] Id.

U.S. Federal Reserve is under state control. (Alan Greenspan is a federal employee, last time we checked.) As the IMF reports, the SBV activity is to "stem disorderly conduct" in the FOREX market, in which case it operates in a manner no different than many other central banks.[46] Additionally, Petitioners seem to believe that central banks in market economies are completely independent of the government, despite the fact that economic and financial literature have long suggested otherwise. The U.S. manufacturing sector persistently accuses the central bank of Japan of intervening in FOREX markets to stop the yen from appreciating and consequently forcing it to depreciate in an effort to fuel Japan's export growth.[47] Economists have noted that the central bank of Japan conducts these operations at the instruction of the Ministry of Finance.[48] Additionally, the recent furor over Treasury Secretary Paul O'Neill's refusal to depreciate the dollar reflect that the U.S. Treasury Department affects Federal Reserve policy and plays an active role in setting the dollar's value.[49] In particular, business and labor interests testified that the "dollar won't fall because Treasury won't let it" and that "the idea that market

---

[46] IMF, Second Review at 63.

[47] See Ernest H. Preeg, Senior Fellow in Trade and Productivity for the Manufacturers Alliance (MAPI), Exchange Rate Manipulation to Gain an Unfair Competitive Advantage: The Case Against Japan and China (September 24, 2002) ("Preeg Unfair Competitive Advantage") at 2-4 **(attached as Exhibit 1)**. See also G. Mustafa Mohatarem, Chief Economist of General Motors Corporation, Impact of Strong Dollar on U.S. Auto Industry (September 24, 2002) ("Mahatarem Dollar Impact on U.S. Autos") at 8 **(attached as Exhibit 2)**. See also Kathryn M.E. Dominguez, University of Michigan and NBER, Foreign Exchange Intervention: Did it Work in the 1990s? (September 16, 2002) at 1-6 ("Dominguez Foreign Exchange Intervention") **(attached as Exhibit 3)**.

[48] Edwin M. Truman, Senior Fellow of the Institute for International Economics, The Limits of Exchange Market Intervention (September 24, 2002) at 1 and footnote 11 ("Truman Limits of Market Intervention) **(attached as Exhibit 4)**.

[49] Business and labor interests were actively pushing the Bush Administration to devalue the dollar. See Mathew Dalton, The Hill, Business - labor coalition fights monetary policy (May 15, 2002) ("Dalton Labor Coalition") (available at http://www.hillnews.com/051502/tpa.shtm).

forces are responsible for [the dollar's price] is ridiculous."[50] Other economic institutes have similarly noted that the United States' economic woes have resulted in part from "many years of {Federal Reserve} intervention and manipulation."[51] Additionally, a former Federal Reserve employee noted that "both the U.S. Treasury and the Federal Reserve have independent legal authority to operate in the foreign exchange market, and they normally act jointly for their separate accounts" and that "U.S. authorities intervened in exchange markets heavily, including on 97 days in 1989."[52]

Therefore, Petitioners' anecdote about the SBV's unwillingness to widen the daily VND band is largely meaningless. As noted above, some economists believe that the United States has created an overly strong dollar to attract investment and allow the United States to finance overly profligate domestic consumption. Of course, a by-product of such a policy is that import prices fall relative to U.S. products while U.S. exports become relatively more expensive.[53] Extending Petitioners' logic would lead to the conclusion that U.S. domestic prices are so distorted as to question whether the U.S. is a market economy. However, a more logical conclusion is that

---

50 Statements of Frank Vargo, vice-president of international economic affairs for the National Association of Manufacturers, and Thomas Palley, assistant director of public affairs for the AFL-CIO, respectively. See Dalton Labor Coalition.

51 See Hanz F. Sennholz, Ludwig Von Mises Institute, The Fed on the Horns of the Dilemma (October 2, 2002) ("Sennholz, The Fed") (available online http://www.mises.org/fullstory.asp?control=1058). The Ludwig Von Mises Institute is a research institute for classical liberalism and the Austrian School of Economics.

52 Truman Limits of Market Intervention at 2 and footnote 11. See also Dominguez Foreign Exchange Intervention at 5.

53 Sennholz, The Fed. See also Preeg Unfair Competitive Advantage at 9. Mohatarem specifically notes that the Government of Japan's intervention to depress the yen's value created a $3,000 - $3,500 subsidy on mid-level sedans like the Nissan Maxima. See Mohatarem Dollar Impact on U.S. Autos at 9.

distortions happen in market economies, even in a country that is as open, free, developed, and wealthy as the United States.

The simple reality is that there is no such thing as a completely open, competitive and undistorted market place, and thus, Vietnam cannot be held to the standard as Petitioners are implicitly suggesting. Rather, Vietnam should be viewed as a developing country and provided the same consideration granted, both in the past and in the present, to other developing market economies like Brazil, Egypt, India, Indonesia, Kazakhstan, Malaysia, and Russia.[54] Therefore, the Department should focus on the substantial advances within the past two years and the progress promised under the IMF program and determine that the VND is sufficiently convertible to reflect market prices.

---

[54] Our analysis primarily focuses on present-day comparisons of policy, therefore, it is extremely useful to note that all of the aforementioned countries are further along the development path than Vietnam and that it is highly likely that these countries employed more stringent measures than those being used in the present day. However, the Department has always considered these countries to be market economy countries.

II. FACTOR 2: WAGES IN VIETNAM ARE DETERMINED BY FREE BARGAINING

Petitioners' arguments on labor again ignore the reality of the country. Vietnam is a low-income developing country, and as such, it is primarily an agrarian economy. Agriculture and smaller household businesses employ the vast majority of Vietnam's workforce, and therefore, the labor market is very fluid. As noted in our first submission, the agrarian sector of the economy employs approximately 89 percent of the total workforce. (The private sector as a whole employs around 91 percent of the workforce). Petitioners even noted in their first submission on this issue (i.e., Exhibit 12 of the petition) that unions do not play a predominate role in agriculture, and that "their wages are not set by the state."[55] Even if we were to agree with Petitioners' allegation that unions in Vietnam are mere extensions of the state, then it is still evident that the vast majority of the population's wages are set independently of the state.

Yet, in fact, labor negotiations are not controlled by the state, unions, or any combination of the two. Vietnamese law stipulates that the individual employees and individual employers negotiate all labor contracts. The Congressional Research Service report on Vietnam's labor market (to which petitioners refer repeatedly) cites a report from the U.S. Overseas Private Investment Corporation which notes that working conditions are largely set by individual contracts and not by collective negotiations.[56] This situation mirrors the labor markets of Kazakhstan and Russia where "wages… as a general rule, are determined on the basis of

---

[55] Petition Filed by Valerie A. Slater, Akin Gump Strauss Hauer and Feld, on Behalf of Catfish Farmers of America at Exhibit 12 at 9 (Jun. 28, 2002) ("Petition").

[56] Mark Mayin, Thomas Lum, Lois McHugh, Phoung-Khanh, and Wendy Zeldin, Congressional Research Service, Vietnam's Labor Rights Regime: An Assessment (March 23, 2001) ("CRS Report") at 15. This report is attached to Petitioners' Comments at Exhibit 2.

individual employment contracts and, to a much lesser extent, collective bargaining agreements."[57]

The most relevant comparison for the Department's analysis is Kazakhstan. The Department noted in its determination that "the labor force is mobile and free to pursue new employment opportunities, as evidenced by the rapid expansion of certain sectors (e.g., oil), and the contraction of others (e.g., agriculture)."[58] Similarly, Vietnam's economy is shifting away from an agrarian base to an industrial and service base as evidenced by the massive labor migration from rural to urban areas Vietnam's latest census shows the rate of increase in urbanization was 23% percent over the census period, up from 17% during the prior census period.[59]

The massive migration from the rural to urban areas has inevitably led to a shift of labor from agriculture to services and industry, but more importantly, urbanization indicates that Vietnamese labor moves to where opportunities and wages are best -- the Vietnamese people bargain with their feet.[60] In other words, Vietnam's workforce reacts to the market. Garment and footwear companies report problems in recruiting workers due to "harmful working conditions, poor welfare and extra hours."[61] Therefore, assuming that Petitioners are correct in

---

[57] Russia Determination at 10 (internet pagination).

[58] Russia Determination at 9-10 (internet pagination).

[59] Tradeport, Vietnam: 1999 Census Results (December 10, 1999) (available at http://www.tradesport.org/ts/countries/vietnam/mrr/mark0079.html).

[60] CIEM Vietnam's Economy at II.6.1

[61] Services, Trade Sectors Lure Most Workers in Jan-Jul (August 27, 2002) **(attached as Exhibit 5)**.

arguing that the rights granted under the Labor Code are "unreliable," it becomes evident that this does not change the analysis of Vietnam's labor market. The majority of Vietnam's workforce bargain with their feet -- if job conditions do not suit them, they move on to other jobs.

Although Petitioners argue otherwise, the freedom enjoyed by the Vietnamese labor force is similarly bestowed on enterprises, including foreign-invested enterprises ("FIEs"). In particular, Petitioners claim, "FIEs are severely limited in their ability to freely hire Vietnamese workers" because, "by law, FIEs are required to hire employees selected or recommended by state-run job placement centers."[62] However, the law to which Petitioners cite was repealed in 2001.[63] As noted by the numerous submissions from American businesses operating in Vietnam, FIEs are free to recruit and hire directly from the labor force.

Moreover, Petitioner's arguments concerning the higher minimum wage standard for FIEs is simply irrelevant. While such a practice may be distortive, this practice does not concern whether wages are determined through a process of free bargaining between labor and management. This practice does not prohibit or restrain labor from negotiating wages or working conditions with FIEs, nor does it restrict worker mobility.[64]

---

[62] Petitioners' Comments at II-6.

[63] See Labor Code at Art. 132; see also Economist Intelligence Unit, Country Commerce Vietnam at 55-56 (April 2002).

[64] Moreover, this practice is largely redundant. FIEs typically operate in higher value-added industries like oil or industry, and therefore, one would expect FIEs to pay more than other businesses in an effort to attract skilled labor.

Petitioners also strongly mischaracterize Vietnam's union system as an instrument through which the state can control the labor market. Their argument ignores the reality that individual employees in each business meaningfully exercise a great deal of autonomy: union membership is optional, union leadership is elected, collective bargaining agreements are optional, and collective bargaining agreements must be approved by a majority vote among all employees of a business. Therefore, unions typically operate in a manner consistent with Western understanding of unions -- they represent worker rights. The Congressional Research Service reports that Vietnamese unions fought hard for workers' rights during the drafting process of Vietnam's current Labor Code of 1994. In fact, unions applied so much pressure that the Government of Vietnam published draft versions of the Labor Code in magazines for public review, and when the Labor Code was finalized, the Congressional Research Service noted that the unions "had scored a number of victories, including the explicit guarantee of workers' right to strike; the requirement that trade unions be established in all enterprises, not just those that are state-owned; the unionization of foreign-invested enterprises; and the inclusion of provisions establishing minimum wages, maximum working hours, maternity leave, and overtime pay."[65]

Rather than provide substantial arguments concerning Vietnam's labor market, Petitioners rely on spurious arguments to bias the Department's evaluation by claiming, "the Vietnamese Government restricts public information."[66] Yet Petitioners do not cite or provide

---

[65] CRS Report at 10.

[66] Petitioners' Comments at II-2.

one piece of evidence which would corroborate this claim.[67] Petitioners further claim that the lack of public information regarding Vietnamese labor conditions "evidences the absence of free market forces in the Vietnamese labor market."[68] However, this assertion is tantamount to presuming guilt. In essence, Petitioners are arguing that in the absence of evidence, it is reasonable for the Department to presume that Vietnam is guided by non-market principles. Petitioners have not provided any evidence which would support or corroborate this assertion because no such information exists. The reports which do exist from such sources as the World Bank, the IMF, the ADB, and the UNDP instead focus on poverty, development, and urbanization which is no shock because Vietnam is, after all, a developing country.

Petitioners use Vietnam's standing in the ILO to support their assertion that Vietnam's labor market is limited. They state, "…Vietnam's limited progress in the labor rights arena is also demonstrated by its unwillingness to ratify International Labor Organization ("ILO") Conventions on collective bargaining, freedom of association, and protection of the right to organize" and note that "Vietnam's ratification of only three of the eight fundamental ILO Conventions places it in the company of other developing nations such as Somalia, China, and Afghanistan."[69] However, a closer examination yields the following:

---

[67] See id. Stating that some reports rely on information that is often compiled by the government in no way entails that the Government restricts public information. If that were the case, it is highly likely that the ILO or the State Department would note this in one of their reports, but they have not done so. See Petitioners' Comments at II-2.

[68] Petitioners' Comments at II-3.

[69] Petitioners' Comments at II-7.

Table 2: Ratifications of ILO Core Conventions as of October 11, 2002[70]

	Forced Labor		Freedom of Association		Discrimination		Child Labor	
	Con. 29	Con. 105	Con. 87	Con. 98	Con. 100	Con. 111	Con. 138	Con. 182
Armenia					•	•		
Myanmar	•		•					
Oman	•							•
United States		•						•
Vietnam					•	•		•
India	•	•			•	•		
Malaysia	•	X		•	•		•	•
Indonesia	•	•	•	•	•	•	•	•

• Indicates ratification of this convention. Each core convention (e.g., forced labor) has 2 conventions
X Indicates that the country has denounced this convention.

The United States has not ratified all conventions regarding the freedom of association and collective bargaining, elimination of forced and compulsory labor, elimination of discrimination in respect to employment and occupation, and abolition of child labor. The United States' ratification of only two of the eight fundamental ILO Conventions places it in the company of Armenia, Myanmar, and Oman. Under Petitioners' logic, then, is it reasonable to conclude that Somalia, China, and Afghanistan have better labor rights than the United States? Of course not. The same is true for Vietnam. Under its charter, all ILO members agree to adhere and promote

---

[70] If non-ratification of core conventions is indicative of non-market oriented labor practices, then how are we to interpret Malaysia's denouncement of a core convention? See ILO, Ratification of Core Conventions (October 11, 2002) (available at http://webfusion.ilo.org/public/db/standards/normes/appl/appl-ratif8conv.cfm?Lang=EN).

the eight core conventions, regardless of whether the countries have ratified them.[71] Ratification only indicate that a country agrees that the convention is legally binding (i.e., the government of that country could become legally liable for damages).[72] Moreover, according to the ILO website, no complaint has been filed against Vietnam under the Freedom of Association and Collective Bargaining conventions of the ILO.[73] Conversely, market economy countries like Japan, Peru, Taiwan, India, and Mexico currently face complaints.

To be clear, however, Vietnam is still a work in progress and suffers from some problems. While Petitioners would like the Department to believe that Vietnam's p roblems stem from some insidious effort to maintain state control,[74] the CRS report and other U.S. government officials have noted that Vietnam is working with the U.S. Department of Labor and the ILO to improve its labor markets.[75] Since joining the ILO, Vietnam has worked closely with the ILO, and currently there are 24 ongoing projects with the ILO, some of which deal with the fundamental ILO principles.[76] Moreover, Vietnam drafted its Labor Code with input from the

---

[71] See Virginia Foote, President of the U.S.-Vietnam Trade Council, "Testimony Before the Subcommittee on Trade of the House Committee on Ways and Means" (Jul. 18, 2002) (available at http://waysandmeans.house.gov/trade/107cong/7-18-02/7-18foote.htm). See also CRS Report at 6.

[72] CRS Report at 6.

[73] ILO, Cases of the Committee on the Freedom of Association (available at http://www.ilo.org/ilolex/english/caseframeE.htm).

[74] Petitioners claim that the implementation is left to local Communist Party organizations. This is, however, a gross mischaracterization of the source to which Petitioners cite, which already states that implementation is the responsibility of local governments. Petitioners' Comments at II-5, n.14.

[75] Christopher Lafleur, Acting Assistant Secretary for East Asian and Pacific Affairs, "Testimony Before the Subcommittee on Trade of the House Committee on Ways and Means" (Jul. 18, 2002) (available at http://waysandmeans.house.gov/trade/107cong/7-18-02/7-18lafleur.htm); See also CRS report at 9.

[76] CRS Report at 8.

ILO.[77] Therefore, Petitioners are again off base when they claim that rights "easily granted and easily amended may be easily withdrawn."[78] Although Vietnam suffers from a lack of technical expertise because it is a developing country, Vietnam does not suffer from a lack of effort. Its cooperation with various groups like the ILO has lead to tangible results. The CRS notes that Vietnam's drafting of laws has been "improving in recent years."[79] It should also be noted that the mere fact that Vietnam amends its laws is highly indicative of Vietnam's intense efforts and serious commitments to develop a healthy market-driven labor market.

Recent developments are also highly promising. The CRS notes that grass-root unions and labor associations are forming and that some of these unions "have been effective in improving working conditions."[80] Occupational unions, which possess more independence than trade unions, are forming and establishing global ties by joining international unions.[81]

Vietnam's intensive efforts have culminated in a labor market that is driven by market forces, and therefore satisfies the Department's standard. The neophyte status of Vietnam's labor market does not differ from Russia's situation where the Department noted that the lack of unions was not indicative of non-market orientation but resulted from the continuing evolution of

---

[77] CRS Report at 9.

[78] Anything is a possibility, but it is particularly interesting that petitioners do not provide a cite or any such example of occurrences where rights have been repealed. The fact that Vietnam has had to amend laws indicates that Vietnam is still a work in progress. See Petitioners' Comments at II-5.

[79] CRS Report at 6.

[80] CRS Report at 16.

[81] CRS Report at 13.

the collective-bargaining process in Russia.[82] The Department should also note that recent reports indicate that "increasingly competitive markets for skilled labor is helping" to fuel the development of a more-market oriented labor environment.[83] A substantial body of literature like the CRS Report and various World Bank papers note that Vietnam is on the right track in terms of significantly raising its labor market, where, "since Vietnam moved away from central planning, market forces have played an increasingly important role in determining wages."[84]

---

[82] The Department noted that the downward trend in union membership reflected more the lack of effectiveness of unions in Russia. Similarly, Vietnam's low union membership also reflects Vietnam's lack of experience with collective-bargaining agreements. See Russia Determination at 10 (internet pagination).

[83] CRS Report at 15.

[84] U.S. Department of State, Bureau of Democracy, Human Rights, and Labor, Vietnam Country Reports on Human Rights Practices - 2001 at 19 (March 2002) ("Human Rights Report") (available at www.state.gov/g/drl/rls/hrrpt/2001/eap/8384pf.htm).

III. FACTOR 3: FOREIGN DIRECT INVESTMENT IS BOTH PERMITTED AND ENCOURAGED IN VIETNAM

As the Department essentially noted in the Kazakhstan determination, it is hard to argue with success.[85] Although Petitioners attempt to downplay Vietnam's relatively high inflows of foreign direct investment ("FDI") in the early and mid 1990s as a symptom of the newness of Vietnam's financial market, they ignore the simple fact that foreign investors do not invest in markets where they cannot control their investment.[86] As rational market actors, investors possess the most incentive to protect their investment, and therefore, the attraction of high investment inflows strongly indicate the openness and health of a market. Therefore, Vietnam could not have attracted foreign investment without it being sufficiently liberal, a fact which Petitioners even acknowledge when they cite an observation by the United Nations Conference on Trade and Development: "economies that have been relatively isolated from international capital flows and have recently ***opened up*** may… get a substantial wave of FDI" (emphasis added).[87]

Before discussing Vietnam's investment climate, it is imperative to distinguish between licensing procedures and actual prohibitions on investment. Licensing requirements are largely regulatory in nature, though they can sometimes present bureaucratic obstacles to investment.

---

[85] The Department noted that "Kazakhstan's relatively high level of FDI is a strong indicator that the GOK effectively enforces {foreign investment} laws at the national level and actively encourages foreign investment." See Kazakhstan Determination at 9 (internet pagination).

[86] Vietnam's success at attracting foreign investment is not in question here. Even Petitioners do not dispute Vietnam's accomplishment in this respect, though they do try to attribute the underlying reasons for it to exogenous factors (i.e., investors like the fact that Vietnam's market is new). See Petitioners' Comments at III-8.

[87] See UNCTAD, World Investment Report: Benchmarking FDI Performance and Potential (Chapter 2) at 23 (Sep. 2002) (available at http://www.unctad.org/WIR/pdfs/fullWIR02/pp23-36.pdf) ("World Investment Report Chapter 2").

However, licensing requirements are common and utilized by many market-economy countries. For instance, as we noted in our prior submission, the Malaysian government reviews all investment proposals to see if these investments are consistent with their strategic and social policies. Malaysia pays particular attention to manufacturing projects and reviews whether foreign investment is consistent with the "Second Master Plan."[88] Moreover, other countries, both developed and developing, use licensing procedures, including Russia and Kazakhstan.[89] In each case, the Department nonetheless treats these countries as market economies. Vietnam's government review is no more burdensome.

Actual prohibitions on investment include equity limits, negative lists (i.e., lists of industries where investment is not allowed), and land controls. Investment prohibitions tend to guarantee that domestic businesses will be able to survive against large multinational companies and are therefore more common among developing countries. Equity limits are the least severe of the two prohibitions mentioned as they allow for some investment in protected sectors. Malaysia is a large user of these limits -- numerous sectors are affected by equity restraints including all businesses that export, telecommunications companies, shipping companies, forwarding agencies, and insurance companies.[90] Negative lists are also more often used by

---

[88] U.S. Commercial Service, Malaysia: Country Commercial Guide at Chapter 7 (2002) ("Malaysia Country Commercial Guide") (available at http://www.usatrade.gov/Website/CCG.nsf/CCGurl/CCG-MALAYSIA2002-CH-7:-006E009A).

[89] Russia Determination at 14 (internet pagination); see also U.S. Commercial Service, Kazakhstan Determination Country Commercial Guide at Ch. 7 (2002) (available at http://www.usatrade.gov/website/CCG.nsf/CCGurl/CCG-KAZAKHSTAN2002-CH-7:-004C034F).

[90] Malaysia currently employs the following equity limits:

- for projects exporting from 51 - 79 percent of output, majority foreign ownership of up to 79 percent is permitted;
- for projects that export between 20 percent and 50 percent of output, 30 percent to 51 percent foreign ownership is allowed;

countries still in the difficult process of development, including Malaysia, Indonesia, the Philippines, Russia, and Kazakhstan where foreign investment is not allowed in utilities.[91] Land controls are also used by developing countries to protect domestic economies. However, land controls do not restrict investment or investor autonomy. Rather, they merely ensure that all domestic land cannot be purchased by more liquid foreign investors. Developing countries like Indonesia, Malaysia, and the Philippines all prohibit foreigners from owning land. In each of these countries, foreigners are only allowed to lease land.[92]

Such regulatory controls on investment fulfill a logical and economic purpose. While economists have long understood the benefits of foreign investment, economists now note that foreign investment also comes at a cost for developing countries. The severity of the costs can be immense and is dependent on government efforts to regulate the country's investment climate. Foreign investment can lead to "short and long-term financial fragility" unless the "developing country governments {control} (a) the timing of the FDI; (b) the total amount of FDI; as well as

---

- for projects exporting less than 20 percent of output, maximum foreign ownership is 30 percent;
- allowable foreign ownership in telecommunications firms range from 30 percent to 61 percent, although the government requires that foreign equity to be reduced to 49 percent after five years; and
- allowable foreign ownership is 70 percent in shipping companies (up from 49 percent), 49 percent in forwarding agencies (up from 30 percent) and 51 percent in insurance companies (up from 49 percent).

See Malaysia Country Commercial Guide at Ch. 7.

91 U.S. Commercial Service, Russia: Country Commercial Guide at Ch. 7 (2002) (available at http://www.usatrade.gov/Website/CCG.nsf/CCGurl/CCG-RUSSIA2002-CH-7:-00362231); see also Kazakhstan Determination at 9 (internet pagination).

92 See each country's respective Country Commercial Guide (2002) (available at http://www.usatrade.gov/website/CCG.nsf?OpenDatabase). For more information on Russia's land use rights, see Russia Country Commercial Guide. See also Kazakhstan Determination at 9 (internet pagination). Land use rights in Vietnam are discussed in section IV.

(c) the selection of large projects by multinationals."[93] Failure to regulate investment inflows can lead to a "potentially disruptive force that can offset any domestic or external goals" and create a solvency crisis.[94] The effects of such a failure are immense; economists point to the Asian financial crisis as an example of the deleterious effects of unfettered foreign investment.[95] Thus, such policies as limiting the equitization of foreign-invested enterprises ("FIEs") in the nascent stock market make sense in order to mitigate the potential damage of investors who rapidly sell off their investments in the midst of a financial crisis.[96]

Petitioners ignore the fact that Vietnam's investment climate is no different from other developing countries nor is it inconsistent with rational economic theory, and instead mischaracterize Vietnam by arguing that individual restrictions are indicative of the overall investment climate. Yet, Petitioners do not effectively account for the fact that Vietnam's developing country status necessitates some controls on foreign investment. More importantly, Petitioners in no way distinguish Vietnam's investment environment from those of its market-economy neighbors like Indonesia, Malaysia, or the Philippines, all of whom subject foreign investment to comprehensive review, export-requirements, negative lists, land controls, and/or equity limits. Consider Petitioners arguments individually:

- The Ministry of Planning and Investment reviews investment proposals and issues investment licenses;[97]

---

[93] Ajiit Singh, University of Cambridge, Foreign Direct Investment and International Agreements: A South Perspective (Oct. 2001) ("Singh, FDI") (available at http://www.southcentre.org/publications/occasional/paper06/occasional6.pdf).

[94] Id. at 8.

[95] Id.

[96] EIU, Country Commerce Vietnam at 22.

[97] Petitioners' Comments at III-5.

- Certain sectors of the economy have export-requirements;[98]
- Vietnam restricts the form of foreign investment to only 100 percent FIEs and joint-ventures among other forms;[99] and
- Vietnam is considering restricting investment in industries like law, banking, mining, aviation, telecommunications, electricity, and oil.[100]

On their face, none of these arguments presents any rational reason as to why the Department should not grant Vietnam market-economy status when numerous other market economies possess similar or even more stringent investment regimes. As we noted in our prior submission,[101] Indonesia, Malaysia, and the Philippines, all possess similar restrictions. For instance, Malaysia regulates its investment market by requiring "most existing foreign-owned manufacturing firms… to export a certain percentage of their production," imposing the aforementioned equity limits, subjecting investment proposals to the previously described licensing process, and maintaining an extensive negative list.[102] When Vietnam's investment climate is viewed in its totality, it becomes evident that not only is Vietnam no different from many other developing countries with market economies, it is in many cases better. Whereas Malaysia is known as a "comparatively illiberal investment regime,"[103] Vietnam has been

---

[98] Id. at III-5 to III-6.

[99] Id. at III-3 to III-4.

[100] Id. at III-7.

[101] Government of Vietnam ("GVN") Comments at 43-47.

[102] See Malaysia Country Commercial Guide at ___.

[103] Singh, FDI at ix.

praised as having "one of the most liberal foreign investment codes of any developing nation in the world, let alone Southeast Asia."[104]

Moreover, Vietnam has already addressed and continues to address these restrictions. Under the US-VN BTA agreement, Vietnam has agreed to remove export-requirements and to open restricted sectors, including banking, telecommunications, and distribution, to foreign investment. Vietnam has already reduced its licensing requirements and streamlined the process.[105] Despite Petitioners' claim that foreign investment is restricted in oil, multinational oil companies like British Petrol, Petronas Cargali, Lundin Oil (Sweden), Korean National Oil, Anzio Pte. Ltd. (Australia), Conoco, Geopetrol, and Gazprom (Russia), among numerous others, currently invested in Vietnam's oil sector.[106] British Petrol is also active in Vietnam's burgeoning natural gas sector.[107] In fact, the IMF notes that British Petroleum and Amoco just completed a $1.4 billion oil and gas project and "two other projects totaling $1 billion."[108]

---

[104] Thomas R. Stauch, International Lawyer, The United States and Vietnam: Overcoming the Past and Investing in the Future at 7 (Winter 1994).

[105] IMF, Second Review at 30-32; see also Asian Development Bank, Vietnam: Asian Development Outlook 2002 at 2 (2002) (available at http://www.adb.org/Documents/Books/ADO/2002/VIE.asp). The IMF report also indicates that Vietnam pledged to remove or reduce the business licensing requirements for an additional 50 sub-sectors by the end of 2001.

[106] Trade Partners UK, Oil, Gas, Refining and Petrochemical: Vietnam Profile (Oct. 1, 2001) (available at http://www.tradepartners.gov.uk/oilandgas/vietnam/profile/overview.shtml). In fact, the IMF notes that British Petroleum and Amoco just completed a $1.4 billion oil and gas project and two other projects "totaling $1 billion."

[107] Vietnam Oil and Gas Expo, BP agrees to Statoil gas stake sell off (available online at http://www.cpexhibition.com/offshore/news6.htm).

[108] IMF, Second Review at 47-48.

Not only do Petitioners fail to present any compelling arguments regarding Vietnam's investment climate, Petitioners also resort to simply outrageous and ludicrous claims.[109] Specifically, Petitioners note that in previous market economy determinations, the Department found that recently graduated countries "permitted virtually all forms of foreign investment" and list two examples: joint ventures and wholly-foreign owned companies.[110] Petitioners then argue that foreign investments in Vietnam "are limited to four major types: wholly-owned companies, joint-ventures, business cooperation contracts, and build-operate transfer projects."[111] The obvious question is how does this constitute a limitation? Foreign investors can choose to run their own business (wholly-owned business), create a partnership (joint-venture), enter into revenue-sharing contracts (business cooperation contracts), or invest in infrastructure projects (build-operate transfer projects). These four forms of investment grant investors enormous freedom to operate in an autonomous manner in the business environment. Foreign investors are able to judge risk and return and choose their investment form accordingly.

Moreover, while Petitioners claim that the predominance of joint ventures (which they overstate in any event -- see further discussion below and in Factor 4) is indicative of a restrictive investment climate, in reality, the popularity of the joint-venture form reflects sound business judgment by foreign investors. Since it only started market reformation in 1986, Vietnam is a relatively new market. To hedge against risk, it makes sense that foreign investors would want Vietnamese partners to navigate an unfamiliar business environment in the initial

---

[109] Another example is that Petitioners claim that land can be reclaimed at any time. This is true of any country -- governments can expropriate land. However, the U.S. Commercial service reports that no instances of expropriation have been reported in Vietnam, a point which Petitioners conveniently omit. See Petitioners' Comments at III-4.

[110] Petitioners' Comments at III-1.

[111] Petitioners' Comments at III-3.

years. As foreign investors become more familiar with the country, one would expect investors to prefer the wholly-owned FIE investment form. And this is precisely what has occurred in Vietnam as "foreign investors are now opting more often for 100% ownership," which also reflects the fact that foreign investors have a great deal of confidence in the stability of the market in Vietnam.[112] Furthermore, many foreign investors who initially choose the joint-venture form are now buying out their partners to form 100 percent owned FIEs.[113]

Despite Vietnam's substantial success in creating a liberal and attractive investment climate we admit, there have been setbacks. Petitioners correctly note that FDI commitments have suffered since "Vietnam initially attracted a wave of foreign investment in the early and mid-1990s." However, Petitioners appear to attribute most of the downturn in FDI to a lack of reforms, ignoring the fact that there is unequivocally a global economic slowdown that will naturally cause a slowdown in FDI, especially in developing countries.[114] The World Bank, in particular, notes, "Unfortunately, as {Vietnam's} "internal drivers" of development have been strengthening, the global context has worsened dramatically… therefore Vietnam's short term outlook is worse than a year ago."[115] While Vietnam's rankings on the Growth and Current

---

[112] EIU, Country Commerce Vietnam at 16.

[113] Id. at 18.

[114] Petitioners indirectly acknowledge this by stating that FDI inflows have sunk "in part" because of regulatory restrictions, they ignore the fact that the "other part" in this equation is in fact the most significant part – the global economic slump. See Petitioners' Comments at III-9. It is a little disingenuous for Petitioners to blame FDI declines on Vietnam when worldwide FDI inflows in 2001 fell to "less than half the 2000" figure. See UNCTAD, World Investment Report: Opening Statement at 1 (Sep. 2002) (available at http://www.unctad.org/WIR/pdfs/wir02_os.en.pdf). Under this type of framework, one could argue that the United States economic slowdown is also the fault of failed government policy (e.g., its failure to sufficiently regulate the investment bank market or accounting institutions).

[115] World Bank, Vietnam Development Report 2002: Implementing Reforms for Faster Growth and Poverty Reduction at 1 (2002) ("World Bank Vietnam Development Report") (available at http://www.worldbank.org.vn/data_pub/reports/Bank1/rep34/vdr2000.htm)

Competition Indexes dropped in 2001, so did most other developing countries. Consider that Vietnam's drop was mirrored by most other developing countries like Indonesia and Venezuela, and that Vietnam still received a higher ranking than Russia on the Growth Competitiveness Index (60th for Vietnam as compared to 63rd for Russia). Similarly, in another index created by the Heritage Foundation, Vietnam's overall economic ranking places it in company with Venezuela, Indonesia, and Russia -- all market economies.[116]

While these types of indexes are of limited use in determining the absolute conditions of a country's business environment, they do prove useful in a comparative sense, and thus, it is important to note that both of these indexes place Vietnam in the company of other developing countries that are market economies.[117] So, when Petitioners argue that there are "deficiencies in the investment climate," it is imperative to consider what measures Vietnam has enacted to correct these shortcomings.[118] As noted above and in our initial comments, Vietnam has enacted major legislative changes within in the past two years aimed at further liberalizing the investment environment and promoting private sector growth. Numerous international aid organizations have praised Vietnam's continued improvement, including the World Bank which notes:

> 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

---

[116] The Heritage Foundation, The Index of Economic Freedom: Global Distribution of Economic Freedom (2002) (available at http://www.heritage.org/research/features/index/2002/world.html).

[117] It is important to note that the Growth and Current Competitive Indexes account for numerous factors which are not directly a factor under consideration in this determination. For instance, the Current Competitive Index mainly examines "an economy's effective utilization of its current stock of resources." It stands to reason that low-income developing countries with a large working population will always score low on this index, not necessarily because of government policy or market orientation, but because the country is poor. See Jeffery Sachs, Michael Porter, and John McArthur, Executive Summary: Competitiveness and Stages of Economic Development (available at http://www.cid.harvard.edu/cr/pdf/GCR0102%20Exec%20Summary.pdf).

[118] Petitioners' Comments at III-8.

> development, banking, state-owned enterprises… and the Government's announcement of a master-plan on public administration reform and legal system development has improved business sentiments significantly, and put Vietnam on a healthier medium-term growth trajectory... A renewal of foreign investor interest is also evident. The rise in ratings of Vietnam by various foreign rating agencies confirm that foreign perceptions about Vietnam have improved too.[119]

Vietnam's progress is also reflected in the improved ranking in the United Nations Conference on Trade and Development's ("UNCTAD") World Investment Report where Vietnam climbed from the 53rd to the 20th most successful country in attracting foreign investment.[120] Vietnam's index value of 2.0 indicates that Vietnam has been able to attract roughly double the amount of FDI than one would expect based on its global share of GDP. As the UNCTAD noted, "{countries with an index value greater than one} may have exceptionally regulatory regimes, be very well managed in macroeconomic terms, or have efficient low-cost business environments."[121]

Additionally, the bilateral trade agreement with the United States and the ASEAN Free Trade Agreement ("AFTA") further integrate Vietnam into the global economy and commit it to continued reform. Under each of these agreements, Vietnam has committed itself to massive trade and investment liberalization and improving transparency in its regulatory framework by issuing "advance notice of all forthcoming regulations and decrees, to publish these documents and make them available, and to provide specific contact points within the bureaucracy for

---

[119] World Bank, Vietnam Economic Monitor at 3 (Spring 2002) ("World Bank, Vietnam Economic Monitor") (available at http://www.worldbank.org.un/whais_new/monitor.pdf).

[120] Government of Vietnam submission at 48. See also UNCTAD, World Investment Report: Vietnam - Country Fact Sheet (Sep. 2002) (available at http://www.unctad.org/wir/pdfs/wir02_fs.vn.en.pdf).

[121] World Investment Report Chapter 2 at 23.

obtaining further information."[122] Moreover, Vietnam has enacted commitments under AFTA ahead of schedule. [123]

Due to Vietnam's significant economic integration into the global economy, Vietnam possesses a massive incentive to continue developing its burgeoning market economy, especially in regard to foreign investment. The share of industrial GDP attributable to private enterprises in general, and FIEs specifically, has risen dramatically within the past five years.[124] Moreover, the inflows of foreign investment have increased generally. Both of these facts illustrate that Vietnam is on the right path and that to continue developing, it needs to remain committed to further reform.

Indeed, many international organizations, most notably the IMF and the World Bank, tie funding to continued reforms.[125] Thus, Vietnam has worked hard to pass effective reforms and continues to do so. Although Petitioners deride the Law on Competition, it should be noted that Vietnam is working with the UNDP and UNCTAD to enact an effective law.[126] Therefore, the fact that the Law on Competition is in its fifth iteration is a positive sign that Vietnam is indeed working to get it right.

---

[122] EIU, Country Commerce Vietnam at 16.

[123] World Bank, Vietnam Development Report at 39-40.

[124] One would expect the most notable gains in the industry sector for two reasons: 1) Vietnam is a primarily an agrarian economy whose agriculture sector is already predominated by the private sector; and 2) developing countries with underdeveloped industrial sectors tend to draw foreign investors because industrial projects tend to have higher rates of return. See GVN Comments at 60, Table 4 to see percentage share of industrial GDP. See also further comments herein concerning Factor 4.

[125] McKinley Vietnam Question has Changed.

[126] Development Governance, UN Helps Competition Law (Sept. 18, 2002) (attached to Petitioners' Comments at Exhibit 3-2).

When Vietnam is understood in the context of a developing country with a substantially liberalized investment climate, comparable to many of its neighboring developing countries who already have market economy status in the eyes of the Department, Petitioners' attempt to characterize Vietnam as an unfriendly and restrictive environment for foreign investors is without merit. Though Vietnam's legal framework is still a work in progress, it should be noted that the Department's standard does not require a fully developed and completely open investment climate. As such, Vietnam's investment environment is comparable to that of Russia and Kazakhstan and is consistent with other market economies. Therefore, it becomes quite clear that the Department should consider Vietnam's investment environment to be market-oriented as it allows foreign investors autonomy in choosing and overseeing their investments.

IV. FACTOR 4: OWNERSHIP AND CONTROL OF THE MEANS OF PRODUCTION ARE LARGELY IN THE HANDS OF THE PRIVATE SECTOR

Petitioners make much ado about Vietnam's socialist leanings, so much as to suggest that under such a system the Government by definition owns and/or controls the means of production. But, as stated in the introduction, this is just Cold War bluster. While it is true that Vietnam appreciates the socialist philosophy and its objective of maximizing social welfare, the Government of Vietnam has long understood that only a market-based economy will enable the country to achieve its ultimate objective, i.e. "to make people rich and the country strong," and to have democracy, social progress, and an equal society.[127]

Rhetoric aside, however, the Department generally compares economic reforms in an allegedly NME country to the functioning of other market economies, taking into account that "market economies around the world have many different forms and features."[128] Thus, the Department should compare Vietnam's economy with countries for which NME status was recently revoked, as Petitioners argue, and also those countries that have long been treated as having market economies.

In addition, the Department should take into account the differences among Vietnam's economy and those of many Eastern European countries, specifically the fact that Vietnam's industrial sector is comparatively under-developed, increasing the importance of its numerous household businesses, individuals engaging in business and manufacturing activities, and small

[127] Vietnam's Constitution, Article 16.

[128] Kazakhstan Determination at 5; see also Poland Determination at 22.

farmers in Vietnam, the combination of which account for a significant share of the current economy.[129]

This is particularly important given that the pending and rumored antidumping cases against Vietnam (frozen fish fillets and shrimp, respectively) involve the agriculture sector. Thus, the Department should consider the economic reforms in this sector just as heavily – if not more so -- as those in the industrial sector, rather than ignore them as Petitioners effectively propose.

Finally, it is critically important that the Department not be confused by Petitioners' misleading arguments as to the policy and efforts of the Government of Vietnam in pursuing further reforms to institute a market-based economy. The Government's efforts in this regard have been acknowledged by the international community, including the United States. To the extent Vietnam's performance has lagged expectations, the Department must take account of the difficulties facing Vietnam, such as the Government's limited human and financial resources; global economic downturns that precipitate reductions in the growth of FDI; falling prices of strategic export products; and fierce competition from other countries, in both trade and attracting FDI, especially those in the region (i.e. ASEAN and China). These difficulties have been discussed in various reports of the World Bank and IMF as adversely impacting Vietnam's economic performance.[130]

---

[129] For a further discussion on the Vietnam's agricultural sector in our GVN's Comments at 56-61.

[130] World Bank, Vietnam Economic Monitor at 4-14; and see also World Bank, Factor 2, Factor 3, and below. Vietnam Development Report at 21-30. The World Bank noted that "The Global Economic downturn … makes the achievement of Vietnam's goals much more difficult …" See Vietnam Development Report at 21.

A. Reforms in Vietnam Have Succeeded in Largely De-nationalizing the Economy

The Department should be consistent with the analysis performed in previous cases by assessing the de-nationalization process in Vietnam based broadly on growth in the private sector's share of the economy, whether such growth comes primarily from newly established private enterprises and FDI, as in the case of Vietnam, or from privatized SOEs, as in the case of Russia or most of the former Soviet Union.[131] We also urge the Department to consider carefully the existence of market-based competition in most of the major economic sectors in Vietnam as a result of the strong presence of the private sector, especially FDI, in most of the major industrial sectors, particularly oil and gas, infrastructure, energy and services sectors, as well as the high level of import-export activities that link Vietnam to the world economy.

1. The private sector holds increasingly higher shares in Vietnam's economy.

As the data set forth in our initial comments demonstrate (and as Petitioners also admit[132]), SOEs represent about 39 percent of GDP and less than 10 percent of employment. Meanwhile, once accounting for all the various kinds of private businesses -- including farmers and household businesses, private corporate enterprises, collectives, and FIEs -- the private sector represents 61 percent of GDP and more than 90 percent of employment.[133] (This

---

[131] See Russia Determination at 15-16. See also Kazakhstan Determination at 12-15. In these cases, consistent with its previous decisions, the Department assessed the extent of de-nationalization in Russia and Kazakhstan based on the contributions of private sector in GDP, and not merely with respect to privatization of SOEs. The Department also emphasized that existence of competition from FDI in major economic sectors, including the sectors in which the Government still held controlling shares, indicated that market forces were largely governing output and pricing decisions.

[132] Petitioners' Comments at IV-4.

[133] IMF, Vietnam Statistical Appendix and Background Notes, IMF Country Report No. 00/116 at 56 (August 2000) ("IMF Statistical Appendix") (available online at http://www.imf.org/external/pubs/f+/scr/2000/cr00116.pdf).

compares favorably to the 60 percent represented by the private sector in Kazakhstan and the 50 percent in Poland when the Department decided to treat those countries as a market economies.[134])

In this regard, the Department should be careful not to rely on the shallow statistical analysis proffered by Petitioners. They state incorrectly, for instance, that there was "virtually no progress" in reducing government control over the economy and that the private sector fell from 1996 to 2001, accounting more recently for only 48 percent of GDP. Petitioners have excluded FDI in their analysis, which is by definition a part of the private sector. They try to downplay the importance of FDI by stating in a footnote that 70 percent of all FDI are joint ventures with SOEs, but their information is simply wrong. In fact, there are more than twice as many 100 percent foreign owned FIEs in Vietnam today than there are joint venture FIEs, and more than 83 percent of the joint venture companies have more than 50 percent foreign ownership.[135] So, the notion that FDI in Vietnam is subject to Government control is spurious.

In addition, contrary to Petitioners' argument, the private sector in Vietnam also accounts for a majority share of the industrial sector. The private sector held 58 percent of industrial GDP in 2000, a 12 percent increase from the 52 percent share held by private companies in 1997,[136] of which the domestic private sector -- mostly households and private corporate sector – held more than 22 percent.

---

[134] Kazakhstan Determination at 10. See also Poland Determination at 22.

[135] See Report from the Vietnam Ministry of Planning and Investment ("MPI") on Total FDI in Vietnam classified by forms of investment (updated to August 30, 2002) ("MPI Report") (attached as **Exhibit 6**).

[136] IMF, Statistical Appendix at 63.

In addition, though Petitioners correctly identify that the private domestic sector share in GDP fell between 1996 to 2001, this reduction was not the result of government intervention or growth in SOEs. On the contrary, it was due to market forces, including (a) the gains made by FDI[137] and, critically, (b) the decline in the regional and global economies during this period,[138] and particularly the agricultural prices that fell to historically low levels, such as for critical export products like rice and coffee.[139] GDP, after all, is a value-based measurement. Any decline in the prices private Vietnamese farmers can obtain for their exports will obviously reduce their relative share of GDP. It would be ironic, to say the least, for the Department to use Vietnam's declining domestic private sector GDP as a basis for non-market economy status when such declines were based in part on market influences! Any question of the impact such factors are having on the domestic private sector is proven by the fact that the share of domestic private industrial enterprises in industrial GDP have grown by a startling rate of 20 percent from 1999 through the first quarter of 2002.[140] It is merely unfortunate that the decline in global

---

[137] CIEM, Vietnam's Economy at Table II-4 (Petitioners' Comments at Exhibit B).

[138] The Southeast Asia financial crisis began in 1997 and the overall global economy began its more significant decline in 2000.

[139] CIEM, Vietnam's Economy, at Table II.3 and Table II.4. See also World Bank, Vietnam Development Report 2002, at 23-26 and IMF Statistical Appendix at 46-47. The decrease of private sector in GDP during 1997-1999 was mainly due to the high growth of FDI (output). During 1997-1999, FDI share in GDP (output) increased by 4.8 percent of GDP, and at the same time, domestic private sector share decreased by 3.6 percent (SOEs share also decreased by 1.1 percent during this period). The decrease of private sector in GDP during 1999-2001, however, resulted from the decrease of agricultural output, heavily affected by the historic low price of coffee, tea, pepper, cashew nut, as well as the decrease of export earnings in general. Though this downturn in export may impact all economic sectors in Vietnam, private domestic sector is suffering the most because private sector accounts for almost 95 percent of agriculture GDP and is more export oriented than SOEs and FDI. (See CIEM Vietnam's Economy, Table II.3.) Agricultural decreased as a percentage in total GDP by 2.46 percent during 1996-2001. See also World Bank, Vietnam Development Report 2002 at 23-26; IMF Statistical Appendix at 46-47.

[140] World Bank, Vietnam Economic Monitor at 5.

demand for Vietnam's agricultural exports has contributed to an overall decline in domestic private sector GDP, notwithstanding gains in other private sectors of the economy.

Petitioners' information on the number of private corporate enterprises is also misleading. The figure of 35,000 registered domestic enterprises are those that were newly registered between 2000 and 2001, not the total.[141] These additional companies brought the total number of private corporate enterprises to 70,000 by early 2002, and, which increased further to 82,000 by the end of August 2002.[142] Yet, even this corrected figure excludes the 2 million active non-farm households, the 4000 collectives, 3,457 FIEs,[143] and the literally millions of farmers. As a result, Petitioners' already relatively low calculation that SOEs account for 7-15 percent of the total number of enterprises in Vietnam[144] is **vastly** overstated. Indeed, the World Bank recognized that by 1999, in manufacturing activities, there were 1,786 industrial SOEs or less than 2.9 percent of total such enterprises, comparing to 615,453 domestic non-state industrial enterprises, and 959 industrial FIEs.[145]

---

[141] Id. at 8. The World Bank estimates that the number of new enterprises registered was 20,000 in 2001 and 14,000 in 2000.

[142] According to the Record of the Ministry of Planning and Investment, by the end of August 2002, the total registered corporate enterprises was about 82,000. See Submission of the Embassy of Vietnam, August 1, 2002. The World Bank reported that there was about 70,000 enterprises in early 2002, resulting from 21,000 new enterprises registered in 2001. See World Bank, Vietnam Economic Monitor at 8 and 16. The remaining 12,000 was contributed to by new enterprise registered during the first eight months of 2002.

[143] See MPI's Report (**Exhibit 6**).

[144] Petitioners' Comments at IV-3.

[145] World Bank, Vietnam's Statistical Appendix at Table 8.1 (available at http://www.worldbank.org.vn/data_pub/reports/Bank1/rep34/statistic.pdf).

Further, the Department simply cannot, as Petitioners apparently desire, ignore the small, household element of Vietnam's economy. With respect to agriculture, the Government long ago de-associated farming collectives and handed land and the means of agricultural production over to individuals and household farmers. The Government's role in the agriculture sector has fallen to only 5 percent. The reforms in this sector have lead to impressive economic achievements, such that Vietnam now holds a permanent position among the world leaders of rice, coffee and peppers.[146]

As for the non-agricultural sector, there are 2 million household businesses that are not registered under any corporate forms listed under the Law on Enterprise, but their business and right of ownership are recognized by the law[147] and they represent at least 13 percent of industrial GDP.[148] Many of these businesses are being converted to registered corporate businesses, reflecting their legitimate role in the economy. Of the 2.5 million non-farm household business in Vietnam in 1999 plus the new household businesses registered since then,[149] about 30 percent were converted into various business corporate forms by 2002.[150]

---

[146] World Bank, Vietnam Agricultural Price Risk Management at 12, 48 available at http://www.itf.com/prisk.org/documents/documents_database/vietnam.pdf.

[147] Those household and individual business previously registered under Decree 66 of the Government (previously called Council Ministers) (1992) and presently under Decree 02/2000/ND-CP dated Feb. 18, 2000 on Business Registration. The ownership rights of households business are guaranteed under the Constitution, Articles 15 and 22, and the Civil Code at 6.

[148] IMF, Statistical Appendix at 63.

[149] UNDP, Non-State Business Sector and Job Creation at 12.

[150] World Bank, Vietnam Economic Monitor at 16

The Department has never taken the slow privatization of SOEs as a determinative factor in its consideration of a country's economic status. Rather, the Department looks at the private sector as a whole, whether it results from the registration of new private companies and FDI or from privatization of SOEs.[151] Indeed, the Department noted in the Kazakhstan decision that while privatization of SOEs in Kazakhstan was slow and SOEs remained active in various economic sectors, it did not indicate a misallocation of resources where those SOEs are subject to market forces in the form of competition from the domestic private sector and FDI.[152]

The process of privatization of SOEs in Vietnam is nevertheless partly misstated by the Petitioners. First, it is not due to Government policy that privatization of SOEs has been slow. As discussed in our initial comments, since 1998 the Government has adopted a policy to subject all SOEs to the equitization process,[153] except those that are explicitly set forth by law to remain under the Government's full ownership. As discussed in our initial comments, the various Government efforts include improving legislation, reducing administrative procedures, setting up a centralized committee to streamline the transformation of ownership of SOEs, and providing newly equitized SOEs with various tax incentives and restructuring assistance.[154] To speed up this process, the Government adopted a five-year SOE reform plan in March 2001, with annual

---

[151] Kazakhstan Determination at 14. In this cases, the Department looked at private sector share of GDP, without separating whether such shares came from privatized SOEs, domestic private sector, or FDI.

[152] Kazakhstan Determination at 14.

[153] See GVN's Comments at 62-64. See also Decree No. 44/1998/ND-CP of the Government dated June 29, 1998 on Equitization of SOEs.

[154] GVN's Comments at 62-66.

targets specified for 2001-03.[155] According to this plan, approximately 1,800 out of the current 5,500 SOEs will be subject to enterprise-specific reform measures, mostly through equitization (1,400), divestiture (140), or liquidation/closure (220).[156] The Government's policy to equitize many more SOEs and to speed up this process was also acknowledged by Petitioners.[157]

Note also that the reduction of SOEs from 12,000 to 5,500 resulted from the Government's efforts to restructure SOEs, and liquidate others.[158] However, since SOEs are granted with substantial autonomy, equitization of SOEs must be agreed first by the SOEs' management and employees.[159] In addition, and again notwithstanding Petitioners' assertions to the contrary,[160] all SOEs by definition under the Law on State Enterprises of 1994 are now organized under the form of limited liability companies. They are, therefore (as the UNDP has noted), separated from those ministries that once literally operated them. The transformation of SOEs to private ownership has been progressing since 2000. More than 550 SOEs were equitized and otherwise privatized from January 2000 to August 2002, which is more than 1.5 times the total number of SOEs previously equitized.[161] In contrast to Petitioners' allegation,[162] most of the equitized SOEs have majority private shareholders.[163]

---

[155] IMF, Statistical Appendix at 32.

[156] IMF, Statistical Appendix at 32.

[157] Petitioners' Comments at IV-4.

[158] See GVN's Comments at 62, citing the UNDP's comment that the reduction of SOEs from 12,000 to about 5500 was due also to liquidation of SOEs, not just restructuring as argued by Petitioners.

[159] Petitioners' Comment at IV-4-5.

[160] Petitioners' Comments at IV-4-5.

[161] See GVN Comments at 65.

The exclusion of certain "strategic" SOEs from the equitization process, or the retention of the state's controlling shares in major SOEs, is aimed at protecting national security and serving economic development strategies, rather than the Government's intent to control the means of production. As discussed in our initial comments, most of the SOEs that remain under Government control are in strategic industries such as aviation, telecommunication, electricity, oil and gas.[164] Although some of them are in trading activities, they mostly involve export of food and other agricultural and textile products that are, in addition to oil, a main source of export revenue for Vietnam. Those companies, however, mainly act as export agents to facilitate the trading of farm products in the international market, which obviously may not be carried out efficiently by family farmers and household businesses. Instead of equitizing those SOEs, as discussed below, the private domestic sector and FIEs are all granted the right to export most of these products directly without any license or quota restrictions.[165]

This policy is also designed to diversify the economy and provide affordable utilities and other infrastructure services to the public, which is essential for the development of Vietnam's economy and the reduction of poverty in the country. With respect to diversification, Vietnam has traditionally been dependent on crude oil exports as a source of revenue,[166] thus limiting

---

[162] Id.

[163] For example, in 2001, 178 equitized SOEs out of 246 have sold more than 65% share to private shareholders. See World Bank, Vietnam Economic Monitor at 17.

[164] The World Bank has also acknowledged that a number of SOEs including the General Corporations, i.e. the 17 state general corporations mentioned in Petitioners' comments at IV-6, will remain under government control for reasons of national security and special (i.e., strategic) interest. See Vietnam Economic Monitor at Annex 2.

[165] Exceptions are certain textiles exported to the EU and other countries where quotas are imposed on Vietnam's textile exports.

[166] IMF, Statistic Appendix at 4-7.

growth of the overall economy. Vietnam, therefore, has no choice but to develop its other sectors where SOEs are important players at present. But, learning from the failed mass privatizations in many countries in Eastern Europe, it may not be wise for Vietnam to subject all of the essential industrial SOEs to mass privatization while domestic industries are s till very small. At the same time, investment and development of infrastructure, utilities, roads and public transportation, are fundamentally important for Vietnam, and SOEs are still viewed as necessary to provide these services at affordable rates for a large and relatively poor population in Vietnam, which may not be available from profit-oriented providers.[167] Thus, instead of equitizing the current SOEs in those sectors, the Government has encouraged private investors, including foreign investors, to invest in infrastructure projects, thus, creating market-based, commercial alternatives to entrepreneurs in these sector.[168] (The presence of FDI projects as market alternatives in these sectors is discussed in more detail below.[169])

The Department made clear in its analysis of Kazakhstan's market economy status that where the Government's policy is to target particular sectors with the purpose of reviving a depressed market and rejuvenating industrial growth, it should not be viewed the Government imposing its control over the means of production.[170] The Department has recognized in various

---

[167] Vietnam's Pillars of Development, Providing Efficient Infrastructure Services at Chapter 5 (available at http://www.worldbank.org.vn/vn_pillars/privide/provide001.htm). See also the costs of electricity in Vietnam as compared to other countries in the region, at GVN's Comments at 75.

[168] This matter have also been discussed in many instances in the GVN's comment and in the above mentioned discussions on foreign direct investment.

[169] For further analysis on energy industry in Vietnam, please see the World Bank's paper: Fueling Vietnam's Development (1999) (available at http://www.worldbank.org.vn/data_pub/reports/Bank1/rep13/fu001.htm). This paper provides a deep review of the energy sector in Vietnam, and demonstrates that the presence of FDI in the energy sector in Vietnam is significant.

[170] Kazakhstan Determination at 15.

instances that state control in these natural monopoly or strategic sectors are quite popular in market economies, including those for which NME status was recently revoked as well as those which were always treated as market economies.[171] This is essentially what is happening in Vietnam, and is clearly misunderstood by Petitioners.[172]

Petitioners correctly point out that FIEs may not be listed on the stock market because they are established as limited liability companies, instead of stock-based companies. The Government has already called for regulation allowing the transformation of these enterprises into stock-based companies, making it possible for those companies to be listed.[173] But, for the time being, Vietnam is no different from many other developing countries whose stock markets are relatively undeveloped.

Developing countries face the often paradoxical situation of needing to raise capital and ensure stability. Over the recent past, more and more developing markets have turned to stock markets as a tool for raising capital. While FDI generally allows countries to develop beyond their savings, as we noted earlier, it can simultaneously expose a country's macroeconomic framework to severe exogenous stocks. This problem is exacerbated by a stock market.[174] A developing country with a stock market needs to attract capital but it also needs to ensure that

---

[171] GVN's Comments at 77-81.

[172] Petitioners' Comments at IV-6.

[173] IMF, Statistical Appendix at 34.

[174] Jason Gottlieb, Suite 101.com and Columbia Law Student, Launching the Phnom Phem Stock Exchange 4: Justifying Stock Markets (January 28, 2000) ("Gottlieb Justifying Stock Markets") (available at http://www.suite101.com/article.cfm/politics_east_asia/30748).

this capital can be used effectively over time. In other words, companies raising money through a stock market need to know that the money raised will stay in the market.

However, as the Asian financial crisis showed, this is not always the case. The stock markets in Thailand, Hong Kong, Malaysia, and Indonesia dived quickly as investors pulled their money out of these economies at a rapid pace.[175] In particular, an examination of Hong Kong's experience provides a useful lesson about small stock markets. At the onset of the crisis, Hong Kong was the second largest market in Asia, one that was widely acknowledged to operate on market principles.[176] The Hong Kong dollar was pegged to the U.S. dollar and Hong Kong was not cash-strapped.[177] Yet, the value of Hong Kong stock market dropped precipitously over a four-day period, losing approximately 23%. The drop resulted from a variety of reasons including western hedge funds which possessed enormous stakes in the stock market and allowed them to "attack" the market by holding short positions and flooding the market with Hong Kong dollar by selling assets denominated in Hong Kong dollars. In the aftermath of the stock market devaluation, the secretary general of the UNCTAD stated,

> in the absence of broad international consensus on how to curb volatile capital movements, a reasonable degree of flexibility for measures to deal with inward and outward capital movements remain essential for national authorities of developing countries.[178]

---

[175] Martin Khor, director of the Third World Network, Hong Kong Crash: 'Objective market forces' at work? (available at http://www.twnside.org.sg/title/khor3-cn.htm).

[176] Id.

[177] Id.

[178] Id. This experience was also mirrored in other countries like Thailand where some accused George Soros of massive speculation. See also Gottlieb, Justifying Stock Markets at "Thailand."

2. The presence of the private sector, including FIEs, in virtually all major economic sectors, creates strong market-based competition.

Petitioners' allege that the presence of SOEs in many sectors and its majority share in certain natural monopoly sectors leads to an environment "virtually devoid of competition." The evidence proves otherwise.

As discussed above, the dominant and growing private sector in Vietnam places competitive pressure on non-monopoly SOEs that have no choice but to adjust to market forces. Whatever criticism Petitioners can level against Vietnam's Party Congress pronouncements or the slow pace of "privatization," the data speaks for itself: the growth of the private sector, with the help of foreign investment, is forcing all businesses -- including SOEs -- to respond to market influences. Further, in those sectors where SOEs are required to compete with private enterprises (including FIEs) -- i.e., the majority of the sectors in which SOEs operate -- they by definition must operate in accordance with market principles. As a result of sharp competition, many SOEs are operating at a loss.[179]

The competition faced by SOEs inevitably results in a reduction in the share SOEs represent of GDP in the industrial sector as well as in the economy in general, as discussed above. Even in traditional state monopoly sectors such as banking, insurance, energy, telecommunication, infrastructure, oil and gas, SOEs are all subject to tremendous competition, especially from FDI. Consider the list attached here at **Exhibit 7**, which provides a list of FDI projects in a wide variety of industries, including in those industries the Petitioners claims are monopolized by the state. With the possible exception of the transportation industry, foreign

---

[179] Petitioners also recognized that many SOEs are operating at a loss in its comment at IV-8.

investors have become important players, if not more important than SOEs, in most of the industries traditionally run by the state. For example:

- in the oil and gas industry, there are 28 FDI projects, with registered capital of US $3,176,049,881 including exploration, production, distribution and refinery, both upstream and downstream;
- FDI in power generation and distribution includes 8 mega projects, with total investment of US $1,370,315,018;
- in infrastructure development, FDI represents 15 projects, with registered capital of US $830,120,015;
- in water production and supplies, FDI contributes at least 3 large scale projects, with total investments of US $330,125,000;
- in port construction and operation, FDI represents at least 3 projects worth US $125,261,017;
- for telecommunication services and equipment manufacturers, FDI represents no less than 19 projects with total investment of US $2,363400,448;
- in mineral exploitations and production, other than oil and gas, including mainly coal, gold and various metals, FDI has 6 projects, representing US $339,137,021 in registered capital;
- for cement productions, there are no less than 5 FDI projects, representing US $1,385,260,000 in registered capital;
- in construction of houses and apartments for lease or sale, there are 20 projects, representing in US $4,882,366,214 registered capital.

For other industries in which Petitioners claim that SOEs are suppressing competition in the domestic market, **Exhibit 7** shows:

- for sugar production, there are at least 8 FDI projects in operations with total registered capital of US $449,721,000;
- for textiles and garment industry, there are many, many FDI projects, 16 of which have more than USD 20 million in capital each, only these 16 projects alone comprise US $1,661,395,063 in registered capital;

- in manufacturing automobile, motorbikes, and sea vessels, there are also many FDI projects, 25 of which have USD 10 million or more invested, the total of which equals us $1,259,452,680 in registered capital.

Thus, it is obvious that strong competition exists in Vietnam in most economic sectors and therefore create market-based alternatives that subject SOEs to market forces. Though the Government may maintain certain policies to ensure social and public interests in certain areas, the significant presence of foreign and multinational companies with strong bargaining powers subject virtually all industries to market influence. Indeed, the presence of FDI in strategic sectors where SOEs would normally hold a monopoly makes Vietnam's case far stronger than that of Kazakhstan. In Kazakhstan decision, the Department concluded that the presence of FDI and private enterprises in the economy subject SOEs in major industries in Kazakhstan to market forces and provide market based alternatives to SOEs [180] -- though the level of FDI in Kazakhstan's economy was far lower than in Vietnam today (cumulative FDI in Kazakhstan was only about USD 10.4 billion in 2000,[181] compared to at least USD 17.9 billion in capital disbursement of FDI in Vietnam),[182] and FDI in major industries in Vietnam, other than oil and gas, is much higher and widespread among industries compared with Kazakhstan.[183] Thus, FDI in Vietnam provides a much higher level of competition than that offered by FDI in Kazakhstan at the time its economy was deemed market oriented.

---

[180] Kazakhstan Determination at 14-15.

[181] See EBRD, Kazakhstan Investment Profile at 8 (found at Tab 4 of July 5, 2001 Submission of the Republic of Kazakhstan).

[182] Vietnam Country Commercial Guide at 92.

[183] EBRD, Kazakhstan Investment Profile at 8.

In addition to FDI, SOEs are also subject to competition from foreign companies providing services, (e.g. construction and construction services, in the form of foreign contractors), or branch offices of foreign companies (e.g. in banking services, cigarette manufacturing and distribution), as well as products imported into Vietnam.

In sum, FIEs play an important role across most economic sectors, provide market-based alternatives to SOEs, and subject SOEs to competition. Thus, the existence of SOEs clearly does not prevent prices and costs from reflecting market forces.

The performance of the private sector, including FDI, proves not only the presence of market influences in Vietnam's economy, but also that the Government's reforms are having an obvious effect. To suggest, as Petitioners do, that Vietnam's reforms are "embedded in the expectation of continued government dominance" is to ignore the facts. Without the reforms implemented since the initiation of *doi moi*, the private sector, including FDI, would never have reached the numbers apparent today, and would certainly never place competitive pressure on traditional state monopolies like those discussed above. Petitioners' citation to general Government rhetoric that has no basis in fact should simply be ignored.

B. Land reforms in Vietnam have provided substantial private use of land including the rights to transfer and dispose the land

Vietnamese law essentially provides for a "bundle of rights" that arguably mirror western notions of property rights in which "land ownership is actually a complex set of relationships

involving a sometimes bewildering assemblages of rights."[184] Vietnam's land laws provide for the right to use, transfer, convey, lease, sublease land, use land as collateral for loans and other contractual obligations.[185] Although the land is technically owned by the state, as is the case with Israel and Hong Kong, Vietnam's land-use rights amount to a de facto private control of land such that they create a real market. As we noted in our first submission, Vietnam's continued efforts to strengthen its land-use right system has led to a noticeable growth in the real estate market.

While Petitioners do highlight some problems in Vietnam's land-use right system, it is important to note that Petitioners do not dispute that land-rights are guaranteed. Instead, they note that banks may only value land at 70% of appraised value, that the government may expropriate land, that a real-estate black market exists, and that the government restricts building on farm-land.[186] However, these arguments all assume that a market already exists -- there is no need to appraise land if land cannot be bought or sold just as it cannot be appraised if there is not a market for land. Similarly, Government expropriation necessarily means that individuals have property rights. While massive expropriation would indeed render property rights, whether land-use rights or not, meaningless, the U.S. Country Commercial Guide for Vietnam reported no instances of expropriation.[187] Black markets only exist via distortions in the "official" market,

---

[184] Iowa State University, Land Use Series: Rights in Property and Land-use Regulation: Tradition and Tensions in a Changing World at 1 (February 2001) ("Iowa State University Land Use Series") (available at http://www.extension.iastate.edu/Publications/PM1868C.pdf).

[185] GVN Comments at 68-72.

[186] Petitioners' Comments at IV-10 - IV-11.

[187] U.S. Commercial Service, Vietnam: Country Commercial Guide at Ch. 7. (2002) (available at http://www.usatrade.gov/Website/CCG.nsf/CCGurl/CCG-VIETNAM2002-CH-7:-0067B8CE).

and restriction on building on farm land do not differ from zoning law restrictions here in the United States and other countries.[188] Although zoning laws widely restrict building (most often restrict commercial development in residential zones), they are not considered to exclude markets. Rather, zoning laws distort markets. Thus, Petitioners are essentially arguing that Vietnam's land-use right system has problems which distort the market.

Government regulation of property rights are widely thought of as necessary. The United Nations policy on land states:

> Land...cannot be treated as an ordinary asset, controlled by individuals and subject to the pressures and inefficiencies of the market. Private land ownership is also a principal instrument of accumulation and concentration of wealth and therefore contributes to social injustice; if unchecked, it may become a major obstacle in the planning and implementation of development schemes. The provision of decent dwellings and healthy conditions for the people can only be achieved if land is used in the interests of society as a whole. Public control of land use is therefore indispensable...." [189]

The land use right regime in Vietnam is simply not an impediment to finding that Vietnam has a market economy.

---

[188] Zoning laws are often cited as examples of police powers. See Iowa State University, Land Use Series at 1.

[189] Sovereignty International Inc. The UN and Property Rights (citing the United Nations policy on land as established by the Conference on Human Settlements in Vancouver, B.C. in 1976) (available at http://www.sovereignty.net/p/land/unproprts.htm).

V. FACTOR 5: PRIVATE ENTERPRISE LARGELY CONTROLS ALLOCATION OF RESOURCES AND PRICE OR OUTPUT DECISIONS

Petitioners have misstated key facts in arguing that the Vietnamese Government directly and indirectly controls output and price, allocates commodities and resources, and thereby prevents prices from reflecting market-based demand and supply. As discussed in our initial comments and here below, Vietnamese farmers, households, and enterprises enjoy independent decision-making powers for investment, input sourcing, output and pricing for all goods and service, without government interference. The Government does not impose or enforce any output targets or allocations, rather it simply sets general goals to oversee the country's economic development, which is necessary for mulating economic policies. The scope and extent of government intervention in price setting is governed strictly by law and is neither exceptional in market economies nor in excess of the Department's standards. Vietnam has also implemented substantial banking reforms in both its legal regime and practice such that various foreign and private banks have been operating actively in competition with state-owned banks. All banks enjoy extensive business autonomy in allocating capital to the economy, while overseas financial lenders and domestic self-financing from savings also contribute to capital allocation but remain outside of the banking system. Such level of banking reform in Vietnam clearly exceeds the Department's standards. As discussed in our initial comments and here below, these facts are clearly supported by both the law and factual information regarding Vietnam's economic development, as officially recognized in Vietnam and acknowledged by highly respected independent international organizations such as the IMF and the World Bank.

Indeed, Vietnam's economic efficiency is evidenced by the strong presence and high growth of FDI and the domestic private sector in Vietnam, the impressive growth of the

economy, and the economy's high level of integration into the world market. In theory and as recognized by the Department, such efficiency could not be achieved with the Government's distortive control of prices and allocation of resources.

A. The Government neither directly nor indirectly sets the price of most goods

Petitioners have misstated the facts in arguing that the Government imposes extensive price controls throughout the economy either by directly setting prices or through the dominant presence of SOEs in most economic sectors.[190] Petitioners also misinterpreted the Department's standards in arguing that the Government's intervention in setting prices of public services and natural monopolies is contrary to market economy principles. Such policies, as noted by the Department, exist in most market economies.[191]

1. Lack of direct control

The first action taken by the Government under the reform policy in 1986 was to abandon price setting and output allocations for most goods and services in the economy.[192] The World Bank has also observed that since 1989, Vietnam effectively removed all forms of direct subsidization of production and price control.[193] The Government's Decree No. 137-HDBT introduced in 1992, which was recently codified and improved in the Ordinance on Price in 2002, limits the Government's control and intervention in pricing and reconfirms the autonomy

---

[190] Petitioners' Comments at V-3, V-4.

[191] See e.g., Kazakhstan Determination at 18; Russia Determination at 17.

[192] See GVN's comment at 73-74.

[193] See Trade Policy Reform in East Asian Transition Economies, Table 5, at 18, available at http://econ.worldbank.org/files/1393_wps2535.pdf.

of entrepreneurs in setting their prices. Private control of prices also has been protected as part of the constitutional right to business autonomy and profitability, as well as laws governing the right to do business for profit by individuals, households, private domestic enterprises, and FIEs.[194]

Under this legal regime, the Government generally is not allowed to set or control prices of goods and services. The limited exceptions include the price of public goods and services (e.g., health care, land rent, education), products and services of natural monopolies, and temporary measures, to setting prices to achieve price stabilization for commodities that are essential to the economy, when there is an accidental distortion of prices.[195] When the Government is permitted to set or control prices, the Government is required to balance the interests of consumers, the enterprises providing these goods and services, and the national interests, taking into account costs involved, demand, supply, Vietnam dong purchasing parity, domestic and international market prices, and any objectives for macroeconomic-social development.[196]

The Ordinance has effectively codified the Government's method of compromising different interests in determining the prices of certain natural monopoly goods and services. For

---

[194] Constitution 1992 (as amended in 2002), Articles 16 and 21.

[195] Decree 137/HDBT on Price at Art. 1-3 (Apr. 27, 1992); Ordinance of Price at Art. 6-7 (Apr. 26, 2002). The Government is also permitted to interfere in prices set by entrepreneurs, but only in limited circumstances: (i) to prevent monopoly pricing due to collusion or abuse of market power and (ii) to fight against dumping. See Decree 137/HDBT on Price at Art. 1-3 (Apr. 27, 1992); Ordinance of Price at Art. 30-31 (Apr. 26, 2002). Such intervention may be found under antitrust law or legal regimes on monopoly or competition in most market economies, including the United States (as evidenced by this very case).

[196] See Ordinance of Price at Article 2, 5, 8.

example, since August 2001, negotiated contractual prices on electricity for industrial and commercial uses are now permitted. Under Decree 45/2001/ND-CP dated August 2, 2001, independent electricity providers are permitted to negotiate with industrial and commercial customers for the price of electricity.[197] The Government's intervention only exists as to electricity provided to the public through the national electricity system or where the parties could not reach an agreement.[198]

Petitioners' analysis of the Ordinance on Price is misleading or misinterprets the legal regime of Vietnam, exaggerating the practical effect of certain measures.[199] Under the Ordinance, the Government may introduce certain temporary measures for stabilization of market prices only when exceptional speculation may threaten the public or the economy. The Government is permitted to chose among a number of measures, including purchasing or selling of national reserves (mostly applied for rice and other grains), providing price subsidies, intervening in supply and demand in the domestic and international markets, and setting minimum and/or maximum prices. The Government, however, may exercise that right in limited exceptional circumstances and only on a temporary basis.

The Government's intervention for the purpose of stabilizing prices for essential commodities is not exceptional in market economies. The measures permitted by the Ordinance on Price are also widely applied by market economies. For example, the United States may sell

---

[197] Decree 45/2001/ND-CP dated August 2, 2001 on Electricity Activities and Electricity Usage, Article 38.

[198] See Id. For further discussion on electricity price, please see the World Bank report: Fueling Vietnam's Development available at http://www.worldbank.org.vn/data_pub/reports/Bank1/Rep13/fu2001.htm, and its updated reports available at www.worldbank.vn.

[199] Petitioners' Comments at V-5.

and buy oil for or from its national reserves for the purpose of reducing oil price pressure. Various market economies have also been found to provide or apply safeguard measures to protect their local industries from injury due to unfair international trade practices or to pursue certain vital economic strategies. For example, the European Union's heavy subsidies and prohibitively high tariffs result in artificially high prices for agricultural products including, among others, sugar.[200] The laws of Kazakhstan and Russia both grant similar rights to the governments to intervene in setting the price for essential commodities.[201]

Petitioners' argument that the Ministry of Trade plans to coordinate with other ministries and agencies to examine the costs of exported goods so that it may properly exempt quota fees or customs fees is completely irrelevant in this matter as this practice serves simply to reduce administrative costs for these goods and, therefore, has nothing to do with Government control over pricing.

Petitioners have introduced misleading statements as to the right of the Vietnamese Government to set prices for public goods including land, water surfaces and important natural resources, state assets, and monopoly goods and services. As discussed in our initial comments and in the above discussion on the ownership of land, water, and important mineral resources,[202]

---

[200] See "Europe rejects sugar 'exclusion charge" (august 22, 2002). In this article see Phil Bloomer, "the Sugar regime is a clear example of European's blatant hypocrisy in dealing with developing countries," available at http://news.bbc.co.uk/2/hi/sci/tech/2210085.stm.

[201] Kazakhstan Determination at 16 (Kazakhstan's government reserved the rights to re-impose import restrictions); see Russia Determination, Rebuttal Brief by Respondents at 126 (Feb. 7, 2002).

[202] See GVN's Comments at 77-80. The price for land, natural resources or state assets are set by the Government at the time they are leased or sold to individuals or organizations or for the purpose of determining taxes. The transactional prices of the items, for example land use rights transferred between individuals and organizations is subject to the market, e.g. real estate market. See, for example, Decree 81/2001/ND-CP of the Government, prices for residential houses including underlying land use rights are agreed upon by the parties (Article 10).

the scope and extent of the Government's control clearly do not exceed the Department's standards.[203]

Petitioners also misstate the facts in arguing that prices of some commodities are directly set by the Vietnamese Government.[204] For example, Petitioners reported that the Government Pricing Committee ("GPC") directly sets prices for cement, sugar and fertilizers.[205] Petitioners' source neither mentions the GPC nor the Government's price controls.[206] Rather it mentions the high production costs of domestically-produced cement, sugar and fertilizers as compared to import prices to support its position that Vietnam's economic policies should not support and protect domestic industries that do not have international comparative advantages due to its poor technology and managerial skills.[207] Whether the information in this article is correct or not (which we doubt),[208] and while Vietnam's various policies are the subject of legitimate debate,

---

[203] Id.

[204] Petitioners' Comments, at V-3.

[205] Id. The Government Pricing Committee functions as the Government's arm to govern prices when authorized, to formulate pricing policy, and to monitor the market by reporting and gathering statistics on market prices. See Decree No. 01/CP (Jan. 5, 1993) on duties, powers and organizational structures of the Government Pricing Committee.

[206] Petitioners' Exhibit 5-1.

[207] Id.

[208] Many articles on which petitioners heavily relied contain inaccurate and confusing information, and most of the time, the conclusions therein do not have any supporting facts. For example, in Exhibit 5-1, the article "Vietnam New Brief, Miscellaneous: Old Way of Thinking still Depresses Economy" contained a statement that " the Government annually sets production targets for all industries, which are usually met." This is clearly untrue given the strong presence of FDI and domestic private companies in most of the industries. Another article, "Reality and Solution," reported various inaccurate facts. For example, Government decrees were reported as the highest level of documents governing state corporations, while these corporations and other state-owned enterprises are subject to the Law on State Owned Enterprises. In addition, production and distribution of cigarettes and port construction are reported as absolute state monopoly despite the strong presence of foreign investors in those sectors. World leading tobacco companies, such as Philip Morris and British American Tobacco, have branches and joint ventures for

the high production costs of those products in no way support Petitioners' argument that the Government directly controls the price of these products. Indeed, competition from low priced imported products mentioned in this article clearly evidences the contrary, i.e., the Government does not set the prices of these products. These prices, are, in fact, dictated by market forces due to domestic competition and world market prices.[209]

Finally, though dual pricing for FIE still exists for electricity and telecommunications services, the Government has made a specific commitment with the IMF to phase out most dual pricing policies by 2003 with the remaining (i.e., electricity) to be removed by 2004.[210] Dual pricing may remain as between utility prices charged to public activities and those to production and commercial activities. But this practice is popular in market economies. For example, as discussed in our initial comments, electricity is often priced differently for consumption, production, and commercial activities in Japan, South Korea and many other market economies.[211] Yet, in Vietnam, as FIEs have the option of obtaining contractual prices for electricity as discussed above, the pricing policies are less likely to impact their operations.

2. Lack of Indirect Control

With respect to the Government's allegedly indirect control through SOEs, petitioners' argument cannot survive the fact that FDI and the domestic private sector compete sharply with

---

distribution and production of cigarettes in Vietnam. Similarly, foreign investors are also involved in building and operating commercial ports in Vietnam. (See the List of Selected Major FDI Projects attached hereto as **Exhibit 7**.)

[209] See detailed discussion in Factor IV and Factor VI of this Comment.

[210] IMF Second Review at 17.

[211] See GVN's Comments at 75. See also discussions on price control in India in the WTO, Report by the Secretariat: Trade Policy Review of India, WT/TPR/S/100 (May 22, 2002).

SOEs in providing most goods and services in Vietnam,[212] where, as noted by the Department, FIEs and domestic private enterprises are entirely driven by market forces. As discussed above, SOEs operate based on market forces due in part to the strong presence of FDI and domestic private sectors. On the other hand, as discussed below in factor VI, due to Vietnam's integration into the ASEAN market and the world market in general, substantial portions of the products Vietnam trades are subject to prevailing global prices. The low tariffs under AFTA that are mostly in place at present also subject most domestic goods to direct competition from freely priced imports, especially from ASEAN countries.[213]

As shown in the list of selected major FDI projects, FDI has a strong presence in virtually all economic sectors, including those specifically noted by Petitioners as under SOE monopolization or domination. As explained above in the context of Factor 4, SOEs, FIEs, and domestic private enterprises in these sectors are competing with one another under market forces and, therefore, their prices and output are dictated by the market. Indeed, contrary to Petitioners' misleading argument, the IMF observed, for example, that "SOEs in textile and footwear sectors are already facing increased competition from China and private domestic firms that have been forming joint ventures with foreign partners. The further opening up of the economy combined with other ongoing trade reforms [i.e. the removal of quantity restrictions] is bound to increase competition and restructuring of the SOE sector."[214] At the same time, Vietnam's openness to

---

[212] As discussed in the Government's comments at 52-56 and in section IV above, FDI and the private domestic sector provide goods and services in virtually all sectors of the economy. See also the list of selected Major FDI projects in Vietnam, **Exhibit 7**.

[213] The openness in trade and investments in Vietnam has been discussed in Factor 4 and Factor 6 in GVN's comment and in the rebuttal comment.

[214] IMF Statistical Appendix at 42.

international trade also subjects domestic market to the international market and, eventually lets the world price dictate domestic prices. As observed by the World Bank, for example, world commodity prices have substantially dictated domestic prices of agricultural products.[215]

B. Vietnam Has a Market-Based Banking System, Due in Part to Major Banking Reforms

As discussed in the Government's initial comments, Vietnam has undertaken major banking reforms since 1990 by removing government control over the banking system and permitting the development of a significant and strong private banking sector. While banking reform is progressing and banking operations are generally subject to strong competition, other financing options are available, including through FDI, domestic self-finance, overseas commercial lending, official development aid, and other official financing under strict conditions and monitoring from foreign and international organizations. Together, the variety of financing options demonstrates that the banking sector and the allocation of capital/credit to the economy are no longer controlled by the Government, but rather are driven by commercial motives and market forces.

As discussed below, Petitioners have misstated or misunderstood the key facts concerning the banking structure in Vietnam or relied on simple statements without factual support in arguing that the Vietnamese Government, through the banking system, controls capital allocation throughout the economy.[216] This allegation is simply untrue and unfounded. The

---

[215] See World Bank: Vietnam Economic Development, at 26. The World Bank reported that the fluctuation of the global price of rice impacts farmers and households in Vietnam. It addressed the lack of Government support to farmers and farm products to mitigate the impact on poor farmers in Vietnam.

[216] Petitioners' Comments at V-7 to V-9.

Government's policy is to develop a strong, healthy, market-based banking sector in which domestic banks compete with foreign banks to achieve the international level of banking activities and to provide local and foreign entrepreneurs with diversified resources.

First, Petitioners claim incorrectly that the State Bank of Vietnam ("SBV") has instituted controls throughout the economy via its mandate to manage the state budget and the state reserve and to supply capital to the Vietnamese economy.[217] The article on which Petitioners rely states clearly that Vietnam has reformed its banking system and has established a two -level system by which the SBV functions as a central bank and does not manage commercial banks or commercial activities.[218] Moreover, the SBV neither manages the state budget nor provides direct lending to the economy.[219]

As discussed in the Government's initial comments, the separation of the SBV from the Government and the separation of commercial banks from direct management of the SVB were implemented through a series of laws, including the Ordinance on the State Bank of Vietnam (1990) and the Ordinance on Banks, Credit Institutions and Financial Companies (1990), which have been codified respectively in the Law on State Bank of Vietnam (1997) and the Law on Credit Institutions (1997). The Department has specifically recognized that separation of the Government and banking oversight creates a legal frame work to ensure the removal of the

---

[217] Petitioners' Comments at V-7

[218] "Set for Big Overhaul" Saigon Times Magazine (attached as Exhibit 5-1 of petitioners' comments).

[219] See Law on the State Bank of Vietnam at Art. 1-5, Ch. II (1997). The Ministry of Finance and the State Treasury are responsible for the state budget.

government control over the banking sector.[220] Indeed, the SBV functions much like central banks in other market economies.

At the same time, foreign banks and financial institutions have also been permitted in Vietnam. As also recognized by the Petitioners, the banking sector of Vietnam includes many foreign banks, including 4 joint venture banks, 30 foreign bank branches (or at least 27 foreign bank branches as cited by the Petitioners), 53 foreign bank representative offices, 6 state-owned commercial banks (SOCBs), and 34 joint stock banks (JSBs).[221] The strong presence of foreign bank branches (wholly-owned subsidiaries of parent foreign banks) and numerous JSBs undoubtedly creates market-based competition in banking activities. Contrary to Petitioners' argument that the Government limits foreign involvement in the banking sector,[222] foreign participation in Vietnam compares favorably to the banking sector in Kazakhstan at the time its NME status was revoked, where foreign bank branches were not permitted and only 16 banks had foreign participation[223] and in Russia where the banking sector is still not open to foreigners.[224]

Petitioners also misstated numerous facts or quoted outdated facts about the banking sector and activities in Vietnam. For example, Petitioners claim that the SBV sets a

---

[220] See Russia Determination at 17; Kazakhstan Determination at 17.

[221] Petitioners' Comment at V-9.

[222] Id.

[223] Kazakhstan Determination at 19.

[224] See Russia' WTO accession: current state of negotiation, and forecasts of the effects prepared by the Centre for Economic and Financial Research, Moscow, Russia on Russia's WTO negotiation, available at www.efir.org/papers/ccfwp16.pdf.

"fundamental rate" for all loans and therefore prevents banks from making loans based on the market. Yet, the IMF, in reviewing Vietnam's banking reforms, has noted that the financial sector in Vietnam offers the private sector "access to credit under market-related interests rates."[225] The IMF also specifically noted that interest caps have been "wholly or partially" lifted. The last interest cap on Vietnam dong was lifted on June 1, 2002, following the removal of caps for foreign loans in June 2001. And, even earlier, in 2000, controls over margins above base lending rates were removed, giving banks "adequate flexibility" to price risks and thereby offering private corporate enterprises better access to credit.[226] At present, banks are free to set interest rates on both VND and USD, for deposits and loans.[227] Indeed, limitations on interest charged by banks are quite popular in market economies,[228] and yet, it does not prevent banks in those countries from lending on market terms. Thus, Petitioners' argument that it is not possible for banks in Vietnam to allocate capital resources according to market forces where there are certain limitations on interest rates is clearly unfounded.

Petitioners also try to associate the Government, SBV and SOCBs together as dominating the allocation of capital to the economy by distorting capital costs and restricting capital available to the private sector. By so doing, Petitioners misrepresent the allocation of capital to

---

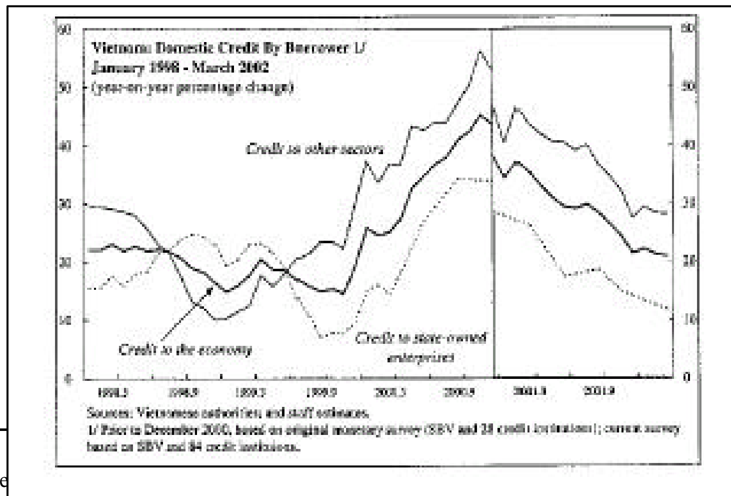
[225] IMF, Selected Issues and Statistical Appendix at 33.

[226] Id.

[227] See GVN's Comments at 84.

[228] For example, in many U.S. states, such as Pennsylvania, the Government still maintains certain limitation on interest charged to bank lending. See Pennsylvania Credit Union League: Lending compliance, available at http://www.pacul.org/icomply/lending/ratesnfees.htm.

the economy generally and by the banking sector specifically.[229] First, while it is true that non-SOCBs' credit to the economy fell from 32.1 percent in 1999 to 26.7 percent in 2000,[230] the share of credit received by the non-state sector increased from 50 percent in 1999 to 55 percent in 2000.[231] Indeed, SOCB lending to the private sector is increasing relative to lending extended by non-SOCBs with about 40 percent of SOCBs' outstanding loans being extended to non-SOEs.[232] Therefore, Petitioner's statement that SOCBs are reluctant to extend loans to the private sector is just false.[233]



[229] Petitione

[230] See IMF Statistic Appendix at 74. The IMF explained that lower growth rate of non-state bank credits were due to tighter credit risk management which, however, will help to make more effective banking reform and more credit available at lower interest rates. See also IMF Statistic Appendix at 33.

[231] Id.

[232] See IMF Statistic Appendix (2002) at 33 (footnote 21).

[233] Petitioner's comments at V-7. Even if SOCBs are involved with policy loans, it is not an exceptional practice even in market economies which have been extensively targetted by the US countervailing duty law. Moreover, since mid-1999, the Government has implemented a comprehensive plan for banking reform under which loans extended to SOEs will be restrained and subject to strict monitoring (including ceiling cap), SOCBs, as well as private domestic banks are also subject to strict monitoring, including international audit and re-structuring plans closely monitored by the IMF. See Vietnam's Second Review 2002, at 8 and 13. This program is aiming to improve Vietnam's banking system. Indeed, it is commonly known that many market economies such as Korea's and Thailand's banking sector had a very similar experiences with the IMF right after their financial crises.

Moreover, while Petitioners try to portray the Government's policy as tightening the control of the banking sector as well as restraining bank credits to the private sector, the fact is that, since mid-1999, bank credits extended to the private sector have grown substantially, leaping by 47 percent from 1999 to 2000 and by 40.5 percent from 2000 to 2001, while credits extended to SOEs grew at a slower rate, by 28 percent and 17 percent during the same periods.[234] Petitioners also do not take into account the allocation of capital through forms other than bank credit. Consider, for instance, the strong inflow of FDI which until May 2001 had reached a cumulative US 17.9 billion, out of a total FDI commitment of about US 37 billion.[235] In addition, the increase of the private corporate sector that uses self-financing-- representing total investment of 6 percent of GDP in 2001[236] -- gives a more comprehensive picture of capital allocation in the economy. In addition, like in many other countries where the banking system is still infant, Vietnam has a large amount of capital outside of the banking system. Just as an example, the dong liquidity volume alone is almost equal to the volume of credit to the

---

[234] See IMF Statistic Appendix (2002) at 74. See also IMF Second Review (July 2002) at 8.

[235] Vietnam County Commercial Guide, at 52.

[236] World Bank: Vietnam Economic Development at 40.

economy.[237] Thus, contrary to Petitioners' argument, it is clear that the allocation of capital in Vietnam is largely influenced by market forces.

The Department made clear that FDI in Kazakhstan -- which was only about USD 10.356 million -- sufficiently compensated the small role of bank financing especially for the private sector.[238] Clearly FDI in Vietnam as a source of capital is more than sufficient to make up the shortage of capital from banks, if any.

In addition, Petitioners incorrectly interpret certain restrictions applied to onshore transactions in foreign currencies among foreign enterprises as a measure imposed by the Vietnamese Government to limit the development of foreign banks in Vietnam.[239] In fact, this type of limitation is very popular in market economies, and has nothing to do with the Government's restriction of foreign participation in the banking sector. Rather it is generally regarded as a measure to strengthen the independence of local currencies and reduce the dollarization outside of the banking system, which would be advisable given the IMF's goals of limiting the high cost of dollarization in Vietnam.[240] As discussed in the GVN's initial comments on the convertibility of the VND, Vietnam allows domestic companies to borrow loans in foreign

---

[237] See IMF Second Review at 35. Many researchers also suggest that there are a large amount of USD outside of the banking system as transfer from Vietnamese overseas.

[238] Kazakhstan Determination at 19. See EBRD, "Kazakhstan Investment Profile", at 8.

[239] Petitioners' comment at V-9.

[240] IMF Selected Issues and Statistic Appendix.

currencies from banks operating in Vietnam and offshore lenders, and make payments in the same currencies.[241]

Petitioners also claim that foreign banks and foreign-invested banks extended a large portion of loans to SOEs and FDI instead of domestic private companies due to their lack of credit history and accountability. These banks therefore "indirectly play a role in the Vietnamese government's continuing ability to control capital allocation." This is clearly unfounded and, in any event, contrary to the Department's analysis.[242] In Vietnam's case, these banks make rational market-oriented lending decisions, taking into account such risks as the lack of collateral. The IMF independently identified the private sector's lack of collateral in the form of land use rights as one of the reasons preventing access to bank loans.[243] Thus, the fact that not only SOCBs but also foreign banks did not extend a large portion of loans to the private sector due to adverse risks evidences that at least private banks in Vietnam made lending decisions independent from the Government's influence.

The GVN fully acknowledges the weaknesses in Vietnam's banking system. Like any developing country, this sector needs to be strengthened to facilitate economic growth. But, the existence of such weaknesses alone does not support the argument that the Government controls the allocation of capital in the economy. In the Russia determination, the Department concluded

---

[241] GVN's Comments at 87-88. See also Pecree 63/1998/ND-CP of the Government on Foreign Exchange Control, (amended in 200), Article 5.

[242] Kazakhstan Determination at 20. In that case, the Department concluded that commercial banks behave as financial intermediaries where large banks concentrated the allocation of loans to blue chip customers at the expense of riskier endeavors.

[243] IMF, Statistical Appendix at 33.

that the Russian Government did not control the allocation of capital despite the fact that the banking sector experienced a crisis at least twice in its ten-year life.[244] Specifically, the Department noted that the problem with the Russian banking sector is not relevant to the issue of the extent of government control over credit allocation where there was significant self-financed investment.[245] Similarly, the Department concluded that despite the low level of development of the banking system in Kazakhstan and its relative inactive role in private investment, Kazakhstan banks were not controlled by the Government and its economic development was largely supported by FDI.[246] While the Vietnamese banking sector may suffer certain problems similar to those in Kazakhstan and Russia, the existence of self-financing and the strong presence of foreign and private domestic bank competition favoring marked-based lending behavior of Vietnamese bankers coupled with the current banking reform progress clearly support the fact that the allocation of capital to the economy is not controlled by the Government.

C. The Government Does Not Restrict Production Output

Petitioners utterly fail to make out a claim that production output is controlled by the Government in Vietnam. As with price controls, their arguments focus on the targets SOEs must try to meet, but SOEs are not as significant as Petitioners claim, nor are they predominantly monopoly run. Therefore the extent of such control is indirect at best, and even then has little impact on the economy as a whole, particularly given that most SOEs must compete against domestic private enterprises and FDI that are not subject to such controls.

---

[244] Russian Determination at 18-19

[245] Id.

[246] Kazakhstan Determination at 19.

In addition, by relying on several quotes taken from newspapers articles without supporting facts and with outdated information, petitioners have made extensive misstatements in arguing that the Government of Vietnam controls output through SOE activities, quota systems, and strict production targets for the economy.[247]

The facts clearly show that the Government allows and encourages the private sector, including FDI, to increase the export volume in all commodities including strategic goods such as rice, coffee, and other agricultural products.[248] These policies resulted in a substantial increase in productive output. In 2001, overall industrial GDP increased by about 7.2 percent the domestic private sector output grew by 20 percent while FDI and SOE industrial output grew by 12 percent).[249] The World Bank's analysis of Vietnam's GDP growth in 2001 pointed out that growth in production and import of various goods, including consumer goods and materials for construction, are due to "rising consumer affluence and increasing demand from new business", not the Government's actions or influences over production or output decisions.[250]

Petitioners' argument that local governments maintain monopoly power in, for example, the beer and rice sectors,[251] is clearly untrue. International companies have invested tens of

---

[247] Petitioners' Comments at V-10-11.

[248] See World Bank: Vietnam Economic Monitor, Appendix 1, Box 4-5. The World Bank has noted a number of Government actions taken during 1998-2002 for the purpose of facilitating international trade and private sector development, among others, (i) abolishing licensing requirements for domestic private enterprises involved in cross border trade (1998), (ii) permitting FIEs to be involved in exporting coffee, mineral, textiles and rice (1999-2001), and (iii) removing quantity restrictions on imports of most of goods.

[249] Id. at 5

[250] Id. at 7.

[251] Petitioners' Comment at V-10-11.

millions of U.S. dollars into the production in Vietnam of world brand names such as Heineken, San-Miguel, and Fosters, which are now distributing their products throughout the country.[252] As for rice, the World Bank has observed that since 1998, FIEs have been allowed to purchase rice directly from farmers for export.[253] This is also supported by the UNDP's observation that internal trade in rice has been liberalized in Vietnam since the late 1980s.[254]

In making its argument on the Government's control of private business through limiting output, Petitioners mischaracterize the news article on which they rely.[255] The article discussed the Government's policy for allocating of textile quotas imposed by importing countries on exports from Vietnam (e.g. EU), which is common in many countries whose exports are faced with such trade restrictions in other countries. Furthermore, the article actually summarized the Government's Decision on its five-year trade reform policy -- i.e. Decision 46/2001, April 4, 2001 -- which was praised by the World Bank as it enables longer term planning among traders based on predictable Government policy.[256] As noted by a Trade Minister Vu Khoan at the time (now the Vice Prime Minister), this Decision was a positive step to enhance domestic firms' preparation for regional and international trade integration.[257] As mentioned in our discussion

---

[252] See the List of Selected Major FDI Projects, attached as **Exhibit 7**.

[253] World Bank: Vietnam Economic Monitor, Appendix 1, Box 4.

[254] See United Nation Development Program ("UDNP"), Vietnam's Reform Experiences: The Quest for Stability during Transition, at 8.

[255] Petitioners' Comment at V-11. Petitioners cited to the Article: "Vietnam Government Release 5 year Trade Policy Plan for the 1st time," Asia Pulse, May 24, 2001, Petitioners' Comments Exhibit 5-1.

[256] See World Bank: Vietnam Economic Monitor, Appendix 1, Box 4, making a compliment on Decision 46/2001 dated April 4, 2001 of the Government.

[257] "Vietnam Government Release 5 year Trade Policy Plan for the 1st time," Asia Pulse, May 24, 2001, Petitioners' comment Exhibit 5-1.

below, trade reforms have been significantly implemented and the quantity restrictions on imports mentioned in the article have been mostly lifted, leaving the total items subject to that restriction at only two items by the end of this year.[258]

Petitioners has also made misleading arguments as to the targets set by the Government in consultation with the Party.[259] Indeed, the Party's influence as to Government's policy is not unusual because governments policies in many market economies, including the United States, are usually influenced by the party dominating the government. Most countries make projects or targets for economic development, usually measured by GDP. The World Bank and the IMF also frequently announce their estimation of economic development to be achieved in the countries they follow and encourage the Governments to adopt policies to achieve these targets. Contrary to Petitioners' argument, the Government's plans to contract out to farmers and households producing coffee is not for the purpose of controlling coffee output,[260] but rather for the purpose of hedging risks that are suffered by small farming and household businesses due to the volatility in the world market. Such policies include securing future prices based on contracts for coffee growers, something done in the United States through the CFTC. This is one of the methods suggested by international consultants, including experts from the World Bank, for reducing the risk suffered by farmers.[261] In the same way, the information cited by

[258] See IMF Second Review at 10.

[259] Petitioners' Comment at V-11-12

[260] Id.

[261] See Vietnam: Agricultural Price Risk Management at 57. This paper discussed risks managements for agriculture products in Vietnam, including peppers, rubber and coffee. In various instances, this paper reported that prices and production output are on the hand of growers, private companies involved in processing and trading,

petitioners in fact indicated that VICOFA (the Vietnam Coffee Association) tried to lobby the Government to increase its control of coffee exports.[262]

The Government's policy to encourage plantation of unused land or usage of unused water surface, as cited by Petitioners,[263] is meant to support a different policy, -- to maximize the use of land and water surface for plantation of agricultural commodities, which is mostly unrelated to the control of output or allocation of resources. Even if the Government may use certain policies such as subsidies to support agricultural products, these policies should be viewed as supporting social objectives and strategic economic development policy, i.e. to reduce poverty in rural areas by encouraging plantation and production of agricultural commodities. Any such measures instituted by the Government of Vietnam with respect to several agriculture commodities, -- e.g. peppers and coffee, which were recently subjected to recent price declines – should be view as temporary measures that help farmers and producers against serious impact during a recession. The United States recently implemented similar measures to help its farmers. Indeed, such agricultural subsidies are common throughout the world, and subject to constant debate among Members to the WTO.

---

including FIEs as well as SOEs. available at http://www.itf-commrisk.org/documents/documents_database/vietnam.pdf.

[262] See Petitioners' Comments at V-12 and Exhibit 5-1.

[263] Id.

VI. FACTOR 6: OTHER FACTORS

A. With Support from the Communist Party, Vietnam Has Expressed a Strong Commitment to a Market Economy and International Integration

As set forth in the Introduction above, the Communist Party of Vietnam has taken an active role in the development of a market-based economy in Vietnam. Leadership of the Communist Party does not prevent a country from having a market economy where its economy meets the statutory threshold standards. Petitioners prefer to equate political regimes with economic status, turning the presumption of market economy status on its head when a communist country is considered. Yet, in accordance with the most-favored-nation principle, with which the President has agreed since 1994 and recently reconfirmed under the US-VN BTA and Jackson-Vanik waiver, Vietnam's economy must be subject to the same analytical standards as applied to other economies, including those for whom NME status was recently revoked by the Department. The Department cannot legally short-circuit the required statutory analysis simply because Vietnam's main political party is communist. The Department must consider a country's economic status based solely on economic criteria as specified under U.S. law without regard to the political party in power.[264] Indeed, countries are found to have market economies despite differences in their political regimes or political parties.[265]

As discussed above and in the Government of Vietnam's initial submission, the Government has expressed a strong commitment to and has pursued consistently a market

---

[264] Petitioners cite Slovakia's and Hungary's NME determinations as evidence of the importance of the political regime. See Petitioners' Comments at VI-2. Yet, even these excerpts demonstrate that politics can influence ("deepen," "bolster," "revitalize[]," or "reinforce[]") economic progress, but a country's status is by no means determined by the political party in power. See Slovak Determination at 13-14; Hungary Determination at 17.

[265] For example, France has an active communist political party, but has never been considered to be non-market.

economy. Since 1986, Vietnam has opened its door to the international community, encouraging close relations with every nation, east or west, regardless of political and cultural differences. Vietnam is a member of numerous bilateral and multilateral treaties and international conventions for investment, trade, taxation, environmental and wildlife protection, and other international economic and non-economic functions.[266] It has developed long-term and mutually beneficial relationships and enjoyed MFN status with most of the countries in the world.[267] Vietnam is in good standing with the United Nations, IMF and ILO and is prepared to join the WTO no later than 2004. Vietnam's commitment to international cooperation is evidenced by the fact that it is now home to not only foreign investors and international corporations, but also international associations and non-governmental and international organizations operating in various fields of activities, such as supporting political philosophy, social and environmental protection, humanitarian and religion.[268]

Like other countries in the world, Vietnam's Constitution praises the power of the people and the rule of law, encourages wealth creation, respects and protects basic rights of its citizens as well as foreigners (including rights to private ownership, freedom of business, freedom of association and religion), and guarantees rights of workers to form trade unions and to collectively bargain.[269] Indeed, the Communist Party has supported conversion to a market economy in general and the development of FDI and the private sector specifically. The "doi

---

[266] See Vietnam Country Commercial Guide FY 2002, at 68-69. See also IMF, Selected Issues and Statistic Appendix at 39.

[267] Id. Vietnam has enjoyed MFN status under its bilateral and multilateral Agreements on Investment and Trade.

[268] See the List of NGOs in Vietnam, available at www.vietgate.net/community/nonprofit.

[269] The Constitution of Vietnam (1992 as amended in 2002), Articles15-26.

moi" or renovation policy was initiated by the Communist Party under its 6th Congress in 1986. Contrary to Petitioners' allegation that Vietnam was forced by the World Bank and IMF to pursue economic and institutional renovation, the UNDP once recognized that "in the Vietnamese case, the key policies leading to success were conceived in the country and implemented within a particular national context" with a limited support and advice from "a few bilateral donors and the UN agencies."[270] Also, the World Bank has recognized the Communist Party's support of the international integration of Vietnam's economy as well as the implementation of its commitments under the US-VN BTA.[271] The Communist Party has also issued Resolution No. 07-MG/TW dated November 27, 2001 on international economic integration, which confirmed the Party's supports to the international economic integration and suggests actions and policies that should be taken by the Government in this process. The Government has also announced an Action Plan for the implementation of Vietnam's obligations and commitments under the US-VN BTA.[272]

In consideration of a country's market economy status, the Department has taken into account international integration in trade and investment, which helps to eliminate trade and price distortions. Yet, a country's political regime, or the philosophy of the leading party of that country, has never been dispositive of the economic orientation of a country's market. Indeed, most countries in the world now have market economies despite huge differences in their political regimes. (Consider, for instance, dictatorships like Saudi Arabia or nominally

---

[270] UNDP, Vietnam's Reform Experience at 5 (1996).

[271] See e.g. the most recent actions taken by the Party to support private sector development. World Bank, Vietnam Economic Monitor at Box 2 at 15.

[272] See Decision No. 23/2002/GD_TTg of the Prime Minister on March 12, 2002, announcing the Action Plan.

democratic countries like Mexico whose political system was dominated by a single party for most of the 20th Century.) Vietnam is integrated into the international trade and investment system and its trade is free from distortion as compared to many market economies. Thus, without substance economic analysis supports Petitioners' allegation that Vietnam does not have a market economy because of its political regime or the ideology of the leading Party, is therefore, clearly unfounded.

B. The U.S. Government Has Not Made Any Decision as to the Market Economy Status of Vietnam Under U.S. Antidumping and Trade Remedy Laws

The U.S. Government has officially recognized that Vietnam's economy is in a state of transition.[273] However, the process for establishing a country's economic status under 19 U.S.C. § 1677(B) is another matter. Petitioners recognize that this is the first time the Department has thoroughly analyzed Vietnam's economic status under U.S. trade laws. But, Petitioners would rather have the Department substitute this analysis for vague or off-handed comments by government officials and thereby overlook Vietnam's current economic reforms. As the Department is well-aware, the statute mandates a thorough factual and legal analysis of six enumerated factors that evidence market orientation for purposes of antidumping and countervailing duty proceedings.[274] Other statements by U.S. government and non-government officials cannot replace this rigorous process.

---

[273] US-VN BTA, Preamble.

[274] In all of its determinations and re-determinations of the market economy status of various countries, the Department has always reviewed the market economy status based on its independent analysis of the country's most updated economic reforms.

Petitioners also claim that other countries' treatment of Vietnam is authoritative in this case. Yet, the U.S. statutory standard for determining market economy status varies from other countries' processes. Indeed, the Department treats some countries -- such as Belarus and Lithuania -- differently from the European Community and other authorities.[275] Therefore, as with other pronouncements, other countries' determinations -- even if made in the context of antidumping and countervailing proceedings -- have no bearing on the Department's analysis in this case. The Department must analyze independently each of the statute's six factors based on the most recent information available. Based on the record developed in this case, the Government of Vietnam is confident that the Department will agree that Vietnam is a market economy.

C. Vietnam Is Committed to Trade Liberalization and International Integration in Trade and Investment; and by Nature, Vietnam's Economy Is Largely Dependent on the World Market and Prices

Petitioners assert that Vietnam is isolated from international markets.[276] Yet, Petitioners fail to recognize that Vietnam's economy is externally oriented and highly exposed to the world market and prices. As discussed below, Vietnam has substantially liberalized foreign trade and has progressed towards international integration in trade and investment in light of its planned accession to the WTO. Thus petitioners' assertion should be disregarded.

---

[275] See World Trade Net Newsletter V at 3-4 (June 2002) (available at http://www.intracen.org/worldtradenet/docs/whatsnew/newslettervol3no6.htlm).

[276] Petitioners' Comments at VI-5 to VI-8.

1. Vietnam's economy is largely dependent on external trade

By nature, Vietnam's economy is largely dependent on the world market because cross border trade accounts for an important part of the economy. Vietnam's exports and imports increased rapidly throughout the 1990s.[277] Since 2000, exports have accounted for about half of the country's GDP.[278] Imports also represented an important part in the economy and, together with exports, increased from more than 50 percent in 1993 to about 94 percent of GDP since 2000.[279] Vietnam's exports and imports are reported as broadly diversified by items and trading partners.[280] Thus, prices of products either as inputs or outputs are substantially subject to the world market.

Many commodities named by Petitioners as subject to state monopoly or under strict government control are indeed subject to world market prices. Vietnam's main exports include crude oil, coal, rubber, rice, coffee, seafood (*i.e.*, marine products), garments, footwear, handicrafts, and electronics.[281] Vietnam's agriculture trade accounts for about 42 percent of

---

[277] See IMF, Selected Issues and Statistic Appendix at 42-53. Vietnam's annual exports increased by more than 30 percent during 1993-1997 (prior to Asian economic crisis) and by more than 24 percent during 1999-2000, continuing to increase despite the global downturn and historic low prices of key agricultural exports and crude oil. Vietnam's annual imports have also increased by more than 40 percent. See World Bank, Vietnam Development Report 2002 at v- ix.

[278] IMF, Selected Issues and Statistic Appendix at 42.

[279] Id. at 42-43. The openness indicator (measured in terms of exports plus imports as a ratio of GDP) represents the importance of foreign trade to a country. At 94 percent, Vietnam's openness is much higher than China's (at less than 50 percent).

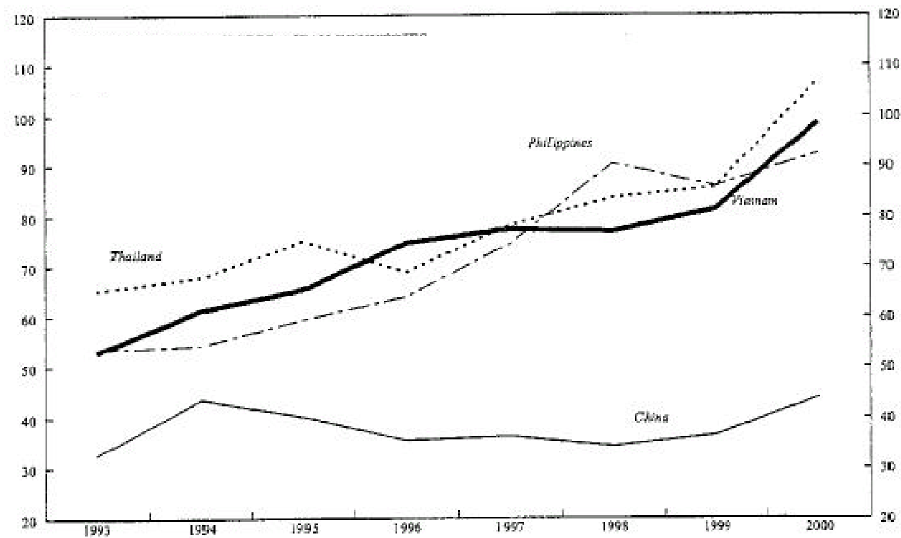
[280] Id. at 42.

[281] Id. at 52

agricultural GDP, comparing favorably to many other market economies such as the Philippines (27 percent) and Indonesia (30 percent).[282]

Vietnam's main imports include petroleum products and industrial products, such as fertilizers, insecticides, steel, iron, cement, motorcycles, cars, trucks, textile yarn, cotton, leather, garment material, cigarette materials, machinery, equipment, and electronics.[283] During 1996-2000, imports accounted for more than 50 percent of total GDP and more than 100 percent of industrial GDP.[284] Thus, Vietnam's economy is highly externally oriented and vulnerable to the world marketplace. Indeed, as showed in the Figure below, Vietnam's trade orientation is clearly distinguishable from China's position, for example.

Openness of Selected Asian Countries 1993-2000[285]
(In percent of GDP)



[285] IMF Statistical Index, at 43. "Openness" is measured as the value of exports plus imports as a percentage of total GDP.

2. Vietnam has made substantial progress in trade liberalization

Contrary to Petitioners' allegations, both the World Bank and the IMF have recognized that Vietnam has made substantial progress in trade liberalization.[286] Since 1996, by joining the ASEAN Free Trade Area ("AFTA"), Vietnam has committed to eliminate tariffs and non-tariff barriers.[287] In addition, Vietnam has bilateral trade agreements with the European Union, most Asian countries, Australia, Canada, New Zealand, and various transition economies.[288] Under the landmark bilateral trade agreement with the United States reach in 2000, Vietnam has furthered its trade liberalization and has taken important steps towards WTO accession, to be completed no later than 2004.[289]

Indeed, unlike the intentionally misleading picture painted by Petitioners, the Working Party for Vietnam's WTO accession has been active since its establishment in 1995. Vietnam has taken important steps by signing various bilateral agreements with WTO members, accelerating further bilateral access negotiations, implementing reforms in the areas of tariffs and taxation, and issuing action plans for implementation of WTO agreements such as those concerning intellectual properties rights (TRIPs) and investment (TRIMs). More importantly, because the US-VN BTA mirrors WTO commitments in many respects, implementation of the

---

[286] Id. at 38; see also World Bank, Vietnam Economic Monitor at 14-15.

[287] Petitioners imply that Vietnam is moving slowly towards its commitments under the ASEAN Free Trade Area. See Petitioners' Comments at VI-5 to VI-6. Yet, even Petitioners' own source shows that "senior" ASEAN members Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand have until 2010 to abolish tariffs; Vietnam and other newer members (Cambodia, Myanmar, and Laos) have until 2015. See Ben Rowse, "US Says Vietnam needs to speed up economic reforms" Agence France Presse (Sep. 10, 2002) (provided in Ex. 6-1 of Petitioners' Comments). Understandably, newer members would not be forced to implement such commitments at the same time as earlier members.

[288] IMF, Selected Issues and Statistic Appendix at 39.

[289] Id. at 38-39; IMF, Vietnam Second Review at 10.

BTA has pushed Vietnam ahead of schedule to implement various WTO accession requirements.[290] Thus, Vietnam has taken comprehensive steps towards WTO accession and, its position in this process may be more favorable than Russia's, [291] as Vietnam is already ahead of Russia and Kazakhstan with respect to its liberalization in certain areas, such as market access to service sectors and low agriculture tariffs.

Vietnam has also made outstanding progress implementing other international commitments. The Government mostly removed quantitative restrictions ahead of schedule, leaving only two items -- sugar and petroleum products -- as of the end of 2002.[292] Tariffs are also largely reduced under AFTA, the US-VN BTA, and various bilateral trade agreements. By March 2002, under the AFTA, only 962 items out of 6520 items (or less than 15 percent) are subject to a tariff rate of more than 20 percent, of which 770 are on a "Temporary Exclusion List" and will be released for tariff reduction by 2003.[293] The remaining 5558 items are on the "Inclusion List," which are subject to tariff reduction and currently represent about 85 percent of all items and -- with the addition of the temporary excluded products -- will increase to 97 percent by 2003.[294] Of these items, about 65 percent are subject to a tariff of 0-5 percent and the

---

[290] See IMF, Vietnam Second Review at 10

[291] See id.; see also IMF, Selected Issues and Statistical Appendix at 40-42.

[292] IMF, Selected Issues and Statistical Appendix at 39.

[293] Id.; IMF, Vietnam Second Review at 10

[294] Id.

remaining are subject to 5-20 percent, making an average rate of about 7.3 percent in 2000[295] even before the US-VN BTA was signed.

Vietnam's tariffs compare favorably to MFN tariffs of market economies having a similar economic structure such as India, which had MFN tariffs of more than 30 percent during 1997-2001.[296] Similarly, Vietnam's agriculture tariffs are already at very low levels. From 1996-1999, Vietnam's weighted average agriculture tariff was 14.3 percent, comparing favorably to developing countries (18.1 percent), transition economies in Europe (16.2 percent), and other ASEAN countries such as Thailand (32.1 percent) and the Philippines (18.9 percent).[297]

As discussed concerning Factors 4 and 5 above, in addition to tariff reductions, trade liberalization has progressed by lifting import license requirements; encouraging FDI to export commodities including textiles, garments[298], minerals, and coffee; eliminating the quota on rice exports; and allocating textiles and garment quotas largely through auctioning among SOEs, FDI and private companies.[299]

---

[295] IMF, Selected Issues and Statistical Appendix at 87.

[296] WTO, Report by the Secretariat: Trade Policy Review of India, WT/TPR/S/100 at viii (May 22, 2002).

[297] World Bank, Liberalizing Trade in Agriculture: Developing Countries in Asia and the Post Doha Agenda, at 17-18.

[298] See WTO Report by the Secretariat: Trade Policy Review of India, WT/TPR/100 (May 22, 2002) for detail discussions.

[299] Id. at 40; see also World Bank, Vietnam Economic Monitor at Annex 1, Box 4.

Indeed Vietnam's openness for trade and investment comp are favorably to a number of countries having market economies, that are already WTO members, including India.[300] Finally, as discussed in greater detail above with respect to factor 1, trade liberalization is enhanced by more flexible foreign currency controls. In particular, foreign and domestic firms can contract directly with commercial banks to buy foreign currencies for their imports and surrender requirement was reduced from 50 percent to 40 percent in 2001 and 30 percent, effective from 2002.

D. Rule of Law

While Vietnam's rule of law is indeed young and developing, Petitioners' notion that it is so deficient that it does not support or even prohibits market economy principles ignores Vietnam's intensive reforms, as discussed in our initial comments and in preceding sections of these rebuttal comments. More importantly, this argument, as espoused by Petitioners, holds Vietnam to a standard that is not applied to any other country, whether developed or developing. Judicial inequity, political favoritis m, or outright political cronyism are ubiquitous problems in the world and are not unique to Vietnam or the developing world. In the United States, Federal judges are appointed by the executive branch and are arguably chosen based on what Petitioners would call "political convictions."[301] Additionally, the recent furor over charges of political

---

[300] For Textile and Garment, as discussed in Factor 5 above, the current quota allocation is applied due to restrictions of Vietnam's exports by certain countries.

[301] This is a well-known fact. Many social scientists in the United States advocate elections for judges to avoid political cronyism and partisan politics. See The Federalist Society for Law and Public Policy Studies Judicial Selection White Papers (2001) (available at http://www.fed-soc.org/Publications/White%20Papers/ judicialappointments.htm). Examples of judges picked on extremely partisan basis include the nomination of Robert Bork (which ultimately failed). See Find Law Why Supreme Court Nominations Fail: Six Unsuccessful Bids that Played Into Culture Wars (August 9, 2001) (available at http://writ.news.findlaw.com/commentary/20010809_shenkman.html).

influence concerning big oil influence on U.S. energy policy, the Enron scandal, and accounting transparency reflect that these problems also occur in the United States.[302] As one observer noted, "Enron is not what happens when corporations break the law -- it's what happens when corporations make the law."[303]

Obviously, this is not to say that the United States is similar to Vietnam in this regard as there are obvious differences in magnitude. Vietnam is, after all, a developing country. If we momentarily grant the assumption that corruption or political influence affects Vietnam's judicial system, how does such an argument effectively distinguish Vietnam from other developing market economies where the same thing occurs? To our knowledge, the Department has not considered revoking these countries' market economy designations.

But we want to stress that Vietnam has a substantial body of law governing and protecting the business environment, thereby limiting the opportunities for corruption. While Vietnam does need to continue developing its rule of law, the Economist finds that "…high level corruption is perhaps not as marked as other south-east Asian societies."[304] Indeed, the Economist found there to be "a remarkable commitment to good governance among senior ranks, which to some extent balances the party's tight control over the levers of power and influence."[305] Therefore, in this light, problems with the judicial system and the rule of law

---

[302] Green Peace Environmentalists Protest Big Oil Influence on Energy Debate with Action Near Capital (February 27, 2002) (available at http://www.greenpeaceusa.org/media/press_releases/2002/02272002text.htm).

[303] International Unions of Painters and Allied Trades Money Talks: How Corporate Influence Drives Public Policy (April-June 2002) (available at http://www.iupat.org/NewsEvents/pdfs/AJ02p12+.pdf).

[304] Economist Intelligence Unit, Country Commerce Vietnam at 8.

[305] Id.

reflect more that Vietnam is a developing country and not that corruption is an officially sanctioned activity. For instance, the lack of common law indubitably reflects the neophyte status of Vietnam's legal system more than it reflects any efforts by the Government to influence economic activity.

Moreover, recent developments are promising. Vietnam has recently enacted concrete measures to correct concerns, as noted by Petitioners, over arbitrary customs valuations as it has adopted customs valuation methodologies in accordance with WTO standards.[306] Petitioners arguments concerning regulatory expropriation are also unfounded as Vietnam has granted foreign investors protection from such actions.[307] Although Petitioners would like the Department to believe that Vietnam's legal system provides no recourse for foreign investors, the Economist notes that "several foreign firms have recently won domestic litigation suits against local partners for breaches of contract."[308]

In any event, most foreign investors depend on contractual provisions that allow for third party arbitration, thus minimizing the effect of Vietnam's admittedly nascent judicial system. Since Vietnam is a signatory to the New York Convention on the Recognition and Enforcement of Arbitral Awards, foreign arbitration are legally enforceable in Vietnam.[309]

---

[306] U.S.-Vietnam Trade Council Education Forum Catalog of Legal Updates at 3-4, 20 (September 15, 2002) (available at http://www.usvtc.org/Documents/CatalogOfLegalupdates/Catalog%20Sept%2015%202002.pdf).

[307] Petitioners' Comments at VI-9. See also GVN Comments at 39.

[308] EIU Country Commerce Vietnam at 8.

[309] Vietnam Country Commercial Guide at Ch. 7. See also Economist Intelligence Unit, Country Commerce Vietnam at 8.

While Petitioners correctly note that the director of the World Bank in Vietnam has concerns over the country's technical capacity, it is also important to note that the same individual has expressed his belief that a market economy already exists in Vietnam: "the question has changed {since 1997}. Then it was 'will Vietnam move toward a market-based economy?' but now the question is 'what kind of market-based economy while Vietnam have?'"[310]

E. Vietnam's Ties to Cuba and North Korea Are Not Relevant to the Department's Analysis

Petitioners claim that Vietnam's ties to other communist countries is somehow relevant to the Department's consideration of Vietnam's status as a market economy.[311] As discussed above, a country's political regime -- and thereby its political associations with other countries – is not determinative of that country's market status. Rather, the country's economic and legal framework evidences market or non-market principles. Moreover, Vietnam has and continues to develop trading ties with a wide range of countries throughout the world.

As for Vietnam's relationship with North Korea and Cuba, it is not the only country with such ties. North Korea's international relationships reach far beyond the "communist" world. Currently, North Korea's major trading partners include Russia, Indonesia, Singapore and

---

[310] Catherine McKinley, Dow Jones Newswire Interview: Vietnam "Question has changed," says WB head (September 3, 2002) (available at http://www.usvtc.org/News/Sep%2002/interview.htm).

[311] Petitioners' Comments at VI-10 to VI-11.

Thailand.[312] North Korea recently completed trade agreements with Austria, Australia, Denmark, Finland, Italy, the Netherlands, New Zealand, the Philippines, Portugal, Sweden, and the United Kingdom.[313] Belgium, Brazil, and Turkey are also progressing towards bilateral agreements with North Korea.[314] None of these countries is considered to have a non-market orientation.

Moreover, the United States appears to be one of the only countries in the world that does not maintain normal diplomatic or trading ties with Cuba. Cuba has diplomatic relations with 173 countries and investment protection and promotion agreements with 53 countries.[315] For example, Canada is Cuba's third largest trading partner after Venezuela and Spain.[316] Even the United States is moving toward closer trading ties with Cuba, recently permitting hundreds of U.S. companies to attend a trade show in Cuba for the first time since the 1959 revolution.[317] Indeed, the United States itself has relationships with other countries that it believes restricts certain freedoms, such as China, Malaysia, and Saudi Arabia.[318] One would never question the

---

[312] Aidan Foster-Carter, "Pyongyang Watch: O Paek, Opaque: North Korea, not ARF That Is" Asia Times Online (Jul. 25, 2001) (available at http://www.atimes.com/koreas/CG25Dg03.html).

[313] "Korea-Brazil Agreement Includes Global Trade, N.K. Policy" Korea Now (Sep. 21, 2002) (available at http://kn.koreaherald.co.kr/SITE/data/html_dir/2001/01/27/20010127005.asp); Aidan Foster-Carter, "Pyongyang Watch: O Paek, Opaque: North Korea, not ARF That Is" Asia Times Online (Jul. 25, 2001) (available at http://www.atimes.com/koreas/CG25Dg03.html).

[314] "Korea-Brazil Agreement Includes Global Trade, N.K. Policy" Korea Now (Sep. 21, 2002) (available at http://kn.koreaherald.co.kr/SITE/data/html_dir/2001/01/27/20010127005.asp).

[315] U.S.-Cuba Trade & Economic Council, Realities of Market Cuba at 7-8 (2002) (available at www.cubatrade.org).

[316] Canada's Department of Foreign Affairs and International Trade, "Canada-Cuba Trade and Investment" (available at http://www.dfair-maeci.gc.ca/latinamerica/cubatrade-e.asp).

[317] "The Havana Trade Show" St. Petersburg Times (Oct. 4, 2002) (available at http://www.sptimes.com/2002/10/04/news_pf/Opinion/The_Havana_trade_show.shtml).

United States' market orientation simply because it has a relationship with such countries. Similarly, the Department should not doubt Vietnam's market economy status based on its associations with North Korea or Cuba.

---

[318] Scott Lindlaw, "Bush Says He Won't Lift Cuba Embargo" (May 20, 2002) (available at http://www.wehaitians.com/may%202002%20news%20and%20analysis%20this%20month.html).

CONCLUSION

For the reasons set forth above, the Government of Vietnam urges the Department to find that Vietnam is a market economy.

Respectfully submitted,

Matthew R. Nicely

Counsel to the Government of Vietnam

Exhibit List

1. Ernest H. Preeg, “Exchange Rate Manipulation to Gain an Unfair Competitive Advantage: The Case Against Japan and China”
2. G. Mustafa Mohatarem, “Impact of Strong Dollar on U.S. Auto Industry”
3. Kathryn M.E. Dominguez, “Foreign Exchange Intervention: Did it Work in the 1990s?”
4. Edwin M. Truman, “The Limits of Exchange Market Intervention”
5. Ho Chi Minh City: Services, Trade Sectors Lure Most Workers in January -July
6. FDI in Vietnam by Form of Investment
7. Selected Major FDI Projects

Exchange Rate Manipulation to Gain an Unfair Competitive Advantage: The Case Against Japan and China

by

Ernest H. Preeg

Senior Fellow in Trade and Productivity
Manufacturers Alliance/MAPI
for a Conference on the Dollar at the
Institute for International Economics
Washington, D.C.
September 24, 2002

Article IV of the IMF Agreement states that members should "avoid manipulating exchange rates . . . in order . . . to gain an unfair competitive advantage over other members," and the related surveillance provision defines manipulation to include "protracted large-scale intervention in one direction in the exchange market." In other words, if a U.S. trading partner makes protracted large-scale purchases of dollars and other currencies (i.e., one direction intervention), which leads to a lower than market-based exchange rate and a larger than market-determined trade surplus, there is *prima facie* evidence of IMF proscribed exchange rate manipulation to gain an unfair competitive advantage.

In this context, this paper examines four questions:

1. Have Japan and China, among others, been manipulating their exchange rates in recent years, as defined by the IMF?

And if so:

2. What has been the impact of such currency manipulation on the dollar exchange rate and the U.S. trade deficit?

1525 Wilson Boulevard, Suite 900, Arlington, VA 22209-2411
703·841·9000 ▲ FAX 703·841·9514 or 7104 ▲ www.mapi.net

3. What are the consequences for U.S. economic and foreign policy interests?

4. How should the U.S. government respond?

1. Have Japan and China, Among Others, Been Manipulating Their Exchange Rates in Recent Years, as Defined by the IMF?

The answer begins with an assessment of the two adjectives about intervention, "large scale" and "protracted." In the cases of Japan and China, as shown in Tables 1 and 2, they unquestionably apply. Japanese one direction intervention to buy dollars and other foreign exchange totaled $233 billion since 1998, with large purchases each year, including $48 billion during the first seven months of 2002. Chinese cumulative purchases were $98 billion since 1998, with a sharp upward trend to $46 billion in 2001 and $31 billion, or more than $5 billion per month, during the first six months of 2002.

Even with this clear evidence of protracted large-scale intervention, two other tests are appropriate to conclude that the motivation was to gain an unfair competitive advantage. The first test is of the "adequacy" of reserve holdings. If a country has run down its reserves through previous sales of foreign exchange, the motivation for purchases may simply to be to restore an adequate level of reserves. There is no precise definition of "adequacy," although the World Bank benchmark over the years has been that a country should maintain reserves equal to at least 25 percent of annual imports. Japan and China, however, have levels of reserve holdings far above any comparable measure, as also shown in Tables 1 and 2. Japanese foreign exchange holdings as a percent of annual imports increased steadily from 73 percent in 1998 to 111 percent in 2001, while Chinese holdings have ranged between 81 percent and 104 percent of annual imports.

The second test relates to balance of payments adjustment, and whether a country is running a large deficit or surplus on current and long-term capital accounts. A country in a chronic large

deficit position, like the United States, could "manipulate" its currency to gain a competitive advantage, but such intervention might not be judged "unfair" if the objective is to bring external accounts back toward balance. Once again as shown in the tables, however, this rationale to justify currency manipulation would not apply for Japan and China because they both run chronically large trade and current account surpluses and, in the case of China, a very large net inflow of foreign direct investment (FDI) as well. Japan had current account surpluses of $89-$121 billion per year during 1998-2001 and, even taking account of a net outflow of FDI, there was still a very large net overall inflow of foreign exchange of $57-$100 billion (line B 4). In the case of China, the current account surplus ranged from $21-$31 billion, while a very large net inflow of FDI raised the overall net inflow of foreign exchange to $57-$72 billion. Indeed, for the balance of payments test, the presumption would be for Japan and China, if anything, to be selling rather than buying foreign exchange in order to reduce chronically large surpluses on external account.

In conclusion, ***Japan and China, based on all criteria related to the IMF definition, have been persistently manipulating their currencies to gain an unfair competitive advantage.***

There are also other likely official currency manipulators, but their full identity would require considerable further research. The two most glaring suspects, however, are South Korea and Taiwan. South Korea increased its foreign exchange holdings from $52 billion in December 1998 to $103 billion in December 2001, and to $116 billion in July 2002. During the same period, Korea had a sustained current account surplus ($9 billion in 2001) and a large net inflow of FDI ($12 billion in 2001). Taiwan increased its foreign exchange holdings from $122 billion in December 2001 to $155 billion in July 2002, while running an annual current account surplus of $25 billion.

2. What Has Been the Impact of Such Currency Manipulation on the Dollar Exchange Rate and the U.S. Trade Deficit?

IMF-defined currency manipulation, especially by Japan and China, is irrefutable, but how much impact this manipulation has had on exchange rates and the U.S. trade deficit is a much more difficult question, and there is no precise answer. Although the unprecedentedly large market intervention by central banks from the late 1980s through 2002 offers considerable opportunity for econometric testing, the profession has apparently not yet risen to the challenge. Thus the best that can be offered here are rough orders of magnitude based on the gross figures in play, and the conclusion drawn is that the protracted and very large-scale official intervention of the past several years, principally in East Asia, has had a substantial impact on exchange rates and the U.S. trade deficit. The yen is probably at least 20 percent weaker than it would be based on market forces alone, while the Chinese renimbi is probably in the order of 40 percent weaker. As a consequence, the U.S. trade deficit is probably about $100 billion larger than it would otherwise be, taking account of Japan, China, and other likely currency manipulators.

Before looking in detail at the derivation of these numbers, however, it is useful to make three analytic points which have often been ignored or misinterpreted by observers who conclude that currency manipulation has little actual impact on exchange rates and trade balances.

1. ***The great asymmetry.***—There is a world of difference between central bank sales of foreign exchange to keep a currency above market-determined levels and central bank purchases to keep a currency below market-determined levels. The former was the case for the series of financial crises since the mid-1990s (Mexico, Thailand, Indonesia, South Korea, Brazil, Russia, Turkey, and Argentina). They all failed because the central bank had a known quantity of foreign exchange to sell, and as reserves approached zero, speculation against the currency accelerated and a financial crisis was precipitated. In the latter case of central bank purchases of foreign exchange, which is the

currency manipulation situation discussed here, there is, in very sharp contrast, no limit to official purchases, as starkly shown in Tables 1 and 2. Japan and China together have bought more than $330 billion of foreign exchange over the past three-and-a-half years, and they could buy another $330 billion or more in the next several years, with no end in sight. This is the "great asymmetry" of official currency intervention, and those who claim intervention cannot work for very long based on the experience of Mexico, Thailand, etc., are at the wrong end of the feasibility curve. The fact is that intervention usually does not work for very long to maintain an overvalued currency, but it can work to prolonged and substantial effect to maintain an undervalued currency.

2. ***Net versus gross flows.***—Some observers conclude that currency manipulation has no significant impact on exchange rates because annual official foreign exchange purchases of $40-$70 billion per year by countries such as Japan and China pale by comparison with a trillion dollars or more per day of international financial transactions. The error in this assessment is to compare net and gross financial flows. The very large majority of gross market financial transactions are offsetting inflows and outflows, just as most trade consists of offsetting exports and imports in its impact on exchange rates. What really counts for upward and downward pressures on exchange rates is the net dollar inflow or outflow on trade, current, and long-term capital accounts, as shown in section B of Tables 1 and 2. These are more comparable in their impact on exchange rates with the net increases in official foreign exchange holdings, although, as explained below, official purchases of foreign exchange can have even more impact on exchange rates, dollar for dollar, than do trade/current account surpluses and net inflows of FDI.

3. ***Currency manipulation is only one part of the equation.***—Yet another misleading observation about currency manipulation is to compare official purchases of foreign exchange with apparently contradictory movements of the exchange rate. Japan intervened heavily in the spring of 2002 while the yen still appreciated from 130 to 120 to the dollar. At the time of the Asian financial

crises in 1997-1998, there was little intervention by any of the East Asian central banks, and yet the dollar rose substantially, as did the U.S. trade deficit. The obvious explanation for such developments is that there are various forces in play that influence exchange rates and trade balances. The prospect of record level, unsustainable U.S. current account deficits and corporate scandals put overriding downward pressure on the dollar in the spring of 2002, while the dollar as "safe haven" for short-term capital inflow boosted the dollar rate in 1997-1998 despite the temporary lull in currency manipulation. What is relevant for this discussion of the impact of "currency manipulation" is the ***differential*** impact of such intervention on exchange rates and the U.S. trade balance. How much weaker would the dollar have been absent the protracted large-scale official intervention over the past several years, and how much smaller would have been the U.S. trade deficit? It is to these questions that the presentation now turns.

The impact on exchange rates.—As noted earlier, there are no precise estimates of the impact of official currency intervention on exchange rates. The gross figures on the relationship between such intervention and the balances of trade, current, and long-term capital accounts nevertheless provide indicators of the broad orders of magnitude involved. The way this interrelationship plays out, however, is very distinct between Japan and China, and each is thus addressed in turn.

In the case of ***Japan***, official foreign exchange purchases equaled 59-61 percent of the trade surplus in 1999-2001 (Table 1, line B 1). For the broader measure of current account surplus plus FDI net flow (line B 3), the figures rise to 72-77 percent. What this means is that the protracted intervention has directly offset, dollar for dollar, about 60 percent of the upward pressure on the yen from the very large trade surplus, and about 75 percent of the net inflow of dollars from the current account/FDI balance. Moreover, in addition to this direct quantitative relationship, Japanese currency intervention policy has a strong reinforcing qualitative dimension, which can be called the "credible threat multiplier effect." The experience has been that when faced with upward pressure on

the yen, not only does the Bank of Japan buy large quantities of foreign exchange, but the Ministry of Finance states emphatically that Japan will intervene as much as necessary to keep the yen down, as an overriding economic policy objective to ensure continued export-led growth.[1] Such statements strongly dissuade currency dealers from intervening in anticipation of market-generated upward pressures on the yen. The overall result is currency manipulation through a combination of large-scale intervention plus credible threats of further intervention, with the latter constituting the "multiplier effect." A reasonable adjustment for this multiplier effect could raise the trade surplus offset from 60 percent to 75 percent and the current account/FDI offset from 75 percent to 100 percent.

Based on these relationships, how much stronger would the yen be if currency manipulation were halted through a categoric statement by the Government of Japan that it would indefinitely cease all purchases of foreign exchange. The rise in the yen would almost certainly be substantial, quite likely by at least 20 percent, to 100 or less yen to the dollar. Such an assessment, moreover, is supported by another quantitative relationship related to the U.S. trade deficit. The U.S. trade deficit, as a share of total trade, is similar to that of the Japanese trade surplus, and considerable econometric work has produced the rule of thumb that a 1 percent decline in the dollar would reduce the U.S. trade deficit by $10 billion, and thus a 20 percent decline would reduce the trade deficit by $200 billion, or by half of the total U.S. trade deficit. This relationship can be compared with Japanese official intervention, to opposite effect, amounting to a 75 percent offset to upward pressures on the yen from the trade surplus, and thus with an implied strengthening of the yen from termination of the intervention of 30 percent. In other words, if a 20 percent decline in the dollar exchange rate can cause a 50 percent decline in the U.S. trade deficit, currency manipulation to offset 75 percent of the Japanese trade surplus impact on the exchange rate would equate to a 30 percent weaker yen. To err on the

[1] Such statements, incidentally, constitute official admission that the intent of the intervention is to gain a competitive advantage in trade.

conservative side, however, ***the conclusion drawn here is that Japanese currency manipulation probably results in a yen exchange rate at least 20 percent lower than it would be based on market forces alone***.

In the case of ***China***, the renimbi is fixed to the dollar, but is nonconvertible on capital account. What this means in practice is that export earnings in foreign exchange, plus FDI not utilized for purchases on current account, have to be sold to the central bank for renimbi at the fixed exchange rate. In effect, official intervention is carried out through mandatory foreign exchange sales to the central bank rather than central bank purchases in the market, as take place in Japan and elsewhere. The net effect, nevertheless, is currency manipulation through protracted large-scale purchases of foreign exchange by the Chinese central bank.

As to how much stronger the renimbi would be if the central bank ceased to buy foreign exchange, the basic analytic approach would be the same as applied to Japan, although with more indirect assumptions as to what would take place if the renimbi were freely convertible, and the appraisal is thus limited to an order of magnitude. The ratios of official foreign exchange purchases to the trade surplus and the current account/FDI net dollar inflow have been rising sharply in 2001 and 2002. During the first six months of 2002, central bank purchases have been at an annual rate of $62 billion, or roughly 200 percent of the trade surplus, and about 100 percent of the current account/FDI net inflow. These ratios, compared with Japan, indicate a rough order of magnitude for exchange rate impact almost double that caused by Japanese intervention. This should not be surprising because during 2002 the dollar linked renimbi has declined 10 percent vis-à-vis the yen and the euro, with consequent strong positive impact on the Chinese trade surplus (up 55 percent in the first half of 2002) and FDI inflow (up 22 percent during January-July). Moreover, even with the $62 billion annual rate of mandatory sales to the central bank, market pressures from the huge foreign exchange net inflow stimulate underground cash flows out of the country of billions of

dollars per year, linked to massive official corruption.[2] Taking all of these factors into account, ***the conclusion drawn here is that Chinese currency manipulation probably results in a renimbi exchange rate in the order of 40 percent lower than it would be with a convertible rate based on market forces alone.***

The impact on the U.S. trade deficit.—The bottom line question is how much smaller the U.S. trade deficit would be if others did not manipulate their currencies as described above. In this case, the analysis is more straightforward. Assuming the renimbi 40 percent stronger vis-à-vis the dollar, and the yen, the Korean won, and the Taiwanese dollar (the latter two with intervention/trade surplus ratios similar to that of Japan) 20 percent stronger, the dollar exchange rate, weighted by U.S. imports, would be 7 percent lower. Based on the rule of thumb that a 1 percent decline in the dollar would lead to a $10 billion reduction in the trade deficit, the net result would be a $70 billion reduction in the U.S. trade deficit if these four trading partners ceased currency manipulation.

This calculation, however, understates the trade impact for several reasons. Exports of these four trading partners are almost entirely in manufactures, which have relatively high price elasticities[3] compared with other sectors of trade, and therefore this trade would have an above-average quantitative response to a given exchange rate adjustment. Moreover, their exports have grown rapidly in recent years and thus the $10 billion/1 percent benchmark, based on earlier econometric work, should be adjusted upward. There has also probably been some additional currency manipulation beyond the four cited here, particularly during 2002 when the effects of the recession in the United States and a declining dollar have weakened export performance around the world and created political pressures to intervene and keep currencies down relative to the falling dollar. For

---

[2] See the *Financial Times*, August 22, 2002, p. 5, "China gears up to halt capital flight." The article cites estimates of capital flight as high as $20 billion per year, as well as a temper tantrum by Chinese Premier Zhu Rongji over the fact that nearly every corruption scandal in China in the last decade involves around officials, or businessmen who have bribed them, fleeing overseas with large amounts of money.

[3] The price elasticity relates percentage changes in relative prices and quantities of goods traded. For example, a -2 elasticity of demand for imports means a 1 percent decline in the relative price of imports would lead to a 2 percent increase in the quantity of imports.

example, Russia, India, and Thailand have made substantial official purchases of foreign exchange during the first half of 2002 even while running large current account surpluses. Again, bringing all of the factors together, ***the conclusion drawn here is that roughly $100 billion, or about one-quarter of the total U.S. trade deficit, can be attributed to currency manipulation.***

3. What Are the Consequences for U.S. Economic and Foreign Policy Interests?

There are three distinct adverse consequences for U.S. interests from the currency manipulation that has resulted in a U.S. trade deficit roughly $100 billion larger than it would be based on market-determined exchange rates alone: (1) the short-term impact on jobs and output; (2) the longer term economic impact on U.S. productivity and growth; and (3) the broader effects on U.S. foreign policy interests. Only the first has received serious attention, while the second and third consequences are at least as important for overall U.S. interests, and possibly more so.

1. ***The short-term impact on jobs and output.*** The rising U.S. trade deficit means less jobs and output for both U.S. export and import-competing industries. The National Association of Manufacturers (NAM) estimates that since August 2000, 500,000 jobs have been lost from the decline in exports alone. Relating a $1 billion increase in the trade deficit to 15,000 jobs, a $100 billion larger trade deficit as a result of currency manipulation equates to 1.5 million less jobs, or more than 1 percent of the labor force, and a corresponding lower level of output.

Some observers contend that such lower levels of employment in export and import-competing industries are not a problem because they can be offset by more jobs created in other sectors. In effect, a larger trade deficit simply results in a shift of employment among sectors with no net loss of jobs. This analysis, however, is faulty on two counts. First, it assumes full employment, which has not been the case during 2001-2002. Jobs lost to a rapidly growing trade deficit have not been offset by job creation elsewhere, as the unemployment rate has risen from 4 percent to 6 percent. And

second, the composition of the labor force and output among sectors can have a substantial impact on longer term productivity and growth in the U.S. economy. The manufacturing sector is ten times more engaged in trade than the services sector, in terms of exports and imports as a ratio of domestic output, and has been bearing 80-90 percent of job losses from the rising trade deficit.[4] The net result from a $400 billion trade deficit—$100 billion of which is related to currency manipulation—is thus a relatively much smaller manufacturing sector within the overall U.S. economy. And this, in turn, has significant adverse impact on longer term productivity and growth in the U.S. economy, or consequence number 2 as presented here.

2. ***The longer term impact on U.S. productivity and growth.*** The manufacturing sector has long been the engine for growth in the U.S. economy, and this central role strengthened during the 1990s as new technology development and application spurred much higher levels of productivity and growth throughout the "new economy."[5] More than 60 percent of R&D and over 90 percent of new patents derive from the manufacturing sector. Productivity growth within the sector was two-to-three times higher than in the services sector throughout the 1990s, while productivity growth in other sectors is primarily a result of new products developed and marketed by manufacturing industry. In addition, the manufacturing sector is restructuring rapidly to become even more high powered in generating productivity and growth. The share of value added by production workers since 1950 is down by more than half to 18 percent, with value added becoming more and more concentrated in R&D, new investment in plant and equipment, and higher skilled and professional employees. U.S. manufacturing as the engine for growth is further reinforced by the economic globalization process. Rapid growth in international trade and investment increases competitive

[4] A full discussion of the contrasting roles of manufactures and services in trade is contained in Ernest H. Preeg, *Surging Yet Volatile Productivity Growth in U.S. Manufacturing Industry: The International Trade Dimension* (MAPI, October 2001).

[5] The transformation underway in U.S. manufacturing summarized in this paragraph is analyzed in detail in *U.S. Manufacturing: The Engine for Growth in a Global Economy*, Thomas J. Duesterberg and Ernest H. Preeg, editors (Praeger, early 2003).

pressures to cut costs and develop new products faster and broadens global markets so as to spread out the large fixed costs of R&D and investment.

It is in this overall growth-oriented context that record U.S. trade deficits of $400 billion per year, of which about $350 billion is in manufactures, can have substantial adverse impact on the U.S. economic growth course ahead. A smaller manufacturing sector means a smaller engine for growth and fewer productivity gains. Likewise, the currency manipulators identified here—Japan, South Korea, Taiwan, and China most of all—are keenly aware of the fact that technology-intensive manufacturing industry is the primary engine for their growth as well. They each pursue the mercantilist approach of maintaining a large trade surplus as an overriding policy objective, with central emphasis on technology-intensive manufactured exports. And their favored policy instrument for pursuing such mercantilism is currency manipulation.

3. ***The broader effects on U.S. foreign policy objectives.***[6] The motivation for protracted large-scale purchases of foreign exchange by currency manipulators is almost certainly to achieve the international competitive advantages described up to this point. In addition, however, there are a number of broader adverse consequences for U.S. interests from the massive buildup of official holdings of dollars abroad, particularly in East Asia. There is first the interest payments on official dollar holdings which constitute a permanent flow of resources from the U.S. to the other economies. At 5 percent interest, the $436 billion Japanese foreign exchange holdings, probably 80-90 percent in dollar denominated assets,[7] would yield a United States to Japan annual payment of $17-$19 billion. China is reported to hold some of its dollar holdings in Freddie Mac/Fannie May bonds in order to obtain a higher yield on its $243 billion of official foreign exchange holdings.

[6] The effects on U.S.-China policy, in particular, are elaborated in Ernest H. Preeg, "Chinese Currency Manipulation," Testimony Before the Senate Committee on Banking, Housing, and Urban Affairs, May 1, 2002.

[7] The precise composition of official foreign exchange holdings is kept secret, as explained in policy response step 4 below.

Other actual or potential adverse consequences for U.S. interests are more in the foreign policy field. The huge official foreign exchange holdings of Japan and China provide a geopolitical opportunity to offer concessionary trade and investment finance to regional trading partners, particularly in Southeast Asia, as a means of strengthening Japanese and Chinese economic engagement at the expense of the United States. Some first steps along these lines have already been taken, reportedly to weaken "U.S. economic hegemony" in the region, and such trade-related incentives will likely be expanded. The recent Chinese initiative for a free trade agreement with the Association of Southeast Asian Nations (ASEAN) could be enhanced with a regional financial facility similar to the European Payments Union (EPU) financed by the United States to support European growth in the 1950s.

In the national security field, Chinese purchases of weapons and other military equipment abroad, as regularly received from Russia in particular, can be made without financial constraint, having $243 billion of ready cash in the central bank.

More speculatively, China could use its official dollar holdings as foreign policy leverage against the United States by threatening to sell large quantities of dollars on the market, or merely shifting its reserves away from dollars and into euros and yen. This will not happen anytime soon because the result would be a decline in the dollar with adverse impact on Chinese exports. At some future point, however, if China were to become less dependent on exports to the United States for economic growth, such a threat could become credible. For example, the threat of substantial Chinese sales of dollars, with its implications for a disruptive decline in the dollar and the U.S. stock market, especially during a recession and/or an election year, could influence the course of U.S. policy toward Taiwan. Chinese military officers, in fact, in their studies of nonconventional defense strategies, include reference to George Soros and his attack on the British pound in 1992 as a template for disrupting a rival's (i.e., the United States) economic system.

* * *

These are the wide-ranging economic and foreign policy adverse consequences for the United States from continued large-scale currency manipulation by others. They certainly add up to a strong case for action to curtail such manipulation. Fortunately, the specifics of such a policy response are readily at hand.

4. How Should the U.S. Government Respond?

The U.S. response to end exchange rate manipulation for unfair competitive advantage would consist of four steps pursued in parallel, with a fifth step held in reserve on a contingency basis:

Step 1. A clear statement of U.S. policy.—U.S. exchange rate policy, in broadest terms, is to let market forces determine exchange rates, and U.S. official intervention is rare and of token size.[8] U.S. policy has been in denial, however, about exchange rate manipulation by others, which is in fundamental conflict with a system of market-determined rates. This should be rectified through a clear statement of policy by the Secretary of the Treasury along the following lines:

"U.S. exchange rate policy is to let market forces determine the rates. Official intervention in currency markets to counter short-term disruptive market conditions should be of limited duration and carried out in concert among major currency nations. In recent years, however, some others have engaged in protracted large-scale intervention to buy dollars and other foreign exchange, thus pushing their exchange rates substantially below market-determined levels. One important consequence has been a much larger U.S. trade deficit than would prevail based on market-determined exchange rates alone. The IMF Agreement explicitly proscribes such exchange rate manipulation to gain an unfair competitive advantage, and the United States will actively seek to

[8] U.S. currency intervention has averaged $3 billion per year since 1995, in some years net purchases, in other years net sales. In contrast, with six times as much trade as China, U.S. net purchases on the current Chinese scale would be about $370 billion per year.

curb further manipulation through direct consultations with trading partners and IMF review procedures."

Such a statement would constitute a major change in U.S. policy with respect to currency manipulation. The 1988 Omnibus Trade and Competitiveness Act requires the Secretary of the Treasury to report to the Congress twice each year about currency manipulation by others, but the reports have been brief and essentially evasive. Japan, the most obvious manipulator, has never once been mentioned. When Treasury officials are pressed, they dismiss the issue by claiming that currency manipulation is simply too vague and ill-defined. This, of course, is not the case, as explained in the answer to question 1 above.

Step 2. G-7 consultations.—The United States would pursue this newly stated line of policy within the Group of Seven (G-7) finance ministers, whose membership represents the principal international currencies. In fact, six of the seven—representing the U.S. and Canadian dollars, the euro, and the British pound—do follow a market-determined floating rate policy, with very limited intervention, and they all suffer on trade account from the mercantilist policies of currency manipulators. Japan, in contrast, would be the target for curtailing manipulation within the Group, and the thrust of G-7 discussions would be about how Japan could restructure its growth strategy toward greater reliance on domestically generated growth and less reliance on a sustained trade surplus. Indeed, such a change would be as much in the Japanese interest as in that of the other six.

Step 3. Bilateral consultations.—The United States would pursue bilateral consultations with targeted currency manipulators. Bilateral consultations with Japan would be an adjunct to the G-7 discussions. Consultations with such trading partners as South Korea and Taiwan would be along similar lines. Consultations with China would be more complex and also the most important in view of the extreme degree of currency manipulation involved and the fact that the largest U.S. bilateral trade deficit is with China. The short-term objective for China would be an upward adjustment of the

fixed nonconvertible renimbi by at least 20 percent. The longer term objective would be a transition by China to a fully convertible, freely floating renimbi, as a mutual economic interest and the best way to avoid trade conflict with the United States resulting from further unjustified currency manipulation.

Step 4. IMF transparency/consultations.—The United States would approach the IMF to seek greater transparency in official market intervention and to curtail currency manipulation. As for transparency, members do not now publicly report currency intervention even though it is often the most important policy instrument utilized under a floating rate international financial system and has significant impact on companies and banks engaged in international trade and finance. Current IMF disclosure is limited to a monthly statement of member total foreign exchange holdings, with a two-three month time lag, in *International Financial Statistics*. The composition of the reserves—dollars, euros, yen, etc.—moreover, is never made public. In effect, China could shift $10 billion from dollars to euros, with significant impact on the dollar/euro exchange rate, and the transaction would remain secret not only for private sector traders but for other governments as well.[9] The United States, preferably together with like-minded free floaters, should therefore propose mandatory public reporting by central banks of significant purchases and sales of foreign exchange, including a breakdown by major currency.

Curtailment of currency manipulation would be pursued through the appropriate IMF review mechanism for Article IV commitments and related surveillance procedures. The specific objectives would be findings of currency manipulation against and commitments to cease such manipulation from targeted members, beginning with Japan and China.

These four steps would be advanced in parallel, and hopefully would lead to agreement to curtail currency manipulation to gain an unfair competitive advantage. The question remains, however, as

[9] The IMF publishes global official holdings by currency in September for the previous year, or nine months after the fact, but without a breakdown in such holdings by member country.

to what the United States and other adversely affected trading partners should do if currency manipulators ignore the bilateral and IMF admonitions and continue their manipulative exchange rate policies. Under such circumstances, a contingent fifth step would be taken in the World Trade Organization (WTO).

Step 5. WTO dispute settlement.—The General Agreement on Tariffs and Trade (GATT) Article XV, now incorporated within the WTO, addresses "Exchange Arrangements," and stipulates that members should not take exchange rate actions which "frustrate the intent of the provisions of this Agreement." The intent of the Agreement, in turn, as stated in broadest terms in the Preamble, is the objective of "entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade." Clearly, exchange rate manipulation that results in a $100 billion per year larger U.S. trade deficit than would otherwise occur frustrates, to say the least, such reciprocal and mutually advantageous arrangements. The United States could thus file a complaint within the WTO dispute settlement mechanism against recalcitrant currency manipulators. GATT Article XV also provides for full consultation with the IMF, including that members "shall accept all findings of statistical and other facts presented by the Fund relating to foreign exchange," which would link any such U.S. initiative in the WTO to prior IMF consultations as described in step 4.

This is the five-step policy response readily at hand. Step 5 should clearly be held in reserve, to be avoided if at all possible, but at the same time the United States should not be hesitant to state that it would be obliged to pursue this course if all other actions proved fruitless. The rationale throughout all steps of the policy response would be derived from the adverse impact on U.S. interests described earlier. Currency manipulation to gain an unfair competitive advantage has simply become too important an issue within the evolving international financial system to ignore any longer, and the practice therefore needs to be sharply curtailed or eliminated.

Epilogue: Systemic Implications

This paper has been about currency manipulation and its direct impact on exchange rates and the U.S. trade deficit in particular. The issue also has broader implications, however, for the international financial system as it evolves into a "two-corner" system of floating exchange rates and monetary unions.[10] And in this context, a thorough appraisal of currency manipulation leading to its sharp curtailment or elimination would constitute a major step forward for realizing such a system within a cooperative multilateral framework.

The international financial system has been essentially undefined for three decades. The dollar fixed-rate system created at Bretton Woods ended in 1971 when the United States closed the window on dollar convertibility into gold. This precipitated a potpourri of exchange rate relationships from fixed to floating rates, with various forms of adjustable pegs and currency bands in between. The lack of systemic definition was highlighted in 1994 at the 50 year anniversary of Bretton Woods, when a Bretton Woods Commission group of 47 distinguished financial leaders and experts, chaired by Paul Volcker, called for the "establishment of a new system . . . (because) the alternative to a new global system is to continue the present nonsystem." The Commission report had little to offer, however, as to what form the new system should take except to note that, "this system could possibly involve flexible exchange rate bands."

Five months later the Mexican peso crashed through the bottom of its dollar exchange rate band, and financial markets assumed the lead role in pushing governments toward a truly new post-dollar floating rate system. Subsequent financial crises in Thailand, Indonesia, South Korea, Russia, Brazil, Turkey, and Argentina all resulted in shifts from some form of dollar-linked currencies to floating

[10] The evolving two-corner system is analyzed in detail in Ernest H. Preeg, *The Trade Deficit, the Dollar, and the U.S. National Interest* (Hudson Institute, 2000), especially chapters 2 and 9.

rates. Meanwhile, in the other monetary union corner, the European Monetary Union (EMU) was launched and more modest steps were taken toward dollarization.[11]

The outstanding and indeed critical question for this new, predominantly floating rate system is to what extent will the floating rates be "managed" through official intervention in currency markets. Will rates be heavily managed, lightly managed, or allowed to float freely? Heavily managed rates, as described earlier, are subject to the "great asymmetry," wherein heavy intervention through foreign exchange sales to maintain a currency above the market-determined level has consistently failed, with resulting much higher foreign debt obligations and more painful ultimate adjustment. A lightly managed or free float is clearly preferable at this end of the asymmetric curve, although painful lessons are still being learned in Argentina, Brazil, and Turkey.

And then, at the other end of the curve, there is the heavily managed float through official large-scale purchases to maintain an exchange rate lower than the market-determined level, which often translates into currency manipulation. The case made in this paper is that such heavy management to gain an unfair competitive advantage should also be sharply curtailed if not eliminated.

The net result for the evolving international financial system should thus be definitive movement to lightly managed or freely floating rates. Heavily managed rates in one direction do not work, while in the other direction "currency manipulation" should be at least sharply curtailed. And this outcome, in turn, has important implications as to how the overall international financial system would work, including the IMF role within it. For example, there would be little need for foreign exchange reserves since their only purpose is for official intervention, which would be small to nil under lightly managed or free floating rates. The United States, in this regard, is ahead of the curve, with a close to free floating rate and only $30 billion of foreign exchange reserves, equal to a mere 2

---

[11] Ecuador has dollarized and Central American leaders are considering it. Based on "optimum currency area" analysis, the small Caribbean Basin economies heavily dependent on trade with the United States would be optimal candidates for dollarization. See Ernest H. Preeg, "Dollar Rising Over the Caribbean," *American Outlook*, winter 2000, pp. 42-43.

percent of annual imports.[12] A lightly managed or freely floating yen, in contrast, would make the $436 billion of Japanese foreign exchange reserves grossly redundant, raising the question as to what should be done with them.

There would also be little further need for large IMF loans, and the $30 billion loan package to Brazil in August 2002 could turn out to be the last hurrah for such lending. This would follow the longer term process of IMF "graduation." None of the industrialized countries, which comprise two-thirds of world trade and investment, has taken out a large IMF loan in over 25 years. Emerging market economies that shifted to floating rates in the 1990s, such as Mexico, Thailand, and Russia should not need further recourse to large IMF loans. Certainly the currency manipulators—Japan, China, South Korea, and Taiwan—who have such excessive reserve holdings, which would become even more excessive to the extent they adopted lightly managed floating rates, will never need an IMF loan. Indeed, if the current financially troubled Argentina, Brazil, and Turkey, already with floating rates, could be nurtured away from largely counterproductive dependency on IMF lending, close to 90 percent of the global economy would be classified as IMF graduates.[13] And what would remain would mostly be the poorest countries, where highly concessionary loans and grant assistance from multilateral development banks and bilateral aid programs are more appropriate forms of official financial support than high cost IMF borrowing.

There would still be a role for the IMF, but a much more modest role as a consultative forum, the repository of basic norms and financial market commitments of multilateral scope, and a provider of technical support for members adopting financial policy reforms. But the era of large-scale IMF loans, with all its political contention and painful economic aftermath, would be over. Members within the monetary union corner of the new financial architecture would by definition have no need

---

[12] The United States also holds $262 billion of gold reserves, but they are essentially useless. If even $10-20 billion of the gold were sold on the market to prop up the dollar, the market price of gold would crash and the value of reserves along with it.

[13] This transition is elaborated in Ernest Preeg, "Árgentina's painful graduation," *Financial Times*, August 3, 2001.

for an IMF loan to defend internal national currency relationships that no longer exist, while members with lightly managed or free floating currencies would also have little or no need for IMF loans.

Graduation should be a joyous occasion, and graduation of the international financial system to a new cooperative order of floating rates and monetary unions would be worthy of celebration. We have not yet reached that point, however, with the biggest remaining obstacle the persistent practice of currency manipulation to gain an unfair competitive advantage in international trade and investment.

Table 1
Indicators of Currency Manipulation
Japan

	1998	1999	2000	2001	2002*
A. **Foreign Exchange Reserves ($billions)**					
1. Total, end of period	203	278	347	388	436
2. Increase from previous period	x	75	69	41	48
3. Cumulative increase from 1998	x	75	144	185	233
B. **Trade, Current, and FDI Accounts ($billions)**					
1. Trade balance, goods	+122	+123	+117	+70	
2. Current account balance	+121	+107	+117	+89	
3. FDI net flow	-21	-10	-23	-32	
4. Current account plus FDI net flow	+100	+97	+94	+57	
C. **Foreign Exchange Reserve Increase as a Percent of:**					
1. Trade surplus	x	61	59	59	
2. Current account surplus	x	70	59	46	
3. Current account surplus plus FDI net flow	x	77	73	72	
D. **Adequacy of Reserves**					
1. Foreign exchange (end of period) as a percent of imports (goods and services)	73	90	92	111	

* Jan.-July

Source: IMF, *International Financial Statistics*

Table 2
Indicators of Currency Manipulation
China

	1998	1999	2000	2001	2002*
A. **Foreign Exchange Reserves ($billions)**					
1. Total, end of period	145	155	166	212	243
2. Increase from previous period	x	10	11	46	31
3. Cumulative increase from 1998	x	10	21	67	98
B. **Trade, Current, and FDI Accounts ($billions)**					
1. Trade balance, goods	+47	+36	+34	+23**	
2. Current account balance	+31	+21	+21	+21**	
3. FDI net flow	+41	+36	+37	+40***	
4. Current account plus FDI net flow	+72	+57	+58	+61	
C. **Foreign Exchange Reserve Increase as a Percent of:**					
1. Trade surplus	x	28	32	200	
2. Current account surplus	x	48	52	219	
3. Current account surplus plus FDI net flow	x	18	19	75	
D. **Adequacy of Reserves**					
1. Foreign exchange (end of period) as a percent of imports (goods and services)	104	93	81	91**	

* Jan.-June
** *The Economist*
*** Estimate

Source: IMF, *International Financial Statistics*, except as otherwise indicated.

IMPACT OF STRONG DOLLAR ON U.S. AUTO INDUSTRY

G. Mustafa Mohatarem

Chief Economist

General Motors Corporation

The Dollar and the U.S. Economy: A Company View

September 24, 2002

2002 is shaping up to be another banner year for auto sales in the U.S. Calendar-year-to-date sales have been running at a pace slightly above 17.0 million units. If this pace were maintained for the remainder of the year, 2002 would go down as the fourth best sales year ever. Auto sales have now exceeded the 17.0 million mark – a level that was considered unattainable in as late as the mid-1990s for three straight years – including the recession year of 2001.

Given the strength of auto sales, one would think that U.S. auto manufacturers, auto suppliers, and their workers would be celebrating. But, we are not. Despite the strong sales level, auto manufacturers and suppliers are struggling to turn a profit and many autoworkers have been laid off or are threatened with lay-offs. Credit ratings for U.S. auto manufacturers have been downgraded, and many suppliers are faced with bankruptcy. While there are many reasons for the current challenges facing auto manufacturers, the strong dollar stands out as one of the primary causes.

However, before I give you a detailed explanation of why the strong dollar is depressing profits for domestic auto manufacturers and our suppliers, let me briefly talk about the recent performance of the U.S. auto industry.

Immediately after the terrorist attacks of September 11, consumer confidence fell by roughly ten points. Historically, falling consumer confidence has lead to sharp

reductions in vehicle sales: "when the economy catches a cold the auto industry catches pneumonia." And, it looked liked it would no different this time. In the days immediately following September 11, vehicle sales fell by more than 35 percent. Customer traffic in our showrooms evaporated, suggesting that sales would remain depressed.

We recognized that without some bold measures, the industry could be headed for a deep downturn. GM responded with our "Keep America Rolling" program, which offered consumers zero interest financing on all of our products. The response to this program and similar programs by many of our competitors exceeded all expectations. Vehicle sales surged to a record 21.5 million annual rate in October 2001, and stayed a strong 18.2 million in November. The industry ended the year selling over 17.4 million vehicles in 2001, the third best year ever.

Chart 1 illustrates the impact of early incentives on vehicles sales by contrasting auto sales in this recession versus the recessions of 1990-91 and 1979-80. As you can see, in a typical recession, auto sales can drop off more than 15-25 percent from their trend level. In this downturn, auto sales maintained their very strong pace. Professor Alan Blinder has noted that the sales stimulus provided by Keep America Rolling and matching programs by our competitors drove "auto sales to record highs while other categories of consumer spending were slumping ... The zero percent financing programs thus amounted to a kind of

'privatized' stimulus policy – wonderfully timed, well-targeted and effective. Would that Congress had done so well."

We estimate that for the industry as a whole, the zero percent interest programs generated roughly 500,000 additional sales. Keep in mind, this is a very conservative estimate, and assumes that the U.S. economy would have stabilized following 9/11 even without our incentive programs. In any case, using Bureau of Labor Statistics (BLS) methodology, the 500,000 additional vehicle sales – an addition of more than $10 billion to the U.S. GDP – translate into 115,000 avoided layoffs in auto and related supplier industries during the lowest point of the recession.

Of course, we can't take all the credit for the strength of vehicle sales in the period since 9/11. Aggressive easing by the Fed certainly lowered the cost for auto manufacturer's offering zero or low interest rates. In addition, the Bush tax cuts added to disposable income. But as Professor Blinder pointed out in a Washington Post (12/11/01) op-ed., "Waiting for Congress to pass the much-needed economic stimulus bill is beginning to look like waiting for Godot. Fortunately for the U.S. economy, two large private industries – automobiles and homebuilding – have stepped up to provide the stimulus that the government has thus far failed to deliver."

From a slightly longer-term perspective, auto sales have been exceptionally strong since the mid 1990's (chart 2). The 90s started on a sour note for the U.S. auto industry. With the economy in a recession, auto sales fell precipitously. While sales recovered as the economy emerged from recession, the sales recovery was muted. It became popular among analysts that follow the industry to argue that auto sales would remain weak for an extended period because customers were more interested in computers, boats and home improvements. Fortunately, the pessimists were proved wrong as industry sales improved steadily through the 1990s. Auto sales exceeded the 15 million mark – which was considered the benchmark for a strong sales year – for an unprecedented five consecutive years before jumping above 17 million for three years.

The 1990's also marked the revival of the U.S. auto industry and American-owned auto manufacturers. In the 1980s and early 1990s, it had become conventional wisdom that American auto companies would not survive the competitive challenge from Japan. Yet, by the end of the decade, it was the Japanese auto companies that were struggling.

What happened?

First was the economy.

The U.S. economy thrived in the 1990s while Japan's economy was stagnant. The strong U.S. economy led to strong vehicle sales – more than 15 million each

year since 1995. In contrast vehicle sales in Japan trended down steadily and are now at levels last seen in the early 1980s. U.S. auto companies benefited greatly from strong domestic sales. While Japanese companies also benefited from the strength of the U.S. market, it was not sufficient to offset their weak domestic market.

Second was restructuring.

The U.S. auto companies were forced to restructure their U.S. operations in the 1980s and 1990s by the threat of foreign competition. In contrast, Japanese companies delayed restructuring in Japan in the hope that domestic recovery would make such restructuring unnecessary.

Third was business strategies.

In the late 1980s, American auto companies chose to invest heavily in light trucks and truck-like vehicles, such as sport utilities and minivans. In contrast, all the major Japanese auto companies invested heavily in luxury cars.

Thus, when the market for sport utilities and minivans took-off in the U.S., American auto companies were the primary beneficiaries. In contrast, the market for luxury cars did not develop to the extent that Japanese companies had

anticipated. Moreover, an effective response by German auto companies prevented the Japanese companies from gaining share at their expense.

Finally, exchange rates.

Like many other U.S. manufacturers, the domestic auto companies benefited from the dollar's substantial depreciation from 1985 to 1995 (Chart 3). The stronger yen resulted in declining imports from Japan (Chart 4) and increased production in the U.S. by both domestic manufacturers and by the Japanese manufacturers in the U.S. (Chart 5)

In short, as Michael Moskow, president of the Chicago Fed stated, the Midwest economy in general, and the U.S. auto industry in particular, were the surprise stories of the decade (of the 1990s). Written off as the rust belt in the early 1980s, the auto industry flourished in the 1990s. The combined annual profits for GM, Ford, and Chrysler averaged over $13 billion per year from 1993-2000.

In contrast, Japanese companies delayed restructuring in Japan in the hope that a domestic recovery would make such restructuring unnecessary. Failure to act combined with a weak domestic economy and appreciated currency left them with excess capacity and excess borrowing. By the end of the decade, Renault took controlling interest in Nissan, Ford took management control over Mazda, and DaimlerChrysler took over Mitsubishi. Even healthy companies such as

Suzuki and Fuji Heavy Industries sought alliances with GM. Who would have thought a decade ago that Nissan, the second largest auto company in Japan, would fall under the control of a foreign firm – Renault. Or, that the GM group (GM, Isuzu, Suzuki, and Fuji Heavy Industries) would become the second largest seller of cars in Japan.

The good news for American auto companies would have continued into the new millennium were it not for the fact that the government of Japan decided to embark on an export-led growth strategy again. In particular, as the yen began to appreciate in late 1998, Japan started to intervene heavily in 1999. During the year, it bought more than $75 billion of U.S. currency in order to weaken the yen (chart 6). By the start of 2000, the heavy intervention combined with frequent comments from Japanese officials threatening additional intervention succeeded in halting the yen's appreciation. However, Japan was not satisfied with simply halting the appreciation of the yen. It continued to intervene and to jawbone the currency lower. By the end of 2001, Japan had succeeded in pushing the yen down to around 134 yen/dollar.

Many analysts continue to question the effectiveness of Japan's intervention. Indeed, there is a strong belief among economists that intervention only has short-term impact on exchange rates. These economists must not work at Japan's Ministry of Finance. More importantly, these economists base their view on attempts by countries to defend their currency. Japan proves that as long as

inflation is not a concern, a country can intervene to lower the value of its currency without any limits.

One measure of Japan's intervention is change in reserves. As shown in Chart 6, Japan's reserves have risen by roughly $200 billion, from roughly $250B to $450B, over the last three years. Certainly, no one believes that a hard currency country needs reserves of this magnitude. For example, U.S. reserves are around roughly $50B. In any case, Japan has made no secret of its intervention or of its desire to drive the value of the yen lower.

So, what difference did this make in the auto industry? Chart 7 illustrates the impact vividly. The change in the value of the yen from 116 yen/dollar in January 2001 to 126 yen/dollar in May 2002 added roughly $3,000 in additional margin on the Nissan Maxima. The margin differential is obviously much greater if one considers the differential between 100-105 yen/dollar, what I believe to be equilibrium exchange rate and roughly the value in January 2000, and the weakest point in the current cycle, around 135 yen/dollar.

Is it any surprise then that 2001 marked the turning point in the performance of the Japanese and U.S. auto companies? Armed with a $3,000-$3,500 per unit subsidy, the Japanese companies were soon reporting improving profits and increasing share in the U.S. Honda and Toyota, the two strongest, reported all-time record profits in 2001. And, Nissan's turnaround made Carlos Ghosn a

household name in Japan. Interestingly, both Toyota and Honda attributed the entire improvement in their profits to the depreciation of the yen.

Using the change in profits reported by Honda and Toyota in 2001, it appears that Toyota's profits improve by Y20 billion for every one yen fall in the yen against the dollar. For Honda, which has a higher level of production relative to sales in the U.S., the improvement is around Y12 billion. Using a longer data set, MorganStanley estimates that Toyota's profits change by $125 per unit for each percentage change in the value of the yen against the dollar.

If it was only profits, we would be less concerned. But, with auto sales in Japan stagnant, Japanese auto companies have taken advantage of the weak yen to increase market share in the U.S. In the last two years, share of U.S. market captured by imports from Japan has jumped by 1.2 percentage points. The Korean manufacturers, who also enjoy a weak currency, have gained another 1.2 percentage points, and the European manufacturers have gained about 0.8 percentage points. In total, the import share has gained 3.2 percentage points. Of course, the Japanese also have gained share through increasing local production, which also benefits from the weaker yen. But, contrary to PR from Japan, much of the gain has come from imports. Indeed, MorganStanley estimates a .75 percent correlation between Japanese import share and longer-term movements in the yen versus the U.S. dollar.

It has been suggested that U.S. manufacturers can offset the currency changes through hedging. That is not true. We can and do hedge our own currency exposure. But, we can't hedge our competitive exposure. More importantly, we shouldn't have to. The auto industry is already intensively competitive. We should not be forced to compete against subsidized competitors.

Make no mistake, intervention on the scale that Japan has engaged in is no different than other forms of subsidies that governments offer. That is why the WTO has explicit provisions against currency manipulation. That is also why the IMF proscribes manipulation of currency values. And, that is why the Omnibus Trade Act of 1988 required the U.S. Treasury Department to monitor currency manipulation by other countries and to take appropriate measures to prevent other countries from manipulating their currencies to gain a competitive advantage for their producers.

Given the macroeconomic significance of exchange rates, I am hesitant to recommend any changes in policy other than to insist that Treasury enforce its statutory responsibility to act against currency manipulation. But, if Japan continues to intervene, then I think it would be appropriate for the U.S. to question Japan's actions in the IMF and to consider a WTO challenge. As I said before, there is only one reason that Japan is intervening in currency markets today – to give its firms an unfair competitive advantage.

Of course, we have to focus on things under our control – products, manufacturing efficiency, and supply chain management. And, we are doing that. Productivity at GM has increased substantially and quality has improved even more as the time required to bring new products to market has declined. But, it is hard to overcome the currency disadvantage of 20 percent or more.

And, it is not just a short-term problem. Keep in mind that Japanese, the Koreans, and the European are plowing their profits back into products and production facilities – some of which are in the U.S. In other words, not only are they getting a short-term advantage, they could well be gaining a longer-term advantage.

In closing, the second half of the 1990s marked a revival of fortunes for the American auto industry. The strong U.S. economy and demand for vehicles, a competitive value of the dollar, strong products, improved quality, and restructuring of manufacturing allowed the domestic manufacturers to compete successfully with foreign-owned manufacturers. GM and Ford solidified their positions as the number one and two manufacturers in the world. And, while Chrysler merged with Daimler, the combined company -- DaimlerChrysler – became the number three manufacturer. In the mean time, Japanese auto companies struggled with weak home market and appreciated yen.

The new millennium has started with another reversal. The American companies are struggling to earn a profit while the Japanese companies are again in ascendancy. To be sure, some of the American companies' problems and the Japanese companies' recent success can be attributed to market factors. However, an even larger contributor to the relative performance has been Japan's intervention to lower the value of the yen. The weak yen has lowered the cost of vehicles imported from Japan by roughly $3,000 on a $20,000 vehicle. It is no surprise that Japanese companies are reporting record profits and expansion around the world, while American companies are announcing significant cutbacks in capacity and employment.

Chart 1

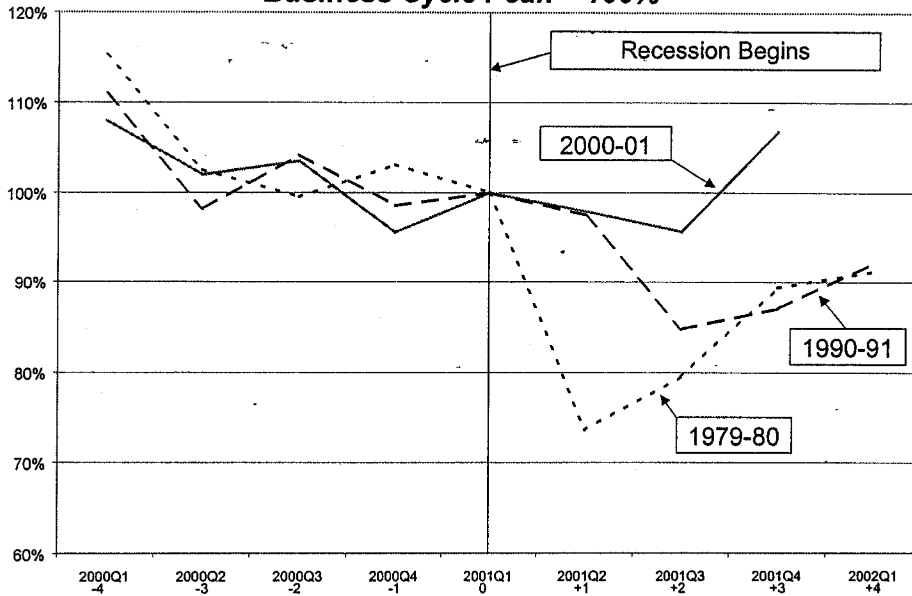


Chart 2

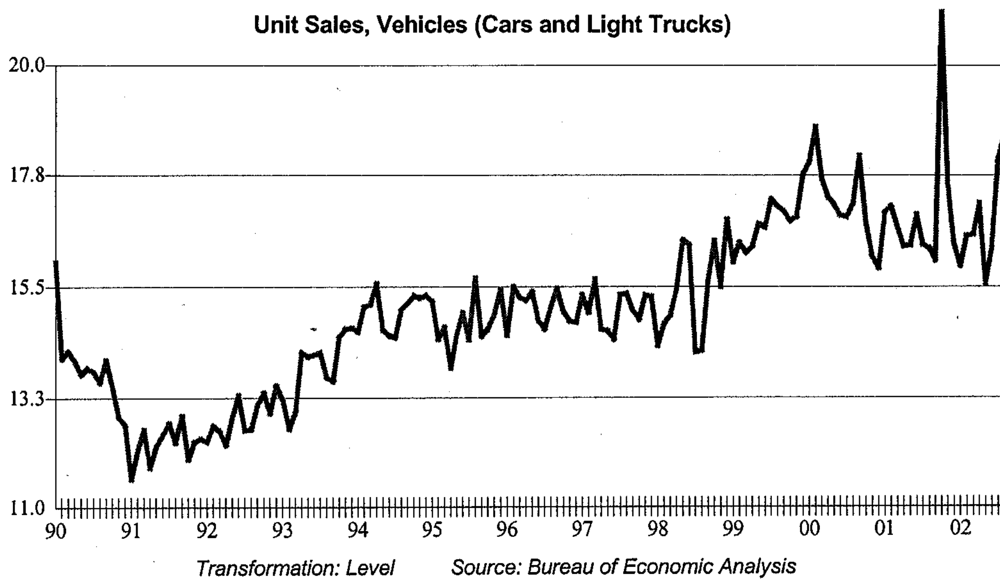
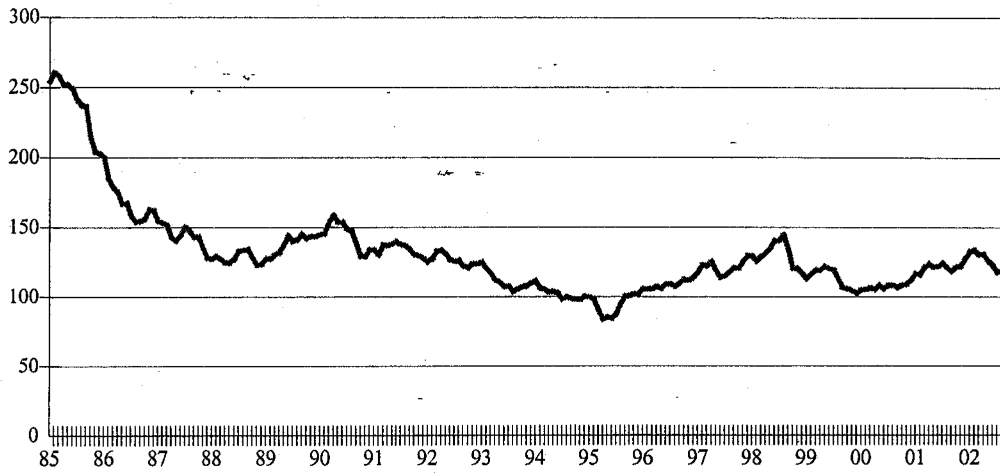


Chart 3

Japan, Finance, Exchange Rate, Japanese Yen per U.S. Dollar



Transformation: Level *Source: Federal Reserve Board*

Chart 4

Japaneses Import Car Share versus the Yen

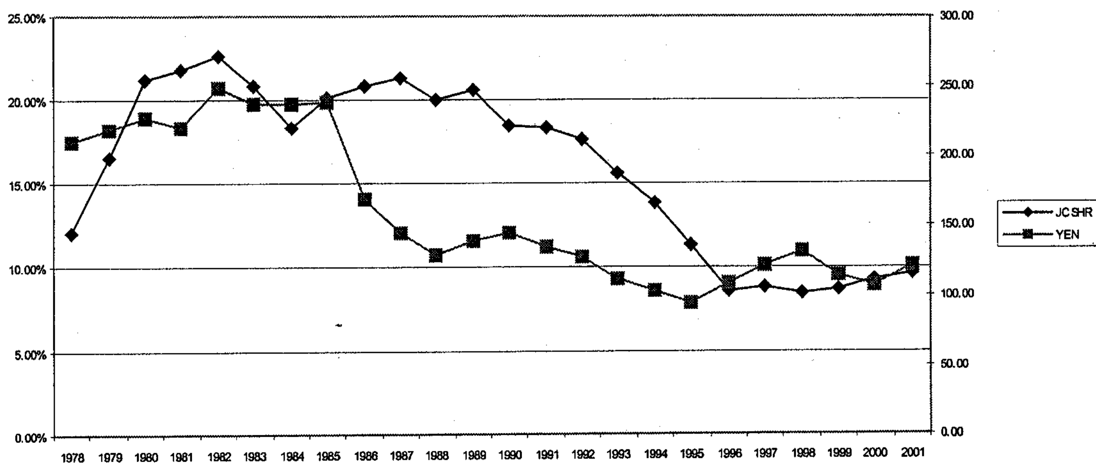


Chart 5

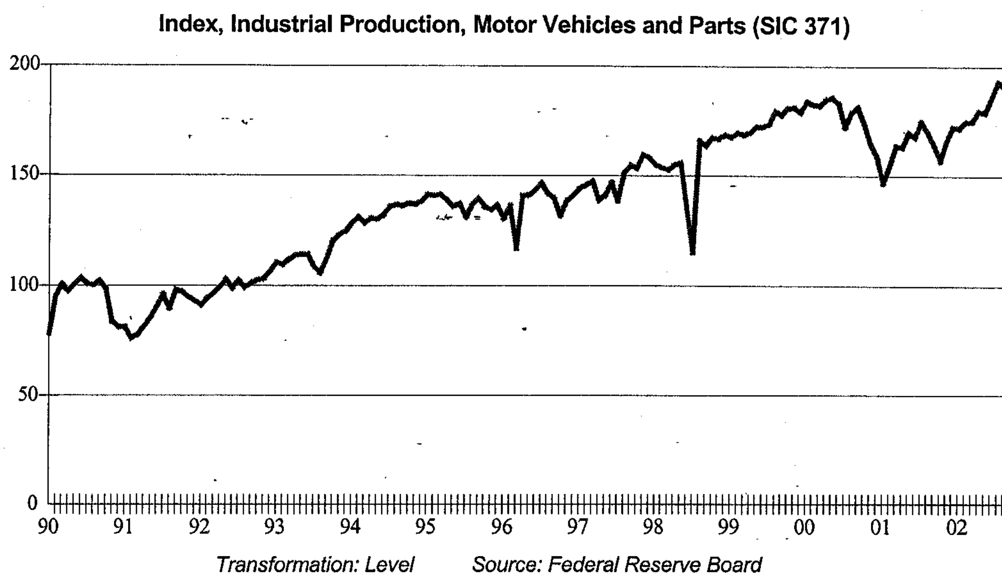
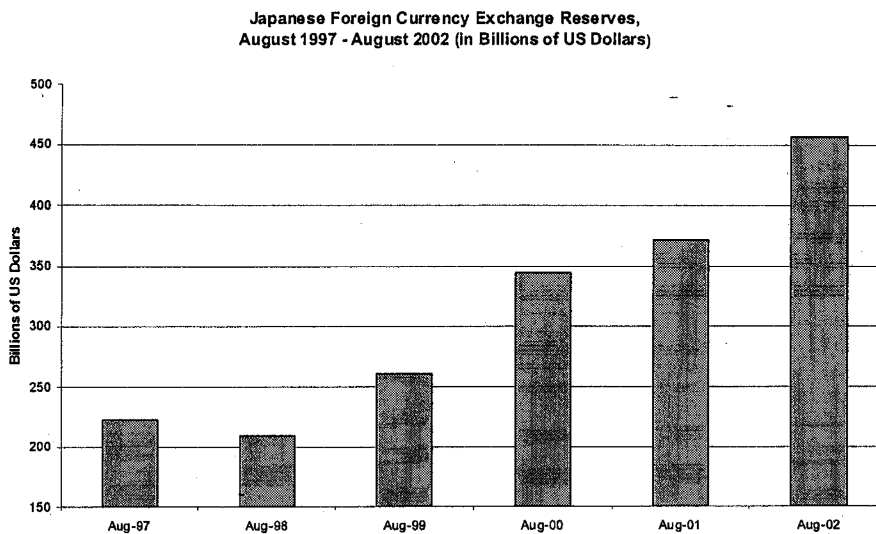


Chart 6



Automotive Trade Policy Council
DaimlerChrysler Ford Motor Company General Motors

Chart 7

The excessive weakness of the yen has given substantial competitive advantages to Japanese auto manufacturers.

The 2002 model year retail price of an Nissan Maxima SE sedan on January 1, 2001 was 2.96 million yen.
Converted at that day's exchange rate:

The US price would be $25,989

However, if you converted that same yen price of that Nissan Maxima SE sedan on May 1, 2002:

The US price would be only $23,040

As seen above, Nissan has a windfall cost advantage of over $3000 *per car* as a result of the yen / dollar currency exchange

Automotive Trade Policy Council

Foreign Exchange Intervention: Did it Work in the 1990s?

Kathryn M.E. Dominguez
University of Michigan and NBER

Preliminary Draft: September 16, 2002

Prepared for "The Dollar" Conference Sponsored by the Institute for International Economics in Washington, D.C., September 24, 2002

I. Introduction

For as long as there have been exchange rates, there have been individuals and governments who have sought to manipulate them. Although there is anecdotal evidence that some individuals have been highly successful at influencing markets (e.g. George Soros in 1992), theory suggests that as markets develop and deepen they should become less vulnerable to manipulation. This, in turn, may imply that over time interventions by central banks in well-developed foreign exchange markets may be less and less likely to be successful.[1] Dominguez and Frankel (1993b) find strong evidence that interventions by the U.S. Federal Reserve (Fed), German Bundesbank and Bank of Japan (BOJ) in the 1980s influenced dollar exchange rates. Other studies come to similar conclusions.[2] Does intervention policy continue to work? Or, as theory would predict, has dollar intervention policy become less effective?

There are at least four reasons to think effects of foreign exchange intervention in the 1990s might differ from the effects of earlier interventions. First, economic conditions in the G3 countries changed dramatically in the 1990s. The United States experienced its longest lasting economic expansion over this period, while economic growth in Germany and Europe was largely stalled, and the Japanese economy was often in recession. Second, the US current account deficit grew dramatically over this period, in large part due to the strong relative position of the US economy over the decade. Gross portfolio and foreign direct investment flows also rose dramatically in the 1990s, suggesting that global capital flows were higher and financial markets were more globalized. Third, culminating in the establishment of the European Central Bank (ECB) in 1999, the European countries achieved monetary union in the 1990s, and the ECB took over jurisdiction of intervention policy for Germany and the other European countries. Fourth, interest rates in Japan were so low over this period that monetary policy was thought to be largely ineffective.

Researchers examining recent data continue to find evidence that intervention operations are effective, though estimates of the magnitude of the effects vary, as do views on whether intervention is a useful policy tool.[3] Part of the explanation for the differing results is that studies focus on different central banks, different exchange rates, and different time periods, all leading to difficult comparisons. But, in large part, the

[1] Here I am implicitly assuming that a transaction in the foreign exchange market by a Central Bank is no different than one made by an individual investor or non-governmental institution. It may be that because Central Banks have the ability to support interventions with current or future changes in monetary policy, interventions are likely to influence exchange rates whether or not markets are developed. This study tests whether interventions influence exchange rates, but not why this is the case. See Dominguez (1992, 1998), Dominguez and Frankel (1993abc), Evans and Lyons (2001), Lyons (2001), Montgomery and Popper (2001), Mussa (1980) and Naranjo and Nimalendran (2000) for discussions of why interventions might influence exchange rates.

[2] See Edison (1993) and Sarno and Taylor (2001) for excellent surveys of the intervention literature. Also see, Dominguez (1990, 1992, 1997, 1998), Dominguez and Frankel (1993abc), Henderson (1984), Kenen (1987), Lewis (1995) and Obstfeld (1990).

[3] See, for example, Fatum and Hutchison (2002abc), Humpage (1999), Ito (2002), Neely (forthcoming), and Ramaswamy and Hossein (2000).

differences in results across studies, and in views regarding the efficacy of intervention, are consequences of the way in which researchers define the success of an intervention.

Central Bankers, market participants and researchers are all likely to agree that a successful intervention is one that significantly influences either the relative price or the volatility of a currency in the appropriate direction. Where disagreement about success is likely to arise is in the definition of "significant influence", which in turn, depends on the size and persistence of intervention's influence on exchange rates. One of the reasons this is difficult to resolve is that there does not exist a consensus model of exchange rate determination, so it is difficult to compare actual behavior to what exchange rates would have been in the absence of intervention.[4] There is also the problem of defining temporal correlations. Should there be a direct correlation between intervention operations and the immediate movement of the exchange rate in order to make the case that intervention caused the change in the exchange rate? Or, is it possible to claim causality when after days of interventions (with no discernible contemporaneous changes in the exchange rate), there is an eventual movement of the exchange rate in the desired direction?

This study examines the intervention operations of the G3 countries (the United States, Japan and Germany) over the period 1990 through 2002. I analyze the very short-term (four-hour) effects of G3 intervention operations on dollar exchange rates, as well as the longer-term correlations between episodes of intervention and subsequent currency movements. The more recent G3 intervention data suggest that intervention policy is both alive and well – G3 central banks continue to intervene to influence currency values -- and these interventions were often successful in influencing short and longer-term exchange rate movements.

II. Dollar Exchange Rate Movements and G3 Interventions in the 1990s Compared to Those in the 1980s

In the 1980s we saw dramatic long run movements in the yen-dollar and mark-dollar exchange rates. The dollar was strong against most currencies in the early 1980s and then depreciated by over 40% relative to the yen and mark over the course of about a year starting in 1985 (coincident with the famous Plaza Agreement Intervention operations that took place in September 1985).[5] Figures 1 and 2 show the yen-dollar and mark-dollar exchange rates over the period 1977 through 2002. Although day-to-day volatility in both rates remained fairly constant over the twenty-five-year span, the longer-term movements were less dramatic in the 1990s.

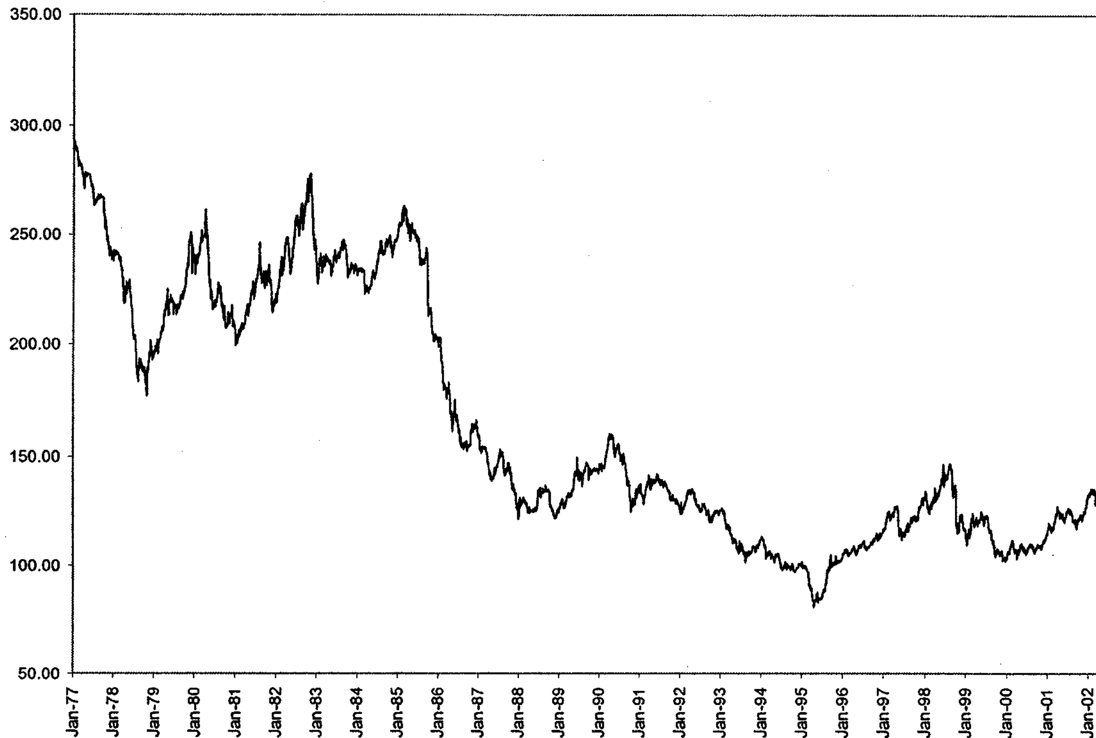
---

[4] Meese and Rogoff (1983) were the first to show that a random walk model out-performs standard exchange rate determination models in predicting exchange rate behavior out of sample.

[5] See Dominguez and Frankel (1993b), Funabashi (1988), Henning (1994) and Klein and Rosengren (1991) for a detailed account of the politics and economics of the Plaza Agreement and other intervention episodes in the 1980s.

The yen-dollar rate reached historic lows in 1995, though from its' peak of 159.7 in April 1990 to its lowest point of 80.6 on April 18, 1995, the decline in the dollar was relatively gradual. And for most of the 1990s the yen-dollar rate stayed within the relatively narrow bounds of 135 and 105.

FIGURE 1 Yen-USD exchange rate, 1977-2002



Source: New York Fed (daily data were collected at the close of New York trading).

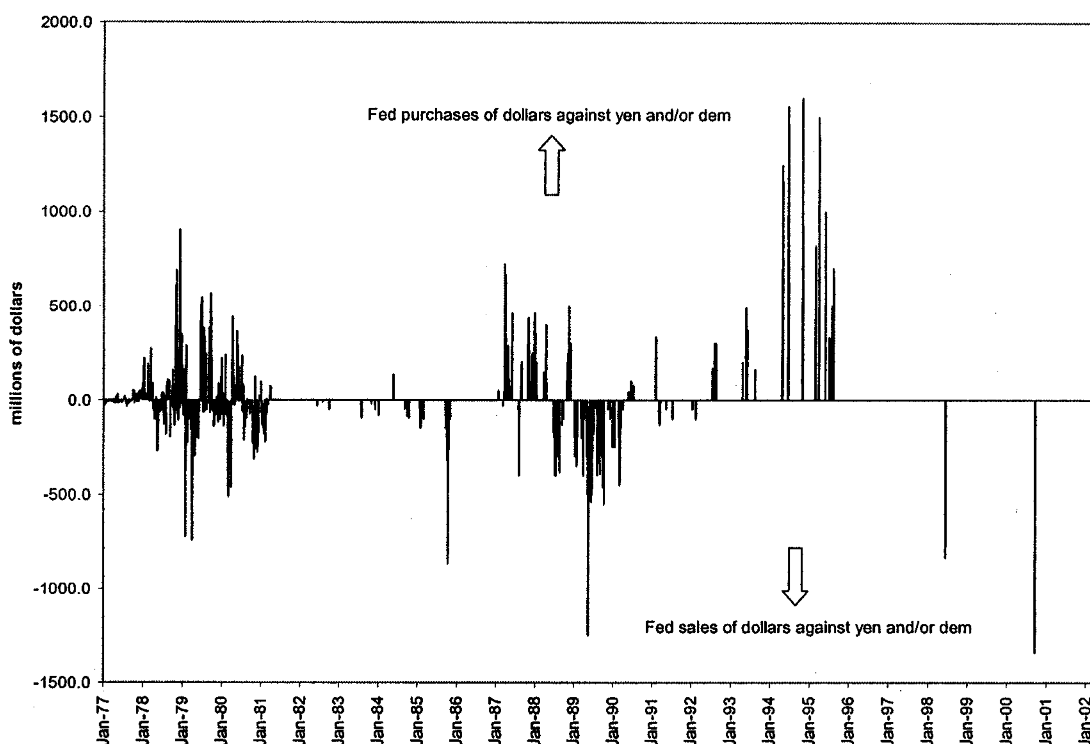
The mark-dollar rate was even more stable than the yen-dollar rate in the 1990s, reaching its low point of 1.35 in April 1995 and peaking at 1.88 in August 1997. (After the introduction of the Euro in January 1999, the mark-dollar rate climbed to 2.36 in October 2000.) And, over most of the 1990s the mark-dollar rate stayed within a narrow band of 1.75 to 1.40.

FIGURE 2 DM-USD exchange rate, 1977-2002

Source: New York Fed (daily data were collected at the close of New York trading).

Although the G3 central banks continued to intervene in foreign exchange markets in the 1990s, they did so much less frequently than in the 1980s. Figure 3 shows Fed dollar interventions operations in the yen and mark markets over the period 1977 through 2002. The two most active periods of Fed intervention were in the late 1970s and early 1980s and again in the mid- to late 1980s. Although the total number of Fed operations fell in the 1990s, the size of daily operations was generally much larger. The largest daily Fed purchase of 1.6 billion dollars occurred on November 2, 1994 (and involved an $800 million sale of yen and a $800 million sale of marks). The largest daily Fed dollar sale involving $1.34 billion (for Euros) occurred on September 22, 2000. Figure 3 also shows that the last two Fed interventions involved operations over only one day. In the 1980s Fed intervention episodes typically continued for weeks and sometimes months.

FIGURE 3 Fed Intervention Operations, 1977-2002

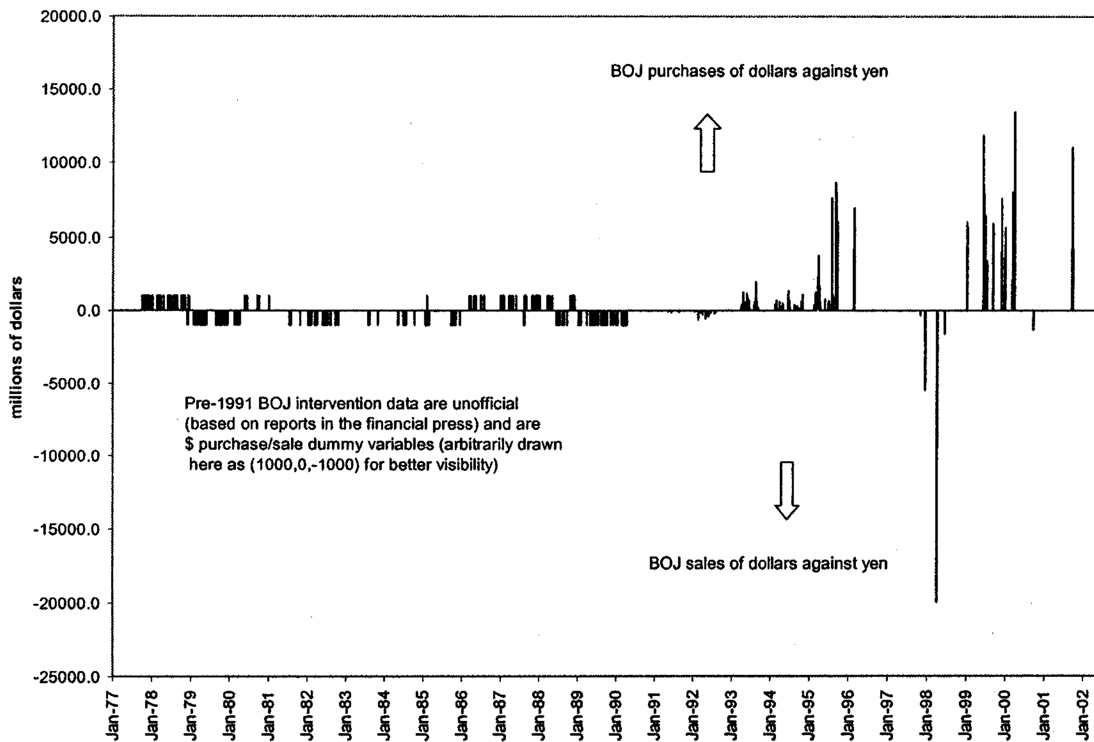


Source: Treasury and Federal Reserve Foreign Exchange Operations, New York Federal Reserve Quarterly Review.

The BOJ recently released its official daily intervention series going back to 1991. In the past, researchers were forced to rely on financial press reports of BOJ interventions to compile a daily series, and these reports rarely included intervention magnitudes. Figure 4 includes the pre-1991 unofficial BOJ intervention series (used in Dominguez and Frankel, 1993abc), shown arbitrarily as (1000,0,-1000) dummy variables for better visibility on the graph (and where positive observations denote BOJ purchases of dollars

and negative observations denote BOJ sales of dollars). Without information on the size of BOJ interventions before 1991 it is difficult to do a direct comparison of the operations in the 1980s relative to the 1990s, though a visual scan of Figure 4 suggests that the BOJ was probably more active in the earlier period. If we focus only on the operations after 1991, the BOJ was much more likely to purchase dollars than sell them, though the largest operation on one day involved a sale of just under 20 billion dollars against yen on April 10, 1998. The largest daily BOJ purchase of (13.5 billion) dollars occurred on April 3, 2000. Unlike the Fed, the BOJ has continued to intervene in the last few years, and episodes have generally continued to involve operations across multiple days.

FIGURE 4 BOJ Intervention Operations, 1977-2002

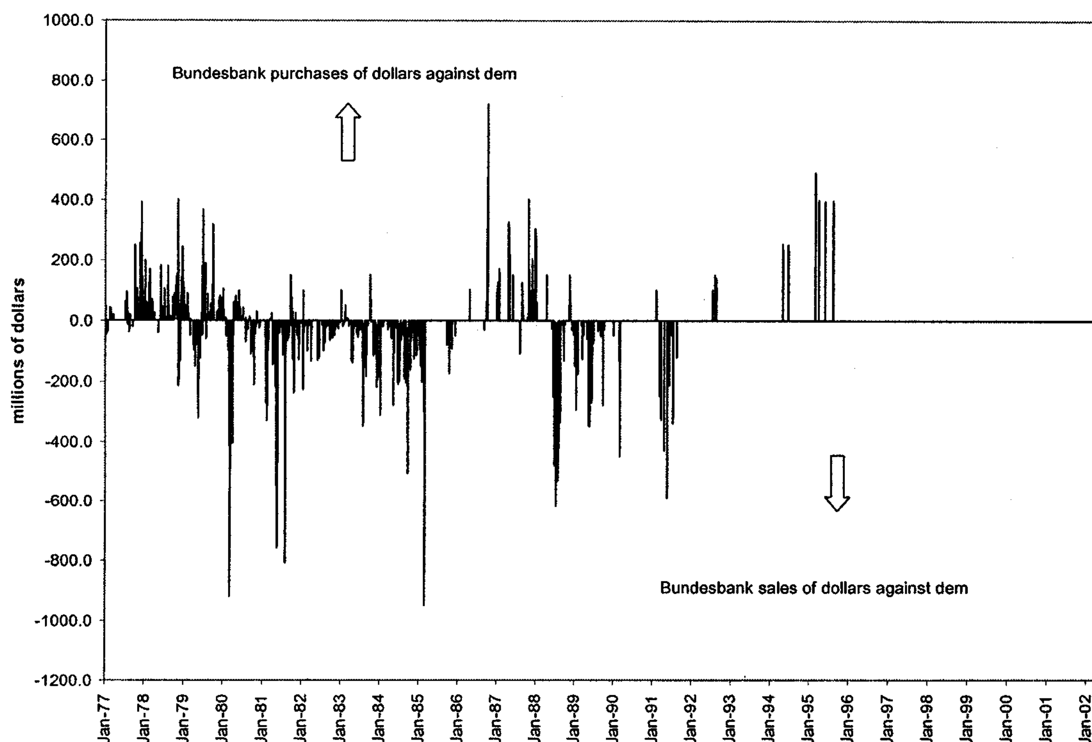


Source: Dominguez and Frankel (1993b) and Ministry of Finance, Japan.[6]

[6] The Japanese Ministry of Finance discloses BOJ interventions four times a year at http://www.mof.go.jp/english/e1c021.htm and provides historical data starting in 1991.

The Bundesbank continued to intervene actively in the mark-dollar market though 1992, though after that, the few remaining inventions only involved dollar purchases against the mark. In contrast to the Fed, Bundesbank operations in the 1990s were generally smaller on a daily basis than had been the case in the 1980s. The largest Bundesbank dollar purchase after 1990 involved $492 million on March 3, 1995 and the largest dollar sale involved $592 million.

FIGURE 5 Bundesbank Intervention Operations, 1977-1998



Source: Deutsche Bundesbank.

The next section focuses exclusively on the efficacy of the G3 interventions in the 1990s. It is instructive though to keep in mind the historical context of these interventions. Long run movements in the two main dollar exchange rate were less volatile than was the case in the 1980s, though the daily volatilities did not change much over the two decades. Perhaps as a consequence of the less dramatic long run movements in currency values, the G3 central banks were generally less active interveners in the 1990s. The Bundesbank operations were the smallest and the least frequent of the three. The Fed was a less frequent intervener in the 1990s relative to the 1980s, though the average size of daily Fed operations was much larger, especially after 1994. The BOJ was by a wide margin the most active intervener of the G3 in the 1990s, and the size of the largest BOJ interventions was almost three

times larger than Bundesbank operations and twice the size of the largest Fed operations.

III. Analysis of G3 Interventions in the 90s

a. Timing of Interventions

The foreign exchange market is open 24 hours, though the most active trading periods in the market occur during business hours in Asia, Europe and New York. In Dominguez (forthcoming) I analyze Reuters reports of G3 interventions from 1989-1993. The reports indicate that central banks typically intervene during business hours in their respective markets.[7] Frequency distributions of the times of G3 intervention suggest that the BOJ is most likely to intervene at 3:56:36 GMT (or around 1pm in Tokyo). The Bundesbank is most likely to intervene at 11:31:16 GMT (or at 12:30pm in Frankfurt). And, the Fed is most likely to intervene at 14:57:10 GMT (or 10am EST). Table 1 shows the relative timing of the Tokyo, Frankfurt and New York markets using the GMT scale and indicates the times when each central bank is likely to be in the market. It is worth noting that Tokyo business hours end just as the Frankfurt market opens and the New York market overlaps the Frankfurt market for two hours. The New York market closes two hours before the Tokyo financial market opens.

Table 1
Typical Timing of G3 Interventions during the 24 hour clock

	GMT22(t-1)	GMT6	GMT8	GMT10	GMT14	GMT17	GMT22
Tokyo	7am	3pm	5pm				
	BOJ interventions						
Frankfurt			9am	11am	3pm	6pm	
			Bundesbank Interventions				
New York					9am	noon	5pm
					Fed Interventions		

GMT is Greenwich Mean Time.

The G3 central banks all currently make public historical daily intervention data. Unfortunately, they do not provide the exact timing of interventions, nor do they disclose how many operations occurred over the course of the day. Therefore, in order to measure the influence of interventions on foreign exchange markets it is important to take into account the timing of when interventions are likely to take place. For example, if we want to know whether an intervention by the BOJ on day t influenced the yen-dollar rate on same day, we would want to look at the change in the yen-dollar rate before GMT24(t-1) when the Tokyo market opens and after GMT8 when the market closes. However, if the Fed or the Bundesbank intervened on the same day it would be

[7] Neely (2000) provides detailed information about the practice of central bank intervention based on survey data. Beattie and Fillion (1999), Chang and Taylor (1998), Dominguez (forthcoming), Fischer and Zurlinden (1999), Goodhart and Hesse (1993), Neely (forthcoming), Payne and Vitale (forthcoming) and Peiers (1997) examine the intra-daily efficacy of central bank interventions.

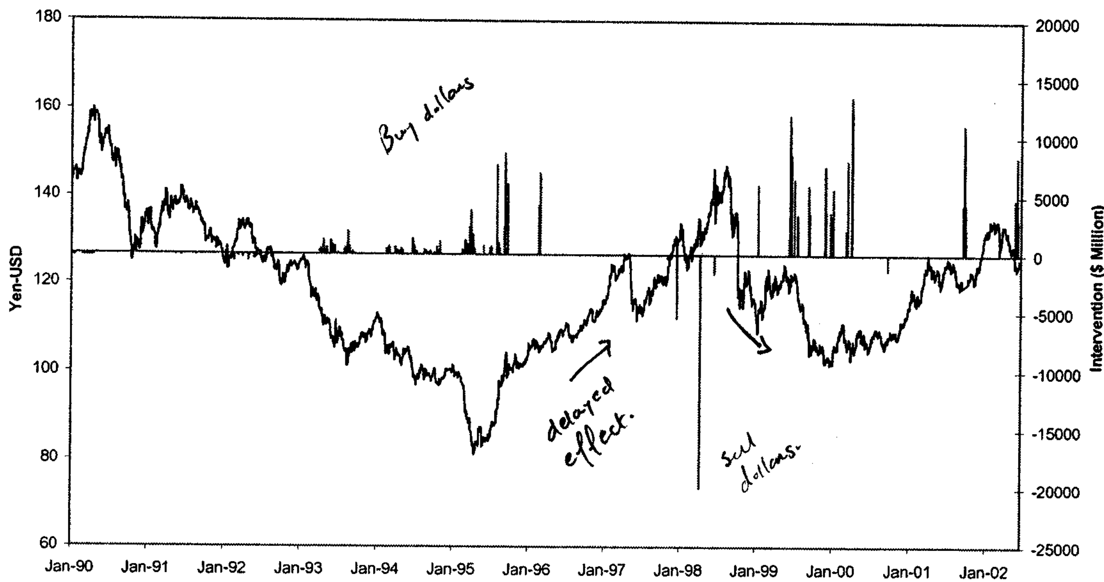
inappropriate to look for the effects of those interventions on the yen-dollar rate during the Tokyo market hours because neither bank would have likely intervened until well after the Tokyo market was closed. In this study I use seven hourly observations of the yen-dollar and mark-dollar exchange rates in order to be able to measure the contemporaneous impact of the interventions during the relevant business hours – as well as measuring the persistence of these effects.[8]

b. The Efficacy of BOJ interventions

The BOJ was the most active intervener of the G3 in the foreign exchange market during the 1990s. The total volume of BOJ interventions exceeded those by both the Fed and the Bundesbank by over 13 times. The BOJ was also much more likely to intervene unilaterally than either of the two other G3 central banks. Only 47% of BOJ interventions were coordinated with another central bank. Figure 6 shows the yen-dollar exchange together with BOJ interventions over the period 1991 through June 2002. The BOJ intervened on a total of 219 days over the twelve-year period spending a total of just under 300 billion dollars. These interventions generally involved purchases of US dollars (and sales of yen) indicating that the BOJ was generally attempting to weaken the yen relative to the dollar over this period. BOJ operations were episodic with long spells of no intervention activity and then weeks, and sometimes months, of periodic operations. Table 2 indicates that there are two episodes over this period when the BOJ sold dollars (and purchased yen), in 1991-1992 and again in 1997-1998, in both of these periods the yen-dollar rate exceeded 125 and the BOJ's stated objective was to strengthen the yen relative to the dollar. In the three episodes when the BOJ purchased dollars the yen-dollar rate was always well below 125, implicitly suggesting that 125 was a target or threshold value of the yen-dollar exchange rate over this period.

[8] The GMT6 exchange rate data are from the Reserve Bank of Australia, GMT8 data are from the Bank of Japan, GMT10 data are from the Swiss National Bank, and GMT14,17,22 data are from the New York Fed. I am grateful to Carol Osler, Andres Fischer, and Masashi Nakajima and especially Chris Neely for their assistance in putting together these data.

FIGURE 6 BOJ Interventions and the Yen-USD Exchange Rate



In early 1991[9] through August of 1992 the BOJ intervened on 27 days selling a total of 6 billion dollars in an attempt to increase the value of the yen relative to the dollar. Over the same period the yen-dollar rate fell from a high of 138.7 yen to the dollar on May 13, 1991 (on the morning of the first day on which the BOJ intervened) to 127.9 yen to the dollar at the end of last day of intervention on August 11, 1992. Although the movement of the yen over the two-year period is consistent with BOJ (and Fed) interventions, the daily correlation of interventions and exchange rate movements is negative (and statistically insignificant) over this period, indicating that on the days when the BOJ sold dollars the dollar typically rose in value. Overall, the objective of the BOJ (to strengthen the yen) seems to have succeeded over this period – though analysis of the daily data does not provide direct evidence to indicate that it was the intervention operations that led to the rise in the relative value of the yen.

[9] Official BOJ intervention data are available starting in January 1991. Reports in the financial press indicate that the BOJ was also very active in foreign exchange markets in 1990, but since these data may contain type I and type II errors (meaning that they may include days when no intervention actually took place, and may exclude days when intervention did take place), the analysis of BOJ operations in this paper starts in 1991.

Table 2
The Influence of BOJ interventions on the yen-usd rate during Tokyo Business Hours

	91-02	5/91-8/92	4/93-2/96	11/97-6/98	1/99-3/00	9/01-6/02
	Full period	$ sales	$ buy	$ sales	$ buy	$ buy
# interventions	219	27	152	11	17	11
Average size	$1357.3	-$222.9	$746.90	-$2894	$5706	$4320.6
Total Amount	$297249.70	-$6017.60	$113524.1	-$31834.2	$97001.2	$47527.0
% daily returns correctly signed	47%	48%	42%	27%	75%	82%
% coordinated with Fed	10%	11%	12%	9%	0%	0%
4hr impact of BOJ Intervention	1.027	-0.527	1.014	1.027	1.006	0.533
t-stat	4.244	-0.207	2.261	0.544	2.314	2.728
8hr impact of BOJ intervention	0.004	-4.033	0.326	0.717	0.429	0.341
t-stat	0.354	-1.44	1.114	1.807	2.187	3.397
Persistence?	No	No	No	No	Yes	Yes
Yen-USD before interventions	135.7	138.73	114.03	120.33	108.78	117.29
Yen-USD after interventions	124.15	127.96	104.26	136.54	104.80	124.15

Notes: "# interventions" is the number of days on which the BOJ intervened in the yen market. "Average size" is the average dollar size of the daily interventions. "Total Amount" is the dollar sum of all interventions over the stated time period. "% daily returns correctly signed" is the percentage of intervention days when the daily yen-usd rate moved in the appropriate direction (so that a dollar strengthening operation led to an increase in the yen-usd rate) during Tokyo trading hours. "% coordinated with Fed" are the percent of BOJ intervention days when the Fed also intervened. "4hr impact" is the coefficient on BOJ intervention in a regression of 4 hour yen-usd returns on a constant, BOJ, Fed and Bundesbank dollar intervention magnitudes (with each central bank's intervention assumed to occur during the 4 hour morning period in each of the respective markets). "t-stat" is the t-statistic based on robust standard errors for the corresponding regression coefficient. "8hr impact" is the coefficient on BOJ intervention in a regression of 8 hour yen-usd returns on a constant, BOJ, Fed and Bundesbank dollar intervention magnitudes (with each central bank's intervention assumed to occur during the 8 hour trading period (9am-5pm) in each of the respective markets). "Persistence?" indicates whether 48 hour lags of BOJ intervention operations are statistically significant. "Yen-USD before interventions" is the Yen-USD rate just before the opening of the Tokyo market ($GMT22_{t-1}$) on the first day of BOJ interventions in the episode. Yen-USD after interventions" is the Yen-USD rate at the end of the NY market (GMT22) on the last day of BOJ interventions in the episode.

The second episode of BOJ intervention started in April 1993 and continued through February 1996. Over the four-year period the BOJ intervened on 152 days purchasing a total of 113 billion dollars in an attempt to weaken the yen relative to the dollar. As can be seen in Figure 6, the yen-dollar rate hovered around 124 in January 1993, hit a low of 81 in April 1995, and rose back to 126 by April 1997. The BOJ began its intervention operations when the yen-dollar exchange rate was 114 in April 1993 and ended intervening when the rate reached 104 in February 1996, with the largest dollar purchases occurring in August and September 1995. If we look at this period as one long intervention episode, the BOJ objective of weakening the yen was unsuccessful in the sense that the yen-dollar rate ended up at a lower rate after the interventions than it was before they started. It is impossible, however, to know how the yen-dollar rate might have moved had the BOJ not intervened. On the other hand, if we look only at the interventions that occurred starting in August 1995 (after the yen-dollar rate had bottomed) the operations look to have been highly successful. An analysis of the daily data over the full four-year period indicates that interventions did impact 4-hour returns both significantly and in the right direction – but this effect does not show up in the 8-hour returns suggesting that the efficacy of the operations was extremely short-lived. If we examine the 11 interventions that occurred starting in August 1995 through February 1996 separately, we find both a 4-hour impact effect and strong evidence of persistence.[10]

The third episode of BOJ intervention involved sales of dollars (and purchases of yen) starting in November 1997 and ending in June 1998. This is another case where the yen-dollar rate over the period actually rises initially and subsequently falls – so that the connection between the interventions and currency movements is not uni-directional. On a daily basis, interventions are found to impact the exchange rate in the right direction (though the effect becomes more significant, although smaller, after 8 hours) and there is evidence of persistence beyond 48 hours. The largest daily intervention operation by the BOJ occurred in this period on April 10, 1998 with a sale of 19.9b dollars resulting in a 1.9% fall in the yen-dollar rate by the close of the New York market. Interestingly, as shown in Table 3, the BOJ's next dollar sale (on June 17, 1998) involved just 1.6b in dollar sales (coordinated with a $833m Fed operation), but it had a much larger effect (4.87%) on the yen-dollar rate.

[10] The eleven BOJ dollar purchases from August 1995 through February 1996 totaled $41.6B and averaged $3.5B. The four-hour impact of BOJ interventions on returns was 1.701 with a t-statistic of 3.444, after 8 hours the effect falls to 0.219 and continues to have a statistically significant effect after 48 hours. The yen-dollar rate on the first day of these operations was 88.07 and at the end of the period it was 104.26.

Table 3
The Largest Daily Impact BOJ Interventions, 1991-2002

BOJ's 3 Largest USD Strengthening Interventions				BOJ's 3 Largest Yen Strengthening Interventions			
Date	% increase yen-usd	BOJ $ amt	Coordinated with G2?	Date	% decrease yen-usd	BOJ $ amt	Coordinated with G2?
Aug 19 '93	4.21%	$167	Fed	Jun 17 98	4.87%	-$1612.8	Fed
Aug 15 '95	3.37%	$515	Fed & BB	Dec 17 97	2.91%	-$2143.5	
Aug 2 '95	3.26%	$7671.9	Fed	Jan 17 92	2.91%	-$49.1	Fed

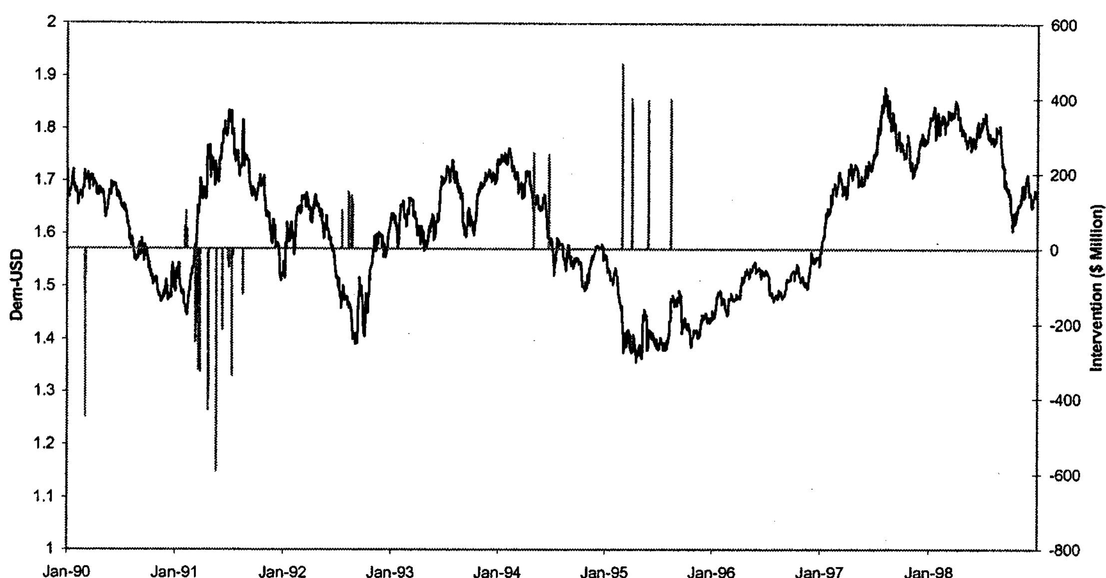
Notes: Yen-usd returns are measured over a 24hour period, starting two hours before the Tokyo market opens and ending with the close of NY trading.

The BOJ returned to purchasing dollars (and selling yen) in January 1999 through March 2000 and then, after a year's hiatus the BOJ again bought dollars in September 2001 through June 2002. In the first of these dollar-buying episodes the yen-dollar rate fell from 108.8 to 104.8 suggesting that the BOJ was not successful at weakening the yen. The analysis of the daily impact of these operations suggests, however, that they were both statistically significant and persistent. To borrow a battlefield analogy, the BOJ seems to have won many daily battles with the foreign exchange market in this period, yet lost the war. Dollar buying resumed again in September 2001 and in May through June 2002. Over this period the yen-dollar rate rose from 117 to 124 and the daily analysis suggests that on average these operations had a statistically significant and persistent influence.

c. The Efficacy of Bundesbank Interventions

The Bundesbank had jurisdiction over mark intervention policy though 1998, though its last operation took place on August 15, 1995. Sixty percent of Bundesbank interventions over this period were coordinated with the Fed, and all interventions after 1991 were coordinated. Figure 7 shows Bundesbank intervention operations and the mark-dollar exchange rate over the period 1990 through 1998. The information summarized in Table 4 indicates that the Bundesbank intervened on 36 days over this period, for a total of just over 7 billion dollars, with the bulk of operations occurring before 1992. Bundesbank daily interventions were generally much smaller than BOJ operations in magnitude, and in most instances the Bundesbank intervened over much shorter episodes. The majority of Bundesbank intervention operations involved sales of dollars for marks in early 1990 and late 1991. In both episodes of dollar sales the mark-dollar rate was well above 1.6. And, in three of the four episodes of dollar purchases the mark-dollar rate was well below 1.5, suggesting that 1.55 was the relevant pivot rate for the Bundesbank over this period. The one episode that is a bit puzzling occurred in May and June 1994 when the Bundesbank purchased dollars on two occasions when the mark-dollar rate was above 1.55, though both of these operations were coordinated with the Fed and the BOJ, suggesting that these may have been intended to strengthen the dollar relative to the yen, rather than weaken the mark.

FIGURE 7 Bundesbank Interventions and the DM-USD Exchange Rate



Over the six episodes of Bundesbank intervention, only the 1990 operations had persistent effects on the mark-dollar rate beyond 8 hours. That said, Figure 7 shows that in all but the 1994 episode, the mark-dollar rate eventually moved in the direction of the Bundesbank interventions. So again, an evaluation of the overall efficacy of Bundesbank operations depends critically on whether one expects to see effects of interventions on the exchange rate immediately or over a longer horizon. It obviously becomes more difficult to make the case that interventions "caused" the subsequent changes in the mark-dollar rate when the two series are not closely linked temporally. In all of the episodes the sign on the coefficient of Bundesbank interventions is positive suggesting that, on average, the mark-dollar rate moved in the appropriate direction on the day of interventions. And in four of the five episodes (including the 1994 operations), and in the full sample period, Bundesbank interventions had a statistically significant influence on the mark-dollar rate over an 8-hour period. Table 5 shows that the largest percentage change in the mark-dollar rate on an intervention day occurred on August 15, 1995 when the Bundesbank purchased 398.1 million dollars (together with the Fed and the BOJ).

Table 4
The Influence of Bundesbank Interventions on the dem-usd rate during Frankfurt Business Hours

	90-98	1-3/90	Feb 91	3-8/ 91	7-8/92	5-6/94	3-8/95
	Full period	$ sales	$ buy	$ sales	$ buy	$ buy	$ buy
#interventions	36	5	4	17	4	2	4
Average size	$201.7	-$147.7	$67.6	-$208.6	$128.2	$253.1	$421.7
Total Amount	$7260.6	-$738.7	$270.2	-$3545.8	$512.8	$506.2	$1686.9
% daily returns correctly signed	47%	80%	50%	35%	50%	50%	50%
% coordinated with Fed	61%	40%	100%	29%	100%	100%	100%
4hr impact of BB Intervention	2.106	1.432	17.085	3.042	1.218	10.485	1.125
t-stat	0.816	1.038	1.584	0.810	0.191	1.033	0.203
8hr impact of BB intervention	9.777	16.570	17.181	1.734	7.717	23.939	20.650
t-stat	1.906	4.147	1.879	0.259	0.454	2.195	1.638
Persistence?	No	Yes	No	No	No	No	No
DM-USD before interventions	1.727	1.727	1.468	1.585	1.456	1.636	1.443
DM-USD after interventions	1.476	1.698	1.454	1.824	1.403	1.584	1.476

Notes: See Table 2.

Table 5
The Largest Daily Impact Bundesbank Interventions, 1990-1998

Bundesbank's 3 Largest USD Strengthening Interventions				Bundesbank's 3 Largest DM Strengthening Interventions			
Date	% increase dem-usd	BB $ amt	Coordinated with G2?	Date	% decrease dem-usd	BB $ amt	Coordinated with G2?
Aug 15 95	2.823	398.1	Fed & BOJ	Jul 12 91	2.528	-339.5	Fed
Jul 20 92	2.371	100.9	Fed	Jan 4 90	2.401	-50.4	BOJ
May 31 95	1.015	395.6	Fed & BOJ	Apr 23 91	1.255	-430.3	

Notes: mark-dollar returns are measured over a 24hour period, starting two hours before the Tokyo market opens and ending with the close of NY trading.

d. The Efficacy of ECB interventions

In January 1999 the Euro replaced the mark and became the European currency. The European Central Bank (ECB) has jurisdiction over euro intervention policy, and, after much speculation in the financial press over whether it would ever intervene, the ECB intervened on four occasions in September and November 2000. Figure 8 shows the euro-dollar exchange rate together with the four ECB interventions in the fall of 2000. The dollar magnitudes of the ECB operations have not been made publicly available so the operations are shown on the graph (arbitrarily) as of equal size (100 million). The ECB

operations came as the euro was at its weakest against the dollar, and the operations coincided with a substantial (although relatively short-lived) strengthening of the euro. The first ECB operation was coordinated with the Fed and the BOJ, along with other central banks.

FIGURE 8 ECB Interventions and the Euro-USD Exchange Rate

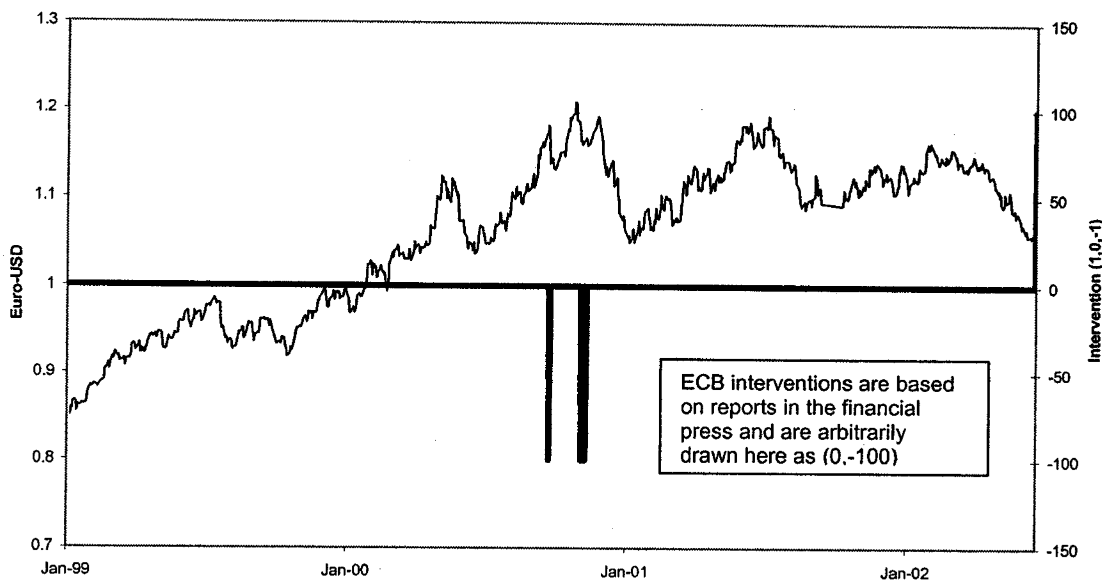


Table 6 shows that ECB operations had statistically significant effects at 4 hours, though the effects largely die out by the end of 8 hours. Again, if we consider the longer-term (but not long term) movement of the euro relative to the dollar there is some evidence of longer term persistence.

Table 6 The Influence of ECB Interventions on the Euro-USD rate during Frankfurt Business Hours	
	9-11/00
	$ sales
# interventions	4
% correctly signed	75%
% coordinated	25%
4hr impact of ECB Intervention	2.649
t-stat	2.655
8hr impact of ECB intervention	7.920
t-stat	1.337
Persistence?	No
Euro-USD before interventions	2.272
Euro-USD after interventions	2.254

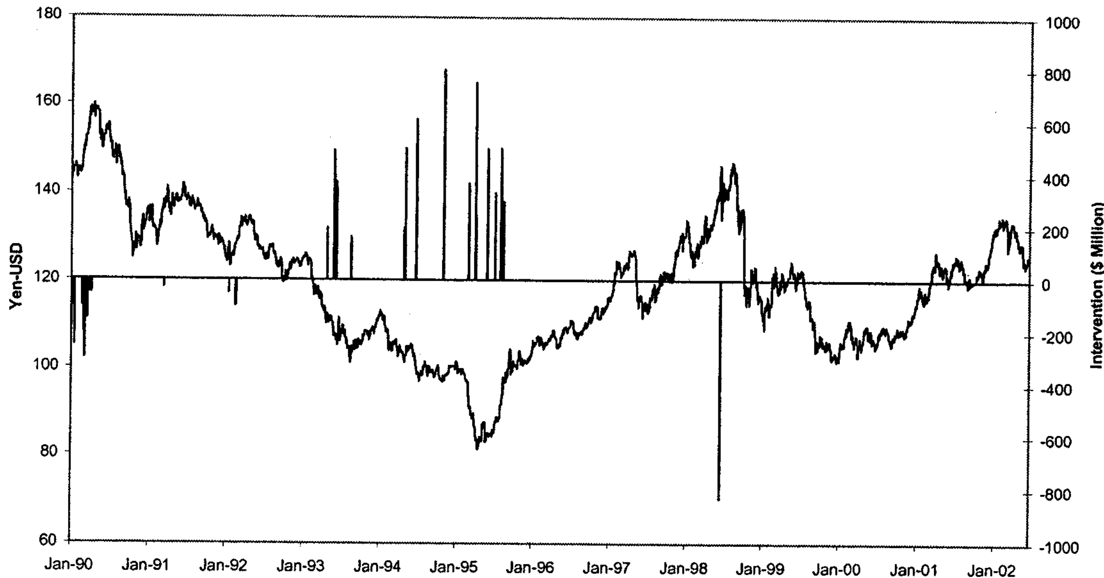
Note: See table 2.

e. The Efficacy of Fed Interventions

Over the period 1990 through 2002 the Fed intervened on 74 days, there were 39 daily operations in the yen-dollar market, 48 daily operations in the mark-dollar market and 1 operation in the euro-dollar market.[11] Figures 9 and 10 depict Fed operations in each of the currency markets together with relevant exchange rate. Just as it was the case for the BOJ and Bundesbank, the Fed intervened episodically in both markets, and tables 7 through 10 provide summary information on the daily effects of these interventions.

[11] There were 14 days on which the Fed intervened in both the yen-dollar and mark-dollar (or euro-dollar) market over this period.

FIGURE 9 Fed Intervention and the Yen-USD Exchange Rate



Fed interventions in the yen-dollar market can be grouped into seven episodes, many of which overlap with the episodes examined earlier for the BOJ. Indeed, on 94 percent of the Fed intervention days in the yen-dollar market the Fed coordinated its operations with the BOJ (and all operations after July 1992 were coordinated with the BOJ).

All the Fed operations prior to July 1992 involved sales of dollars for yen in an attempt to lower the yen-dollar rate. These operations were relatively small in magnitude. The operations in 1990 exerted a statistically significant influence on the yen-dollar rate on impact, though the negative coefficient on Fed intervention suggests that, on average, the dollar rose rather than fell in value during the morning hours in New York. There is no evidence of intervention's influence, however, beyond the New York morning.

The longest period over which the Fed intervened in the same direction involved 18 days of purchasing dollars for yen over the period 1992 through 1995. Over this time period the yen-dollar rate fell from 110 to just above 80 and then eventually reached 96.81 at the end of the last day of Fed intervention. Recall that over this same period the BOJ intervened on 152 days. Dividing the Fed interventions over this period by year (as shown in Table 7), it is only in 1994 that Fed interventions have a statistically significant influence on the yen-dollar rate, this time in the correct direction. The effect does not last beyond the New York morning hours.

The most successful Fed operation, in terms of immediate impact and 48-hour persistence, occurred on the Fed's last day of intervention in the yen-dollar market, June 17, 1998. On this day the Fed sold 833 million dollars in an effort to strengthen the yen in coordination with the BOJ. As shown in Table 8 the Fed and BOJ interventions on this day led to a 4.87% decrease in the yen-dollar exchange rate between the Tokyo morning and the close of the New York market.

Table 7 The Influence of Fed interventions on the yen-usd rate during New York Business Hours								
	90-02	1-4/90	3/91-2/92	7/92-8/95	4-8/93	4-11/94	3-8/95	Jun 98
		$ sale	$ sale	$ buy	$ buy	$ buy	$ buy	$ sale
# interventions	39	16	4	18	5	5	8	1
Average size	$271.50	-$136.30	-$57.50	$408	$286.20	$522	$412	-$833
Total Amount	$10,595.30	-$2,180	-$238	$7344.30	$1431	$2,610	$3303.30	-$833
% daily returns correctly signed	35%	7%	50%	55%	40%	80%	50%	100%
% coordinated with BOJ	94%	94%	75%	100%	100%	100%	100%	100%
4hr impact of Fed Intervention	2.231	-15.106	15.557	2.788	4.178	4.745	0.199	9.439
t-stat	0.952	-2.451	0.332	1.093	0.389	2.304	0.048	15.743
8hr impact of Fed intervention	2.151	0.0581	16.931	0.0631	5.884	1.055	1.644	10.084
t-stat	1.104	0.104	1.130	0.319	0.736	1.300	1.008	16.818
Persistence?	No	no	No	No	no	no	no	Yes
Yen-USD before interventions	144.52	144.52	136.23	110.07	110.07	101.75	96.40	138.75
Yen-USD after interventions	136.53	158.33	128.63	96.81	105.97	97.75	96.81	136.53

Notes: see Table 2.

Table 8 The Largest Daily Impact Fed Interventions on the Yen-USD, 1990-2002							
Fed's 3 Largest USD Strengthening Interventions				Fed's 3 Largest Yen Strengthening Interventions			
Date	% increase yen-usd	Fed $ amt	Coordinated with G2?	Date	% decrease yen-usd	Fed $ amt	Coordinated with G2?
Aug 19 '93	4.21%	$165	BOJ	Jun 17 '98	4.87%	-$833	BOJ
Aug 15 '95	3.37%	$300	BOJ & BB	Jan 17 '92	2.91%	-$50	BOJ
Aug 2 '95	3.26%	$500	BOJ	Mar 2 '95	1.58%	-$150	BOJ & BB

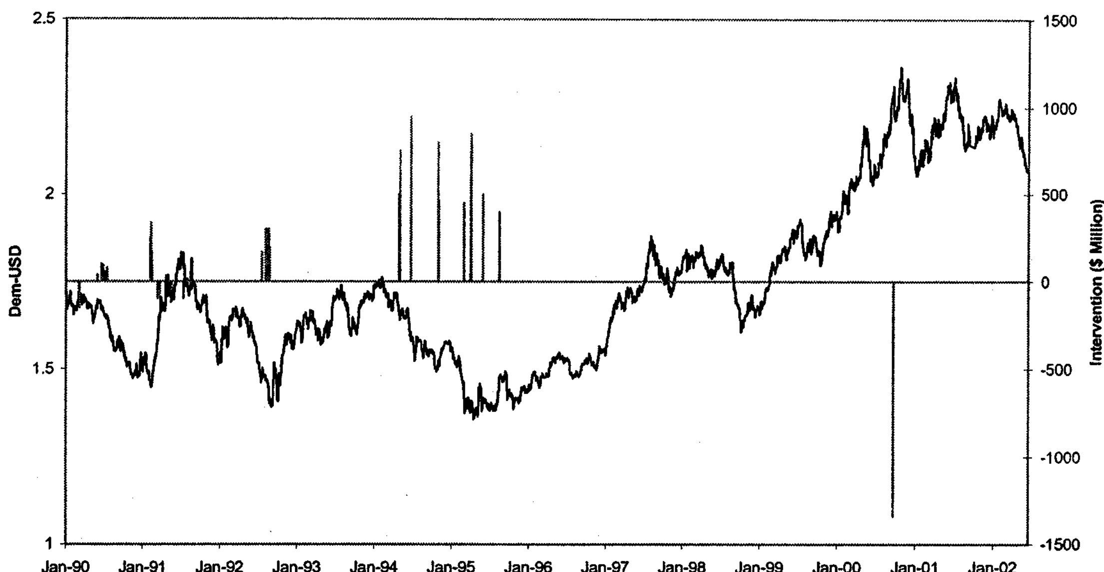
Notes: Yen-dollar returns are measured over a 24hour period, starting two hours before the Tokyo market opens and ending with the close of NY trading.

Figure 10 shows the Fed interventions that were intended to influence the mark-dollar exchange rate. Table 9 provides a summary of the results of analyzing five main episodes of Fed intervention over this period, with the largest episode from 1992 to 1995 further broken out by year. With the exception of two short episodes of dollar sales in early 1990 and mid-1991, the bulk of interventions in this market were aimed at strengthening the dollar relative to the mark.

The first intervention episode involving dollar sales in early 1990 was extremely successful both in terms of daily and longer term movements of the mark-dollar exchange rate. The coefficient on Fed intervention is statistically significant, correctly signed, and large in magnitude, indicating that the two 100 million dollar interventions led to an average 1.18 percent decline in the mark-dollar rate in the New York morning hours. And

the interventions led to an additional 0.3 percent decline in the New York afternoon with further evidence of statistically significant persistence for 48 hours. It is interesting to note that both Fed interventions in this episode were coordinated with the Bundesbank. In May 1990 the Fed switched to buying dollars in an effort to strengthen the dollar relative to the mark, and although the Fed intervened on 17 occasions and spend $1 billion dollars, the interventions were unsuccessful both on a daily basis and over a longer-term horizon. In February 1991 the Fed again purchased dollars, and this time (as shown in Table 9) there is evidence that the interventions significantly influenced the mark-dollar rate in the New York morning. The negative sign on the coefficient on Fed intervention suggests, however, that the dollar fell rather than rose on impact. There is no evidence of persistence beyond the New York morning. The long string of Fed dollar purchases between 1992 and 1995 generally resulted in the mark-dollar rate falling rather than rising on a daily basis. Over the longer term the dollar did eventually rise both in the aftermath of the interventions in July and August 1992, as well as in the period after the last Fed intervention of the episode in August 1995.

FIGURE 10 Fed Intervention and the DM-USD Exchange Rate



The final Fed intervention over this period was (again) the most successful. On September 22, 2000 the Fed sold 1.34 billion dollars and purchased euros together with the ECB and the BOJ in an effort to raise the relative value of the euro. On the day of the joint intervention the euro rose 2% from before the Tokyo market opened to the end of the New York market. And the influence of the interventions continued though 48 hours.

Table 9
The Influence of Fed interventions on the DM-USD rate during New York Business Hours

	90-02	1-4/90	5-7/90	2/91	3/91-7/91	7/92-8/95
	Full period	$ sale	$ buy	$ buy	$ sale	$ buy
# interventions	49	2	17	7	6	16
Average size	$253.40	-$100	$58.8	$190.9	-$86.7	$501.3
Total Amount	$12416	-$200	$1000	$1336	-$520	$8020
% daily returns correctly signed	47%	100%	57%	42%	17%	44%
% coordinated with Buba	57%	100%	0%	57%	83%	63%
4hr impact of Fed Intervention	-4.796	11.819	-12.634	-13.357	-20.763	-2.634
t-stat	-2.693	2.926	-1.375	-2.914	-0.557	-1.055
8hr impact of Fed intervention	0.543	3.593	-0.742	-3.039	-0.769	-1.487
t-stat	0.329	6.216	-0.071	-0.751	-0.047	-0.580
Persistence?	No	Yes	No	No	No	No
DM-USD before interventions	1.701	1.701	1.672	1.466	1.573	1.451
DM-USD after interventions	2.231	1.698	1.644	1.454	1.789	1.476

Notes: see Table 2.

Table 9 (Cont.)
The Influence of Fed interventions on the DM-USD rate during New York Business Hours (cont.)

	7-8/92	4-11/94	3-8/95	Sep 00
	$ buy	$ buy	$ buy	$ sale
# interventions	5	5	6	1
Average size	$254	$700	$541.7	-$1340
Total Amount	$1270	$3500	$3250	-$1340
% correctly signed	40%	60%	33%	100%
% coordinated with Buba	80%	40%	66%	0%
4hr impact of Fed Intervention	-9.064	-2.588	-1.102	7.109
t-stat	-0.694	-0.776	-0.358	4.588
8hr impact of Fed intervention	-1.717	-1.058	-4.154	1.495
t-stat	-0.270	-0.261	-1.369	9.377
Persistence?	No	No	No	Yes
DM-USD before interventions	1.451	1.653	1.462	2.270
DM-USD after interventions	1.403	1.519	1.476	2.231

Notes: see Table 2.

Table 10 The Largest Daily Impact Fed Interventions on the Yen-USD, 1990-2002							
Fed's 3 Largest USD Strengthening Interventions				Fed's 3 Largest DM Strengthening Interventions			
Date	% increase dem-usd	Fed $ amt	Coordinated with G2?	Date	% decrease dem-usd	Fed $ amt	Coordinated with G2?
Aug 15 92	2.822%	$400	BOJ & BB	Jul 12 91	2.528%	-$100	BB
Jul 20 92	2.371%	$170	BB	Sep 22 00	1.993%	-$1340	BOJ
May 31 95	2.015%	$500	BOJ & BB	Mar 5 90	1.058%	-$50	BOJ & BB

Notes: mark-dollar returns are measured over a 24hour period, starting two hours before the Tokyo market opens and ending with the close of NY trading.

IV. Conclusions

Empirical evidence from the 1990s suggests that intervention can effectively influence exchange rates. The G3 central banks were less active interveners in the dollar market in the 1990s, and long run movements in the dollar exchange rate were less dramatic than had been the case in the 1980s, but intervention operations were nevertheless often effective. Dominguez and Frankel (1993b) challenged the conventional view that intervention could only be effective if combined with contemporaneous changes in money supply (or, in other words, only if interventions were unsterilized). That study concluded that foreign exchange intervention could continue to work, especially if it were "properly conceived and executed". More specifically we argued that intervention was least likely to be effective if it was inconsistent with either future monetary policy intentions or future exchange rate fundamentals. The interventions in the 1980s that had the largest and most sustained influence were the dollar sales in 1985 that helped bring down the relative value of the dollar which was viewed both at the time and with hindsight as massively overvalued. The closest analogy to 1985 in the 1990s was the appreciation of the yen in April 1995. The yen-dollar rate at 80 was widely thought to be inconsistent with fundamentals. As was the case a decade earlier, the BOJ and Fed intervention operations in this period eventually led to a rise in the yen-dollar rate, returning it to a more appropriate level.

Dominguez and Frankel (1993b) also made some specific recommendations regarding the execution of intervention policy. Interventions that were unanticipated, publicly announced, and coordinated were the most effective. Behavior of the G3 central banks since 1990 is largely consistent with these recommendations. Ito (2002) notes that Dr. Sakakibata, the Director General of the International Finance Bureau and the person in charge of intervention policy for Japan starting in June 1995, felt that the market had become too accustomed to BOJ interventions. Under his jurisdiction BOJ intervention policy became less predictable, less frequent, and daily intervention magnitudes increased. Fed interventions over this period were also larger, less frequent and

unpredicted. Although the size of the ECB interventions have not been made public, since 1999 the ECB has only intervened on four occasions, and financial reports suggest that these operations caught the market by surprise. In the 1970s and 1980s central banks rarely acknowledged their own intervention operations. This is no longer the case. The U.S. Treasury started to routinely release information to the press after Fed interventions in the mid-1990s. The BOJ is also much more forthcoming about its presence in the market after intervention operations have take place. The Ministry of Finance in Japan has gone so far as to publish its daily intervention data on its homepage on a quarterly basis. Central banks were also much more likely to coordinate intervention operations in the 1990s. Ninety four percent of all Fed interventions were coordinated in the full period, and all interventions after July 1992 were coordinated. The Bundesbank also coordinated all of its interventions after July 1992. The bulk of BOJ interventions in the 1990s continued to be unilateral, although some of the largest and most successful one-day operations were coordinated with the Fed.

This examination of the intervention operations by the G3 central banks in the 1990s suggests that even as financial markets became more globalized, and economic conditions across the countries diverged, interventions in the foreign exchange market continued to serve as a useful policy tool. Although there were plenty of intervention days when exchange rates either did not move, or even moved in the opposite direction from where central banks hoped they would, the longer-term movements in the dollar rates largely conformed to central bank objectives. The deeper questions of why and how the interventions operations in the 1990s influenced exchange rates remain for further study.

References

Beattie, N., Fillion, J., 1999. An Intraday Analysis of the Effectiveness of Foreign Exchange Intervention. Bank of Canada Working Paper 99-4.

Chang, Y., Taylor, S., 1998. Intraday Effects of Foreign Exchange Intervention by the Bank of Japan. Journal of International Money and Finance 18, 191-210.

Deutsche Bundesbank. Daily German Intervention Data 1990-1998. Frankfurt, Germany.

Dominguez, K., 1990 Market Responses to Coordinated Central Bank Intervention. Carnegie-Rochester Series on Public Policy, Vol 32, Spring.

Dominguez, K., 1992. The Informational Role of Official Foreign Exchange Intervention Operations: The Signalling Hypothesis, in: Dominguez, K., Exchange Rate Efficiency and the Behavior of International Asset Markets, chapter 2, Garland Publishing Company, N.Y., pp. 41-80.

Dominguez, K., 1997. The International Evidence: An Assessment of Experience with Foreign Exchange Intervention in the G3. In Exchange Rate and Monetary Policy, edited by P. Fenton and J. Murray, The Bank of Canadam Ottawa.

Dominguez, K., 1998. Central Bank Intervention and Exchange Rate Volatility. Journal of International Money and Finance 18, 161-190.

Dominguez, K., forthcoming. The Market Microstructure of Central Bank Intervention. Journal of International Economics.

Dominguez, K., Frankel, F., 1993a. Does Foreign Exchange Intervention Matter ? The Portfolio Effect. American Economic Review 83, 1356-69.

Dominguez, K., Frankel, F., 1993b. Does Foreign Exchange Intervention Work? Institute for International Economics, Washington, D.C.

Dominguez, K., Frankel, F., 1993c Foreign Exchange Intervention: An Empirical Analysis. In On Exchange Rates, edited by J. Frankel, MIT Press, Cambridge.

Edison, H., 1993 The Effectiveness of Central Bank Intervention: A Survey of the Literature after 1982, Special Papers in International Economics, no. 18 Princeton, N.J.: Princeton University.

Evans, M, Lyons, R., 2001. Portfolio Balance, Price Impact and Secret Intervention. National Bureau of Economic Research Working Paper 8356.

Fatum, R., Hutchison, M., 2002, Is Foreign Exchange Market Intervention and Alternative to Monetary Policy? Evidence from Japan. University of California, Santa Cruz Working Paper.

Fatum, R., Hutchison, M., 2002, Is Sterilized Foreign Exchange Intervention Effective After All? An Event Study Approach. Economic Journal, forthcoming.

Fatum, R., Hutchison, M., 2002, ECB Foreign Exchange Intervention and the Euro: Institutional Framework, News and Intervention. Open Economies Review 13: 413-425.

Federal Reserve Bank of New York, 1992. Administration of Relationships with Foreign Exchange Trading Counter-parties, February 28.

Fischer, A.M., Zurlinden, M., 1999. Exchange Rate Effects of Central Bank Interventions: An Analysis of Transaction Prices. Economic Journal 109, 662-676.

Funabashi, Y. 1988 Managing the Dollar: From the Plaza to the Louvre. Institute for International Economics, Washington, D.C.

Goodhart, C., Hesse, T., 1993. Central Bank Forex Intervention Assessed in Continuous Time. Journal of International Money and Finance 12, 368-389.

Henderson, D., 1984, Exchange Market Intervention Operations: Their Role in Financial Policy and Their Effects. In Exchange Rate Theory and Practice, eds. J. Bilson and R. Marston, pp. 359-98. NBER Conference Report, University of Chicago Press, Chicago.

Henning, C. R., 1994 Currencies and Politics in the United States, Germany and Japan. Institute for International Economics, Washington, D.C.

Humpage, O., 1999, U.S. Intervention: Assessing the Probability of Success. Journal of Money, Credit and Banking, vol31, No. 4, November, 731-747.

Ito, T., 2002, Is Foreign Exchange Intervention Effective?: The Japanese Experiences in the 1990s, mimeo.

Kenen, P.B., 1987 Exchange Rate Management: What Role for Intervention? American Economic Review, 77/ 2, 194-199.

Klein, M., Rosengren, E., 1991 Foreign Exchange Intervention as a Signal of Monetary Policy. New England Economic Review (May/June): 39-50.

Lewis, K., 1995 Are Foreign Exchange Intervention and Monetary Policy Related, and Does it Really Matter? Journal of Business 68/2, 185-214.

Lyons, R., 2001. The Microstructure Approach to Exchange Rates, MIT Press.

Meese, R.., Rogoff, K., 1983. Empirical Exchange Rate Models of the Seventies: Do They Fit Out of Sample? Journal of International Economics 14 (1-2), 3-24.

Ministry of Finance Japan, Daily Japanese Intervention Data, 1991-2002, Tokyo, Japan.

Montgomery, J., Popper, H., 2001. Information Sharing and Central Bank Intervention in the Foreign Exchange Market. Journal of International Economics (55) 2, 295-316.

Mussa, M., 1980. The Role of Official Intervention. Group of Thirty, New York, N.Y.
Naranjo, A., Nimalendran, M., 2000, Government Intervention and Adverse Selection Costs in Foreign Exchange Markets. Review of Financial Studies 13, 453-477.

Neely, C., 2000. The Practice of Central Bank Intervention: Looking Under the Hood. Central Banking Vol. XI, No.2, 24-37.

Neely, C., forthcoming, The Temporal Pattern of Trading Rule Returns and Central Bank Intervention: Intervention Does Not Generate Technical Trading Rule Profits. Journal of International Economics.

Obstfeld, M., 1990 The Effectiveness of Foreign-Exchange Intervention: Recent Experience: 1985-1988. In International Policy Coordination and Exchange Rate Fluctuations, eds. W. Branson, J. Frenkel and M. Goldstein, pp. 197-237. NBER Conference Report, University of Chicago Press.

Payne, R., Vitale, P., forthcoming. A Transaction Level Study of the Effects of Central Bank Intervention on Exchange Rates. Journal of International Economics.

Peiers, B., 1997. Informed Traders, Intervention and Price Leadership: A Deeper View of the Microstructure of the Foreign Exchange Market. Journal of Finance 52(4), 1589-1614.

Ramaswamy, R., Hossein, S., 2000 The Yen-Dollar Rate: Have Interventions Mattered? IMF Working Paper, WP/00/95, International Monetary Fund.

Sarno, L., Taylor, M., 2001 Official Intervention in the Foreign Exchange Market: Is it Effective and, If So, How Does it Work? Journal of Economic Literature, vol. XXXIX, September, 839-868.

Treasury and Federal Reserve Foreign Exchange Operations, New York Federal Reserve Quarterly Review, various issues.

The Limits of Exchange Market Intervention

Edwin M. Truman
Senior Fellow
Institute for International Economics

The Dollar

Conference
At the
Institute for International Economics
Washington, DC
September 24, 2002

Introduction

On April 29, 1983 the Summit Finance Ministers, Central Bank Governors, and Representatives of the European Community (1983) issued a Statement on the Intervention Study, which had been commissioned at the Versailles Economic Summit in June 1982. The final paragraph read:

> Under present circumstances, the role of intervention can only be limited. Intervention can be useful to counter disorderly market conditions and to reduce short-term volatility. Intervention may also on occasion express an attitude toward exchange markets. Intervention normally will be useful only when complementing and supporting other policies. We are agreed on the need for closer consultations on policies and market conditions; and, while retaining our freedom to operate independently, are willing to undertake coordinated intervention in instances where it is agreed that such interventions would be helpful.

I would submit that finance ministry and central bank attitudes in the major industrial countries toward sterilized exchange market intervention have not changed substantially in the intervening twenty years. If anything, officials have become more skeptical about the usefulness of the instrument. They are more reluctant to intervene to counter disorderly market conditions or reduce volatility that is short-term in nature.[1]

---

[1] The Japanese authorities are the least reluctant, and MOF officials are the most likely to be quoted expressing concern about short-term volatility, leading to more frequent intervention operations. However,

They are prepared to express an attitude toward exchange market developments when their "close consultations" lead them to a consensus. If they can agree that coordinated intervention would be helpful, they are willing to do so. However, they continue to think intervention is not a separate instrument of policy and normally will only be effective when it is seen to be complementing and supported by other policies. Those are demanding conditions!

As a U.S. central bank official, I spent much of my career leaning against the current U.S. official fashion with respect to the effectiveness of foreign exchange market intervention. Because during much of that period, including the early 1980s, U.S. official fashion was anti-intervention, I was involved in efforts to demonstrate the effectiveness of the instrument, including service as the Federal Reserve's representative on the Working Group on Exchange Market Intervention that was chaired by Philippe Jurgensen (1983) (Jurgensen Report). During other periods, such as the late 1970s when U.S. Treasury officials felt that the inflation problem in the U.S. economy did not require tighter U.S. monetary policy and could be successfully addressed by exchange market intervention or the late 1980s when the U.S. authorities intervened in exchange markets heavily, including on 97 days in 1989, with little or no effect, I leaned equally heavily to the other side of the ongoing debate.

The evidence on the short-run effectiveness of exchange market intervention is sufficient in my view to support the judicious use of intervention by the United States as a supplementary policy instrument as long as it generally is used in manner consistent with other economic policies, but that same evidence falls substantially short of demonstrating that intervention is a separate policy instrument that can be used to manage exchange rates with any lasting effect, in particular, in disregard of the settings of other instruments of macroeconomic policy. The limits of intervention are to be found, therefore, in its limited effectiveness and in the demanding conditions under which the probability of that effectiveness is likely to be enhanced: consistency with fundamental economic policies, avoidance of collateral damage, and the need for international consensus to support coordinated intervention.

The remainder of this note is divided into two parts. The first addresses the technical question of the effectiveness of exchange market intervention by the major industrial countries. The second addresses policy considerations from a U.S. or national perspective and from an international perspective.

I. The Effectiveness of Intervention

The literature on the effectiveness of exchange market intervention has blossomed since the early 1980s, aided in large part by the studies that were produced at the Federal

---

as detailed by Ito (2002), since the mid-1990s the Japanese approach has changed substantially away from repeated operations day after day toward larger, tactical operations.

Reserve and elsewhere as background for the Jurgensen Report.[2] Neither the research that was done as background for the Jurgensen Report nor any of the subsequent research conforms to the characterization found in Kathryn Dominguez (2002) that the conventional view as of the early 1990s was that "intervention could only be effective if combined with contemporaneous changes in money supply (or, in other words, only if interventions were unsterilized)." Sterilized intervention never has been dead as a policy instrument even for the major economies with large open capital markets; the issue always has been how effective it is and to what extent it can be relied upon as an instrument of policy.

Research on the effectiveness of intervention has been aided by the gradual relaxation of prohibitions on access to intervention data, but the availability of those data has proven to be less helpful in resolving the basic issues surrounding the effectiveness of intervention than many had hoped. One reason is the lack of a robust model explaining exchange rate determination.

Kathryn M. Dominguez working alone (1987) and also collaborating with Jeffrey A. Frankel (1993) has been one of the major contributors to this literature. Her most recent paper (Dominguez 2002) continues in that tradition. Dominguez uses statistical analysis to examine intervention episodes that are as short as a single day and as long a several years. In the former episodes, she embeds the day of intervention in a month's worth of data to derive her results. Dominguez's research on G3 intervention in the 1990s finds that intervention by G3 monetary authorities is effective only in the sense of moving the exchange rate in the intended direction at most half the time and only in the very short run, i.e., periods ranging from four hours to 48 hours. She presents no evidence that intervention is either always effective or that it has any long-lasting effects. The basic message is that sometimes intervention appears to have an effect on exchange rates, but long-term or lasting effects are unproven, and the effects over any time horizon are imprecise and unpredictable.

Conclusions from surveys of the intervention literature range from sympathetic to skeptical. Among the more sympathetic surveys are Lucio Sarno and Mark P. Taylor (2001) and Michael M. Hutchison (2002). Sarno and Taylor conclude, "Overall, the evidence on the effectiveness of official intervention, through either the portfolio balance channel or the signaling channel, is still mixed on balance, although the more recent literature does suggest a significant effect of official intervention on both the level and the change of exchange rates." (Sarno and Taylor 2001, 862) Dominguez (2002) concludes based on her study of the 1990s that "intervention policy is alive and well." This is a somewhat surprising statement in light of the paucity of G3 intervention since 1995; even the Japanese have sharply cut back on the frequency of their operations.[3]

---

[2] For a summary of the ten studies produced primarily at the Federal Reserve see Dale W. Henderson and Stephanie Sampson (1983).

[3] Since February 1996 (and through June of 2002), the Japanese authorities operated on only 39 days or about once every other month. In contrast, the Japanese operated 179 days from the start of 1991 through February 1996 or about three days every month on average. Since August 1995, over the subsequent seven years, the U.S. authorities have operated on only two days and the European (Bundesbank or ECB) on only four days.

Much of the recent evidence on the effectiveness of intervention has been based on so-called "event studies" or "case studies." The former are more statistically sophisticated than the latter, and in practice either approach often involves the application of a range of statistical techniques, but the more they resemble event studies, narrowly defined, the more likely it is that they discard a good deal of the context found in broader descriptive case studies. See for example, Rasmus Fatum (2000), Hutchison (2002), Takatoshi Ito (2002), and Pietro Catte, Giampaolo Galli and Salvatore Rebecchini (1994).

Hutchison (2002) concludes, "Empirical work based on event study methodologies is much more supportive of the effectiveness of sterilized intervention than most work based on time-series methodologies." His policy conclusion is that there is "a limited role for sterilized intervention and that it should play a role in short-run stabilization policy." Similarly, Fatum (2000, 18) concludes in his study of U.S. and German intervention, "The results clearly suggested that intervention is indeed effective in terms of influencing the evolution of exchange rates over the short-run, thereby questioning the view that sterilized intervention is central bank force of habit rather than rational policy conduct." However, he immediately qualifies his conclusion, "The potency of sterilized intervention on its own should not be exaggerated. Although potentially effective in the short run, sterilized intervention is unlikely to have lasting effects on its own."

The case study and event study literature is not without its critics. One of the most trenchant criticisms is that the selection of events is biased in the direction of a finding of success because in many cases the authorities clearly continued to operate over many days until they could declare victory, but the evidence that such victories were associated the intervention, as opposed to the other market forces just exhausting themselves, is questionable.[4]

Edison (1998) conducts a careful study of U.S. intervention in support of the dollar through sales of Deutsche mark (DM) and yen from 1993 to 1995 using an event study methodology. However, in her study, the length of the events was limited to a few days at most. With respect to the DM, in eight episodes she finds that three were complete failures; they neither reversed the movement of the currency of the previous day nor reversed it after a month. Two were definite successes, in that they were associated with favorable movements on the day of the intervention as well as on over the next month. Two episodes involved only short-run success and one involved only longer-run success. With respect to the yen out of 14 episodes, five were failures, five were definite successes, one was a short-run success and three were longer-run successes.

Edison also reexamines the Catte et al. episodes for the period January 1985 to March 1991. Their episodes generally involved long periods of intervention. She examined the data on an objective, statistical basis in terms of the results over the month following the end of the operation in place of the subjective judgments by Catte et al.

---

[4] One of the first such studies is that by Catte et al. (1994), which I criticized on these grounds when it was first presented (Truman 1994).

She finds success in about a third of the episodes, failure in about a third, and temporary success in about a third.[5] Edison (1998) reaches a conclusion that is similar to hers in Edison (1993), "it is possible to show that intervention can have short-lived effects. Thus, this explains why central bankers might want to keep intervention in their toolkit. However, it remains to be shown that intervention can have a long-lasting, quantitatively significant, effect."

One of the principal drawbacks of the case or event study approach is that the studies are not based on structural models and, therefore, can shed no light on the channels through which intervention may be effective. Sarno and Taylor (2001) suggest that we should expand the list of channels beyond the traditional portfolio balance channel, for which there is limited support to date and which may, in any case, be losing relevance for the major currencies, and the signaling channel, for which there is greater support, to include what they call a "coordination channel" aimed at overcoming a coordination failure in the market when almost all participants know that an exchange rate has gone too far, but no individual actor has the power/resources to buck the trend.[6] They motivate their discussion of the coordination channel by an appeal to the literature on second-generation speculative attacks and the avoidance of a bad equilibrium.

For the policy maker, it is a disappointment that the portfolio balance channel has not been supported by the empirical studies; the supply-and-demand framework of the portfolio balance model is inherently appealing when thinking about intervention operations. The signaling channel, on the other hand, is problematic for the policy maker because if it is a signal about future policy, in the absence of that policy, the intervention should lose its effectiveness, and in the presence of that policy, it is the policy not the intervention that has been effective.

In a significant number of the important episodes of intervention, the crux of the issue is the nature of the signal. For example, in the 1992 phase of the ERM crisis, the United States sold DM in July and August to signal that the United States was not practicing benign neglect toward the dollar's weakness, but the intention was definitely not to signal that the Federal Reserve's trend of easing interest rates was about to be reversed. For the European participants in this drama, the central issue was the signal conveyed by their massive intervention operations about their economic policies, in particular monetary policy, but also other policies, and whether those policies were going to be addressed solely at defending existing exchange rate pegs or were going to be addressed at the needs of the underlying economy. (See Truman 2002.)

The attraction of the coordination channel for the effectiveness of intervention is that it focuses on market dynamics without implicating policy. One reason for the

---

[5] Temporary success occurs when the post-intervention exchange rate move is in the intended direction, but the next intervention episode is in the same direction.

[6] The Jurgensen Report put forward 14 possible, not mutually exclusive objectives of intervention. It also discussed sending a signal to the market (paragraph 25) – the coordination channel – and (paragraph 66) the "demonstration effect" of intervention influencing "expectations about future underlying economic conditions or policies" – the signaling channel. The signaling channel also has been associated with Michael Mussa (1981).

apparent effectiveness of intervention that is implemented within such a conceptual framework is that by its nature it is designed to catch the market off guard, forcing short-term traders to absorb losses as they close their open positions and, at least for a period of a few hours, contributing to a market dynamic that differs from one that may have prevailed over the previous days, weeks or months. Market participants may be led to "think" about whether the rate has moved "too far."

Two implications flow from the conceptual framework of a coordinating channel. First, intervention operations that are repeated or reactive are not likely to be effective. The authorities have a few chances, perhaps, extending over a period of at most a few days, to make their point and alter market psychology. If they are not successful, they risk becoming victims of the "tar-baby syndrome,"[7] seeking to extricate themselves from the market without admitting to failure. As a consequence, operations have become larger to ensure that some damage is inflicted on the traders' positions, and they have become more infrequent. Some call the approach guerrilla tactics.

The second implication of the conceptual framework of a coordination channel is that the authorities have been induced to abandon strategies that seek regularly to counter disorderly market conditions, i.e., they no longer try to smooth day-to-day fluctuations in rates, while remaining free to deal with disorder that might be associated with isolated events like the failure of a large financial institution or a political shock. Furthermore, to the extent that intervention is directed at defending a soft or hard exchange rate band, it must rely on another framework for its effectiveness – the portfolio balance or policy signaling channels – because sporadic operations can not be counted upon to have long-term effects and repeated operations face diminishing returns. On the other hand, to the extent that intervention is a policy tool that is used in the context of a loose notion about the rate that is consistent with long-term economic and financial trends, it would be compatible with a framework for exchange market intervention that relied on the coordination channel and sporadic operations for its effects.

To summarize, my reading of both the economics literature on the effectiveness of intervention and my assessment of the actual use of the instrument by G3 authorities in recent years is essentially the same as it was a decade ago (Truman 1994, 249): the evidence is sufficient "to support the continued judicious use of intervention as a supplementary policy instrument." Even Sarno and Taylor (2001,862), who as noted earlier are in the camp of those positive about intervention's effectiveness, state that the studies "allow us to conclude cautiously that official intervention can be effective, especially if it is publicly announced and concerted and provided that it is consistent with the underlying stance of monetary policy." Two aspects of this statement deserve emphasis: First, they conclude that intervention "can" be effective, which is not the same as saying it is always effective. Second, they lay down three conditions in which it is more likely to be effective: public announcement, multilateral engagement, and policy consistency. While public announcement is simple and now common practice among the G3 authorities, the other two conditions are more demanding and are discussed further in

[7] This term was often used by Sam Y. Cross, a former U.S. Treasury official, who was Manager of Foreign Operations for the Federal Reserve System Open Market Account from the early 1980s through 1991.

the second part of this note. Reaching international agreement that now is the time to operate in the foreign exchange market is a tedious process, in part, because the interests of the two or more sets of authorities may differ and, in part, because their views may differ on the effectiveness of the instrument and the costs of its overuse. Moreover, frequently there is a lack of consensus that an intervention operation would be consistent with underlying macroeconomic policies. One consequence is that attempts to establish guidelines for G3 intervention operations such as in the 1987 Louvre Accord are destined to fail within a few days or weeks as soon as conditions and attitudes change to destroy the consensus.

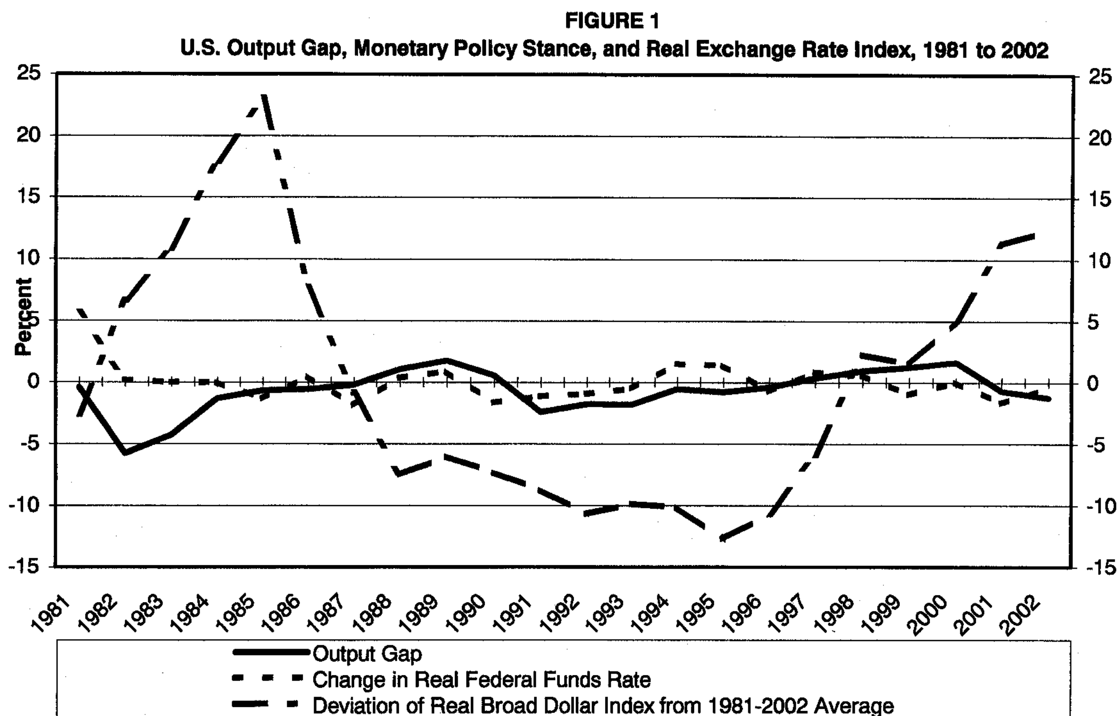
II. Exchange Market Intervention: Policy Considerations

From a U.S. or national perspective, the overriding objective of macroeconomic policies is to achieve maximum sustainable non-inflationary growth. In this context, the foreign exchange value of the dollar and the U.S. current account or international investment position are endogenous variables. The dollar and the flow or stock U.S. external position are not policy objectives. Policy makers, reflecting the views of the general public, may have preferences about the allocation of fully employed resources between sectors producing traded (manufactured) goods and services and sectors producing non-traded (primarily non-manufactured) goods and services. They also may have concerns about the sustainability of the U.S. current account or international investment position. However, they lack an instrument independent of the settings of monetary and fiscal policies to achieve the desired allocation of production across sectors or to alter the external accounts.

Policy makers, of course, do take account of actual and potential developments in exchange rates and external accounts when making policy and balancing risks. For example, they try to anticipate the effects of exchange rate depreciation on the real economy and thereby on inflation, they try to anticipate that exchange rate appreciation tends to dampen the real economy, and they generally are alert to the possibility that an unsustainable position in the external accounts will eventually be corrected. That amounts to good analysis, but it is not the same thing as directing economic policy at an exchange rate target or at the current account.

Under some circumstances, economic conditions and the orientation of monetary and fiscal policy may be consistent with the judicious use of exchange market intervention in an effort to influence exchange market behavior in a manner that supports those objectives. However, conflicts are common.

Figure 1 depicts annual data from 1981 to 2002 for the U.S. output gap (a summary measure of the condition of the domestic economy), the stance of U.S. monetary policy (indexed by the change in the real federal funds rate), and the foreign exchange value of the dollar (as measured by the broad real exchange rate index developed by the staff of the Federal Reserve Board). The figure illustrates several points.



Sources: Output Gap: OECD Economic Outlook No.65, 67 and 71; Real Broad Dollar Index: Federal Reserve Board Statistics; Inflation Data (to compute real Federal Funds Rate): Bureau of Labor Statistics.

First, even using these crude indicators, in two thirds (14 of the 22) of the years the stance of monetary policy was consistent with the needs of the macro economy; the direction of monetary policy was toward ease when the output gap was negative and vice versa.[8] (See Figure 2.)

Second, in half the years, the stance of monetary policy was inconsistent with bringing the foreign exchange value of the dollar back toward its average value for the entire period, which is presented as a reasonable norm, on the assumption that easier policy would tend to depreciate the dollar and vice versa. In other words, in half the years (11 of 22), there was a potential conflict between the use of intervention to influence the dollar's value and the stance of monetary policy.[9] Restricting attention to the 14 years when the stance of policy was clearly consistent with the needs of the macro economy, in

[8] The eight years where this relationship did not hold are three years in the early 1980s (1981-83) when monetary policy continued to tighten in order to stamp out the high inflation and attendant inflation expectations of the late 1970s and the economy experienced two recessions, 1986 and 1990 when the measure of the stance of monetary policy is distorted by the impact of oil prices (lower in 1986 and higher in 1990) on the consumer price index that is used to deflate the federal funds rate, 1994 and 1995 when the Federal Reserve took preemptive action to tighten monetary policy when the output gap (as measured) was still negative, and 1999 when monetary policy was eased when global financial conditions tightened in the wake of the Russian default although the output gap suggested that the policy should be tightened.

[9] If leaning against changes in the real broad dollar index from the previous year is used as an indicator of the direction that monetary policy should move, again half the years were conflict situations, though, of course, the years are not all the same.

half the years, again, there was a potential conflict between the use of intervention and the stance of monetary policy: 1987, 1991, 1992, 1993, 1996, 1998, and 2000. In the last two years, monetary policy was tightening when the dollar was above the average for the period; in the other five years, monetary policy was easing when the dollar was below the average.[10]

FIGURE 2
Consistency of U.S. Monetary Policy With the Needs of the Real Economy and the Real Exchange Rate Index

Monetary policy consistent with moving exchange rate index toward average / Monetary policy consistent with needs of real economy	Yes	No
Yes	1984 1997 1985 2001 1988 2002 1989	1987 1996 1991 1998 1992 2000 1993
No	1981 1994 1995 1999	1982 1983* 1986 1990

*Monetary policy unchanged.

U.S Monetary Policy: Change in Real Federal Funds Rate
Needs of Real Economy: Sign of Output Gap
Exchange Rate: Deviation of Real Broad Dollar Index from 1981-2002 Average (Federal Reserve)

Third, in six of the seven years in which there was a potential conflict between the use of exchange market intervention to move the dollar toward its average value and the stance of monetary policy, the U.S. monetary authorities did operate in the exchange market. The exception was 1996. In five of those six years, the direction of the operation was consistent with trying to move the dollar toward the average. The sixth year was 1991 when the dollar was below the average and the U.S. authorities sold dollars against yen and both bought and sold dollars against DM; total dollar purchases did exceed total dollar sales.

[10] For 11 years in which the stance of monetary policy was inconsistent with moving the dollar back toward the average for the period, in six years policy was easing when the dollar was below the average, in four years policy was tightening when the dollar was above the average, and in one year policy was unchanged when the dollar was below the average.

Excluding 1991, a judgmental assessment of the success or failure of U.S. foreign exchange market operations in the remaining five years suggests that they failed in their objectives in 1987 (when the dollar continued to fall despite the Louvre Accord) and 1992 (when the dollar also continued to fall). In 1992, the dollar was caught for much of the year in the backwash of the unfolding events of the first year of the 1992-93 ERM crisis. That year also posed the most severe conflict between the needs of the domestic economy and the associated stance of monetary policy and the dollar's external value; the negative output gap was 175 basis points, the real funds rate was reduced by 92 basis points, and the dollar was more than 10 percentage points below its average for the period as a whole.

In 1993, 1998 and 2000, results of U.S. intervention operations were mixed. In 1993, the dollar rose based on the broad index of the dollar's value in real terms, and also rose against the DM, but the dollar fell against the yen. In 1998 and 2000, in which there were one-day U.S. intervention operations, buying yen in June 1998 and buying euro in September 2000, the intervention apparently produced the desired short-run effect of temporarily weakening the dollar against those two currencies, but in both years the dollar later appreciated further against these currencies and appreciated on average for the year in terms of the broad index of its real value.

As is generally the case in this area, different observers may choose to interpret differently the evidence just presented. I conclude that it points to the limits of exchange market intervention when it is inconsistent with underlying policies and to the consequent risk of failure that would further discredit the use of the instrument.

The risks associated with exchange market intervention are not limited, however, to the risk of failure. Aside from the possibility of failure, four possible risks can be identified. First is <u>distraction risk</u> – intervention may distract the authorities from the use of other policies to address the fundamental problems of the economy. For example in 1978-79, following the failed attempt of the Carter administration to devalue the dollar to restore economic prosperity to the U.S. economy, exchange market intervention was used heavily as an alternative to tightening monetary policy in the face of rising inflation. As I commented to the FOMC during its 1990 discussion of U.S. foreign exchange operations, "Treasury officials [in 1989 and 1990] certainly are on the side that say intervention is and has been and should be – certainly should be – effective. . . . They were in exactly the same situation in the 1978-79 period." (Board of Governors of the Federal Reserve System 1990, 66) The delay in 1978-79 caused by the distraction of exchange market intervention in trying unsuccessfully to deal with the symptoms of a weak dollar led to the highest rate of U.S. inflation recorded in the post World War II period and to the need to adopt draconian measures to bring inflation under control which were, in turn, associated with one of the deepest recessions of the postwar period.

Second is <u>signal</u> risk – intervention may send the wrong signal about policy. That was the case in 1989-90 when U.S. monetary policy was tightening and the U.S. intervention operations were oriented toward weakening the dollar. This was a period of conflict between the Federal Reserve and the U.S. Treasury over intervention operations.

The Federal Open Market Committee (FOMC) held an extended discussion of the Federal Reserve's involvement in U.S. intervention operations on the basis of a report from a staff "Task Force on System Foreign Exchange Operations" and against the background of U.S. intervention operations in 1989 on a record 97 days designed to weaken the dollar, or resist its strengthening, at a time when the Federal Reserve was tightening policy. Manley Johnson succinctly summarized the policy conflict, "If I were a market participant and I were sitting out there seeing the Federal Reserve talking about price stability and yet selling massive amounts of dollars, I think eventually I'd decide that was a joke as a policy." (Board of Governors of the Federal Reserve System 1999, 55) Gerald Corrigan echoed Johnson's concerns, "As I see it, the biggest danger with intervention – whether or not it's done by the Federal Reserve or the Treasury or both – is the danger that it can ultimately co-opt monetary policy." (Board of Governors of the Federal Reserve System 1999, 58)

Third is <u>exacerbation risk</u> – intervention, if it is successful, may exacerbate problems in the domestic economy. For example if foreign exchange market intervention had been used extensively in 1999 to lower the foreign exchange value of the dollar when the economy was already booming and the output gap was positive and that intervention had been successful in reducing the dollar's value substantially, the domestic economy could have suffered extensive damage.

The simulations presented by Martin Baily (2002) illustrate this point. If the dollar somehow had been held constant at its 1991 level during the 1990s, the trade deficit would have been substantially reduced in the late 1990s, but consumption would have been lower, investment would have been lower, inflation would have been higher (even under the assumption that the Federal Reserve would have reacted to the higher growth and inflation), and growth in 2000 and 2001 would have been significantly reduced. It is worth noting that if the Federal Reserve had eased monetary policy in order to reduce the attractiveness of the dollar in the late 1990s, there is now in retrospect a hot debate whether the actual easing of Federal Reserve policy in 1998 that carried over into 1999 and produced a reduction in the real federal funds rate of almost one percentage point on average in 1999 was not a mistake because it allowed the stock market bubble to persist for another year and subsequently damaged the economy.

Fourth is <u>success risk</u> – intervention may be too successful. In 2000, for example, the U.S. economy appeared to be operating above potential and monetary policy had shifted toward restraint, although, based on the indicator shown in Figure 1, the shift amounted to only a few basis points because much of the rise in the nominal federal funds rate was offset by a rise in consumer prices in part associated with higher petroleum prices caused by tight conditions in global oil markets because of rising demand. The risk, as perceived by some policy makers at the time, was that the U.S. economy would slow down, equity markets would collapse, and the foreign exchange value of the dollar would reverse sharply its levitation of the late 1990s. Successful exchange market intervention might have precipitated precisely the scenario that policy makers wanted to avoid, broad-based turbulence in a wide range of financial markets.

Thus, from a national policy perspective, there may be occasions, such as June 1998 and September 2000 when judicious use of foreign exchange market intervention may both be effective even if not fully consistent with the stance of U.S. macroeconomic policies, but those occasions are not likely to be frequent and each involves a number of potential risks.

Bringing in the international perspective, policy considerations surrounding exchange market intervention are even more complex because all the considerations that have just been outlined from a national perspective are replicated in one or more economies elsewhere in the world. These considerations are relevant because exchange rates are two sided, by definition, and because of the general perception that coordinated operations have a greater chance of being effective.

Even if the U.S. authorities reach a judgment that the balance is tilted in the direction of operating in exchange markets, views elsewhere may differ. Authorities in other countries have differences in view about the effectiveness of intervention. Views in other countries may also differ because of different economic circumstances; for example, today neither the Japanese nor the European authorities are anxious to see their currencies appreciate because that would be inconsistent with the needs of their domestic economies. Finally, views in other countries may differ on the appropriateness of intervention given the risks of collateral damage as outlined above.

As in the United States, reaching a favorable judgment in other economies that foreign exchange market intervention is appropriate usually involves alignment of the views in the finance ministry and those in the central bank. It may be that one or the other institution has the final say or that one or the other institution is very much a junior partner in such operations, but rarely does intervention occur on any substantial scale over the active opposition of one of the two institutions.[11]

In addition to these policy and institutional considerations, coordinated exchange market intervention often involves a host of technical and tactical considerations. Given how rare intervention is these days, time is required to conduct the necessary consultations to crank up the machinery. Tactical considerations include such matters as agreeing on what is to be said before, during and after the operation. Moreover, it is often important to some participants, as it was to the United States in 1998 and 2000, that it be known who initiated any coordinated foreign exchange market operation.

[11] Each of the G3 economies operates under different institutional arrangements. In the United States, both the U.S. Treasury and the Federal Reserve have independent legal authority to operate in the foreign exchange market, and they normally act jointly for their separate accounts, unless one or the other party does not agree, which occasionally occurs. In Japan the intervention decisions are made by the Ministry of Finance, which also holds the bulk of Japan's foreign exchange reserves. In Germany, the Bundesbank made intervention decisions. With the birth of the euro, the European Central Bank makes the tactical decisions, but the euro area finance ministries are involved in strategic decisions. In this context, it is somewhat unfortunate that Dominguez (2002) follows the normal convention of associating intervention with the central bank conducting the operation rather than the monetary authorities (central bank or finance ministry) that makes the decision.

Conclusion

Exchange market intervention has definite limits as a policy instrument. Its effectiveness is uncertain and imprecise, and therefore it is at best a blunt or a blunted instrument. It is advisable that it be used as a supplement to and consistent with fundamental economic policies. Experience of the United States over the past twenty years suggests that roughly half the time the potential use of intervention would be in conflict with those policies. The possibility of collateral damage further limits the scope to use the instrument. Finally, it is a challenge to align official attitudes about foreign exchange operations in other countries with the prevailing attitude in the United States because views about these issues, in light of their own experience and circumstances, necessarily differ.

Where does this leave intervention as a policy tool? First, intervention is not a separate instrument of policy that can be used regardless of the stance of other economic and financial policies; it is not effective in achieving discrete adjustments in exchange rates, moving them from one level to another and holding them there. Second, intervention is not an available instrument to manage G3 exchange rates within target zones or to fine tune exchange rate movements.

Foreign exchange market intervention is analogous to a drug that has not received, and is not likely to receive, FDA approval for general use. We know it works sometimes, but we do not know why it works. We also know it can have negative side effects, for example, adding generally to financial market turbulence or distracting the authorities from focusing on economic fundamentals. The consequences of the use of the instrument are decidedly imprecise. As result it is dangerous to prescribe the use of the instrument except in extreme situations, and it is certainly not recommended for every day use. This suggests that the instrument should be used sparingly and cannot be counted upon to address satisfactorily actual or perceived misalignments of exchange rates.

It follows that it is appropriate to be modest in any claims about the effectiveness of exchange market intervention. For example, when addressing the legitimate concerns of U.S. manufacturing industries, it is fraudulent and irresponsible to claim that exchange market intervention can be used with any confidence or precision to improve their competitiveness, in particular, without requiring any other complementary policy adjustments, for example, increases in interest rates or strengthening of fiscal positions, in particular, when the economy is at or near full employment.

On the other hand, in the context of a broad consensus that the dollar is misaligned, if such a consensus is shared by the other G3 authorities, and under conditions in which the principal (monetary and fiscal) instruments of macroeconomic policy are pointed in a consistent direction in all three economies, it is reasonable to consider coordinated intervention operations. I submit that those conditions do not prevail today. The G3 authorities have not reached a consensus that the dollar is

seriously misaligned. U.S. monetary policy may be consistent with a weaker dollar, but U.S. fiscal policy is not because of the renewed prospect of ever widening fiscal deficits.

References

Baily, Martin Neil. 2002. "Persistent Dollar Swings and the U.S. Economy." Paper presented at Institute for International Economics Conference on The Dollar (September 24).

Board of Governors of the Federal Reserve System. 1990. *Transcript of Meeting of the Federal Open Market Committee: March 27, 1990.* Washington, DC: Board of Governors of the Federal Reserve System.

Catte, Pietro, Giampaolo Galli and Salvatore Rebecchini. 1994. "Concerted Interventions and the Dollar: an Analysis of Daily Data." In *The International Monetary System*, eds. Peter B. Kenen, Francesco Papdia and Fabrizio Saccomanni. Cambridge, England: Cambridge University Press.

Dominguez, Kathryn M. 1987. "Exchange Rate Efficiency and the Behavior of International Asset Markets." Yale University, PhD. Dissertation.

Dominquez, Kathryn M. 2002. "Foreign Exchange Market Intervention: Did it Work in the 1990s?" Paper presented at Institute for International Economics Conference on The Dollar (September 16 draft).

Dominguez, Kathryn M. and Jeffrey A. Frankel. 1993. *Does Foreign Exchange Market Intervention Work?* Washington, DC: Institute for International Economics.

Edison, Hali J. 1993. *The Effectiveness of Central Bank Intervention: A Survey of the Literature after 1982.* Special Papers in International Economics 18 (July). Princeton, NJ: Princeton University, International Finance Section.

Edison, Hali J. 1998. "On Foreign Exchange Intervention: An Assessment of the U.S. Experience." Washington, DC: Board of Governors of the Federal Reserve System (February).

Fatum, Rasmus. 2000. *On the Effectiveness of Sterilized Foreign Exchange Market Intervention.* ECB Working Paper 10. Frankfurt, Germany: European Central Bank. Forthcoming in *Canadian Journal of Economics.*

Henderson, Dale W. and Stephanie Sampson. 1983. "Intervention in Foreign Exchange Markets: A Summary of Ten Staff Studies." *Federal Reserve Bulletin* 69 (November): 830-836.

Hutchison, Michael M. 2002. "The Role of Sterilized Intervention in Exchange Rate Stabilization Policy." University of California, Santa Cruz (June).

Ito, Takatoshi. 2002. *Is Foreign Exchange Intervention Effective?: The Japanese Experiences in the 1990s.* NBER Working Paper 8914. Cambridge, MA: National

Bureau of Economic Research. Forthcoming in Paul Mizen (ed.) *Monetary History, Exchange Rates and Financial Markets: Essays in Honour of Charles Goodhart.* Cheltenham, UK: Edward Elgar.

Jurgensen, Philippe. 1983. *Report of the Working Group on Exchange Market Intervention.* Washington, DC: U.S. Department of the Treasury (March), processed.

Mussa, Michael. 1981. *The Role of Official Intervention.* New York, NY: Group of Thirty.

Obstfeld, Maurice. 1995. "International Currency Experience: New Lessons and Lessons Relearned." *Brookings Papers on Economic Activity*: 119-220.

Sarno, Lucio and Mark P. Taylor. 2001. "Official Intervention in the Foreign Exchange Market: Is It Effective and, If So, How Does It Work?" *Journal of Economic Literature* 39 (September): 839-868.

Summit Finance Ministers, Central Bank Governors, and Representatives of the European Community. 1983. "Statement on the Intervention Study." (April 29).

Truman, Edwin M. 1994. "Comment on Concerted Interventions and the Dollar: an Analysis of Daily Data" by Pietro Catte, Giampoalo Galli and Salvatore Rebecchini. In *The International Monetary System*, eds. Peter B. Kenen, Francesco Papdia and Fabrizio Saccomanni. Cambridge, England: Cambridge University Press.

Truman, Edwin M. 2002. "Economic Policy and Exchange Rate Regimes: What Have We Learned in the Ten Years Since Black Wednesday?" Washington, DC: Institute for International Economics (September).

Bowen concluded his editorial by praising the efforts made by Kerry and McCain in promoting bilateral ties, particularly in preventing the bill from being passed.

The bill was passed by the US's House of Representatives last September, along with the bilateral trade agreement between the US and Vietnam. It requires humanitarian, educational or business groups working in Vietnam to submit an annual report on human rights progress in Vietnam, or lose US federal government support. The Vietnamese Government has protested the US decision to tie the "so-called" human rights bill to the trade bill.

The two countries' trade turnover reached $1.5 billion in 2001. (The People Aug 29 p8, People's Army Aug 29 p4, Labor Aug 29 p7)

Labor & Education:
HCM City: Services, Trade Sectors Lure Most Workers in Jan-Jul

Around 87,910 workers in Ho Chi Minh City found employment in the trade and services fields in the first seven months of this year, accounting for 63% of new jobs created in the period.

Another 8,370 workers went to agriculture and 43,300 to industry, helping to realize 70% of this year's job creation targets.

Foreign trade, finance, accounting and business administration are were the fields attracting the largest numbers of employees in the period. According to job placement centers, the demand for engineers in mechanics, food processing, micro-organism chemistry and information technology, and skilled mechanics workers, welders and fitters are also on the rise.

By contrast, garment and footwear production fields found it difficult to recruit workers due to harmful working conditions, poor welfare and extra-hours. They report demand of around 40,000 workers per annum, including 18-20% for leaving ones.

The period also saw some 18,424 laborers quitting

their jobs, accounting for 3% of the city's workforce, Vice Head of the local Service of Labor, Invalids and Social Affairs Nguyen Kim Ly said.

In the remaining months of the year, the city requires an additional 62,400 laborers, of whom 12,000 will go to agriculture, 32,700 to industry and 18,000 to services and trade.

The employment structure next year is forecast to include around 10% of university and college students, more than 52.5% of trained workers and 37.5% of manual laborers. However, the labor supply in the city will continue to be disproportionate and there will be no jobs for around 25.5% of graduates from universities, colleges and manual workers, despite a shortage of some 25.5% of skilled workers and technicians. (Laborer Aug 27 p11)

Health & Environment:
Dissolving Nylon Made for Agri-Forestry

Scientists from the Polymer Center under the Hanoi University of Technology have successfully produced dissolving nylon bags for cultivating seedlings, helping to reduce environmental pollution caused by nylon waste in agri-forestry fields.

Dr Pham Ngoc Lan, the bag's creator, said that this kind of nylon will disintegrate shortly after being used, but long enough for seedlings to take root.

Lan, however, was concerned about the unpopularity of the new nylon as it is much more expensive than what is currently used.

A dissolving nylon bag sells for VND1,100 (7.2 US cents), 100 times higher than the price of a PE bag.

Dissolving nylon for daily life is still not yet available.

Scientists from the center are also producing PE bags to gather rough and bulky goods, particularly waste in hospitals and parks. They are focusing on materials used in nursery gardens and forestry, aiming to reduce

FDI in Vietnam by Form of Investment

Exhibit 6

EXHIBIT 6

FDI in Vietnam by Form of Investment (Cumulative up to August 30, 2002)

No.	Forms of Investment	Number of Projects	Registered Capital (US $ Million)	Legal Capital (US $ Million)
1	JVCs	1,076	19,947	8,079
	of which: JVCs with 50% Foreign Share or More	896	18,748	7,422
2	100% Foreign Owned Companies	2,281	13,673	6,074
3	Business Cooperation Contracts	153	3,857	3,288
4	BOT Projects[1]	6	1,253	369
	Total	3,516	38,730	17,810

Source: Ministry of Planning and Investment (MPI)
Note: Only active projects are reflected here. Projects accounted by current forms of investment at the time of report. Registered Capital are updated at the time of report (inclusive of increased capital).

---

1 BOT means build, operate and transfer.

Selected Major FDI Projects

Exhibit 7

Selected Major FDI Projects

	License No.	Date of issuance	Name of Project	Registered capital (US$)	Foreign company	Objective
				PETROLEUM		
1	7	04/05/1998	Contract for survey and exploration, Lot 06-1	17,000,000	Ongc Videsh Ltd, BP Exploration UK, Petroleum Survey and Exploration VN	Petroleum survey and exploration
2	105	07/08/1999	Contract for Lots 45, 50 and 51 with FINA	45,000,000	Talisman Vietnam<Barbado, Petronas Carigali verseas, Malaysia	Petroleum Co-operation Contract, Lots 45, 49, 50, 53 & part of lots 46,51,54,55
3	239	10/09/1991	Petroleum Contract (lot 01 and 02) with Petronas-Malayxia	65,000,000	Petronas Carigali Vietnam, Malaysia	Petroleum Contract (lot 01 and 02)
4	363	20/05/1992	Contract for survey, search and exploration, Lots 11-2 with KNOC	84,000,000	Korea National Oil Cor<KNOC> Korea	Petroleum survey, exploration at lot 11-2
5	369	05/06/1992	Contract Exploration petroleum Lot 05-3 with AEDC, BP Exp., Den No	42,400,000	BP Expl. VN Limited-UK	Petroleum search, survey and exploration (lot 05-3)
6	371	10/06/1992	Contract for Lot 05-2 with BP and STATOIL-UK and Norway	103,000,000	BP Expl. VN Limited - UK Conoco - UK	Petroleum search, survey and exploration (lot 05-2)
7	431	07/10/1992	Contract for Lots 15-2 with JVP and CONOCO	47,000,000	Japan Vietnam Petroleum Co.Ltd <Japan>, Conoco <UK>	Petroleum search, survey and exploration (lot 15-2, South of TLDVN)
8	640	23/07/1993	Product sharing contract in Bon Trung, Hanoi	36,600,000	Establishment & Prom societe en Command	Product sharing contract
9	1538	11/04/1996	Contract for Lots 133, 134 with Conoco	30,000,000	Conoco (U.K) LTD,	Petroleum search, survey and exploration
10	1577	28/05/1996	Contract for LOTB & 48/95 with Unocal	12,000,000	Unocal-US, Moeco-Japan, PTTEP Kim Long VN-Cayman Island	Petroleum survey and exploration
11	1780	17/12/1996	North Vietnam Industrial gas Co., Ltd.	11,338,881	Valboc (Jersey) Limited, Channel Islands	Industrial gas production
12	1809	14/1/1997	Linde Thanh Gaz Joint Venture, producing industrial gas	26,211,000	Linde Aktiengesellschaft, German	Industrial gas production and supply
13	1989	20/09/1997	Product sharing contract lot 12E, offshore Vietnam	25,000,000	Opeco Inter. Inc, Samedan Vietnam, Delek Energy	Petroleum survey and exploration (lot12E)
14	2073	17/09/1998	Contract for Petroleum survey and exploration Lot 15-1	28,500,000	CONOCO Holand, Korea National (KNOC), SK and Geopetrol	Petroleum survey and exploration
15	2097	28/12/1998	Vietnam-Russia Oil Refinery Joint Venture No.1	1,300,000,000	Russian Foreign Economic Confederation RVO Zarubeznheft	Construction of the oil refinery having capacity of 6.5 mln tones/year
16	2127	26/7/1999	CONTRACT petroleum LOT07 & 08 with VAMEX	1,000,000	Soco Vietnam American Exploration Company Ltd,. US	Survey, search
17	2135	19/10/1999	Production sharing contract for lot 52/97 with Unocal	30,800,000	UNOCAL &MOECO (US), PTTEP Southwest Vietnam Co.Ltd<	Petroleum survey and exploration
18	2146	06/12/1999	Production sharing contract for lots 16-1	11,000,000	Soco Vietnam, Amerada Hess, Opeco Vietnam, PTTTEP Hoµng Long	Kerosene survey and search

Selected Major FDI Projects

	License No.	Date of issuance	Name of Project	Registered capital (US$)	Foreign company	Objective
19	2153	24/02/2000	Co-operation contract for Petroleum survey and exploration, Lots 102 & 106	5,000,000	ATI Petroleum, Inc-US	Petroleum survey and exploration, Lots 102 & 106
20	2158	28/4/2000	Contract for Lots 16.2	22,000,000	Conoco, KNOC, Korea	Exploration petroleum
21	2170	20/9/2000	BCC for search, survey, assessment petroleum Lots 111	10,000,000	OMV (Vietnam) Exploration GmbH-Austria; Edison Inter.SpA-I taly	Petroleum search, survey, assessment and production Lots 111
22	2177	10/11/2000	Contract for Survey petroleum, lot 112	38,000,000	GAZPROM; Zarubezhneftegaz	Petroleum search, survey, assessment and exploration
23	2179	22/11/2000	Contract for Survey, Lots 12W	50,000,000	OPECO NATURAL GAS LTD SAMEDAN VIETNAM LTD, Delek Ene	Petroleum survey, assessment and production
24	7	12/12/2000	Contract for Lot 06-2	507,000,000	BP, ONGC, Statoil	Survey, exploration petroleum
25	2181	15/12/2000	Nam Con Son Petroleum Co-operation Contract	581,000,000	BP Pipelines (Holland), Statoil (Norway)	Design, Construction and Operation gas tubes
26	2185	21/12/2000	Contract for Lot 98-2	18,000,000	Soco Vietnam, PTTTEP Hoan Vu Co., Cayman Islands	Petroleum survey and exploration
27	2245	08/01/2002	Con Son Co-operation Contract for petroleum (lot10,11-1)	14,200,000	Petronas Carigali	Petroleum search, survey, assess and exploration
28	2250	08/02/2002	Co-operation Contract for Petroleum Exploration lot 09-3	15,000,000	RVO Zarubezhneft and Idemisu Cuu Long Co., Ltd, Japan	Petroleum search, survey, development and exploration
	TOTAL			3,176,049,881		
			DEVELOPMENT OF IZ & EPZ INFRASTRUCTURE			
1	245	24/09/1991	Tan Thuan EPZ Construction Joint Venture	88,916,984	Pan Viet Corp. & Central Trading & Development, Taiwan	Construction and operation of Tan Thuan EPZ
2	412	31/8/1992	Saigon-Linh Trung EPZ Joint Venture	26,500,000	China United Electric Import and Export Cor. China	Construction and operation infrastructure of Saigon- Linhtrung EPZ
3	698	21/10/1993	MASSDA IZ Joint Venture	12,598,515	Maylaysia South Corp. Sdn. Bhd. - Malaysia	Construction of IZ infrastructure in An Don, Da Nang
4	839	12/04/1994	Noi Bai Development and EPZ Construction Co., Ltd.	29,950,000	Vista Spectrum (M) Sdn. Bhd., of Renong, Malaysia	Construction IZ, EPZ and Noi Bai city
5	1091	23/12/1994	Nomura IZ Development, Hai Phong	110,684,730	Nomura/Jafco Investment Asia Ltd., Cayman Islands	Construction, management and operation of IZs in Hai Phong
6	1100	31/12/1994	Long Binh Modern IZ-Amata Development Joint Venture	46,072,890	Bangkapong Industrial Park 2 Co., Thailand	Construction Long Binh IZ
7	1358	22/8/1995	Construction and operation Hanoi-Dai tu IZ infrastructure	12,000,000	Hanoi – Dai Tu Development Co., Ltd.	Construction of IZ infrastructure
8	1498	13/2/1996	Vietnam-Singapore IZ Joint Venture	52,920,000	Vietnam Singapore Industrial Park Pte.Ltd., Singapore	Construction of IZ infrastructure
9	1537	11/04/1996	Long Bing IZ Development LOTECO	41,000,000	Nissho Lwai Techno Park Holding Pte.Ltd., Singapore	Construction of Long Binh IZ infrastructure

Selected Major FDI Projects

	License No.	Date of issuance	Name of Project	Registered capital (US$)	Foreign company	Objective
10	1595	17/6/1996	Daewoo-Hanel, Construction of Sai Dong International IZ	152,000,000	DAEWOO Engineering & Construction, Korea	Construction of Sai Dong
11	1845	21/2/1997	Thang Long IZ Company	76,846,000	Sumitomo Corporation, Japan	Construction of IZ infrastructure
12	1872	02/04/1997	Dinh Vu Economic Zone Co., Ltd.	79,930,144	InfraAsia Development (Hai Phong) Ltd., B.V.Islands	Construction of IZ
13	1935	26/6/1997	Hai Phong - 96 EPZ Joint Venture	75,000,000	ASIA Glorious Development Ltd, Hon Kong	Construction and operation of Hai Phong EPZ infrastructure
14	2205	24/5/2001	K-BENTHAM Joint-Stock Company	21,450,788	BENTHAM INTERNATIONAL Co., LTD	Construction and operation of My Xuan A2 IZ
15	2240	06/12/2001	Amata-Dung Quat Co., Ltd.,	4,250,000	Amata Corporation Public Company Limited	Construction chemi-petroleum IZ infrastructure
TOTAL				**830,120,051**		
PORT OPERATION						
1	237	31/8/1991	Lotus Joint Venture (sea port)	15,661,017	Black sea liner "BLASCO", Ukraine and Stevedoring, US	Construction of docks and Vietnam-Russia sea transportation
2	996	22/9/1994	Logistic Development No. 1 Joint Venture, construction – operation Tan Thuan sea port	53,600,000	Mitorient Enterprise Pte. Ltd., Singapore	Forwarding and logistic serviced, and construction of Container Port
3	1899	17/5/1997	Thi Vai International sea port Co., Ltd.	56,000,000	Keyoei Steel Limited, Japan	Construction of dock for 30 thousand tones then 50 thousand tones
TOTAL				**125,261,017**		
HOTEL AND TOURISM (OVER US$50 MLN						
1	2031	26/1/1998	Da Lat-Dankia Resort Co., Ltd.	706,000,000	Dalat-Dankia Holdings DD management, Singapore	Resort construction
2	628	02/07/1993	DAEHA Co., Ltd., construction of five stars hotels	177,400,300	DAEWOO Engineering & Construction Ltd.	Construction of five star hotels and Van Tri recreation center
3	2094	12/26/1998	Sago Max JV	120,000,000	Saigon Entertainment Park Holding Ltd.,	Park and recreations
4	2145	12/06/1999	Sing-ViÖt JV	120,000,000	ST. Martin's Science & Engineering, TechnoFibre, H.R	Complex of Sports tourist and apartment
5	183	23/4/1991	Vungtau Fairy Land Joint Venture (Tourism, 27 hole golf court)	97,200,500	Paradise Development and Investment-Taiwan	Construction and operation of Vungtau cultural, sport and tourism center
6	859	07/05/1994	Dai Duong Joint Venture, construction of hotel and offices at 80 Dong Du, Hochiminh City	97,000,300	Lam Ho Investments Pte. Ltd., Singapore	Construction of five star hotels and offices at 80 Dong Du
7	38	13/1/1989	SAIGON INN Joint Venture (New World)	87,500,600	Crystal Center Properties, Hong Kong	Renovation and upgrade of Le Lai Hotel
8	753	21/12/1993	Hai Thanh-Kotobuki Joint Venture, Hotel Hai Thanh-Kotobuki	80,000,250	Kotobuki Holding Ltd. Japan	Construction of five star hotel

Selected Major FDI Projects

	License No.	Date of issuance	Name of Project	Registered capital (US$)	Foreign company	Objective
9	578	06/04/1993	Vietnam-Malaysia Joint Venture , construction of four star Hotel at K5, Hanoi	79,000,330	Faber Labuan Sendinan Berhad-Malaysia	Construction of a four star hotel – 330 rooms and 21 floors at K5 Nghi Tam
10	1018	25/10/1994	S.A.S-CTAMD Co., Ltd., hotel construction	72,629,300	S.A.S Trading Co., Ltd.	Construction and operation of five star hotels and office leasing
11	352	22/4/1992	Hoa Viet Joint Venture (Thu Duc golf court)	70,000,150	Frank International Investment Corp., Taiwan	Construction and operation of Thu Duc golf court
12	720	10/11/1993	Westlake International Company, construction of hotel and office at 3 P.D.Chinh	69,920,322	PID Investment Private Limited-Singapore	Construction of a hotel – shops complex
13	526	05/02/1993	Hanoi Center Tower Co., Ltd.	67,500,200	Burton Engineering Pte. Ltd.-Singapore	Construction of a five star hotel of 200 rooms, 01 supermarket at Hoa Lo
14	347	16/4/1992	Plaza Hotel Company	67,300,240	Pikon Development Company Limited, Hong Kong	Construction of a four star hotel, office leasing at 17 Le Duan, Hochiminh City
15	500	11/01/1993	Nha Hat Hotel Co., Ltd.	64,254,545	Compagnie Generale de Batiment et de Construc. France	Construction and operation of a four star hotel at 1 Le Thanh Ton, Hanoi.
16	209	02/07/1991	Nghi Tam Village tourism development Co. , Ltd.	63,000,398	T.P.C Development Limited, Hong Kong	Construction of a tourism village of 100 rooms at Nghi Tam, Tu Liem, Hanoi
17	433	08/10/1992	Hotel Chains Caravelle Joint Venture	61,500,353	Chains Inter. Hotels Management Pte. Ltd-Singapore	Construction and renovation of Caravelle Hotel to a four star hotel
18	908	06/07/1994	Grand Imperial Saigon Hotel Joint Venture, Grand Im. Hotel	58,634,300	Radian Investment Ltd, United Concord Inter.,	Management of hotels
19	773	25/1/1994	Sakura Hanoi Plaza Joint Venture, hotel construction and operation	58,500,100	Sakura Hanoi Plaza Investment Co (Hong Kong)	Hotel construction and operation
20	446	02/11/1992	Horison Hanoi Hotel Joint Venture	57,542,200	P.T. Global Metropolitan Development-Indonesia	Construction of a four star hotel of 200 rooms
21	403	17/8/1992	Saigon Riverside Hotel Joint Venture	50,000,230	Winfred Nominee Limited, Hong Kong	Construction and operation of a three star hotel of 230 rooms
	TOTAL			2,324,884,618		
			OFFICE, APARTMENT, HOUSING (OVER US$50 MLN)			
1	1792	12/30/1996	South ThangLong New Urban Development Co.Ltd.	2,110,674,000	Development Planning Investment Pte. Ltd., Singapore	To build new urban area at South Thanglong Hanoi
2	1148	01/03/1995	Vietnam Jin-Wen Joint Venture Enterprise, Cultural and trade center construction	524,562,903	Jin-Wen Group-Taiwan	Construction Cultural and trade center at Park 23/9
3	626	19/6/1993	FPSL WATCO Co., Ltd. (Building five star Hotel and Saigon Center)	270,088,206	First Pacific Staits Land- Saigon-Ltd. Hongkong	Construction and exploration of "Sai gon Center", office leasing
4	602	05/19/1993	Phu My Hung Corporation	242,000,000	Certal Trading & Development Corporation-Caymanls	to build 17,8km road and buildings along from Nhµ Be-Binh Chanh, and International school HCM city

Selected Major FDI Projects

	License No.	Date of issuance	Name of Project	Registered capital (US$)	Foreign company	Objective
5	1059	29/11/1994	Red river town development Joint Venture, building house and office	240,000,000	Antara Koh Development V Pte., Ltd	Construction a complex of office, trade center, hotel
6	1820	01/20/1997	North Thang Long Development	236,000,000	North bridge Communities Limited, Thailand	To build a urban area in Hanoi
7	1601	19/06/1996	Kumho Saigon Joint Venture, building hotel, office, housing... ASIAN PLAZA	223,000,576	Kumho Construction & Engineering, Ind., Korea	Construction of office, housing, and press center...
8	1318	17/7/1995	Fei-Yueh Dat Viet Co., Ltd., Saigon Square	170,877,500	Fei-Yueh Investing & Development Co., Ltd., Taiwan	Construction of hotel trade center, office and apartment
9	2195	03/14/2001	Metro Cash & Cary Vietnam	120,000,000	Metro Cash & Cary, Holland	build and operate 8 whole sale centers
10	1626	12/07/1996	Badaco-Wego Joint Venture, Building office and trade center	109,440,000	Wego Controlling Financing and marketing GmbH, German	Construction of office building and trade center
11	1169	14/3/1995	International Trade Center Joint Venture (Construction of the building at 34 Le Duan, Hochiminh City	91,941,635	Posco Engineering and Construction, Korea	Construction of office for lease
12	2098	31/12/1998	Ha Viet Tung Shing Joint Venture, Construction of office, apartment, club...	80,000,000	Tung Shing International Inc,. HongKong	Construction of office, apartment, entertainment center
13	785	31/1/1994	Thuan Kieu Complex building	71,897,171	King Harmony International Ltd., Hongkong	Construction and operation of trade center, restaurant, office and housing
14	1296	01/07/1995	Larkhall-Savico Joint Venture, Construction of office, hotel, trade center	62,535,500	Larkhall Holdings Limited, British Virgin Islands	Construction of a complex
15	9	10/15/1997	White Horse Ceramics (Vietnam)	60,000,000	White Horse Investment (s) Pte., Ltd	Granite tiles and high quality tiles.
16	1826	27/1/1997	Leloi Square Office Building	59,911,360	Keang Nam Enterprises Ltd., Korea	Construction of office building
17	1751	25/11/1996	Bourbon Dong Nai International trade Co., Ltd., Office construction	54,000,000	C«ng ty Videmia, France	Construction of apartment, offices and supermarket
18	568	06/05/1993	Luks – Lavico Joint Venture, Construction of trade center, office leasing	52,416,363	Luks Land Company Ltd. British Virgin Islands	Construction of trade center, office for lease, exhibition space
19	1329	26/7/1995	Aus –Binh Minh Joint Venture,	52,090,000	Vietnam Investments Ltd., Australia	Construction of an office complex in Giang Vo, Hanoi
20	1090	21/12/1994	Hoang Vien-Quang Ba Co., Ltd.	50,931,000	Palmsville Investment Pte., Ltd., Singapore	Construction of apartment, hotel and villas
TOTAL				**4,882,366,214**		
				Cement		
1	327	25/2/1992	Luks - Thua Thien Hue Cement Co., Ltd	70,960,000	Luks Cement Company Limited, British Virgin Islands	

Selected Major FDI Projects

	License No.	Date of issuance	Name of Project	Registered capital (US$)	Foreign company	Objective
2	490	24/12/1992	Chinfon – Hai Phong Cement Company	288,300,000	ChinFon Vietnam Holding Co.Ltd., Taiwan	
3	808	25/2/1994	HolCim Vietnam Cement Joint Venture	388,000,000	Holder Bank Financier Glaris – Switzerland	
4	1200	11/04/1995	Nghi Son Cement Company	373,000,000	Japan Cement Co.Ltd., (Nihon Cement-Mitsubishi)	
5	1470	06/01/1996	Phuc Son - Hai Duong Cement Company	265,000,000	World Cement (Singapore) pty.Ltd	
TOTAL				**1,385,260,000**		
ELECTRICITY AND WATER SUPPLY						
1	614	03/06/1993	Hiep Phuoc Power Company	273,000,018	Power J.V Company Hongkong Ltd. British Virgin Islands	Construction of thermo-electric plant for Tan Thuan EPZ and Consultancy services
2	1170	15/3/1995	Binh An Water supply Company	35,800,000	Sadec Consortium and Emas Utilities, Malaysia	Filtered water production and supply
3	1567	11/05/1996	VSIP electric company, electricity supply to VSIP IZ	24,080,000	SCP Power Pte.Ltd., Singapore	Construction of power plan for Vietnam Singapore IZ
4	1618	29/6/1996	Amata Power Joint Venture, Construction of power plan for Amata IZ	110,000,000	Amata Power Ltd, Banpu Power, E.On Energie, Energie, D	Construction, operation and maintenance of power plant
5	1704	08/10/1996	Nishishiba Vietnam Co., Ltd., Operation of power plant	800,000	Nishishiba Electric and Niigata Engineering, Japan	Operation and maintenance of power plant
6	1990	24/9/1997	Wartsila Ba Ria-Vung Tau Power Plant	110,000,000	Wartssila Vietnam Power Investment LTD, Hongkong	Construction and operation of power plant
7	2018	26/12/1997	Water Treatment, BOT Thu Duc (Lyonnaise VN Water supply company)	145,000,000	Suez, Pilecon Engine Berhard & Tractebel-France	Tap-water production
8	2124	07/07/1999	Grand Imperial Sai Gon water supply BOT in Hochiminh City	149,325,000	Motif Etika, United Concord, Thames Water, Bovis Ltd	Construction, management and operation of the water plant in Hochiminh City
9	2131	20/8/1999	Kidwell International Power Corporation Vietnam	39,585,000	Kidwell International Power Corporation	Construction of dynamo of 40MW, g/® 120MW
10	2204	22/5/2001	Phu My 3 BOT Power Company	412,850,000	BP Holdings BV, Sembcorp Utilities Cor., Kyuden Inter- Japan	Construction of power plant of 716,8MW capacity for Vietnam Power Corporation
11	2226	18/9/2001	Mekong Energy (Construction of Power plant Phu My 2.2)	400,000,000	EDF (France), Sumitomo Corp. (Japan), Tokyo Electric Power	Construction of power plant for electricity production and sale to Vietnam Power Corporation
TOTAL				**1,700,440,018**		
INSURANCE						

Selected Major FDI Projects

	License No.	Date of issuance	Name of Project	Registered capital (US$)	Foreign company	Objective
1	752	18/12/1993	Bao Viet Joint Venture for consultancy, Insurance and Re-insurance AON	250,000	AON Holdings B.V (Holland)	Insurance brokerage for Vietnamese Insurer on Insurance for enterprises
2	1639	05/08/1996	International Insurance Joint Venture Vietnam	6,000,000	CGU International Insurance, UK and Tokyo Marine	Insurance and non-life Re-insurance for foreign organizations and individuals
3	2003	01/11/1997	Joint -Insurance Company	6,000,000	Mitsui Insurance Co. and Jhe Yasuda Insurance Co., Japan	Insurance and non-life re-insurance
4	2122	12/06/1999	Co., Ltd. Insurance Manulife	8,500,000	Manulife Life Insurance(Canada)	Life Insurance, Support Insurance, Re-insurance and investment
5	2123	12/06/1999	Allianz/AGF	7,500,000	Allianz (German) and AGF Asia Private (Singapore)	Non-life Insurance and Re-insurance
6	2126	16/7/1999	Joint Venture Insurance Viet-Australia	4,000,000	QBE Insurance (International) Ltd, Australia	Non-life insurance
7	2134	12/10/1999	Bao Minh Life Insurance CMG	6,000,000	The Colonial Mutual Life Assurance Society Ltd., Australia	Life insurance, Investment and securities investment
8	2138	29/10/1999	Prudential Life Insurance	32,800,000	Prudential Corporation Holding Limited, UK	Life Insurance
9	2152	22/2/200	American International Insurance (Vietnam)	10,000,000	American International Insurance (Bermuda)	Life and accident Insurance, taking and selling Re-insurance
10	18	06/07/2001	Groupama General Insurance Vietnam	5,000,000	Groupama	General Insurance
TOTAL				**86,050,000**		
TELECOMMUNICATION AND EQUIPMENT						
1	298	31/12/1991	Telecommunication equipment production Joint Venture	900,000	Yeebo Development Limited, Hongkong	Telephone production
2	457	09/11/1992	VinaDaesung Cable	17,519,490	C«ng ty Nexans Korea Ltd.-Korea	Telecommunication cable production
3	629	05/07/1993	Telecommunication equipment Joint Venture	14,786,600	Alcatel France, France	Producing-installation of digital telephone switchboard 1000E10
4	756	28/12/1993	VINA GSC optic-fiber cable Joint Venture	8,100,000	GoldStar Cable and Lucky GoldStar Intem, North Korea	Producing optic-fiber cable from 4-144 sîi
5	893	21/6/1994	Digital telephone switchboard producer Joint Venture (VKX)	10,000,000	Goldsstar Infform.-Commun.Ltd; LuckyGoldsstarintlKore	Producing software and hardware for digital switchboard
6	943	11/08/1994	FOCAL and accessories Joint Venture	11,461,540	Corming Inernational Cor., US	Producing optical cable and cable accessories
7	1109	17/1/1995	Joint Venture TNT-Vietrans Express Worldwide	700,000	GD Express Worldwide N.V., Holland	Domestic and International express, mailing service
8	1242	19/05/1995	Contractual Business on VMS	424,600,000	Kinnevik and Comvik Inter. Vietnam AB, Switzerland	
9	1244	23/5/1995	VNPT-SIEMENS Telecommunication equipment	15,000,000	Sie mens AG, German and Siemens Telecom. System, Taiwan	Assembly, producing telephone switchboard EWSD

Selected Major FDI Projects

	License No.	Date of issuance	Name of Project	Registered capital (US$)	Foreign company	Objective
10	1421	13/11/1995	Telecommunication and electronic equipment Production Company	20,000,000	Newtel Technologies Ltd., US	Producing telephone components, electronic board
11	1558	27/4/1996	Contract for Regional telecommunication network development HP,QN, HH	53,234,818	KT Coroporation, Korea	Regional telecommunication network development
12	1878	05/04/1997	VNPT-FUJITSU Telecommunication network co., Ltd.	12,000,000	FuJitsu Limited, Japan	Producing optical cable and cable accessories
13	2004	12/11/1997	BCC between VNPT and FCR VN	615,000,000	France Cable et Radio Vietnam, France	Construction, upgrading and providing telecommunication service
14	2005	12/11/1997	BCC between VNPT and NTTVN	332,000,000	NTT Vietnam, Japan	Construction, upgrading and providing telecommunication service
15	2223	12/09/2001	BCC for CDMA mobile phone	229,617,000	SLD Telecom Pte Ltd-Singapore	Exploration, providing CDMA mobile network
16	495	01/06/1993	ORION-HANEL Tubes Co,Ldt	229,384,000	ORION Electronic Co, Ltd- South Korea	To produce Electronic Tubes and for TV and computer
17	1377	09/22/1995	Fujtsu Vietnam Co, Ldt	198,819,000	Fujtsu Limited. Japan	Electronic components
18	1956	07/28/1997	E-Hsin Vietnam	93,578,000	Hualon Corporation (M) Sdn. Bhd., Malayxia	To produce electric and comunication wires
19	2198	04/12/2001	Canon Vietnam Corp.	76,700,000	Canon Inc-NhËt Bn	Laser jet and electronic chips, semi product of laserjet machines for computer..
	TOTAL			**2,363,400,448**		
				MINING		
1	140	05/03/1991	Bong Mieu gold exploration Joint Venture	15,000,000	Bong Mieu Holding Limited, Australia	Gold exploration
2	260	22/10/1991	Contract for coal exploitation in Dong Vong Uong Thuong	30,000,021	P.T Vietmindo Energitama, Indonesia	Coal exploration, processing and export Dong Vong Uong Thuong
3	522	29/1/1993	Bn phóc-NIKOMIN nickel mine Joint Venture	18,570,000	Amr Nikel Limited (AMRN), New Zealand	Survey, exploration copper ore in Ban Phuc
4	1184	03/04/1995	Binh Dinh Vietnam Malaysia Mineral Company	1,797,000	Kayfour Development, Syarikat Pendorong Sdn. Bhd	Survey, exploration and process ilmenhit ore
5	2090	12/12/1998	Phu Yen Gold Exploitation	3,500,000	Arcourt Hon Mo Sdn. Bhd., Malaisia	Exploration and processing gold
6	2099	12/30/1998	GCS Vietnam Co. Ldt	270,270,000	Vietnam Gas Conversion Systems Inc. (GCS VN), UK	methanol production foatiing on Block 15-2
	TOTAL			**339,137,021**		
				Steel		
1	585	11/05/1993	Vietnam steel pipes Company	12,461,524	Pohanglrron & Steel Co. Ltd. andSEAH Steel Pipe Cor. Korea	Manufacturing, procesing steel pipes

Selected Major FDI Projects

	License No.	Date of issuance	Name of Project	Registered capital (US$)	Foreign company	Objective
2	711	02/11/1993	NATSTEELVINA Joint Venture Ltd	21,756,000	Natsteel Ltd. Singapore, Southem Steel Berhad-Malai	Manufacturing and trading steel products
3	769	18/1/1994	VSC-POSCO Steel Company	56,120,000	PohangIrron & Steel Co. Ltd Posteel, Daewoo Inter Korea	Constructing factory manufaturing round plain, deformed, rolled steel bar
4	780	28/1/1994	VINAKYOEI Steel Joint Venture	69,594,000	Kyoei company, Mitsui company and Itochu company, Japan	Manufacturing and trading steel products: Wire rod, round, flat, deformed, angle, plain, rough bar,...
5	898	28/6/1994	VINAUSTEEL Joint Venture	40,020,000	Vietnam Industrial Investrment Pty. Ltd., Australia	Manufacturing round, plain, deformed steel bar ...
6	1243	23/5/1995	POSLILAMA Steel structure Company	26,800,000	POSCO Engineering & Construction and POSCO Steel, Korea	Manufacturing steel components, pillar, bucket, container
7	1257	30/5/1995	Steel Co., Ltd. Win, Ye, ...	14,000,000	Win Industries Company Limited, Taiwan	Manufacturing iron steel product:, plating iron, steel pillar, bar, containner
8	1342	08/08/1995	SaiGon Steel Pipes Joint Venture	22,491,500	DAEWOO Company, Korea	Producing steel Pipes
9	1404	23/10/1995	Korea-Vietnam Heavy Industry and Construction Company	25,700,000	Doosan Heavy Industries, SSang Young Cor. Korea	Steel products; installing factories, machineries, Construction projects, electrical factoties
10	1419	31.10/1995	Hyundai-Huy Hoang steel Pipes Co., Ltd.	10,763,265	Hyundai Pipe Co., Ltd. and Huyndai Corp., Korea	Producing steel pipes and other products
11	1424	13/11/1995	Tay Do Steel Company	12,100,000	Ho Asia Enterprise Co., Ltd., Taiwan	Rolling, refining steel and iron products
12	1482	25/1/1996	Vietnam – Japan engineering company Ltd.	7,800,000	Kyoei Steel, Japan	Producing cast iron and steel products
13	1501	17/2/1996	VINANIC Steel Processing Company	2,934,100	Nissho Iwai Corp. Japan and SMPC Metal Industries Bhd	Processing and trading hot rolled steel sheet, layers.
14	1522	23/3/1996	Hyundai - Dong Anh steel pillar Manufacturing company	8,100,000	Hyundai Heavy Industries and Huyndai Corp., Korea	Manufacturing, plating steel pillars and components
15	1586	03/06/1996	Co., Ltd. Sun Steel	67,500,000	Eve Stars Inves, Topson Asia Inter., Complex Inter. Luster.ng	producing steel roll, bar and sheet
17	1767	07/12/1996	Sai Gon steel processing company	7,360,000	Nomura Trading, Tanabe Kogyo, NhËt, Mr LimC.G., Malayxia	Processing rolled iron steel bar, steel sheet, pipes,
18	1929	25/6/1997	Vietnam Steel Products Co., Ltd.	11,034,000	Sumitomo Metal Industries-Nomura - Mitsui & Co., Japan	Producing and trading steel pipes and iron spare parts
19	2082	10/17/1998	Vietnam Coating steel Co. Ldt	60,000,000	Princess Development Limited, British West Indies	Coating steel sheets
	TOTAL			**476,534,389**		
Shipbuilding, assembling motor, motor bike and spare parts (over US$10 millions)						
1	1686	30/9/1996	Hyundai-Vinashin shipbuiding Co Ltd	159,284,680	4 companies belonging to 3 Hyundai Coporation, Korea	Ship Repairing vµ buildingg

Selected Major FDI Projects

	License No.	Date of issuance	Name of Project	Registered capital (US$)	Foreign company	Objective
2	341	25/3/1992	Industrial manufacturing and processing goods for export	120,000,000	Sanyang Industry Co. Ltd, Taiwan	Assembling and manufaturing part s of motor in Vietnam
3	1521	22/3/1996	Honda Viet Nam Company	104,003,000	Honda Motor Ltd.,Japan vµ Asia Honda Motor, Th¸i Lan	Manufacturing, assembling Honda motorbike, producing spare part, repairing motorbike
4	1365	05/09/1995	Ford Vietnam Co; Ltd	102,700,000	Ford Motor Company, United States	Assembling, manufacturing motor
5	1367	05/09/1995	Toyota Vietnam Motor Company	89,609,000	Toyota Motor Corp., Japan and Kuo (Asia) Singapore	Assembling and manufacturing automobiles
6	2029	24/1/98	Yamaha Vietnam Motor Co., Ltd	80,268,000	Yamaha Motor, Japan and Hong Leong Industries, Malayxia	Assembling motorbike and spare parts
7	1205	14/4/95	Mercedes - Benz Vietnam Joint Venture	70,000,000	Daimler-Benz Vietnam Investments Singapore	Assembling and manufacturing Mercedes-Benz autos
8	134	09/22/1998	Nidec Tosk VietNam Co. Ltd	69,896,000	Cty Nidec Tosok- Japan & Nidec Corporation	to produce small motors, acessories, wires, adaptors...
9	228	19/8/91	Hoµ B×nh Automobiles JV	58,000,000	Columbian Motors Corp (Philippines) vµ Nichimen Corp., JP	assembling and manufacturing automobiles
10	847	23/4/94	VINASTAR (Mitsubishi)	53,000,000	Mitsubishi Motors Corp, Mitsubishi Corp, Proton	assembling and manufacturing Mitsubishi autos
11	16	30/9/89	ISUZU - Vietnam Corp.	50,000,000	Isuzu Motors Ltd. vµ Itochu Corporation-Japan	assembling and manufacturing light trucks and vans ISUZU guatantee services
12	1420	31/10/95	GMN JV	39,000,000	Chai Komol Autoparts, S.K. R.Inter., New Chip Xeng, Thailand	assembling and manufacturing auto and motobike spare parts
13	208	22/6/91	MEKONG AUTO Corp.	35,995,000	Sae Young Inc (Korea) & Saeilo Machinery Japan Inc.-Japan	assembling and manufacturing automobiles
14	1212	22/4/95	Vietnam Suzuki Motors Cop.	34,175,000	Suzuki Motor Corp. Vµ Nissho Iwai Corp. Japan	assembling and manufacturing SUZUKI, autos (light trucks and vans) and motobikes guatantee services
15	744	14/12/93	Vietnam Daewoo Corp. (VIDAMCO)	32,229,000	DAEWOO, Korea	assembling and manufacturing Daewoo Autos
16	1206	14/4/95	Daihatsu-Vietindo Corp.	32,000,000	Daihats Motor, Kanematsu Japan, PT Astra, PT Mitra, Indo	assembling and manufacturing multi-function automobiles
17	1669	16/9/96	Stanley VietNam Electronics	21,000,000	Stanley Electronics, (Thailand) and Stanley (Japan)	manufacturing lights and spare parts for motobikes autos
18	1797	02/01/1997	Goshi-Th¨ng Long Company	19,000,000	Doshi Ghiken vµ Honda Trading Japan, Asian Honda Thailand	manufacturing motobike spare parts
19	1765	07/12/1996	Machino Co., Ltd	18,477,000	Asian Honda Motor, Showa, Itochu, Japan	manufacturing auto, motobike spare parts

Selected Major FDI Projects

	License No.	Date of issuance	Name of Project	Registered capital (US$)	Foreign company	Objective
20	1599	18/6/96	Hino Motors Vietnam JV	17,030,000	Hino Motors Ltd. Vµ Sumitomo Corp., Japan	assembling and manufacturing HINO heavy trucks
21	2234	20/11/01	VINA-SIAM JV	12,000,000	Siam Sprocket Industrial Co., Ltd	assembling and manufacturing motobike spare parts
22	2180	01/12/2000	International Wind co.	11,000,000	King mate Inc. CH Mauritius	auto and motobike wheels
23	1074	0/12/94	Vietnam Precise Industry Company (VPIC)	10,500,000	Mr. Lee Yu Chhi Taiwan) investors representative	motorbike frames, invalid troyler
24	1607	25/6/96	Chien-You Vietnam Co.ltd	10,286,000	Chien You Industrial Company Limited, Taiwan	container frames, tanks, ..
25	1710	19/10/96	Nissin Vietnam breakers Co.	10,000,000	Nissin Kogyo Co., Ltd. Japan, Nissin Brake System-Thailand	Motor and motorbike breakers manufacture
	TOTAL			**1,259,452,680**		
			FOOD PROCESSING ANF BEVERAGE (OVER US$ 20 mln)			
1	171	08/03/1991	VEDAN-VIETNAM Co. Ltd.	387,043,916	Burghley Enterprises Pte.Ltd. Singapore	Producing starch, MSG, bio-products, soda, acid
2	1384	27/9/1995	Coca-cola Vietnam	358,611,000	Coca-Cola Indochina Pte.Ltd., Singapore	Producing Coca-cola, Fanta, Sprite,...
3	1600	18/6/1996	Ha Tay Beer Factory Joint Venture	190,000,000	Asia Pacific Breweries Limited, Singapore	Producing beer with capacity of 1,5 mln hectoliter/day
4	2113	06/02/1999	Co., Ltd. Uni – President (wheat husking, foods production)	151,541,396	Cayman President Holdings Ltd (British West Indies	wheat husking, foods production and animal feeding production...
5	1898	14/5/1997	Nghe An-Saigon-German Beer Joint Venture	120,000,000	Brauhaase Holdings (Pacific) Ltd., Bermuda	producing beer with capacity of 100 mln litre/day, increasing to 150 mln litre/day
6	291	24/12/1991	International Beverage Company (Pepsi - IBC)	110,000,000	Pepsico Global Investment II B.V.- Hµ Lan	Beverage and finery water production
7	287	09/12/1991	Vietnam beer company, producing Heineken	93,000,000	C«ng ty Asia Paciftic Breweries (Vietnam)	Beer production
8	528	08/02/1993	South East Asia Beer Company	79,636,000	Carisberg International & The Industrializion Fund	Producing – and distributing beer and beverage
9	320	31/1/1992	Fosters-Tien Giang Co., Ltd.	65,000,000	C«ng ty FBG Vietnam Holding Pty. Ltd., Australia	producing beer and beverage
10	165	22/2/1991	A Jinomoto Vietnam	61,500,000	AJinomoto-Japan	Producing and distributing MSG
11	1044	12/11/1994	SAN MIGUEL Viet Nam Beer Company	60,000,000	San Miguel (Vietnam) Ltd. Bermuda andDragon Island - Hongkong	Beer production
12	1645	12/08/1996	Cai Lan Vegetable oil Company	39,128,388	Siteki Investment Pte.Ltd thuéc Kuok Oil Singapore	Producing vegetable oil and sub-products
13	1528	29/3/1996	Vietnam Unilever Bestfoods Co ltd.	37,100,000	Mavibel BV, Unilever Cooporation, Holland	Producing cream, dry ice, processing tea and other vitamin drinks
14	772	21/1/1994	Fosters-Da Nang Company	29,000,000	FBG Vietnam Hoalding Pty. Ltd.- Autralia	Producing and trading beer, soft drink

Selected Major FDI Projects

	License No.	Date of issuance	Name of Project	Registered capital (US$)	Foreign company	Objective
15	121	28/9/1990	Joint Saigon Vewong Co.Ltd	27,790,000	Vewong Corporation – Taiwan	Producing seasoning powder, sauce, n-íc chÊm, soybean milk.
16	835	06/04/1994	Hue Beer Company	24,308,000	Tuborg Inter. A/S +IFU Ftri (Denmark)	Producing beer, soft drink
	TOTAL			**1,833,658,700**		
				]		
1	545	11/03/1993	Vietnam Breeding Joint Company Ltd	130,168,000	Charoen Pokphan, Bangkok Feedmill, Advance Co. Ltd. Thai	Producing foders, breeding and trading poultries, breeding equiment
2	1411	31/10/95	Cargill Vietnam Co. Ltd	74,462,000	Cargill Asia Paciftic Ltd., Mü	Producing, processing agricultural product, foder, poultry
3	964	26/8/94	Agriculture and forestry Taiwan Co.Ltd	52,000,000	Investment (BV) Co.Ltd. B.V.Islands	Breeding and trading pigs and poultry
4	178	02/04/1991	Vietnam - France foder Joint Venture	50,000,000	Societe Commerciale des Potasses et de L'azote - France	Producing rich protein foder
5	874	31/5/94	Lady Vietnam foodstufs & sofdrinks Co. Ltd	49,500,000	Friesland Vietnam Holding B.V. Holand	Ven, animalfeeds, agriculture asistances services
6	1152	01/03/1995	NestlÐ Vietnam limited	43,454,000	NestlÐ S.A, Sweden	Instant coffee, , MILO.. other foodstufs, wheat flour milling
7	2214	17/8/01	BAT-VINATABA Tobacco JV	40,000,000	British American Tobacco Holdings (VN) B.V	Tobaco manufacturing, and traning tobaco farmers
8	976	01/09/1994	Vimaflour Co. Ldt	39,100,000	Malayan Flour Mills Bhd-MFMB, Malaysia	Wheat flour millng and related products
9	1789	26/12/96	International Foodstufs Co.	37,672,000	Singleton Holdings Ltd., British Virgin Islands	Foodstuf processing
10	1587	10/06/1996	Charoen Pokphand-Vietnam animal feeds Co. Ltd	33,000,000	Charoen Pokphand Group Co,. Thailand	animal feeds and foultry.
11	1219	29/4/95	ASIAN Nurtritions (VN) Co. Ldt	30,000,000	ChinFon Livestock Co., Ltd., Taiwan	animal feeds and foultry
12	1969	09/08/1997	KCP Vietnam Industry Co.	30,000,000	Kecepe Investment Private Limited, Singapore	Sugar manufacturing and other products
13	142	28/11/90	Cultivating and processing paper material	29,866,000	Jen Been Chyi va Kuan Hon Co.Ltd., Taiwan	wood cultivation and wood chips manufacturing
14	963	26/8/94	Wheat Flour Mill Vietnam Co. Ldt	25,000,000	Glowland Ltd-Hong Kong vµ The Australia Wheat Board Australia	Wheat flour milling
15	900	28/6/94	Viet Nguyen rice processing Co.	22,000,000	Vietnam Resources Agricultural product Corporation Ltd., HK	Rice processing for export
	TOTAL			**686,222,000**		
				Sugar Production		
1	1316	15/7/95	Bourbon - Tay Ninh Sugarcane Co., Ltd	113,000,000	Sucreries de Bourbon, France	Constructing sugar factory in Tay Ninh Province

Selected Major FDI Projects

	License No.	Date of issuance	Name of Project	Registered capital (US$)	Foreign company	Objective
2	1486	03/02/1996	Nghe An TATE & LYLE Sugarcane Joint Venture	90,000,000	ANGLO VIETNAM SUGAR INVESTMENTS LIMITED-B.V.Island	Manufacturing sugarcane and sub-products
3	989	14/9/94	Vietnam - Taiwan Sugarcane Co., Ltd	66,000,000	Taiwan Sugar Company, Nghia My Co; Phu My Co; Kim Xa Co	Producing sugar, honey
4	1458	23/12/95	Ninh Binh Sugar Co., Ltd	60,000,000	Asian FinanceInvest, Julio, Jurong Enginner... Philipines	Producing white sugar
5	1983	04/09/1997	Sugar industries HAY (Vietnam)	39,842,000	Hay Sugar Industries Co.B.V. Islands	Sugarcane manufacturing 4,000 tones sugarcane/day
6	1138	15/2/95	NagarJuna IntemVietnam Co. Ldt	33,329,000	Nagarjuna Holdings Vietnam Pte. Ltd., Singapore	Sugarcane cultivation and manufaturing
7	1950	15/7/97	Bourbon Gia Lai Sugarcane Co. Ldt	25,550,000	Bourbon Group France	Upgrading Yuanpa surgar factory to 2,800 tones sugarcane/day
8	1978	23/8/97	Dhampur Vietnam Sugar Co. Ldt	22,000,000	International industries and servies DSM Pte, Ldt	Refined sugar from sugarcane and other resources
	TOTAL			**449,721,000**		
			Cultivating and processing seafood (over US$ 10 millions)			
1	919	25/7/1994	Ching Fa fishing equiment and fishing net Co; Ltd	20,000,000	Ching Fa Fishing Implemen, Chin, Sheng Fishing Net Dµi Loan	Producing fishing net,
2	10	03/06/1988	Viet - Nga SEAPRIMFICO	16,000,250	Ministry of State Property of Russia	Cultivating shrimp, catching, processing seafood and vegetable for export
3	1915	30/5/1997	Pattaya Viet Nam Fodd Co Lts.	12,740,000	Pataya Food Industries Ltd.,Thai Land	Processing seafood, agricultural products, animal Product
4	984	06/09/1994	Bac Lieu Coastal Company	10,464,816	South China Seafood Co., Mü	Cultivating, processing seafood
5	543	02/03/1993	Ngäc trai Nha Trang	10,000,000	Pearl Farms International Pte. Ltd., (Singapore)	Cultivating artificial pearl in Luong Sn-Khanh Hoa Province
	TOTAL			**69,205,066**		
			TEXTILE AND APPAREL (OVER US$ 20 MLN)			
1	757	30/12/1993	Hualon Corporation Vietnam (fiber spinning, weaving, material dyeing)	477,134,598	Ualon Malayxia; Hualon Chemical & Textile, E-Hsin-Taiwan	Fiber spinning, material dyeing and weaving
2	2244	26/12/2001	Hung Nghiep Formosa Co., Ltd.	270,300,000	Formosa Plastic	Industrial complex of fiber spinning, power station and water treatment station
3	1268	14/6/1995	Samsung Vina Synthetics,	192,692,000	Samsung Corp. vµ Cheil Synthetics, Korea	Producing material, fiber, polyester material and fiber dyeing
4	1961	01/08/1997	Kolon Vietnam Industrial Co., Ltd., Fiber production	147,860,000	Kolon Industries, Inc. Korea	Fiber production
5	1491	03/02/1996	Tainan Vietnam Fiber Co., Ltd (Fiber production)	82,622,000	Tainan Spinning Co., Ltd. Taiwan	Producing cotton and nylon
6	743	14/12/1993	Formosa Textile (fibre spinning, weaving, material dyeing, garment)	80,000,000	Formosa Taffeta, Taiwan	Producing fiber and garment, material dyeing, fiber spinning and weaving

Selected Major FDI Projects

	License No.	Date of issuance	Name of Project	Registered capital (US$)	Foreign company	Objective
7	1433	29/11/1995	Pang Rim Yoochang Vietnam Co., Ltd.	79,076,321	Pang Rim Ltd. & Yoochang, Korea	Weaving, bleaching, dyeing and material finishing
8	1320	17/7/1995	Choongnam Vietnam	58,000,000	Choongnam Spinning Co., Ltd, . Korea	Producing and trade in fiber and linen
9	1740	18/11/1996	Hyosung VINA Co., Ltd.	52,500,000	Hyosung Living Industry Co. Ltd, Korea	Producing thread, material and fiber, dyeing and printing
10	1016	22/10/1994	Vietnam Chung Shing Textile Co., Ltd.	40,320,144	Chung Shing Textile Co., Ltd., Taiwan	Producing thread, fiber spinning, weaving and garment.
11	2067	18/7/1998	Chyang Sheng Vietnam Co., Ltd.	38,750,000	Chyang Sheng Dyeing-Finishing , Worthy Textile Industry	Producing fiber, weaving, dyeing, printing material and linen
12	1009	12/10/1994	Tongkook Vietnam Co., Ltd.	38,000,000	Tongkook Cor., Ltd., Korea	Producing and trade in thread, cotton fiber and synthetic fiber.
13	1962	01/08/1997	Kolon Vietnam Co., Ltd.	31,460,000	Kolon Industries, Inc, Korea	Material production
14	1696	05/10/1996	Vina Taiming Co., Ltd.	25,980,000	Taiming Textile Ltd, Taiwan	Producing fiber
15	1877	04/04/1997	S.Y.Vinatex Co., Ltd.	23,700,000	Young Shin Co. «. Jung Kyu Yoonoo, Jae Yun Im, Korea	Textile finishing, material dyeing
16	305	10/01/1992	Triumph International Co., Ltd.	23,000,000	Triumph International Overseas Ltd. (Liechtenstein)	Producing and trade in garments
TOTAL				**1,661,395,063**		
				Miscellaneous		
1	1497	02/12/1996	Pou Yuen Vietnam holding Co.	263,000,000	Pou Yuen Industrial (HoldÝng) Ltd. Hong Kong	Shoes and shoe accesories production
2	2021	12/31/1997	Foating Glass Vietnam	145,000,000	NSG Asia Ltd., Singapore	produce glasses
3	2121	12/31/1997	Hanoi Daewoo public transport Co, Ltd	134,286,000	Daewoo Korea	bus transport, Sport center, Petro pump stations
4	1183	03/31/1995	Foating Glass Vietnam Co, Ldt	126,000.00	Nippon Sheet Giass vµ Tomen Corp., Japan	construction glass production
5	1688	09/30/1996	ASahi Vietnam Glass Co, Ldt	125,070.00	Asahi Glass Company Ltd., Jp	construction glass production
6	1287	06/23/1995	Chemical and plastic TCP Vina	90,020,000	Thai Plast. & Chemical Public - thailand	PVC plastics and realated products
7	375	12/09/1994	Hanoi International Technology Center	89,000,000	Schmidt Development Fund for VN, BritishVirginLslands	Supply high-tech services
8	1052	11/23/1994	Procter & Gamble Vietnam	83,000,000	Procter & Gamble Holding Singapore Pte.Ltd.	Detergent &cleansing products
9	2029	01/24/1998	Yamaha Motor Vietnam Co, Ltd	80,268,000	yamaha Motor, NhËt vµ Hong Leong Industries, Malaysia	motobikes and components, acessories production
10	1466	04/12/2001	Sanyo Home Appliances Vietnam Corp.	75,000,000	Sanyo Electric, Sanyo Electric Trading, Sumitomo, Japan	to producr wasing machines
11	1305	07/04/1995	Phó Mü Chemical and Plastics Co. Ldt	70,000,000	Petronass (malaysia)	PVC plastic

Selected Major FDI Projects

	License No.	Date of issuance	Name of Project	Registered capital (US$)	Foreign company	Objective
12	1495	02/07/1996	Mabuchi Motor Vietnam, Co. Ldt	69,884,000	Mabuchi Motor Co., Ltd., Japan	to produce small motors for visual machines, electronics and autos
	TOTAL			**1,099,709,070**		