TRADE FACILITATION, VALUE CREATION, AND COMPETITIVENESS:
POLICY IMPLICATIONS FOR VIETNAM’S ECONOMIC GROWTH

SUMMARY REPORT

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John Arnold
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NATIONAL COMMITTEE FOR INTERNATIONAL ECONOMIC COOPERATION

THE WORLD BANK
# Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Cooperation</td>
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<tr>
<td>AFTA</td>
<td>ASEAN Free Trade Area</td>
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<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>ASEM</td>
<td>ASEAN Europe Meeting</td>
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<td>ASW</td>
<td>ASEAN Single Window</td>
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<tr>
<td>ATIGA</td>
<td>ASEAN Trade in Goods Agreement</td>
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<tr>
<td>B2B</td>
<td>Private-to-Private sales</td>
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<td>CPS</td>
<td>Country Partnership Strategy</td>
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<tr>
<td>E&amp;E</td>
<td>Electronics and Electrical Equipment</td>
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<td>ESCAP</td>
<td>Economic and Social Commission for Asia and the Pacific</td>
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<td>ETI</td>
<td>Enabling Trade Index</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>G2G</td>
<td>Government-to-Government</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GDC</td>
<td>General Department of Vietnam Customs</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HCMC</td>
<td>Ho Chi Minh City</td>
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<td>ICT</td>
<td>Information and Communication Technology</td>
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<td>IPR</td>
<td>Intellectual Property Rights</td>
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<td>IWT</td>
<td>Inland Waterway Subsector</td>
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<td>LPI</td>
<td>Logistics Performance Indicator</td>
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<td>LSCI</td>
<td>Liner Shipping Connectivity Index</td>
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<td>MARD</td>
<td>Ministry of Agriculture for Rural Development</td>
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<td>MNCs</td>
<td>Multi-national Corporations</td>
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<td>MOF</td>
<td>Ministry of Finance</td>
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<td>MOFA</td>
<td>Ministry of Foreign Affairs</td>
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<td>MOH</td>
<td>Ministry of Health</td>
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<td>MOIT</td>
<td>Ministry of Industry and Trade</td>
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<td>MOST</td>
<td>Ministry of Science and Technology</td>
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<td>MOT</td>
<td>Ministry of Transport</td>
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<td>MPI</td>
<td>Ministry of Planning and Investment</td>
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<td>MRAs</td>
<td>Mutual Recognition Arrangements</td>
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<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>NCIEC</td>
<td>National Committee for International Economic Cooperation</td>
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<td>NH</td>
<td>National Highway</td>
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<td>NSW</td>
<td>National Single Window</td>
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<td>OBM s</td>
<td>Original Brand Manufacturers</td>
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<td>OEM s</td>
<td>Original Equipment Manufacturers</td>
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<tr>
<td>ODM s</td>
<td>Original Design Manufacturers</td>
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<td>OOG</td>
<td>Office of the Government</td>
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<td>PPP</td>
<td>Public-Private Partnership</td>
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<td>SEDS</td>
<td>Socio-Economic Development Strategy</td>
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<td>SME s</td>
<td>Small and Medium-Sized Enterprises</td>
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<td>SOEs</td>
<td>State-Owned Enterprises</td>
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<td>SPS</td>
<td>Sanitary and Phytosanitary</td>
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<tr>
<td>TBT</td>
<td>Technical Barriers to Trade</td>
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<td>TDSI</td>
<td>Transport Development Strategy Institute</td>
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<td>TEU</td>
<td>Twenty-Foot Equivalent Unit</td>
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<td>TTFA</td>
<td>Trade and Transport Facilitation Assessment</td>
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<td>TFAP s</td>
<td>Trade Facilitation Action Plans</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference for Trade and Development</td>
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<tr>
<td>US BTA</td>
<td>Bilateral Trade Agreement between Vietnam and the United States</td>
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<tr>
<td>VFA</td>
<td>Vietnam Food Association</td>
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<tr>
<td>WEF</td>
<td>World Economic Forum</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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Trade plays a particularly important role in contributing to the economic growth of Vietnam. The country’s rapid trade growth during the past two decades has been built on international economic integration process -- lower barriers to trade and participation in agreements with trade partners. However, with this progress in international commitments well advanced, the advantages of trade liberalization in contributing to the growth of trade are reaching their limits. It is time to have a new approach to improve trade competitiveness and export growth.

The study “Trade Facilitation, Value Creation, and Competitiveness: Policy Implications for Vietnam’s Economic Growth” is an activity under the World Bank-funded technical assistance program to support the formulation and the implementation of the National Action Plan for trade competitiveness enhancement in Vietnam. The program has been carried out in collaboration with Office of the National Committee for International Economic Cooperation (NCIEC) to help Vietnam formulate and implement activities to enhance trade competitiveness, especially in the context of global crisis, and at the same time improve the efficiency of international economic integration.

I must welcome and am highly appreciative of the close collaboration between the World Bank in Vietnam and Office of the NCIEC in this and the past endeavours. I believe that the continued cooperation and support of the World Bank will contribute to promote the economic development of Vietnam.

Vu Van Ninh
Deputy Prime Minister
Chairman, National Committee for International Economic Cooperation
ACKNOWLEDGEMENTS

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This report is a product of a comprehensive study “Trade and Transport Facilitation Assessment” (TTFA) funded by Trust Fund TF097373 under the umbrella of the World Bank-managed Trade Facilitation Facility (TFF). The general objective of this study is to identify ways to improve the competitiveness of Vietnam’s exports. The challenge facing Vietnam is not only reducing the cost and time of logistics for its exports but also restructuring its supply chains to add value to its exports and to promote trade in higher value goods. The study supports activities that can bridge the policy gap in trade and logistics facilitation and assist the formulation of a national trade facilitation strategic plan. The strategy, when implemented, will enhance Vietnam’s competitiveness and sustain productivity-based growth.

An endeavor of this breadth and detail cannot succeed without the contribution of many people. The team is grateful to the following for contributing to the writing of this report: Thomas Farole, Gerard McLinden, Jose Barbaro, Jean-Francois Gautrin, Trinh Minh Anh, Nguyen Luong Hien, Ngo Thi Ngoc Huyen, Nguyen Duc Tri, Nguyen Thi Phuong Hien, Nguyen Thi Diem Hang, and Nguyen Ngoc Anh.

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GUIDE TO THE REPORT

This report consists of three volumes. The first, the Summary Report, captures the salient features and key messages of the entire study. Volume 1 provides the detailed analysis of the themes while Volume 2 contains case studies of trade facilitation of six industries.

The summary report brings together the main features of trade facilitation. It views trade facilitation as having three main components — trade-related (“hard infrastructure”), regulatory and organizational framework (“soft infrastructure”), and supply chain organization. These components are considered against the context of changes in Vietnam’s trade environment, as well as function within the country’s institutional framework. The strengths and deficiencies of these components are highlighted and the role of government in capitalizing on these strengths while addressing weaknesses is discussed. A summary of recommendations concludes the report.

Volume 1 consists of the detailed analytical discussion from which conclusions are drawn and recommendations made. Chapter 1 presents the conceptual framework for the analysis, beginning with characterizing trade facilitation and demonstrating how different parts fit together to have an impact on export competitiveness. Chapter 2 provides the context of Vietnam’s trade dynamics, showing why, despite a current robust export performance, Vietnam needs to take trade facilitation seriously. Chapter 3 depicts the country’s performance in this area, identifying performance gaps to show the scope for improvement. Chapters 4 to 6 provide detailed discussion of the “pillars” of trade facilitation. Chapter 4 examines the state of Vietnam's trade related infrastructure in terms of the major transport nodes. Chapter 5 outlines the regulatory framework for cross-border trade. This is viewed from the perspective of the domestic economy as well as Vietnam’s trade facilitation commitments from agreements with other countries, especially the ASEAN grouping of which it is a member. Chapter 6 explores the role and state of supply chains in Vietnam. This is an important area for trade facilitation, but one in which little work has been carried out. The discussion consolidates surveys of six subsectors undertaken specifically for the study. Chapter 7 discusses the institutional framework within which the pillars of trade facilitation function. This framework has macro-, mezzo-, and firm-
level dimensions. The final chapter summarizes the many policy recommendations to address the deficiencies identified in the preceding chapters. A policy matrix matches deficiencies to remedies.

Volume 2 contains case studies of supply chains for six subsectors -- three manufacturing and three agricultural. The manufacturing subsectors are textiles and garments, footwear, and electronics and electrical equipment. The agricultural/aquaculture subsectors are rice, coffee and seafood. All these subsectors have experienced healthy export growth but each has weaknesses in its supply chain.
Regardless of whether trade promotes growth or vice versa, the link between them is undeniable. The rapid growth of East Asia through an export-led strategy bears testimony to this link. A widely held prescription for export promotion is trade liberalization through reduction of tariffs and other barriers. Again, East Asia’s low average tariffs relative to other regions appears to support this strategy. However, this endorsement needs to be qualified. The earlier years of export promotion by both Japan and Korea were accompanied by high protection for exports. For these countries, export promotion was supported by strong proactive government policies that would not be permitted under WTO rules today. Similarly, China’s export success has been allegedly built upon a deliberately suppressed exchange rate, with trade liberalization implemented only gradually.

Highlighting these departures from the standard prescription is not intended to stress that the alternatives are superior, but to show that there can be a strong proactive role for government in promoting exports that extends well beyond the reduction of tariffs. This role consists of creating an environment -- physically as well as regulatory -- in which exports are facilitated. This translates into creating and/or strengthening physical infrastructure as well as an institutional framework conducive to exports.

The importance of an enabling environment highlights a second, but less heralded, component of trade. Contrary to the assumption behind theories that trade is frictionless as it flows between nations or regions, costs are incurred in preparing goods for export. This points to the importance of trade facilitation, defined by the World Trade Organization (WTO) as “the simplification and harmonization of
international trade procedures, including the activities (practices and formalities) involved in collecting, presenting, communicating and processing the data required for movement of goods in international trade” (ESCAP 2002). Broadly, this covers not only management and administrative procedures as goods move from shore to ship or vice versa (across the border) but also transportation, logistics, insurance and other financial services (behind the border).

Critical to trade facilitation is the role of domestic supply chains for goods produced for export. A well-functioning supply chain reduces facilitation cost while control of the chain contributes significantly to value addition of an export. The government has a role in ensuring that both benefits are reaped by the country, its firms and citizens. This role requires collaboration among all key stakeholders.

The need to deal with these issues provides the rationale for and forms the organizing themes of this report. Since these issues are closely related, a coherent trade policy that incorporates trade facilitation requires dealing with all these issues simultaneously.

This report explores the role of trade facilitation and logistics in driving export and ultimately national competitiveness. It posits that this area of trade consists of three interrelated pillars: (i) transport infrastructure and logistics services; (ii) regulatory procedures for exports and imports; and (iii) supply chain organization. Transport infrastructure and logistics services relate to the physical aspects of trade flows. Logistics services include a variety of services, the most important of which are transportation, storage and consolidation. Regulatory procedures are those that need to be complied with for movement of goods across borders. Supply chain organization involves the selection and sequencing of operational services for production and other export activities involved in the flow of goods from source to customer, including processing, assembly and customization.

1 This report is a product of a project under Trust Fund TF097373 which was conceptualized in May 2010 to support activities that help fill the policy gap in trade facilitation and support the formulation of a national action plan for trade facilitation and competitiveness.
Behind these pillars is the institutional framework within which they function. This framework has three levels -- policies and strategies at the macro-level, the organizational and the legal framework for enabling trade at the mezzo-level, and economic activities structured along the three pillars at the lowest level. The strengths and weaknesses of this framework have a material bearing on how well these pillars function, as well as on the business environment in general. This discussion is supported by evidence from several industry case studies. Each of these industries has exhibited high historical growth and appears to be a candidate to drive future export growth.

It should be noted that the theme of this report is trade facilitation. Insofar as it affects value addition and competitiveness, the latter also need to be brought into the discussion. It is not intended that these latter two themes be considered equally important as trade facilitation, or that all aspects of importance of these themes need to be addressed.

This summary is organized into nine sections. After the introduction, Section 2 presents the conceptual framework for this study. The economic context under which trade facilitation is discussed is outlined in Section 3. It describes Vietnam’s evolving structure of trade and competitiveness. The country’s trade logistics is part of this structure and this is germane to understanding the key issues and solutions proposed. This is followed by discussion of the three pillars of trade facilitation in Sections 4 to 6 and then Section 7 presents the institutional framework underpinning these pillars. Section 8 then pulls together the diverse roles of government, such as setting policies, acting as regulator, and being the facilitator working in collaboration with key stakeholders. The conclusion, Section 9, suggests a set of recommendations.
The conceptual framework for this study uses the World Bank’s definition of trade facilitation. This includes both the hard and soft infrastructure needed to support trade but extends this definition to include the role of supply chains. These three “pillars” function within a multi-level institutional framework to reduce time and expense, improve reliability and capture higher value added for export activities -- all of which ultimately enhance the country’s trade competitiveness. This framework elaborates the export-led growth model highlighted in the Social and Economic Development Strategy 2011-2020 and the World Bank’s Vietnam Country Partnership Strategy 2012-2016.

This study assumes the World Bank’s view that trade facilitation includes not only factors such as reducing and abolishing tariffs and simplifying customs procedures, as well as regulations on origin and quality, but also factors such as enhancing the business environment, improving the quality of infrastructure, and increasing the transparency of the legal system. All these factors have an impact on the export capacity of a country by reducing the production cost of goods exported. Trade facilitation measures can be considered in two dimensions: (i) investment in “hard” infrastructure (including highways, railroads, ports, and information infrastructure) and (ii) investment in “soft” infrastructure (including transparency, customs efficiency, border management, business environment and other institutional reforms).  

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This approach is relevant to Vietnam because (i) export-led growth remains one of the key directions in the Social and Economic Development Strategy 2011-2020; (ii) Vietnam consistently follows a policy of openness, joining in international economic organizations and signing Free Trade Agreements with many international trading partners; and (iii) while recently passing the threshold of becoming middle-income economy, Vietnam faces new challenges. The next section explains why, despite enjoying healthy growth, Vietnam’s export competitiveness will no longer be able to rely on existing levers, especially liberalization. Trade facilitation needs to become a more important policy to implement.

As Figure 1 shows, the three pillars collectively affect trade competitiveness. It also shows that, despite being referred to as “pillars,” these themes are closely related. Also, the structure of supply chains adds a new dimension to the World Bank’s definition of trade facilitation.

Figure 1 shows these pillars functioning within an institutional framework. This framework exists at the macro-, mezzo- and firm-level. Macro-level strategies need to frame the organizational structure and rules at the mezzo-level. At the firm-level are the institutions that carry out the activities of trade facilitation.

Figure 1: Trade Competitiveness
Three Pillars of Trade Logistics and Facilitation

Note: C/T/R: Cost/Time/Reliability
Source: Authors.
This framework shows the importance of including trade competitiveness in any discussion of trade facilitation. This study takes this approach and competitiveness is discussed in the context of trade facilitation only. The report therefore combines the key elements of the Trade and Transport Facilitation Assessment (TTFA) methodology developed by the World Bank, with the supply-side factors and business environment components of the Bank’s Trade Competitiveness Diagnostics (Reis and Farole, 2011) and the discussion of supporting industries in the Vietnam Competitiveness Report (Porter, 2010). Further, within the TTFA concept, the restructuring of supply chains is discussed in relation to trade facilitation. However, as will be shown, this has a much wider significance.

This framework also elaborates on the competitiveness pillar of the World Bank’s Country Partnership Strategy 2012-2016 (CPS) for Vietnam and articulates the key issues to be implemented to improve quality and efficiency of infrastructure services to capture value addition highlighted in the CPS.
3. SETTING THE COMPETITIVE CONTEXT: TRADE DYNAMICS IN VIETNAM

Vietnam's spectacular growth since Doi-Moi -- the 1986 reforms intended to create a market-socialist economy -- has resulted largely from economic liberalization, in which trade has played a vital role. Vietnam has become one of the most trade-oriented countries in the world. The rapid growth of exports in Vietnam was underpinned by the removal of trade barriers, both tariff and non-tariff, during the reform process. While this positive development is to be lauded, evidence is emerging that its continuation cannot be guaranteed. Existing drivers of export growth are mostly depleted and new proactive efforts to boost export competitiveness must now be established. With Vietnam becoming increasingly trade-dependent, trade facilitation has become a vital determinant of Vietnam's export competitiveness. Indicators of trade facilitation, while mixed, do leave significant scope for improvement. These messages are conveyed through the statistical evidence of this section. They also provide the rationale for this study.

3.1. Trade Structure and Dynamics

Economic liberalization has led to the country's international trade growing steadily each year over the past two decades. This growth was particularly rapid after 2003, although the global financial crisis of 2009 interrupted this advance briefly (Figure 2). Exports expanded at an annual rate of 17 percent from 2000 to 2010, but imports grew even faster, at an average rate of 18 percent. This growth has been driven mainly by the “push” effect as opposed to geographical and sectoral effects. The result has been a dramatic rise in Vietnam's trade openness, typically measured by the ratio of the sum of exports and imports to the country's GDP. At 147.5 percent
TRADE FACILITATION, VALUE CREATION, AND COMPETITIVENESS

of GDP (2010) this is third behind Singapore and Malaysia, but ahead of all other countries in Southeast Asia. Vietnam’s trade openness has increased in contrast with negative trends faced by other economies in Southeast Asia but this needs to be balanced against its heightened vulnerability to external shocks.

Several milestones have marked this growth. The first is Vietnam’s participation in the ASEAN Free Trade Area (AFTA) on June 1, 1996, after the country’s admission as a member of the Association of Southeast Asian Nations (ASEAN) in July 1995. The second is the Bilateral Trade Agreement between Vietnam and the United States (US BTA), which became effective on December 10, 2001. The third is Vietnam’s accession to WTO membership on January 11, 2007.

Figure 2: Growth of Vietnam’s Trade, 1996-2011

Trade growth has been accompanied by changes in trade structure. In terms of product groups, the export of primary commodities, including crude oil, although still accounting for a large share of exports, has declined over the past decade from 51.7 percent in 2000 to 30 percent in 2010. Manufactures, mostly low-and
medium-tech products, have increased from 42.9 percent in 2000 to 59.8 percent over the same period. This is a reflection of the success achieved during Vietnam’s industrialization process. In terms of technology, Vietnam’s exports have been markedly low-tech. Indeed, the diminution of the primary products share has been largely compensated by low-tech manufactured goods exports and the share of medium and high-tech exports has not increased significantly.

Vietnam’s share of total exports of the world’s 20 most dynamic products (measured by highest import growth) has been insignificant, in terms of competitiveness. However, in 13 of these products, Vietnam’s growth rate of exports sometimes exceeds considerably the global export growth rates. This is one indication of growing competitiveness.

Another indication of increased competitiveness is the global market share of manufactures of different technological intensity in Vietnam’s total exports. Among Asian countries, Vietnam has a higher than average growth rate for high-tech exports, second only to China, but did not gain in terms of market share and has a low value of per-capita high-tech exports. This also applies to Vietnam’s medium-tech exports. In the low-tech sector, Vietnam is performing relatively well, with a growth rate for exports higher than most other countries, as well as some gain in market share. Taken together, these figures show Vietnam to have comparative advantage in low-tech manufactures and resource-based and primary exports. This is consistent with Vietnam’s current growth model, which is based on extensive rather than intensive growth.

This positive view of trade is tempered by several challenges. First, Vietnam faces serious deficits in its trade with major partners (Figure 3). Until 2000, Vietnam’s trade had been relatively balanced, but since then, the balance of trade has been increasingly negative. The source of this imbalance varies between countries. Vietnam runs trade surpluses with the United States and the European Union, has a relatively balanced trade with Japan, but has significant deficits with China and the ASEAN countries.

Second, in terms of the composition of products, Vietnam’s exports have remained primarily low value goods. This structure of exports contrasts sharply to the performance of China, where the share of high-tech exports rose from 21 percent to 32 percent between 2000 and 2010.
Third, Vietnam’s exports are relatively concentrated. The top ten exported categories -- textiles and garments, footwear, fishery products, crude oil, electronics and parts, wooden products, rice, rubber, coffee, and coal -- account for two-thirds of the total export value. Apparel and footwear, both labor-intensive industries, comprise most of Vietnam’s manufacturing exports. Imports are less concentrated. The top five imported items, including iron and steel, petroleum, textile fabrics, electronics, and plastic constitute about 50 percent of the total imports. Vietnam has relatively few trading partners, and its main export destinations are the United States, the European Union, Japan and Australia -- accounting for 60 percent of Vietnam’s total exports in 2010. Vietnam’s imports by source country are equally concentrated and originate mostly from the Asian region. More than 60 percent of its imports come from China, Singapore, Taiwan (China), Japan and South Korea. However, in a positive development, the product and market concentration of Vietnam’s exports has reduced in recent years.

Fourth, Vietnam still produces and exports products of modest technology and/or design (Figure 4). While the share of manufactured goods in total exports has increased considerably over the past decade, there has been limited improvement
in technology intensity. Although growth has been observed in all types of exports, only low-tech exports have increased their global market share and as a result this export model has generated little value added for the economy. Low-technology products are clearly responsible for this situation. However, this is not the only reason for the low value added of Vietnam’s exports. Another is the low quality positioning of its major exports.

Figure 4: Composition of Vietnam’s Exports, by Level of Technology Embodied, 2000-2010

Finally, with trade liberalization already advanced, the scope for increasing trade through this avenue is reaching its limits. Much will increasingly depend on the country’s export competitiveness. This highlights the theme of this study -- trade facilitation -- and the role of government to ensure export costs are minimized and value addition maximized.

3.2. Trade Logistics Performance

Vietnam has had a mixed record in trade logistics performance. The World Bank’s Logistics Performance Indicator (LPI) places Vietnam in a relatively good position, ranking it among the top ten lower-middle economies with a better than expected

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3 While a large share of high-technology manufactured exports does not guarantee high value added from these exports, a large share of low-technology manufactured exports invariably means low value addition.
logistics performance given its level of per-capita income (Table 1). However, Vietnam’s overall ranking has not improved over the past five years while Indonesia and the Philippines have seen major gains, and the already highly ranked China and Malaysia continued to achieve modest gains. Within this index, customs efficiency, logistics competence and infrastructure have experienced progressive deterioration but international shipments, tracking and timeliness have improved.

Table 1: Vietnam’s Trade Logistics Performance, Selected Years and Selected Indicators

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<th>2007</th>
<th>2010</th>
<th>2012</th>
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<td><strong>1. Logistics Performance Index (LPI)</strong></td>
<td>53</td>
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<tr>
<td>1.1 Customs</td>
<td>37</td>
<td>53</td>
<td>63</td>
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<tr>
<td>1.2 Infrastructure</td>
<td>60</td>
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<td>1.3 Timeliness</td>
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<td>76</td>
<td>38</td>
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</table>

Source: LPI, World Bank.

Nonetheless, the Enabling Trade Index (ETI) of the World Economic Forum (WEF) gives a lower overall ranking to Vietnam than the LPI, and again, contrary to the latter, shows considerable improvement with Vietnam rising from 89th in 2009 to 68th in 2012. However, Vietnam’s poor transport infrastructure was also noted in the WEF’s Global Competitiveness Report 2011-2012. It ranked Vietnam below most of the countries in the region and hence below the regional average for all transport modes (Figure 5).

Figure 5: Vietnam Infrastructure Compared with Regional Average

Despite difficulties with port infrastructure, Vietnam’s ocean shipping services have improved according to UNCTAD’s Liner Shipping Connectivity Index (LSCI). This index is based on the number and size of vessels calling at a country’s ports. Between 2004 and 2011, Vietnam overtook Thailand and Indonesia while understandably lagging well behind major transport hubs like Singapore, Hong Kong SAR (China), Malaysia and China.

Finally, the World Bank’s Doing Business Survey includes measures of the time and cost (excluding tariffs) associated with exporting and importing a standardized cargo of goods by ocean transport. This is used to compute an index for “trading across borders.” In 2012, Vietnam ranked 68th out of 183 economies for this index even though its overall ranking in the Doing Business Index was 98th. However, this performance is still below its neighbors and, notably, in the time required for imports and exports, is the highest in the region (Figure 6).

Figure 6: Comparative Logistics Cost

The overall picture from these indexes, despite sometimes conflicting results, is that while improvement has occurred in some aspects of trade logistics and facilitation, there has been deterioration in others, and therefore scope remains for improvement. Arguably, the biggest impediments for Vietnam are inadequate physical infrastructure and inefficient customs, over which the government has major responsibility. These, as well as other constraints, are discussed in the context of this study’s thematic issues.
Vietnam has recorded substantial increases in public investment in infrastructure. These increases notwithstanding, its trade-related infrastructure has not maintained pace with the growth of its exports. From a trade competitiveness perspective, Vietnam’s growth potential is being constrained severely by weak infrastructure and transport links. Weak corridors connecting major growth poles to main international gateways, high transport costs, poor quality of transport and logistics services are among key impediments. The over-reliance on public investment, which is clearly “unaffordable, inefficient and therefore unsustainable”\textsuperscript{4} should be changed. To be more efficient, improve the public investment regime, shift to private sector financing, and establish a clear priority for essential investment are all key to enhance competitiveness.

The spatial organization of economic activities shows these to be centered on three major and several secondary development clusters. Figure 7 shows the major clusters located in the south, centered on Ho Chi Minh City (HCMC) and the surrounding Binh-Duong and Dong-Nai provinces, the north, centered on Ha-Noi, Hai-Phong and Quang-Ninh province, and the less developed central region, centered around Da-Nang and Quang-Nam province. These clusters also contain the major international gateways of sea, air and land.

The transport infrastructure needed to support Vietnam’s major exports depends on the nature of the products. As already discussed, Vietnam exports a variety of products as follows:

- **Raw materials** -- mainly crude oil and petroleum in the south and coal in the north. These are transported as dry or liquid bulk cargoes and require dedicated transport infrastructure.

- **Manufactured goods** -- mainly textiles and garments, footwear, electronics, and wood products. These require substantial imports of raw material and intermediate goods. They are produced in all three clusters and transported primarily as containerized cargo to the major international seaports.

- **Agricultural goods** -- mainly rice, coffee, rubber and marine products. These are exported primarily in ocean containers but also in truckloads to neighboring countries. They are produced in the rural areas surrounding the clusters and processed in factories usually located near the international gateways.
Figure 7: Development Clusters and Corridors, and Trade Flows

Source: Corridor Analysis, TDSI 2012.
Despite public investment in upgrading the transport infrastructure, capacity has not kept pace with the rapid growth of exports. Some specific examples of deficiencies are:

- NH1A is the backbone of the highway system for both goods and passengers. The Ha-Noi – Thanh-Hoa segment in the northern cluster carries 32,000 vehicles a day, causing heavy congestion as well as high road wear. However, the Dong-Nai to HCMC segment serving traffic from all three clusters carries three times this amount of traffic.

- The railway system, although well suited to transport bulk goods, has played a very limited role in the transport of goods for export, and has experienced an average drop in traffic of five percent a year between 2006 and 2010.

- Inland waterways carried 18 percent of the country’s goods traffic in 2010, and are particularly important in the Mekong area. However, limited investment in berthing and handling facilities as well as limited capacity and congestion has increased the risk of accidents. These problems add to the disadvantage of a longer travel time compared to roads.

- About 90 percent of Vietnam’s international trade is transported by sea. Existing port capacity appears able to cope with current demand, but the planning for new facilities is not always based on sound demand projections. An example is the newly developed Cai-Mep port, which in 2011 had a designed loading capacity of 6.4 million TEUs a year, although the current demand is only 0.5 to 0.7 million TEUs.

- Port efficiency plays a dominant role in export competitiveness. The problem, however, is not simply inadequacy of infrastructure but more the limitations of land connectivity and the lack of support from modern and efficient logistics services. Ha-Noi – Hai-Phong, HCMC – Saigon Port and HCMC – Cai-Mep could become more efficient and effective multimodal transport corridors if they were served by better highways, railways and even Inland Waterway (IWT) connections. It is also important to develop high quality clusters for logistics near the two main ports.

Figure 8 illustrates how weak infrastructure undermines growth potential. Despite falling into the group of countries that have large markets, Vietnam is potentially compromised by barriers to entry. Efforts to improve connectivity, both to global market and for domestic input-output linkages, would clearly yield dividends.
In summary, Vietnam clearly needs to upgrade its deteriorating infrastructure simply to maintain export competitiveness, yet the current level of investment has been inadequate. More importantly, the only source of public investment in infrastructure has not always been efficiently allocated. Existing transport modes, in addition to being overloaded in the major clusters, cannot effectively link these clusters with their trade gateways. Inefficient allocation of resources has arisen from politically rather than economically driven decision-making and there are three causes for this situation.

First, investment in physical infrastructure does not appear to have taken into account the vital role of this infrastructure in Vietnam’s exports. Although SEDS (2011–2020) mentions establishing “a comprehensive system of infrastructure with some modern projects” as “a strategic breakthrough” no clear vision linking infrastructure development with national trade competitiveness has been articulated. Transport infrastructure did not receive explicit treatment in this document but instead was categorized along with energy and irrigation. The Transport Master Plan for the period to 2020 received only scant attention in SEDS (2011–2020).

Second, the Transport Master Plan did not link transport infrastructure with trade. Trade competitiveness was not clearly articulated as an objective of the Plan, and
specific policies for enhancing competitiveness are conspicuous by their absence. The initiatives that do exist appear not to have taken into consideration financial feasibility. Indeed, with each province making claims for resources, not only was there no prioritized framework for investment but the potential for politically driven projects that lead to duplication and waste is substantial. Finally, the heavy infrastructural focus of the plan has not prevented huge investments in ports, but with inadequate provision for access road infrastructure.

Third, development of zones and corridors are not part of a coordinated effort to improve trade-related infrastructure for export growth. This lack of coordination has created bottlenecks, with traffic congestion made worse by the ban on trucks in urban areas. Vietnam has almost 100 designated export processing zones, but only a small proportion has been successful in generating significant export trade. The principal corridors connect the production clusters near Ha-Noi and HCMC with their main seaports, Hai-Phong Port and Sai-Gon Port respectively. Although the quality of the transport services on these corridors has improved, investment in infrastructure has lagged behind the growth in demand. While some of these problems are being addressed, insufficient attention is being given to the impact on the performance of the trade corridor. This is especially true for road networks where priority is given, quite understandably, to the movement of people rather than freight.
Vietnam’s regulatory procedures also need improvement. While major attention to customs reform has produced some strengthening in border management, many agencies continue to rely on outmoded procedures that are time-consuming, opaque and susceptible to corruption. Business processes remain complex, inconsistent, and based on manual procedures with very little IT application. With trade growing rapidly, the setback these procedures cause to export competitiveness cannot be overemphasized.

Vietnam’s integration into the world trading system has progressed steadily over the past three decades. Over the past decade and half, economic growth and transition to a market economy in Vietnam has produced a considerable increase in cross-border transactions, but greater international integration has meant that the share of tariff revenue in the total tax revenue has been reduced. As a result, the primary role of customs has gradually shifted from revenue mobilization to border security with a resulting impact on trade facilitation. More recently, customs has sought to meet new challenges arising from the global financial crisis. Increasing security concerns have encouraged a more control-focused approach that increases costs to traders. A return to protectionism, in particular the introduction of non-tariff barriers, is the government’s response to the financial crisis. Neither development is helpful to trade facilitation.

Recent revisions in customs conventions have introduced a range of international standards and practices that have dramatically improved border management. Streamlining procedures was afforded high priority in Vietnam’s ongoing customs reform and modernization program. However, information technology applications remain in a pilot stage. They replicate manual processes and are used only for processing declarations. Application of risk management is in its early stages and does not guide most of decision-making processes.
The other ministries and agencies involved in border management continue to rely on time-consuming and resource-intensive procedures based on paper forms and manual processing. They have yet to embrace a more facilitative approach to managing compliance risk. As a result, Vietnam’s regulatory procedures for imports and exports are still slow, inconsistent, and vulnerable to administrative corruption. Furthermore, they fail to keep pace with improvements in business practices adopted by private sector traders. The inevitable increase in transactions as trade grows has not been matched by improvements in staffing and procedures with the result that Vietnam still lags far behind its regional peers (Malaysia, Thailand and China) in border clearing times and physical inspection rates.

Client perceptions of customs performance are likewise negative. A World Bank survey undertaken in 2006 revealed that clients viewed customs procedures as complex, lengthy, neither clear nor consistent, and therefore costly to comply with. In addition, personnel were unqualified and inefficient, and brokerage firms were frequently unaware of the improvements in the customs modernization program.

A survey on corruption, jointly conducted by the State Inspectorate and the World Bank in 2005 and repeated in 2012, indicates that customs is among three most corrupt agencies in Vietnam. Two other corrupt agencies that are also involved in trade facilitation are the traffic police and the transport/mineral management agency (Table 2).

<table>
<thead>
<tr>
<th>Table 2: Most Corrupt Organizations</th>
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<tbody>
<tr>
<td><strong>2005 Survey</strong></td>
</tr>
<tr>
<td>1 Cadastral and Housing Agency (CHA)</td>
</tr>
<tr>
<td>2 Customs /Import-Export Agency</td>
</tr>
<tr>
<td>3 Traffic Police</td>
</tr>
<tr>
<td>4 Public Finance and Tax Agency</td>
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<tr>
<td>5 Entities in Construction Industry</td>
</tr>
</tbody>
</table>


Multiple agencies are involved in implementing the regulatory framework for cross-border trade. They include the Ministries of Finance, Industry and Trade, Agriculture and Rural Development, Culture and Information, Health, Post and Telecommunications, Public Security, and the State Bank of Vietnam. However, attention has been focused on reforming and modernizing customs systems and procedures and there is weak coordination among key stakeholders. Although significant progress has been achieved, much work remains to bring border management procedures and institutions up to global good practice standards.
The General Department of Customs (GDC) has been appointed the lead agency to implement the ASEAN Single Window (ASW). However, progress on the National Single Window (NSW) and ASW has been hampered by the lack of dedicated human and financial resources as well as a degree of uncertainty associated with the future customs information system. Although this has been settled in favor of the Japanese system\(^5\), bringing this system to full operation will take time, requiring the cooperation of all stakeholders. This is an example where a cooperative partnership with the private sector is essential.

In addition to customs and the NSW/ASW, border management also covers compliance with the WTO’s Technical Barriers to Trade (TBT) and Sanitary and Photo-sanitary measures (SPS) -- the SPS agreement -- as well as rules of origin and intellectual property rights (IPR). While much attention has been given to SPS and TBT, the government’s priority has been to strengthen controls and institutional capacities with little attention paid to the resultant administrative burden from the implementation of these agreements and measures.

\(^5\) Nippon Automated Cargo and Port Consolidated System (NACCS).
Weaknesses in Vietnam’s supply chains for manufactures and agricultural products have prevented the country from lowering export costs in capturing much needed value added. Key constraints facing the former include a heavily passive dependence on imported materials and weak capacity for sourcing materials. This negatively affects the ability to reduce lead-time and meet the flexibility of global markets change. The latter faces regulatory constraints for large-scale agro-industrial development. In particular, the dominance of government-to-government rice export discourages production of high quality and differentiated rice. Development of supporting industries, though a longer-term endeavor, can help relieve many of these constraints. Yet little attention has been paid to restructuring these or developing clusters and supporting industries to reduce cost and capture more value added.

The efficiency of supply chains affects the cost of exports -- a poorly structured or inefficient supply chain can add substantially to the cost of the exported good. Ensuring that supply chains operate efficiently is therefore vital to trade facilitation. Different segments of these chains embody varying shares of value added. Therefore, restructuring these chains to capture as much value added as possible provides a second justification for considering these chains as one of the pillars of trade facilitation.

An important strategy for both supply chain restructuring and value added capture is to develop a viable supporting industries subsector. Vibrant supporting industries enable export processors to reduce time and costs by sourcing inputs locally and increase reliable delivery and flexibility in response to international vendors, which
are key factors to improve supply chain performance. They also attract Foreign Direct Investment (FDI) and technology transfer, and make the country an attractive subcontracting destination and an integral part of global supply chains. In addition, increasing localization and reducing the proportion of imported materials for export processing reduces trade imbalance. Moreover, the development of supporting industries, which are usually small-scale production and performed by small and medium businesses, contributes to private sector development appropriate to the level of technology absorptive capacity of Vietnamese small- and medium-sized enterprises (SMEs).

Nonetheless, supporting industries in Vietnam remain fragmented and underdeveloped, the result of an unfocused vision and weak legal framework. Although these industries are at an early stage of development, they suffer from outdated technology. State-owned enterprises (SOEs) are dominant in the sector, but lack cohesion with FDI and private SMEs. Current policies, including those for transport and SME development, are piecemeal and lack a clear vision targeting trade competitiveness enhancement. While developing supporting industries has huge payoffs, it will be a medium- to long-term endeavor. In the short-term, it is also important reexamine the effectiveness of existing supply chains. While supply chains are specific to the particular goods that are exported, those in Vietnam can be broadly classified by type of major exports -- agricultural and manufactured.

The low-tech manufacturing firms in the garments and footwear industries are generically referred to as Original Equipment Manufacturers (OEMs), Original Design Manufacturers (ODMs) and Original Brand Manufacturers (OBMs). However, OEMs can be foreign-owned vendor factories, and may engage in manufacturing only, manufacturing and procurement, or manufacturing, procurement and sourcing of materials (Figure 9 illustrates the garment industry). The supply chain is defined by the sequence of activities with value creation rising moving up and down the chain from manufacturing. Value addition comes from enhancing the value of the final product and restructuring the supply chain to capture more of the upstream and downstream activities.
In Vietnam, most of the firms in the garment industry are involved only in manufacturing, with 60 percent of them foreign-owned vendor factories. The remaining firms are either contract manufacturers that also undertake procurement or a smaller number engaged in manufacturing, procurement and sourcing. Only two percent of the firms are Original Design Manufacturers (ODMs). There is, therefore, considerable scope to restructure this industry’s supply chain to increase value added.

The structure of the footwear industry is similar to the garment industry shown in Figure 9. Foreign-owned vendor factories make up 45 percent of the factories, with local Original Equipment Manufacturers (OEMs) making up another 40 percent. The remaining are ODMs and Original Brand Manufacturers (OBMs). As with garments, about 60 percent of the raw materials are imported, mainly from Asian countries. The value added can be raised by increasing the proportion of higher-value footwear -- for example, men’s and women’s dress shoes and athletic shoes.
with leather components -- especially among locally owned firms. This also requires strengthening Vietnam’s image as a supplier of quality footwear. Conversely, increasing local production of raw materials and reducing delivery times for both input and exports would allow this industry to capture more value added from the supply chain.

The electronics and electrical equipment (E&E) industry in Vietnam produces components for complex electronic products that will be assembled in other countries, mainly China. This industry’s structure is broadly similar to other manufacturing industries, except that the levels below the OEM are contract manufacturers that produce components (electronic manufacturing services EMS). Below these firms are the producers of basic materials used to produce the components.

The electronics industry is dominated by foreign firms, especially large brand manufacturers like Canon and Panasonic that moved to Vietnam in order to reduce production costs. Initially, nearly all the components required for production were imports, but increasingly international firms have been sourcing these inputs locally to simplify their logistics. Electric equipment for power generation is produced by both foreign and domestic firms operating as contract manufacturers or brand manufacturers.

Vietnam’s electronics industry is at an early stage of development compared to its neighbors Malaysia, Thailand and the Philippines and previously, Korea and Taiwan (China). The experience of these countries shows local sourcing to be a major opportunity for local firms not only to capture value along the supply chain but also to acquire the technology needed for production of components. Working with international firms will encourage partnerships with the prospect of further technology transfer. As these firms absorb technology, they will move into higher value addition activities, creating opportunities for other local firms. A strong supporting and subcontract industry subsector will encourage further FDI from international companies and strengthen learning effects. The key challenge to the success of this process is having adequate quantity and quality of human capital to absorb technology.

The case studies show that major constraints facing manufacturing supply chains include: (i) reliance on primary supply chain structures from which very low value added is captured; (ii) heavy dependence on imported materials that negatively affect the ability to reduce lead-time and meet the flexibility of global market changes; (iii)
weak capacity for sourcing materials; (iv) dependence on intermediaries (through their buyers’ agents and vendors) for both finding the supplies and receiving market signals; (v) the zones/clusters located near major cities are crowded and have difficulties expanding and providing access to labor, while reallocation will require access to the land, cater specifically to the needs of the light industries, offer efficient connectivity to the major seaports, as well as skilled labor; and (vi) lack of working capital.

Vietnam has achieved several milestones in its agricultural exports including becoming the largest exporter of Robusta coffee and catfish and the second largest exporter of rice, globally. However, after more than a decade, this rapid growth is expected to taper off due to limitations on both land and labor. As a result, future increases in the value of trade will depend as much on increases in the unit value of the exports as on increases in volume. Supply chains are again important in these efforts.

Major constraints facing agricultural supply chains include: (i) rice exports dominated by G2G sales that encourage production of relatively low quality, undifferentiated rice; (ii) more than 70 percent of rural households farms under 0.5 ha in size do not use modern farming methods; (iii) regulatory constraints on the development of large-scale agro-industry; (iv) significant seasonal fluctuation in prices for all commodities; (v) ineffective regulation of health and sanitary conditions in transporting products from the fish farms to the markets (seafood); and (vi) lack of working capital.

Agricultural supply chains in Vietnam have some unique features. The best example is rice. Rice is not only a traded commodity but also a political commodity. This is partly because of food security concerns, but also because of dominant government-to-government (G2G) sales. Although there are more than 200 registered exporters, most of these export less than 1,000 tons per year. State-owned corporations accounted for 80 percent of rice exports in 2009. While private rice exporting is moderately encouraged and some shift to different varieties and branding is welcomed, there are few indications that the government wants to reduce the role of SOEs in the rice trade. There has been absolutely no receptivity to efficiency arguments. Yet, with ample supply and stagnant domestic demand, food security is not an issue. Rising exports is another testimony to this situation.

The rice supply chain for export has five components -- the farm, the collector, small local rice mill, large modern mill, and the exporter. The participants in these components vary depending on whether the sales are G2G or private-to-private (B2B). Although exported in large volumes, the rice trade remains a small-scale activity.
Fragmentation of the rice trade is due in part to limitations on working capital, which constrain the size of transactions. The supply chain is also not designed to maintain the integrity of the rice but mixes qualities indiscriminately, especially for G2G sales. The small farmers are disconnected from foreign market requirements with the result that there is little incentive for the former to improve quality.

As with rice, the supply chain for coffee exports extends from farm to buying agent or collector, then to processor before moving to international trader or distributor. Nearly all of the exports are Robusta coffee, which is dry processed and shipped as green beans of relatively low grade. The international trader is primarily foreign, with Nestle dominating. However, there are a few integrated coffee companies with entire supply chains extending to the production and sale of coffee products.

Problems in this chain include simple post-harvest processing and milling using domestically produced processing equipment. This results in a high proportion of broken beans and impurities. Working capital is also a problem for processors. Trade financing is available, but mainly for large growers.

Remedying the above problems requires a four-component strategy. The components are: (i) increasing the quality of coffee plants by planting more Arabica; (ii) improving the quality of processing of coffee beans; (iii) increasing the returns to farmers; and (iv) enhancing the performance of the trade corridor.

Vietnam’s highly competitive seafood industry consists of several thousand aquaculture farmers, a large number of purchasers and an extensive maritime fishing fleet. Processing plants, many state-owned, have excess capacity due to limited local supply. The supply chains extend from the sources of inputs (aquaculture, marine fishing) through the collector to the processor, which is often the exporter with various intermediates. Some of the processors are foreign-owned enterprises. The principal constraint on the performance of the supply chains is the shortage of inputs. This can be addressed through greater use of contract-farming arrangements to ensure a regular supply and supply contracts for exports rather than individual shipments. The contract farming arrangements could also be used to promote good practices and improve monitoring of quality and hygiene, which would continue throughout the supply chain.

Overall, in agricultural/aquaculture products, a number of issues need highlighting that appear to have eluded the government’s strategic planning.

- The supply chains include very little agro-industrial processing. Some of the reasons are (i) restrictions/transaction costs associated with land acquisition; (ii)
small-scale production of raw materials; (iii) limited horizontal integration (for example through cooperatives) and restrictions on direct procurement from farmers (inhibiting cost-effective procurement); and (iv) a proliferation of state farms and SOEs (especially in rice, rubber, and forestry).

- Related to this are constraints on the development of large-scale farming and the benefits of economies of scale and bargaining power (e.g. for rice, coffee, and rubber). The extent of fragmentation of rice farms has rendered farming uneconomic. To date, efforts such as the “large sample field” experiment for rice have achieved some success.

- Vietnam’s agricultural exports embody minimal processing. For example, more than 90 percent of coffee exports are green beans sold to large Multi-National Enterprises (MNCs) like Nestle. This is an area where public-private partnerships can assist in restructuring supply chains to Vietnam’s advantage.

- Quality issues have been important for coffee and rice and both require restructuring of supply chains. It is also particularly important for seafood, where a combination of disguised protection and health safety concerns is rendering access to potential markets increasingly problematic. Vietnamese quality certification is not currently recognized internationally, in particular for seafood. The establishment and enforcement of quality standards benchmarked against international norms is needed as an integral part of establishing Vietnam as a producer of quality goods.

- In all the case studies, trade finance, in particular for supporting working capital of processors and exporters, is an issue, given the lack of attention by private financial institutions. Public-private partnerships could provide significant benefits in this area. In addition, the development of financial instruments could help mitigate the impacts of fluctuations in prices and weather conditions.
The institutional environment for trade facilitation suffers at the macro-level. There are too many strategic plans with overlapping plans and activities and none has trade facilitation as an area of focus, or is integrated with other programs of trade, industrial and human resource development. International agreements covering this area have been signed but not yet implemented. At the mezzo-and firm-level, multiple agencies at different levels of government carry out trade facilitation activities with no coordination. This situation, as much as deficiencies in the supply chains themselves, creates inefficiency in trade facilitation.

The institutional framework, including rules and regulations, that governs the functioning of trade facilitation, has three levels (Figure 10). At the macroeconomic level policies and strategies have an impact on trade competitiveness, both national and international. The mezzo-level has regulations and systems for managing trade facilitation and these regulations are embodied in laws, decrees, and directives governing the conduct of trade, business, logistics, customs and border management. In this section, only the organizational structure will be discussed. At the lowest level are the economic activities structured along the three pillars discussed previously.

**The Policy Framework**

The macroeconomic policy framework has two dimensions -- one national and the other international. The national dimension consists of strategies laid out in several major documents. These are: (i) the 2011–2020 Socio-Economic Development Strategy with its focus on breakthroughs in creating a competitive
environment, developing human resources and building a strong infrastructure system; and (ii) a series of sectoral strategies:

- Vietnam’s Export-Import Strategy 2011-2020 and vision to 2030;
- Customs Modernization Strategy 2011-2020;
- Transport Development Strategy 2011-2020 and vision to 2030; and

**Figure 10 : Structure of Institutional Model for Trade Facilitation in Vietnam**

*Source: National Committee for International Economic Cooperation, 2011.*
In addition, in transportation infrastructure alone, about 40 strategies on national and local infrastructure have been formulated and promulgated. However, despite its stated importance, insufficient attention has been paid to developing the logistics business. It is also obvious from the above documents that “trade facilitation” and “trade competitiveness” have not been addressed systematically in the strategic planning process. Indeed, the concept of trade facilitation is often mistakenly referred to as the regulatory framework for the export and import regime. Similarly, the strategies for development of infrastructure and transport services are silent on trade competitiveness enhancement. The concept of commercial logistics is also seldom mentioned. Above all, there is a lack of a vision as to how trade facilitation can contribute to national competitiveness.

Internationally, Vietnam is signatory to a number of agreements with trade facilitation components. These are: (i) the WTO’s GATT 1994 Agreement, which has regulations covering freedom of transit, fees and formalities connected with importation and exportation of goods, and publication and administration of trade regulations; (ii) APEC, the members of which have implemented two Trade Facilitation Action Plans (TFAPs); (iii) the ASEAN Europe Meeting (ASEM), with its TFAP between ASEAN and the European Union; and (iv) ASEAN, in which Vietnam is signatory to the following agreements and programs on trade facilitation:

- ASEAN Trade in Goods Agreement (ATIGA);
- ASEAN Customs Modernization;
- ASEAN Single Window (ASW);
- Mutual Recognition Arrangements in ASEAN; and
- Harmonization of Standards & Technical Regulations.

Vietnam is also part of several ASEAN initiatives:

- The ASEAN Single Window;
- Mutual Recognition Agreements (MRAs); and
- Harmonization of Standards and Technical Regulations.

Vietnam has been proactive in formulating, negotiating, approving and making commitments as well as implementing rules on trade facilitation and logistics as a part of international agreements. The combined impact of signing and observing these bilateral and multilateral agreements has fostered an institutional environment for enhancing trade facilitation and logistics between Vietnam and other members of the international community. However, the extent to which improvements in trade facilitation can be achieved remains unclear because many commitments have yet to be translated into action. In terms of those rules relating to bi-lateral and multi-
lateral agreements with which Vietnam has begun to comply, the effectiveness of implementation depends on the efficacy of the institutions at the lower tiers.

Organizational Infrastructure

Currently, Vietnam does not have an agency in overall charge of trade facilitation. Governance of trade facilitation policies is implemented autonomously by different ministries. The following ministries and branches oversee activities in the three trade facilitation pillars.

- **Transport Infrastructure Development Management**: The Ministry of Transport (MOT) is responsible for developing, upgrading, and implementing transport infrastructure plans to meet the industrialization and modernization needs of the country. It does not have a body in charge of tracking integration of transport infrastructure development.

- **Border Management**: The Ministry of Finance, through its General Department of Customs, enhances state management effectiveness for exports and imports by simplifying customs clearance procedures at border gates.

- **Trade Logistics**: The Ministry of Industry and Trade (MOIT) is responsible for monitoring the policy environment, and for supervising imports and exports as well as logistic service activities. Its functions related to planning and developing transport infrastructure are not coordinated with the functions of the Ministry of Transport and other related line ministries.

- **Supply Chain Organization**: Many other line ministries play important roles in trade facilitation. These include the Ministries of Agriculture and Rural Development, Planning and Investment, and Resources and Environment although there is no formal avenue of cooperation among them.

Responsibility for trade facilitation is decentralized -- horizontally with ministries and their branches undertaking management and implementation in their respective areas of responsibility, and vertically from central government ministries to lower levels of government. Horizontal decentralization has led to a lack of coordination between areas while vertical decentralization affects how well activities are implemented. The overlapping authority and responsibility among ministries and their branches often cause difficulties in managing and instructing localities in the deployment of the strategy at the grassroots level. However, as there has not been a general national orientation on trade facilitation, the management and development of trade facilitation in each locality is often local, asynchronous and inconsistent with other localities.
Two interdisciplinary economic mechanisms have the potential to monitor trade facilitation. These are the National Council on Sustainable Development and Competitiveness Enhancement and the National Committee for International Economic Cooperation. While the former already has a monitoring role, the latter has considerable experience in monitoring interdisciplinary issues and advising on economic policies. However, the selection of either, or creation of a new body, needs to be carefully considered.

This review of institutional infrastructure reveals that policy has not been translated into effective action. There are a number of reasons for this. First, at the policy level, there has been neither a uniform approach to nor common understanding of trade facilitation and its important role. Trade facilitation is not yet recognized as a decisive factor in enhancing the competitiveness of Vietnam’s exports. Nor have there been common and consistent guidelines on trade facilitation. Second, while Vietnam has a common policy for development, it lacks concrete programs and methods of implementation. This results in many enterprises having no investment strategy to develop supporting industries. Third, due to challenges facing the institutional framework, the business environment in general and import-export environment in particular has been slow to improve. Fourth, the infrastructure for developing import-export trades and logistics services remains outdated, weak, uncoordinated and unable to keep pace with the high growth of trade. Fifth, Vietnam lacks the capital and other crucial resources to implement its strategies. Finally, high-quality human resources are in very short supply.
Although trade facilitation is primarily a private sector activity, the role of government is important both in terms of supporting activities that have externalities, and providing much needed assistance that spurs the flow of trade, but also in terms of removing impediments and withdrawing from areas where the private sector can better contribute. The Vietnamese government can do more in each of these roles. Of the various initiatives, attention to restructuring supply chains has benefits that extend beyond trade facilitation.

Why is Government important?

The above review suggests major areas in which a government role is important even though trade facilitation is typically a private sector activity and the familiar refrain of “leave it to the private sector” is heard from many policy specialists. Apart from the specifics, which will be discussed below, there are several general arguments in favor of a public sector role.

First, even if Vietnam was to become a full market economy, the government has a legitimate role in the provision of public goods. Transport infrastructure and border management, among other components of trade facilitation, are public goods. Second, Vietnam has for decades been an economy gradually transitioning to a greater market role. This transition, from a system in which the government role is pervasive, is not yet complete, and market signals are not able to ensure efficiency in any economic endeavor. Third, the successes of East Asian models of governance, from the developmental states of Japan and Korea, to the mixed models of Southeast Asia, speak to a legitimate proactive role of government beyond that postulated by neo-liberals and economics textbooks. China began its transition a decade before Vietnam and has been deploying the resources of the state to strengthen specifically
its trade facilitation in what is arguably the world’s first model of state-led growth. Despite the apparent similarities with China, Vietnam needs the public sector even more than China. Vietnam, with its overwhelming presence of state enterprises, has a legacy of a weak and fragmented private sector. “Leaving it to the private sector” is not viable in Vietnam, and the government must play a nurturing role.

**The Government and Trade Facilitation**

The government’s role for each of the three pillars can be broadly summarized. For the first pillar, upgrading trade-related infrastructure, government strategists should prioritize improvements according to their impact on corridor performance. Improvements in the coordination and the scale of the logistics services provided in the trade corridor, especially road transport, port cargo handling and border management services, can have a greater impact on corridor performance. This coordination can be achieved through encouraging greater use of information and communication technology (ICT) for exchange data between the services and processing the data to minimize the physical interaction between the service providers. Scale can be achieved through the development of collection and distribution hubs.

Concrete measures are presented in Section 9 but here the government’s broad role with respect to each pillar of trade facilitation is briefly outlined.

**Pillar One:** Measures are needed to revise the transport sector strategy to recognize explicitly its role in export competitiveness. This means paying attention to development clusters, international gateways and corridors, including coordination between activities of each. More focused investments in infrastructure are needed. The private sector has an important role to play, but cannot be expected to lead initiatives like cluster development and corridors which generate substantial externalities. While taking the initiative, the government’s role should again be to strengthen public-private partnership initiatives. The policy matrix in Section 9 provides further details.

**Pillar Two:** In streamlining procedures for cross-border trade, the government has a direct role. It can implement the revision of customs laws and regulations that shorten clearance times and eliminate the need for informal payments. Adoption of IT will be crucial to this endeavor, as will be the application of risk management to improve compliance management. The National and ASEAN Single Windows
proposals must be fully implemented, while an action plan must tackle the serious issue of corruption. These measures are more clearly described in the policy matrix.

**Pillar Three:** Restructuring supply chains requires a comprehensive strategic plan to be developed in consultation with key stakeholders, and an adequate policy framework to be completed. The criteria for selecting subsectors on which to focus government efforts should be carefully reviewed based on comparative advantage of the primary industries and the potential for future growth. Spatial development and input-output linkages between key primary and supporting industries are integral parts of cluster planning for the overall strategy. A national action plan implemented under the leadership of a strong body appointed to coordinate cross-cutting undertakings is vital for this vision to be achieved.

**Beyond Trade Facilitation – An Interim Development Paradigm**

This requires a government role that is related but operates clearly beyond the confines of trade facilitation -- achieving sustainable growth. The prevailing discourse on avoiding the middle-income trap has been framed in terms of moving into higher value added activities through technology enhancement. This involves, in the main, focusing on industries or products that embody at least a moderate level, but preferably a high level of technology that will permit continuous upgrading. This upgrading takes the form of starting out as an original equipment manufacturer (OEM), taking orders from larger foreign firms that provide all equipment design. Once the production technology is acquired, the local firm then moves into design, becoming in the process an original design manufacturer (ODM). The final phase of technology upgrading is when the local firm’s production and design capabilities are internationally recognized to the point it no longer depends on foreign firms to become an original brand manufacturer (OBM).

Korean firms such as Hyundai Motor Company started out as assemblers and then moved into higher value added activities to become OBM powerhouses in their own right. More recently, China’s Huawei began as an OEM for other brand name electronics equipment manufacturers but eventually established itself as the second largest electronics equipment maker (ODM) in the world. It is now in the process of establishing itself as an OBM. However, not all industries and firms make the full transition. Thailand’s automotive industry is one of the largest in ASEAN and ranked 10th worldwide in terms of output, yet there is not a single Thai-branded car. Instead, a wide range of cars carrying major brand names are produced in Thailand.
How does technology acquisition occur in this process? In Korea and Thailand, this has taken the form of the growth of supporting industries that produce for the local OEM/ODM/OBM. In the 1960s, Korea developed a strong support subsector, producing many parts and components and sewing products for clothing, footwear, handbags, purses and stuffed animals. Thai support industries have localized production of domestic wire, plastic details, cooker spare parts before moving up to higher tech products such as automobiles and TV tube lights etc. The vibrancy of a supporting industry sector is, of course, predicated on the availability of a human capital pool equipped with the skills to affect technology transfer.

Despite its record in East Asia, this strategy poses a particular challenge for Vietnam. First, Vietnam currently has comparative advantage in cheap labor for low-and medium-technology manufactures and natural resource endowment for agricultural products. Moving out of this manufacturing implies not only losing its current comparative advantage but also incurring the risks of entering a new field of manufacturing and competing against more established and experienced competitors. Second, it lacks a pool of human capital of a quality capable of taking on any technology transferred and its current education system is in urgent need of reform. Third, its institutional framework for effective technology absorption is not well developed.

Fortunately, as Ohno (2009) has argued in his discussion of Malaysia, and as case studies of Vietnam’s high export growth industries show, value addition can be achieved not only by moving to higher value products with improved technology but also by moving along the supply chain and, in essence, restructuring it to capture more of the value addition. As Figure 11 shows, a move to higher value products would raise the value creation curve upwards, while restructuring the supply chain would encompass the higher value addition part of the curve. As an exporter of primarily unprocessed resource-based products, Vietnam’s exports occupy the lowest part of the value added curve.
The strategy of supply chain restructuring to drive growth has several advantages for Vietnam. First, because it involves existing exports with high growth potential, it preserves Vietnam's current comparative advantage. This makes it more feasible and a lot less risky than changing the structure of production, which cannot be quickly accomplished and can disrupt labor markets. Second, WTO rules have now made it harder to emulate the strategies that Japan, Korea and Taiwan (China) adopted successfully to upgrade their industrial sectors. In any case, Vietnam lacks a vibrant private sector to which these industrial policies could be applied successfully. Third, it is less taxing than the strategy of moving to higher value products, through technology enhancement, which, though essential, will take careful planning and time. Thus, the supply chain restructuring strategy argues that:

- Technology upgrading is not the only avenue to capturing more value added, especially in the short-term.

- The move from OEM to OBM is applicable and beneficial for products other than those that embody substantial technology.

- For primary exports, national leverage in restructuring supply chains is stronger the larger the country’s share of global supply. For example, Malaysia’s dominance as a producer and exporter of natural rubber allowed it to set quality standards for that product. These standards continue in use today despite Malaysia's reduced importance as a producer.
The two strategies are not mutually exclusive, and the government plays an essential role to ensure the success of both strategies.

It should also be noted that value creation through supply chains strategies is important for trade facilitation even as economies make the transition from low- to middle- and finally to high-income. As the mode of production moves up the technology ladder from primary production to technology-based production, the role of supply chains also change, and with that the lever for value addition capture. These levers are shown schematically in Figure 12.

The above strategy does not mean ignoring opportunities for participating more deeply in global high-tech supply chains. It does mean capturing in the short- to medium-term opportunities for value added while allowing time for the industry to move up the technology ladder.

**Figure 12: Value Creation Through Supply Chains as An Economy Develops**

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**Source:** Boston Strategies International.
9. CONCLUSION: POLICY IMPERATIVES FOR TRADE FACILITATION

All these constraints and deficiencies can be addressed and this section contains suggested policy recommendations. Success will require considerable and sustained effort by all stakeholders, with the government playing a facilitative and coordination role. Political commitment will be needed from the leadership, given the vested interests such recommendations will affect. Nevertheless, unless preemptive action is taken immediately, Vietnam’s future competitiveness will be jeopardized as other countries move ahead with their trade facilitation agendas.

Although it falls to the private sector to maintain trade competitiveness, the government has a major role to play both in terms of providing the requisite policy, regulatory and institutional frameworks at the macroeconomic level, as well as the supporting infrastructure. This report has identified major constraints and bottlenecks that adversely affect the flow of exports and ultimately Vietnam’s trade competitiveness. This impact is particularly damaging when trade competitors are taking steps, including substantial investments in infrastructure upgrading, to enhance their competitiveness.

This report has made recommendations on the various dimensions of trade facilitation. These recommendations, together with specific actions needed, are distilled into four key messages.

Message 1: The first policy imperative is to build a sound policy framework and institutional capacity to implement a national action plan for trade competitiveness enhancement. This plan, aligning an export-led growth model to the changing global and domestic context, would focus on enabling trade and capturing higher value addition.
Much stronger policy coordination is needed to ensure effectiveness in the use of multiple policy levers on the above-mentioned pillars of trade facilitation. Coordination implies selectivity and sequencing of policy actions, given the size and complexity of the trade competitiveness agenda, the multiple policy levers needed, and limited human resources available (Figure 13). To achieve this goal, a national-level coordinating body should be appointed with specific terms of reference. These terms include coordination of ministries and branches, provinces and PPP projects in setting up an overall trade facilitation strategy, supervision of the trade facilitation process, and reporting on the progress of trade facilitation programs. The body should include leaders of governmental agencies as well as representatives from business. To ensure effectiveness, the body should be chaired by the Prime Minister or the Deputy Prime Minister in charge of economics.

Figure 13: Key Policy Levers

Source: Authors.
Further, the plan must link trade competitiveness with industrial policy, as successful East Asian economies have done. The experience of these economies has shown that successful industrial policy requires institutional as well as human resource capability, both of which Vietnam currently lacks. The development of both is a medium- to long-term endeavor. In the short-term, an alternative strategy is needed that capitalizes on the country’s existing comparative advantage, while extracting greater value added. Vietnam’s current comparative advantage comes from low labor costs -- an advantage made greater by China’s orchestrated move up the technology ladder. Vietnam’s existing exports are driven by this advantage and, as already mentioned, extracting value addition by restructuring supply chains is a viable interim strategy.

**Message 2:** The second policy need is to develop infrastructure and transport services. This will improve domestic production linkages and international connections for export growth and strengthen Pillar 1. With countries like China moving assertively to provide infrastructure to support trade, Vietnam risks losing its export competitiveness if it fails to commit more resources for development of transport infrastructure and to ensure that these resources are effectively deployed. For this to occur, the strategy must shift away from complete reliance on state funding to mobilize resources from outside the state budget for transport infrastructure investment. Incorporating private sector sources of financing investment in infrastructure should be through appropriate PPP tools. With resources mobilized, initiatives to improve corridors and access to main international gateways should be framed with a focus on trade competitiveness. Port efficiency plays a dominant role in the process of export competitiveness. Hai-Phong and HCMC – Sai- gon Port and Cai-Mep should become more efficient and effective multimodal transport corridors with highways, railway and even IWT providing improved connections. Simultaneously, a strategy must be articulated to overcome the weaknesses of logistics services. It is also important to develop in partnership with the private sector, top-grade logistics centers near the two main ports. This will require policy research to produce recommendations to improve trade logistics. This should include measures that improve the legal framework to develop logistics services and logistics operators in Vietnam.

**Message 3:** The third policy imperative is to simplify regulatory procedures to reduce time and cost and improve reliability of cross border trade. A sound legal framework should be developed for the customs modernization program. The Customs Law should be further amended to establish an overall framework for business process simplification and risk management practices to meet international customs standards. A risk management system should be put in place to improve compliance management. Given the pervasiveness of corruption, it is crucial to develop and implement a customs anti-corruption strategy to improve customer perception of...
customs services and the integrity of customs staff. However, even as simplification of the customs process develops, the need for the coordination of many agencies, not just customs, should not be overlooked.

Specifically, customs and other border management agencies need to:

- Simplify customs procedures in order to shorten clearance time and cost for both customs and clients;
- Overcome difficulties in the application of risk management to improve compliance;
- Implement an anti-corruption plan to improve customers perception toward customs service and the integrity of customs staff;
- Apply IT to improve customs efficiency and promote transparency. IT systems have been used to support declaration processing in customs since the late 1990s and have been progressively updated by local officials and contractors. However, they do not offer the range of functionality necessary to support adequately the adoption of modern approaches to customs administration; and
- Implement the National Single Window (NSW) to coordinate all the border agencies and harmonize all the customs and non-customs processes and procedures.

**Message 4:** The final policy change is to restructure supply chains to capture value and to participate proactively in global value chains. It should be recognized that not all supply chains are alike and restructuring these chains needs to take into account their particular characteristics. In the manufacturing sector overall, the government’s role is larger than simply making minor changes to the existing supply chains to reduce costs. It can restructure these by:

- Promoting domestic production of raw materials to reduce dependence on imports;
- Working with industry to develop a common vision that combines increasing the value of final products with value addition through supply chain restructuring with changes in order cycles and business models;
- Developing production clusters to capture agglomeration economies;
- Providing transport infrastructure to link these clusters and production centers to transport/trade corridors, with these links as an integral part of a transport master plan;
- Enhancing availability of trade finance especially to local firms; and
- Formalizing public-private partnerships to support the above activities.

In the electronics and electrical equipment sector, for example, the government should promote industrial clusters, ensuring logistics support and providing transport infrastructure, not on a piecemeal basis, but as part of a national master plan. Additionally, policies are needed to encourage learning for technology acquisition, with an education sector providing the requisite quantity and quality of human capital the medium-term goal. A Master Plan for the Electronics Industry has already been in place since 2007, although it is uncertain whether the implementation of that plan will produce the desired results.

To improve the supply chain for rice the government should incentivize an increase in the scale of farming and quality of rice cultivated, segregation of the varieties of rice, modernization of processing technology, and an increase in the proportion of B2B sales. These should not only increase the unit value at locations along the supply chain but also allow the pass-through of reward incentives from higher quality output. The government’s role should also consist of making financing available for working capital, establishing a legal framework to enforce contracts between farmers and enterprises, in particular in accordance with a public-private partnership, in order to improve productivity of rice production and quality of rice produced. The government could also establish better storage facilities and strengthen transport infrastructure. The pilot model “large fields” (cánh đồng mẫu lơn) is a positive development and should be expanded. These initiatives are taking on increasing urgency with growing competition from emerging rice exporters such as Cambodia and Myanmar.

It is critical that the portion of G2G versus B2B mode of rice export be adjusted to achieve product diversification and increase the value addition of rice exports. Decree No 109/2010/ND-CP needs to be revised to encourage rice companies to find partners and commercial contracts. Policies need to remove the regime of allocation of G2G contract by the Vietnam Food Association and introduce more transparent auction/bidding for rice companies to acquire G2G sub-contracts.

Restructuring the supply chain for coffee is primarily a private sector role, but the government can support this through a sector policy focused on (i) value addition and coordination with the private sector in providing financing for capital investment and working capital; (ii) selection of land suitable for coffee growing; (iii) development and enforcement of internationally acceptable standards for coffee exports; and (iv) efficient transport movement through the trade corridors.
Development of spot and futures markets with well-functioning commodity exchange floors can help farmers deal with seasonal global price fluctuation of agricultural products. This allows agricultural products in general and coffee in particular to be produced and exported with better planning, on a larger scale, and with less costs (by reducing the need for intermediaries). It helps increase capital for production, enhance quality of export goods, and modernize agricultural supply chains for higher value added.

Seafood faces challenges from environmental degradation and increasingly complex health and other standards imposed by importing countries. In cases that blur the line between food safety and disguised trade protection, the government’s efforts must also be focused on promoting contract-farming arrangements, which could also be used promote good practices as part of supply chain restructuring. Again, public-private partnerships should provide inspections that comply with international standards. Internationally certified private laboratories should conduct the testing and the government should carry out the inspections.

Finally, investment in processing plants would enhance downstream processing and diversification of distribution channels to serve specific market niches. The introduction of higher value added products, market diversification, and promotion of Vietnam brands would help manage the above challenges.

All these specific reforms must be framed within detailed sector development strategies, which in turn must be integrated into, and made consistent with, the national action plan proposed by Message 1.

Key policy priorities for capturing value addition discussed above are summarized in a policy matrix (Table 3). This matrix links objectives to actions, their expected output, and identifies the agencies involved in implementation.
<table>
<thead>
<tr>
<th>Objective</th>
<th>Policy Action</th>
<th>Lead Agency</th>
<th>Time</th>
<th>Outputs</th>
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<tbody>
<tr>
<td>1. Build sound policy framework and institutional capacity to implement the national action plan for trade competitiveness enhancement</td>
<td>Formulate the National Action Plan (NAP) based on: (i) SEDS 2011-2020; (ii) The Import and Export of Goods Strategy in 2011-2020, with orientations toward 2030; (iii) Transport Development Strategy until 2020, Vision to 2030; (iv) Various Industrial Sector Strategies; (v) Customs Strategy until 2020. The Plan should be based on policy priorities of transport and logistics infrastructure and services, regulatory procedures, supply chain (as in Objective 2, 3 and 4).</td>
<td>NCIEC / MOT / MOIT</td>
<td>2014</td>
<td>The national action plan for trade competitiveness enhancement</td>
</tr>
<tr>
<td>Develop a National Action Plan (NAP) for Trade Competitiveness</td>
<td>Appoint a body at national level to effectively manage the NAP implementation. The body should be empowered to ensure national competitiveness and interests will be top of criteria for selective national industrialization priorities.</td>
<td>MOIT / MOF / MPI / NCIEC / MOT / OOG</td>
<td>2014-2016</td>
<td>Appropriate institutional mechanism to manage, effectively formulate and implement NAP.</td>
</tr>
<tr>
<td>Strengthen Policy Coordination and Implementation Capacity</td>
<td>Select strategic priority and spearhead areas for carrying out industrialization.</td>
<td>MOIT / MPI</td>
<td></td>
<td>NAP with selected prioritized areas.</td>
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<tr>
<td>Linking trade competitiveness to industrial policy.</td>
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<td>Objective</td>
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<tr>
<td>2. Develop transport and logistics infrastructure and services to improve domestic production linkages and international connections for export growth</td>
<td><strong>Set clear connection between transport infrastructures and logistics services with trade competitiveness</strong></td>
<td>Review and revise transport sector strategy to include long-term vision on development clusters, international gateways and corridors, and internal interfaces to effectively support and enhance trade competitiveness.</td>
<td>MOT / MOIT / NCIEC</td>
<td>2013</td>
</tr>
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<td></td>
<td><strong>Improve transport corridors to connect major development clusters with major international gateways</strong></td>
<td>Priority given to develop and implement a plan to improve transport corridors for port complex in Ho Chi Minh City (HCMC), Hai-Phong, and Ba-Ria – Vung-Tau.</td>
<td>MOT</td>
<td>2013-2016</td>
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<td></td>
<td><strong>Strengthen Public and Private Sector Partnership</strong></td>
<td>Improve legal framework and revenue guarantee policy for BOT, BTO, PPP projects in transport infrastructure investment in order to mobilize financial resources outside the state budget to invest more effectively in improvement of transport and infrastructure and logistics services.</td>
<td>MOT / MOF</td>
<td>2013-2014</td>
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<td></td>
<td><strong>Develop trade logistics strategy and policy framework for logistics services</strong></td>
<td>Project to improve logistics with clear definition of logistics service, logistic service business conditions and responsibility limitation for logistic business entities; Improve legal framework for development of logistics services and logistics operators in Vietnam.</td>
<td>MOIT / MOT / MARD</td>
<td>2013-2014</td>
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<td>Objective</td>
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<tr>
<td>2. Develop transport and logistics infrastructure and services to improve domestic production linkages and international connections for export growth</td>
<td>Multimodal transport Development</td>
<td>Provide legal support for multimodal transport development</td>
<td>MOT</td>
<td>2013</td>
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<td></td>
<td>Provide ICD or Logistic Centers in support of port operations and industrial development</td>
<td>Review ICDs location and services and encourage establishment of ICDs becoming real Logistic Centers near ports and as support of future nearby industrial development</td>
<td>MOT, private investors and Global Logistics Companies, Other government agencies concerned</td>
<td>2014-2015</td>
</tr>
<tr>
<td>3. Simplify regulatory procedures to reduce time and cost for cross border trade</td>
<td>Introduce modern customs procedures to shorten clearance time and reduce informal payments, especially for exports and inputs used in productions of exports</td>
<td>Revise the Customs Law and Implementing regulations to set overall framework for business process simplification to meet international customs standards by: (i) applying the single stop inspection at border; (ii) using the advance ruling system; (iii) launching the priority enterprises program; (iv) setting up a system of customs performance indicators; (v) improving the current service of customs brokers and post clearance audit; and (vi) using the non-instructive detection devices.</td>
<td>GDC (MOF)</td>
<td>2013</td>
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<td></td>
<td>Issue Decree on IT Customs to apply electronic declaration and clearance as soon as practicable.</td>
<td>GDC (MOF)</td>
<td>2012</td>
<td>Decree on IT Customs.</td>
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<td></td>
<td>Complete development IT systems for Customs (VNACCS) for implementing a paperless customs clearance process that minimizes the interaction between shippers and customs officers.</td>
<td>GDC (MOF)</td>
<td>2013-2014</td>
<td>VNACCS expedited.</td>
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<td>Objective</td>
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<tr>
<td>3. Simplify regulatory procedures to reduce time and cost for cross border trade</td>
<td><strong>Amend Customs Law and implementing regulations to apply fully and consistently principles of risk management instead of provisions case-by-case specified or exempted inspection.</strong></td>
<td>GDC (MOF)</td>
<td>2013</td>
<td>Amended Customs Law and implementing regulations.</td>
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<td></td>
<td><strong>Complete computerized risk management with a central department for developing and maintaining risk profiles; sharing of intelligence from other customs organizations and incorporating scanning into the risk assessment process.</strong></td>
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<td>2014-2015</td>
<td>Organizational restructure with full-functional RM department.</td>
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<td><strong>Organization of separate units dealing with RM at central and local customs departments; apply RM in all border management agencies.</strong></td>
<td>GDC (MOF)</td>
<td>2014-2015</td>
<td>RM applied in all border management agencies.</td>
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<td></td>
<td><strong>Develop and implement anti-corruption action plan for Vietnam Customs; specify a set of integrity standards on performance for customs staff; and create the mechanism of cooperation and partnership between customs and traders.</strong></td>
<td>GDC (MOF)</td>
<td>2013-2016</td>
<td>Anti-corruption action plan developed and implemented.</td>
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<td></td>
<td><strong>i) issues regulatory framework (Decree) for coordinated processes and procedures for the NSW; ii) set up an institutional mechanism to coordinate relevant agencies through the NSW National Steering Committee; iii) develop a single electronic window for submission of documents required for cargo clear and an integrated database for coordinating the activities of various agencies involved in border management.</strong></td>
<td>MOF / MARD / MOIT / MOT / MOH / MOFA</td>
<td>2013-2014</td>
<td>NSW and ASW implemented.</td>
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<td>Objective</td>
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<tr>
<td>4. Restructuring manufacturing supply chains toward development of strong supporting industries</td>
<td>Develop Clusters to attract FDI for production of goods for exports.</td>
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<td></td>
<td>Increase economic activity and level of employment in the manufacturing sector.</td>
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<tr>
<td></td>
<td>4.1. Restructuring manufacturing supply chains toward development of strong supporting industries</td>
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<td></td>
<td>Increased local production of inputs to enhance competitiveness of industrial products; higher value added; support private sector development; reduced trade deficit.</td>
</tr>
<tr>
<td></td>
<td>Revise current program for establishing export-processing zones. Develop zones as part of a program for developing more industrial clusters and efficient logistics services. Determine the value proposition to be offered to the target market, and select and design sites so as to maximize the value proposition.</td>
<td></td>
<td>2014</td>
<td>Increase economic activity and level of employment in the manufacturing sector.</td>
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<td></td>
<td>Assess opportunities for improving the quality of inputs currently supplied to and for diversifying inputs and developing supplier networks and supporting industries. Prepare a strategy and marketing plan for diversification and improvement in the quality of the products exported by each manufacturing sector, e.g. garments, footwear, electronics. Strengthen supply chain management and developing new distribution channels for products. Identify opportunities for back-and-forth movement of products to reduce transportation time and cost for downstream processing to increase the value addition.</td>
<td></td>
<td>2013-2016</td>
<td>Increased local production of inputs to enhance competitiveness of industrial products; higher value added; support private sector development; reduced trade deficit.</td>
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<td></td>
<td>Develop supplier networks and supporting industries.</td>
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<td>Increase quality of exports and the value addition.</td>
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<td>Objective</td>
<td>Policy Action</td>
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<td>Develop contract farming arrangements and strengthen role of farmers’ associations.</td>
<td>Strengthen mechanism for contract enforcement, specifically related to the sale of agricultural commodities in order to reduce counterparty risk. Develop pro forma documents for allocating obligations and liabilities together with a mechanism for adjusting the price paid to reflect changes in commodity prices between when the contract is signed and when the transaction is completed.</td>
<td></td>
<td>2013-2014</td>
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<td></td>
<td>Diversify exports of agricultural commodities based on quality and variety.</td>
<td>Develop systems for traceability and certification of crops to allow differentiation and identity preservation. Create PP institutions to set and enforce grading standards for rice and coffee.</td>
<td>MOIT / MOT</td>
<td>2013-2016</td>
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<td>Objective</td>
<td>Policy Action</td>
<td>Lead Agency</td>
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<tr>
<td>4.2. Restructure agricultural supply chains toward diversifying products</td>
<td>Establish a network of 3rd party storage facilities for rice. Develop a legal and financial framework to support the formation of a network of third-party rice storage facilities to act as an intermediary in transactions between farmers, rice mills and exporters. Provide a legal framework for warehouse receipts and enforcement of forward contracts in order to reduce counterparty risk. Establish an independent agency to document and disseminate rice market information. Harmonize rice quality and grading standards for use in forward contracts and link to price indices for Thai rice.</td>
<td>MARD</td>
<td>2013-2014</td>
<td>Increase income to farmers, improve quality of rice and reliability of supply, improve utilization of mills.</td>
</tr>
<tr>
<td>4.3. Restructure agricultural supply chains toward improving quality and</td>
<td>Analyze the situation of the branding of Vietnam’s agricultural products and develop a program to create stronger brands.</td>
<td>MARD</td>
<td>2014-2016</td>
<td>Program for strengthening branding of agricultural products.</td>
</tr>
<tr>
<td>diversification of products from supply side</td>
<td>Establish policy environment to support agro-industrial investment. Assess factors inhibiting agro-industrial investment including restrictions/transaction costs for land acquisition (inhibiting vertical integration); fragmentation of existing production structures that limit horizontal integration (i.e. cooperatives) and constraints on competition due to presence of state farms and SOEs. Develop a program to overcome these impediments and facilitate agro-industrial development.</td>
<td>MARD / MOIT / MOF</td>
<td>2013-2016</td>
<td>Create opportunities for realizing economies of scale and scope in production and processing of agricultural commodities.</td>
</tr>
<tr>
<td>Objective</td>
<td>Policy Action</td>
<td>Lead Agency</td>
<td>Time</td>
<td>Outputs</td>
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<td>4.3. Restructure agricultural supply chains toward improving quality and diversification of products from supply side</td>
<td>Extend the PPP model in investment for large farming and the model “cạnh đồng mẫu lớn”.</td>
<td>MARD</td>
<td>2013-2014</td>
<td>PPP model expanded.</td>
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<td></td>
<td>Improve the quality of agricultural products to meet international standards.</td>
<td>Review related legislative documents and propose appropriate revised regulations to improve SPS controls (Viet GAP, NAFIQAD etc.) on seafood export.</td>
<td>MOIT / MOST / MARD</td>
<td>2013-2016</td>
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<td>Develop spot and forward/futures market(s) / transaction floors to help farmers deal with seasonal production and global price fluctuation.</td>
<td>Project to learn lessons from the failure of piloted transaction floor for coffee in Daklak, analyze efficiency of spot markets and main factors for their successful operation, and recommend policies to promote this model and regulatory framework for management.</td>
<td>MARD / MOIT</td>
<td>2013-2016</td>
</tr>
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</table>
REFERENCES


Ministry of Agriculture and Rural Development (2012). *Proposal on Restructuring the Agricultural Sector Towards Greater Added Value and Sustainable Development*, 2nd draft, pp. 22-23. MARD, Hanoi


