

# Trade facilitation in Vietnam -recent progress and impact

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## Abstract

Trade facilitation work in Vietnam is analysed in this paper. Trade flows are constrained by non-tariff barriers and through trade facilitation these barriers can be decreased. Trade facilitation has become a key topic in trade negotiations and research indicates that trade facilitation is likely to have a positive effect on trade, particularly in developing countries because of larger room for improvements. The purpose of the paper is to outline the main trade facilitation measures that the government has undertaken, to discuss the effect of trade facilitation on trade development and to examine the companies' views regarding the business and trading environment in Vietnam. The study focuses on the main trade facilitation work, in particular within the customs administration offices. From the case study I draw the conclusion that Vietnam has undertaken a number of measures to facilitate trade and there has been a positive effect on the trade development. However, challenges that constrain further trade development remain.

The study is the result of a two months field study in Vietnam, in the end of 2007 and beginning of 2008. It was made possible through financial support from the Swedish Agency for International Development Cooperation (SIDA). I would like to express my gratitude to all the helpful people that I met in Vietnam, among them Mattias Forsberg at the Swedish embassy in Hanoi, Mrs Minh at CIEM, Thu Huong at the Ministry of Trade and Mr Toan at the Customs Department as well as representatives from several companies. I would also like to thank my supervisors Yves Bourdet and Joakim Gullstrand for all their support during this process.

Key words: Vietnam, trade, trade facilitation, customs, non-tariff barriers

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## Abbreviations

ARTNeT = Asia-Pacific Research and Training Network on Trade

APEC = Asia-Pacific Economic Cooperation

ASEAN = Association of South East Asian Nations

CIEM = Central Institute for Economic Management

EU = European Union

FDI = Foreign Direct Investment

GDVC = General Department of Vietnam Customs

GMS = Greater Mekong Subregion

HCMC = Ho Chi Minh City

ICT = Information and Communication Technology

SME = Small and Medium sized Enterprises

UN = United Nations

VBF = Vietnam Business Forum

VCCI = Vietnam Chamber of Commerce

VND = Vietnamese Dong

WCO = World Customs Organisation

WTO = World Trade Organisation

# 1 Introduction

Trade facilitation is one of the key topics in multilateral trade negotiations. A combination of factors has led to increased focus on trade facilitation. First, conventional trade barriers such as tariffs and quotas have been significantly lowered or abolished in many countries through WTO negotiations and other regional, bilateral and unilateral efforts. Therefore, the cost of non-tariff barriers has become more apparent. Second, there has been a shift in production patterns; companies today often produce components in different countries. This has put more pressure on countries to reduce non-tariff barriers to stay competitive and to integrate in international supply chains. Third, the technological development enables new and more efficient ways to exchange information and to lower trade costs.

Recent research indicates that trade facilitation is likely to have a positive effect on trade, particularly in developing countries because of larger room for improvements. Therefore, I decided to look deeper into trade facilitation and its effects in a developing country. I chose Vietnam because of its rapid economic development and its recent trade policy reforms. The purpose of the paper is to outline the main trade facilitation measures that the government has undertaken, to discuss the effect of trade facilitation on the trade development and to find out the companies' views regarding the business and trading environment in Vietnam. The study does not include a description of all trade facilitation measures in Vietnam but focuses on the main work, in particular within the custom administration. The study is the result of a two months field study in Vietnam, in the end of 2007 and beginning of 2008. Interviews were held with government officials, researchers and traders to gain an understanding of the progress of trade facilitation in Vietnam and its effects on trade.

It is important to note that this is a case study. The companies I interviewed do not represent a scientific sample of the business sector in Vietnam. I found it difficult to find companies that carry out customs clearance themselves; several companies had a logistic forwarder taking care of the paperwork or they simply bought the goods from a local company after customs clearance. The interviews

I have included in this study are the most informative ones. Moreover, I have tried as far as possible to use data from recognised international organisations, but in some cases I have used statistics from the General Statistics Office in Vietnam.

The paper is structured as follows. The second chapter contains an analysis of the effects and gains of trade facilitation. The international organisations that work on trade facilitation are briefly described. The third chapter gives a short description of the Vietnamese economy followed by an analysis of the current status and recent progress on trade facilitation in Vietnam. Challenges are also mentioned. The fourth chapter focuses on the economic impact of trade facilitation. The chapter makes use of trade data but also a more qualitative approach based on two business surveys as well as interviews with companies. Chapter five summarises the main results of the study and gives some suggestions for future trade facilitation work in Vietnam.

## 2 Trade effects of trade facilitation – Theoretical considerations

### 2.1 Trade facilitation defined

There are several definitions of trade facilitation. The WTO's definition is: *"...simplification and harmonisation of international procedures affecting trade flows. It focuses particular on the activities, practises and formalities involved in collecting, presenting, communicating, and processing data required for the movement of goods and services across international borders."*<sup>1</sup> The World Bank's definition is somewhat broader as it also includes: *"...the environments in which trade transactions take place, transparency and professionalism of customs and regulatory environments, as well as harmonisation of standards and conformance to international or regional regulations"*.<sup>2</sup> Focus is no longer limited to reforms at the borders; it also takes institutional structure within the economy into account. In this study the former, narrower definition will be used.

Trade facilitation refers to measures that make it easier, quicker and less costly to trade. It is about making the work in customs and other governmental agencies involved in trade more efficient and less costly. Trade facilitation can help countries lower the cost of trade and reduce the margin between domestic and international prices to benefit consumers and producers.<sup>3</sup> Such measures could include simplification of customs procedures, harmonisation of rules and laws and automation and use of internationally standardised documents. The type of procedures that cause delays varies between countries. It is common that outdated procedures and uncertainty add to the total time required to import and export. Inefficiencies are likely to cause difficulties since international trade transactions are complex and involve many actors and procedures.<sup>4</sup>

### 2.2 Benefits of trade facilitation

Trade facilitation has the potential to reduce trade transaction cost and thereby lower the price of traded goods. The table below summarises the expected gains

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<sup>1</sup> Hoekman and Kostecki (2001) p.434

<sup>2</sup> Wilson et al (2004) p.4

<sup>3</sup> Morrissey et al (2007) p.11

from trade facilitation, on a national level as well as more specific benefits for trading companies.

**Table 2.1 Main benefits of trade facilitation**

Economic Benefits	Company Benefits
<ul style="list-style-type: none"> <li>• More efficient use of resources</li> <li>• Accelerated economic development</li> <li>• Increased inflow of FDI</li> <li>• Increase in trade related revenue</li> <li>• Reduction in illegal imports and exports</li> </ul>	<ul style="list-style-type: none"> <li>• Lower costs and reduced delays</li> <li>• Faster customs clearance and release due to predictable official intervention</li> <li>• Simple commercial framework for doing both domestic and international business</li> <li>• Enhanced competitiveness</li> <li>• Reduced risk of corruption</li> <li>• Increased business opportunities</li> <li>• Increased integration in international supply chains</li> </ul>

Source: UN (2003) p.13, modified by author

Trade facilitation reforms will involve implementation costs but it is expected that the net effect of trade facilitation will be positive over time. The cost of implementing the policies varies with country specific characteristics such as size of the customs and the current customs infrastructure as well as human resources.<sup>5</sup> The cost also varies according to the type of trade facilitation measures. Country specific analyses and tailor made reforms are therefore important for successful trade facilitation and, as in the case of developing countries, often combined with technical assistance and capacity building.<sup>6</sup>

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<sup>4</sup> Lucenti (2006) p.272

<sup>5</sup> Morrisey et al (2007) p.11

<sup>6</sup> Hellqvist (2003) p.10

### *Short-term welfare effects*

Trade facilitation will give rise to two types of effects, an effect on prices when costs are reduced and an efficiency effect that prevail in the long run. Emerson presents a theoretical framework, a partial equilibrium model, which depicts the short term effects of trade facilitation, see Figure 2.1. When non-tariff barriers are removed, the relative price of a good will be equalised at a lower price level than previously. If one assumes that a country trades with the rest of the world, but that trade is distorted by non-tariff barriers, for instance duplicative paper work, time consuming procedures and excessive data requirements, the initial equilibrium price will be  $P_b$ , where quantity  $Q_2$  is produced and quantity  $Q_3$  is consumed. Thus the gap between quantity  $Q_3$  and  $Q_2$  is imports. As a consequence, the domestic price is above the world market price. If the country eliminates the redundant requirements, the domestic price will fall to  $P_w$  and the demand will increase to  $Q_4$ . At the reduced price, the domestic producers will supply a lower quantity and consequently producers from other countries will increase their supply. The total imports will equal  $Q_4 - Q_1$  in the new equilibrium.<sup>7</sup>

Further, in terms of welfare, the domestic producer surplus will be reduced, by area  $a$ , at the same time the consumer surplus will rise by area  $a+b+c+d$ , since the consumers benefit from a relative price reduction and from consuming a larger quantity. Therefore, the net welfare effect will be area  $b+c+d$ .<sup>8</sup>

Interestingly, the welfare effect from reducing non-tariff barriers, according to economic theory, is larger than gains from reducing tariffs because no tariff revenues are lost. The reduction in tariffs would equal area  $c$  in the diagram and and the net welfare effect from reducing tariffs is  $b+d$  instead of  $b+c+d$  as previously.<sup>9</sup>

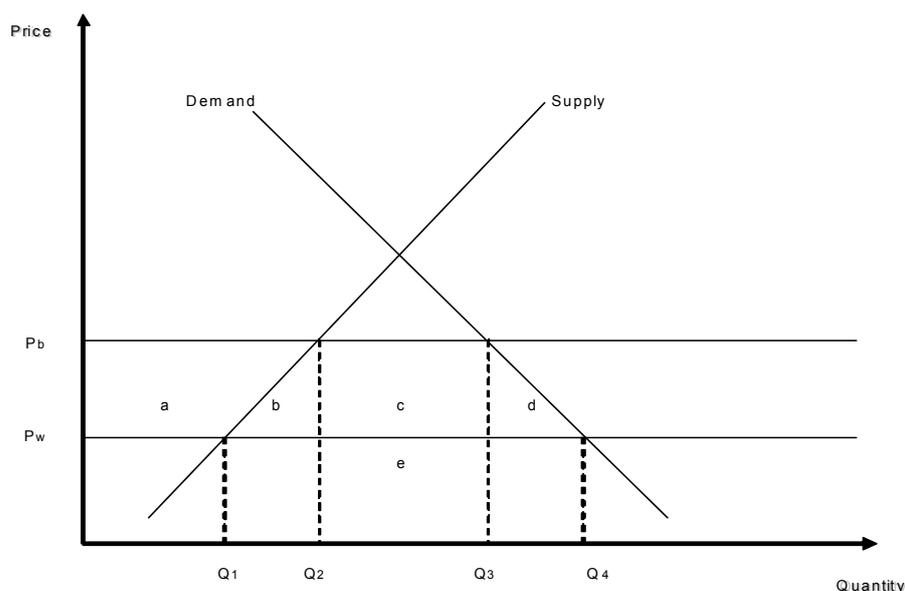
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<sup>7</sup> Emerson (1988)

<sup>8</sup> Hoekman och Kostecki (2001) p.495-497

<sup>9</sup> *ibid*

**Figure 2.1 Effects of eliminating market barriers and distortions**



Source: Hoekman och Kostecki (2001)

### *Long-term welfare effects*

In the long-run trade facilitation will give rise to dynamic effects and those effects are also analysed by Emerson. When the market is liberalised, increased competition from other countries' firms will follow and force local companies to restructure and become more efficient to defend their market shares. To be able to stay competitive in the market, the firms have to increase their efficiency by reducing inefficiencies such as non-optimal allocation of resources or they will be forced out of business. This will lead to further price reductions. The majority of the producers will be able to compensate for the decline in prices through cost reductions and increased sales. There will be losses of economic rent but these are assumed to be offset as producers increase their efficiency and gain world markets and thus raise their production quantities and revenues.<sup>10</sup>

This restructuring process will cause new local companies to enter the export industries whereas companies that produce import substitutes are likely to be forced out of business. Many companies will face difficulties in the short term due to increased competition but in the long run it will be beneficial for the country as a whole.

### *Other effects*

Trade facilitation is also likely to influence companies' propensity to enter the export market. If assuming that only a small percentage of the firms in a country exports and that the exporting companies usually are larger and more productive than the firms that do not, a lower trade cost is likely to result in at least one additional company being able to export.<sup>11</sup> The propensity to export therefore increases as trade costs fall. Furthermore, small and medium sized enterprises (SME) are likely to benefit significantly from trade facilitation. Trade barriers tend to have a larger negative influence on small enterprises compared to larger ones, as there is a fixed cost associated with exporting.<sup>12</sup> Small companies often lack a customs and transit department that larger ones often have.<sup>13</sup> Inefficient customs procedures could therefore prevent small companies from entering the export market. Accordingly, a reduction of trade barriers could lower the trade cost and enable SMEs to export and thus create several new jobs in developing countries. Hence, in countries with many SMEs trade facilitation is likely to have significant effects on the corporate sector.<sup>14</sup>

Furthermore, providing goods to the markets on time is important for companies and time delays can push products out of the export market. The time factor is particularly important for companies that export time-sensitive and perishable goods.<sup>15</sup> Perishable products such as agricultural products can be destroyed when not reaching the market on time. Trade facilitation that reduces delays is therefore likely to increase the export of such products.

Trade facilitation also influences how foreign companies organise their supply chains. There is a clear trend to produce components in different countries. Timely deliveries of inputs, such as raw material and intermediates, have therefore become more important. The manufacturing industry depends on cheap, quick and predictable customs services. Countries that modernise their

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<sup>10</sup> Emerson (1988)

<sup>11</sup> Shepherd and Wilson (2008) p.4

<sup>12</sup> Hellqvist (2003) p.6

<sup>13</sup> Engman (2005) p.12

<sup>14</sup> Hellqvist (2003) p.6

<sup>15</sup> Engman (2005)

border procedures are likely to attract investments in the manufacturing industry and, by facilitating trade, countries can become more integrated in international supply chains. This is important for companies that produce industrial components and time sensitive goods. In such industries developing countries tend to have a comparative advantage.<sup>16</sup>

Trade facilitation also has an effect on foreign direct investment (FDI). Countries compete for FDI and inefficient procedures at borders can have an adverse effect on a country's competitiveness and ability to attract FDI due to the higher cost and risk of doing business. High predictability and low trade costs are very important for investment decisions.<sup>17</sup>

Apart from the above mentioned effects, a well-functioning customs administration system enhances trade tax collection due to the increase in trade flows. By simplifying procedures, more goods usually enter via the legal channels, which further increase the customs revenues.<sup>18</sup> Many developing countries rely on the customs revenues to finance their public administrations.<sup>19</sup>

Lastly, trade facilitation may reduce corruption. By establishing simple and clear rules, confidence in government institutions is improved.<sup>20</sup> Clear rules also decrease corrupt and rent-seeking behaviour since the room for interpretations of regulations is minimised.<sup>21</sup>

### **2.3 International cooperation**

Even if trade facilitation generates gains according to theory it can still be politically difficult to carry out, especially if there are strong interests groups that oppose trade liberalisation initiatives. For instance, producers competing with imports have, in the short run, much to win from sustaining import barriers.<sup>22</sup> In a study from the Swedish National Board of Trade the authors stress that to create successful trade facilitation reform it is important to have political will and

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<sup>16</sup> Engman (2005) p.5

<sup>17</sup> *ibid*

<sup>18</sup> Hellqvist (2003) p.10

<sup>19</sup> Engman (2005) p.6

<sup>20</sup> World Bank (2007)

<sup>21</sup> Hellqvist (2003) p.10

<sup>22</sup> Lucenti (2006) p.273

commitment, a clear strategic plan and close cooperation with the business community. In addition, for developing countries it is also important to have a well funded long term assistance programme since such countries often lack financial resources to implement trade facilitation programmes.<sup>23</sup>

Furthermore, countries have the tendency not to facilitate trade on their own; it is often part of a wider economic reform process. It can be part of becoming a market economy or accessing a regional grouping or trade agreement.<sup>24</sup> Trade facilitation negotiations in a regional or international organisation can secure politically difficult decisions.<sup>25</sup>

Numerous international and regional organisations have trade facilitation on the agenda. Many of these provide tools and recommendations on how to facilitate trade. The organisations include: the WTO and World Custom Organisations (WCO), the UN, ASEAN, APEC and the EU. The large amount of organisations working with trade facilitation has led to overlaps in commitments and regulations and to a discussion about a ‘spaghetti bowl’ effect.<sup>26</sup>

Negotiations on trade facilitation in the WTO were launched in 2004, in the ongoing Doha Round. Trade facilitation is already covered by several WTO articles and the aim is to clarify and improve several of the existing articles. Furthermore, the objective is also to provide technical assistance and capacity building to some of the members as well as to improve the cooperation among customs and authorities.<sup>27</sup>

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<sup>23</sup> Hellqvist (2003) p.9

<sup>24</sup> OECD (2005) p.5

<sup>25</sup> Lucenti (2006) p.274

<sup>26</sup> *ibid* p.277

<sup>27</sup> [http://www.wto.org/english/tratop\\_e/tradfa\\_e/tradfa\\_e.htm](http://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm), 2008-08-18

**Table 2.2 Selected organisations promoting trade facilitation**

<b>Organisation</b>	<b>Activities</b>
WTO	Trade facilitation is covered by the WTO articles V (goods in transit), VIII (fees and formalities associated with importing and exporting goods), and X (publication and administration of trade regulations) as well as the agreements on customs valuation, import licensing procedures, pre-shipment inspection (PSI), rules of origin and technical barriers to trade.
ASEAN	ASEAN strongly promotes customs partnership between the members and a harmonised system to facilitate the flow of ASEAN trade. The ASEAN customs partnership is based on the principles of the revised Kyoto convention on customs procedures and practises. ASEAN initiatives are designed to comply with the WTO/GATT rules.
APEC	Trade facilitation in APEC's view is similar to that of ASEAN; emphasis is on simplification of customs procedures, promotion of transparency and to align standards with international ones. Moreover, paperless trading, e-commerce and movement of business people are also important. Implementation is on a voluntary basis. The members have agreed to reduce trade transaction cost by 5% 2006 and a further 5% by 2010. APEC initiatives seek compatibility with multilateral approaches.
WCO	Enhancement of efficiency of customs administration in the areas of compliance with trade regulations, protection of society and revenues collection.
UNCTAD	Simplification and harmonization of trade procedures. Focus on customs, transport, banking and insurance, information for trade, and business practises.
World Bank	Project lending (transport, customs, quality standards), technical assistance loans (customs modernisation) and policy advice (export promotion and competition).

Source: Lucenti (2006) p.276 and ARTNeT (2006 ) p.15

### 3 Trade facilitation in Vietnam

Vietnam is one of the fastest growing countries in the world, the country's GDP grew on average 7 percent per year in the last decade. The income per capita increased from USD 390 in 2000 to USD 790 in 2007.<sup>28</sup> Vietnam is shifting successfully from a kind of centrally planned economic system to a market oriented one. Since the *doi moi* (renovation) process started in 1986 it has experienced a rapid economic development.

#### 3.1 Vietnam's economy

After Vietnam's unification in 1975, the government pursued a central planning strategy in order to promote economic development. The aim was to increase per capita income by transforming the country from an agriculture based nation into an industrialized economy. A development through import substitution was considered as the quickest way to economic prosperity. The policies were therefore designed to limit the import of consumer goods in order to give the local producers the opportunity to sell their goods in the domestic market and thereby develop their own industries. Resources were invested in capital intensive import substituting industries in which the country had a comparative disadvantage, instead of engaging in labour intensive production of goods, in which the country has a comparative advantage.<sup>29</sup>

This resulted in Vietnam experiencing even deeper crises and a food shortage. Consequently, in 1986 the ruling Communist Party in Vietnam recognised a need for a private sector in the economy and initiated a reform process, Doi Moi. Doi Moi included several reforms in the direction of liberalisation and deregulation. The aim was to liberalise the economy and at the same time keep the political one party system unchanged.<sup>30</sup> This included amendments of the legal framework and the administration. The country shifted from an import

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<sup>28</sup> [www.worldbank.org](http://www.worldbank.org)

<sup>29</sup> Kokko (1997)p 39

<sup>30</sup> Sida (2003)

substitution strategy to a more outward oriented approach. Vietnam has opened up progressively for foreign investments and foreign trade.<sup>31</sup>

Particularly in the last decade, Vietnam's trade openness has greatly improved. The authorities are nowadays promoting trade to achieve high economic growth.<sup>32</sup> Vietnam's increased awareness of the benefits of economic integration is reflected in its active role in bilateral, regional and multilateral trade liberalisation initiatives. The country joined ASEAN in 1995 and APEC in 1998.<sup>33</sup> In January 2007 it became a member of the WTO. Several trade agreements have been concluded, amongst them an agreement with the United States in 2001.<sup>34</sup>

### **3.2 Trade facilitation progress in Vietnam**

It is in customs that trade facilitation initially presents the highest gain.<sup>35</sup> For that reason, the following analysis will focus on trade facilitation work in the Vietnamese customs administration system.

Vietnam has undertaken a range of initiatives to facilitate trade. The reform process has been driven by the government and not from outside donors. The policy changes have been secured at a strategic level through international commitments. The WTO accession with its obligations has accelerated the reforms, in particular the modifications of laws. Moreover, the reforms have been supported by several donors such as the World Bank and the EU.<sup>36</sup>

In a study by the Asia Pacific Research and Training Network on Trade the authors have compiled a list of trade facilitation principles and they provide a useful starting point when analysing the trade facilitation progress in Vietnam. These principles are: simplification, transparency, harmonisation, use of modern technology and cooperation.<sup>37</sup>

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<sup>31</sup> Kokko and Zejan (1996)

<sup>32</sup> Hellqvist (2003)

<sup>33</sup> Interview customs

<sup>34</sup> Swedish Trade (2007) p.26-27

<sup>35</sup> Hellqvist (2003) p.16

<sup>36</sup> World Bank (2007) p.1

<sup>37</sup> ARTNeT (2006) p.29-31

### *Simplification*

To promote trade, it is important to simplify trade procedures related to the clearance of goods and to minimize the number of laws, guidelines and regulations regarding international trade.<sup>38</sup> In 1998 the government in Vietnam initiated a reform of the customs administration, which was part of the wider master plan for the public administrations reform. In 2001 the first customs law was passed by the National Assembly. Prior to the implementation of the new law, the work was regulated through a decree, and it was easier for the individual custom officer to decide about each custom declaration. It can be assumed that this caused inconsistent and corrupt behaviour. With the new law, the decisions are based on the customs law. The new law also paved the way for a modern customs administration with the use of information technology.<sup>39</sup> Although the law was an important step towards promoting trade, it lacked many provisions of the 'Kyoto Convention on Simplification and Harmonisation of Custom Procedures' and was partly inconsistent with the WTO rules and contained limited enforcement provisions. Moreover, the regulations concerning customs operations were spread between several laws and not easy for traders to access.<sup>40</sup> Thus, in 2005 the customs law was revised and designed to meet the requirements of a modern customs system.<sup>41</sup>

Another objective of the trade facilitation work in Vietnam has been to promote one stop inspections, so called single windows. The requirements of traders to submit the same or similar documentation several times to different government border agencies leads to inefficient and time consuming work. A single window approach could solve this problem. This service enables traders to hand in information via a single entry point to meet import, export and transit requirements.<sup>42</sup> ASEAN members have agreed to implement a Single Window approach by 2008. For ASEAN newcomers, including Vietnam, implementation is set to 2012. According to Vietnam's customs system, the preparations are on

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<sup>38</sup> *ibid* p.30

<sup>39</sup> Interview customs

<sup>40</sup> World Bank (2007) p.17-18

<sup>41</sup> Ministry of Trade (2007) p.60-61

<sup>42</sup> APEC (2007) p.16

the way.<sup>43</sup> The members of Apec have also agreed to develop a framework for single window approach, drawing from other initiatives. The advantages of a single window automation are large. Past experiences with a single window system in Singapore enabled the government to cut the documentation cost by half.<sup>44</sup>

### *Transparency*

Transparency is essential to gain trust from traders and to facilitate trade. Transparency includes publication and accessibility of laws and regulations affecting international trade but also a consistent application of such regulations.<sup>45</sup> To facilitate access to information the customs administration has created a website where information about trade and legal documents can be found. According to the customs administration all legal documents are published on the website. Since 2002, drafts of resolutions and decrees must be published in the mass media and on the internet. Legal instruments have to be published at least 15 days before they come into validity.<sup>46</sup>

Furthermore, the customs law has been drafted in five different languages to assist foreign traders and to increase transparency.<sup>47</sup> Every customs checkpoint is equipped with a phone line and email address to which traders can send criticism and suggestions about customs procedures and the behaviour of customs officers in order to discourage bribery practises.<sup>48</sup>

### *Harmonisation*

Harmonisation and standardisation of regulations and procedures as well as recognition of international standards are also important to facilitate trade.<sup>49</sup> The Vietnamese government has harmonised the regulations on customs procedures to international practises and standards compatible with the Kyoto Convention

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<sup>43</sup> Interview Customs

<sup>44</sup> Morrissey et al (2007) p.16

<sup>45</sup> ARTNeT (2006) p.30

<sup>46</sup> WTO (2006) p. 64

<sup>47</sup> Hellqvist (2003) p.28

<sup>48</sup> Interview Customs

<sup>49</sup> ARTNeT (2006) p.30

on Simplification and Harmonisation of Custom Procedures. As discussed previously, amendments of the customs law in 2005 were adopted to enable full compliance with that convention. The amendments came into effect in January 2006 and resulted in more transparent and simple custom procedures.<sup>50</sup> According to the customs administration they are in the final stage of implementing the revised Kyoto convention and aim at full implementation in 2008.<sup>51</sup>

#### *Use of modern technology*

The use of information and communication technology (ICT) equipment improves efficiency and effectiveness of the customs, but it is essential to remove red tape before such technologies are implemented.<sup>52</sup> During the ongoing World Bank project for customs modernisation, the customs procedures are analysed to be simplified at a later stage. Work has recently been initiated to develop electronic declarations to allow for traders to submit customs declarations electronically.<sup>53</sup> In 2006, e-customs procedures were piloted at a few local customs departments around Vietnam.<sup>54</sup> In the same year traders were able to submit the certificate of origin documents electronically.<sup>55</sup>

In 2006 the first e-transaction law, the so called revised Commercial law and the decree on e-commerce came into effect, which is the basis for further development of electronic declarations. The same year the first master plan on E-commerce was implemented for 2005-2010. E-commerce is expected to reduce the transaction cost and to expand the market while the development of ICT reduces costs. The introduction of a paperless customs system however depends on the speed at which ICT is introduced in other government agencies in Vietnam.<sup>56</sup> The savings from modernising from a paper based system to a paperless customs administration system have been estimated to range from 1.5

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<sup>50</sup> WTO (2006) p.63

<sup>51</sup> Interview Customs

<sup>52</sup> OECD (2005) p.5

<sup>53</sup> Interview Customs

<sup>54</sup> Ministry of trade (2007) p.62

<sup>55</sup> Interview Ministry of Trade

<sup>56</sup> *ibid*

to 15 percent of the cargo value depending on type of transport and type of goods.<sup>57</sup>

### *Cooperation*

To be able to implement efficient trade facilitation measures, cooperation among governments and between government and the private sector is necessary.<sup>58</sup> In developing countries it is often a problem that not enough information is supplied to the traders. To overcome this information problem, the government can arrange meetings between customs officials, importers, brokers, freight forwarders and port and airport authorities on a regular basis.<sup>59</sup> Involvement and dialogue with the private sector is important to build trust and will facilitate the work of the government.<sup>60</sup>

Closer cooperation between the Vietnamese customs and other countries' customs in order to create partnership with the private sector may be an option in the near future. A workshop for cooperation between customs and businesses is planned and will be conducted by the Swedish, Singapore and Vietnamese customs together. The aim of the workshop is to create a partnership between customs and businesses and to identify and make a model for the Vietnamese customs that can be implemented in the whole country.<sup>61</sup>

The Vietnam Business Forum (VBF) is another kind of cooperation between the authorities and the private sector with workshops twice a year where representatives from the private sector meet with the government to discuss problems that companies face in Vietnam. The workshop is from a commercial perspective and not focused on development assistance. The forum is an important instrument of the government. However, most important is not the forum itself; the most important work is undertaken in the working groups that meet on a regular basis throughout the year to discuss issues that are later brought up on the VBF agenda. There are several working groups, each of them

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<sup>57</sup> Morrissey et al (2007) p.16

<sup>58</sup> ARTNeT (2006) p.31

<sup>59</sup> Staples (2002)

<sup>60</sup> Hellqvist (2003)

<sup>61</sup> Interview Customs

representing a different sector such as manufacturing and distribution, banking and telecom. Each group consists of representatives from the different ministries and trade chambers representing private companies operating in Vietnam. Through the working groups the Vietnamese government obtains feedback and information from the corporate sector to be able solve problems that faces the private companies. Previously, the forum was very focused on foreign companies, but this has changed, today several associations representing local producers are active in the forum.<sup>62</sup>

The Vietnamese customs administration is also active in the Asian Development Bank's Greater Mekong River sub region (GMS) initiative together with Thailand, Laos, Cambodia, Myanmar and China. The purpose of the project is to facilitate movements of goods across the borders. A part of the project is the so called "Single stop inspection", where a one stop inspection is created with its neighbouring countries Laos, Cambodia and China. At the single stop inspections, custom officials on both sides will meet together to open and check the goods at the same time, thereby duplicative and time consuming work can be avoided.<sup>63</sup> Since a large proportion of Vietnam's trade is trade with its neighbouring countries, this is an important part of the trade facilitation work.

#### *Remaining challenges*

Even though the Vietnamese government have strongly promoted trade facilitation, there are a number of severe problems that constrain the trade development. The customs administration in Vietnam is still slow, unpredictable and exposed to corruption. It focuses on control of all shipments instead of a system that facilitates trade and promotes private sector development. A well-functioning customs has the potential to increase revenue collection, to promote trade and to increase confidence in the government institutions. The customs administration is also an indicator of the investment climate in a country and strengthening it may attract both domestic and foreign investment.<sup>64</sup>

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<sup>62</sup> Interview Swedish Embassy

<sup>63</sup> Interview Customs

<sup>64</sup> World Bank (2007) p. 2

The widespread corruption in Vietnam is another problem for the companies. According to the World Bank, the Vietnamese Customs Department and the export-import license authorities are among the most corrupt authorities in Vietnam.<sup>65</sup> The motivation and efficiency of customs officers is also influenced by the low level of public wages in the country. The customs offices have no difficulties attracting well educated staff; but salaries are below reasonable levels of cost and have negative impact on the personnel's motivation. This has resulted in delays in cargo processing and resistance to reforms that improve efficiency.<sup>66</sup>

There is also a regional dimension to take into consideration; the country has 61 provinces and a history of provincial laws that have led to large discrepancies in efficiency among local customs departments as well as import and export performance between provinces. For instance, the customs authorities in HCMC have implemented different types of advanced systems to facilitate trade, such as electronic pre-arrival of trade documentation, and basic single window usage among governmental institutions. The harbour close to Hanoi, Haiphong, on the other hand, lacks the more competitive environment and will of innovation.<sup>67</sup>

In addition, the poor transportation infrastructure in Vietnam is negatively influencing companies. To make use of an efficient customs service it has to be complemented with a system of transport infrastructure and regulation.<sup>68</sup> The transport network in Vietnam needs to be upgraded; increasingly congested ports have negative impact on Vietnams' further integration into the world economy.<sup>69</sup> The availability of a well-functioning supporting infrastructure, for example transports network and communication facilities, is important for companies to be able to increase their exports.<sup>70</sup>

Anther issue in Vietnam is the implementation and application of laws. Implementation of laws is a general problem in Vietnam. The bureaucracy in

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<sup>65</sup> World Bank (2005) p.51

<sup>66</sup> APEC (2005)

<sup>67</sup> Hellqvist (2003) p.29

<sup>68</sup> World Bank (2007) p.2

<sup>69</sup> Vietnam Business Forum (2007)

<sup>70</sup> Iwanow and Kirkpartick (2007)

Vietnam lacks capacity and is not transparent enough. In the dialogue between the government and the businesses, both local and foreign, the problem with implementation of laws is always on the agenda.<sup>71</sup> For instance, during the VBF in December 2007, the manufacturing and distribution group expressed concerns about the implementation of WTO commitments. A newly issued decree impedes trading rights and is incompatible with the WTO commitments. Another concern expressed by the group was the lack of implementation of WTO commitments as well as insufficient definitions of laws regarding WTO commitments that leave room for discretionary interpretations.<sup>72</sup>

#### *Capacity building and technical assistance*

Due to the costs associated with trade facilitation, several organisations work to enhance the capacity for trade facilitation. The need for technical assistance has been noted and discussed in the WTO. Since Vietnam has difficulties implementing commitments and has limited financial resources as well as trained personnel to implement trade facilitation, technical assistance and capacity building are important. The trade facilitation work of the World Bank, the WTO and the EU in Vietnam is briefly described below. Several countries have also supported the trade facilitation work in Vietnam, for instance France, Japan and Sweden.

A large project to modernise the customs administration in Vietnam started in 2005 with assistance from the World Bank. The World Bank approved a USD 65.9 million loan to Vietnam for “the Custom Modernisation Project”. A modern and efficient customs administration is an important part of Vietnam’s transformation into a market economy. The purpose of the project is to build modern governance with less scope for corruption and thereby promote private sector development. Another objective is to create a sustainable long term strategy for custom modernisation.<sup>73</sup>

The Custom modernisation project includes:

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<sup>71</sup> Swedish Trade (2007)

<sup>72</sup> Vietnam Business Forum (2007)

<sup>73</sup> World Bank (2007) p. 17

- introduction of modern customs systems and procedures according to internationally agreed standards
- improving the organisational structure of the customs administration and to enhance the human, financial and physical capacity
- introducing ICT to improve effectiveness, increase transparency and to minimize the transaction cost. The project builds on the ongoing efforts of other donors.<sup>74</sup>

The initial step of the project has been taken, which is to analyse and simplify procedures. By simplifying and systemising the work of the customs administration, possibilities for customs officials to be corrupt can be limited.<sup>75</sup> As part of the project, the customs is currently restructuring its organisation and creating additional customs checkpoints further inland to reduce the bottlenecks in the main seaports, airport and land borders. The 33 customs houses in Vietnam will be reduced to between 10 to 15 regional offices and all reporting to the central unit.<sup>76</sup>

The EU is promoting trade facilitation in Vietnam. The delegation of the European Commission runs several projects related to multilateral trade assistance. The Multilateral Trade Policy Assistance Program (MUTRAP) I and II have supported Vietnamese officials in ministries involved in multilateral trade policy issues. The European Technical assistance programme for Vietnam (ETV2) is a technical assistance umbrella programme funded by the European Commission in cooperation with the Government of Vietnam.<sup>77</sup> The aim of the programme is to provide technical assistance and support to the Ministry of Finance, Ministry of Planning and Investment and Ministry of Science and Technology. Customs reform and modernisation are one of six components of the ECTV2 project and a programme of technical assistance has been developed in this area. The aim of the customs component is to improve the efficiency and effectiveness of the customs administration, to establish and implement a national Single Window Strategy for the customs administration, to increase the

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<sup>74</sup> *ibid* p.3

<sup>75</sup> Interview World Bank

<sup>76</sup> Interview customs

<sup>77</sup> <http://www.etv2.vn/> 2008-06-15

customs' anti-smuggling capacity and to improve customs enforcement of intellectual property rights.<sup>78</sup>

To receive technical assistance from the WTO, each member has to arrange a national workshop to assess and to identify the type of capacity building required in the country. The WTO assessment workshop in Vietnam took place in March 2008. During the workshop it was concluded that the measures most difficult to implement were automation and single window approaches, implementation of international standards and the handling of express consignments. The reasons for the difficulties implementing trade facilitation measures are poor experiences and perception of trade facilitation issues, lack of IT infrastructure, unqualified human resources that do not meet the demands of the new working environment and inadequate cooperation and coordination among relevant authorities.<sup>79</sup>

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<sup>78</sup> *ibid*

<sup>79</sup> WTO, Trade facilitation self assessment of needs

## 4 Economic impact of trade facilitation in Vietnam

Trade facilitation is expected to have an effect on the economy and in this chapter such effects will be discussed and complemented with empirical data, business surveys and findings from interviews with traders in Vietnam.

Trade facilitation is likely to have an impact on trade development in several ways. On a national level it is expected to have a positive effect on trade flows. Trade costs will decrease, which will lead to lower prices and rising quantities of exports and imports. Moreover, trade facilitation will encourage FDI inflows due to the lower cost and risk of doing business in the country. The trade related revenues will rise when trade barriers are reduced and the flow of goods increases. Furthermore, a reduction of smuggling is expected when facilitating trade and will result in increased customs revenues as more goods enter via the legal channels. Companies will benefit from lower costs and reduced delays of goods, faster customs clearance, simplified framework for doing business, enhanced competitiveness, reduced risk of corruption and increased business opportunities.

It is difficult to quantify the economic effects of trade facilitation since there is no clear definition of trade facilitation. Trade facilitation indicators can measure the performance of a certain reform such as efficiency of ports or time required to export or it can be an index consisting of several elements that together form trade facilitation.<sup>80</sup> There is a shortage of data measuring the effect of trade facilitation, especially time series. However, in this chapter the Doing Business Indicators from the World Bank will be used to illustrate the current trading across the border status of Vietnam. Other trade statistics that are affected by trade facilitation will also be showed and discussed.

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<sup>80</sup> Roy and Bagai (2004)

## 4.1 Trade development

### *Doing Business Indicators*

Indicators of the trading across borders environment are published by the World Bank and measure the trade environment in terms of time, number of procedures and cost required for import and export of a standardized cargo. For instance, it takes on average 24 days to export a good from Vietnam and one day less to import a good. Six documents are required in the export process while eight are necessary in the import process. The cost to export per container is USD 669 compared with the considerable higher cost to import, USD 881. The data suggest that it is more complicated and costly to import than to export, two additional documents are needed and the cost is significantly higher.

**Table 4.1 Doing Business Indicators 2008, Vietnam and selected countries/regions**

Region or Economy	Vietnam	Cambodia	Laos	East Asia & Pacific	OECD
Documents for export (number)	6	11	9	6.9	4.5
Time for export (days)	24	37	50	24.5	9.8
Cost to export (US\$ per container)	669	722	1750	885.3	905
Documents for import (number)	8	11	10	7.5	5
Time for import (days)	23	46	50	25.8	10.4
Cost to import (US\$ per container)	881	852	1930	1015	986

Source: World Bank Doing Business Indicators 2008

To make a comparison, a number of other countries and regions have been included in the table. The countries and regions are Cambodia, Laos, East Asia/Pacific and the OECD. On average, 11 documents are necessary to fulfil export and import requirements for Cambodia and the corresponding numbers for Laos are 9 and 10 documents, which are higher than the corresponding figures for Vietnam. The average time to export and import varies among the countries. From Cambodia it takes 37 or 46 days to export and import and from Laos it takes 50 days to export and import, which is significantly more compared to the time required in Vietnam. The cost to trade also differs. Laos is most

expensive where the average cost is USD 1750 to export and USD 1930 to import, which is twice as expensive as in Vietnam and Cambodia. According to the business indicators, Vietnam is performing a lot better compared to its neighbouring countries Cambodia and Laos.

When comparing Vietnam to the East Asia/Pacific region's average, a positive picture emerges. Vietnam has more favourable trading environment than the East Asia/Pacific average according to all the indicators, except the number of documents necessary to import. This again indicates that importing to Vietnam is more difficult than exporting.

Lastly, when comparing Vietnam with the OECD average, it can be seen that it takes more than twice as long to import and export from Vietnam compared to the OECD average, even though the number of documents required for trading and the associated costs is rather competitive.

By looking deeper into the data in the table below for Vietnam, one can conclude that preparing documents is the main bottleneck as half of the total time required in the export and import process involves document preparation.

**Table 4.2 Trading across borders in Vietnam, detailed**

Export Procedures			Import Procedures		
2006	Days	US\$ Cost	2006	Days	US\$ Cost
Documents preparation	12	50	Documents preparation	12	50
Customs clearance and technical control	5	100	Customs clearance and technical control	5	100
Ports and terminal handling	3	369	Ports and terminal handling	4	431
Inland transportation and handling	4	150	Inland transportation and handling	2	300
<b>Totals:</b>	<b>24</b>	<b>669</b>	<b>Totals:</b>	<b>23</b>	<b>881</b>

Source: World Bank Doing Business Indicators 2008

However a concern is that the data do not take corruption into account. Another problem is the lack of time-series as data is only available for 2006 to 2008 and that all values for the three years are identical for the country. It would have been

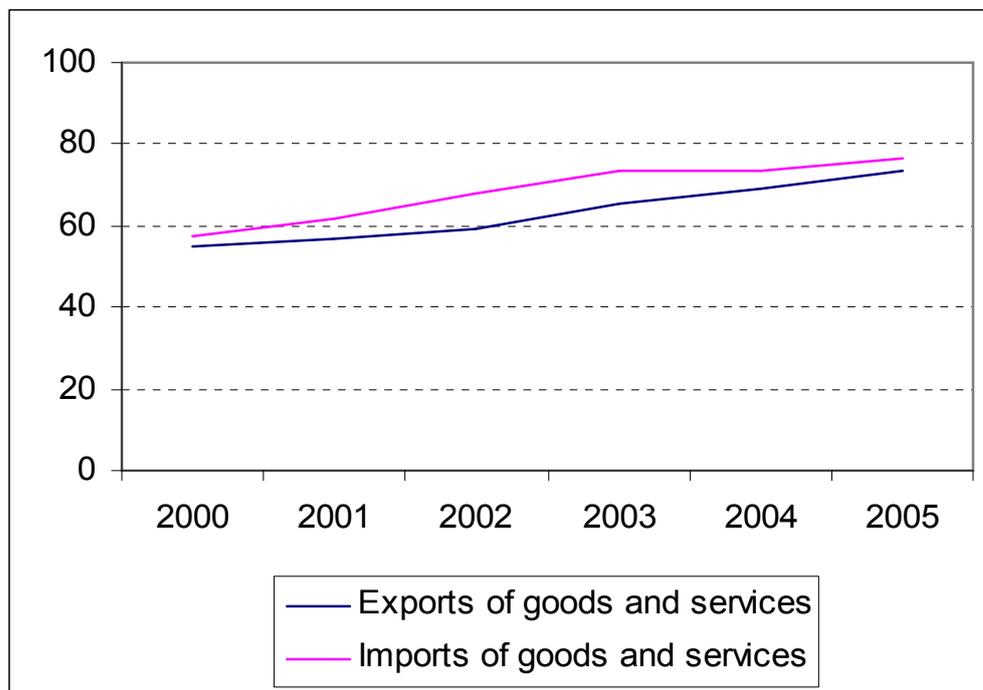
interesting to look at data for a longer time period to draw conclusions about the trade development in Vietnam over time.

### *Trade flows*

Trade facilitation is likely to affect imports and export volumes. By removing redundant and time consuming procedures trade costs will fall and the export and import volumes will rise.

From the diagram below, export and import as shares of GDP are depicted. In Vietnam's case, the trade flows are in line with the effects we expect from trade facilitation. Trade has become more important for the economy. The imports and exports as shares of GDP have grown steadily the last five years, exports from 55 percent of total GDP in 2000 to 73.5 percent in 2005 and imports from 57.5 percent of total GDP in 2000 to 77 percent in 2005.

**Figure 4.1 Vietnam's trade flows as share of total GDP 2000-2005, per cent**

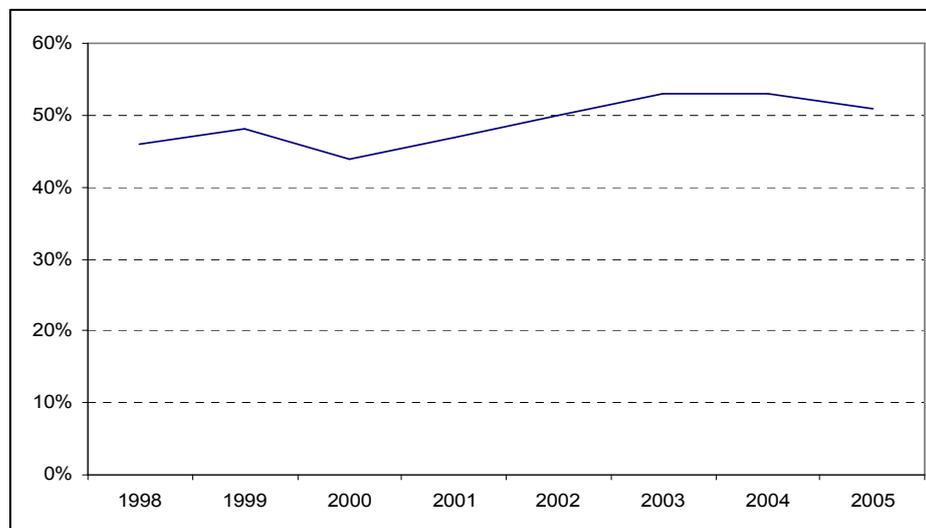


Source: General Statistics Office (2007)

### *Export diversification*

Trade facilitation is also likely to promote product diversification. As trade costs decrease, companies are able to diversify their production and to produce time sensitive goods that previously were not exported due to time consuming procedures. Time sensitive goods tend to have high value, which implies that faster customs clearance could result in more production of higher value products.<sup>81</sup> Such goods are likely to include textiles and clothing, perishable products and semi-finished products, that all rely on timely deliveries. Conclusions about the effects of trade facilitation on trade flows from Vietnam can be drawn when studying the manufactures as share of total exports over time. The share of manufactures shows an upward trend, with an increase from 46% in 1998 to 51% in 2005. Consequently, the country has diversified its production by producing more manufactures than previously, partly as a result of trade facilitation.

**Figure 4.2 Manufactures as share of total exports 1998-2005**



Source: Comtrade, data compiled by author

### *Customs revenues*

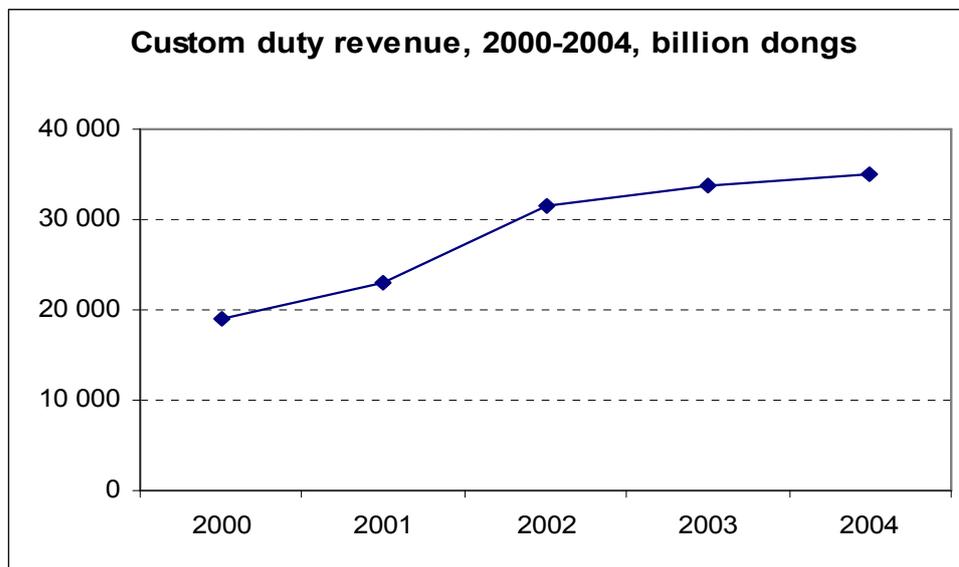
Trade facilitation reduces trade costs and increases trade flows, which in turn increases the customs revenues. Customs revenue is an important source of

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<sup>81</sup> Djankov et al (2008)

government revenue, especially in developing countries that may lack other tax systems.<sup>82</sup> Earlier experiences suggest that customs modernisation programmes have a large positive effect on customs revenues; several countries have more than doubled their customs revenues after successful implementation customs modernisation programmes. Even relatively modest reform programmes result in increased customs revenues.<sup>83</sup> The diagram below shows the customs revenues for Vietnam during 2000-2004. The revenues have almost doubled in four years, from VND billion 19 000 in 2000 to VND billion 35 000 in 2004. This is partly a result of trade facilitation efforts and increased economic integration as well as economic development.

**Figure 4.3 Customs Revenue 2000-2004, VND billions**



Source: GSO Statistical Yearbook (2007)  
 Note: Current prices.

*Foreign direct investment*

Trade facilitation also tends to promote FDI and have positive effects on the investment climate in a country. High predictability and low trade costs are important aspects when companies decide where to invest. Trade facilitation that results in lower trade cost and a more predicable customs administration attracts

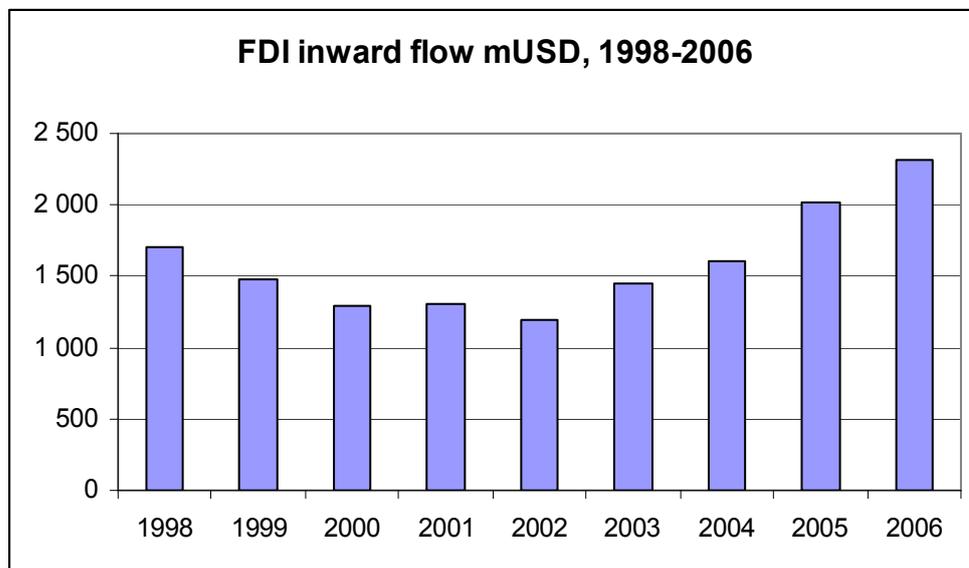
<sup>82</sup> OECD (2005) p.4

<sup>83</sup> Engman (2005) p.26

FDI inflows. The efficiency of customs procedures is especially important to attract investments in industries that produce time-sensitive goods.<sup>84</sup>

The amount of FDI in Vietnam shows an upward trend from 2002 and onwards, see figure below. According to the World Bank, Vietnam has been one of the largest recipients of FDI in the world, in relative terms.<sup>85</sup> FDI is the result of other reforms as well, but it is likely that trade facilitation has had a positive influence on the large inflows of FDI in Vietnam.

**Figure 4.4 FDI inward, 1998-2006**



Source: UNCTAD, FDI statistics database, data compiled by author

### *Corruption*

Corruption is common in the Vietnamese society. The Control of Corruption indicator from the World Bank in the diagram below shows the degree to which public power is used for private gain, including small and large types of corruption, and the risk of capturing of the state by elites and private interest.<sup>86</sup> Trade facilitation is expected to reduce corruption. Clear and simple procedures reduce the risk of corrupt behaviour. However, the Control of Corruption indicators from the World Bank indicate that there have not been improvements

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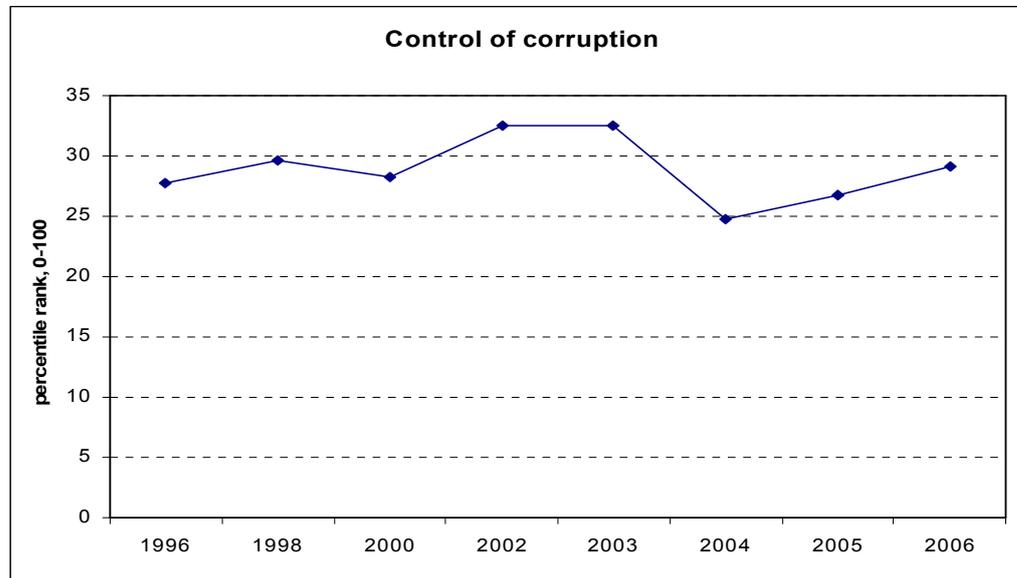
<sup>84</sup> Engman (2005) p.23

<sup>85</sup> World Bank (2005)

<sup>86</sup> <http://www.govindicators.org>

in the level of corruption in Vietnam. The corruption is still high and remains a concern for companies.

**Figure 4.5 Control of corruption indicator**



Source: World Bank

Note: The Percentile ranks indicate the percentage of countries worldwide that rate below Vietnam. Higher values indicate better governance ratings.

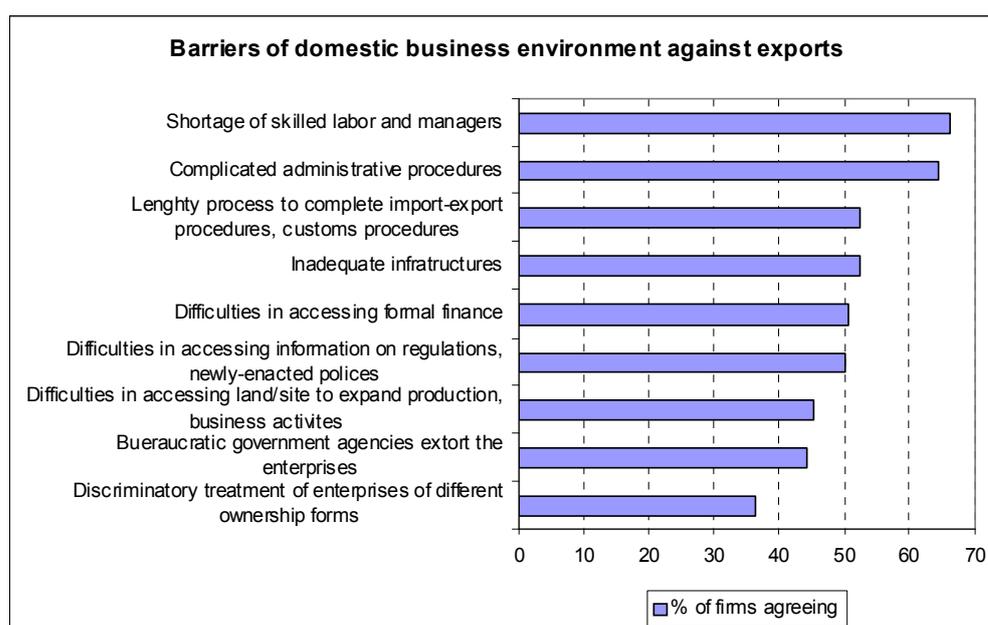
#### **4.2 Business surveys**

To deepen the understanding of constraints that companies meet when doing business in Vietnam, the result of two business surveys regarding the local business environment will be discussed. The first survey is part of a report from the Central Institute for Economic Management (CIEM) in Hanoi. The survey from 2007 covers 124 companies exporting to the EU. The companies were asked about limitations in the domestic business environment. The companies are located in three major cities, Hanoi, Danang, Ho Ch Minh and in the Hungyen province. Out of the surveyed companies some 15 percent were state owned, 60 percent private owned and 24 percent foreign-owned. The companies' exports range from agricultural products to manufactures.

The companies were questioned about barriers to exporting to the EU. The companies ranked the main barriers in the following order: "Lack of skilled labour and qualified managers", "Complicated administrative procedures",

“Inadequate infrastructures” (transport, electricity, warehousing, telecommunication etc) and “Lengthy process to complete import-export procedures, customs procedures” (See figure 4.6). Clearly, time consuming procedures are still a problem for companies. This is similar to the findings from the doing business indicators discussed in the previous section, where preparing documents was the main bottleneck in the export and import process.

**Figure 4.6 Barriers in domestic business environment**



Source: CIEM (2007) p.23-24

Furthermore, the study emphasises that export procedures have been simplified, but that procedures related to import are still cumbersome. This is also in line with the Doing Business Indicators, which indicate that imports of goods are more complicated than exports. This is problematic as competitive exporting often requires efficient access to imports of raw materials and intermediate goods. A complicated and time-consuming import process can therefore constrain the export competitiveness.<sup>87</sup>

Furthermore, 44 percent of the surveyed firms have experienced bureaucratic and/or extorting behaviour of government agencies and 48 percent usually have to pay unofficial costs to facilitate their exports. Even though the bribes are

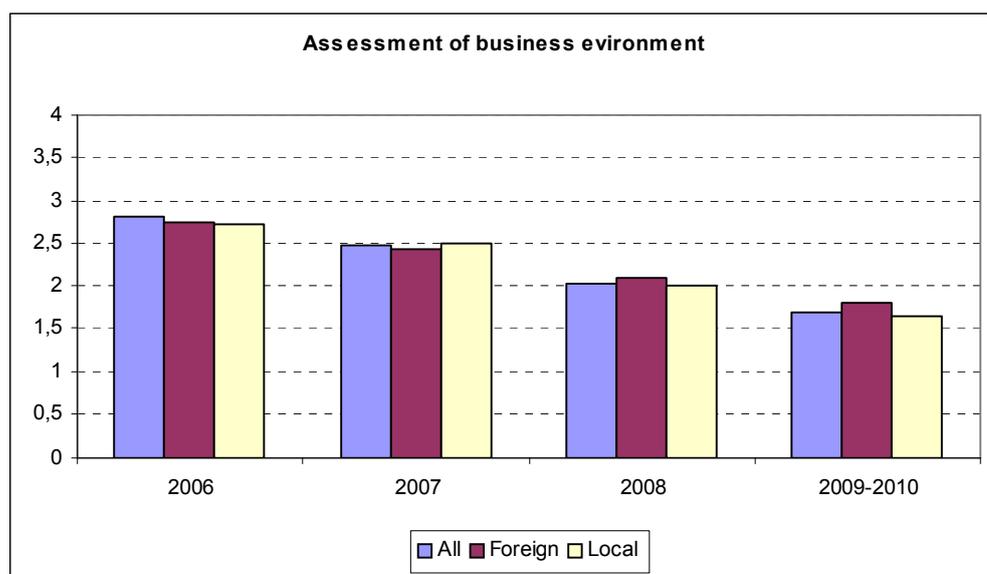
<sup>87</sup> Morrisey et al (2007)

relatively small in comparison to the companies' revenues, the majority of the companies consider such costs unreasonable and unacceptable.<sup>88</sup>

The second survey is published yearly at the Vietnam Business Forum. The survey in 2007 represents the views of 234 registered private sector enterprises regarding the business environment in Vietnam. The aim of the survey is to get a better understanding of the firms' opinions regarding the business climate. The respondents are active in different sectors and located in cities and provinces such as Hanoi, Ho Chi Minh City and Can Tho. 70 percent of the companies are domestic and 30 percent foreign, defined according to ownership. The companies have assessed several business environment indicators and the results from these are presented below.

The companies' view of the general business environment in Vietnam was assessed. It is clear that the firms' perception of the environment has improved compared to the survey in 2006 and that companies have a positive view for the coming years (see figure 4.7). The opinion is shared by both domestic and foreign firms. Note that rating 1 in the table represents excellent and 4 is equal to poor.

**Figure 4.7 Assessment of the business environment 2006-2010**



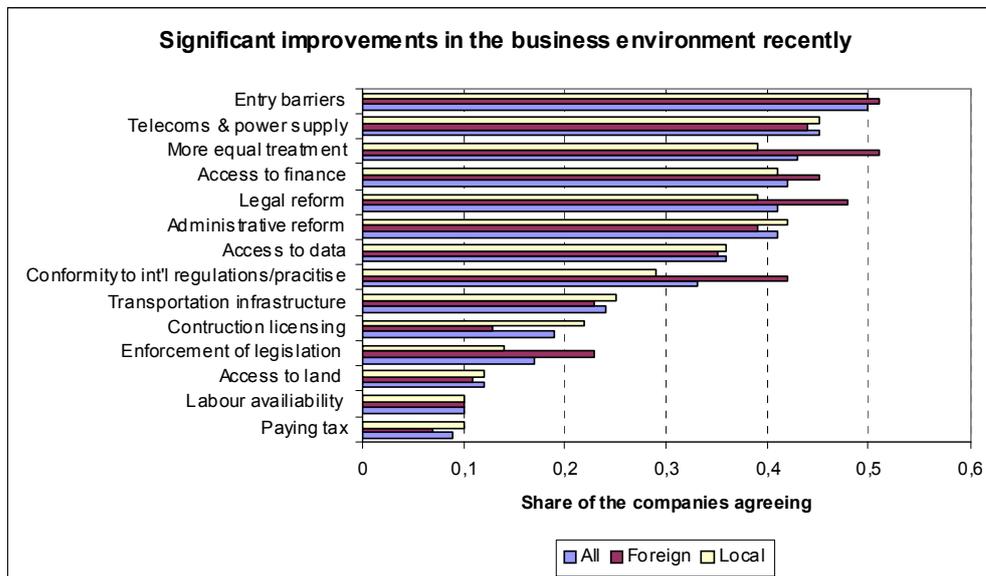
Source: Vietnam Business Forum (2007) p.3

<sup>88</sup> CIEM (2007) p.24

Furthermore, the respondents assessed a number of indicators in order to give more detailed information about obstacles in the business environment. The indicators rated least satisfactory were: “Infrastructure”, “Intellectual property rights protection”, “Effectiveness of administration services” and “Taxation administration and payment”. Once again respondents rated infrastructure among the most significant barriers in the business environment.

The businesses also rated improvements in the business environment, see below. Nearly half of the respondents observed improvements in entry barriers. More than half of the foreign companies noted positive changes towards more equal treatments of foreign and local firms. Positive changes in legal reforms were also noted by almost 50 percent of the foreign companies. The local companies, on the other hand, rated improvements in the telecom services and power supply as well as administrative reform improvements highly. Noticeably, the local and foreign companies have different opinions about recent improvements.

**Figure 4.8 Perceived progress in the business environment**



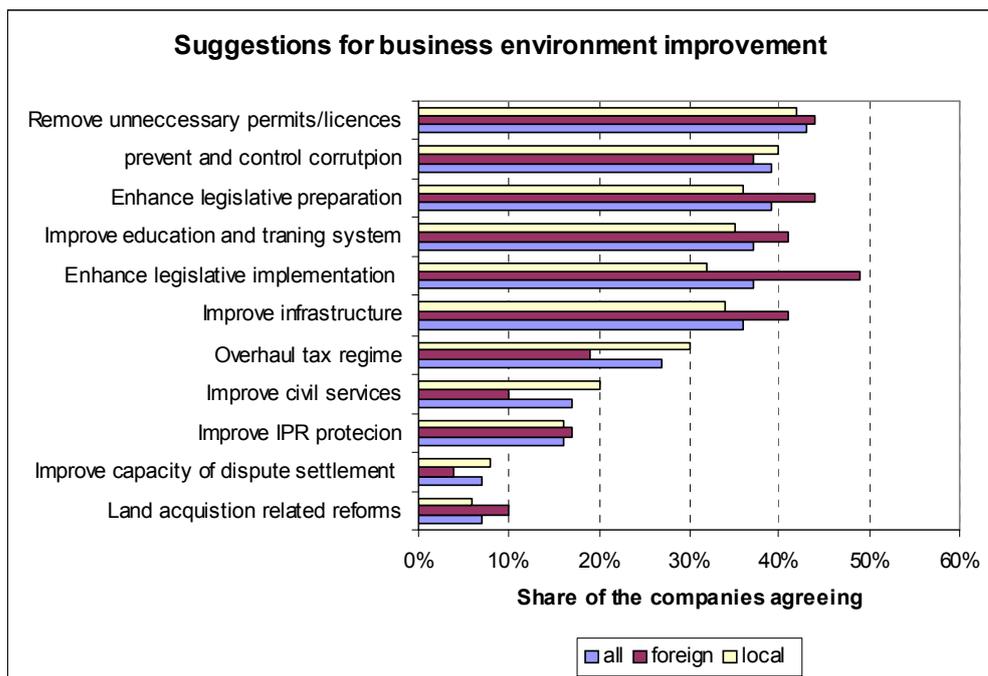
Source: Vietnam Business Forum (2007) p.5

The overwhelming majority of the companies, 90 percent, stated that they planned to expand their business activities in Vietnam in the coming years. The most common reasons for this is the positive economic outlook, market opening and reforms under the WTO commitments as well as domestic market

expansion. The main reasons not to expand the business, both for foreign and local companies, are the unavailability of skilful labour, poor infrastructure as well as bureaucracy and corruption.

Finally, the businesses were asked to clarify where further improvement in the business environment was needed. The main concerns of foreign companies were to enhance the legislative implementation followed by enhanced legislative preparation and the removal of unnecessary permits/licenses. The local companies prioritized the removal and control of unnecessary permits/licences and prevention and control of corruption. An explanation of why the companies have different views about the kind of improvements that are most important could be that local companies suffer more from bureaucracy and red tape than foreign ones. This supports the assumption that small and medium firms are more exposed to practices such as red-tape and corruption.<sup>89</sup>

**Figure 4.9 Suggestions for business environment improvements**



Source: Vietnam Business Forum (2007) p.8

<sup>89</sup> Vietnam Business Forum (2007) p.8

### **4.3 Evidence from the manufacturing sector in Vietnam**

During the field study I met representatives from several companies in Vietnam. These companies included: Uma Ltd and Mimex, exporters of house ware and furniture, Vinacraft, exporter of handicrafts and Guston Molinel, exporter of clothing. Mimex and Vinacraft are Vietnamese owned companies and UMA Ltd and Guston Molinel are foreign owned companies.

The firms agreed that customs procedures have been simplified in recent years. According to Vinacraft, exporting goods has become easier. In the past they had to fill in many documents which was time consuming and many certificates were unnecessary. The company can now access some of the documents online, for instance the Certificate of Origin on the webpage of VCCI and fill in the form over the internet, which is easier and saves time. According to Mimex, customs procedures have been shortened and have become more transparent. In the past, personal contacts within the customs administration were crucial to be able to trade. Krister Kling, the representative for Guston Molinel, who is also consul-general in HCMC, says that the customs administration have undertaken a fairly extensive restructuring of the customs clearance process. Today, the customs administration is functioning a lot better compared to 10 years ago. He also mentions that nowadays documents and other information can be found online. According to Ngoc Lan representing UMA Ltd, who has long experience in working on exports, the procedures are changing all the time for the better. She says that the government tries to find better ways to help the companies. She also brings up the recent option of submitting declaration forms online as a positive development.

However, according to Vinacraft, the government can still create more favourable conditions for the exporters by simplifying procedures even more and make them less time consuming. A lot of time is still required to fulfil requirements at VCCI and in the customs administration. For instance, they have to wait from the morning until the afternoon for the customs clearance. Mimex stresses that exporting today is easier than in the past, but it is still problematic. Delays have a negative effect on the company as customers lose trust in the

company and keeping containers in the warehouses for longer will also lead to lower profits. According to Mimex, corruption is still a large problem and the government should take strong measures to reduce it. According to Guston Molinel, exporting still requires a lot of paperwork and the company have to sign several copies of each document. Furthermore, every container is controlled, all boxes are opened and goods are “lost” during the numerous tranships. But in general the custom clearance process is working quite well. According to Vinacraft it is easier to export now than in the past because they can obtain much information on the internet. Whenever there is information about new legal rules the Vietnamese Chamber of Commerce and Industry (VCCI) sends them emails or letters. Thanks to the development of information technology, they can communicate with each other more directly and quickly.

Moreover, when papers are correct and match the consignment, there are usually no problems clearing goods, according to UMA and Guston Molinel. But when there is a small mistake, the customs check everything. There are often more problems with importation of goods than exportation. According to Krister Kling, the import process has not been modernised and internationalised to the same extent as the export process. When goods are imported they have to pass through the local customs department where the risk of corrupt behaviour is higher. From his own experiences, he knows that small mistakes will lead to additional payments to the customs officers. Once the company’s name was misspelled on a delivery and therefore the customs required an extra payment. However, when they refused to pay, it took several months to receive the goods. August Wingårdh representing Uma has also experienced similar behaviour by customs officials when importing price tags for their export products. He says that such payments are most likely corruption and go straight into someone’s pocket.

I also met representatives from Nissan, Ericsson and Ikea in Vietnam. None of these foreign owned companies have production in Vietnam, but they still gave some valuable insights about the general business climate in Vietnam.

Nissan has a representative office in Vietnam and no domestic production in the

country. Before Vietnam joined the WTO it was impossible for a foreign company in the automobile sector to obtain an import licence. After Vietnam became a WTO member, Nissan could start importing cars, without using a partner company. The company stresses that the importing process in Vietnam is still very bureaucratic, corrupt and difficult as well as highly reliant on personal connections within the customs administration. There are rules that everybody is supposed to follow, but not all are willing to do that. Even if the government has an idea how to make it easier for companies, officials out in the customer clearance offices are not willing to follow the rules. Furthermore, according to Nissan, the exporting process is much easier than the importing process.

Ikea purchases a lot of goods from Vietnam and ships them to their stores all over the world. However, the goods are already cleared by customs when Ikea takes over the responsibility. Ikea has chosen this strategy because it is much more uncomplicated to let a domestic company clear the goods with customs and then take over the supply chain. Occasionally Ikea imports goods and, according to the company, the importing process is still very bureaucratic with a vast amount of paper to process. According to Ikea it is more complicated to import since the goods have to pass through the local authorities whereas when companies export, they often pass via export zones. Ikea also confirms that corruption is a widespread problem.

Ericsson has a representative office in Vietnam and only imports spare parts occasionally. According to Ericsson, importing goods is fairly uncomplicated due to the fact that the company has been active in Vietnam for 15 years and has built up a lot of personal connections with different customs offices. However, the company stressed that the legal environment in Vietnam is very unstable and the laws are often very difficult to interpret. Interestingly, Ericsson considered setting up a bonded Warehouse<sup>90</sup> in Vietnam. However, they found that it was complicated and difficult to get a permit in Vietnam and therefore they found another country in Asia in which it was more convenient to set up the warehouse.

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<sup>90</sup> In a bonded warehouse goods can be stored duty free and tax free until they are exported or are consumed domestically.

## 5 Conclusions

In this case study, trade facilitation work in Vietnam has been described and analysed. The country's trade development has been very positive the last decade and Vietnam has progressively opened up to international trade and foreign investments.

I have found that the Vietnamese authorities have pursued a number of trade facilitation measures in recent years. The trade facilitation reform process has been driven by the government itself. Policy changes have been secured through negotiations in regional and international organisations. The WTO accession in 2007 has had a positive influence on the reforms, in particular the modifications of laws.

Reforms undertaken by the Vietnamese authorities include revisions of the customs law to meet modern requirements and to comply with the Kyoto Convention on Simplification and Harmonisation of Custom Procedures. Positive reforms include a newly created website where documents relating to trade across the borders can be accessed and customs documents are also published in the mass media. In addition, the customs administration is implementing single stop inspections so that traders only have to submit the required documents once. Work is also in progress to implement modern technologies; a few of the trade documents can be submitted online and e-customs procedures are piloted in some of the local customs departments across the country. The Vietnamese customs administration is actively participating in the GMS initiative to create single stop inspections with its neighbouring countries Laos, Cambodia and China. Cooperation with the business sector remains rather limited, but a partnership with the private sector is planned and will be conducted by the Swedish, Singapore and Vietnamese customs administration. It is obvious that there has been a strong political commitment in Vietnam to improve their trade performance.

The trade facilitation work has been supported by the EU, the World Bank and several bilateral donors. Through the cooperation with the World Bank in the Custom Modernisation Project, a long term strategic plan for the development of the Vietnamese customs administration has been outlined. The customs modernisation project will lead to efficiency improvements in the future. Moreover, the government has become more aware of the private sectors' influence on the economy and cooperation with private companies has increased, but further cooperation is necessary to overcome information problems.

The trading across border indicators, which measure the number of documents needed, time required and cost to trade show that Vietnam is performing better than its neighbouring countries Cambodia and Laos and that the country is rather competitive compared to the East Asia/Pacific region. When analysing other statistics, it is evident that the trade volumes have risen over time and that trade has become more important for the economy, which indicates that trade facilitation has had effect. Similarly, the customs revenue and the FDI in Vietnam have increased steadily from 2002 and onwards, partly because of trade facilitation.

In addition, according to a business survey from the VBF, companies have a positive outlook for the general business climate the coming years and a large majority of them plan to expand their business in Vietnam. The companies in the survey also noted significant improvements in entry barriers, more equal treatment of local and foreign companies and positive legal reforms. Moreover, improvements in the telecom service and power supply as well as administrative reforms have also been highly appreciated. The companies I interviewed have the opinion that export procedures have been simplified in recent years, but that the government can still create more favourable conditions for the traders by simplifying the procedures even more.

Despite the very positive development of trade facilitation in Vietnam, a number of challenges remain and need to be addressed. Companies are still struggling with complicated administrative procedures, corrupt behaviour by customs

officials as well as lengthy processes to complete import and export procedures. Further, clear rules are necessary to facilitate the flow of goods, and further education and involvement of customs officials in the reform process could limit corrupt behaviour. The customs administration also needs to reorganise its work, from control of almost all shipments to a system that facilitates trade. Lack of implementation and inconsistent application of laws put constraints on companies. Furthermore, several companies in Vietnam report that the export processes have been facilitated but that the import process remains cumbersome. The creation of a simpler import process would be highly appreciated by the companies and will result in more integration into international supply chains.

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**Observations**

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