



Graduate School of Development Studies

**Trade Policy Reform and Its Impact on Export:
The case of fisheries sector in Vietnam during period
1986 - 2006**

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List of Acronyms

ASEAN	Association of Southeast Asian Nations
AFTA	ASEAN Free Trade Area
BTA	Bilateral Trade Agreement
CEPT	Common Effective Preferential Tariff
EPZs	Export Processing Zones
EPAs	Export Promotion Agencies
FAO	Food and Agricultural Organization of United States
FDI	Foreign Direct Investment
FICEn	Fisheries Information Center
FISTENET	Fisheries Scientific-Technological Economic Information
GDP	Gross Domestic Products
GSO	General Statistic Office,
HACCP	Hazard Analysis and Critical Control Points
IDS	Institute of Development Studies
MARD	Ministries of Agriculture and Rural Development
MFN	Most Favoured Nations
MOF	Ministry of Finance
MOFI	Ministry of Fisheries
MPI	Ministry of Planning and Investment
NER	Nominal Exchange Rate
NTBs	Non-Tariff Barriers
QR	Quantitative Restrictions
RER	Real Exchange Rate
RIA.1	Research Institute for Aquaculture No.1
SEAPRODEX	Sea Products Import Export Corporation
SOEs	State-Owned Enterprises
VASEP	Vietnam Association of Seafood Exporters and Producers
VNEP	Vietnam Economic Portal
WB	World Bank
WTO	World Trade Organization

Chapter 1

Introduction

1.1 Research background

There were two main objectives of Vietnam's trade policy reform which have been implemented since 1986. The first objective was to create the transition from a centrally-planned to a market-based economy. The second objective was to promote export-oriented industries by redressing the anti-export bias of the protection system and simultaneously protecting the manufacturing sector developed during the centrally-planned era (Philippe 2003: 2). In the late 1980s, trade reforms were carried out slowly and hesitantly, but since 1990s significant reforms have been implemented and contributed to economic development. In recent years, trade reform focus on some key measures such as remove quantitative import restrictions, reduce tariff barriers, increase export incentives, expand foreign direct investment (FDI), especially FDI in export-oriented projects, and speed up the privatization process in foreign trade sectors (Athukorala 2005: 1).

In fact, the transition of the Vietnamese economy was implemented with the liberalization of trade and price. According to Jansen (1997:1), there was a high success of transition in which all national economic sectors and foreign investors "have responded to the new opportunities and the new incentives". As a result of economic transition, especially trade reform, in the last twenty years these have been remarkable changes which directly affected Vietnam's economic system. Vietnam has become official member of a various regional and international economic organizations, such as ASEAN, APEC, ASEM and WTO. Many significant achievements of Vietnam in economic stabilization have been recorded, especially in export sector. According to the World Bank, in last twenty years of economic reform, the annual average Gross Domestic Products (GDP) growth rate was 6.81%. There was a rapid increase in the ratio of export turnover to GDP from 30.8% in 1990 to 67% in 2007. In comparison with other countries, Vietnam has gained high levels of export growth rate in which Vietnam stands 4th among ASEAN countries, ranks 5th in Asia and 8th in region (VNEP 2008).

During the reform period, the export structure has changed in favour of manufacture and agriculture in which, with a very good natural condition, fisheries sector plays an important role and makes significant contribution to the economic development in Vietnam. Under the process of trade reform, the sector was defined by the government as key economic sector of the country. The fishery sector is also one of the leading export sectors of the country which has been increasing rapidly in recent years. In last five years, fisheries export has increased from 1.478 million US\$ in 2000 to more than 3.000US\$ million in 2006 (Ministry of Fisheries-MOFI 2007) which significantly contribute to GDP growth and export growth. Besides, fisheries sector is also important subsistence activity for poverty reduction among the large rural

population. Until now, there are more than 4 million people in Vietnam depend on aquatic resources. By direct or indirect ways, their income and livelihoods have strong attachment with fisheries activities in both inland and coastal areas (Phillips et al 2004).

Empirical evidence from successful agricultural countries shows that one of the main elements contributed to the economic development is focusing on producing and exporting products in which they have natural comparative advantages. In general, Vietnam has good conditions for agricultural development, particularly in fisheries sector. Therefore Vietnam should channel her resources and make the policy reforms to support for this economic area. During the period from 1986 to 2006, there have been many changes in institutional managements and trade policy. This paper try to analysis the effect of trade policy reforms on the trends of fisheries export during this period and try to analysis whether the reforms have impacted negatively or positively on this sector. It also intends to find out some possible directions for enhancing fisheries export in the coming years.

1.2 Research problems

Before 1986, Vietnam fisheries sector depends deeply on the exploitation from natural available potentiality. Basically, the sector was self-provided and self-sufficient, and played very little role in national economic system. For a long time under the management mechanism and intervention of state in which the consumption was mainly implemented by a method of products delivery, Vietnam was used to evaluate achievement in according to quantity of products without regarding to their value. It led to annul commodity property of the products and resulted in reducing of production motivation that caused a degradation of the sector at the end of 1980s (MOFI 2005)

From 1980 up to now, there has been a reform in fisheries sector. It started by a change in policy by moving toward self-balanced and self-financed mechanism with aim strengthening fisheries export. The value of fisheries products was paid more attention, therefore the policy created an investment sources for reproduction and new motive of development. At that time in Vietnam, fisheries sector had been known as a vanguard one of *Doimoi* (Innovation) process in which there was a shift from economic protectionist system to market-oriented economy based on the orientation of socialism. Under this process, the sector played an important role in the national economy and it was defined by the government as key economic sector of the country (FINCen 2006, MOFI 2005, RIA.1 2006).

However, there are some problems with the fisheries sector of Vietnam during the period of trade liberalization. The competitive ability of fish export products are weak because market access barriers continue to pose serious obstacles for Vietnam to enhance her access to international trade, increase export value and promote for the sustainable development of fisheries sector. The remaining trade barriers can be separated into external and internal ones. In the external barrier, in recent years while tariffs on fish and fish products are generally low in industrialized countries, they remain high in developing countries and pose a barrier to increase the trade. Besides, tariff escalation and

tariff peaks reduced the fisheries export capacity from developing countries to developed country markets. For example, tariff applied for processed products is higher than tariff on raw materials. In addition, nontariff barrier such as food safety standards, labelling to origin, Sanitary and Phytosanitary Standards, and traceability requirements are difficult to adapt by developing countries. Another measure of developed countries to protect domestic fish production from other cheaper fishery products is imposing the anti-dumping policy though it leads to the strict barrier for exporting countries. The price fluctuation in the world market has been also one of the main external barriers hindering the growth of fish trade in recent years (Ahmed 2006: 1-8).

Besides, the internal barriers which including the export quotas, the rural credit, the constraints and problems of agricultural marketing system on agricultural exports in Vietnam also make the difficulties for the development of fishery sector. In addition, the knowledge on international law such as trade conflict law of enterprises is limited. Because of those obstacles, according to many economists, the efficiency of Vietnam's fisheries exports is not high as it could be.

1.3 Research objectives and research questions

1.3.1 Research objectives

The main objective of this research is to determine the linkage between trade reforms and fisheries export in Vietnam. In other words, it aims to assess the impact of trade policies on Vietnam's fisheries export over the period of trade liberalization from 1986 to 2006. Based on the current policy analysis this paper also intends to provide some policy suggestion to promote export in the fisheries sector of Vietnam.

1.3.2 Research questions

- How have trade reforms been taken place in Vietnam since 1986?
- How did Vietnam's fisheries sector perform during 1986-2006?
- What is relationship between trade reforms and fisheries export development in Vietnam?
- What should be the direction for further reforms in fishery policies in way of export promotion?

1.4 Research Methodology

The research relies on the review of relevant literature and available statistics to analyse trade policy reform in Vietnam and their impacts on fisheries sector. In other words, the approach is based on description, analysis and policy-oriented. As mentioned above, the main objective of the research is to find out the link between trade reform and how it affects to the development of fisheries export. Therefore, there will be an analysis of economic trends, trade policy changes in the fisheries sector, focusing on how, directly and indirectly, trade measures impacts on fisheries sector.

At first, the paper concentrates on making the relevant literature review dealing with various different parts of trade reform which significant related to fisheries export activities in Vietnam in the period 1986 – 2006. In this part, there will also be reviews of specific trade measures such as tariff, non-tariff barriers, export incentives policy, exchange rate policy, privatization, and market promotion. Then, based on those literature reviews, the paper will analyses how trade policy and other macroeconomic reforms impact in the volume and value of fisheries export. There will be the comparison “before and after” the time that trade measures was applied to fisheries sector and how, positively or negatively, it affected to fisheries export as the result. The comparison maybe at the specific time or during the whole period of trade reforms in last twenty years. It is because some policies take action immediately while the others needs time to make effect.

The analytical framework, which was set up in chapter 2, will give a more details about research approach. In this framework, specific trade measures will be described: what is its positive or negative impact on export growth if it is applied during trade reform? Then, based on this analytical framework, the paper will do the analysis by applying them to fisheries sector, especially fisheries export activity.

In general many studies suggest that the effects of trade reforms on export growth are ambiguous and complex. It is difficult to say whether the growth of fisheries exports is directly related to trade reforms because this growth can be the result of multiple factors. However, if this paper makes further assessment of what have been done during trade reform process and link them directly with the acceleration of fisheries export, it can argue that trade reform does in fact provide significant changes for the development of fisheries sector.

The research uses secondary data collected from various sources. Data collection based on report from Government Agencies in Vietnam such as General Statistic Office, Ministry of Fisheries/Ministries of Agriculture and Rural Development, Ministry of Trade and Ministry of Planning and Investment, as well as World Bank and FAO.

1.5 Structure of research paper

There are 6 chapters in this paper. Chapter I is the introduction of research field. Chapter II is the theoretical framework in which the theoretical foundation about trade policy reform, trade liberalization is laid out. Chapter III gives detail description about Vietnamese trade policy reform during the period 1986-2006, the trade instruments and export performance of Vietnam export during reform period. Chapter IV addresses fisheries sector and its role in economic system. In chapter V, the paper will analysis and point out how the changes in trade policy measures create the changes in fisheries development, especially in export sector. Finally, chapter VI concludes and gives brief policy recommendation.

Chapter 2

Theoretical framework

Reform of trade policy is essential to link the economies of developing countries to worldwide technological advances and enable them to compete in an increasingly integrated world” (Thomas and Nash 1991: 202)

To analysis the impacts of trade policy reforms on the export growth it is important to confront 2 questions (i) how has trade policy normally been implemented in developing countries; and (ii) How should those trade policy reform instrument help to increase export? In this chapter the paper will provide short theory on trade policy reforms following World Bank line which pushed for neo-liberal agenda since the 1980s. In session 2.1 there is a list of main trade instruments which often used during the reform period to reduce trade restriction, expand liberalization and increase economic growth. Session 2.2 come up with the analytical framework and there is short empirical evidence mentioned about trade policy reform in another fisheries exporter, Indonesia in session 2.3.

2.1 Trade policy reforms and its role in economic development

2.1.1 Trade policy reform

In 1970s and 1980s, after suffering from trade cost caused by various external economic shocks such as the dizzy increase of oil price, high interest rate and the complex terms of trade between nations, many countries realized that there was a need of structural adjustment which including trade policy reform. The main objective of trade reform is to create the openness in economic system and high competition for production. In other words, reform programme was implemented to facilitate trade and setup integration into global economy (Thomas, Nash, and associates 1991)

In last decades, there have been several theories about trade policy reform. Normally, trade policy reform refers to the reduction of Government’s intervention and the replacement of quantitative restriction on price mechanisms such as tariff (Rodrik 2000). According to Thomas et al (1991), ‘trade policy reform covers measures that move the trade regime toward a more neutral incentive framework and a more liberal foreign trade regime’. In the literature on trade reform, the concept of ‘liberalization’ is described as the key factor in the reform progress. In general, trade liberalization is a distinction of inward-looking import-substituting policy versus outward-looking export-promotion policy in which there is a support for the movement from trade restriction to a more liberalized trading position (Adhikari et al 1992).

The traditional literature on trade claimed that there was a high cost for the economic system under the domestic restriction policy. First of all, the cost may come from the misallocation of natural resources in production which

leads to the decrease of consumer welfare caused by the misalignment in prices between domestic and international markets. Secondly, domestic protection makes the impact on economic growth rate. Many studies showed that the productivity growth is much higher in period of liberal trade policy than in the period of protection.

In addition, protectionist restriction is able to divorce domestic market from international structure. In this case, country is often defeated to deal with various external shocks in economic system such as high oil price. Lastly, those countries who applied restriction policy don't have opportunities to receive new technology from overseas, thus reduce their comparative ability and limit export (Thomas et al 1991).

By contrast, traditional growth theories explained clearly about the effects of trade reform, especially the relation between trade reform and growth rate. Many previous studies showed that reducing trade restriction makes significant contribution on the increase of GDP growth rate because the more open the economy, the more chance they can innovate and improve production. Obviously, the unit cost of production reduces because economic scale is expanded with higher technology, higher competitive pressures making higher productivity. There is a close correlation between reform and export rate. By reducing the overvaluation of real exchange rate, limiting imports by protection, and reallocating natural sources trade reform increase incentives for export sectors. A positive export-output linkage has also been found by researcher thought it is sometimes not much clear in developing countries. It is because export is a part of output/GDP so it is different to analysis the causality between them (IDS policy briefing 2003).

Thus, though there are still some debates that there is no correlation between export-oriented economies' higher growth and the production improvement (Pack 1988), evidences shows that industries and firms getting high protection are inefficient, while exporting industries receiving lower protection are efficient (World Bank 1988). In general, trade reform has significantly contributed to the economic development, especially export performance with a condition that reform must be implemented and carried out by comprehensive and complementary actions (Thomas et al 1991).

2.1.2 Trade policy instruments

As mentioned above, many earlier studies described the cost of restriction and benefits of trade policy reform. However, there is a need to consider carefully the alternative of using an aggregate index of openness because those set of individual trade measures will indicate if there is a decreases of restrictions in trade regime or not. During the reform period, a well-chosen of trade measures plays a key role on the success of change in a country's trade regime (Dean et al 1994). In this study, five individual trade measures which indicate for evidence of liberalization will be examined.

2.1.2.1 Tariff reform

In the restrictive economic system, tariff is a trade measure used to protect domestic market. It is often applied in the countries who pursuit import-substitution policy under the intervention of government. Theoretically, tariff

is imposed on imported products to make their price higher than domestically –produced goods. Thus, tariff barrier can improve the competition for domestic term and prevent the control of foreign enterprises in markets.

According to Greenaway et al (1993), the concepts of protection can be divided in to nominal tariff rate (percentage difference between the price of a good with and without protection) and effective tariff rate which defined as ‘the percentage change in producers’ value added, as a result of taxes on trade, over the level of value-added that would have prevailed in the absence of those taxes’ (Chi 2003: 8).

However, some economic theories and practical evidence showed that tariffs make a harmful interference to the progress of trade liberalization and free markets. High tariff reduces consumer’s welfare and brings negative impacts to countries which artificially maintain an inefficient industry. Obviously, it is necessary to setup a new and more efficient tariff system to improve trade. But, according to many sources, the sudden changes may create disadvantages for the large industry which previously under protected. Thus, normally in tariff reform government tempted to reduce tariff changes for industry with lower costs and benefits in the early stages. A tariff reform applied for key industry is often implemented at the end of the reform program (Thomas et al 1991).

2.1.2.2 Non-tariff barriers

Besides tariff, non-tariff barrier to trade (NTB's) is also a trade barrier that restricts imports. However, NTB's is not used in the usual form of a tariff. Generally, non-tariff barriers are used to control import by large and developed countries which include quantitative and quotas restriction, import licensing, embargoes, and other restrictions.

In the trade reform process, NTBs have been gradually removed, especially the removal of Quantitative Restrictions (QRs) policy. The implications of removal of QRs normally has main objective is remove corruption, remove protection of inefficient domestic industry from exploiting the local consumers in terms of both price and quality.

2.1.2.3 Export incentives

The required neutrality of incentives can be achieved by allowing export producers to purchase their inputs and sell their outputs at competitive prices; that is, by granting exporters and their main suppliers duty-free access to inputs, and granting exporters the right to retain all their export proceeds. Several mechanisms exist for granting duty-free access to exporters for imported inputs. These include duty drawback or rebate systems, and bonded manufacturing warehousing arrangements. In addition, geographically separated entities (export processing zones) may be set aside from which all import trade barriers are excluded (WB 2006)

As mentioned by WB, various ways have been providing by governments to encourage growth of trade, especially exports increase. Theoretically, an export incentive policy of a country includes programmes and measures that promote and increase trade activities with other countries. In short, it consists of regulations and practices that will make positive changes for export sector.

In practice, most developing countries which applied export promotion policy expect that sustained export promotion will help to earn more foreign exchange to cover the cost of imports, solve balance of payments problems, reduce the burden of foreign debt, and create additional employment for people.

2.1.2.4 Exchange rate reform

As indicated in a research of WB (2006: 86), 'perhaps the most important single instrument in implementing outward orientation is exchange rate policy'. Generally, in the process of trade liberalization exchange rate reform always has high attention because both the supply of and demand for export volumes are influenced by the exchange rate.

In the exchange rate reform policy, real exchange rate (RER) is a closely related concept. Normally, RER is known as the nominal exchange rate adjusted to differences in inflation.

According to Catão (2007), 'RER between two currencies is the product of the nominal exchange rate and the ratio of prices between the two countries'. It is often calculated by the formula: $RER = eP^*/P$ in which e is nominal ER, P^* is the average price of a good in world market, and P is the average price of the good in domestic market.

In most theories, productivity of export goods is related closely to the real supply of foreign currency, and real exchange rate plays an important role as being the principal equilibrating variable of a country's international trade and balance of payments. An increase in the real prices of export products creates real appreciation of the currency. According to Caballero and Corbo (1989), the real exchange rate's fluctuations bring negative effect on exports because of their considerable uncertainty. When exchange rate is unified, a real devaluation of currency improves incentives for export industries and production of import substitutes (Thomas et al 1991)

2.1.2.5 Policies towards trading partners

The trade theories focused on explaining the importance of trade liberalization and trade agreement between countries. According to Nash (1992), the potential for expanding trade with each other's has led many countries to form regionally integrated groups. When the trade agreements are signed, those countries are expected to increased trade, promote natural competitive advantages, expand economic scale by production for a regional market, and to provide exporting experience under protection.

2.1.2.6 Relationship between trade instruments

Theories showed that the changes in one trade measure are not easily weighed against changes in the other. For example, if the tariff rate is decreased, but the exchange rate is still more overvalued, it is not clear that whether the trade regime has become more open. Similarly, it is also difficult to say if the trade regime become more neutral or not if average tariffs rise, but export taxes also fall. Thus, the relation of the changes between those measures must be determined.

In addition, QRs also has a close relationship with tariff reform. The removal of binding QRs will reduce protection, therefore, tariffs have been

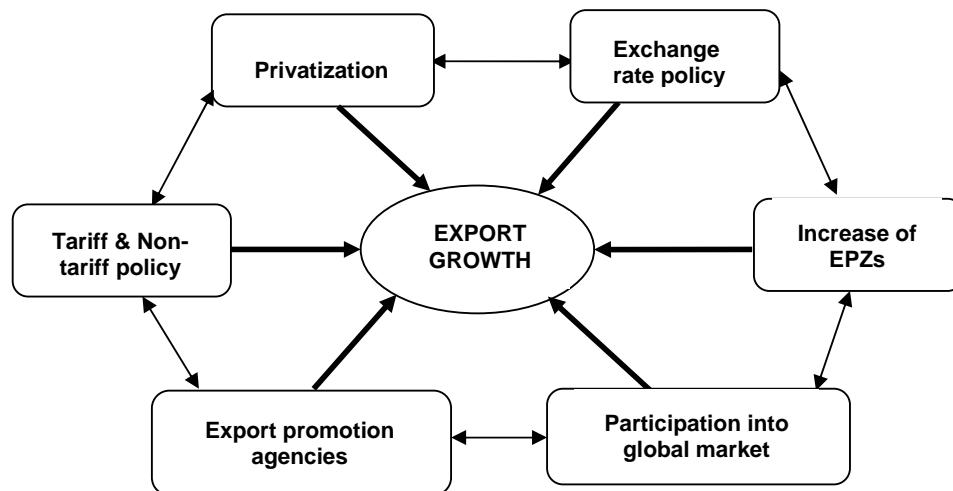
used a supporting measure to help the reduction taking place gradually. When quantitative restrictions are to be reduced in stages, the exchange rate, the tariff reforms and the relationship among all of these measures, and the phasing of changes over time must be considered. By raising the domestic currency of imports, devaluation reduces the protective effects of quantitative restrictions (that is, the quota premiums). By making imports more expensive in domestic currency, devaluation often makes the restrictions redundant and so reduces opposition to their removal on the part of protected industries.

2.2 Impacts of trade reform on fisheries export: an analytical framework

During last decades, some questions have been raised to the relation between trade reform and export. Does trade reform bring positive to export? If yes, how could trade instruments (tariff reform, nontariff barrier, export promotion, and exchange rate) help to increase export supply?

As indicated in the literature review, there are various trade policy measures that can make impact on the economic growth, especially the development products. However, in this paper, the main objective is to analysis the impact of trade reform on the export performance of fisheries sector, therefore trade measures will be selected with the one taking significant and direct impact to fisheries export growth. In Figure 2.2, it is obvious to see that the privatization is also indicated because the paper found it is much relevant to fish trade in Vietnam. Following is the analytical framework that will be used for the data analysis of research paper. In other words, the paper mainly relies on this framework to apply it in the analysis part.

Figure 2.1
Relation between export growth and specific trade measures



Source: Based on literature review, arranged by author

First of all, based on theories it is clear that the increase of tariff on imported inputs possibly enhances the anti-export bias in case inputs are used for export production. Therefore, if there is no duty drawback scheme for

exporter “the marginal net economic benefits on raising input tariffs should be trade off against the marginal economic cost resulting from the reduced incentives for export production” (Thomas et al 1991). However, if the duty drawback scheme works well, the increase of input tariffs will have little negative direct effect on the profitability of export production. So far, if these inputs are used in the production of exportable, reducing their tariffs may directly increase profits, production in this sector and improve resources allocation.

Theories and empirical evidences also indicated that QRs would depend on other factors such as the nature of quantitative restrictions and the context. For example removal of QRs on imports is generally concluded that it is beneficial policy because of lower priced imports for domestic consumers. However, the domestic producers will suffer initially due to high competition, but they are also forced to improve their cost efficiency and productivity. At the export sectors, the QRs would be removed to create nature of competition in the international markets.

In the exchange rate reform, RER is one of the key relative prices which have significant affects to the competitive ability of export sector. Theories and practices showed that there is a strong consensus on the relation of the RER and export development (Thang 2004).

Real exchange rate misalignment can be detrimental to export growth, and that real exchange rate variability and uncertainty are associated with negative effects on export performance... On the positive side, the literature also suggest that the exceptional export growth performance...is closely related to the ability to avoid real exchange rate overvaluation while minimizing exchange rate volatility (WB 2006: 12).

According to Neoclassical theories, export sectors are quite sensitive to changes of exchange rate. The changes in the RER create changes in international trade between domestic and foreign markets. Generally, the quantity of exports and export revenue is probably increased through the depreciation of domestic currency which lowers the foreign currency price of exports. However, the export revenue may falls because of highly inelastic foreign import demand. If export production uses inputs from domestic market, the depreciation leads to high domestic cost and price of export. By contrast, during periods of appreciation, exporters are able to use cheaper materials in domestic to maintain and enhance export market share (Fang et al 2005).

Thus, the example shows that the NER doesn't adjust for the changes of inflation rate. The export competitiveness is reflected more clearly through the indicator of RER. It is important in making fiscal policy is ensuring a real and sustained depreciation of the ER by keeping the inflation rate under control (Minh 1996:22).

To make it clear, it is better to give an example of in Box 1.1 about the impact of real exchange rate on export and import activities.

Box 1.1: An example about the impact of real exchange rate on trading activities

"Suppose Vietnam's prices were stable but prices of its trading partner all rose by 10%, while the nominal exchange rate did not change. As a result, Vietnam's exports are more competitive and imports to Vietnam are more expensive. We would say that the effect of this is about the same as a 10% depreciation of the real exchange rate-or 10% depreciation of the Vietnam dong. By contrast, if there were to be 10% inflation in Vietnam but none abroad, and if the nominal exchange rate did not change, then economist would say that the real exchange rate of Vietnam had appreciated. That is, inflation of 10% in Vietnam but not any inflation in its trading partners would make it harder for Vietnam exporters, while imports would become more attractive to consumers because import prices would not rise while prices of Vietnamese products would have risen by 10%"

Source: Fulbright Economics Teaching Program: <http://www.fetp.edu.vn/NEC/ArticlesUni/A030113.htm>

Export promotion policy which gives direct and indirect support for exporters such as free access to inputs is particularly effective in developing exports. As mentioned above, all the export incentives contribute to reduce production cost, expand marketing and create more cooperation, extend export processing zones (EPZs) and upgrade technology for export sectors. Those supporting activities are often implemented by a trade promotion organization which always concentrates their efforts on encouraging sales of existing export products (WB 2006). In the data analysis part, the will be a focus on the role of EPZs in the growth of export. Theoretically, EPZs is one of the best policies to attract FDI into export industries. Besides, the lack of adequate infrastructures and the resources for large-scale development in developing countries can be overcome by enhancing the function of EPZs. Consequently, the cost will be much lower and bring high competitiveness for export products and benefit for economy (Amirahmadi & Wu 1995: 831-834).

At the side of joining international trade activities and becoming members of trade organization, there are both advantages and disadvantages it could bring to export growth. The positive effects are trade relation creates efficient allocation through better utilization of resources, improve comparative advantage and productivity. Signing Bilateral and Multilateral Trade Agreement speed up the process of tariff and nontariff reduction, and export country has more opportunities to access the market of import country. However, international trade also makes much higher competitive environment for export enterprises, for example stricter demand about quality of products. This is also an effective way to access the goal of integration into the global economy with international trade norms and standards.

2.3 Empirical evidence

In assessing the experience of trade policy reform, Thomas, Nash and associates (1991) found the evidence that 'reforms in trade policy have, by a large, contributed to improved economic performance in developing countries'. According to them, all the trade policy measures are important but in case there is no simultaneous implementation of all those reform, the priority will be given to the most important one which can make a better performance for economic development. For the country whose exchange rate is substantial overvalued, Thomas and Nash suggested that they should keep the real devaluation and unify any multiple exchange rates. It is because the real devaluation of exchange rate is able to restrict quantitative import and facilitate the removal of import redundant. They also emphasized that 'import reform

stimulates a more rapid export supply response and can insulate exporters from any adverse effects of tariff unification' and the replacement of non-tariff barriers with tariff 'eliminates tariff exemptions' and 'improves resource allocation, increases transparency, reduces rent-seeking, and improve the fiscal situation' (Thomas, Nash and associates 1991: 202-4).

Thus, it depends on various conditions and elements to say which policy measures is the most effective and important in promoting export. The paper may find the answer after analyzing the fisheries export in Vietnam, but, at first should refer to a country that have also carried out trade policy reform at the same time as Vietnam and has the similar strategic export product: fisheries.

The policy reform of trade in Indonesia, the country who stand the third of fisheries export in the world, has really started in mid 1980s under the structural adjustment policy (SAPs) which emphasized on reduction of import impediments and facilitating trade liberalization under WTO agreement. The main trade measures have been implemented in Indonesia including tariff reform, the eliminations of QRs, exchange rate management, export promotion and the trade regional and international cooperation.

In the WB discussion paper about review of evidence on the trade policy reform in developing countries since 1985, Indonesia tariff reform was evaluated to be significant, reduce tariff rate from 68% in 1986 to 31% in 1992. The incentives to export also increased by facilitating duty drawback scheme, establishing EPZs, and making condition for exporters access to otherwise imports. Besides, the rupiah of Indonesia has been freely conversable since 1970. In general, trade reform in Indonesia has the same objectives as Vietnam, which promotes for the economy more outward-looking and support the exchange rate policy to enhance the competitiveness of Indonesia's products in international market. In additions, Indonesia also became the official member of many regional and traditional trade organizations (Dean et al 1994).

Consequently, in the period 1980s to 2006, there is a increase in growth rate in Indonesia with the point is 6.5% in 2006, contributed by the openness of the economy and the improvement of macroeconomic management. Fishery is the main strategic export product of Indonesia, and during the reform period they become the 'dominant player' in trade sector. According to the country profile in FAO website, in 2003 Indonesia contributed 37, 851, 356 tons fish products (3%), as the third major fish producer country after China (60.2 percent) and India (5.82 percent). By speeding up the trade liberalization, in 2003, Indonesia exported fisheries products to more than 210 countries in the world and plays an important role in the national economic development.

Chapter 3

Overview of Trade Policy Reforms in Vietnam

This chapter provides an overview about the Vietnam's economic transition in last 20 years in order to create a larger perspective for the research paper. The trade policy reform review is briefly described in session 3.1 and in the session 3.2, the main trade instruments applied in this period will be introduced. Because most policies were put in to practice for the whole trading system, it is not easy to select the one which only directly applied for fisheries sector. Therefore, this chapter is more or less general and it is going to more specific in chapter of policy analysis. Session 3.4 comes up with achievement of Vietnam economic transition in last twenty years, which focusing on the economic growth and export performance (export composition and the expansion of export market).

3.1 Review of trade policy changes in 1986-2006

According to a study of Dinh (2003) on Vietnam's economy renovation and integration, on the Sixth Congress of the Vietnam Communist Party in 1986, there was an agreement that it was time for Vietnam to carry out a comprehensive renovation (*Doimoi*). After 10 years of independence, the national economy was still stagnated because the problems of centrally controlled economy which led to the shortage of food and commodities, high trade deficit and low growth rate. Therefore, it was necessary for Vietnam's economy making a strategy of moving from a 'centralized, bureaucratic and subsidized' system to a 'multi-sector commodity economy'. As Dinh mentioned in his research, the new multi-sector commodity economy means that there must be a 'multiple ownership structure and the commodity market'. In other words, the ownership would be gradually diversified though State still kept the leading ownership in the national economic system (Dinh 2003: 2-3).

Among many reforms to improve the national economy, trade policy reforms has played an important role because doing the reform on trade is one of the most effective tools to overcome obstacles and difficulties of trade deficit and enhance trade liberalization. Trade renovation policy had two main objectives in which the first one is move forward from the economy under the centrally planned by State to a more open market based economy by making the price liberalization in domestic market and link them to the international price. Besides, the number of trading entities should be increased and trade policy instruments such as tariffs, quotas and licenses would be adjusted. In addition, the exchange rate distortion should be removed to increase the competition for Vietnam's products in international trade. The second objective of trade reform was making the promotion for export-oriented industries (Auffret 2003: 2).

In general, the progress of economic transition in Vietnam has been rapid and highly successful (Phillips 2004, Dollar 1999, Jansen 1997). The volume of trade activities has been rapidly increased (Appendix A).

3.2 How trade reform has implemented in Vietnam in last twenty years?

Many trade policy measures have been applied, however, as the main objective of this paper is to find out the link between trade policy reform and the development of fisheries export, therefore, next session will focus on trade policy measures which have remarkable influence to export activities. Those trade measures not only created impact on fisheries sector but also all other economic sectors during the period of renovation 1986-2006.

3.2.1 Participation on bilateral and multilateral trade agreement

The trend of trade globalization during 1990s created significant impacts to the international trade activities of Vietnam. One of the most important Bilateral Trade Agreement (BTA) in last twenty years is the one signed by Vietnam and US 1992. This BTA has opened both opportunities and challenges for Vietnam to access to the biggest market in the world. Besides, since 28 July 1995, Vietnam has participated in the ASEAN and officially joined the AFTA since 15 December 1995 by signing the Agreement on CEPT. In addition, the official relationship of Vietnam and Europe Union was set up in 1992 that established cooperation between Vietnam and EU's nations. Under those trade agreements, there has been a commitment among members in reducing tariff and eliminating NTBs. In short, signing the bilateral and multilateral trade agreements speed up the process of participating in global trading system of Vietnam by bring it 'more in line with international norms' (Auffret 2003).

According to Fukase and Martin (1999) the first foreseen advantage of joining international trade is getting better access to overseas markets and higher foreign investment. Secondly, the competition from foreign enterprises/companies will put the pressures to the whole country's enterprises. Therefore, it is necessary to take action to adapt the standard requirement form international markets. In addition, participating on the global trade also help Vietnam to attract more technology, improve infrastructure, and so on.

On the other hand, the participation to global market also makes Vietnam facing many challenges. As other developing countries starting a new game at international trade level, Vietnam suffers more complicated laws while there is big problem of lacking knowledge and experience. Experiences showed that this led to many regretful consequences, such as the recent anti-dumping lawsuits in catfish product to US, the sanitary and phytosanitary standard (SPS) of shrimps to Japan and EU¹. Besides, the competition from other fishery exporter such as Indonesia and Thailand is also another trouble. In a fair and free trade environment, the completion can lead to the development of sector, but also make many enterprises go bankrupt and out of business.

3.2.2 Tariff policy and non-tariff barriers

In the centrally planned economy, the main objective of tariff barrier is to limit exports from foreign enterprises which stagnates the growth and development of domestic production (Athukorala 2005). During the process of trade

liberalization, tariff barriers has been gradually removed and replaced by another measure such as non-tariff barriers.

At the present, there are three different rates of tariff applied in Vietnam. The first one is tariff system used for commodities imported from the member countries of ASEAN named CEPT. The second is the MFN tariff rates. This rate is applicable to countries which normally signing the BTA with Vietnam and offer Vietnam the most favoured nation status. The third one is general/normal rates applied for imports from other countries. This rate is often no higher than 50 percent above MFN rates (Chi 2003: 18). In general, tariff barrier is rapidly reduced to participate into the international trade liberalization. For example, under the CERP of the AFTA, Vietnam is committed to reduce import tariff from member countries to less than 5 percent in 2006 (except some sensitive items). Especially, it is required to make a comprehensive reform in tariff structure when Vietnam was accepted to become an official of WTO (Athukorala 2005: 3-5).

In order to speed up trade liberalization, NTBs has also been eliminated since 1986. According to Auffret (2003), the Decision 46/2001/QD-TTg in April 2001 of the Government created an important shift in trade policy which making a more transparent and predictable export-import environment for most trading commodities.

In general, the presence of tariff and NTBs on trade is important for the economy under central planning. At this time in Vietnam, the main objective of those trade measures were achieving the balance of finance and commodity within the economy and protecting domestic enterprises. Sometimes, there is another objective for NTBs such as in the case of fisheries sector, the products of aquatic breeds, aquaculture feeds and chemicals for protection of aquatic life are restricted for environment protection and quarantine controls (CIE 1999: 25).

3.2.3 Export promotions policies

In order to promote export, in last twenty years Vietnam has applied many trade measures in order to overcome the obstacles of a restrictive trade regime under the management of State. In the research on Trade Policy Reforms and the Structure of Protection in Vietnam² carried out by Athukorala (2005), there was a very details description about main export promotion measures which implemented in Vietnam after *Doimoi*. As he mentioned, the first measure was gradually setting up a *duty free access* to imported inputs needed for export production. Raising investment in EPZs and import duty rebate are two main tools widely used for this purpose. The government has established many EPZs in the North, the South and the Middle of country which attracted international investment. After twenty years of renovation, up to now more than 150 industrial zones was established in Vietnam which located in over 32,000 ha of natural land area. Those industrial and EPZs attracted about 25.3 billion US dollars and account for 60 percent of FDI capitals (Industrial Review of Vietnam 2008). Together with the development of EPZs, the rebate of export duty was also started to be applied in 1991. In her research paper, Chi (2003: 20) indicated that in 1993 a duty suspension facility was added and allowed export oriented firms to suspend their duty payments up to 90 days.

However, according to Athukorala (2005), if making the comparison of export duty rebate schemes during economic transition between Vietnam and other Asian countries such as Korea, Taiwan and Malaysia, there has still been some limitation in the Vietnamese scheme. First of all, the inputs used for export production are supplied from both domestic and foreign markets but there is only the refund duties paid on imported inputs. Clearly, this reduced the incentives of using domestic input for export and created an unnecessary bias of using imported output. Besides, there are also limitations on the administrative procedure in customs activity which take the burden on small and medium private export firms which leading to their dependence on SOEs (World Bank 2002, Athukorala 2005, Anderson et al 1992).

Secondly, during the years of market-oriented reforms, Vietnam has applied *exemption from domestic taxes* to support for export. In the research on Trade Policy Reforms and the Structure of Protection in Vietnam, it mentioned that from 1999 to 2004 ‘profit from export producing is taxed at concessionary rate depending on the degree of export orientation of production’. For example, the tax will be at 20% in twelve years if the enterprises export between 50-80% of production and this rate is 15 % in fifteen years if the rate of export is least 80% of production. As Athukorala indicated, exporters are also exempted from Value Added Tax (VAT) and Special Sales Tax. In the progress of trade liberalization, export taxes are not recommended unless the products are being subsidized for the domestic market.

In addition, *the role of export promotion agency* plays an importance role in the export incentives activities. Vietnam Trade Promotion Commission (VIETRADE) is one of the Government’s solutions to further promote trade with other countries in global market. The main responsibility of VIETRADE is to support other trade promotion centers at provincial level, cooperate with international trade promotion organizations and assist Vietnamese enterprises doing business overseas (Chi 2003: 22). In fisheries sector, Vietnam Association of Seafood Exporters and Producers (VASEP) is an important organization for the fisheries export activities. The members of VASEP are Vietnamese seafood producers, processors, exporters and companies who involved in fisheries sector development. According to MOFI (2006), more than 80% of total seafood exported to overseas belong to VASEP members.

3.2.4 Privatization

During the period of taking the transition from a centrally planned economy to a socialist market economy in 1986, Vietnam has tried to improve the development of market economic regime but still maintaining the dominance of state enterprises. Consequently, government has taking higher priority for state sector though private sector contributed equal share in GDP and higher share in industrial output. Private sector also created higher rate of employment than state sector.

In last recent years, the role of private sectors has been improving in the economic growth and it is necessary to enhance the legal and institutional environment for this sector. The Law on Private Enterprises (LOE) was approved and issued in 1999 is one of the most important conditions for the

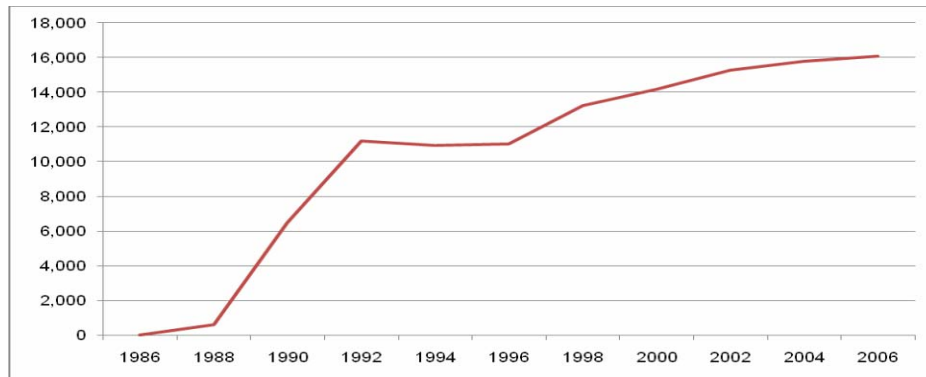
registration of private sector³. Besides, there has been an establishment of private property rights and increasing the efficiency of national economic system by starting the privatization of state-owned enterprises (SOEs). In the process of privatization, one group of SOEs has not been privatized because they are the key and strategic sector under the fully control and ownership of state. The second group could be privatized but the government still keep control with more than 50% shares, and the all remaining SOEs can be fully privatized. By the end of 2004, 2,224 SOEs were privatized which occupy about 40% of the total number of SOEs (Vu 2006: 3-15).

In the fisheries sector, until now there are about 50 enterprises under the control of MARD. In fact, the role of the state fisheries enterprises is weak but they still maintain their dominance in processing, export and import activities and other services supply. There is a rapid increase of non-state fisheries enterprises during recent years, about 2,345 in 2002 (MOFI 2005: 22). In this year, the net turnover of non-state fisheries enterprises was 1,830 billion VND while SOEs made up only 345 billion VND.

3.2.5 Exchange rate policy

Historically, before Doimoi renovation Vietnam faced with many difficulties of high inflation rate and multiple exchange rate which created obstacles for trade and services transactions. There overvaluation of exchange rate also promoted for imports over export activities, therefore there was a high rate of trade deficit. In March 1989, the multiple exchange rates were unified and in the late of 1980s to early 1990, there was a strong depreciation of VND and reaching the rate of about 11,000 per US dollar in late 1996.

Figure 3.1
VND/USD exchange rate in the period 1986-2006



Source: WB Development Indicator 2007

During the time coping with the impact of Asia Crisis 1997-1998, regional currencies fell rapidly and sharply leading to the overvaluation of VND (Ohno 2003, Camen 2006, Thang 2006). In 1998, the nominal exchange rate was devaluated around 2% per year, and in early 2005 the State Bank limited the depreciation rate to 1% during the year. Since 1999 there has been a new exchange rate mechanism in which the nominal exchange rate 'was set daily at the average of interbank exchange rates on the previous transaction day with a very narrow band of $\pm 0.1\%$ ' (Ohno 2003: 2). This new exchange rate

mechanism maintains the gradual depreciation of VND. from 13,268 in 1998 to 16,100 in 2006 (Figure 3).

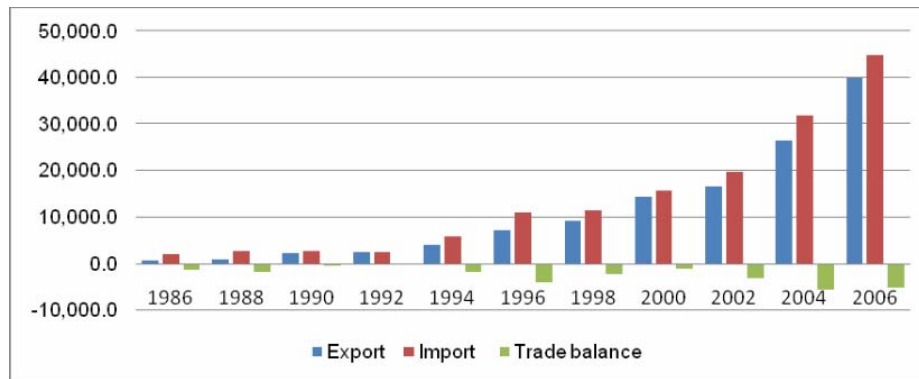
In fact, for Vietnam, the ER regime is often classified as a managed-floating one and determined by the State Bank of Vietnam (SBVN). According to Chi (2003: 24), ‘exchange rate is still restrictive and changeable and remains less competitive though there have been some reform in exchange control during *Doimoi* period’.

However, as indicated in the literature theory, the RER reflects better the relation between currency policy and trade than NER. This paper will analysis in details how RER impacts on the fisheries export in chapter 5.

3.3 Vietnam export performance during reform period

The paper already indicated before that after 20 years of economic renovation, there are remarkable changes in Vietnam’s market mechanisms. *Doimoi* has rapidly increased the socio-economic development. The total foreign trade turnover dramatically increased (Figure 3.2). Talking about Impact of Commercial Expansion on Agriculture, Que (1998: 25) mentioned that in the economic transition period, there has been a more open trade and commodity diversification leading to a growth rate of export. For example, the export value of Vietnam in 1990 increased 7.09 times in compared with this number in 1980.

Figure 3.2
Vietnam’s trade balance in the period 1986 – 2006 (mil US\$)



Source: General Statistic Office's website (2007)

According to Que (1998), Vietnam has successfully transformed from an agriculture system (including agriculture, forestry and fisheries) under the control of government to a more commercialized agricultural production. This movement not only contributed to making the satisfactory of domestic demand but also increase agricultural export volume to the world market. Some of agricultural products such as rice, coffee, tea and fish become the key products in export component (Appendix A).

In recent years, all export items have gained high rate of growth and create substantial employment. However, the export composition of Vietnam ‘is still strongly biased towards primary commodities’ (Jansen 1997: 18).

Chapter 4

Fisheries Sector and Its Role in Economic System

In previous chapter, there was an introduction of trade reform in the period 1986-2006 which had important implication for economic performance in Vietnam. In this chapter, the paper will supply an overview about Vietnamese fisheries sector and its role in national economic system. Session 4.1 looks at the natural advantages for fisheries development and the labour working in this sector. Session 4.2 focuses on the fisheries export activities, advantages and disadvantages of sector when doing international trade, what are the main export markets of Vietnam's fish products, how is processing and market channel, etc. The paper also mentioned about some main export products (catfish and shrimp) which occupy more than 60% fisheries export turnover and the challenges of export activities. In short, the main objective of this chapter is answering the research question 'how did Vietnam's fisheries sector perform during 1986-2006'. The chapter uses secondary data from various sources and based on the descriptive methodology.

4.1 Vietnam fisheries sector

4.1.1 Natural condition for fisheries sector

Natural potential is one of the most important conditions to develop fisheries in Vietnam. With about 3,260km coastline crossing through 13 latitudes from 8°23' North to 21°39' North, in last hundred years, fisheries contributed to the subsistence and living standard improvement of Vietnamese people. Fisheries has been playing important role in poverty alleviation at coastal rural areas and in last two decades, it also remarkably contribute to national income through export (Phillips 2003: 9).

There are 4 areas where majority of fisheries products have been produced in Vietnam. They are Mekong River Delta, Southeast, South Central Coast, and Red River Delta which make up 90% total of fish production (Map 1). Because of good natural condition, Mekong River Delta occupies 52% total national output and southern provinces from Khanh Hoa to Camau are the location for most of the main fishing industries (FAO 2005).

There are 2 main sub-sectors in Vietnam fisheries sector: aquaculture and fishing. With about 226,000km² areas of inland and territorial waters and over 1 million km² of Exclusive Economic Zone, there is a natural potentiality to enhance fishing activity which contributes a majority to the total fisheries production. Besides, aquaculture also has great natural condition to develop 'with 3, 260 km of coastline, 12 lagoons, straits and bays, 112 estuaries, canals and thousands of small and big islands scattered along the coast' (FAO 2004: 32).

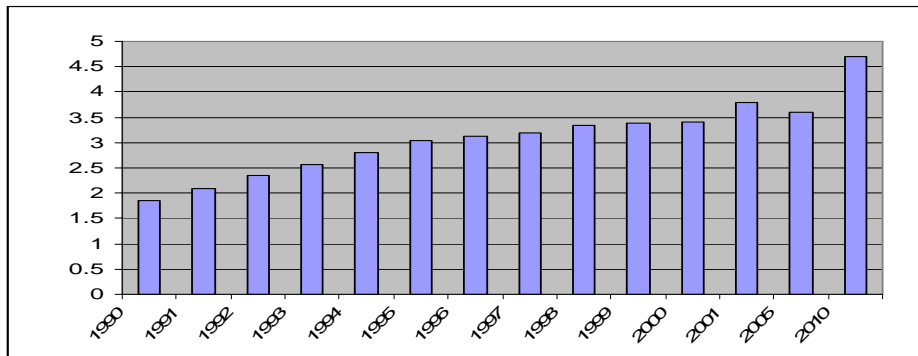
Map 1
Vietnam and its areas for fisheries sector



4.1.2 Labour resources

According to RIA.1 (2006: 12), fisheries is a economic sector that has high demand about labour force, especially manual labour who can participate in all the stage of fish production such as fishing, aquaculture, processing, and distribution.

Figure 4.1
Number of labours working in fisheries sectors (million people)



Source: Research Institute for Aquaculture No.1 – RIA1 (2006: 13)

However, in Viet Nam, the labour force engaged in fisheries sector is difficult to be calculated exactly because many of them working in unknown activities such as aquaculture or combined with activities in other sectors. The number of labourers in fisheries sector grew constantly from 1.86 million persons in 1990 to about 3.8 millions in 2001 (including part-time labourers), an annual increase of more than 160,000 labourers. In 2006, there are more than 4 million people involved in fisheries sector and the annual increase rate of labour in this sector is 2.4%. In Figure 4.1, it is estimated that in 2010, number of labours working in fisheries sector will increase to 4.7 million persons (RIA1 2006).

4.2 Fisheries and international trade

There have been remarkable changes in Vietnam's fisheries sector since economic renovation. The government have issued and implemented various policies which aimed to effectively exploit the natural advantages of fisheries and increase fish production ability. The policies on marketing improvement, export promotion and enhancement of product value have been carried out and significantly contributed in making fisheries become as a key economic sector. Up to 2006, the annual contribution of Vietnam's fisheries to GDP is around 4 to 5 percent; and it occupies about 9 to 10 percent of the national export turnover. As mentioned above, this sector also attracts more than 4 million national labour forces (FAO 2004: 29-35).

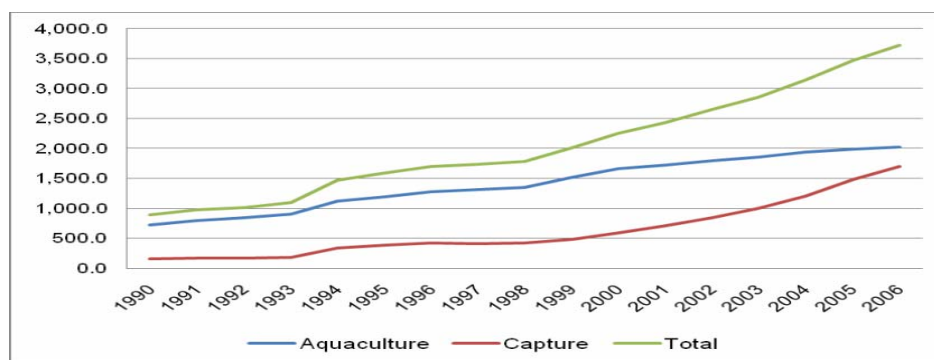
Table 4.1
The contribution of fisheries sector in GDP (bil VND)

Year	1995	1997	1999	2001	2002	2003	2004	2005	2006
GDP	228892	313623	399942	481295	535762	613443	715307	839211	974266
Fish output	6664	10130	12651	17904	20340	24125	27474	32947	38335
%GDP	2.91	3.23	3.16	3.72	3.80	3.93	3.84	3.93	3.93

Source: General Statistic Office, calculated by author

During the implement of those fisheries sector development policies, there have been an increase in the fish production, both aquaculture and capture activities (Figure 4.2)

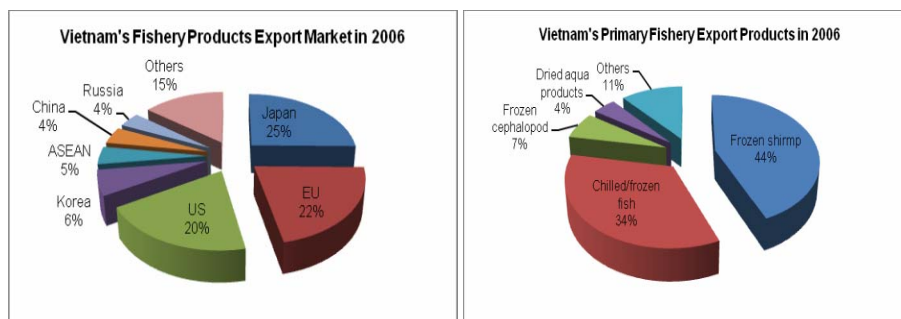
Figure 4.2
Fisheries output in the period 1990-2006



Source: General Statics Office 2007

Together with the increase of fisheries output, in last decades, Vietnam's fisheries export has also gained a significant improvement. There was a rapid increase from 106 million USD in 1986 to 696 million USD in 2000 and 3,350 million USD in 2006, equivalent with 132.8% increase in the period 2000-2006 (about 18.97% per year). It is much higher than other goods exported to overseas (about 11.94%) at the same period (RIA.1 2006: 21).

Figure 4.3
Fisheries export products and main markets in 2006

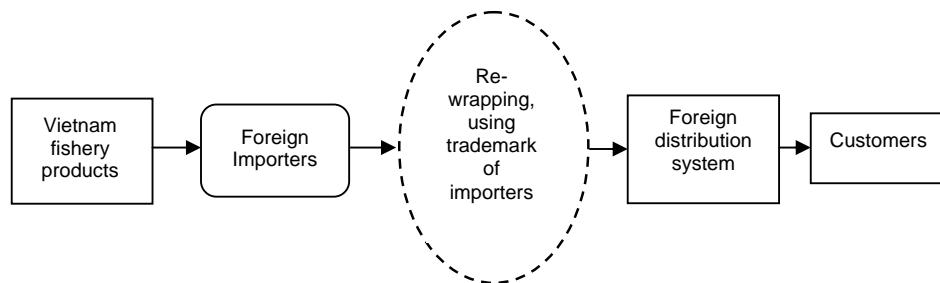


Source: The fishsite.com <http://www.thefishsite.com/articles/307/vietnam-fishery-products-shrimp-report-2007>

Vietnam now has relationship in fish trade liberalization with more than 75 countries in the world. There is a diversification in both products and export markets in fisheries sector; however, the traditional market such as US, EU and Japan still play the key position in total value of fisheries export. According to MOFI (2005), the value of fisheries exported to those three markets occupies more than 68% total of fisheries export turnover. In the period 1990s to 2000, most of products were exported to Japan as the number-one market for Vietnamese fisheries. However, after signing the BTA with US, the amount and value of exports to this market has dramatically increased. Recently, Vietnam is the second largest fisheries exporter to Japan after Indonesia and total fisheries exported to US' market makes up around 36% of Vietnamese fisheries export value. EU is also a big market for seafood export; but the high requirement of seafood quality is a strict barrier for Vietnam's products. For example, in the period 2002-2003, EU rejected to import shrimp from Vietnam because of antibiotic contamination (Phillips et al 2004).

However, Vietnam is now facing high competition with other fisheries exporters such as Thailand, China, and Indonesia who have same strength about frozen shrimp and fish. Besides, products from Vietnam have been exported as raw material to foreign importer, and then distributed under many various trademarks.

Figure 4.4
The distribution of Vietnam's fisheries products in overseas



Source: RIA.1 (2006: 23)/ Vietnam Fisheries Sector

Obviously, the Figure 4.4 shows that there is a disadvantage for Vietnamese exporter when doing business with foreign importers. Though some high quality products start being distributed in international market with Vietnamese trademark, the majority still depends much on foreign importers and therefore, often being under pressure of price and losing the trademarks. In addition, during the time of international trade participation, Vietnam also faced with high requirement about food quality. The seafood processing enterprises have to upgrade to adopt HACCP certificate, and satisfy the standard demand of health hygiene from EU and Japan markets. It is necessary to make substantial investment in quality control and processing technology (MOFI 2005: 37).

About fish processing, in past 10 years, joining international trade led to the rapid increase of processing sector. According to FAO (2004), seafood processing plants have been upgraded in both quality and quantity. Up to now, there are more than 400 processing enterprises⁴ working in fisheries sector in

which 269 plants are accepted about the quality of products to export to EU's market, and 74% processors had HACCP certificate. This is important progress to improve the quality of fish product from Vietnam to other international markets.

During economic transition period (1986-2006), there was a remarkable change in fisheries export. The fisheries export turnover occupies around 10-12% of total national export value. In this part the paper will focus on 2 main products which contribute more than 60% of total export value in fisheries sector. They are shrimp and catfish.

4.2.1 Shrimp export

According Phillips et al (2004: 50), 'shrimp culture appeared in Vietnam approximately 100 years ago, but grew most strongly during the 1990's supported by development of technology for artificial shrimp seed production and farming, increasing international market demand, trade liberalization supported through implementation of the Government policy for economic reform - *Doimoi* - and an increasingly favourable government policy'. Thus, the investment and attention from the government has been repaid by the rapid increase of shrimp export value which substantially contributed to the development of national economy. At recent time, Vietnam is one of the largest countries in the world who has shrimp cultured farming area with more than 550,000ha (Phillips et al 2005: 51). Mekong River Delta still the main area of shrimp cultured where the output of shrimp often is more than 70% in compare with other areas in the whole countries.

According to the survey about the fish marketing and credit in Vietnam, shrimp export contributes a larger part which occupies more than 45 percent in the total value of fisheries export. In 1996, shrimp export reached 324 million USD, but in 2006 there was a dramatic increase and shrimp export gained 1,262 million USD (Table 4.2). This achievement has been the results of products diversification and quality improvement, as well as the market expansion. Recently, shrimp products have been exported in various forms such as frozen, canned, and processed products (FAO 2004).

Table 4.2
Shrimp export value in the period 1996-2006 (mil US\$)

	1996	1998	2000	2002	2004	2006
Shrimp export value (mil US\$)	324.7	431.7	631.4	715.7	1,084.5	1,262.8
Fisheries export value (mil US\$)	696.5	858.0	1,478.5	2,021.7	2,408.1	3,358.0
% shrimp export/fisheries export	46	50	42	35	45	37

Source: General Statistics Office, 2007

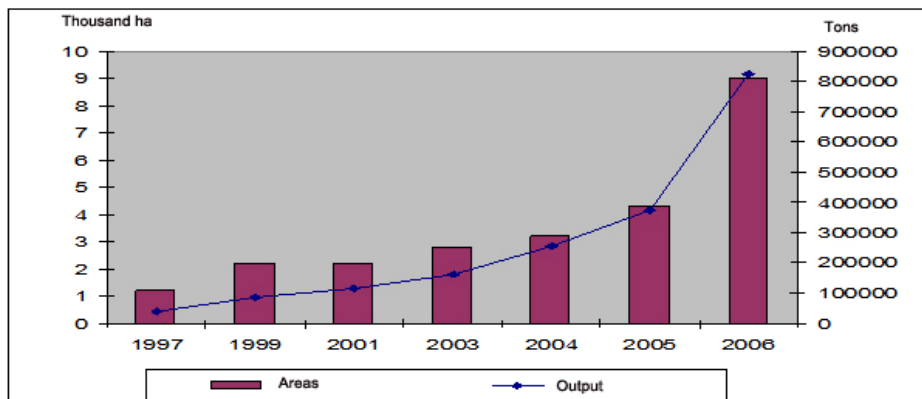
The main markets for shrimp export are traditional ones like Japan, US, EU, and China. As other products, in the progress of fish trade liberalization, shrimp has been faced with many technical barriers such as the regulation about antibiotic contamination. In the trade reform process, Vietnam's government and enterprises has been doing more investment to overcome the difficult period of trade liberalization and promote shrimp export.

4.2.2 Catfish export

As mentioned by MOFI (2006), in last ten years Vietnam has gain a great progress in the tra and basa catfish farming. Currently, catfish brings the 2nd largest value, which estimated around 22%, to the total value of fisheries export (behind shrimp). In addition, catfish farming has contributed to the improvement of living standard for farmers in the Mekong Delta where more than 80% of catfish are cultured (Phillips et al 2004).

During the period 1996-2006, the cultured areas for catfish farming increased 7.5 times (from 1,200ha to 9,000ha) while the output increased 20 times from 40,000 tons in 1997 to 825,000 tons in 2006 (Figure 4.5). At the present, the output of tra and basa catfish occupies for 49 percent of total national fisheries output. In the past, farmers raised catfish in pond for their own consumption, but during the economic transition period, there was a significant investment in farming with higher technology, more credit support, etc., catfish gradually become one of the most valuable and important export item (RIA1 2006: 16).

Figure 4.5
Farming areas and output of tra and basa catfish (1997-2006)



Source: RIA.1 (2006: 16)/ Vietnam Fisheries Sector

Historically, before the trade reform catfish was mainly used in domestic market. A very small amount catfish was exported to Hong Kong, Singapore and Taiwan. In the first ten years of economic reform, catfish was exported to some more markets such as Australia, North America and European Union. The main form of catfish being exported is fillet, and the export value of catfish has been increase rapidly in the mid of 1990s. In 1996, processing enterprises in Vietnam exported 5,000 tonnes catfish fillet, and this number in 2001 was 10,000 tonnes. There is a significant increase in the catfish export price, which was 3.5-4.5 USD per kg in 1996 to over 5 USD per kg for fillet in 2001 (Phillips et al 2004). Obviously, the increases of price bring more farming motivation and benefit to the exporters and farmers. It also led to further development of enterprises participating in catfish trading activities. Many big have entered and expanded their business with catfish under various forms including processing and exporting in Mekong River Delta. There series of those companies, which mainly located in An Giang province, visibly contributed to the economic development of area.

However, catfish farmers and exporters in Vietnam, in the progress of international trade liberalization, face many market challenges and trade barriers. In the period 2003-2004, the International Trade Commission (ITC) of USA imposed anti-dumping taxes to Vietnam's catfish products leading to a rapid decrease of catfish export volume. Besides, the farmers and exporters also encounter strict technical barriers which hardly overcome with the limitation of processing technology (Binh 2006: 04). Those changes and threats consequently made the fails of catfish production and severe impact on social welfare, employment, investment and so on.

4.3 The role of fisheries sector in economic system of coastal countries

In general, fisheries sector provide important contribution to the economic development of coastal countries. Visibly, fish production is one of the main parts of GDP. Moreover, fish commodities is an major source for food security of developing countries which contributing a high protein and nutrition for human. The price of fisheries products, mainly the sun-dried fish, is cheap and reasonable for the poor. Secondly, in terms of employment, fisheries sector attracts a larger number of labours in coastal countries, especially developing countries. Million people who involved in fisheries such as fishers, farmers, processors, importers and exporters significantly benefit from fish trade. Therefore, fisheries sector reduce the poverty and increase living standard for people. Finally, fish export value has been a source of foreign exchange which used to import other food from overseas (Ahmed 2006: 2-8). As Ahmed indicated in his research, until the mid 1980s, many developing countries were the net food importers, but in the end of 1990s they started becoming net exporters of fish products. The foreign currency gained from export activities significantly contributed to improve the sustainable development of the sector.

Chapter 5

Analysis of Trade Reforms and Its Impacts on Fishery Export Growth

As indicated in chapter 2, it is difficult to say whether the growth of fisheries sector is directly related to trade reforms because this growth can be the result of multiple factors. However, during the time making the assessment of what have been done during trade reform process and linked them with the acceleration of fisheries, this paper found that in fact, trade reform provide impetus for the development of the sector. The performance of fisheries production, fisheries output value, export volume, and export market have been supplied to prove this consideration. The session 5.2 of this chapter will analysis the general connection between the Doimoi renovation and the development of fisheries sector. In the session 5.3, there will be specific evaluate that what trade policy instruments change and how those reforms impact on fisheries export performance as the results. Throughout the analytical session there will be the relevant and supplement between policies and the development of fisheries sector would be the result as affected by all changes of policies mentioned in analytical framework.

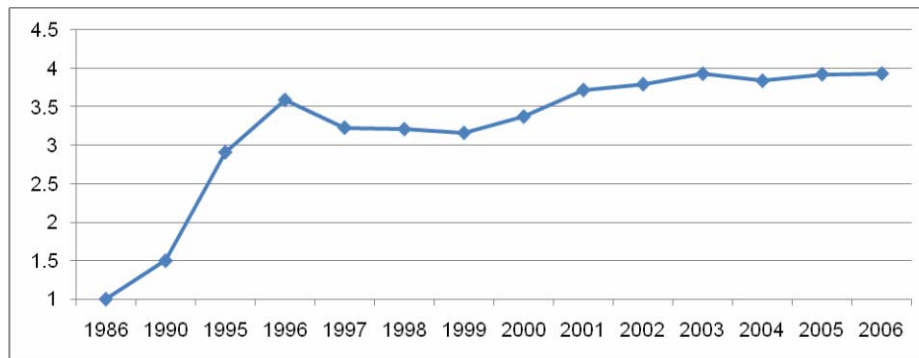
5.1 The relation between fisheries sector and Doimoi (renovation)

After two decades of renovation, all economic and social achievements showed that Vietnam was successful in recovering of production ability and move from an old-style economic management to a new one. In fisheries, directly or indirectly, all the reform actions taken by government have created significant changes for sector. For example, land reform has brought opportunities for farmers to start doing aquaculture in their own land. FAO (2003) showed that as a part of *Doimoi* in agriculture, farm households were allowed to buy, own and sell agricultural inputs. Specifically, households were allowed to sign a 'longer-term land-use rights contracts' which improve their property rights⁵. Consequently, 'it set prices of crops and of inputs free and privatized the distribution of inputs' and allowed private trade in output of agriculture (Jansen 1997: 4).

Besides, there was a movement to a multi-sectoral economy in which non-state firms have been established together with SOEs. There was a promulgation of series of laws and regulations such as Law on Foreign Investment, Company Law, and Private Business Law setting up the rights for non-state economic units to apply market mechanism into production, export their products to overseas and using foreign currency for higher technology investment. Besides, financial reforms expanded access to commercial bank loans for agricultural activities in which farmer can borrow money to enlarge farming scale and export enterprises are able to improve processing technology, doing the market research and so on. In addition, others important reforms also contributed to the improvement of economy. The exchange rate

policy, the price liberalization and the stabilization of economy are main factors which standing behind the development of national economic system (Dollar 1999, Jansen 1997, Dinh 2003).

Figure 5.1
The contribution of fisheries sector to GDP (%)



Source: GOS and other various sources in Internet/ calculated by author

In general, in last two decades there have been several significant changes in fisheries sector along with the different changes of economic reform. *Doimoi* affected all sectors by providing them incentives and new opportunities to increase production and access international market. Having watched the trend of fisheries sector's contribution to GDP during the economic reform, there has been a noticeable increase in the total contribution of fisheries sector to GDP (Figure 5.1). According to MOFI and GSO, in 1980s, the contribution of sector to GDP fluctuated around 1 to 1.5%. This rate rapidly increased till 1995 and got the peak of 3.6% in 1996. The 1996 -2000 period was regarded as against the economic-financial crisis in the region and the damage of natural calamities, which caused extreme difficulties to the economy, and the contribution of fisheries sector to GDP reduced to around 3.3%. Since the 2001-2005 periods, the economy has continued an important stage to further accelerate national industrialization, modernization and expanding international cooperation fisheries has become a significant contributor of national economy with nearly 4% of GDP (MOF 2007).

In the fish production activities, since 1997, Government have strongly promoted for the exploitation activities of fisheries resources. It is shown more detailed in Table 5.1 that total fisheries output increases from 707 tons in 2006 to 1,701 tons in 1996 and this number in 2006 is 3,720 tons. There was a significant increase in the total fisheries output for export in compared with total fish production output, from 3.5 percent in 1986 to 17.3 percent in 2002.

Table 5.1
Production output and export output of fisheries sector

Year	1986	1990	1994	1996	1998	2000	2004	2006
Total output (tons)	707.6	890	1,465	1,701	1,782	2,250	3,142	3,720
Total export output (tons)	25	43.6	109.7	98.7	209.2	302.9	-	-
% of export output/total output	3.5	4.9	7.5	5.8	11.7	13.5	-	-

Source: GOS and FAO Fisheries Statistics Programme:
<http://www.fao.org/fishery/statistics/programme/3.1.1> (accessed Oct 2008), calculated by author.

There are many reasons that lead to the better performance in both production output and export value of fisheries sector than other sectors. The implement of Fisheries Master Plan⁶ and Fisheries Law in 2004 become 'strong new additions to fisheries sector planning, development and management' (MOFI 2005: 20).

In the report on 'Status of Fish Trade and Food Security in Vietnam'⁷, Dung (2003: 208-213) mentioned that *Doimoi* period has been taking various impacts to fisheries sector by improving product quality, increasing investment for both aquaculture and capture, enhancing human resource development, and improving product and market diversification. Realizing about the important position of fisheries on trading activities, those actions of Government intend to make the sector become more export oriented.

In short, *Doimoi* has created positive impact to the general development of fisheries sector. The changes of the economy system in last 20 years have brought the changes in the fisheries sector as a result. It is obvious to see the contribution of sector to GDP increases significantly and it tends to improve higher in future.

However, as mentioned in chapter 1, the main objective of this paper is to answer the question how trade reform, among all economic reforms of *Doimoi* period, impacts on export development of fisheries sector. In order to answer this question, it is very necessary to follow by doing the specific analysis, as concerned with the analytical framework, on how trade instruments affected to both quality and quantity of fisheries export. In next session, the paper will select some core measures which enormously impact on fisheries export.

5.2 Policy instruments and their impact on fishery export

5.2.1 Participation in global trade and expanding international cooperation

In the theoretical review, joining international trade activities and becoming members of trade organization bring both advantages and disadvantages to export growth. Fishery export is one of the sectors that significantly impacted by process of trading cooperation between Vietnam and other countries in the world. In chapter 3, the paper presented about the participation of Vietnam to various different organizations, signing the trade agreement with many countries. Among them, US and EU are 2 main markets which import more than 40% total fish export from Vietnam. Therefore, this session focuses on analysis the impact of trade cooperation between Vietnam and EU, the role of signing Vietnam US Bilateral Trading Agreement. (Japan is also a big export market for Vietnam fish product, but due to lack of data it is not mentioned in this analysis.)

5.2.1.1 US market

In 1991, Vietnam and US started normalizing the relations and the first important cooperative action is finishing trade embargo in Vietnam in February 1994 and establishing official relationship on 12 July 1995. Since that time, Vietnam and US has gain much progress in both science and technology management and fisheries trading activities. MOFI and VASEP have often

contacted and cooperated with National Marine Fisheries Services (NMFS), Food and Drug Administration (FDA) about HACCP application for fishery export processing enterprises in Vietnam. In 1998, the Fisheries Cooperation Program (Box 5.1) between two countries was signed and since then the export turnover from Vietnam to US has rapidly increased. In addition, in July 13, 2000 the BTA was signed which opened a new era of trading between two countries (Binh 2006: 8).

Box 5.1: US-Vietnam Fisheries Cooperation Program

1998: the bilateral fisheries relationship between US and Vietnam was signed which focusing on the exchange of fishery scientists. In that year, the fisheries delegation and private sector representatives from NMFS went to Vietnam and set up the cooperation with mutual interest in various fishery areas.

1999 and 2000: there was an implementation of many scientific exchanges activities in which 'the most notable being the participation of a NOAA Fisheries scientist on a Vietnamese fisheries research cruise during October 2000'.

2001: Vietnam wanted to take further discussion about fish trade issues and requested US to send a delegation to Hanoi

2003: NMFS's delegation and Department of State representatives went to Hanoi for the meeting related to fisheries science, conservation and management policy, enforcement, and trade. At the same year, a delegation from MOFI, Ministry of Science and Technology, and Ministry of Finance also visited the US. No formal agreement was signed but this meeting set up an enhanced cooperation between two countries. Then,

2004: Under the bilateral cooperation on fisheries issues between Vietnam, US and some other fisheries organization, a Workshop on Methodology for Fisheries Resources Assessments was held in Vietnam

2005: A delegation of NMFS representatives visited Hanoi for the meeting on scientific, management, and trade issues of mutual concern, as well as regional and international items. In order to develop fisheries industry, the US requested Vietnam participating and implementing 'international and regional agreements, instruments and organizations, such as WTO, the UN Fish Stocks Agreement, the FAO International Plans of Action and Sea Turtle Guidelines, and the Western and Central Pacific Fisheries Commission'.

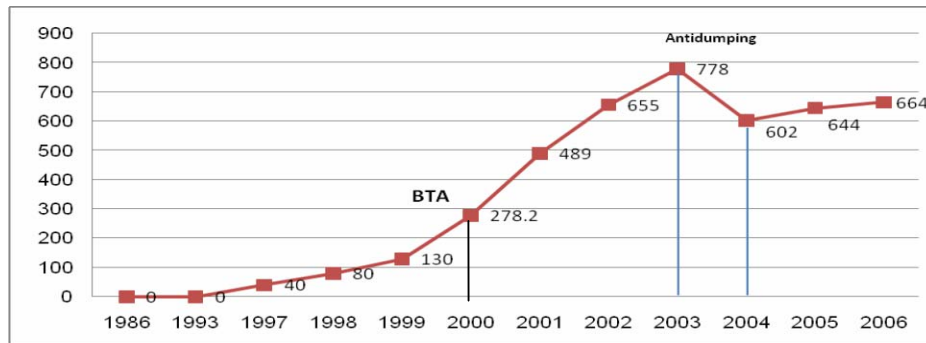
2006, US Government assisted Vietnam in hosting an APEC Fisheries Working Group workshop entitled "Towards Sustainable Fisheries in the Region" in Hanoi.

Source: NMFS website: www.nmfs.noaa.gov/ia/bilateral/docs/US-VN%20-%2005.doc

Theoretically, signing trade agreement speeds up the process of tariff and nontariff reduction, and export country has more opportunities to access the market of import country. In the case of Vietnam, this theory seems to be sensible. After signing BTA, US immediately granted Vietnam Normal Trade Relations (NTR) or Most Favored Nation (MFN) access to the US market. In other words, Vietnam has been treated as favourable as other trading partners of US. With the granting of MFN status, there was a dramatic decrease of US tariffs on import from Vietnam. The import tariff was reduced from around 40% to around 3-4% leading to a rapid increase of Vietnam export to US market (CIEM 2003: 7-30) (See Appendix D).

Refer to fisheries export to US, figure 5.2 clearly demonstrated that after signing BTA there was a dramatic increase in export value from 278.2 million USD to 778 million USD. Thus, bilateral trade agreement positively impacts to the export growth by reducing and removing tariff barriers and offer MFN market access.

Figure 5.2
Fisheries export turnover to US's market 1986-2006 (mil US\$)



Source: F FISTENET, Ministry of Fisheries

Besides, the BTA commitments also promote the international trade process of Vietnam. In other words, it brings Vietnam much more closely into conformity with international trade norms and standards because the US is a founding member of the WTO and played a key role in GATT for a long time. By implementing the BTA commitments, Vietnam will quickly set up the integration into the world economy and find a more sustainable position in the global market for fisheries products.

However, participating in the international market also means that there is higher competition and more strict quality requirements, especially for food products. In addition, developing countries often suffer from a lack of international trade law, information, and distance to prevent trade conflicts. For example, in Figure 5.2, there was a rapid decrease in the fisheries export volume from Vietnam to the US from 778 million USD in 2003 to 602 million USD in 2004. The cause of this decrease was the antidumping policy that the US applied for catfish products exported from Vietnam. This antidumping war, which dropped almost 50% of frozen catfish fillets to the US market during 2003, brought a very bad consequence for Vietnamese exporters by reducing export volume, production incentives, and living standards of fish farmers (Binh 2006: 20).

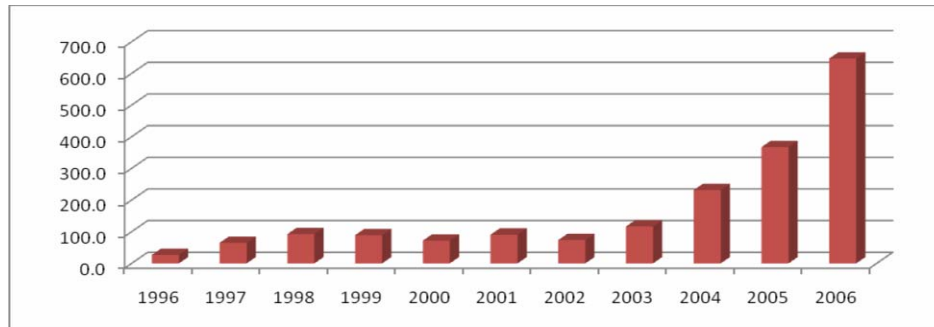
5.2.1.2 EU market

The EU's market is another sample which contributes to making a full picture about the impact of trade liberalization policy in Vietnam's fisheries export. In the process of trade liberalization, Vietnam set up official relations with the EU in October 1990 and signed a Cooperation Agreement on 17 July 1995. Up to now, the EU is the largest trade partner of Vietnam as the EU accounts for 17% of Vietnam's overall trade.

For the fisheries sector, there is a dramatic increase in the amount of Vietnam's fisheries exported to the EU. According to FINCen, in the period 1996 – 1999, the fisheries export turnover of Vietnam to the EU increased rapidly with an average of 54.92% per year. In 1996, the export turnover from Vietnam gained 26.9 million USD, 65 million in 1997 and 92.5 million USD in 1998. In the period 2000 – 2002, there was a decrease in export turnover because the EU increased its food quality management. However, in 2003, the amount of

fisheries export from Vietnam to EU's market continues increased and gained 367.3 million USD in 2005. In 2006, Vietnam fisheries products made up 2.5% total of fisheries products exported to EU's market (Figure 5.3).

Figure 5.3
Fisheries export to EU's market in 1996-2006 (mil USD)



Source: FINCen, Ministry of Fisheries

The reason of this rapid increase is that during this time Vietnam invested significantly in improving the quality and food safety to adapt the high requirement of EU's market. MOFI and fisheries enterprises have implemented various measures such as institutional and legal reforms, enhancing management capacities for authorities, changing approach in fish quality management, technology investment and upgrading the production system and working condition of fisheries processing enterprises. EU's market has highly appreciated those efforts of Vietnam and there is a dramatical increase in the export turnover from 73.3 million USD in 2002 to 647 million USD in 2006.

Together with advantages, trade cooperation also created disadvantage to the export growth by applying higher competitive environment for export enterprises, for example stricter demand about quality of products. After signing the Cooperation Agreement on fisheries and Memoranda of Understanding with many countries in EU such as Denmark, Norway, Hungary, etc Vietnam has to improve the quality of fish processing for export by upgrading technology, apply HACCP level management to production. That quality insurance actions helped Vietnam to be accepted as a member in List A (list of official countries export fisheries to EU's market). Until 1 January 2006, Vietnam has 269 enterprises (in total of 470 processing enterprises) that adapt the code standard to export fish products to EU's market (FICen 2007). Obviously, the trade cooperation with EU deeply affected Vietnam export enterprises by changing their viewpoint about food quality in order to adapt the requirement of international markets.

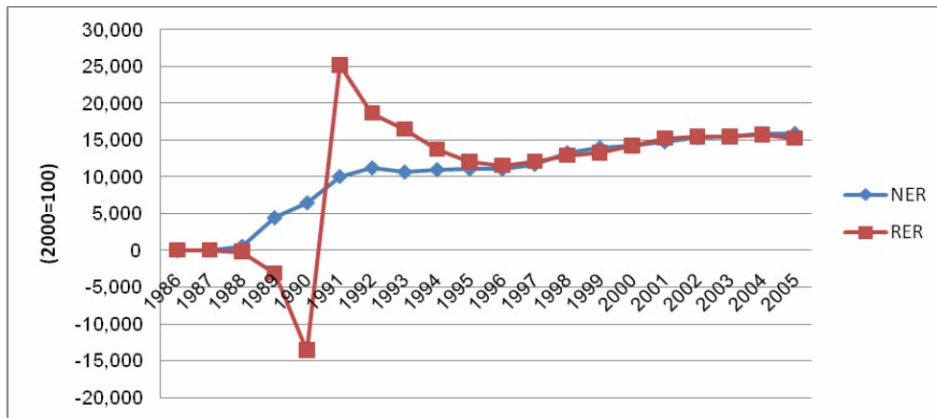
In short, the participation to international trade has both positive and negative impact to the fisheries export growth. At positive side, trade cooperation can speed up the process of tariff and nontariff barriers, appealing investment, technology and experiences for implementation of fisheries socio-economic programs as well as for bringing Vietnam fisheries into the regional and global integration process. However, it also brings higher competition and higher requirement for export products (MOFI 2006).

5.2.2 Exchange rate policy

In economic theories, the exchange rate policy plays an important role in trade development. Generally, exchange rate depreciation would promote export and curtail import, while exchange rate appreciation would encourage import and inhibit export (Abeyasinghe & Yeok 1998: 51).

However, the nominal exchange rate (NER) doesn't reflect the changes in competitiveness of export sector. It only shows the inflation differences over long period of time so that there is no much changes of competitiveness. Therefore, the real exchange rate (RER) is a better indicator to determine a country's export ability. In other words, "the RER is a key macroeconomic relative price, since it affects the composition both of domestic demand through substitution effects and of domestic production by affecting its relative short term and long term profitability" (Minh 2003: 21).

Figure 5.4
Nominal and Real Exchange Rate in Vietnam



Source: World Bank Development Indicator 2007/ calculated by author

In this session, the RER of Vietnam will be calculated using the formula indicated in chapter two $RER = e \cdot (P_f / P_d)$ in which e is NER, P_f is foreign price level, and P_d is domestic price level. Thus, RER will be defined as the goods and services price level at foreign market / price level of goods and services in domestic market (The details of calculation attached in Appendix G).

In the figure 5.4, there is 3 main period of RER trends in last twenty years. From 1986 to 1989, though the NER was highly depreciated (to move from an exchange rate that was strongly overvalued to an exchange rate that is closer to the market equilibrium) but the RER of VND was highly appreciated which reached the highest peak at 154% in 1990. However, in period 1990-1996 there was strong appreciation of RER with the average appreciated rate was 18%. Since 1997, the RER has constituted to be depreciated with about 3 percent per year.

However, the Figure 5.4 indicated about the movements of RER does not show much about its relationship with the export. VND appreciated 1986 and 1987, but total export and fish export grew (8% for total export and 24% for fisheries export). Then in 1988 and 1989, VND depreciated strongly and sharply leading to 87% increase of export rate in which fisheries export

increase 24-35%. In the period 1990-1996, fisheries export kept growing steady though the RER of VND still appreciated about 18% per year. From 1997-2001, VND was depreciated to cope with the financial crisis in Asia area which leads to a significant decrease of export in 1998 but rapidly recovered in 1999.

It seems RER, in this case, generally doesn't show a close relationship with fish export competitiveness because in theory, the appreciation of RER decreases export. However, it can explain that in case the RER appreciated but the growth rate of export keep on increasing, it is because the rate of VND appreciation still at the 'safe level' which not significant harmful for export activities. Exporters still are able to earn benefit from export products and services to other countries, or the competitiveness of VN products is less than before but still brings benefit to exporters.

However, it can't disclaim that RER still have negative affect to export if compare the RER depreciation of Vietnam with other fish export countries such as Indonesia, Malaysia, Philippine, and Thailand. In the Appendix F we can see that during the period of Asia financial crisis (1997-2001), Vietnam's real exchange rate depreciated much lower in compare with the depreciation rate in those countries. This made the export of Vietnam less competitive than other neighbour. In sum, the appreciation of RER is favourable for import substitution activities rather than for export promotion. The trade deficit in Vietnam during last 20 years is good evidence to prove that exchange rate policy still play a key role in promote and encourage export volume and competition (Chi 2003: 24).

5.2.3 Export processing zones (EPZs)

In theories, the first advantage of EPZs is to attract FDI into export industries because EPZs is a good environment to facilitate financial and commodity flows, encourages domestic and international cooperation, and allocated resources efficiently. In fact, EPZs is compared as a gateway to FDI from overseas to domestic market. However, there is a limitation of FDI flows while the competition among developing countries is very high. Therefore, it is very necessary to create more favourable investment environment with attractive incentives. In addition, the cost to operate EPZs is much lower than other way of attracting foreign investment and "enclave nature the EPZs presents a smaller domestic political risk than opening up the entire country to foreign participation" (Amirahmadi & Wu 1995: 831-834).

As many other developing countries in Asia, the EPZs plays an important role in economic system of Vietnam because it offers certain key advantages. Especially in fisheries sector, the increase of processing plants in part few years has significant contributed to the growth of export volume. Many fish processing plants have been established and attracted high technology investment, financial flows investment and so on. As can be seen in Figure 5.5, there was a rapid increase of amount of fish processing plants from 1990s to 2006. According to FICen, in the period 1960-1980, under the management of State, fisheries was not the key economic system and there is only fish processing company (Halong Fisheries Company) which was established in 1957. Therefore, the export volume was very low with 11.2 million USD in 1980.

Since 1980s, as introduced in chapter 4, SEAPRODEX were established and promoted the balance-self financing in the fisheries development. As mentioned above, in national EPZs, Vietnam has 470 seafood processing plants, of which 269 plants have qualified for exporting to the EU; 74% processors had HACCP certificate in 2006. There was a significant increase in the frozen fish production from 172 tons per day in 1980 to 780 tons per day in 1994 and more than 1,000 tons per day in 2006 (MOFI 2005: 37).

Due to lack of data, this paper cannot supply exactly how many fish processing firms belonging to EPZ, and how many EPZ more export oriented. However, according to the MPI, until 2007 there have been total 130 projects invested to fisheries sector in Vietnam with the total two billion USD.

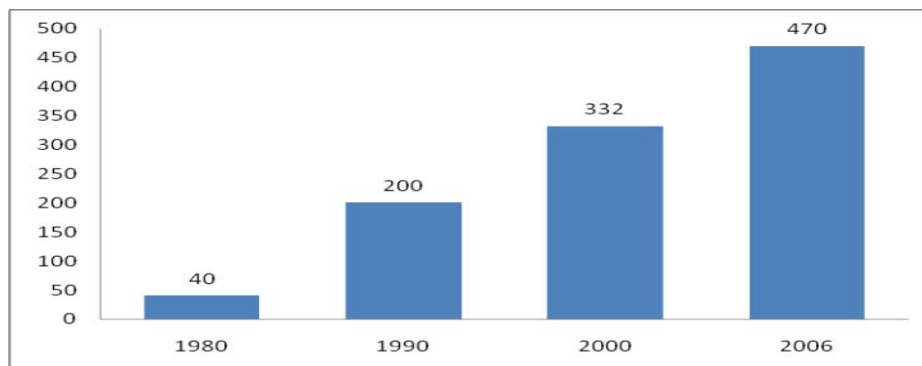
Table 5.2
Foreign investment capital in fisheries sector from 1988-2007

Sector	Number of projects	Total investment capital (US\$)	
		registered	implemented
Agriculture & Forestry	803	4,014,833,499	1,856,710,521
Fisheries	130	450,187,779	169,822,132
Total	933	4,465,021,278	2,026,532,653

Source: MPI (2007)⁸, <http://fia.mpi.gov.vn/Default.aspx?ctl=Article2&TabID=4&mlID=237&alD=507>

Thus, the increase of processing plants and the attract of FDI obviously leads to the increase of fish processed productivity and the amount of fish export. EPZs appear to provide the sector economic benefits, upgrade technology. In addition, the EPZs also have priority in the tariff policy. There is an import duties exception for all raw materials, spare parts, accessories and other supplies imported for the production of goods for export. When those input for fish processing enter to Vietnam, the tax must be paid but it will be refunded when exporting the finished product. The close relation between EPZs and input duty exception create more incentives for fisheries export (FAO 2006).

Figure 5.5
Total of fish processing plants in the period 1980 – 2006



Source: Various sources in Internet/ updated by author

However, the fast increase in number of processing enterprises also creates difficulties for fisheries sector. This makes the shortages of raw materials for production, thus, many enterprises/factories cannot run

effectively with expected output. Besides, many enterprises produce the same products, leading to the less competitive of fisheries product when exporting to overseas.

5.2.4 Export measures to cope with non-tariff barriers from importing countries

While doing the policy assessment, the author of this paper realized that the non-tariff barrier applied in Vietnam during trade policy reform did not remarkably affect the growth of fisheries export. It is because, as mentioned in chapter 2, NTBs measures are applied to control, manage and limit the import of certain types of goods (CIE 2006: 13). The main purpose of NTBs is to protect domestic production to cope with the competition from foreign enterprises. However, in fisheries sector, import activities mainly focus on raw materials which used for processing doesn't discourage the development of the sector. The total amount of fish materials imported from overseas has not been so much harmful for domestic production, therefore not necessary to be limited.

Thus, the NTBs set up in domestic market doesn't affect fisheries export growth. By contrast, NTBs established by importing countries have enormously influenced the increase of fisheries export volume. In fish trade liberalization, the main NTBs include Sanitary and Phytosanitary Standards, Technical Barriers to Trade, and anti-dumping measures. Normally, advanced countries build up NTBs to protect domestic firms from exported products from developing countries. The case of catfish war between Vietnam and US is an example. In the research on 'Before and after the Catfish War: market analysis', Binh (2006) indicated that the rapid increase of Vietnam catfish in US market leading to the decrease in domestic price of US's catfish. This raised the worries of the Association of Catfish Farmers of America. Antidumping was a very openly trade barrier to limit the volume of catfish exported from Vietnam to US.

In recent time, the importers, such as EU, have increased the standard notification and technical regulation to the WTO due to the chemical risks in food products (Ahmed 2006: 13-18). Developing countries are facing with difficulties to access to overseas markets because those NTBs can reduce the export volume of fisheries. However, EU has applied NTBs to Vietnam's fisheries mainly for health purposes. It is because EU often export fisheries products to the countries in EU's market only, and there domestic fisheries product is different with the ones imported from Vietnam. The strength of EU's fisheries sector is tuna, salmon and other fish from cold water. Vietnam mainly exported freshwater fish such as catfish and shrimp to EU, therefore the competition is almost minimal.

The trade measures to cope with those NTBs have been implemented strictly since Vietnam started joining in fish trade liberalization. The Decision 13 dated January 1997 defined the need to register certain types of production, which were required to be quality controlled. In additions, the Decision 18 issued in April 1998 indicated about the ban of contaminants using to increase sale weight, for example in case of shrimp exported to Japan's market. Regarding to processing and export, Ministry of Fisheries also applies the

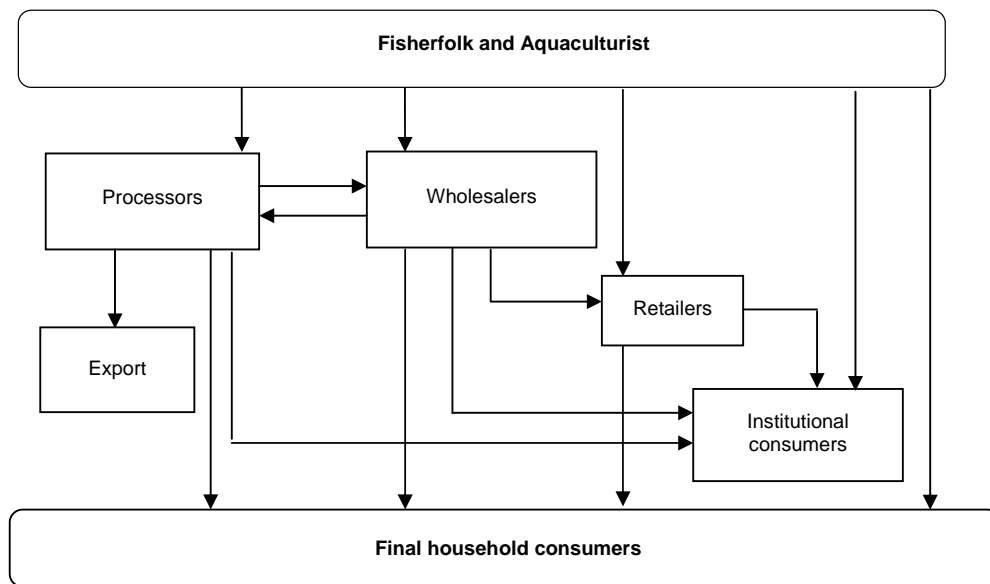
decision 425 of May 2001 which defined the quality standards for fisheries commodities (MOFI 2005: Appendix D).

Those Decision have significantly affected to the quality of export fisheries products, especially shrimp which account for more than 43% of total fisheries export in 2006 (RIA1 2006: 21). This paper found that there is a close relation between the fish quality and the regulation for EPZs because, as mentioned above, Vietnamese seafood processing plants have to be qualified for exporting to the strict market such as EU, US and Japan, therefore it is very necessary to have HACCP certificate (MOFI 2005: 37). The processing stage plays important role in improving the quality for fisheries export to adapt high and strict requirement from importing countries.

5.2.5 Fish marketing development and export promotion agency

During the first ten years of trade reform, the law and regulation systems in Vietnam have not satisfied the requirement of both domestic and global fisheries markets. There was no specific one which could be applied directly to fisheries export activities but based on the control of other general national economic policies, laws and regulations. In recent time, specific policies have been issued to improve the development of fisheries sector and promote fisheries export. In chapter 3, there was an introduction about VASEP which was established in 1998 to support for fisheries export promotion. Besides, there are many Fisheries Development Programme implemented by MOFI to gain the Fisheries Development Strategy Period 2000-2010. Government also established various different policies to promote contract farming in order to set up a close relation between production and processing activities (FAO 2006).

Figure 5.6
Marketing channels for capture and aquaculture fish products



Source: Fish Marketing and Credit in Vietnam (FAO 2006)
<http://www.fao.org/docrep/007/y5707e/y5707e0q.htm#TopOfPage>

In Figure 5, it is easy to see the close relation among farmers, processors, wholesalers, exporters and consumers in fish trade. According to FAO, more than 90% raw fish materials are sold by fisherfolks and aquaculturists to wholesalers and 93% fisheries products are exported from processors after processing.

FAO (2006) indicated that under the Decision No. 251/1998/QD'TTg, dated 25 December 1998, the Development of Fisheries Export Program was approved in which one of the most important objective is to increase competitiveness and expand markets for fisheries products. During the trade reform period, there has also been a development of fisheries wholesale market and policy promoting contract farming to enhance the relation between domestic market and international market. The Decision No. 80/2002/QD-TTg signed by Prime Minister focused on the importance of signing contract with farmers to maintain the stable farm commodity supply to processing and marketing. Those contracts contribute significantly to the sustainable development of both farming and processing activities (FAO 2006).

As Lederman et al (2006: 1) states ‘The objective of EPAs is essentially to help potential exporters find markets for their products, as well as provide them with a better understanding of products demanded in different export markets’, VASEP has been running well its function after establishment⁹.

5.2.6 Privatization

Theoretically, the main strategic objective of privatisation is to reduce inefficiency of public enterprises. In the process of privatisation, the control rights over investment, employment, and production are reallocated from government/politicians to private investors/managers¹⁰. There is a decrease of information ownership of politicians which possibly leading to the reduction of subsidies and restructuring (Boycko et al 1996: 309-319). In the market-oriented economy, it is necessary to make the establishment of private property rights and economic efficiency improvement through privatizing state-owned enterprises (SOEs) and introducing competition. Those are two main steps to transform from a former centrally planned economy to a market-oriented economy (Vu 2006: 2).

During the period of concentrated economic management, “the non-state sector, including the private, cooperative and joint-venture sectors, has been the most dynamic, in term of job creation, investment and turnover growth... The private sector also plays an important role in provision of inputs, articulately fishing gear, feed and seed supply, boat repair and aquaculture extension services” (MOFI 2005: 21). Due to lack of data, the paper cannot show clearly the role of private enterprises in the development of fisheries sector but the data of enterprises survey in 2001-2003 partly demonstrated this argument (Table 5.1).

Table 5.3
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Total	933	4,465,021,278	2,026,532,653

Source: MPI (2007): <http://fia.mpi.gov.vn/Default.aspx?ctl=Article2&TabID=4&mlD=237&alD=507>

In the trade reform, the government give permission to the fish enterprises and co-operatives and private sectors attract investment and do the self-financing mechanism under the provisions issued by the Ministry of Aquaculture Product/ Ministry of Fisheries (now under MARD). Private sector in fisheries has been guaranteed the benefit by being encouraged investment in the exploitation and production stages. There has been a reduction of government's investment and a increase in primary concentration on the management of fishing activities (Han 2007).

While fisheries state-owned companies are not highly effective (20% of enterprises operate at a loss, 40% of enterprises breakeven, and 40% make small profits), the private sector, as theoretically, has gradually developed to reduce this inefficiency (MOFI 2005). Private enterprises in fisheries sector is more flexible in finding partners in international markets and attract investment. They are also more dynamic than SOEs in improving processing technology, therefore, gain more output and achievements (Appendix H).

5.3 Conclusion

In general, in last twenty years of *Doimoi* there is a rapid growth of fisheries export in both quality and quantity. All the trade policy measures and other policy related to fish trade has created significant impact to the development of fisheries export, or in other words, it brings positive effect to the fisheries export growth.

One of the most important actions to expand fish trade is participating into international trade organizations and signing bilateral and multilateral trade agreement with the main export markets such as US and EU. While joining international trade can speed up the process of tariff and NTBs, attract investment and technology, it also brings higher competition and higher requirement for fish export products. The appreciation of RER does not create higher competition for Vietnam in compare with other fish export countries such as Thailand and Indonesia, but in last twenty years the export still rapidly increased. Other policies of EPZs improvement, policies of fish marketing development and export promotion agency (EPAs), and privatization have been also positive to fish export growth. Of course, those policies are separate but there is a close relationship between them during the period of economic transitions.

Chapter 6

Research Findings and Recommendation

6.1 Main findings of research paper

This paper has found that in last two decades, the impregnation of *Doimoi* in Vietnam has been highly successful. It has made a comprehensive renovation in the national economic system in which the economy under state central planning has been gradually moved toward to the market-oriented economy. The cooperation among various reforms has significantly contributed to the rapid socio-economic growth.

Referring to the export activities, the trade reform of Vietnam has been implementing various important policies with significant impact to the export market extension. As indicated by Chi (2003), the policy of inward-oriented import substitution has been step by step replaced by outward-orientation and export promotion. First of all, in last twenty years, there was a rapid reduction in both tariff and non-tariff barriers in domestic market to speed up the participation of Vietnam to international markets. Secondly, Vietnam has been signing many bilateral and multilateral trade agreements with regional and international countries and organizations. As indicated in chapter 3 and 5, those trade agreements have brought Vietnam much more closely into conformity with international trade norms and standards to quickly set up the integration into the world economy. In addition, the application of trade measures related to export promotion such as duty free access to imported inputs, exception from domestic taxes, and improving the role of export promotion agencies help Vietnam to overcome the obstacles of a restrictive trade regime under the management of State and promote for export activities. Fourthly, the exchange rate regime has been also known as the key reform during the economic renovation. Since 1989, the official and market exchange rate was uniformed and gradually become more market-based. This policy makes exchange rate as an important macroeconomic instrument for promoting exports and improving the growth of national economic system. Besides, the contribution of privatization also enhanced the role of private enterprises and reduced the inefficiency of state-owned enterprises.

As other previous studies, the paper also found that, there is a close relation between export performance and changes of trade reform. Using the methodology of analysis and comparing the implementation of specific trade measures and the growth of fish trade liberalization, the paper can prove that, directly or indirectly, the process of trade policy reform has created positive impact to the development of sector. By joining into international trade organization and signing bilateral/multilateral trade agreement, Vietnam's gained many achievements in fisheries sector. There was a rapid increase in the number of overseas market where fisheries products of Vietnam such as shrimp, catfish are exported to US, EU and other big markets in the world. In addition, last two decades Vietnamese Government have invested in

improving both quality and quantity of export processing zones in the whole country, especially for fisheries export processing plants in the South. Besides, as shown in chapter 5, regarding to the shares and growth rates of fish processing zone, the share of labour working in fisheries sector have increased significantly which create great contribution to the development of sector. On the other hands, the government has also given high priority for fisheries marketing development and export promotion agency. Consequently, the distribution and transition of fish from the farmers to processors and exporters is ensured and more effective.

However, there are still some difficulties in the development of fisheries export. That is the lack of experience and information to cope with the exclusion from some main markets such as the dumping policy in US for catfish, the quality control of EU market and so on. The fact shows that fisheries products of Vietnam have not been diversified. It focuses only in some main product such as shrimp and fish, almost products exported as raw material. Therefore, the product is less competitive than other countries and it is needed to be diversified. The inefficiency of State Owned Enterprises sector, the low technology, the limitation of investment in EPZs for fish processing enterprises also reduce the competitive ability of Vietnam's fisheries products (MOFI 2005).

6.2 Recommendation for long-term development of fisheries export

The priority commendation of this paper for Vietnam's fisheries development is emphasizing on the improvement and enhancement of export activity.

1. In domestic market, tariff system should be comprehensive eliminated, especially for the inputs imported for export productions. The removal of tariff barriers will promote for the trading activities between Vietnam and other foreign countries.
2. In the macroeconomic system, it is essential to make further flexibility in the management of exchange rate. It is because the VND is still overvalued against USD, especially the currency from other fishery exporter such as Indonesia, Philippine, China and Thailand. The real depreciation rate of VND is still low which reduce the competitiveness of Vietnamese export. Therefore, in order to promote and enhance export capacity, an exchange rate policy for a long-term should be set up to avoid the exchange rate passive adjustment.
3. Improve the trade cooperation instead of making competition with the countries that also have power at fisheries export such as Thailand, Indonesia, Philippine Malaysia, and China. The cooperation could be together attending the fisheries products tender which can prevent the price force from foreign importers and increase the price for fisheries products.
4. Pay attention to the importance of trademark for the main fishery products such as catfish and shrimp. Building the trade mark for Vietnam fish is very important because now most fishery products are exported to

foreign exporter, used their name and trademark then distributed to consumers. If Vietnamese enterprises have their own trademark, it could create the sustainable markets and avoids trade conflicts which lead to big loss of time and money.

5. Strengthen activities of trade agencies in foreign countries and quarterly/annually organize more exhibitions to introduce about Vietnam's fish products.
6. In the marketing system, the fish market system between wholesalers and retailers should be improved and expanded to ensure the products distribution from farmers to processors and exporters effectively. It is necessary to set up a strategy for fish market development in domestic market by improving transportation, inputs for production, storage system, etc.
7. Fisheries processing overprices located in EPZs should be invested more technology and training for labours. Currently, fisheries products are exported as raw material like frozen fish and shrimp, therefore it is needed to be diversified to increase both quantity and price, and diversify the markets as well.

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APPENDIX A: EXPORTS OF GOODS BY COMMODITY GROUP

Year	1986	1988	1990	1992	1994	1996	1998	2000	2002	2004	2006
Total	787.1	1,037.1	2,401.6	2,580.4	3,892.9	7255.9	9360.3	14482.7	16706.1	26485.0	39826.2
Heavy industrial products and minerals	63.4	66.9	617.0	954.8	1,157.0	2085.0	2609.0	5382.1	5304.3	9641.9	14428.6
Light industrial and handicraft goods	227.5	383.8	635.8	349.5	831.1	2101.0	3427.6	4903.1	6785.7	10870.8	16389.6
Agricultural products	318.6	349.2	783.2	827.6	1,252.6	2159.6	2274.3	2563.3	2396.6	3383.6	5352.4
Forest products	71.6	59.2	126.5	140.8	101.0	212.2	191.4	155.7	197.8	180.6	297.6
Aquatic products	106.0	178.0	239.1	307.7	551.2	696.5	858.0	1478.5	2021.7	2408.1	3358.0
	Structure (%)										
Total	100	100	100	100	100	100.0	100.0	100.0	100.0	100.0	100.0
Heavy industrial products and minerals	8.1	6.5	25.7	37.0	29.7	28.7	27.9	37.2	31.8	36.4	36.2
Light industrial and handicraft goods	28.9	37.0	26.5	13.5	21.3	29.0	36.6	33.9	40.6	41.0	41.2
Agricultural products	40.5	33.7	32.6	32.1	32.2	29.8	24.3	17.7	14.3	12.8	13.4
Forest products	9.1	5.7	5.3	5.5	2.6	2.9	2.0	1.1	1.2	0.7	0.8
Aquatic products	13.5	17.2	10.0	11.9	14.2	9.6	9.2	10.1	12.1	9.1	8.4

Source: General Statistics Office

APPENDIX B: TRADE BALANCE OF VIETNAM IN THE PERIOD 1986 - 2006

Year	Total trading goods	Export	Import	Trade balance
1986	2,944.1	789.0	2,155.1	-1,366.1
1987	3,309.3	854.2	2,455.1	-1,600.9
1988	3,795.1	1,038.4	2,756.7	-1,718.3
1989	4,511.8	1,946.0	2,565.8	-619.8
1990	5,156.4	2,404.0	2,752.4	-348.4
1991	4,425.2	2,087.1	2,338.1	-251.0
1992	5,121.5	2,580.7	2,540.8	39.9
1993	6,909.1	2,985.2	3,923.9	-938.7
1994	9,880.1	4,054.3	5,825.8	-1,771.5
1995	13,604.3	5,448.9	8,155.4	-2,706.5
1996	18,399.4	7,255.8	11,143.6	-3,887.8
1997	103,442.3	91,850.0	11,592.3	80,257.7
1998	20,859.9	9,360.3	11,499.6	-2,139.3
1999	23,283.5	11,541.4	11,742.1	-200.7
2000	30,119.2	14,482.7	15,636.5	-1,153.8
2001	31,247.1	15,029.2	16,217.9	-1,188.7
2002	36,451.7	16,706.1	19,745.6	-3,039.5
2003	45,405.1	20,149.3	25,255.8	-5,106.5
2004	58,453.8	26,485.0	31,968.8	-5,483.8
2005	69,208.2	32,447.1	36,761.1	-4,314.0
2006	84,717.3	39,826.2	44,891.1	-5,064.9

Source: World Bank Development Indicator 2007/ calculated by author

APPENDIX C: FISHERIES EXPORT TO EU'S MAIN MARKETS IN 2000-2005

TURNOVER (thousands USD)

Country	2000	2001	2002	2003	2004	2005
Belgium	19.812	18.517	18.574	31.935	51.075	76.482
Germany	14.448	208	11.750	18.245	44.200	67.812
Italy	13.275	13.075	17.491	23.043	32.123	63.202
Spain	2.599	4.802	5.122	8.262	35.115	53.660
Netherlands	-	-	-	-	-	41.028
France	8.399	15.372	12.282	14.599	23.803	38.444
England	11.353	14.796	6.288	14.976	26.347	38.265
Poland	424	130	336	1.101	3.219	13.763
Portugal	212	325	244	676	2.277	7.349
Denmark	627	1.255	1.880	1.880	3.161	5.893

QUANTITY (Tons)

Country	2000	2001	2002	2003	2004	2005
Italy	6.350	6.842	10.049	11.589	14.567	23.711
Spain	1.424	1.858	2.042	3.739	12.427	20.681
Germany	2.716	83	3.834	5.384	12.869	19.899
Belgium	4.258	4.064	5.903	8.739	13.235	19.499
Netherlands	-	-	-	-	-	10.641
France	2.811	5.273	3.446	4.308	6.127	7.653
England	2.311	3.028	2.519	2.653	4.176	6.104
Poland	106	51	158	568	1.095	5.761
Portugal	97	173	115	385	1.019	2.871
Greek	39	93	153	565	331	1.643

MAIN PRODUCTS

Products	2000	2001	2002	2003	2004	2005
Fish	6.271	11.043	19.321	31.295	103.747	201.519
Shrimp	38.731	43.584	15.733	35.253	58.865	116.364
Cuttle- fish	8.213	6.025	9.359	12.498	15.404	24.477
Molluse	3.955	3.848	4.379	4.489	8.223	8.553
Others	14.942	26.245	24.928	33.308	45.185	82.264
Total	71.782	90.745	73.720	116.739	231.528	433.085

Sources: FISTENET 2007/ http://www.fistenet.gov.vn/VSTP/index_.asp?menu=xnk_EU&name=#3.3

APPENDIX D: FISHERY PRODUCTS EXPORTED TO US IN PERIOD (THOUSANDS US\$)

Products	2000	2001	2002	2003	2004
Shrimp	185,12	308,70	368,62	468,93	277,45
Freshwater fish	175	216	201	271	357
Dry fish	374	596	722	1,005	3,549
Molluse	8,17	6,16	5,82	7,44	6,18
Frozen fish (excluding fillet)	6,80	10,22	9,23	10,70	14,71
Fresh fish (excluding fillet)	9,59	16,64	24,67	23,66	25,38
Fish fillet	32,61	41,72	69,17	56,45	78,36

Source: Fistenet/ http://www.fistenet.gov.vn/VSTP/index_.asp?menu=xnk_MY&name=#3.3.2

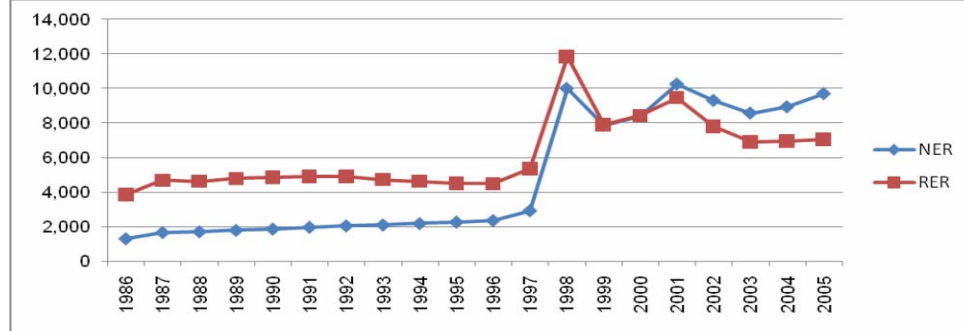
APPENDIX E: GROSS OUTPUT IN FISHERIES SECTOR

Year	1986	1988	1990	1992	1994	1996	1998	2000	2002	2004	2006
Sea fish	563.4	629.1	615.8	627.4	683.8	808.2	856.7	1075.3	1189.6	1333.8	1396.5
fresh water fish	111.8	130	162.1	172.9	344.1	432	425	589	844.8	1202.5	1693
Shrimp	15.6	24.2	32.7	37.4	45	49.7	54.8	93.5	186.2	281.8	354.5

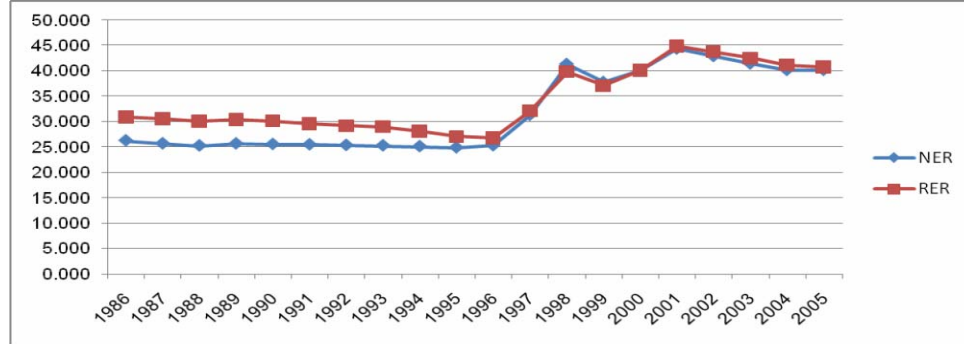
Source: FAO Fisheries Statistics 2007

APPENDIX F: RER and NER at some fisheries export country

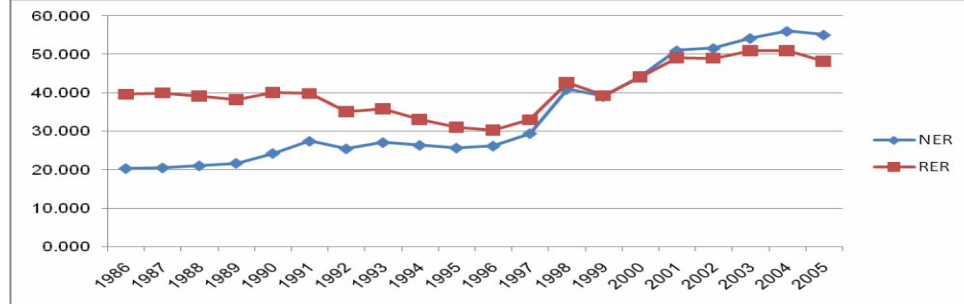
Indonesia



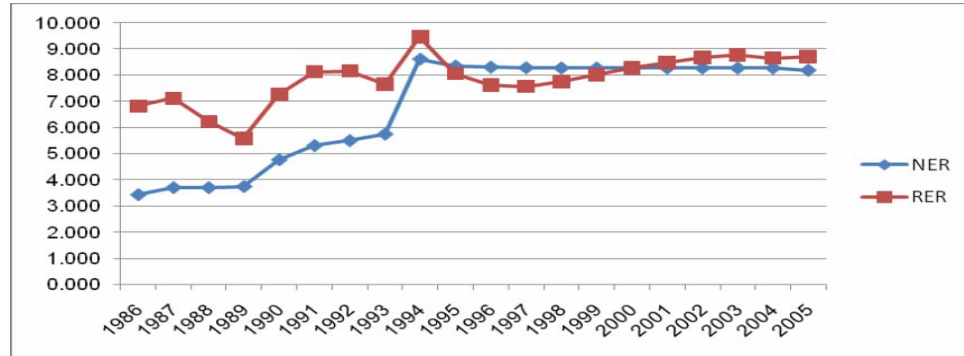
Thailand



Philippine

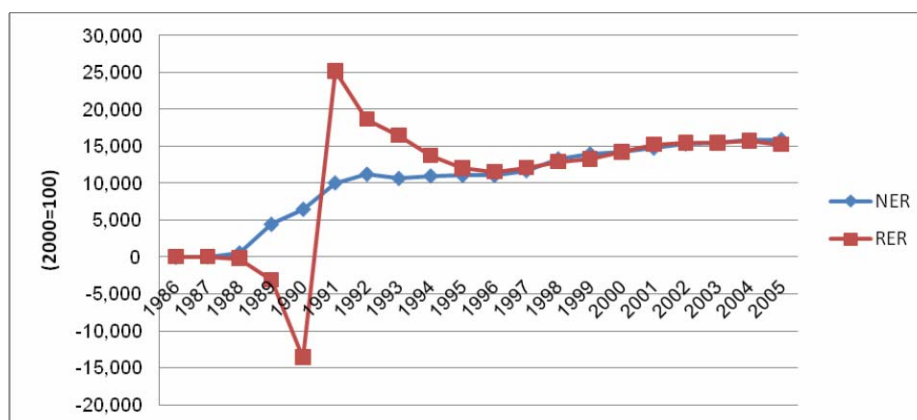


China



APPENDIX G : NOMINAL AND REAL EXCHANGE RATE IN VIETNAM (19862006)

Year	Fish export growth rate (%)	Vietnam CPI (2000=100)	US CPI (2000=100)	Nominal Exchange rate	Real Exchange rate	% changes of RER
1986		-806.8	63.6	23	-2	
1987	24	-490.1	66.0	78	-11	82.7
1988	35	-179.2	68.7	607	-233	95.5
1989	16	-103.2	70.2	4,464	-3,115	92.5
1990	16	-36.1	75.9	6,483	13,642	77.2
1991	19	31.5	79.1	10,037	25,167	154.2
1992	8	49.0	81.5	11,202	18,612	-35.2
1993	39	54.2	83.9	10,641	16,457	-13.1
1994	29	68.7	86.1	10,966	13,731	-19.9
1995	13	81.4	88.5	11,038	11,993	-14.5
1996	12	87.1	91.1	11,033	11,536	-4.0
1997	12	90.3	93.2	11,683	12,057	4.3
1998	10	97.6	94.7	13,268	12,870	6.3
1999	13	101.7	96.7	13,943	13,261	3.0
2000	52	100.0	100.0	14,168	14,168	6.4
2001	23	99.6	102.8	14,725	15,207	6.8
2002	11	103.4	104.5	15,280	15,436	1.5
2003	9	107.2	106.8	15,510	15,452	0.1
2004	9	110.3	109.7	15,800	15,708	1.6
2005	13	118.1	113.4	15,859	15,225	-3.2
2006	23	-	-	16,100	-	-



Source: World Bank Development Indicator (2007); GSO (2008)/ calculated by author

APPENDIX H: Proportions of export turnover of the total sales by processors

Proportion of exports (%)		Type of business ownership				Total
		Private enterprise	State-owned enterprises	Joint stock	Equitized	
<25	Count	-	-	-	-	-
25-50	Count	-	1	-	-	1
	%	-	4.8	-	-	2.1
50-75	Count	2	5	-	1	8
	%	12.5	23.8	-	33.3	17.0
>75	Count	14	15	7	2	38
	%	87.5	71.4	100.0	66.7	80.9
Total	Count	16	21	7	3	47
	%	100.0	100.0	100.0	100.0	100.0

Source: FAO <http://www.fao.org/docrep/007/y5707e/y5707e0b.htm>

APPENDIX I: STATE AND NON-STATE FISHERIES ENTERPRISES

	Unit	2000	2001	2002
Number of enterprises	Number	2,453	2,563	2,407
SFEs		49	49	41
Non-SFEs		2,392	2,496	2,345
Number of employees	Persons	37,253	40,376	40,746
SFEs		4,310	5,926	4,357
Non-SFEs		31,915	33,008	34,519
Fixed asset & long-term investment	Billion VND	1,595	1,765	2,051
SFEs		216	266	227
Non-SFEs		1,340	1,403	1,722
Net turnover	Billion VND	2,237	2,292	2,230
SFEs		469	448	345
Non-SFEs		1,745	1,788	1,830
Profit before tax	Billion VND	146	131	188
SFEs		6	-4	28
Non-SFEs		167	170	174

Source: Ministry of Fisheries - MOFI (2005: 22)

Notes

¹ On September 2001, the EU unilaterally required chloreramphenical test for shrimp imported from Vietnam generating considerable losses to Vietnam shrimp exporters.

² This paper examined the current state of the trade policy regime in Vietnam against the backdrop of market-oriented policy reforms undertaken in the period 1986-2006.

³ In the progress of trade liberalization, export taxes are not recommended unless the products are being subsidized for the domestic market.

⁴ 70% those enterprises are located in the Southern region; 24% in the Central region and 6% in the North (RIA1 2006)

⁵ Land Law issued in 1993

⁶ This plan has been under the support of Danish Government until 2010

⁷ This report was in FAO Fisheries Report No.708, Report of the expert consultation on international fish trade and food security, Casablanca, Morocco, 27–30 January 2003

⁸ Summary about the process of FDI in Vietnam for the period 1988-2007 by Ministry of Planning and Investment

⁹ Main activities of VASEP: promotes fishing and aquaculture, provides members with free of charge Seafood Trade Newsletter, organizes annual Vietnam International Fisheries Fair & Exhibition, arranges training courses (FAO 2006)

¹⁰ The cash flow ownership gradually moves from politicians to managers and private investor (Boycko et al 1996)