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## WTO Plan Reshapes Vietnam's Economy

Nation Prepares For Export Boom, New Competition

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HANOI -- A pair of eager workers gaze skyward from a billboard at the main gate of the Hanoi Textile and Garment Co., arms raised in proletarian zeal, a tableau of industry unfolding behind them. Bold slogans across the bottom urge worker solidarity and diligent labor.

But if the billboard is a socialist throwback, the front lobby faces the future. Festooned above the reception desk are the flags of 40 countries with American red, white and blue strategically positioned in the middle.

As Vietnam, one of Asia's fastest-growing economies, prepares to join the World Trade Organization, it is redoubling its efforts to look abroad. The country is making fundamental changes, from the halls of the national assembly to factory floors where row after row of sewing machines churn out tracksuits, pants and polo shirts for American shelves.

WTO membership will open new markets abroad, but it also will commit Vietnam to reduce protections for its own companies. "The impact on us will be very heavy," said Doan Duy Khuong, vice president of the Vietnam Chamber of Commerce and Industry. "To be stronger, we have to learn how to compete."

Hanoi Textile and Garment, known as Hanosimex, has recently installed new machinery in its spinning and knitting factories and begun retraining its sales staff. It is predicting sharp increases in exports. Already, slightly more than half of what the company produces is shipped abroad, with nearly two-thirds of the exports bound for the United States.

Vietnam and the United States reached a pact on market access in late May, opening the way for Vietnam to join the WTO as early as the end of this year. The bilateral agreement set the terms for Vietnam's membership, laying out specific steps for deregulating its economy and further opening the way for foreign goods and services.

If entry is to happen, the U.S. Congress must also endorse the deal and grant Vietnam a legal status known as permanent normal trade relations. Supporters have been urging a vote before the August recess.

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In preparation for joining the Geneva-based organization, Vietnam has adopted a pair of laws restructuring how enterprises and investment are regulated. For the first time, all firms must be treated equally, whether domestic or foreign, state-owned or private. Further laws are being drafted to overhaul the pharmaceutical industry, social security and taxation.

"WTO seems to be motivating quite a considerable amount of change in Vietnam," said Jonathan Pincus, senior country economist for the U.N. Development Program. "The vast majority of that change has been positive. The vast majority of that change is still to come."

Entry to the WTO would follow nearly two decades of economic liberalization that helped transform Vietnam into one of Asia's fastest-growing economies. Despite widespread corruption and bureaucratic lassitude, Vietnam's economy has expanded by 50 percent in the last five years.

Vietnam reshuffled its top leadership last month in a move likely to reaffirm that trend while keeping politics under the tight control of the ruling Communist Party. Vietnamese legislators named Nguyen Minh Triet, a corruption fighter and Communist Party chief in Ho Chi Minh City, as president, and economic reformer Nguyen Tan Dung as prime minister.

These promotions mark a shift to a younger, more cosmopolitan generation and place greater power in the hands of politicians from southern Vietnam, which has long been the country's commercial engine.

Triet, for instance, helped establish his home province as one of region's prime destinations for foreign investment. Dung, as deputy prime minister, oversaw economic policy and represented the government at a February ceremony at which U.S. computer chip maker Intel Corp. announced it would invest \$300 million to build a chip plant in Ho Chi Minh City.

"The new prime minister is really a protege of the old one and will not change things fundamentally," Pincus said. In any case, he added, "the problem in Vietnam is not at the top but in the middle, where there's resistance in some ministries and in some quarters of the party to reform."

He cautioned that the real test of the government's willingness and ability to liberalize will come when it starts implementing the new law and trying to enforce it.

In China, some foreign business groups have accused the government of failing to make good on many of the market-opening pledges that helped the country win WTO membership.

As membership approaches, Vietnamese business managers are bracing for potentially unsettling changes. Tariffs on imported goods, for instance, are to be slashed to 15 percent or less under the deal negotiated with the United States. Some local firms are trying to form alliances with foreign companies in order to stay competitive.

Nguyen Thanh Binh joined Hanosimex 24 years ago, rising to become its managing director. Along the way, this state-owned company -- with its campus of two-story, ochre-facade factories tucked in the back streets of the Vietnamese capital -- expanded into an enterprise of 6,000 workers with an annual turnover of \$80 million. Now, she and her fellow managers must relearn their business.

The company has traditionally had little direct contact with buyers in the United States, Japan and Europe, even as exports came to dominate production. Instead, the firm was required by the government to turn to lumbering state-owned trading companies to sell its goods, she explained. This system is to be junked.

"After we join WTO, we will be working very closely with our buyers," Binh said. "This will be very difficult for state-owned companies. Our staff has not been allowed to do this. We don't have the skill or the knowledge."

The company plans to school its managers and international relations staff on how to become savvy salespeople. Several have already been dispatched to Japan or Hong Kong for training, she said.

Anticipating better access to foreign markets, the company has invested this year in new equipment, including machinery to increase yarn production and manufacture more and higher-quality clothes.

Textiles and garments are already Vietnam's second-largest export, after crude oil, and could expand substantially along with other industries that rely on cheap labor, such as footwear and electronics, analysts say.

Executives in Vietnam's textile and apparel industry are especially upbeat about the WTO prospect because membership would eliminate quotas on the amounts they can ship to the United States. Vietnam has been one of the few countries that faced these restrictions after the WTO eliminated a worldwide quota system a year ago. Trade officials in Hanoi estimate that Vietnam now accounts for only 3.2 percent of U.S. imports of garments and textiles.

WTO membership could also come at some cost to this industry because the government is undertaking to cut subsidies, including preferential loans for investment and certain trade promotion activities. Binh said her company is large enough to succeed without this support, adding that she is more worried about finding enough imported cloth to meet the projected growth in production.

The new trade system could fall much harder on state-owned industries that have depended on government protection to succeed and may now face strong competition from abroad. These include pharmaceuticals, cement and fertilizer.

Vietnamese banking, dominated by inefficient, under-capitalized state institutions, could also come under pressure as limits on foreign ownership are lifted. But Pincus and other analysts said this sector remains small and of limited interest to large foreign banks, perhaps giving the domestic industry a few years to adjust before facing an onslaught from abroad.

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