VIETNAM AND THE NEW GENERATION FREE TRADE AGREEMENTS (FTAs): OPPORTUNITIES AND CHALLENGES FOR BUSINESSES

Tran Huu Huynh
Chairman of the Advisory Committee on International Trade Policies (INTAC VCCI)
Chairman of the Vietnam International Arbitration Center (VIAC)

Outline

- **What is new with the new generation FTAs?**
- **Actual impact of the current FTAs**
- **Opportunities and challenges under the new FTAs**

What is new with the new generation FTAs?

What is new with the new generation FTAs?

- **Scope: Broader**

  Cover also non-trade sectors such as the Environment, Labor, State owned enterprises (SOEs), Intellectual Property (IP), Government Procurement

  For example, TPP:

  - This is the first time Vietnam negotiates those issues including SOEs, Government Procurements, Labor and Environment within a framework of an FTA

- **Level: Deeper**

  - Commitments on goods: Lift off 90-100% of import duty

  For example: TPP targets at elimination of 100% of import duty

  - Commitments on services: many of the current FTAs adopt the negative list approach other than the positive list as before

What is new with the new generation FTAs?

- **Enforcement requirements: higher**

  TPP: Most of its Chapters have clauses on enforcement and dispute resolution

- **Potential institutional impact: broader and more extensive**

Actual impact of the current FTAs

Actual impact of the current FTAs

8 FTAs already signed

1. ASEAN FTA (AFTA) (1996)
2. ASEAN - China FTA (ACFTA) (2004)
3. ASEAN - Korea FTA (AKFTA) (2006)
4. ASEAN - Japan FTA (AJCEP)(2008)
5. Vietnam-Japan Economic Partnership Agreement (VJEPA) (2009)
6. ASEAN - Australia - New Zealand FTA(AANZFTA) (2010)
7. ASEAN - India FTA (AIFTA) (2010)
8. Vietnam - Chile FTA (VCFTA) (2012)

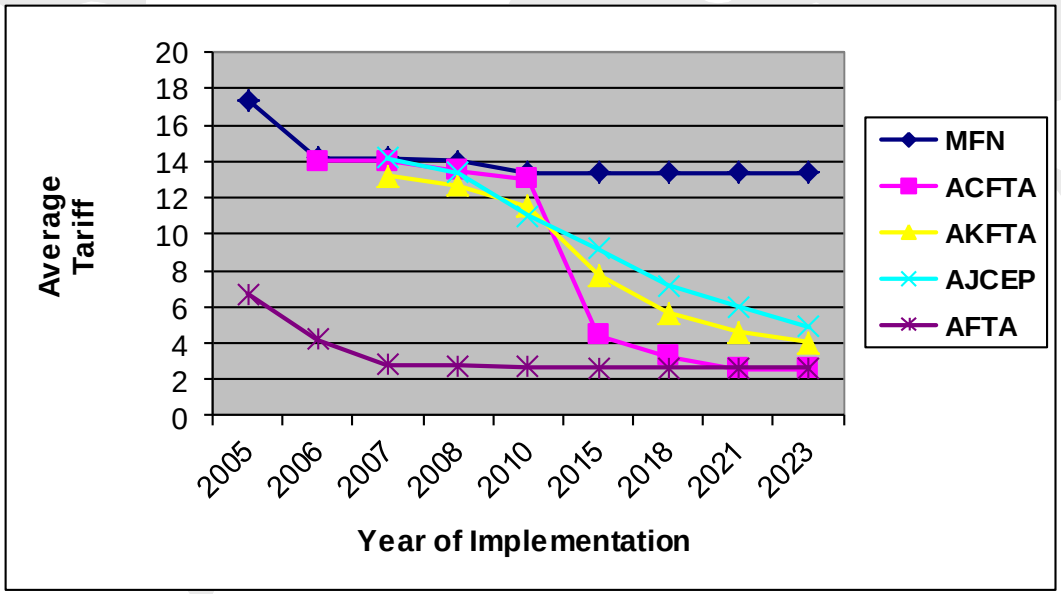
Actual impact of the current FTAs

POSITIVE IMPACT

- **More advantageous production of exports as a result of tariff elimination under the FTAs**

- Export growth (at higher rate than the before-FTA period, for most of FTAs)

- Import growth (with regard to the machinery and equipment with the significant share in the structure)



Actual impact of the current FTAs

POSITIVE IMPACT

- **More capital sources, technologies and management expertise attracted from investment partners of the countries with FTAs with VN**

- 7/10 Vietnam's top investors are from those that have signed FTAs with Vietnam

- About 34% of FDI capital is for joint ventures and partnerships with Vietnamese enterprises

ĐẦU TƯ TRỰC TIẾP NƯỚC NGOÀI TẠI VIỆT NAM THEO ĐỐI TÁC
(Lũy kế các dự án còn hiệu lực đến ngày 15/12/2013)

TT	Đối tác đầu tư	Số dự án	Tổng vốn đầu tư đăng ký (Triệu USD)	Vốn điều lệ (Triệu USD)
1	Nhật Bản	2,127	34,583.43	11,221.79
2	Singapore	1,219	29,312.17	7,622.92
3	Hàn Quốc	3,546	29,041.49	9,156.01
4	Đài Loan	2,287	27,914.86	11,378.88
5	BritishVirginIslands	518	15,638.24	5,287.76
6	Hồng Kông	760	12,594.55	4,005.26
7	Hoa Kỳ	674	10,619.85	2,561.99
8	Malaysia	451	10,331.15	3,606.22
9	Trung Quốc	977	6,991.77	2,882.64
10	Thái Lan	333	6,468.58	2,798.61

ĐẦU TƯ TRỰC TIẾP NƯỚC NGOÀI TẠI VIỆT NAM THEO HÌNH THỨC
(Lũy kế các dự án còn hiệu lực đến ngày 15/12/2013)

TT	Hình thức đầu tư	Số dự án	Tổng vốn đầu tư đăng ký (Triệu USD)	Vốn điều lệ (Triệu USD)
1	100% vốn nước ngoài	12,523	154,176.81	50,091.44
2	Liên doanh	2,751	58,133.52	20,939.44
3	Hợp đồng BOT,BT,BTO	11	7,909.46	1,743.89
4	Hợp đồng hợp tác kinh doanh	216	5,138.16	4,277.27
5	Công ty cổ phần	194	4,701.20	1,368.15
6	Công ty mẹ con	1	98.01	82.96
	Tổng số	**15,696**	**230,157.16**	**78,503.14**

Source: FDI Agency - MPI

Actual impact of the current FTAs

POSITIVE IMPACT

❖ **Clearer and safer business environment**

- A series of major policies and laws has been developed/revised
- A series of policies has been introduced to improve the market-based economic institutions
- Administrative reform efforts have been made on a large scale
- Less passive participation of the business community in the international trade policy

Actual impact of the current FTAs

NEGATIVE IMPACT/LIMITATIONS

- **Businesses have not taken, in full, the tariff advantage under FTAs, due to**
  - Failure to know
  - Failure to meet the conditions concerning rules of origin
  - Complexity of procedures and processes of application for preferential C/O, the cost-benefit test of tariff reductions for businesses

Actual impact of the current FTAs

Table: Preferential C/O – export turnover ratio

Year	2005	2006	2007	2008	2009	2010	2011	2012
AFTA	6.07%	7.10%	9.41%	12.76%	11.41%	14.11%	**20.20%**	
AJCEP, VJEPA					27.81%	30.52%	**31.23%**	
AKFTA					79.05%	65.79%	**90.77%**	**98%**
AANZFTA						8.89%	**15.91%**	
AIFTA						2.39%	**7.37%**	
ACFTA		8.89%	6.30%	9.83%	21.70%	25.23%	**23.11%**	**26.8%**

Source: MoIT (with additions)

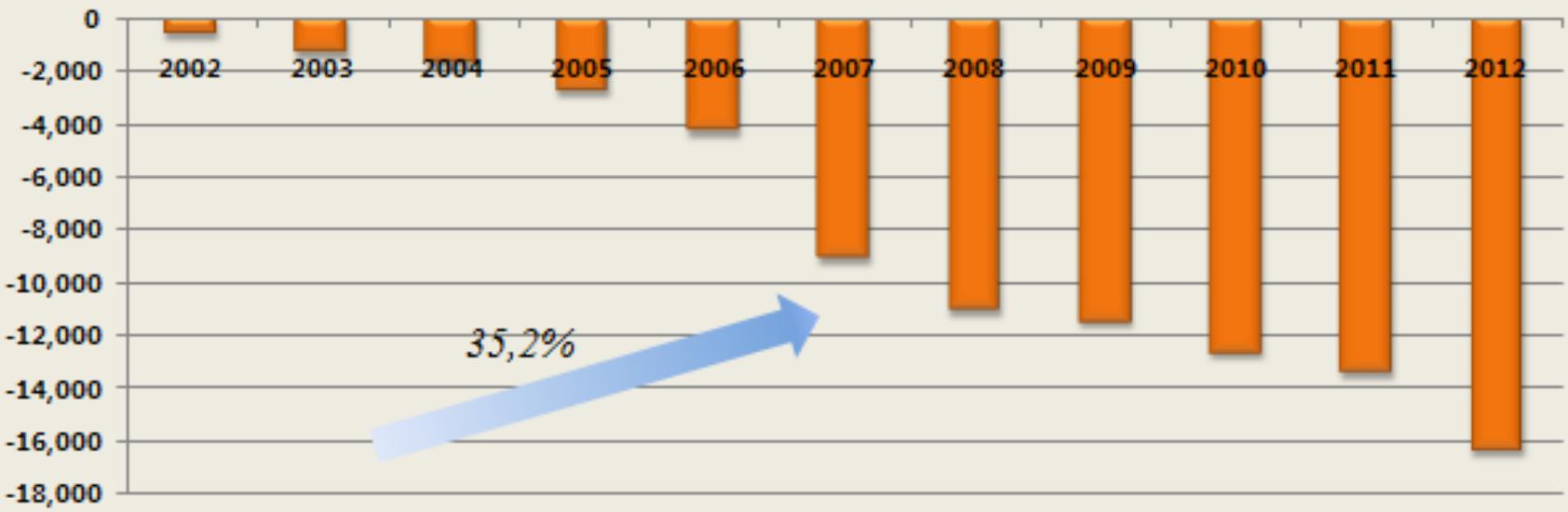
Actual impact of the current FTAs

NEGATIVE IMPACT/LIMITATIONS

- **Exports grow but insignificantly**
  - Mostly raw materials and processed goods
  - Export share of FDI enterprises is increasing from less than 50% (2000-2002) up to 61.4% in 2013.
- **Tough competition with foreign goods in the domestic market**
  - Sharp trade deficits from the countries with competing products with Vietnam(ACFTA, AKFTA)
  - Export surplus, if any, shows negative signs (e.g.: VJEPA)

Actual impact of the current FTAs

For China



In 2001, trade deficit in China was US$210 million which hit US$16 billion in 2012

Source: MoIT

Actual impact of the current FTAs

NEGATIVE IMPACT

❖ **Labor productivity grows slowly**

- 5 years after the WTO accession, the labor productivity growth is much slower than 5 before the WTP accession (annual rate of 3.4% as compared to 5% respectively)
- In USD constant price 1990, Vietnam's labor productivity in 2010 was valued at US$5.9 thousand, equivalent to 13.2% of Japan's, 23.3% of Malaysia's, 12% of Singapore's, 13.3% of Korea's, 46.5% of China', 37% of Thailand's and 69.9% of the Philippines'.
- Business productivity and efficiency has been reducing (MPI's 5-year report on WTO accession), domestic businesses have been getting smaller in terms of size (VCCI Annual report on Vietnam's businesses 2013).

Actual impact of the current FTAs

NEGATIVE IMPACT

- **More vulnerable groups have emerged as compared with other groups**
- Agricultural products have to face with tough competition even in the domestic market (e.g. chicken, garlic and fruits etc.)
- SMEs are virtually unprepared: they only make adjustments other than take the opportunity
- **New barriers have been set up in the countries that have signed FTA with Vietnam:**
- TBT, SPS barriers (quarantine measures at China's border)
- Safeguard remedies (steel products in some ASEAN countries)
- **Tools of protection have not been used**
- Tools of protection of the domestic market from unhealthy competition of imports: lack of a mechanism to support uses
- FDI is not yet properly control, resulting in inequality
- **Institutional framework:** Halfway reforms

Opportunities and challenges under the new FTAs

Opportunities and challenges under the new FTAs

❖ **6 FTA negotiation underway**

1. Trans-Pacific Partnership (TPP)
2. Vietnam - **EU** FTA **(EVFTA)**
3. Vietnam and **Russia - Belarus - Kazakhstan Customs Union** FTA **(VCUFTA)**
4. ASEAN +6 FTA (China, Korea, Japan, India, Australia and New Zealand – **RCEP**)
5. Vietnam - **European Free Trade Association** (Norway, Switzerland, Iceland and Liechtenstein) **VEFTA**
6. Vietnam-Korea FTA **(VKFTA)**

Opportunities and challenges under the new FTAs

OPPORTUNITIES

❖ **Potential benefits from the FTAs with major and key partners (EU, US):**

- Great export benefits (particularly for the key exports)
- Accessibility to clean and modern equipment and technologies at a reasonable price
- Opportunities to develop the chain value and improve the possibility of linkage.
- Accessibility to qualified capital sources
- Opportunities for deeper institutional reforms

Opportunities and challenges under the new FTAs

OPPORTUNITIES

- **Potential benefits from the FTAs with the partners with limited level of trade liberalization (Russian, Belarus…)**

  Mostly, export opportunities:

  - Tariff elimination
  - Transparency and simplification of import procedures

Mã HS	Loại sản phẩm	Nhập khẩu của Nga từ Việt Nam			
		Kim ngạch NK 2012 (1.000 USD)	Tăng trưởng TB năm (2008-2012) (%)	% trong NK của Nga	Thuế quan trung bình
TOTAL	Tất cả	2273413	33	0.7	
'85	Thiết bị điện, điện tử	1215440	210	3.4	6.5
'64	Giầy dép và sản phẩm liên quan	204815	21	4.8	11
'62	Hàng may mặc, phụ kiện	166536	13	4.1	10.4
'84	Máy móc, nồi hơi…	142598	19	0.2	2.2
'09	Cà phê, chè, gia vị khác	131557	16	10.5	2.8
'03	Cá, nhuyễn thể, thủy sản khác	77978	-18	3.3	9.1
'61	Hàng dệt và phụ kiện	49476	33	1.2	10.4
'08	Hoa quả, hạt	48996	7	0.8	4.9
'20	Rau, thức ăn chế biến	28365	-7	1.8	10.6
'40	Cao su	24387	13	0.5	8.6

Nguồn: ITC Trade map

Opportunities and challenges under the new FTAs

CHALLENGES

❖ **To miss export opportunities**

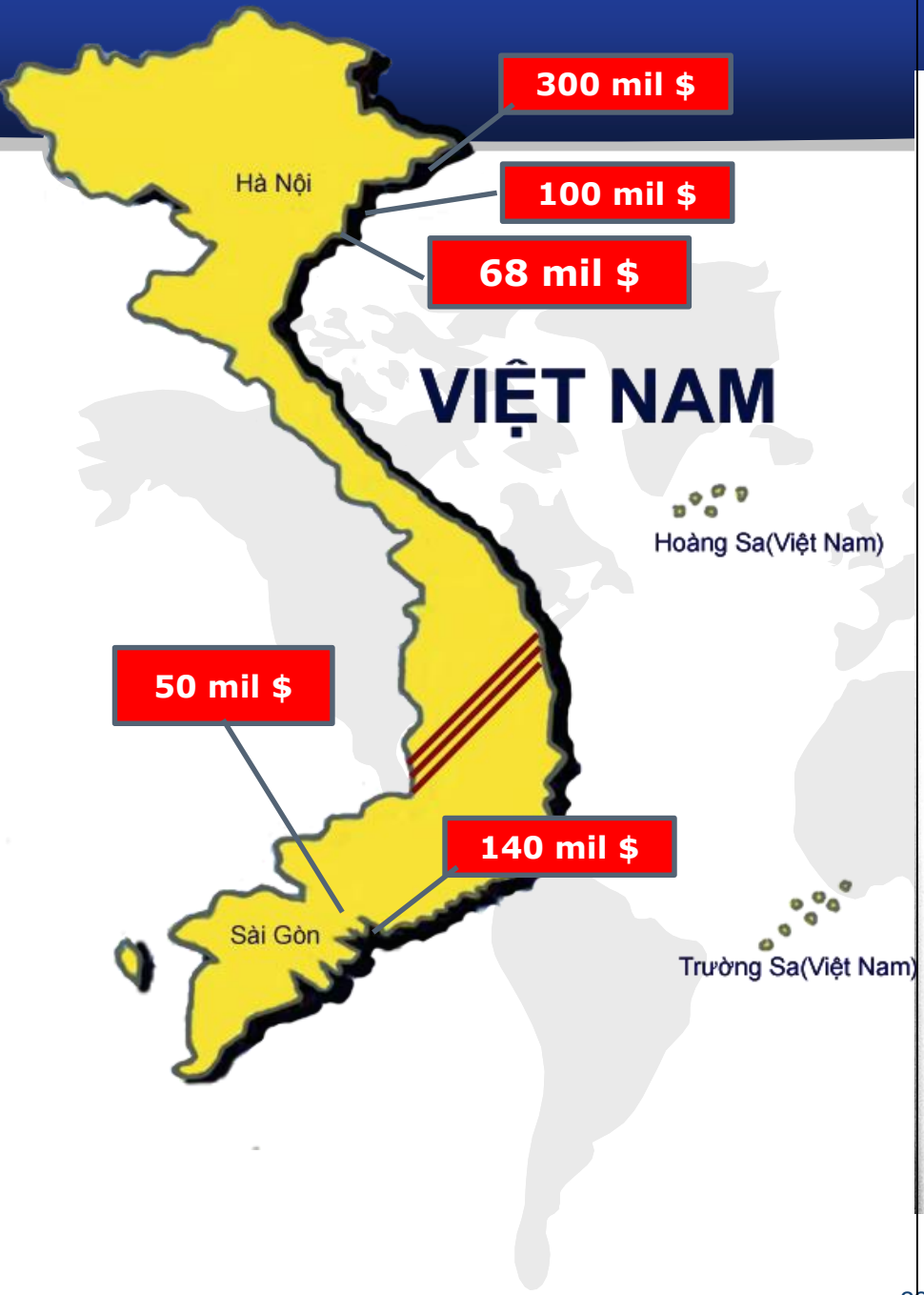
- Failure to know the opportunities (TPP – negotiation behind the closed door)
- Failure to meet the conditions for tariff incentives

  + New rules of origin

  + New procedures for origin certification

* **Tough competition in the domestic market**

* **Brands of Vietnam???**


300 mil $
Hà Nội
100 mil $
68 mil $
VIỆT NAM
Hoàng Sa(Việt Nam)
50 mil $
140 mil $
Sài Gòn
Trường Sa(Việt Nam)


GODOT
WAITING ROOM

Opportunities and challenges under the new FTAs

CHALLENGES

❖ **To face with the new disguised barriers**

- Known "aggressive" trade remedy cases in various markets
- TBT, SPS barriers

Thống kê các vụ kiện PVTM ở Hoa Kỳ đối với hàng hóa Việt Nam (2002-2013)

Thời gian khởi xướng	Sản phẩm	Loại PVTM	Hiện trạng
tháng 7/2013	Ống dẫn dầu	Chống bán phá giá	Đang điều tra
tháng 6/2013	Ống thép không gỉ	Chống bán phá giá	Đang điều tra
tháng 1/2013	Tôm nước ấm đông lạnh	Chống trợ cấp	Chấm dứt vụ việc
tháng 1/2012	Turbin điện gió	Chống bán phá giá	Thuế 51-58%
tháng 1/2012	Mắc áo thép	Chống bán phá giá Chống trợ cấp	Thuế CBPG 157-220% Thuế CTC 38-90%
tháng 11/2011	Ống thép carbon	Chống bán phá giá Chống trợ cấp	Chấm dứt vụ việc
tháng 10/2009	Túi nhựa PE	Chống bán phá giá Chống trợ cấp	Thuế CBPG 53-76% Thuế CTC 5-23%
tháng 4/2008	Lò xo không bọc	Chống bán phá giá	Thuế 116%
tháng 12/2003	Tôm nước ấm đông lạnh	Chống bán phá giá	Thuế ban đầu 4-25% POR7
Tháng 7/2002	Cá tra-basa	Chống bán phá giá	Thuế ban đầu 36-63% POR9

Nguồn: Hội đồng PVTM - Trung tâm WTO VCCI

Opportunities and challenges under the new FTAs

CHALLENGES

❖ **Too high standards beyond the bearing capacity of**

- Vulnerable groups (farmers, agro-farming businesses, SMEs)
- Sensitive groups (sick people, workers…)


FIRST
MAN
tex
tex
tex
RENAULT

Expectations of businesses

- **During the negotiation process**
  - To have access to the information about the negotiation developments
  - To be guided as how to determine and assess the business impact of the Agreement
  - To be consulted in a real and regular manner

- **After the signing of the FTA**
  - To have accurate, sufficient and understandable information about the FTA
  - To be guided as how to actually take advantage of the opportunities offered by the FTAs
  - To be advised on FTAs when needed

Expectations of businesses

- **Lessons are learned effectively,** with regard to
  - Protection of the vulnerable groups
  - Protection of a fairly competitive and stable market
  - Protection of legitimate interests of businesses overseas
  - Radical and drastic institutional reforms

- **From the aspect of overall strategy**
  - What is the interfering impact of FTAs?
  - Comprehensive solutions for the economy as a whole – sectors and businesses before integration?
  - Leverage for the development?

Thank you!

Tran Huu Huynh
Chairman of the Advisory Committee on International Trade Policies (INTAC VCCI)
Chairman of the Vietnam International Arbitration Center (VIAC)
Address: 9 Đào Duy Anh – Hà Nội
Tel.: 04-35771458; Fax: 04-35771459
Website: www.trungtamwto.vn