

**ASEAN FREE TRADE AGREEMENT –  
A KEY STEP TOWARD ECONOMIC INTEGRATION FOR VIETNAM FROM THE  
PERSPECTIVE OF COMPLEMENTARY TRADE**

**By**

**Nguyen Thi Mai Phuong**

**THESIS**

Submitted to  
KDI School of Public Policy and Management  
in partial fulfillment of the requirements  
for the degree of

**MASTER OF PUBLIC POLICY**

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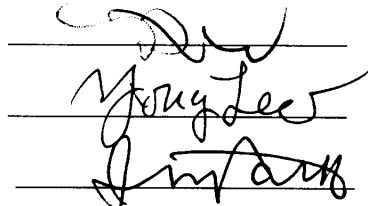
**MASTER OF PUBLIC POLICY**

Committee in charge:

Professor Lee, Sung-Joo, Supervisor

Professor Lee, Yong.S

Professor Park, Jin



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**Dedicated to Mom, Dad, You and Pucca**

## **ABSTRACT**

### **ASEAN FREE TRADE AGREEMENT – A KEY STEP TOWARD ECONOMIC INTEGRATION FOR VIETNAM FROM THE PERSPECTIVE OF COMPLEMENTARY TRADE**

**By**

**Nguyen Thi Mai Phuong**

The thesis focuses on the reasons and motivations to initiate ASEAN – Free Trade Area Agreements in the context of the global tendency of economic regionalization through examining Vietnam’s economy from its process of building and applying mutually-recognized agreements. The current issue is all ASEAN economies are negotiating bilateral economic agreements by their own, at the same time with taking ASEAN approach with other economic powers in the world. However, the realization of the ASEAN Free Trade Area has not lessened the importance of ASEAN’s economic partners. ASEAN’s countries have promoted economic linkages through ASEAN-plus FTA toward integrating the ASEAN region with global economy. In this thesis, I want to examine Vietnams’ earlier regional integration in AFTA by dividing into 2 parts. Firstly, the thesis presents an overview of ASEAN FTAs from Vietnam’s perspective. From that point of view, the aim of the thesis is to answer a big question on how important it is for Vietnam to accelerate the implementation of AFTA. Secondly, I want to review Vietnam’s efforts in

initiating ASEAN Free Trade Agreements by analyzing what we have done, what we have achieved in every stage both in economics and in politics.

The comprehensive cooperation of ASEAN plus shows that such progress has brought about positive trade effects between ASEAN and other partners, especially important, has motivated the economy of each member country in South East Asia. So as Vietnam in particular, has actively taken part in the economic integration in the world economy. It can be considered as a significant way of maintaining the momentum of regional economic integration which means sending a positive signal to the outside world that Vietnam is not slowing down on intra-regional liberalization commitments because of the economic crisis.

In conclusion, through those arguments, this thesis also shows that ASEAN – Free Trade Agreement is as a key step toward economic integration for Vietnam. In hence, the purpose of assessing the prospects of Vietnamese economic integration to ASEAN from 2001 to present is ambitiously completed.

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# Chapter 1

## Overview of ASEAN FTAs from Vietnam's perspective

### I. Moving forward on the Trade Liberalization Agenda in ASEAN countries

ASEAN's PTA<sup>1</sup>, concluded in 1977, provided for tariff rate reductions on a product-by-product basis according to members' priorities. Several follow-up protocols in the 1980s further reduced trade barriers. These early initiatives helped member countries to increase capacity and specialize in some products, but the accords were relatively loose and ad hoc in nature. There was little compulsion for participants to liberalize trade and implement the liberalization following the route.

Increased momentum came from the Framework Agreement on Enhancing ASEAN Economic Cooperation, adopted at the Fourth ASEAN Summit in Singapore in 1992. With a view to integrating the ASEAN economies into a single production base and creating a regional market of 500 million people, the unity launched the AFTA initiative by the strategic objective of making ASEAN a single production unit, increasing member countries' efficiency, productivity and competitiveness.

Initially, AFTA provides a phased elimination of tariff and nontariff barriers, then envisages standardization and harmonization of customs procedures, industrial cooperation schemes and

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<sup>1</sup> In order to promote intra-ASEAN trade, the *Agreement on ASEAN Preferential Trading Arrangements (PTA)* was signed in 1977, creating a framework for trade promotion between the ASEAN countries through preferential tariffs, export credit support using preferential interest rates, long term quantity contracts, etc.

liberalizing the trade in services. The ASEAN Framework Agreement on the Facilitation of Goods in Transit (1998) aims at facilitating the transport of goods in transit. In fact, a separate protocol was adopted in 1996 for solving disputes. An agreement on creating an investment area followed in 1998. It is called for the gradual opening of all sectors to direct investment by ASEAN investors and ultimately giving them national treatment. The range of agreements equips ASEAN for deeper economic integration as well as makes allowances for members' different levels of development.

By instead choosing unilateral trade liberalization, ASEAN is seeking to develop product-specific mutual recognition arrangements in conformity assessment so that product-related standards and regulations do not become technical barriers to trade. It is a conceptual group of regional economies that pursue a common policy or coordinated policy among them. Each ASEAN member may impose tariffs on goods entering from outside ASEAN based on its national schedules. However, for goods originating within ASEAN, ASEAN members are to apply a tariff rate of 0 to 5 percent (the more recent members of Cambodia, Laos, Myanmar and Vietnam, also known as CMLV countries, were given additional time to implement the reduced tariff rates). This is known as the Common Effective Preferential Tariff (CEPT)<sup>2</sup> scheme.

Under the CEPT, ASEAN members have the option of excluding products as following:

- (1). Temporary exclusions;
- (2). Sensitive agricultural products;
- (3). General exceptions.

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<sup>2</sup> Agreement On The Common Effective Preferential Tariff (CEPT) Scheme For The ASEAN Free Trade Area Singapore, 28 January 1992

Accordingly, by the beginning of 2002, only 3.8 percent of products in the CEPT Inclusion List of the first six signatories, equivalent to 1,683 items out of 44,060, had tariffs above five percent. The current average tariff on goods traded under the AFTA scheme is about 3.8 percent. In the light of their later accession to the CEPT Agreement, Vietnam was expected to realize AFTA in 2006, Laos and Myanmar in 2008, and Cambodia in 2010. Indeed, Vietnam since 2006 has applied a maximum 5 percent customs tariffs on most products origination from other ASEAN members. The first signatories to the CEPT scheme are Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand, the so-called ASEAN-6, applied 0 percent customs duties for all products originating from other ASEAN members since January, 2010. Due to each agreement has its own specific features and deadlines for liberalization, the ASEAN leaders have agreed to completely eliminate all import duties by 2018 for trade among all the ASEAN members.

## **II. The Political Economy of an ASEAN Free Trade Area – Vietnam perspective**

AFTA, along with the Framework Agreement on Economic Cooperation, draws the road map for economic integration in South-East Asia. As we have seen, the elimination of tariffs and non-tariff barriers among the ASEAN members has served as a catalyst for greater efficiency in production and long-term competitiveness. Moreover, the reduction of barriers to intraregional trade gives ASEAN consumers a wider choice of better quality consumer products. Meanwhile, advanced countries in the subregion are positioned to take the lead towards integration while the weaker countries are allowed more time to implement agreements. More importantly, the view advanced here is that the ASEAN economies' preference is not to make progress for further trade liberalization in traditional areas but also in new issues such as environment, labor, investment,

competition policy and corruption. On the other hand, the ASEAN economies have proved to be good followers in trade liberalization and will be persuaded to participate actively in further trade liberalization to access international market.

ASEAN has devoted attention to trade facilitation in the area of customs. Through the elimination of technical barriers to trade, it lowers the cost of doing business in the region. Accordingly, ASEAN's efforts have been directed at the simplification and harmonization of customs procedures.

The existence of ASEAN and its FTAs provide a forum for multilateral consultation and cooperation. Vietnam joined ASEAN in 1995, after the AFTA came into force on 1 January 1993. As part of the AFTA, Vietnam's import duties on unprocessed agricultural products will be reduced to 0-5% by 2013 and import duties on all products eliminated by 2018. Besides that, Vietnam has responsibility to promote greater awareness of ASEAN, and greater interaction among the people of ASEAN, as well as their wider participation in ASEAN activities through human resources development. The country also contributes to the evolution of a development cooperation strategy that promotes mutual assistance, equitable economic development and the alleviation of poverty.

As a result of the successful implementation of the CEPT scheme, trade among ASEAN countries has grown from US \$ 44.2 billion in 1993 to US \$ 95.2 billion in 2000, representing an average annual increase of 11.6 percent. As of the year 2000, intra-regional exports made up about 23.3 percent of total ASEAN exports<sup>3</sup>. Before the financial and economic crisis struck in mid-1997, intra-ASEAN exports had been increasing by 29.6 percent. This is significantly higher

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<sup>3</sup> Southeast Asia: A Free Trade Area. 2002, ASEAN Secretariat

than the rate of increase of total ASEAN exports, which grew at 18.8 percent during the same period.

**Table 1: Intra- and extra-ASEAN trade, 2009**

(as of 17 July, 2010)

value in US million, share in percent

Country	Intra-ASEAN trade		Extra-ASEAN trade		Total trade
	Value	Share to total trade	Value	Share to total trade	
Brunei Darussalam	2.472,1	25,8	7.096,1	74,2	9.568,2
Cambodia	2.097,9	23,6	6.788,8	76,4	8.886,7
Indonesia	52.366,3	24,5	160.972,9	75,5	213.339,2
Lao PDR	2.478,2	83,7	484,0	16,3	2.962,2
Malaysia	72.065,3	25,7	208.156,0	74,3	280.221,3
Myanmar	5.262,4	51,6	4.928,9	48,4	10.191,3
The Philippines	17.399,5	20,7	66.469,1	79,3	83.868,6
Singapore	140.694,1	27,3	374.923,1	72,7	515.617,2
Thailand	59.250,1	20,7	227.016,7	79,3	286.266,8
Viet Nam	22.121,5	17,6	103.800,4	82,4	125.921,9
<b>ASEAN</b>	<b>376.207,4</b>	<b>24,5</b>	<b>1.160.636,0</b>	<b>75,5</b>	<b>1.536.843,4</b>

Source: - ASEAN Merchandise Trade Statistics Database (compiled/computed from data submission, publications and/or websites of ASEAN Member States'

- ASEAN Free Trade Area (AFTA) units, national statistics offices, customs departments/agencies, or central banks)

From the table above, in 2009, Singapore was ranked at the first level in intra- and extra-ASEAN trade with the total trade of 515617,2 million USD. Vietnam was in the top five nations processing the highest value of total trade. However, it is shown that Vietnam was the nation which had the highest value of extra-ASEAN trade share to total trade, more than 80 percent.

Mostly, as seen in the table, the values of extra-ASEAN trade were higher than the value of intra-ASEAN trade, and respectively.

**Table 2: ASEAN trade, 2008-2009**

(as of 17 July, 2010)

value in US million

Country	2008			2009		
	Exports	Imports	Total trade	Exports	Imports	Total trade
Brunei Darussalam	10.268,0	2.506,7	12.774,7	7.168,6	2.399,6	9.568,2
Cambodia	4.358,5	4.417,0	8.775,6	4.985,8	3.900,9	8.886,7
Indonesia	137.020,4	129.197,3	266.217,7	116.510,0	96.829,2	213.339,2
Lao PDR	827,7	1.803,2	2.630,9	1.237,2	1.725,0	2.962,1
Malaysia	194.495,9	144.298,8	338.794,7	156.890,9	123.330,5	280.221,4
Myanmar	6.620,6	3.794,9	10.415,4	6.341,5	3.849,9	10.191,3
The Philippines	49.025,4	56.645,6	105.671,0	38.334,7	45.533,9	83.868,6
Singapore	338.175,9	319.780,3	657.956,2	269.832,5	245.784,7	515.617,1
Thailand	174.966,7	177.567,5	352.534,2	152.497,2	133.769,6	286.266,8
Viet Nam	61.777,8	79.579,2	141.357,0	56.691,0	69.230,9	125.921,9
<b>ASEAN</b>	<b>977.536,9</b>	<b>919.590,5</b>	<b>1.897.127,5</b>	<b>810.489,2</b>	<b>726.354,1</b>	<b>1.536.843,3</b>

Source: - ASEAN Merchandise Trade Statistics Database (compiled/computed from data submission, publications and/or websites of ASEAN Member States'

- ASEAN Free Trade Area (AFTA) units, national statistics offices, customs departments/agencies, or central banks)

The second table has shown a picture of ASEAN trade in two years 2008 and 2009. Again, Singapore was the country which had the highest values in both import and export in the last two years. Despite the Vietnamese government places its focus on export-oriented, it can be observed

that the total value of import was higher than export. Due to the global crisis, the ASEAN total trade in 2009 had significant reduced than that of 2008, and respectively.

In this period of increasing regionalization and globalization, Vietnam's Membership in ASEAN helps its economy and hastens its integration into the world economy. The accession to the CEPT Agreement and Vietnam's participation in many other areas of ASEAN economic cooperation such as intellectual property, services, industrial cooperation and investment also sends a strong signal to foreign investors of the direction of its economic policies. As we have seen, Vietnam has strengthened the perception that it is firmly committed to the continuing liberalization of trade and investment regime.

Obviously, Vietnam's participation in AFTA is also leading to an early adoption of practices which is governing the conduct of international trade. This is especially important given Vietnam's application for accession to the World Trade Organization (WTO) which the other ASEAN countries have strongly supported.

ASEAN, according to the Vietnam Customs, is a potential market for made-in-Vietnam goods. Hence commercial experts recommended Vietnam raise competitiveness of its commodities and make use of close geographic distance, similarities, high growth rate, and low-cost advertisements to boost export.



## Chapter 2

### Vietnam's efforts to initiate ASEAN FTAs

#### I. Responsibility

The analysis of the ASEAN FTAs committed by Vietnam within the ASEAN (AFTA) or committed by ASEAN itself with the outside region countries (ASEAN plus, ASEAN+1, and ASEAN+3, etc...) has interesting implications. Therefore, in this paper we take into consideration these two aspects deemed to be particularly strategic and diverse for Vietnam to strengthen its economic integration.

*a)* Regarding to AFTA, it should be pointed out that over the last few years, Vietnam has undergone a massive period of economic reform that led to a deeper participation in the global economic system. It can be said that its AFTA accession plays as the stepping-stone leading to the success of World Trade Organization (WTO) accession four years ago which represents the pinnacle of its journey towards complete integration into the world economy. With this regard, Vietnam believes that initiating AFTA is as its responsibility to contribute to build up a strong ASEAN relationship which is a force for stability and development in the Southeast Asian region. The AFTA will enhance already close members' ties with each other through bilateral FTAs inside ASEAN. Indeed, it is recognized that initiating FTAs plays as a big role in helping Vietnam meet criteria relating to the market economy status. Besides Vietnam is a major exporter in the region market; the FTAs would help scale up Vietnam's exports to the market with more added values.

ASEAN Free Trade Agreement allows Vietnamese buyers and importers to enjoy savings when importing from ASEAN partners. They also open up market access for direct foreign investment and businesses in Vietnam. However, Vietnam is still a small and poor nation since it is struggling to enter the competition for investments and technology that will enable it to participate in the Asian production networks. An important part of industrial competitiveness in today's world is an efficient supply chain. For small nation, especially small developing country, this means importing many of the parts and components used in their manufactured exports. From this perspective, what is valid for ASEAN producers in terms of increased business opportunities is also valid for other Vietnamese producers that would similarly benefit from the reduction in tariffs from the AFTA. In this respect, Vietnam is expected to eliminate tariffs, contribute to building initiative to make ASEAN a single market and production base by 2018. In the Vietnamese trade scenario, FTAs are a relatively recent phenomenon that in most cases has yet to produce any consistent impacts on the economy. The reduction in trade tariffs between FTA members has the first effect of increasing the size of the market from the territory of Vietnam to the rest of ASEAN countries. The market expansion can broaden economy of scales at the industrial level, in which allows Vietnamese exporters to extend their consumers base to a total of roughly 600 million people. In moving in this direction, Vietnam adopted the "ASEAN Charter" to establish the group as a rules-based legal personality, improve the decision-making process, and accelerate economic integration.

**b)** Another important feature of ASEAN FTAs is ASEAN plus or FTAs plus. Firstly, if we look at its "three pillars of security, socio-cultural and economic integration", it is sure enough to conclude that the regional grouping has made the most progress in economic integration, aiming

to create an ASEAN Economic Community (AEC) by 2015. The AEC is designed as a representative for the region to fulfill its economic integration process.

The most relevant assessment, taking into consideration the relation between AEC and Vietnam's responsibility to initiate AFTA+ analyzed, are the liberalization committed by ASEAN in the framework of AFTA+ is diversified for each member of the region. From a business perspective, the reduction in tariffs would provide incentives to the export activities of those ASEAN countries and Vietnam particularly wish to enlarge their production to reach a wider consumer base. The economic theory has clearly demonstrated that in some cases FTAs can attract more foreign direct investments from third parties investors. In ASEAN FTA agreements, as like other members, Vietnam has its own program of liberalization which is designed to conform to the general framework of the agreements. In this respect, Vietnam groups products which are considered as sensitive and strategic into different deadlines of liberalization. The combination of high tariffs for third party-produced goods and the market expansion due to the FTAs would induce foreign investors to relocate the production in Vietnam. There are advantages for those investors in order to benefit from sectors that are more likely to rely on tariff policies such as textiles, automobiles and general manufacturing. Because of this reason, as a part of ASEAN Economic Community (AEC), Vietnam has taken part in approving many important documents, including a master plan on ASEAN connectivity and its development for economic recovery and sustainable growth; and accelerating ASEAN's linkages and centrality, partly by strengthening ASEAN plus. Vietnam has actively joined in efforts to build the AEC and becomes one of the four ASEAN members which have implemented the AEC commitments most successfully.

Notably, in 2010, Vietnam played well its role as the Chair of ASEAN. It participates in establishing the AEC not only as a member nation but also plays a leading role in ASEAN's cooperation process. Implementing the AEC was one of the most important contents on the ASEAN agenda in 2010. Vietnam has joined other ASEAN members in efforts to accelerate the delayed implementation of many important agreements relating to the AEC. As a whole, Vietnam becomes a more integrated, coherent and can more easily work with global players for deeper global links.

Clearly, participating in ASEAN FTAs will increase the market size. Reducing tariffs is one of the policy tools to push foreign investors to relocate the production in Vietnam. Besides, other economic variables such as technology, overall good productive efficiency together with a friendly investment climate would play a decisive role in this regard. Nonetheless, being well-prepared from the awareness of the importance of the liberalization process from ASEAN agreements, Vietnam could definitely become an important investment cluster for quality manufacturing products to be exported in the region.

## **II. Political Aspects**

The Government of Vietnam has done a remarkable job in achieving a high level of economic integration over an extended period of time. As Vietnam committed to open its market through WTO membership and other bilateral and regional trading agreements, there have been base-broadening policies by the government which vary quite significantly across industries and its trading issues to remain competitive and maintain sustainable economic growth over the long-term such as maximizing capital outlays, accelerating meaningful economic and regulatory

reforms, and demonstrating a clear vision for the future. To leading success on these fronts, Vietnamese government requires significant structural change through the new five-year political cycle which is designed to formulate a practical strategy for Vietnam to achieve its ambition of becoming a leading Asian economy.

For the years ahead, ASEAN will continue to speed up regional connectivity and building a community with a more important role in the region. Aware of the great responsibility in the new stage with both big opportunities and severe challenges, as a developing nation in the region, Vietnam need to maintain strong macroeconomic fundamentals to foster productive investments for strong and sustained economic growth leading to expanding its integration not only inside but also outside ASEAN. The government will implement more bilateral and multilateral free trade agreements, benefiting from trade liberalisation and strengthening Vietnamese economy through ASEAN FTAs which is as its wish to fulfill the global integration process.

### **III. Economic Aspects**

Vietnam has moved towards a more open trading system since it introduced market-oriented reforms. Certainly, imports and exports have expanded rapidly. Currently, Vietnamese government is eliminating some non-tariff barriers and is reducing tariffs in preparation for meeting its goals under ASEAN FTAs, included AFTA and ASEAN+. To fulfill this goal, export-oriented industries are becoming a higher priority in the government's economic development plans. As a result, Vietnam has become a more competitive market, one driven significantly by exportation. Besides, further removal of tariff and nontariff trade barriers and barriers to FDI will facilitate the introduction of new technology, increased productivity, and the development of a more competitive economy. It can be sure that ASEAN FTAs commitments

are likely to preserve the momentum toward domestic reforms. Moreover, Vietnam's commitments to reducing or eliminating tariffs and other trade restriction could be seen as its assessment of membership into the WTO in 2007. With this, Vietnam is now seen as a viable country for international trade and foreign investment.

Another feature of Vietnamese trade perspective, the bilateral trade agreement addresses various market access considerations, including both tariff and non-tariff barriers. For example, Vietnam has put into its consideration of developing favorable policies which are covered both business environment issues and domestic environment transparency such as corruption; labor market flexibility; corporate tax burden; interest rate levels; access of private sector to lines of credit; sophistication of banking sector and stock market; levels of business confidence; infrastructure, foreign investment regime, foreign ownership laws. By doing this, Vietnam now is enhancing its attractiveness of business environment to foreign investors and building up system of regulations for strategic sectors which is attracting most interest from foreign investment.

Theoretically, streamlining the tariff structure is one remaining key trade liberalization issue. Nonetheless, Vietnamese government is facing some major obstacles stem from pressures to protect domestic industries and the potential loss of significant tax revenues. But most important, inflation has been relatively high in recent years (2004: 9.5%, 2005: 8.4%, and 2007:12.6%). Inflation rates have reached a frightening level in Vietnam after extra currency flooded the market causing the domestic demand to shoot up. The current inflation rate in Vietnam is the highest in the last 22 months. The Vietnam General Statistics Office informs that the inflation in December 2010 is the highest since Feb 2009. The increase in prices has been 11.75% compared

to Dec 2009. Cost of things has increased compared to even last month. According to International Monetary Fund (IMF), Vietnam should aim for an inflation rate of 3%-4%. In 2011, inflation in the first quarter was 2 percent higher than in the same period of 2010, reaching 6.12 percent. Meanwhile, the General Statistics Office has announced GDP in the first quarter of 2011 of 5.43 percent against the same period of 2010- the lowest figure in seven quarters and 0.4 percent lower than the first quarter of 2010. The result reflects the narrowing down of production by business in the face of macro-economic volatilities since last year due to the global crisis in 2008. From a theoretical perspective the inflation certainly brings direct impacts in Vietnam's economy. Investment flow would be likely changed into other countries which has a stable inflation rate. At the same time, the reduction on tariff barriers under the ASEAN agreements to foreign produced goods in competition with similar Vietnamese products would raise a threat to inefficient Vietnamese producers. It is likely that those producers would be able to be expelled from the market, substituted by cheaper and sometimes better foreign products. This possibility, which is at the core of the concept free trade, can nevertheless be considered an opportunity.

Indeed, that emerging markets growth expectation is tempered by limited access to capital and a lack of highly-skilled workers. For this reason, financial constraints bring about the greatest concern to Vietnamese businesses in terms of their ability to fuel growth and expand operations. To stable the economy and bring it out of crisis, one of the government's recent efforts in stabilizing the macro economy is to stress the need to look beyond short-term solutions to shift policies from administrative measures to market driven that promote market efficiency. The government should use the current economic situation as a stimulus for tough structural reform that will make the economy more competitive, market-oriented and efficient. At the same time,

it is necessary for Vietnam to strongly commit to broad down or eliminate tariff and non-tariff barriers on trade following ASEAN FTAs commitments. Import duties have been substantially reduced. The number of products subject to export or import prohibition or restriction has been reduced. Prices and domestic trade have been liberalized and most subsidies have been removed. It could be said that, adopting a tight monetary policy has been helpful for Vietnam to check and control inflation. Mean while, the government determines to reform state-owned enterprises which will help restore investors and business confidence and continue the necessary flow of foreign investment.



## Chapter 3

### Special treaties for Vietnam in ASEAN FTAs Road Map

#### I. Special treaties and technical barriers

AFTA is a part of the larger ASEAN trade agreement, and works to lower tariff barriers between member countries. The ASEAN free trade area was phased in over the next 15 years, and aimed to increase trade among ASEAN members; it also led to free trade arrangements with other countries. Common Effective Preferential Tariff (CEPT) is designed to preferential to ASEAN, is an agreed effective tariff, to be applied to goods originating from ASEAN Member States. Using CEPT, this region determined to further cooperate in the economic growth of the region by accelerating the liberalization of intra-ASEAN trade and investment with the objective of creating the ASEAN Free Trade Area.

In order to protect national security, social morality, community health and values of culture, history, archeology, ASEAN allows member countries not to implement trade liberalization (cut down tariff and remove non-tariff measures) toward several goods. According to common practice, ASEAN nations identify the list of several goods threaten to the said domains and make it the own country's General Exclusive List (GE), meaning complete exclusion from trade liberalization. To Vietnam, according to classification of current tariff, the GE of Vietnam include 424 products. Even if the model of liberalisation provided by each agreement is different, some features are in common. With regarding to this reason, each FTA allows member states to group the products into different categories with different deadline of liberalisation, depending on the grade of sensitivity of the goods. Indeed, Vietnam reduced import tariffs for most of the tariffs

down to 0-5% in 2006, then will down to 0% in 2018. In the coming time, Vietnam will put in the AFTA tariff reduction for some important commodities, including automobiles, motorcycles and gasoline. For example, in all the commitments Vietnam included cars into the most sensitive group of products. For this reason the import of cars in Vietnam will only be completely liberalised towards other ASEAN members in 2018. They include petroleum products of all kinds.

In addition to its CEPT implementation, 97% of items had 0-5% tariff rate, which over 50% of the items have 0% tariff rate. Up to 2010, Vietnam has reduced the import tariff rates applied to 10,054 tariff lines to 0-5 percent in accordance with CEPT/AFTA. Those account for 97.8 percent of all tariff lines in the import tariff, of which the tariff rates applied to 5,488 tax lines have been reduced to zero percent. Vietnam has promoted cooperation with other ASEAN countries in a wide range of fields such as goods trading, services, investment, agriculture, transport, telecommunications, intellectual property protection, competition policies, and consumer protection. For some products of agriculture, aquaculture, automotive, information technology, electronics, healthcare, rubber products, textiles and wood products will eliminate tariffs in 2012. But as Vietnam is one of the newer ASEAN member countries should be flexible elimination of some items, group items to 2018, instead of 2015.

As a member of ASEAN, Vietnam also participates in a number of free trade agreements (FTAs) with third countries. Besides the ASEAN Free Trade Area among the 10 ASEAN countries since 1993, in which Vietnam joined in 1995, ASEAN concluded FTAs with China (2004), Korea (2005), Japan (2008), India (2009) and Australia and New Zealand (2009). With some of the above agreements (ASEAN-India, Japan and Australia New Zealand), Vietnam has enjoyed

special treaties in terms of tariff reduction. According to AFTA agreements with China, India, Republic of Korea, Japan, Australia and New Zealand, from 2011, tariff reduction will be imposed on more types of products with the level of reduction to be increased.

Particularly, Free Trade Area ASEAN-China has started implementation from 1-7-2005 until 2015 to reach cut to 0%. However, different from the AFTA, the scope to cut import tariffs to 0% (until 2015) only 90% of total tariff lines of import tariffs. The remaining number of tariff lines (10% tariff), including items sensitive to the domestic economy will be allowed to protect with a higher level and in the longer term. Moreover, all the agreements provide shorter deadlines for ASEAN-6 and counterparts such as China, Korea, India, Japan, Australia and New Zealand compared to the deadlines applicable to Cambodia, Myanmar, Laos and Vietnam (CMLV countries).

### **Harnessing the true power of ASEAN FTAs 16:46' 06/03/2010 (GMT+7)**

*MUTRAP III Team leader and professor at Italy's Bocconi University Claudio Dordi and Federico Lupo Pasini, from MUTRAP and Berne's World Trade Institute look at how Vietnam will be impacted on by ASEAN FTA deals.*

#### **Tariff reductions in Vietnam**

The analysis of the tariff reductions committed by Vietnam within the ASEAN FTAs has interesting implications. In this paper we take into consideration six sectors deemed to be particularly strategic for Vietnam pharmaceuticals, garment, footwear, electronics, mechanical and automotive.

With regard to pharmaceuticals it should be pointed out that Vietnam already applies relatively low customs duties. Indeed, the pick tariff is 10 per cent - tariffs for pharmaceuticals applied to other WTO members vary from 0 to 10 per cent. While Vietnam has already almost completely eliminated the

customs duties applied towards other ASEAN members, 5 per cent is the maximum tariff applied at present, concrete liberalisation towards Chinese and Korean products will take place in 2011, the reduction of tariffs to 5 per cent.

The liberalisation with India will be delayed until 2019 and for some products to 2025 while with Australia and New Zealand all pharmaceuticals will be free of duties from 2015.

With the exception of the AFTA agreement, tariff liberalisation committed by Vietnam for garment products is limited. As the maximum tariff applied to the products originating from other WTO members is 20 per cent, Vietnam committed to maintain these tariffs towards China and Korea until 2015 - even if with China, since 2011, it is planned a reduction of 5 per cent for some specific products. Full liberalisation is quite far away, 2018 with Australia and New Zealand, 2020 with Japan, Korea and China and 2021 with India.

Vietnam committed to liberalise the footwear sector before 2015 with China and Korea, while the deadlines with India, Japan and Australia and New Zealand are, respectively, 2019, 2025 and 2018. In five years customs duties applied to imports of Chinese and Korean footwear will decrease, in some cases, from 25 to 0 per cent.

With regard to electronics and mechanical equipment, an assessment of the liberalisation should be conducted on a product-by-product basis, with the exception of imports from other ASEAN countries, completely liberalised since 2009. The situation is different for the automotive sector where, as already specified, Vietnam maintained the right to apply high tariff duties towards all countries even after 2018, with the exception of ASEAN states.

*VietNamNet/VIR*

Vietnam has built up a reasonable regulatory and tariff reduction timeframe, therefore market price has no big changes due to implementing CEPT. In fact, the successful implementation of the roadmap CEPT / AFTA is not just the numbers of export turnover which Vietnam has achieved so far, those are experiences drawn for Vietnam to prepare for other FTAs with third countries to join the commercial financial institutions and international economic organizations.

## **II. Motivation for AFTA plus approach for Vietnamese economy**

ASEAN is one of the most important trading partners of Vietnam and one of the major driving forces helping the Vietnamese economy maintain its growth and exports in past years. AFTA plus approach (AFTA+) means that ASEAN concluded FTAs with the third nations which are non ASEAN-countries. So far, ASEAN has moved ahead of the EU, Japan, Korea, China, India, Australia and New Zealand.

The main objective of each FTA is to promote the elimination of customs tariffs. Indeed, compared to those applied towards all other WTO members, the reduction of customs tariffs among members within a certain period of time is at a deeper level. Besides the reduction in tariffs, these agreements provide for a progressive liberalization of trade and services, promote investment and lay down the basis for further negotiations to facilitate trade amongst members. For example, within ASEAN there are negotiations regarding the improvement of customs cooperation, the creation of the “single window” for customs purposes. With this regard, the business environment in those economic partners and particular in Vietnam will be more transparent and opened.

As mentioned in Chapter 2, ASEAN has emphasized regional cooperation in the “three pillars” of security, socio-cultural and economic integration. The rise of emerging economies, particularly China and India, has reinforced ASEAN members’ determination to create a stronger, more united and cohesive ASEAN for sustainable growth. Thus, more clearly for Chapter 2, the regional organization has made the most progress in economic integration by creating an ASEAN Economic Community (AEC) by 2015 with four main objectives:

- single market and production base
- highly competitive economic region
- region of equitable economic development
- region fully integrated into the global economy

With those objectives, ASEAN pays attention to boost both intraregional links and the bloc's integration into the global economy. The AEC will not only play as a motivation but also a framework for ASEAN community to integrate into the world economy. Besides, it currently involves many bilateral and multilateral trade agreements which ASEAN is implementing or negotiating, for example, the agreements with China, Japan, the Republic of Korea, Australia, New Zealand, India, the EU and even countries which are member of the Southern Common Market. The AEC's prosperity will be sustainable only when intraregional cooperation is harmoniously combined with cooperation between ASEAN and external partners.

Indeed, AEC will convert ASEAN into a common market and a uniform production space. Therefore, it would bring consensus politics for this region to integrate the global economy. Participating in this Community, Vietnam will benefit from the common advantages of the bloc's integration through ASEAN plus. With the assessment of taking advantage from the

Community's integration, Vietnam would gradually build a dynamic, competitive market. Goods, services, capital, technology and skilled workers will be circulated free between Vietnam and another ASEAN member countries and non-ASEAN economic partners. Indeed, the economic integration goals includes, among the others, the elimination of tariffs, free movement of professionals, freer movement of capital, and a streamlined customs clearance procedure . As a result, there will no longer be any barriers or discrimination. One of the comparative advantages is that Vietnamese businesses will be able to increase productivity and reduce production costs, which will lead to more competitive prices. The industrial sectors in the ASEAN countries will be affected differently. It appears that among the ASEAN countries a number of industrial shifts are expected which are due to the implementation of the AFTA agreement. These expected shifts are corroborated by the few existing econometric estimates of the impact of AFTA. The impact of this industrial restructuring will, however, be eased by the higher economic growth, going together with the expected expansion of intra-ASEAN trade and investment<sup>4</sup>. Intraregional trade and investment will be facilitated in order to improve creativity and liberate the productive and business potential of companies, thus creating more diverse and higher quality products to benefit consumers. What is expected most is that the ASEAN plus can create chained links between Vietnam and ASEAN businesses and non-ASEAN nations in order to contribute to the common growth and prosperity of the whole region.

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<sup>4</sup> Ludo Cuyvers and Wisarn Pupphavesa, 1996, *From ASEAN to AFTACAS*. Discussion paper No 6, September. Centre for ASEAN Studies.

## Chapter 4

### Achievements of Vietnam's economy from ASEAN FTAs integration

#### I. Expansion in Economic Exchange

##### 1. Increase in Trade Volume

In 2010, the trade deficit was estimated at \$12 billion, down \$1 billion from 2009 and the lowest in the last four years. Imports in the first 11 months were cost over \$75.5 billion, 20.7 percent up year on year. In 2011, Vietnam's key export items saw impressive growth compared to the corresponding period in 2010. Export value in Q1 stood at US\$19.25 billion, up 33.7 percent over the same period last year, with many items growing in both volume and value. Export items seeing growth of more than 20 percent in Q1 were chemicals, machinery-equipment and spare parts, electrical wiring and cables, and cashew nuts. Agricultural products saw the highest growth, rising 53 percent over the same period last year, to US\$4.68 billion. However, the sharp rise in the export value of most items mainly came from higher world market export prices, except for coffee, which saw a 46.4 percent hike in export volumes, followed by rubber with 37.9 percent and rice 17 percent.

According to the Ministry of Planning and Investment, the socio-economic situation in July of 2011 and the past seven months has remained stable. Some industries have achieved positive results; exports reached more than US\$51 billion in 7 months, triple the set target, and the industrial production index in July was up by 9.6 percent. Total retail sales and services rose sharply compared to the same period last year. The CPI in July rose 1.17 percent, much lower than previous months. As a result, the socio-economic situation in July showed significant progress, especially with industrial production up 9.6 percent compared to the same period last



year and a trade deficit of around US\$200 million, about 2.4 percent of the export value and the lowest figure so far this year.

Statistically, if we look at the table of export value divided in economic sectors and categories below, export in 2008 was four fold that of 2001. Due to the world's economic crisis in 2008, a total of 57096.3 million USD in export value was slightly smaller than that of 2008, with approximately 5000 million of difference. Even Vietnam had the increasing trend of export, but the value from foreign investment sector was higher than from domestic sector. In the second part of the table, it was shown that light industries and handicraft was main exported products of Vietnam while agriculture and fishery had slight number of export value.

**Table 3: Export value by economic sectors and by categories (million USD)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Total</b>	<b>15029.2</b>	<b>16706.1</b>	<b>20149.3</b>	<b>26485.0</b>	<b>32447.1</b>	<b>39826.2</b>	<b>48561.4</b>	<b>62685.1</b>	<b>57096.3</b>
<b>Economic sector</b>									
Domestic sector	8230.9	8834.3	9988.1	11997.3	13893.4	16764.9	20786.8	28162.3	26724.0
Foreign investment sector	6798.3	7871.8	10161.2	14487.7	18553.7	23061.3	27774.6	34522.8	30372.3
<b>Categories</b>									
Heavy industries and mineral	5247.3	5304.3	6485.1	9641.9	11701.4	14428.6	16646.7	23209.4	16800.0
Light industries and handicraft	5368.3	6785.7	8597.3	10870.8	13288.0	16382.4	20693.6	24896.4	24445.0
Agriculture	2421.3	2396.6	2672.0	3383.6	4467.4	5352.4	7032.8	9239.6	9000.0
Forestry	176.0	197.8	195.3	180.6	252.5	297.6	408.4	468.7	
Fishery	1816.4	2021.7	2199.6	2408.1	2732.5	3358.0	3763.4	4510.1	4251.3
None monetary gold					5.3	7.2	16.5	360.9	2600.0

*Source: General Statistic Office, Statistic Book 2010*

According to the Vietnam Customs, in the first two quarters of 2010, the trade volume between Vietnam and other ASEAN members grew by 23.9% against the same period last year and accounted for 18% of the national total trade turnover. Indeed, ASEAN is among four Vietnam's biggest trading partners. Vietnam shipped goods worth 8.9 billion USD or 15 percent of the country's exports, to ASEAN in 2009. It imported commodities worth 14 billion or 20 percent the country's imports from the group.

In the first half of 2010, Vietnam exported US \$5.24 billion of goods to other ASEAN countries, up 18% against the same period in 2009 and making of 16.1% of the total trade volume. Also, in the reviewed period, Vietnamese enterprises imported over US \$7.58 billion of goods from other ASEAN countries, making up 19.6% of the national import turnover. In the first six months of 2010, Vietnam suffered a trade gap of US \$2.34 billion with ASEAN, which accounts for around 45% of the national export turnover to this market and 37% of the total trade deficit of the country.

Among the ASEAN member states, Singapore is the biggest trade partner of Vietnam, boasting for a two-way trade volume of US \$3.25 billion, followed by Thailand US \$3.12 billion and Malaysia US \$2.43 billion.

## **2. Increase in Investment Volume**

Accumulation-consumption balance has been improved in the orientation of increasing the accumulation ratio for development investment with the average increase rate of the total accumulation fund of 9.5% in the 1996-2000 period and 11.2% in the 2000-2005 period. The national finance has been improved. The ratio of development investment in GDP increased

rapidly from 38.9% in 2005 to 41% in 2007, in which the highest growth rate was in the private sector. This shows the internal potential and the improvement of the business environment.

As can be seen in the table 4, the total of investment in 2000 was doubled that of in 1995. With 343135 billion VND of investment in 2005, this figure was again doubled that of in 2000. The trend was almost similar as the total in 2009 was 708826 billion VND, two fold double that of 2005. When dividing investment by economic sectors, state sector was mostly dominating the flow of investment to the country. However, the increasing trend was maintained from year to year, respectively. To sum up, joining in ASEAN agreements is one of the features to increase the flow of investment into Vietnam.

**Table 4: Investment by economic sectors**

Year	Total	Divide		
		State investment	Private investment	Foreign investment
<b>Billion VND</b>				
1995	72447	30447	20000	22000
1996	87394	42894	21800	22700
1997	108370	53570	24500	30300
1998	117134	65034	27800	24300
1999	131171	76958	31542	22671
2000	151183	89417	34594	27172
2001	170496	101973	38512	30011
2002	200145	114738	50612	34795
2003	239246	126558	74388	38300
2004	290927	139831	109754	41342
2005	343135	161635	130398	51102
2006	404712	185102	154006	65604
2007	532093	197989	204705	129399
2008	616735	209031	217034	190670
2009	708826	287534	240109	181183

*Source: General Statistic Office, Statistic Book 2010*

Currently, most ASEAN members have invested in Vietnam (except Myanmar). According to statistics of the Ministry of Planning and Investment in the ASEAN countries, Singapore ranked first in foreign direct investment into Vietnam with 474 projects and invested 9.07 billion USD, ranking second in total 78 countries and territories investing in Vietnam. This is followed by Malaysia with 219 projects and \$ 1.7 billion total investment, ranking 10th in 78 countries and territories investing in Vietnam, the Philippines, with 30 investment projects with total capital of USD 247 million investment, Indonesia has 14 projects with 137 million total investment; Brunei with 37 projects and 125 million total investment.

According to the Ministry of Planning - Investment, most of these projects are effective, both lucrative for foreign investors, has contributed positively to economic development in Vietnam. ASEAN investors mostly focus on industrial capital, construction and services. Some investors are also more interested in the field of agriculture and husbandry. In the future, investment from ASEAN countries will continue to increase as the agreement on trade and investment in the region in force, policies to attract investment in Vietnam's increasingly open.

In 2010, Vietnam attracted total US \$18.6 billion of foreign direct investment (FDI), according to the Foreign Investment Agency under the Ministry of Planning and Investment. The money flew in 1,238 FDI projects for the whole year, and that accounts for 82.2% of the 2009 figure and lower than the yearly target of attracting US \$22-25 billion. In sum, US \$17.23 billion were poured into newly licensed projects and almost US \$1.4 billion was added to existing projects, reported the agency. However, US \$11 billion of FDI were disbursed in this year, a year-on-year rise of 10%, according to the agency. It is noteworthy that FDI businesses attained an export

turnover of almost US \$38.83 billion, a yearly increase of 27.8%. In seven months in 2011, estimated FDI has made 6.3 billion dollars, by 98% over the same period in 2010.

### **3. Increase in Technology Transfer**

It is found that international trade, particularly imports of capital goods, plays an important role in the transfer of technology to Vietnam. FDI as a channel for technology transfer is not only limited in only ASEAN states but also FDI from AFTA+ countries such as a source of technology transfer. It is also said that the skill of the labor force is an important determinant of technology adoption at the national level.

Through bilateral exchanges under FTAs, businesses from economic partners would have opportunities to cooperate closely in the fields of clean technology transfer, human resource development and financial investment. Vietnamese government attaches great importance to boosting the application of scientific and technological advances to production and business, as well as to receiving latest technologies from other countries. In recent years, Vietnam has signed many cooperative agreements in technology transfer with ASEAN states and economic partners in ASEAN.

As can be seen, Vietnam can provide cheap labor forces, but firms in Vietnam do not have sufficient technological and managerial capabilities to participate in international production networks. So there is a need for Vietnam to attract international technology transfer to achieve international business standards. Paying more attention to technology transfer since new technologies have been utilized widely in the world would be simpler to import technologies to utilize domestically. For over 10 years of attracting FDI, agriculture and rural development has

attracted a certain amount of capital investment. However, the amount of direct investment and technology transfer have not met the demand for fundamental change in the level and technological capacity in all sectors of the technology applied in agriculture and rural relatively backward. According to recent statistics, Vietnam is an agricultural country, agricultural source material is plentiful but the equipment and agro-processing technologies are not capable of producing export goods.

Obviously, government agencies should apply reasonable policies to encourage foreign investors to transfer technology. Since every year, Vietnam imports 10 billion dollars worth of technologies, while the technology export turnover remains very modest.

## **II. Deepened Regional and Global Cooperation**

Recognizing the potential of regional cooperation over the past decade, ASEAN has not only deepened the sub-regional cooperation between its member states, but has also facilitated the cause of broader cooperation by holding ASEAN+ with major Asian countries and huge economic partners. From this, Vietnam is now building a framework of free trade arrangements linking Vietnam with ASEAN member states and other countries. As a result, Vietnam has broadened effectively market facilitating exploitation of synergies through sub-regional and bilateral attempts.

By a member of ASEAN, Vietnam has deepened and broadened its cooperation to ensure peace, stability and prosperity in the region through mechanisms under the ASEAN+ dialogue relations, namely Summit, ministerial meeting, senior officials meetings and meetings at the expert level as well as through broader regional dialogue and cooperation frameworks initiated by ASEAN such

as the ASEAN Regional Forum (ARF), ASEAN Plus Three, the East Asia Summit and ASEAN Defense Ministers Meeting Plus (ADMM Plus).

In view of the fast changing regional and global environment, particularly the emergence of threat posed by transnational crimes and terrorism, Vietnam respectively, ASEAN in general and partner states have enhanced closer cooperation in maintaining peace and stability in the region and addressing issues of counter-terrorism, anti-piracy and combating other transnational crimes by adopting many Joint Declarations for Cooperation, etc.

Vietnam has continued to be important trading partners with ASEAN members and other economic partners. Foreign investment flows from partner countries has grown up annually. ASEAN has signed ASEAN+ Comprehensive Economic Partnership. This Agreement is comprehensive in scope, covering trade in goods, and trade in services, investment and economic cooperation. Therefore, Vietnam's economy would strengthen the economic ties between ASEAN and other economic partners and would create a larger and more efficient market with greater opportunities in this region as well as the global market.

Since the roadmaps of Vietnam with another FTA partners through ASEAN+ completed, these movements are pivotal role to promote an increase of exports, flow of investment and tourism in the economic development between Vietnam and ASEAN Member States, and ASEAN+ partners. These FTAs have over time become major factors in shaping global patterns of trade, foreign direct and further deepen the economic integration for Vietnam.

## Chapter 5

### Prospect of Vietnam's economic integration to the world economy through ASEAN FTAs

#### I. Opportunities

Theoretically, participating in AFTA will raise intensive competitiveness between Vietnam and other ASEAN member states due to tariff reduction and elimination of non-tariff barriers. In recent years, Vietnam's export turnover to ASEAN countries is usually around 25%. But those products are entitled to the CEPT rate is only about 20% of exports to ASEAN. Moreover, the structure of commodity of Vietnam and other ASEAN countries are quite similar. It can be said that, in the long run, Vietnam can only compete in the ASEAN market if the nation provide a progressive liberalization of trade and services, promote investment and lay down the basis for further negotiations to facilitate trade amongst the members. Besides that, Vietnam's businesses should take into consideration building up progressive strategy for producing unique products which are flexible and high quality and not played as a complementary structure for products of partner countries. Particularly, 2/3 of Vietnam trading within ASEAN is made with Singapore. But most of Vietnam's export to Singapore will be re-exported to other countries. But in this country, import and export tariff system before the implementing of AFTA was already very low, almost equal to 0%. Therefore, under the CEPT as a whole, 1/3 import and export turnover of Vietnam to other ASEAN countries will not change much. Rather the Vietnamese industrial sector should focus on upgrading the quality of its products and in diversifying the offer from that of business rivals.



In the long term, AFTA has created indirect effects to increase export turnover of Vietnam to ASEAN due to cheaper inputs from other ASEAN countries for export production. On the other hand, as a member of AFTA, Vietnam has advantages to generate new trade relations with major countries. However, as mentioned above, the structure of the exported products from ASEAN countries to the world market is quite similar to Vietnam, so those members also enjoy the same benefits. Nonetheless, a comparative analysis between ASEAN members indicates that Vietnam has benefited in some sectors from the reduction in tariffs. With the regard to some strategic and sensitive products such as pharmaceuticals, garment, footwear, electronics, mechanical and automotive, Vietnam has its own program of liberalization which is conformed to the general framework provided by the agreement. In this case, Vietnam puts into consideration grouping the products into different categories with different deadline of liberalization, depending on the grade of sensitive of the goods. Particularly, when the tariff advantages are relevant and when the investment climate is under the favorable conditions such as efficiency and productive capacity, the preferential tariff liberalization brought by the FTAs, along with the increased market size would act as magnet to foreign investors. There are advantages for the companies located in Vietnam to export to other countries. With this regard, Vietnam has become a promising location for investors. The FTAs represent an incentive for foreigners to invest in Vietnam and re-export in other countries benefiting from trade liberalization. Those investors will import raw materials and components from third countries, to produce a final product in Vietnam and export it to other countries. Indeed, the tariffs preferences are granted only to products that can be considered “originating” in one of the members of the free trade area. Basically, investors can take advantage of the FTA agreements which provide “rules of origin” aimed at determining when a product can benefit from the preferences.

Vietnam has seen a great many of opportunities for development after joining the free trade agreements (FTAs) with partner countries. Currently, Vietnam is integrating more broadly and deeply into the global economy. Apart from joining the World Trade Organization (WTO) in 2007, Vietnam, as a member of the Association of Southeast Asian Nations (ASEAN) has joined diverse free trade agreements with partner countries such as China, the Republic of Korea, India, Japan, Australia and New Zealand. Vietnam has inked a bilateral agreement with Japan and is sitting on negotiations for the Trans-Pacific Partnership Agreement (TPP) and the free trade agreement with Chile. FTA negotiations with the European Union (EU) will soon be underway. As we have seen, FTAs promise robust export growth and myriad development opportunities. In fact, Vietnam has built economic development to its improved trade policies, particularly those on trade liberalization, prompted from internal economic reforms and deeper international integration.

It was expected that free trade agreements Vietnam had signed with partner countries brought the country economic benefits of US\$945 million/year in 2010, equal to two percent of GDP. This figure was forecast to reach US\$2.4 billion annually once the agreements are fully implemented from 2015 to 2021. The free trade agreements with the Republic of Korea, Japan and ASEAN would bring Vietnam the greatest benefits. The agreement with China would lead to significant gains in the long term, while the benefits from the agreements with India, Australia and New Zealand bring Vietnam were minimal due to low trade exchanges between Vietnam and these countries at the moment. The high growth in trade exchanges between Vietnam and China and Japan from 2010-2018 would be a major source of inspiration. All the above-mentioned features make the assessment of the comments that foreign investors when investing in Vietnam will not

only put in to consideration of the market with more than 86 million people, but also to include ASEAN market with approximately 600 million people.

As analyzed in Chapter 2, the reduction in trade tariffs between FTA members has increased the size of market. To broaden this point of view, the size of the market is not only expanded from the territory of Vietnam but also to all the FTAs signatories such as China and India. This feature allows Vietnamese exporters to extend their consumers base to a total of roughly three billion people. Particularly, in the ASEAN-China FTA is by far the biggest FTA in force in terms of consumers involved (almost two million). Besides, China is the third largest in terms of nominal gross domestic product (GDP) and processes the market size is four times that of the EU. It is clearly that the reduction in tariffs would provide incentives to the export activities of those Vietnamese enterprises to enlarge their production reaching a wider consumer base<sup>5</sup>.

In fact, Vietnamese enterprises up to now have failed to build long-term business strategies. Therefore, joining the regional trade body means that Vietnam has to outline a transparency roadmap in line with ASEAN FTAs' rules. This will help enterprises to overcome their current disadvantages. According to FTAs standards, the trade environment will be adjusted towards ensuring a greater competitiveness between economic sectors, creating favorable conditions for enterprises to grow by their own strength, without subsidies or assistance. This is also an opportunity for businesses to enhance their competitiveness, hence boosting the competitiveness of the whole nation's economy. Obviously, initiating in FTA will open many great opportunities to Vietnam's economy and businesses on the doorstep of international economic integration.

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<sup>5</sup> Because of AFTA, ASEAN countries are becoming more attractive for foreign direct investment (Akraanee & Stifel, 1992; Ariff, 1994: 5). In this way, it is hoped, they can turn the receding tide of FDI, which is increasingly flowing to China and Vietnam.

ASEAN membership has created opportunities for Vietnamese businesses to enhance their competitive abilities in the integration path. It is shown that Vietnamese businesses has enjoyed a major advantage brought about by the lifting of the quota system, while unfair treatment imposed on Vietnam's exports to other countries' markets will no longer exist. The nation's enterprises will then be able to gain access to other countries' markets on an equal basis with existing FTAs+ members' businesses. Moreover, joining ASEAN+, Vietnam could step up its exports by protecting the country's interests in any trade disputes. This in turn will help speed the flow of foreign investment capital into Vietnam.

In addition, improved trade liberalization with the other economic partners through ASEAN+ will bring economic benefits of thousand billions of dollars annually, more jobs and increased incomes for local people and a rise in foreign direct investment. Besides that, by identifying items that would be favored from trade liberalization, Vietnam was, is and will be in a position to compete equally with other rivals in the world market when economic globalization takes a greater hold in Vietnam.

## **II. Challenges**

Globalization and international economic integration have become leading development trends globally and Vietnam was no exception. Trade liberation, either through bilateral or multilateral free trade agreements, would bring both opportunities and challenges. Free trade agreements often encompass broader undertakings and involve many partners, so that the competitiveness and import/export goods structure of each partner country in relation to Vietnam also varies greatly, and thereby the impact of each FTA on Vietnam's economy is inevitably varied.

Firstly, competition becomes fiercer. In the situation of fierce competition in international market, export promotion programs have still seen weaknesses, thus, weakening competitiveness of Vietnamese goods in the international market. In the post-crisis period, countries have increased protecting domestic economy through commercial protection methods. This has created many challenges for Vietnamese businesses in exporting their goods. Competition is not only between local enterprises with the business on international markets for exports of goods and services but also means competing with each other on the domestic market. Regarding to this challenge, obviously, ASEAN membership will bring about difficulties for some vulnerable sectors of the country's economy. It creates competitive pressures for all kind of businesses in the country, due to Vietnam's businesses are familiar with the help from the State, and those are enterprises that have had weak financial resources and poor technology. This situation is quite common in the country.

In trade alone, FTAs have had a variety of impacts on Vietnam's import/export value. Reality shows that Vietnam's export value to ASEAN and other countries was up but still remained lower than imports. The signing of FTAs with different roadmaps for trade liberation with partner countries has caused headaches to state management organizations and diminished the efficiency of these agreements. It is therefore imperative to consider FTA impacts on Vietnam's economy, with the creation of suitable development strategies.

Taking part in ASEAN Free Trade Area (AFTA) agreements with China, India, Australia, New Zealand, Republic of Korea and Japan and processing free trade agreements with the EU, the US, Vietnam has enjoyed special treaties in terms of tariffs. However, according to experts, Vietnamese businesses has not taken advantage of this opportunity, therefore, the percentage of

export goods that enjoy this special treaties is still small. There are two reasons: businesses lack market information and have not got used to with procedures to enjoy special treatment. As a result, Vietnamese businesses are losing their opportunities to expand export market.

So far, Vietnam has achieved many encouraging results, making important contribution to economic development. However, according to AFTA agreements with China, India, Republic of Korea, Japan, Australia and New Zealand, from 2011, tariffs reduction will be imposed on more types of products with the level of reduction to be increased, creating more pressure on import. Still, Vietnam has faced trade deficit. Many weaknesses have still existed in support industry; the exchange rate between Vietnam Dongs and US dollars has increased in recent years. This requires timely methods or else trade deficit will become a challenge to macroeconomic stability.

Theoretically, economic integration with free movement across borders of the production elements or elements of the process of re-production of goods and services will contain many hidden risks, including social evils. The challenge here is to set the right policies to strengthen macro-control, improve flexibility and adaptability of the entire economy, strengthen and enhance social security.

### **III. Suggestions for Vietnam**

Vietnam's integration to the ASEAN's FTA has generated new opportunities and conditions for the nation's economy as well as its enterprises, but the most important factor is how the country and its businesses take advantage of them. The ASEAN FTAs is creating both opportunities and challenges which are unprecedented for the Vietnamese business community and people, but

there is a momentum for rapid change in circumstances of regional integration. The domestic business community must make joint efforts with State support to make it possible for the Vietnamese economy to benefit from ASEAN FTAs.

Similar to ASEAN countries, AFTA has brought about changes to the structure of Vietnamese industries, at a certain level. Some industries will grow, but some sectors will be narrowed. This is raising a question for policy makers and entrepreneurs on how to take advantage of opportunities and liberalization timeframe to orient industrial structure and productions in order to promote its comparative advantage of labor division in the region. Basically, under the opened economy to the industrial development in competition, the state government should create a favorable climate in investment, and appropriate application of protective measures which is designed to allow to investors to compete not only on the domestic market but also in the region and the world.

Nonetheless, under ASEAN FTAs, government's protection is limited. In the integration process, Vietnamese businesses should focus on exploiting traditional markets on which they have reached free trade agreements. They should enhance market information and increase efficiency of trade promotion programs. In addition, there is a need for businesses to pay attention to new markets, especially potential market in Eastern Europe, Western Asia, Southern Asia, Middle East, Africa and Latin America. Furthermore, government agencies should help businesses and farmers overcome difficulties through methods to strengthen producing and exporting traditional products, potential products and products with large export value. There is a need to propose methods to plan essential material and fuel production to replace import products, boosting controlling unnecessary import products and the products which can be made within the country.

It can be said that, competitiveness in line with AFTA's rules is not easy. Joining the organization is only the first step of a difficult process to narrow the development gap between Vietnam and other countries. Vietnamese businesses strongly want to understand all technical aspects from the economic integration agreement, therefore the agreement's contents from ASEAN FTAs need to be clearly explained in order to equip and help enterprises to be well-prepared to perform analysis and ready to integrate to the world economy. There is a need for Vietnam to carry out activities in order to provide market information and consultations for enterprises through an organization which is representing the business community and acting as a trade and investment promotion body.

ASEAN membership has created a milestone for Vietnamese economic development. Identifying and having a through grasp of the impact that FTAs have on the local economy is crucial to policy-makers, negotiators as well as the business community, and from there working out appropriate policies and strategies to make the most of development opportunities in the interest of the local economy. Vietnam's integration process began with a number of successes when it signed the ASEAN Free Trade Area (AFTA) pact. Imports and exports have seen remarkable results. However, along with export increase is a rise in imports. Trade deficit has become a concerning issue. To adjust the balance of trade, there is a need to promote exports and reduce imports at the same time. As a whole, the government has policies to promote producing and exporting processed products towards increasing exporting products which have high added value and reducing raw products which have low economic value. Also, the government should check investment project structure and continued to build policies to encourage producing export products; products that can replace import ones and reduce investment in non-production area.



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