

APEC AND ITS EFFECTS ON TRADE AND INVESTMENT IN VIETNAM

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investment ones.

+ Promoting economic and technical cooperation in many fields: human resources development, application of scientific achievements to industries, development of small and medium businesses, infrastructure building, information service, new materials and energy, transportation and telecommunications, tourism, marine resources protection, fishery and agricultural techniques, etc.

To achieve these objectives, the Manila Summit Meeting in November 1996 passed the Manila Action Plan which aims at turning APEC into the world's biggest free trade zone. In this Plan, including a common and many individual ones, all members decided to take measures to remove all obstacles to the

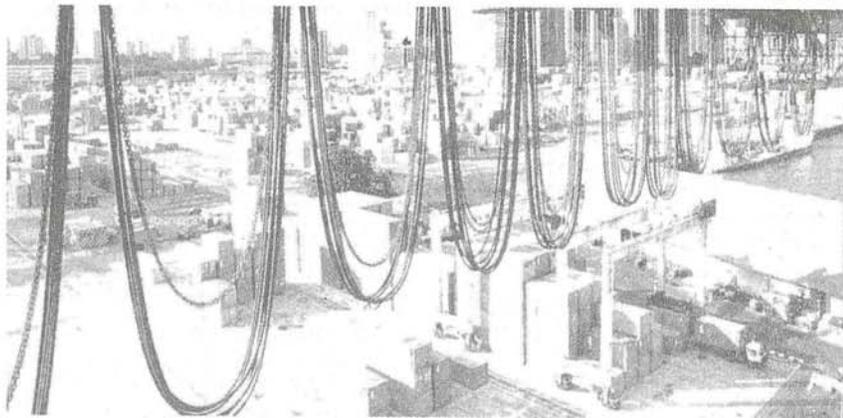
I. AN OUTLINE OF APEC

The Asia Pacific Economic Cooperation was established in November 1991 and up to November 1998, its membership rose from 12 to 21 countries and eight other nations have applied for its membership (Laos, Cambodia, Myanmar, Sri Lanka, Mongolia, India, Pakistan and Colombia). The increasing membership reflects, to a certain extent, its attractiveness.

It becomes the world's biggest economic bloc that occupies 30% of the world area and 42% of the world population, and accounts for 50% of the world gross product and 47% of the world export value. In the past 10 years, the growth rate of its members was over 6% on average, two or three times higher than the world average. The PPP calculations have estimated that APEC would control two thirds of the world output by 2020.

After its establishment, APEC has worked for three main objectives:

+ Facilitating the liberation of



trade among members by removing tariff and non-tariff barriers by 2010 for developed members and 2020 for underdeveloped and developing members.

+ Standardizing administrative procedures, including customs and

trade and investment liberation, and provide less developed members with technical assistance. The following are principle measures that will affect Vietnam's foreign trade and investment:

-Simplifying, standardizing and



conciliating customs procedures.

- Facilitating the application of MFN and GSP treatment to other members.

- Reducing, and then ending export subsidies.

- Removing unreasonable bans on import and export and struggling against non-tariffs barriers.

- Publicizing investment regulations.

- Protecting intellectual property.

- Applying common policies on fair competition.

- Facilitating business travels by simplifying visa requirements.

II. TRADING AND INVESTMENT OPPORTUNITIES OFFERED TO APEC MEMBERS

Up to now, APEC members have played important roles in Vietnam's economic development: they account for 80% of Vietnam's export and import values, 70% of FDI in Vietnam and 50% of ODA supplied to Vietnam. Being an APEC member, Vietnam can provide other members with more favorable conditions for trade and investment.

1. Trade

Many countries, including the U.S., refuse to extend MFN treatment and GSP to Vietnam because Vietnam isn't a WTO member. As an APEC member, the market for Vietnam's exports is expanded because it will be granted many preferences.

After joining APEC, Vietnam has to open its domestic market and encounter fierce foreign competition, not only from ASEAN countries, but also from such economic powers as the U.S., Japan and Canada. This development will be both a challenge and a stimulus

for local companies to become more competitive in local and foreign markets by employing new technologies, improving product quality, reducing production cost, carrying out market researches, etc.

Vietnam and other ASEAN members are developing countries with the same comparative advantages and staple exports, so the relation between them is of more competition than cooperation. Contrarily, APEC members differ widely in their technology and development levels, comparative advantages and personal income. These differences will encourage international specialization among APEC members. This specialization will make Vietnam's exports more competitive based on their own comparative advantages.

The production costs of Vietnam's exports will be lower because imported raw materials will be cheaper due to cuts in customs duties (at present, nearly 70% of raw materials used for making exports in Vietnam are imported.)

The mechanism for controlling foreign trade and customs procedures will be improved and simplified as required by APEC action programs, thereby helping to promote export.

2. Foreign investment

The structure of industry of each nation will be affected by APEC cooperation programs. Certain industries will run down because they have less comparative advantages than their counterparts in other members. To survive and develop, many companies have decided to transfer their investment to other countries. A survey shows that in APEC, investment in labor-intensive industries tend to be transferred

from countries with dearer labor to ones abundant in cheap labor, including Vietnam. The following is an example.

Table 1: Labor cost in clothing industry in some APEC members (1995)

Country	Wage (US\$/hour)
Vietnam	0.18
China	0.34
Philippines	0.67
Thailand	0.87
Malaysia	0.95
Singapore	3.16
Hong Kong	3.39
Taiwan	5.00
South Korea	3.60
The U.S.	12.63
Japan	16.36

A tariff-free market is always attractive in the eyes of investors. When Vietnam becomes an APEC member, investment in Vietnam means not only that ensuring a market share in Vietnam, but also paving the way for entering other APEC markets. In addition, APEC programs to develop human resources, infrastructure and technology and improve customs procedures could make Vietnam more favorable for foreign investment.

Many APEC members (Japan, Australia, Canada and the U.S.) are main ODA donors to Vietnam.

Cooperating with them through APEC programs will help Vietnam attract more ODA capital.

III. UNFAVORABLE EFFECTS ON VIETNAM'S ECONOMY

Vietnam is one of the most backward and poorest members of APEC. Its average personal income in 1996 was US\$274, lower than other developing members (Philippines: US\$1,049; Indonesia: US\$1,050 and Peru: US\$2,000) and much lower than some developed members (Canada: US\$22,000; the U.S.: 22,500; and Japan: 27,326), therefore Vietnam will face many difficulties in developing trade and investment after joining APEC.

+ It's very difficult for Vietnam's goods to enter APEC markets because of their poor competitiveness (originated from high production costs and low labor productivity) even if they enjoy preferential tariffs. Moreover, even in the domestic market local industries might face foreign competition not only from China, Thailand and Malaysia (developing countries) but also from Japan and the U.S. (much developed countries). If necessary measures to improve the international competitiveness and promote export aren't taken in time, Vietnam is likely to become a market for foreign manufactured goods.

+ After joining APEC, Vietnam has to open its market by removing tariff and non-tariff barriers, and foreign goods will flood the market. If Vietnam's export isn't promoted strongly, the increasing trade gap will cause great harm to local production and finance.

+ If the structure of exports makes no changes, local production and industries will gain less benefits than other members do, because Vietnam's staple exports are raw materials and unfinished agricultural products that are imposed high tax rates by most APEC members in an effort to protect their agriculture, while most well-processed materials, manufactured goods and services that enjoy decreasing tax rates are from developed members and imports to Vietnam.

+ Most Vietnam's exports are of low quality. Most local companies fail to reach ISO 9000 standard. If their quality isn't improved, they can't enter APEC markets even if these markets are open to Vietnam, because most APEC countries protect their home production by setting up technical barriers (high quality requirements or environmentally

mind regulations) instead of using tariff, quota or license.

+ The investment environment in Vietnam is less attractive than in other APEC members: its market economy is just at the first stage of development, administrative procedures are complicated, the mechanism for controlling foreign investment is changeable and inconsistent, infrastructure is poor, labor skill and productivity is low, Vietnamese currency isn't convertible, the lack of a stock market limits flows of foreign capital. If this environment isn't improved, flows of foreign investment to Vietnam will reduce because foreign investors find that it's more advantageous to invest in other APEC countries where the environment for foreign investment is more favorable, and then, export their produce to Vietnam when its tariff barrier is lowered.

In short, after joining APEC, Vietnam will face both difficulties and opportunities for developing its foreign trade. At present, Vietnam needs appropriate measures to make the best use of offered opportunities, and at the same time, avoid "hasty integration" which can damage the economy, or "sluggish integration" which can force Vietnam to fall farther behind other members.

IV. MEASURES TO ENHANCE VIETNAM'S INTERNATIONAL COMPETITIVENESS

1. Macroeconomic measures

a. The MPI and Ministry of Trade (MT) must cooperate in studying effects caused by APEC plans on Vietnam's foreign trade and foreign investment promotion in order to work out necessary measures. As for goods with high competitiveness, export duties should be cut as soon as possible in order to facilitate export of them to APEC members. As for commodities that meet the local market demand but fail to compete against foreign counterparts (iron, steel, cement, sugar, clothing, etc.), the Government had better keep them under protection for one more decade or two, and adopt new policies to force local industries to improve their competitiveness.

b. The administrative reform, especially reform in procedures for import, export and investment, should be accelerated in order to make Vietnam's foreign trade and investment policies suitable to principles introduced by WTO and to

be publicized at home and abroad.

c. Making bilateral and multi-lateral cooperation policies by studying APEC operation mechanism and trade liberation process carried out by APEC members.

d. The Government should work out right away a strategy to help local companies to enter APEC markets.

e. Setting up uniform standards for Vietnam's goods and services in preparation for standard recognition agreements between APEC members and for entrance of Vietnam's exports into APEC markets.

f. Improving the environment for foreign investment by reforming administrative procedures, perfecting the system of laws (making laws on advertisement, competition, insurance, stock market, etc.), making the Vietnamese currency convertible, upgrading infrastructure, developing human resources, etc.

g. Building a system of information services at home and abroad to supply business information needed for decision-making process of local business circle and present Vietnam's economic policies and opportunities to foreign companies.

2. Microeconomic measures

a. As stated above, one of APEC's objectives is to help with developing small and medium businesses, so local companies had better study these support programs through Vietnamese Chamber of Industries and Commerce in order to make the best use of these opportunities.

b. Studying plans made by APEC members, including Vietnam, to cut customs duties on different product lines in order to find out advantages and disadvantages when doing business in local and foreign markets and working out marketing and competition strategies.

c. Each company had better invest in new technologies and improvements in product quality, and try to obtain ISO-9000 standards in preparation for entrance into more demanding markets.

d. Browsing through the Internet to look for business opportunities and marketing local products to foreign consumers.

In short, Vietnam will face a lot of difficulties and challenges after joining APEC although new opportunities also make their appearance. Integration into the world has become inevitable. The problem for the Government and local industries is how to find a way to do it successfully. ■