



IMPROVING VIETNAM'S COMPETITIVENESS UNDER AFAS

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Vietnam's participation in ASEAN is a very important event, especially in trade and services because ASEAN countries have a large market with a population of 500 million and total GDP of US\$1,600 billion. The process of integration and cooperation of regional economies has led to the fact that these countries announced to establish the Asean's Free Trade Area (AFTA) in the fourth ASEAN summit held in Singapore in January 1992. The decision aimed to enhance the regional economic cooperation with three principles of external orientation, mutual benefit and flexibility. Five cooperative fields include trade, industry, energy; agro-forestry-fishery; finance-banking; transport and communications and tourism. The establishment of AFTA was based on a major mechanism called the Common Effective Preferential Tariff (CEPT). This mechanism was carried out from Jan 1, 1993. It targets the implementation of common preferential tariff between 0% and 5% for ASEAN members' exports. Vietnam's participation in

AFTA via CEPT is a basic precondition to implement initial commitments to the Asean Framework Agreement on Services (AFAS). This agreement was signed on Dec 15, 1995 in Bangkok. It is also the first agreement Vietnam signed since it joined ASEAN.

1. THE AGREEMENT'S TARGET AND CONTENT

- Enhancing services cooperation between ASEAN countries, improving efficiency, competitiveness and diversifying services supply and distribution of ASEAN members with a view to making close economic relation, bridging the gap in their development and securing the foreign trade system fair, open and internationally competitive.

- Eliminating limits on trade and services between members and boosting the trade and service liberalization by members' commitments with the aim to set up a free trade area for most of services with a reasonable deadline by abolishing current discrimination and banning new discriminatory measures and restricts on market.

The agreement determined cooperative fields agreed upon through negotiation rounds from Jan 1, 1996 and focused on 7 services: finance, sea transport, post and telecommunications, air transport, tourism, construction and trade. After 12 rounds, the initial commitments were adopted in the Asean Economic Ministers Meeting (AEM-29) in Malaysia on Oct 16, 1997. To implement these commitments, every member was expected to make its commitments into national law as of March 31, 1998. These commitments are expressed in the following contents: limits on open market; limits on national preferences and other additional commitments. In each content, 4 forms of service supply must be mentioned: services supply across border, overseas services using, trade presence and op-

erations of service entity.

The commitments of the first negotiation round included: air transport services (Brunei, Malaysia, and Singapore), trade services (the Philippines), sea transport services (Brunei, Thailand, Malaysia and Indonesia), post and telecommunications services (Vietnam) and tourist services (7 members). Notably, in the first commitments, all countries liked to protect their services and national interest. Therefore, their commitment agenda was not complete and minute and included a few industries or part of a specific industry. Moreover, when a country made commitments on an industry, all other ASEAN countries can enjoy benefits from these commitments although they had not made any commitments on that service.

2. CHALLENGES AND PROSPECTS

- According to the CEPT, Vietnam is a newcomer of ASEAN, so it should need more time to adapt itself to AFTA regulations. This is an advantage and time for Vietnam to reform its economy, attract invest-

ments and innovate production technologies. In addition, the cooperation in trade and services with other members will help Vietnam make the best use of its comparative advantages with the aim to boost export and supply of relevant services such as navigation, aviation and post.

- ASEAN countries have the same structure in developing agriculture, industry and services. Although these industries of members have a gap in scale and level but not wide. This causes a rather fair competition in the region. Besides, the participation in the agreement will accelerate the Vietnam's process of economic restructure toward hi-tech industries and services.

- The participation into AFTA and initial commitments under the agreement will bring to Vietnam such advantages as enjoying the members' common preferential tariffs, improving the settlement of trade disputes with major commercial powers, membership preferential treatment and exemption from ban on export support.

- The agreement will help Vietnam boost its trade with other ASEAN members. The trade volume with other ASEAN countries accounts for 30% of Vietnam's total exports and imports. Meanwhile, Vietnamese producers has renewed their technologies and equipment to make their goods more competitive on foreign markets.

- To implement initial commitments is a measure to encourage foreign investment in Vietnam because when observing habits and regulations in international trade, Vietnam will enjoy tariff and non-tariff preferences and create an attractive environment for foreign investment.

- Vietnam will encounter difficulties due to commitments to obligations such as making appropriate policies on foreign investment and tariff and thus open its market to ASEAN members in banking, insurance, transport, information, technique and consultancy. This requires Vietnam's companies to catch up with regional counterparts in competition under the agreement. It is also a challenge to Vietnam businesses due to their limited technologies and performance.

- The commitments to initial tax reduction for 15 groups of imports under CEPT which are Vietnam's staples, especially agro-products, food and raw materials as from Jan 1, 1996, is a big trouble to Vietnam

because it will affect the national budget revenues and competitiveness in its integration in the regional economy. To overcome this trouble, Vietnam's exporters should reform their technologies to increase finished products with high quality to expand their share in foreign and local markets.

- In the past years, Vietnam always suffered deficit in trade with ASEAN countries (30% of Vietnam's total imports came from ASEAN) because Vietnam's exports quality was not high. Moreover, Vietnam is currently in the course of industrialization, so its demand for imports rockets, surpassing the pace of export.

- The trend of integration into the regional economy leads to the increasing interdependence, as well as mutual benefits in cooperation and conflicts in fierce competition.



- Most of ASEAN members do not open their service markets to foreign businesses, especially in transport, banking, post and telecommunications and consultancy. This will limit Vietnam's expansion in ASEAN.

3. SOLUTIONS TO IMPROVE VIETNAM'S COMPETITIVENESS

The signing of AFAS will create new opportunities for Vietnam's development but at the same time big challenges to its economy. Firstly, it faces the danger of lagging behind other members' economies if it does not make successful economic restructure and tackle changes of

prices and markets in the region. However, the decisive factors are still:

(1.) The competitiveness of Vietnam's goods on the region markets and the local businesses' creativity and activeness to find a niche on foreign markets;

(2.) To build a macro-economic strategy to meet the CEPT's requirements and initial commitments under the agreement but secure it suited to the country's practice and competitiveness;

(3.) Remaining limits on national preferences and market opening.

The Government should publicize the agreement and initial commitments of ASEAN members as soon as it becomes effective. Thereby, Vietnam's enterprises have to urgently focus their energy on renovating their products to improve their competitiveness on the ASEAN markets. There should be uniform macro-economic management policy for ministries in the implementation of CEPT's regulations and law permitting Vietnam's enterprises to make overseas investment. This will make Vietnam economic cooperation with other ASEAN members become effective and precious opportunities to improve Vietnam's competitiveness.

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