How to Enhance Competitiveness of Local Companies by Cutting Tariffs

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1. Direction for changes in taxes in the coming years

The Government has decided to amend the tax policy with a view to making it appropriate to the international integration and WTO rules in which tariffs would be cut selectively according to a track, range of taxpayers would be wider in order to ensure neutrality and equality of the tax policy based on international practices and local conditions; incentives would be given to effective and economical use of resources and protection for the environment; and some new taxes, such as property and environmental taxes, would be introduced. More specific features of amendments are as follows:

- Firstly, there is almost no remarkable change in current taxes, except for the tariffs. Full attention will be paid to performance of implementation of the tax policy and neutrality of each tax in order to make it appropriate to local conditions and international practices.

Secondly, the tariff rates will be amended as required by the WTO. The amendments are as follows:

- Lowering rate ceiling and floor: (1) Most tariff rates on items in the preferential tariff schedule are lower than the ceiling of the framework and committed rates on many goods are lower than the floor rates, therefore both rate ceiling and floor of the framework should be lowered. (2) Vietnam has to apply the new ASEAN Harmonized Tariff Nomenclature (AHTN 2007 version) which is based on the Harmonized System 2007 developed by the Customs Cooperation Council, in which descriptions of many articles are different from ones in the current schedule in Vietnam. In addition, the preferential tariff schedule is based on the principle that local production is protected selectively, conditionally and temporarily; and the stabilization the tariff schedule is carried out effectively and appropriate to international commitment.

As required by the WTO, Vietnam has only to cut the export duty on scrap metal. The new tariff schedule aims at limiting export of raw materials, and encouraging production of goods from those raw materials. And basically, the tariff rates don't change much for most articles. The rate ceiling is higher for some articles, such as oil (from 0 - 8% to 0 – 20%), coal (from 0 - 5% to 0 – 20%), and metal ores (from 0 – 3%; 0 – 5 and 5 -20% to 0 – 20%). Cuts are made to rate ceiling and floor on such articles as iron scrap (from 30-40% to 10-30%) and non-ferrous metal scrap (from 40=50% to 10-40%).

- The preferential import tariff schedule is issued. Based on the current import tariff schedule comprising 1,221 groups of articles, the Ministry of Finance has issued the Preferential Import Tariff Schedule comprising 10,680 detailed headings, and according to the WTO rules, Vietnam is bound to this schedule. Most of articles have the committed rate lower than the rate ceiling, and only a handful of articles have the committed rates lower than the rate floor of the framework. Therefore, the Preferential Import Tariff Schedule reduces the rate ceiling for 1,149 groups of articles (or 94%) and groups that have the current rates much higher than what are applied currently. The rate floor for 202 groups of articles (representing some 16.5% of the whole framework) will be reduced according to the track for cutting the import tariff and thereby reducing the input tax on raw materials needed for local production. The frame rate floor for 1,019 other groups stays intact.

2. How to enhance competitiveness of local companies

Local companies have faced many difficulties and challenges, such as poor business performance, poor competitiveness because of high production cost and low productivity of laborers, total dependence on state subsidies and protection by state-owned companies, monopolistic advantages for certain state-owned companies; poor quality of human resource and obsolete technologies in use. Cuts in import tariffs will become a new burden to local companies on their way to survival and development.

After joining the WTO and cutting the tariffs, the whole economy meets with new challenges and opportunities. Changes in the business climate offer both advantages and disadvantages to local companies.

Firstly, new opportunities open to the Vietnamese economy are:

- Vietnam is carrying out the economic reform by restructuring the public sector and this effort is producing good results that help accelerate the economic reform.
- Good relations between Vietnam and other countries have encouraged both foreign and domestic investment and foreign trade.

If local companies can work out right strategies to make the best use of these opportunities to overcome difficulties, they can survive and develop.

Secondly, difficulties to local companies will come from keen foreign competition when tariffs are cut:

- Cuts in import duties can lower prices of imported raw materials thereby reducing input expenses and production cost in general. Industries depending on imported raw materials can increase their output.
- Supply of imported goods will increase and compete against similar goods made locally. To a certain extent, the supply of locally made goods may reduce because the production cost is high than the prices of imports. This means that local companies with poor competitiveness may go out of business or see their production contracted.

Companies dependent on the state protection will suffer great losses. Keen competition will come from both local and foreign rivals. Thus, the competition after tariffs are cut will lead to different developments in each industry and line of products based on comparative advantages of each industry on the world market. This scenario shows that local companies will meet with great difficulties in reducing their production cost and improve their product quality in order to compete against imports of the same kind, and as a result they may lose their shares in the domestic market to foreign rivals.

Facing such a situation, local companies can take the following proactive measures:

(1) Reviewing and perfecting business strategies to achieve preset targets: Different options must be prepared in order to implement development targets. These targets may be fast and stable development, concentration of resources, cooperation with other companies in the same industry, and differentiation of products, etc. based on comparative advantages of the industry. Each strategy must have different contents to discover and enter into new markets, and develop existing markets to establish firm footholds. By analyzing business climate, opportunities and challenges, companies can save their limited resources by avoiding investment in products of less competitiveness and efficiency.

(2) Rearranging business activities in order to improve performance and deal with cuts in tariffs: Companies should pay more attention to activities that add more value to goods and services after distribution or delivery. Companies should overcome threats by their own efforts because economic policies can only help them deal with difficulties in the first stage of the international integration.

(3) Companies should be proactive in generating sources of capital and entering into new markets. Facing the foreign competition, capital becomes a decisive factor in improvements in competitiveness on the world market. Demand for capital will increase considerably because all companies will feel forced to enhance their competitiveness. Companies should find ways to make the best use of their retained profit by turning it into additional working capital, get access to bank long-term credits, and issue shares and bonds on the stock exchange. In the longer term, it's necessary to work out plan to enter into foreign markets and establish global distribution networks. In the domestic market, full attention must be paid to distribution, marketing campaigns and after-sale services.

(4) New comparative advantages could be generated by replacing obsolete technologies, improving managerial skills and developing the human resource. New technologies play an important role in enhancing the product quality while better management helps improve the performance of all employees of the company. ■