The impact of new generation Free Trade Agreements on the Vietnam economy

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In the coming time, when commitments in the Free Trade Agreement (FTA) come into a deep tarrif reduction phase, especially the FTAs with the CPTPP countries and EU will take effect, which will boost exports more strongly, bringing many opportunities to expand the market for Vietnamese goods, while helping to diversify import markets and avoid reliance on traditional raw material markets.

Strict technical barriers and sanitary and phytosanitary systems may be barriers that make it difficult for Vietnamese goods to enter FTA partners' markets. The challenge for Vietnamese enterprises is the competitive pressure on cheap goods and good quality services from partner countries in the domestic market. By analyzing and clarifying opportunities and challenges for Vietnam in the process of participating in new generation FTAs, we suggest some solutions to make good use of opportunities and improve capacity of competitiveness for the economy...

Overview of new generation Free Trade Agreements

The term "new generation" here is completely relative, used to talk about FTAs that are comprehensive, breakthrough, beyond the framework of free trade in goods, are negotiated and signed at a time when international trade has profound changes. These include “new generation” FTAs such as: Vietnam-EU FTA (EVFTA); The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP); Vietnam - Korea (VKFTA); ...

Firstly, the above-mentioned FTAs include matters that are considered "non-commercial" such as: labor, environment, commitment to sustainable development and good governance...

Secondly, new generation FTAs include new matters such as: investment, competition, public procurement, e-commerce, encouraging the development of small and medium enterprises, providing technical assistance to developing countries as well as making reasonable transition time for the latter to be able to adjusting policies according to the path suitable to their development level ...

Thirdly, these new generation FTAs deal with new matters existing in former FTA more profoundly such as: Trade in goods; protection of animal and plant health in international trade; trade in services, intellectual property rights; trade defense; rules of origin; transparency and anti-corruption; resolving disputes between the Government of the investment recipient country and foreign investors...

In conclusion, if compared with WTO agreements, new generation FTAs, which are extended WTO agreements, with matters that were eliminated in the past have been correctly identified and accepted in modern international trade in goods context which has changed.

Opportunities and challenges for Vietnam in new generation FTAs

Opportunities

After 10 years of being a member of WTO, Vietnam has so far participated and completed negotiations for 13 bilateral and multilateral FTAs[1]. Among them, 11 FTAs are in effect and are in progress. With the negotiation and signing of a series of these FTAs, Vietnam is entering the threshold of deep integration, highly appreciated by partners. These FTAs promise to bring about opportunities for cooperation on capital, new, modern and more effective management models and methods for Vietnamese enterprises.

According to data from the Vietnam Chamber of Commerce and Industry (VCCI), up to 66% of 10,000 Vietnamese enterprises were asked to support and believe in the benefits that new generation FTAs bring to them. Meanwhile, this rate in FDI enterprises is more modest, less than 30%.

The new generation FTAs will almost immediately open the market for foreign businesses to enter the Vietnamese market but are also considered as a "pass ticket" for Vietnamese enterprises to go deeper into the markets as big as the US and the European Union (EU). Survey of VCCI shows that Vietnamese enterprises are more ready before FTAs. Specifically: 83% of enterprises know about EVFTA; 93.78% of enterprises know about ASEAN Economic Community; 97.35% of enterprises know about WTO; 77.8% of enterprises know about Vietnam-Korea FTA. Thus, this can be considered a good sign that a large number of Vietnamese enterprises have been active in the "wave" of new generation FTAs.

In the period of 2016-2020, according to the path of commitments, most of the FTAs that Vietnam participates will step into a deep tarrif reduction phase, eliminating tariff barriers for most tariff lines in the import tariff. New generation FTAs eliminate the majority of tariffs for Vietnamese and partner countries, including particularly large partners such as the US or EU...

The biggest role that new generation FTAs bring about is to open market due to tarrif reductions and elimination of tarrif barriers for Vietname goods to enter deeper into global value chain. In particular, Vietnam's FTA partners are important trading partners, expressed in the large trade value and high proportion of total

[1] A summary of Vietnam's FTAs as of April 2019 - See Appendix

trade with Vietnam in the world each year.

Vietnam's trade with its negotiated and negotiating partners has always accounted for over 80% of Vietnam's total trade turnover. This is a good opportunity for Vietnam to increase its price competitiveness. Compared to the WTO (countries only commit to tax reduction rather than eliminating taxes and only with some tariff lines rather than most tariff lines), FTAs have so far brought about significant advantages on preferential tariffs.

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When commitments in the FTA enter into a period of deep tariff reductions, especially FTAs of major importance to Vietnam such as CPTPP, EVFTA, VKFTA take effect, they will promote stronger trade in goods and bring about many opportunities to expand markets for Vietnamese goods, while helping to diversify import markets and avoid reliance on sources of imported traditional materials to improve quality and competitiveness for goods of Vietnam.

Although the FTA has many opportunities, Vietnam also faces many challenges. According to the Ambassador of Vietnam in the United States - Mr. Pham Quang Vinh: Vietnam can make full use of tariff preferences, so that Vietnamese goods must initially meet the conditions of origin, technical barriers, epidemiological hygiene from import markets. Strict technical barriers and sanitary and phytosanitary systems may be barriers that make it difficult for Vietnamese goods to enter FTA partners' markets.

Regarding FTAs such as the The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) or Vietnam-EU Agreement (EVFTA), Vietnamese partners in these FTAs are developed and experienced as well as expert in knowledge about international trade in goods. Normally, when tariff barriers are no longer an effective tool to protect, importing countries tend to use non-tariff measures such as anti-dumping, anti-subsidy, trade defense measures to protect the domestic market. And Vietnam's partners in the above FTAs are all expert and "traditional" countries that use those measures.

In addition, when opening the Vietnamese market for goods and services from FTA partners, there will be no concept of "home". This also means that the challenge for Vietnamese enterprises is the competitive pressure on cheap goods and good quality services from partner countries in the domestic market.

Vietnam currently has 96% of the total number of active enterprises are small and super small enterprises (if plus 4.6 million business households are considered enterprises, this figure is 99.9%), competitive pressure for the Vietnam economy is extremely huge. Import tax liberalization will lead to a rapid increase in imports from countries, especially from EU countries to Vietnam due to cheaper, higher quality and richer designs will significantly affect domestic production.

In addition, when tariff barriers are removed but technical barriers are ineffective, Vietnam will become a market for poor quality products, affecting consumer health while not

protecting domestic production. In order to optimize the positive impacts and minimize the negative impacts of economic integration on the economy, in the coming time, it is necessary to synchronize many solutions.

What enterprises must do to make full use of preferential advantages from FTAs

International trade process like puzzle pieces. Participating in this big playground, if enterprises want to succeed, they need to attach discrete pieces together and in proper position.

First of all, the enterprise itself must see how it is, its products, its strengths and advantages, which markets and which specific partners it will aim to export, which object it will target?

Enterprise itself must carry out a comprehensive internal survey of their companies before deciding to invest in the next stages.

Need to frankly acknowledge the production capacity and meet the requirements of the host country and partners, always have to ask: Am I capable? Do I have products that meet the requirements or standards? Can I guarantee whether to provide the required output or fluctuate according to the importing country and partner market. From there, find out the current "foothold" of the business and the position of its products in the market. Any product line has a lot of competitive advantages. But enterprises can still find their place thanks to certain strengths in their products. The duty of the enterprise is to identify that factor, determine its competitive advantage, thereby focusing on exploiting that advantage to enhance the position of the enterprise in the market.

Enterprises need to focus on rules of origin - an important aspect of utilizing FTA incentives. Rules of origin (ROO) are factors to determine whether the goods of the enterprise are eligible for preferential trade, including tariff preferences, non-tariff ... This is also a factor to serve the implementation of commercial measures or tools such as anti-dumping, trade defense measures .... It is also related to the level of tariff preferences for FTA businesses compared to enterprises not participating in the FTA so it gives rise to terms and regulations that enterprises having to take additional documents and incur additional accounting costs. The rules of origin are based on two criteria of commodity origin: pure origin criteria (Wholly Obtained) and basic conversion criteria (Substantial Transformation).

Pay special attention to inconterms - international trade terms. Many enterprises pay little attention to finding out about inconterms. It is necessary to spend a lot of time to research and co-issue with partners to ensure that the enterprises master each clause in that contract. “If you don't understand or there are wrong ones, businesses will have to pay a high price. Inconterms helps businesses limit their risks. Many Vietnamese enterprises are not interested in incoterms when discussing, negotiating with partners, and exempting them from signing contracts. This is a very serious mistake."

In the process of international trade, enterprises must understand the HS code (code in the harmonized system). HS codes help businesses link and access markets that enterprises

want to penetrate. In the FTA, if the product does not have the HS code, the product will not enjoy the preferential tariffs from that FTA even though the product actually meets the conditions for preferential treatment.

If enterprises want to maximize the benefits of FTA, they must understand HS code (Harmonized System code). Product codes of international standards, which are classified products into numerical levels such as 2 numbers, 4, 6, 8 numbers, more and more codes, the more specific product descriptions and tariff preferences also bigger.

After receiving the HS code for the product, it is possible for enterprise to determine the product flow of the market, thereby determining the market demand and in particular its products. Next, take market access stages, including understanding import and export rules of the domestic market and new markets, from which to find out how to access preference.

What the enterprise finally notes are the non-tariff requirement. Ask a question, does the business meet the non-tariff trade requirements in the host country? Enterprises may seek partners in the importing country to support these requirements.

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About Us

Asia Business Consulting is a boutique consulting firm specializing in corporate establishment, legal and business advisory, tax and payroll compliance, HR administration, market research to multinationals investing in Vietnam. For further information or to contact the firm, please email contact@asiabizconsult.com or download the company brochure. You can stay up to date with the latest business and investment news in Vietnam by subscribing for our newsletters.

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A summary of Vietnam's FTAs as of May 2019

No.	FTA	Status	Partner(s)
FTAs in effect			
1	**AFTA**	Effective from 1993	ASEAN
2	**ACFTA**	Effective from 2003	ASEAN, China
3	**AKFTA**	Effective from 2007	ASEAN, Korea
4	**AJCEP**	Effective from 2008	ASEAN, Japan
5	**VJEPA**	Effective from 2009	Vietnam, Japan
6	**AIFTA**	Effective from 2010	ASEAN, India
7	**AANZFTA**	Effective from 2010	ASEAN, Australia, New Zealand
8	**VCFTA**	Effective from 2014	Vietnam, Chile
9	**VKFTA**	Effective from 2015	Vietnam, Korea
10	**VN – EAEU FTA**	Effective from 2016	Vietnam, Russia, Belarus, Amenia, Kazakhstan, Kyrgyzstan
11	**CPTPP** (Formerly known as TPP)	Effective from 30/12/2018, came into effect in Viet Nam from 14/1/2019	Vietnam, Canada, Mexico, Peru, Chile, New Zealand, Australia, Japan, Singapore, Brunei, Malaysia
Signed FTA but not yet in effect			
12	**AHKFTA**	Signed in 11/2017	ASEAN, Hong Kong (China)
FTAs with concluded negotiations, not yet signed			
13	**EVFTA**	Ended negotiations in 2/2016	Vietnam, EU (28 members)
FTAs under negotiation			
14	**RCEP**	Negotiations commenced in 3/2013	ASEAN, Chian, Korea, Japan, India, Australia, New Zealand
15	**Vietnam – EFTA FTA**	Negotiations commenced in 5/2012	Vietnam, EFTA (Sweeden, Norway, Iceland, Liechtenstein)
16	**Vietnam – Israel FTA**	Negotiations commenced in 12/2015	Vietnam, Israel