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Free Trade Agreement Utilization and How to Support SMEs

Submitted by: Viet Nam



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Agreement Utilization by SMEs**
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FTA UTILIZATION and HOW TO SUPPORT SMEs

**Tran Ba Cuong ©
Multilateral Trade Policy Department
Ministry of Industry and Trade of Vietnam**

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Why FTA?

1. Political engine	✓	✓
2. Not losing export competitiveness advantage or “domino” effects due to FTAs	✓	✓
3. Tightened the supply of material resources	✓	✗
4. Enhancing bilateral cooperation to promote trade and investment	✓	✗
5. The failure of the multilateral trading system	✓	✓

Overview of Vietnam's FTAs

- ✓ Viet Nam entered into CEPT/AFTA in 1996
- ✓ ASEAN finalised CEPT/AFTA in 2003. Viet Nam completed in 2006.
- ✓ In-depth integration by the establishment of ASEAN Economic Community (AEC) in 2015;
- ✓ ASEAN commenced negotiation with China in 2002, with Japan and India in 2003;
- ✓ ASEAN started negotiations with Korea in 2004
- ✓ Viet Nam completed it's first FTA with Japan in 2008
- ✓ ASEAN completed FTA negotiation with Australia and New Zealand in 2009, started implementation in 2010;
- ✓ ASEAN completed FTA with India in 2011



FTAs by Vietnam

FTAs concluded/ implemented

1. ASEAN Free Trade Agreement (1996)
2. ASEAN – China Free Trade Agreement (2004)
3. ASEAN – Korea Free Trade Agreement (2006)
4. ASEAN – Japan Comprehensive Economic Partnership Agreement (2008)
5. Vietnam – Japan Economic Partnership Agreement (VJEPA) (2009)
6. ASEAN – Australia and New Zealand Free Trade Agreement (2010)
7. ASEAN – India Free Trade Agreement (2010)
8. Vietnam – Chile Free Trade Agreement (VCFTA) (2012) (*not yet implemented*)

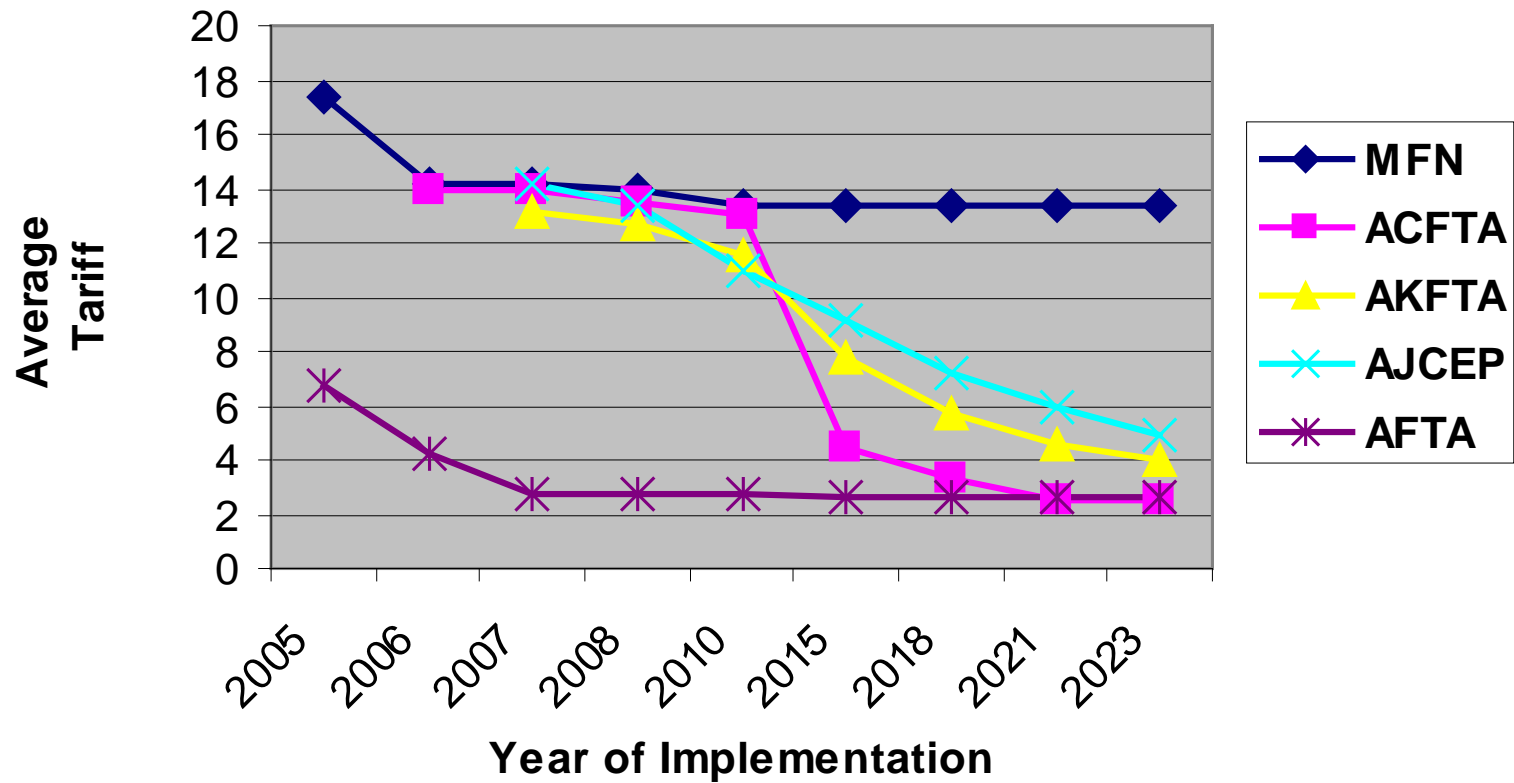
Current negotiating:

1. Trans-Pacific Partnership Agreement (Round 13-San Diego, USA)
2. Vietnam-EFTA Free Trade Agreement (Round 1-Vietnam)
3. Vietnam-EU Free Trade Agreement (to be negotiated soon)

Vietnam's commitments under FTAs

Partner	ATIGA	ACFTA	AKFTA	AI FTA	AJCEP	AANZFTA
ASEAN-6	2003	2010	2010	2013	2012	2015
Vietnam	2006	2015	2016	2018	2017	2018/2020
CLM	2008/ 2010	2015	2018	2018	2017	2018/2020

Tariff Reduction Schedule under FTAs



Definitions of SMEs

SMEs are independent production and business establishments, which make business registration according to the current law provisions, each with registered capital not exceeding VND 10 billion or annual labor not exceeding 300 people.

The non uniformity of definition has posed difficult problems in the design, implementation, coordination and evaluation of SME-related policies. It has affected the provision of credit, finance and other assistance to SMEs among agencies and institutions within the same country itself.

Opportunities for SMEs in the context of FTA

Trade in Goods: a sharp drop in tariffs would provide a major opportunity for exporters

Tourism opportunity: MICE tourism opportunities are particularly large and hopefully economies that have the most experience in this area such as Thailand and Singapore will render their assistance to those with weak MICE experience - recent examples of this are Thailand with Vietnam and also some talk in Thailand about rendering assistance in Laos and possibly Cambodia.

Internationalization of health care under the AEC: it offers potentials for the free-flow of health services, etc. in the region. Recent examples here were noted in the Bangkok Post in mid-March which noted programs by Thailand's largest medical service BGH and other Thai hospital groups to step-up the pace of mergers and acquisitions and joint ventures in other AEC economies to help give them a better platform to better take care of developing AEC opportunities.

Main barriers to promote SMEs in the regional and global supply chain



Limited understanding of FTA commitments

Limited information to locate/analyse markets

Shortage of working capital to finance exports

Inability to contact potential overseas customers

Lack of managerial time, skills and knowledge



Challenges to SMEs

1. Burdensome Rules of Origin Regimes:

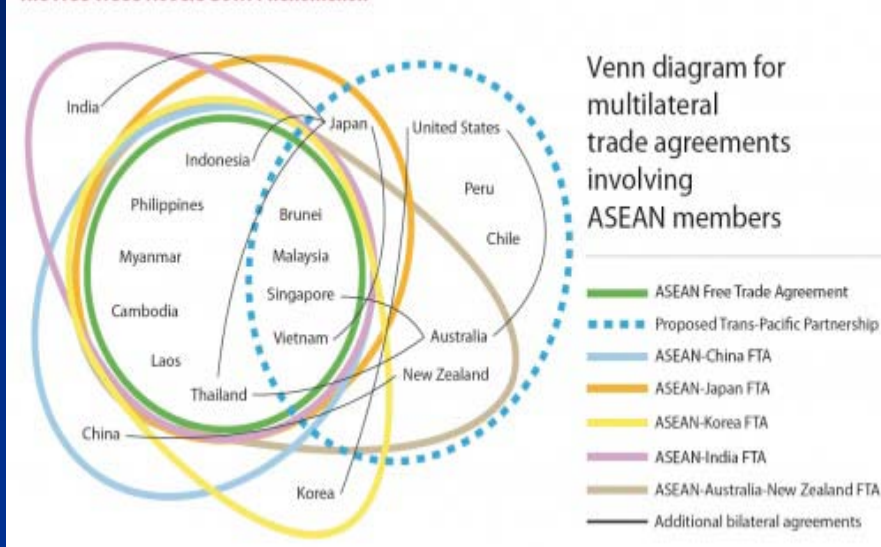
-Value added rule is simple in principle but difficult to comply with: The import content (from non-ASEAN sources) of exports is high, making it difficult to comply with the 40% VA rule. Further, economies with low labor costs find it more difficult to comply with a given VA requirement than high labor cost economies.

-High administrative cost of compliance to prove origin

2. Challenge of Multiple and Overlapping Free Trade Agreements and the Noodle Bowl

- the multiple and divergent ROOs that give rise to the noodle bowl effect. Divergent ROOs across FTAs lead to fragmented rather than integrated regional markets, added administrative costs for traders and customs officials and production costs for producers, and low FTA utilization rates.

The Free Trade Noodle Bowl Phenomenon



Awareness of SMEs, industry associations on the details of FTAs

- Not aware much of the FTAs
- Application procedures, supporting documents (required to obtain the C/O) create some burdensome, take time and discourage our exporters to apply for a preference
- Firms, though understand their own production process, fail to adapt it to the ROO
- Failure of updating the Schedule of tariff reduction year by year
- Failure of updating the NTB, NTM imposed by importing Parties

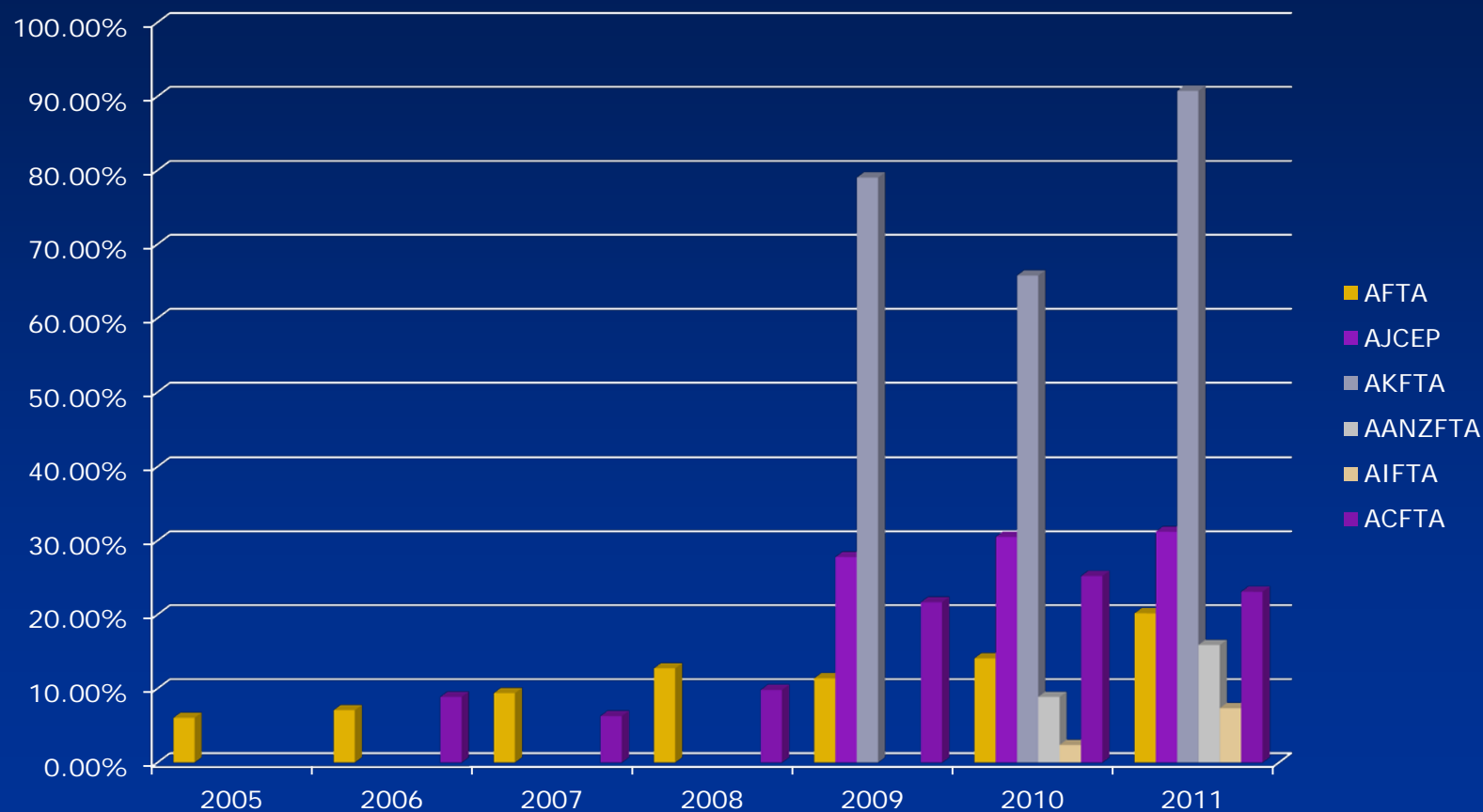
Utilization rates under FTAs

Year	2005	2006	2007	2008	2009	2010	2011
AFTA	6.07%	7.10%	9.41%	12.76%	11.41%	14.11%	20.20%
AJCEP					27.81%	30.52%	31.23%
AKFTA					79.05%	65.79%	90.77%
AANZFTA						8.89%	15.91%
AIFTA						2.39%	7.37%
ACFTA		8.89%	6.30%	9.83%	21.70%	25.23%	23.11%

Source: Ministry of Industry and Trade

Note: VJEPA is incorporated in to AJCEP

Flow chart of Utilization



Source: Ministry of Industry and Trade
Note: VJEPA is incorporated in to AJCEP

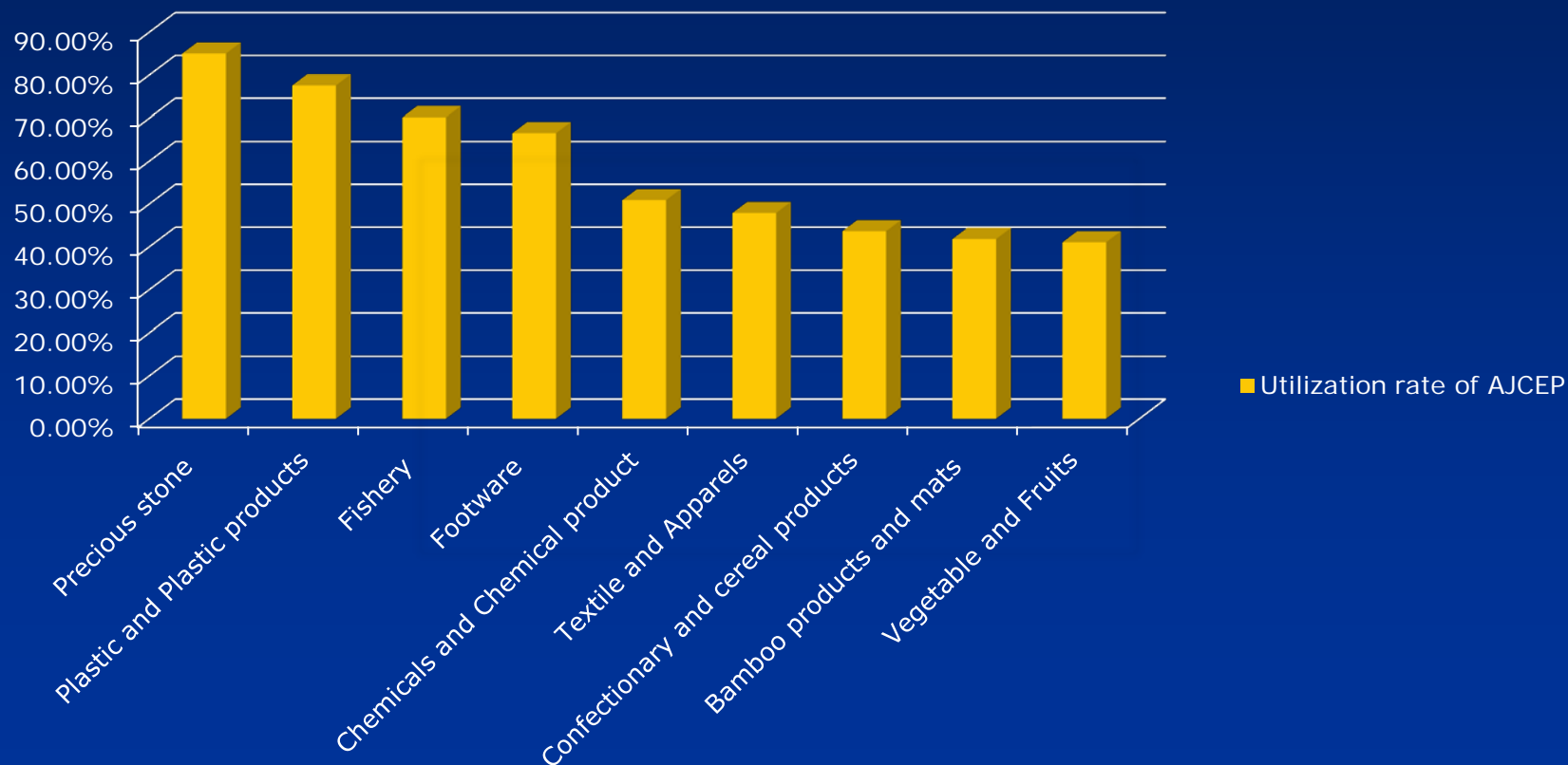
High utilization of specific goods under AJCEP

No	Description	Utilization rate of AJCEP
1	Precious stones	85.07%
2	Plastic and Plastic products	77.62%
3	Fishery	70.24%
4	Footwares	66.58%
5	Chemicals and Chemical products	50.96%
6	Textile and Apparels	47.95%
7	Confectionary and cereal products	43.70%
8	Bamboo products and mats	41.86%
9	Vegetable and Fruits	41.11%



High utilization of specific goods under AJCEP

Utilization rate of AJCEP



Case of low utilization of AFTA

- The goods exported to ASEAN not necessary to use CO Form D are at high value (i.e. coal, crude oil), around 50% of export value to ASEAN economies.
- Some exporters are still familiar to the RVC (40%) criteria and know nothing about the existence of CTC or SP rule.
- Goods fail to meet the rules of origin.
- High administrative cost of compliance to prove origin
- Divergent ROOs across FTAs lead to fragmented rather than integrated regional markets, added administrative costs for traders and customs officials and production costs for producers, and low FTA utilization rates.
- Not aware much about FTA elements

Enhance the utilization of the FTAs

- ❖ Fully understand the tariff reduction schedule and continuously update it on a yearly basis ensure the best bargain with importers for the sales of goods.
- ❖ Try the best to use the originating materials in the FTA region for the purpose of accumulation
- ❖ Participate into the supply chain in the region for easy access to the distribution channel and market of the FTA partners.
- ❖ Develop supporting industries to supply the locally produced materials, spare-parts, accessories, components to the local industries for the purpose of increasing the value added of domestic goods so they can easily meet the requirement of the FTA rules of origin.
- ❖ Technical support programs to assist the exporters/manufacturers and associations further understand how the FTAs work so they can utilize the provisions under such FTA agreements efficiently.
- ❖ Find the reason why the utilization is low for each industry, sector, type of enterprises/manufacturers (i.e. domestic or FDI enterprises). From these findings, recommend solutions for the policy makers, manufacturers to improve the utilization rate.

Enhancement of Investment and industrial competitive edge

- Education and training development to create a good human resources.
- Supporting industries:
 - Good infrastructure, especially electricity, highway road and deep sea port.
 - Simplification of the administrative procedures
 - Removing restrictions to foreign investors appropriately and in conformity with Vietnam's commitments to WTO and FTAs.
 - Continue amending laws and regulations on foreign investment to create a facilitative, transparent, and predictable environment for investors and in conformity with Vietnam's commitment to WTO and FTAs.



Conclusions

- FTA's Impacts will be more significant
- Diversified export structure is a determinant factor for gaining benefits from FTAs
- Non-tariff measures, trade facilitation, trade balanced growth should be reviewed regularly to increase the utilization of the FTAs.
- There is a necessity to carefully assess the benefits of a future FTA, taking into account all elements involved.
- FTA implementation and impact assessment should be conducted on a regular basis to timely undertake necessary measures.



Thank You!

