

ASEAN Economic Community's opportunities and challenges for Vietnam

In 2003, leaders from the ASEAN bloc of nations agreed to establish an ASEAN Community by 2020, comprising three pillars, namely the ASEAN Political-Security Community, the ASEAN Socio-Cultural Community, and the ASEAN Economic Community (AEC). Subsequently, they decided to hasten the establishment of the AEC to 2015. The AEC is an initiative to transform the region into an area with free movement of goods, services, investment, skilled labor, and a freer flow of capital.⁵ The AEC will also help enhance ASEAN countries' presence in the global production and value chain, and allow them to enjoy more benefits from regional trade and investment. According to recent research by the Hawaii-based East-West Centre (EWC), ASEAN economies are estimated to see a 5.3% increase in their real income thanks to their participation in the AEC.⁶

In the case of Vietnam, an issue of great interest at recent conferences is what are the opportunities and challenges from AEC 2015 for this country? The Economic experts stressed that proactive participation in the AEC will bring great opportunities for Vietnam including faster economic growth, better job generation and additional foreign direct investment (FDI) inflows. However, the big economic development gap between Vietnam and ASEAN-5 countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand) along with the country's difficulties in the process of realizing the AEC is an emerging concern in addition to the challenges posed by the global economic slowdown.⁶

1. The Opportunities for Vietnam

The AEC would create greater opportunities for Vietnam to export goods and services to the ASEAN market.

Thanks to the establishment of AEC 2015, ASEAN will become a single market as well as a joint production space to promote free flows of goods, services, investment and employment in the bloc.² ASEAN is a large-scale potential market for Vietnamese enterprises with a population of 600 million and a regional GDP of around 2,200 billion USD⁶. According to ASEAN free trade agreements (AFTA), after December 31, 2015, most goods and services traded between ASEAN countries will be taxed at 0%. The tariffs and non-tariff removal will facilitate businesses to help cut the cost of imports, lower production costs, increase competitiveness and boost exports... Vietnam has also completed the elimination of import taxes for about 80% of tariff lines and will completely remove all kinds of tariff lines by 2018.²

In addition, through separate Free Trade Agreements (FTAs) between ASEAN and each of the major economic partners and the Regional Comprehensive Economic Partnership (RCEP), Vietnamese exports will also receive a 0% tariff treatment in the markets of China, Japan, Korea, India, Australia and New Zealand. Hence, Vietnamese firms will be able to penetrate deeper into the global and regional production and supply chain.

Over the years, since participating in ASEAN, Vietnam has seen strong economic growth thanks to strengthening investment promotion activities and promoting exports to regional markets. According to data from the Ministry of industry and trade, trade between Vietnam and other ASEAN member countries has quadrupled over the past decade, climbing to nearly 40 billion US dollars in 2013 from 9 billion US dollars in 2003.⁴ In 2013, Vietnam took in 18.47 billion US dollars from its exports to the bloc, the country's third largest importer only after the United States

and the EU, which represented a rise of 4.4% from the previous year. In the first quarter of this year, the figure was estimated at 4.7 billion US dollars, a year-on-year increase of 6.4%.⁴

During a forum organized at HCM City University of Technology on November 10, Mr. Le Dang Doanh, a renowned economic expert, said the GDP of Vietnam would increase 13% within five years and the annual growth rate of the GDP would be 2% after AEC begins next year.⁸

FDI inflows in ASEAN, including Vietnam, will be facilitated due to the region's propitious investment environment

Together with the advent of the AEC, this may position the 10 ASEAN countries as attractive alternative locations for foreign direct investment.

According to the Japan External Trade Organization, Japanese direct investment in ASEAN from January 2013 to June 2013 increased by 55.4% to USD10.29 billion, while direct investment in China decreased by 31.1% to USD4.93 billion in the same period. This indicates a concerted effort by the Japanese political and business elite to shift investments away from China to some extent.⁵

ASEAN member states are among Vietnam's leading trade partners, accounting for 15% of the country's total trade. The regional grouping made up 22.4% of total foreign direct investment in 2013 with Singapore, Malaysia and Thailand being key investors.⁴

According to data from the State Bank of Vietnam, Foreign Direct Investment in Vietnam increased to 2450 USD Million in the fourth quarter of 2013 from 2175 USD Million in the third quarter of 2013 (Figure 1).



AEC 2015 will help Vietnamese workers have more job opportunities, especially skilled workers

According to the 2012-2013 annual report just published by Mr. Le Luong Minh, Secretary-General of ASEAN, the end of March, 2013, ASEAN has completed 80% of the suggested solutions in the AEC plan on all fields. "Now, a comprehensive investment agreement ASEAN has been fully implemented, ASEAN agreements on human migration (ASEAN Agreement on Movement of Natural Persons-MNP) has been signed. Businesses will invest more to create a better working environment, as well as improved salary conditions, rested, on the welfare of workers."¹

Joining AEC will help the workers in Vietnam are protected by the legitimate rights of their legal, Vietnam legal system is gradually adapted towards ensuring the rights of workers, increasing the worker's voice in the management place and running the country with the spirit of "the people

know, people discuss, people do and people check" and building the rule of law, the state of the people, by the people and for the people.¹

Hence, above all, the interests of workers are protected, the voice of workers are protected, the voice of workers is concerned though that the required level is still lower than the requirements and demands of the Trans - Pacific Partnership – TPP.¹

2. The challenges for Vietnam

Vietnam may lose competitiveness against rivals in the bloc in terms of product quality and market size due to the economy based on cheap labor, the exploitation of natural resources and low technology.

The ASEAN Economic Community will be established in late 2015. Vietnamese businesses, especially small and medium-sized enterprises will face a big market having no economic barriers; goods, services and capital will be flowed freely within ASEAN countries; and any ASEAN company or investor, including Vietnam, will have the same opportunities to promote their advantages. Vietnamese businesses, thus, are expected to face with pressure from high competitive imports, services, and investment from the world's and ASEAN companies owning experiences and advantages in service such as those from Singapore, Malaysia, and Indonesia.³ In addition, consumers will see goods with higher quality goods and more competitive prices.² As a result, several SMEs may lose their both domestic and regional markets or go bankrupt.

Mr. Le Dang Doanh said "Six countries are very eager for the AEC to start, while the other four countries (Cambodia, Laos, Myanmar, and Vietnam) have not been very active in preparing for integration". Six other ASEAN members are eagerly awaiting the opportunity since they can expand markets and use labor and resources at lower prices in the four countries with less developed economies. In 1993, the ASEAN Free Trade Area was established. ASEAN-6 including Singapore, Malaysia, Thailand, Philippines, Indonesia and Brunei have nearly completed the process of tariff reductions and non-tariff barriers, leaving a great deal of pressure for enterprises in the less developed countries.⁸

Hence, these enterprises need to boost their operational capacity and the quality of products and services, plus trade promotions.

The Vietnamese business community has not yet made sufficient preparations to take full advantage of opportunities from the AEC

Mr. Tran Thanh Hai, deputy head of the ministry's import- export department, expressed great concern of the fact that 80% of local enterprises that were surveyed about the AEC have little information about interests and challenges available for them in the ASEAN market. He said the lack of knowledge would be a big challenge for local enterprises when the AEC is formed in 2015.⁴

At the forum, AEC 2015: Opportunities and Challenges for Vietnamese Enterprises, Mr. Le Dang Doanh predicted that the flow of skilled Vietnamese workers to neighboring countries with higher wages could cause serious issues for local companies. The expert warned that Vietnam will be one of four countries in ASEAN to become a good market for the other six ASEAN members. "Seventy-three percent of Vietnamese enterprises do not know about AEC and have not prepared, which shows the weakness of local enterprises, especially small- and medium-sized enterprises".⁸

Moreover, Vietnam would compete with other countries in the ASEAN market in exporting raw products because it mainly sells raw products and components, including farming, seafood and mineral products, as well as electric and electronic components, said Pham Thi Hong Thanh, deputy head of the ministry's Asia-Pacific department.⁴

Deputy Head of the Foreign Investment Agency (FIA) under the Ministry of Planning and Investment Vu Van Chung said businesses with low competitiveness will not be able to participate in highly profitable links in the supply chain, while laborers without skills cannot hold managerial or well-paid positions.⁷

Unskilled labor and low productivity is big barrier for Vietnam to integrate into AEC

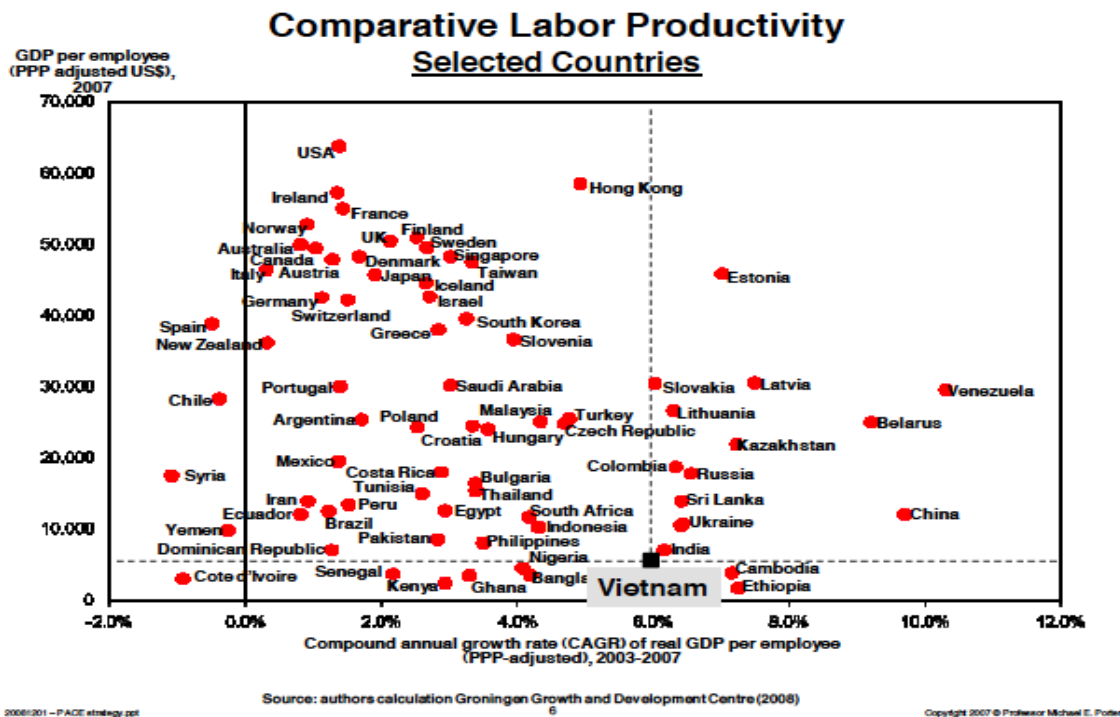
A mismatch of economic development, education, and other factors has led to a skilled labor shortage in Vietnam.¹¹

Strategic Foresight Group writes, “The percentage of unskilled laborers is expected to increase significantly in Vietnam in the next five years. Vietnam’s workforce was 48.54 million in 2009. 47.7% of that workforce was employed in the agriculture and fisheries sector, 21.5% in industry and construction and 30.8% in the services sector... With an increase in the workforce and the latter two sections demanding more skilled laborers, unskilled laborers are facing an uncertain future. The percentage of unskilled laborers in Vietnam was over 70% of the total workforce in 2009, up from 66% in 2006.”¹¹

The main reasons for this increase are a lack of relevant education and lack of vocational training. Education curricula have not caught up changing economic makeup, and many graduates simply aren’t prepared for current jobs. Only 10% of the total workforce has some sort of vocational training, which would allow unskilled laborers to enter the skilled labor workforce. IFTF adds that many employers are reluctant to initiate such programs because workers go through them, then leave for other jobs.¹¹

In addition, “The labor productivity of Vietnam is far than that of many other countries in Asia-Pacific, and was among the region’s lowest in 2013” and “there is a big gap in productivity between Vietnam and other ASEAN countries with medium income per capita”. The ILO shared these information in a report released at a forum held in Hanoi on May 2014 to discuss the impact of the ASEAN Economic Community on the labor market in Vietnam.⁹

Also according to reports released at the seminar, Vietnamese productivity was only 61.4 percent of the average productivity of ASEAN countries, and was equal to just 12 percent and 22 percent of the respective productivities of Singapore and Malaysia.⁹ (Figure 2).



Dr. Christian H. M. Ketels, from the Harvard Institute for Strategy and Competitiveness, unveiled at a seminar held in conjunction with the World Economic Forum on East Asia 2010, shows productivity in Vietnam and China consistently low from 1975-2000, but China soaring since 2000, overtaking Indonesia in 2008, while Vietnam stays at the bottom.¹⁰

Ketels and his colleagues have embarked on research into Vietnam's competitiveness in 2010 and concluded that Vietnam's low productivity is ascribable mainly to its reliance on cheap, unskilled labor for growth. Ketels also concludes that economic growth based on cheap, unskilled labor is not an advisable formula in the long run.¹⁰

It can be said that the biggest impediment to Vietnam's thinking, institutions and habits of Vietnam in labor issues so far is quite different than other countries. In the renovation process, Vietnam has a strong innovative economic thinking in many ways, but in labor issues, then may be a shift in the mindset of Vietnam is not as strong as some policy other economic openness or trade policy. For institution, Vietnam have the good institution of labor, Vietnam's Labor law can say is fairly radical. However, the problem is that despite provisions in the law enforcement mechanism of Vietnam is very weak, cannot say that an institution is good if it is not going to be in real life.¹

In generally, to time of establishment of the AEC is not much, to be able to make good use of opportunities and challenges, in addition to the policy of Government support, proactive and positive businesses play a decisive role. Because of the AEC attach special importance to promoting the target of narrowing the development gap between member countries. So, the Vietnamese Government and domestic businesses need appropriate strategies and solutions to successfully integrate into the ASEAN Economic Community (AEC) and create favorable conditions for Vietnam to raise its position and prestige at ASEAN forums.

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