

# **AEC formation: Challenges and opportunities for Vietnamese enterprises**

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The ASEAN Economic Community (AEC), which is expected to be formed by the end of 2015, aims to add impetus to economic development and global integration of regional countries. Vietnamese enterprises will be presented with both challenges and opportunities when they join the community.

## **1. The opportunities for Vietnamese enterprises**

General Secretary of ASEAN Le Luong Minh said that Vietnam achieved successes in economic growth through promoting economic investment as well as export between ASEAN markets after the country joined the community<sup>4</sup>. Under the AEC, the 10 ASEAN economies will be merged in all fields – production, trade, and investment – to develop a common market for an area with 600 million people generating an annual GDP of about 2 trillion USD. This promises to be a big opportunity for Vietnamese enterprises, especially major companies, who have outlined plans to participate in the AEC while smaller businesses can learn how to access the bigger market<sup>5</sup>.

From now ASEAN Economic Community will implement cutting taxation as well as continue to promote investment in order to develop economy, reduce gap between rich and poor countries in the region, added the General Secretary.<sup>4</sup> Speaking at the seminar called “Upgrading Vietnam’s position towards AEC 2015 and beyond”, Dr. Ponciano S. Intal Jr., a senior researcher of ERIA affirmed that ASEAN was the potential place to attract investment of counties all over the world. Particularly, Vietnam is one of the countries attracted investment of Korea leading enterprise-Samsung.<sup>4</sup>

In addition, Nguyen Cong Danh in charge of export and import at the Material and Complete Equipment Export-Import Corporation said: *“Vietnamese businesses have their main advantages in the area of agricultural produce while a number of others still face lots of difficulties. Our company, which specializes in exporting motorbikes has to compete severely with products from Thailand and China with their extremely low prices and beautiful designs. In order to penetrate this market, we have defined pricing and high quality as keys to our success<sup>5</sup>.”*

On the other hand, formerly, made-in-Vietnam products were only exported to familiar countries such as Laos, Cambodia and Myanmar, but the country’s AEC participation will open new markets for Vietnam’s commodities such as Indonesia, Thailand, Singapore and Malaysia without the present barriers created by taxation. A competitive economy will create conditions for Vietnamese firms to renovate themselves, improve manpower and enhance their sources of capital, management and administration.<sup>3</sup>

## **2. The challenges for Vietnamese enterprises**

*Firstly*, human resources are the most problematic issue because the country still lacks skilled and experienced manpower, especially in the new technology sector.<sup>3</sup>

To be one of participator in Asean Economic Integration, unskilled-labor is one of interesting factor for state to develop their frame work to handle unavoidable obstacle. There are two diverse negative impacts of unskilled labor to Vietnam future economic. Unskilled-labor

produces high unemployment rate due to lacking of labor market or they cannot compete to get good job while free good, labor, and service have been implemented. Our generation is technology innovation-accounting, management, technology, critical thinking, and communication. Thus, to get good job competing market, people should have all of them. If states cannot convince all of dangerous factors compare others, states will facilitate experience with high unemployment in their country for their own people.<sup>1</sup>

Base on Duong Duc Lan, Deputy Director General, General Department of Vocational Training of social republic of Vietnam has forecasted skill labour force demand up to 2020 that population of Vietnam is about 99 million in 2020 and Vietnam will have only 57 million labor force; structure of the labor force are: in agriculture 30%; industry 32% and service 38%. Each year the labour force from agriculture move to industry and service is about 1 million. Additionally, 27.5 million people (55% of the labor force) should be trained in vocational training institutions to reply to the requirement of the economy. For Vietnam, the movement of labor force from agriculture to industrialize is hard thing to be achieved. Vietnam is not a country experience with technology and industry due to factor production of Vietnam are land capital and unskilled-labor.<sup>1</sup>

Assessing the issue, Pham The Hung, President of the Institute for Small and Medium-sized Enterprises (SMEs) Research said that almost all of SMEs have outdated equipment and technology, unskilled workers and short-term business thinking. These are alarming issues as Vietnam further integrates into the global economy.

**Secondly**, the product sales markets will be expanded but this means that competition with other producers in the region will be greatly increased. According to Associate Professor Nguyen Hong Son, Head of the Economics University at the Hanoi National University, Vietnam is one of four countries receiving preferences in the roadmap for cutting taxes and opening up markets. Thailand, Malaysia and Indonesia have cut taxes on many goods and opened up their markets since 2010. Vietnam has cut taxes on some goods items in the last several years but a number of sensitive goods are still protected. Vietnam is now obliged to fully integrate from the end of this year to 2018. He also said that the production of consumer goods and the retail sector will suffer the most when the AEC is established because they tend to come first in market penetration by overseas players. Mr. Son from the Hanoi Young Entrepreneurs Association added that Vietnamese retailers are experiencing major pressure from consumer goods from Thailand, Indonesia and Malaysia. In his view, retailers from Thailand and Indonesia have substantial retail channels and consumer goods producers and are well placed to penetrate into Vietnam.

In addition, Deputy Minister of Industry and Trade Nguyen Cam Tu said that it is very difficult for Vietnamese enterprises to compete fairly with foreign counterparts because they are starting from a low base. They need support, including quick improvements in policies and support in integration. He emphasized that ASEAN enterprises, including those from Thailand, Singapore, Malaysia, Indonesia, the Philippines and Brunei, have worked within a market economy for many years, whereas Vietnamese enterprises only have experienced a few years in a real market economy. "Therefore, perhaps only the large enterprises are strong enough to be competitive," he said.<sup>2</sup>

**Thirdly**, Vietnamese enterprises are still largely unprepared for upcoming integration. According to Associate Professor Son, who has conducted much research on the AEC, said it

is expected to be established late this year and a series of policies will be implemented. His research has shown that Vietnamese enterprises are only interested in one of the four key matters: the formation of an ASEAN common market and production area. The three remaining matters - a competitive economic area, economic support, and international economic integration - have been largely ignored. He said that, out of 10, the preparation by Vietnamese enterprises lies somewhere under 5.<sup>2</sup>

Moreover, Mr. Le Vinh Son, Chairman of the Hanoi Young Entrepreneurs Association, spoke of the results of a survey of 681 enterprises in five cities and provinces - Hanoi, Ho Chi Minh City, Da Nang, Hai Phong, and Can Tho which is conducted by the Association. When asked about integration, about 80 per cent of enterprises said they were “indifferent to or don’t care about integration”, while only 20 per cent, mostly large-sized enterprises, cared about integration. “We recognized that Vietnamese enterprises lack knowledge about integration,” he said. “Most are inactive and have no idea about what awaits them as integration approaches. I am concerned that when the AEC commitments are implemented, enterprises in ASEAN and ASEAN+, which are more dynamic and competitive, will hurt Vietnamese enterprises, especially small and medium-sized enterprises.”<sup>6</sup>

### **3. What do Vietnamese enterprises need to prepare to join AEC?**

Enterprises said that, to date, information on the AEC has been negligible compared with what was and is available on the WTO and the TPP. Although State authorities have provided information on AEC integration it has only been in general terms and has lacked specifics. Enterprises have therefore been disinterested in adjusting their business strategies in preparation for the AEC.<sup>6</sup>

Doctor Nguyen Duc Thanh, the Director of the Vietnam Center for Economics and Policy Research, said Vietnamese enterprises should be more proactive in finding ways to develop. Thanh said: “*Vietnam has a favorable position in linking ASEAN and Northeastern Asia. With the AEC, barriers in trade and investment will be reduced, making cooperation between areas easier. But the production and exports of Vietnamese businesses should be more professional. Vietnam needs more high-value products characterized by its advantages.*”

Tran Thanh Hai, Deputy Director of Export-Import Department of the Ministry of Industry and Trade, said Vietnamese enterprises also need to confront challenges when they join the AEC. In particular if they want to enjoy tax incentives in accordance with the ASEAN Trade in Goods Agreement (ATIGA), they should ensure the bloc’s regulations on origin of products. Hai noted: “*although the tax rate will be reduced, there remain other barriers, including origin regulations. It means unless the localization rate of products reaches at least 40%, the product can enjoy tax incentives. Our domestic companies should pay more attention to other trade barriers such as anti-subsidy and anti-dumping.*”

In summary, Vietnamese businesses need more careful preparation in terms of product, packaging, design, product specification, and methods to penetrate the market on top of human resources specializing in market development. Moreover, the process to develop the AEC market should strictly follow the needs of consumers in every ASEAN member country.

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