

**ASEAN-CHINA FREE TRADE AREA AND ITS IMPACTS ON THE  
DEVELOPMENT OF THE VIETNAM'S TRADE**

**By**

**Le, Thi Mai Anh**

**THESIS**

Submitted to  
KDI School of Public Policy and Management  
in partial fulfillment of the requirements  
for the degree of

**MASTER OF PUBLIC POLICY**

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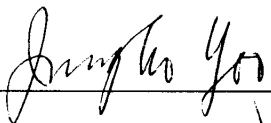
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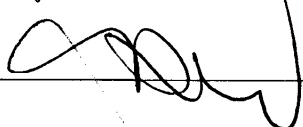
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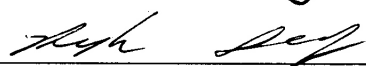
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Approval as of May, 2012

## **ABSTRACT**

### **ASEAN-CHINA FREE TRADE AREA AND ITS IMPACTS ON THE DEVELOPMENT OF THE VIETNAM'S TRADE**

**By**

**Le, Thi Mai Anh**

The ASEAN – China Free Trade Area has officially come into effect since January 1<sup>st</sup> 2010, turned ACFTA into the biggest commercial area in the world including developing countries with nearly 2 billion consumers and around \$300 billion of trade volume. However, the establishment of ASEAN-China FTA presents a policy question. In this paper, the most crucial question is, is Vietnam, an individual member country of ASEAN going to get much benefit when trading with China under ACFTA? To find the answer for this question, this paper aims to assess the implication of ACFTA for Vietnam – China trade relationship, and likely challenges and opportunities that Vietnam will face. In this effort, the paper also discusses selected industries in Vietnam affected by the formation of ACFTA.

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## LIST OF ABBREATIONS

APEC	Asia-Pacific Economic Cooperation
ACFTA	Asean-China Free Trade Area
ASEAN	Association of Southeast Asian Nations
AFTA	ASEAN Free Trade Area
BTA	Bilateral Trade Agreement
CLMV	Cambodia, Laos, Myanmar, Vietnam
CEPT	Agreement on the Common Effective Preferential Tariff
C/O	Certificate of Origin
EU	European Union
EHP	Early Harvest Program
FTA	Free Trade Agreement
GDP	Gross Domestic Product
HS	Harmonized System
HSL	High Sensitive List
MFN	Most favoured nation
NAFTA	North Free Trade Area
NT	Normal Track
SL	Sensitive List
WTO	World Trade Organization
U.S	United State

## 1. INTRODUCTION

Since the 1990s, under the impact of economic globalization, in the Asia - Pacific region, the wave of trade liberalization has hold more than ever. The countries in the region have not only promoted the improvement of relations in various fields such as signing trade agreements and accession to the world organizations of economics and finance, but also actively promoted the establishment of a free trade area on different levels and scales. According to this trend, the Asia-Pacific Economic Cooperation (APEC) and North America Free Trade Area (NAFTA) were born, China joined the World Trade Organization (WTO), the United State and Vietnam Bilateral Trade Agreement (BTA) was signed, agreements to liberalize bilateral trade between individual countries are rushing ahead...

The development path for all nations in the era of dynamic globalization today is nothing but opening the doors to integrate proactively into the region and the world. China and ASEAN countries have owed significant improvements of their role and position in the region and the world to the achievements of international integration.

In 1992, all ASEAN countries have established or restored a diplomatic relation with China, laying the foundations for a period of dialogue and cooperation. In 1997, both China and ASEAN launched the joint statement on building friendly neighborhoods partnership toward the 21<sup>st</sup> century. In 2001, the China-ASEAN relations have grown into the full dialogue partners.

On November 4<sup>th</sup> 2002 in Phnompenh, the ASEAN countries and China signed a Framework Agreement on Comprehensive Economic Cooperation, paving a way for the establishment of the ASEAN – China Free Trade Area (ACFTA). The Agreement became effective in July 2005 (the tariffs started to fall) realizing a complete imported tariff reduction roadmap in 2010 for ASEAN 6 and in 2015 for the newcomers such as Vietnam,

Laos, Cambodia and Myanmar. While the relationship of economic cooperation between ASEAN and China in general and Vietnam and China in particular was growing along with the geographical and cultural proximity, China joined the World Trade Organization (WTO). The option to establish a free trade area between ASEAN and China (ASEAN – China Free Trade Area), therefore, was considered to be the answer for the next direction of the economic development of ASEAN, expressing the political will of ASEAN leaders and China, representing a new development of relations between the two sides in the 21<sup>st</sup> century.

According to ASEAN Trade Statistics Database, ASEAN had been ranked fourth in trade relationship with China (EU, U.S. and Japan are three major partners), accounted for only 9.6% of China's total trade. However, the China - ASEAN trade has sharply increased since 2004 (the year that the Early Harvest Program under ACFTA took effect), with an average annual growth rate of 22%, made the total trade of China - ASEAN increases constantly, reached nearly \$193 billion in 2008, more than two times higher against the year 2004 (\$89 billion).

This seems consistent with the desire of both ASEAN and China for the rapid changes in the world economy. Joining ACFTA, China and ASEAN obtained an objective to diversify its partners, reducing the dependence of both sides on the traditional economic relations.

Professor Pham Quoc Thai<sup>1</sup> assessed the benefits that ACFTA gives China is too obvious, while what ASEAN countries gaining is not clear. Uncontrollably increased trend of the trade deficit with China together with its adverse impacts on production, especially agriculture seem to indicate that ASEAN is paying a high price for their agreement with China under the framework of the ACFTA.

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<sup>1</sup> Faculty of International Economics, University of Economics and Business, Vietnam National University, Hanoi, 144 Xuan Thuy, Cau Giay, Hanoi, Vietnam.



**Table 1: ASEAN-China Trade (2004-2008)**

Unit: Millions USD

<b>Country</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
ASEAN's exports to China					
Brunei	243	234	174	201	-
Cambodia	12	15	13	11	13
Indonesia	4,605	6,662	8,344	8,897	11,637
Laos	1	4	1	35	15
Malaysia	8,634	9,465	11,391	15,443	18,422
Myanmar	75	119	133	475	499
Philippines	2,653	4,077	4,628	5,750	5,467
Singapore	15,321	19,770	26,472	28,925	29,082
Thailand	7,098	9,083	10,840	14,873	15,931
Vietnam	2,711	2,828	3,015	3,336	4,491
Total ASEAN exports	41,352	52,258	65,010	77,945	85,558
ASEAN imports from China					
Brunei	87	94	120	157	171
Cambodia	337	430	516	653	933
Indonesia	4,101	5,843	6,637	8,616	15,247
Laos	89	185	23	43	131
Malaysia	11,353	14,361	15,543	18,897	18,646
Myanmar	351	286	397	564	671
Philippines	2,659	2,973	3,647	4,001	4,250
Singapore	16,137	20,527	27,185	31,908	31,583
Thailand	8,183	11,116	13,578	16,184	19,936
Vietnam	4,416	5,322	7,306	12,148	15,545
Total imports of ASEAN	47,714	61,136	74,951	93,173	107,114

Source: ASEAN Trade Statistics Database (July 2009).

Vietnam is a member of ASEAN and characterized by a common border with China. However, Vietnam's position is completely in contrast with China. Vietnam is at a lower development level than China, with GDP per capita only around 1/3 of China, technology also goes after this country. In addition, China's economic size is overwhelmingly large, and its growth is faster than Vietnam.

The fact as described above has caused psychological fear that bilateral trade between the two countries would be harmed by the worsening and uncontrollable trade deficit of Vietnam from China. Some ideas said that Vietnam will become the main market that consumes Chinese goods by both legal and illegal trade, and the developmental industries in Vietnam such as textile and garment or leather and shoes will not be able to

develop anymore due to the stronger competition of the similar industries in China. Simultaneously, the infant industries are going to face bankruptcy.

Joining the ACFTA was considered as an important step in the process of regional integration and international cooperation. Vietnam's export to China has been continuously increasing over the 10 years. Glosserman and Brailey Fritschi<sup>2</sup> (2002) estimated that ACFTA would help Vietnam and China get an additional annual GDP growth rate of 1% and 0.3% respectively. In the short term, ACFTA may increase competition between China and Vietnam for the industries that have the same advantages of using abundant labor and lower value added. However, in the long term, the industries of both sides could take advantages of the ACFTA to develop efficiently.

Whether participating in the ASEAN - China Free Trade Area in the context of a strong rise of China has become too difficult a challenge for Vietnam or not? The study of the opportunities and challenges of ASEAN – China Free Trade Area, therefore, has practical significance in the current situation that just over three years to fully implement the Agreement between China and new members of ASEAN, including Vietnam. How Vietnam does play its role and whether Vietnam can take advantages of geo-politics, geo-strategy and geo-economic to integrate into the region and the world in the most effective way and contribute significantly to promote the process of industrialization and modernization.

As a citizen of Vietnam, from the above approach, the topic "**ASEAN – China Free Trade Area and its impacts on the development of the Vietnam's trade**" was selected for study.

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<sup>2</sup> Brad Glosserman is director of research and Vivian Brailey Fritschi is research associate at Pacific Forum CSIS

The aim of my thesis is to investigate the impacts of the ACFTA on Vietnam's trade to make clear if the idea that Vietnam's commodities could not compete with Chinese goods leads to bankruptcy of many enterprises is right or just exaggerated. This thesis begins with the introduction of ACFTA and Vietnam's commitments on tariff lines under the ACFTA and then showing the findings as follows:

- ACFTA promotes the strong development of Vietnam-China bilateral trade with the significant increase in both Vietnam's export and import.

- The Vietnam's trade deficit with China has increased but its growth rate has reduced over time and will not increase further after 2015 by following the current trend.

- ACFTA stabilizes the border trade, reduces smuggling and trade fraud between Vietnam and China, and enables Vietnamese enterprises to penetrate further into Chinese market.

- ACFTA further promotes the growth of industries with comparative advantages: Vietnam imports cheaper materials from China and exports products to the world market.

- ACFTA does not affect the development of the less competitive industry of Vietnam due to the reasonable tariff reduction roadmap

## **2. ISSUE BACKGROUND**

### **2.1. ACFTA**

On November 4<sup>th</sup> 2002 in Phnom Penh, Cambodia, the leaders of ASEAN and China signed the Framework Agreement on Comprehensive Economic Cooperation between the Association of Southeast Asian Nations (ASEAN) and the People's Republic of China (hereinafter referred to as the Framework Agreement). This Framework Agreement created important legal foundation to enhance many aspects of economic cooperation between ASEAN and China, in which, the most important was the establishment of the ASEAN-China Free Trade Area (ACFTA) within 10 years.

Framework Agreement aims to:

- Consolidate and strengthen economic trade and investment cooperation among members;
- Gradually liberalize and encourage trade in goods and services as well as create a transparent free and convenient investment regime;
- Expand new fields and develop appropriate measures to promote closer economic cooperation between the parties;
- Create favorable conditions for effective economic integration for the new members of ASEAN (Cambodia, Laos, Myanmar and Vietnam - CLMV) and narrow economic gap between the parties.

Implementing the Framework Agreement, the ASEAN countries and China had conducted the "Early Harvest Program - EHP" for the rapid tariff reduction for agricultural products from Chapter I to Chapter VIII of HS import tariff (except some commodities that each country exclude initiatively from the list of tax cuts). The ASEAN 6 (including Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand) and China had reduced tariffs to 0%

in the period from 01/01/2004 to 01/01/2006. The new members of ASEAN (called CLMV countries) could apply the longer tariff reduction roadmap. Vietnam, therefore, had committed to implement the EHP under the roadmap until 2008 for most items from Chapter I to VIII, excepting 15 tariff lines for commodities including poultry, eggs and some citrus fruits<sup>3</sup>.

Along with the implementation of the EHP, the ASEAN countries and China continued negotiating and signed the Agreement on Trade in Goods in November 2004, providing the tariff reduction model for the establishment of a free trade area by 2010. According to the model, each ASEAN country and China determined the specific tariff reduction roadmap to establish the ASEAN-China Free Trade Area, including the normal track and sensitive track.

Import tariffs on goods of the Normal Track accounted for 90% of total import tariff lines of each country. It should be gradually reduced and completely eliminated by the end of the roadmap that has been committed. With the special and different treatment as well as flexibility for new members of ASEAN, CLMV countries have agreed on a slower roadmap, in which, Vietnam, no later than 5 years (2015).

Tariffs on goods imported under the sensitive track, including the sensitive list and the highly sensitive list, would be cut more slowly and may not be eliminated completely by the end of the roadmap that has been committed. However, due to some difficulties after signing the Agreement on Trade in Goods, Vietnam continued negotiating and concluding the bilateral agreement with China on the sensitive track of Vietnam. Therefore, Vietnam has been implementing their commitments under the Agreement on Trade in Goods since January 1<sup>st</sup> 2006<sup>4</sup>.

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<sup>3</sup> In February 25 2004, Vietnamese Government issued the Decree No. 99/2004/ND-CP of the list of goods and its tax to join the Early Harvest Program.

<sup>4</sup> On June 12 2006, the Ministry of Finance of Vietnam issued Decision No. 35/2006/QD-BTC on promulgating the list of goods with the particularly preferential import tariff of Vietnam in 2006. Roadmap of tariff reduction

To identify items eligible to receive preferential tariff under the ACFTA, ASEAN countries and China have agreed with the origin criteria applied to goods of all ACFTA countries to meet the flexibility requirements of each country of origin criteria for specific products.

To ensure the strict implementation of commitments under the ACFTA, ASEAN countries and China had negotiated and signed the Agreement on Dispute Settlement Mechanism in November 2004. The Agreement on Trade in Services and Investment had completed the text in 2006. Specific commitments were discussed in the bilateral channel.

## **2.2. Tariff reduction roadmap under the ACFTA and the case of Vietnam.**

ACFTA provided a tariff reduction roadmap for four different groups: (i) The Early Harvest Program (EHP), (ii) The Normal Track (NT) (iii) The Sensitive List (SL), and, (iv) The Highly Sensitive List (HSL). Due to the different developmental levels, the tariff reduction roadmap of Vietnam was slower and more flexible than that of China and the ASEAN 6.

- EHP (conducted from 2004): The range of items including unprocessed agricultural products (Chapter I to chapter VIII in import tariffs) has the 3-year tariff reduction roadmap for ASEAN 6 and China and 5-year tariff reduction roadmap for the CLMV countries, including Vietnam. Under the roadmap, since January 1<sup>st</sup> 2006, China and ASEAN 6 have applied the tariff rate of 0% to all items in the EHP. Vietnam has applied 0% tariff rate since January 1 2008.

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of Vietnam to implement the establishment of the ASEAN – China Free Trade Area was developed and issued by the Ministry of Finance in late 2006.

- NT: Normal track included 90% of total tariff lines that downed to 0% by 2010 for ASEAN6 and China. Vietnam and other new members of ASEAN would implement this obligation in 2015.

- SL and HSL: applying 20% tariff rate for ASEAN 6 and China with SL in 2012 and 0-5% in 2018 (Vietnam: in 2015 and 2020 respectively); tariff rate would be reduced to 50% or less with HSL in 2015 (Vietnam: 2018).

In particular, Vietnam has agreed to reduce 50% of the NT to 0-5% no later than January 1<sup>st</sup> 2009. Moreover, 45% of the NT must be removed no later than January 1<sup>st</sup> 2013. In addition, Vietnam (along with Cambodia, Laos and Myanmar) has agreed to eliminate all tariffs applied to NT no later than the year 2015. However, the agreement still ensured flexibility for other 250 tariff lines. These tariff lines must be removed no later than January 1<sup>st</sup> 2018.

Vietnam will reduce the MFN tariff that applied to the sensitive track (including SL and HSL) to 20% no later than January 1<sup>st</sup> 2015. The tariff rates must ultimately be reduced to 0-5% by January 1<sup>st</sup> 2020. The items in the HSL would be applied at a special tariff rate. Specifically, Vietnam (as well as the other parties) had to reduce the MFN tariff related to the HSL of no more than 50% no later than January 1<sup>st</sup> 2008. The combined effect of the period for tariff reduction seems to give Vietnam an effective protection level and ability to adjust the level of liberalization according to the domestic demand.

The tariff reduction roadmap of Vietnam under ACFTA covered about 90% of tariff lines and 10% remaining has a long-term schedule to reduce tariff, even no commitment to reduce tariff to 0%. Quite similar to other FTAs, the most powerfully protected commodities in Vietnam are eggs, tobacco, petroleum, tires, steel, automobiles, motorcycles and parts while the commodities that are protected with a longer roadmap include processed foods,

alcoholic beverages, some petroleum products, cement, and plastics. For the NT, the average tariff rates for the period from 2005-2010 are almost equivalent to MFN; in the period from 2010 - 2015, the speed of tariff reduction is quite rapid, and from 2015, all the tariff rates are almost equivalent to the commitments in CEPT/AFTA.



### 3. FINDINGS

#### 3.1. ACFTA promotes the strong development of the Vietnam-China bilateral trade with the increase in both Vietnam's export and import.

The Chinese market plays an increasingly important role in Vietnam and has continuously been being the largest trading partner of Vietnam by the import-export turnover (the first ranking for import and the third for export – right after the United States and Japan). According to the statistics of Vietnam General Department of Customs, since 2001, bilateral trade between Vietnam and China has continuously increased with the average annual growth rate reaching over 28%. In 2001, trade turnover between the two countries reached only \$3.023 billion but it rose to \$27.326 billion in 2010 (by 9 times).

**Table 2: Trade balance between Vietnam and China (2001-2010)**

Unit: billion USD

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Export	1.417	1.518	1.883	2.899	3.228	3.03	3.356	4.535	4.909	7.308
Import	1.606	2.158	3.138	4.595	5.899	7.39	12.502	15.652	16.44	20.018
Trade deficit TD =Im-Ex	0.189	0.64	1.255	1.696	2.671	4.36	9.146	11.117	11.531	12.71
Growth rate of trade deficit $= (TD_{i+1}-TD_i)/TD_i$	-	238.6%	96.1%	35.1%	57.5%	63.2%	109.8%	21.6%	3.7%	10.2%
Total trade	3.023	3.676	5.021	7.494	9.127	10.42	15.858	20.187	21.349	27.326

Source: Vietnam General Department of Customs.

There are many elements contributing into the development of the bilateral trade between Vietnam and China such as the strong rise of China, the high growth rate of Vietnam, the participation of China and Vietnam into WTO... and ACFTA is one of the most important factors. Since 2004 when the tariff reduction under ACFTA took effect and began declining following the schedule, Vietnam – China bilateral trade has flourished. In 2004, trade with China reached more than \$7 billion, only \$4 billion higher than those in 2001 but after the tariff lines began declining, over the period of six years, until 2010, Vietnam-China bilateral trade even reached over \$27 billion, increased by nearly \$20 billion compared to 2004.

**a. Export**

Vietnam's exports to China continued to increase during the period from 2001-2010, but more dramatically in 2004. China has become the third largest market of Vietnam's export. The average growth rate of export to China during 10 years reached over 21%. In 2001, export to China reached only \$1.417 billion but in 2010 it reached \$7.308 billion (up to 5 times), accounting for 10% of total export of the country.

Especially since 2004, when the tariff reduction under ACFTA took effect and began declining by the schedule, Vietnam's export to China has strongly developed. In 2004, Vietnam's export to China reached nearly \$3 billion, nearly \$1.5 billion compared to 2001, but over the period of six years, until 2010, it reached more than \$7.3 billion, increased by more than 4.3 billion compared to 2004.

**Table 3: Vietnam's export to China by group of commodities**

Unit: Million USD

	2005		2006		2007		2008		2009	
Materials	2519.5	77.6%	2478.6	76.4%	2625.8	72.0%	3519.4	72.6%	3556.6	65.8%
Motor fuel	22.4	0.7%	34.3	1.1%	17.9	0.5%	28.8	0.6%	124.8	2.3%
Consumer goods, machinery and equipment	546.1	16.8%	598.1	18.4%	826.0	22.7%	1068.0	22.0%	1305.8	24.2%
Agriculture, forestry, aquatic products and others	158.3	4.9%	131.7	4.1%	176.4	4.8%	233.9	4.8%	415.7	7.7%
Total export	3246.4	100%	3242.8	100%	3646.1	100%	4850.1	100%	5403.0	100%

Source: Vietnam General Department of Customs (Classification systems of HS 1 digit)

The structure of the main export goods from Vietnam to China can divide into three main categories, including:

- The group of agricultural, forestry and fisheries: In the period from 2005-2009, the proportion of this group in total export of Vietnam to China ranged between 4% to more than 7%.

- The group of materials, fuel and minerals consisting mainly of crude oil, coal, ores and minerals: In period from 2005-2009, the turnover of this group had increased steadily and got high and relatively stable proportion with more than 70% of Vietnam's total export to China. The turnover of this group had a decisive effect on the level of increasing in Vietnam's export to China.

- The group of consumer goods and machinery & equipment including mainly of textiles and garments, footwear, wire and cable, plastic products, luggage and umbrellas

handbags, electronic products and components, mechanical products: The export of this group has tended to increase. Especially since 2005, export to China increased rapidly both in absolute figures and the share of export: in 2005 reached \$546.1 million, accounted for 16.8% of the total export of Vietnam to China; in 2009 reached \$1305.8 million, up nearly 760 million and accounted for 24.2% of the total export of Vietnam to China.

\* The use of C/O form E that Vietnam granted to Vietnam's exported goods to China to be eligible for ACFTA preferential tariff keeps growing<sup>5</sup>. According to the Ministry of Industry and Trade of Vietnam, the rate of using form E increased 264% during 10 months in 2009. As of December 31<sup>st</sup> 2010, export of goods using C/O form E of Vietnam reached \$1.8 billion, accounted for 25.2% of the total export of Vietnam to China. Number of C/O form E granted to exporters was 42,124 sets.

**Box 1: The level of liberalization of the Chinese market under the ACFTA:**

+ According to the EHP under ACFTA, China's imported tariff reduction schedule on fruit vegetable and fisheries had implemented since January 1<sup>st</sup> 2004 and downed to 0% since January 1<sup>st</sup> 2006.

+ Since July 2006, China has decreased the import tariff to 0% on Vietnam's goods in the Normal Track. As of 2007, 60% of Vietnam's goods were entitled to 0-5% of tariff rate.

+ As of January 1<sup>st</sup> 2010, China reduced import tariff to 0% for all products imported from Vietnam (except for some items in the sensitive list and highly sensitive

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<sup>5</sup> C/O form E (Certificate of Origin form E) is the Asean – China Free Trade Area preferential Tariff Certificate of Origin

list). Items of natural rubber in Vietnam have an annual turnover of 1 billion USD, but due on the list is highly sensitive to tax rate quota on China is still high at 20 %<sup>6</sup>.

## b. Import

China has become the largest importer of Vietnamese's goods. The average growth rate of import from China during the last 10 years was 33.4% per year. In 2001, imports from China reached \$1.606 billion and \$20.018 billion in 2010 (increased more than 12 times), accounted for 23.6% of total import of the country.

Especially since 2004, when the tariff reduction under ACFTA took effect and began declining under the schedule, Vietnam's import from China has also strongly developed. In 2004, Vietnam's import from China reached more than \$4.5 billion, nearly \$3 billion higher compared to 2001, but over the period of six years, until 2010, it reached over \$20 billion, increased by nearly \$14.5 billion compared to 2004.

**Table 4: Vietnam's import from China by group of commodity**

Unit: Million USD

	2005		2006		2007		2008		2009	
Machinery and equipment	876.8	14.9%	1303.3	17.6%	2909.1	22.9%	4316.2	27.0%	4761.1	30.9%
Materials	3503.4	59.4%	4964.8	67.2%	8369.0	65.8%	9965.7	62.4%	8177.7	53.1%
Motor fuel	884.3	15.0%	563.7	7.6%	473.5	3.7%	451.6	2.8%	1275.4	8.3%
Consumer Goods	499.5	8.5%	555.2	7.5%	753.6	5.9%	912.7	5.7%	956.5	6.2%

<sup>6</sup> Vietnam natural rubber's annual export is over \$1 billion, however, this item belongs to the highly sensitive list of China, the import tariff on natural rubber from Vietnam to China, therefore, is still at the high level of 20%.

Other Goods	135.7	2.3%	4.2	0.1%	204.8	1.6%	327.3	2.0%	240.7	1.6%
Total export	5899.7	100%	7391.3	100%	12710.0	100%	15973.6	100%	15411.3	100%

Source: Vietnam General Department of Customs (Classification systems of HS 1 digit)

Looking at the structure of Vietnam's imported goods from the Chinese market, we can see that Vietnam imported a lot of equipment and materials. The appearance of the ACFTA made the import of these commodities increasing rapidly. Indeed, Vietnam is in the process of industrialization and modernization and implementing export-oriented policy, thus, Vietnam needs a lot of raw materials and machinery from the outside to serve the production for export. On the other hand, raw materials for production in Vietnam are limited. As shown in the structure of import and export goods of Vietnam, this commodity group has still imported a lot. ACFTA with the tariff reduction of China has created favorable conditions for Vietnam manufacturers to easily access to the cheaper materials.

The structure of the main items imported from China can divide into the following groups:

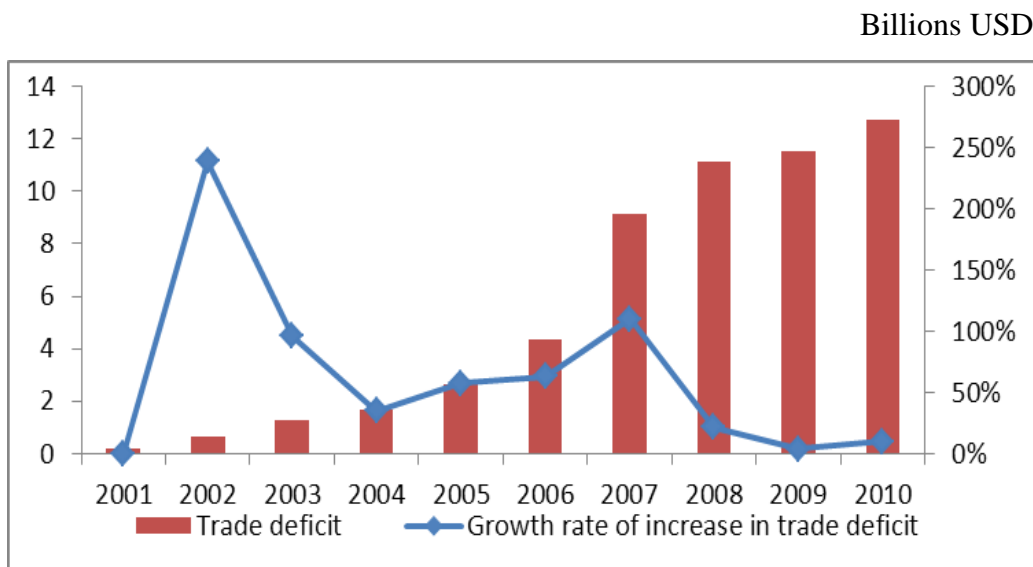
- The group of machinery and equipment: This is one of the most imported commodity groups in the structure of imports from China, with high growth and stability. In 2005, import of this group was only \$876.8 million, accounted for 14.9% of total import, but in 2009, it reached \$4761 million (increased by 7 times in 5 years) and accounted for 30.9% of total import from China.

- The group of materials (including fabric, yarn, cotton, textile, leather and others) also had high growth. This group had occupied the largest proportion in the total import of Vietnam, accounted for more than 60% on average during the period from 2005 to 2009.

**3.2. The Vietnam’s trade deficit with China has increased but its growth rate has reduced and following the current trend trade deficit will not increase further after 2015**

Previous years (the period from 1991 to 2000), Vietnam had a trade surplus with China. However, from 2001 up to now, Vietnam has continued growing trade deficit with China. In 2001, the deficit was only worth \$189 million, equivalent to 6.2% of total trade between the two countries. In 2010, it was \$12.710 billion, nearly 67 times higher than in 2001. Vietnam's trade deficit with China constantly increased. Especially in 2006 and 2007 (with added impact of Vietnam joining the WTO), strong increase in Vietnam’s trade deficit with China pushed China overcoming Taiwan and South Korea to become the market that Vietnam has the largest trade deficit. However, in recent years, the level of trade deficit has increased in absolute value but the speed of increase in the trade deficit has decreased compared to 2007 (this speed in 2010 was 10.22%, compared with 109% in 2007).

**Graph 1: Vietnam’s trade deficit with China**



Source: Vietnam General Department of Customs

Table 5 presents the structure of Vietnam's trade deficit with China by commodity groups in the period from 2000-2009. Looking at the proportion of each group to the total trade deficit from China, we can see most of the groups had decreased trend, the only group of capital goods tended to rise. However, group of intermediate good was the largest proportion of Vietnam's trade deficit with China. In detail as follows:

- The group of intermediate goods was the main group that contributed to Vietnam's trade deficit with China. The proportion of this group in the trade deficit was always greater than the equivalent proportion of the other groups. The value of this group in Vietnam's trade deficit with China reached around \$2.6 billion in 2005, but it has increased continuously and reached nearly \$5.6 billion in 2009. However, the trade deficit of this group had grown at a declining speed of 23.3% per year in the period from 2006-2009. It is estimated that the growth rate of this group will continue to decline due to the trade deficit restriction measures of Vietnam and the growth of domestic supporting industries that gradually replacing imported intermediate goods.

- The group of capital goods: The value of this group in Vietnam's trade deficit with China reached only around \$789 million in 2005, but it has increased continuously and reached more than \$4.5 billion in 2009. Thus, the trade deficit of this group had grown at an average speed of 94.2% per year in the period from 2006-2009. This rate was even higher than the growth rate of total trade deficit with China.



**Table 5: Vietnam's trade deficit with China by commodity groups (2005 – 2009)**

	<i>Value (Million USD)</i>					<i>Growth rate (% per year)</i>
	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2006-2009</i>
Consumer goods	-2	-17	-19	-109	93	-
Intermediate goods	-2575	-3414	-6429	-7312	-5575	23.3
Capital goods	-789	-1245	-2819	-4054	-4506	94.2
Petroleum	729	398	230	443	-146	-
Other goods	-34	-82	-109	-85	-1397	-
Total	-2671	-4360	-9146	-	-	11117 11531
<b>Proportion (%)</b>						
Consumer goods	0.07	0.39	0.21	0.98	-0.81	
Intermediate goods	96.41	78.30	70.29	65.77	48.35	
Capital goods	29.54	28.56	30.82	36.47	39.08	
Petroleum	-27.29	-9.13	-2.51	-3.98	1.27	
Other goods	1.27	1.88	1.19	0.76	12.12	
Total	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	

Source: Calculated from COMTRADE database.

In the period from 2011 - 2015: With The rising trend of the absolute value, Vietnam's trade deficit with China will be inevitable but its growth is declining. The structure of Vietnam's export to China is positively changing with the sharply increased rate of the agriculture, forestry, aquatic and industrial goods (20% and 10% in 2008 and 34% and 30% in 2010). The investment structure has been adjusted, domestic production capacity is improved, purchasing power of the Chinese market is raised due to the economy has become

the second largest in the world. Therefore, Vietnam's trade deficit with China will continue increasing but its growth is going to decline in the coming years. Following the current trend, Vietnam's trade deficit with China after the year 2015 will not increase anymore.

### **3.3. ACFTA stabilizes the border trade, reduces smuggling and trade fraud between Vietnam and China, and enables Vietnam enterprises to penetrate further into Chinese market**

The border between Vietnam and China across seven provinces in the north of Vietnam includes Quang Ninh, Lang Son, Cao Bang, Ha Giang, Lao Cai, Lai Chau and Dien Bien with 1353 km from the east to the west. Furthermore, it has nearly 30 border gates, including five international border gates, seven main border gates and many side gates. In recent years, border trade policies of China have a strong influence on Vietnam's export to this market.

After the ACFTA officially took effect (January 1<sup>st</sup> 2010), most trading activities at the border area are expanded sharply. There were more than 6,000 Chinese residents (1,000 people more compared to the time before the establishment of ACFTA) went to the Mong Cai province of Vietnam) to do business<sup>7</sup>. According to the General Department of Customs of China, during 2010 and six months of 2011, import-export turnover across the border between China and Vietnam has exceeded 15 billion Yuan, accounted for more than 20% of total trade between Guangxi (China) and ASEAN.

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<sup>7</sup> Statistics of the customs of Mong Cai (Vietnam) and Dong Xing (China)

According to China border trade regulations, the tariff on imported goods at the border was only 50% of common tax and 50% of value added tax. However, only a few major enterprises and local residents in Yunnan and Guangxi were allowed to be applied these tax rates when dealing with exporters from Vietnam<sup>8</sup>. Due to these unstable and unclear border trade regulations, many Vietnam exporters do not understand clearly about the rules and policies of China so they entirely rely on Chinese entrepreneurs. Consequently, the China partners find it easy to make trade fraud, especially with the seasonal commodities such as vegetables, fruits or fresh fisheries.

In order to enjoy the preferential tariff under the border trade regulations, after transporting the goods to the border gate, most Vietnam's traders have to hire the local residents in Yunnan and Guangxi to carry their goods to China in the form of exchange between residents. These trading activities have no contracts and not comply with the process of import and export. It causes many risks of trade, especially the delay in goods delivery due to limitation of quantity. Therefore, the export commodities of Vietnam such as consumer goods, agricultural products, seasonal fruits or fisheries only reach the Chinese frontier market where the majority of people have low income and require the moderate-quality products. The large remain areas of China are still the potential for Vietnam exporters.

In the period from 2000-2010, smuggling, trade fraud and illegal transportation of goods from China into Vietnam occurred very complicatedly at the border between the two countries. It was very difficult to control the smuggled goods, then Chinese goods, even dangerous and hazardous items continuously spilled into Vietnam that caused difficulties in evaluating the current situation of the bilateral trade and affected the consumers' benefit.

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<sup>8</sup> Yunnan and Guangxi are the two provinces at the border between Vietnam and China

The appearance of the ACFTA means the removal of China trade border mechanism. It was the first time the trade relation between the two countries was put in a mechanism of tariff reduction under the framework of a free trade area. Before ACFTA, tariff rates that China was applying for Vietnamese goods that over 20% accounted for 29.9% of total Vietnam's export to China, from 11-20% accounted for 32.86% and less than 10% accounted for 37.14%. Under the commitments of ACFTA, the tariff rate of China applying for most Vietnamese goods downed to 0% within five years. This tariff rate is more favorable than China's commitments for the WTO members. It means that Vietnam's export has many opportunities to access into the large domestic market of China. As a result, the trading activities and businesses turn into the official channel, which is in accordance with international export - import processes and reducing smuggled and illegal goods. This favorable condition helps strengthening the management mechanism and meeting the needs of economic integration. It aims to not only prevent smuggled goods but also create motivation to encourage professional and official trading activity.

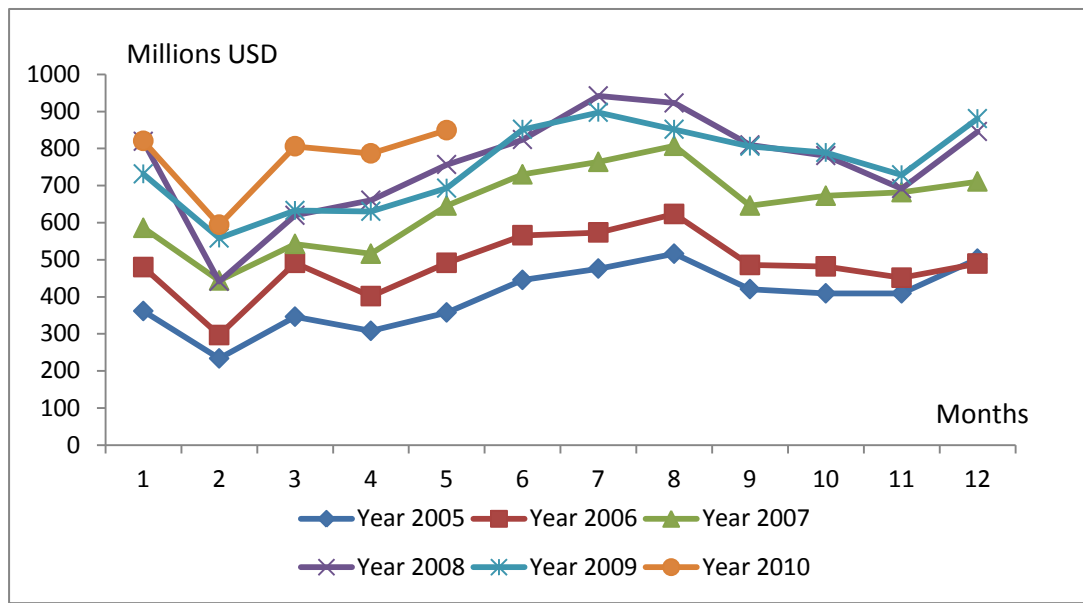
### **3.4. ACFTA further promotes the growth of industries with comparative advantages: Vietnam imports cheaper materials from China and exports products to the world market.**

#### **3.4.1. Textile and Garment Industry**

As one of the main export industry of Vietnam, Vietnam's textile and garment has gradually dominated the international market. After a slight decrease in 2009 (decreased 0.6% compared to 2008), export of textile and garment continued breakthrough, reached \$3.86 billion in the first five months of 2010, increased by 18.6% against the same period in 2009,

accounted for nearly 15% of total export of the country and even higher than the turnover of the next export item (crude oil) nearly \$1.7 billion.

**Graph 2: Export of Vietnam’s textile and garment by month  
(January 2005 - May 2010)**



Source: Vietnam General Department of Customs.

According to the statistics of Vietnam General Department of Customs over the years, the export cycle of textile and garment normally begins growing in the second quarter and gets the highest level in the third quarter. Vietnam’s textile and garment export have continuously grown over the years, especially since the start of the tariff reduction roadmap in 2005 under ACFTA that had caused the increase in materials imported from China and other neighboring markets.

Some opinions supposed that the weakened competitiveness against Chinese textile and garment industry causing many difficulties that Vietnamese textile and garment enterprises have to face when joining ACFTA. In fact, joining ACFTA would not create any concern for this industry in Vietnam since Vietnam’s main export markets for this

commodity are EU, U.S. and Japan while China has become the market that provides materials. Vietnam has imported many materials from China to manufacture and processing of textile and garment to export to major markets all over the world. After joining ACFTA, because of lower import tax, Vietnam enterprise has been able to buy cheaper materials from China to serve for the production and increased export. Indeed, Vietnam's garment and textile export have continued to rise after Vietnam joined the ACFTA. In 2010, Vietnam's garment exports reached \$10.5 billion with the average monthly increase around \$950 million.

**The U.S., EU and Japan are the main export markets of Vietnam's textile and garment**

- *The U.S. is the largest partner that imports textile and garment from Vietnam.* As shown in the statistics of Vietnam General Department of Customs over the years, Vietnam's textile and garment exported to the U.S. accounted for more than 50% of Vietnam's total export of textile and garment and accounted for around 40% of the Vietnam's total export to U.S during the period from 2005 to 2010.

- *EU and Japan are the two other major markets that import textile and garment with the respective proportion of 18% and 11% of Vietnam's total export in 2009.*

- Among three largest import markets, the U.S. is still the market that imports from Vietnam with the highest growth rate, annual average rate of 19% during the period from 2005-2009, while the EU and Japanese markets had increased with the speed of 17% and 12% respectively.

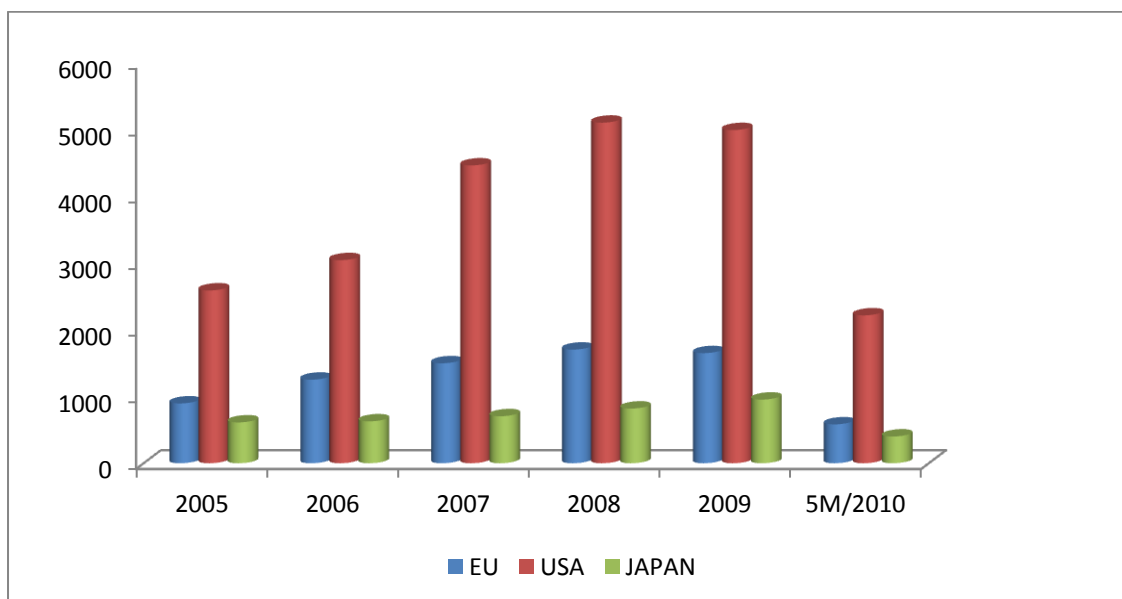
**Table 6: Export of textile and garment to the United States  
(From 2005 to the first five months of 2010)**

Indicator		Year					
		2005	2006	2007	2008	2009	5 M/ 2010
Vietnam's textile and garment export to U.S (million USD)	(A)	2591	3045	4465	5106	4995	2217
Vietnam's textile and garment total export (million USD)	(B)	4809	5834	7750	9120	9066	3857
The proportion (%)	(C)=100*A/B	53.9	52.2	57.6	56.0	55.1	57.5
Vietnam's total export to U.S (million USD)	(D)	5905	7829	10089	11,869	11,356	5,026
Vietnam's textile and garment export to U.S in Vietnam's total export to U.S (%)	(E)=100*A/D	43.9	38.9	44.3	43.0	44.0	44.1

Source: Vietnam General Department of Customs.

**Graph 3: Vietnam's textile and garment export to the U.S, EU and Japan  
(From 2005 to the first five months of 2010)**

Unit: million USD



Source: Vietnam General Department of Customs.

## Vietnam's export of textile and garment is still high potential

- Although textile and garment accounted for the largest proportion in the total export of Vietnam in 2009, it was only a very small the proportion in the total import demand of this commodity all over the world (about 1.6% in 2009)<sup>9</sup>. According to [www.trademap.org](http://www.trademap.org), U.S.'s total import of textiles and garment in 2009 was \$86.7 billion but the proportion of Vietnam's textile and garment only accounted for 5.8%.

**Table 7: Textile and garment import of some major markets (2005-2009)**

Unit: Billion USD

Country	2005	2006	2007	2008	2009
United States	97.37	101.15	103.98	100.51	86.74
Germany	36.31	39.02	42.33	45.27	45.34
Japan	27.50	29.11	29.36	31.66	31.07
UK	27.86	29.29	32.60	31.54	27.31
France	24.58	25.59	28.80	30.95	26.95
Hongkong	31.32	32.02	31.99	30.09	24.85
Italia	21.30	23.93	26.71	27.55	23.01
China	23.44	25.68	25.37	25.00	27.78
Belgium	11.69	12.37	13.83	14.91	12.38
Canada	9.91	10.73	11.55	11.93	10.55

Source: [www.trademap.org](http://www.trademap.org)

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<sup>9</sup> calculated by [www.trademap.org](http://www.trademap.org)

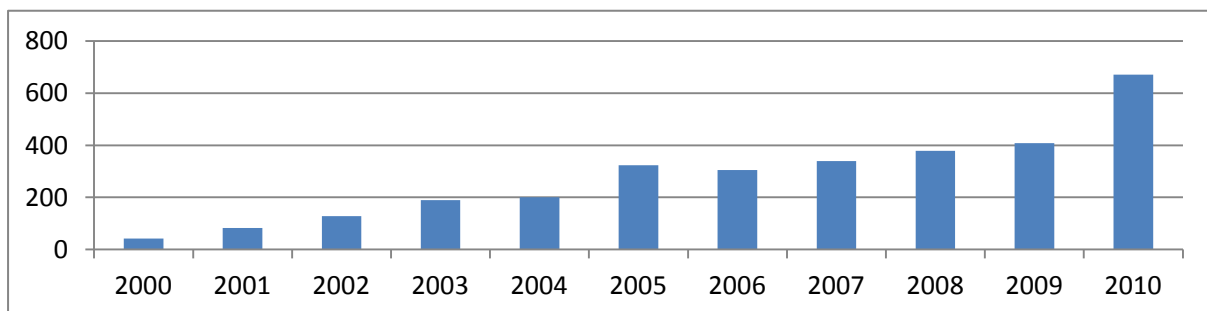


The above statistics show that the world textile and garment market are very huge and the opportunities for the development of Vietnam textile and garment are still a lot.

Characteristic of Vietnam Textile and Garment industry is most materials imported from outside. Therefore, the development of textile and garment industry in Vietnam needs more and more materials while China is still the major market, which is providing materials for Vietnam. Joining the ACFTA, China agreed to reduce immediately the taxes for the group of textile and garment including materials. This is a great opportunity for Vietnam to develop the domestic production and export, making China an important input market for Vietnam due to the cheaper materials.

According to Vietnam General Department of Customs, since 2000, the total value of imported materials from China for textile and garment industry and shoes and leather industry has continuously increased. Especially, since 2004 when the Early Harvest Program under ACFTA started implementing the tariff reduction roadmap, materials for textile and garment as well as leather and shoes production imported from China has increased rapidly. In 2010, it was \$671.1 million, increased by more than 3 times against the year 2004 (\$200.1 million). Taking these advantages, Vietnam Textile and Garment sector and Leather and Shoes industry could access to the abundant source of materials with reasonable prices while waiting for development of domestic supporting industries.

**Graph 4: Materials for Textile and Garment industry and Leather and Shoes industry imported from China (2000-2010)**



Source: Vietnam General Department of Customs.

### 3.4.2. Leather and shoes industry

**Table 8: Vietnam's Leather and footwear export (2005-2010) and vision of 2015**

Indicator	Unit	2000	2005	2006	2010		Vision of 2015	
					2010	Annual growth rate (2005 – 2010)	2015	Annual growth rate (2010-2015)
Total export	Million USD	1,486	3,039	3,400	6,200	20.22	11,470	17
Footwear	Million pairs	276.60	499.00	503.00	720.0	10.91	1,188.00	13.00
Briefcase and handbags	Million pieces	31.30	51.70	52.70	80.70	11.22	129.12	12.00
Leather	Million Sqft	15.10	47.00	51.00	80.00	20.00	140.00	15.00
Domestic rate	%	<b>30</b>	<b>40</b>	<b>40</b>	<b>65 -70</b>	-	<b>85– 90</b>	-

Source: Vietnam International Trade Centre

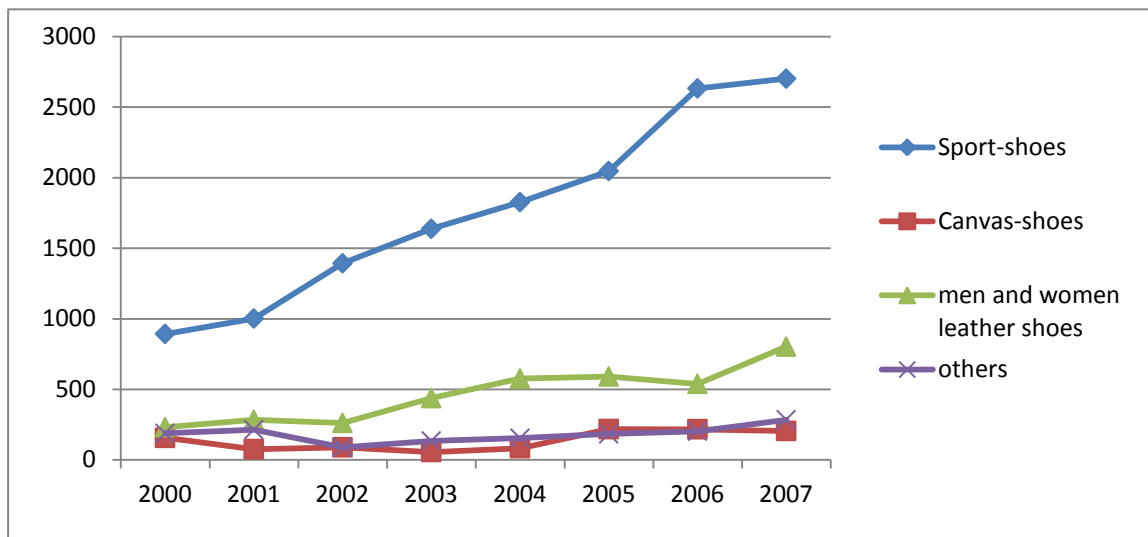
Vietnam is the fourth leather and shoes exporter in the world (after China, Italy and Hong Kong), accounting for 7.4% market share of the global export with the annual growth rate of nearly 20% during the period from 2000 to 2010<sup>10</sup>. In 2005, the total export of Vietnam's leather and shoes was only more than \$3 billion but \$6.2 billion in 2010 (increased by \$3.2 billion compared to 2006).

The major export products of Vietnam are sport-shoes, canvas-shoes and men and women leather-shoes.

<sup>10</sup> According to Vietnam International Trade Centre - ITC

**Graph 4: Vietnam's leather and shoes export by products (2000-2007)**

Unit: million USD



Source: Vietnam Leather and Shoes Association

+ Sport-shoes: This item occupied the largest proportion in the Vietnam's leather and shoes total export, accounted for 68% in 2007 (corresponding to \$2.7 billion) and highest average annual growth rate.

+ Men and women leather-shoes: Ranking the second largest proportion in the total export of Vietnam's leather and shoes with \$803 million in 2007 (equivalent to 111 million pairs).

+ Canvas shoes: Ranking the third largest proportion in the total export of Vietnam's leather and shoes with \$205 million in 2007. These kind of exported shoes of Vietnam always keep the stable turnover in the total leather and shoes export.

- The major export markets of Vietnam are the EU and the U.S.

+ EU is the largest importer of leather and shoes from Vietnam, focusing on some Western European countries such as Britain, Germany, Belgium, Holland and France. These countries imported leather and shoes from Vietnam with the average value over \$100 million

USD per year<sup>11</sup>. Currently, the EU has removed anti-dumping duty for Vietnam leather and shoes. As a result, a number of major order contracts that EU made in China have moved to Vietnam, contributing to the growth of Vietnam's leather and shoes export.

+ The U.S. is the second largest importer of Vietnam's leather and shoes, after the EU. Vietnam supplied more than 5% of leather and shoes market share in the U.S... The U.S. has always been a potential market for not only Vietnam but also other leather and shoes exporters. Although Vietnam was ranked second after China in exports to the U.S in 2006, the average units of export price of Vietnam's leather and shoes were higher than China's and Vietnam's export growth rate was also ranked first with 32.8% while China's was only 9.1%.

**Table 8: Vietnam and China's leather and shoes export to United States**

Unit: million USD

<b>Supplier</b>	<b>2005</b>	<b>2006</b>	<b>Growth rate</b>	<b>Market share in 2006</b>
China	12,467.9	13,600.2	9.1%	72.8%
Vietnam	716.1	950.8	32.8%	5.1%

Source: ShoeStats (2007)

China has advantages of cheap human resource, low infrastructure costs, available supporting industry, the sample development center, the supply of technology and production facilities from Taiwan and the import-export services of Hong Kong that helped this country gaining the dominant position in exporting leather and shoes, especially for low and medium price products. However, the development of China's leather and shoes industry that based on traditional factors was expected to get close to the peak of the product cycle. New problems has arisen such as increasing labor costs and materials cost, the risk of dumping and non-trade barriers, environmental issues and human rights and the diversification of the supply of

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<sup>11</sup> Vietnam International Trade Centre

the buyers would push China facing to some difficulties in maintaining the dominant position in the medium-term. These have reduced risk of strong competitiveness from the leather and shoes industry of China for this industry of Vietnam.

Meanwhile, the leather and shoes industry in Vietnam continuously has significant developments. The increase in materials imported from China with cheaper prices and abundant choice due to the tariff reduction under ACFTA has offered good opportunities for the development of the leather and shoes industry of Vietnam. The export turnover of leather and shoes in 2010 reached more than \$6 billion, double compared to 2005. According to the Ministry of Industry and Trade of Vietnam, many Vietnam leather and shoes enterprises even finished signing for order contracts in 2011 and are taking orders for the year 2012. Leather and shoes industry of Vietnam always grows steadily and it is one of the major export items of Vietnam, which ranks third after textile and garment and crude oil.

### **3.5. ACFTA does not affect the development of the less competitive industry of Vietnam due to the reasonable tariff reduction roadmap**

#### **3.5.1. Steel Industry**

China is considered the main competitors of Vietnam. While losing market share in some development economy, the Chinese steel producers are aggressively looking for market share in the Asia. They expect to get benefit of tax exemption and other measures to promote export. Therefore, there is concern that after joining ACFTA, Vietnam's steel industry would not be able to compete with China steel industry and lose domestic market due to the much weaker competitiveness of Vietnam's steel industry. However, in fact, ACFTA has few negative impacts on the development of this sector of Vietnam. When negotiating under ACFTA, Vietnam has put 35 steel items on the sensitive track. Thus, the steel has a slower

tariff reduction roadmap than all goods in the normal track. This trade adjustment gave the steel industry of Vietnam more time to get used to the new situation and develop itself. Due to the steel products are mainly produced to serve the domestic demand, the inclusion steel items into the sensitive track has avoided concerns about the competitiveness of Chinese steel which is considered to have many advantages against Vietnam steel.

**Box 2: Commitment Vietnam on tariff reduction under ACFTA**

Under ACFTA, Vietnam steel industry has 446 items that are categorized and applied import tariff, in which, 24 items in the high sensitivity list and 11 items in the sensitive list. These items do not have an annual reduction roadmap. However Vietnam must undertake:

- Reduce the tariff rate to 20% by 2015 and 0-5% by 2020 for the items in the sensitive list.
- Reduce no more than 50% for the items in the highly sensitive list by 2018.
- Remain items are reduced its tariff following the tariff reduction roadmap of the normal track. Summary of Vietnam's steel products in ACFTA as follows:

**Table 9: Summary of Vietnam's steel products in ACFTA**

MFN tariff	The number of Vietnam's steel products in ACFTA			
	Highly sensitive	Sensitive	Normal	Total
0		4	224	228
1			3	3
3		4	27	31
5		3	60	63
10	3		68	71
30			6	6
40	21		23	44
Total	24	11	411	446

In the period from 2006-2008, Vietnam attracted more domestic and foreign investment in the steel industry. Early in 2009, 23 projects in steel industry were licensed in Vietnam. In addition, there were more than 30 projects, which did not belong to the initial development plan, and numerous projects in different areas along the country were deployed.

These have proven the strong development of Vietnam steel industry.

Regarding to the production, once all the new projects are operating, the industry's annual capacity could reach 60 million tons, exceeding the initial plan of 10 to 11 million tons in 2010 and 25 million tons in 2025, that proposed by the Ministry of Industry and Trade of Vietnam.

**Table 10: Steel output (2005-2008)**

Unit: thousand tons

<b>Product</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Steel billet	1,318	1,869	2,024	2,250
Finished product	4,244	4,743	5,598	5,754
Total	5,562	6,612	7,622	8,004
Growth rate (%)	-	19	15	5

Source: D. H. Tam (2009).

### **3.5.2. Automobile Industry**

Vietnam automobile industry is considered as an infant industry with operation time not yet long. The automotive manufacturing enterprises are still focusing on manufacturing small and medium cars and trucks (tonnage not exceeding 7 tons) by the way of importing components for assembly with the localization rate of 30-45% and most of the small truck parts imported from China. The 5-seat car is made by the assembly joint ventures in Vietnam with the localization rate of approximately 10% (except Toyota has manufactured some equipment for car body). State tends to increase protection for manufacturing and assembly of passenger cars, small and medium trucks, and decreasing the protection for 5-seat car products.



**Table 11: Automobile output (2000-2010)**

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Amount of car (each)	13,955	19,556	26,872	42,556	40,141	49,349	62,565	80,000	150,000	152,509	206,475

Source: Vietnam General Department of Customs.

However, automotive industry in Vietnam is considered a strategically important industry to promote the development of automobile market that has a huge potential due to a large population of Vietnam, more than 90 million people. Meanwhile, China in recent years has developed a very strong automotive industry with very competitive price. We can say the competitiveness of Vietnam's automobile industry still lags behind the automobile industry of China. However, the most preferred car types of protection in Vietnam were listed in the highly sensitive list under the tariff reduction of the ACFTA. Tariff reduction roadmap for specific car-items under the ACFTA as follows:

- Cars and passenger cars (heading 8702, 8703), except for buses using in airport and special vehicles, which are classified in HSL: to be maintained MFN tariff rates at 100% until 2017, reduce to 50% in 2018 and maintain this 50% tax rate then.

- Trucks (heading 8704), including:

- + Type of light trucks below 5 tons: being cut off from 100% in 2005 down to 45% in 2014, and will be maintained at this rate of 45%;

- + Type of medium trucks from 5-10 tons: being cut off from 60% in 2005 down to 30% in 2012, and will be maintained at this rate of 30%;

- + Type of 10-20 ton trucks: belongs to the normal tracks, the tariff rate will be reduced from 30% in 2005 to 5% in 2013 and 0% in 2018;

+ Type of heavy trucks (over 20 tons): belongs to the normal tracks with the tariff reduction will be reduced from 10% in 2005 down 5% in 2011 and 0% in 2018.

Therefore, with the commitments of tariff reduction roadmap above, the implementation of ACFTA will not affect the automobile industry in Vietnam, at least until 2018. The reduction to 50% in 2018 will not be too unfavorable for Vietnam's automobile industry due to there is enough time for this industry to assert its competitiveness.

Look at table 11, we can see that even the scale of this industry in Vietnam is still small, the output is still at a low level, however, it has continuously increased over years, from 13,995 cars in 2000 to 206,475 cars in 2010. Especially, it has increased rapidly for recent 5 years. These prove the ability for development of Vietnam automobile industry in the future without the impacts from ACFTA.

#### **4. SUMMARY AND RECOMENDATION**

ACFTA marked a turning point in relations of friendly cooperation between ASEAN and China in general and each ASEAN member with China in particular. This was also a historic decision that the parties made to seek new development opportunities.

ACFTA has actually brought opportunities and benefits to participants. Of course, the benefit of each party was not the same but the parties found their interests and desired goals. Besides the opportunities, ACFTA also poses challenges for member countries, in which it was said that the biggest challenge that ASEAN and China had to deal is the fierce competition between the two sides in the economic fields. However, competition is also an important factor to promote the development, through competition each will work harder, thus their economy could develop faster and go into depth. Therefore, ACFTA is a playground for the benefit of all participants.

As one of the dynamic economy with the highest economic growth in Southeast Asia, along with many elements similar to China such as natural conditions, cultural, social... Vietnam, therefore, has opportunities to achieve higher growth under ACFTA. However, like other ASEAN member countries, Vietnam has faced many challenges in the competitive playground with giant neighbor China. However, on overall, opportunities are much more than challenges. ACFTA has strong impact to develop the trade relations between the two countries and promises many more achievements in the future such as the continuous increase of bilateral trade, the development of border trade and the gradual reduction in growth rate of Vietnam's trade deficit from China. ACFTA also creates opportunities for further increasing export of the commodities that Vietnam has comparative advantages due to the source of cheap and abundant materials imported from China under the incentive tax in ACFTA. Meanwhile, the combination of the deferent tariff reduction roadmap by separating into normal track and

sensitive track (including sensitive list and highly sensitive list) has helped Vietnam to liberalize trade by partial and has enough time to adapt while still achieving the desired level of protection. Therefore, the important industries such as automotive or steel have continued developing with little worry about the strong competition from China. Therefore, the notions that the participation of Vietnam in ACFTA is detrimental, damaging the development of bilateral trade with China, making the trade deficit worsening and difficult to control, and competition in the ACFTA will kill Vietnam's industries that are not strong enough to compete against the strong rise of the neighbor China, are just subjective and superficial opinions. They did not see all the huge roles of ACFTA on the parties in general and Vietnam in particular. Besides the benefits that ACFTA has brought, these opinions are the challenges Vietnam facing. However, with careful preparation, with the appropriate countermeasures Vietnam has taken advantages of its strengths as well as the opportunities from ACFTA to overcome the challenges and build competitive capacity to participate effectively and in long-time in the multilateral trading system

The important is that Vietnam should have the appropriate adjustments to seize opportunities and respond to challenges in order to benefit as much as possible from the ACFTA in the future. The author of this thesis would like to give some recommendations to contribute to repel the challenges of Vietnam when joining ACFTA as follows:

Firstly, specialize in producing and processing export products that have comparative advantages such as textile and garment or leather and shoes, diversify types of products, and improve models. Implementing these measures will help Vietnam to expand export market shares, maximize domestic strengths, and allocate reasonably the resources in the sectors work efficiently and productively.

Secondly, accelerate process of economic development together with trade liberalization and investment promotion. This is the key for Vietnam to integrate deeply into the region and the world, becoming an economy strong enough to withstand the intense competition from regional power economy - China.

Thirdly, strengthen trade promotion with particular emphasis on development of border trade to promote the advantages of geographical location, to help Vietnam become the gateway of China to the ASEAN market.

Fourthly, actively cooperate with the other ASEAN countries to narrow the development gap, enhance the role of the ASEAN Community to promote economic international integration and enhance competitiveness to cope with the risks arising from the introduction of ACFTA.

With over 1.7 billion consumers, GDP of about \$2 trillion and total trade estimated at \$1.23 trillion, ACFTA has become the largest free trade area in the world and considered as great strategic measure for ASEAN and China to enhance the position in the multilateral trade negotiations as well as other regional and international economic forums. The role of the ACFTA will continue to be confirmed in the future, but with efforts of each member in general, and Vietnam in particular, ACFTA is definitely the right choice brings many benefits to the trade development of the parties.

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