

Chapter 12

Survey of FTA in Viet Nam

Vo Tri Thanh
Nguyen Ang Duong

Central Institute for Economic Management, Viet Nam

August 2015

This chapter should be cited as

Vo, T. T., and Nguyen, A. D. (2015), 'Survey of FTA Utilisation in Viet Nam', in Ing, L.Y. and S. Urata (eds.), *The Use of FTAs in ASEAN: Survey-based Analysis*. ERIA Research Project Report 2013-5, Jakarta: ERIA, pp.271-300.

CHAPTER 12

Survey of FTA Utilisation in Viet Nam

Vo Tri Thanh and Nguyen Anh Duong

Central Institute for Economic Management, Viet Nam

This report provides a summary of the key findings from a survey on free trade agreements (FTAs) utilisation by firms in Viet Nam. The utilisation rate was rather low until 2005, and has only improved gradually in recent years. As most FTAs are new, they have only modest relevance to the past investment decisions of firms in Viet Nam. The key constraints in using FTAs are failure to meet rules of origin (ROOs) requirement, lack of information, small trade volume, and small tariff benefits. The number of required documents and the time taken and costs incurred for obtaining Certificates of Origin (COOs) are generally thought reasonable, though scattered evidence shows that they are more problematic for small- and medium-sized enterprises (SMEs). Compliance with various COOs is another issue for firms, although the problem is rather modest. The Viet Nam Chamber of Commerce and Industry and government agencies are the main sources of information and support, but their role should be enhanced further. Specifically, the Government needs to provide more relevant information, simplify COO procedures, and work with partners to harmonise procedures. The business associations should continue to support firms in compliance with ROO requirements, and facilitate the sharing of experiences among members regarding issues with FTA utilisation.

Keywords: Trade facilitation, FTA utilisation, rules of origin, Viet Nam

JEL Classification: F14, F15.

1. Context

1.1. Background

Since its national unification in 1975, Viet Nam has embarked on continuous economic reforms. However, comprehensive and bold reforms only made a major breakthrough in 1986, when Viet Nam publicly rejected the central planning model in favour of a transformation towards a mixed-market economy. Various market-oriented reforms have accordingly been undertaken, aimed at stabilising and opening the economy, and enhancing freedom of choice for all economic agents. Simultaneously, Viet Nam has engaged in pro-active international economic integration, which both broadened economic opportunities within the economy and exerted pressures for domestic economic reforms.

Viet Nam has consequently achieved significant socio-economic progress, particularly in terms of economic growth, poverty reduction, industrial development, and export growth, etc. The country quickly exited a situation of chronic and severe domestic hunger to become a major exporter of various agricultural products. This induced further efforts for economic reform and integration. Accession to the World Trade Organization (WTO) in 2007 came as a consequence of these processes, although it did not mark an end to Viet Nam's integration process.

Looking back, regional economic integration, with the hub being the Association of South East Asian Nations (ASEAN), has significantly broadened opportunities for Viet Nam. In a direct way, market access was drastically improved, while inflows of foreign direct investment (FDI) and official development assistance (ODA) rose sharply and became significant sources of finance to support Viet Nam's development. In a less direct way, the integration process also brought along the flows of knowledge and shared experience that were critical to an economy in an early stage of development. More importantly, the integration process increased pressures for domestic reform, so as to effectively grasp the arising opportunities. Notwithstanding the presence of inherent weaknesses, Viet Nam's economy has benefited from pro-active integration. This endows the country with confidence in future integration attempts.

The trend of economic integration will continue into the future, particularly as Viet Nam aims towards developing a strong and regionally integrated industrial economy. Key

existing benefits from regional economic integration, particularly under the ASEAN framework, should be further exploited. Key regional free trade agreements (FTAs) with ASEAN centrality, such as ASEAN+1 FTAs and the Regional Comprehensive Economic Partnership (RCEP), have driven progressive trade and investment liberalisation in Viet Nam. Other FTAs outside the ASEAN+ framework, such as the Trans-Pacific Partnership (TPP), the Viet Nam-EU FTA, etc., are also acquiring greater importance.

1.2. Questions

Several questions arise alongside Viet Nam's economic integration process. First, is whether Viet Nam is capable of making full use of FTA-induced benefits that are directly related to trade remains unclear? Second, is whether domestic reforms, including trade facilitation attempts, have been in line with the economic integration process itself? Third, notwithstanding the *ex-ante* expectations of joining various FTAs, is whether FTAs actually improve the business environment, from a business perspective? Finally, if any problems are identified in the answers to the above questions, follow-up policy measures will be needed to address the problems themselves. These questions will be the focus of this report.

1.3. Objectives

This report provides a summary of the key findings from a survey on FTA utilisation by firms in Viet Nam. As Viet Nam's FTAs largely focus on tariff reduction, the utilisation rate of FTAs then reflects the extent to which Viet Nam has benefited from such agreements. The survey was undertaken from April to August 2013, with the target respondents being firms with independent operations and accounting, adjusted by the Enterprise Law, Cooperative Law and Foreign Investment Law in effect from before 2003 and currently in operation. Specifically, the surveyed firms are primarily those operating in export-oriented manufacturing and services sectors. Two batches of questionnaires were designed specifically for firms in the two sectors, aiming to extract their views about and/or their positions on preferential treatment under FTAs, major impediments to such positions, and the perspective of firms about related policies for improvement.

2. Key Findings

2.1. Description of respondents

2.1.1. Description of surveyed manufacturing firms

Table 12.1 classifies the surveyed manufacturing firms in terms of their size. As can be seen, 103 manufacturing firms provided responses to the questionnaires. More than two-thirds of the respondents are small-sized, while those of large and medium sizes account for 8.7 percent and 19.4 percent, respectively. Almost 5 percent of the respondents provided no information on their capital scale.

Table 12.1: Structure of Surveyed Firms by Size

	<i>Large</i>	<i>Medium</i>	<i>Small</i>	<i>Unknown</i>	<i>Total</i>
Number of respondents	9	20	69	5	103
Percentage (%)	8.7	19.4	67.0	4.9	100.0

Source: Authors' calculations from survey data.

Table 12.2 shows the proportions of the surveyed manufacturing firms with different ownership forms. Over three-quarters of the surveyed firms acquired all their capital from domestic sources. Foreign firms made up around 18.4 percent of the survey sample. Only five joint ventures (or 4.9 percent of the sample) provided responses to the questionnaires.

Table 12.2: Structure of Surveyed Firms by Ownership

	<i>Domestic firms</i>	<i>Foreign firms</i>	<i>Joint Ventures</i>	<i>Unknown</i>	<i>Total</i>
Number of respondents	78	19	5	1	103
Percentage (%)	75.7	18.4	4.9	1.0	100.0

Source: Authors' calculations from survey data.

Table 12.3 shows the shares of surveyed manufacturing firms having export and/or import activities in 2012. Some 17.5 percent on the respondents had only direct export activities in the year, while the corresponding proportion for those having import activities in 2012 was 11.7 percent. Almost 46.6 percent of the surveyed firms conducted both

export and import activities in the same year. 24.3 percent of the respondents provided no information on ownership.

Table 12.3: Structure of Surveyed Firms by Activity

	<i>Exporting</i>	<i>Importing</i>	<i>Exporting & Importing</i>	<i>Unknown</i>	<i>Total</i>
Number of respondents	18	12	48	25	103
Percentage (%)	17.5	11.7	46.6	24.3	100.0

Source: Authors' calculations from survey data.

Table 12.4 depicts the surveyed firms by location. Some 24.3 percent operate in industrial zones and 5.8 percent are in free trade zones. The shares of firms operating in export processing zones and bonded zones are all less than 2 percent. The remaining 67 percent of the firms are not located in any particular zone.

Table 12.4: Structure of Surveyed Firms Analysed by Location

	<i>Export Processing Zones</i>	<i>Free Trade Zones</i>	<i>Special Economic Zones</i>	<i>Industrial zones</i>	<i>Bonded zones</i>	<i>Not in any particular zones</i>	<i>Total</i>
Number of respondents	1	6	0	25	2	69	103
Percentage (%)	1.0	5.8	0	24.3	1.9	67.0	100.0

Source: Authors' calculations from survey data.

2.1.2. Description of surveyed services firms

Table 12.5 shows the surveyed services firms in terms of their capital scale. Twenty firms provided responses to the questionnaires. Half of the respondents are large, while small- and medium-sized firms were both 25 percent of the responding sample.

Table 12.5: Structure of Surveyed Firms by Size

	<i>Large</i>	<i>Medium</i>	<i>Small</i>	<i>Total</i>
Number of respondents	10	5	5	20
Percentage (%)	50.0	25.0	25.0	100.0

Source: Authors' calculations from survey data.

Table 12.6 presents the surveyed services sector firms by form of ownership. Four-fifths of the respondents relied solely on domestic capital. The shares of foreign firms and joint ventures in the responding sample were both 20 percent.

Table 12.6: Structure of Surveyed Firms by Ownership

	<i>Domestic firms</i>	<i>Joint Ventures</i>	<i>Foreign firms</i>	<i>Total</i>
Number of respondents	16	4	0	20
Percentage (%)	80.0	20.0	0.0	100.0

Source: Authors' calculations from survey data.

Table 12.7 categorises the surveyed services firms depending on the type of trade activities they conducted in 2012. Only 30 percent of the respondents had direct imports, while just 15 percent conducted export activities in 2012. About 5 percent had both export and import activities in the year.

Table 12.7: Structure of Surveyed Firms by Activity

	<i>Exporting</i>	<i>Importing</i>	<i>Exporting & Importing</i>	<i>None</i>	<i>Total</i>
Number of respondents	3	6	1	10	20
Percentage (%)	15.0	30.0	5.0	50.0	100.0

Source: Authors' calculations from survey data.

2.2. Use of FTAs

2.2.1. Use of FTAs analysed by firm characteristics

In November 2012, Ho Chi Minh and Ha Noi still dominated the value of granted COOs. This is understandable given the large shares of these major cities in the national economy. They are also closely connected with the major cargo ports and logistical centres of the country. From official data, Ho Chi Minh City accounts for 39.7 percent of the value of granted COOs in the first 11 months of 2012, while the corresponding figure for Ha Noi is 23.2 percent. Notwithstanding the proliferation of industrial zones and export processing zones in Viet Nam, the value of COOs granted by these zones is still small—even smaller than other urban cities such as Da Nang, Hai Phong, etc. A possible explanation for the weak role of industrial zones is that export processing zones have relatively less experience

and higher associated time costs than their counterparts in local provinces in processing COO applications.

Table 12.8: Official Value of Granted COOs by Location, First 11 Months of 2012

	<i>Ha Noi</i>	<i>Ho Chi Minh</i>	<i>Industrial zones - Export Processing Zones</i>	<i>Others</i>	<i>Total</i>
Value (USD million)	3,909.0	6,676.8	281.6	5,940.0	16,807.5
Share (%)	23.26	39.73	1.68	35.34	100.00

Source: Calculations from MOIT statistics.

Forty-nine percent of the surveyed manufacturing firms in this project claim that they have made some use of preferential treatment under FTAs (Table 12.9). However, the utilisation rate of COOs exceeds that under FTAs. There are a couple of reasons for this situation. First, other preferential treatment was granted to Viet Nam's exporters outside of the FTA framework, so COO applications help exporters to receive such treatment. Second, in the context of the expanding regional production network, notwithstanding ineligibility for preferential treatment under FTAs, exporters still have to submit COOs so that their importers can, after further processing, export products with FTA-induced treatment. From the survey findings, only 22.3 percent of surveyed manufacturing firms do not use any COOs, while 77.7 percent of surveyed firms actually use COOs as part of their export process.

Interestingly, about one-third of the large firms (i.e., capital of about USD 4.76 million) use FTAs, while the respective figures for medium-sized firms (i.e., capital of between USD 0.95 million and USD 4.76 million) and small firms (i.e., capital of less than USD 0.95 million) are 40 percent and 53.6 percent, respectively. Given the small sample size, it can hardly be argued that the smaller the size of the firm, the more they are inclined to use FTA treatment. Still, as an implication, efforts to promote utilisation of FTAs should target firms of all sizes, rather than just the SMEs.

Table 12.9: Use of FTAs by Size of Surveyed Manufacturing Enterprise

	<i>Number of responses</i>			<i>Percentage (%)</i>		
	<i>No</i>	<i>Yes</i>	<i>Total</i>	<i>No</i>	<i>Yes</i>	<i>Total</i>
Large	6	3	9	66.7	33.3	100.0
Medium	12	8	20	60.0	40.0	100.0
Small	32	37	69	46.4	53.6	100.0
Total	50	48	98	51.0	49.0	100.0
Unknown	5					

Source: Authors' calculations from survey data.

Table 12.10: Use of FTAs by Location of Surveyed Manufacturing Enterprise

	<i>Number of responses</i>			<i>Percentage (%)</i>		
	<i>No</i>	<i>Yes</i>	<i>Total</i>	<i>No</i>	<i>Yes</i>	<i>Total</i>
Not in any particular zone	34	34	68	50.0	50.0	100.0
Industrial zone	16	9	25	64.0	36.0	100.0
Bonded zone	1	1	2	50.0	50.0	100.0
Export Processing Zone	0	1	1	0.0	100.0	100.0
Special Economic Zone	0	0	0	-	-	-
Free Trade Zone	4	2	6	66.7	33.3	100.0
Overall	55	47	102	53.9	46.1	100.0
Unknown		1	1			

Source: Authors' calculations from survey data.

Another dimension of FTA utilisation concerns their use by manufacturing firms in different locations (Table 12.10).¹ Specifically, one may ask whether a location in an industrial zone, export processing zone or free trade zone may affect the tendency towards FTA utilisation. From the survey, about 36 percent of surveyed firms in industrial zones make some use of FTAs. This survey result is not inconsistent with that from Table 12.8, since firms in industrial zones have been established for a long time to target the domestic market. The comparable figures for bonded zones and free trade zones are 50 percent and one third, respectively. Notably, all the surveyed firms in export processing zones attempted to use FTAs. This proves the importance of export processing zones in diffusing the benefits from FTAs. As suggested in Table 12.8, nevertheless, efforts should be taken

¹ It should be noted that the overall figures on FTA utilisation differ across

Table 12.9 and Table 12.10 because of the omission of responses without paid-in capital details in

Table 12.9.

to improve the facilitative capacity of export processing zones over the COO issues of firms in the zones.

Similarly, Table 12.10 depicts the use of FTAs by the surveyed firms in the services sector. As can be seen, about three-fifths of the surveyed firms do not use FTA treatment, while only 15 percent claim to have used FTAs. Among the large firms, only 20 percent make some use of FTAs, while 40 percent do not use FTAs at all. For medium-sized firms, the corresponding figures are 20 percent and 60 percent, respectively. None of the small services sector firms in the survey use FTAs.

Table 12.11: Use of FTAs by Size of Surveyed Service Enterprise

	<i>Number of responses</i>				<i>Percentage (%)</i>			
	<i>No</i>	<i>Don't know</i>	<i>Yes</i>	<i>Total</i>	<i>No</i>	<i>Don't know</i>	<i>Yes</i>	<i>Total</i>
Large	4	4	2	10	40.0	40.0	20.0	100.0
Medium	3	1	1	5	60.0	20.0	20.0	100.0
Small	5	0	0	5	100.0	0.0	0.0	100.0
Total	12	5	3	20	60.0	25.0	15.0	100.0

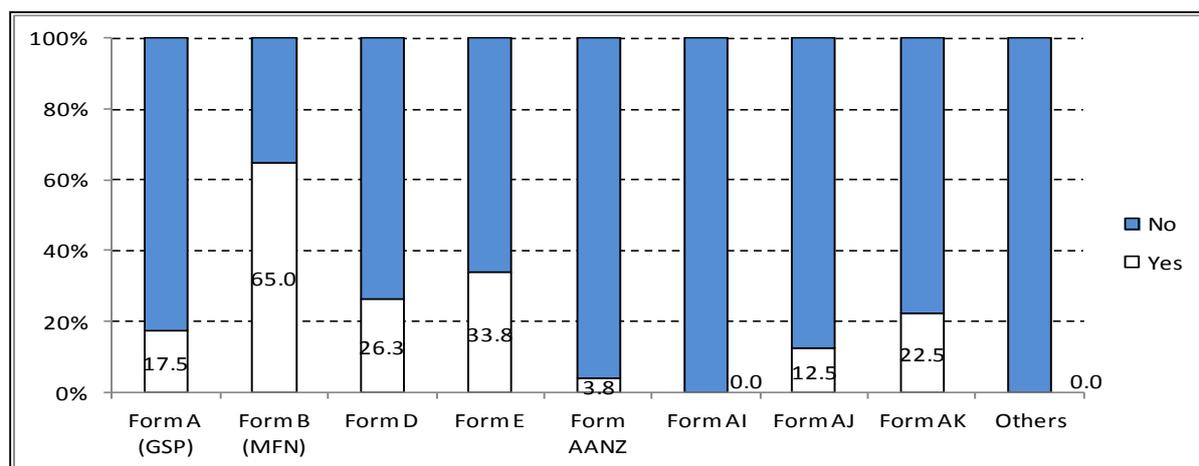
Source: Authors' calculations from survey data.

2.2.2. Survey results of the use of FTAs by agreements

Figure 12.1 illustrates the pattern of preferential treatment utilisation, by agreement, in 2012, from the responses of manufacturing firms. In general, the utilisation of treatments under various agreements has been quite modest. 65 percent of the surveyed firms made some use of most-favored-nation (MFN) treatment. As an explanation, the popularity of MFN treatment was induced by the presence, for a couple of decades, of various trade agreements in Viet Nam. In contrast, other agreements are rather new. As can be seen, about 33.8 percent of the surveyed firms used treatment under the ASEAN-China FTA (ACFTA), and only 26.3 percent attempted to use the ASEAN free trade area (AFTA)/ASEAN trade in goods agreement (ATIGA) treatment. For other FTAs, the extent of FTA utilisation is even lower. In particular, none of the surveyed firms used treatment under the ASEAN-India FTA (AIFTA). While the pattern of utilisation also depends on the relative importance of various FTA partners in Viet Nam's trade, Figure 12.1 still implies that the COO procedures and requirements vary in their ease of use under different FTAs. As such, harmonisation of COO procedures and requirements across FTAs and preferential treatments may help improve utilisation of FTAs by firms. Alternatively,

enhancing the domestic supply chain of export products would also help improve the local content of export products, enabling firms to take advantage of preferential treatment.

Figure 12.1: Use of Preferential Agreements, from Survey of Manufacturing Firms



Source: Authors' calculations from survey data.

2.2.3. Official data on the use of FTAs by agreements, over the years

Table 12.12 summarises Viet Nam's utilisation rates under the various FTAs of which the country is a member. As the first regional trade agreement that Viet Nam joined, AFTA became relevant to the country after 1996, and some utilisation evidence has been collected since then. The utilisation level under AFTA was rather low, however, until 2005: only 6.07 percent of the country's exports to ASEAN member countries enjoyed preferential treatment under AFTA. Over time, this figure has slowly improved, reaching almost 9.4 percent in 2007, 14.1 percent in 2010 and 20.2 percent in 2011.

The utilisation rate under the ASEAN-China FTA has been recorded since 2006, soon after the agreement came into force. This figure remained rather low in 2006-08, at below 10 percent. Starting from 2009, however, the utilisation rate under ACFTA went up dramatically to 21.7 percent in 2009, reaching a peak of over 25.2 percent in 2010 before reversing to 23.1 percent in 2011. In 2009-11, the level of FTA utilisation under ACFTA was also higher than that under AFTA, although the gap narrowed drastically in 2011.

Table 12.12: Utilisation Rates of FTAs, 2005-11 (%)

	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	65.97	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

Note: The utilisation rate (in percentage) of each FTA is calculated as the value of Viet Nam's exports (in USD) enjoying FTA treatment, over the total value of Viet Nam's exports to the corresponding FTA partner.

Source: Ministry of Industry and Trade (Cited in Tran Ba Cuong 2012).

It should be noted that exports to South Korea and Japan had higher levels of FTA utilisation. As can be seen in Table 12.1, data for these agreements have been recorded since 2009. The FTA utilisation rate with Japan (i.e., AJCEP) started at 27.8 percent in 2009 before increasing to 30.5 percent and 31.2 percent in 2010 and 2011, respectively. These figures are significantly higher than those under AFTA, ACFTA, the ASEAN-Australia-New Zealand FTA (AANZFTA) and the ASEAN-India FTA (AIFTA). The utilisation of preferential treatment under the ASEAN-Korea FTA (AKFTA) by Viet Nameese export firms was even more impressive, falling from 79.0 percent in 2009, to 66.0 percent in 2010 before jumping to 90.8 percent in 2011. This achievement is even more impressive considering Viet Nam's rapid export growth to South Korea in this period (over 38.0 percent per annum on average).

The utilisation rates under AANZFTA and AIFTA were less dramatic. Only 8.9 percent of Viet Nam's exports to Australia and New Zealand enjoyed preferential treatment under FTA in 2010, and this figure was only improved to 15.9 percent in 2011. The corresponding figures under AIFTA are even smaller, reaching 2.4 and 7.4 percent in 2010 and 2011, respectively.

Several reasons have been identified for the low levels of FTA utilisation. Most importantly, the local contents of export products have been rather low, thereby preventing Viet Nameese firms from enjoying preferential treatment.² At the same time, use of other ASEAN-originated products is also limited, so ROO requirements under ASEAN

² See Tran Binh Minh, *et al.* (2012) for an initial calculation of import content of export products, though the methodology still poses several questions.

FTAs can hardly be met. For some products, the normal tariff is already low,³ with little difference from the preferential rate. As another reason, COO procedures and requirements differ across FTAs and preferential agreements. This undermines compliance by export firms. These reasons will be discussed in the later sub-sections.

2.2.4. Perceptions of how FTAs affect decisions to invest, by firm size

Table 12.13 shows the responses of surveyed manufacturing firms regarding their past investment decisions, and their connection to FTAs. It should be noted that such connections have been modest, largely because FTAs are rather new to Viet Nam. Twenty-five firms in the survey (or about 25.5 percent) argue that their decisions were somehow based on consideration of FTAs. Among large firms, only two firm (or 22.2 percent) consider aspects of FTAs before making investment decisions. For the medium-sized firms, the corresponding proportion is even smaller, reaching only about 15 percent. Finally, twenty (or 29 percent) small firms in the survey took FTAs into account in making an investment decision. At the same time, the percentage of surveyed firms that disregard the importance of FTAs in investment decisions is also modest (

Table 12.13). In summary, the role of FTAs in investment decision-making should not be under-estimated.

Table 12.13: Perception of Manufacturing Firms on Whether FTAs Affected Past Investment Decisions

	<i>Number of responses</i>				<i>Percentage (%)</i>			
	<i>No</i>	<i>Don't know</i>	<i>Yes</i>	<i>Total</i>	<i>No</i>	<i>Don't know</i>	<i>Yes</i>	<i>Total</i>
Large	3	4	2	9	33.3	44.4	22.2	100.0
Medium	3	14	3	20	15.0	70.0	15.0	100.0
Small	12	37	20	69	17.4	53.6	29.0	100.0
Overall	18	55	25	98	18.4	56.1	25.5	100.0
Unknown	1	3	1	5				

Source: Authors' calculations from survey data.

Similarly, Table 12.14 illustrates the views of surveyed services firms on whether their investment decisions had been induced by FTAs. From a mere comparison of

³ Which is a notable feature of ASEAN, as the majority of its effort has been dedicated to liberalising trade in goods.

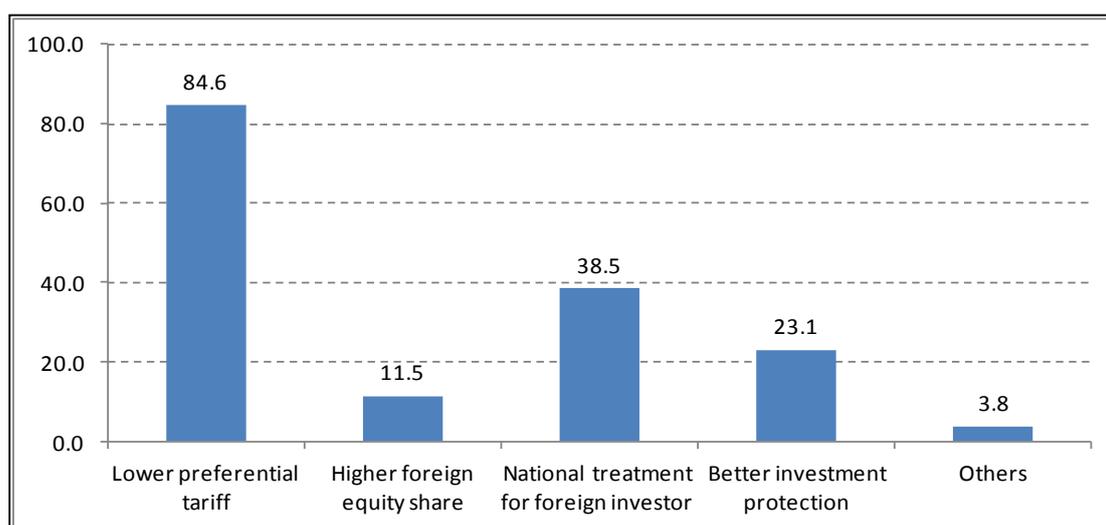
Table 12.13 and Table 12.14, the connection between investment decisions and FTAs seems to have been even more modest among services firms. Only 5 percent of the surveyed services firms says that their decision had been affected by aspects of FTAs. Notably, all these services firms are of small size. None of the medium-sized and large firms was swayed by FTAs in making investment decisions.

Table 12.14: Perception of Services Firms on Whether FTAs Affected Past Investment Decisions

	<i>Number of responses</i>				<i>Percentage (%)</i>			
	<i>No</i>	<i>Don't know</i>	<i>Yes</i>	<i>Total</i>	<i>No</i>	<i>Don't know</i>	<i>Yes</i>	<i>Total</i>
Large	4	6	0	10	40.0	60.0	0.0	100.0
Medium	2	3	0	5	40.0	60.0	0.0	100.0
Small	0	4	1	5	0.0	80.0	20.0	100.0
Overall	6	13	1	20	30.0	65.0	5.0	100.0

Source: Authors' calculations from survey data.

Figure 12.2: Aspects of FTAs Under Consideration by Manufacturing Firms upon Deciding Investment Location



Note: The numbers of surveyed firms considering Lower preferential tariff, Higher foreign equity share, National treatment for foreign investor, Better investment protection, and Others related to FTA in investment decisions are 22, 3, 10, 6, and 1, respectively.

Source: Authors' calculations from survey data.

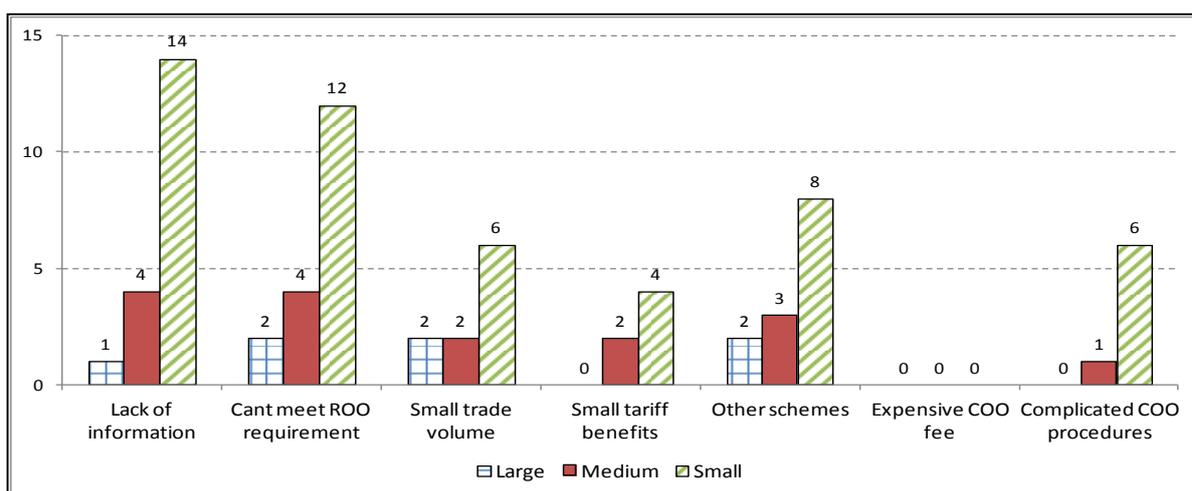
The surveyed manufacturing firms also list the specific aspects of FTAs that they use upon choosing an investment location. As can be seen in Figure 12.2, the most important aspect is reduction of levied tariff, which is given by 84.6 percent of the surveyed firms. National treatment and better investment protection for foreign investors are other

important aspects, mentioned by 38.5 percent and 23.1 percent of the surveyed firms, respectively. The room for foreign participation, as reflected by higher foreign equity shares, is also an aspect under consideration, as indicated by 11.3 percent of the surveyed firms. However, the modest consideration of national treatment, better investment protection, and room for foreign participation may stem from limited knowledge about the technical aspects and contribution of FTAs. In fact, some of the surveyed firms mistook the FTAs for mere arrangements to liberalise trade in goods.

2.2.5. Constraints leading to non-use of FTAs, by firm size

An arising concern is with the major impediments underlying such modest utilisation of FTAs.

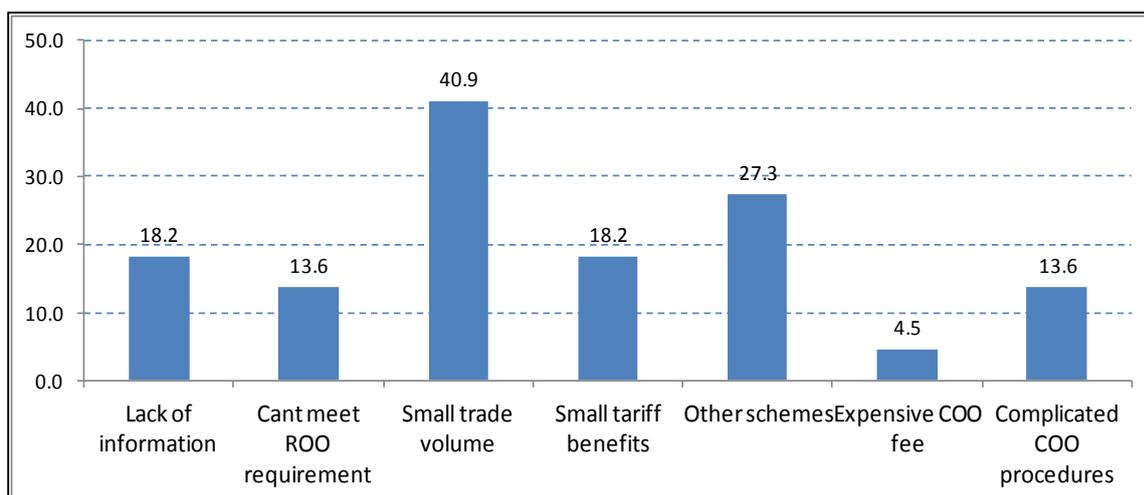
Figure 12.3 depicts the key reasons that prevent surveyed manufacturing firms from using FTAs. Apparently, the most common reason is that the surveyed firms fail to meet requirements related to ROOs. This is confirmed by two (or one third of) large firms, four (or one third of) medium-sized firms, and 12 (or over 34.3 percent of) small-sized firms. Lack of information presents another obstacle, as indicated by one (or 16.7 percent of) large firms, four (or one third of) medium-sized firms, and 14 (or around two-fifths of) small firms. More importantly, failure to meet ROO requirements and lack of information are more prevalent issues for small firms than for their large- and medium-sized counterparts. To a lesser extent, the surveyed firms also encounter the limitation of incentives for using FTAs, due to small trade volume, and small differences between normal and preferential tariff schemes other than FTAs were also adopted. Notably, even two (or one-third of) large manufacturing export firms claim that small trade volume deters them from utilising FTAs, and the same percentage of these large entities turn to alternative schemes. Finally, complicated procedures for obtaining COOs are only problematic for small- and medium-sized firms, and the proportions of surveyed firms facing this issue are significantly smaller than for other impediments. In fact, only one (or 8.3 percent of) medium-sized firms and six (or 17.1 percent of) small firms found COO procedures to be too complicated.

Figure 12.3: Reasons for Not Using FTAs by Size of Surveyed Manufacturing Enterprise

Source: Authors' calculations from survey data.

Figure 12.4 lists the key reasons why the surveyed manufacturing firms do not use COOs. As can be seen, small trade volume is the most cited reason among the surveyed firms (40.9 percent) that do not use COOs. The availability of other schemes follows, as indicated by 27.3 percent of the surveyed firms. Consistent with the reasons for not using FTAs, lack of information and small tariff benefits are other important reasons, both indicated by 18.2 percent of the surveyed firms. The lack of information is a notable impediment, reflecting inadequate access of firms to FTA negotiation and information, notwithstanding the range of information dissemination activities after Viet Nam became a member of the WTO. Other possible causes for not using FTAs include inability to meet ROO requirement, expensive fees and complicated procedures to obtain COOs, but each of these causes is mentioned by a small proportion of surveyed firms (that do not use COOs).

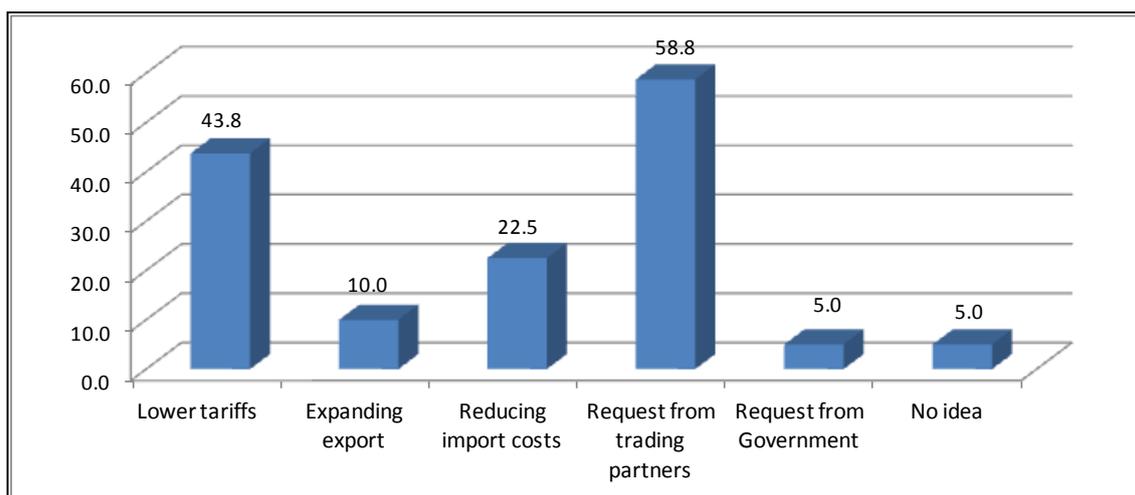
Figure 12.4: Reasons for Not Using COOs by Manufacturing Export Firms



Note: Lack of information, Inability to meet ROO requirement, Small trade volume, Small tariff benefits, Other schemes, Expensive COO fee, and Complicated COO procedures are cited by 4, 3, 9, 4, 6, 1, and 3 firms, respectively.

Source: Authors' calculations from survey data.

In contrast, Figure 12.5 illustrates the key aspects of COOs that induced the surveyed manufacturing firms to use them. The most important reason, as indicated by 58.8 percent of surveyed firms, was that they were requested to do so by their trading partners in importing countries. This is sensible because importers want to reduce the costs of imports where possible, or importers may need to show sufficient COOs from ASEAN in their subsequent export of processed imports. Accordingly, 43.8 percent of the surveyed firms also agree that a smaller tariff presents an incentive for using COOs. Similarly, 22.5 percent of surveyed firms refer to reduction of import costs as a major reason to use COOs. Use of COOs may also be induced by government request or the need to expand exports, but these reasons are not indicated by significant proportions of the surveyed firms.

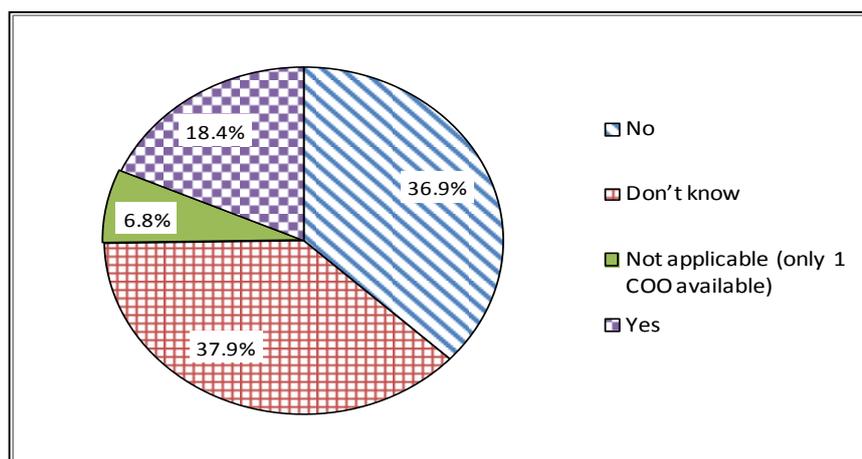
Figure 12.5: Reasons for Using COOs Cited by Manufacturing Firms (%)

Note: The numbers of surveyed firms considering Lower tariff, Export expansion, Reduction of import costs, Request from trading partners, Request from the Government, and Unidentified factors as reasons for using COOs are 35, 8, 18, 47, 4, and 4, respectively.

Source: Authors' calculations from survey data.

Figure 12.6 summarises the responses of manufacturing firms on being asked whether they try to compare the advantages of different COO schemes in Viet Nam. Only 18.4 percent of the surveyed firms make such attempts. Of the remainder, about 36.9 percent of the surveyed firms did not compare the advantages brought about by different COO schemes, and 37.9 percent of the firms were not aware of the need for such comparison. Drawing reference from Figure 12.5, this finding implies that Viet Nameese exporters remain passive in complying with COO requirements and procedures. That is, they tend to fulfill the requirements and procedures due to the requests of partners, rather than their own acknowledgement of related benefits (if any). However, the extent of comparison efforts differs significantly by size of surveyed firms. Among the large firms, about two-thirds make no attempts to compare the advantages of different COO schemes, while about 11.1 percent attempt to do so. For small firms, 31.9 percent make no such attempt, while 20.3 percent try to compare different COO schemes.

Figure 12.6: Attempts of the Surveyed Manufacturing Firms to Compare Advantages of Different COO Schemes



Note: The numbers of surveyed firms with answers of No, Do not know, Not applicable (only 1 COO available), and Yes are 38, 39, 7, and 19, respectively.

Source: Authors' calculations from survey data.

Table 12.15 indicates the extent of the difficulty in complying with various COO schemes. Some 28.7 percent of the surveyed firms encounter difficulty with such compliance. However, 19.8 percent of the surveyed firms have no problem complying with the various COOs, while 44.6 percent of the firms are unaware of the difficulties in complying with a number of COO schemes. In this regard, building capacity for firms to understand and resolve difficulties with various COO schemes emerges as an important need. Notably, the size of manufacturing firms does not seem to affect its difficulty in complying with various COO schemes.

Table 12.15: Difficulty in Complying with Various COOs by Manufacturing Firms

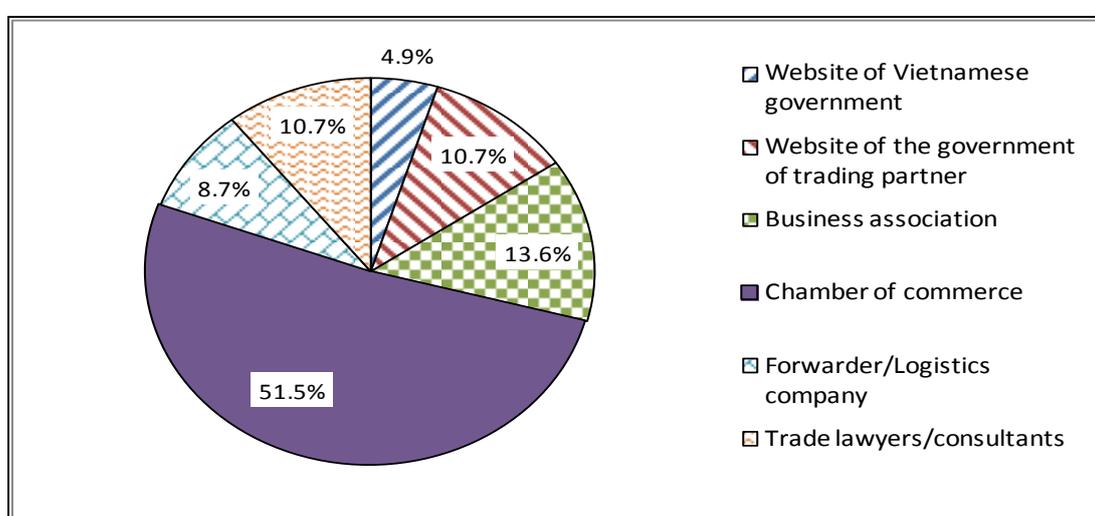
	<i>Number of answers</i>	<i>Proportion (%)</i>
No	29	28.7
Don't know	45	44.6
Not applicable (only one COO available)	7	6.9
Yes	20	19.8
Total	101	100.0

Source: Authors' calculations from survey data.

Figure 12.7 shows the key sources of support that the surveyed firms refer to when complying with various COO schemes became a problem. The most popular source of

support is the Viet Nam Chamber of Commerce and Industry (VCCI), which is sought by almost 53 (or 51.5 percent) of the surveyed firms having difficulty. The firms also approach business associations for help, but this only account for 14 (or 13.6 percent) of the responses. Although the VCCI assumes the role of representing all businesses and firms just as do various business associations, the different levels of sought support may result from the fact that the VCCI remains a semi-private institution⁴ with better professional capacity. Interestingly, the proportion of firms seeking support from the Government's website of trading partners is higher than that looking for support from the Government's website, although these figures are rather small. Therefore, there appears to be a problem in networking the government agencies and export firms in facilitating compliance with various COO schemes, at least in terms of acquiring relevant information.

Figure 12.7: Support Sought by Manufacturing Firms to Address Difficulty in Complying with Various COOs



Note: The numbers of surveyed firms relying on website of Viet Nam Government, Website of the Government of trading partner, Business association, Chamber of commerce, Forwarder/Logistics company, and Trade lawyers/consultants are 5, 11, 14, 53, 9, and 11, respectively.

Source: Authors' calculations from survey data.

Services sector firms, meanwhile, focus more on some major impediments justifying their modest use of FTAs. As indicated in Table 12.16, the most frequently mentioned issue is lack of information. In fact, this issue is affirmed by 80 percent of small firms, one-third of medium-sized firms, and around one half of large firms. Small trade

⁴ Originally established under the Ministry of Foreign Trade.

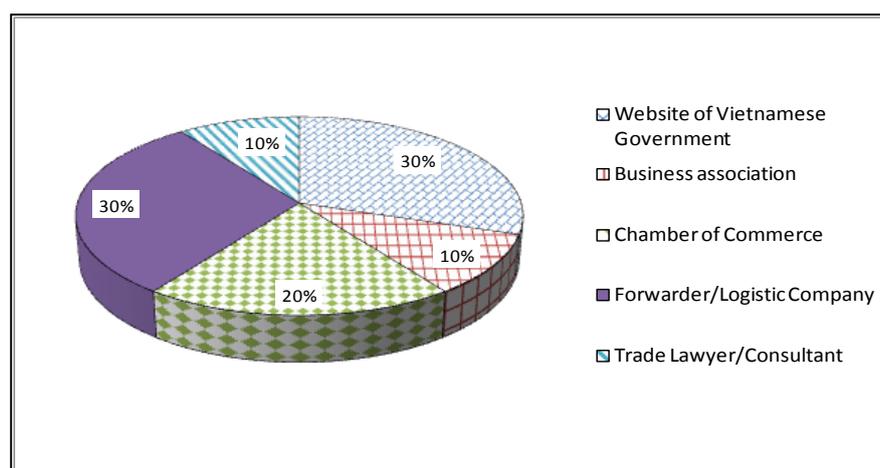
volume also undermines the incentives for FTA utilisation, and is cited by one-third of medium-sized firms, and 20 percent of small firms. Complicated COO procedures are only encountered as a problem by medium-sized firms, and the share of such service firms encountering the problem is only one-third. No other constraints are mentioned by the services firms. Notably, lack of information, small trade volume, and complicated COO procedures are of equivalent importance for medium-sized firms, although the figures deserve some skepticism due to small sample size.

Table 12.16: Reasons for Not Using FTAs by Size of Surveyed Services Enterprise

	<i>Lack of information</i>	<i>Can't meet ROO requirement</i>	<i>Small trade volume</i>	<i>Small tariff benefits</i>	<i>Other schemes</i>	<i>Expensive COO fee</i>	<i>Complicated COO procedures</i>
<i>Number of responses</i>							
Large	2	0	0	0	0	0	0
Medium	1	0	1	0	0	0	1
Small	4	0	1	0	0	0	0
<i>Percentage (%)</i>							
Large	50.0	0.0	0.0	0.0	0.0	0.0	0.0
Medium	33.3	0.0	33.3	0.0	0.0	0.0	33.3
Small	80.0	0.0	20.0	0.0	0.0	0.0	0.0

Source: Authors' calculations from survey data.

Figure 12.8 depicts the key sources of support sought by the surveyed firms upon encountering difficulties in complying with various COO schemes. As can be seen, the most popular sources of support are freight forwarders or logistic companies, cited by 37 percent of the surveyed firms. The VCCI and the Government's websites are also mentioned as sources of support, in both cases by a quarter of surveyed firms. Unlike the survey results of manufacturing export firms, the services firms do not look for support from the Government's website of trading partners.

Figure 12.8: Source of Support for Services Firms against Difficulty with COOs

Note: 10 services firms provided responses to the question.
Source: Authors' calculations from survey data.

2.2.6. Costs and procedures for obtaining COOs, by firm size

In order to explain the modest use of COOs, we should also look into firms' perceptions of costs and procedures for obtaining COOs. Table 12.17 shows how manufacturing firms view the number of documents needed to obtain COOs. As can be seen, 50 (or 64.1 percent) of the surveyed firms deem the number to be reasonable. However, 21 (or 26.9 percent) of the respondents think that the number of documents needed to obtain COOs is large, and four (or 5.1 percent) even claim that the number is too large. The pattern of responses does not differ significantly by firm size, although the number of firms saying that they face too many documents to obtain COOs is small.

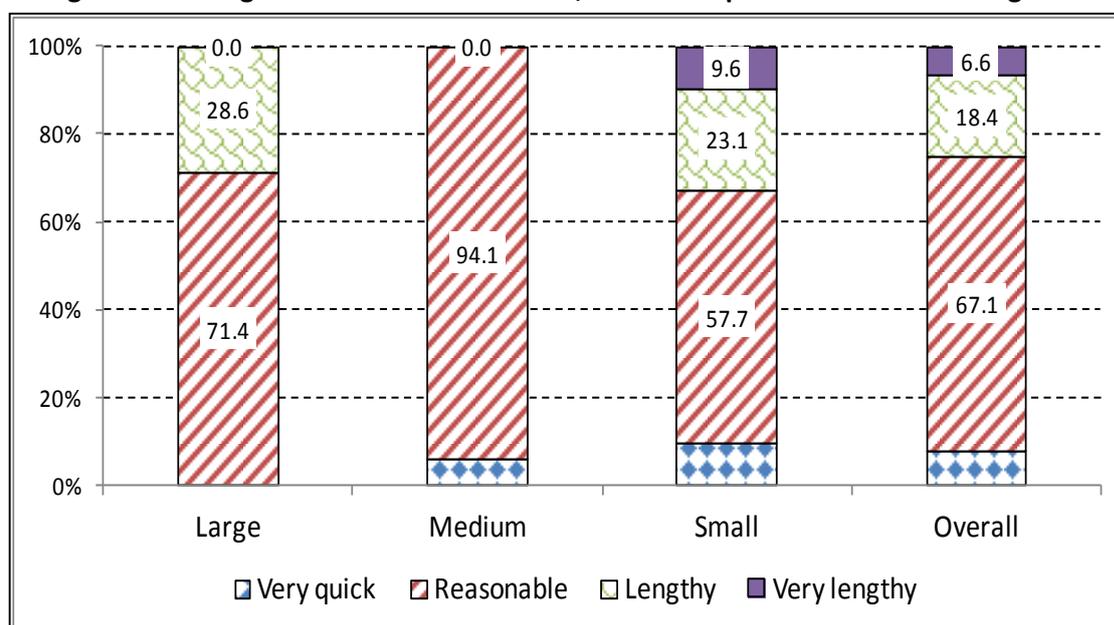
Table 12.17: Number of Documents to Obtain COOs, from Perceptions of Manufacturing Firms

	<i>Very few</i>	<i>Reasonable</i>	<i>Many</i>	<i>Too many</i>	<i>Total</i>
<i>Number of responses</i>					
Large firms	0	5	2	0	7
Medium firms	0	14	3	0	17
Small firms	3	31	16	4	54
Overall	3	50	21	4	78
Unknown	0	3	1	0	4

	<i>Very few</i>	<i>Reasonable</i>	<i>Many</i>	<i>Too many</i>	<i>Total</i>
<i>Percentage (%)</i>					
Large firms	0.0	71.4	28.6	0.0	100.0
Medium firms	0.0	82.4	17.6	0.0	100.0
Small firms	5.6	57.4	29.6	7.4	100.0
Overall	3.8	64.1	26.9	5.1	100.0

Source: Authors' calculations from survey data.

Figure 12.9: Length of Time to Obtain COOs, from Perceptions of Manufacturing Firms



Note: The number of responses overall, the number by small-sized firms, by medium-sized firms, and by large-sized firms are 76, 52, 17, and 7, respectively.

Source: Authors' calculations from survey data.

Figure 12.9 illustrates the assessment by manufacturing firms of the time required to obtain COOs. In fact, 67.1 percent of the surveyed firms rate the length of the COO process as reasonable. Less than 8 percent see the process as very quick, while 18.4 percent of firms claim that the process is lengthy, and 6.6 percent see the process as very lengthy. Again, all firms that see the process as very lengthy are small.

Finally, Table 12.18 summarises the assessment of costs incurred by manufacturing firms in obtaining COOs. As can be seen, 67.5 percent of the surveyed firms assess the costs as reasonable, and 15.6 percent rate the costs as very low. However, 16.9 percent of the respondents still consider the COO process to be costly. Notably, the costs of obtaining COOs seem to be less important for large firms. In fact, among the large firms, 42.9 percent rate the costs as very low. This could be attributed to the economies of scale enjoyed by large firms in obtaining COOs for their export products.

Table 12.18: Costs to Obtain COOs, from Perceptions of Manufacturing Firms

	<i>Very low</i>	<i>Reasonable</i>	<i>Costly</i>	<i>Total</i>
<i>Number of responses</i>				
Large firms	3	2	2	7
Medium firms	3	14	0	17
Small firms	6	36	11	53
Total	12	52	13	77
Unknown	1	2	0	3
<i>Percentage (%)</i>				
Large firms	42.9	28.6	28.6	100.0
Medium firms	17.6	82.4	0.0	100.0
Small firms	11.3	67.9	20.8	100.0
Total	15.6	67.5	16.9	100.0

Source: Authors' calculations from survey data.

Referring to the official indicators on trading across borders in Viet Nam, published by the World Bank (Table 12.19) the number of documents for exports and imports has remained constant over time, notwithstanding the popularisation of electronic documents. The cost of exports and imports both increased over time. Interestingly, the cost of exports went up more rapidly than those of imports, thereby implying some constraints over export activities. The time required for export and import activities was all shortened, albeit not by much. Therefore, Viet Nam still has ample room for improvement in issues related to trade facilitation, including compliance with and utilisation of COOs for preferential treatment.

Table 12.19: Viet Nam's Trading across Border Indicators

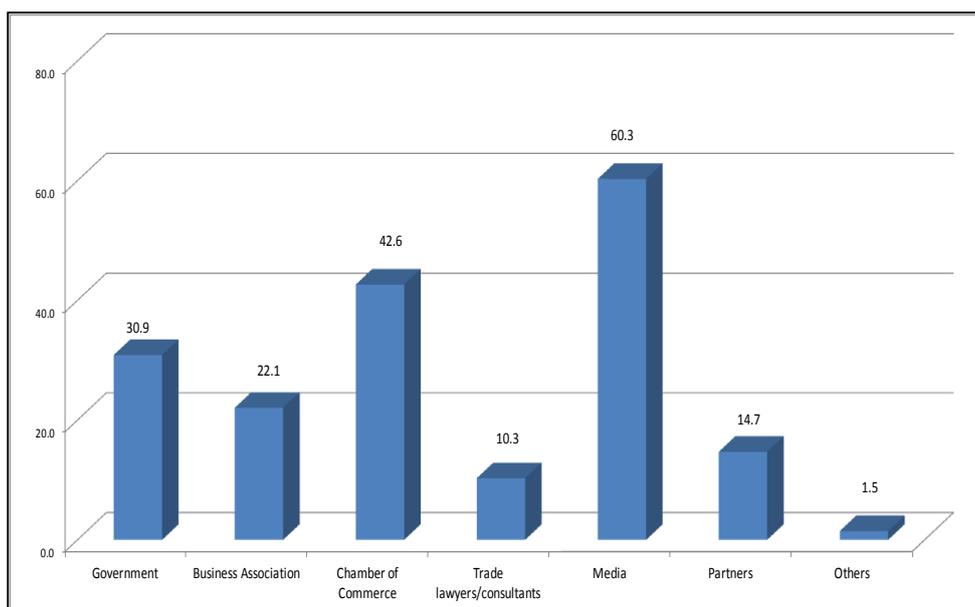
Year	Viet Nam's Trading Across Borders Indicators						
	<i>TAB Rank</i>	<i>Docs to export (number)</i>	<i>Time to export (days)</i>	<i>Cost to export (USD per container)</i>	<i>Docs to import (number)</i>	<i>Time to import (days)</i>	<i>Cost to import (USD per container)</i>
2006	..	6	24	468	8	23	586
2007	..	6	24	468	8	23	586
2008	..	6	24	468	8	23	586
2009	..	6	24	533	8	23	606
2010	..	6	22	555	8	21	645
2011	..	6	22	555	8	21	645
2012	74	6	22	580	8	21	670
2013	74	6	21	610	8	21	600

Source: World Bank (cited from Koh and Chaojirapant 2012).

2.2.7. Main sources of information about FTAs

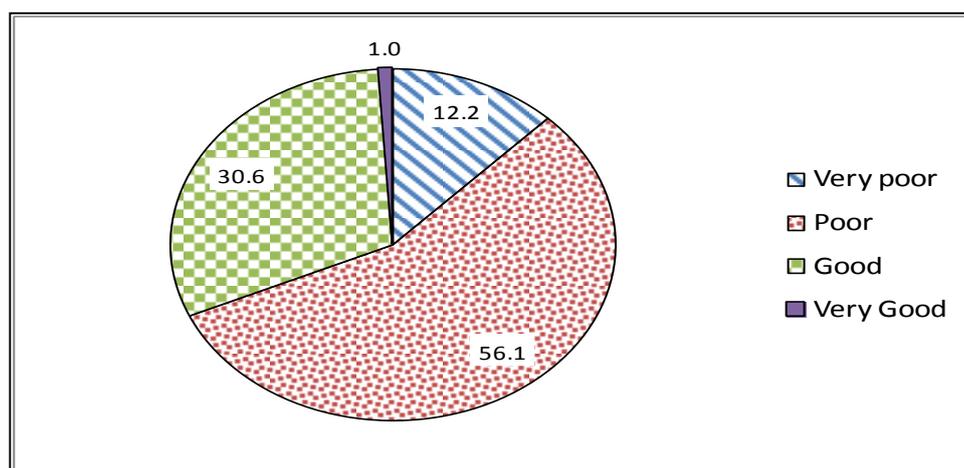
Interesting findings could also be extracted from the answers of firms regarding their sources of information on FTAs. By design, these findings are restricted to the surveyed firms that know about FTAs. In fact, for manufacturing firms, 41 (or over three-fifths) acquire information from the media, such as newspapers, television, etc. The Viet Nam Chamber of Commerce (i.e., the VCCI) provide information on FTAs to 29 (or almost 42.6 percent) of the surveyed firms. Twenty-one (or nearly 31 percent) of the surveyed firms refer to government agencies as the main source of information of FTAs. The business associations do not play a major role in terms of disseminating FTA information to firms, while the contribution from trade lawyers and private consultants is still more limited.

The surveyed manufacturing firms also rate the availability and quality of information on FTAs in Viet Nam. Figure 12.11 summarises the responses of manufacturing export firms on FTA information availability. Some 30.6 percent of the surveyed firms claim that information on FTAs is good, with 1 percent rating it as very good. More than 68.3 percent of the surveyed firms are not satisfied with either the availability or the quality of information on FTAs. Specifically, 56.1 percent of the surveyed firms think that such information is poor, while 12.2 percent even argue that the information is very poor. By firm size, the pattern of responses is similar to the sample structure, which implies that availability and quality of information present a common issue to all firms. Promoting the availability and quality of FTA-related information would therefore seem to be an important area requiring better coordinated measures by the Government, business associations and media agencies.

Figure 12.10: Main sources of Information on FTAs (%)

Note: The numbers of firms using information from government, Business Associations, Chamber of Commerce, Lawyers/Consultants, Media, Partners, and Other Sources are 21, 15, 29, 7, 41, 10, and 1, respectively.

Source: Authors' calculations from survey data.

Figure 12.11: Rating of Information on FTAs by Manufacturing Firms (%)

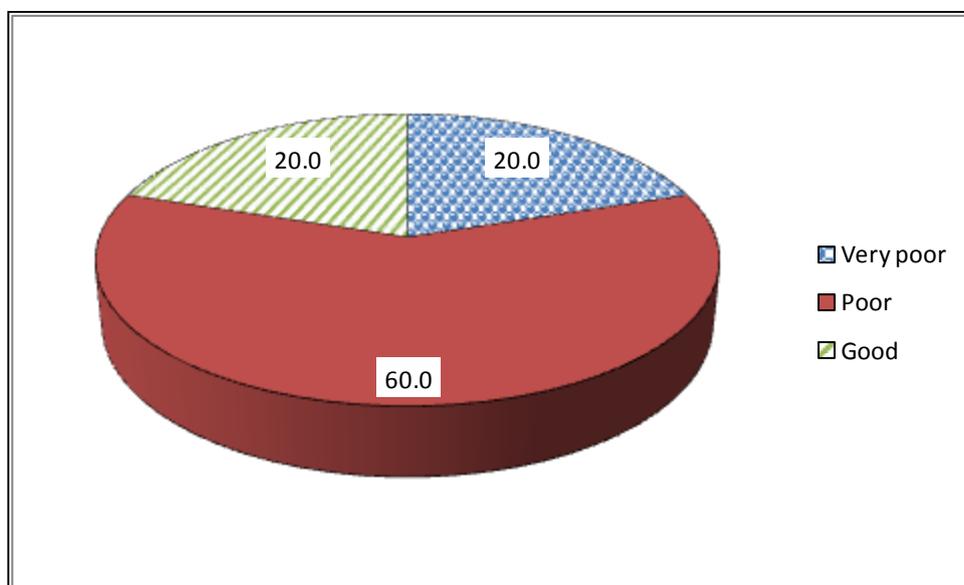
Note: The total number of respondents is 98.

Source: Authors' calculations from survey data.

The surveyed services firms also provide ratings of the availability of information on FTAs in Viet Nam (Figure 12.12). Unlike the manufacturing export firms, the services sector firms generally find such information availability to be less than satisfactory. Three-fifths of the surveyed firms claim that information on FTAs is poor, and 20 percent even rate it as very poor. In contrast, some firms think that information availability on FTAs in Viet Nam

is good, but these firms only make up one-fifth of the survey sample. Some of the useful sources of information, as noted by the surveyed firms, are newspapers, government websites, law databases, and business associations.

Figure 12.12: Rating of Information Availability on FTAs by Services Firms (%)



Note: The total number of respondents is 20.
Source: Authors' calculations from survey data.

3. Key Recommendations

From the above findings, and following consultations with various stakeholders, several recommendations can be made regarding the improvement of FTA utilisation in Viet Nam. Notably, the recommended policy measures should be developed jointly by the Government and the business associations, alongside the efforts of Viet Nameese firms themselves.

The survey findings point to some clear priorities for the Government. First, the Government should make further efforts to provide information on FTAs. Specifically, the information should not be restricted to trade in goods liberalisation, but instead should also cover other technical aspects, such as foreign equity, national treatment for investors, etc. In increasing the availability of FTA-related information, this will also help to properly align the understandings of firms, traders, logistic companies and other stakeholders in the supply chain of key Viet Nameese export products. The information should be related both to completed FTAs and to those under negotiation. The information provided should also

be accompanied by training and other capacity-building efforts to ensure better adaptation of firms. For instance, the talks about possible changes in tariff and terms of market access for certain products should incorporate substantial measures by firms to take advantages of the changes. Government agencies should also acknowledge the importance of information provision, especially for FTAs under negotiation, since this would make the negotiation process more consultation-based. Raising firms' awareness of FTA benefits is also important, since they need to actively undertake measures to enhance such benefits, rather than simply complying with COO requirements at the request of trading partners. As a possible approach, the government agencies could focus initially on enhancing the information available to, and the awareness of FTAs in business associations and major firms in different industries/sub-sectors. These beneficiaries could then extend the information to other firms.

On a related matter, the provision of information should also help firms to address issues and obstacles in utilising FTAs. As noted above, manufacturing firms turn to government websites for support when having difficulty complying with various COO schemes. Timely support from the Government's websites, especially in the form of information provision and instructions, would prove invaluable to the firms. At the same time, a commitment to provide information should also help to improve the stability and transparency of policies and regulations related to COOs, standards, etc., thereby increasing business confidence, as well as FTA utilisation. More broadly, government agencies could channel sharing of experiences across firms, particularly between those with a long experience of using FTAs and those starting to use FTAs.

Another level of information provision should focus on the role of FTA utilisation for firms that rely, albeit indirectly, on imported materials and inputs. From the survey findings, many firms have to apply for COOs. However, such COOs may not necessarily serve to reduce export costs for the firms themselves. Instead, they are requested by the Viet Nameese firms' overseas trading partners, so that they can meet ROO requirements for their own follow-up export activities. In a similar pattern, although many firms have no direct import activities, they still need to understand the broader use and requirement of ROOs that can help in their follow-up operations. In particular, these firms may learn to request COOs from suppliers and/or importers for use in supplying goods to others.

First, at the highest level of information, the Government may need to compile and extend information to local firms on the growth prospects in FTA partner countries, alongside possible preferential investment treatment in these locations. With such information, the firms may acknowledge the opportunities and attempt to make investments overseas. In this regard, the Government itself needs to assume a more active role, rather than just relying on the investment efforts of the firms.

Second, the Government should deepen efforts to simplify COO procedures. Such simplification could reduce the time taken and costs incurred by firms in obtaining COOs. Avoiding tax frauds is an important policy priority, but should be pursued by other modern and practical measures, rather than by lengthy and costly procedures. Moreover, simplifying COO procedures may contribute to larger trade volumes, benefiting tax receipts and tariff revenues. Adopting electronic platforms for document submission is a critical first step that Viet Nam has completed, but this needs to be followed by sufficient electronic processing/handling and risk management methods. Relying solely on manual handling of electronically submitted documents will not help ease COO-related procedures, since it may make way for some arbitrage or inconsistency in treatment. In this regard, information provided by the Government is essential to ensure consistent understanding of COO procedures and their importance. Also, the Government should pay more attention to supporting SMEs, as they have to incur greater time and higher financial costs in obtaining COOs.

Third, at the broader level, the Government should work with FTA partners towards harmonisation of procedures. For many products, including key export goods, Viet Nameese manufacturing firms still suffer from the significant differences in standards and procedures in Viet Nam compared with partner economies. Complying with these differences may incur overwhelming costs for various export firms, thereby deterring them from engaging further in export activities. Mutual recognition of standards is thus just the beginning. Viet Nam should collaborate more closely with FTA partners in developing and amending procedures related to COO processing and management. At the same time, in negotiating new FTAs Viet Nam should pay attention to facilitating the incorporation of existing standards and procedures.

Finally, Viet Nam needs a more rigorous framework for improving connectivity within the supply chains of key export products. This includes measures to upgrade

production capacity, development of infrastructure to support domestic and foreign trade, facilitation of information exchange between government agencies related to trade management, improving the applications of information and communication technology in customs clearance, capacity-building efforts for customs officers, and enhancement of dialogue and cooperation between government and the business community. With better capacity to facilitate trade, the overall utilisation of FTAs should then be improved.

Endeavours aimed at improving FTA utilisation should not be the sole responsibility of government agencies. Instead, the business associations should play an important role in facilitating and supporting such utilisation. Business associations should continue their role as providers of support in harmonising COOs and compliance with various COO schemes. This role has to an extent been fulfilled in past years, as reflected by the responses of manufacturing firms. However, support should be upgraded towards facilitating information provision by government agencies, as well as the connection of export firms to these agencies. This should also enhance the quality of government-business consultation, thereby increasing the relevance of on-going FTA negotiations, and policies and procedures related to COO management.

Business associations may serve as fora for sharing experiences among members regarding issues with FTA utilisation. Some firms may be more experienced and have less difficulty than others in complying with COO/ROO requirements and procedures. By sharing experiences and skills from the former to the latter, the level of ROO compliance and/or the FTA utilisation rate could be improved. In the clearest example indicated by the stakeholders, firms could share their experience in meeting standards and preparing the necessary documents to apply for COOs. In another example, firms could learn from others on how to design a relevant clause requesting suppliers to include COOs, so that preferential treatment can be granted to their own export activities. In particular, as foreign-invested firms are more capable of meeting ROO requirements and pay more attention to FTA-related aspects before making investments in Viet Nam, they could help share valuable experience to their domestic counterparts.

Even with support from the Government and business associations, the benefits from FTAs by way of improving utilisation cannot be realised in the absence of the efforts by firms themselves. Apart from accessing information provided by government agencies and business associations, the firms may attempt to purchase access to important

information and analysis related to FTAs, such as those by research institutes or market research companies. Firms should improve maintenance of systematic details and documents to meet ROO requirements. Firms should be more active in raising relevant questions to the Government and business associations during consultations, so that important issues can be noted for resolution. Improvements in FTA utilisation will not happen overnight. Instead, it is a process, but one with a significant payoff for firms and the overall economy.

References

- Koh and Chaojirapant (2013), *Diagnostic Study Report*, Report for APEC Ease of Doing Business Phase 2 – Capacity building program for trading across borders for Government of Viet Nam.
- Tran Ba Cuong (2012), FTA Utilisation and How to Support SMEs. *Presentation file*. Mimeo.
- Tran Binh Minh, Dinh Hien Minh, and Trinh Quang Long (2012), Estimating Import Content of Exports in Viet Nam/Viet Nam and Related Policy Recommendations, *Research Report at the Ministerial level*. Hanoi. In Viet Nameese.