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Vietnam's Trade Liberalisation in the Context of ASEAN: Vietnam's Accession to AFTA

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I. AFTA and Common Effective Preferential Tariff (CEPT) Scheme

1. History and Evolution of AFTA

The Association of South East Asian Nations was formed in 1967, the founding members being Indonesia, Malaysia, the Philippines, Singapore and Thailand. The vision upheld by the founding members was all countries in the South East Asia region cooperating actively towards peace, stability, progress and prosperity. ASEAN was founded to provide a framework and mechanism for regional cooperation. The ASEAN Declaration (Bangkok, 1967) identified the first three aims and purposes of ASEAN as:

- to accelerate the economic growth, social progress and cultural development in the region through joint endeavours;
- to promote regional peace and stability; and
- to promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields (ASEAN Secretariat website).

Although the original ASEAN concept had an economic dimension, the progress on economic integration was initially slow. The primary focus was political, with a common strategic concern about inroads by communism from the east

Table 1. Evolution of ASEAN membership

ASEAN (5)	ASEAN (6)	ASEAN (7)	ASEAN (9)	ASEAN (10)
Indonesia	+ Brunei	+ Vietnam	+ Myanmar	+ Cambodia
Malaysia			Lao PDR	
Philippines				
Singapore				
Thailand				
August 1967	**January 1982**	**July 1995**	**July 1997**	**April 1999**

and the north, as well as internal insurgencies in some of the ASEAN members themselves. In April 1999, Cambodia was admitted as the tenth member of ASEAN, fulfilling the vision of the original ASEAN members to establish an organization for all South East Asian countries. Table 1 shows the evolution of ASEAN membership.

ASEAN free trade area (AFTA)

In 1977, ASEAN members adopted a limited preferential trade arrangement. Initially, the arrangement were narrow in scope and coverage. By 1980 it covered an estimated 2 per cent of intra-ASEAN trade and only 5 per cent by 1985. Several reasons, including the product-by-product nature of negotiations, the non-genuine offer of preferences, high domestic content requirements, long lists of exclusions and the limited nature of preferences themselves help explain the initial negligible impact of the preferential trade arrangement. In 1991 the idea of an ASEAN free trade area was proposed by the Thai Prime Minister and subsequently adopted in January 1992 during the fourth ASEAN Summit meeting in Singapore. At that Summit meeting ASEAN members signed the Framework Agreement on Enhancing ASEAN Economic Cooperation, which resulted in the formation of the ASEAN Free Trade Area. The strategic objective of AFTA is to increase the ASEAN region's competitive advantage as a single production unit. The elimination of trade barriers among member countries is expected to promote greater economic efficiency, productivity and competitiveness (ASEAN Secretariat 1999a). Improved competitiveness and access to a large market would encourage investment, including foreign direct investment, and help to achieve economies of scale in production and stimulate development of supporting industries. The initial aims of AFTA were to reduce tariff rates on intra-ASEAN trade to less than 5 per cent within 15 years, beginning January 1993, via a common effective preferential tariff (CEPT). Each member was to provide schedules of voluntary reductions in nominated tariff lines. The AFTA agreement was not comprehensive and members were free to exclude sensitive goods from the tariff reduction schedules. The AFTA scheme divided goods into two categories — fast track goods whose tariffs were to be reduced to 0–5 per cent within 7 or 10 years (depending on whether the initial tariff was below or above 20 per cent) and the normal track goods on which tariffs would be reduced more slowly. Under the normal track program tariffs were to be reduced to 0–5 per cent by 2008, or by 2003 if rates were already at 20 per cent or less. A key feature of the CEPT is that the concessions are granted on a reciprocal, product by product basis.

2. A history of accelerated trade liberalization and increasing coverage

At both of the ASEAN Summits since the 1992 Summit, announcements were made with respect to accelerating the implementation of the free trade area. The fifth ASEAN Summit (Bangkok, December 1995) adopted the Agenda for Greater Economic Integration, which included the acceleration of the timetable for realization of AFTA from the original 15-year time frame to 10 years. This encompassed accelerating the liberalization of fast track items by the year 2000 (originally 2000 to 2003) and achieving normal track item liberalization by 2003 (originally 2008). At the sixth ASEAN Summit (Hanoi, December 1998), and in the wake of the East Asian Financial crisis, the six oldest members of ASEAN agreed to advance implementation of AFTA by one year to 2002, from 2003. The six original members would achieve zero tariff rates by 2015, and for the new members by the year 2018. With this framework, 60 percent of tariff lines would be reduced to 0 percent by 2003. This course of action was taken as a means of restoring business confidence, enhancing the economic recovery and promoting growth in the region.

Table 2. Summary of CEPT Acceleration

	ASEAN-6		*Vietnam*	*Laos & Myanmar*	*Cambodia*
	Fast Track	*Normal Track*			
Original Plan (1992)	2003	2008			
AEM Meeting (1994)	2000	2003	2006	2008	
Zero Tariff Rate (1998)	2015	2018			

Source: ASEAN Secretariat, 1999a.

The accelerated trade liberalization applies only to those tariff lines on the so-called Inclusion List (see Box 1). The sixth ASEAN Summit (Hanoi, December 1998) saw member countries committing to accelerate, as soon as possible, the transfer of products that were not included in the tariff reduction scheme into the Inclusion List. The sixth Summit also saw greater emphasis on expanding the range of services to undergo trade liberalization, which was initiated at the fifth ASEAN Summit. At that Summit it was decided that ASEAN would move towards freer trade in services through the implementation of the ASEAN Framework Agreement on Services (AFAS). To implement AFAS, members undertook to enter into negotiations concerning specific commitments on market access, national treatment and additional

Box 1. CEPT product lists

The requirement that CEPT rates be lower than 5 per cent by 2002 [for ASEAN(6) members] applies to only those tariff lines (products) on the Inclusion List (IL). A country can nominate that products be listed on the Temporary Exclusion List (TEL), Sensitive List (SL) or General Exclusion List (GEL) in which case that product is exempt from the 2002 requirement. The newer members of ASEAN have more relaxed tariff reduction schedules than those reported here.

The Inclusion List — products on the inclusion list are subjected immediately to the CEPT rate reduction. At the sixth ASEAN Summit it was announced that the ASEAN(6) members had committed to reducing CEPT rates to 0–5 per cent on a minimum of 85 per cent of IL products by 2000. This is to be increased to a minimum of 90 per cent of the IL by 2001, and by 2002 all items on the IL are to have CEPT rates under 5 per cent.

The Temporary Exclusion List — products initially excluded from tariff reductions, but then to be transferred to the IL by 2000 and CEPT rates reduced to 0–5 per cent by 2002

The Sensitive List — predominantly unprocessed agricultural products that are granted a more flexible arrangement for phasing into the Inclusion List, beginning 2001–2003 and completed by 2010.

The General Exclusion List — products permanently excluded form the CEPT scheme for reasons of national security; protection of public morals; protection of human, animal or plant life and health; and the protection of articles of artistic, historic and archaeological value. To enjoy the reduced CEPT rates, the following conditions need to be satisfied:

- ✓ the product must satisfy the ASEAN 40 per cent content requirement;
- ✓ the product must be in the Inclusion List of both the importing and exporting countries;
- ✓ to enjoy a CEPT rate of 20 per cent or lower, the import tariff for the same product must also lower than 20 per cent in the exporting country (the 'reciprocity rule');
- ✓ the reduced CEPT rates must have been legally enacted in the importing country; and

ASEAN member countries are required to eliminate quantitative restrictions or products upon immediate enjoyment of CEPT concessions and eliminate other non-tariff barriers within a period of five years after enjoyment of the concessions. In principle, the GEL is intended to consist of items which satisfies Article XX of the GATT (General Agreement of Trade and Tariffs). These goods may be permanently excluded from tariff reductions for reasons such as national security, protection of public morals, protection of human, animal and plant life and health, or the protection of articles of artistic, historic or archaeological value.

Source: ASEAN Secretariat, 1998b.

commitments covering all service sectors and all modes of supply. The initial negotiations gave emphasis to seven service sectors, namely financial services, maritime transport, telecommunications, air transport, tourism, construction and business services (ASEAN Secretariat 1995d). However, negotiations on trade in services are to begin in 1999 and end in 2001. In short, the recent history of AFTA has been one of extending coverage of goods and services for liberalization and accelerating tariff cuts.

3. Vietnam's position in ASEAN

Table 3 presents some key economic indicators for the ASEAN countries.

Table 3. Key Economic Indicators of ASEAN 10 countries

	GDP 1998	Average Annual Growth rate 1990-1998	GDP per Capita 1998	Population 1998	Imports 1998	Exports 1998	Openness Index	Arable Land 1994-1996	Adjusted Enrollment ratio of Secondary Education 1997
	($ billion)	(%)	($)	(mil.)	($ mil.)	($ mil.)	%	(hectares per capita)	(%)
Cambodia	2.9	5.5	279	10.7	660	330	34.14	0.37	38.8
Indonesia	94.2	5.8	972	206.3	27,420	48,840	80.95	0.09	56.1
Lao PDR	1.3	6.7	421	5.2	648	359	77.46	0.17	63.4
Malaysia	72.5	7.7	4,251	21.4	58,540	73,275	181.8	0.09	64.0
Myanmar	n.a	6.3	n.a	44.5	2,053	866	n.a	0.22	54.2
Philippines	65.1	3.3	1,092	72.9	31,960	29,330	94.15	0.07	77.8
Singapore	84.4	8.0	31,139	3.5	101,496	109,846	250.4	0.00	75.6
Thailand	111.3	7.4	2,593	60.3	41,800	53,575	85.69	0.29	47.6
Vietnam	27.2	8.6	331	77.6	11,015	9,338.	74.82	0.07	55.1
Total	458.9			502.4	275,592	325,759			

Source: UNDP, Human Development Report 2000; World Bank, World Development Indicators 1999-2000.

ASEAN is a diverse group with a combined GDP of $4,589 billion and 502.4 million people[1]. With its 77 million people, Vietnam is the second most populous member country after Indonesia. However, given its low-income level per capita, its shares of GDP and trade in ASEAN remain relatively small, accounting for 5.9 percent and 3.4 percent respectively.

Vietnam was one of the fastest growing economies during the period 1990 to 1998, registering an annual average growth rate of 8.6 percent. In 1998, imports plus exports relative to GDP had reached 74.82 percent of GDP, a relatively high figure for a populous country. Although Vietnam's economy is predominantly agricultural, Vietnam's arable land per capita is relatively low accounting for 0.07 hectares per capita. Vietnam is accumulating human capital relatively quickly through its secondary school enrollment rate of 55.1 percent.

[1] Its members countries belong to different stages of development. Singapore belonged to the 'high income' group with GDP per capita US$31,139 in 1998. Malaysia was classified as the 'upper middle income' group with per capita income of US$ 4,251 whereas Thailand, the Philippines, Indonesia belonged to the 'lower middle income' with per capita incomes of US$ 2,593, US$1,092 and US$972 respectively. Along with the other new member countries, Cambodia, Myanmar, the Lao PDR, Vietnam was classified as a 'low income' country with per capita income of US$311 (World Bank, 1999f)

4. The trade liberalisation schedules of ASEAN member countries

Until 1999, ASEAN members have made substantial commitments to the AFTA/CEPT scheme in terms of scope and degree of liberalization. Table 4 shows the number of tariff lines that the member countries have included in each list. Generally, 55,292 tariff lines out of 55,607 lines are either in IL or TEL. This means that 98 percent of tariff lines will be between 0-5 percent by 2003 (by 2006 for Vietnam and 2008 for the Lao PDR and Myanmar). There is 0.72 percent and 1.18 percent in the General Exception List (GEL), and Sensitive List (SL), respectively.

Table 4. 1999 CEPT Package

Country	Inclusion List			Temporary Exclusion List	Sensitive List	General Exception List	Total
	Normal track	Fast track	Total				
Brunei	3,691	2,495	6,186	90	203	14	6,493
Indonesia	4,852	2,105	6,957	180	72	4	7,213
Laos	1,247	0	1,247	2,126	90	88	7,213
Malaysia	5,518	3,193	8,711	318	63	85	9,177
Myanmar	1,691	665	2,356	2,987	108	21	5,472
Philippines	4,403	1,028	5,431	174	28	68	5,701
Singapore	3,532	2,207	5,739	0	0	120	5,859
Thailand	5,613	3,443	9,056	63	0	7	9,126
Vietnam	1,772	553	2,318	1,353	147	27	3,852
ASEAN	32,319	15,689	48,001	7,291	711	434	60,106

Source: ASEAN Secretariat, CEPT Lists (December, 1999)

5. Vietnam's Trade Liberalisation Schedule under CEPT

As a late joining member of AFTA, Vietnam has been granted slightly differently treatment under the CEPT agreement, being allowed to phase down tariffs on ASEAN imports over a longer period, and only being required to eliminate quantitative restrictions on receipt of concessions applicable to each product.

In December 1995, at the ASEAN summit conference in Bangkok, Vietnam submitted its General Exclusion List (some 165 commodity items) its Temporary Exclusion List (1,189 items), its list of unprocessed agricultural products (26 items), and its proposed Inclusion list (1,633 items). Table 5 summarizes the path of tariff reduction for the classes of goods for 1996-2006.

Table 5. CEPT Road Map: Average tariff rate 1996 to 2006

Category	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
IL	7.0	6.8	5.8	5.6	4.7	3.9	3.8	2.8	2.6	2.5	2.3
TEL	19.9	19.9	19.9	19.9	19.8	19.6	19.4	17.5	13.4	8.9	3.9
Total	12.7	12.6	12.1	11.9	11.4	10.9	10.7	9.3	7.4	5.3	3.0

Source: Ministry of Finance of Vietnam

Nearly 65 percent of the products notified to date are items not produced in Vietnam. According to the Agreement, for commodities in the Inclusion List,

Table 6. Progress of Vietnam's CEPT in 1996-1999

	Number of tariff lines in 1996	Number of tariff lines in 1997	Number of tariff lines in 1998	Number of tariff lines in 1999
Total	875	1,551	1,719	3,582
Tariff Rate (%)				
0%	560	717	667	1,530
1%	156	219	213	82
2%	45	45	7	0
3%	2	4	69	332
5%	112	181	253	561
7%	0	20	21	20
10%	0	140	155	266
15%	0	36	193	471
18%	0	1	0	0
20%	0	188	71	25
25%	0	0	9	26
30%	0	0	10	33
35%	0	0	4	3
40%	0	0	2	232
45%	0	0	44	1
50%	0	0	0	0
Number of tariff lines with tariff rate of 0 percent	567	719	668	1,530
Ratio (%)	64.80%	46.36%	38.86%	42.75%
Number of tariff lines with tariff rate of 0-5 percent	875	1,166	1,209	2,505
Ratio (%)	100.00%	75.18%	70.33%	69.99%
Number of tariff lines with tariff rate of >5% and <20%	0	197	369	757
Ratio (%)	0.00%	12.70%	21.47%	21.13%
Number of tariff lines with tariff rate of more than 20 percent	0	0	69	295
Ratio (%)	0.00%	0.00%	4.01%	8.24%

Source: Ministry of Trade of Vietnam

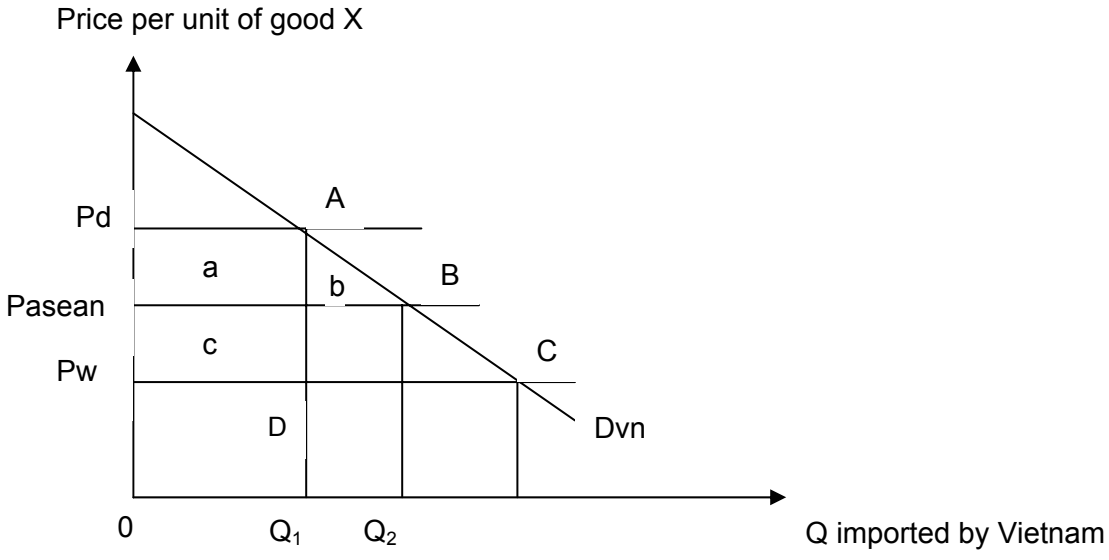
items with tariff above 20 percent would be reduced to 20 percent by 1 January 2001 and to 0-5 percent on 1 January 2006. Items with tariffs less than 20 percent will be brought to 0-5 percent by 2003. The Temporary Exclusion List covers most goods currently produced in Vietnam. Items on this List are to be shifted into the Inclusion List in four equal installments from 2000-2003, with tariffs then reduced to 0-5 percent by 2006. The Sensitive List will have tariffs reduced to 0-5 percent by 2013. Table 6 shows the implementation progress of Vietnam's CEPT scheme until the end of 1999.

Vietnam's General Exclusion List appears not to comply with the principle of CEPT, which specified that such a list should only include products that comply with Article XX of the GATT, where measures are allowed to protect national security, public morals, human, animal or plant life and health, and the protection of articles of artistic, historic and archaeological value. The CEPT Agreement specifically states that General Exclusion provisions must be used to provide industry protection or to product revenue. Vietnam's List, however, includes items such as: fuels, broadcasting and receiving equipment, switchboards and exchanges, vehicles with less than 16 seats, scraps and used consumer goods. These are all items where Vietnam has strong protection and revenue objectives (MOT, 2000b).

II. Theory of Preferential Trade Liberalisation

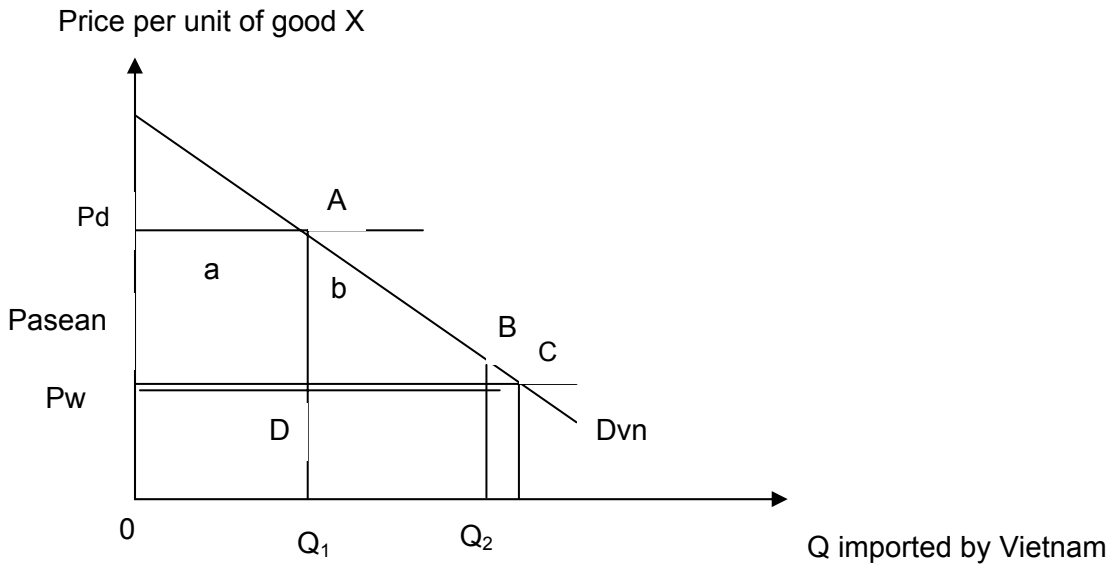
The formation of a free trade area (or a customs union) can either raise or lower welfare since removing barriers among member nations. The welfare effects from *trade creation* and *trade diversion* are central to the evaluation of discriminatory trade liberalisation. In the initial equilibrium, Vietnam imposes a tariff, *t*, from ASEAN members' imports of good X ($P_d = P_w + t$)[2]. Now, a preferential tariff rate t_{asean} is introduced through CEPT agreement. This reduces tariff revenues on initial imports from ASEAN by area *a* and increases the quantity of ASEAN imported goods (from Q_1 to Q_2) since the decline in the domestic price. Consumer surplus increases by the area (*a* + *b*). In addition, it leads to a reduction in the demand for good X from non-partner countries.

Figure 1. Trade Diversion dominates brings a net loss



[2] P_d: domestic price in Vietnamese market; P_w: World price; t: import tariff on good X;

Figure 9. Trade Creation dominates brings a net gain



- A welfare gain from trade creation (in the Figure 2, from the extra ($Q_2 - Q_1$) units). Trade creation is the net volume of new trade created by forming the trade bloc. It causes the Vietnamese national gain as area *b*. Area *b* represents two kinds of gain in the Vietnamese economy: gains on extra consumption of the good, and gains on replacement of higher-cost Vietnamese production by lower-cost partner production.
- A welfare loss from trade diversion. Trade diversion is the volume of trade diverted from low-cost outside exporters (e.g., Belgium, France, Japan, United States) to higher-cost bloc-partner exporters. It causes the Vietnamese national loss shown as area *c*.

However, whether there is a net gain or loss to Vietnam depends on the relative sizes of the two shaded areas. Clearly, the gains from trade creation will be larger, the higher the rate of protection initially applied on the trade flows, the more price responsive is the total domestic demand for the good (particularly, the more substituable are domestic and imported good). Trade diversion costs are likely to be greater the higher tariffs applied in the non-partner markets and the greater the reduction in the quantity of imports from these markets.

III. The ASEAN Free Trade Area (AFTA) and Foreign Direct Investment (FDI) in Vietnam

Susan F. and Bang Nam Jeon (2000) investigated the nature of the relationship between trade and FDI in the Asia-Pacific region. They concluded that trade and FDI are significant factors in determining the other's flow and that the relationship between the two flows is a complementary one, rather than a substituting one.

In addition, Puga and Venables (1998) demonstrate that either trade liberalisation or import substitution policies may be used by low wage economies to attract industry, by these two policies work through very different mechanisms. If import barriers are raised, industries that seek higher economic profits are

attracted, and this in turn leads to import substituting industrialisation. Unilateral trade liberalisation can also be successful in attracting industry because the availability of low cost intermediate goods and the real exchange rate depreciation[3] allow foreign firms to source from the most efficient suppliers. Although they both may be superficially 'successful' in attracting industry, they generate different welfare outcomes. While the attraction of investment to export-oriented industries undoubtedly makes the country better off, increased investment in import-substituting industries may actually reduce welfare.

It is of interest to consider the relation between AFTA and FDI flows to Vietnam. If tariffs go down within the CEPT framework, then FDI which has used that protection will face increased competition from imports to extent that ASEAN countries can meet demand (trade diversion being restricted by the 40 percent local content rule). All foreign investors, ASEAN or otherwise, will face adjustment problems if they are in protected import-substituting industries with tariff falling. Other investments will benefit from lower input prices (less trade tax), which includes export-oriented industries. A database of foreign direct investment from Ministry of Planning and Investment (MPI) that is linked with ASEAN trade and tariff data is used to make clear such issues as:

- How import-substituting the structure of Vietnam's FDI is;
- How FDI is related to levels of tariff protection, and
- Which tariffs will be lowered under AFTA ?

In the Table 5 FDI projects are classified according to the product they influence. Thus, for instance, a cement factory project is neither "construction" or machinery", it is "cement". In many cases the product is unclear, or they are multiple products involved. Two major non-traded sectors were excluded: "construction" and "services". Once every project is classified by HS tariff codes, it becomes a relatively straightforward task to compare the FDI data to nominal and imported-weighted tariffs, and to the volume of imports from ASEAN. This gives an indication of the level of protection, and FDI in each commodity group. Table 5 shows the relationship between FDI and trade at the 2-digit HS level. The largest traded sector FDI is going into goods on the CEPT General Exclusion or Temporary Exclusion Lists. At the 2-digit level, these CEPT list classifications are only import-weighted approximations. That is, they show the CEPT category which covers most of the trade under that 2-digit line. For example, most imports of beverages (HS 22) is of goods on the General Exclusion List, but not all imports, and hence the average tariff still falls to 2006.

Nominal import-weighted tariffs are very high in many areas of FDI. Of the twelve HS codes with the highest levels of FDI, seven have import-weighted tariffs over 20 percent. Imports from ASEAN were large for most of these items, which implies capacity for increased supply and trade diversion. Only three HS codes with significant FDI and high import-weighted tariffs are on the General Exclusion List, and many

[3] Trade liberalisation reduces the prices of the nontraded goods purchased by exporters as well as their prices of intermediate inputs.

are on the Temporary Exclusion List. In other words, much FDI is going into industries with high tariff protection, but with commitments to AFTA for reduction by 2006 (i.e AFTA will reduce protection in those industries which are included on the CEPT Inclusion and Temporary Exclusion Lists). This implies a substantial restructuring of Vietnam's industrial sector, and in the pattern of FDI inflows over the next decade when Vietnam abides by its AFTA commitments to remove both tariff and non-tariff barriers to trade. This preliminary analysis suggests that the impact on FDI and the industrial structure of Vietnam will depend on how Vietnam approaches its membership of AFTA. At present, Vietnam's membership is structured to protect some of its large import-substituting industries and related foreign investments. There will be fundamental changes in the structure of FDI inflows and of the Vietnamese industrial sector due to AFTA, at least by 2006.

Table 5. FDI and Trade Protection According to CEPT - 1998.

IV. The Gravity Model

How to examine data on bilateral trade between pairs of countries in order to sort out the influence of geographical proximity versus preferential trading policies in creating regional concentration in trade. The natural framework with which to attack this question is the Gravity model. In the basic Gravity model, trade between two countries depends on their size (GNP, population, land area) and transaction costs (distance, cultural similarities, adjacency).

Tinbergen (1962), Poyhonen (1963) and Linneman (1966) provided initial specifications and estimates of the determinants of trade flows and Aitken (1973) applied it to Preferential Trading Arrangements. Frankel and Wei (1993) found that the level of economic development, proxied by GNP per capita, in the countries involved is an additional significant factor in determining bilateral trade. They used the resultant, augmented gravity model to explore the effects of regional groupings on bilateral trade flows. Chow and Zietlow (1995) argued that price levels, as measured by export and import indexes; cultural similarity and the level of political stability are also important explanatory variables. Blomqvist (1994) included a number of variables representing production factor endowments, such as labour force, human capital, and total area (land), in an attempt to incorporate the notion of comparative advantage into the gravity model. More recently, Anderson (1979), Berstrand (1985), and Deardorff (1997) have provided partial theoretical foundations for the Gravity equation, although none of the models generate exactly the equation generally used in empirical work. Despite some weaknesses, particularly the lack of strong theoretical underpinnings, the Gravity model is a useful starting point for an investigation into the levels of bilateral trade between countries.

To address the effects of a Preferential Trading Arrangement (PTA) on the direction of trade, the basic Gravity model was extended with a dummy variable to capture its effect of the regional trading bloc. It is worthwhile to investigate whether the AFTA membership factor to encourage substantially Vietnam-ASEAN trading relationship and have any impact on bilateral trade flows between Vietnam and other countries in the world, especially main trading partners.

The equation to be estimated is set out as follows:

$$\mathbf{Ln(X,M_{ij}) = \beta_0 + \beta_1 ln(GNP_i) + \beta_2 lnGNP_j + \beta_3 lnGNP_i \text{ per capita} + \beta_4 lnGNP_j \text{ per capita} + \beta_5 lnDIST_{ij} + \beta_6 AFTA_{ij} + \beta_7 ADJ_{ij} + u_{ij}}$$

Where GNP, and GNP per capita are Gross National Product and GNP per capita of country *i* (Vietnam) or country *j*. X_{ij} or M_{ij} are export or import values between Vietnam and other countries. Both ADJ_{ij} is a dummy variable to refer to adjacency between Vietnam and other nations, is equal to 1 when country *j* share a common border with Vietnam and 0 otherwise. $AFTA_{ij}$ is also a dummy and designed to capture the members of the ASEAN Free Trade Area (AFTA). $AFTA_{ij}$ is equal to 1 if country *j* is also an AFTA member, and 0 otherwise. The distance, $DIST_{ij}$, between Vietnam and trading partners which affects transportation costs. In the model equation, estimates of GNP and GNP per capita are based on purchasing power parity (PPP). It is well known that comparisons of GNP and GNP per capita, which are based on prevailing exchange rates, may overstate international differences in income, because they fail to take into account of the fact that the prices of non-traded goods tend to be far lower in lower-income countries.

Data were collected on trade values (exports and imports), GNP, GNP per capita, and distance for the years 1995, 1996, 1997 and 1998. A pooled time-series-cross-section regression was then estimated by using the software package SPSS version 10. The model includes Vietnam and 95 other countries in the world[4]. The results were reported in Table 6.

Table 6. Gravity Model: Results of Estimation

	X_{ij} (N=95)		M_{ij} (N=95)	
	Coefficient	t-value	Coefficient	t-value*
Constant	10.589	0.259	61.999	1.578
Log GNPi	4.656	1.601*	4.644	1.659*
Log GNPj	1.148	12.356**	1.187	13.221**
Log GNPi per capita	7.384	0.750	15.419	1.628*
Log GNPj per capita	0.461	2.811**	0.744	4.707**
Log DISTij	-1.954	-8.965**	-2.981	-14.127**
ADJij	0.622	1.813*	0.136	0.419
AFTAij	0.151	0.586	0.105	0.430
R^2	0.691		0.778	
Adjusted R^2	0.685		0.774	

**, * denotes significant at the 99% and 90% levels, respectively.
Pearson correlation between LogGNP and LogGNP per capita is 0.023.

As can be seen from Table 6, R^2 indicates that approximate 68 per cent and 77 per cent of the variability in the total exports and imports between Vietnam and other countries respectively can be explained by the model. In general the coefficients of GNP and DIST have good t-statistics. However, GNP per capita of country *i* (Vietnam) is less significantly, consistent with the prior observation that GNP per capita of

[4] Myanmar and Brunei must be excluded from the model although they are AFTA members. The reason is that all the data about these countries such as GNP, GNP per capita etc is completely not available in most official statistics sources.

Vietnam is still very low although it increased through 1995-1998 period or the reason may be that the GNP per capita estimates are measured in PPP. Because the disadvantage of using the PPP rates is that they are subject to large measurement errors, as Srinivasan T.N (1995) pointed out. Since these explanatory variables are expressed in log form, as is the dependent variable X_{ij} or M_{ij}, their coefficients represent the estimated elasticities of bilateral trade flows with respect to GNP, GNP per capita and DIST respectively. For example, the regressions indicates that, other things being equal, as the distance between two countries increases by 1 per cent, their export values tends to decrease by 1.95 per cent. Similarly, a 1 per cent rise in the GNP of either Vietnam or country j would result in a 4.64 per cent increase in the level of imports and a 1.14 rise in the level of exports between the two nations, respectively.

As both ADJ_{ij} and $AFTA_{ij}$ fails to take on a significant coefficient in either regressions, the sharing of a common land border and AFTA membership do not appear to play a significant role in the Vietnam's bilateral trade.

The estimated coefficients were combined with the 1999 data for GNP, GNP per capita and Distance of the same number of observed countries in order to determine these countries' trade potential in 1999. Two scenarios have been taken into account. Vietnam is an AFTA member under the Scenario 1 and not an AFTA member under Scenario 2. The results were then compared with actual trade between Vietnam and these nations for 1999.

Table 7. Vietnam's Exports to Main Trading Partners

	Scenario 1 (AFTA membership)		**Scenario 2 (Non-AFTA membership)**	
	Exports estimated by the model (%)	Actual Export percentage	Exports estimated by the model (%)	Actual Export percentage
The United States	4.93	4.07	5.03	4.07
EU	20.92	25.75	21.38	25.75
Japan	9.71	15.56	9.91	15.56
Taiwan	4.43	5.70	4.52	5.70
Hongkong	6.46	1.57	6.59	1.57
China	8.69	6.61	8.87	6.61
South Korea	3.49	2.83	3.57	2.83
Australia	1.58	7.44	1.62	7.44
Cambodia	0.93	0.79	0.81	0.79
Indonesia	1.48	3.65	1.30	3.65
Malaysia	2.01	2.23	1.76	2.23
Laos PDR	1.28	1.43	1.12	1.43
Philippines	2.03	3.41	1.78	3.41
Singapore	2.61	7.14	2.29	7.14
Thailand	4.35	2.71	3.82	2.71
ASEAN	14.69	21.36	12.88	21.36
Total	74.9	90.89	74.37	90.89

Table 8. Vietnam's Imports from Main Trading Partners

	Scenario 1 (AFTA membership)		Scenario 2 (Non-AFTA membership)	
	Imports estimated by the model (%)	Actual Import percentage	Imports estimated by the model (%)	Actual Import percentage
The United States	3.60	2.78	3.67	2.78
EU	17.11	14.94	17.45	14.94
Japan	12.21	13.02	12.45	13.02
Taiwan	2.13	11.65	2.17	11.65
Hongkong	14.34	4.72	14.63	4.72
China	6.27	4.48	6.40	4.48
South Korea	4.50	13.06	4.59	13.06
Australia	1.36	1.98	1.38	1.98
Cambodia	0.74	0.11	0.68	0.11
Indonesia	1.38	2.45	1.27	2.45
Malaysia	2.52	2.66	2.31	2.66
Laos PDR	1.43	1.68	1.32	1.68
Philippines	2.52	0.4	2.31	0.4
Singapore	3.64	16.20	3.34	16.20
Thailand	7.33	4.79	6.73	4.79
ASEAN	19.56	28.29	17.96	28.29
Total	81.08	94.92	80.7	94.92

On the exports side of Vietnam with main trading partners (Table 7), in both scenarios (Vietnam is an AFTA member and otherwise) the model underestimated Vietnam's potential exports, especially Vietnam-ASEAN, Vietnam-Japan, and Vietnam-EU trading relationship. Vietnam's exports with ASEAN members have not been very high according to the model, particularly Vietnam-Singapore trade turns out to be not much higher than expected (the estimates are 2.61% and 2.29%). In contrast, the results show that there is room for growth in Vietnam's exports with a few East Asia partners such as Hongkong, China, or Korea.

On the imports side (Table 8), the model gives a picture as that shown on the export side, that is, actual import performance of Vietnam with main trading partners exceeds potential imports. However, in some cases such as Hongkong, China, EU and the United States the model overestimated Vietnam's bilateral potential imports with them. To some extent, this can be explained by the fact that the model takes into account the high GNP levels of these partners. Again, Vietnam-Singapore imports were much higher than predicted by the model. However, the fact that Singapore is well known as re-exporting and –importing center in the region should be considered.

As can be seen from Table 7 and 8, as Vietnam's position changes from being an AFTA member to non-AFTA member the total exports or imports with ASEAN partners decreased and with non-AEAN ones increased, but not substantially (approximately 2 percent). For example, the model estimated that Vietnam-EU, Hongkong, Japan imports would increase by 0.34%, 0.29% and 0.24% respectively if Vietnam was not an AFTA member. While Vietnam-Thailand, Philippines, Indonesia exports would decrease by 0.53%, 0.25% and 0.18% respectively if Vietnam did not have the AFTA membership.

In other words, in both export and import sides, estimated results indicate that Vietnam-AFTA trade flows are relatively small or Vietnam's AFTA membership has a very little impact on bilateral trade. This is consistent with the prior observation that Vietnam has been trading substantially with EU, the United States, Japan, Korea, Taiwan, Hongkong and China if Singapore is excluded. In part it is because

Vietnam has already been quite open to most of its main trading partners. In practice, Vietnam has not only enjoyed Most-Favored-Nations (MFN) treatment, but also Generalized System of Preferences (GSP) treatment from most of main trading partners such as the EU, Japan, Taiwan, Hongkong and vice versa. This is also the reason that AFTA membership will be difficult to create trade diversion problem with Vietnam. In addition, as mentioned in Part I, Vietnam's tariff rates have already low, the further tariff reductions under AFTA framework, therefore, lead to a small increase in Vietnam-ASEAN trade volumes and the AFTA itself is a quite open free trade area in terms of tariffs. The United States-Vietnam trading relationship has not been improved as indicated by the actual exports or imports. This is because the bilateral trade agreement between the two nations has not been ratified. Most of exports and imports between the two nations are still going through Singapore or Hongkong.

AFTA and Non-Tarifff Barriers In Vietnam

I. An Overview

The preferential tariff reductions are only component of AFTA. As products enter the Inclusion List (IL) under the CEPT scheme:

> "*ASEAN members States sill have to eliminate all quantitative restrictions in respect of products under the CEPT scheme immediately when the products start to enjoy the concessions applicable to those producers*." (Article 5: A.1)

And after being on the Inclusion List:

> "*ASEAN members States shall phase out other non-tariff barriers within a period of five years after the enjoyment of the concessions applicable to their products*." (Article 5: A.2)

That would seem to leave Vietnam until 2011 to finally remove all ASEAN-defined NTBs. In December 1995, however, the ASEAN Council agreed to accelerate NTBs phasing out:

> "*Member States should aim to eliminate NTBs earlier than currently allowed for and no mater than the year 2003*." [Vietnam to 2006].

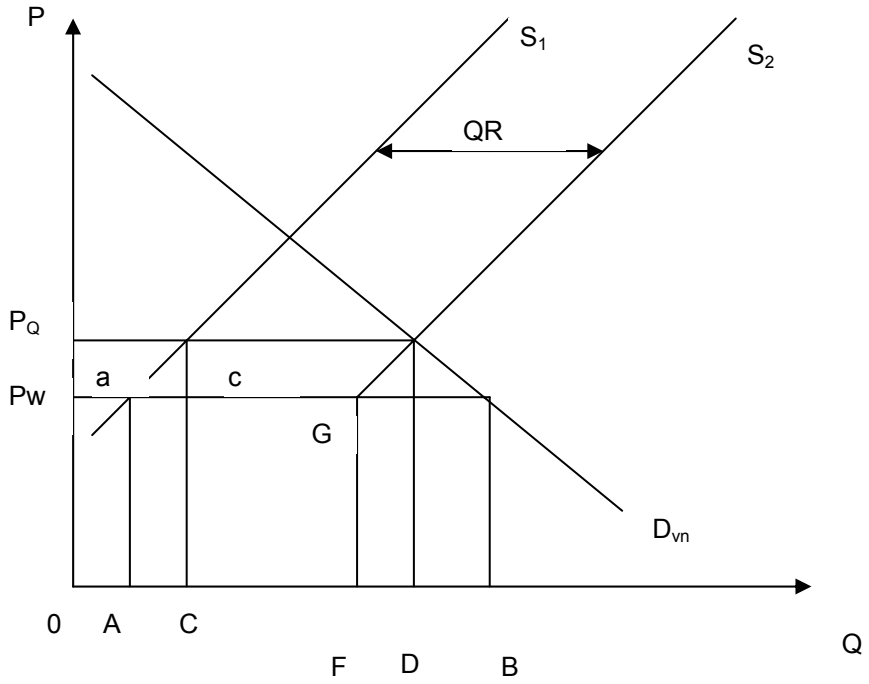
ASEAN members also agree to explore cooperation in areas such as harmonisation of standards, reciprocal recognition of tests and certification of products, and removal of barriers to foreign investment. Rules of origin provisions apply whereby a minimum of 40 percent of value must originate within AFTA. The NTBs must be converted into to tariffs over time, sometimes called tariffication.

Although there has been considerable liberalisation of trade in Vietnam, external commitments such as those made under AFTA, accession to the WTO, APEC, and various bilateral trade agreements still need to be met, they indicate a continued commitment to liberalising trade policy. Moreover, Vietnam is becoming an increasingly sophisticated economy with some modern industries emerging on a substantial scale. If these industries are not allowed to mature in a world price environment much damage could be done to them and to the economy.

In the mid-1990s some commentators were judging Vietnam's trade regime to be quite open on the grounds that they could not identify legislated restrictions. In fact, the changes in trade since 1986 have allowed a broader range of Vietnamese enterprises to access world markets and also foreign enterprises to access the growing Vietnamese market. A number of sectors such as textiles and garments, agricultural processing and plastics have flourished because they have access to inputs at world prices. But for a number of key imported and exported commodities, old style trade management practices continue. Imports of products such as steel, fertiliser and cement are subject to management through quantitative restrictions. These management practices are a hangover from the days of central planning when production and trade flows were determined by government decree. Protection is one objective of the government in maintaining these controls. However, in a growing modern market economy, these controls, quotas and licensing appear to be inefficient and costly means of achieving that protection. Producers, consumers and investors all respond to price signals, so government policies may distort these signals.

The General Agreement onTariffs and Trade (GATT)has had less success in

Figure 3. Economic Effects of a QR



attacking nontariff barriers, which take such many forms as import quotas, quality standards, domestic content requirements, state monopolies on foreign trade, buy-at-home rules for government purchases, administrative red tape to harass foreign sellers, complicated exchange controls. The protective effects of NTBs are harder to measure than those of a tariff. As a result, it is harder to get international agreement on what constitutes an exchange of "comparable" non-tariff barrier reductions. Governments may be willing to cut their tariffs because they knew they could just replace many tariff barriers with their nontariff equivalents. Figure 10 outlines economic effects of a NTB - quantitative restriction (QR). The upper limit on imports is AF = CD. This is represented by the effective supply curve becoming P_wGS_2. In other words,

beyond OF marginal supplies must come from domestic producers. For expository convenience it is assumed that the quota to give us equivalent price effects with the tariff. Thus, $P_Q = P_w (1+ t)$. The artificial scarity created by the quota drives the domestic price above the world price, domestic supply expands and demand contracts. Area *a* is a redistribution from domestic consumers to domestic producers. Area *c* however is not now a transfer to the domestic revenue authorities. In order to operate a QR, licenses have to be issued to authorised importers. If the licenses are distributed by some kind of administrative mechanism, the holders of these licenses acquire rents which amount to the difference between P_w and P_Q. This arises because the world price remains at Pw whilst the domestic price is inflated to P_Q. The unit rent is the difference between two, total rents amount to area *c* (David,G. and Chris, M. 1998).

Much of Vietnam's impressive external trade performance to a relaxation, not a dismantling of controls. While Vietnamese enterprises are no longer required to obtain a license to engage in international trade, they are still restricted as to the type of goods which they are allowed to import and export. Besides restrictions on who may import what class of goods, overall quantitative limits also apply to certain goods.

Although Vietnam liberalized substantially its trade and investment regime since 1986, Vietnam's trade regime reflects the legacy of its history as a state dominated centrally planned economy. The state sector still enjoys various forms of privileges including access to land, capital, bail-out facilities, and quota allocations. Import substitution linked to state control and protection remains influential economic ideas. The general thrust of the tariff and trade control system is to favor import-substituting activities and production of non-traded goods and services over exporting activities (McCarty, 1999). Annex 2 summarizes the range of NTBs as applied in Vietnam. It is based upon a survey of non-tariff barriers conducted by McCarty for the Office of Government in 1999, which classified measures according to the UNCTAD Trade Control Measures Classification. The remarkable NTB in Vietnam is quantitative restrictions (QRs) and Line Management Measures. The products subject to QRs may be divided into three main groups:

- goods subject to conditional import (Decree 57/1998/ND-CP and Decision 254/1998/QD-TTg[5])
- goods subject to specialized management by line ministries; and
- goods banned from import and export.

NTBs remain a prominent feature on the landscape of trade policy in Vietnam. Quantitative restrictions or targets, foreign exchange allocation and various administrative measures are applied to control, manage and limit the import of certain types of goods. Despite the clear advantages of tariff systems, NTBs continue to be used quite often in Vietnam — perhaps because they are perceived to achieve objectives that tariffs cannot. A feature of NTBs in Vietnam is that they are sometimes applied with multiple objectives in mind.

[5] Both legal documents were issued by the Prime Minister. Decee57 products have been subject to licensing in order to "balance supply and demand" within the economy. Decision 254 added to the list of goods subject to conditional import.

Some main possible reasons for why Vietnam still maintained a plenty of NTBs might be that the management of imports is needed for public safety. For example, in the case of petroleum imports, controls are used to ensure that only properly trained and equipped people handle what is potentially a dangerous product. Another is that the revenues earned from holding export or import quota sometimes accrue to provincial authorities. In this sense, NTBs may provide a revenue base for provinces.

Table 9. Main Objective of NTBs in Vietnam

Restricted Product	Objective
Conditional import restrictions	
• Fertiliser	➢ Ensure sufficient supply at stable price ➢ Protection of domestic industries
• Petroleum	➢ Ensure sufficient supply
• Motor vehicle	➢ Protection of domestic industries ➢ Environment protection
• Other Decree 57 items, e.g.,	➢ Protection of domestic industries
• Decision 254 items, e.g.,	➢ Balance of payments ➢ Protection of domestic industries
Specialised Management Restrictions[a]	
• Chemicals 5Ministryof Industry)	➢ Public safety
• Wild animals, animals and plants for breeding, pesticides, veterinary drugs, animals feeds (Ministry of Agriculture & Rural Development)	➢ Public health ➢ Environment protection ➢ Quarantine controls
• Pharmaceuticals (Ministry of Health)	➢ Public health
• Aquatic breeds, aquacultural foods and chemicals for protection of aquatic (Ministry of Health)	➢ Environment protection ➢ Quarantine controls
• Cosmetics (which may have impacts on human health) (Ministry of Health)	➢ Public health
• Printed works, cinematic works and recorded audio and video media (Ministry of Culture and information)	➢ Protection of cultural values
• Banking equipment (State Bank)	➢ Technical standards
• Radio transmitters, receivers, other radio equipment (General Department of Post & Telecommunications)	➢ Technical standards ➢ Maintenance of telecommunications network integrity
Banned goods	
• Weapons, ammunition etc	➢ Public safety ➢ National security
• Various narcotic drugs	➢ Public health ➢ International obligations
• Toxic chemicals	➢ Public & environmental safety
• Reactionary and immoral cultural products	➢ Protection of cultural values
• Certain firecrackers and toys	➢ Public safety
• Cigarettes	➢ Public health ➢ Protection
• Second hand consumer goods & spare parts for motor cycles and autos	➢ Environmental protection ➢ National image ➢ Protection
• Right hand drive vehicles	➢ Public safety

[a] Bracketed ministries indicate ministry responsible for management

While this is a highly imperfect way of raising revenue (for all the reasons identified above) when state and provincial revenue raising and sharing mechanisms are not well developed, NTBs may provide an alternative. Governments may also choose to use NTBs because of central buying and control functions in products such as pharmaceuticals or using NTBs might be to attempt to stabilize the domestic market. And in Vietnam, the use of NTBs also reflects the legacy of the old central planning subsidy system. Table 9 describes possible objectives for the Vietnam's NTBs.

II. Measuring Non-tariff Barriers

As referred above, it is hard to measure the protective effects of NTBs. In the literature as well as practice, two different approaches [(David, G. and Chris, M. 1998); (Qing Wang, 2000)] have been adopted to quantify the NTBs. The first approach is called *ad valorem*[6] equivalents. The second, that was partly used in section I, is referred to as the "inventory" approach. It has been used primarily to produce descriptive statistics on the kinds, pattern and frequency of use of NTBs. In the other words, it is to record the number, form, an trade frequency or coverage of NTBs.

For empirical analysis involving NTB inventories, two indices have been designed. One measure is a frequency index (F_j) showing the percentage of tariff lines covered by some pre-selected group of non-tariff measures, where N_i is *i*th tariff line, D_i is a dummy variable that takes a value of unity if one or more NTBs are applied to the *i*th item or zero otherwise. The above summation is made over all countries exporting to importing country *j*.

$$Fj = \frac{\sum DiNi}{\sum Ni} * 100$$

A second index show the share of total imports subject to NTBs. This trade coverage ratio (C_j) is defined as,

Where $V_{i,t-n}$ represents the value of imports in tariff-line item *i* in year (*t-n*) and

$$Cj = \frac{\sum Di,t-m * Vi,t-n}{\sum Vi,t-n} * 100$$

$D_{i,t}$ is a dummy variable that takes a value of unity if an NTB is applied to the item and zero otherwise. If *n* and *m* are zero, the index is based on current trade values, otherwise it is expressed in a base year's trade weights.

Because of objective problems to obtain full and detailed information about "All NTBs", particularly the matched tariff-line-level import statistics, in this paper only the Frequency index has been determined for the Quantitative Restrictions and the Line Management Measures that seem likely to be the greatest barriers to trade in Vietnam.

Table 10 contains Frequency Ratios for "Hard Core" NTBs in Vietnam in 1994 and 1998: Quantitative Restrictions (QRs) and the Line Management Measures.

The Table 10 suggests that the Frequency Ratio (F) of Vietnam has declined

Table 10. Frequency Ratios of NTBs

NTB Categories	Frequency Ratio (F) in percent	
	1994	1998
Quantitative Restrictions (QRs)	12.6	5.3
Line Management Measures	31.2	27.8

Calculations based on legal documents from Ministry of Trade of Vietnam

from 1994 to 1998. It is also evident that QRs has fallen considerably. This might be because most of QRs are under management of Ministry of Trade that is now a lead agency in trade reform while the Line Management Measures appears to be slowly liberalized. They are subject to control of various government agencies. This also reveals that one of the chronic problems existing in transitional economies is a comprehensive and systematic economic reform.

The *ad valorem* equivalent approach, sometimes called the restrictiveness approach, is to calculate the extent to which a given NTB influences prices (Figure 3). The tariff equivalence analysis is to determine the extent to which a particular measure raises the domestic price of the product concerned above the world price through a method of 'border price-final price' comparisons – a comparison of border prices of a given commodity with retail prices of the same commodity. The former is taken as a proxy for the world price, the latter for domestic distorted price. One major problem of this methodology is "stripping out' other influences on the border price-retail price and sales taxes, for instance.

Table 11 shows price differentials likely created by a quota or import management system which typically restricts the level of imports and allows the domestic price of similar locally produced goods to be higher than it would be in the absence of the control. Domestic prices might differ from border prices for many reasons and not just because of import controls. However, a useful starting point is the difference between the domestic price of a good and the landed duty

Table 11. illustrative Price Comparisons for some Products subject to QRs In Vietnam, 1999.

Commodity	Units	Domestic price US$	Border Price US$	Premium over border price (%)
Fertiliser				
▪ Urea	Kg	2,100	1,566	34
▪ DAP	Kg	3,850	2,990	29
▪ Kalium	Kg	2,150	1,723	25
Steel				
▪ Black flat steel	tonne	4,250	3,375	24
▪ Other flat	tonne	4,200	2,860	47
▪ Shaped	tonne	4,650	3,570	30
Cement				
▪ Black cement	tonne	816	610	34
Glass				
▪ Chinese white 5 mm	m^2	90	48	90
▪ Domestic white 5 mm	m^2	65	48	36
Paper				
▪ Writing paper roll	tonne	9,000	8,600	5
Refined Sugar	tonne	649	524	24

Source: Government Pricing Committee; General Statistics Office unpublished data

free price of similar or comparable good. While the price differential created by the control is not the only factor shaping production, trade and consumption decisions, it can provide an indicator of the opportunity costs being born by the community as a result of the system.

[6] An ad valorem tariff is a tariff which is set at some percentage of the CIF price of the imported good.)

III. Tarification of NTBs

One of the cornerstones of the GATT when it was established in 1948 was that if there must be protection, then it should be in the form of a tariff. (The other cornerstone was that of the 'Most-Favored-Nation' — the lowest tariff applied to a particular product of any country should be applied to that product from all countries). In the Uruguay round of negotiations completed in 1997, the tariffication of agricultural protection was regarded as one of the major achievements of the round. Since then, tariffication has been incorporated in almost all regional trading arrangements, including AFTA. Tariffication has just been proceeded in Vietnam since it has committed to phase out NTBs in various international agreements such as AFTA. Multinational entities such as the World Trade Organisation, the World Bank or the IMF consider that there would be much to be gained by converting NTBs into tariff-based protection because:

First, with a tariff, unlike with managed trade, information contained in relative world price movements is quickly and cheaply transmitted to producers, consumers and investors in the domestic economy.

Second, tariffs signal a limit to the amount of protection the government is prepared to provide to any particular industry, rather than underpinning local production at any cost.

Third, with tariffs, rather than NTBs, the level of protection is transparent to all. Like any other form of tax, there are good reasons why consumers, producers and investors should be able to easily observe the rate of the tax. For investors to make sound decisions, they need to know what their protection (or for others what their taxes) will be in the future.

Fourth, when a government wants to liberalize trade, tariffs allow the reductions in protection to take place in a transparent and predictable way.

Fifth, revenue from tariffs goes to the government whereas the returns from NTBs are either dissipated in higher costs or accrued to preferred quota holders (or importers) as rents. In Vietnam preferred importers tend to be established large SOEs and not small private firms. Tariffs are fair, in that all players in the market are treated equally, whereas with NTBs managed on a discretionary basis, established firms, close to the action, and to government departments tend to fare better.

Finally, tariffs allow an 'automatic' balancing of the economy without domestic price instability. Tariffs allow demand and supply to be balanced while ensuring that the domestic price is only higher than the world price by the amount of the tariff.

Box 2 set outs why transparency and predictability are important for trade policy.

Box 2. **Why transparency and Predictability are important for trade policy**

Transparency is about:
- Being able to identify the objectives, and the tools to achieve those objectives, of trade policy;
- Understanding and identifying the level of protection provided to industries by the instruments of trade policy; and
- Being able to measure, at least approximately, the costs and benefits of the trade policy regime.

When an industry *in Vietnam* receives protection, somebody *in Vietnam* pays for that protection. Because the protection involves a fundamental tradeoff, it is important to make this tradeoff transparent. This allows policy makers to understand the effects of their policies. Without transparency, it is easy for policy changes to make Vietnam worse off than better off.

Predictability is closely related to transparency. Transparent policies are generally more likely to be predictable. Like transparency, predictability is essential from the perspective of good policy making. Where policies are unpredictable, their effects will be uncertain, making it different for various levels of government to plan and implement policies.

All businesses, whether in agriculture or industry, exporting or selling to the domestic market, need to be able to plan. There are of course, many uncertainties in the world. So many in fact that it is foolish for government policy to be an extra source of uncertainty. Sudden changes in settings of trade policy can be a major source of uncertainty for business, both those that are protected and those that are not.

Source: Centre for International Economics (1998b).

The timetable for phase out of NTBs under AFTA, appears to reflect long term protection objectives. Table 12 summarizes this schedule for tariffication. The dates specified are the latest that tariffication can begin under the agreement.

Table 12. Schedule of Tariffication under AFTA

Commencement of tarification	Products
1 January 2001	Liquid sodium hydroxide Ceramic and glass consumer goods Plastic packaging
1 January 2003	DOP plasticiser Ceramic and granite titles Ceramic sanitary ware Electric fans Bicycles
1 January 2004	Vegetable oil Window glass
1 January 2005	Alcoholic beverages Newsprint, writing and packaging paper Automobiles Motorcycles and kits
1 January 2006	Cement Clinker Fertiliser
1 January 2007	Petroleum products Steel products
1 January 2010	Raw and refined sugar

Source: Ministry of Trade of Vietnam

Vietnam's commitments to remove NTBs remain obscure so far since progress in eliminating NTBs in practice has been very limited, but this initiative is clear, comprehensive and unavoidable for the next few years or in the somewhat longer term.

Conclusion

Over more than a past decade, Vietnam has followed a number of unilateral as well as multilateral moves to free up the trading sector, including measures directed at tariffs, quantitative restrictions, the exchange rate mechanism and so on. The results can be seen in the remarkable growth of trade. Participation into the AFTA represents a major step for Vietnam in the pursuit of trade liberalisation. Vietnam's venture into ASEAN has provided its exporters with new opportunities and valuable experience in foreign markets. The AFTA experience will also be useful to policy makers in the ongoing WTO accession negotiations while eventual accession to that body will place Vietnam firmly in the mainstream of the global trading system.

Certainly, the AFTA commitments present Vietnam challenges. The most concern appear to be the desire to moderate the reduction of tariffs or maintain import duties while introduction of other taxation systems for the benefit of import substitution industries and encouragement of exports with high revealed comparative advantage. In other words, how to place AFTA commitments in an economy-wide framework embracing trade policy, revenue and industry protection should be considered carefully.

As can be seen from analyses about the Comparative Advantage (RCA) and Export Similarity (ES), Vietnam appears to have beneficial impacts on Vietnam's agriculture and aqua-culture from the increasing access to ASEAN market. However, estimated results from the gravity model showed that the trading effects of AFTA liberalisation currently committed to by Vietnam are still relatively small. There may be some reasons. Firstly Vietnam has been trading substantially with EU, the United States, Japan, Korea, Taiwan, Hongkong and China and Singapore. Although Singapore is an AFTA member, Singapore is a special case since it is well-known for re-export and import point in the region. The dominance of Singapore in Vietnam's ASEAN exports implies relatively small gains from the increase in market access, since Singapore's initial protection is already close to zero. Moreover, Vietnam has already been quite open to most of its main trading partners such as the EU, Japan, Taiwan, Hongkong. This is also the reason that AFTA membership will be difficult to create trade diversion problem with Vietnam. And then Vietnam's average tariff rates have already low, the further tariff reductions under AFTA framework, therefore, lead to a small increase in Vietnam-ASEAN trade volumes. Finally, the AFTA itself is a quite open free trade area in terms of tariffs. If the United States-Vietnam bilateral trade agreement is going to be ratified in September 2001, total bilateral trade will double to nearly one billion USD per year as estimated by Emiko, F. and Will M. (1999b) position of ASEAN trade with Vietnam will become smaller.

Being open to the world trading system is necessary, however Vietnam's current industry structure has not provided a strong export basis in the future. The current maintenance of high protection on some import competing industries such as consumer goods, sugar, fertiliser, beverages is likely to make these industries inefficient and substantially cost the economy.

Foreign direct investment (FDI) has contributed significantly to the economic growth and technological progress of most of the original ASEAN countries in the 1990s. The main focus of CEPT lists and tariff

reduction schedules on revenue loss concerns should be reconsidered, because the potential impact on industrialisation and the structure of FDI inflows is much more important. The implications of AFTA for Vietnam's industrial sector still do not seem to be highly appreciated in the general domain of policy debate in Vietnam. Although making commitments to remove NTBs by the year 2006, in fact this process has not been progressed substantially. A lot of existing restrictions such as QRs, quotas, import licenses, reference prices, foreign exchange controls continues to support for a regime based in favour of import substitution. Further delays only increases the costs and reduces the time for adjustment. Much FDI has come into Vietnam under the umbrella of trade protection while free trade and AFTA are also embraced.

On the way to industrialisation and modernisation as stated by Vietnamese Communist Party in one-fourth century, whether the country should switch to an export-oriented or follow the current import substitution strategy seems considerably debatable in Vietnam. Obviously, import substitution and export development are not incompatible, export development will be constrained by policies that encourage import substitution through high protection. However, very recently trade liberalisation efforts under AFTA commitments partly shows that only liberalisation forces Vietnam to produce goods and services in which it is most competitive and competitiveness will continue to be the single and most important determinant of Vietnam's economic future.

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