

## The Hidden Corners Of AEC

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While immersing themselves in and spending considerable resources on the talks over new-generation agreements, the member states are ignoring their commitments to the ASEAN Economic Community (AEC), a market close to Vietnam, foreign investors believe. Still, it is said that though the AEC is attractive to foreign investors, it is not necessarily a potential market for Vietnam's products.

It seems that as long as the Trans-Pacific Partnership Agreement (TPP) has not been realized, the AEC is one of the advantages to Vietnam. This trade pact was formally established in late 2015 to create a huge single market with 625 million people and the total Gross Domestic Product (GDP) of US\$3 trillion. In the 10-member AEC, five elements are set for free movement—goods, services, investment, capital and labor. Tariffs for almost all commodities will be gradually reduced to 0%.

In foreign investors' point of view, the AEC is certainly a very appealing market. However, investors prove disappointed about the fulfillment of AEC commitments though it has been in force for almost a year.

At the 2016 Bloomberg ASEAN Business Summit held in Hanoi two weeks ago, Lito Camacho, vice chairman of the Asia-Pacific at Credit Suisse, remarked that very little progress had been made in the past time. The biggest strides as he observed are apparently restricted to trade with many tariffs slashed to 0%, whereas other elements such as labor, services and investment have not undergone much change.

Similarly, Wouter Van Wersch, president and CEO of GE ASEAN, said two thirds of GE's workforce has an international job. If the AEC was fully implemented, it would facilitate personnel transfer from one project to another. He urged the AEC members to achieve greater unity to quicken the pace.

From a more optimistic aspect,

Tharabodee Serng-Adichaiwit, senior vice president and general manager of Bangkok Bank Public in Vietnam, said that after the AEC formation, many Thai companies are seeking business opportunities within the bloc, sensing a greater equality from the business environment here. Meanwhile, Vietnamese enterprises such as Masan, Vinamilk or even Vietjet Air are selling their products in Thailand.

However, in the financial and banking sector, few changes have been made as banks and financial institutions must accept that rules and practices vary among the member states. Echoing this view, Camacho posed a rhetoric question, "How to encourage ASEAN banks to invest in Vietnam when they are treated the same as those investors outside the region?"

On the progress of the commitments, Camacho believed the AEC had just gone halfway. "I hope ASEAN governments will accelerate the fulfillment of their commitments, because for the sake of integration, leaders must bring about distinction in ASEAN's cash flow, personnel and services, etc. from other nations."

Is AEC a master key?

At the summit, many investors shared the view that with or without the TPP, Vietnam would remain an attractive destination for foreign investors thanks to her intrinsic advantages such as political stability, tariff preferences, abundant and low-cost human resources.

Roger Lee, CEO of TAL Apparel, believed the products of his firm will be easier exported and enjoy tariff preferences with the TPP, but even without this agreement, Vietnam will remain appealing. "We intend to invest an additional US\$500 million with or without the TPP," he told delegates. "The absence of the TPP does not slow down the shift of production from China to Vietnam."

In addition, excluding the TPP, Vietnam has participated in and signed a series of free trade agreements. These agreements will open up a vast space for cooperation and development with 55 nations and partners, including the G7 and 15 G20 states. In particular, firms lay special emphasis on the AEC.

However, many international trade experts said that in the eyes of foreign investors, the AEC is a big market, with young population and enormous spending power. If this was a single market as committed, with free movement of the five elements mentioned above, it would be easier for investors to do business and dominate this market.

Furthermore, the connection with which to turn the AEC into a "single market and production base" will offer Vietnamese enterprises many chances to cut the costs of goods transfer and intermediate costs, resulting in lower prices of finished products. The community will also provide Vietnamese citizens with job opportunities, especially those with skills and expertise. In addition, the member states will welcome a wave of investment and cooperation from the major developed economies outside the bloc.

However, why the true unity of the AEC so slow?

Do Hoa, an expert in international trade, director of the consulting firm Elite Management, said there is still skepticism among the AEC members. Those with similar economic development and production of the same consumer goods that are competing with one another are afraid that too quick connection will bring them disadvantage and market loss. In fact, all the products of the AEC members are directed towards the U.S. and the EU. Even the four Asian dragons have thrived thanks to the U.S. market.

Moreover, despite the geographical proximity, AEC member states still have differences in culture, religion and ethnicity. Therefore, it is extremely difficult for them to form an intimate link with one another and become a true unity.

Hoa said the U.S. remains the destination of most of the major export items of Vietnam in comparison with other large markets. China can be an example, he said, explaining that although this a near market with huge consumption, their demand mainly relates to raw materials and they are masters of cheap goods, so exports there would gain very low added value. Meanwhile, Russia does not consume so many Vietnamese products and is too far.

"The president-elect of the U.S., Donald Trump, does not support the adoption of the TPP, but leaves open the possibility of negotiations with each country separately. Therefore, to boost the export of goods, Vietnam should actively promote bilateral talks with the U.S.," Hoa said.x

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