



News release

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Contact Vu Thi Thu Nguyet
Tel: (04) 3946 2246, Ext. 4690; Mobile: 0947 093 998
E-mail: vu.thi.thu.nguyet@vn.pwc.com

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Vietnam CEOs must act immediately to benefit from FTAs, say panellists at Vietnam CEO Conference 2016 (co-organised by PwC Vietnam and VCCI)

- FTAs bring both opportunities and challenges to the economy and business community;
- To gain benefits, Vietnamese businesses have to proactively take actions, but they are not meant to do it alone;
- Government and professional organizations are supportive to businesses

HO CHI MINH CITY, VIETNAM, 21 April 2016 – About 150 CEOs gathered at the Vietnam CEO Conference 2016, themed “**Economic integration & trade liberalisation: Vision for Vietnam businesses**”, co-organised by PwC Vietnam and VCCI, to discuss how Vietnamese businesses can take action to ensure they benefit from free trade agreements (FTAs).

As of 2015, Vietnam has participated in 16 FTAs, nine of which are currently effective. Probably the most expansive and ambitious of these are the two new-generation agreements, the EU – Vietnam FTA (EVFTA) and the Trans-Pacific Partnership (TPP).

“The TPP, EVFTA, and other FTAs have brought businesses opportunities together with challenges. They are right at our front door. Recognising these factors as important as taking actions to benefit from, or deal with them. We cannot do it easily, but we should act immediately,” said Mrs. Dinh Thi Quynh Van, General Director of PwC Vietnam.

Opportunities for the business community and the economy

The TPP, EVFTA and other FTAs bring many opportunities Vietnamese businesses will have wider and more comprehensive market access opportunities, an important factor for global/regional integration and economic development. According to the International Labor Organization (ILO), joining the AEC is expected to help the Vietnamese economy grow by 14.5%; consumers will have better goods at lower prices; and more foreign capital is expected to enter the economy. Vietnamese businesses will have access to a larger market of more than 600 million people with GDP to reach USD2.6 thousand billion. The TPP opens up a huge market to Vietnamese goods, and under favorable economic conditions, is expected to add USD33.5 billion to Vietnam’s GDP and USD68 billion to export’s value by 2025.

Because of the higher standards created by these FTAs, we can expect to see more foreign direct investment (FDI). Already, since the signing of the TPP, Vietnam has witnessed increased FDI flows. This trend can



continue thanks to provisions for government reform which include greater transparency, freer trade, and more open financial markets.

These FTAs are also expected to bring benefit to the value chain. The Vietnamese textile and garment industry, for instance, is employing approximately 70% of its workforce of about 2.5 million people in more than 6,000 companies, for low value-added work such as the “cut-make-trim” services to transform fabrics into garments to be exported. Under this operating model, inputs such as cotton, yarn, and raw textile materials are imported from other countries such as China, Korea, India, and Taiwan. Currently, Vietnam is importing over 65% of its raw materials for textile manufacturing, but loses the designs for garments – which is a significant value added of the industry’s value chain – to international players. The new FTAs can trigger businesses to innovate to compete in higher value-added jobs.

Financial benefits include reduction or elimination of tariffs or safeguard measures, waiver of fees, various tax breaks, more predictable or lenient penalties, and the liberalisation of non-tariff barriers. Consistent customs treatment will also provide a stable environment for businesses to operate in. These can also help small and medium-sized enterprises (SMEs) to participate more in export activities. This has a great meaning to Vietnam since a major number of Vietnamese businesses are vibrant and innovative, but very small in size with limited resources and experience to play in the global/regional ground.

Benefits can also come from the utilisation of different resources. Businesses can look beyond their country’s borders to set up their practice or manufacturing centres, hire international professionals and skilled workers, or suppliers, look for foreign investors, and facilitate digital trade, etc.

Challenges are for both enterprises and government

With many challenges facing Vietnamese businesses and government, it would that Vietnamese businesses are not well prepared for integration.

While information is critical for businesses, it appears that several companies, especially SMEs are not fully equipped with, or have limited access to essential information on FTAs. Consequently, many of them cannot benefit from these FTAs due to lack of information. A survey by VCCI in early 2015 showed that only 20-30% of Vietnamese businesses understand and are prepared for the TPP and AEC, while the rest have almost no awareness of Vietnam’s part in the AEC. Worse, up to 60-70% respondents thought these FTAs do not affect their companies.

The business environment has not been reformed to become as transparent and clear as expected, without a synchronous/comprehensive and effective law system. In parallel, the reform of regulatory framework and economic institutions also require enterprises restructuring their organisation, resource administration, and technology, etc. in order to survive in the changing business environment.

If local consumption market is open to foreign goods imported from FTAs’ counterparts, with better branding and quality products, and possibly, lower price, this is an apparent burden on local producers. Vietnamese products have few strong brands to compete in the local market, and yet responding to quality standards required by EU, USA, and Japan to export to these markets.

Our local labour market struggles with lack of essential skills, and ILO standards enforcement. These can increase the costs of doing business as organisations will have to spend more on salary, training, and standards implementation and compliance.

Stricter requirements around intellectual property rights, environmental standards, and corporate social responsibility (CSR), will make production and operation costs increase. Businesses may be forced to pass these costs on to their consumers (thereby reducing their pricing competitiveness) or absorb these costs which put higher pressures on their own margins.



Vietnam businesses must be proactive

Changing the way they do business to leverage on opportunities and overcome challenges is imperative, but the question is how do businesses navigate existing barriers effectively?

“During the WTO, we expected its advantages to be well-leveraged by Vietnamese businesses” – as once shared by Dr. Vu Tien Loc - Chairman of the Vietnam Chamber of Commerce and Industry (VCCI). “In actuality, we missed several opportunities to become a leading market in the region. Businesses cannot wait around for support from the government or trade organisations. They must be the captain of their own ships on the way forward.”

According to Dr. Loc, businesses should be proactive and innovative in looking for information about FTAs through documents provided by the Ministry of Industry & Trade, VCCI, and EU delegation. Forward looking corporate strategies should be built based on quality, brands. Building a professional workforce and developing and training new generation of business’s leaders are essential in the integration time.

Actions by government and professional organizations

The efforts should come from both sides. In his presentation at the event, Mr. Vo Tan Thanh, Deputy Chairman of VCCI, summed up the Government’s support in three groups: (1) institutional reform; (2) innovation and business support; and (3) workforce preparation.

The institutional reform should focus on completion of law and regulations on trading, import and export. Innovation and business support include building law that help connecting businesses with global value; handle the exchange rate, interest rate and loaning procedures; allow business in innovating, and implement potential projects. And workforce preparation focuses on improving the professional and foreign language skills, and build a developing and competitive labour market.

Professional organizations and VCCI, as mentioned by Mr. Thanh, can contribute by provide information about TPP and EVFTA to business through manual books covering main content and/or specific chapters of the agreements.

Three strategies businesses need to follow

After sharing experience from Malaysia market, Patrick Tay, Advisory Executive Director from PwC Malaysia, named three strategies businesses need to follow: (1) A willingness to disrupt and be disrupted; (2) Innovation and spending on R&D; and (3) Embracing globalisation by looking beyond one’s own business, industry sector, and territory.

Mr. Vo Tan Thanh also announced the launch of the APEC CEO Summit 2017 in Vietnam where VCCI will be the organiser and PwC is the Knowledge Partner of the event. This event is an opportunity for Vietnamese businesses to meet, learn and share experience with CEOs from 21 APEC economies, as well as finding their business opportunities and partners.

Added Mrs. Dinh Thi Quynh Van:

“We are honour to be here to support Vietnamese businesses to reap benefits from FTAs. Do not wait, if we want to grasp the opportunities to develop in this changing time.”

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Notes to editors:

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