



Country Update

Manufactured products' exports: Technical Barriers to Trade faced by exporters from Vietnam

Provided by



CUTS International, Hanoi Resource Centre

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Vietnam possesses several comparative advantages for trade. Fertile land creates a favourable environment for crops, such as rice, coffee, rubber, and black pepper. The country is also estimated to have the third largest reserve of oil in the Asia Pacific region, among many other untapped natural resources. Moreover, Vietnam possesses a young, literate, and primarily agrarian population, eager to improve living standards. Vietnam also has a long coastline, and borders China, Laos, and Cambodia, facilitate access to large markets, such as China.

To capitalise on its natural endowments, since its economic reform process began in 1986, Vietnam has actively pursued a policy of trade liberalisation to reduce tariff and non-tariff barriers in order to capitalise on its natural endowments. This has helped its products gain global market shares, with exports contributing 77 percent of GDP in 2013, which rose from 46 percent in 2001.

The country has made several key trade liberalisation efforts since the early 1990s until present, including:

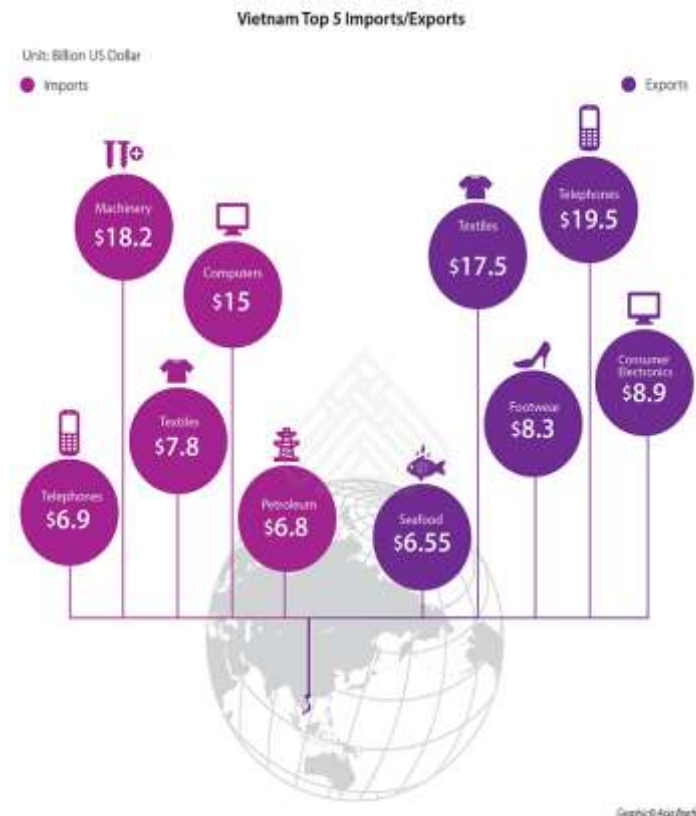
- Entry into the Association of Southeast Asian Nations (ASEAN) in 1995. ASEAN now includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam;
- A bilateral trade agreement (BTA) with the US starting in 2001, which transformed the US into Vietnam's largest export destination;
- Regional integration efforts, including ASEAN Free Trade Areas (FTA) with Australia, China, Japan, Korea, India and New Zealand;
- The ASEAN Economic Community (AEC) recently formed in December 2015, which is expected to further liberalise trade and investment in the ASEAN region;
- Participation in the Trans-Pacific Partnership (TPP) Agreement, which will create the largest free trade zone in the world; and
- The recently concluded EU-Vietnam FTA, which will help reduce tariffs for the country's key export items such as textiles.

However, though tariff barriers and quantity restrictions against Vietnamese products have

been lifted as a result of these integration efforts, new impediments have come on scene. Vietnamese exporters realised, to their dismay, that they are now faced with a plethora of non-tariff barriers, including technical barriers to trade (TBT) measures adopted by governments worldwide, whose impacts on trade could not be predicted.

Vietnam's key manufactured product exports

As part of the *Doi Moi* programme, Vietnam has pursued a trade policy consistently centred on promoting exports. This export-led growth strategy is considered as fairly successful. In the past 5 years, Vietnam's exports have doubled as competitive minimum wage and low costs of utilities boosted foreign direct investment (FDI) in the manufacturing sector. Vietnam's main exports are telephone and spare parts (19 percent of total shipments) and textiles (14 percent). Others include electronics, computers and components (10 percent), shoes and footwear (7 percent), and other machinery, equipment, tools and spare parts (5 percent).¹



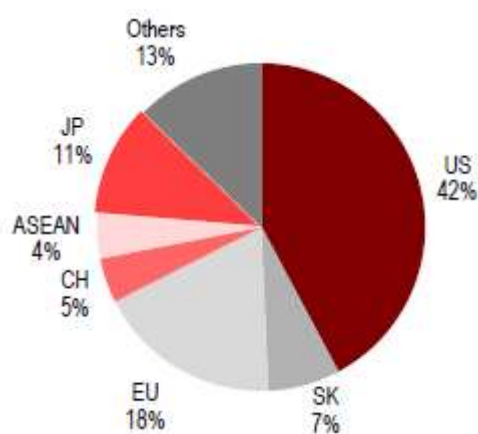
Source: <http://www.vietnam-briefing.com/news/introduction-vietnams-export-import-industries.html/>

Textiles and Garments

Textiles consistently rank among Vietnam's leading export industries, employing upwards of 1.3 million workers in directly related jobs and more than 2 million with auxiliary work. Vietnam was the world's 7th largest textile and apparel exporter in 2011. In 2010, foreign-invested companies and state-owned enterprises (SOEs) accounted for 42.7 percent and 13 percent of total textile and garment-sector output, respectively. The industry is heavily dependent on imports of raw materials. Overall, 70 to 80 percent of the raw materials used in the industry are imported. Most of the production is produced according to overseas buyers' orders. In some cases, overseas buyers supply raw materials. China is the main source of raw material imports, accounting for

¹<http://www.tradingeconomics.com/vietnam/exports>

about 50 percent of total imports.



Source: *Made in Vietnam – Breaking down barriers to trade*, A report by HSBC Global Research, May 2014

According to the Vietnam Textile and Apparel Association, WTO membership enabled many garment companies to diversify their markets and to benefit from Most Favoured Nation (MFN) status in Members' markets. However, the global recession severely affected the industry, with significant declines in price and orders, in addition to the evaporation of long-standing advantages in cheap human resources.²

Most of Vietnamese textile and garment products are exported to the US, while the EU is the second major export destination. While the US and the EU are Vietnam's key customers, apparel exports to these markets face comparatively more restrictions, particularly technical requirements, as compared to Japan and other markets. Such restrictions have forced Vietnamese manufacturers to diversify.

Leather and footwear

In terms of revenue, leather and footwear is Vietnam's third most productive export industry, generating US\$8.5 billion in 2013. The country produces 800 million pairs of shoes per year. Again, most exports are high quality leather produced for US and EU brands.

Similar to the garments and textiles sector, the industry is heavily dependent on the import of raw materials. In 2008, over 80 percent of the material used in productions of footwear and leather was imported. Most of the production is produced for orders of overseas buyers.

According to the Vietnam Leather and Footwear Association (LEFASO), the industry has set itself a goal of generating US\$11.4 billion from exports annually by 2015. To achieve this goal, LEFASO believes that the industry needs to shift away from product processing and meeting overseas customers' orders to acting as commercial marketing companies who design and introduce their own products in co-operation with overseas buyers, focusing on fashionable and high-quality leather-made products.

Electronics and electric products

Vietnam has emerged as an important electronics exporter, with electrical and electronic products overtaking coffee, textiles, and rice, to become the country's top export item. Foreign-owned enterprises account for 95 percent of exports. Samsung is Vietnam's largest exporter, and has helped the country achieve a trade surplus for the first time in many years. Exports of smartphones and computer parts now account for more in export earnings than oil and garments. Samsung is attempting to turn Vietnam into a global manufacturing

² See World Trade Organization, "Vietnam Trade Policy Review", Report WT/TPR/S/287. August 13, 2013, P. 122

base for its products, having invested over US\$10 billion into the country.

Samsung has also agreed to cooperate with the Vietnamese government in order to help develop the country's domestic support industries. This represents a key business opportunity for foreign technology companies to establish operations in Vietnam and sell their components to companies like Samsung.

On July 29, 2014, Intel announced that it produced its first made-in-Vietnam CPU. By the end of 2016, Intel expects to manufacture 80 percent of their CPUs for the world market in Vietnam.

Many local companies, which produce electronic items under outsourcing contracts with foreign firms are trying to raise the added value in their products by designing their own models and intensifying the production of components and spare parts for export.

Main issues related to TBTs

Vietnam complied completely with the obligations of the TBT Agreement from the date of its accession to the WTO. Since its accession, Vietnam has notified a number of measures to the TBT Committee including, as of late-April, 2013:

- a notification that the Directorate for Standards, Metrology and Quality accepted the Code of Good Practice for the Preparation, Adoption and Applications of Standards in Annex 3 to the TBT Agreement;
- notifications under Article 15.2 of the TBT Agreement on measures taken to

comply with the TBT Agreement, and that the TBT Viet Nam Office, in STAMEQ, is the notification authority and enquiry point for TBT-related issues; and

- 33 notifications of regular measures (not counting addenda, or corrigenda) covering a variety of products, including a proposed and final technical regulation on alcoholic beverages, which was raised as a specific trade concern in the TBT Committee by several delegations.³

The rapid growth in Vietnamese exports of manufactured products from the abovementioned sectors to the world in recent years, including sophisticated markets such as the US and the EU, suggests that Vietnamese exporters in these sectors are meeting the technical requirements of these markets without major difficulty.

In fact, industry associations did not identify any particular TBT issue that was currently creating significant difficulties for exporters. In general, exporters do not appear to be experiencing exceptional difficulties in meeting TBT requirements of export markets. This is partly because compliance with TBT requirements of the export markets is mediated by the buyers who set the product specifications, packaging requirement, conformity assessment, and certification procedures. In many cases, importers of Vietnamese products also supply or nominate suppliers for the supply of raw materials, requiring conformity assessment and certification by specific laboratories and certification companies. Vietnamese exporters thus only produce under contracts, in accordance with clearly defined parameters and specifications determined by the importers. Hence, meeting technical requirements in these markets does not pose as a significant

³ See: World Trade Organization, "Vietnam Trade Policy Review", Report WT/TPR/S/287. August 13, 2013, P. 66

problem at present.

Nevertheless, industry associations expressed concerns in meeting TBT requirements in future export markets. First and foremost, industry representatives seem uncertain of the possible impacts of future changes in technical regulations of export markets in their respective sectors. They did not appear to be fully aware of the role of the Vietnam TBT Office as provider of an early warning system for changes in the TBT requirements of export markets by distributing information regarding countries' TBT notifications. They were also not aware that they could comment on the proposed TBT measures of other countries via the Vietnam TBT Office, and that the countries' relevant regulatory authorities were obliged to take their comments into account, provided their comments were sent within a period of 60 days. The 60 day period allows for comments to be made before the proposed TBT measure is adopted and brought into force.

Vietnamese industry associations were also concerned that new TBT measures in the future might include stricter certification requirements, which would incur additional costs to exporters. Vietnam might not have sufficient laboratory testing facilities for conformity assessment and certification, which means the use of testing laboratories overseas might be required, which would increase costs and reduce the competitiveness of Vietnamese exporters.

Finally, industry associations are also concerned that new TBT measures in

sophisticated export destinations may require significant investment in new production and distribution technologies in order to meet the compliance requirements. This could require significant personnel training on the operation of new equipment. This could also increase operating costs and adversely affect competitiveness of Vietnamese exports to foreign markets.

It should be noted that the issue of product recall from export markets, such as the EU or the US, in the event of non-compliance with these markets' TBT requirements was not considered a major issue as far as the industry associations were concerned. This may be in part because all exports in these sectors were produced to order, with agreed specifications and certification before production and shipment. This, however, may prove to be problematic in the future when Vietnamese manufacturers grow more independent and begin marketing their own products. More detailed knowledge and understanding on TBT requirements of export markets would be required. At present, Vietnamese exporters are left to find out this information for themselves, but this could be facilitated by the Vietnam TBT Office.

On receipt of notifications from WTO Member States via the WTO Secretariat, the Vietnam TBT Office⁴ is responsible for translating the notifications into Vietnamese and forwarding the translated version to the Ministries in the TBT network.⁵ The TBT Office then places a

⁴ The Vietnam WTO TBT Office is responsible for meeting Vietnam's transparency obligations under the WTO TBT Agreement. The TBT Office has a Director, Deputy Director, and 9 staff members. It is divided into four sections: Notification and Enquiry Point Section, TBT Section, Administration Section, and Information and Training Section. More information about the Office and activities can be found at <www.tbvtvn.org>.

⁵ The Vietnam TBT Office has a network of sub-offices in 10 central government ministries and 63 provincial offices for the management and distribution of notifications received from WTO Members and in managing and distributing notifications and queries sent to the WTO. Government Ministries in this network include the Ministry of Industry and Trade, the Ministry of Construction, the Ministry of Transport, the Ministry of Health, the Ministry of Labour, War Invalids and Social Affairs, the Ministry of Agriculture and Rural Development, the Ministry of Natural Resources and Environment, the Ministry of Information, and

copy of translated notification on its Internet portal.

The Ministries forward the notifications to relevant stakeholders, including industry associations and exporters, directly or via sub-offices in the TBT network.

The TBT Office does not have direct contact with industry associations or exporters regarding the distribution of notifications or in relation to the relevance of the TBT issues notified. The TBT Office currently does not have procedures in place to prioritize notifications for translation or distribution. This has been identified as a weakness in the operating procedures of the Office, as not all notifications from WTO Members are relevant to Vietnamese exporters or policy-makers.

Some Solutions

In summary, Vietnam does not seem to have major problems regarding to technical barriers against its manufactured product exports at present. At the same time, industry associations, representatives, and the exporters themselves do not seem to have developed core competences for collecting information about and understanding the various TBT requirements of other markets. This creates an over-reliance on buyers for information critical to the success of exporter operations. It also suggests a low propensity for R&D as well as innovation in product and process design. This mindset needs to change should Vietnam want to move its manufactured product export sector up further in the global value chain.

The Vietnam TBT Office, which serves as the main source of information for exporters, has

not been able to develop specialised expertise in TBT areas of concern to exporters. At present, the Office has translated and forwarded all received TBT notifications through the TBT network on an ad hoc basis without consideration of the relevance of the TBT notifications to Vietnamese exporters. This limits the effectiveness of its operations, as expertise is required to prioritise how it handles the operations in relation to the distribution of TBT notifications and the development of its database on TBT issues. Furthermore, the TBT Office should consider developing a TBT database as a R&D resource for exporters and academic research in export markets. This would assist Vietnamese exporters in the identification of TBT requirements, as well as lead innovation and R&D of new products and production processes.

Currently, there is a significant increase in the introduction and adoption of environmental measures which set out labelling and certification requirements for imports of manufactured products. However, many WTO Members do not consider these measures to be TBT requirements falling under the WTO TBT Agreement, and therefore do not notify them to the WTO TBT Committee, but rather to the WTO Trade and Environment Committee. This is where the Geneva Mission of Vietnam could play a critical role by monitoring notifications in this area in order to leverage the WTO network to advise exporters of compliance requirements.

Finally, there seems to be a disconnection between the Vietnamese Mission to the WTO in Geneva, the TBT Office in Hanoi, industry associations, and exporters. A dialogue should be established between these stakeholders

Telecommunications, the Ministry of Sport Culture and Tourism, and the Ministry of Science and Technology. The TBT sub-offices in these Ministries manage the flow of information on notifications and queries to the sub-offices. Both the Ministries and the sub-offices are responsible for forwarding relevant notifications to

exporter associations and other interested stakeholders outside this network, as well handling queries from these stakeholders on TBT issues. More about the network can be found at <http://www.tbtn.org/EnglishTBT/Pages/VietnamTBTNetwork.aspx>.

whereby the information needs of industry players could be fed back to the TBT Office as well as the Geneva Mission, which could then improve the facilitation of and response to information requests.



CUTS International, Geneva

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GENEVA TRADE & BUSINESS CONNEXION FORUM

The Trade & Business Connexion project aims at bridging the gap between South and Southeast Asian WTO delegates and their national private sectors. Web: http://www.cuts-geneva.org/Geneva_Connexion_SNSEAsia.html



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