

# IMPLEMENTATION AND UTILIZATION OF COMMITMENTS IN THE WTO AND NEW GENERATION FTAS: PRELIMINARY REPORT ON THE RESULTS OF ENTERPRISE SURVEY WITHIN THE FRAMEWORK OF FTU-WTO CHAIRS PROGRAMME PHASE III

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## Abstract

*The paper presents a preliminary report on enterprise survey results on the actual implementation and application of Vietnam's commitments in the WTO and new-generation FTAs. The survey was conducted in the period from June to July 2022, after Vietnam has joined the WTO more than 15 years, the CPTPP has taken effect for more than three years, the EVFTA for about two years, the RCEP for half a year and more than two years since the COVID-19 outbreak. The contents of the enterprise survey focused on: (1) Assessing enterprises' understanding of commitments under the WTO and new-generation FTAs, (2) Enterprises' assessment of the implementation of commitments within the framework of WTO and new-generation FTAs, (3) Actual import and export activities of enterprises in relation with countries participating in new-generation FTAs, (4) Effects of new-generation FTAs on enterprises in the post-COVID-19 economic recovery period; (5) Business future and business expectations; and (6) Factors in the utilization of new-generation FTA preferences. In addition to survey results, the research team has conducted consultations and in-depth interviews with experts and representatives of state management agencies and proposed some recommendations to state management agencies, associations, and businesses for more effective utilization of WTO and new-generation-FTA commitments.*

**Keywords:** WTO, New generation FTA, Implementation, Utilization

## 1. INTRODUCTION

Actively participating in new generation FTAs is not only a step forward in international economic integration but also a sign of determination to integrate deeply into the global economy as well as the willingness to reform Vietnam's economy. The process of implementing new generation FTAs is a valuable opportunity for Vietnam to re-evaluate the problems faced when enforcing previous FTAs and find overall solutions in the future. New generation FTAs not only include activities to fulfill specific commitments but also programs to enhance the competitiveness of businesses and specific sectors; solutions to promote innovative start-ups; policies to support small and medium enterprises (SMEs); actions to improve the business investment environment; and other measures to solve economic bottlenecks such as human resources, infrastructure, etc. Therefore, enacting new generation FTA in the current context has a much more significant impact than the direct impact from specific commitments on tariffs or rules of such new generation FTAs. We can assess the view of enterprises about the new generation FTA instead of traditionally assessing the fulfillment of new generation FTAs by enterprises.

## **2. METHODOLOGY**

In addition to sending questionnaires and receiving valid responses from 415 enterprises, the research team conducted in-depth interviews with many enterprises and state management agencies to gain in-depth and multi-dimensional insights into the application of FTA regulations in the enterprises. The survey focuses on understanding the implementation and evaluation of enterprises on WTO and new generation FTAs, conducted between June and July 2022 (15 and a half years after Vietnam joined the WTO). During this period, Vietnam signed 3 critical FTAs, i.e., the CPTPP (takes effect about three and a half years), EVFTA (takes effect about two years), and RCEP (takes effect half a year), including more than two years of the COVID-19 outbreak. The survey centers on:

- Assessing the understanding of enterprises about FTAs.
- Evaluating the application of FTAs in businesses.
- Trading activities (exports and imports) between Vietnam and other FTA's member countries.
- Studying about effects of FTAs on post-pandemic recovery.
- Business prosperity and expectations
- Factors affecting taking advantage of incentives from FTAs

Some background information about the survey is listed as follows:

- Regarding the form of the survey: The survey team directly surveyed and interviewed a number of enterprises and state management agencies in big cities such as Hanoi, Ho Chi Minh City, Da Nang, Quang Ninh, and Hai Phong. At the same time, questionnaires are sent to respondents in the sample.

- Regarding the scope of the survey: The survey was carried out between June and July 2022. The contents surveyed not only focused on assessing the impact of the WTO and the new generation FTAs on business activities but also explored the effects, if any, of these agreements on businesses in the post-pandemic economic recovery.

- Regarding survey subjects: The survey focuses on the target group of enterprises that are manufacturing, importing, and exporting (goods and services) and other trade-supporting services (logistics, finance...).

## **3. RESULTS AND DISCUSSION**

### **3.1. Enterprises in the survey**

Among the 415 enterprises participating in the survey, there are enterprises operating multiple services. About 60.8% of surveyed companies operate in the services sector. The share of enterprises having purely goods commercial activities (collectively referred to as commercial activities) is 17.6%. The manufacturing and processing industry accounts for about 11.4%.

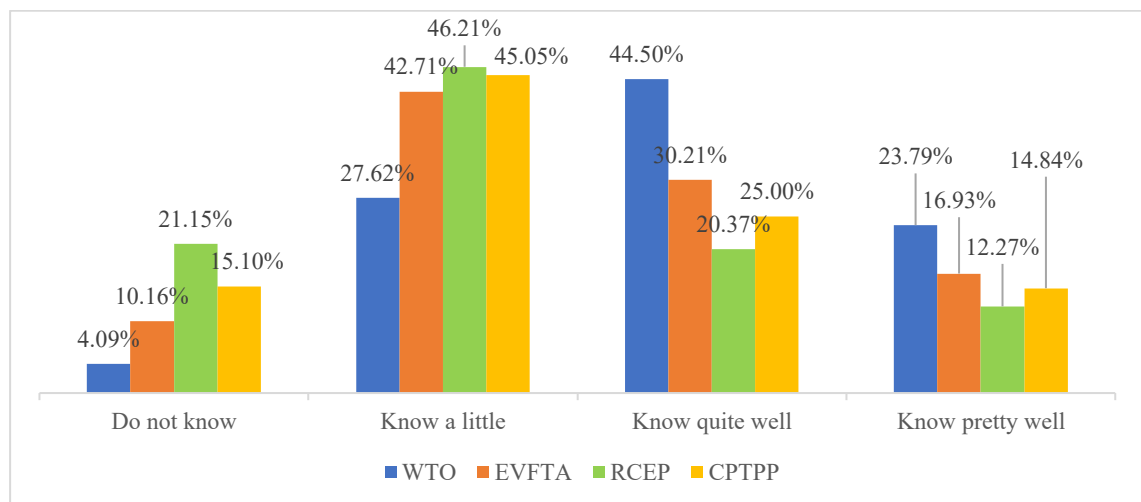
When it comes to the production and business situation of 2020 and 2021, the majority of enterprises participating in the survey suggest that 2020 is a more difficult year. This outcome is quite similar to the general picture of the economy during the outbreaks and spread of Covid-19.

### **3.2. Current Application and Assessment of Enterprises about WTO Commitments and New Generation FTAs**

#### **3.2.1. Understanding about WTO commitments and new generation FTAs**

The survey results suggested that the EVFTA is the most well-known new generation FTA in Vietnam, followed by the CPTPP. Although a preliminary understanding of complex FTAs such as EVFTA or CPTPP is not necessarily a guaranteed condition that businesses can benefit from this, it is still a meaningful commencement.

Figure 1. Enterprises' awareness of WTO and new-generation FTAs



Source: Survey results on the FTU-WCP project

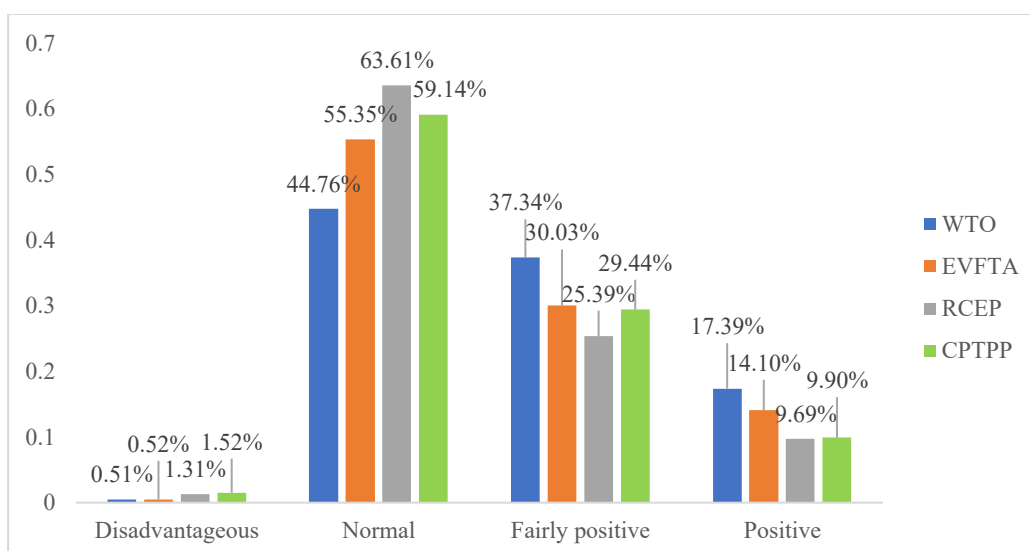
### 3.2.2. Assessment of enterprises on the implementation of WTO commitments and new generation FTAs on their business activities

At the time of the Survey, Vietnam had joined the WTO for 15 and a half years, the CPTPP was in effect for about three and a half years, the EVFTA was in effect for about two years, and the RCEP was in effect for half a year. With such time, businesses have also had experience in the implementation and effectiveness of taking advantage of opportunities and facing challenges of these Agreements.

#### 3.2.2.1. General impacts

From the perspective of overall efficiency, Vietnamese enterprises positively assess the impact of FTAs on business activities.

Figure 2. The general impact of WTO and new-generation FTA on business operation



Source: Survey results on the FTU-WCP project

### 3.2.2.2. Perception of enterprises about benefits of new generation FTAs

Although the majority of businesses have a positive view of new-generation FTAs, the actual benefits that businesses enjoy from FTAs are still confusing. The survey results also show that many businesses have never enjoyed any specific benefits from new-generation FTAs.

There are clear differentiations about actual benefits that new generation FTAs have brought to enterprises:

- The most direct concrete benefits that businesses receive from new-generation FTAs are still *tariff preferences* (although these agreements are considered to be less meaningful in terms of opening up to trade in goods).
- Secondly, businesses clearly show *profit expectations* in the future. This is consistent with the perception that the new generation FTA creates attractiveness for Vietnam in the eyes of many foreign investors outside the scope of the Agreements.
- Thirdly, the administrative reform measures, policies and laws in Vietnam are positively perceived by businesses. About 34.9% of businesses highly appreciate the positive impact on institutions.
- Fourthly, up to 19% of enterprises that have already benefited from FTAs said that FTAs help them *protect their intellectual property rights* more effectively. Obviously, high standards in FTAs, which are still considered challenges, are even becoming opportunities for some businesses.
- Finally, the potential benefit but often perceived to be very difficult to actualize, i.e., *participating in public bidding packages*, can be realistic for some enterprises. The survey shows that up to 15% of enterprises have or are participating in bidding in partner markets.

### 3.2.2.3 Reasons preventing enterprises from benefiting from FTAs

The survey results give deeper information on the reasons preventing enterprises from benefiting from FTAs.

The most common reason, more than 40% of enterprises show that they do not have any business activities relating to markets or partners in countries that have committed to FTAs in the last two years.

The second reason is that enterprises have no knowledge about what benefits FTA will bring to their business (25%). Although the percentage of enterprises choosing this reason is not too high, it is extremely regrettable because enterprises can know the benefits of FTA if they find out carefully.

The third reason is that enterprises are not eligible to receive tax incentives (25%).

Besides, there are some objective reasons, including enterprises encountering problems when carrying out procedures at the port (22.4%), the Vietnamese implementation document issued is still incomprehensible (17.8%), enterprises meet with difficulties in certificates of origin for exports (16.4%). In the previous time, these reasons were mentioned as the main obstacles for businesses, now they only account for a small percentage. This clearly shows the obvious improvements from the national management agencies in the implementation of the FTAs.

#### ***3.2.2.4. Enterprises face to disadvantages of FTA***

FTAs bring not only opportunities but also create certain challenges. From a competition perspective, 45.5% of enterprises said that the competition must be tougher. From a compliance perspective, 36.3% are concerned about additional costs for high-standard commitments on intellectual property, labor and environment.

### **3.3. Import and Export Activities of Enterprises with Markets in FTAs and New Generation FTAs with Covid-19 Pandemic**

#### **3.3.1. Import and export of enterprises with markets in FTAs**

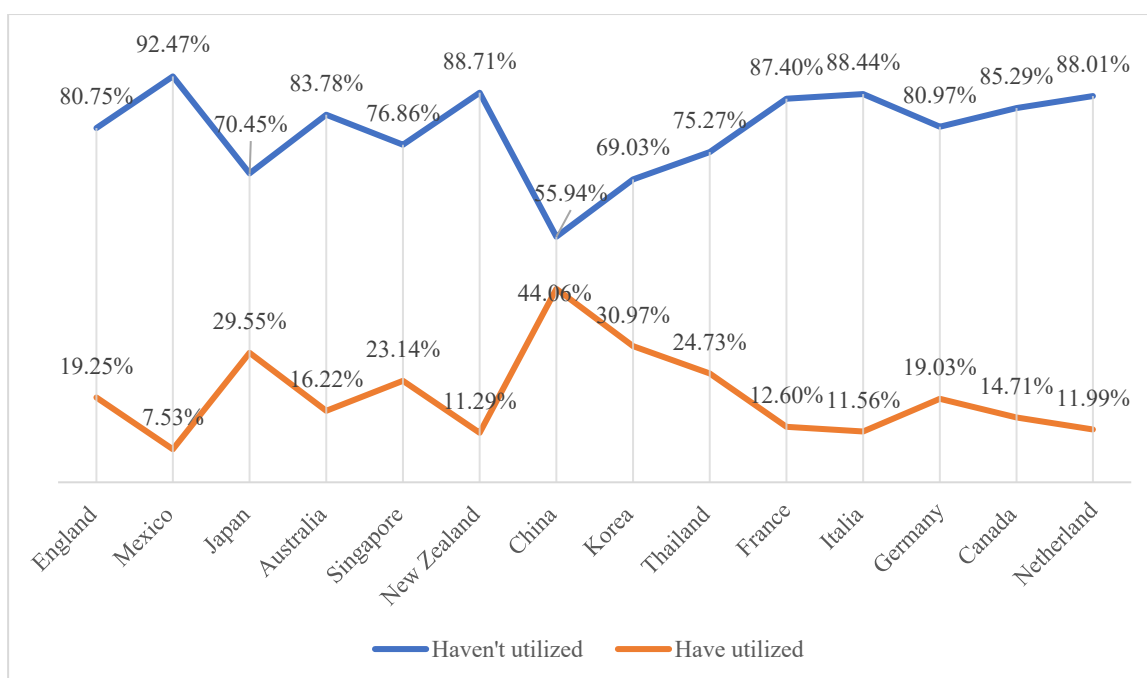
The survey results show that the markets having the closest relationship with Vietnamese enterprises are China, Japan, Korea, Singapore, and Thailand. This result is quite similar, but not completely similar to the order of import and export turnover between Vietnam and traditional partners in new generation FTAs. Meanwhile, new partners such as Canada and Mexico still have a modest position.

The survey results show that the proportion of enterprises that have never benefited from new-generation FTA tariffs is significantly higher than the enterprises that have received tariff benefits. Although the fact is not too surprising, the figure is still disappointing, especially in new markets such as Canada and Mexico.

The concerned preventing enterprises from FTA benefits include:

- Enterprises meet with difficulties in applying for C/O because the goods cannot meet the requirements of the rules of origin such as lack of documents, problems with procedures, overdue application for C/O.
- Enterprises have no knowledge about tariff intensives for their goods (more than 22%). This leads to requiring for making more efforts to propagate and supporting enterprises, and at the same time, propaganda and support need to focus on the actual needs of enterprises.
- Raw materials, and production processes are unlikely to meet the conditions of rules of origin being quite common reason (21.9%).

Figure 3. The current situation in the utilization of tariff preferences



*Source: Survey results on the FTU-WCP project*

### 3.3.2. New generation FTAs and Covid-19 pandemic

Since the beginning of 2020, the Covid-19 pandemic with complicated happenings in the world in general and Vietnam in particular has caused huge negative impacts on the business activities of enterprises on different levels. However, there are still enterprises having growth in business results in the context of the pandemic such as medication, insurance, logistics and postal services.

#### Business projections of the business in the new recovery period

The survey implies that in the new recovery phase, businesses have shown a calmer attitude with 54.5% of enterprises continuing to operate normally and 10% of enterprises operating in moderation.

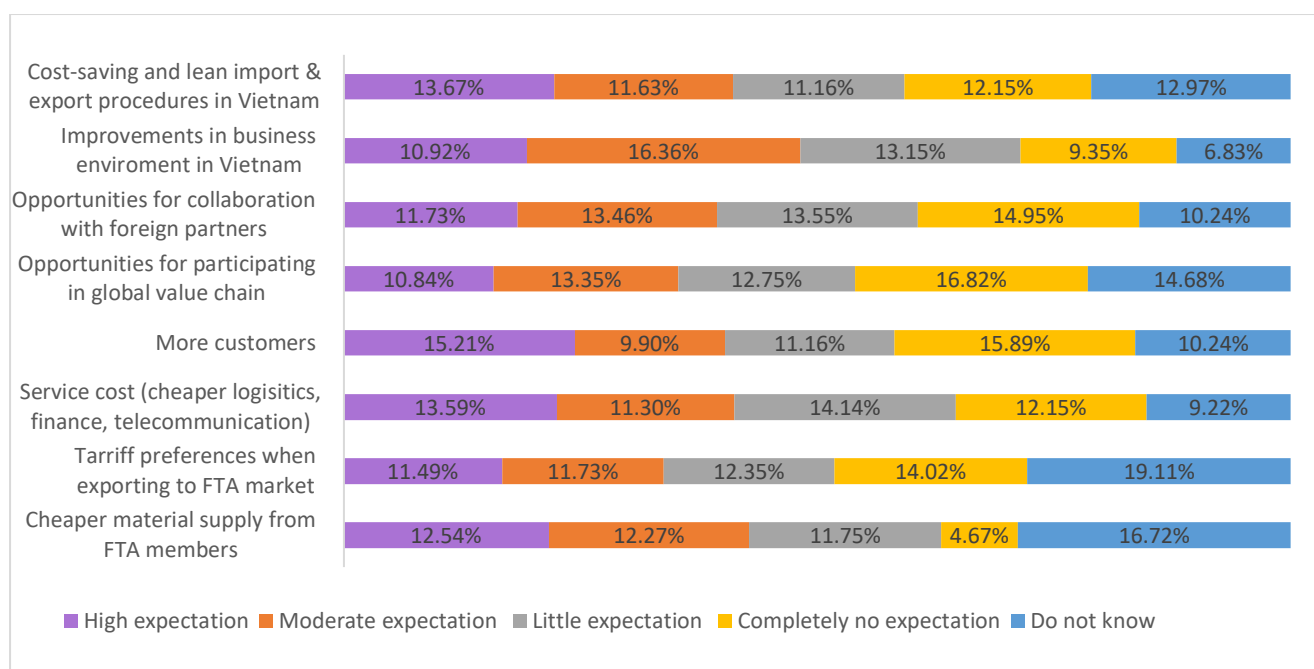
Regarding business categories: All (100%) state-owned enterprises proved to be very stable. FDI enterprises had a more concentrated option when 46% chose to operate normally. In addition, more than 50% of private enterprises and FDI enterprises chose to operate normally or expand their scale, the rest faced pessimistic options such as inactive operation, conversion or temporary closed.

### 3.4. FTAs And Business Vision

#### 3.4.1. The level of enterprises' general expectation of specific benefits of FTAs

The survey also assesses enterprises' expectations about the specific benefits of the new generation FTA. This level of expectation is also quite uniform across interest groups but relatively lower than previous survey reports (e.g., VCCI, 2020), which indicated that about 50% of enterprises rate the CPTPP as having positive impacts in the recovery phase.

Figure 4. Enterprises' expectations for specific benefits



*Source: Survey results on the FTU-WCP project*

There are some reasons underlying these low expectations:

- The difficult context of Covid-19 along with specific difficulties in international commercial activities experienced by businesses have reduced their optimism.
- Popular propaganda campaigns and activities about new-generation FTAs in the early stages when the CPTPP and EVFTA come into effect have "exaggerated" the benefits that FTAs can bring. Over time, businesses will have clearer judgments.
- Enterprises themselves may not have a proper understanding of the nature as well as opportunities and challenges from new generation FTAs.

On the bright side, the fact that businesses are cautious and do not over-expect can help businesses limit certain risks when planning future business strategies, not having "illusions" about the future.

### 3.4.2. Comparing expected benefits

The survey also provides insight into the expected benefits to capture the difference in the expectation. Particularly, enterprises put most expectations into the improvement of the business environment (66.7%).

The difference in this level of expectations is not very large, but the order is quite meaningful. This seemingly suggests that businesses are more mature when looking to the distant future of new-generation FTAs, which aim for long-term and sustainable benefits such as expanding markets, transparent institutions, global value chains, etc.

The survey also found factors that enterprises consider as barriers to realizing the expected benefits of the new generation FTAs. At the top of the main obstacles is the competitiveness of enterprises themselves. This shows that businesses have looked directly at reality, while external challenging factors such as business environment, administrative procedures, etc., are no longer the biggest obstacle in their opinion.

### 3.4.3. Plan for business adjustment preparing for FTAs

The adjustment direction of enterprises focuses mainly on activities to improve competitiveness, such as:

- 65% of enterprises choose to improve management skills for leaders
- 60% of enterprises provide professional training for employees
- 47% of enterprises plan to increase brand promotion and trade promotion
- 41% of enterprises improve technology
- 39% of enterprises improve product quality
- 23% of enterprises have plans to increase investment capital

## **4. CONCLUSION AND RECOMMENDATIONS**

### **4.1. Conclusion**

From the survey results, enterprises have a relatively positive assessment of the new generation FTAs, both from the perspective of the organization and implementation of state management agencies as well as from the perspective of specific utilization of the FTAs of enterprises. The survey results show the maturity of businesses, as well as the knowledge about these agreements. Although enterprises have a positive assessment of the opportunities of the new generation FTA, they are also very aware that in order to take advantage of these incentives, enterprises themselves need to improve their own competitiveness. The survey also pointed out the remaining issues as factors preventing businesses from taking advantage of the FTA, thereby suggesting to state management agencies, trade associations and businesses to support and adjust.

### **4.2. Recommendation**

It is provided here with some recommendations the survey team drew from in-depth interviews with state management agencies, trade associations, and enterprises.

#### **4.2.1. The work of formulating policies and laws and perfecting the institution for the implementation of FTAs**

##### **• Regarding the compatibility review to amend the domestic law implementing FTAs**

The internalization of institutional commitments and rules, and then reviewing the compatibility, should pay attention to a few things as follows:

- The planning and implementation of the review need a comprehensive, interdisciplinary approach
- The role of the Ministry of Justice in the review process, especially when there are many relevant legal institutions
- Focus on consulting businesses when reviewing. Most of the enterprises in this survey said that they were not informed or participated in consultation activities to improve institutional solutions.

##### **• Regarding the progress of constructing documents to implement FTAs**

Commitments with a long roadmap and implementation time of many years are complicated commitments, posing great challenges in transforming into domestic law. Therefore, drafting agencies need to have an early plan to adjust and amend relevant legal documents.

#### **4.2.2. Dissemination of FTAs for enterprises**



- Method: it should be designed in depth, with key themes, suitable for each group of businesses, meeting their specific concerns. In-depth business training, hands-on training, using practical examples for businesses to understand and then apply.

- Objects: special priority is given to sensitive and easily affected business objects such as small and micro enterprises.

- Content: businesses are interested in such as commitments on tariffs, tax incentives, import and export opportunities, rules of origin, investment cooperation opportunities, joint ventures

#### **4.2.3. Supporting businesses to take advantage of FTAs**

In the survey of enterprises, improving competitiveness is the leading group of solutions that enterprises identify to overcome current shortcomings, thereby aiming at opportunities to take advantage of FTAs in the short and long term. Therefore, support to improve the competitiveness of enterprises should be a top priority.

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