

# Speech of H.E. Dato' Ajit Singh, Secretary-General of ASEAN at the ASEAN-CCI Meeting

Hochiminh City, 21 August 1996

## **ASEAN and Vietnam: Towards a New Partnership through Trade and Investment**

Vietnam joined ASEAN on 28 July 1995, a little more than a year ago. When Vietnam first applied for membership, there was fear that her admission would slow down ASEAN's cooperation programme. I am glad to say that this has not been the case. Vietnam has made strenuous efforts not only to integrate smoothly into ASEAN but also to "catch up" with the economic development of the other ASEAN countries.

For example, when Vietnam acceded to CEPT for AFTA she made a number of commitments which included the extension of the principles of Most-Favoured-Nation (MFN) and National Treatment to ASEAN Member Countries. Vietnam also undertook to submit a package of products for inclusion into the CEPT scheme as well as the tariff reductions schedules for the products in the package.

I am pleased to note that Vietnam has fully complied with her commitments and has participated in the CEPT Agreement since 1 January of this year. Vietnam has submitted a list of 1,622 products to be included in the CEPT Scheme as well as the tariff reduction schedules for these products. She has also set up her National AFTA Unit to coordinate the implementation of her commitments to AFTA. Thus I am confident that Vietnam will be a full member of AFTA by the year 2000.

Vietnam, however, may face some problems in phasing out its non-tariff barriers (NTBs). Under the CEPT scheme Member States are required to eliminate all quantitative restrictions in respect of products under the scheme upon enjoyment of the concessions applicable to those products. Member States are also required to eliminate other NTBs on a gradual basis within a period of five years after the enjoyment of concessions applicable to those products.

Vietnam is likely to face problems in eliminating quantitative restrictions and other non-tariff barriers because of the dominant role of its 1,250 state enterprises in her external trade. The predominance of state enterprises in external trade is a phenomenon which does not exist in other ASEAN countries. Nevertheless, I am confident that Vietnam will do its utmost to eliminate quantitative restrictions and other NTBs in step with other ASEAN Member Countries so that AFTA will be implemented as scheduled.

The implementation of AFTA will benefit Vietnam as much as the other ASEAN countries. In 1995, Vietnam's trade with other ASEAN countries accounted for 32.4 per cent of its total trade with the world. However, given the high complementarity of the Vietnamese economy with ASEAN, there are significant prospects for Vietnam to further increase her trade with ASEAN once Vietnam becomes a full member of AFTA.

---

Apart from trade, I foresee vast opportunities for forging closer linkages between Vietnam and ASEAN through investment. Vietnam is noted for its generous foreign investment code, considered one of the most liberal in Asia. There are favourable investment opportunities in Vietnam in view of its abundant mineral and energy resources, low wages and an educated labour force as well as a large domestic market. Vietnam has enormous potential for ASEAN investment in a number of sectors, notably, tourism, infrastructure development, exploitation of natural resources and manufacturing.

Consider for example, tourism. According to the International Air Transport Association, Vietnam will witness the world's biggest boost in scheduled passenger traffic over the next few years. The Association predicts that tourism in Vietnam will increase from 3.5 percent of GDP in 1994 to 27 percent in 2010, on the basis of a ninefold increase from the estimated 1 million passengers which Vietnam would have in 1995. Such a significant increase in tourism enhances investment opportunities in the tourism industry in Vietnam.

Apart from tourism, manufacturing and aquaculture provide lucrative business opportunities. Vietnam's textile and garment industry was once more advanced than Thailand's. If the industry could be modernized, Vietnam could emerge as the textile and garment industry centre of ASEAN. Similarly, Vietnam's 3,200 km coast is ideal for prawn farming and it has the potential to become one of the most important prawn farming areas in ASEAN.

The investment opportunities in Vietnam are likely to intensify once ASEAN implements the ASEAN Investment Area (AIA) concept. As you know, AIA has been formulated to enhance ASEAN's attractiveness as an investment region for investors, both within and outside the region. This regional initiative was proposed by the ASEAN Leaders at the Fifth ASEAN Summit in December 1995 and is expected to increase the flow of investment into ASEAN as well as to stimulate intra-ASEAN investment. Thus I can foresee much higher levels of ASEAN investment in Vietnam once AIA is fully implemented.

Vietnam's economic linkages with ASEAN is also likely to be strengthened following the implementation of the Basic Framework of the ASEAN-Mekong Basin Development Cooperation, adopted by the Seven ASEAN Member Countries and the four Mekong riparian states in Kuala Lumpur on 17 June 1996. Vietnam being both an ASEAN as well as a Mekong riparian country will benefit from the co-operation to develop the Mekong Basin. In particular, Vietnam will benefit from the establishment of a high speed electric train running between Singapore and Kunming as well as the development of a network of gas pipelines linking Vietnam and the other ASEAN countries. More generally, Vietnam will benefit and contribute to the overall prosperity which trade and investment will bring through the economic development of the Mekong Basin.

I am also looking forward to the day when an ASEAN Growth Area can be set up between Vietnam and its geographically closest ASEAN neighbours. Such an arrangement has been successful in stimulating intra-ASEAN trade and investment and I am sure that the concept will work equally well in Vietnam.

To sum up, it would appear that there are bright prospects for improving Vietnam's economic partnership with ASEAN through trade and investment. However, there are also formidable challenges ahead. I have already referred to some of these in discussing Vietnam's problem with respect to the implementation of the CEPT scheme. The problems which she will have to address with respect to investment are more pervasive. Based on the concerns which the private sector in ASEAN has raised, these relate to poor infrastructure, excessive bureaucracy, the lack of a proper judicial system and the absence of a land title system.

Vietnam's infrastructure particularly its transport and communication system, public utilities and banking and financial services are underdeveloped and inadequate to meet growing demand. For example, in 1992, Vietnam had only 2 telephone mainlines per 1,000 persons compared with 31 for Thailand. Both the road and rail systems are underdeveloped and require major reconstruction to cope with increased passenger and commercial traffic. Only about 10 percent of the roads are paved and most bridges are in poor condition.

---

More significantly, the lack of a proper judicial and legal system is the greatest drawback Vietnam faces in attracting investments. Although Vietnam has enacted more than 40 laws and 50 decrees governing economic reform there are several inadequacies. For examples, the bankruptcy law has no regulation to support it. The environmental law says that polluters must pay into a clean-up fund but no one seems to know what the payment should be. A banking law has allowed more than a dozen foreign banks to operate in Vietnam, but the rules about lending are confusing.

Focusing on foreign investment, specific areas of Vietnamese law which need to be refined to protect the investors include: different types of property ownership; land valuation and transfer; corporate structures and governance; remedies for the protection of contract rights and financial and securities laws.

Vietnam is likely to derive the greatest advantage from its membership in ASEAN from an increased inflow of trade and investment once AFTA and AIA are fully implemented. However, in order to obtain such an advantage, Vietnam has to create the legal environment needed to sustain large-scale investment.

The creation of a legal environment in Vietnam will stimulate the development of the private sector which is another pre-requisite if Vietnam is to benefit fully from its membership in ASEAN. As you know, ASEAN Governments give the highest priority to their partnership with the private sector and have done their utmost to assist businessmen. For example, ASEAN governments provide visa-free facilities to *bona fide* businessmen. I hope that Vietnam will be able to provide a similar facility soon.

Apart from complying with the commitments of her membership in ASEAN, I am pleased to note that Vietnam is continuing with her efforts to accelerate [her] economic development. She has successfully brought her inflation rate under control and has become one of the largest rice exporters in the world. The privatization of the state enterprises has accelerated the pace of her transition to a market economy. Not surprisingly, Vietnam's economy has been growing steadily at over 7 per cent per annum during the last few years. If Vietnam can sustain her economy development in the coming decades she should be able to be on par with the other ASEAN economies in the not too distant future.

I am certain that Vietnam's membership in ASEAN will be mutually beneficial given the strong trade and investment linkages between Vietnam and ASEAN. Both Vietnam and ASEAN will benefit from the further strengthening of these linkages. Moreover, Vietnam's membership has increased the size of the ASEAN market from 350 million to 420 million, giving ASEAN a critical mass for attracting further trade and investment of the region.

At the AEM-Vietnam Consultative Meeting in Chiangmai on 25 September 1994, your Prime Minister, H.E. Mr. Vo Van Kiet said "Vietnam wants to make a contribution to the development of ASEAN rather than being burdensome to ASEAN." All of us in ASEAN share your Prime Minister's sentiments and would like Vietnam to be an equal partner in the region's search for peace and prosperity.

SOURCE: Office of the Secretary-General, ASEAN Secretariat, Jakarta, Indonesia.