

## FTA with Chile is viewed as a twin edged sword

Chile has set its sights on a free trade agreement with Vietnam.

The third round of free trade agreement (FTA) negotiations between Vietnam and Chile kicked-off last week, a week after Chilean deputy foreign minister Albert van Klaveren's visit to Vietnam.

During a meeting with Vietnam's Ministry of Industry and Trade (MoIT) officials, Klaveren said Chile would like to sign the FTA with Vietnam as soon as possible. Chilean President Michelle Bachelet, in talks with Vietnam's Vice President Nguyen Thi Doan in Santiago in May, also expressed her hope that Vietnam and Chile would soon sign an FTA.

According to an official of the MoIT's Trade Policy Department for Americas, if the agreement was inked, Vietnamese exporters would not only enjoy tariff reductions in the Chilean market, but also have better access to other Latin American countries. "Chile will play a role as a gateway for Vietnamese products to other

Latin American markets," the official said.

Vietnam's official statistics show the country exported \$70 million worth of goods and commodities to Chile in 2008, a 60 per cent rise against 2005, and imported around \$100 million, up 53 per cent. Vietnam's main exports are apparel, computers, electronics and footwear, while its main imports are animal feed, bronze ore, paper pulp, timber and wine.

However, an economist with the Vietnam Academy of Social Sciences said even when the FTA between Vietnam and Chile was signed, it would still be difficult for Vietnam to boost its exports because Chile's demand for Vietnam's exports was not high. In addition, Chile's market was already open with low tariffs, he said. "Chile's average tariff is only around 6 per cent."

"Since Chile already signed FTAs with nearly 20 countries including the US and Canada, Vietnamese producers could set

up factories in Chile and increase their exports to these countries by taking advantage of the FTAs' tariff cuts," he said.

However, he cautioned Vietnam should not sign an FTA with Chile before other big economic partners. "It would be better to sign an FTA with the EU or the US," he said. "Chile would not be attractive to Vietnamese producers because of the long distance between the two countries. Meanwhile, the FTA would help Chile increase its agricultural products such as fruits and wine to Vietnam because of its competitive prices."

Other experts said the FTA would make it difficult for Vietnam to negotiate the Trans Pacific Partnership (TPP) Agreement with seven other countries including Chile and the US which would bring more benefits to Vietnam. They explained that in the TPP negotiations, Vietnam would have to further reduce its tariffs, which might cause more difficulties for domestic producers.