

The Trans-Pacific Partnership — Unveiling Major Implications for Vietnam

By Vo Tri Thanh & Nguyen Anh Duong

Introduction

Since the initiation of Doi Moi (Renovation) in 1986, Vietnam has always emphasized the importance of pro-active international economic integration. The rationale for such economic integration was manifold, namely: (i) to enhance access to foreign market and resources; (ii) to engage in global and regional production networks; and (iii) to leverage on the structured pressures for domestic reforms. Alongside institutional reforms and macroeconomic stabilization, economic integration helped Vietnam achieve impressive socio-economic outcomes. Economic growth was continuous, averaging almost 7.2% per annum in 1990-2010 before slowing down to 6.7% in 2015. From a poor country in the mid-1980s, Vietnam quickly acquired the status of a low middle-income economy in 2008. These achievements further affirm Vietnam's confidence in bolder integration attempts.

In that context, the Trans-Pacific Partnership (TPP) — upon conclusion of negotiations in October 2015 — marked neither the beginning nor the end of economic integration in Vietnam. Still, the TPP carries high expectations since it represents a set of high-quality commitments which by far surpass the existing ones under the WTO and other FTAs of Vietnam. The TPP even attains greater importance at a time when Vietnam is seriously considering more focused industrial development and participation in the top-standard value chains. Nonetheless, benefits from the TPP are conditional upon Vietnam's capacity to adapt to the new "rules of games" *vis-à-vis* other TPP and non-TPP members. The slow recovery of the global economy also casts doubt over Vietnam's resilience to various kinds of external and internal shocks, which will be transmitted more rapidly via integration channels.

This article explores the major economic implications of the TPP for Vietnam.

TPP in Vietnam's Economic Integration Process

Prior to 2015, Vietnam had already achieved important milestones in economic integration. After Doi Moi, Vietnam embarked on extending and deepening economic relations with all of its partners. In the 1990s, Vietnam completed bilateral trade agreements with almost all countries and territories. However, the first key milestone only came in 1995 when Vietnam joined the Association of Southeast Asian Nations (ASEAN). Following ASEAN membership, the country participated in the ASEAN Free Trade Area (AFTA) and other FTAs under the ASEAN-plus framework. The second major milestone was the signing of the Vietnam-US bilateral trade agreement in 2000. This agreement, on the one hand, laid an important foundation with induced preparations for Vietnam before participating more deeply in the regional (FTA-based) integration and WTO process. On the other hand, this agreement enhanced Vietnam's access to the largest export

market without being discriminated against. Thirdly, Vietnam made huge negotiation attempts to join the WTO and became an official member of the organization in January 2007 (Table 1).

With the above agreements, Vietnam has created huge opportunities for promoting foreign direct investment (FDI) and exports, thereby contributing immensely to accelerating economic growth and job creation. Simultaneously, these agreements brought about material challenges for enterprises and Vietnam's economy as a whole. The largest sources of pressures under the WTO are related to institutional reforms and service sector. Meanwhile, bilateral and regional FTAs exert pressures in trade in goods via comprehensive tariff reduction within the ASEAN bloc and some ASEAN+ agreements: about 90% of tariff lines were phased out by 2015, and most of the remaining lines will decrease to 0% by 2018. As evidence, in order to fulfill WTO commitments, Vietnam had to amend and/or promulgate many laws, ordinances, and decrees related to domestic regulations (institutions), while almost all the commitments of ASEAN, ASEAN+ FTAs, and the ASEAN-Japan Comprehensive Economic Partnership Agreement have almost no effect on institutional regulations.



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TABLE 1
Status of Vietnam's FTAs by end of 2015

Milestones	Status
AFTA (ATIGA) (then AFAS; AIA/ACIA, AEC)	Signed in 1992 (ASEAN-6); Vietnam participated in 1995
Vietnam-US BTA	Signed in 2000 and implemented in 2001
ASEAN-China FTA	Signed in 2004
ASEAN-South Korea FTA	Signed in 2006; (Thailand signed in 2009)
WTO	Accession in 2007
ASEAN-Japan CEP	Signed in 2008
Vietnam-Japan CEP	Signed in 2008
ASEAN-India CEP	Signed in 2009
ASEAN-Australia-New Zealand ECP	Signed in 2009
Vietnam-Chile FTA	Signed in 2011
Trans-Pacific Partnership (TPP)	Negotiations concluded
Vietnam-European Union (EU) FTA	Negotiations concluded
Regional Comprehensive Economic Partnership (RCEP) (ASEAN+6)	Negotiations in progress
Vietnam-European Free Trade Association	Negotiations in progress
Vietnam-South Korea FTA	Signed in 2015
Vietnam-Eurasian Economic Union FTA	Signed in 2015
ASEAN-Hong Kong FTA	Negotiations in progress
Vietnam-Israel FTA	Negotiations started in December 2015

Source: Authors' compilations

TABLE 2

List of TPP chapters

No.	Name of Chapter	No.	Name of Chapter	No.	Name of Chapter
00	Preamble	11	Financial Services	22	Competitiveness and Business Facilitation
01	Initial Provisions and General Definitions	12	Temporary Entry of Business Persons	23	Development
01	National Treatment and Market Access for Goods	13	Telecommunication	24	Small and medium-sized Enterprises
03	Rules of Origin and Origin Procedures	14	E-commerce	25	Regulatory Coherence
04	Textile and Apparel	15	Government Procurement	26	Transparency and Anti-Corruption
05	Customs Administration and Trade Facilitation	16	Competition Policy	27	Administrative and Institutional Provisions
06	Trade Remedies	17	State-owned Enterprises and Designated Monopolies	28	Dispute Settlement
07	Sanitary and Phytosanitary Measures	18	Intellectual Property	29	Exception and General Provisions
08	Technical Barriers to Trade	19	Labour	30	Final Provisions
09	Investment	20	Environment		
10	Cross-border trade in services	21	Cooperation and Capacity Building		

Source: Ministry of Industry and Trade

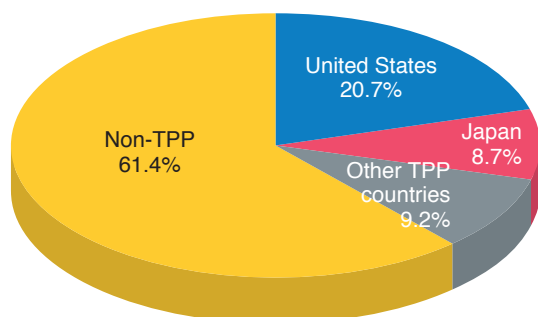
In such a context, the TPP emerges as the fourth key milestone in Vietnam's economic integration process. The TPP sets out a new standard for high-quality behind-the-border trade and investment liberalization. The major achievements under the TPP are then: (i) liberal services with "negative-list" approach; (ii) liberal investment with "negative-list" approach; (iii) liberal e-commerce; (iv) liberal data flows; (v) common, cumulative rules of origin; (vi) a regulatory coherence framework; and (vii) protection of the environment and workers' rights. The list of chapters under the TPP covers a wide range of areas, reflecting ambition in extending liberalization to areas that can potentially affect trade and investment (*Table 2*).

Major Opportunities from TPP

Given the high quality of commitments to liberalize trade and investment at both at-the-border and behind-the-border levels, the TPP is expected to bring ample benefits to Vietnam. First, the TPP itself offers a huge market of over 900 million people. Most of the TPP countries have high income (*Table 3*). At the same time, TPP countries account for 28% of global trade and 37% of world GDP. As such, once market access is enhanced under TPP commitments, Vietnam's economy may enjoy ample benefits in the form of export growth.

CHART 1

Vietnam's exports by market, 2015



Source: Authors' calculations from data of General Department of Customs

TABLE 3

Global rankings of TPP countries in GDP per capita, 2014

Ranking (out of 190 countries)	Country	GDP per capita in 2014 (\$)
6	Australia	61,925
24	Brunei	40,980
16	Canada	50,235
53	Chile	14,528
30	Japan	36,194
65	Malaysia	11,307
69	Mexico	10,326
27	New Zealand	37,897
88	Peru	6,541
9	Singapore	56,285
10	US	54,629
137	Vietnam	2,052

Note: The figure for New Zealand is for the year 2011.

Source: World Development Indicators

To a significant extent, Vietnam has already penetrated the TPP markets. The United States remains the biggest market for Vietnam, accounting for almost 20.7% of exports in 2015. Japan was the destination for 8.7% of Vietnam's exports in the same year. Meanwhile, other TPP countries altogether bought 9.2% of Vietnam's exports. With the TPP possibly leveling off the impact of Vietnam's existing FTAs (such as those with South Korea and the EU), the direction of trade will be less distorted. Accordingly, Vietnam's enterprises can be better induced to export to TPP markets. Vietnam's products with potential post-TPP export expansion are quite diverse, including textiles and garments, fisheries, footwear, and selected electronics products.

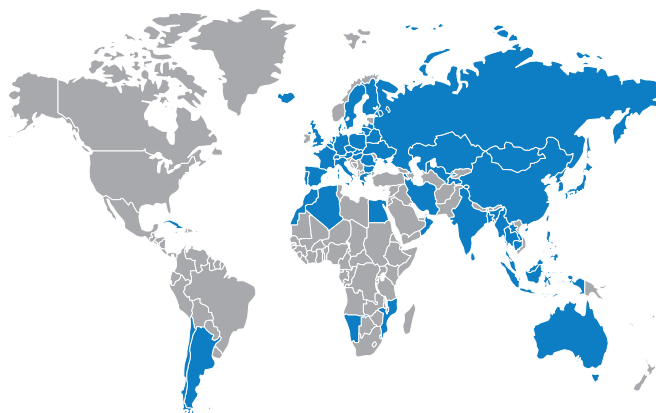
Secondly, the TPP and its anticipated export-related benefits may trigger a new wave of investment flows into Vietnam. In a direct way, foreign investors (even from non-TPP countries) need to ensure sufficient presence and meet the required rules of origin in order to enjoy preferential treatment in exporting to TPP markets. For instance, in order to enjoy the attractive 0% tariff under the TPP in exporting to the US, producers of textiles and garments need to comply with the yarn-forward rule of origin, i.e. all the inputs and materials from yarn level have to be produced in TPP countries (with few exceptions for some specified inputs that cannot be acquired within them). Given the wide-ranging and drastic tariff reduction under the TPP, investors' interest will grow. This presents a major opportunity for Vietnam to deepen its participation in the value chain.

Vietnam had already made some moves towards realizing this opportunity. The country has negotiated and signed various FTAs and bilateral investment treaties (BITs) which cover provisions on encouraging and protecting investment (*Chart 2*). The recent bilateral FTA with South Korea also enables investors from this country to come and take advantage of the upcoming TPP. In addition, Vietnam cooperated with Japan in jointly developing production bases for six industries in the former, namely: (i) food processing; (ii) electronics; (iii) agricultural machinery; (iv) environment and energy-saving industries; (v) shipbuilding; and (vi) the automotive industry. Most of these sectors, upon meeting the relevant rules of origin and technical standards, have high potential for exporting to TPP markets.

Thirdly, the TPP will induce a significant wave of behind-the-border reforms in Vietnam, which presents ample economic opportunities for the private sector. From past experience of Doi Moi since 1986,

CHART 2

Vietnam's BITs with 62 countries



Note: The blue-shaded areas cover the countries and territories that have BITs with Vietnam.
Source: Central Institute for Economic Management, Economica and ActionAid International Vietnam (2015)

institutional reforms that seek to enhance private freedom in doing business laid strong foundations for high and continuous economic growth till 2010. The pace of economic growth was more rapid during times of bolder economic reforms and integration. While economic growth in 2011-2015 was generally slower due to the adverse impacts of the global financial crisis in 2008 and the focus on domestic macroeconomic stabilization, one can hardly ignore the fact that reforms of microeconomic foundations still lacked momentum. Various big laws have been amended, such as the Enterprise Law and the Investment Law. Still, the pace and outcomes of implementation lag behind the practical needs of business environment reforms, largely due to the slow guidance, inadequate supporting resources and institutions, and inadequate coordination across agencies.

The conclusion of TPP negotiations then came at a decisive moment when Vietnam is in dire need of bolder institutional reforms. Market entry will be further relaxed with the negative-list approach to services and investment under the TPP. A range of high-quality commitments under the TPP seek to strengthen regulatory coherence, *ex ante* public consultation of draft regulations, and the increase and protection of competition, which will reduce possible distortions caused by the direct and administrative intervention of the state in market operations. Several concerns were also raised about the diminishing policy space in Vietnam due to the high level of TPP commitments, yet this will also induce the country to rethink more seriously about more policy- and regulation-based management of the economy.

The above opportunities lay the foundation for optimism over Vietnam's growth prospects after TPP membership. A quantitative assessment by Peter A. Petri and Michael G. Plummer ("ASEAN Centrality and the ASEAN-US Economic Relationship", *Policy Studies* 69, East-West Center, 2013) shows that Vietnam will benefit most (in terms of percentage increase in GDP). The projected benefits in terms of GDP increase (adjusted for price changes) would be over 10.5%

by 2025 (Table 4). More importantly, the benefits for the country appear to increase with membership and associated GDP scale of the FTA — i.e. the FTA for the whole Asia-Pacific region (FTAAP), or at least inviting some additional members to the current TPP setting, would be even more beneficial to Vietnam than the TPP. For instance, income gains for Vietnam may be equivalent to 14.34% of GDP in 2025 (adjusted for price changes) when the TPP has 16 members, and the figure could rise to 22.15% of GDP under the FTAAP. That is, the room for meaningful liberalization in Vietnam's current trade and investment framework remains ample.

As a major note, the above benefits can be larger if accompanied by market-friendly reforms. Although the TPP incorporates a set of high-quality commitments regarding at-the-border and behind-the-border regulations, merely internalizing such commitments might not work best in the absence of an appropriately friendly attitude to trade and investment facilitation. The lesson from WTO accession, of which the GDP gains were underestimated in all *ex ante* quantitative assessments, shows that institutional reforms practically add more than what the various models can capture. Embarking on improvement of the business environment under the benchmark of the World Bank's business indicators is an important step; yet it is essential to ensure that any achieved progress is self-sustaining.

Vietnam's Perceived Risks from TPP

Given the above opportunities, the risks from the TPP are often overshadowed. In fact, careful investigation of the TPP's full text and SWOT analysis of Vietnam's economy *vis-à-vis* other members affirm some major risks for the country. First, low competitiveness may actually deter Vietnam from realizing potential gains under the TPP. The list of products where Vietnam currently enjoying comparative advantages hardly changes over time; such a list includes textile and garments, footwear, selected fishery products, and other natural-resource-intensive products. More importantly, the country only

TABLE 4

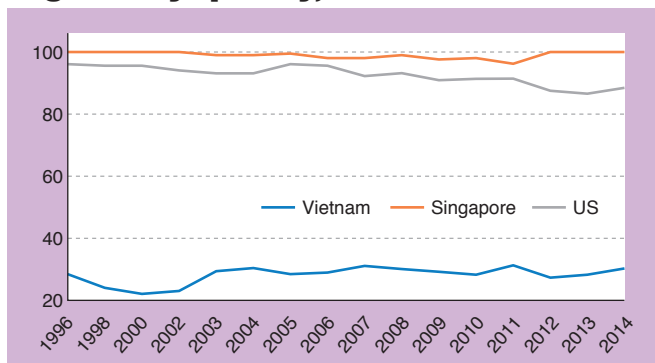
Projected income gains under different TPP and RCEP scenarios

Economy	GDP 2025 (bil. 2007 dollars)	Income gains (bil. 2007 dollars)				Percentage change from baseline			
		TPP12	TPP16	RCEP	FTAAP	TPP12	TPP16	RCEP	FTAAP
America	24,867	101.70	160.80	2.50	412.40	0.41	0.65	0.01	1.66
Canada	1,978	8.70	12.40	-0.10	29.70	0.44	0.63	0.00	1.50
Chile	292	2.50	3.50	0.00	7.60	0.86	1.20	0.00	2.61
Mexico	2,004	9.90	31.20	2.80	73.70	0.50	1.56	0.14	3.68
Peru	320	3.90	5.40	0.00	6.20	1.22	1.69	0.02	1.93
US	20,273	76.60	108.20	-0.10	295.20	0.38	0.53	0.00	1.46
Asia	34,901	125.20	299.80	627.00	1,658.60	0.36	0.86	1.80	4.75
Brunei	20	0.20	0.40	1.20	1.60	0.95	1.84	5.85	7.64
Japan	5,338	104.60	128.80	95.80	227.90	1.96	2.41	1.79	4.27
Malaysia	431	24.20	30.10	14.20	43.50	5.61	6.98	3.29	10.09
Singapore	415	7.90	12.30	2.40	18.10	1.90	2.97	0.58	4.37
Vietnam	340	35.70	48.70	17.30	75.30	10.52	14.34	5.10	22.15
Other ASEAN	83	-0.40	-0.50	1.60	3.50	-0.42	-0.58	1.88	4.19
Oceania	1,634	10.70	14.60	21.70	36.50	0.65	0.89	1.33	2.23
Australia	1,433	6.60	9.80	19.80	30.10	0.46	0.68	1.38	2.10
New Zealand	201	4.10	4.70	1.90	6.40	2.02	2.36	0.92	3.16
World	103,223	223.40	450.90	644.40	2,279.60	0.22	0.44	0.62	2.21
<i>Memorandum</i>									
ASEAN	13,208	62.20	217.80	77.50	230.70	0.48	1.67	0.59	1.77

Note: FTAAP: Free Trade Area of Asia-Pacific; RCEP: Regional Comprehensive Economic Partnership. TPP12 includes the current 12 members of TPP plus South Korea, Indonesia, the Philippines and Thailand.
Source: Extracted from Petri and Plummer (2013)

CHART 3

Percentile ranking in terms of regulatory quality, 1996-2014



Source: *Worldwide Governance Indicators*

progresses modestly in building dynamic comparative advantage. Calculations by Nguyen et al. (“Assessing the Impacts of the Regional Comprehensive Economic Partnership on Vietnam’s Economy”, Activity-ICB 8, Multilateral Trade and Investment Project, 2014) show that the share of export products, of which the revealed comparative advantage (RCA) is increasing from below unity, has been improved; yet such progress may not continue, or may even be reversed, in the presence of fierce competition under the TPP (Table 5). This concern has been further exacerbated recently as Vietnam’s livestock suffer from the massive inflows of similar products from Australia and the US. Eventually, some economic sectors in Vietnam may fail; but the magnitude of impacts is highly dependent upon whether Vietnam can swiftly relocate resources (especially labor) in those sectors to more promising ones.

Secondly, Vietnam may suffer from low adaptation to new rules under the TPP. Already, understanding the full text of the TPP for meaningful comments is no easy task, not to mention implementation. Making preparations to effectively implement the TPP might be constrained by the relative inflexibility of the law-making agencies, even in internalizing the commitments. As an instance, notwithstanding the revised laws in line with TPP commitments (such as the Enterprise Law and Investment Law), the guiding documents came out after the laws took effect. Even so, legal enforcement remains influenced by the “ask-give” administrative mechanism, heavily subject to perceptions and interpretations of laws and regulations by state administrative management agencies. This issue continues to undermine regulatory quality in Vietnam, which lags far behind those of other TPP countries (Chart 3). More fundamentally, if the laws and regulations still subject private economic activities to management capacity, the inducement to private entrepreneurship and creativity will be constrained.

Thirdly, Vietnam may encounter a sizeable challenge in harmonizing the TPP with other FTAs. When the TPP takes effect on its own, the trade diversion effect may theoretically be profound. Accordingly, Vietnam’s trade structure by country and territories could be significantly altered. However, such a trade diversion impact may actually be hampered, given the completion of 10 negotiation rounds and four ministerial meetings for the RCEP — in which China as the major production house remains active. This is not to mention the FTAAP — on which a feasibility study has been instructed by APEC leaders for completion by 2016. As Vietnam is likely to join or implement the RCEP and FTAAP at some stage, harmonizing the

TABLE 5

Share of Vietnam’s exports by RCA grouping, 2009-2012 (%)

	2009	2010	2011	2012
$RCA_{2012} > 1$	64.38	66.04	64.71	62.16
$RCA_{2012} < 1$ and $RCA_{2012} > RCA_{2009}$	20.24	22.74	23.13	25.64
$RCA_{2012} < 1$ and $RCA_{2012} < RCA_{2009}$	18.89	14.45	15.65	15.04

Note: The subscripts denote the years for which RCAs are calculated.

Source: *Nguyen et al. (2014)*

existing TPP commitments and those under the RCEP/FTAAP to avoid the well-documented “spaghetti bowl” syndrome will play a crucial role. Yet given wider membership, the RCEP and FTAAP may be less likely to attain high-quality regulations. Therefore, a RCEP- and/or FTAAP-centered approach may merely divert Vietnam’s attention to the much needed reforms which would otherwise be induced by the TPP.

Conclusion

Vietnam is at a decisive point for transforming the paradigm/pattern of development by establishing foundations to overcome the “middle-income trap”. The existing growth paradigm, which has sourced economic growth since the 1990s, has lost momentum. Meanwhile, the restructuring of the economy — initiated in 2012 — has produced hardly any breakthrough simply on the basis of domestic force. As such, bringing in the impetus for reforms from external pressure, by means of ambitious FTAs, appears unavoidable.

Given the high-quality commitments towards deeper integration alongside inducement of domestic reforms, the TPP offers hope for Vietnam to return to the trajectory of high and sustained economic growth. Nonetheless, the interactions between domestic reforms and deeper integration attempts (such as the RCEP and FTA with the EU) will become much more profound and more complicated. Meanwhile, deeper and more binding commitments on trade and investment liberalization also reduce the policy space for Vietnam to support domestic industries. Concerns, therefore, increase with regard to Vietnam’s handling of post-TPP challenges, especially in terms of competitiveness, adaptation to new rules, and harmonization of integration tracks.

Yet the question of whether Vietnam should join the TPP or not is no longer justified. Instead, one should ask if there is any alternative for the country to meet its aspiration for quality growth — and the answer is none. Vietnam may encounter some material challenges in deeper integration and reforms, but such efforts may also open up the opportunity for the country’s next economic breakthrough. The key issues are to realize the people’s potential, institute reforms and promote innovation to viably adapt and rise further in a changing world and region.

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