

Vietnam Economy:

FTAs and Impacts

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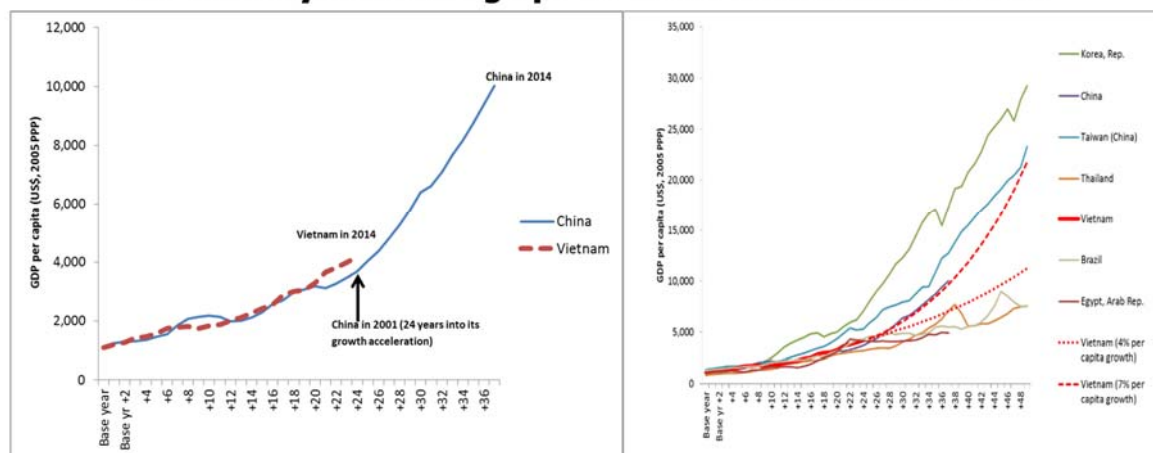
30 Years of Doi Moi and Integration

- **Impressive achievements**
 - VN became a (low-) middle income (GDP/pc 1990: <USD 100; 2014: USD 2050 in 2014; GSO-WB poverty incidence 1993: 57%; 2014: 13%)
 - VN became more industrialized (Agriculture share of GDP 1991: 41%; 2014: 18%)
 - VN became a very open economy (Economic openness 2014: $(X+M)/GDP \approx 160.2\%$; FDI sector: 20.1% GDP; >65% export value; 21.7% of total investment)
- **... but not outstanding:** Still low quality of growth (inefficient SOE sector and public investment; high business costs; distorted production factor markets); limited spill-over from FDI; weak position in the global/regional value chains; widening income/asset gap; polluted and deteriorated environment

■ and challenges

- Getting out of “low cost labour trap” and laying down fundamental foundations for overcoming “middle-income trap”?
- Achieving (rather) high economic growth while ensuring social and environmental sustainability?

On the way of catching up: VN vs. some other economies



Source: Penn World Tables 8.0.

- **International (economic) integration** is an integral part of Doi Moi (together with market-oriented reforms. They are reinforced each other)
 - Milestones: Unilateral liberalization in the earlier 1990s; ASEAN membership and VN-US relation normalization 1995; APEC 1998; VN-US BTA 2000; WTO membership 2007; FTAs, especially AEC, TPP; VN-EU FTA; RCEP)
 - “3 pillars”: (1) The world & WTO; (2) Dynamic Asia Pacific region (2 tracks: ASEAN integration & AEC → ASEAN + 1 FTAs → RCEP; VN-US BTA → TPP); Bilateral comprehensive/strategic cooperation (with the major partners; beyond the economic, trade, and investment arrangements)

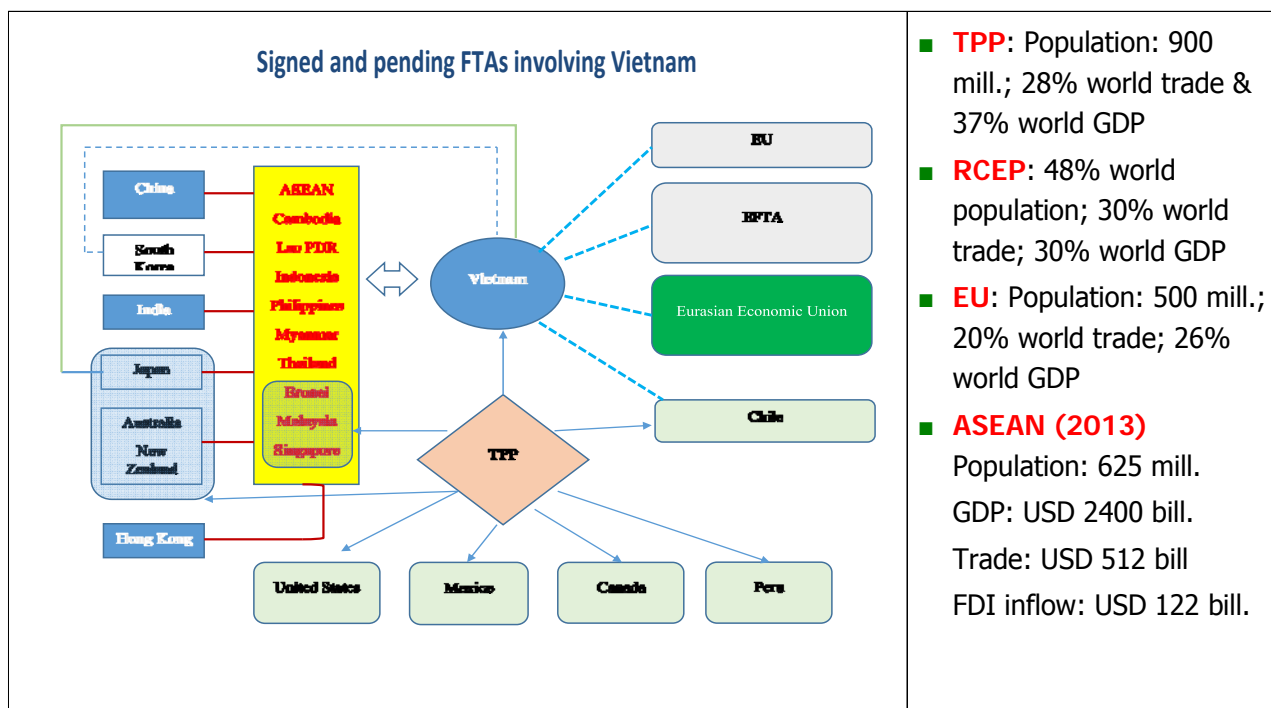
FTAs and Impacts on Vietnam Economy

<i>Milestones</i>	<i>Status</i>
AFTA (ATIGA) (then AFAS; AIA/ACIA, AEC)	Signed in 1992 (ASEAN-6); Vietnam participated in 1995
<i>Vietnam - US BTA</i>	Signed in 2000 and implemented in 2001.
ASEAN – China FTA	Signed in 2004
ASEAN – Korea FTA	Signed in 2006; (Thailand signed in 2009)
<i>WTO</i>	<i>Accession in 2007</i>
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)	Negotiation concluded
Vietnam – European Union (EU) FTA	Negotiation concluded
Regional Comprehensive Economic Partnership (RCEP) (ASEAN+6)	Negotiation in progress
Vietnam-European Free Trade Association	Negotiation in progress
Vietnam – Korea FTA	Signed in 2015
Vietnam - Eurasian Economic Union FTA	Signed in 2015
ASEAN- Hong Kong FTA	Negotiation in progress

■ Rational for joining FTAs

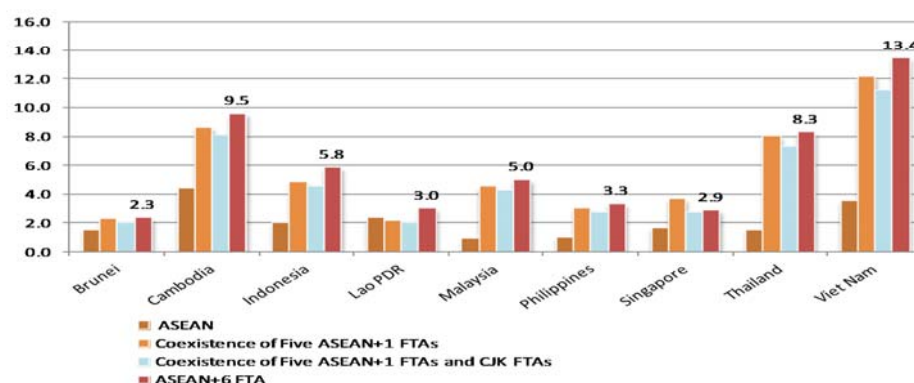
- Expansion of and easier access to major markets
- Expansion of investment (especially FDI)
- A pressure/catalyst for institutional reforms & improvement of business environment (Esp. TPP & VN-EU FTA)
- Geo-political considerations (TPP offers an environment to test Vietnam's capacity in handling and advancing, both economically and institutionally, through the complexities in relation with the key partners)

- **TPP** (Petri & Phuc 2015): *Big achievements...*
 - Liberal services with "negative list"
 - Liberal investment with "negative list"
 - Liberal e-commerce
 - Liberal data flows
 - Common, cumulative rules of origin
 - Regulatory coherence framework ("behind the border" regulations)
 - Protection of environment, worker rights
- *...with compromises:* Market access (autos, agriculture); IPRs, especially pharma; Long phase-in periods; and maybe *hidden exceptions*?
- Despite challenges and several technical issues, the commitments under FTAs, especially TPP & VN-EU FTA, basically consistent with the reforms VN would like to and/or should follow in her new stage of development)



■ Impacts on VN economy (Some estimations: very significant)

Economic Impacts of Development of ASEAN++ FTA (RCEP)



Note: Cumulative Percentage Point, deviation from baseline, 2011-15; NA for Myanmar due to data availability. *Source:* Itakura (2013)

Impacts of TPP on GDP and export

	Impact on GDP			Impact on export		
	GDP 2025 (USD bill. 2007)	Change (USD bill. 2007)	%- change compared to base scenario	Export 2025 (USD bill 2007)	Change (USD bill 2007)	%- change compared to base scenario
America	24,867	101.7	0.41	4,163	166.1	4.0
United States	20,273	76.6	0.38	2,813	123.5	4.4
Asia	34,901	125.2	0.36	10,403	186.6	1.8
Japan	5,338	104.6	1.96	1,252	139.7	11.2
Malaysia	431	24.2	5.61	336	40.0	11.9
Singapore	415	7.9	1.90	712	-4.0	-0.6
Viet Nam	340	35.7	10.52	239	67.9	28.4
Australasia	1,634	10.7	0.65	392	15.2	3.9

Source: Petri and Plummer (2013)

Income gains in TPP, EVFTA, & RCEP

	Projected 2025 (\$b)	Change in 2025 (\$b)			Change in 2025 (%)		
		TPP	EVFTA	RCEP	TPP	EVFTA	RCEP
Real income							
United States	20,273	77	0	0	0.4	0.0	0.0
Vietnam	340	36	19	17	10.5	5.5	5.1
WORLD	103,223	223	26	644	0.2	0.0	0.6
Exports							
United States	2,813	123	0	-4	4.4	0.0	-0.1
Vietnam	239	68	37	30	28.4	15.6	12.5
WORLD	28,415	305	44	1,383	1.1	0.2	4.9

Source: Cited in Petri & Phuc (2015)

- The simulations may over-estimate the actual (net) benefits due to: (i) the overlapping of FTAs; and (ii) maximal liberalization commitments may not happen in practice
- But the benefits could also be larger since the domestic (institutional) reforms accompanying the implementation of FTAs are hardly captured in the model-based quantitative analysis

(Note: Most quantitative assessments underestimated the impacts of VN-US BTA and WTO membership on VN's trade and GDP growth. The outcomes of income gap even have been less certain)

■ Some observations (so far)

- (Nearly) all key trading partners & investors are in FTAs. There are also many industries under cooperation (i.e. VN-Japan: 6 sectors)
- A surge of FDI: since 2013 billions of USD have been invested in T&G and electronic sectors, taking advantages of market access, ROOs; production networks)
- It is expected that US will become No 1 investor in VN

■ There are also new opportunities for investments in many sectors/industries

- Exports of those sectors having comparative advantages (T&G, footwear, furniture, rice, coffee, aquaculture,..) (Note: ASEAN and VN are considered as a resource-based economies)
- Consumption goods (distributions; pharmacy; tourism & entertainment)
- Infrastructure and real estate development
- Logistics (ASEAN MPAC and APEC connectivity)
- Participation (esp. of SMEs) in production networks/industrial clusters led by TNCs (development of supporting industries & business-link services)
- Emerging new sectors: "green" industry; IT ("smart") and e-commerce; creative industry

Concluding remarks

- VN is at a **decisive point of time for transforming the paradigm/pattern of development** by establishing foundations for overcoming “middle-income trap”
- VN needs to have a **new impetus for reforms**. Interaction between domestic reforms and integration (TPP; RCEP; VN-EU FTA;...) becomes much more profound
- **The key issue is to realize the people’s potentials, institutional reforms and promote innovation** (together with taking advantages and minimizing risks in context of integration deepening and a changing world and region)



Thank you!