

# **Vietnam Economy:**

## **FTAs and Impacts**

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# 30 Years of Doi Moi and Integration

## ■ Impressive achievements

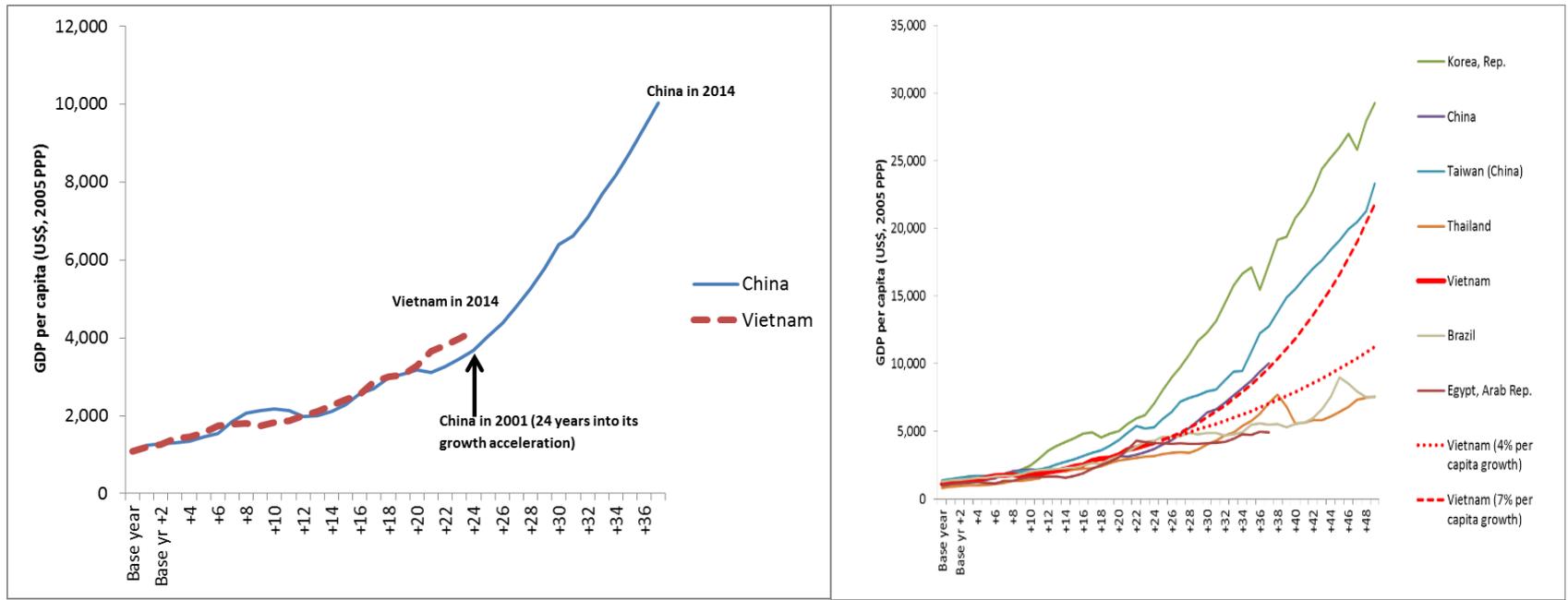
- VN became a (low-) middle income (GDP/pc 1990: <USD 100; 2014: USD 2050 in 2014; GSO-WB poverty incidence 1993: 57%; 2014: 13%)
- VN became more industrialized (Agriculture share of GDP 1991: 41%; 2014: 18%)
- VN became a very open economy (Economic openness 2014:  $(X+M)/GDP \approx 160.2\%$ ; FDI 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

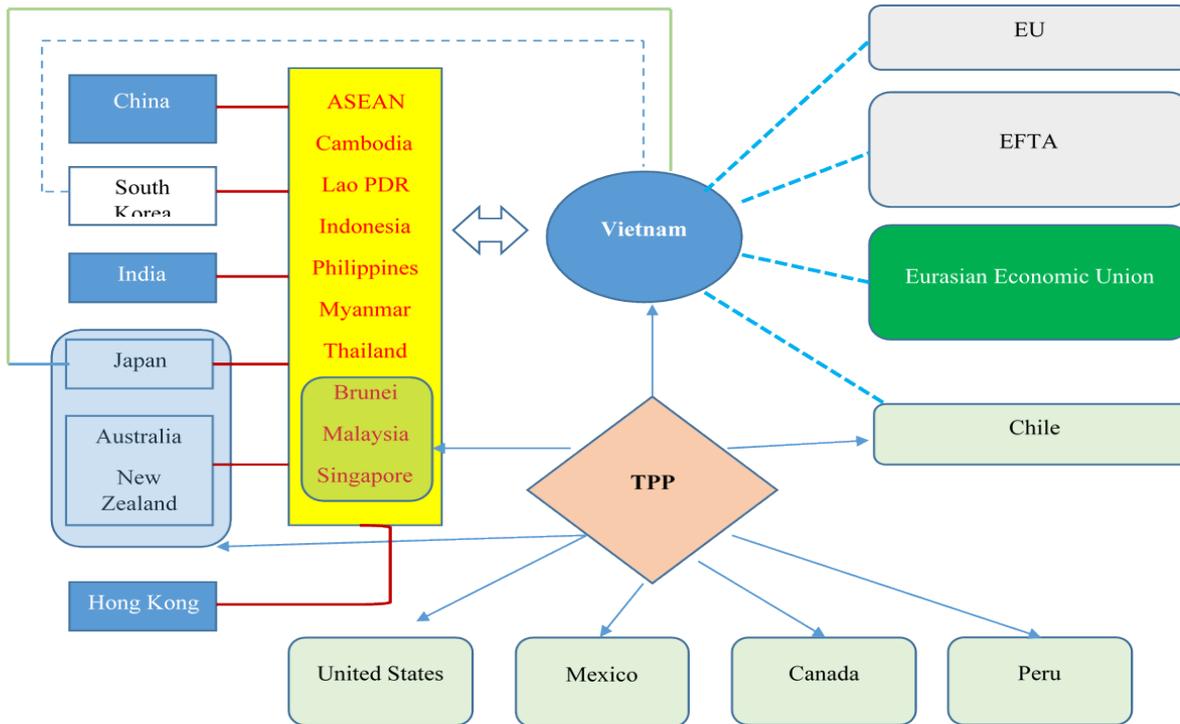
<i>Milestones</i>	<i>Status</i>
AFTA (ATIGA) (then AFAS; AIA/ACIA, AEC)	Signed in 1992 (ASEAN-6); Vietnam participated in 1995
<i>Vietnam - US BTA</i>	Signed in 2000 and implemented in 2001.
ASEAN – China FTA	Signed in 2004
ASEAN – Korea FTA	Signed in 2006; (Thailand signed in 2009)
<i>WTO</i>	<i>Accession 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)

- 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)

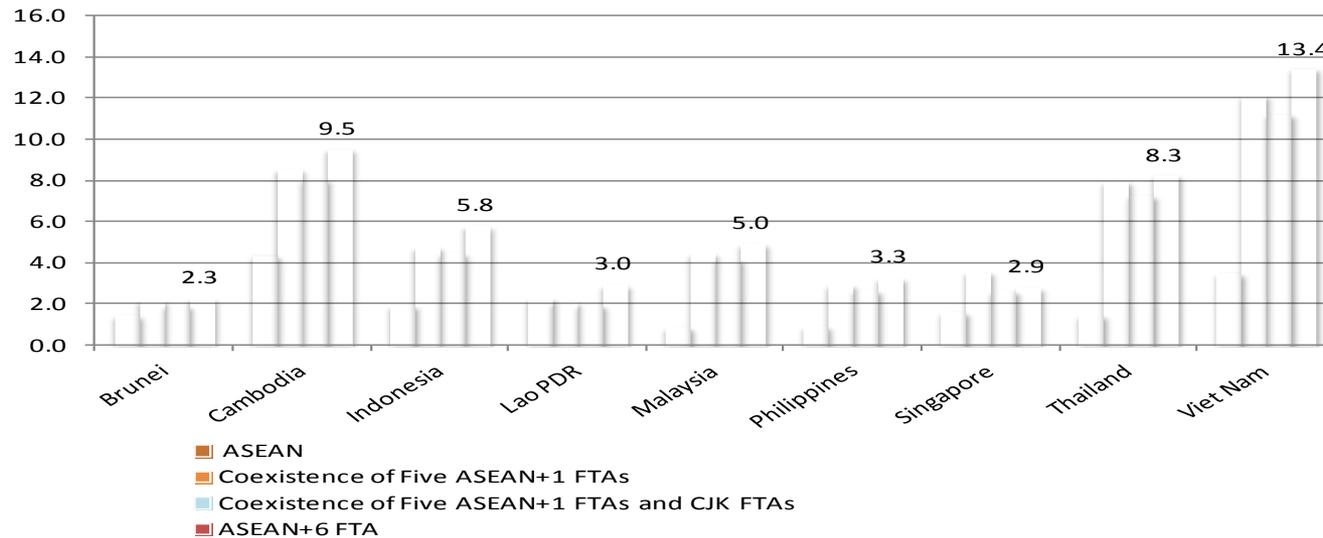
## Signed and pending FTAs involving Vietnam



- **TPP**: Population: 900 mill.; 28% world trade & 37% world GDP
- **RCEP**: 48% world population; 30% world trade; 30% world GDP
- **EU**: Population: 500 mill.; 20% world trade; 26% world GDP
- **ASEAN (2013)**  
Population: 625 mill.  
GDP: USD 2400 bill.  
Trade: USD 512 bill  
FDI inflow: USD 122 bill.

■ **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
<b>America</b>	<b>24,867</b>	<b>101.7</b>	<b>0.41</b>	<b>4,163</b>	<b>166.1</b>	<b>4.0</b>
United States	20,273	76.6	0.38	2,813	123.5	4.4
<b>Asia</b>	<b>34,901</b>	<b>125.2</b>	<b>0.36</b>	<b>10,403</b>	<b>186.6</b>	<b>1.8</b>
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
<b><i>Viet Nam</i></b>	<b><i>340</i></b>	<b><i>35.7</i></b>	<b><i>10.52</i></b>	<b><i>239</i></b>	<b><i>67.9</i></b>	<b><i>28.4</i></b>
<b>Australasia</b>	<b>1,634</b>	<b>10.7</b>	<b>0.65</b>	<b>392</b>	<b>15.2</b>	<b>3.9</b>

Source: Petri and Plummer (2013)

- 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!*