

# Advances & Challenges in Regional Integration of Vietnam

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# Pivotal Policies

- New cabinet for 2016-2020 is already formed
- Pivoted to the trade-based economy on ground of FTAs i.e. AEC; VKFTA; EAEU; EVFTA; TPP;
- The government continued with banking sector reform at new phase with institutional strengthening i.e. Basel II standard approach
- Fiscal account remains deficit due to trade tariffs cut; ambitious infrastructure investment plans; increasing social welfare program

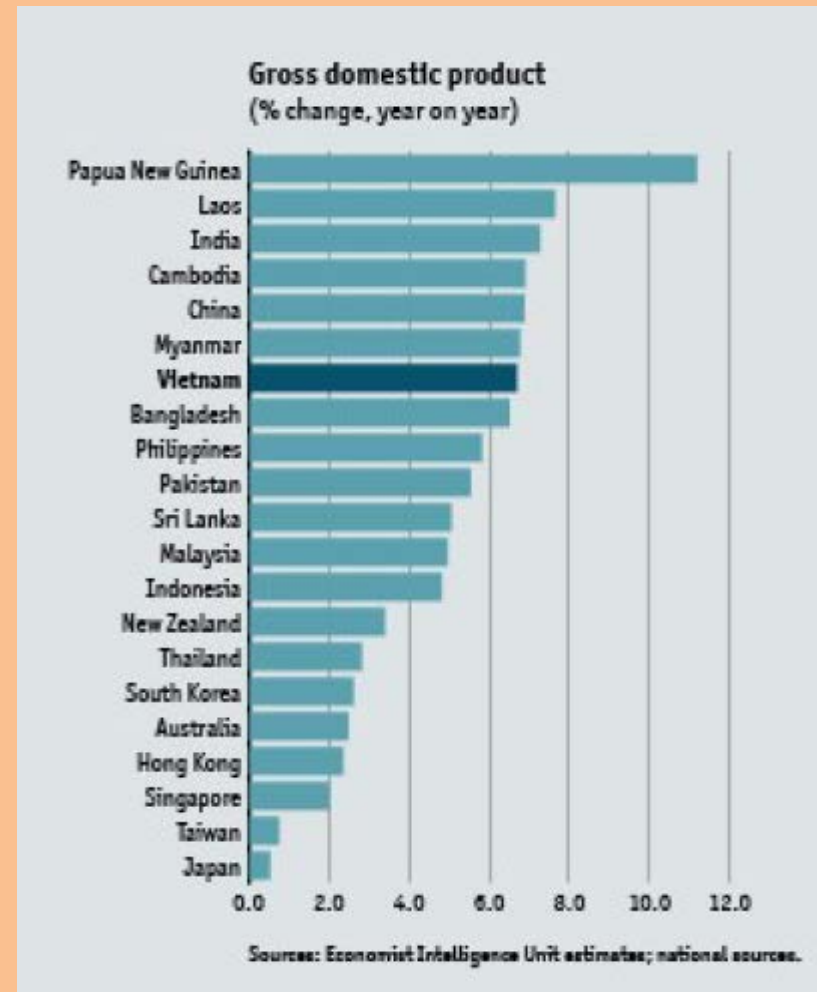
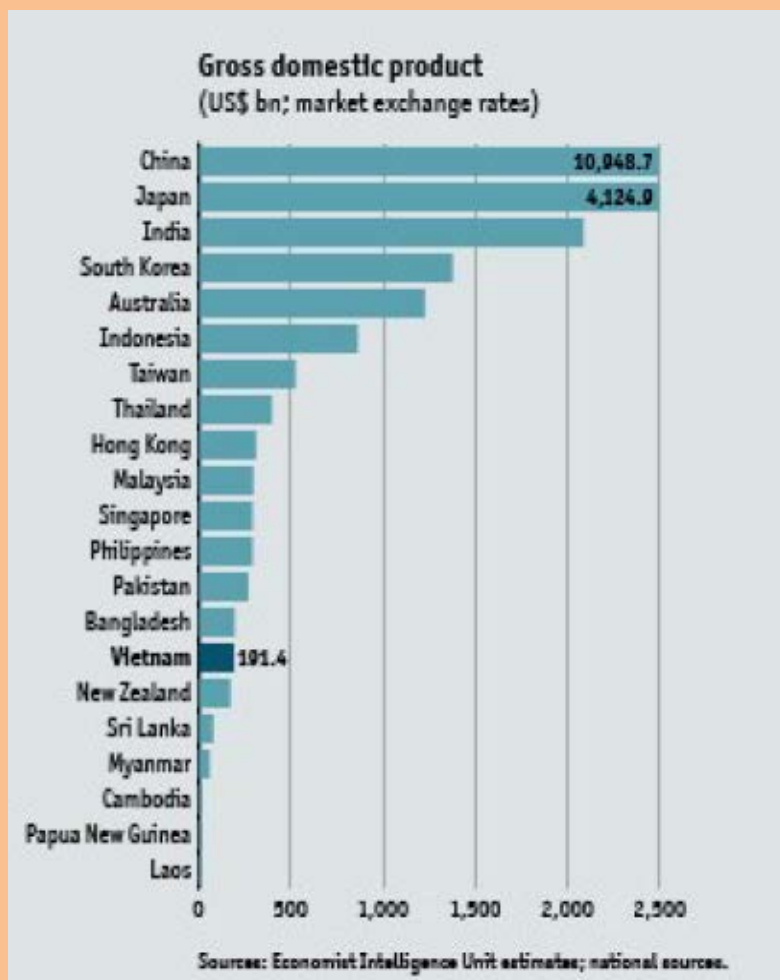
# Economic Outlook

- Slow GDP growth for the 2016 but soon recovery in 2017-18 due to stronger external demand. Export continues to be main source of growth for Vietnam. Vietnam will benefit from the migration of low-cost export manufacturing from China by its participation in key trade deals
- The value of merchandise exports will grow rapidly as external demand picks up, albeit unevenly in 2016-20. Productivity growth will be strong, supported by the growth of non-oil export industries.
- However, Vietnam's current-account balance will fall back into deficit in 2017 on the back of rapid import growth.

# Integration: A regional linkage trend

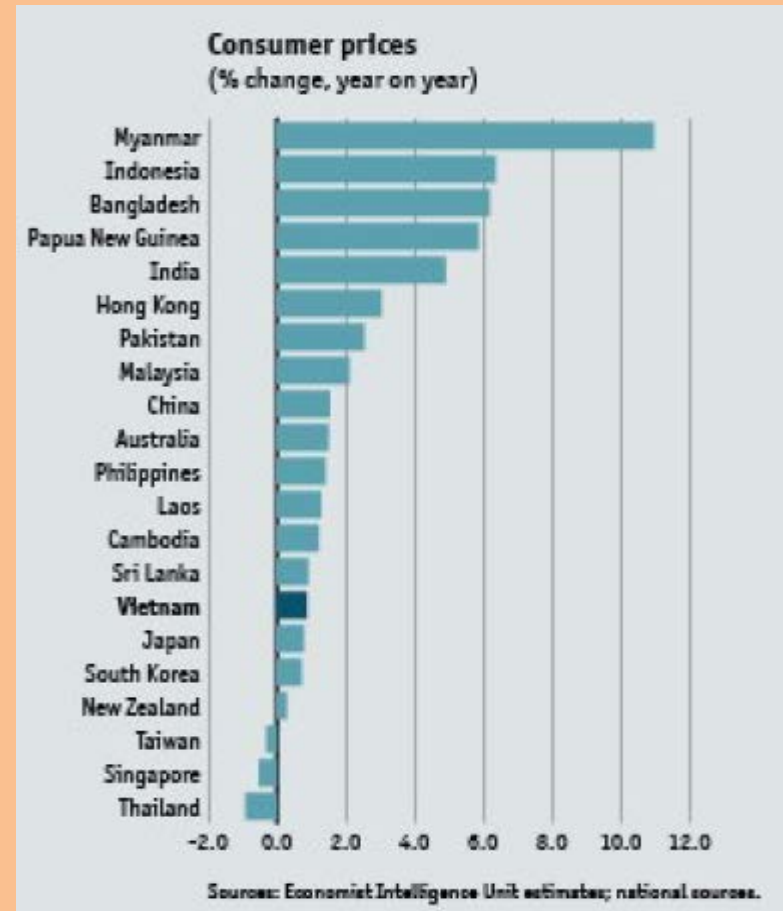
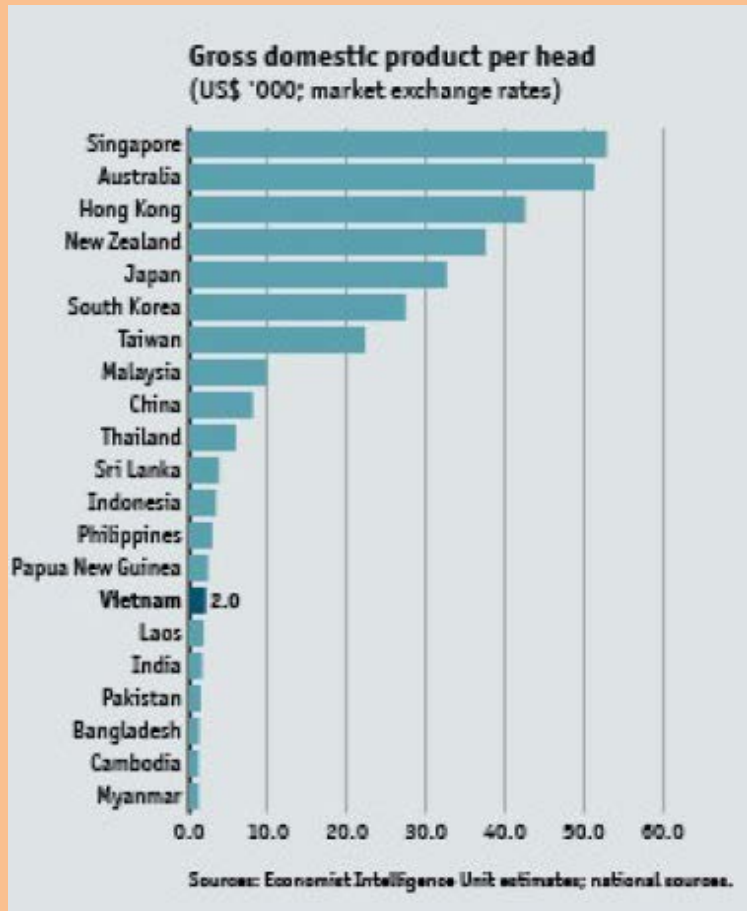


# Regional Linkage: Size of the Economies



Source: EIU \_Country Report May 2016

# Regional Linkage: Wealth Comparison



Source: EIU Country Report \_ May 2016

# Advances In Regional Integration of Vietnam

- Vietnam is at golden population structure period in which 70% under 35 is better-trained, and higher educated;
- Continuity policy of new cabinet for more-opened economy in terms of:
  - Completing the 3 pillars economy restructuring plan in 2015;
  - Joining various FTAs to make use of current advantages;
  - Still a key candidate for the China + 1 policy in terms of FDI flows;
- Stronger and more responsible player in ASEAN to receive attraction of the U.S's the Asia Pacific pivotal policy
- Member of new group named as MITI-V (spelling Mighty Five incl. Malaysia, India, Thailand, Indonesia, and Vietnam) to replace the decreasing-power BRICS.

# Advances In Regional Integration of Vietnam

- As result:
  - Surpassing from low-income to medium-income economy in 2010 with the main drivers from export industries and FDI projects;
  - New global production hub for electronic, computers, and mobile phone devices with the FDI investments from Samsung, LG, Microsoft, Foxconn, Intel..
  - New global center for textiles and garment production as well as other labor intensive industries
  - Will become a new paradise for startups enterprises



# Challenges In Regional Integration of Vietnam

- ***Medium-income trap***

- The population will soon move out of the golden to the aging;
- Low level of Total Factor Productivity (TFP) in the driving sources.
- Better ICOR (Incremental Capital Output Ratio) but still lower than China (and Japan at 70's);
- Less diversified credit channels. 80% of economy credit from traditional (banking) credit while capital market plays minor role.

# Challenges In Regional Integration of Vietnam

- ***Winner or Loser of the Integration?***: Many disputes over who will benefit from deeper-penetrated economy since local enterprises lose domestic market share. As can be seen;
  - FMCG industries with Thai; Japan companies;
  - Cement Industries: Indonesia Enterprises
  - Agriculture market of China wholesalers;
  - Steel industry in the hand of Taiwanese Formosa;
  - Auto & Motorbike industries under control of Japanese manufacturers and Thai exporters;

# Challenges In Regional Integration of Vietnam

- ***Environmental problem:*** labor-intensive and heavy industries from the FDI projects. i.e. steel, hydropower generators; textiles companies causes a lot of toxics to the environment such as air, land, lakes, sea.
- ***Security challenges for development:*** territorial disputes in the Est Sea (south china sea); the Yellow Sea will push the ASEAN into segregation due to less trust and lower co-operation.

## Policy recommendations

- ***Pivoted to first-class FTA:*** lessons show that working with original-tech economy brings a lot of opportunities for the receiving economy. The TPP, with high-standard FTA, will push Vietnamese economy to restructure to better-fitted. While FTA with China might open the gate for low-technology i.e. heavy industries to spill-over

## Policy recommendations

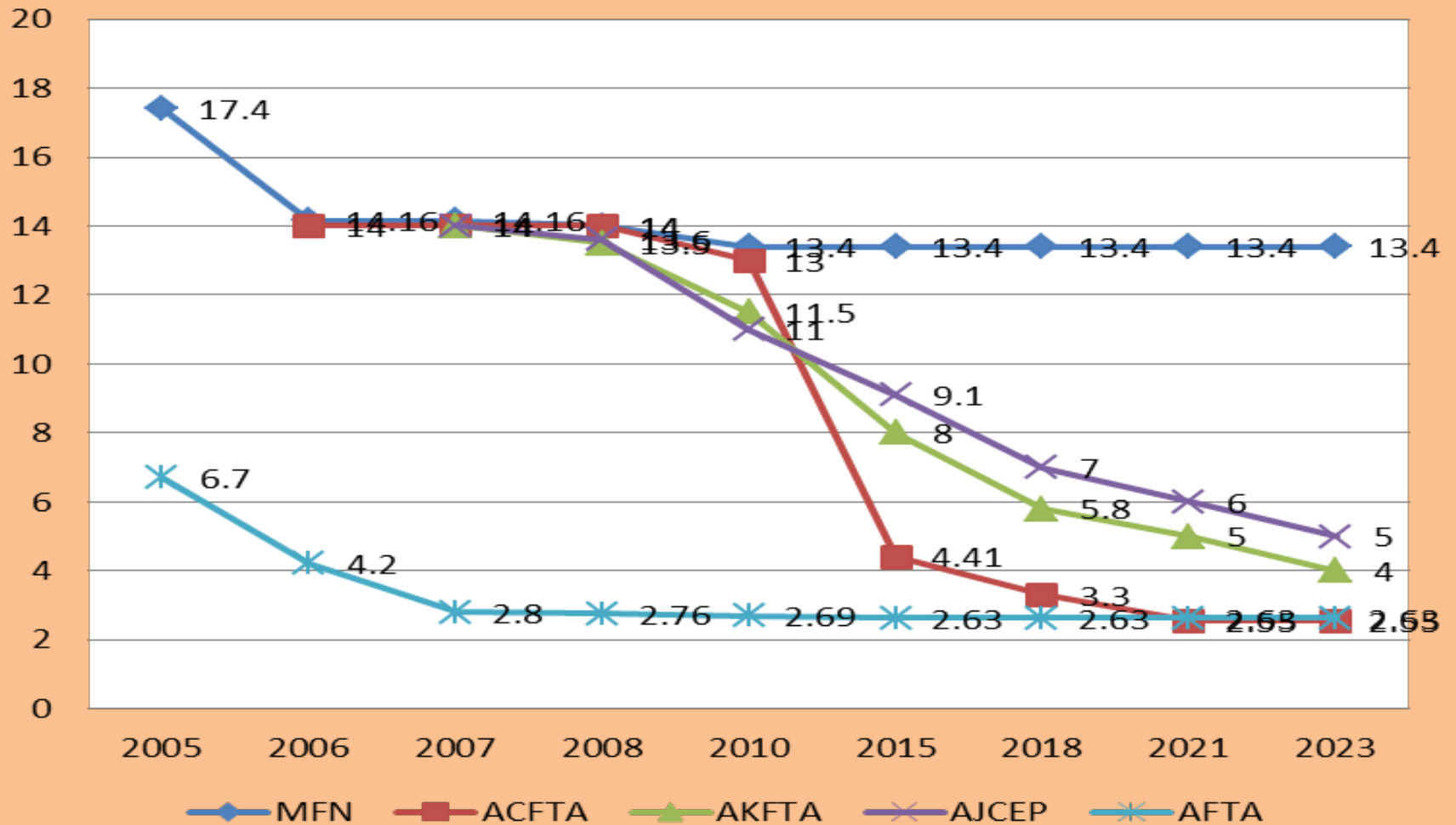
- ***Improve work-force skills & support stronger labor union:*** Elevated educated work force will improve the TFP for a long-term growth;
- ***Continuing with preferential national policies for startups:*** Stronger local private enterprises to compete with foreign counterparts will help Vietnamese citizen to enjoy the benefit of economic integration

Thank you for listening

# Current FTAs

- FTA ASEAN-China (2002)
- FTA ASEAN-Korea (2006)
- FTA ASEAN-Japan (2008)
- FTA ASEAN-Australia-New Zealand (2009)
- FTA ASEAN-India (2009)
- FTA Vietnam – Japan (2009)
- FTA Vietnam – Chile (2011)
- FTA Vietnam – Korea (2014)
- FTA Vietnam – Russia, Kazakhstan, Belarus (2014)
- TPP
- FTA Vietnam – EU (EVFTA)
- FTA Vietnam – Switzerland, Iceland, Norway and Liechtenstein (EFTA)
- RCEPT

# Tariff-cut plans for current FTAs





# Leading Markets & Suppliers

Major exports 2015	% of total
Telephones & mobile phones	18.6
Textiles & garments	14.1
Computers & electronic products	9.6
Footwear	7.4

Leading markets 2015	% of total
US	21.2
China	13.3
Japan	8.4
South Korea	5.5

Major imports 2015	% of total
Machinery, equipment & tools	16.6
Electronics, computers & related parts	13.9
Telephones, mobile phones & related parts	6.4
Fabrics	6.1

Leading suppliers 2015	% of total
China	34.4
South Korea	14.3
Singapore	6.6
Japan	6.5

## TPP: 21<sup>st</sup> century/Comprehensive/High standard Agreement

- **Wide coverage:** Goods market Access; Agriculture market Access; Textile and Apparel; Custom/trade facilitation; Rules of origin; Technical barriers to Trade; Services; Investments; Financial services; Telecommunication; E-commerce; IPR; GP; Competition/SOEs; Labor; Environment....
- **High level of liberalization and commitment;**
  - To improve rules for business behind the border;
  - Balanced liberalization to address comparative advantage of emerging and advance markets- agriculture; manufactured goods, services, investment, IPR.

# Impacts of TPP on its members

	<b>Population (million)</b>	<b>GDP (\$billion)</b>	<b>VN exports (\$billion)</b>
<b>Australia</b>	<b>23.2</b>	<b>1,505</b>	<b>3.509</b>
<b>Brunei</b>	<b>0.4</b>	<b>16</b>	<b>0.017</b>
<b>Canada</b>	<b>35.1</b>	<b>1,825</b>	<b>1.544</b>
<b>Chile</b>	<b>17.6</b>	<b>277</b>	<b>0.219</b>
<b>Japan</b>	<b>127.3</b>	<b>4,902</b>	<b>13.630</b>
<b>Malaysia</b>	<b>29.6</b>	<b>312</b>	<b>4.922</b>
<b>Mexico</b>	<b>118.4</b>	<b>1,259</b>	<b>0.889</b>
<b>New Zealand</b>	<b>4.5</b>	<b>181</b>	<b>0.274</b>
<b>Peru</b>	<b>30.9</b>	<b>207</b>	<b>0.100</b>
<b>Singapore</b>	<b>5.4</b>	<b>296</b>	<b>2.655</b>
<b>US</b>	<b>316.4</b>	<b>16,800</b>	<b>23.841</b>
<b>Vietnam</b>	<b>89.7</b>	<b>171</b>	
	<b>Total VN Exports to TPP</b>		<b>51.604</b>
	<b>Total VN Export</b>		<b>132.032</b>

*Source: Population, GDP data from IMF, WEO, April 2014;  
Export data from GSO, Vietnam*

# Impacts of TPP on Vietnam

	GDP 2025	Income gains (\$bill)		% of baseline	
		TPP11	TPP11 + Japan	TPP11	TPP11 + Japan
United States	20,273	23.9	76.6	0.1	0.4
Japan	5,338	-1.2	104.6	0.0	2.0
Vietnam	340	26.2	35.7	7.7	10.5
WORLD	103,223	74.5	223.4	0.1	0.2

*Source: Peter A.Petri; The TPP and its impact on Vietnam's economy; March 2013*

# Impacts of TPP on Vietnam

	Baseline	Change in exports \$bill.		
	2025	TPP-12	RCEP	FTAAP
<b>Primary products</b>	<b>22.9</b>	<b>-2.8</b>	<b>0.5</b>	<b>-3.7</b>
Rice	2.4	-0.2	0.1	-0.2
Wheat	0.0	0.0	0.0	0.0
Other agriculture	6.5	-1.3	0.4	-1.4
Mining	14.0	-1.3	0.1	-2.1
<b>Manufactures</b>	<b>207.4</b>	<b>71.5</b>	<b>28.8</b>	<b>142.8</b>
Food, beverages	5.9	-0.9	-0.3	-1.6
Textiles	26.0	12.9	5.0	30.1
Apparel, footwear	113.0	51.9	19.5	106.4
Chemicals	8.8	0.0	1.3	2.0
Metals	5.2	-0.1	0.0	-0.6
Electrical equipment	6.6	1.1	1.0	1.3
Machinery	14.4	2.0	1.7	3.0
Transport equipment	3.2	0.2	0.5	0.5
Other manufactures	24.2	4.3	0.2	1.7
<b>Services</b>	<b>8.6</b>	<b>-0.8</b>	<b>0.5</b>	<b>-1.5</b>
Utilities	0.0	0.0	0.0	0.0
Construction	1.2	0.0	0.7	0.4
Trade, transport, comm.	2.3	-0.3	0.1	-0.4
Private services	5.1	-0.5	-0.2	-1.4
Public services	0.1	0.0	0.0	0.0
<b>Total</b>	<b>239.0</b>	<b>67.9</b>	<b>29.9</b>	<b>137.7</b>

Three largest

	Baseline	Change in imports in 2025, \$bill.		
	2025	TPP-12	RCEP	FTAAP
<b>Primary products</b>	<b>9.5</b>	<b>2.7</b>	<b>0.8</b>	<b>4.3</b>
Rice	0.0	0.0	0.0	0.0
Wheat	0.5	0.0	0.0	-0.1
Other agriculture	7.8	2.5	0.8	4.1
Mining	1.2	0.2	0.0	0.3
<b>Manufactures</b>	<b>210.9</b>	<b>49.8</b>	<b>25.1</b>	<b>103.6</b>
Food, beverages	13.1	2.6	1.3	5.1
Textiles	41.7	18.4	8.0	40.6
Apparel, footwear	3.5	2.8	1.3	7.4
Chemicals	49.6	9.3	4.7	18.4
Metals	36.9	6.2	3.8	12.0
Electrical equipment	9.5	1.3	0.9	2.3
Machinery	34.5	3.9	1.9	6.5
Transport equipment	13.9	2.3	1.7	4.6
Other manufactures	8.2	3.1	1.6	6.7
<b>Services</b>	<b>19.3</b>	<b>12.9</b>	<b>3.8</b>	<b>27.0</b>
Utilities	0.0	0.0	0.0	0.0
Construction	0.5	0.3	0.0	0.5
Trade, transport, comm.	7.7	5.6	1.6	12.3
Private services	7.1	5.9	1.8	12.2
Public services	4.0	1.1	0.4	2.0
<b>Total</b>	<b>239.7</b>	<b>65.4</b>	<b>29.7</b>	<b>134.9</b>

Three largest

Source: Peter A. Petri; *The TPP and its impact on Vietnam's economy*; March 2013

APPM's 11th Alumni Seminar on June 2016

# Impacts of restrictive rules of origin on Vietnamese apparel sector

	Liberal TPP	Restricted RoO	No change
	%	%	
Exports	52	21	2
Exports to USA	95	32	-9
Output	47	19	1
GDP	4.5	3.2	2.5
Real wages	5.8	4.8	4.2

Source: GTAP simulation.

Source: David Vanzetti and Pham Lan Huong; *Rules of origin, labor standards and the TPP*; June 2014

# Impacts of TPP on its members

## Estimated macroeconomic impacts of TPP in 2020

	<b>Welfare</b>	<b>Exports</b>	<b>Imports</b>
	\$m	%	%
<b>TPP members</b>			
Australia	552	1.1	2.0
New Zealand	758	2.1	3.1
Japan	12,709	1.8	2.6
Malaysia	895	1.0	1.5
Singapore	71	0.1	0.1
Viet Nam	3,015	10.6	13.2
Canada	874	1.9	1.8
United States of America	1,950	0.7	0.4
Mexico	605	1.0	1.5
Chile	116	0.2	0.3
Peru	103	3.0	7.1

*Source: David Vanzetti and Pham Lan Huong;  
Rules of origin, labor standards and the TPP; June 2014*

# Impacts of TPP on its members

## Estimated macroeconomic impacts of TPP in 2020

### **Non-TPP members**

China	-3,831	-0.2	-0.3
Korea	-346	0.1	0.0
India	-406	-0.1	-0.2
Rest of ASEAN	-1,286	-0.1	-0.3
Latin America	-1,137	-0.2	-0.4
European Union	-2,058	0.0	-0.1
Other developed	45	0.0	-0.1
Africa	-253	-0.1	-0.2
Rest of the World	-482	0.0	-0.1
<b>Total</b>	<b>11,898</b>	<b>0.3</b>	<b>0.3</b>

Source GTAP simulation.