# *Assessing the Impacts of the Regional Comprehensive Economic Partnership on Vietnam's Economy*

Activity: ICB-8


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## Executive Summary

1. Formally kicked off in 2012, the RCEP constitutes an ambitious agreement which aims to achieve a comprehensive economic partnership between ASEAN and the 6 regional partners that have existing FTAs with ASEAN. RCEP also fits in with Vietnam's view to pursue deeper economic integration in line with bolder and more comprehensive domestic reforms.

2. This Study serves two specific purposes. *First,* it attempts to assess the impacts of the RCEP on Vietnam's economy. *Second,* the Study identifies relevant preparations at both policy and enterprise levels to ensure that the implementation of RCEP will produce maximal net benefits to Vietnam's economy.

3. To realize the above objectives, this Study attempts to project the possible changes of Vietnam's economy with a *predetermined sensible scope* of the RCEP. The changes are to be identified at both national and sectoral levels. The sectors under consideration include agriculture-forestry-fishery, industry-construction, and services, with possible breakdowns to sub-sectors and product categories of major interest.

4. Under this approach, the Study employs a combination of methodologies. *First,* the Study makes use of a general equilibrium model to capture the interactions in the whole economy by linking all the sectors through input-output tables and by linking all countries through trade flows. *Second,* the Study incorporates detailed analyses at the sectoral level to identify which sectors merit special attention in negotiating market access in an RCEP, or, in the case of import-competing sectors, which industries can be expected to grow more slowly or even contract over time and so represent adjustment challenges.

5. Notwithstanding high expectation of its progress, the Doha Development Round so far seems to have proceeded very slowly. As an alternative, the negotiation of larger regional FTAs is a major new development, especially in the Asia-Pacific region, driven by a race for better FTA standards and the need for stronger regional integration to support finer value chains. Notable attempts are RCEP and TPP which share numerous similar features whilst exhibiting major differences. Nevertheless, both RCEP and TPP may converge to a broader arrangement of economic integration in Asia and the Pacific.

6. Any contemporary discussion of RCEP is subject to two major sources of uncertainty, especially with respect to membership and the central role of ASEAN in RCEP.

7. Despite wide variation in scope and coverage of existing FTAs, one of the main focuses of the RCEP is to harmonize existing rules and their applications within various ASEAN FTAs. Like other new-generation FTAs, the RCEP contains both traditional issues such as tariff reduction and elimination as well as new ones related to trade and investment liberalization, namely economic and technical cooperation, intellectual property, competition, etc. Obstacles to tariff reduction and elimination within the framework of the RCEP include differences in levels of tariff elimination commitments under existing FTAs and end-year of the transition periods in the respective FTAs. Meanwhile, non-tariff barriers are important factors that can significantly affect the value of tariff elimination and reduction.

8. As the RCEP negotiation process is still at early stage, it will be difficult to predict the contents of issues of interests with regards to the above mentioned factors as well as uncertainties in terms of the RCEP's structure and its membership. Realization of benefits of the RCEP depends largely on addressing several challenges during the

negotiation phase, including how to overcome the risks, arising from negotiating partners with different levels of development and varying interests and concerns over rapid opening of the domestic markets. Given the guiding principles, it is important for RCEP members to have a "common concession" approach within a reasonable time frame, taking into consideration the specific development situation of each member.

9. Similar to other FTAs and integration commitments, the RCEP is expected to bring about new opportunities for Vietnam via: (i) creation of an easier access to investment and export markets of ASEAN and its partners (both developing and developed countries) with arrays of demand for goods and services; (ii) opening up for import of cheaper goods (especially production inputs (steel from China, plastics products from South Korea and Japan) and import of machinery and equipment of both appropriate and modern technology); (iii) joining the regional value chain and production network and enhancing technical cooperation and position in dispute settlement; and (iv) cutting down transaction costs and enjoying a more friendly business environment due to harmonization of existing rules and their application within the various ASEAN FTAs.

10. The increasingly transparent, liberal investment and trade environment has paved the way for Vietnam to better utilize its comparative advantage (relatively low labor costs, abundance of natural resources). The country's economic development has incorporated active contribution of all economic sectors. The agricultural and industrial sectors grew reasonably rapid; the services sector expanded considerably.

11. Complementarity of trade with RCEP partners has been improved. Vietnam's agricultural-industrial products and some services (e.g. communication services) gradually became more competitive, less dependent on subsidies and trade barriers, and penetrated rather effectively to existing and new potential markets. As such, Vietnam has had a positive shift to production and export of goods that are capital-intensive and require technology at a higher level. FDI played an important role in promoting Vietnam's participation in regional/global production networks, particularly in RCEP region. To a certain extent, the increase of imports has resulted in the expansion of exports, which in turn helps improve trade balance.

12. The room for further improving trade between Vietnam and RCEP partners remains ample. Evolvement of supply chains of agricultural products may drive further expansion of regional production and trade. Services liberalization presents another area in which almost any liberalization attempt under RCEP will lead to significant increase in regional trade in services and foreign investment. More importantly, services liberalization, trade facilitation and development cooperation efforts may contribute to further cuts of services link costs, with subsequent inducement of merchandise trade. This may give initial hint about the potential benefits of RCEP for Vietnam. Nevertheless, the realization of such benefits depends upon the regional efforts to harmonize the rules of origins and changes in preferences induced by the RCEP and other FTAs involving ASEAN. In this regard, ambiguity in the negotiation content and period as well as lack of domestic preparations will reduce the actual benefits for Vietnam.

13. Vietnam's economic performance, however, still exhibits shortcomings and weaknesses. The overall technology level remains inadequate, thereby preventing the improvements of its position in RCEP production network. Meanwhile, production scale is relatively small; productivity is limited. In the services sector, quality and risk

management lags far behind international norms. Vietnam's trade highly concentrated on several major trading partners as well as major imported or exported products, making it more vulnerable to changes in demand or supply from such markets. Besides, the main constraints to promote services export (especially professional services) are limited quantity, quality and inadequate foreign language capacity, which is a must for joining the RCEP labor market effectively. Meanwhile, the restructuring process remains slow, which undermines confidence of foreign investors, including those from the RCEP countries.

14. On the other hand, the integration process and implementation of FTA commitments also reveal weaknesses and create more challenges for the economy in both international and domestic market due to stricter requirements and standards from import partners (e.g. quality, safety, etc.) and limitations of Vietnam's current stage of agricultural and industrial production. Vietnam's trade in goods relatively focuses on several major trading partners as well as products, making it more vulnerable to changes in demand or supply from such markets. The issue become more challenging as trading structures of Vietnam are quite similar to those of neighboring countries while the quality and value added content of most products are still modest and the country depends heavily in imported input for domestic production. Meanwhile, services trade of the country is very modest although it has improved recently.

15. In the context of deeper integration and ongoing FTAs negotiations, including RCEP, Vietnam needs to make good use of opportunities and overcome challenges to promote trade and investment, focusing on importing advanced technology for economic restructuring, transformation of the growth model, including clean technologies, gradually to become a green economy and knowledge economy. Underlying these directions are the efforts to improve competitiveness of domestic products, businesses and the entire economy, and to deepen participation in the RCEP's dynamic value chain.

16. The CGE analysis illustrates several points. The Vietnamese economy will continue to expand even in the absence of a RCEP agreement. Upon implementation, the RCEP would make a small but positive contribution to growth.

17. Vietnam already has a bilateral FTA with Japan, while another one with Korea is to be signed at the end of 2014. Such preferential access would be eroded if China gained such access, as might happen if RCEP was truly comprehensive. China would compete with Vietnam and other ASEAN countries in supplying textiles, processed food and feed to Korea and rice and apparel to Japan. Vietnam may well lose from such an arrangement.

18. The level of ambition matters. Because exports tend to be concentrated in a few commodities, a few peak tariffs can prevent a large share of imports. The Free trade scenario, where all tariffs are reduced to zero, generates greater gains, and require greater adjustment, than the more likely Modest outcome.

19. The model used in this Report is recursive dynamic, and excludes some of the so-called dynamic gains from improved competition, investment, technology transfer and trade facilitation. Other authors have shown that these effects can make a large contribution to welfare gains, although the specification of the appropriate shocks is uncertain.

20. The analysis also assumes that any agreement will be implemented as specified here. In reality non-tariff measures may prevent further meaningful liberalization as desired in implementing the existing and future FTAs.

21. Some tariffs may be prohibitive, and the simulation has no definitive indication at what point they are no longer so. Using other measures may undermine the benefits from RCEP-induced liberalization measures. It is in this respect that the gains from tariff reform are overstated. As always, modelling results should be treated with care.

22. The CGE is subject to several limitations. *First*, it automatically assumes some changes in production and consumption behaviors in the face of tariff changes (and thus relative prices), whilst ignoring some practical factors which may affect the FTA utilization instead. *Second*, institutional improvement is not incorporated in the model. *Third*, the scenarios are quite useful in the sense that they help focus on the impacts of the RCEP without taking account of the range of other FTAs that are being negotiated. Still, interactions between RCEP and other important FTAs such as TPP and EVFTA may have significant impacts on the projected changes of key economic variables in the model.

23. From the analysis, the Report concludes with several recommendations, including both horizontal and sector-specific ones for Vietnam to better prepare for the implementation of RCEP. Of equivalent importance is the need to incorporate RCEP in a harmonized FTA policy of the country.

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| | |
|---|---|
| AANZFTA | ASEAN-Australia-New Zealand Free Trade Area Agreement |
| ACFTA | ASEAN-China Free Trade Area |
| ACIA | ASEAN Comprehensive Investment Agreement |
| ACTIS | Agreement on Trade in Services Liberalization within the Framework Agreement on ASEAN-China Comprehensive Economic Cooperation |
| AEC | ASEAN Economic Community |
| AFAS | ASEAN Framework Agreement on Services |
| AFF | Agriculture, Forestry and Fishery |
| AFTA | ASEAN Free Trade Area |
| AIA | Framework Agreement on ASEAN Investment Area |
| AITIG | ASEAN-India Trade in Goods Agreement |
| AJCEP | ASEAN-Japan Comprehensive Economic Partnership agreement |
| AKFTA | ASEAN-Korea Free Trade Area |
| ANZ | Australia and New Zealand |
| ANZCERTA | Australia-New Zealand Closer Economic Relations Trade Agreement |
| APEC | Asia Pacific Economic Cooperation |
| ASEAN | Association of South East Asian Nations |
| ATIGA | ASEAN Trade in Goods Agreement |
| CARIFORUM | Caribbean Forum (Caribbean Community & Dominican Republic) |
| CEPT | Common Effective Preferential Tariff |
| CGE | Computable General Equilibrium |
| CIEM | Central Institute for Economic Management |
| CJKFTA | China-Japan-Korea Free Trade Agreement |
| CLMV | Cambodia, Laos, Myanmar and Vietnam |
| EC | European Commission |
| EHP | Early Harvest Program |
| ENT | Economic Needs Test |
| EPA | Economic Partnership Agreement |
| EPZ | Export processing zone |
| ERP | Effective Rate of Protection |
| EU | European Union |
| EVFTA | EU-Vietnam Free Trade Agreement |
| FDI | Foreign direct investment |
| FIA | Foreign Investment Agency |
| FTA | Free Trade Agreement |
| GATS | General Agreement on Trade in Services |
| GDP | Gross Domestic Product |

| | |
|---|---|
| GEL | General Exclusion List |
| GPA | Global Procurement Agreement |
| GSO | General Statistics Office |
| GTAP | Global Trade Analysis Project |
| HS | Harmonized System |
| HSL | Highly Sensitive List |
| ICOR | Incremental Capital-Output Ratio |
| ICT | Information and Communication Technology |
| IIT | Intra-Industry Trade |
| IL | Inclusion List |
| IPR | Intellectual Property Rights |
| MARD | Ministry of Agriculture and Rural Development |
| MFN | Most-Favored Nation |
| MNC | Multinational Corporation |
| MOIT | Ministry of Industry and Trade |
| MS | Micro-Simulation |
| NRP | Nominal Rate of Protection |
| NT | Normal Track |
| NTM | Non-Tariff Measure |
| PPP | Public Private Partnership |
| RCA | Revealed Comparative Advantage |
| RCEP | Regional Comprehensive Economic Partnership |
| RoO | Rule of origin |
| R&D | Research and Development |
| SITC | Standard International Trade Classification |
| SL | Sensitive List |
| SOE | State Owned Enterprise |
| SPS | Sanitary and Phyto-sanitary measures |
| TASTE | Tariff Analytical and Simulation Tool for Economists |
| TBT | Technical Barriers to Trade |
| TC | Trade Complementarity Index |
| TV | Television |
| TPP | Trans Pacific Partnership |
| VHLSS | Vietnam Household Living Standard Survey |
| WTO | World Trade Organisation |

# I. INTRODUCTION

## *1. Background*

Since the start of the Doi Moi (Renovation) process, Vietnam has embarked on pro-active international economic integration, seeking to enhance access to foreign markets and resources of essential importance for domestic socio-economic development. The country signed a trade agreement with the European Union (EU) in 1992. The country then joined the Association of South East Asian Nations (ASEAN) and the associated ASEAN Free Trade Area (AFTA) in 1995, before joining the Asia Pacific Economic Cooperation (APEC) forum in 1998. The economic integration process has been even accelerated since 2000. In 2000, Vietnam and the US signed the Bilateral Trade Agreement (VN-US BTA), the first most comprehensive trade agreement which exposed the former to higher standard of trade and investment liberalization. The years 2000-2006 also witnessed deepened efforts of Vietnam towards multilateral and regional economic integration. The country extended comprehensive preparations for accession to the World Trade Organization (WTO) whilst signing and implementing various free trade agreements (FTAs) under ASEAN framework such as ASEAN-China FTA and ASEAN-Korea FTA. The accession to the World Trade Organization (WTO) in 2007 then further consolidated optimism of both the domestic community and foreign investors about Vietnam's growth prospect.

Nevertheless, the WTO accession marked no end of international economic integration in Vietnam. Since then, Vietnam has signed and implemented more FTAs at the regional levels such as ASEAN-Australia-New Zealand FTA, ASEAN-Japan Comprehensive Economic Partnership, and ASEAN-India FTA. Other efforts have also been extended toward establishing the ASEAN Economic Community by 2015. Even at this stage, the country is actively engaged in negotiating several ambitious FTAs, such as the Trans-Pacific Partnership (TPP), EU-Vietnam FTA, the Regional Comprehensive Economic Partnership (RCEP), etc. The depth and scope of FTAs have been continuously expanded, from trade in goods to services trade and other new issues such as trade and investment facilitation, intellectual property right, etc.

In that context, the RCEP constitutes an ambitious agreement which aims to achieve a comprehensive economic partnership between ASEAN and the 6 regional partners that have existing FTAs with ASEAN (ASEAN+1), namely; China, Japan, Korea, Australia, New Zealand and India. The negotiation process of RCEP was formally kicked off in 2012. The proposed RCEP area will be the largest in terms of population, with a combined GDP of around USD 19 trillion. Leveraging on the progresses achieved under the existing ASEAN+1 FTAs, RCEP also fits in with Vietnam's view to pursue deeper economic integration in line with bolder and more comprehensive domestic reforms. Still, the implementation of RCEP may be potentially accompanied by both opportunities and challenges, the magnitude of which all are ample given the relatively large scale of the agreement.

## *2. Objectives*

This Study serves two specific purposes. *First,* it attempts to assess the impacts of the RCEP on Vietnam's economy. In doing so, it presents an update to the existing literature (such as by MUTRAP 2010; CIEM 2012; Itakura 2012; etc.) on Assessing Impacts of various FTAs to which Vietnam is a signatory.

*Second,* the Study identifies relevant preparations at both policy and enterprise levels to ensure that the implementation of RCEP will produce maximal net benefits to Vietnam's economy. These preparations are essential since the RCEP, given its scope and depth, may bring about unprecedented opportunities and challenges to the business and investment activities.

## *3. Approach and methodology*

To realize the above objectives, this Study attempts to project the possible changes of Vietnam's economy with a *predetermined sensible scope* of the RCEP. The changes are to be identified at both national and sectoral levels. The sectors under consideration include agriculture-forestry-fishery, industry-construction, and services, with possible breakdowns to sub-sectors and product categories of major interest.

Several aspects of the scope of this Study deserve attention. *First*, the Study excludes interactions with other new FTAs in parallel with the negotiations of the RCEP. These FTAs include, but are not limited to, the TPP, EU-Vietnam FTA, etc. In fact, these agreements may conclude at different points in time and incorporating their interactions with the RCEP may require further assumptions that can be analytically restrictive. *Second*, the Study only mentions the new issues in the RCEP such as trade and investment facilitation, government procurement, intellectual property rights, etc. without going into details of the impacts of these issues on Vietnam's economic performance. Instead, the Study focuses on more traditional issues of trade liberalization, namely trade in goods and in services.

A simple conceptual framework to explain the effects of tariff reductions upon forming or joining an FTA is described in Box 1. Important concepts explained in this box are trade creation (in general where low cost FTA members' exports replace higher cost domestic producers) and trade diversion (where trade involving low cost non-FTA countries are replaced by that of higher cost members due to preferences given), *among others*.

**Box 1: Simple analytics of the RCEP**

The main effects of the RCEP are trade creation, trade diversion, tariff revenue losses, terms of trade effects (the relative price of exports to the price of imports) and dead weight losses (a loss of economic efficiency). The effects can be shown with two simple diagrams. Figure 1 shows the perspective of a non-member exporting to an RCEP member. The exporter faces MFN tariffs, as do other non-members. Figure 1 shows quantities of exports (*Q1*), imports (*M1*) and tariff revenues *(a+b+c+d)* captured by the importer when tariffs are t and domestic prices are *Pw*(1+t)*.

**Figure 1: Impacts of joining the RCEP**

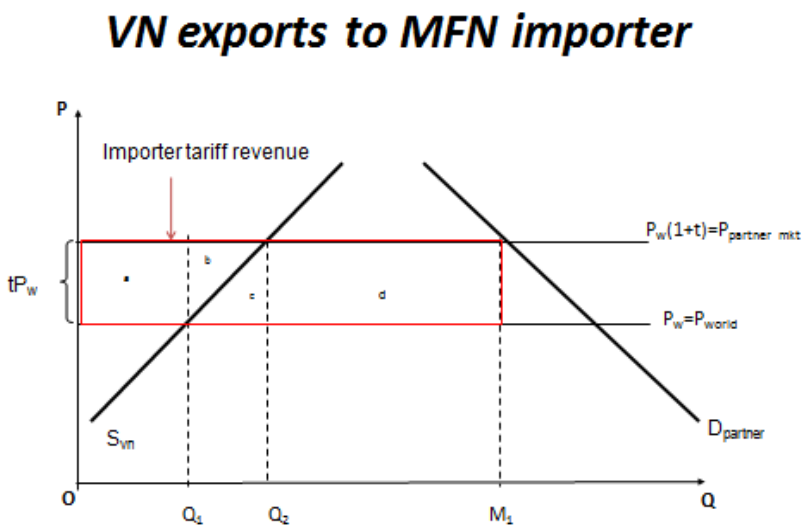

**Figure 2: Impacts of joining the RCEP**

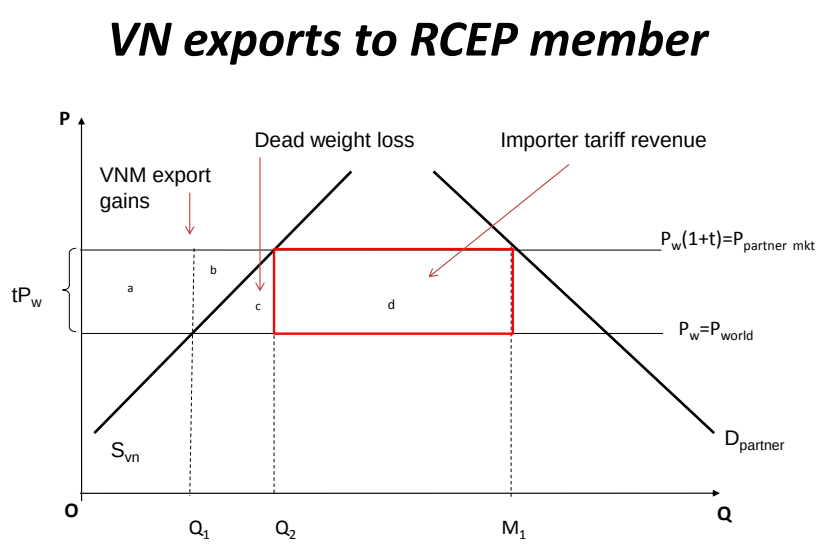


Figure 2 shows the impact on the exporter and importer of the exporter (Vietnam) joining RCEP with preferential tariffs. A new RCEP member as an exporter increases exports to Q2 and gains export revenue represented by area *a+b+c* at the expense of non-members' trade. This is trade diversion. It is also at the expense of importer tariff revenue which is reduced by area *a+b+c*. Part of this loss *(a+b)* is a transfer to the exporter but part c is a "dead weight" loss because the exporter bears an additional cost of producing the extra export over the costs of competitive world exports. The additional cost makes the exporter a high cost supplier who can only supply the additional exports at the expense of its world competitors because the tariff it faces is reduced on a preferential basis.

*Source: Adapted from MUTRAP (2010).*

Under this approach, the Study employs a combination of methodologies. *First*, the Study makes use of a general equilibrium model to capture the interactions in the whole economy by linking all the sectors through input-output tables and by linking all countries through trade flows. The general equilibrium model used here is GTAP[1], a well-documented, static, multiregional, multisector model that assumes perfect competition[2] and constant returns to scale and imperfect substitution between foreign and domestic goods and between imports from different sources. By examining tariff changes at an industry or tariff line level, it is possible to make a reasonable estimate as to their likely effects on the industry's prices and production, consumption, and, imports and exports if they occur after various rounds of impacts. Further details will be presented in Section IV.

*Second*, the Study incorporates detailed analyses at the sectoral level to identify which sectors merit special attention in negotiating market access in an RCEP, or, in the case of import-competing sectors, which industries can be expected to grow more slowly or even contract over time and so represent adjustment challenges. In line with this, the Authors rely on a couple of work streams. One is more quantitative, relying on summary measures of industry performance and trade compatibility, while the other is manifestly qualitative, relying on actual interviews and/or workshop-based consultation with stakeholders.

[1] For information on GTAP, see https://www.gtap.agecon.purdue.edu/.
[2] This implies the absence of excess profits because firms can readily enter or exit the industry.

# II. RCEP

## *1. Context*

At this stage, the WTO remains the single dominant regime for multilateral trade liberalization, with the widest membership. Drawing from past achievements with trade liberalization, the conclusion of the current Doha Development Round is expected to bring about significant benefits to member economies. Such benefits range from direct ones such as improvement of market access and less vulnerability to unfavourable changes in foreign trade and investment regimes, to more indirect ones from induced domestic reforms and trade facilitation. It is worth noting that FTAs are by themselves, though important, not a replacement for multilateral agreements. They just seek to enhance trade and related opportunities between much smaller groups of economies. Nevertheless, FTAs fail to enforce disciplines, particularly in anti-dumping, agricultural subsidies, etc. This can only be done at the multilateral level which helps avoid or reduce the complications of Rules of Origin (RoO). More seriously, different FTAs with different levels of commitments may distort the allocation of resource for involved economies. As such, members have turned to the Doha Development Round for a more coordinated framework for trade liberalization.

Notwithstanding high expectation of its progress, the Doha Development Round so far seems to have proceeded very slowly. Various meetings of Trade Ministers could not bring about the significant and rapid progress as desired. The talks about liberalizing agricultural trade are still stalled. Special and differential treatments for developing economies were not perceived as adequate by them. Negotiations so far under the Doha Development Round have failed to make way for rebalancing the power of major developed countries (such as the US, EU, etc.) and the newly emerging markets (especially Brazil, Russia, India, China and South Africa) in the global trading system. Disagreements on these issues, with the underlying concern about uncertainty of a win-win situation following further multilateral trade and investment liberalization, are impeding the actual progress of the Doha Development Round. It was only in the Bali Ministerial Meeting in December 2013 that the Round seemed to have achieved some much-needed progress (though the trade facilitation aspects of this seem to be under threat from some countries like India),[3] which makes way for resuming negotiations between WTO members.

Due to the stagnated progress of the Doha Development Round, member economies have been searching for more alternatives, albeit less multilaterally, towards trade liberalization. FTAs are proliferating, with participation of various economies irrespective of their development levels. The gross trading scale of FTAs has seen its record level constantly updated. The Trans-Pacific Partnership agreement has attracted a wider membership and higher trading scale. Meanwhile, recent notable efforts that can be listed include the negotiation of an US-EU FTA, the RCEP, and the trilateral China-Japan-Korea FTA (CJK FTA). This is not to mention a number of other smaller FTAs which still contribute to enhancing the so-called spaghetti-bowl syndrome. The increase of FTAs – an exception provided for under the WTO regime – seemingly undermines member economies' default reference to the WTO as the largest forum for global trade liberalization.

The negotiation of bigger regional FTAs is a major new development, especially in the Asia-Pacific region, driven by a race for better FTA standards and the need for stronger regional integration to support finer value chains (Adams et al 2013). The drivers can be realized by simpler and more liberal RoOs, binding lower tariffs, and making commitments in goods, services and investment that reflect actuality. AFTA was the start and APEC represents a further step in "open regionalism", i.e. the removal of barriers to and the encouragement of

[3] For further details, see https://mc9.wto.org/

regional cooperation without discrimination against outsiders (Garnaut 2004). Currently, there are competing models, in particular the RCEP and TPP, for "multilateral regionalism" (enlargement that reduces discrimination among countries and/or reduces overlap and inconsistency between different FTAs across a group of countries (Baldwin et al 2009)).

The RCEP differs from the TPP which commenced earlier in a number of respects, some major ones being a consolidated set of simpler and more liberal RoOs, driven in part by another major difference in the importance of global supply chains to the respective players, and the importance of trade facilitation in the encouragement of regional cooperation without discrimination (e.g. better custom services) in the RCEP. In contrast, the TPP tends to set "developed country" standards that need to be met by those wanting to join it, for example almost 100% liberalization of goods trade and comprehensive coverage, including of services and investment (like in the RCEP's guiding principles and objectives for negotiating), but also with IPR, the environment and labor. Region-wide liberalization in services will benefit from liberalization in goods even if there is no separate services liberalization due to the high ratio of services embodied in goods that cross borders which recent value-added data has shown to be much higher than previously thought, based on conventional trade statistics.

**Table 1: Comparison of the RCEP and TPP**

| ***RCEP*** | ***TPP*** |
|---|---|
| **Common features**<br>- Commitment to deepen liberalization of trade in goods, services and investment<br>- Commitment to openness | |
| Started in 2013 and to be concluded by 2015 | Started in 2010 and likely to be concluded by the first half of 2015. |
| ASEAN is driving force/seed | Led by the United States |
| Aims to form an agreement that is deeper than ASEAN + 1 FTAs and to support cooperation for equitable development | Aims to establish a 21st century FTA to address new issues (labor and environmental standards, competition, SOEs, government procurement, IPRs, etc.) |
| Need not to be a "single undertaking" (Layer 1: trade in goods; Layer 2: Trade in services and investments; Layer3: movement of natural persons, competition, IPRs, Government procurement) | Need to be a "single undertaking" |

*Source: Vo (2014).*

Focusing on the RCEP, its success will depend on ASEAN using it to maintain pressure on the domestic economic reform of its Members (especially in respect of the 2015 target for the ASEAN Economic Community which is seen as complementary to the RCEP); desire to stay at the center of an evolving regional economic partnership; and specific details like having one schedule of commitments for all ASEAN Members (such as the possibility of a single undertaking approach made up of a set of linked agreements that are simpler in design, with different formats and reachable by different timelines that suits the region's rolling integration process (Gupta 2014)). Vietnam along with Brunei, Malaysia and Singapore are ASEAN members of both regional arrangements as are Australia, Japan and New Zealand, and could cross-share preferences with their non-RCEP and non-TPP peers as a liberalizing approach. Of the non-ASEAN partners, for Australia and New Zealand the RCEP offers an opportunity to go beyond outcomes that might be achieved bilaterally. For China, not only will it keep pressure on their reform processes but links them more closely with a broad region. India is not eligible to become a member of the TPP so RCEP is its main regional

game and the same might be said of China, given the difficulties of it accepting the ground rules of the TTP relative to the RCEP (e.g. the TPP includes labor aspects). Japan's main driver will be using the RCEP to achieve greater domestic reforms. For China, Japan and Korea the RCEP becomes an easier forum than their more intimate trilateral FTA negotiations.

Despite growing talks for resuming the liberalization process under Doha Development Agenda, the world economy is still experiencing slow recovery after the global financial crisis. Many advanced economies have for years been projected to get back to a growth trajectory, but the official statistics indicate such projections to be overly optimistic. In fact, these economies could only enjoy some recovery of growth in late 2013. Meanwhile, the emerging and developing economies started to see some slowdown of growth since 2012. Due to slow economic recovery, world trade volume could only exhibit modest expansion. It is in this context that many economies are turning to protectionist measures to restrict import flows of goods and services, thereby weakening the foundations for further trade liberalization.

## *2. Tentative coverage of RCEP*

In the 19th ASEAN Summit in Bali, Indonesia, ASEAN Leaders approved ASEAN Framework for Regional Comprehensive Economic Partnership (RCEP), with **clearly defined** principles under which ASEAN will engage interested ASEAN FTA partners in establishing a regional comprehensive economic partnership agreement, including ASEAN and China, India, Japan, South Korea, Australia and New Zealand. Despite a wide variation of substantive scopes and specific rules contained in the existing FTAs, one of the main focuses of the RCEP is the harmonization of existing rules and their application within the various ASEAN FTAs. The proposed agreement shall be consistent with the WTO Agreement; and provide special and differential treatment to less-developed ASEAN Member States, especially Cambodia, Lao PDR, Myanmar and Viet Nam. The Guiding Principles also list eight negotiation areas, namely trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, and other issues.

After the first 6 rounds of negotiations, ASEAN Leader agreed that the RCEP will have broader and deeper engagement with significant improvements over the existing ASEAN+1 FTAs, while recognizing the individual and diverse circumstances of the participating countries. Consequently, special and differential treatment, plus additional flexibility to the least-developed ASEAN Member States (especially Cambodia, Lao PDR, Myanmar and Vietnam) will be provided, consistent with the WTO Agreement and the existing ASEAN+1 FTAs, as applicable.

Like other new-generation FTAs, the RCEP has two major substances of issues, namely: (i) those related to market access; and (ii) other new ones of relevance to trade and investment liberalization. Since the agreement is just in the early stage of negotiation, one can hardly predict the contents and/or conclusions regarding these issues, at any level of acceptable errors. Still, the authors briefly discuss the tentative coverage of the RCEP to support the assessment of its impacts in subsequent Sections.

As an important note, this discussion of the RCEP is subject to two major sources of uncertainty. On the one hand, the structure of the RCEP remains unclear. Despite explicit emphasis in the Guiding Principles and Objectives for Negotiating the RCEP that "*...The RCEP will have broader and deeper engagement with significant improvements over the existing ASEAN+1 FTAs...*", there is hardly any further information as to whether the RCEP will follow a hub-and-spoke type of FTAs, notwithstanding the acknowledgement of ASEAN centrality – traditionally in the preferences of ASEAN. From liberalization perspective, one

would expect the RCEP – in its true meaning – to be an agreement whereby each member undertakes liberalization commitments against all other members. Nevertheless, this type of structure may lack feasibility in the near term given the high heterogeneity among RCEP members. Without clarity on this structural issue, however, one encounters the problem of quantifying the impacts of cumulative rule of origin should it arise in the presumption of ASEAN-centered RCEP.

On the other hand, even membership of the RCEP may pose a concern. During the negotiation or even after concluding negotiation of the RCEP, new countries may be permitted to join the agreement, subject to terms and conditions that would be agreed with existing members. As such, the future RCEP may possibly involve other countries outside of the ASEAN+6 region, which have material implications for the regional countries, including Vietnam.

## 2.1. Issues of market access[4]

Considering the existence of multi-track sub-regional and bilateral FTAs in the region, the RCEP negotiations will likely be tedious and complex. Amongst issues of interest***, tariff reduction and elimination*** is one of the most important priorities. Currently, on trade in goods, for example, ASEAN+6 countries use different tariff classifications for their tariff concessions, making it difficult to construct rather straightforward schedules. It is not only that different countries use different tariff schedules, but the same countries also use different schedules for their FTAs with different countries. In addition, tariff concessions from the same country differ depending on the FTAs, and tariff elimination rates are different across ASEAN+1 FTAs.

**Table 2: Tariff elimination coverage by country under some ASEAN+1 FTA (%)**

| | AANZFTA | ACFTA | AIFTA | AJCEP | AKFTA | Average |
|---|---|---|---|---|---|---|
| **BRN** | 99.2 | 98.3 | 85.3 | 97.7 | 99.2 | 95.9 |
| **CAM** | 89.1 | 89.9 | 88.4 | 85.7 | 97.1 | 90.0 |
| **IND** | 93.7 | 92.3 | 48.7 | 91.2 | 91.2 | 83.4 |
| **LAO** | 91.9 | 97.6 | 80.1 | 86.9 | 90.0 | 89.3 |
| **MLS** | 97.4 | 93.4 | 79.8 | 94.1 | 95.5 | 92.0 |
| **MYA** | 88.1 | 94.5 | 76.6 | 85.2 | 92.2 | 87.3 |
| **PHI** | 95.1 | 93.0 | 80.9 | 97.4 | 99.0 | 93.1 |
| **SGP** | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| **THA** | 98.9 | 93.5 | 78.1 | 96.8 | 95.6 | 92.6 |
| **VNM** | 94.8 | n.a. | 79.5 | 94.4 | 89.4 | 89.5 |
| **AUS** | 100.0 | | | | | |
| **CHN** | | 94.1 | | | | |
| **IND** | | | 78.8 | | | |
| **JPN** | | | | 91.9 | | |
| **KOR** | | | | | 90.5 | |
| **NZA** | 100.0 | | | | | |

*Notes:* HS2007 version, HS 6-digit base. Data on Vietnam under the ASEAN-China are missing. Data on Myanmar under the ASEAN-China FTA are also missing for HS01-HS08

*Source: Fukunaga and Isono (2013).*

As shown in Table 2, in terms of level of tariff elimination, in the existing ASEAN+1 FTAs, six ASEAN member states (AMSs) have committed to eliminating tariffs in more than 90%

[4] Contents in this Section are largely drawn from other studies such as Fukunaga and Isono (2013), CIEM (2013).

of the products (on average) after the transition period. The remaining four AMSs have committed to more than 80% but lower than 90% tariff elimination on average: Indonesia (83.4%), Lao PDR (89.3%), Myanmar (87.3%), and Viet Nam (89.5%). The six FTA Partners have committed to eliminating more than 90% of tariff lines vis-à-vis ASEAN, with the exception of India (78.8%). A common concession approach on certain goods, thus, should therefore be considered. Moreover, a reasonable presumption is thus that under the RCEP, ASEAN and Vietnam may phase out over 90% of tariff lines.

It is important to note that the proportion of products the AMSs have committed to eliminate the tariff on the product in all five ASEAN+1 FTAs accounts for 73.3% on average (see Table 3). On the other hand, the share of products AMSs have not committed to eliminate a tariff to any FTA Partners in the five ASEAN+1 FTAs (classified as "protected to all") accounts for 25.8% on average. The ratio of "depends on FTA" products that AMSs have committed to eliminate a tariff vis-à-vis some FTA Partner (s) but not in the case of other(s) is tiny (about 1%). Notably, among AMSs, Vietnam is ranked third in terms of tariff elimination in the framework of all five FTAs+1; nevertheless, its proportion of "protected to all" products is the highest. The average of figures in Table 3 may also present a guess of the level of commitments under the RCEP.

**Table 3: Distribution of Tariff Lines by Liberalization Status**

| | % of "eliminated to all" products | % of "Depends on FTA" products | % of "protected to all" products |
|---|---|---|---|
| **Brunei** | 84.1 | 15.9 | 0.0 |
| **Cambodia** | 64.3 | 35.5 | 0.4 |
| **Indonesia** | 46.0 | 52.8 | 1.2 |
| **Lao PDR** | 68.0 | 31.6 | 0.4 |
| **Malaysia** | 76.0 | 22.9 | 1.1 |
| **Myanmar** | 66.6 | 31.8 | 1.6 |
| **Philippines** | 74.6 | 24.4 | 1.0 |
| **Singapore** | 100.0 | 0.0 | 0.0 |
| **Thailand** | 75.6 | 24.3 | 0.1 |
| **Vietnam** | 78.1 | 19.1 | 2.8 |
| **Average** | **73.3** | **25.8** | **0.9** |

*Source: Fukunaga (2013).*

In addition to the levels of tariff elimination commitments, negotiations also need to consider the ***end-years of the transition periods*** in the respective FTAs. If tariff elimination for the RCEP takes a much longer time than the current ASEAN+1 FTAs, most users in AMSs would not be able to enjoy the fruits induced by RCEP until its completion. Table 4[5] shows the tariff elimination target years under the ASEAN+1 FTAs.[6] Given the interest of the RCEP and gradual approach, the RCEP may attain a period of 2018-2025 to allow for harmonized commitments of members, especially AMSs.

The value of tariff elimination will be impaired if ***Non Tariff Barriers*** (NTBs) persist or are substituted for tariffs. ATIGA aims to eliminate NTBs and reduce the NTB effects of NTMs. However, substantial progress has not been made, due to lack of clear definition of "NTBs". In addition, the earlier voluntary approach to NTB elimination has yielded few NTBs being eliminated. Consequently, clarifying the types of NTBs (or NTMs with barrier effects,

[5] See Fukunaga and Isono (2013).
[6] Transition time of all FTAs between Vietnam and its partners ranges from 12 to 19 years.

alternatively) to be eliminated in the new initiative may be considered a main focus.[7] The NTB issue should be duly considered by the RCEP Working Group on Trade in Goods.

***RoOs*** will play an important role in ensuring that preferential treatment is accorded to FTA members by avoiding trade deflection, and hence will increase FTA utilization. Consequently, ROOs may be a focus in RCEP negotiation, involving harmonization, co-equality of rules and the accumulation of value contents that aim to lower transaction and time costs. There is currently no detail on this but ROOs are certainly affected by the structure of RCEP (as discussed earlier in the sub-Section).

**Table 4: Tariff elimination target years under some ASEAN+1 FTAs**

| | ASEAN 6 | | CLMV countries | | FTA Partners | |
|---|---|---|---|---|---|---|
| | **Elimination (Normal Track or SL)** | **Other reduction (SL or HSL)** | **Elimination (Normal Track or SL)** | **Other reduction (SL or HSL)** | **Elimination (Normal Track or SL)** | **Other reduction (SL or HSL)** |
| **AANZFTA** | 2020-2025 | 2020-2025 | 2020-2024 | 2025 | 2020 | - |
| **ACFTA** | 2012*1 | 2018 | 2018*1 | 2018 | 2012*1 | 2012 |
| **AIFTA*2** | 2017-2020*3 | 2017-2020 | 2022*3 | 2022 | 2017*3 (2020*4) | 2020 |
| **AJCEP** | 2018 | 2018-2024 | 2023-2026 | 2026 | 2018 | |
| **AKFTA** | 2012*5 (2017*6) | 2016 | 2018-2020*5 | 2021-2024 | 2010 | 2016 |

*Notes:*

*1: Including Normal Track 2. Normal Track 1 for ASEAN6 and China has completed in 2010;

*2: In AIFTA, each year corresponds to 31 December of the previous year. For example, 2014 means 31 December 2013;

*3: Including Normal Track 2;

*4: To the Philippines;

*5: Including Normal Track 2. Normal Track 1 for ASEAN5 has completed in 2010;

*6: Thailand.

*Source: Fukunaga and Isono (2013).*

Given the importance of the agriculture-forestry-fishery sector to RCEP members, negotiations related to AFF are expected to be cautious and may not exceed the members' concessions within the existing frameworks. The details are as follow:

### WTO commitments

Viet Nam committed to progressively phase out import tariffs on agricultural products within 3 – 5 years from the WTO official membership date (1st Nov 2007). The reduction finished in the period of 2009-2012 in various product categories.

[7] Recognizing that not all NTMs lack rationales, ERIA proposes to introduce the concept of "core NTMs" (ERIA 2012). These measures include quantity control measures, such as import quotas, de-facto quantity control mechanisms through state trading systems, or non-automatic licensing schemes.

***On agricultural sub-sector products***: With tariffs on the agricultural sector, the average applied rate was 23.5% in the beginning period of membership status and the final rate shall be 20%. There are a total of 1,118 tariff lines in the reduction commitments during the 3-5 years period. Beneficiary industries from WTO membership are export-oriented because the industries will have opportunities to expand markets, such as coffee, rice, pepper, cashew nut, rubber, wooden products, etc. In contrast, neutral industries include maize, peanut, and silk worm, and disadvantageous industries include livestock and animal feed, sugarcane, prepared foods, temperate fruits, and citrus fruits.

***On forestry products:*** Vietnam has committed to reduce tariffs on 69 products under 15 sections of forestry products in which, 47 products are under 12 sections regulated in Chapter 44, and 22 products are under 3 sections regulated in Chapter 94. The final time for the tariff reduction on forestry products is in 2012. The reduction on forestry products is lowest at 10% (under the section HS 4410, 4411 and 4412) and the highest up to 50% (Wood marquetry and inlaid wood; caskets and cases for jewelry; statuettes and other ornaments of wood; other wooden products other than the section MS 4420) compared to the tariff rate at the commitment date.

***On fishery products***: Viet Nam has committed to adjust 159 tariff lines in 9 sections of aquaculture products, mainly in Chapter 3 (7 sections), and Chapter 6 (2 sections). The average rate for all aquaculture products shall be reduced by 12.1%, from 32.2% at the commitment date to 20.1%. The adjustment period is within 5-7 years from the official membership status. Particularly, in 159 reduced tariff lines, 9 lines in 2009, 72 lines in 2010 (44%), 37 lines in 2011, 34 lines in 2012 finished their reduction schedules, and only 7 lines need to be reduced in 2014.

***Non-tariff commitments***: Vietnam has committed to eliminate completely non-tariff barriers (including import bans, import quotas, import license), except import quotas for 4 product categories, including sugar, salt, bird eggs, and unmanufactured tobacco (Table 5).

**Table 5: Commitments on tariff quotas of Vietnam**

| Items | Initial Quota Volume | Tariff (%) | | Note |
|---|---|---|---|---|
| | | In-quota | Out-quota | |
| 1. Birds' eggs in shell, fresh, preserved or cooked | 30,000 | 40 | 80 | Annual growth rate for the quota volume is 5%. |
| 2.Cane or beet sugar | 55,000 MT | | | Annual growth rate for the quota volume is 5%. |
| + Cane sugar | | 25 | 85 | Reduced from 30% to 25% in 2009. |
| + White sugar | | 60<br>(50% for beet sugar) | 85 | Annual growth rate for the quota volume is 5%. |
| 3. Unmanufactured tobacco, tobacco refuse. | 31,000 MT | 30 | 80 -90 | Annual growth rate for the quota volume is 5%. |
| 4. Salt | 150,000 MT | | | Annual growth rate for the quota volume is 5%. |
| + Table salt | | 30 | 60 | |

| Items | Initial Quota Volume | Tariff (%) | | Note |
|---|---|---|---|---|
| | | In-quota | Out-quota | |
| + Denatured salt | | 15 | 50 | |

*Source: MARD (2013).*

### ASEAN Trade in Goods Agreement (ATIGA/AFTA)

Vietnam joined and implemented preferential tariff commitments under AFTA (recently ATIGA) in 1996, and primarily finished its reduction on import tariffs to 0-5% in 2006. By January 2006, 96.2% of import tariff lines decreased to 0-5%.

The preferential sections in the economic integration included wood and wooden products, rubber, and aquaculture products. The tariff rates in these sections were eliminated in 2012, instead of 2015 to enhance free trade. The tariff reduction schedules of sensitive sections (including 89 lines) started from 2004 and reached their highest rate at 5% in 2013 (except for sugar in 2010). At present, Vietnam has finished basically its commitments on opening agricultural markets in ASEAN group.

### ASEAN-China Free Trade Agreement (ACFTA)

In ACFTA, Vietnam has committed its tariff-reduction and free-tariff schedules in 3 goods categories: (1) Early harvest program; (2) Normal tariffs; and (3) Sensitive tariffs. Due to its lower development level, Vietnam could undertake longer and more flexible roadmaps of tariff reduction of Vietnam than those of China and ASEAN-6 member states.

The Early Harvest Program (EHP) is a narrow preferential tariff scheme implemented since 2004, right after the Framework Agreement on ASEAN-China Comprehensive Economic Cooperation. EHP consists of unprocessed agricultural products (from Chapter 1 to Chapter 8 in the import tariff schedule), for which the tariff would be phased out within 3 years by ASEAN-6 and within 5 years by Vietnam (from 2004). Accordingly, from January 1st 2006, China and ASEAN-6 applied the tariff rate of 0 percent on all products listed in the EHP. Vietnam started to abolish all tariff rates from January 1$^{st}$, 2008.

Under Normal Track (NT), Vietnam has committed to reduce 85% of tariff lines to 0% during the period of 2005-2015, with some lines granted flexibilities until 2018. China and ASEAN-6 shall cut down their tariffs to 0% in 2010.

The Sensitive List includes 388 categories of the HS 6-digit headings (Annex 1 of the MOU), around over 1,000 categories of 8-digit headings, mainly eggs of fowls, sugar, cigarette, and industrial products. There is no specific tariff reduction roadmap for each year for goods of the ST but limits in final tax rates and implementation year, concretely for Vietnam as follows: i) Sensitive List: shall be subject to 20% by 2015 and reduced to 0-5% by 2020; and ii) Highly Sensitive List: including 140 categories of HS 6-digit headings or less and shall have the tax rate of 50% by 2018.

### ASEAN-Korea Free Trade Agreement (AKFTA)

The AKFTA Framework Agreement was signed in December 2005, aiming to establish a free trade area in 2010. The content includes free trade on goods, services, and investment, plus enhancement on economic cooperation in various areas. The goods agreement signed in August 2006, officially became valid for Vietnam from 1st June 2007.

Under NT, the tariff-reduction schedule for Vietnam: 0-5% in 2016 (about 85% of tariff lines), and some tariff lines shall be cut down to 0% in 2018 (about 90% of tariff lines). The validity date for ASEAN-5 is 2010, and for Cambodia, Laos, Myanmar, and Vietnam are 2018.

Sensitive List includes 2.137 products, accounting for 10% of tariff lines (about 25% imports from Korea, 2005), divided into 2 categories: Sensitive List (SL) and Highly Sensitive List (HSL). The SL contains 844 products, which tariffs shall be reduced to 20% in 2007 and to 5% in 2021.

The highly sensitive list consists of 1,282 products, divided into 5 sub-categories:

- The A category includes 108 tariff lines, shall be reduced to 50% in 2021;
- The B category includes 378 tariff lines, shall be reduced base tariff rates by 20% in 2021;
- The C category, shall be reduced base tariff rates by 50% in 2021;
- The D category includes 28 tariff lines, which apply tariff quotas;
- The E category includes 768 tariff lines, with exclusion for at most 40 tariff lines (HS 6 digits).

In the AKFTA Agreement, various products shall be able to apply tariff quotas, such as frozen shrimp ((HS 0306131000, 0306139000): 5.000 tons; fresh shrimp (HS 0306231000): 300 tons; cuttlefish (HS 0307491010): 2000; boiled shrimp (HS 1605209090): 2000 tons, granted to tariff exemption; cassava (HS 0714101000, 0714102010, 0714102090, 0714103000, 0714104000): 25000 tons with tariff rate of 20%; starch cassava (HS 1108140000): 9600 tons with tariff rate of 9%.

### ASEAN-Japan Free Trade Agreement (AJFTA)

In the ASEAN-Japan Common Effective Preferential (AJCEP), the commitment list of Vietnam includes 9,390 tariff lines based on ASEAN Harmonized Tariff Nomenclature (AHTN); in which 8,771 tariff lines (93.4%) in tariff-reduction schedule, more than 600 lines in non-tariff-reduction schedule related to industrial products.

The commitment list on import tariffs of Vietnam in the AJCEP is divided into 5 categories: NT, ST, HST, Non-exempt Track and Exclusion List.

NT (88.6% of tariff lines) includes mainly goods as inputs for production (plants, livestock, seeds, vegetables, and fruits used to breed), materials for processing industry (soybean meals) and goods, which are supplied partly by domestic producers, partly by import (raw vegetable oils, raw powder milk, and nutritious powder for medical care), with current tariff rates of 10-15%, and the rates shall decrease successively to 0% in 10 years;

Sensitive Track (0.6% of tariff lines) includes processed products using meat, fish, vegetables, and fruits with high tariff rates of 20-50%, which shall be cut down to 0% in 15 years;

Highly Sensitive Track (0.8% of tariff lines) includes high-end products (wines, beers), which tariff rates shall be reduced by only 50% from the current rates;

Non-Exempt Tariff Track (3.3% of tariff lines), mainly industrial products, and

Exclusion List (6% of tariff lines) includes various products, such as sugar.

Vietnam has committed to eliminate 62.2% of tariff lines in 10 years; in which, 26.3% of tariff lines shall be eliminated right after the validity of the Agreement in 2008; and 38.8% of tariff lines shall be eliminated in 2018. In 2025, 88.6% of tariff lines in the whole nomenclature shall be eliminated. With regard to products in the Sensitive List, the tariff rates shall be retained at base rates and reduced to 5% by 2025. With regard to products in the Highly Sensitive List, the tariff rates shall be maintained at high levels, and cut down to 50% in 2023.

### ASEAN- Australia- New Zealand Free Trade Area Agreement

Under the AANZFTA, Vietnam committed to eliminate 90 percent of tariff lines in 2018-2020 under the NT; 7 percent of total tariff lines are under the SL, of which tariff rates will be cut to 5 percent by 2022, and tariff rates following HSL will be reduced to 7-50 percent by 2022. The GEL consists of 3 percent of the total tariff lines.

For Australia, New Zealand and ASEAN-6: 90 percent of tariff lines will be 0 percent by 2015, with some flexibility until 2020.

From Vietnam's perspective, tariff reduction for the majority of products till 2012 was insignificant, as reflected by the small gap in comparison with the baseline level (MFN tariff rates in 2007). However, since 2015, Vietnam will have to reduce the tariff more rapidly.

For Australia and New Zealand, as the applied tariff rates of those countries have already been low (even in the absence of AANZFTA, about 87 percent of Vietnam's export value to Australia already enjoyed zero import tariff), the impact of tariff cuts by these two countries under AANZFTA is hardly significant.

### ASEAN-India Trade in Goods Agreement

Because of high protection policy of India, the extent of tariff reduction in ASEAN-India Trade in Goods Agreement (AITIG) is different from those in other ASEAN-plus agreements. According to the AITIG, the roadmap of tariff reduction is differentiated into five categories with different deadlines and extents of tariff reduction, including NT, SL, HSL, Special List, and GEL. As one of the new members of ASEAN (CLMV), Vietnam may follow a longer tariff reduction roadmap (by 5 years) than ASEAN-6 countries and India.

The NT of Vietnam consists of 80 percent of tariff lines, which will be reduced to 0 percent on December 31st 2017. Among them, 9 percent of total tariff lines will be reduced to 0 percent with flexibility until December 31st, 2020 (NT2). SL accounts for 10 percent of total tariff lines, with the rates being reduced to 5 percent or below by December 31st 2020 (for ASEAN-6 and India, the deadline is 2015). 4 percent of tariff lines in the SL will be eliminated by December 31st, 2023. 50 tariff lines with MFN rates of 5 percent will remain unchanged. The remaining tariff lines will be cut to 4.5 percent immediately after the Agreement takes effect and to 4 percent by December 31st, 2015 for ASEAN-6, while CLMV countries have to fulfill similar commitments by December 31st, 2020.

The Special List includes some of India's highly sensitive products which are key export products of Vietnam. In response to Vietnam's request, India agreed to reduce tariff to 45 percent for coffee and black tea, and 50 percent for pepper by December 31st 2018.

The HSL consists of 244 tariff lines which are divided into three groups: (i) those being reduced to 50 percent; (ii) those being reduced by 50 percent; and (iii) those being reduced by 25 percent. The deadline for completion is December 31st 2023.

The GEL has 485 tariff lines, covering the products excluded from tariff reduction. India retains 489 tariff lines in the list which accounted for 5 percent of trade value. With such a large scope of exclusion, the GEL includes most of the products which Vietnam chooses to protect.

Similar to other FTAs, tariff reduction by Vietnam in the early years (after the agreements) is rather slow. The pace will however accelerate towards the end of the reduction roadmap.

### Vietnam-Japan Economic Partnership Agreement

Being the first bilateral FTA that Vietnam has signed, the recent Vietnam-Japan Economic Partnership Agreement (VJEPA) has comprehensive coverage, including regulations on trade in goods, services trade, investment, intellectual property, competition, government

procurement and other areas of economic cooperation. The agreement was signed in December 2008 and came into force on October 1st 2009. Tariff commitments between Vietnam and Japan under VJEPA are based on the request-offer method, rather than following some specific model as in other FTAs. In terms of general commitments, Vietnam agreed to phase out 87.66 percent of trade value within 10 years. Accordingly, Vietnam will include 8,873 out of 9,390 tariff lines in the Tariff Commitment Schedule (excluding 57 lines of CKD automobile and 428 lines without tariff reduction). In particular, immediately after the Agreement came into effect, Vietnam had to bring 2,586 tariff lines (28% of 9,390 tariff lines in the Tariff Commitment Schedule) to 0%, mainly chemical, pharmaceutical products and electronic products. By 2019, another 3,717 products will have their tariff reduced to 0%, thereby lengthening the list of duty-free products to 6,303, i.e. 67% of lines in the Tariff Commitment Schedule.

Evidently, Vietnam's preferential treatment for Japan is rather low in comparison with those provided by other ASEAN countries under bilateral agreements with Japan. The main sectors which Vietnam chooses to protect are: (i) alcoholic beverage, oil and petrol; (ii) automobile and spare parts, machinery; (iii) iron and steel; (iv) chemical and textiles; (v) beverage, motor vehicles, motorbikes.

Meanwhile, Japan will have to liberalize 94.5% of trade value within 10 years. Immediate tariff elimination will be undertaken for 69.6% of trade value (the highest proportion among the EPAs signed between Japan and ASEAN countries). 1,638 tariff lines have the best preferential treatment that Japan provides for some ASEAN countries. In particular, Japan's commitments on agricultural products are the most open compared to those with other ASEAN countries. Japan is committed to abolish tariff for 83.8% of Vietnam's agricultural exports within 10 years, which also represents the highest commitment among EPAs with ASEAN countries. The products from Vietnam that are guaranteed with best preferential treatment (in comparison with other ASEAN countries) by Japan include honey (with the annual quota of 100 tons, to be raised gradually to 150 tons; the tariff within quota is 12.8%), ginger, garlic, litchi, durian, shrimp and crab. According to statistics, 23 out of top 30 agricultural, forestry and fishery export products from Vietnam to Japan will enjoy zero-percent tariff rate immediately or within 10 years.

Given the guiding principles, it is important to have a "common concession" approach from the members. Under common concessions, a member should open up the same products to all other members of the FTA. Given the current status of existing ASEAN + 1 FTAs, Fukushina (2013) proposed a target of 95% tariff elimination in the RCEP allowing a country to choose up to 5% of products to protect (roughly 250 tariff lines at the HS 6-digit level), while opening up the rest. Bearing in mind that the 95% coverage target is not seriously problematic for China, Malaysia, Philippines, Thailand, Brunei, Singapore, Australia, New Zealand; not problematic for Japan and Korea with some movement on agriculture; however, the target is challenging for Indonesia and CLMV, and is seriously challenging for India (Elms 2013).

As for Vietnam, the common concession tariff rates should be realistically based on ASEAN-Australia-New Zealand Free Trade Area Agreement (AANZFTA). Being the key rationale for choosing this FTA framework, the proportion of average tariff elimination for Vietnam and for AANZFTA is highest, accounts for 94.8% and 95.6%, respectively. Moreover, among the five FTAs, AANZFTA has the lowest average tariff rates and quite broad scope of commitments. All these characteristics still meet the Guiding Principles' of the RCEP satisfactorily, whilst allowing for some feasibility in progressing negotiation.

## 2.2. Other new issues in RCEP

Regarding issues of new generations of FTAs (TPP, Vietnam-EU FTA), as noted previously, the RCEP is much less ambitious than the TPP's agenda, which covers many items such as intellectual property rights, environmental protection, labor, financial services, technical barriers and other regulatory issues. These issues are well defined for negotiating among TPP members, but not among RCEP participants. Nonetheless, given the gradualism approach under the ASEAN style, commitments under these new issues may be negotiated and agreed over time. Key issues for the RCEP are economic and technical cooperation, intellectual property, competition, and dispute settlement.

### Economic and technical cooperation

Economic and technical cooperation under the RCEP will aim at narrowing development gaps among the parties and enhancing mutual benefits from the implementation of the RCEP agreement. The economic and technical cooperation provisions in the RCEP will build upon existing economic cooperation arrangements between ASEAN and ASEAN's FTA partners participating in the RCEP. Cooperation activities should include electronic commerce and other areas that would be mutually agreed upon by the RCEP participating countries. More importantly, RCEP will help coordinate efforts by various advance member economies to reduce development gaps for ASEAN.

### Intellectual property

In principle, the text on intellectual property in the RCEP will aim to reduce IP-related barriers to trade and investment by promoting economic integration and cooperation in the utilization, protection and enforcement of intellectual property rights. However, to date, the approach for intellectual property remains to be defined (Elms 2013).

If the developed-country standard TPP approach is taken into account, key issues of intellectual property for the RCEP would include the followings:

+ Internet related issues e.g. internet retransmissions, liability of ISPs, criminalization of breaches;

+ Public health-related issues concerned (i) 'access to medicines' issues (patent extensions, patent linkages, data exclusivity); (ii) issues related to pharmaceutical pricing and reimbursement programs; *and*

+ Issues of patent, copyright and trademark.

### Competition

The provisions on competition will form the ground for parties to cooperate in the enhancement of competition, economic efficiency, consumer welfare and the avoidance of anti-competitive practice while cognizant of the significant differences in the capacity and national regimes of RCEP participating countries in the area of competition.

One among a number of important provisions of the competition issues is related to the SOEs. Relevant information is largely provided in WTO rules concerning state trading, the Subsidy and Countervailing Agreements. Article XVII of the GATT/WTO was enacted to regulate state trading, but the definition of "state trading enterprise" ("STE") is left ambiguous to allow a good deal of leeway.[8] The gist of the Article XVII lies in the principles

[8]Under Article XVII, STEs are required to abide by general principles of non-discriminatory treatment. More specifically, an STE shall make its purchases and sales "solely in accordance with commercial considerations" and shall "afford the enterprises of the other contracting parties adequate opportunity, in accordance with customary business practice, to compete for participation in such purchases or sales." This is often considered to

of "non-discriminatory treatment obligation", "solely based on commercial consideration" and "adequate opportunity to compete." In addition, the definition of STEs and the relevance of that definition for SOEs have not always been clear, creating consequently the disagreements in the exact meanings of these concepts.[9]

Other issues that are to a lesser extent related to the competition is the government procurement agreement (provision of Transparency in Government Procurement). [10] Government procurement has been treated quite differently in trade agreements involving the US, for instance, the Trans-Pacific Partnership Agreement (TPP), in which government procurement commitments is a very important element. In contrast to US-led FTAs, Asian-based FTAs have excluded government procurement or included procurement-light provisions. For example, among the PRC and India FTAs in effect in June 2011, all procurements were omitted, with the exception of one Indian agreement with the Republic of Korea. Nevertheless, that agreement only provided for cooperation with respect to procurement. Similarly, the ADB 2013 Asian Economic Integration Monitor concluded that the ASEAN trade agreements "do not effectively address" government procurement or other non-tariff barriers.

Notably, the majority of RCEP members haves committed to non-Asian agreements (largely with the US)[11], or are engaged in negotiations that will include coverage of procurement (China, Malaysia and Viet Nam in the negotiation of the TPP).Only seven RCEP members (Cambodia, Indonesia, Laos, Myanmar, Philippines, Thailand, and India) are not party to any GPA.

The trend of Asian agreements to avoid government procurement commitments seems likely to continue in the RCEP. At March 2014, the RCEP had not included government procurement (Grier 2014). As an important note, however, if the RCEP members do not include government procurement commitments, they will miss important opportunities to enter other members' markets and strengthen regional integration.

### Dispute settlement

The RCEP may include a dispute settlement mechanism that provides an effective, efficient and transparent process for consultations and dispute resolution. Dispute settlement is vital to secure member's implementation of broader and deeper engagement to overarch their changing motivation to comply, caused by domestic pressure. Dispute settlement was, however, not discussed in the first round of RCEP meeting negotiation (Pan 2013).

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be the substantive obligation contained in Article XVII. In addition, the Contracting Parties were required to notify GATT of their state trading practices; this is normally referred to as the transparency obligation.

[9]Xuejun XIE , "WTO Rules on State-Owned Enterprises and Implications for Chinese SOE Reforms".

[10]There are 12 issues identified as important for transparency in government procurement. These are: definition and scope of government procurement; procurement methods; publication of information on national legislation and procedures; information on procurement opportunities, tendering and qualification procedures; time-periods; transparency of decisions on qualification; transparency of decisions on contract awards; domestic review procedures; other matters related to transparency; maintenance of records of proceedings; information technology; language; fight against bribery and corruption; information to be provided to other governments; WTO dispute settlement procedures; and technical cooperation and special and differential treatment for developing countries (Jean Heilman Grier 2014).

[11] Six members have undertaken B obligations in other non-Asian agreements; four (Australia, Japan, the Republic of Korea, and Singapore) have government procurement commitments with the US under the GPA or an FTA. Two other RCEP parties (Brunei Darussalam and New Zealand) are parties to the Trans-Pacific Strategic Economic Partnership Agreement (P4 Agreement), which includes government procurement commitments and was the precursor to the TPP.

Bearing in mind that dispute settlements in ASEAN+1 have the general structure borrowed from the WTO dispute settlement[12] and are likely to have less judicial elements– the reverse consensus of panel report adoption. The nature of dispute settlements in ASEAN+1 is arbitration which is confidentiality and flexibility of procedures.

In the upcoming years, the RCEP will fundamentally change its usual structures into a complex one. Disputed measures of one member may involve multilateral parties. RCEP members are at an important stage of narrowing the gaps with international practice, such as a more rule-oriented approach in regional dispute settlement. More transparent dispute settlement procedures can also convey more informative message to the business community in how to make use of the RCEP rules and act strategically and efficiently in the process of outsourcing and building up their production lines.

### Key Issues and challenges

Building on current ASEAN+1 FTAs, as provided in the first Guiding Principle would be a good beginning since they have already formed basic commitments and modalities of negotiation. Nevertheless, it is more difficult to harmonize, deepen and broaden these commitments due to the diversity of the agreements. Another challenge is how to balance full and deep commitments to trade and investment liberalization and economic integration, with flexibility to allow members to protect sensitive industries – which differ across members.

Realization of benefits brought about by joining the RCEP depends largely on addressing several challenges during the negotiation phase. The first challenge would be how to overcome the risks, arising from negotiating partners with different levels of development and varying interests. The flexibility clause stated in the Guiding principles could help RCEP members break deadlocks and protect national interests, but could also limit, change or curtail progress in achieving greater liberalization (Sinha and Geethanjali Nataraj 2013).

There have been concerns over too-fast opening of the domestic markets. Many AMSs and partners (for instance, India) are currently under pressure to bring about steep reductions in its tariffs. Indeed, a steep tariff reduction for goods from China has long been the biggest threat for negotiators and the industry, fearing a rush of very cheap goods from across the border. Additionally, some countries such as Singapore, which has near zero tariffs on almost all of its goods, and Malaysia, where 90% of trade is carries a negligible customs duty, would also exert pressure on partners (say India) to lower barriers. As a result, some negotiators are looking at possible options to avoid or minimize short-term costs, whilst realizing the relatively larger benefits from opening markets and implementing structural adjustment.

Given the guiding principles, it is important to have a "common concession" approach from the members. Under common concessions, a member should open up the same products to all other members of the FTA. Given the current status of existing ASEAN + 1 FTAs, Fukushina (2013) proposed a target of 95% tariff elimination in the RCEP allowing a country to choose up to 5% of products to protect (roughly 250 tariff lines at the HS 6-digit level), while opening up the rest.

For Vietnam, it is reasonable to assume the year 2015 (perhaps the second half) as baseline/beginning year for RCEP agreements' implementation and 2030 as the target year for tariff elimination. Zero tariff in 2030 is proposed as the common concession tariff rates. 2030 is after the accomplishment of five ASEAN +1 FTAs (the latest date of tariff elimination for Vietnam is 2025 for as agreed by AJCEP) (see Table 3)). The 2015 baseline tariff rates are defined as medium (for almost all cases) of averaged tariff rates of each commodity committed in relevant FTA+1.

[12] Under the WTO dispute settlement framework, there are three types of complaints: (1) violation complaint; (2) non-violation complaint; and (3) situation complaint.

Table 6 presents sectors/commodities with the Vietnamese average tariffs for imported commodities from 6 ASEAN partners agreed by 5 FTA +1. The selection of each group of commodities is exclusively based on: (i) the 2015 average tariffs (lowest among FTA+1s and substantial rates (with exclusion of peak-tariff of a few tariff lines) among tariff lines of each FTA+1. As many tariff lines have already been eliminated, the rates of from about 1% to 10% are most prevailing and rather high (except for tariff rates for automotives, which are scheduled to be reduced substantially since 2018); and (2) commodities with significant import values in recent years. Indeed, chemicals; plastic materials and products; fibers, yarns and cotton types; computers, electronic products and peripherals, and so on have long had the highest trading values and volume among ASEAN members and partners (for instance, Japan, China, Korea, India). Taking China as example, Vietnam imports from this country a large volume of all 7 items presented in Table 6. Key import items from South Korea are Computers, electronic products and peripherals; Chemicals; Plastic materials and products. A similar import structure is also true for the case of Japan.

The reason of choosing year 2030 as Tariff Elimination Target Year is based on the fact that 2025 is the latest year of completion AJFTA for Vietnam. As such, the period of 5 year (2030) following all FTA+1s deadlines is reasonable space of time for Vietnam as a developing country to liberalize further and efficiently.

As the chosen sectors/sub-sectors are among the most protected sectors/subsectors and among the most imported items from Vietnamese ASEAN peers and partners in recent years, the reduction of tariff from 1% and 10% to 0% will certainly, other things being equal, create the largest impact on corresponding sectors/sub-sectors. Surely, these (sub-)sectors will mostly be impacted when the RCEP commitments are implemented.

**Table 6: Vietnam's average tariffs of key commodities (2015)**

| | | *ACFTA (2011/ 2015)* | *AKFT (2015)* | *AIFTA (2015)* | *AJFTA (2015)* | *ANZFTA (2015)* | ***Base-line 2015*** | ***Tariff Elimi-nation Target Year (2030)*** |
|---|---|---|---|---|---|---|---|---|
| 1 | Chemicals (HS-37-38) | 1.27/~0.00 | 0.00 | 2.4 | 1.3 | 0.94 | **0.94** | **0.00** |
| 2 | Plastic materials and products (HS 39) | 7.70/ ~0.00 | 0-5 | 6.7 | 0.9 | 4.7 | **0.9** | **0.00** |
| 3 | Fibers, yarns and cotton types (HS52, 53, 54,55) | 4.79/~0.00 | 0.00 | 2.5 | 0.0 | 7.06 | **2.5** | **0.00** |
| 4 | Computers, electronic products and peripherals (HS 85) | 8.49/ ~0.00 | 0.00 | 6.8 | 2.9 | 5.67 | **2.9** | **0.00** |
| 5 | Iron and steel (HS 73) | 8.38/~0.00 | 0.00 | 7.6 | 1.4 | 7.26 | **1.4** | **0.00** |
| 6 | Paper and paper products (HS 48) | 10.17/~0.00 (for paper products only) | 0-5 | 8.7 | 4.8 | 9.3 | **4.8** | **0.00** |
| 7 | Petroleum (HS 2709-2710) | 14.69/~0.00 | 0-5 | 5 | 10.9 | 10 | 10 | 0.00 |

*Source: Authors' calculations from five ASEAN + 1 FTAs' agreements*

Theoretically, assessment of impacts of tariff reduction on output, value added, investment and labor of a sector can be made with econometrics tools, for instance, using Partial Equilibrium Model. However, given the limited resources, weighing policy-making significance and considering the deployment of more appropriate Computable General Equilibrium in Section IV, this section conducts no quantitative assessments of the impacts. More important, given the fact that some Vietnamese statistical indicators such as labor,

investment are not provided in consistent (HS) classification, the assessment can be less reliable to any level of acceptable errors.

### Sensitive products

Apart from the guidelines principles (simplicity, one sensitive list of commodities import from all ASEAN partners for one country), the commodities included in the sensitive list of Vietnam are (i) prevailing presence in SL in existing FTA+1s; (ii) having currently high tariff rates, high production outputs and numerous workforces.

**Table 7: Vietnam's sensitive list (2015)**

| HS_CODE | DESCRIPTION |
|---|---|
| 7213 | Bars and rods, hot-rolled, in irregularly wound coils, of iron or non-alloy steel. |
| 7210 | Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated. |
| 7315 | Chain and parts thereof, of iron or steel. |
| 6810 | Articles of cement, of concrete or of artificial stone, whether or not reinforced. |
| 8408 | Compression-ignition internal combustion piston engines (diesel or semi-diesel engines). |
| 8702 | Motor vehicles for the transport of ten or more persons, including the driver. |
| 8711 | Motorcycles (including mopeds) and cycles fitted with an auxiliary motor, with or without side-cars; side-cars. |
| 8712 | Bicycles and other cycles (including delivery tricycles), not motorized. |
| 27101112 | Unleaded petrol, high quality |
| 8413 | Pumps for liquids, whether or not fitted with a measuring device; liquid elevators. |

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Despite wide variation of substantive scopes and specific coverage of existing FTAs, one of the main focuses of the RCEP is to harmonize existing rules and their applications within various ASEAN FTAs. Like other new-generation FTAs, the RCEP contains both traditional issues such as tariff reduction and elimination as well as new ones related to trade and investment liberalization, namely economic and technical cooperation, intellectual property, competition, etc. Obstacles to tariff reduction and elimination within the framework of the RCEP include differences in levels of tariff elimination commitments under existing FTAs and end-year of the transition periods in the respective FTAs. Meanwhile, non-tariff barriers are important factors that can significantly affect the value of tariff elimination and reduction.

As the RCEP negotiation process is still at early stage, it will be difficult to predict the contents of issues of interests with regards to the above mentioned factors as well as uncertainties in terms of the RCEP's structure and its membership. Realization of benefits of the RCEP depends largely on addressing several challenges during the negotiation phase, including how to overcome the risks, arising from negotiating partners with different levels of

development and varying interests and concerns over too-fast an opening of the domestic markets. Given the guiding principles, it is important for RCEP members to have a "common concession" approach within a reasonable time frame, taking into consideration the specific development situation of each member.

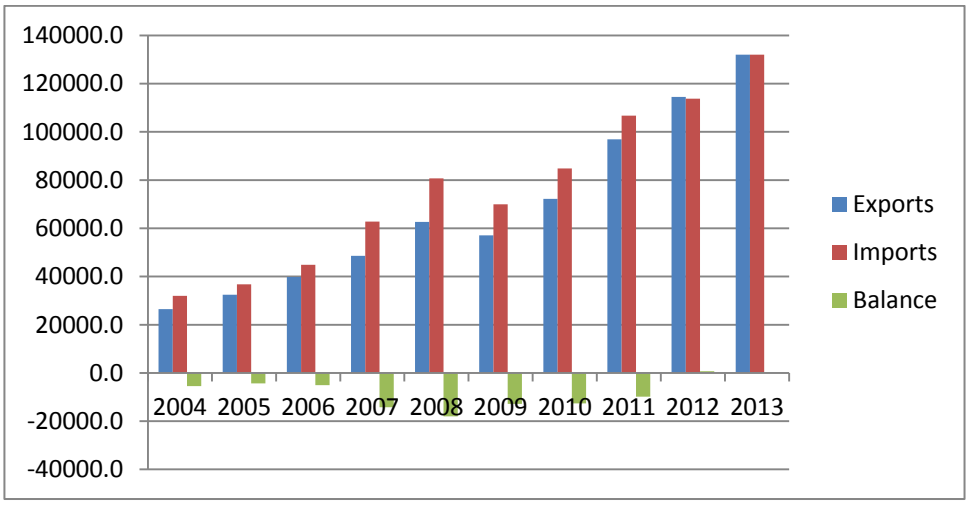
# III. SECTORAL ANALYSIS

This Section presents the key findings from sectoral analysis on the possible impacts of the RCEP, focusing on different sectors and aspects of Vietnam's economic performance. As noted above, the Section considers impacts of market access commitments only. Given limitations of time and scope, the sectoral analysis excludes impacts of commitments in other aspects such as SPS, TBT, government procurement, IPR and trade facilitation.

## *1. Vietnam's trade by partner*

Figure 3 illustrates Vietnam's exports, imports and balance of trade of goods during the period of 2004-2013. Accordingly, exports maintained an upward trend, up from USD 26.5 billion in 2004 to USD 62.7 billion in 2008, dropping to USD 57.1 billion in 2009 but then continuing to go up to USD 114.5 billion in 2012.In 2007 and 2008, exports grew at relatively high rates of 21.9% and 29.1%, respectively. The effects of the financial crisis and economic recession resulted in the drop of 8.9% in 2009 before exports value bounded back in the following years. Overall, during the period of 2007-2013, exports increased by 2.72 times from USD 48.56 billion in 2007 to USD 132.03 billion in 2013,and attained the average annual growth rate of 18.67%, but still slower than in the period of 2002-2006 (21.5%).

**Figure 3: Vietnam's imports, exports and balance of trade of goods, 2004-2013 (Mill. USD)**




*Source: Authors' calculation from GSO database. Data for 2013 are taken from Vietnam's General Department of Customs*

The ratio of exports of goods/GDP also took an upward trend, reaching77% in 2013, higher than the rate of 64.3% in 2008 and only 26.2% in 1995.[13]In addition, total exports of goods and services also increased continuously, attaining 63.7% in 2005, 72.0% in 2010 and jumping to 83.9% in 2013. These growth rate are relatively high in comparison to that of other Asian countries and the world. Thus, even in a volatile economic environment, Vietnam was able to make the best of its export potentials. Vietnam's export achievement can be partly explained by the expansion of world trade growth. Studies by Vo and Nguyen (2011) show that the contribution of world trade growth to Vietnam's exports growth jumped from 53% in the 2001-2004 period to 61% in the 2004-2007. In addition, estimated results revealed Vietnam's exports were also significantly affected by world economic growth, with exports

[13] http://baodientu.chinhphu.vn/Kinh-te/Do-mo-cua-nen-kinh-te-va-van-de-dat-ra/199039.vgp, accessed on 18 August 2014

increase by 4.4% if world GDP was 1% higher.[14] Moreover, liberalization and improvement of competitiveness are other drivers of the expansion of Vietnam's exports to the world.

Similar to the trend of exports, Vietnam's import value increased almost continuously, except for the decrease in 2009 due to the financial crisis and economic recession. Imports were doubled in the 2004-2007 period, from USD 31.97 billion to USD 62.76 billion. The figure grew by 40% in 2007 and 28.6% in 2008 before going down by 13.3% in 2009 (USD 69.95 billion). After that, however, imports recovered quickly with the growth rates of 21.3% and 25.8% in 2010 and 2011, respectively. In 2012, import growth was slow to only 6.6% and reached USD 113.78 billion. However, imports grew at the relatively high pace of 16.0% in 2013, and attained USD 132.03 billion. Overall, in the period of 2007-2013, imports increased by 2.10times, with the average growth rate of 16.67%. Thus, imports grew at slower rate compared to the 2002-2006 period, during which imports went up by 2.8 times and the average annual growth was 22.6%. The ratio of imports of goods over GDP dropped from the highest levels of 82.8% in 2008 to only 76.9% in 2013, lower than that of exports, but much higher than the rate of 49.6% in 2000 and 39.2% in 1995. Similarly, imports of goods and services/GDP went down in 2013 compared to previous years (79.79% in 2013 in relation to high levels of 83.52% and 80.21% in 2010 and 2011)[15].

Notably, unlike exports, imports only went up significantly in a couple of years after Vietnam became member of the WTO and the growth rate has slow down afterward. As an explanation, Vietnam has gradually adapted to the WTO "games", at both the policy and enterprise levels. The government and policymakers gradually introduced more measures to ensure the effectiveness of imports and became able to restrain import more effectively without violating WTO regulations (CIEM, 2013). Meanwhile, to some extent, Vietnamese products became more competitive relative to imported ones. Estimation by Truong Dinh Tuyen et al. (2011) reveals several factors that influenced imports in the 1990-2010 period. On the one hand, the increase of the nominal VND/USD exchange rate made Vietnam's products more expensive (in real terms), thereby attracting higher imports. Meanwhile, the disbursement of FDI capital also increased demand for imported goods. Specifically, if disbursed FDI capital went up by 1%, the import volume rose by about 0.3%. High GDP growth is also associated with higher demand for imported goods to serve domestic consumption and production. To emphasize the situation, the tariff cut under WTO commitments will induce further import demand *in the absence of technical measures to restrain import.*[16]

Due to the slower growth rate of imports compared to that of exports in recent years, especially since 2009, Vietnam's trade deficit gradually decreased from USD 18.03 billion in 2008 to USD 12.60 billion in 2010 and USD 9.84 billion in 2011. In 2012, exports even exceeded imports, resulting in a surplus of USD 0.75 billion, the first surplus in the last 20 years. This trend continued in 2013, when total exports slightly exceeded imports. This partly reflects the effectiveness of the country's efforts to promote exports, resulting in high growth rate of exports. Meanwhile, the stagnant of the domestic production was attributed to significant decrease of import demand of inputs (machinery and equipments, materials for domestic production, etc.). This situation was contrary to the early years after the WTO accession, during which imports increased dramatically without control while exports could not pay-off.

[14]CIEM (2013, p. 64).
[15] http://baodientu.chinhphu.vn/Kinh-te/Do-mo-cua-nen-kinh-te-va-van-de-dat-ra/199039.vgp, accessed on 18 August 2014
[16]CIEM (2013, p. 65).

## 1.1. Exports

Vietnam's exports to most markets experienced an upward trend during the period of 2001-2006. Notably, some markets attained very high growth rate, namely the US (47.9%), ANZ (20.14%), Korea (19.20%), China (17.83%), and ASEAN (17.9%). However, the global financial crisis and economic recession in 2007-2008 resulted in a significant decline of global aggregate demand and consequently of Vietnam's exports in 2007 in comparison to the previous period. As such, exports to some trading partners went down dramatically in 2008-2009 and experienced negative growth rates. Exports to the US still increased, but its growth rate went down to 14.46% during the 2007-2013 period, 33.44percentage points lower than the previous period – the most significant decrease among all major trading partners of Vietnam. During the same period of 2007-2013, exports EU and India achieved a positive growth rate of 13.69% and 46.85%, respectively. While exports to EU only experienced a slight decrease compared to the previous period of 0.17 percentage point, the ANZ market witnessed even a negative average growth rate during the period (-0.17% annually), resulting in the drop by 20.31 percentage points compared to the 2001-2006 period, the second largest behind the US market.

The positive sign was that exports to other main destinations still achieved impressed growth rates recently, especially to China and Korea. Between 2007 and 2013, exports to China and Korea went up by 26.98% and 32.46%, respectively, which were 9.15percentage points and 13.26 percentage points higher in comparison to the period of 2001-2006. Exports to Japan also increased at a high rate of 14.47%, representing a rise by 2.18 percentage points. ASEAN continued to acquire more exports from Vietnam with the growth rate of 17.90%, slightly higher than the 2001-2006 period. The dramatic expansion of exports to China and Korea could be partly explained by the impacts of ASEAN-China FTA and ASEAN-Korea FTA. Exports to India, though attained very high growth rate of 50.89% during 2001-2006, but were not significant in terms of absolute value, which was about USD 159.83 million in 2006 compared to USD 13.5 million in 2000. However, exports to this market still maintained its high growth rate, attaining rate of 46.85% per annum during 2007-2013, and reached almost USD 2.35 billion in 2013, despite the fact that India still keeps a lot of restrictions in many aspects of the ASEAN-India trade in goods agreement. The AANZFTA has not promoted Vietnam's export to ANZ as the total exports of Vietnam to the market fell by 0.17% during the period of 2007-2013, a total contradiction from the period of 2001-2006. (Table 8).

**Table 8: Vietnam's growth of exports to selected trading partners, 2001-2013 (%)**

| Export growth | 2001-2006 | 2007-2013 | Change |
|---|---|---|---|
| | (1) | (2) | (3) = (2) – (1) |
| **ANZ** | 20.14 | -0.17 | -20.31 |
| **ASEAN** | 17.79 | 17.90 | 0.12 |
| **CHINA** | 17.83 | 26.98 | 9.15 |
| **EU25** | 14.47 | 13.69 | -0.78 |
| **INDIA** | 50.89 | 46.85 | -4.04 |
| **JAPAN** | 12.29 | 14.47 | 2.18 |
| **KOREA** | 19.20 | 32.46 | 13.26 |
| **US** | 47.90 | 14.46 | -33.44 |

*Source: Authors' calculation from COMTRADE database for 2001-2012; data for 2013 are from GSO.*

Table 9 reveals the great concentration of Vietnam's exports to several destinations. The US, EU and ASEAN are the three biggest export markets of Vietnam, followed by Japan and China. However, the share of the 5 countries and territories continuously decreased during the 2004-2013 period, attained about 77% in 2004 and 2007, and slightly decreased to 72.7% and 70.1% in 2012 and 2013, respectively. This fact partly resulted from Vietnam's strategy to diversify its export destinations. On the other hand, it also reflects the deterioration of Vietnam's competitiveness in traditional markets.

Specifically, the US share in total exports of Vietnam reached the highest of 20.82% in 2007 before continuously decreasing in the following years, and attained just 17.18% in 2012, the lowest in the period of 2007-2012. However, the US's share increased again to 18.06% in 2013, the second largest behind the EU. The share of EU25, went down from 18.72% in 2007 to only 15.75% in 2010 before increasing again to more than 17.65% in the period of 2010-2012, and reached 18.42% in 2013. Exports to ASEAN, Japan and Korea lowered their shares during 2008-2009 and only recovered in 2011-2013. Accordingly, ASEAN, Japan and Korea respectively accounted for 13.95%, 10.32% and 5.01% of total exports of Vietnam in 2013. Unlike other export destinations, exports to China fell after Vietnam's accession to the WTO in 2007 but kept growing since then, even during the global financial crisis and economic recession, and attained 10.02% in 2013 in comparison to only 7.51% in 2007. This reflects the fact that after the WTO accession, Vietnam somewhat shifted its exports to other markets rather than China. Yet when the economic recession undermined demand of other export destinations, China was still an important trading partner of Vietnam, especially for some agricultural commodities which accounted for about 31% of total Vietnam's exports to the market. The high concentration of export markets means that the country efforts to diversify its export markets have not created significant change, so Vietnam is highly vulnerable to shocks in any major markets. Vietnam's exports to ANZ, India and even Korea are relatively modest despite of considerable growth rate of exports to those markets, except for ANZ. Notably, transportation costs in the context of globalization have been significantly reduced but still have a significant effect on trade flows to many countries (Doanh and Heo 2009; Trang et al. 2011). This presents a reason for the significant share of exports as well as imports of geographically close neighboring countries, namely China or ASEAN, and falling shares in other countries like ANZ.

**Table 9: Share of export of Vietnam by country and territory, 2004-2013 (%)**

| Export | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| **ANZ** | 7.29 | 8.54 | 9.40 | 7.97 | 7.06 | 4.30 | 3.91 | 2.84 | 2.96 | 2.87 |
| **ASEAN** | 15.28 | 17.70 | 16.09 | 16.70 | 16.49 | 15.34 | 14.35 | 14.09 | 15.22 | 13.95 |
| **CHINA** | 10.95 | 10.01 | 8.14 | 7.51 | 7.74 | 9.46 | 10.72 | 11.98 | 11.21 | 10.02 |
| **EU25** | 18.84 | 17.08 | 17.91 | 18.72 | 17.36 | 16.46 | 15.75 | 17.03 | 17.65 | 18.42 |
| **INDIA** | 0.30 | 0.30 | 0.35 | 0.37 | 0.62 | 0.73 | 1.37 | 1.60 | 1.56 | 1.78 |
| **JAPAN** | 13.37 | 13.38 | 13.16 | 12.54 | 13.51 | 11.10 | 10.70 | 11.45 | 11.41 | 10.32 |
| **KOREA** | 2.30 | 2.05 | 2.12 | 2.56 | 2.86 | 3.64 | 4.28 | 5.02 | 4.87 | 5.01 |
| **USA** | 18.98 | 18.27 | 19.71 | 20.82 | 18.99 | 19.99 | 19.73 | 17.51 | 17.18 | 18.06 |

*Source: Authors' calculation from COMTRADE database for 2001-2012; data for 2013 are from GSO.*

Table 10 presents the trade intensity of Vietnam with some selected trading partners from 2010 to 2012, which shows the importance of trade with these trading partners in comparison

with trade to the rest of the world. A value greater than unity indicates larger trade flows than might be expected.It shows that Japan, ASEAN, China, and Korea are still important customers of Vietnam's export with the index being larger than 1 during the period of 2004-2012. However, the attractiveness of ASEAN market continuously declined in 2010-2012 as the index dropped to only 1.90 in 2012 compared with the highest of 3.06 in 2009 though it is still greater than 1. Japan is always an important export market of Vietnam. Vietnam's trade intensity index with Japan maintained the high value of more than 2 during the period of 2004-2012 with the peak of 3.29 in 2009.

Trade intensity of Vietnam with China and Korea varied considerably during the studied period. Korea is increasingly more attractive with the index having exceeding 1 since 2007 and maintaining the value between 1.5-1.7 during the period of 2009-2012. Vietnam's exports to China became smaller in 2006-2008 as the index was below 1. The attractiveness of China grew since 2009 when the trade intensity increased to 1.42, then down to 1.04 in 2010 before recovering to 1.20 and 1.34 in 2011 and2012, respectively. ANZ is a promising market with the index larger than unity. Yet its attractiveness has lessened gradually in recent years, which is consistent with the decrease of Vietnam's exports to this market. The trade intensity index of Vietnam with ANZ was only 1.91 in 2012 compared to the peak of 7.63 in 2006 and then continuously decreased to 2.86 in 2010 and 1.98 in 2011.

Although EU25 is one of the most important export markets of Vietnam, the exports to this destination is smaller than might be expected as the trade intensity index always is less than 1 during 2004-2012, despite improving since 2009. The index with EU25 attained 0.64 in 2012 compared to the lowest of 0.45 in 2009. Notwithstanding the highest growth rate of exports to India, this market is still unattractive to Vietnam with its exports attaining a very low trade intensity index. The figure of Vietnam's export trade intensity index with India was only 0.5 in 2010-2012, which considerably increased from that of 0.19 in 2007. Whether the ASEAN – India trade in goods agreement and the Vietnam-EU FTA currently under negotiation can make the EU and India markets become more attractive or not remains to be seen.

**Table 10: Trade Intensity of Vietnam's export to selected trading partners, 2004-2012**

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **ANZ** | 5.66 | 6.52 | 7.63 | 6.31 | 5.33 | 3.10 | 2.86 | 1.98 | 1.91 |
| **ASEAN** | 2.39 | 2.78 | 2.57 | 2.75 | 2.53 | 3.06 | 2.02 | 1.92 | 1.90 |
| **CHINA** | 1.43 | 1.16 | 0.89 | 0.89 | 0.89 | 1.42 | 1.04 | 1.20 | 1.34 |
| **EU25** | 0.65 | 0.59 | 0.60 | 0.62 | 0.59 | 0.45 | 0.57 | 0.63 | 0.64 |
| **INDIA** | 0.24 | 0.27 | 0.26 | 0.19 | 0.28 | 0.44 | 0.54 | 0.59 | 0.55 |
| **JAPAN** | 2.74 | 2.65 | 2.62 | 2.63 | 2.81 | 3.29 | 2.26 | 2.37 | 2.35 |
| **KOREA** | 0.97 | 0.79 | 0.84 | 1.03 | 1.09 | 1.71 | 1.50 | 1.70 | 1.52 |

*Source: Authors' calculation from COMTRADE database.*

The export similarity index of Vietnam with selected trading partners is illustrated in Table 11[17]. Vietnam's export pattern is increasingly reflected in that of China with the export similarity index increasing continuously, from only 41.78 in 2004 to 50.76 in 2009 and amounted to 55.81 in 2012. China's export structure was most similar to that of Vietnam in 2012.The index between Vietnam and China also reached a peak of 57.01 in 2011. Vietnam's

[17]This index is based on the comparison of export structure between Vietnam and each trading partner. The value of the index ranges from 0 to 100: the value of 0 reflects complete dissimilarity of export structures, and the value of 100 implies complete similarity.

export structure is increasingly similar to that of ASEAN and India. The similarity index in relation with ASEAN jumped from only 39.32 in 2004 to around 50 in the period of 2009-2012. The index with India maintained at around 48 in 2008-2012 with the highest of 53.83 in 2009. This level of export similarity partly explains why Vietnam's exports could not penetrate the Indian market (CIEM 2013).

The indices with EU25, Japan and Korea increased steadily. The indices in relation to Korea and EU 25 were about 43 in the period of 2010-2012, about 10 points higher compared to previous years. The export structure of Vietnam differed most noticeably with that of Japan as the export similarity index was lowest during the whole studied period. The continuous growth of the indices with EU 25, Japan and Korea, to a certain extent, can be explained by the movement of export-oriented Japanese and Korean firms to Vietnam, especially in manufacturing and assembling industries.

As a general rule, lower values indicate that more trade may arise between Vietnam and its trading partners. Thus, through the measure of export similarity, Vietnam has more potential opportunity for expanding exports to Japan and Korea, two economies with highly protected agricultural sectors. On the other hand, the FTAs with India and China seem as though they would create few impacts on Vietnam's exports because of the relative similarity of the export bases, though intra-industry trade has been growing along with the growth in global supply chains.

**Table 11: Export Similarity between Vietnam and selected trading partners, 2004-2012**

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **ANZ** | 31.24 | 29.79 | 28.94 | 29.55 | 29.05 | 28.96 | 27.23 | 27.82 | 27.49 |
| **ASEAN** | 39.32 | 40.60 | 43.66 | 45.39 | 50.00 | 49.98 | 50.04 | 50.82 | 50.51 |
| **CHINA** | 41.78 | 41.51 | 42.09 | 43.50 | 44.60 | 50.76 | 55.56 | 57.01 | 55.81 |
| **EU25** | 31.90 | 32.52 | 34.64 | 36.62 | 38.40 | 41.52 | 41.62 | 43.24 | 43.75 |
| **INDIA** | 41.37 | 41.28 | 45.49 | 45.82 | 47.80 | 53.83 | 47.86 | 47.16 | 48.63 |
| **JAPAN** | 19.91 | 20.63 | 23.02 | 25.15 | 27.81 | 29.32 | 32.21 | 33.07 | 32.74 |
| **KOREA** | 25.30 | 25.53 | 28.40 | 30.49 | 34.64 | 34.42 | 39.36 | 43.25 | 43.19 |

*Source: Authors' calculation from COMTRADE database.*

Table 12 tabulates the Trade Complementarity (TC) index between Vietnam and selected trading partners. This index ranges from zero to 100 and compares the export strengths of Vietnam with the import needs, as revealed by actual trade flows, of other countries. High values are indicative of potentially more trade creation and a value of 100 indicates the most favorable match-up. As such, Japan and EU25 were the most compatible partners for products from Vietnam. The index with Japan maintained its high score of more than 50 over the 2004-2012 period, and attained 51.61 in 2012, smaller than 56.68 in 2008 but still the highest among studied countries and territories. Meanwhile, the TC index of the EU25 continuously increased from 38.27 in 2004 to 51.68 in 2011 but slightly reduced to 47.92 in 2012. The figures for ASEAN and Korea were relatively large, ranging around 40 during the same period. However, the index with respect to China fluctuated significantly, up from 29.64 in 2004 to 41.54 in 2008, down to approximately 36 in 2009-2010 before going up again to 38.50 and 39.59 in 2011-2012, respectively. Notably, the index in trade with India dropped considerably during the 2010-2012 period, from 68.46 in 2009 to only 39.59 in 2012. The TC index between Vietnam and the ANZ increased significantly in the period 2004-2008, from 39.82 to 51.11. The index then maintained relatively high and stable scores of more than 50 during the period 2009-2012 with the peak of 52.10 in 2009.

Thus, by the TC index, Vietnam's exports are most likely to meet the import demand of Japan, ASEAN, EU25, and ANZ. Vietnam's export structure also highly satisfies the needs of Korea. India appears to be the least attractive partner for Vietnam's exports with the dramatic decrease of the TC index recently.

**Table 12: Trade Complementarity between Vietnam and selected partners, 2004-2012**

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **ANZ** | 39.82 | 41.10 | 44.30 | 46.23 | 51.10 | 52.10 | 51.68 | 52.07 | 50.11 |
| **ASEAN** | 36.51 | 39.51 | 42.34 | 44.17 | 46.82 | 46.89 | 42.02 | 43.99 | 44.79 |
| **CHINA** | 29.64 | 30.89 | 34.18 | 35.59 | 41.54 | 36.37 | 36.97 | 38.50 | 39.59 |
| **EU25** | 38.27 | 40.09 | 42.24 | 44.50 | 48.06 | 49.15 | 50.61 | 51.68 | 47.92 |
| **INDIA** | 57.43 | 57.35 | 56.74 | 60.58 | 62.46 | 68.46 | 36.05 | 36.71 | 34.48 |
| **JAPAN** | 51.26 | 54.10 | 56.64 | 55.60 | 56.68 | 53.25 | 53.64 | 54.05 | 51.61 |
| **KOREA** | 43.66 | 46.46 | 47.94 | 46.56 | 47.41 | 43.12 | 41.17 | 42.64 | 41.45 |

*Source: Authors' calculation from COMTRADE database.*

## 1.2 Imports

Vietnam's imports from key trading partners grew relatively fast during the period of 2001-2013, in which the pace was slower in the 2007-2013 period compared to the 2001-2006. Notably, the growth rate of imports from the US and Korea were the highest in the 2007-2013 period, which attained 26.89% per annum in 2007-2013, or 8.78 and 12.60 percentage points higher than the previous period (18.10% and 14.29% per annum in the 2001-2006 period). Imports from China also grew at the average rate of around 25.84% between 2007 and 2013, which was down by 6.10 percentage points. Imports' growth rate from the EU25 and Japan were17.05% and 13.79% per year in the period of 2007-2013, respectively, slightly exceeding that in the 2001-2006 period by 2.22 and 1.14 percentage points.

Like imports from China, Vietnam's imports from ANZ, ASEAN and India all grew at slower rates in the 2007-2013 period, resulting in the significant drop of more than 10 percentage points. Specifically, the respective growth rate of imports from India and ANZ both felt by -12.03 and 16.37 percentage points, and reached 18.46% per annum and 7.15% per annum in the same period. Exports from ASEAN to Vietnam attained the average annual growth rate of 7.88% in 2007-2013, or 10.98 percentage points less than the 2001-2006 period.

**Table 13: Vietnam's import growth rate from selected trading partners, 2001-2013 (%)**

| Import growth | 2001-2006 | 2007-2013 | Change |
|---|---|---|---|
| | (1) | (2) | (3) = (2) – (1) |
| **ANZ** | 23.51 | 7.15 | -16.37 |
| **ASEAN** | 18.86 | 7.88 | -10.98 |
| **CHINA** | 31.94 | 25.84 | -6.10 |
| **EU25** | 14.68 | 17.05 | 2.22 |
| **INDIA** | 30.48 | 18.46 | -12.03 |
| **JAPAN** | 12.65 | 13.79 | 1.14 |
| **KOREA** | 14.29 | 26.89 | 12.60 |

| | | | |
|---|---|---|---|
| **US** | 18.10 | 26.89 | 8.78 |

*Source: Authors' calculation from COMTRADE database for 2001-2012; data for 2013 are from GSO.*

Although the growth rate of Vietnam's imports from ANZ and India went down dramatically, the impact was insignificant due to the modest share of imports from those markets in relative to total imports of Vietnam. Nevertheless, the faster growth rates of imports from Korea, Japan, EU25 and the US may be a signal for positive change in Vietnam's import structure because those markets are potential sources of modern technology. Besides, high growth rate of imports from China and ASEAN compared with that from other markets as well as their high proportions in total imports of Vietnam indicate the heavy dependence of Vietnam on imports from these two partners.

In the structure of imports by trading partner (Table 14), China is the most important source of Vietnam's import, followed by ASEAN, Japan, Korea and the EU. The five countries and regions accounted for about 70% of total imports of Vietnam during the period of 2004-2013, and up to 75.78% in 2013.In particular, the share of China went up continuously in the 2004-2007 period (from 24.30% in 2004 to 20.25% in 2007), down to 19.79% in 2008, relatively stable at about 23% in 2009-2011 and jumped up again during 2012-2013, attaining 27.98% in 2013. In contrast, the proportion of ASEAN followed a downward trend since 2006, from 27.95% to only 18.30% in 2012 and 16.16% in 2013. Korea's share in total imports of Vietnam was quite significant and gradually went up from 8.51% in 2007 to 15.68% in 2013.The increase of imports from China also partly occurred due to EPC works that Chinese contractors performed in Vietnam. Thus, trade policy makers should pay attention and better respond to the increasing trend of import from this market, and technical measures should be taken to ensure the quality of imports by EPC contractors (CIEM 2013).

Though being Vietnam's top export markets, the US and EU25 only accounted for modest shares in Vietnam's imports. The figure of the US tended to increase and attained more than 4% since 2009 compared to only about 2% during 2005-2007. Meanwhile, the share of EU25 was maintained at around 7-8% during the same period, except for the fall to only 6.83% in 2008. Vietnam's imports from India and ANZ were quite small too, again questioning the potential impacts of the RCEP to Vietnam's exports and imports with those markets, but it should be borne in mind that this analysis is based on past trade which could be distorted by various constraints that could be addressed in the RCEP.

**Table 14: Share of imports of Vietnam by country and territory, 2004-2013 (%)**

| | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** |
|---|---|---|---|---|---|---|---|---|---|---|
| **ANZ** | 1.78 | 1.68 | 2.81 | 2.08 | 1.98 | 1.86 | 2.12 | 2.35 | 1.90 | 1.55 |
| **ASEAN** | 24.30 | 25.37 | 27.95 | 25.35 | 24.24 | 19.75 | 19.34 | 19.59 | 18.30 | 16.16 |
| **CHINA** | 14.37 | 16.05 | 16.46 | 20.25 | 19.79 | 23.84 | 23.81 | 23.29 | 25.52 | 27.98 |
| **EU25** | 8.43 | 7.06 | 7.00 | 8.18 | 6.83 | 8.33 | 7.49 | 7.25 | 7.70 | 7.16 |
| **INDIA** | 1.86 | 1.62 | 1.96 | 2.16 | 2.59 | 2.34 | 2.08 | 2.20 | 1.90 | 2.18 |
| **JAPAN** | 11.11 | 11.08 | 10.47 | 9.86 | 10.21 | 10.68 | 10.63 | 9.74 | 10.20 | 8.80 |
| **KOREA** | 10.51 | 9.78 | 8.71 | 8.51 | 8.99 | 9.97 | 11.50 | 12.34 | 13.65 | 15.68 |
| **USA** | 3.56 | 2.35 | 2.20 | 2.71 | 3.29 | 4.32 | 4.46 | 4.27 | 4.26 | 3.96 |

*Source: Authors' calculation from COMTRADE database for 2001-2012; data for 2013 are from GSO.*

Similar to the analysis of Vietnam's exports, the trade intensity index of selected trading partners with Vietnam is presented in Table 15. The results show that Vietnam is an attractive market for most trading partners with the index larger than 1 and relatively high. The index was highest in the Korean case, always exceeding 3 in the whole period and even amounting to 4.33 in 2012. Although t somewhat went down since 2009, the trade intensity index of Vietnam's imports from ASEAN still stayed around 3 in 2010-2012, lower than the value of over 4 during the period of 2004-2009, of which the peak was 4.67 in 2006.

**Table 15: Trade intensity index of Vietnam's imports from selected trading partners, 2004-2012**

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **ANZ** | 1.65 | 1.47 | 2.50 | 1.86 | 1.55 | 1.39 | 1.43 | 1.45 | 1.21 |
| **ASEAN** | 4.09 | 4.24 | 4.67 | 4.38 | 4.22 | 3.96 | 2.94 | 3.07 | 2.89 |
| **CHINA** | 1.59 | 1.61 | 1.56 | 1.85 | 1.81 | 2.50 | 1.91 | 1.95 | 2.09 |
| **EU25** | 0.23 | 0.20 | 0.20 | 0.21 | 0.20 | 0.21 | 0.25 | 0.24 | 0.26 |
| **INDIA** | 1.93 | 1.58 | 1.84 | 1.89 | 2.11 | 1.91 | 1.39 | 1.41 | 1.40 |
| **JAPAN** | 1.76 | 1.87 | 1.88 | 1.87 | 2.02 | 2.07 | 1.89 | 1.91 | 2.04 |
| **KOREA** | 3.79 | 3.53 | 3.11 | 3.16 | 3.46 | 3.62 | 3.60 | 3.94 | 4.33 |

*Source: Authors' calculation from COMTRADE database.*

Also, China and Japan enjoyed favorable trade intensities with Vietnam as the indices followed an upward trend in the 2004-2010 period, from 1.59 to 2.09 and 1.76 to 2.04, respectively. India also showed export potential in trading with Vietnam though the index felt from 2.11 in 2008 to only 1.4 during 2009-2012.

Notably, except for Japan, ANZ and EU25, trade intensity indices of Vietnam's imports with the selected trading partners was higher than corresponding figure in the opposite trade direction. As an implication, Vietnam seemed to enjoy net benefits in trade with Japan, ANZ and EU25 while benefits from trading with China or Korea seemed not as large as expected.

Exports of the EU25 to Vietnam were relatively modest, reflected in the very small trade intensity index of Vietnam's import, which was only around 0.2 in the whole period and did not improve at all. As the corresponding index of Vietnam with the EU25 was higher ranging from 0.45 to 0.65 in the same period, Vietnam was favored from trading with this partner. However, due to the small value, the benefits seemed insignificant.

**Table 16: TC index of selected trading partners' exports with Vietnam's imports, 2004-2012**

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **ANZ** | 41.54 | 40.26 | 40.58 | 39.41 | 37.64 | 33.66 | 34.38 | 33.76 | 32.48 |
| **ASEAN** | 47.78 | 50.16 | 52.42 | 53.68 | 57.33 | 60.88 | 57.26 | 60.88 | 62.46 |
| **CHINA** | 39.63 | 40.50 | 41.90 | 43.58 | 44.69 | 53.93 | 47.97 | 50.98 | 56.14 |
| **EU25** | 62.52 | 62.80 | 62.50 | 65.04 | 65.99 | 71.65 | 67.83 | 66.84 | 64.79 |
| **INDIA** | 54.92 | 55.90 | 60.78 | 59.93 | 61.71 | 59.50 | 57.92 | 59.48 | 57.09 |
| **JAPAN** | 48.21 | 48.65 | 49.04 | 53.29 | 54.87 | 60.73 | 58.89 | 58.30 | 60.25 |
| **KOREA** | 55.23 | 53.97 | 52.82 | 55.35 | 59.39 | 61.34 | 60.40 | 65.84 | 70.11 |

*Source: Authors' calculation from COMTRADE database.*

The TC index of selected trading partners' exports with Vietnam's imports is tabulated in Table 16. The TC index of most trading partners follows an upward trend during the 2004-2012 period. Imports from most partners increasingly met Vietnam's demand as the index attained higher values, except for ANZ. In particular, Korea's TC index went up almost continuously (except a slight fall in 2010), and was the highest in 2012 (70.11 compared to the lowest of 53.97 in 2005). The indices of ASEAN and Japan followed similar patterns, ranging from about 48 in 2004 to more than 50 in the 2006-2008, and jumped to around 60 in the 2010-2012 period.

Imports from EU25 maintained its high score in the whole period, which was up to 62.52 in 2004, peaked at 71.65 in 2009 but gradually went down to 64.79 in 2012. Despite the downward trend in 2010-2012 period, EU25's complementarity still ranked second among the studied partners, just less than Korea and even larger than that of ASEAN, Japan and China. The index of China, though not the biggest, achieved the most impressed increase of 16.51 points, from 39.63 in 2004 to 56.14 in 2012. Except for the EU25 and India, the index of other partners all experienced significant improvement, for example Korea (14.88 points), ASEAN (14.69 points), and Japan (12.04 points).

*In short*, the above trade indicators between Vietnam and its trading partners and vice versa indicate that traditional export destinations (such as ASEAN, Europe, the US, etc.) as well as import markets (such as ASEAN, China, Korea, etc.) still dominate Vietnam's trading structure, despite slightly varying importance of certain markets. Vietnam maintains its position as an attractive market to most trading partners though such attractiveness has somehow deteriorated. The country heavily relies on imported inputs to meet the demand of domestic production. Meanwhile, exports from Vietnam also better serve its trading partners. However, Vietnam has encountered more severe competition from such countries that have increasingly similar trading patterns, which makes improvement of its competiveness a profound need.

## *2. Trade by commodity*

## 2.1 Exports

Table **17** depicts the shares of Vietnam's total exports from 2004-2012 by commodities in HS classification. Among agriculture-forestry-fishery (AFF) products, vegetables (HS06-15) was the most important exported products, accounting for more than half of total AFF exported during the period of 2007-2012. Its share increased almost continuously from 48.03% in 2004 to 59.92% in 2012. Note that this group includes some leading exported commodities of Vietnam, namely rice, coffee, pepper, tea, vegetables and fruits. The proportion of animal products (HS01-05), took the downward trend from 41.24% to only 25.10% during the same period. Food products (HS16-24) attained the lowest share though slightly improved since 2006, jumping from 10.73 in 2004 to 15.31% in 2011 but going down to 14.98% in 2012. This indicates the limitation of Vietnam in exporting processed agricultural products. Raw material and products still dominated the AFF export structure of the country.

Also, the structure of industrial exported products reveals the high proportions of assembling products or natural resources and raw materials. Such items as fuel (27), textile and clothes (50-63), footwear (64-67), and machinery and electricity (84-85) were pillars of Vietnam's industrial exports, which combined to about 70% of total exports of industrial products. In particular, the proportion of textile and clothing maintained a relatively stable share of around 20%. Machinery and electricity witnessed the biggest jump among industrial product groups, from only about 10% in 2004-2005 to 21.76% in 2010 and 30.07% in 2011, but then went

down to 18.52% in 2012. However, there was a positive shift toward capital-intensive products such as vehicles and parts, wires and cables, electronics, computers.

**Table 17: Structure of Vietnam's total export by product category, 2004-2012 (%)**

| HS classification | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| ***AFF products*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** |
| 01-05_Animal | 41.24 | 38.74 | 39.46 | 35.13 | 31.65 | 30.79 | 29.70 | 27.64 | 25.10 |
| 06-15_Vegetable | 48.03 | 50.37 | 48.81 | 53.74 | 57.00 | 56.52 | 55.81 | 57.05 | 59.92 |
| 16-24_FoodProd | 10.73 | 10.89 | 11.73 | 11.13 | 11.35 | 12.69 | 14.49 | 15.31 | 14.98 |
| ***Industrial products*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** |
| 25-26_Minerals | 0.73 | 0.50 | 0.57 | 0.61 | 0.64 | 0.61 | 0.59 | 0.83 | 0.91 |
| 27-27_Fuels | 29.83 | 32.46 | 30.40 | 25.91 | 25.32 | 18.92 | 13.78 | 14.07 | 12.07 |
| 28-38_Chemicals | 1.39 | 1.32 | 1.39 | 1.44 | 1.97 | 1.88 | 2.14 | 2.37 | 2.36 |
| 39-40_PlastiRub | 4.60 | 5.25 | 6.51 | 6.44 | 6.14 | 5.78 | 7.44 | 7.29 | 6.18 |
| 41-43_HidesSkin | 1.62 | 1.63 | 1.42 | 1.70 | 1.76 | 1.84 | 1.91 | 1.80 | 1.74 |
| 44-49_Wood | 2.19 | 2.10 | 2.13 | 2.32 | 2.08 | 2.09 | 2.44 | 2.39 | 2.32 |
| 50-63_TextCloth | 22.90 | 20.61 | 20.43 | 22.15 | 20.33 | 23.17 | 22.98 | 21.43 | 19.30 |
| 64-67_Footwear | 13.54 | 12.37 | 11.84 | 10.84 | 10.03 | 9.53 | 9.34 | 8.87 | 8.24 |
| 68-71_StoneGlas | 1.99 | 1.85 | 1.94 | 2.23 | 3.00 | 7.59 | 6.33 | 4.60 | 1.88 |
| 72-83_Metals | 2.36 | 2.64 | 2.78 | 3.33 | 6.07 | 3.21 | 4.82 | 4.99 | 4.53 |
| 84-85_MachElec | 10.44 | 10.63 | 11.63 | 12.57 | 12.68 | 14.61 | 17.66 | 21.76 | 30.07 |
| 86-89_Transport | 1.83 | 1.54 | 1.53 | 1.93 | 2.12 | 1.85 | 2.21 | 2.32 | 2.57 |
| 90-99_Miscellan | 6.58 | 7.11 | 7.43 | 8.52 | 7.87 | 8.94 | 8.36 | 7.28 | 7.83 |

*Source: Authors' calculation from COMTRADE database.*

By sub-sector, crude oils (2709) accounted for a significant share in Vietnam's total exports during the 2008-2012 period (9.22%) though the share gradually decreased (from 16.52% in 2008 to 10.85% in 2009, to only 6.96% in 2010 and 7.3-7.4% in 2011-2012). Other important products are Telephone sets (8517), rice (1006), Footwear with outer soles of rubber (6403), coffee (0901), natural rubber (4001), crustacean (0306), furniture and other thereof (9403), women and girls' clothes and apparel (6204), footwear (6404), etc. Notably, the share of Telephone sets (8517) only increased rapidly recently with the average growth rate of 197.5% per year in the 2008-2012 period. The share of Coal; briquettes, ovoid and similar solid fuels manufactured from coal (2701), 6204, 0306 all decreased (Table 18).

In general, thanks to the efforts by enterprises and the Government as well as the impacts of integration, Vietnam's exports overcame difficulties during the global financial crisis and economic recession, and maintained growth with most key trading partners and in important exported commodities. However, the proportion of high-tech and manufactured products in the structure of exports was modest. Meanwhile, supply of products that experienced high export growth is still constrained by critical factors such as productivity, land area, exploitation capacity (AFF products and minerals) (CIEM 2013). Thus, Vietnam is facing a big challenge to maintain the comparative advantage of key trading products, especially in the context of fiercer competition from other countries with similar export patterns.

In order to analyze the comparative advantage of certain products/industries, the Revealed Comparative Advantage (RCA) index is particularly useful, and frequently used in policy

analysis. When the RCA > 1, the product's share in national exports exceeds its share in world exports and in this sense "reveals" a country's comparative advantage in that product. More importantly, increase in RCA index implies improvement of the comparative advantage in exporting.

**Table 18: Share of major export products of Vietnam, 2008-2012 (%)**

| HS classification | 2008 | 2009 | 2010 | 2011 | 2012 | Grand Total |
|---|---|---|---|---|---|---|
| **2709** | 16.52 | 10.85 | 6.95 | 7.47 | 7.33 | 9.22 |
| **8517** | 0.27 | 1.04 | 2.86 | 6.89 | 11.49 | 5.62 |
| **1006** | 4.62 | 4.67 | 4.50 | 3.78 | 3.21 | 4.00 |
| **6403** | 3.72 | 3.60 | 3.38 | 3.01 | 2.83 | 3.22 |
| **0901** | 3.37 | 3.03 | 2.56 | 2.85 | 3.10 | 2.97 |
| **9403** | 2.94 | 3.05 | 2.95 | 2.33 | 2.32 | 2.63 |
| **4001** | 2.49 | 1.94 | 2.89 | 3.08 | 2.18 | 2.54 |
| **0304** | 2.96 | 2.84 | 2.52 | 2.42 | 2.11 | 2.49 |
| **8443** | 2.16 | 2.30 | 2.44 | 1.97 | 2.03 | 2.15 |
| **6204** | 2.37 | 2.39 | 2.17 | 1.91 | 1.85 | 2.08 |
| **6404** | 1.95 | 1.90 | 2.07 | 1.87 | 1.88 | 1.93 |
| **0306** | 2.24 | 2.45 | 2.23 | 1.80 | 1.39 | 1.92 |
| **6203** | 2.05 | 1.98 | 1.88 | 1.89 | 1.59 | 1.84 |
| **7113** | 0.61 | 2.25 | 3.78 | 2.58 | 0.28 | 1.79 |
| **2701** | 2.21 | 2.31 | 2.15 | 1.65 | 1.05 | 1.75 |

*Source: Authors' calculation from COMTRADE database.*

The RCA index of SITC 2-digit level of aggregation with the world is illustrated in Table 19. Footwear (85) has the greatest competitive advantage with the RCA index of about 15 during 2010-2012. Other products that have a significant comparative advantage are crude rubber (23); fish, crustaceans, molluscs (03); coffee, tea, cocoa, spices (07); clothes and accessories (84); etc.

In particular, some products such as fish, crustaceans, molluscs (03); footwear (85); coffee, tea, cocoa, spices and related products (07); crude rubber (23); etc. became less competitive as the RCA index went down over the years. The RCA index of footwear plunged from 22.10 in 2004 to only 10.76 in 2009 before recovering to around 15 during 2010-2012, but still 7 points less than its peaks. The index of fish, crustaceans, molluscs (03), almost continuously decreased over the same period, and attained only 7.97 in 2012 compared with 10.22 in 2004. The RCA index of coffee, tea, cocoa, spices (07) fluctuated significantly, following an upward trend in the 2004-2007 period, and going down since 2008 to the lowest level of 6.30 in 2011. Petroleum, petroleum products and related materials (33), however, even lost its competitive advantage as the index turned below 1 since 2010.

A positive shift was evident with Animal oils and fats (41), Leather, leather manufactures, n.e.s., and dressed furskins (61), Telecommunications and sound-recording and reproducing apparatus and equipment (76), Miscellaneous manufactured articles, n.e.s (89) when the RCA index of these products increased to more than 1 in recent years. In general, Vietnam seemed to take good advantage of exporting processed and/or resource- or labor-intensive products..

**Table 19: RCA of Vietnam to the world, 2004-2012**

| *2-digit SITC category* | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
|---|---|---|---|---|---|---|---|---|---|
| **00** | 0.39 | 0.37 | 0.41 | 0.35 | 0.29 | 0.06 | 0.14 | 0.10 | 0.09 |
| **01** | 0.19 | 0.15 | 0.13 | 0.15 | 0.13 | 0.10 | 0.08 | 0.07 | 0.07 |
| **02** | 0.04 | 0.02 | 0.03 | 0.05 | 0.05 | 0.10 | 0.04 | 0.02 | 0.02 |
| **03** | **10.22** | **9.91** | **10.49** | **10.10** | **9.99** | **10.57** | **8.51** | **7.89** | **7.97** |
| **04** | **3.48** | **5.71** | **4.20** | **2.94** | **3.67** | **4.93** | **3.78** | **2.98** | **3.06** |
| **05** | **1.73** | **1.72** | **1.76** | **1.80** | **1.94** | **2.16** | **1.94** | **2.11** | **2.07** |
| **06** | 0.47 | 0.33 | 0.32 | 0.57 | 0.68 | 0.71 | 0.66 | 0.57 | 0.63 |
| **07** | **7.66** | **7.80** | **9.48** | **10.60** | **9.15** | **7.32** | **6.30** | **6.55** | **7.06** |
| **08** | 0.11 | 0.08 | 0.18 | 0.17 | 0.15 | 0.30 | 0.43 | 0.47 | 0.43 |
| **09** | 0.01 | 0.59 | 0.59 | 0.66 | 0.60 | 0.72 | 0.50 | 0.49 | 0.51 |
| **11** | 0.07 | 0.08 | 0.08 | 0.07 | 0.12 | 0.20 | 0.10 | 0.14 | 0.14 |
| **12** | 0.44 | 0.22 | 0.19 | 0.29 | 0.30 | **1.03** | 0.43 | 0.31 | 0.31 |
| **21** | 0.51 | 0.53 | 0.49 | 0.79 | 0.84 | 0.13 | 0.49 | 0.44 | 0.43 |
| **22** | 0.34 | 0.28 | 0.13 | 0.15 | 0.05 | 0.18 | 0.08 | 0.03 | 0.02 |
| **23** | **4.57** | **4.09** | **5.51** | **5.24** | **3.81** | **9.61** | **5.49** | **4.47** | **5.49** |
| **24** | **0.74** | **1.07** | **1.19** | **1.77** | **1.76** | **1.71** | **2.55** | **3.70** | **3.84** |
| **25** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **26** | 0.15 | 0.23 | 0.37 | 0.59 | 0.63 | 0.71 | 0.63 | 0.64 | 0.70 |
| **27** | 0.49 | 0.52 | 0.56 | 0.97 | **1.60** | **1.29** | **1.36** | **1.02** | **1.01** |
| **28** | 0.40 | 0.36 | 0.33 | 0.31 | 0.27 | 0.14 | 0.30 | 0.32 | 0.35 |
| **29** | 0.52 | 0.40 | 0.35 | 0.31 | 0.28 | 0.29 | 0.42 | 0.43 | 0.41 |
| **32** | **3.29** | **3.74** | **4.67** | **4.93** | **3.53** | **3.20** | **3.07** | **2.75** | **2.89** |
| **33** | **2.22** | **1.95** | **1.66** | **1.42** | **1.16** | **1.21** | 0.57 | 0.53 | 0.50 |
| **34** | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 | 0.02 | 0.01 | 0.01 | 0.01 |
| **35** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.08 | 0.00 | 0.00 | 0.00 |
| **41** | 0.08 | 0.10 | 0.09 | 0.14 | 0.49 | **1.72** | **1.63** | **1.77** | **1.84** |
| **42** | 0.10 | 0.08 | 0.05 | 0.13 | 0.11 | 0.16 | 0.06 | 0.14 | 0.14 |
| **43** | 0.10 | 0.11 | 0.15 | 0.06 | 0.12 | 0.30 | 0.16 | 0.14 | 0.15 |
| **51** | 0.12 | 0.11 | 0.09 | 0.09 | 0.11 | 0.10 | 0.13 | 0.11 | 0.11 |
| **52** | 0.04 | 0.08 | 0.12 | 0.10 | 0.11 | 0.20 | 0.29 | 0.59 | 0.64 |
| **53** | 0.03 | 0.05 | 0.05 | 0.06 | 0.07 | 0.11 | 0.11 | 0.12 | 0.13 |
| **54** | 0.01 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.03 | 0.02 | 0.02 |
| **55** | 0.36 | 0.29 | 0.27 | 0.27 | 0.33 | 0.36 | 0.30 | 0.33 | 0.33 |
| **56** | 0.07 | 0.02 | 0.03 | 0.13 | 0.63 | 0.58 | 0.26 | 0.44 | 0.45 |
| **57** | 0.04 | 0.09 | 0.20 | 0.19 | 0.18 | 0.20 | 0.14 | 0.16 | 0.17 |
| **58** | 0.15 | 0.20 | 0.28 | 0.27 | 0.25 | 0.26 | 0.34 | 0.38 | 0.39 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **59** | 0.28 | 0.33 | 0.42 | 0.39 | 0.34 | 0.62 | 0.38 | 0.52 | 0.53 |
| **61** | 0.64 | 0.52 | 0.64 | **1.20** | **2.05** | **1.96** | **2.04** | **2.21** | **2.34** |
| **62** | 0.86 | 0.71 | 0.86 | 0.60 | 0.56 | 0.94 | 0.88 | 0.72 | 0.72 |
| **63** | 0.58 | 0.46 | 0.70 | 0.74 | 0.84 | 0.80 | 0.98 | 0.96 | 0.98 |
| **64** | 0.15 | 0.01 | 0.21 | 0.25 | 0.31 | 0.39 | 0.42 | 0.40 | 0.41 |
| **65** | **1.05** | **1.05** | **1.24** | **1.40** | **1.54** | **2.04** | **2.56** | **2.69** | **2.86** |
| **66** | 0.66 | 0.59 | 0.70 | 0.71 | 0.66 | 0.69 | 0.69 | 0.68 | 0.73 |
| **67** | 0.07 | 0.07 | 0.09 | 0.14 | 0.34 | 0.36 | 0.44 | 0.54 | 0.60 |
| **68** | 0.07 | 0.08 | 0.10 | 0.14 | 0.22 | 0.14 | 0.18 | 0.21 | 0.24 |
| **69** | 0.50 | 0.54 | 0.63 | 0.70 | 0.63 | 0.60 | 0.69 | 0.73 | 0.72 |
| **71** | 0.33 | 0.34 | 0.38 | 0.35 | 0.38 | 0.40 | 0.57 | 0.60 | 0.60 |
| **72** | 0.11 | 0.13 | 0.13 | 0.16 | 0.17 | 0.13 | 0.19 | 0.18 | 0.19 |
| **73** | 0.07 | 0.10 | 0.15 | 0.14 | 0.17 | 0.08 | 0.14 | 0.14 | 0.13 |
| **74** | 0.24 | 0.21 | 0.27 | 0.23 | 0.26 | 0.01 | 0.33 | 0.32 | 0.32 |
| **75** | 0.19 | 0.35 | 0.58 | 0.73 | 0.91 | 0.01 | 0.96 | 0.99 | 0.99 |
| **76** | 0.19 | 0.19 | 0.26 | 0.44 | 0.63 | 0.60 | **1.36** | **2.37** | **2.34** |
| **77** | 0.48 | 0.48 | 0.44 | 0.43 | 0.44 | 0.50 | 0.50 | 0.64 | 0.65 |
| **78** | 0.13 | 0.12 | 0.09 | 0.08 | 0.10 | 0.13 | 0.13 | 0.11 | 0.11 |
| **79** | 0.02 | 0.02 | 0.09 | 0.30 | 0.20 | 0.21 | 0.30 | 0.29 | 0.29 |
| **81** | 0.36 | 0.37 | 0.46 | 0.56 | 0.45 | 0.43 | 0.50 | 0.54 | 0.51 |
| **82** | **4.88** | **5.69** | **6.09** | **6.54** | **6.50** | **4.55** | **6.28** | **5.47** | **5.38** |
| **83** | **5.99** | **5.65** | **5.09** | **4.93** | **5.14** | **3.77** | **4.31** | **4.32** | **4.11** |
| **84** | **5.53** | **5.19** | **5.74** | **6.33** | **6.54** | **5.63** | **6.28** | **6.38** | **6.72** |
| **85** | **22.10** | **20.55** | **20.22** | **19.33** | **19.31** | **10.76** | **15.85** | **15.00** | **15.23** |
| **87** | 0.12 | 0.11 | 0.17 | 0.16 | 0.20 | 0.15 | 0.23 | 0.26 | 0.25 |
| **88** | 0.26 | 0.26 | 0.29 | 0.39 | 0.39 | **1.20** | 0.44 | 0.43 | 0.42 |
| **89** | 0.64 | 0.65 | 0.74 | 0.83 | 0.88 | **1.60** | **1.83** | **1.13** | **1.15** |
| **93** | 0.10 | 0.12 | 0.11 | 0.15 | 0.14 | 0.14 | 0.14 | 0.20 | 0.19 |
| **96** | 0.01 | 0.00 | 0.04 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **97** | 0.01 | 0.02 | 0.13 | 0.34 | 0.45 | **1.51** | 0.07 | 0.05 | 0.05 |

*Source: Authors' calculation from COMTRADE database.*

Table 20 shows the share of Vietnam's exports by RCA grouping over the period of 2009-2012. Specifically, the groupings are as follows: (i) product groups that had comparative advantage in 2012 (RCA2009>1), (ii) groups of no comparative advantage in 2012, but their competitive advantage had improved compared to previous years (RCA2012<1 and RCA2012>RCA2009), and (iii) groups of neither dynamic nor static comparative advantage in 2012, and comparative advantage has not improved compared with previous years (RCA2012<1 and RCA2012<RCA2009). We can see that products having a competitive advantage in 2009 accounted for the bulk of the exports, although their share decreased continuously from about 83.6% in 2004 to about 76.9% in 2008. However, the export value of these products increased.

The share of total exports of products with RCA2012>1 increased from 64.38% in 2009 to 66.04% in 2010, but then decreased to 62.16% in 2012. The net reduction was 2.23 percentage points in the 2009-2012 period. The exports of products under the second group had their share increase steadily over the studied period. The figure of this group jumped from 20.24% in 2009 to 25.64% in 2012. This implies gradual improvement of export competitiveness, even for those products lacking static comparative advantage. Finally, the products lacking both static and dynamic comparative advantages accounted for an increasingly smaller share, falling to 15.04% in 2012 compared with 18.89% in 2009.

As illustrated in RCA index, though the share of products with comparative advantage decreased, many of them improved their RCA index, namely Textile yarn, fabrics, made-up articles, n.e.s., and related products (65); Telecommunications and sound-recording and reproducing apparatus and equipment (76); Leather, leather manufactures, n.e.s., and dressed furskins (61); Articles of apparel and clothing accessories (84); Cork and wood (24); etc. Meanwhile, the share of the second grouping went up at a relatively fast rate, indicating that the export structure of Vietnam tends to shift from products of traditional competitive advantage (those with RCA>1) to new export industries, even if the new export industries are yet to be products with a comparative advantage (as their RCA index was still less than 1 but took an upward trend).

**Table 20: 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 |

*Source: Authors' calculation from COMTRADE database.*

The RCA index was measured to analyze the potential comparative advantage of Vietnam's exports to RCEP member countries (Table 21).[18]As can be seen, many key export products of Vietnam lost their comparative advantage in a RCEP sense as the RCA indices of such products were much smaller compared to corresponding figures in comparison with global trade (Table 19). For instance, the RCA index in relation to the RCEP for Fish (not marine mammals), crustaceans, molluscs and aquatic invertebrates, and preparations thereof (03) went down significantly to 4.78 in 2012 while that with the World was 7.97. Other products that had significant decreases of their RCA index included footwear (85); Articles of apparel and clothing accessories (84); Furniture, and parts thereof; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings (82); Crude rubber (including synthetic and reclaimed) (23); Coal, coke and briquettes (32). Among those, in 2012, the RCA in relation to the RCEP for footwear had the biggest fall of 9.40 points compared to that with the World, followed by apparel and clothing accessories (-3.56 points) and fish, crustaceans, molluscs and aquatic invertebrates (-3.13 points). This outcome can be explained by the fact that many RCEP member countries have highly similar export structures compared to that of Vietnam, especially ASEAN and China. Those products also accounted for a significant share in exports of these trading partners.

[18] This exercise supposes that the RCEP represents a "world" of its members and, accordingly, only considers trade transactions among members.

**Table 21: RCA of Vietnam with RCEP countries, 2010-2012**

| SITC classification | 2010 | 2011 | 2012 | SITC classification | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|
| **00** | 0.17 | 0.18 | 0.13 | **56** | 0.83 | **1.08** | **1.12** |
| **01** | 0.04 | 0.02 | 0.04 | **57** | 0.17 | 0.23 | 0.38 |
| **02** | 0.11 | 0.05 | 0.14 | **58** | 0.45 | 0.48 | 0.44 |
| **03** | **6.75** | **5.90** | **4.79** | **59** | 0.68 | 0.88 | 0.87 |
| **04** | **11.38** | **7.16** | **6.09** | **61** | **3.64** | **3.80** | **3.01** |
| **05** | **3.29** | **3.53** | **3.05** | **62** | **1.32** | 0.93 | **1.16** |
| **06** | 0.84 | 0.61 | 0.43 | **63** | **1.11** | **1.10** | **1.13** |
| **07** | **6.25** | **7.29** | **6.69** | **64** | 0.86 | 0.77 | 0.75 |
| **08** | **1.27** | **1.25** | **1.26** | **65** | **2.75** | **2.61** | **2.14** |
| **09** | 0.44 | 0.41 | 0.31 | **66** | **1.34** | **1.26** | **1.41** |
| **11** | 0.97 | 0.97 | 0.94 | **67** | 0.55 | 0.62 | 0.51 |
| **12** | **2.00** | **1.18** | 0.84 | **68** | 0.20 | 0.27 | 0.22 |
| **21** | 0.84 | 0.68 | 0.19 | **69** | 0.51 | 0.52 | 0.49 |
| **22** | **1.17** | 0.34 | 0.28 | **71** | **1.17** | **1.18** | 0.97 |
| **23** | **2.88** | **2.17** | **2.78** | **72** | 0.22 | 0.21 | 0.22 |
| **24** | **4.67** | **5.80** | **4.46** | **73** | 0.19 | 0.18 | 0.12 |
| **25** | 0.01 | 0.01 | 0.15 | **74** | 0.61 | 0.56 | 0.44 |
| **26** | 0.33 | 0.36 | 0.49 | **75** | 0.64 | 0.55 | 0.59 |
| **27** | **2.50** | **1.80** | **1.09** | **76** | **1.05** | **1.30** | **2.00** |
| **28** | 0.27 | 0.28 | 0.28 | **77** | 0.49 | 0.61 | 0.91 |
| **29** | **1.11** | **1.01** | 0.80 | **78** | 0.40 | 0.28 | 0.28 |
| **32** | **2.19** | **1.86** | **1.07** | **79** | 0.31 | 0.11 | 0.21 |
| **33** | **1.87** | **1.68** | **1.56** | **81** | **1.17** | **1.27** | **1.16** |
| **34** | 0.02 | 0.02 | 0.02 | **82** | **4.01** | **3.50** | **2.92** |
| **35** | 0.00 | 0.00 | 0.00 | **83** | **2.28** | **2.48** | **2.36** |
| **41** | **2.88** | **1.80** | **4.22** | **84** | **2.90** | **3.38** | **3.15** |
| **42** | 0.07 | 0.12 | 0.20 | **85** | **6.06** | **6.40** | **5.84** |
| **43** | 0.11 | 0.09 | 0.13 | **87** | 0.32 | 0.34 | 0.28 |
| **51** | 0.23 | 0.16 | 0.14 | **88** | 0.60 | 0.52 | 0.33 |
| **52** | 0.46 | 0.63 | 0.72 | **89** | 0.85 | 0.78 | 0.71 |
| **53** | 0.17 | 0.17 | 0.13 | **93** | 0.48 | 0.73 | 0.39 |
| **54** | 0.16 | 0.11 | 0.09 | **96** | 0.00 | 0.00 | 0.49 |
| **55** | **1.06** | **1.05** | 0.89 | **97** | 0.17 | 0.14 | 0.01 |

*Source: Authors' calculation from COMTRADE database.*

In contrast, the positive sign was that the RCA index of many products was higher when relative to the RCEP as compared to the World, notably animal oils and fats (41); Cereals and cereal preparations (04); Petroleum, petroleum products and related materials (33); Feeding

stuff for animals (not including un-milled cereals) (08); Vegetables and fruit (05); Cork and wood (24); etc. Some of those products have been the key exported items of Vietnam as well. The most improved was cereals and cereal preparation with an increase of 7.7 in 2010 before going down to 4.18 and 3.03 in 2011-2012, respectively. This indicates that Vietnam may be more favored in trading the above mentioned products with the RCEP member countries rather than with the World partners. Therefore, the RCEP may potentially lead to trade diversion towards products that have less comparative advantage in a global context but perform rather competitively under the agreement-induced bloc.

## 2.2 Imports

Similar to exports, the impacts of the financial crisis and economic recession resulted in the considerable fall in imports of many products groups in 2009. The most significant reduction was evident in the import value of stone and glass (HS 68-71), which dropped by 69.4%;HS41-43: 33.3%, fuels: 3.9%; animals (HS 01-05): 20.6%; etc. The exceptions were vegetables (HS06-15), food products (HS 16-24) and chemicals (HS28-38), which continued to grow even during the difficult period. However, most products, except transport (HS86-89) regained its growth during the 2010-2012 period, resulting in the average growth rate of total imports of 17.60% during the same period. Imports of vegetables (HS06-15) grew at the fastest rate of 26.63% per year between 2010 and 2012, followed by machinery and electricity (24.9% per year). Imports of footwear (HS 64-67) had the most increase in terms of growth rate in the 2005-2009 period, from -4.64% per year to 16.54% per year. The growth of imports of food products and transport, in contrast, was reduced by more than 14 percentage points over the same period.

**Table 22: Structure of Vietnam's total imports by commodity, 2004-2012 (%)**

| HS classification | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| ***AFF products*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** |
| 01-05_Animal | 21.15 | 21.56 | 19.27 | 17.82 | 17.58 | 13.78 | 14.18 | 15.26 | 15.66 |
| 06-15_Vegetable | 36.72 | 33.97 | 34.60 | 37.93 | 35.97 | 36.95 | 39.19 | 43.06 | 43.36 |
| 16-24_FoodProd | 42.13 | 44.47 | 46.13 | 44.25 | 46.45 | 49.27 | 46.63 | 41.68 | 40.98 |
| ***Industrial products*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** | ***100.00*** |
| 25-26_Minerals | 0.80 | 0.77 | 0.59 | 0.54 | 0.67 | 0.63 | 0.56 | 0.51 | 0.49 |
| 27-27_Fuels | 13.37 | 15.70 | 16.01 | 14.97 | 16.50 | 11.79 | 10.63 | 12.91 | 11.06 |
| 28-38_Chemicals | 10.77 | 10.34 | 9.81 | 9.29 | 9.06 | 10.76 | 10.37 | 10.18 | 9.96 |
| 39-40_PlastiRub | 7.01 | 7.44 | 7.98 | 7.35 | 7.01 | 7.71 | 8.59 | 8.61 | 8.37 |
| 41-43_HidesSkin | 2.35 | 2.26 | 1.95 | 1.70 | 1.45 | 1.13 | 1.31 | 1.15 | 1.09 |
| 44-49_Wood | 4.02 | 4.01 | 3.94 | 3.57 | 3.24 | 3.48 | 3.53 | 3.21 | 3.05 |
| 50-63_TextCloth | 12.37 | 11.94 | 10.95 | 9.93 | 8.88 | 9.94 | 10.95 | 11.01 | 10.52 |
| 64-67_Footwear | 0.98 | 0.84 | 0.60 | 0.39 | 0.35 | 0.36 | 0.41 | 0.36 | 0.35 |
| 68-71_StoneGlas | 2.78 | 3.30 | 5.44 | 3.10 | 4.41 | 1.57 | 2.26 | 3.11 | 1.20 |
| 72-83_Metals | 13.97 | 13.91 | 14.17 | 16.01 | 15.71 | 15.38 | 16.15 | 14.08 | 13.33 |
| 84-85_MachElec | 21.80 | 21.82 | 22.41 | 25.14 | 24.87 | 28.41 | 27.78 | 28.31 | 34.24 |
| 86-89_Transport | 6.88 | 4.76 | 2.85 | 4.98 | 4.87 | 5.48 | 4.14 | 3.60 | 3.08 |
| 90-99_Miscellan | 2.90 | 2.91 | 3.29 | 3.04 | 2.98 | 3.35 | 3.32 | 2.96 | 3.25 |

*Source: Authors' calculation from COMTRADE database.*

Unlike the structure of exports, the import patterns of AFF products (see the dominant of food products (HS 16-24)) rose despite a slight decrease in recent years (Table 22). The proportion of this group remained more than 40% over the period, with the peak of 49.27% in 2009. The share of vegetables (HS 06-15) increased almost continuously, from 36.72% in 2004 to about 43% in 2011-2012. That of animal (HS 01-05) decreased over the period of 2004-2009 but regained its share in 2010-2012, reaching 15.66% in 2012. This feature demonstrates that though Vietnam exports a relatively large share of unprocessed or partly processed AFF products, it imports back processed items to serve the higher demand of customers for high quality imported products.

**Table 23: Share of major imported products of Vietnam, 2008-2012 (%)**

| HS classification | 2008 | 2009 | 2010 | 2011 | 2012 | Grand Total |
|---|---|---|---|---|---|---|
| 2710 | 14.03 | 9.30 | 7.61 | 9.69 | 8.22 | 9.64 |
| 8517 | 2.37 | 3.60 | 2.84 | 3.03 | 4.67 | 3.37 |
| 8542 | 0.95 | 1.19 | 1.72 | 3.12 | 6.43 | 3.01 |
| 7208 | 3.09 | 3.05 | 2.81 | 2.36 | 2.06 | 2.60 |
| 7108 | 3.38 | 0.55 | 1.14 | 1.94 | 0.09 | 1.37 |
| 3004 | 1.02 | 1.49 | 1.37 | 1.31 | 1.44 | 1.33 |
| 2304 | 1.29 | 1.47 | 1.44 | 1.21 | 1.12 | 1.28 |
| 3901 | 1.17 | 1.24 | 1.33 | 1.27 | 1.23 | 1.25 |
| 7204 | 0.98 | 0.97 | 1.06 | 1.07 | 1.24 | 1.08 |
| 7207 | 2.04 | 1.48 | 1.28 | 0.55 | 0.25 | 1.02 |
| 8708 | 1.31 | 1.27 | 1.10 | 0.92 | 0.66 | 1.01 |
| 6006 | 0.50 | 0.89 | 1.01 | 1.09 | 1.15 | 0.95 |
| 3902 | 0.93 | 0.98 | 0.99 | 0.98 | 0.88 | 0.95 |
| 8443 | 0.98 | 1.11 | 1.07 | 0.77 | 0.72 | 0.90 |
| 8471 | 0.80 | 1.05 | 0.93 | 0.89 | 0.82 | 0.89 |

*Source: Authors' calculation from COMTRADE database.*

Table 23 depicts the top 15 imported products of Vietnam during the period of 2008-2012, which reflected more clearly the import structure of Vietnam. The prominent items were refined petroleum and oil (2710), Telephone sets (8517), Electronic integrated circuits and micro-assemblies (8542), and Flat-rolled products of iron or non-alloy steel (7208). Refined petroleum and oil accounted for 8.22% of total imports of Vietnam, less than the proportion of 14.3% in 2008. Consistent with the significant improvement of exports of HS 8517, import value of this group also took an upward trend during 2008-2012, attaining an average growth rate of 29.16% over the period. Sewing machine (HS 8542) also reached a high growth rate of imports, which was 75.56% per year between 2008 and 2012. Its share in total imports also went up dramatically, from only 0.95% to 6.43% in 2012.

## *3. Agriculture- Forestry – Fishery*

### 3.1 Contribution to GDP

After 25 years of Doi Moi (Renovation), the agricultural sector of Vietnam has achieved much, becoming an important driving force for high economic growth. However, agricultural growth of the country has been moderate compared to the overall economic growth and those of other more dynamic sectors, namely industry and construction plus services. Due to the

impact of global financial crisis in 2007-2008, Vietnam's average GDP growth went down from the highest level in 10 years of 8.5% in 2007 to only 5.32% in 2009. After that, average GDP growth rate grew to 6.78% in 2010 after falling to 5.89% in 2011 and 5.25% in 2012, the lowest level over the last 20 years. However, Vietnam's GDP growth rate grew back to 5.42% in 2013, still less than the target of 5.5% but was a positive sign for economic recovery.

In this context, the agriculture-forestry-fishery (AFF) sector experienced unstable growth. During 2005-2007, the AFF's growth fluctuated around 4%, and reached the highest level of 4.69% in 2008. However, the rate plunged to the lowest level of 1.91% in 2009, jumped to 4.02% in 2010 before decreasing continuously to 2.68% and 2.64% in 2012-2013. Overall, the AFF growth rate for the period of 2006-2010 was 3.53%, slightly higher than the target of 2006-2010 SEDP (of 3-3.2%). The rate went down further to the average of 3.16% per annum in the 201-2013 period. However, growth of the sector was still relatively high by international standard.[19]

Table 24 indicates the share of economic sectors to Vietnam's GDP from 2001 to 2013. AFF sector's contribution to GDP was modest in relative to that of industry-construction and services. The proportion has shrunk from 23.24% in 2001 to 18.89% in 2010 before increasing slightly to 20.08% in 2011. The share of AFF sector to GDP, however, continued to decrease during 2012-2013, attained only 18.38% in 2013 and contributed to only 0.48 percentage point to the overall GDP growth rate of the economy. Out of the three sub-sectors, agriculture was the most important with the biggest contribution to GDP, followed by fishery. Forestry's share was very modest, ranging at less than 1%. The declining share of the AFF sector partly reflected the change in Vietnam's economic structure and the Vietnamese Government's move towards accelerating industrialization of the economy which led to relative expansion of the industry-construction sector.

**Table 24: GDP by economic sector, 2001-2013 (%, current price)**

| | **2001** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** |
|---|---|---|---|---|---|---|---|---|
| Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| AFF | 23.24 | 18.66 | 20.41 | 19.17 | 18.89 | 20.08 | 19.67 | 18.38 |
| Industry-Construction | 38.13 | 38.51 | 37.08 | 37.39 | 38.23 | 37.90 | 38.63 | 38.31 |
| Services | 38.63 | 42.83 | 42.51 | 43.44 | 42.88 | 42.02 | 41.70 | 43.31 |

*Source: GSO.*

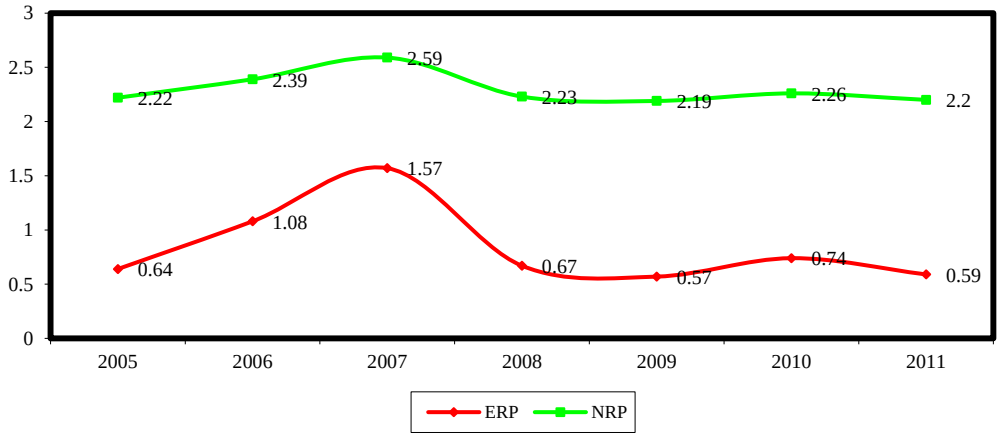
To a certain extent, international economic integration positively affected the growth of the AFF sector. Vietnam has become one of the leading exporters of various agricultural products such as coffee, rice, cashew, and pepper. The implementation of trade commitments altered the protection structure for domestic sub-sectors in terms of both inputs and outputs. This can be evidenced by the Effective Rate of Protection (ERP), of which the smaller ERP shows that the sub-sector enjoys less protection in general.

During the period 2005-2011, the protection level of the AFF sector was insignificant, reflected by a very low average ERP and NRP of the sector as a whole (**Error! Reference ource not found.**). The ERP is always smaller than the NRP. Surprisingly, before the WTO accession, both the ERP and NRP of the agriculture-forestry-fishery sector tended to increase, but the ERP increased faster than the NRP, so the former got closer to the latter. Nevertheless, since 2008, the ERP decreased faster than the NRP. That is, after the WTO accession, the agriculture-forestry-fishery products *generally* enjoyed less protection. Many agriculture-forestry-fishery sub-sectors have very low or even negative ERPs such as pig breeding (-

[19] CIEM (2013, p.46).

17.9%), other agricultural products (-8.5%), poultry (-6.6%), sugarcane (-2.2%), and cattle (-1.6%).

**Figure 4: ERPs and NRPs of Agriculture-Forestry-Fishery Sector (%)**




*Source: CIEM (2013).*

Calculations of power dispersion and imports multiplier of selected AFF sub-products (Bui Trinh, 2012) revealed that the development of such sub-sectors as cattle, pig, poultry, other breeding sub-sector, other agricultural products, and aquaculture (which have power of dispersion larger than 1) will drive the development of other downstream industries, thereby creating positive impact on the whole economy without increasing imported inputs (as the import multiplier is smaller than 1) (Table 25). However, these sub-sectors still received inadequate support, reflected in the modest investment level poured into AFF sector in general and its sub-sectors in particular, which will be discussed in more details in following sections.

**Table 25: Power of Dispersion and Import Multipliers of Some Agriculture-Forestry-Fishery Sub-sectors**

| *Industries* | *Power of Dispersion* | *Import Multiplier* |
|---|---|---|
| Cattle | 1.149 | 0.724 |
| Pig | 1.794 | 0.752 |
| Poultry | 1.616 | 0.748 |
| Other breeding sub-sectors | 1.591 | 0.747 |
| Agricultural services, and other unclassified agricultural products | 1.484 | 0.796 |
| Aquaculture | 1.694 | 0.771 |

*Source: CIEM (2013).*

However, the AFF sector's achievements are still less than its potential and the advantages of the sector. Development of the AFF sector remains unsustainable; its growth rate tends to decrease; productivity and quality remain low. Moreover, scientific knowledge and technology utilization of the sector is still very modest. Agricultural production is small-scaled, scattered and not aligned with well-developed programs, thereby failing to support mass production; post-harvest losses remain significant; value added of the processing industry is modest. Labor productivity of the AFF sector is also very low compared to industry-construction and services. Unskilled farmers with no land have not received appropriate training or support to find jobs in non-agricultural sectors. In this context, a

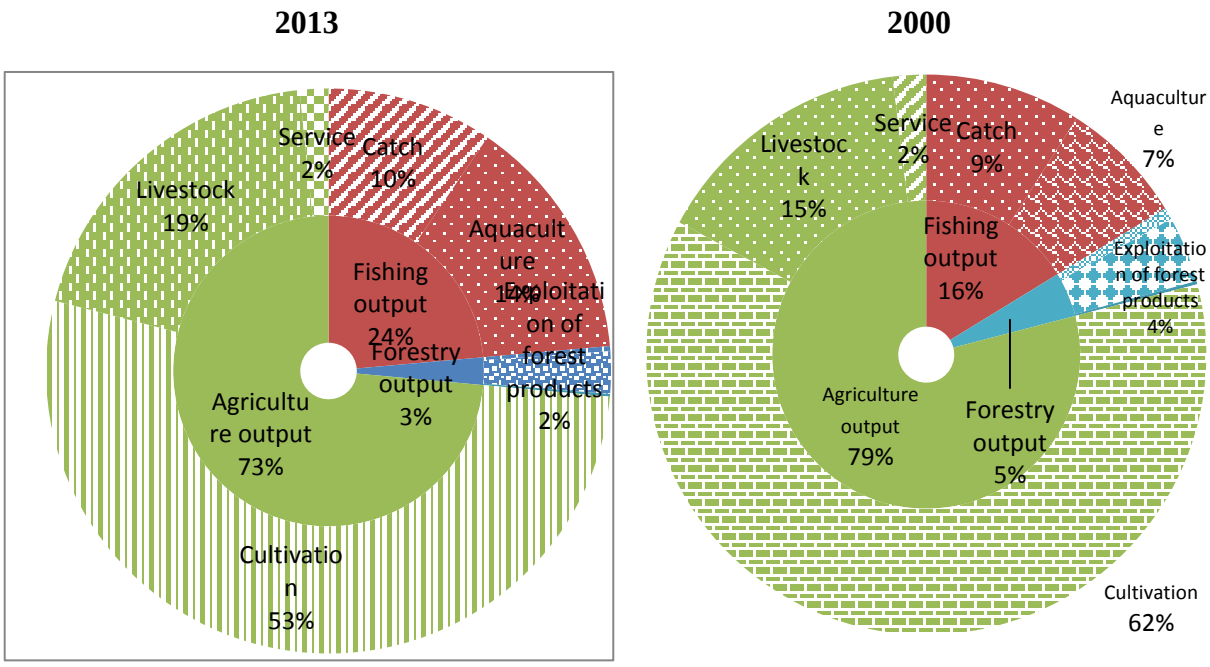
scientific and technology breakthrough or alteration of the cultivation scale is required to promote higher growth and more stable improvement in the AFF sector.

## 3.2 Gross output and trade

### *3.2.1 AFF gross output*

There was a structural change in agricultural production during the period of 2000-2013, though not that significant (Figure 5: Agriculture-Forestry-Fishery gross output structure, 2000-2013 (%, current price)). International economic integration helped shift the structure of agriculture-forestry-fishery sector towards export-oriented products, such as aquaculture products, rice, coffee, rubber, cashew, and pepper. The proportion of the fishery sector in gross output of the AFF sector increased from 16% to 24% while that of the agricultural sector slightly decreased from 79% to 73% during the same period. The share of the forestry sector is very modest, accounting for only 3% in 2013 compared to 5% in 2000. By sub-sector, cultivation products, many of which many have very low value added, still accounted for the largest share of AFF output (62% and 53% of total AFF gross output in 2000 and 2013, respectively).

**Figure 5: Agriculture-Forestry-Fishery gross output structure, 2000-2013 (%, current price)**




*Source: Authors' calculation from GSO data.*

The development of fishing output was mainly due to the expansion of aquaculture, which attained an average growth rate of 21.16% during the period of 2001-2013. The share of aquaculture in total AFF output also increased from 7.2% in 2000 to 14.1% in 2013. However, the average growth rate of aquaculture was slower over the 2007-2013period compared to the 2001-2007 period, during which the average growth rate of the aquaculture sub-sectors were 16.44% and 26.21%, respectively. The forestry sub-sector shifted from exploitation to afforestation, via investment programs, projects, and assignment of forest land to households on a long-term basis. This fact also reflected the efforts of the wood-processing industry on product innovation as well as market penetration, which resulted in the significant improvements of exports of wood products.

The cultivation sub-sector maintained its growth and was still the most important AFF sub-

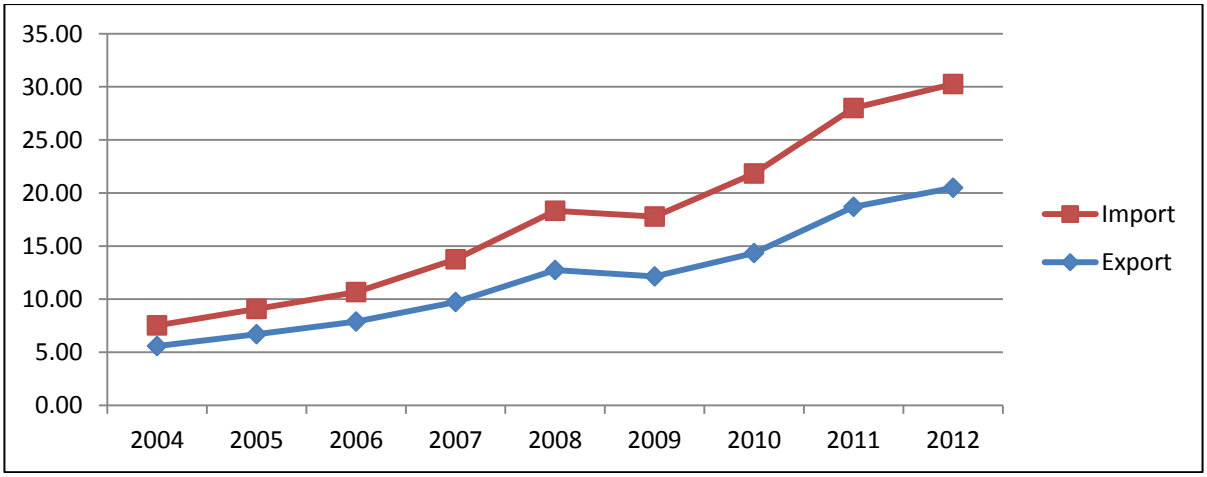
sector. During the period of 2007-2013, cultivation gross output went up by 3.67times, and achieved the growth rate of 20.39% per annum, much higher than the rate of only 8.16% in the period of 2001-2007. However, cultivation's share in total AFF's gross output was decreased from 62% in 2000 to only 53% in 2013. Although some crop plants (especially perennial crops) have acquired an important role in the international market, many other cultivated products failed to make sufficient improvement.

Livestock also experienced a significant change in the AFF's output structure, jumping from 15% in 2000 to 19% in 2013. The sub-sector also achieved the highest growth rate in comparison with all other AFF sub-sectors, which was 22.22% and 12.73% during the periods of 2007-2013and 2001-2007, respectively. In absolute terms, its values increased by 7.90 times during the period 2000-2013, the second highest among AFF sub-sectors, and just less than that of aquaculture (12.12 times).

### *3.2.2 Trade*

In terms of international trade, Vietnam has long been a net exporter of AFF products. The value of AFF exports increased rapidly from USD 5.59 billion in 2004 to about USD 20.49 billion in the period of 2004-2012. The key export products were rice, cashew nuts, rubber, coffee beans, and fishery products. Specifically, in the 5 years after the WTO accession, growth rates of the export value of rice, pepper and tea were 19.8% per annum, 23.9% per annum and 11.0% per annum from 2007 to 2012, compared to 15.4% per annum, 15.4% per annum and 7.2% per annum from 2001 to 2006, respectively[20]. The import value of the AFF sector jumped from USD 1.95 billion in 2004 to USD 9.76 billion in 2012.The growth trends in both agricultural export and import were almost continuous, except for some minor reduction in 2009 when Vietnam suffered from the impacts of the global financial crisis and economic recession. During the period of 2010-2012, the average growth rate of exports was 19.07% compared to 16.78% in the 2005-2009 period. The average growth rate of imports, on the other hand, was 20.05% and 23.72%, respectively. The trade balance of AFF trade increased rapidly from USD 3.64 billion in 2004 to USD 6.49 billion in 2009 and reached USD 10.72 billion in 2012. The AFF sector's trade surplus helped alleviate the total trade deficit of the country that existed over the study period, except in 2012 when Vietnam had a small total trade surplus of 0.75 billion USD.

**Table 26: Trade value of the AFF, 2004-2012 (billion USD)**



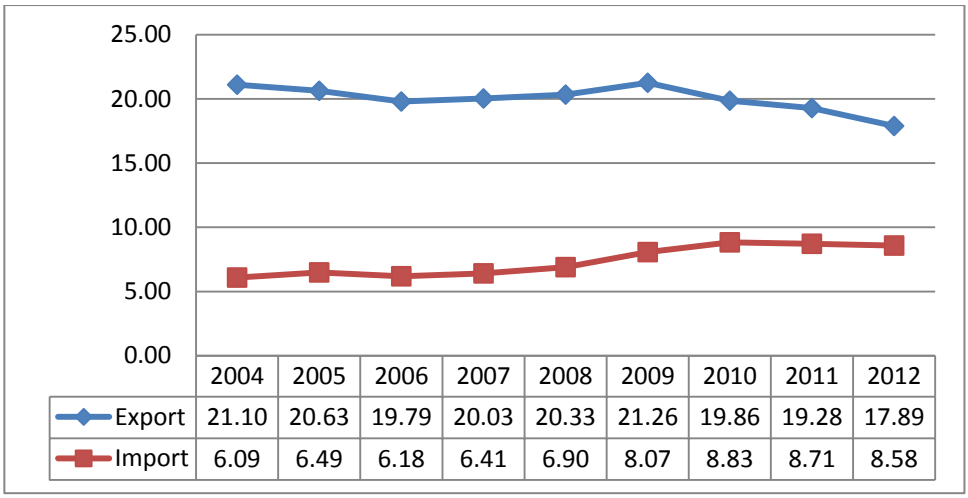

*Source: Authors' calculation from COMTRADE data (HS 2002 2-digit)*

Figure 6 shows the relative importance of agricultural products in Vietnam's trade performance over the period of 2004-2012. Though the AFF's share in total imports has been

[20] See MARD (2013) for further details.

relatively stable at about 8% since 2009, that of exports declined during the same period, from 21.10% in 2004 to 17.89% in 2012. A bright point for agriculture is that it has maintained a trade surplus that is opposite of the trade deficit of the economy as a whole. This decreased share of AFF exports, on the one hand reflects the diversion of Vietnam's export patterns, but on the other hand reflects the fact that Vietnam's is facing more severe competition in the AFF markets as well as more barriers to export such products, namely requirements related to sanitary, food safety, environment, etc.

**Figure 6: Share of AFF in total imports and exports of Vietnam, 2004-2012 (%)**



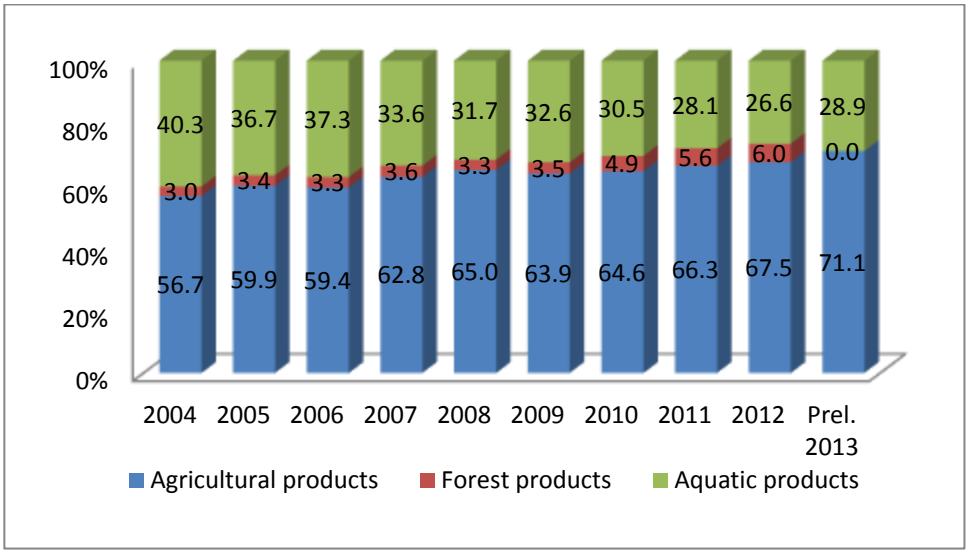

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| Export | 21.10 | 20.63 | 19.79 | 20.03 | 20.33 | 21.26 | 19.86 | 19.28 | 17.89 |
| Import | 6.09 | 6.49 | 6.18 | 6.41 | 6.90 | 8.07 | 8.83 | 8.71 | 8.58 |

*Source: Author's calculation from COMTRADE data (HS 2002 2-digit)*

Vietnam's agricultural products that have high comparative advantage and competitiveness in international markets include rice, coffee, cashew, pepper, forestry products, and aqua-cultural products. Vietnam also has great potential in exporting fruits and vegetables though there have been many challenges, namely low technology, small-scale, and low quality. Thus, the country is one of the leading exporters of many kinds of raw or primary agricultural products, which also accounted for the majority of AFF's exports. (

Figure 7). Their proportion increased continuously, from 56.7% in 2004 to 67.5% in 2012. According to the data for 2013, the combination of agricultural and forest products accounted for 71.1% of total exports of AFF products of Vietnam. The share of aquatic products gradually decreased from 40.3% in 2000 to 26.6% in 2012, but increased to 28.9% in 2013. Though only small in terms of both value and share, forestry's proportion in total exports of AFF sector steadily increased from 3.0% in 2004 to 6.0% in 2012. In terms of the growth rate, AFF exports achieved a relatively high growth rate during the 2004-2013 period, except in 2009 due to the global economic and financial crisis. Overall, the average growth rate of exports of AFF products was 14.47% during the period of 2007-2013, and the export value of agricultural and forestry products grew at the rate of 16.53%, while that of fishery was only 10.4%. A few breeding products were exported. Fishery products still have ample potential industry and comparative advantage, but its competitiveness in the international market has been shrunk due to more severe competition from other neighboring countries as well as stricter requirements on standards, SPS, food safety, etc.

**Figure 7: Structure of AFF exports at current price, 2004-2013(%)**




*Source: Author's calculation from GSO data*

The development of the AFF exports can be partly explained by the fact that agricultural producers of Vietnam have increasingly acknowledged the importance of establishing brand names, quality and hygiene of exported agricultural products in an attempt to expand exports to very demanding markets such as the U.S., Japan and EU. They also gained more experience in dealing with anti-dumping lawsuits. Specialized cultivation areas have been established, especially for exportable fruits and vegetables like litchi, Nam Roi grapefruit, green-skin grapefruit, small-seed durian, etc. Large-scale production models, using advanced technologies and varieties with high quality and food hygiene, have been piloted and become more common.

## 3.3 Trade of selected agricultural products

### *3.3.1 Pangasius*

Vietnamese Pangasius (also known as Basa or Tra) is a species traditionally farmed in the Mekong River Delta. Freshwater aquaculture production started to expand in the late 1990s and grew rapidly during the 2000s to meet the high demand of export and domestic consumption. Currently, there is 6,000 hectares devoted to pangasius production in ten Mekong Delta provinces. The total pangasius cultivation area is expected to expand to 13,000 hectares by 2020 (VASEP 2012). In 2010, pangasius production in Vietnam was 1.14 million tons, which was equivalent to about 42% of total aquaculture production and 22% of total fish production (FAO 2011).

Pangasius produced in Vietnam is mainly for export purposes though domestic consumption demand has been increasing. The export value of pangasius from Vietnam took an upward trend during the 2008-2012 period, apart from a slight decrease in 2012, and reached nearly 1.8 billion USD in the past 2 years.

Vietnam has nearly 70 pangasius exporting and processing companies, and about 95% of pangasius production is exported to around 145 countries and territories worldwide. The main importers of Vietnam's pangasius are the EU, USA, ASEAN, Mexico, Brazil, China and Hong Kong. The EU is the biggest importer, accounting for 24.41% of the total exports, followed by the US (20.57%) and ASEAN (6.33%). Pangasius exports represent approximately 35% of total fish exports from Vietnam by volume and 30% by value. Vietnam dominates the world export market for pangasius, with more than 90% of all

pangasius exports coming from Vietnam. Meanwhile, Vietnam's pangasius import value was almost zero.

Pangasius exports mainly take the forms of frozen fillets (meat taken from the side of the fish without any bones constituting approximately 85% of exports) and frozen steaks (a cross-section of the fish containing the backbone constituting approximately 15% of exports). The weighted average export price of pangasius has steadily increased since 2005, and attained a peak of about 4.00 USD/kg in 2009. However, the price dropped significantly in 2010 before gradually going up. The price in early 2013 was approximately USD2.50/kg.

With very strong competitiveness, pangasius production from Vietnam is a concern for other competitors and especially pangasius producers in import countries like the US. Thus, the US imposes anti-dumping duties on pangasius exporters of Vietnam. By 2012 some exporters in Vietnam such as Docfish, Godaco Seafood, An Phu Seafood were imposed an anti-dumping tariff of 3.87 USD/kg, 1.81 USD/kg and 1.37 USD/kg respectively while normal tariffs were only 0.3 USD/kg. Switching to RCEP may help alleviate the pressure in non-RCEP countries, especially if anti-dumping can be handled as part of competition policy as in the ANZCERTA.

Anti-dumping duties imposed by the US, as well as other non-tariff barriers introduced by trading partners (especially related to SPS, food safety, labor and environment requirements, etc.) do create many difficulties for Vietnam's pangasius. However, most pangasius farmers as well as exporting and processing enterprises, have exerted tremendous efforts to improve the quality of their products in accordance with national regulations on food safety and environmental protection (including the implementation of Hazard Analysis Critical Control Point (HACCP)). Over half of production nationwide is audited and certified by internationally sustainable standards such as GlobalGap, AquaGAP, BAP/GAA and ASC (recently certified).

Field studies conducted by IPSARD (2013) reveals that pangasius is still a highly competitive exported products of Vietnam with a high value added rate of about 40% (compared to the rate of only 20% for cashew or shrimp). The respondents also thought that Vietnam's pangasius was facing insignificant competition from other exporters. Reasonable prices and good varieties are considered the main reasons for the competitiveness of Vietnam's pangasius. However, the challenges of technology improvement and brand name may be obstacles for expanding pangasius exports to the international markets.

### *3.3.2 Cashew*

Vietnam's cashew production kept increasing during the 2001-2007 period, from about 75,000 MT to a peak of more than 300,000 MT in 2007. Then, its production remained stable during 2007-2012 but at a rather high level. In 2013, there was a sharp decrease in production to just more than 200,000 MT.

Unlike production, cashew export has been gone up since 2001 and reached the peak in 2013 despite a dramatic decrease in production in 2013. Cashew export in 2013 reached 261.0 thousand tons with a turnover nearly USD 1.7 billion, 17.9% and 12.0 % higher compared to 2012, respectively. During the 2009 – 2013 period, cashew exports increased almost continuously, except in 2011.

Major export markets for Vietnam cashew are the United States, China and the Netherlands, accounting for 27.77%, 20.11% and 12.27% of total cashew export value in 2013, respectively. Cashew exports to the US reached 81.4 thousand tons with a turnover of USD 538.1 million, 34.3 % up in volume and 32.6 % in value compared with 2012. Meanwhile, China is the main market for Vietnam's cashew in the Asian region, reaching 52,200 tons with the turn-over of USD 300.1 million, followed by India and Thailand, rising by 29.4 % and 48.7 % in volume, respectively. In 2013, Vietnam's cashew nuts were exported to 11

markets of the euro zone, of which the Netherlands took the lead with 23.4 thousand tons, and a turnover of USD 160.3 million. Despite the impressive growth of export value, Vietnam's exported cashews are still low in quality and value added. Field study by IPSARD (2013) shows that the value added of exported cashew was only 20%.

From a planted cashew country, Vietnam has been gradually transformed into a processing one. This downstream activity provides higher added value to cashew nuts. However, this shift makes Vietnam's cashew industry more depended on imported materials in the context of higher competition from other processed cashew-exporters such as Brazil. According to the Vietnam Cashew Association (Vinacas), Vietnam mainly imports cashew materials from Africa countries, mainly the Ivory Coast. The domestically planted cashews are mostly low-quality and output also fluctuates dramatically due to weather conditions. Thus, Vietnam still lacks appropriate raw material for processed export production. In addition, cashew material prices have been predicted to increase further, which may make it impossible for enterprises to purchase enough materials, because a lack of capital is another significant challenge for enterprises in the industry.

**Box 2: Supply chain of crustacean products in Vietnam**

***Description of the supply chain***

Produced or exploited products may reach processors directly in some areas and, after some processing, be distributed to final consumers via a range of distributors such as hotels, restaurants and retailers. The largest area for fishery cultivation and exploitation is the Mekong River Delta. Total fishery output in this area went up dramatically from over 1.2 million ton in 2000 to 3.2 million in 2011. In this region, Kien Giang and Ca Mau are the two provinces with the largest fishery output volumes. The coastal Central region and the Red River Delta followed, though their fishery output in total was equivalent to only around 60% of that in the Mekong River Delta.

Hotels, restaurants and major retailers play an important role in extending the consumption of HS03 products. Various foreign enterprises (including those from high-income and key traditional markets of Vietnam's products, such as Japan) have made investment in food processing (including fishery processing). Middlemen do play a role in bringing harvested and exploited fishery products to the market. This role has been important since farmers and fishermen lack capacity and necessary facilities to marketize their products. Nevertheless, the middlemen get a large share of the market prices, while the farmers and fishermen seem to reap a smaller share. The marketing costs end up passing through to the cost to final consumers. Finally, another emerging group in the chain comprises of enterprises which process and/or export fishery products. The Vietnam Association of Seafood Exporters and Producers (VASEP) has been a key body representing such enterprises to support members in improving productivity, quality and efficiency of production and business activities

It should be noted that the inputs of fishery products (especially those under HS03 chapter) have recently been insufficient to meet growing demand in Vietnam (due to both domestic consumption and export-oriented production). Accordingly, in recent years, Vietnam started to import HS03 products, most of which were unprocessed.

The last group participating in the chain is Government authorities. Key bodies include the MARD, the Ministry of Health (MOH), the Ministry of Industry and Trade (MOIT), and the General Department of Customs. The MARD takes the lead in issues related to fishery cultivation, sanitary and phyto-sanitary measures. The MOH (Vietnam Food Agency) and MARD (Department of Livestock Production and Department of Animal Health) regulate issues related to and provides the certificates of food safety and sanitation for imported products. The MOIT provides regulations and policies related to both imports

and exports of fishery products. The Vietnam Agency for Trade Promotion (Vietrade) directly under the MOIT also undertakes various activities to promote exports of Vietnam's products, including fishery ones. Finally, the General Department of Customs is in charge of custom management, including policies and procedures related to trade in fishery products.

***Chokepoints within the supply chain of HS03 products***

There are various economic and regulatory choke points within the supply chains of HS03 products:

- As previously noted, Vietnam's exports of HS03 products have expanded to beyond a level accommodated by domestic production and exploitation capacity. As a result, controlling quality of HS03 products in domestic markets and in exporting to foreign markets becomes a challenge. This issue becomes more important as Vietnam's HS03 trading partners have introduced stricter requirements on safety, SPS and the environment.

- Trade of HS03 products may be impeded by the difficulty in tracing origin for locally consumed products. Some farmers and processors of fishery products (including HS03 products) still fail to properly acknowledge the importance of publicizing and making transparent the origin of their products.

- Custom procedures present another source of concern for traders and logistics companies in the supply chain of HS03 products despite the tremendous efforts of Vietnam to improve custom clearance process, including e-customs, customs declaration, goods inspection, duty drawback, etc.

- Another choke point with HS03 lies in the unharmonious requirements of importing countries, including those within ASEAN.

- Regulations on HS03 appear to be inconsistent in some cases, which may hinder the development of the related supply chain.

- Middlemen also affect the supply chain of HS03. The middlemen are sufficiently well-organized with ready storage and transportation facilities, and with the ability to reach each and every farmer/fisherman. They also have access to information about prices and harvests that can be updated on an hourly basis. The problem, however, is that farmers and fishermen are largely "forced" to sell their output to middlemen at a less-than-marketed price, which consequently lower their income.

***Factor affecting the chokepoints***

First, Vietnam still has a serious lack of funds for infrastructure development. Relevant infrastructure facilities fail to be developed in a timely and sufficient manner. On the other hand, there is improper planning for infrastructure development (For instance, too many seaports have been approved and constructed when the distance between seaports is not appropriately distant) which wastes resources that could have been available for other more appropriate supporting facilities and makes most of the ports operate without economies of scale.

Second, Vietnam still faces the constraints in appropriate human resources which impedes the effectiveness of different stages within the supply chains, including production, retail distribution, and policy and procedural formulation.

Third, Vietnam still suffers from the lack of effective coordination and connection among relevant authorities. Weak coordination may be present in various stages, including policy formulation, policy implementation, policy adjustment and review. The impacts have been enormous - including a lack of clarity in concerned regulations, poor development of plans in various areas (transportation, trade and customs, etc.), and slow resolution of newly

emerging issues. Moreover, enforcement of coordination across relevant authorities has been weak.

Fourth, there exist certain gaps between SPS and quality standards of Vietnam compared to other trading partners in the ASEAN region, affecting the exports of Vietnam to foreign markets. This is partly illustrated in the slower growth rate of Vietnam's HS03 exports to several traditional markets such as the EU25 or the US.

Fifth, the authorized management of main seaport/international gateways has been concentrated in several enterprises, mostly state-related ones. This undermines competition and efficiency in the provision of port services, while even causing monopoly in port operations. Moreover, as identified by an interviewed shipper, the cooperation and coordination among various offices/divisions of such State-owned enterprises are relatively weaker than the private sector.

Finally, Vietnam also suffers from weak capacity of business associations in supporting enterprises. For some business associations (including VASEP – the association of fishery export enterprises), the leaders are from the major companies and therefore may at times fail to cater for the need of smaller counterparts.

*Source:* Extract from Vo et al. (2013).

The following tables present intra-industry trade (IIT) index of some agricultural products with selected trading partners. The index runs between zero – no intra-industry trade – and unity – all intra-industry trade. Table 27 reveals the IIT index of Fish fillets and other fish meat (HS 0304) of Vietnam with the EU27, the US and the RCEP. As such, the score of the EU27 and the RCEP is more significant compared to that of the US. In particular, the index with the US deteriorated dramatically in 2011-2012. Vietnam's exports of HS 0304 are much larger than imports. Frozen fish fillet (HS 030429) accounted for the major share of Vietnam's total exports of HS 0304 to all three partners, which represented up to 86.5% and 90% of total HS 0304 export value to the EU27 and the US, respectively.

Imports of HS0304 from the RCEP are relatively higher than from the more distant EU27 and the US. Notably, though Vietnam also exported considerable amounts of frozen fish fillet (HS 030429) to the RCEP, this product group also quite significant in the import structure of HS 0304. The proportion of other fish meat (HS 030499), however, was even higher than that of HS030499, which grew at the average rate of 20.3% during the period of 2008-2012. This indicates that Vietnam is increasing import materials from neighboring countries, especially such RCEP members as Indonesia or the Philippines, due to the shortage of raw materials for export-oriented industries.

**Table 27: Vietnam's IIT index of Fish fillets and other fish meat (0304), 2008-2012**

| 0304 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **EU27** | 0.1163 | 0.0420 | 0.0372 | 0.0095 | 0.0113 |
| **US** | 0.0033 | 0.0009 | 0.0296 | 0.0228 | 0.0153 |
| **RCEP** | 0.0778 | 0.0250 | 0.0338 | 0.0775 | 0.0842 |

*Source: Authors' calculation from COMTRADE database.*

In case of un-processed coffee (HS 0901) and rice (1006), Vietnam's IIT indexes with the EU27 and the US were very close to zero during the period of 2008-2012. Export flows from Vietnam dominated trading of rice, and coffee with the two trading partners, while the value of opposite direction was very small. Among sub-products of HS0901, un-roasted coffee (HS090111 and HS 090121) accounted for more than 99% of total Vietnam exports of HS 0901 to the two markets. Semi-milled/wholly milled rice (HS 100630) is the major

exported items. This structure again reflects the low-quality and low value added of exported commodities of Vietnam (Table 28).

**Table 28: Vietnam's IIT index of coffee (HS 0901) and rice (HS 1006), 2008-2012**

| 1006 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| EU27 | 0.0016 | 0.0015 | 0.0018 | 0.0005 | 0.0007 |
| US | 0.0000 | 0.0000 | 0.0005 | 0.0000 | 0.7127 |
| RCEP | 0.0138 | 0.0044 | 0.0206 | 0.0591 | 0.1022 |
| **0901** | **2012** | **2011** | **2010** | **2009** | **2008** |
| EU27 | 0.0005 | 0.0007 | 0.0005 | 0.0023 | 0.0010 |
| US | 0.0025 | 0.0007 | 0.0004 | 0.0003 | 0.0000 |
| RCEP | 0.0302 | 0.0342 | 0.0212 | 0.0384 | 0.0284 |

*Source: Authors' calculation from COMTRADE database.*

## 3.4. Investment to the AFF sector

### *3.4.1 State investment*

State investment to AFF sector increased overtime, but its share in total state investment tended to decrease (Table 29**Table 29**). Accordingly, VND 26.52trillion was invested in AFF sector in 2013as compared to VND 11.55 trillion in 2005, which were equivalent to only 5.36% and 7.14% of total state investment, respectively. Respective state investment figures to services and industry-construction sectors were much higher, reaching more than VND240.16trillion and VND 173.83 trillion in 2013compared to around VND 85.88trillion and VND 64.21 trillion in 2005, which were equivalent to 54.52% and 39.72% of total state investment. As such, state investment to AFF sector was very modest in terms of both absolute value and share. Its growth rate was also the lowest in comparison to the other two sectors. During the period of 2006-2010, average growth rate of state investment to the AFF sector was only 9.93% while those of industry-construction and services were 14.55% and 14.78%, respectively. In the period of 2010-2013, however, the pace of AFF's state investment was higher than the previous period, reaching 11.99%, 2.06 percentage point higher than in the 2006-2010 period and even exceeded the average growth rate of total state investment, which was 11.25%. In contrast, annual average growth rate of services and industry-construction deteriorated to only 11.74% and 10.49%, respectively, resulting in the drops of 3.04 and 4.06 percentage point in relation to the 2006-2010 period.

Most of state investment capital for AFF sector came from development investment capital source though other sources have been mobilized (Table 30). In 2000, development investment capital accounted for 100% of total state investment for AFF sector (VND 2,238 billion), and the share decreased to 57.7% in 2010 (VND 5,064 billion). The other important source of capital for AFF sector was government bonds. Its share jumped from 26.5% of total state investment for AFF sector in 2005 to 67.1% in 2008, but gradually increased to 39.5% in 2009 and 42.3% in 2010. Among sub-sectors, irrigation accounted for the largest share sub-sector, which was equivalent to 65.9% in 2000. However, the ratio of investment capital into irrigation tended to decrease from 2000 (65.9%) to 2008 (16.0%), but increased from 2009 and reached 37.5% in 2010. Other big absorptions of investment capital were agriculture, forestry and national targeted program, which accounted for 7.7%, 3.6% and 3.5% of total state investment capital to the AFF sector. The percentage of fishery was quite modest compared to other sub-sectors despite the important role of fishery in international trade of Vietnam. In absolute value, state investment capital to fishery was only VND 131

billion in 2010, which did not improve much compared to the value of VND 108 billion in 2000. In percentage terms, it was equivalent to 1.5% of total investment capital, much lower than the 4.8% in 2000. Investment for science and technology activities in the AFF sector was significantly decreased in recent years, from about VND 258 billion in 2007 to only VND58 billion in 2010. Limited investment capital in the AFF sector, and in science and technology for AFF activities in particular, is one reason for the modest improvement of the sector, both in terms of output, quality and competitiveness in the international markets.

**Table 29: State investment structure by economic sector, 2007-2013**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Growth (%) | |
|---|---|---|---|---|---|---|---|---|---|
| **Tril. Dongs** | | | | | | | | **2006-2010** | **2010-2013** |
| **Total** | **197.99** | **209.03** | **287.53** | **316.29** | **341.56** | **406.52** | **440.50** | **14.37** | **11.25** |
| AFF | 13.36 | 15.06 | 16.86 | 18.53 | 19.13 | 21.79 | 26.52 | 9.93 | 11.99 |
| Industry-construction | 81.64 | 72.30 | 116.64 | 126.63 | 135.55 | 164.96 | 173.83 | 14.55 | 10.49 |
| Services | 103.00 | 121.67 | 154.03 | 171.12 | 186.88 | 219.76 | 240.16 | 14.78 | 11.74 |
| **Structure (%)** | | | | | | | | | |
| **Total** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | | |
| AFF | 6.75 | 7.20 | 5.86 | 5.86 | 5.60 | 5.36 | 6.02 | | |
| Industry-construction | 41.23 | 34.59 | 40.57 | 40.04 | 39.69 | 40.58 | 39.46 | | |
| Services | 52.02 | 58.21 | 53.57 | 54.10 | 54.71 | 54.06 | 54.52 | | |

*Source: Authors' calculation from COMTRADE database.*

**Table 30: State investment to AFF sector by source, 2000-2010 (%)**

| | | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|
| | **Total** | **100** | **100** | **100.0** | **100.0** | **100** | **100** | **100** |
| **A** | **Development investment capital** | **100** | **73.5** | **53.9** | **47.8** | **32.9** | **60.5** | **57.7** |
| 1 | Irrigation | 65.9 | 54.4 | 28.0 | 23.1 | 16.0 | 25.4 | 37.5 |
| 2 | Agriculture | 9.4 | 6.4 | 5.4 | 4.6 | 3.1 | 5.3 | 7.7 |
| 3 | Forestry | 11.3 | 3.4 | 8.2 | 5.9 | 3.2 | 3.0 | 3.6 |
| 4 | Fisheries | 4.8 | 3.4 | 2.1 | 2.8 | 1.6 | 0.3 | 1.5 |
| 5 | Science and technology | 2.5 | 1.2 | 4.5 | 5.2 | 4.4 | 2.3 | 0.7 |
| 6 | Education and Training | 1.7 | 1.0 | 2.2 | 2.1 | 1.8 | 1.0 | 0.9 |
| 7 | Other sectors | 0.7 | 1.8 | 0.8 | 1.1 | 0.5 | 18.2 | 1.1 |
| 8 | Investment preparation | 1.2 | 0.4 | 0.6 | 0.1 | 0.4 | 0.6 | 0.5 |
| 9 | National targeted Programs | 2.1 | 1.1 | 1.2 | 1.0 | 0.9 | 2.4 | 3.5 |
| 10 | National reserve supplement | 0.4 | 0.4 | 1.0 | 2.0 | 1.0 | 2.0 | 0.7 |
| **B** | **Government bonds** | **0.0** | **26.5** | **46.1** | **52.2** | **67.1** | **39.5** | **42.3** |

*Source: Nguyen and Pham (2011).*

### *3.4.2 Foreign direct investment*

The implementation of integration commitments in general, and investment-related ones in particular, has positively improved FDI attraction to Vietnam, especially after the WTO accession. The main facilitators include: (i) *liberalizing trade in services*, thus allowing foreign investors to participate in Vietnam's services market*;* (ii) *liberalizing trade in goods*, which require phasing-out of export and import tariff, so investment can be induced to industries with benefits from lower export and import tariff when exporting to other countries and vice versa (indirect effect); (iii) *loosening conditions and procedures of licensing, trading rights, operations of economic zones as well as other investment-related commitments*, which facilitate and promote investment in some areas without previous attractiveness to investment.

Consequently, FDI to Vietnam increased significantly in 2007-2008, from USD 12 billion in 2006 to USD 19.38 billion in 2007 and reached the record of USD 71.73 billion in 2008. However, due to the financial crisis, Vietnam's registered FDI fell dramatically to only 23.11 trillion USD in 2009, and was down to only 15.62 trillion USD in 2011. However, thanks to the stable political and increasingly improved investment, FDI witnessed a slight recovery to 16.35 trillion USD and 21.63 trillion USD in 2012 and 2013, respectively.

**Table 31: Registered FDI* by sector, 2006-2013**

| | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **Growth rate (%)** |
|---|---|---|---|---|---|---|---|---|---|
| ***Billion USD*** | | | | | | | | | **2007-2013** |
| Total | 12.00 | 19.38 | 71.73 | 23.11 | 19.89 | 15.62 | 16.35 | 21.63 | 8.77 |
| AFF | 0.17 | 0.06 | 0.33 | 0.13 | 0.04 | 0.14 | 0.10 | 0.09 | -9.12 |
| Industry-construction | 9.06 | 12.15 | 39.75 | 5.18 | 10.76 | 12.05 | 12.31 | 19.01 | 11.17 |
| *Industry* | *8.42* | *11.15* | *39.24* | *4.52* | *8.95* | *10.75* | *11.97* | *18.80* | 12.17 |
| *Construction* | *0.64* | *0.99* | *0.50* | *0.65* | *1.82* | *1.31* | *0.35* | *0.21* | -14.67 |
| Services | 2.78 | 7.17 | 31.65 | 17.80 | 9.09 | 3.42 | 3.94 | 2.53 | -1.32 |
| **Structure (%)** | | | | | | | | | |
| Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | |
| AFF | 1.41 | 0.30 | 0.46 | 0.58 | 0.18 | 0.91 | 0.61 | 0.40 | |
| Industry-construction | 75.45 | 62.68 | 55.41 | 22.40 | 54.13 | 77.18 | 75.32 | 87.90 | |
| *Industry* | *70.10* | *57.56* | *54.71* | *19.58* | *44.99* | *68.82* | *73.20* | *86.92* | |
| *Construction* | *5.34* | *5.13* | *0.70* | *2.82* | *9.13* | *8.36* | *2.12* | *0.98* | |
| Services | 23.14 | 37.02 | 44.12 | 77.02 | 45.69 | 21.91 | 24.07 | 11.70 | |

*Note: (*) include both newly-registered and supplementary capital of existing projects*
*Source: Authors' calculation from GSO and FIA database.*

Consistent with the overall picture of the whole country's FDI attractiveness, FDI to the AFF sector also fluctuated significantly, reaching the high level of USD 0.33 billion in 2008 but plunged to only 0.04 trillion in 2009, and was relatively stable at around USD 0.1 billion since 2009. FDI, however, was only concentrated into some industries, namely manufacturing (which accounted for more than 76% of total newly registered FDI in 2013)

and services (reached up to 77% in 2009 and dropped to 24.07% in 2012 and 11.7% in 2013). FDI to the AFF sector was very modest compared to industry-construction and services in terms of both value and structure. Though registered FDI to AFF has recovered since 2011, its share in total FDI has become smaller and smaller, and accounted for only 0.4% of total registered FDI instead of 0.91% as in 2011, and much lower than the 1.14% in 2006. During the period 2007-2011, average growth rate of registered FDI to the AFF sector was even negative (-19.78%) while other sectors experienced high positive growth rates (construction: 16.03%; services: 18.45%). (

Table **31**)

The limitation of the AFF sector in attracting FDI capital can be partly explained by the nature of AFF such as unusual and unwanted effects of weather, agricultural products being seasonal, easily rotten, and easily affected by diseases leading to decreased quality. Other important reasons is the under-development of the sector, its low technology, small scale and scatter nature. Most farmers are not familiar with the mode of commodity production. Production regions are not specialized with poor infrastructure; production structures are not stable and lack long visions. The story of good harvests is always couple with low prices being very common for many AFF products, namely coffee, and fishery. Currently, agricultural production is basically household-based, applying traditional production modes, uses simple technology, labors are untrained in management and technical issues, and lacking in professional supply services. Due to the low quality of inputs, farmers can not improve their productivity and product quality. It also costs much more for FDI enterprises investing in the AFF sector to train their employees and invest in infrastructural works. Projects on afforestation and industrial trees face many difficulties in acquiring enough land areas to meet the demand of mass production. FDI projects on aquaculture are facing challenges arising from an unstable water environment quality. Those factors make investing in the AFF sector in Vietnam much riskier and less profitable compared to other sectors. In the context of more severe competition in the global market and stricter non-tariff barriers such as SPS, standard, quality and environment requirements applied by trading partners, improvement of science and technology is an increasing challenge for the AFF sector because FDI projects and their spill-over effects are one of the quickest channel for Vietnam to acquire modern and new technology.

## 3.5. Opportunities and Challenges to AFF

### *Opportunities*

The RCEP should offer greater market access for agricultural products, thanks to a diverse range of taste and generally favorable attitude of consumers to these products. Still, it should be noted that any improvement of access to AFF market over existing ASEAN+ FTAs might be difficult. The RCEP will also bring about greater efforts towards trade facilitation, cheaper/better inputs, greater investment and competition which will address quality constraints. Non-market benefits would include the opportunity for improving more nutritional consumption of products not readily purchasable in Vietnam.

Integration generally brings positive impacts on the Vietnam economy. Some Vietnamese commodities with high competitiveness have dominated regional and global market (namely rice, coffee, pepper and cashew). The AFF products still play an important role in the country's export patterns.

Vietnam agreed to open its market for some agricultural commodities in accordance with trade liberalization agreements, thereby allowing the import of some products that Vietnam has low competitiveness. With more severe competition from the regional and international trading partners due to integration commitments, Vietnam's advantageous products gradually

improved their competitiveness, and lessened their dependence on subsidies and trade barriers.

### *Challenges*

The challenges related to these opportunities and include addressing problems like poor quality of products, resources to take advantage of the trade facilitation (e.g. infrastructure at the borders), undertaking the necessary restructuring that follows allowing greater market access and increased competition which will be a large challenge given the small scale of Vietnamese agricultural production. But Vietnam has faced such challenges in the past, for example during its unilateral Doi Moi reforms. A key challenge might be some seeing non-tariff barriers (e.g. SPS, anti-dumping) taking the place of lowered tariffs which only results in a race to the bottom of a shrunken world market.

The competitiveness of Vietnamese agricultural commodities remains weak. Their quality and safety are still of considerable concern as more relevant NTBs have been introduced by trading partners.

Trading patterns have not been significantly improved as natural, raw or semi-processed commodities still account for the majority of exports while a substantial share of inputs for production is imported. Some products are losing their comparative advantage over time, and will face more difficulties to penetrate into international markets.

Vietnam's trade relations are relatively focused on several major trading partners as well as major imported or exported products, making it more vulnerable to changes in demand or supply from such markets. The share of exports of Vietnam to some traditional countries and regions has shrunk, while those to others show some potential.

Vietnam's advantageous products are quite similar to those of its neighboring countries. Consequently, the competition among FTAs' members is expected to be more severe.

Investment in agriculture has been low recently because of an unfavorable investment environment, low profitability and many risks. Most agricultural enterprises are small-scaled and ineffective, which in turn will affect the effectiveness of agricultural production and export.

## *4. Industry – Construction*

### 4.1. Contribution to GDP

Industry-construction usually has the most significant impact on the overall GDP growth rate thanks to it having the largest scale with a contribution of more than 40% to GDP(as indicated in Table 24 above), and usually having the highest growth rate in the economy. In the period of 2007-2013, the average growth rate of this sector was 6.07%, which was much lower than that of 10.2% for the period 2002-2006, and also smaller than the 5-year-plan target of 9.5-10.2% for the period 2006-2010.

The annual growth of the industry-construction decelerated rapidly in the period of 2007-2013 compared to the period of 2002-2006. Despite of relatively high figure in 2006-2007 (7.29% and 7.36%, respectively), the growth rate plunged to 4.13% in 2008, the lowest compared to the AFF and services sectors (which were 4.69% and 7.55%, respectively). The sector gradually regained its development momentum in 2009-2010, and reached the growth rate of 7.17% in 2010, but took the downward trend in the following years. GDP of industry-construction continuously dropped to 6.68% in 2011, 5.75% in 2012and was only 5.43% in 2013, the lowest since 2008. As industry-construction is the driver of growth, its dramatic slowdown led to downturn in the overall economy. (Table 32)

In terms of sub-sectors, the growth rates in industry-construction differed remarkably among themselves. With the role of building physical and technical facilities, the construction sector tends to achieve high growth rates during boom periods, and to be stagnated if the economy falls into recession. In 2007, the first year after Vietnam' WTO accession, the FDI flows into the economy reached a record high level (increasing by 93.4% compared to 2006 even after excluding any price effect); non-state investment also grew considerably (by 26.9%). Therefore, despite some difficulties (such as rapid increase of construction materials' prices, and slow capital disbursement), the construction sector still attained higher growth rate (of 12.15% in 2007, the second fastest just after the manufacturing sub-sector).

However, in 2008, the construction sector was adversely affected by the rapid surge in material costs (cement, iron and steel) due to impacts from higher international prices, difficulty of non-state entities in accessing capital, and the reduction of state investment capital to curb inflation, as well as the decline of real estate market. For the first time in several decades, the construction sector experienced was negative growth (-0.38%). In 2009 and 2010, thanks to measures of economic stimulus, especially investment and construction stimulus, the sector enjoyed a growth rate of more than 10% (11.36% and 10.06%, respectively).[21] In 2011, because of the determined measures to maintain macroeconomic stability, public investment was decreased, the non-state sector suffered from severe shortage of capital, while FDI inflows decreased. Consequently, the construction sector contracted by -0.62% in 2011 before slightly rebounding and attaining a modest growth rate of 3.25% in 2012 and 5.87% in 2013, higher than the average rate of the industry-construction sector (5.43%). Nevertheless, the growth of the construction sub-sector still lagged considerably behind those of other sub-sectors such as electricity, gas (8.54%), water supply (9.10%) and manufacturing (7.4%), and just exceeded the rate of mining and quarrying in 2013 (-0.2%).

**Table 32: Growth Rate of Industry – Construction Sector by Industry, 2006-2013 (%)**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|
| **AFF** | **3.80** | **3.96** | **4.69** | **1.91** | **3.29** | **4.02** | **2.68** | **2.64** |
| **Industry-Construction** | **7.29** | **7.36** | **4.13** | **5.98** | **7.17** | **6.68** | **5.75** | **5.43** |
| *Mining and quarrying* | *-2.00* | *-2.20* | *-3.83* | *7.62* | *2.10* | *2.52* | *4.70* | *-0.20* |
| *Manufacturing* | *13.36* | *12.37* | *9.78* | *2.76* | *8.38* | *11.00* | *5.80* | *7.44* |
| *Electricity, gas, stream and air conditioning supply* | *9.91* | *9.09* | *10.06* | *9.02* | *11.27* | *9.51* | *12.40* | *8.54* |
| *Water supply, sewerage, waste management and remediation activities* | *7.75* | *8.13* | *7.01* | *6.50* | *7.39* | *9.40* | *8.40* | *9.10* |
| *Construction* | *11.05* | *12.15* | *-0.38* | *11.36* | *10.06* | *-0.62* | *3.25* | *5.87* |
| **Services** | **8.39** | **8.54** | **7.55** | **6.55** | **7.19** | **6.83** | **5.90** | **6.57** |

*Source: Authors' calculation from GSO data.*

Among all sub-sectors of industry-construction, the average growth rate of electricity, gas and water supply was the highest in the period 2007-2013, attaining 9.98% per annum, followed by manufacturing (8.18% per annum), and water supply (7.99% per annum). These sub-sectors grew at a much faster pace in relation to that of industry-construction (6.07% per annum) as well as services (7.01% per annum) during the same period. Even during difficult times in 2008 and 2010, the two sub-sectors continued to grow considerably. Specifically, electricity, gas and stream and air conditioning supply maintained a growth rate of more than 10% during 2008-2010, and reached 12.40% in 2012, the highest among all sub-sectors. In

[21] The Prime Minister approved Decision No. 390/QD-TTg dated April 17, 2008 on managing capital investment plan and State Budget expenditure to help control inflation

2013, however, the growth rate of electricity and gas decreased slightly to 8.54%, the second fastest just after water supply (9.10%).

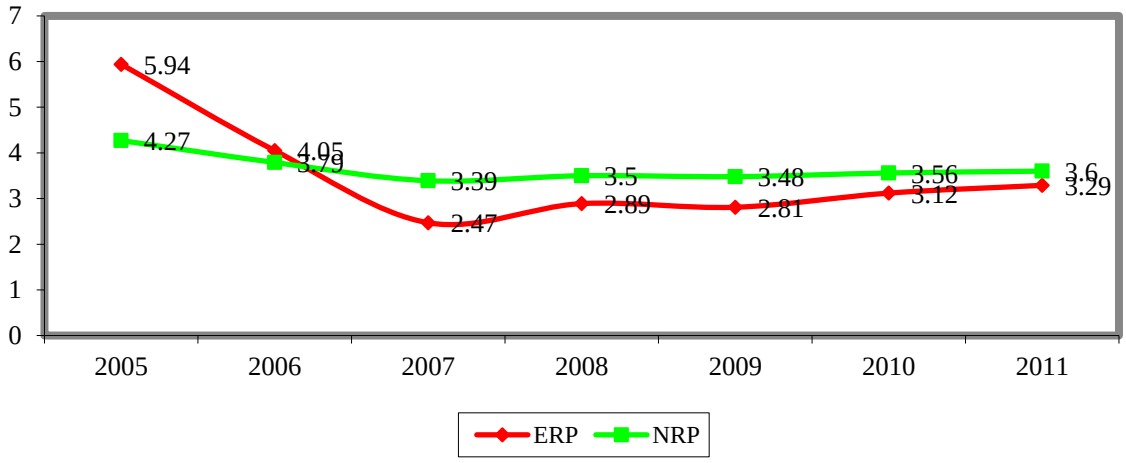
The mining and quarrying sub-sector experienced negative growth rate almost continuously during the 2006-2008 period. The main reasons were the Government's policy on saving natural resources and limited technical capacity of mines (newly discovered mines have low reserves). However, the sub-sector achieved positive growth rate during the 2009-2012 period with the peak of 7.62% in 2009, the highest in the last 20 years, but immediately contracted to 2.10% in 2010. After the recovery during 2011-2012, again, the mining and quarrying sub-sector plunged to -0.20% in 2013.

As one of the most important pillars of the economy, the manufacturing sub-sector had a relatively high growth rate during the period 2002-2007, attaining 13.36% in 2006 and 12.37% in 2007. In late 2008, the growth rate of the sub-sector decelerated as the global financial crisis and economic recession started to hit the economy. Manufacturing grew at only 9.78% in 2008, and dropped to a bottom of 2.76% in 2009. In the recent period, however, the growth rate of manufacturing has fluctuated significantly. From the bottom rate, it jumped to 11.00% in 2011, decreased again to 5.80% in 2012. In 2013, manufacturing sub-sector regained its growing momentum with a growth rate of 7.44%, the third fastest among all sub-sectors and 2.01 percentage point higher than the average rate of the whole industry-construction sector.

The significant decrease of the manufacturing sub-sector in 2008-2009 was explained by severe impacts of the global financial crisis and economic recession, which were transmitted very quickly, initially via high international prices, followed by investment slowdown (very modest growth in 2008) and then by export contraction (in 2009). Export-oriented sub-sectors encountered considerably lower demand from trading partners and more restrictive protection barriers. Meanwhile, manufactured goods to serve the domestic market were also exposed to tougher competition from imported products as the import tariff of many commodities was phased out in line with international commitments. The difficulties in the year 2009 also revealed more clearly the weaknesses of the manufacturing sub-sector, namely: limited production efficiency and competitiveness with slow improvement; reliance of production on low-value-added processing and on imported inputs in the absence of sufficiently developed supporting industries.

Similar to the AFF sector, ERPs and NRPs were calculated for the industry sector for the period of 2005-2011 (Figure 8).In general, although the ERPs and NRPs of the industrial sector remained modest, they still exceeded those of the agriculture-forestry-fishery sector. Notably, the ERPs decreased sharply in 2007.In the five year before the WTO accession, for the industry sector, the ERPs was higher than the NRPs. However, since 2007, the ERPs dropped to below NRPs (though not significantly) because higher tariff rates were levied on inputs to the industry sector. As the ERPs better depict the implementation of tariff reduction commitments and their impacts, the ERPs of industry sector presents a paradox for Vietnam as "the deeper the country integrates itself into the international economy, the less effective protection the domestic production could receive".

**Figure 8: ERP and NRP of Industry Sector (%)**




*Source: CIEM (2013).*

## 4.2. Gross output and Trade

### Gross output

Gross output of the industry sector achieved a remarkable increase during the period 2007-2013. The value grew from VND 1,199 trillion in 2006 to VND 5,469 trillion in 2013 (current price), which was up4.56 times and attained the impressive annual growth rate of 24.21% - is higher than that of the AFF sector by 4.13 percentage point during the same period (20.08%). Despite difficult times during the global financial crisis and economic recession, the output of the industrial sector as well as all sub-sectors grew continuously. Among industrial sub-sectors, manufacturing created the majority of industrial gross output, accounting for more than 80% of the sector gross output, and its share tended to increase over time, from 82.80% in 2005 to 84.95% in 2007, 86.49% in 2010 and 88.10% in 2013. The share of mining and quarrying became smaller and continuously decreased during the 2005-2013 period, from 11.22% in 2005 to only 7.57% in 2013, corresponding to the Government direction toward controlling the exploitation of natural minerals. Gross output of electricity, gas, steam and air conditioning sub-sector also took a similar downward trend (from 5.52% to 3.78% during the same period), while the proportion of water supply; sewerage and waste management activities remained modest, fluctuated around 0.5% over the 2005-2013 period, and stood at 0.55% in 2013 (Table 33).

Out of the manufacturing sub-sectors, coke and refined petroleum products witnessed the most significant improvement with the growth rate of 78.90% in the 2007-2013 period, and grew by 58.66 times in absolute terms (from only VND 3.17 trillion in 2006 to VND 186.19 trillion in 2013). The gross output of this sub-sector only grew quickly since 2009 when the Dung Quat refinery started operation, leading to an increase of 686% in 2009 compared to the previous year. In the following years, the sub-sector's output continued to achieve a high year on year growth rate of 240.12% in 2010, but slowed down to 12.30% in 2011, and attained 17.51% in 2013. However, manufacture of coke and refined petroleum products only accounted for small share of total industrial gross output of less than 4% during 2010-2013 (3.40% in 2013). Other sub-sectors gaining notable growth during the 2007-2013 period included remediation activities and other waste management services (increased by 44.43% per annum, and 13.11 times in absolute value), repair and installation of machinery and equipment (50.92% per annum and 17.83 times), computer, electronic and optical products (49.64%, 16.80 times), mining supporting service activities (40.89%, 11.02 times), mining of metal ores (29.76%. 6.19 times). Many other sub-sectors had average growth rates of more than 20% during the same period.

**Table 33: Structure of Industrial gross output at current price, 2005-2013 (%)**

| | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| | TOTAL | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| **Mining and quarrying** | | **11.22** | **10.32** | **9.66** | **9.86** | **9.23** | **8.45** | **8.04** | **8.54** | **7.57** |
| **Manufacturing** | | **82.80** | **84.13** | **84.95** | **85.14** | **85.32** | **86.49** | **87.15** | **87.04** | **88.10** |
| | *Manufacture of food products* | *17.85* | *18.13* | *1.99* | *18.84* | *18.19* | *17.87* | *18.15* | *17.45* | *17.29* |
| | *Manufacture of textiles* | *4.03* | *4.83* | *4.42* | *3.90* | *3.94* | *3.80* | *4.08* | *3.56* | *3.19* |
| | *Manufacture of wearing apparel* | *3.97* | *4.10* | *4.26* | *4.33* | *4.13* | *4.19* | *4.11* | *3.84* | *3.75* |
| | *Manufacture of leather and related products* | *4.28* | *4.02* | *3.77* | *3.65* | *3.21* | *3.44* | *3.37* | *3.27* | *3.22* |
| | *Manufacture of wood and of products of wood and cork (except furniture)* | *1.96* | *1.76* | *1.79* | *1.72* | *1.65* | *1.65* | *1.73* | *1.80* | *1.86* |
| | *Manufacture of paper and paper products* | *1.88* | *1.87* | *1.91* | *2.02* | *1.83* | *1.88* | *2.01* | *1.93* | *1.85* |
| | *Manufacture of coke and refined petroleum products* | *0.22* | *0.26* | *0.16* | *0.24* | *1.54* | *4.07* | *3.67* | *3.52* | *3.40* |
| | *Manufacture of chemicals and chemical products* | *4.72* | *5.02* | *4.79* | *5.06* | *5.52* | *4.63* | *4.48* | *4.35* | *4.21* |
| | *Manufacture of rubber and plastics products* | *3.94* | *4.10* | *4.09* | *4.43* | *4.26* | *4.38* | *4.38* | *4.00* | *3.74* |
| | *Manufacture of other non-metallic mineral products* | *5.53* | *5.88* | *5.33* | *5.31* | *6.37* | *5.45* | *5.34* | *4.73* | *4.26* |
| | *Manufacture of basic metals* | *3.78* | *3.79* | *4.33* | *4.51* | *3.83* | *4.46* | *4.05* | *4.37* | *4.57* |
| | *Manufacture of fabricated metal products (except machinery and equipment)* | *4.62* | *4.95* | *5.18* | *5.32* | *5.40* | *5.94* | *5.67* | *5.30* | *5.09* |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Manufacture of computer, electronic and optical products* | *3.52* | *3.43* | *3.96* | *3.60* | *3.73* | *3.80* | *5.55* | *9.12* | *12.63* |
| | *Manufacture of electrical equipment* | *3.44* | *3.66* | *4.12* | *3.66* | *3.50* | *3.11* | *3.27* | *3.33* | *3.45* |
| | *Manufacture of motor vehicles; trailers and semi-trailers* | *2.88* | *2.53* | *2.74* | *2.89* | *2.66* | *2.88* | *2.82* | *2.32* | *1.96* |
| | *Manufacture of other transport equipment* | *4.49* | *4.39* | *5.04* | *4.37* | *4.40* | *3.75* | *3.81* | *3.26* | *2.91* |
| | *Manufacture of furniture* | *3.40* | *3.71* | *3.67* | *3.42* | *3.22* | *3.16* | *2.83* | *3.01* | *3.16* |
| | *Repair and installation of machinery and equipment* | *0.38* | *0.33* | *0.48* | *0.64* | *0.76* | *0.82* | *1.91* | *1.57* | *1.29* |
| **Electricity, gas, steam and air conditioning supply** | | **5.52** | **5.06** | **4.90** | **4.54** | **4.92** | **4.47** | **4.28** | **3.88** | **3.78** |
| **Water supply; sewerage, waste management and remediation activities** | | **0.46** | **0.49** | **0.49** | **0.46** | **0.53** | **0.59** | **0.53** | **0.54** | **0.55** |

*Source: Authors' calculation from GSO data.*

Manufacture of food products dominated the structure of industrial output though its output grew at the average rate of the whole sector (25.20% during the 2007-2013period). Specifically, the sub-sector's proportion fluctuated around 17-18% over the same period (except for the considerable drop to 1.99% in 2007), and stood at 17.29% in 2013. As mentioned above, thanks to the jump of gross output, the share of coke and refined petroleum products increased impressively from only 0.22% of total industrial output to 4.07% in 2010. However, the share of this sub-sector in total industrial gross output gradually declined during the period of 2011-2013, and only attained 3.22% in 2013. The proportion of manufacture of repair and installation of machinery and equipment also achieved a considerable improvement; attaining1.29% in 2013 instead of only 0.38% in 2005. Other important industrial sub-sectors such as textile, wearing and apparel, leather and related products, chemicals and chemical products, rubber and plastic products, other non-metallic mineral products, basic metals, fabricated metal products maintained their relatively stable share of around 4-5% of total industrial gross output.

Manufacture of computer, electronic and optical products achieved a very impressive improvement in terms of both growth rates and absolute values, especially in recent years. During the 2010-2013 period, the sub-sector grew at the rate of 68.45% per annum, much higher than the pace of 26.50% during the 2006-2010 period. Gross output of the sub-sector doubled in 2012 in relation to the previous year, from VND 205.21 trillion to VND 411.02

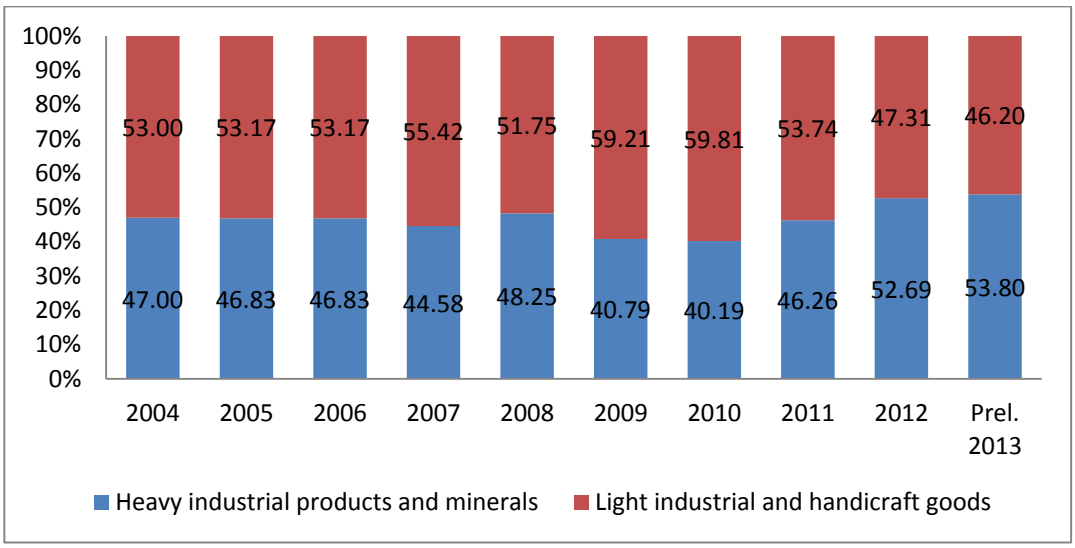
trillion. In 2013, its gross output continued to increase at a high rate of 68.11%, and attained VND 690.99 trillion. This fact corresponds to the expansion of investment by foreign investors in such industries in Vietnam in recent years.

**Trade**

Industrial products accounted for the largest share in total exports of Vietnam, which were maintained at about 77% over the 2004-2011period, and slightly increased to 79.2% in 2012 and stood at 82.4% in 2013, the largest share in the last 10 years. Total export value of industrial products increased by 2.52 times during the period of 2010-2013, from USD 55.74 billion to USD 108.83 billion, attaining a growth rate of 25.98% per annum. This figure was higher than that in the period of 2006-2010 (17.40% per annum).

The industrial export structure had long been dominated by light industrial and handicraft goods (including textile, wearing and apparel, furniture, leather, and home appliances), which always accounted for more than 51% of total industrial exports over the 2004-2011 period (Figure 9). The proportion of this group even expanded to 59.21% and 59.81% in 2009-2010. Since 2012, however, there was a reversion, in which heavy industrial products (including such products as chemicals, plastics, mining, steel, oil refinery, machinery, transport, etc.) contributed the major share in total industrial export. As such, heavy industrial products accounted for 52.69% and 53.80% of total industrial exports in 2012 and 2013, respectively. Its value increased by 29.86% per annum in the two years of 2012-2013, and reached USD 58.55 billion in 2013. Export value of light industrial and handicraft goods only went up by 11.64% per annum in the same period, attaining USD 50.28 billion.

**Figure 9: Structure of industrial exports at current price, 2004-2013 (%)**




*Source: Authors' calculation from GSO data.*

Over the period of 2010-2013, the exports of heavy industrial products and minerals achieved the impressed growth rate of 35.01%, which was significantly improved compared to the rate of 13.87% during the 2006-2010 period, and even higher than the average rate of the total industrial exports (25.98%). The growth rate of light industrial and handicraft goods declined from 20.20% to 18.40% over similar periods. This fact shows that Vietnam is facing more challenges and difficulties in exporting its traditional light industrial products such as garment and textiles due to more severe competition from neighboring countries, especially China.

By commodity, as illustrated in

Table 17 above, the share of footwear (HS 64-67) fell almost continuously during the 2004-2011 period, accounted for 13.54% of total industrial exports in 2004, but increased to 9.81%

in 2012. On the other hand, it reveals the country's improvement in promoting exports of heavy industrial manufactured products, including machinery and equipment, chemicals, and transports. For instance,

Table **17** indicates that machinery and electricity (HS 86-89) and minerals (HS25-26) attained the most dramatic acceleration of average annual growth rates from 24.7% and 12.3% in the period of 2005-2009 to 62.7% and 46.7% in the period of 2010-2012. Chemicals (HS 28-38), plastics and rubber (HS 39-40) all grew at fast pace of more than 30% per annual from 2010 to 2012. Transport (HS 86-89) also witnessed impressed change in growth rate by 25.9 percentage points, from 16.8% per annum in 2005-2009 period to 42.70% per annum in 2010-2012.

In terms of imports, machinery and electronics (HS 84-85), metals (72-83), textile and clothing (50-63), fuels (27) and chemicals (28-38) accounted for majority of Vietnam's total imports. The share of imported machinery and electronics increased gradually during the period of 2004-2012, while that of fuels decreased since 2007. This structure shows that Vietnam mainly imports inputs for the production of export-oriented products like footwear, textile or electronics, and most of them are assembling and processing industries. As mentioned before, the smaller share of imported fuels is partly explained by the establishment of Dung Quat refinery, which serves a portion of refined petroleum and oils.

As indicated in Table 34, fuel is the main product in Vietnam's export structure to ANZ (71.66% of total export to ANZ), while exports of other industrial products is relatively modest. However, due to the small value of total exports of Vietnam to ANZ, this significant number does not equate with corresponding significant value in relative to other important trading partner such as ASEAN or China. Fuels accounted for 32.77% and 29.19% of total exports of Vietnam to ASEAN and China (29.19%), respectively. This product group also made up to considerable share of Vietnam's exports to Japan and Korea (20.92% and 26.28%).

**Table 34: Share of Vietnam's total export and import by destination and commodity, 2008-2012 (%)**

| HS 2007 classification | ANZ | ASEAN | CHN | EU27 | IND | JPN | KOR |
|---|---|---|---|---|---|---|---|
| **Export** | | | | | | | |
| **Industrial products** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** |
| 25-26_Minerals | 0.35 | 0.98 | 2.06 | 0.06 | 3.65 | 0.33 | 0.80 |
| 27-27_Fuels | 71.66 | 32.77 | 29.19 | 0.24 | 5.10 | 20.92 | 26.28 |
| 28-38_Chemicals | 0.47 | 5.66 | 1.26 | 0.68 | 8.13 | 2.91 | 2.14 |
| 39-40_PlastiRub | 1.85 | 6.65 | 22.18 | 5.58 | 11.88 | 5.12 | 4.49 |
| 41-43_HidesSkin | 0.60 | 0.94 | 1.42 | 3.51 | 1.05 | 1.13 | 1.18 |
| 44-49_Wood | 1.29 | 1.37 | 6.03 | 1.41 | 2.86 | 3.59 | 3.22 |
| 50-63_TextCloth | 2.29 | 5.61 | 8.13 | 20.73 | 4.86 | 17.98 | 30.81 |
| 64-67_Footwear | 2.53 | 1.26 | 2.89 | 22.82 | 1.87 | 2.89 | 4.09 |
| 68-71_StoneGlas | 3.12 | 2.82 | 0.81 | 2.19 | 0.86 | 1.91 | 0.95 |
| 72-83_Metals | 1.36 | 12.40 | 1.66 | 3.82 | 9.26 | 3.23 | 5.94 |
| 84-85_MachElec | 9.43 | 22.56 | 17.51 | 27.84 | 48.62 | 27.62 | 10.13 |
| 86-89_Transport | 0.64 | 3.73 | 0.75 | 2.28 | 1.20 | 3.68 | 4.80 |
| 90-99_Miscellan | 4.42 | 3.25 | 6.11 | 8.85 | 0.66 | 8.70 | 5.17 |
| **Import** | | | | | | | |

| **Industrial products** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** |
|---|---|---|---|---|---|---|---|
| 25-26_Minerals | 1.42 | 1.00 | 0.53 | 0.13 | 2.39 | 0.14 | 0.06 |
| 27-27_Fuels | 6.62 | 31.64 | 8.13 | 0.33 | 2.02 | 1.42 | 10.22 |
| 28-38_Chemicals | 6.86 | 9.47 | 10.26 | 21.06 | 32.66 | 5.54 | 6.14 |
| 39-40_PlastiRub | 0.97 | 10.68 | 3.66 | 3.99 | 8.96 | 10.16 | 10.12 |
| 41-43_HidesSkin | 3.15 | 0.66 | 0.54 | 1.93 | 4.64 | 0.16 | 1.28 |
| 44-49_Wood | 8.15 | 5.96 | 1.59 | 2.10 | 1.35 | 1.66 | 1.18 |
| 50-63_TextCloth | 2.69 | 3.56 | 13.78 | 2.99 | 15.15 | 6.65 | 14.60 |
| 64-67_Footwear | 0.02 | 0.09 | 0.74 | 0.10 | 0.04 | 0.02 | 0.36 |
| 68-71_StoneGlas | 15.05 | 0.96 | 1.40 | 2.10 | 0.84 | 1.45 | 0.60 |
| 72-83_Metals | 48.41 | 8.99 | 12.90 | 8.71 | 14.81 | 21.86 | 17.29 |
| 84-85_MachElec | 5.52 | 21.36 | 40.64 | 37.16 | 13.65 | 40.76 | 30.94 |
| 86-89_Transport | 0.11 | 4.05 | 2.22 | 13.79 | 2.69 | 5.25 | 4.95 |
| 90-99_Miscellan | 1.02 | 1.58 | 3.62 | 5.61 | 0.81 | 4.92 | 2.25 |

*Source: Authors' calculation from COMTRADE database.*

Textile and clothes (HS50-63), footwear (HS 64-67) and machinery (HS 84-85) are the most important products to be exported to the EU, which amounted to 20.73%, 22.82% and 27.84% of total exports of Vietnam to this market. Clothing and textile accounted for the biggest share of exports to Korea (30.81%). In the Vietnam's export structure to China, not to mention fuels, other key products are plastics and rubber (HS 39-40) with the proportion of 22.18%, followed by machinery and electronics (HS 84-85) (17.51%). Unlike other trading partners, Vietnam's exports structure to ASEAN witnessed a significant share of metals (HS 72-83) with 12.40% of total exports to this market, just behind fuels and machinery and electronics (22.56).

In the opposite trade direction, the import structure of Vietnam from ASEAN is dominated by fuels (31.64%), machinery and electronics (21.36%) and plastics and rubber (10.68%). Machinery and electronics also accounted for the largest share of Vietnam's imports from Japan, Korea, China and EU, which were up to 40.76% of total imports from Japan, 30.94% from Korea, 40.64% from China and 37.16% from EU27. This fact demonstrates that Vietnam depends heavily on imported inputs from those markets to serve the domestic productions of those products. Vietnam also import considerable share of metals (HS 72-83) from Japan (21.86% of total imports from Japan), Korea (17.29%) and China (12.90%). In addition, chemicals (HS 28-38) is another main imported products from the EU27 (21.06% of total imports from EU27), China (10.26%), and especially India (32.66%). Though Vietnam has an advantage in exporting some sub-products of plastics and rubber (HS 39-40), particular raw rubber, this product groups also accounted for relatively big share in total imports of Vietnam from China, Japan and Korea (approximately more than 10%).

Similar to agricultural products, IIT indices were calculated for some important export products of Vietnam. Table 35 shows Vietnam's intra trade between Vietnam with the EU27, the US and RCEP countries in terms of fuels (HS 27) and its sub-products of crude petroleum and oil (HS 2709) and refined products (HS 2710). Vietnam's IIT index with the EU27 and the US mostly equals zero, demonstrating that the fuels' intra-trade between Vietnam and the EU27 and the US is very limited, and can be considered one-way trade. Indeed, Vietnam's fuels trading with the EU27 and the US followed the two opposite directions. With the EU27, Vietnam mainly imports refined petroleum and oils, of which the imports of HS2710 increased by 35.7% per year in the period of 2008-2012. Vietnam's export value to the EU27 is relatively small. With the US, on the other hand, Vietnam mainly exports crude oil and

petroleum, and the export structure is highly concentrated on crude petroleum and oil (HS 2709), which accounted for approximately 99% of total Vietnam's exports of fuels to this market.

**Table 35: Vietnam's IIT index of fuels, 2008-2012**

| **27** | **2012** | **2011** | **2010** | **2009** | **2008** |
|---|---|---|---|---|---|
| **EU27** | 0.0031 | 0.1687 | 0.0043 | 0.3162 | 0.0009 |
| **US** | 0.0002 | 0.0001 | 0.0002 | 0.0001 | 0.0000 |
| **RCEP** | 0.1408 | 0.1386 | 0.1152 | 0.0533 | 0.0277 |
| **2710** | **2012** | **2011** | **2010** | **2009** | **2008** |
| **EU27** | 0.0003 | 0.0003 | 0.0047 | 0.0152 | 0.0000 |
| **US** | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| **RCEP** | 0.1349 | 0.1263 | 0.1127 | 0.1025 | 0.0489 |
| **2709** | **2012** | **2011** | **2010** | **2009** | **2008** |
| **EU27** | - | 0.0000 | - | 0.1429 | - |
| **US** | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| **RCEP** | 0.1323 | 0.1607 | 0.1226 | 0.0000 | 0.0000 |

*Source: Authors' calculation from COMTRADE database.*

The IIT index of Vietnam with RCEP member countries is relatively significant compared to that of the EU27 and the US, and took the upward trend during the 2008-2012. The index grew continuously from 0.03 in 2008 to 0.14 in 2012. The import and export structure of Vietnam with RCEP member countries included most sub-products of HS27, of which Vietnam mainly exports crude oils and petroleum and imports refined products. However, the proportion of HS 2709 and HS 2710 was still significant compared to others.

Footwear is one of the key export products of Vietnam to the EU27 and the US. In case of footwear, Vietnam's IIT index with the EU27 and the US were very close to zero during the period 2008-2012, in which Vietnam mainly exports to these trading partners while imports were almost nothing. The significant share of inputs for the footwear industry is imported from China and other RCEP countries. Consequently, the IIT index of footwear between Vietnam and RCEP is much higher than that with the EU27 and the US, and its score was relatively stable over the period of 2008-2012.

**Table 36: Vietnam's IIT index of footwear (HS 6403), 2008-2012**

| 6403 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **EU27** | 0.0023 | 0.0015 | 0.0007 | 0.0007 | 0.0003 |
| **US** | 0.0002 | 0.0001 | 0.0001 | 0.0001 | 0.0001 |
| **RCEP** | 0.0475 | 0.0442 | 0.0571 | 0.0594 | 0.0389 |

*Source: Authors' calculation from COMTRADE database.*

Among the studied products groups, Telephone sets (8517) is the product groups with the highest IIT index between Vietnam and the EU27, the US and the RCEP. This demonstrated the fact that Vietnam imports inputs from its trading partners and re-exports assembled products to the partners' markets. The index with the RCEP is relatively higher than that of the EU27 and the US. This feature is consistent with the expansion of RCEP's investment in the assembling industries of Vietnam. Quite large amounts of spare parts are imported from Japan, Korea, China, ASEAN, the US and the EU to serve assembling industries of Vietnam. These sub-products, also accounted for a significant portion of Vietnam's exports to Japan, Korea and the EU.

**Table 37: Vietnam's Intra-Industry Trade index of Telephone sets (8517), 2008-2012**

| 8517 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **EU27** | 0.0228 | 0.0370 | 0.0844 | 0.0729 | 0.0478 |
| **US** | 0.1055 | 0.1748 | 0.2107 | 0.1021 | 0.1479 |
| **RCEP** | 0.3104 | 0.5126 | 0.6155 | 0.3303 | 0.1209 |

*Source: Authors' calculation from COMTRADE database.*

## 4.3. Investment

### *4.3.1 State investment*

As illustrated in Table 29 above, the industry-construction sector accounted for a significant share of state investment. The sector's share in total state investment was the second largest behind the services sector, which fluctuated around 40% of total state investment during the 2005-2013 period, except a fall to 34.59% in 2008. Total state budget investment in the industry-construction sector increased from VND 64.21 trillion in 2005 to VND 81.64 trillion in 2007, declined to VND 72.30 trillion in 2008, but took an upward trend since 2009, and reached VND 173.83 trillion in 2012. Overall, it attained a growth rate of 14.55% in the 2006-2010 period, but dropped to 40.49% in the 2010-2013 period, partly due to the Government policy to cut down state investment as a measure to control inflation and state budget deficit.

**Table 38: State investment to industry – construction sector, 2007-2013**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Growth rate (%) | |
|---|---|---|---|---|---|---|---|---|---|
| | Tril. Dongs | | | | | | | 2006 - 2010 | 2010-2013 |
| **Total** | **197.99** | **209.03** | **287.53** | **316.29** | **341.56** | **406.52** | **440.50** | **14.37** | **11.25** |
| ***Industry-*** | ***81.64*** | ***72.30*** | ***116.6*** | ***126.6*** | ***135.5*** | ***164.9*** | ***173.8*** | ***14.55*** | ***10.49*** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ***construction*** | | | ***4*** | ***3*** | ***5*** | ***6*** | ***3*** | | |
| Mining and quarrying | 15.23 | 16.29 | 19.27 | 20.59 | 21.48 | 24.31 | 22.33 | 8.61 | 3.76 |
| Manufacturing | 24.10 | 12.28 | 24.75 | 30.11 | 33.40 | 48.99 | 50.45 | 17.37 | 19.48 |
| Electricity, gas, stream and air conditioning supply | 26.06 | 26.25 | 48.17 | 47.46 | 49.58 | 55.38 | 55.59 | 15.00 | 3.65 |
| Water supply, sewerage, waste management and remediation activities | 7.28 | 7.51 | 11.16 | 12.21 | 12.81 | 12.63 | 15.46 | 12.85 | 8.50 |
| Construction | 8.98 | 9.97 | 13.30 | 16.26 | 18.27 | 23.66 | 30.00 | 19.06 | 22.55 |
| **Structure (%)** | | | | | | | | | |
| **Industry-construction** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | | |
| Mining and quarrying | 18.65 | 22.53 | 16.52 | 16.26 | 15.85 | 14.74 | 12.85 | | |
| Manufacturing | 29.52 | 16.99 | 21.22 | 23.78 | 24.64 | 29.69 | 29.02 | | |
| Electricity, gas, stream and air conditioning supply | 31.92 | 36.31 | 41.30 | 37.48 | 36.58 | 33.57 | 31.98 | | |
| Water supply, sewerage, waste management and remediation activities | 8.92 | 10.39 | 9.56 | 9.64 | 9.45 | 7.65 | 8.89 | | |
| Construction | 10.99 | 13.78 | 11.40 | 12.84 | 13.48 | 14.34 | 17.26 | | |

*Source: Authors' calculation from GSO data.*

During the 2006-2010 period, state investment to most sub-sectors grew at relatively high rates, namely construction (19.06%), manufacturing (17.37%), electricity, gas, steam and air conditioning supply (15.00%). During the recent period of 2010-2013, however, state investment to industry-construction deteriorated remarkably in line with the overall situation. As a result, growth rate of state investment to electricity, gas, steam and air condition supply had the largest drop of 11.35 percentage point and attained only 3.65%. Meanwhile, the growth rate of mining and quarrying was down from 8.61% to 3.76% (dropped by 4.85 percentage point, the second largest), water supply from 12.85% to 8.50% (the third largest reduction). The positive sign was that state investment to manufacturing still grew at relatively high rate of 19.48%, 2.11 percentage point higher than the previous period, being an important source to boost the economic situation. Construction sub-sector also achieved impressed growth rate of 22.55% per annum during the period of 2010-2013 compared to 19.06% per annum in the 2006-2010 period, and much higher than the average growth rate of

the whole industry-construction sector as well as of the overall state investment in the both periods.

Though accounting for the majority share in total exports of industrial products, the shares of manufacturing and mining and quarrying in total state investment were still less than that in electricity, gas, steam and air conditioning supply. Of which, the proportion of the latter was 31.98% in 2013(VND 55.59 trillion) while that of the formers were 19.02% (VND 50.45 trillion) and 12.85% (VND 22.33 trillion), respectively. The share of mining and quarrying took the downward trend over the 2005-2013period,attaining 21.22% in 2005, reaching the record of 22.53% in 2008, and decreasing continuously since 2008 to only 14.74% in 2012 and further dropped to 12.85% in 2013. After the significant drop from the high level of 29.52% in 2007 to only 16.99% in 2008, the proportion of state investment to manufacturing continuously went up since 2009, and stood at more than 29% in 2012-2013. As mentioned above, state investment to construction sub-sector slightly flourished in the period of 2010-2013 in relation to the 2006-2010 period. As such, state investment in construction kept going up over the 2005-2013 period, from only 10.58% of total state investment in 2005 (VND 6.80trillion) to 12.84% in 2010 (VND 16.26 trillion) and 17.26% in 2013 (VND 30.00 trillion). The value continuously increased by 4.41 times during this period, achieving the average growth rate of 20.40% per annum.

### *4.3.2 FDI*

The Industry-construction sector is the biggest absorber of FDI capital among economic sectors. As shown in

Table **31** above, its share gradually dropped from 75.45% in 2006 to the lowest level of 22.40% in 2009. However, the industry-construction sector continuously expanded its proportion in total FDI afterward, up to 77.18% in 2011 and 87.90% in 2013. In accordance with the overall FDI of the whole country, FDI to the industry-construction sector increased by 4.39 times, from USD 9.06 billion in 2006 to the peak of USD 39.75 billion in 2008, partly thanks to the country's accession to the WTO and implementation of integration commitments. The global financial crisis and economic recession in 2009, nevertheless, led to a remarkable decline of total FDI to Vietnam in general and FDI to other sub-sectors in particular, including industry-construction. Consequently, FDI to this sector decreased by -86.98% in 2009, and attained only USD 5.18 billion. Fortunately, the FDI capital continuously increased over the 2010-2013 period, reaching USD 19.01 billion in 2013 though still much smaller than the 2008 figure. Over the period of 2010-2013, FDI to the industry-construction sector grew at an impressed rate of 40.51% per annual, much higher than the period of 2007-2009 (which was only 11.66%). Overall, the average growth rates of the industry-construction sector were higher than that of the whole economy, which were only 9.98% and 10.25% in the same periods, respectively.

FDI mobilization to sub-sectors of industry-construction fluctuated considerably. Impressive growth rate of FDI to the sector in the 2010-2013 period was mainly contributed by the expansion of FDI to manufacturing; electricity, gas, steam and air conditioning supply; and water related activities, which grew at 43.37%, 85.73% and 40.30%, respectively. Meanwhile, FDI to mining and quarrying and construction decreased significantly, resulting in the negative growth rates of 33.26% and 24.57% over the same period, respectively. The figures for the two sub-sectors were even much larger than those in 2007-2009, which were -8.11% and -14.67%, respectively.

**Table 39: Registered FDI to industry-construction sector, 2006-2013**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Growth rate | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Billion USD** | | | | | | | | | **2007-2009** | **2010-2013** |
| **Total** | **12.00** | **19.38** | **71.73** | **23.11** | **19.89** | **15.62** | **16.35** | **21.63** | **10.25** | **9.98** |
| **Construction-Industry** | **9.06** | **12.15** | **39.75** | **5.18** | **10.76** | **12.05** | **12.31** | **19.01** | **11.66** | **40.51** |
| ***Industry*** | ***8.42*** | ***11.15*** | ***39.24*** | ***4.52*** | ***8.95*** | ***10.75*** | ***11.97*** | ***18.80*** | ***12.17*** | ***42.78*** |
| *Mining and quarrying* | *0.14* | *0.26* | *0.19* | *0.40* | *0.01* | *0.10* | *0.17* | *0.08* | *-8.11* | *-33.26* |
| *Manufacturing* | *8.27* | *10.88* | *38.94* | *3.94* | *5.98* | *7.80* | *11.70* | *16.64* | *10.50* | *43.37* |
| *Electricity, gas, steam and air conditioning supply* | *0.00* | *0.01* | *0.09* | *0.17* | *2.95* | *2.53* | *0.10* | *2.03* | | *85.73* |
| *Water supply; sewerage, waste management and remediation activities* | *0.00* | *0.00* | *0.02* | *0.01* | *0.01* | *0.32* | *0.00* | *0.05* | | *40.30* |
| ***Construction*** | ***0.64*** | ***0.99*** | ***0.50*** | ***0.65*** | ***1.82*** | ***1.31*** | ***0.35*** | ***0.21*** | ***-14.67*** | ***-24.57*** |
| **Structure (%)** | | | | | | | | | | |
| **Construction-Industry** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | |
| ***Industry*** | ***92.92*** | ***91.82*** | ***98.73*** | ***87.39*** | ***83.13*** | ***89.17*** | ***97.19*** | ***98.89*** | ***92.92*** | |
| *Mining and quarrying* | *1.59* | *2.16* | *0.48* | *7.77* | *0.05* | *0.82* | *1.36* | *0.42* | *1.59* | |
| *Manufacturing* | *91.32* | *89.58* | *97.97* | *76.07* | *55.55* | *64.69* | *95.04* | *87.51* | *91.32* | |
| *Electricity, gas, steam and air conditioning supply* | *0.00* | *0.08* | *0.22* | *3.30* | *27.43* | *20.97* | *0.79* | *10.69* | *0.00* | |
| *Water supply; sewerage, waste management and remediation activities* | *0.00* | *0.00* | *0.06* | *0.26* | *0.09* | *2.68* | *0.00* | *0.27* | *0.00* | |
| ***Construction*** | ***7.08*** | ***8.18*** | ***1.27*** | ***12.61*** | ***16.87*** | ***10.83*** | ***2.81*** | ***1.11*** | ***7.08*** | |

*Note: (*) include both newly-registered and supplementary capital of existing projects*
*Source: Authors' calculation from GSO and FIA database.*

Due to the small value of FDI capital to such sub-sectors as electricity, gas, steam and air conditioning supply and water-related activities, high growth rates were not associated with FDI value to those sectors. Indeed, FDI to water-related activities only accounted for a modest share of total FDI to industry-construction, which was mainly less than 0.3% during

the studied period (except in 2011), and only reached USD 0.5 billion in 2013. The proportion of electricity, gas, steam and air conditioning supply, though higher, fluctuated significantly, jumping from less than 1% during 2006-2008 to 27.43% in 2010, but was down to 0.79% in 2012 before increased again to 10.69% in 2013. In absolute value, FDI to this sub-sector was insignificant, mainly less than USD 0.2 billion, except sudden increases in recent years of 2010, 2011 and 2013.

Meanwhile, manufacturing took the leading position in mobilizing FDI capital among all the industry-construction sub-sectors. Its share even reached more than 90% in 2006-2008, dropped to 55.55% in 2010 but increased again to 95.04% and 87.51% in 2012-2013, respectively. Accordingly, FDI to manufacturing went down from the highest value of USD 38.94 billion in 2008 to only USD 3.94 billion in 2009, but continuously climbed up by 1.98 times to reach USD 7.80 billion in 2011, then increased two folds to USD 16.64 billion in 2013. After the booming period in 2010-2011, FDI to the construction sub-sector declined significantly, from USD 1.82 billion in 2010 to USD 0.35 billion and USD 0.21 billion in 2012 and 2013, respectively. The sub-sector's share in total FDI in industry-construction, thus, also went down from more than 10% in the 2010-2011 to only 1.11% in 2013.

Data on FDI attracted to industry-construction reveals that FDI flows were concentrated in several sub-sectors, while the foreign capital to some targeted industries and sectors were smaller than expected, namely high technology, clean technology, and infrastructure. Besides, FDI was channeled to some industries and sectors with rapid growth but with possible adverse impacts - such as real estate activities, mining and quarrying, industries using low technologies. As an explanation, these industries and sectors are land-, natural-resource-, mineral-, and energy-intensive which may create environment pollution and threaten social security and national security.

Another important finding is that FDI inflows seemed not to bring the maximal spillover effect to industrial production in Vietnam. According to the survey by the United Nations Industrial Development Organization (UNIDO 2012) of nearly 1,500 enterprises in Vietnam, the transfer of technology and knowledge by FDI to the economy was very limited at the sectoral level. Currently, FDI enterprises mainly depend upon imported intermediate goods and raw materials, while the linkages with the domestic supply chains were not established. Many FDI enterprises produced products for export but had a weak connection with domestic enterprises, which resulted in low-added value of some export items (Nguyen 2013).

The situation can be partly explained by the ineffectiveness of the legal system and policies related to FDI attraction, which were still inconsistent and inadequate, thus failing to promote FDI to targeted industries. Investment incentives for high-tech and supporting industries were insufficiently attractive. Besides, Vietnam had no adequate policies to attract multinational corporations or FDI enterprises with high technology. The implementation of public-private partnerships (PPP) remained at the pilot phase, but FDI attraction to infrastructure was still modest.

In addition, the factors helping attract investment and enhance its efficiency were slowly established and unsecured, namely the lack of high qualified laborers, inadequate infrastructure, and underdeveloped support industries. Consequently, many multinational corporations or high-tech FDI enterprises did not invest or expand their investment in Vietnam.

## 4.4. Trade of selected products

### *4.2.1 Wood processing*[22]

Vietnam's wood processing industry has grown tremendously over past few years, with gross output of the industry in 2012 at around VND 199,570 billion, double that of 2008. The industry enjoyed strong growth over the period of 2008-2012 with its export value increasing at an annual growth of 20% for the 5 year period of 2008-2012 (except 2009 due to impacts of the global crisis).

The export turnover of Vietnam's wooden products increased from USD 2,829 million (in 2008) to USD 3,955 million (in 2011) and USD 4,670 million (in 2012). It is estimated that the export value of this industry exceeds USD5.37 billion in 2013, which represents an increase of around 15% against that of 2012. With such achievements, the share of Vietnam's wood processing industry in the world market in 2011 is 3.2%, ranked 1st in Southeast Asia, 2nd in Asia and 6th in the world in terms of wooden products export value (behind China 31.3%; Italy 9.1%; Germany 9.4%; Poland 6.8%; and the U.S. 3.4%)[23]. The attraction of Vietnam's wood products is attributed to the low cost of products as well as the improvement in quality. However, there is a fact that the proportion of wooden product exports to the EU market in the total export value of this industry is diminishing, from 29.35% in 2008 down to 18.7% in 2011. The main causes can be explained from the impact of the global economic slowdown which reduced demand for wood products; the EU issued the more and more sophisticated trade protection; domestic firms' capability of buying raw wood material is much weaker than their rival such as firms in China, Malaysia, Indonesia and Thailand.

In the opposite direction, Vietnam's wood import value also increased from USD151 million (in 2000) to USD1.3 billion in 2011, and USD1.36 billion in 2012. The wood import value of Vietnam in 2013 was USD1.68 billion, up around 24% compared to that of 2012. According to MARD, Vietnam recently imported about 4 million cubic meters of hardwood timber each year and at least 80% of this is re-exported as the final products, principally as furniture. Timber has been imported mainly from over 20 countries, of which the main markets are China, the U.S., Malaysia, Thailand, New Zealand and Laos.

Wood products exported from Vietnam can be categorized into 4 main types, including: (i) outdoor wooden products; (ii) indoor wooden products; (iii) fine art wooden products; and (iv) wood particles. For Vietnam, outdoor products are largely exported, while indoor products are predominantly traded on the domestic market. The main manufacturers for export are concentrated in two geographical clusters: the South Central Coast (mostly in Quy Nhon), and South East (mostly in HCMC). In addition, a smaller proportion of exporting manufacturers are located in the Central Highlands. According to the Enterprise census 2012, the state owned firms accounted for 3.5% of total firms in the industry; 85.7% are private-owned firms while the remaining 10.7% are FDI firms. Foreign investment in this industry is mainly from Asia (in particular Taiwan, Singapore, Malaysia and China) as well as from Denmark, Norway, Sweden and France. In addition, there are hundreds of thousand of small and medium-sized wood manufacturers that are not registered. The proportion of export-oriented firms is around 15%.

With macroeconomic stability, low labor costs, quality craftsmanship, highly adaptable work force, and its WTO membership, Vietnam has become a very attractive partner for wooden product importers. Vietnam is abundant in skilled and low cost labors. Many FDI firms of

[22] According to the HS classification system, the wood processing items consists of Wood and articles of wood, wood charcoal (chapter 44) and Furniture (chapter 94). This report refers to the HS classification system, thus Vietnam's wood processing industry in this report includes two kinds of item, namely: (i) wood and wooden products; and (ii) furniture. These kinds of item will be written by a common term of "wooden products"

[23] Cited from Nguyen Minh Thao (2013).

wood processing invest into Vietnam because of such attributes. These advantages are often translated into lower price to customers, greatly enhancing competitiveness of Vietnam's wood products. In addition, with skilled labors, Vietnam's firms can complete orders with more sophisticated designs without incurring too much increase of cost. The cost and labor advantages, along with the country's political social stability and its convenient geographical location strongly enhance Vietnam's competitiveness in wood processing.

Despite the increasing export turnover, the industry has still encountered several challenges, especially heavy dependence on imported wood materials. The imported parts (e.g. raw timber and accessories) make up 30-40% of the wood product value[24]. For the period 2007-2010, the volume of timber imported was equal to 80% of the volume of timber processed. This illustrates the fact that Vietnam's wooden products represents the largest proportion of exports in terms of value, but Vietnam remains a net importer of wood based materials in terms of volume.

### *4.2.2 Automotive*

Vietnam has a small market for *motor vehicles*, which is stable in the range from 100,000 – 120,000 units per year[25]. Being protected by high tariff barriers, local production can satisfy about 60-70% of a local market made smaller by the high tariffs. Five-seat passenger cars and trucks are two key segments of the Vietnam automotive industry, with the shares in local production in 2012 of 33.9% and 31.2% respectively. Car density is still low in Vietnam, especially when compared with neighboring countries. With 19 cars per 1,000 people in 2011, the rate of car owners in Vietnam is low compared to379 in Malaysia, 173 in Thailand, 84 in Indonesia, and 34 in Philippines (OICA, 2011).

The Vietnamese auto industry is engaged mainly in assembly activities that have a high import content. There are current a very large number of about 50 car makers in Vietnam, but the industry is mainly dominated by 18 members of the Vietnam Automobile Manufacturers Association (VAMA), and most of them do not operate at full capacity. So far, the domestic auto industry has been constrained due to the small market, the large number of car makers, frequent changes in policy, and undeveloped supporting industries.

The production costs of domestically manufactured cars are high because of the high import content of materials, which make prices of cars manufactured in Vietnam higher than in other ASEAN countries, from USD 2,400 to USD 12,000 depending on vehicle types. The local content is different among vehicle types and manufacturers, only 10-20% for passenger cars, more than 30% for trucks, and more than 40% for coaches. Most of the inputs are imported. Flat rolled steel is imported and then stamped in Vietnam. Engines are imported fully assembled. Local primary input production consists only of bulk or low value items, such as tires, batteries, wire harnesses, seats, and glass.

Despite a low level of development, the automotive industry in Vietnam still can export auto parts to other countries, mainly by FDI firms through supply networks of their parent companies, such as Toyota Vietnam exports parts to other Toyota plants in other countries, Robert Bosch Vietnam exports push-belt and auto spare parts and accessories to EU, Sumiden Vietnam, Denso Vietnam exports auto parts to Japan and the US, etc.

The Government of Vietnam considers automotive to be a strategic industry in the economy that needs to be protected and promoted, and the industry is actually protected by high tariff barriers in free trade agreements. However, inconsistency and instability in policy, especially frequent changes in regulations on taxes and fees imposed on motor vehicles, have created

[24] Source: Vietnam Timber and Forest Product Association (Vietforest)

[25] Vietnam's market is equal to a half of Philippines, one fifth of Malaysia, one tenth of Indonesia and one twenty fourth of Thailand

negative impacts on the development of the automotive industry in Vietnam. The government of Vietnam is well aware of the force of AFTA/CEPT implementation, and is working with auto makers to revise a Master Plan on Automotive Industry to 2020 with a vision to 2030. The Master Plan focuses on promotion of small trucks for the rural area, small coaches for short to medium distant transportation, and passenger vehicles under 9 seats. The master plan is expected to be finalized and submitted to the Government for approval in early of 2014.

Vietnam is one of the largest market and the largest producers of *motorcycle* in the world. Supporting industries for the motorbike industry in Vietnam are so strong that motorbike manufacturers can reach local procurement from 70% to more than 90%, however, most of suppliers are FDI companies. The local market recently grew at a low rate, but there are still about 3 million new registered motorcycles per year. The industry has started to export motorcycles and their parts to other countries, such as Piaggio exports about 30,000 units to ASEAN countries every year, Honda Vietnam exports to Japan, the EU, and SYM also exports its products to ASEAN market.

In 2018, Vietnam's automotive industry is forecasted to be significantly affected as tariffs of motor vehicles imported from ASEAN are phased out due to commitments under AFTA/CEPT. If local automotive industry's competitiveness cannot be improved considerably, foreign auto-makers may stop their production in Vietnam as importing cars from overseas will become more effective in terms of financial aspects. Thus, in the coming years, Vietnam's automotive industry will face higher competition pressure from ASEAN countries due to the implementations of integration commitments. Besides, the underdevelopment of supporting industries, and insufficiency of human resource, especially mechanical technicians, and middle managers also raise other concerns. Moreover, frequent changes in tax and other related policies make it more difficult for auto makers to design long-run production plans.

### *4.2.3 Footwear*

Vietnam is among the top five of footwear producers, and among the top ten footwear exporters in the world. The average growth of Vietnam's footwear production was 13.52% per annum in the period 2006-2010, and 10.5% per annum in the period 2008-2012. Specifically, in the period 2007-2012, the production of all kind of shoes and sandals were increased from 673 to 850 million pairs (in which, the figure for leather shoes and sandals was 220.8 million); saddle leather was increased from 113 million square feet (10.17 million m2) to 312 million square feet (28.8 million m2); and bags and handbags attained the average of 80 million per year.

The footwear sector is one of the biggest export products of Vietnam. In 2012, the sector's total exports reached USD 8.764 billion, increasing by 10.9% compared to 2011. It also accounted for 10.5% of the total exports of the processing industry and 7.6% of the national export value. The main export markets of Vietnam's footwear include EU, the US, Japan, and China. In 2012, exports to the EU were about USD 3.084 billion (42.47%) while that to the United States was USD 2.24 billion (30.9%), Japan: USD 328 million (4.52%); and China: USD (301 million 4.15%). Footwear's exports to Cuba, Australia, Saudi-Arabia, Peru, New Zealand and Colombia were not significant in terms of volume, but attained impressive growths. Key export products of the Vietnam footwear industry are still all kinds of sport and canvas shoes. Moreover, the sector is still focusing on developing exports of briefcases and bags aiming to enhance its total value.

In the domestic markets, however, the industry is facing increasingly severe competition from China, and the domestic production can only meet about half of total domestic consumption demand. Only several Vietnamese familiar brands such as Biti's, Bita's, Thuong Dinh, Thai Binh, and Vinashoe are able to maintain their competitiveness in the domestic markets.

The industry, however, still faces big challenges and difficulties, notably strict requirements on product quality, technical barriers, domestic market ownership, and localization rate, introduced by its trading partners. The industry is heavily dependent upon materials imported from China while the domestic supporting industry has not well developed. The sector's competitive advantage in cheap labor is gradually deteriorating and productivity is low.

### 4.5.Supply chain of some electronics products

Smartphones, flat panel TVs, laptops and printers have presented some of the top highest sales volume consumer electronics products around the world recently. Suppliers for these products are based almost in the United States and members of RCEP such as Japan, South Korea, China, Malaysia, Thailand and Vietnam. The last three ASEAN members compete for being destinations of assembling parts and final products in this supply chain. Initially, Vietnam's role in supply chain of these high tech products largely consisted of importing parts and assembling final products despite incentives of tax reductions and cheap land rent (Kakuli and Schipper 2011). Therefore, the Vietnam's production in those products provides low-value added, only low-skilled and low-paid jobs. However, its position in regional supply chain role and production network has been increasingly enhanced such that turned the country into one of RCEP economies actively involving in supply chain of electronics products.

Multinational electronics companies have become eagerly invested in production facilities in Vietnam recently, raising the importance of Vietnam in supply chain of consumer electronics products. One of the key reasons is that multinational electronics companies are aiming at decreasing their dependency on China, where labor costs and piracy are rising. The other key factors that vendors and large suppliers consider locating production and assembly activities in a country like Vietnam, namely supportive business and regulatory climate, high scalability, humane working conditions; and proximity to end markets (Wood and Tetlow 2013). Another reason is natural disaster in several RCEP critical destinations of electronics supply chains over the last decade. For example, Japan tsunami and Thailand flood in 2011 caused major supply chain challenges because of precipitous reduction in the production in the short term. Thus, electronics firms have become increasingly wary of concentrating production in too narrow a geographic area, seeking to diversify destinations; amongst those Viet Nam is on the top of being chosen.

The Vietnam's main role in electronics supply chains is the assembly of smartphones, flat panel TVs, laptops and printers along with some supporting parts production. As of 2011 the value of electronics exports was equivalent to 11.2% of Vietnam's GDP. Vietnam's share in global electronics exports and imports in 2011 accounts for 0.5% and 0.6%, respectively. Notably, the export share is considerable as compared to Vietnam's FTA+1 partners such as Australia (0.1%), New Zealand (0.04%) and several ASEAN-6 members (i.e, the Philippines (0.6%) and Indonesia (0.5%)) (Wood and Tetlow 2013, p. 7). Furthermore, Vietnam has been the only one experiencing the dramatic surge in export growth. Specifically, annual exports have on average nearly doubled annually since 2006, drawing even or ahead of both Indonesia and Canada in 2011(Wood and Tetlow 2013, p. 8).

#### *Smartphone*

Smartphone components, except for high-end components, are manufactured in a variety of RCEP economies because of their low labor costs. For example, Japanese companies maintain production facilities for simpler parts such as motors and bearings in Vietnam. However, most other smartphone components are manufactured in South Korea because of its advantage in the production of high value-added components, such as memory and LCD panels. Indeed, Vietnam is remaining a location of production for some simple steps, namely Printed circuit boards, IC chips and Inductors (Table 40). Regarding final assembly, as

mobile phones have relatively high labor intensity, the final assembly has a trend of taking place overseas, with Vietnam being the fastest growing location. Especially when labor costs of other destinations like China have risen, the increasing competitive pressures have resulted in assembly operations transferring from China to lower cost area like Vietnam. Particularly, Samsung - the current smartphone leader - keeps developing its factory capacity and output in Vietnam, leading to the country's increasing share at the expense of China.

**Table 40: Current parts production and assembly locations for smartphones in RCEP members**

| ***Production step*** | ***Main locations*** |
|---|---|
| LCD panels | Japan, South Korea, China, Singapore |
| Printed circuit boards | Japan, China, South Korea, Thailand, Singapore, Malaysia, **Vietnam**, India, |
| IC chips | Thailand, Malaysia, Philippines, Indonesia, Singapore, **Vietnam**, China, Japan, |
| Capacitors | China, South Korea, Japan, Thailand, Malaysia, Philippines, Indonesia, Singapore |
| Inductors | China, South Korea, Japan, Thailand, Malaysia, Philippines, **Vietnam** |
| Frame, accessories, and electromechanical parts (microphones, batteries) | China, India, South Korea, Japan, Malaysia |
| Intermediate components (camera modules) | China, India, South Korea, Japan, Malaysia |
| Final product assembly | China, India, South Korea, Japan, Malaysia |

*Source: Wood and Tetlow (2013).*

*Regarding the degree of technology and value added*, Vietnam's involvement in smartphone production activities is low in R&D, medium value parts production and high value parts production; and is medium for low value parts production and final product assembly.

### *Laptops*

Regarding laptops, both developed and developing RCEP economies are involved in part production, such as China and Thailand, with final assembly mostly concentrated in China. Table 41shows that, United States and Japanese suppliers maintain dominant positions on a few key high-value parts such as processors and disk drives, while Chinese Taipei and Korean suppliers compete in production of most medium- and low- value parts. However, it is worth noting that Vietnam is joining a high-value part production for laptop, next to United States, China and Malaysia (namely Processors of Intel). In addition, Vietnam has no role in final product assembly of laptops.

**Table 41: Laptop supply chain activities by location**

| ***Activity*** | ***Supplier (s)*** | ***Part (s)*** | ***Economy (s)*** |
|---|---|---|---|
| High-value part production | Intel | Processors | United States, China, Malaysia, **Vietnam** |

| | | | |
|---|---|---|---|
| | Hitachi | HDD | Thailand |
| Medium-value part production | Simplo | Batteries | Chinese Taipei, China |
| Low-value part production | Elpida | DRAM | Chinese Taipei, Japan |
| Final product assembly | In-house by Lenovo | Finished laptops | China, Japan |

*Source: Wood and Tetlow (2013).*

*Regarding the degree of technology and value added* in laptop production,, Vietnam's involvement is totally low for the above-mentioned steps.

### *Flat panel TVs*

Table 42 shows that, manufacturing for the LCD TV business is spread across many RCEP economies. Japan, Korea, and China tend to produce key parts and display modules, while assembly of finished TVs occurs primarily in China, but for the United States market some final assembly steps are performed in Mexico in order to avoid a United States import duty on flat panel TVs with no North American content. Vietnam is engaged in various production steps, including Power supplies, IC chips, Connectors, Inductors and Final product assembly (4 from 10 steps). Thus, in comparison with smart phones, Vietnam laptop facilities involve in more production steps, especially, including the assembly of final products.

**Table 42: Parts production and assembly locations for flat panel TVs in RCEP members**

| ***Production step*** | ***Main locations*** |
|---|---|
| Liquid crystal panels | Japan, South Korea, China |
| Power supplies | China, India, Indonesia, Japan, Korea, Malaysia, Singapore, Thailand, **Vietnam** |
| IC chips | Thailand, Malaysia, Philippines, Indonesia, Singapore, **Vietnam**, Chinese Taipei, China, South Korea, Japan |
| Capacitors | Thailand, Malaysia, Philippines, Indonesia, Singapore |
| Resistors | Thailand, Malaysia, Philippines, Indonesia, Singapore |
| Connectors | Thailand, Malaysia, Philippines, **Vietnam** |
| Inductors | Malaysia, Philippines, **Vietnam** |
| Relays | Philippines |
| Frame, accessories, and electromechanical parts | China, India, Indonesia, Japan, South Korea, Malaysia, Thailand, |
| Intermediate components (liquid crystal modules, Image processing units, tuner units) | China, India, Indonesia, Japan, South Korea, Malaysia, Singapore, Thailand |
| Final product assembly | China, India, Indonesia, Japan, South Korea, Malaysia, Thailand, **Vietnam** |

*Source: Wood & Tetlow (2013).*

*Regarding the degree of technology and value added* in f*lat panel TVs* production, Vietnam is high in final product assembly of LCD TVs.

### *Printers*

Printers are manufactured in a variety of RCEP economies, such as Philippines, India, China, Malaysia, Thailand and Vietnam, each of them is specializing on different aspects of printer production. Philippines, home to three of the nine development centers and research of Canon, focus on the development of software and application of printers. India focuses on digital image processing and other software. Laboratory studies in China focused on the development of Chinese language, the image processing technology and applications related to the Internet. Vietnam's initial position in global supply chain of printers was largely final product assembly. It is noteworthy that, according to the IT market research company IDC, Vietnam is one of the fastest growing laser printer markets in the region. In fact, IDC predicted a 7% compound annual growth rate (CAGR) for all printers in the country from 2009 to 2014. In addition, Vietnam is a unique market among RCEP countries, as the local market is dominated by laser products rather than inkjets.

However, multinational companies in printers' production have become increasingly invested in production facilities in Vietnam recently. The world's largest laser manufacturer (80% of the Canon's global outputs) (Que Vo, Bac Ninh province), two Canon ink jet printer plants in Tien Du (Bac Ninh province) and Thang Long Industrial Zone (Ha Noi), and the Fuji Xerox Hai Phong Co., Ltd. Together serve as a key manufacturing hub of ASEAN. These facilities are involved in manufacturing and shipping of the latest products including digital color multifunction devices and small-sized light-emitting diode (LED) printers. They also manufacture key components for these devices such as printed wiring boards and drum cartridge components. In general, Vietnam's position in regional supply chain of printers has been enhanced with the roles of not only assembling final products but also producing key components. Nevertheless, China can be regarded as a hub of RCEP members outside Japan as it involved in all stages of supply chain of printers' manufacturing, ranging from R&D, procurement, production and sale and marketing, ensuring highest value added and good position among RCEP members outside Japan (Table 43).

Furthermore, Vietnam is also host country of a subsidiary of Canon Singapore Pte. Ltd., with the function of overseeing domestic sales & marketing activities in the country. With this position, Vietnam is being in the same position like Thailand in value chain and production network of manufacturing of Canon printers (manufacturing, sale and marketing of printers) (Table 8); however, the position sustainability of Vietnam regarding to the Canon printers' manufacturing has been substantially strengthened and overtook Thailand as Vietnam has the presence of biggest Canon laser printers' factory in the world and two other ink-jet producers.

## *4.6.* Opportunities of and challenges

*Opportunities*

RCEP is expected to bring about new opportunities for Vietnamese enterprises in many industrial (sub)sectors to develop. In line with sector–specific opportunities for the country's firms, key 'common' benefits from RCEP agreements' implementation, particularly tariff reduction and elimination, among others, are: (i) creation of an easier access to investment and export markets of ASEAN and its partners (both developing and developed countries) with arrays of demand for goods and services; (ii) opening up for import of cheaper goods (especially production inputs (steel from China, plastics products from South Korea and Japan) and import of machinery and equipments of both appropriate and modern technology); (3) Joining the regional value chain and production network and enhancing technical

cooperation and position in dispute settlement; and (4) Cutting down transaction costs stemming from the syndrome of Spaghetti Bowl, particularly RoO-related costs and enjoying a more friendly business environment due to harmonization of existing rules and their application within the various ASEAN FTAs.

**Table 43: RCEP members' position in value chain of Canon printer production**

| RCEP member | R & D | Procurement | Products/Manufacturer(s) | Sale and Marketing |
|---|---|---|---|---|
| China | R&D facility | + Two procurement centers (Hong Kong, China), sourcing for high quality materials, parts and products for distribution to Canon manufacturing facilities around the world. | + Toner cartridges, toner cartridge recycling, LBPs (Canon Dalian Business Machines, Inc.)<br>+ Manufacturing and sales of printers<br>(Canon Finetech Industries Development Co., Ltd.)<br>+ Digital printers, peripherals, service parts<br>(Canon Finetech (Suzhou) Business Machines Inc.) | Canon China (headquarter) serves North Asia |
| Thailand | Non | Non | + Bubble Jet printers<br>(Canon Hi-Tech (Thailand) Ltd) | Subsidiary of Canon Singapore Pte. Ltd. |
| Vietnam | Non | Non | + Ink jet Printers (Tien Son and Thang Long factories)<br>+ Laser Printer (Que Vo factory)<br>(Both 3 factories belong to Canon Vietnam Co. Ltd.) | Subsidiary of Canon Singapore Pte. Ltd. |
| Singapore | Non | Non | Non | Canon Singapore (headquarter) serves South & Southeast Asia, oversees both regional and domestic sales & marketing activities in Singapore. |
| Philippines | R&D facility | Non | Non | Non |
| India | R&D facility | Non | Non | Subsidiary of Canon Singapore Pte. Ltd. |
| Malaysia | Non | Non | Non | Subsidiary of Canon Singapore Pte. Ltd. |

*Source: Authors' compilation from Canon websites in the member countries and from various sources.*

## 4.7. Challenges

Given their disadvantages and poor capability, domestic companies have to compete more fiercely to RCEP competitors. Furthermore, Vietnamese firms also have to deal with more stringent requirements (WTO + issues) (but much less stringent in comparison to TPP).

Harmonization of RCEP with existing FTAs may also present another concern if Vietnam fails to sufficiently upgrade its technical and institutional capacity.

**Sector-specific challenges**

***Iron and steel***

In line with above-said opportunities, RCEP implementation would create new opportunities to penetrate export markets and enhance business cooperation, especially for joint – ventures with RCEP members (i.e. Viet Trung (Vietnam – China), Posvina (Vietnam - Korea), Vina Kyoei (Vietnam - Japan), Vinaausteel (Vietnam- Australia).

However, domestic firms would face enormous challenges as they have long been in disadvantages, especially in comparison with Chinese low-price products. Notably, domestic enterprises have to import almost all inputs (paint, petrol and diesel, raw/billets imposed with considerable tariff rates). The majority of steel factories are small in scale, equipped with outdated technology, old-fashion operation methods, and especially have had inconsistencies in the production process (Kawabata 2001).

***Plastics***

The benefits are intertwined with challenges as domestic firms have to import about 80-90% inputs for productions (USD 2.1 billion/year) with high risks of huge price fluctuation (largely due to oil price and exchange rate fluctuation). Most firms are family-based and have small scale and poor human resource and outdated technology.

***Electronics***

The opening up of domestic market would put fiercer competition pressure on domestic firms (10% of enterprises in electronics firms) because of upcoming entry of very competitive RCEP rivals (i.e China, India, Korea and Thailand). Despite high export growth rate, the competitiveness of Vietnamese electronics industry has been very low compared to ASEAN countries and its partners. One challenge is how to develop efficiently the country's supporting industries and enhance its technology base. Another challenge is that, from 2015, when tariff barriers among ASEAN member countries participating the free trade area (AFTA) are all abolished, Vietnam will face with the situation that many foreign businesses involving in high-tech spare parts assembly would withdraw from Vietnam and move to other countries, like Thailand and Malaysia, where there are developing support industries.

***Paper***

Paper industry has experienced a myriad of difficulties recently. During the 2006-2011 period, many paper plants were operated inefficiently and had negatively affected the environment, causing the development plan to stall. Under RCEP framework, Vietnam's paper industry would face enormous challenges as majority of domestic firms lack of material, capital and technology. One of the big challenges is, given limited capital, how to enhance production efficiency and wastewater treatment technologies and training human resources.

## *5. Services*[26]

In Vietnam, the service industries have been progressively opened from Doi Moi in 1986 and increasingly achieved notable results during the process of Vietnam's international economic integration. So far, Vietnam has progressively liberalized the service sector in a consistent fashion innumerous FTAs such as AFAS (ASEAN Framework Agreement on Services), ACTIS (Agreement on Trade in Services of the Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China) and AKTIS (Agreement on Trade in Services under the Framework Agreement on Comprehensive Economic Cooperation among the governments of the member countries of ASEAN and the Republic of Korea). At present, Vietnam is negotiating with the European Union (EU) on an FTA with a major substance of service liberalization.[27] In that context, the four negotiation rounds under the RCEP framework were conducted with the establishment of seven working groups of trade in goods, services, investment, economic and technical cooperation, intellectual property rights, competition policy and dispute settlement (Ministry of Commerce of China, 2014). Significant progress was made in market access, tariff reduction mode, rules of origin, customs procedures, trade facilitation, and establishing rules and mechanisms. However, it seems that the progress in service trade negotiation has so far been limited.

### 5.1 Salient features of four service sectors

*Overall picture of Vietnam's service sector*

In the last decade, the service sector has experienced a high growth rate and become an important facilitator and source of economic growth in Vietnam. In the global crisis, the service sector's GDP has maintained high growth rates and even gained higher growth rates than that of the manufacturing sector in 2008, 2009, 2011 and 2012, the period of difficulties for not only Vietnam but also the global economy. This was important evidence illustrating the service sector's strength and advantages in times of economic downturn and the role of the service sector as a key driver for economic development in Vietnam (Nguyen Hong Sơn and Vu Thanh Huong, 2013).

The share of service sector in Vietnam's GDP did not change significantly from 2000 and has stayed at approximately 37-38% in 2011 and 2012, which is much lower than that of many countries in the world. It also shows that the process of Vietnam's economic transition into the service sector has taken place slowly. Vietnam's structure of the service sector has been in favor of the traditional services and services for final consumers (CIEM, 2013).

The number of services firms increased significantly from 35,826 to 247,545 during the period 2002-2011. In both the periods before and after Vietnam's accession to the WTO, the growth rate of services firms were higher than that of overall firms. The proportion of enterprises in the service sector also underwent an upward trend, except for 2008 and reached more than 64% in 2011. This partly showed the prevalence and increasing importance of service firms in Vietnam's economy (Nguyen Hong Sơn and Vu Thanh Huong, 2013).

Services are important sources of employment in Vietnam. Since many service enterprises can be started with a small amount of capital, service industries have strengths to provide opportunities for persons with minimal resources to become self-employed and economically productive. In 2012, the total employment of the service sector was around 16.3 million, accounting for 31.4% of total employment. The corresponding numbers for Quarter III/2013

[26] The EU-MUTRAP Report on Assessing Impacts of EU-Vietnam FTA on Vietnam's Economy already analyzes the service sector in depth. Refer to this Report for the details.

[27] For more details, see MUTRAP's report on Assessing the Impacts of EU-Vietnam FTA on Vietnam's Economy.

were around 16.9 million and 32%. The following part will examine GDP contribution, enterprises and employment in four selected sectors.

*Distribution service sector*[28]

**GDP, enterprises and employment contribution**

The distribution sector in Vietnam[29] plays an important economic role. Being a market of 90 million people with rapid and potential growth, political stability, a young population structure and a rapid growing consumption demand, the distribution sector in Vietnam has a strong attraction for both foreign and domestic investors.

The wholesale and retail trade is the biggest service sector in Vietnam in term of GDP. In 2012, the wholesale and retail trade[30] contributed VND 423,919 billion to GDP, accounting for 13.1% of total GDP and 31.3% of total service GDP. In 2013, its contribution to total GDP slightly decreased (31%) but to services' GDP increased (13.4%) (GSO, 2013c). The distribution sector has still been the biggest service sector in Vietnam.

The sector was made up of 128,968 enterprises in 2011, mostly small-and medium-sized, which account for approximately 33.4% of total enterprises and 52% service enterprises respectively. In 2012, according to a GSO survey, the number of distribution enterprises substantially increased to 143,531.

Up to Quarter III/2013, the distribution sector employed more than 6.6 million persons, accounting for 12.6% of total employment and 39.4% of service employments (GSO, 2013a). However, the salary per month of the sector was very low among services sectors, attaining VND 3,774,000/worker and was only higher than that of people who work as household helpers. This partly reflects the low productivity, and probably low level of training, of the distribution sector.

**Distribution sub-sectors**

According to surveys conducted by some MNCs, Vietnam's retail market has a growth rate of 23%, which is the highest among Asian nations(Minh Ngan, 2014).*The distribution landscape of Vietnam's retail sub-sector* has been dominated by small household stores and traditional markets, which are distributed nation-wide and considered as the dominant retailing model in rural areas. By the end of 2012, Vietnam had 8,547 traditional markets, 659 supermarkets and 115 trade centers (GSO, 2012).

Recently, the Vietnamese retail market has caught up very quickly with global markets, progressing from a simple, rudimentary market to an important economic sector. *The modern retails* such as convenient stores, supermarkets and shopping centers have been increasingly prevalent in Vietnam even though their market share is still at a low level, about 20% up to early 2014. The number of supermarkets increased by 20% in the five years following WTO accession, while the number of shopping centers rose by 72% (WTO, 2013).

Currently, there is a rapid development of e-commerce, TV-commerce and mobile-commerce distribution in Vietnam, originating from the sharp increase in the number of personal computers, persons using the Internet and the development of communication services. This distribution channel has the advantage of low cost and quick delivery, and thus is considered to be of potential in Vietnam and can promote Mode 1 in distribution services in the future.

[28] As classified by United Nations Central Product Classification and adopted in GATS (General Agreement on Trade in Services), the distribution sector is defined to include four major sub-sectors: commission agents' services, wholesale trade services, retailing trade and franchising services

[29] According to Vietnam GSO's statistics, distribution services' statistics include wholesale trade, retail trade and repair of motor vehicles and motorcycles.

[30] According to GSO's statistics, wholesale and retail trade includes repair of motor vehicles and motorcycles.

Franchising in Vietnam has taken place strongly in fast-food restaurants, retail trade, education, restaurants and real estate. Together with franchising, the rapid establishment and development of foreign agents and representative offices in distribution has facilitated the appearance of global brands in the Vietnamese market.

### *Financial services*[31]

#### GDP, enterprises and employment contribution

The financial services[32] was the third biggest service sector in Vietnam in terms of the GDP contribution after distribution and real estate sector in 2012, but the second biggest in 2013. The sector contributed12.76% to services' GDP and 5.53% to total GDP in 2013.

In 2012, according to the GSO's Enterprise Surveys, the financial services sector consisted of 2,830 firms, including 1,171 state owned, 1,639 private and 20 foreign firms. The financial sub-sector is the most crowded, with 2,099 firms, while the insurance sub-sector has only 179 firms. However, the insurance sub-sector observes the number of firms increasing double during 2008 and 2012, while the number of firms in financial sub-sector changed only slightly. Furthermore, since the WTO accession, there has been a growing presence of foreign companies in the insurance sub-sector. Between 2007-2013, licenses were provided to eight new non-life insurance companies, nine new life insurance companies, and four brokerage firms.

The financial service sector was made up of 314,000 employees in 2012 and 319,000 in 2013 with the same contribution of 0.6% to total labor and 1.9% to service labor in both years (GSO, 2014a; GSO, 2013b). Most employees in the financial services sector are young and well trained. The salary per month for a worker in the financial services sector was VND 6,855,000, ranking third among that of all services sectors after salaries of people working for international organizations and real estate companies in 2012.

#### Financial services sub-sectors

The performance of the financial services sector was substantially affected by the global economic crisis in 2009. Total sales in 2009 dropped by 32% compared to that of 2008. However, it substantially recovered in 2010 and doubled in 2011. The performance of the sector slightly decreased in 2012 due to the economic downturn. It should be noted that the accelerated growth rate of sales in 2010 and 2011 might be exaggerated by the inflation rate, which was 12% in 2010 and 18.12% in 2011.

Within the financial services sector, *the insurance sub-sector* was substantially affected by the global economic crisis, especially for non-life insurance related to construction and transportation. The insurance sub-sector's sales were cut down three fold between 2008 and 2009 and around 10% between 2011 and 2012. In this sub-sector, the total revenue mainly comes from premiums and investment activities. Premiums from non-life insurance were higher than those from life insurance, in both 2011 and 2012.Regarding investment activities, total investment revenue of the insurance sub-sector in 2012decreased by 10.7% compared to that of 2011, and reached VND 9,321 billion, of which VND 7,576 billion came from life insurance carriers and VND 1,745 from non-life insurance ones. In 2012, non-life insurance activity contributed 1.9% to GDP, while life-insurance and investment activities contributed 0.69% and 0.39%, respectively (Ministry of Finance, 2013)..

Total profit of *the banking sectors* in 2012 was VND 28,600 billion, decreasing by nearly

[31] As classified by United Nations Central Product Classification and adopted in GATS, the financial services sector has three sub-sectors: insurance and insurance related services, banking and other financial services, and others.

[32] According to Vietnam GSO's statistics, the financial service sector includes insurance, reinsurance and pension funding; financial services activities and other financial services.

50% compared to that of 2011. Profits of even large banks such as Vietcombank, Vietinbank and BIDV decelerated. Private commercial banks were more affected by the economic downturn than state-owned and foreign-invested banks.

As a developing country, Vietnam's financial services sector promises to have a fast growth in the future. However, there are some main constraints on the future development of Vietnam's financial services, including the ongoing macroeconomic uncertainty, regulatory hurdles and the high rate of non-performance loans. These constraints need addressing so that the banks and other credit organizations in Vietnam can be efficiently restructured and more prepared for the foreign competition in the context of a future RCEP or other trade agreements.

*Professional services*[33]

**GDP, enterprises and employment contribution**

Professional services play a crucial role in the functioning of a modern Vietnamese economy because of its features of high-skilled labor-intensive, high value-added and being provided through different modes of supply. However, this sector is still very small in Vietnam. The sector contributes only 1.29% and 1.34% to total GDP in 2012 and 2013, equivalent to VND 41,974 and VND 48,044 billion respectively.

In 2012, the number of professional services firms[34] in Vietnam increased to 28,781, led by the Architectural and engineering sub-sector with 13,228 enterprises and Advertising and market research sub-sector with 6,779 firms. One more feature is that most of professional service firms are non-SOEs. In 2012, the number of SOEs in the sector was 2,063, accounting for only 7% while non-SOEs firms accounted for 93% or 26,762 firms. Small and medium-scale firms have been prominent in the professional services sector but in recent times the sector has experienced a significantly growing number of large multinational firms, especially in legal and accounting services.

The number of persons employed in the professional service sector has been increasing through the years with a total of 258,600 persons by Quarter III/2013, equivalent to 0.5% of total labor and 1.53% of the service labor force. Therefore, the contribution of the sector to job creation in Vietnam is still low. However, this sector plays an important role in providing a high quality labor resource for society with more than 75.9% of labor trained, ranking second after the financial services sector(GSO, 2013a; GSO, 2013d) as well as facilitating all business operations.

**Professional services sub-sectors**

According to a GSO survey in 2012, total revenue of the sector in 2012 increased sharply to VND billion 136,231 from VND 95,103 billion in 2011.The architectural and engineering sub-sector attained the highest share of about 53% of total revenues, followed by the Advertising and market research sub-sector (26%). Professional services from headquarter operation activity and management consultancy ranked third with 7% and the Law, Accounting and Auditing sub-sector ranked fourth with 5% of total professional services

[33] As classified by United Nations Central Product Classification and adopted in GATS (General Agreement on Trade in Services), the professional services is defined to include 11 sub-sectors: legal services; accounting, auditing and bookkeeping services; taxation services; architectural services; engineering services; integrated engineering services; urban planning and landscape architectural services; medical and dental services; veterinary services; services provided by midwives, nurses, physiotherapists and para-medical personnel and others

[34] According to Vietnam GSO's statistics, professional services will fall into "Professional Activities, Science and Technology" sector. For more details, see Decision No. 10/2007/QD-TTg dated 23/1/2007 of Prime Minister on the Viet Nam Standard Industrial Classification 2007.

revenue. Veterinary services and R&D development attained the lowest revenue among the professional sub-sectors in 2012.

*Communication services*[35]

**GDP, enterprises and employment contribution**

The information and telecommunications services in Vietnam accounted for around 0.78% of GDP in 2012, reaching a value of VND 27,588 billion. These proportions of GDP contribution has almost not changed in 2013.

The communication services sector[36] consisted of 2,427 firms in 2011, accounting for around 0.6% of total enterprises and nearly 1% of services enterprises. In 2012, there was a slight increase in number of the enterprises operating in the sector to 2,583. Among these, the telecommunication sub-sector had the highest number of firms, accounting for 51.3% of the total, followed by the Motion picture production subsector with 27.8%. The courier and motion picture distribution sub-sectors had the lowest proportions, 16.8% and 4.1% respectively. Most of the communication enterprises are small-scaled and owned by the private sector. 74.7% of them had under 10 employees and 97% fell into the private sector in 2012 (Tran, 2014). By Quarter III/2013, the sector had 248,400 employees, making its contribution to both total employment and services employment increase to 0.47% and 1.9%, respectively.

**Communication services sub-sectors**

The Telecommunication sub-sector plays a most important role in generating sales for the communication sector. In 2012, this sub-sector contributed more than 86% of total sales of the sector, followed by the Courier services sub-sector with more than 9%. The motion picture production and motion picture distribution sub-sector contributed to more than 2.2% each.

[35] As classified by United Nations Central Product Classification and adopted in GATS (General Agreement on Trade in Services), the communication services sector is defined to include four major sub-sectors: Postal services, courier services, telecommunication services and audio visual services

[36] In this paper, communication services include courier services, motion picture production, motion picture distribution and telecommunication services.

**Table 44: GDP contribution of four selected service sectors at current price in 2012-2013**

| Sectors | 2012 | | 2013 (estimated) | |
|---|---|---|---|---|
| | *Value (billion VND)* | *Proportion (%)* | *Value (billion VND)* | *Proportion (%)* |
| Distribution services | 423,919 | 13.06 | 481,344 | 13.43 |
| Financial services | 173,867 | 5.36 | 198,107 | 5.53 |
| Professional services | 41,974 | 1.29 | 48,044 | 1.34 |
| Communication services | 25,474 | 0.78 | 27,588 | 0.77 |

*Source: (GSO, 2013c).*

**Table 45: Employment contribution of four selected service sectors in Vietnam**

| *Sectors* | ***Employment in 2012*** | | | | ***Employment in Q3I/2013*** | | | ***Enterprises in 2011*** | | | *Enterprises in 2012 (number)* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Number ('000)* | *% of total employ-ment* | *% of services employ-ment* | *Salary per month ('000 VND)* | *Number ('000)* | *% of total employ-ment* | *% of services employ ment* | *Number* | *% of enter-prises* | *% of services enter-prises* | |
| Distribution services | 6,400 | 12.3 | 39.1 | 3,774 | 6,600 | 12.6 | 39.4 | 128,968 | 33.4 | 52.0 | 143,531 |
| Financial services | 314.2 | 0.6 | 1.9 | 6,855 | 319.4 | 0.6 | 1.9 | 2,059 | 0.5 | 0.8 | 2,830 |
| Professional services | 250.0 | 0.48 | 1.53 | 5,814 | 258.6 | 0.5 | 1.53 | 27,778 | 7.2 | 11.2 | 28,781 |
| Communication services | 209.7 | 0.41 | 1.29 | 5,880 | 248.4 | 0.47 | 1.47 | 2,427 | 0.6 | 1 | 2,583 |

*Source: GSO (2013d), GSO (2013b), GSO (2013a), GSO (2014a), GSO (2014b).*

## 5.2 The Business Model and Services Trade

### *5.2.1 Market players*

**Distribution services**

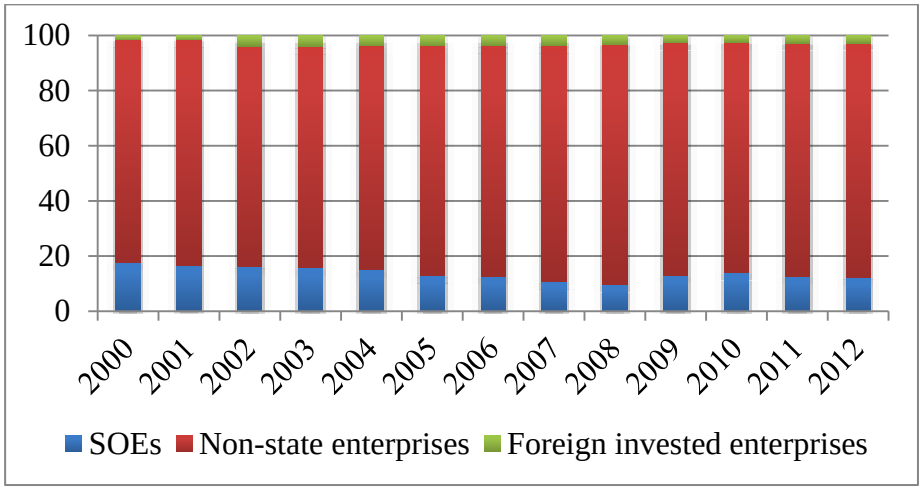
Vietnam has been considered to be a potential distribution market because of its area and population size, young people, high demand for consumption, stable economic growth rate and investment attractiveness. After five years from joining the WTO, Vietnam's distribution market has proliferated with the emergence of global suppliers and the dramatic expansion of domestic distributors. So far, the distribution channel in Vietnam is made up of a mixture of state-owned import and export companies; state-owned, private and foreign wholesalers and retailers; independent Vietnamese distributors and agents, and retail outlets.

The SOEs have played an important role in distributing key goods and services such as petroleum, fertilizer, cement and steel, though the contribution of SOEs to total retails of goods and services[37] has been gradually declined (**Error! Reference source not found.**).

Non-state enterprises are the main players in Vietnam's distribution market (**Error! eference source not found.**), of which household retails under the form of traditional stores are most prevalent. The Household sector's proportion in total retails was highest at 50.3%, followed by the private sector with 35.3% (Ministry of Industry and Trade, 2013; Xuan Lan, 2013). The two most important reasons for the large household sector's contribution to total retails revenue is that most of the consumers in Vietnam habitually buy products at traditional stores and household retails are prevalent nation-wide.

Following the recent opening of the market, Vietnam has attracted an increasing number of foreign distributors, especially distributors from Asia, the EU, and the US. Notably, while Asian retail distributors are more focusing on investing in supermarkets and trade centers plus franchising in restaurants, the European distributors are paying a lot of attention to franchising activities in garments, textile, cosmetic and educational products (Vu Thanh Huong, 2014).

**Figure 10: Retail sales of goods and services at current prices by types of ownership in Vietnam in 2012**




*Source: (GSO, 2013d)*

For RCEP distributors, South Korea's Lotte, Diamond Plaza and E-Mart, Japan's Seiyu, Zen Plaza, Aeon, Malaysia's Parkson, Hong Kong's Dairy Farm, and Thailand's CP all are *big*

[37] According to GSO' statistics, retails of goods and services include retail sales, accommodation and foods, and tourism.

*market players in retailing trade*(Vietnam Commercial University and Parliment's Economic Committee, 2010). The year 2014 witnessed the appearance or expansion of some leading RCEP retailers in Vietnam. The leading Japan's retailer, Aeon, opened the first trade center in Ho Chi Minh City and is planning to open 20 shopping centers in Vietnam by 2020. The leading Korean retailer, Lotte, launched its 7th center in Hanoi and set up a plan of having 60 trade centers in Vietnam by 2020. Tos Chirathivat, a leading retailer of Thailand has set up the first Robinsons Department Store in Hanoi. The increase in a number of RCEP distributors in the recent years might be partly explained by Vietnam's distribution services liberalization in framework of WTO and AFAS, and the recovery of service sector after the global crisis. Therefore, if the RCEP is concluded with higher level of liberalization than GATS, Vietnam's distributors will have to face with more competition from foreign suppliers in the domestic market, especially from the strong Asian retailers such as those that come from Japan, Korea, Thailand and Malaysia and can take advantage of intra-region liberalization of trade in goods as well trade in services. There has been so far little competition from Australian, New Zealand and Indian distributors.

*RCEP distributors also participate in the franchising sub-sector in Vietnam with a focus on restaurants*. Amongst Asian restaurant franchisers, Singapore and South Korean distributors are dominant with brand names such as Manhata Fish Market Franchise Pte., Ltd (Singapore), Brotzeit In't Pte Ltd (Singapore), Breadtalk Pte Ltd (Singapore), Wedo Co Limited (South Korea), and Caffe Bene Co., Ltd (South Korea). There are also some restaurant franchisers from Malaysia, Japan, and Australia.

*There are a few RCEP distributors engaged in educational services* such as Adam Khoo Learning Centre Pte. Co., Ltd. (Singapore), McD APMEA FRANCHISING PTE., LTD (Singapore), Kinderland Educare Services Pte Ltd (Singapore), Cherie Hearts Child Development Pte Ltd (Singapore), International Etonhouse private Co., (Singapore), Akademi Sempoa & Mental - Aritmetik Ucmas SDN.BHD Company (Malaysia), and Karrox Technologies Limited (India). So far, RCEP distributors have not put a great effort on franchising in textile, garment and shoes products. It is might be because Asian distributors already have a relative strong supermarkets and trade centers through which textilies, garments and shoes products are distributed.

The above analysis shows the increasing appearance of foreign distributors in Vietnam, including RCEP ones. However, foreign distributors in Vietnam have so far not overwhelmed domestic ones. Instead, foreign-invested firms have to fiercely compete with domestic brands and in 2012 ten domestic retailers were in the top 500 largest retailers in Asia. According to the GSO (2013d), by the end of 2012, about 12.2% of retails sales of goods and services accrued to SOEs. The corresponding numbers for the non-state and foreign direct invested (FDI) sector are 84.9% and 2.9%. The proportion of the FDI sector even declines from 3.7% in 2007 (upon Vietnam's accession to the WTO) to only 2.9% in 2012 (**Error! Reference ource not found.**). According to preliminary estimates by GSO (2014c), in 2013, the SOE, non-SOE and FDI sectors contribute 10.2%, 86.7% and 3.1% of total retails revenue respectively. Ones may argue that domestic supermarkets and small shops to some extent still out performed the foreign ones in terms of market share. In contrast, the foreign retailers overwhelm domestic ones in the field of trade centers. Therefore, it can be seen that the entrance and increasing development of foreign distributors have so far not put substantial pressure on domestic distributors. The retails remained dominated by domestic distributors.

Despite advancement of the distribution sector over the last decade and the emergence of modern retailing, Vietnam's distribution sector has so far characterized by very low productivity and competitiveness. The modern retails still account for a low proportion in the total retail sales in Vietnam compared with approximately 50% of regional nations because of the existing habit to buy products at traditional markets or stores with a limited range of

product at low prices. The infrastructure for distribution is underdeveloped, cooperation among domestic distributors is weak, and the policy framework for the sector is not adequate (Ministry of Planning and Investment, 2012). In addition, human resources for the sector have been lowly educated. The domestic distributors also cope with substantial difficulties in finding business premises because the clearance cost is normally high. Therefore, under the context of recovery of the global economy after the financial crisis and negotiations of the RCEP as well as of the Vietnam - EU FTA, the domestic distributors need to be better prepared for increasing competition in the near future.

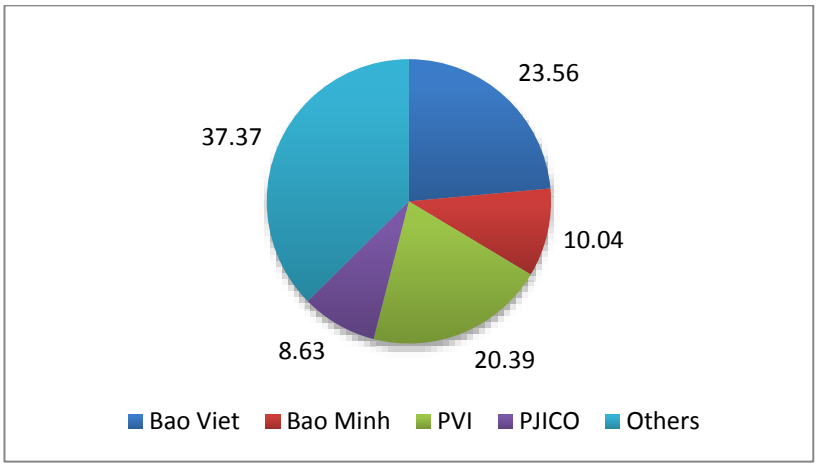
**Financial services**

*Vietnam's insurance market* has made substantial progress, both in quantity and quality although it is still small compared with that in many other Asian countries. After Vietnam's WTO accession, it has been growing rapidly from a low initial base, driven by the growing presence of foreign companies, which has spurred local firms to become more competitive.

At the end of 2011, there were 29 non-life insurance enterprises, of which 4 were SOEs, 15 joint stock and limited liability companies, and 10 foreign-invested ones. 14 life insurance firms were operating in Vietnam in 2011. Up to the end of 2012, 57 enterprises operated in insurance and insurance-related sub-sector and 32 representative offices of foreign insurance –related firms (Ministry of Finance, 2013). This insurance system has enabled Vietnam to improve its business environment and increase foreign investors' confidence when investing in Vietnam.

*There is a relatively high concentration in Vietnam's insurance market*. In 2012, the premiums have concentrated in the four largest non-life insurers including Bao Viet, PVI - Petrovietnam Insurance Joints Stock Corporation, Bao Minh and PJIC with a 64.59% share of the total market in 2012 (**Error! Reference source not found.**). Among them, Bao Viet is he largest, achieving 23.56% of the whole market in 2012. *All of these are state-owned. Thus state owned insurance companies are the biggest players in the non-life insurance market*. Foreign invested firms held only 11.4% of the total premium of the non-life insurance market.

**Figure 11: Market share in non-life premiums in 2012**



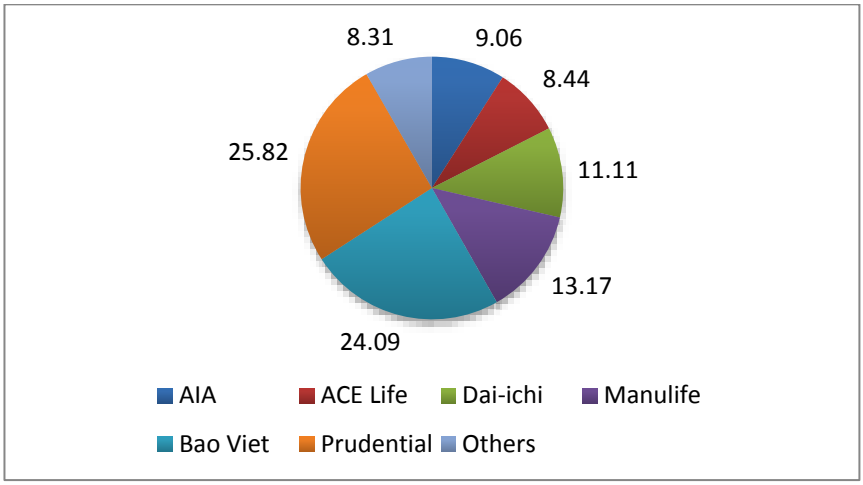

*Source: Ministry of Finance (2013).*

*In contrast to the non-life insurance industry, foreign firms play an important role in life insurance market*. Five foreign firms (Prudential, Manulife, ACE life, Dai-ichi, and AIA) occupy 67.6% of total premium of the market. Among these 5 biggest companies, Dai-ichi is the only one coming from RCEP nations, namely Japan (**Error! Reference source not ound.**).Among 19 representative offices of foreign non-life insurance companies, most come from Japan (7 offices) and South Korea (6 offices). One representative office is from

Australia. Among 10 foreign representative offices engaged in life-insurance, there is 1 from Japan and 1 from South Korea.

*The data on market shares show that so far, the competition from RCEP insurance company is limited in Vietnam. In the near future RCEP negotiations, if Vietnam relaxed market access and national treatment for RCEP insurance companies, there might be a strong increase in competition from Japan and possibly from South Korea, especially in non-life insurance sector.*

**Figure 12: Market share in life premiums in 2012**




*Source: Ministry of Finance (2013).*

At the end of 2013, *Vietnam's banking sector* had 103 banks and numerous credit institutions, of which 5 were state-owned commercial banks or majority state owned, 2 state-owned policy banks, 34 joint-stock commercial banks, 4 joint-venture banks, 5 wholly foreign-owned banks, and 53 foreign bank branches (excluding 4 foreign bank branches in the process of terminating activities).

*In the banking sub-sector, four state-owned banks* (Vietcombank, Vietinbank, Viet Nam Bank for Agriculture and Rural Development, and Bank for Investment and Development of Viet Nam) *though shrinking have still played important roles in providing banking and credit services.* At the end of 2012, the shares of these four largest banks in total banking sector assets were slowly shrinking, accounting for 48% of domestic lending (65% in 2009), 45% of capital mobilization (62% in 2009), and 40% of the total assets of the sector (58% in 2009). 35 private-sector joint stock banks and a number of finance and leasing companies held 49% of the total asset of the sector.

Foreign banks have a substantial presence in Vietnam with 53 foreign companies operating via branch offices, 5 via wholly foreign-owned bank subsidiaries and 4 via joint-venture. However, *they have still played a minor role in the market*, keeping only 11% of the total asset of the banking sector in 2011. Among the 4 joint-venture banks in Vietnam, three are RCEP-nations-related. More specifically, VID Public Bank is the joint venture between BIDV and Public Bank Berhad of Malaysia, Vinasiam Bank is a joint-venture owned by three reputable shareholders - Agribank of Vietnam, Siam Commercial Bank of Thailand and Charoen Pokphand Group (CP Group) of Thailand. Among the 5 wholly-foreign-owned banks in Vietnam, 3 come from RCEP nations. One is a Korean bank (Shinhan), one is an Australian bank (ANZ) and one is Malaysian. *With RCEP negotiations, it is expected that there will be more foreign banks from the RCEP to make investment in Vietnam, creating more competition in the domestic market.*

**Professional services**

According to a GSO survey conducted in 2012, the number of State-owned enterprises in the professional services sector accounted for only 7% while non-SOEs firms took a significant proportion of 93%. In fact, professional services which consists of 11 sub-sectors is very complicated and closely linked with the movement of skilled labor. This paper will focus on two of these sub-sectors, legal and accountant services.

*Legal services*

Legal services have developed rapidly in recent years in Vietnam with a more diverse scope of activity and improving quality. Legal services are playing a supporting role to the operation of many businesses as well as civil matters. Forms and activities of legal services suppliers have also expanded.

According to the Vietnam Bar Federation (VBF), in 2012, 62 bar associations operated in 63 provinces and cities nationwide with a total membership of 7,476 lawyers and 3,467 trainee lawyers working for nearly 2,817 law-practicing organizations, including 2,047 lawyers' offices and 770 law firms with around 10 firms specializing in foreign-related business, trade and investment. In addition, there were 123 individual lawyers in 2012. The quality of Vietnamese lawyers has been recognized to be gradually improving, meeting professional requirements. The numbers and diversity of cases and clients addressed by Vietnamese lawyers have also increased. The scope of law practice has widened with a fast-growing numbers of overseas clients. Preliminary statistics shows that along with the increasing supply of legal service to society, Vietnam's lawyers have annually contributed to the state budget, amounting to hundreds of billion VND through tax obligation (Vietnam Bar Federation, 2013b).

In Vietnam, legal services were traditionally provided by Vietnamese individual professionals or small firms. However, over the past decade, the sector has experienced a significant increase in the number of large multinational law firms with international networks such as Mayer Brown JSM, Audier & Partners, Freshfields Bruckhaus Deringer, and Baker & McKenzie. Up to July 2012, there were 56 foreign law-practicing organizations with more than 200 foreign lawyers in Vietnam (Vietnam Bar Federation, 2013a).Among these, *there have been very few of RCEP's legal-practicing firms operating in Vietnam so far. Most foreign law firms in Vietnam come from the EU and the US, perhaps reflecting these countries business interests in Vietnam.*

*Accountancy, auditing, bookkeeping and taxation services*

Over the past years, Vietnam has made significant progress in strengthening the role of the accounting profession. According to the Vietnam Association of Certified Public Accountants - VACPA (2013), by February 2013, there were 155 registered accounting firms including 4 wholly foreign-owned firms (Ernst & Young, PwC, KPMG, and Grant Thornton), 5 foreign invested firms (E Jung, Mazars, HSK, Immanuel, S&S), 145 limited liability companies and a partnership firm (CPA Australia - Vietnam). The ten biggest accounting companies in term of revenue in Vietnam are KPMG, Ernst and Young, Delloite, PwC, AASC, A&C, Grant Thornton Vietnam, AISC, BDO and Mazars. Only 3 among these firms are Vietnamese. *Therefore, the domestic market for this sub-sector has so far been dominated by foreign firms, especially the "Big Four" of PWC, Deloitte, Ernst & Young and KPMG.*

Accountants in Vietnam are still inadequate in term of quality and quantity compared with the actual need. Until the end of 2012, there were 10,070 employees in this sector, increasing 7% compared with 2011, including 8,836 professionals (1,582 certified accountants, and 7,973 non-certified). The number of foreign accountants is still small with 32 owning both foreign and Vietnamese certificates, 2 owning Vietnamese certificates and 25 owning foreign certificates.

**Communication services**

In the communication services market, the state-owned enterprises have dominated and captures a very high equity share in almost sub-sectors (**Error! Reference source not ound.**). In addition, even though Vietnam has liberalized communication services in accordance with GATS, AFAS and other ASEAN FTAs, Vietnam's communication services market have not been substantially affected by foreign competition. This might be because of the fact that the communication services sector requires a great deal of investment in infrastructure and needs a long time for capital recovery. In addition, the negative impacts of the global crisis have affected investment decision to expand abroad of communication service providers.

Looking at main players in the communication services market, the dominance of domestic providers are clear. *In the courier services sub-sector* in 2012, 79 postal operators were licensed and certified, of which VNPost held the largest market share of 37% (in terms of revenue), followed by DHL-VNPT, VTP, TNT-Vietrans and PT-EMS. A US postal company, UPS, gained a relatively high market share of 6.12% (Ministry of Information and Communication, 2013). *In broadcasting services (motion picture distribution sub-sector),* the five biggest market players in providing cable TV services are SCTV, VTVCab, VNPT, HTVC, and BTS. VSTV, VTC and AVG are three satellite digital TV broadcasters in Vietnam. *Regarding telecommunication sub-sectors,* at present, five fixed telephone service providers in order of market shares are VNPT (75.54%), Viettel (22.96%), SPT (1.21%), FPT Telecome (0.23%), and VTC (0.06%). In the mobile phone services market and 3G mobile phone services, Viettel is the biggest market players with respective market shares of44.05% and 34.73% whereas in the Internet Broadband services, VNPT is the leading player(Ministry of Information and Communication, 2013).

**Table 46: State and Central Government Equity in Communication services in 2012**

| Sub-sectors | Equity (million VND) | State and Central Government Equity | |
|---|---|---|---|
| | | Value (million VND) | Proportion (%) |
| Courier services | 1,123,688 | 572,059 | 50.91 |
| Motion Picture Production | 2,849,129 | 864,015 | 30.33 |
| Motion Picture Distribution | 2,104,142 | 1,444,798 | 68.66 |
| Telecommunication | 125,231,325 | 109,841,599 | 87.71 |
| Total | 131,308,284 | 112,722,472 | 85.85 |

*Source: Tran Minh Tuan (2014)*

### *5.2.2 Model of service trade in Vietnam*

**Total services trade in Vietnam**

In 2013, service exports grew at a high rate of 9.15% to reach USD 10.5billion while service import increases were only 5.43% to USD 13.2billion. These changes in service imports and exports resulted in a decrease in the service trade deficit of Vietnam in 2013 compared to 2012 (**Error! Reference source not found.**). Most of the export revenues of Vietnam come rom travel services, which is the biggest export sector and also the only sector that reach a very high trade surplus in 2011-2013. Transportation is the second biggest export sector that suffers from a big deficit.

FDI in the service sector is an important indicator for service trade in Mode 3. The FDI in the service sector in Vietnam in general is still small in terms of scale and registered capital. In 2013, there were 496 FDI projects in services with a total registered capital of USD 2.3billion, equivalent to 42.2% of total FDI projects but only just more than 11% of total

registered capital. Up to November 2013, totally, there were nearly 34% of FDI projects with 34.8% of total registered capital poured into the service sector in Vietnam. However, note that these high numbers result from the high number and registered capital of FDI projects into the real estate sector especially, before the global crisis.

**Trade in distribution services**

*Import model*

Vietnam and the world's statistics (including WTO service databases) unfortunately have not provided separate trade data for Vietnam's distribution sector but put the distribution sector in the category "other services", which include hotel and restaurants, distribution, science and technology, education, health care, and culture and sports. In 2013, import turnover of "other services" was USD 980 million, equivalent to 7.4% of total services import revenue (GSO, 2013d)..These numbers for the year 2013 were USD9 980 million and 7.4%. *It implies that Vietnam's import of the 6 above-mentioned Other services sectors, including distribution, is at relatively low levels*.

In addition, the number and registered capital of FDI projects in distribution services in Vietnam in 2012 reached 220 and USD 772.8 million, representing 17.2% of total FDI projects but only 5% of total registered capital (GSO, 2013) (**Error! Reference source not ound.**). *As an implication,* imports of the distribution sector under Mode 3 are relatively low notwithstanding a slight increase in 2012's proportions of both FDI projects and registered capital compared with those of 2011 (14% and 3% respectively). In 2013, the proportion of this sector in FDI projects and registered capital fell to 15% and nearly 2% of the total.

*Export model*

In contradiction with the dramatic and vivid development of both domestic and foreign distributors in Vietnam's market, the domestic distributors have so far not successfully penetrated the international market, including the RCEP markets. Most of the big Vietnamese retailers have a similar strategy that they focus on developing the retail network, serving domestic consumers and becoming leading distributors domestically. Therefore, generally, the Vietnamese retailers have so far not focused on developing supermarkets and trade centers abroad.

Regarding franchising, at present, there are some Vietnamese companies undertaking franchising to distribute goods and services abroad. Duc Trieu Trade and Service private company undertakes franchising to distribute T&T leather shoes and bags abroad while Vu Giang Co., Ltd. engaged in franchising Coffee Bobby Brewers Shops and Pho 24 in restaurants (Ministry of Industry and Trade, 2014).

In 2012, export turnover of "other services" including distribution services reached USD 282 million, accounting for only 2.7% of total service export turnover. This low share reflects that *the 6 other services sectors, including distribution, have not actively and substantially participated in exporting. In addition, the distribution export under Mode 3 is at a very low level in terms of registered capital with small-scale projects (Table 48).*

**Table 47: Vietnam's services exports and imports in 2010-2013 (million USD)**

| Sectors | Exports | | | Imports | | | Balance | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013 (est.)** | **2011** | **2012** | **2013 (est.)** | **2011** | **2012** | **2013 (est.)** |
| Transportation | 2,227 | 2,070 | 2,190 | 8,226 | 8,715 | 9,120 | -5,999 | -6,645 | -6,930 |
| Postal and telecommunication | 145 | 138 | 150 | 67 | 57 | 48 | 78 | 81 | 102 |
| - Telecommunication | 134 | 126 | - | 61 | 52 | - | 73 | 74 | - |
| Travel | 5,710 | 6,850 | 7,530 | 1,710 | 1,856 | 2,050 | 4,000 | 4,994 | 5,480 |
| Financial services | 289 | 214 | 228 | 784 | 757 | 817 | -495 | -543 | -589 |
| - Finance | 208 | 150 | 160 | 217 | 175 | 190 | -9 | -25 | -30 |
| - Insurance | 81 | 64 | 68 | 567 | 582 | 627 | -486 | -518 | -559 |
| Government services | 110 | 110 | 120 | 152 | 167 | 185 | -42 | -57 | -65 |
| Other services | 210 | 238 | 282 | 920 | 968 | 980 | -710 | -730 | -698 |
| **Total** | **8,691** | **9,620** | **10,500** | **11,859** | **12,520** | **13,200** | **-3,168** | **-2,900** | **-2,700** |

*Source: GSO (2013d), GSO (2013c), WTO database in services trade*

**Table 48: FDI in services sector 2010-2013**

| Sectors | 2012 | | 11/2013 | | Accumulated 11/2013 | |
|---|---|---|---|---|---|---|
| | *Number of projects* | *Registered capital (million USD)* | *Number of projects* | *Registered capital (million USD)* | *Number of projects* | *Registered capital (million USD)* |
| Distribution | 220 | 772.8 | 176 | 415.32 | 1067 | 3,314.56 |
| Professional services, science and technology | 180 | 98.8 | 158 | 412.26 | 1488 | 890.75 |
| Financial, banking and insurance | 1 | 0.1 | 1 | 0.80 | 77 | 1,322.45 |
| Information and telecommunication | 99 | 416.9 | 82 | 54.10 | 903 | 2,240.66 |
| Real estate | 13 | 1979.9 | 20 | 884.01 | 405 | 48,728 |
| Total services | 601 | 3,832.5 | 496 | 2,300 | 5,298 | 79,804 |
| Total | 1,287 | 16,348 | 1,175 | 20,815.66 | 15,600 | 229,233.37 |

**Trade in financial services**

Financial services trade accounts for a small part of total service trade in Vietnam. Exports of financial services only accounted for 2% and imports of financial services 8.9%. This sector also has a relatively high level of deficit. Most of the trade in this sector occurs in the financial services sub-sector.

Data from the GTAP 8 Database in 2007 shows that the EU is the biggest source supplying financial sub-sector services to Vietnam whereas the US is the biggest exporter of Vietnam in insurance services. The EU is also the main destination importing financial and insurance services from Vietnam. The RCEP members are very limited in trading financial and insurance services with Vietnam despite of a close distance and the existence of service-related FTAs with Vietnam.

Vietnam's financial services imports in Mode 3 are shown through FDI inflows to Vietnam in this sector. In the two most recent years, 2012-2013, there was only 1 FDI projects invested in this sector each year with a limited registered capital of USD 100,000 in 2012 and USD 800,000 in 2013 (**Error! Reference source not found.**). This is a result of the global crisis ut it also reflects the unattractiveness of this sector to foreign financial services providers. However, foreign investors started looking at indirect investment by buying shares of commercial banks.

Regarding Vietnam's services exports in Mode 3, some Vietnamese banks like BIDV, MB, and Sacombank have already opened representative offices and branches in neighboring countries such as Laos, Cambodia, Myanmar and China, where foreign requirements are suitable to the Vietnamese bank’s capacity and demands are high enough for banks to be profitable. Further, in September 2011, the Vietinbank opened the first European branch of a Vietnamese bank in Germany. Accumulated by the end of 2012, Vietnam had 28 overseas projects with USD 538.12 million in the sector, accounting for 4% of total registered capital.

**Trade in professional services**

Vietnam and international databases on services trade do not provide data for professional services but this sector will be included in “other services” in Table 2. Professional services can be provided through different modes, *although it would appear that mode 3 is the preferred mode of supply at least in the legal and accounting sectors in Vietnam.* This is because in recent years, there has been an increase in the number of leading international firms, particularly those engaged in accounting and legal sub-sectors, to establish companies in Vietnam to provide professional services. Up to July 2012, there were 56 foreign law-practicing organizations with more than 200 foreign lawyers in Vietnam (Vietnam Bar Federation, 2013a). In the accounting services market, the four leading global companies KPMG, Ernst and Young, Delloite, and PwC have set up commercial presence in Vietnam. In 2012, there were 180 FDI projects investing in professional services sector with a registered capital of 98.8%, accounting for nearly 14% of total FDI projects and 0.6% of total registered capital in Vietnam. In 2013, even though the number of FDI projects in the sector decreased, the proportion of registered capital of FDI projects in the sector increased to nearly 2%.

In 2012, the number of direct investment overseas project in professional services was 63, which accounted for 8.8% of the total FDI project. However, the total registered capital of overseas projects in this sector was only USD 38.7 million, equivalent to only 0.3% of total registered capital in Vietnam. *It implies that Vietnam's export of professional services under Mode 3 is also limited.*

**Trade in communication services**

**Error! Reference source not found.**shows that communication services is one of two

ervice sector that witnessed a trade surplus in Vietnam during 2010-2013. *Among service sectors of Vietnam, telecommunication services sector can be considered to be relatively successful in penetrating the international market, especially Asian nations.* Viettel and VNPT are the two leading domestic companies in providing telecommunication services abroad. Viettel has invested in some nations such as Laos, Cambodia, East Timor, Mozambique and Haiti. VNPT has also supplied communication services in Laos, Cambodia, China, Hong Kong, Singapore, Czech and the US. Currently, VNPT has built a stable and advanced international telecommunication infrastructure, used many new safe and effective transferring methods like submarine optical cables, terrestrial optical cables and satellites, allowing direct connections to over 240 nations, economic and financial centers all over the world. In the near future, VNPT plans to have strategy to improve its competitiveness in the Asia Pacific regions and become a regional hub in supplying telecommunication services (VNPT, 2014).

As of the end of 2013, the communication services had 37 outward FDI projects with USD 923.9 million, accounting for about 5% of projects and 7.2% of total registered capital. Communication services ranks second after art, entertainment and recreation services in terms of registered capital. *This is further evidence to partially support that domestic communication service providers are undertaking large and relatively success efforts to invest abroad.*

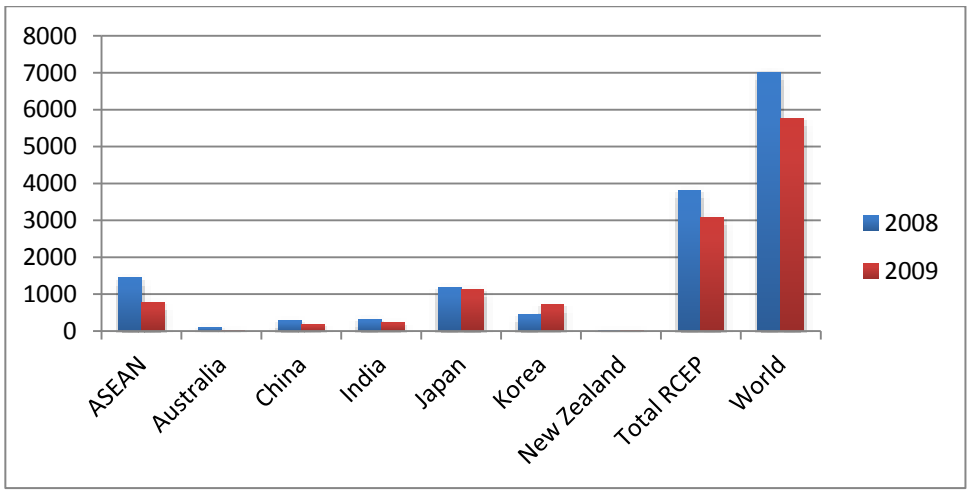
## 5.3. Vietnam's service trade with RCEP nations

### *5.3.1 Vietnam's service exports to RCEP nations*

**Error! Reference source not found.**shows that RCEP nations play a relatively important ole in Vietnam's services exports. In 2008 and 2009, services exports to RCEP nations accounted for about 54% and 53% of total Vietnam's service exports. Among RCEP nations, the ASEAN market as a whole takes the highest market share of 38% and 25% of the total RCEP market in 2008 and 2009, followed by Japan and Korea. New Zealand is the smallest export market of Vietnam with the market share of around 0.34% of the total RCEP market.

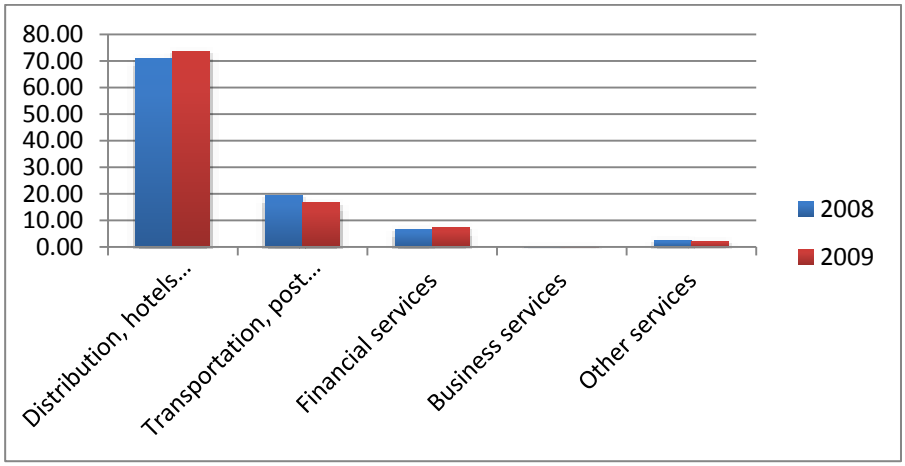
Distribution, hotels and restaurants are the biggest export service sectors of Vietnam to RCEP nations, accounting for more than 70% of market share in both years. Transportation, post and telecommunication are the second biggest service export sectors. The lowest export market share is captured by business services sector.

**Figure 13: Vietnam's services exports to RCEP nations and the world in 2008 and 2009 (million USD)**



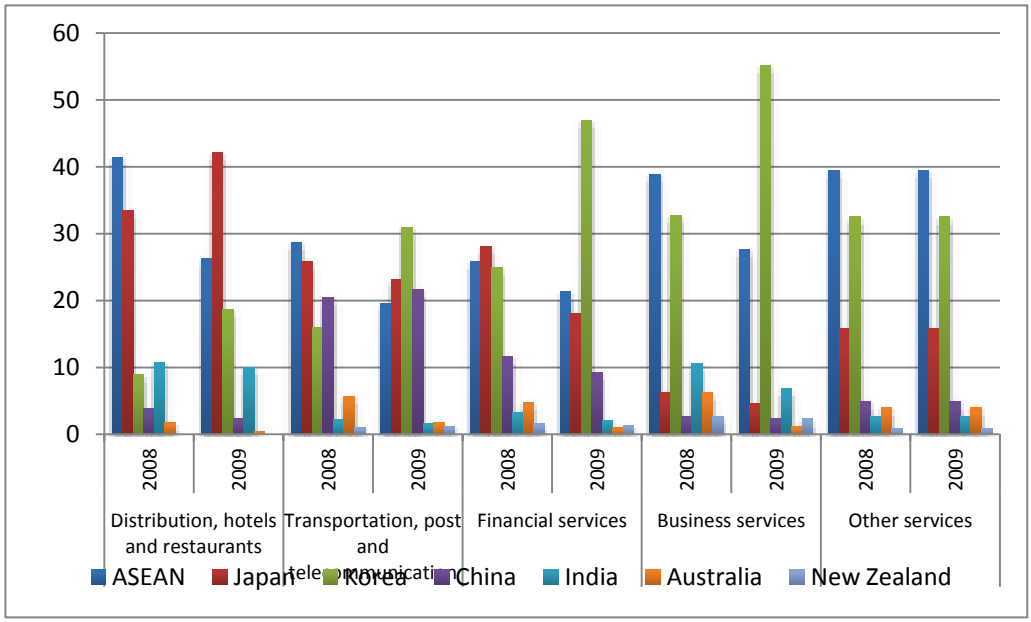

*Source: Authors' calculations from WTO-OECD databases.*

Figure 14: Vietnam's services exports to RCEP nations by sector in 2008 and 2009 (%)




*Source: Authors' calculations from WTO-OECD databases.*

**Figure 15: Market share of RCEP nations in Vietnam's services exports by sector in 2008 and 2009 (%)**




*Source: Authors' calculations from WTO-OECD databases*

Figure 15 shows market shares of each RCEP nation in Vietnam's service exports by sector. **Error! Reference source not found.** describes Vietnam's export market share of each ervices sector in each RCEP nation. From the table and Figure, the following conclusions can be drawn out.

*Distribution - hotels - restaurants services*, which are closely linked with travel and franchising, are the biggest export sector of Vietnam to all RCEP nations, except for China and New Zealand (**Error! Reference source not found.**). Within this sector, ASEAN and apan are the biggest destination for Vietnam's export (Figure 15**Error! Reference source not found.Error! Reference source not found.**).

*In transportation - posts - telecommunication*, the biggest RCEP importers of Vietnam are ASEAN, Japan, Korea and China (Figure 15). In 2009, in particular, 58% of services imports of China from Vietnam fall into this sector (**Error! Reference source not found.**).

*The biggest importers of Vietnam's financial services* are Korea, Japan and ASEAN in 2008 and 2009. However, in each RCEP market, including Korea, Japan and ASEAN, the proportion of financial services imports from Vietnam are still very low.

**Table 49: Vietnam's market share of each services sector in each RCEP nation in 2008 and 2009 (%)**

| *Partner* | *Year* | *Distribution, hotels and restaurants* | *Transportation, post and telecommunications* | *Financial services* | *Business services* | *Other services* | *Total* |
|---|---|---|---|---|---|---|---|
| ASEAN | 2008 | 77.9 | 14.7 | 4.6 | 0.3 | 2.5 | 100.0 |
| | 2009 | 77.6 | 13.0 | 6.3 | 0.3 | 2.8 | 100.0 |
| Japan | 2008 | 76.4 | 16.2 | 6.1 | 0.1 | 1.2 | 100.0 |
| | 2009 | 85.1 | 10.6 | 3.6 | 0.0 | 0.6 | 100.0 |
| India | 2008 | 91.1 | 5.2 | 2.6 | 0.4 | 0.8 | 100.0 |
| | 2009 | 93.1 | 3.4 | 2.0 | 0.2 | 1.3 | 100.0 |
| China | 2008 | 35.7 | 52.3 | 10.3 | 0.1 | 1.5 | 100.0 |
| | 2009 | 28.7 | 58.3 | 10.9 | 0.1 | 2.0 | 100.0 |
| Korea | 2008 | 52.8 | 25.9 | 14.0 | 0.8 | 6.6 | 100.0 |
| | 2009 | 58.5 | 21.8 | 14.6 | 0.7 | 4.4 | 100.0 |
| New Zealand | 2008 | 3.1 | 56.6 | 32.6 | 2.3 | 5.4 | 100.0 |
| | 2009 | 2.8 | 59.4 | 28.3 | 1.9 | 7.5 | 100.0 |
| Australia | 2008 | 43.7 | 40.3 | 11.7 | 0.7 | 3.6 | 100.0 |
| | 2009 | 43.2 | 41.8 | 10.8 | 0.5 | 3.8 | 100.0 |

*Source: Authors' calculations from WTO-OECD databases*

*In all RCEP nations*, the market share of business services are very low, ranging from 0.1% to 0.8% in 2008 and 2009 (**Error! Reference source not found.**). In business services, ietnam exports least business services to Australia and New Zealand, where it is considered to possess high quality labor resources, and China, whose human resources are abundant.

Notably, even though Australia is so far a small service importer of Vietnam, the potential to provide distribution services in Australia exists. In 2008 and 2009, Australia had the highest proportion of distribution services import from Vietnam compared with other sectors (**Error! eference source not found.**). In addition, there is also a relatively large number of Vietnamese people living and studying in Australia, making the country an attractive destination for many of Vietnam's goods and services.

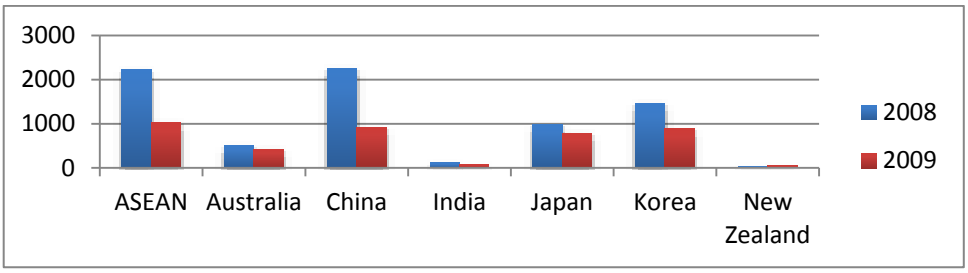
### *5.3.2 Vietnam's service imports from RCEP nations*

Among the RCEP nations, China is the biggest import market of Vietnam, followed by ASEAN nations while New Zealand and India are the two smallest import markets of Vietnam.

Interestingly, the service import patterns of Vietnam with RCEP nations are very similar to the export service patterns with RCEP nations. This might be because Vietnam conducts trade in services with ASEAN at a high level (53% of total service exports and 50% of total services import), whereas Vietnam and the RCEP nations, especially ASEAN, India and China have a lot of similarity in resources. This similarity will result in intra-trade in services.

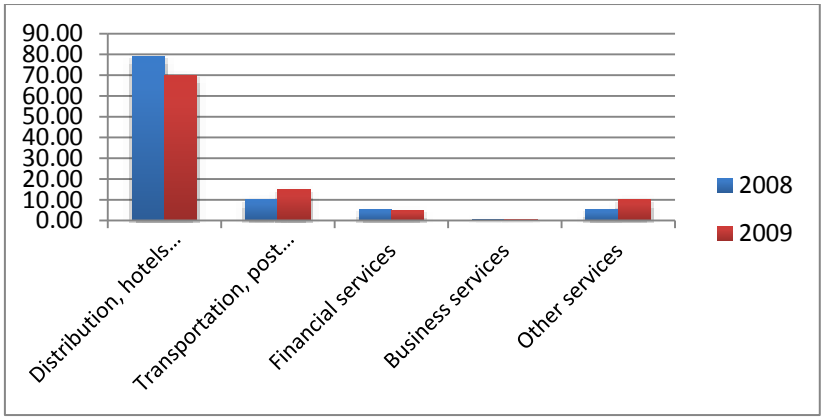
Among the sectors, distribution, hotels and restaurants are the biggest import service sectors of Vietnam from RCEP nations, followed by transportation, post and telecommunication (**Error! Reference source not found.**).

**Figure 16: Vietnam's services imports from RCEP nations in 2008 and 2009 (million USD)**



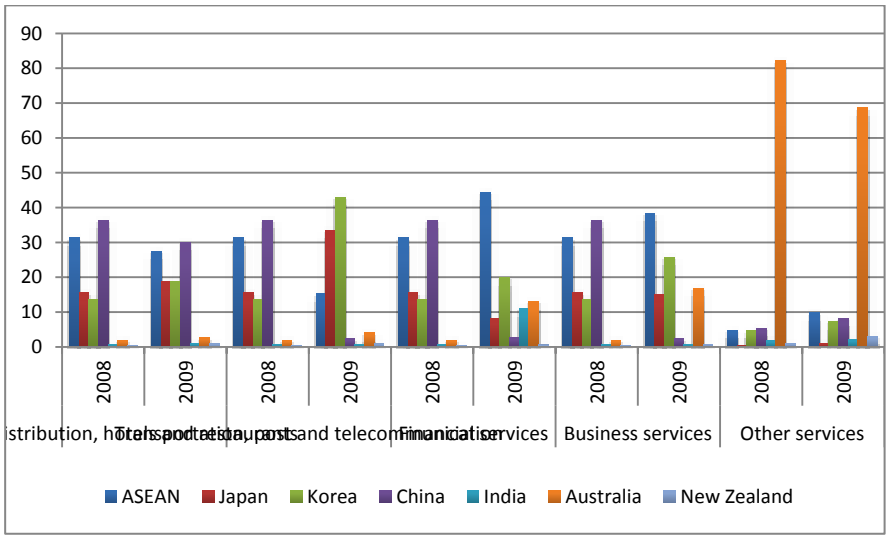

*Source: Authors' calculations from WTO-OECD databases*

**Figure 17: Vietnam's services imports from RCEP nations by sector in 2008 and 2009 (%)**




*Source: Authors' calculations from WTO-OECD databases.*

**Figure 18: Market share of RCEP nation in Vietnam's services imports in 2008 and 2009 (%)**




*Source: Authors' calculations from WTO-OECD databases.*

**Table 50: Vietnam's import market share of each services sector from each RCEP nation in 2008 and 2009 (%)**

| | *Distribution, hotels and restaurants* | *Transportation, post and telecommunications* | *Financial services* | *Business services* | *Other services* |
|---|---|---|---|---|---|
| ASEAN | 84.70 | 6.20 | 7.69 | 0.57 | 0.84 |
| | 77.81 | 9.05 | 8.69 | 0.45 | 3.99 |
| Japan | 93.50 | 4.05 | 2.03 | 0.26 | 0.16 |
| | 70.65 | 26.40 | 2.16 | 0.23 | 0.56 |
| Korea | 56.59 | 34.86 | 6.81 | 0.48 | 1.26 |
| | 61.79 | 29.85 | 4.55 | 0.35 | 3.46 |
| China | 97.01 | 1.09 | 0.92 | 0.04 | 0.95 |
| | 94.10 | 1.61 | 0.62 | 0.03 | 3.64 |
| India | 40.99 | 10.14 | 42.29 | 0.35 | 6.24 |
| | 46.92 | 7.48 | 32.70 | 0.15 | 12.76 |
| Australia | 21.73 | 7.25 | 7.27 | 0.37 | 63.38 |
| | 19.53 | 5.86 | 6.22 | 0.47 | 67.92 |
| New Zealand | 76.94 | 11.29 | 2.35 | 0.24 | 9.18 |
| | 57.17 | 12.61 | 2.61 | 0.22 | 27.39 |

*Source: Authors' calculations from WTO-OECD databases.*

From Figure 18 that shows market shares of each RCEP nation in Vietnam's service import by sector and **Error! Reference source not found.** that describes Vietnam's import market hare of each services sector from each RCEP nation, the following conclusions can be drawn out.

*Distribution - hotels -restaurants services* so far are the biggest import sector of Vietnam to all RCEP nations, except for Australia (**Error! Reference source not found.**). Within this ector, China, ASEAN, Korea and Japan are the biggest destination for Vietnam's imports (Figure 18).

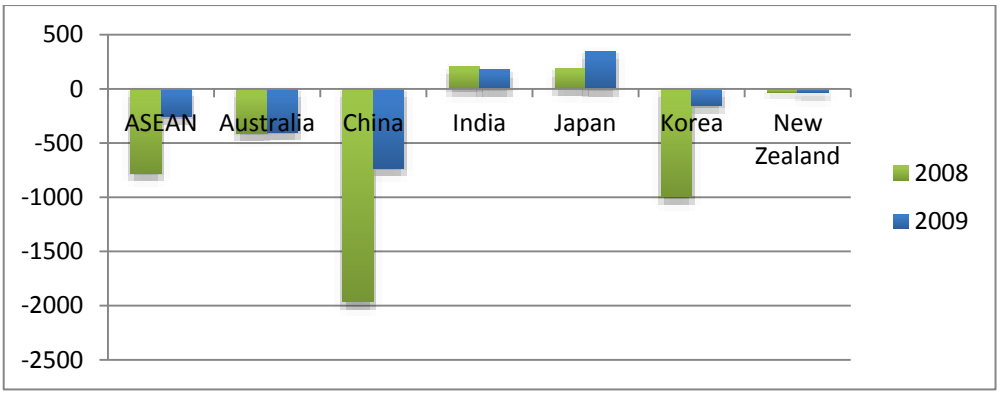
*In transportation - post - telecommunication*, the biggest RCEP importer markets of Vietnam are Korea and ASEAN. Among ASEAN nations, the biggest and strongest transportation provider is Singapore with a trade surplus of ranging from USD 6.3billion - USD 7.0billion a year from 2011-2013. Note that at the moment, even though Vietnam has not imported much telecommunication services from India, a country which is strong at providing this service and has a surplus of around USD 920 million in 2013, *there is a potential that India will be a strong competitor of Vietnam if RCEP negotiations result in the higher liberalization of this sector.*

*The biggest financial services* import markets of Vietnam in 2009 are ASEAN, South Korea, Australia and India. In fact, Australia is among financial services suppliers in the RCEP with a trade surplus of about USD 1.0billion in 2013. Korea has a surplus of USD 2.5billion. Singapore is so far among the biggest exporter in this sector with a trade surplus of between USD 10.0billion to USD 11.0 million a year in 2011-2013.*Therefore, the higher competition with these nations in the context of future RCEP arrangements is possible.*

*In all RCEP nations*, the market share of business services are very low in both 2008 and 2009 (**Error! Reference source not found.**). In this service, Vietnam imports most from SEAN, South Korea and Australia.

Because of the similarity in pattern of imports and exports of Vietnam with RCEP nations, it is might be useful to consider also the trade balance to identify the possible impacted service sectors under RCEP context.

**Figure 19: Vietnam's services trade balance with RCEP nations in 2008 and 2009 (%)**




*Source: Authors' calculations from WTO-OECD databases.*

Vietnam currently has a trade deficit with almost all RCEP nations, except India and Japan. The highest trade deficits are incurred in services trade with China, Australia and ASEAN nations. Looking more closely with trade relations between Vietnam - India and Vietnam - Japan, it can be seen that the trade surplus with both nations comes from distribution services.

## 5.4. Opportunities and Challenges

### *Opportunities*

The general services sector opportunities from the RCEP mimic those of the agricultural sector – better markets access dependent on quality of services, trade facilitation (e.g. in Customs services), cheaper/better inputs (an important aspect of services which are strongly embedded in much of the goods trade and can hold this trade back), greater investment and competition which helps address these constraints. Services are also fundamental to key government societal objectives, like education and health.

In general, *RCEP will open great opportunities for Vietnam to export distribution, hotels and restaurants services* to RCEP nations, especially to ASEAN and Japan. These sectors have been the biggest export sectors of Vietnam to RCEP nations. In addition, imports of most RCEP nations from Vietnam in these sectors are the highest.

*Vietnam also has big opportunities to export communication services* to RCEP nations, especially to ASEAN and China, the sector in which Vietnam has been relatively successful in exporting to RCEP nations. In the near future, expansion of supply of communication services to Laos, Myanmar and Cambodia should be a focus. Later on, Vietnam's communication providers might consider strengthening to exploit the Asia-Pacific region, especially in telecommunication services. The RCEP should also bring about more foreign investment in communication services, contributing a boost to the whole economy as this sector is classified as the production-support services sector.

Finally, it is worthy pointing out that beside challenges, the RCEP like other FTAs will bring about opportunities and benefits for the service sector in particular and the whole economy in general. Consumers will be most benefitted with a much wider range of choice of cheaper and more efficient services. Domestic service providers will have more opportunities to learn modern management and business practices from RCEP distributors. They also have motives to restructure and improve their services, as well as competitiveness. Increasing employment is another possible opportunities for Vietnam when RCEP's providers promotes their

operation in Vietnam

### *Challenges*

Challenges in services come from different aspects, for example, a relatively high involvement of SOEs in some service sectors, the under-developed infrastructure and a relatively low quality of human resources engaged in the sector. There is a danger that service providers will see their ideal future as dominating their domestic market with the help of behind the border protection (e.g. Economic Needs Tests - ENT) rather than being part of a much larger integrated "pie" of international service providers operating in an open regional market.

*Opportunity to promote exports of professional services to RCEP nations is limited* because there is a substantial gap between Vietnam and other RCEP nations in human resources, especially in comparison with ASEAN–6, Japan, Korea, Australia and New Zealand. The main constraints for professional services of Vietnam include limited quantity, quality and also low foreign language capacity, which is a must for joining the international labor market. So, the potential for Vietnam to increase its provision of professional services is limited. *Instead, competition in this sector in the domestic market will be increasing substantially*, especially after 2015 with a wide range of Mutual Recognition Agreements (MRAs) within the ASEAN Economic Community framework to be effected. Vietnam has to be better prepared for this labor movement among ASEAN nations through improving firstly education and training curriculum and focusing on training in priority sectors in ASEAN such as accountancy, engineering, architecture and dentistry.

*Banking services is another sector that Vietnam potentially faces fierce competition* from RCEP nations, especially from Singapore, Japan, Korea and Australia if the RCEP negotiations result in higher levels of liberalization in this sector in a consistent fashion of ASEAN's financial packages (currently Vietnam's import of financial services from RCEP nations is low). At the moment, the main drawbacks of Vietnam's banking services sub-sector are quality of services themselves and also trademark/reputation, experience, management skills and technology application of Vietnam's financial institutions. Most of the Vietnam's financial institutions are not recognized outside Vietnam. Their quality of services and risk management are still far below international standards. However, if the RCEP results in further liberalization of the financial services sector, there will be pressure for Vietnam to develop its financial market, increase the competitiveness of domestic financial services providers, encourage FDI inflows to the sector and undertake behind-the-border institutional changes in the banking system. *With insurance services*, so far, the competition from RCEP insurance companies is limited in Vietnam. However, in future RCEP negotiations, if Vietnam relaxed market access and national treatment for RCEP insurance companies, especially in non-life insurance sub-sector, there might be notable increases in competition from South Korea and Japan.

*Another import challenge is for transportation services*. Although transportation is a big service export sector of Vietnam it has had a trade deficit overtime mainly because of inadequate infrastructure and services provided. If Vietnam and other RCEP nations open up the transportation market, especially in marine transport services, there are substantial challenges from neighboring nations, especially Singapore which is an international transport hub used by many nations, including developed RCEP ones.

*Despite the fact that the RCEP can open opportunities for Vietnam to export distribution, hotels and restaurants services, and communication services, there will be a high possibility that the domestic competition in these sectors will also substantially increase, improving these domestic services to a point where they could seize export opportunities*. In

communication services, competition in telecommunication might arise from India. In distribution services, there will be stronger competition from existing retailers in Vietnam through their expansion under Vietnam's new regulation of ENT requirements[38]and from new retailers, especially those from South Korea and Japan. Some Thailand big retailers are also preparing to enter Vietnam to provide distribution services. Therefore, under the context of recovery of the global economy after the financial crisis and the RCEP negotiations, the domestic distributors must be better prepared to cope with the increasing competition from RCEP enterprises in the near future and try to create a cooperative linkage between domestic enterprises or mergers to avoid loss of market share.

*

* *

International economic integration has been considered as a key concern during the renovation progress in Vietnam. The 11th National Congress of the Communist Party of Vietnam emphasized "active integration into the world economy" to fully utilize external resources for promoting rapid and sustainable development, and to accelerate the transformation and restructuring process of the economy with the orientation of enhancing its competitiveness. The implementation of the policy has been achieving remarkable results during recent years.

Similar to other FTAs and integration commitments, the RCEP is expected to bring about new opportunities for Vietnam via: (i) creation of an easier access to investment and export markets of ASEAN and its partners (both developing and developed countries) with arrays of demand for goods and services; (ii) opening up for import of cheaper goods (especially production inputs (steel from China, plastics products from South Korea and Japan) and import of machinery and equipments of both appropriate and modern technology); (3) Joining the regional value chain and production network and enhancing technical cooperation and position in dispute settlement; and (4) Cutting down transaction costs and enjoying a more friendly business environment due to harmonization of existing rules and their application within the various ASEAN FTAs.

In fact, more transparent, liberal investment and trade environment has paved the way for Vietnam to make more efficient use of its comparative advantage (relatively low labor costs, abundance of natural resources), and to promote exports. Complementarity of trade with regional partners has been improved. Some key export products of Vietnam still maintain competitiveness in international markets notwithstanding more severe competition from neighboring countries as well as stricter requirements from import partners. As such, Vietnam has had a positive shift to production and export of goods that are capital-intensive and require technology at a higher level. FDI played an important role in promoting Vietnam's participation in regional/global production networks. At a certain extent, the increase of imports has resulted in the expansion of exports, which in turn help improve trade balance.

However, the integration process and implementation of FTA commitments also reveal weaknesses and create more challenges for the economy. Vietnam's trade in goods relatively focuses on several major trading partners as well as products, making it more vulnerable to changes in demand or supply from such markets. The issue become more challenging as trading structures of Vietnam are quite similar to those of neighboring countries while the quality and value added content of most products are still modest and the country depends heavily in imported input for domestic production. Meanwhile, services trade of the country

[38] Foreign-invested distributors are exempted from being checked with a ENT if they set up a retail establishment with areas of less than 500m$^2$ in areas designated for goods trading activities and with already finished construction of infrastructure.

is very modest though have improved recently.

In the context of deeper integration and ongoing FTAs negotiations, including RCEP, Vietnam needs to make good use of opportunities and overcome challenges to promote trade and investment, focusing on importing advanced technology for economic restructuring, transformation of the growth model, including clean technologies, gradually to become a green economy and knowledge economy. Underlying these directions are the efforts to improve competitiveness of domestic products, businesses and the entire economy, and to deepen participation in the RCEP's dynamic value chain.

# IV. GENERAL EQUILIBRIUM ANALYSIS

This Section serves to assess the impact of further trade liberalization on the economy of Vietnam. Most of the attention is devoted to analysis of deepening integration of the ASEAN +1 hub and spoke approach where the six bilateral members (Japan, South Korea, China, India, Australia and New Zealand) are not part of an agreement with each other.[39]Some analysts, such as Petri et al. (2011), ERIA (2012) and Fukunaga and Isono (2013) have viewed the RCEP as involving all countries reducing their tariffs to all other member countries. This involves the reduction of tariffs on trade between the major economies Japan, Korea and China. We consider this structure unlikely to develop in the foreseeable future, but for purposes of comparison we provide macro results of this scenario at the end of the section.

As noted earlier, this analysis considers impacts of market access commitments only. Meanwhile, the analysis excludes impacts of issues such as RoO, SPS, TBT, government procurement, IPR and trade facilitation. These issues are still being negotiated and the gradualism approach of ASEAN may also imply a great deal of uncertainty regarding timing. As such, incorporating these issues require assumptions that are not yet realistic.

The negotiations face several obstacles. RCEP is an ASEAN-centric FTA, and it is difficult to see what the larger economies might gain from reforming at the pace and under the terms and conditions favored by some of the smaller economies that are at a different stage of development. A larger group requires more compromise and inevitably the agreement is unlikely to be as broad in scope or as deep as a bilateral agreement. The WTO itself is a good example of the difficulties of getting consensus among disparate members.

One difficulty for the authors during the preparation stage is to predict the likely negotiated outcome. Some guidance can be provided by looking at previous FTAs. The ASEAN members have six regional agreements plus several bilateral agreements. The tariff schedules are not identical nor necessarily similar between members. This makes it difficult to predict a likely outcome.

For the negotiators, there is the difficulty of finding a universal schedule of tariffs that can be applied to all countries. Section II already emphasizes the need for a common concession approach, but this can hardly be the case. For Vietnam there are a similar number of exemptions in the ASEAN-China, ASEAN-Korea and ASEAN-Japan agreements but the ASEAN-ANZ and ASEAN-India agreements differ substantially.

## *1. The need for a CGE approach*

While it is useful to examine specific sectors in detail, partial equilibrium analysis does not attempt to provide insights at the macroeconomic level that also involves international and inter-sectoral flows of resources (capital, labour, technology) and associated changes in behaviors of households and firms. General equilibrium models then emerge with complementary analytical capacity by capturing the interactions in the whole economy via linking all the sectors through input-output tables and by linking all countries through trade flows. They also capture the use of factors of production such as capital, labour and land. General equilibrium results are often lower than those obtained from partial equilibrium modelling because not all sectors can expand at once. The expansion of one sector in response to increased export opportunities requires that resources are drawn away from other sectors, diminishing their output. This is readily apparent from the results presented here. As

[39] Some of these countries have agreements with one another, and several are members of the yet to be negotiated Trans Pacific Partnership. However, Japan, Korea and China do not have bilateral FTAs with one another, apart from the trilateral FTA among themselves.

an example, the expansion of the textiles and apparel sector necessitates a relative shift away from other sectors that compete for capital and labour.

By examining tariff changes at an industry or tariff line level, it is possible to make a reasonable estimate as to their likely effects on the industry's prices and production, consumption, and, imports and exports if they occur. However, looking at tariffs alone is insufficient. Because many firms sell their output to other firms as intermediate inputs, lower prices in one sector are beneficial to downstream sectors. For example, the removal of tariffs on textiles makes a country's apparel sector more competitive. Such interactions should be taken into consideration in assessing a policy change. Where a large number of variables are involved, computational models are necessary to take account of the interactions. Trade models are used to make estimates of the possible effects of changes in trade policy on a number of economic variables, such as exports, imports, tariff revenues, production, employment, wages and national income. The value of such models is in providing an understanding of the interplay of different economic forces, and in enabling comparisons of the relative impact of different policies. They can often help to highlight unexpected or counter-intuitive outcomes, which can assist policy-makers in their choice of policy options and/or development of support measures.

A second important feature captured by general equilibrium models relates to the incidence of tax. A tax on production is passed along the processing chain to be shared by consumers, just as a productivity improvement has the opposite effect of lowering costs to producers and prices to consumers. This pass-through of costs implies that a tariff on imports acts a tax on exports, particularly if imports taxes apply to intermediate goods that are used in the production of exports. For example, tariffs on textile imports raise the costs of production of apparel.[40]

Changes in sectoral output are driven by several factors:

(i) the level of ambition of the proposed reform (i.e. depth of liberalisation commitments);
(ii) the change in demand for the good; and
(iii) the cost structure, which determines the ability to switch resources from one activity to another.

## *2. Model characteristics and data*

In this Section, a global computable general equilibrium model, Global Trade Analysis Project (GTAP) Model, is used to model the effects of potential scenarios of RCEP on Vietnam's economy. The standard GTAP model is a multi-region, multi-sector, computable general equilibrium model, with perfect competition and constant returns to scale. Readers who want to know more details about GTAP model should look at the GTAP website.[41]

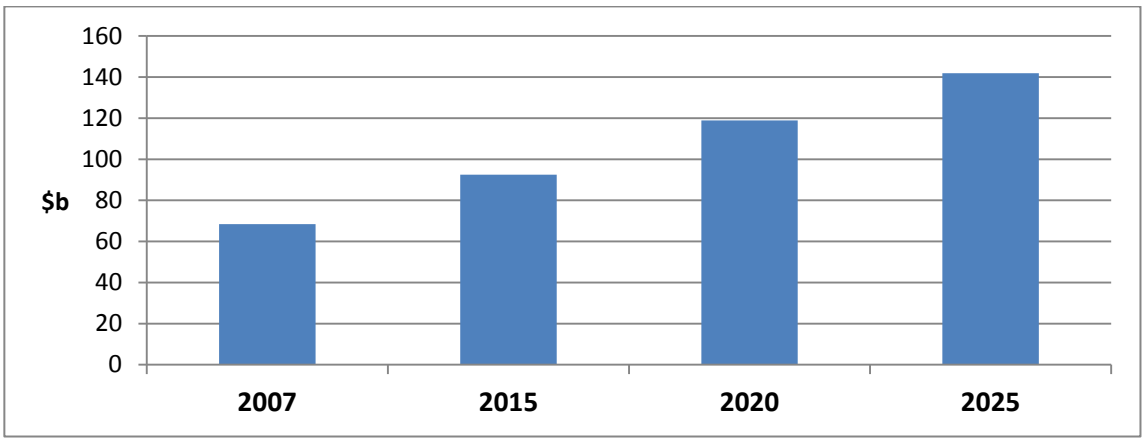
The model has its own database, which includes inter-sectoral flows, trade flows, parameters and policy variables such as tariffs. The data base version used in this report is GTAP 8.1, containing complete bilateral trade information, transport and protection linkages. It covers 134 regions (where all six non-ASEAN FTA partners stand as separate regions) for 57 GTAP sectors. Regional and commodity grouping/aggregation can be customised to suit the needs of the user.

[40] This is related in trade theory to the Lerner symmetry condition, which states that assuming no change in the trade balance, a tariff is equivalent to an export tax.
[41] www.gtap.org

The latest GTAP database is for the year 2007. The behavioural parameters, specifying the responses of consumers and producers to price changes for example, are taken from the literature rather than econometrically estimated.[42] Input-output data are taken from national accounts of the countries specified in the model. Applied tariff data are from 2012, but scheduled tariff reductions under various FTAs until 2025 are taken into account. Preferential tariffs are included in the tariff database. The tariffs are trade weighted.[43]

The economy of Vietnam and other countries has grown considerably since the 2007 base period. Real GDP has increased by 34% since then (IMF 2013). To reflect this growth the database is projected forward to 2015, 2020, and 2025 by adjusting land, labour, capital and productivity growth to hit historic and projected changes in GDP from 2007 to 2025. The Vietnamese economy is expected to expand by 103% by 2020 and 165% by 2025 (IMF 2013). Driving the change in output are changes in factors of production — capital, labour, land and natural resources — and productivity. Capital is projected to grow much in line with GDP, and in fact is the main driver. The population of 85 million in 2007 is expected to reach 100 million in 2025.[44] The labour force, reflecting the share of the population of working age, is projected to grow from 49 million in 2007 to 60 million in 2025 (ILO 2013). The amount of arable land available in Vietnam is expected to decrease by around 0.6% a year to reflect urban encroachment, roads and other infrastructure (NIAPP 2010). The remaining factor is productivity. This is difficult to measure and reflects a number of unobserved variables. To project the baseline to 2025, we first use forecasts of capital, labour, land and natural resources to 2025.[45] Next, we use the model to find productivity growth that will generate each year's GDP target, given the growth in factors of production. We then feed the resulting productivity changes back into the model and solve as normal to reproduce the target growth in output. This is done for all countries, because growth in all countries is necessary to generate demand for Vietnamese exports. The baseline not only projects GDP, but also provides estimates of growth in sectoral output and trade. For example, relative to 2007, exports are projected to increase by 51% by 2015, 89% by 2020 and 129% by 2025.

**Figure 20: Projected changes in Vietnam's GDP**




*Source: GTAP database and projections.*

[42] To the extent that the Vietnamese and other economies have grown since 2004, the estimated changes in values are underestimates. Nevertheless, most of the variables are reported in percentage changes, which are largely unaffected by a growing economy.

[43] Trade weighted tariffs suffer from an endogeneity problem. In the extreme, prohibitive tariffs have zero trade, and thus zero weights. For this reason trade weighted tariffs may be biased downwards. However, simple average tariffs also can be misleading.

[44] As of early 2014, the actual figure already exceeded 90 million.

[45] We set productivity endogenous and solve the model by varying it to hit each year's GDP target. We then swap the closure and feed back in the productivity changes as exogenous variables.

## *3. Scenarios*

As previously noted, this Section focuses solely on the impacts of phasing out tariff barriers under RCEP on Vietnam's economy. Impacts of commitments in other areas such as IPR, government procurement, state-owned enterprises, industrial relations, etc. are beyond the scope of this quantitative impact assessment.

From the discussion in Section II, on the basis of tariff line coverage (which can hide a lot of large peaks in the detail), the AANZFTA is currently the most ambitious of the ASEAN+1 FTAs with around 95% of tariff lines eliminated (Kimura 2012). ASEAN-India is the least ambitious at 77%. Some of the bilaterals are even more ambitious like the recent Malaysia-Australia FTA which is at 98%, rising to 99% in 2017 (Adams et al. 2013). This bilateral was not only ambitious on some sensitive goods like cars and rice but also provided some better concessions on services than under the ASEAN Framework Agreement on Services (AFAS). This might be the basis for a more ambitious RCEP scenario than the AANZFTA which would also have to include simpler (increase significantly the current per cent of tariff lines subject to a co-equal rule – encouragingly two thirds of tariff lines in the ASEAN+1's share at least one common RoO (Gupta 2014)) and more liberal RoOs (eliminate those at low MFN-bound rates and expand the scope of diagonal cumulation and outward processing schemes with the least restrictive value content rules (Gupta 2014)). Similarly, carve outs such as sensitive track etc. should reflect "exceptionalism", for as Gupta (2014) says "the Partnership is an exercise in negotiated liberalisation, not negotiated protectionism". As pointed out in Scollay and Trewin (2006), the carve outs show little rational determination, often being the same regardless of the partner, and protecting sectors where there is a comparative advantage, locking out some downstream processes like tea blending, and protecting sectors where there will never be any comparative advantage.

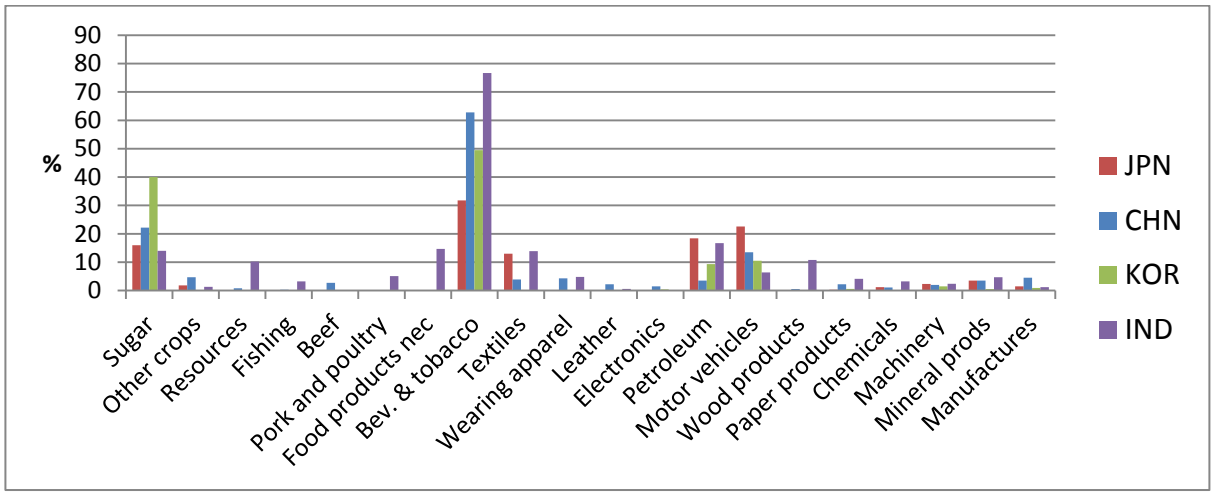
A pessimistic scenario would be reflected by India and Japan (the second least ambitious ASEAN+1 FTA) not meeting the ambitious tariff line coverage, or by China remaining committed to negotiating individual schedules of commitments for each ASEAN member. This might be captured by the least ambitious ASEAN+1 FTAs, both in terms of goods, services and investment.

In 2012, average applied MFN tariffs in Vietnam were quite low, at 10%, although agricultural tariffs are much higher, averaging 17 per cent. The highest is 135%, on some lines of alcohol and tobacco. There are also high tariffs on some textiles (100%) and motor vehicles (85%).

Preferential tariffs are somewhat lower, and scheduled to go lower still as the various FTAs are implemented. The expected tariffs on imports from each of the four main partners in 2020 are shown in Figure 21. All of Vietnam's negotiated FTAs have an element of back loading, with many tariffs phased in over ten years. Thus, in 2020 there is a cluster of high tariffs around beverages (alcohol) and tobacco, livestock products, some fruit and nuts, iron and steel, and motor vehicles and light machinery. The same products tend to be protected in each of the four agreements, although there is some variation. The tariffs on imports from India tend to be higher because this agreement is not very liberal and the entry into force is more recent.

With the exception of India, tariffs on imports into Vietnam tend to be greater than tariffs on Vietnam's exports. With respect to exports, average tariffs to the major destinations Japan and China are quite low but once again this hides some major peaks, such as rice in Japan, where the tariff is prohibitive.

**Figure 21: Bilateral tariffs on Vietnam's imports by source in 2020**




*Source: GTAP database and projections. Tariffs are effectively applied trade weighted.*

*Note: JPN: Japan; CHN: China; KOR: Korea; IND: India.*

The RCEP agreement is still under negotiation, but the expected tariff cuts and exemptions are based on existing agreements. After the tariff shocks are specified at a six-digit level and aggregated to 30 sectors, the simulated outcome is compared with the baseline data in 2020 and 2025. Impacts of the removal of trade barriers on output, trade flows, wages and welfare in Vietnam and trading partners can then be ascertained.

The scenarios involve three levels of ambition, labelled:

(i) Modest;
(ii) Ambitious; and
(iii) Free trade.

The Modest scenario involves applying to all RCEP members the most liberal FTA to date. For ASEAN countries this is AANZFTA. For Vietnam this implies 71 products at the six digit level that are unbound and another 49 that do not change. A listing by chapter is presented in Appendix table 2. In addition, there are another 71 items that don't change for ten years. The Ambitious scenario exempts only the exclusions and the Free trade scenario removes all tariffs on trade between member countries. Each country's tariff schedule would apply universally to all other member countries.

The scenarios also include partial reductions in the trade costs associated with services. The reductions are listed in **Error! Reference source not found.**below.

*Services*

In terms of the baseline for the scenarios, there are various measures of the restrictions or constraints on services liberalisation.

**Table 51: Service restrictions by ASEAN* and ASEAN+6 partners by mode and sector**

| ASEAN | Overall | Financial | Telecoms | Retail | Professional |
|---|---|---|---|---|---|
| Overall | 43.3 | 34.8 | 37.5 | 37.5 | 65.8 |
| Mode1 | 33.9 | 38.7 | | | 27.8 |
| Mode 2 | | | | | |
| Mode 3 | 42 | 34.8 | 37.5 | 37.5 | 60.8 |

| | | | | | |
|---|---|---|---|---|---|
| Mode 4 | 79 | | | | 79.2 |
| **Australia** | | | | | |
| Overall | 20.2 | 36.4 | 25 | 0 | 31 |
| Mode1 | 16.4 | 9.7 | | | 16.7 |
| Mode 2 | | | | | |
| Mode 3 | 18.8 | 43.5 | 25 | 0 | 15 |
| Mode 4 | 50 | | | | 50 |
| **China** | | | | | |
| Overall | 36.3 | 34.8 | 50 | 25 | 66 |
| Mode 1 | 39.2 | 71.8 | | | 0 |
| Mode 2 | | | | | |
| Mode 3 | 37.3 | 31.5 | 50 | 25 | 70 |
| Mode 4 | 75 | | | | 75 |
| **India** | | | | | |
| Overall | 65.7 | 48.1 | 50 | 75 | 87.5 |
| Mode 1 | 70.8 | 52.2 | | | 100 |
| Mode 2 | | | | | |
| Mode 3 | 69.3 | 50 | 50 | 75 | 100 |
| Mode 4 | 70 | | | | 70 |
| **Japan** | | | | | |
| Overall | 23.4 | 1.9 | 25 | 25 | 56 |
| Mode 1 | 36.6 | 19.4 | | | 66.7 |
| Mode 2 | | | | | |
| Mode 3 | 23.4 | 0 | 25 | 25 | 50 |
| Mode 4 | 60 | | | | 60 |
| **Korea** | | | | | |
| Overall | 23.1 | 2.3 | 50 | 0 | 66 |
| Mode 1 | 27.1 | 22.6 | | | 33.3 |
| Mode 2 | | | | | |
| Mode 3 | 21.3 | 0 | 50 | 0 | 60 |
| Mode 4 | 75 | | | | 75 |
| **New Zealand** | | | | | |
| Overall | 11 | 3.6 | 37.5 | 0 | 27 |
| Mode 1 | 7.9 | 12.9 | | | 0 |
| Mode 2 | | | | | |
| Mode 3 | 7.4 | 0 | 37.5 | 0 | 10 |
| Mode 4 | 50 | | | | 50 |

*Source:* World Bank (2014) Services Trade Restrictions Database (STRI) as at 8 April.

*Notes:*

(1) ASEAN is represented here by the average of Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam, the ASEAN Members which appear in the World Bank (2014), Services Trade Restrictions Database based on Hoekman (1995). Hoekman's approach was originally applied to GATS commitments with 3 broad categories of Completely opened, Major restrictions and Completely closed. In the STRI, the approach is used on applied services trade policies with restrictions derived in the case of OECD countries from publicly available information on policies (e.g. WTO reports on implemented regulations), and in the case of developing countries, from surveys of local law offices of information on legislated regulatory measures augmented by information on their implementation. This approach is not dependent on scarce information on service sector performance like measures which infer restrictiveness from the impact on some ideal performance outcome (assuming the restrictions are all that impacts on this performance (see, for example, Bosworth et al 1997, in respect of price impacts)).

(2) Mode 1 is Cross-border trade; Mode 3 is Commercial Presence; and Mode 4 is Movement of natural persons. The missing, less significant Mode 2 is Consumption abroad. Each mode in every subsector is scored in terms of the more sensitive 5 broad categories 0 (Completely open); 25 (Virtually open with minor restrictions); 50 (Major restrictions); 75 (Virtually closed with limited opportunities to enter and operate); or 100 (Completely closed), and these are aggregated into sectoral, modal or regional indices using specific weights (e.g. relative importance of modes in supply specific services, and sectors in terms of shares of value-added for an average industrialised country).

Because these service trade restrictions measures are based on applied restrictions (similar to actual rates of tariffs paid in goods), incorporating possible impacts from the implementation of FTAs plus unilateral liberalisation, they may capture impacts of FTAs overlayed with those of unilateral liberalisation, but are never more restrictive than measures from a similar approach comparing commitments of FTAs and the GATS.

There are a number of key points apparent in the above table, for example:

- Over all of the sectors and modes, ASEAN is more restrictive than the Plus-6 countries apart from India though China is only 6 points less restrictive;
- Over all of the sectors and in relation to individual modes, the same relationship as just described overall applies with mode 3;
- In mode 4, ASEAN is the most restrictive; Mode 4 is the most restrictive of all modes except marginally for India overall in respect of mode 1, and both mode 1 and mode 3 for Professionals, and Japan for mode for Professionals.
- ASEAN is more restrictive than Australia, Korea and New Zealand but less restrictive than China, India and Japan in mode 1;
- Turning to the sectors, Financial services have ASEAN more restrictive than Japan, Korea and New Zealand, equally so with China, and less restrictive than Australia and India, with mode 1 the main determinant apart from Australia where it is mode 3, which with Japan, Korea and New Zealand is completely open;
- Telecommunications services, only measured through mode 3, has ASEAN more restrictive than Australia and Japan, equally so with New Zealand, and less restrictive than China, India and Korea;
- Retail services, also only measured through mode 3, has ASEAN more restrictive than all the other partners apart from India, with Australia, Korea and New Zealand being completely open;
- With Professional services, ASEAN is more restrictive than Australia, Japan and New Zealand, and less restrictive than China, India and Korea. Professional services are the

most restrictive in all partners apart from Australia (Financials) and New Zealand (Telecommunications), and mainly in terms of mode 4 apart from India (modes 1 and 3) and Japan (mode 1);
- ASEAN's performance is fairly average in all modes and sectors apart from Telecommunications but the Plus-6 group of partners appear as mixed as the ASEAN ones, not only in terms of their development but also in terms of their restrictiveness.

As mentioned in the table notes, trade in services restrictiveness of commitments in FTAs were the initial application of the above approach (Hoekman (1995), and also PECC (1995)). Fukunaga and Isono (2013), in looking at taking ASEAN+1 FTAs towards RCEP, analyse AFAS and relevant ASEAN+1 FTAs with this approach (though having a scale where 1 is fully liberalised, 0.5 limited (but bound) and 0 unbound or government has not committed to liberalise – thus here it is the higher the figure, the more liberal the commitments). In the table "Total" means the score based on a simple average of the Hoekman Index derived from 155 sub-sectors, and "WTO-Plus" the difference between the commitments under the FTAs and those under the earlier GATs, meaning "additionality" to the WTO.

**Table 52: WTO+ in AFAS and ASEAN+1 FTAs commitments**

| | ***AFAS(5)*** | | ***AFAS(7)*** | | ***AANZFTA*** | | ***ACFTA*** | | ***AKFTA*** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Total* | *WTO+* | *Total* | *WTO+* | *Total* | *WTO+* | *Total* | *WTO +* | *Total* | *WTO +* |
| Brunei | 0.17 | 0.15 | 0.23 | 0.20 | 0.18 | 0.15 | 0.05 | 0.02 | 0.08 | 0.06 |
| Cambodia | 0.40 | 0.03 | 0.41 | 0.04 | 0.51 | 0..14 | 0.38 | 0.01 | 0.38 | 0.01 |
| Indonesia | 0.18 | 0.12 | 0.36 | 0.30 | 0.29 | 0.22 | 0.09 | 0.03 | 0.18 | 0.11 |
| Lao PDR | 0.09 | NA | 0.34 | NA | 0.24 | NA | 0.02 | NA | 0.07 | NA |
| Malaysia | 0.22 | 0.12 | 0.34 | 0.24 | 0.31 | 0.21 | 0.11 | 0.01 | 0.20 | 0.10 |
| Myanmar | 0.20 | 0.18 | 0.36 | 0.33 | 0.26 | 0.23 | 0.04 | 0.01 | 0.06 | 0.03 |
| Philippines | 0.22 | 0.12 | 0.33 | 0.23 | 0.26 | 0.17 | 0.11 | 0.02 | 0.17 | 0.08 |
| Singapore | 0.28 | 0.17 | 0.39 | 0.28 | 0.44 | 0.33 | 0.30 | 0.19 | 0.33 | 0.22 |
| Thailand | 0.30 | 0.07 | 0.50 | 0.26 | 0.36 | 0.12 | 0.25 | 0.02 | NA | NA |
| Vietnam | 0.30 | 0.04 | 0.38 | 0.11 | 0.46 | 0.19 | 0.34 | 0.07 | 0.32 | 0.05 |
| **ASEAN Av.** | **0.24** | **0.11** | **0.36** | **0.22** | **0.33** | **0.20** | **0.17** | **0.04** | **0.20** | **0.08** |
| Australia | | | | | 0.52 | 0.18 | | | | |
| New Zealand | | | | | 0.51 | 0.26 | | | | |
| China | | | | | | | 0.28 | 0.04 | | |
| Korea | | | | | | | | | 0.31 | 0.09 |

*Source: Fukunaga and Isono (2013)*

*Note: AFAS (5) and (7) are a sequence of regular ASEAN agreements on deeper services commitments.*

There was a significant movement between AFAS 5 and 7 with a shift from commitments in ASEAN being below those in AANZFTA to slightly above, offering gains to partners from negotiations based on AFAS 7 or better. AFS and AANZFA had the highest levels of WTO+, meaning that these FTAs had progressed most in terms of commitments beyond those in the

GATS. Included partners had all committed to higher levels of liberalisation than AFAS 5 but with AFAS 7, only Australia and New Zealand commitments are higher, offering gains to ASEAN in negotiations with these partners. ACFTA and AKFTA had small additional commitments over GATS on both sides. A similar situation applies with investment, where greater mobility was given to within ASEAN investment than to partners in ACFTA and AKFTA. Actual regulation is much more liberal than commitments, offering the possibility for higher liberalisation of commitments in the RCEP.

Ishido (2011) on which the above table was based, includes tables of the Hoekman Index on commitments for the same ASEAN-related FTAs by ASEAN Member and the relevant Plus-6 partners in terms of service sectors. No limitation (and bound) takes the value 1, Limited (or restricted) but bound 0.5 and Unbound 0 like Fukunaga and Isono (2013) so the higher the value, the more liberal the commitments.

**Table 53: Hoekman Indices (level of commitment) for AFAS, AANZFTA, ACFTA & AKFTA by ASEAN/partners & sector**

| ***FTA*** | ***Professional*** | ***Telecommunications*** | ***Distribution*** | ***Financial*** |
|---|---|---|---|---|
| AFAS | 0.39 | 0.46 | 0.40 | 0 |
| AANZFTA-ASEAN | 0.32 | 0.27 | 0.15 | 0.24 |
| -Australia | 0.61 | 0 | 0.58 | 0.13 |
| -New Zealand | 0.55 | 0 | 0.45 | 0.15 |
| ACFTA-ASEAN | 0.17 | 0.15 | 0.17 | 0.18 |
| -China | 0 | 0 | 0 | 0 |
| AKFTA-ASEAN | 0.30 | 0.30 | 0.28 | 0.33 |
| Korea | 0.45 | 0.5 | 0.39 | 0.16 |

*Source: Ishido (2011)*

AFAS has the highest commitment of ASEAN in these FTAs apart for Financial services. The ASEAN commitments under the various FTAs differ quite significantly, though only for the ACFTA under Professional services.

**Table 54: Reduction in services trade costs by scenario**

| | **2020** | **2025** |
|---|---|---|
| | *%* | *%* |
| Modest | 10 | 20 |
| Ambitious | 20 | 30 |
| Free trade | 30 | 30 |

*Source: Authors' designation.*

Each scenario involves an element of service liberalisation as shown in **Error! Reference ource not found.**. The degree of liberalisation is assumed to increase over the implementation period. Unlike trade in goods, impediments in the services sector involve

regulations rather than tariffs, so it is not always possible to model liberalisation by removing a tax. To do so would involve redistributing tax revenue that is not in fact collected. The approach taken here involves increasing productivity in bilateral trade between Vietnam and the partner countries. This implies that the reduction in Vietnam's trade costs benefits the RCEP members only, not other countries. This assumes if coastal shipping is opened up to third party service providers, only RCEP members can supply these services.

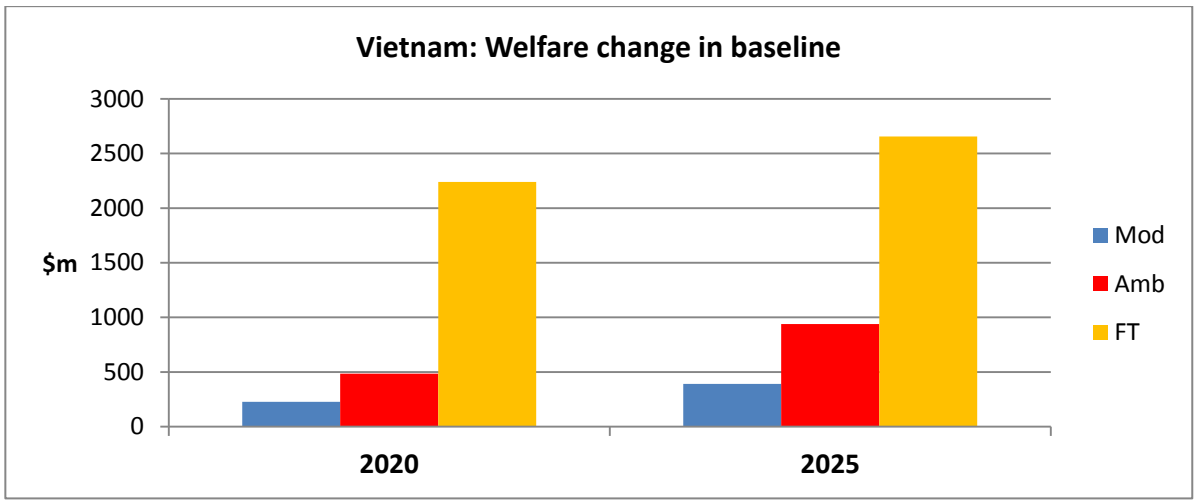
## *4. Simulation results*

### 4.1 Macroeconomic Impact Assessment

*Welfare*

The simulation results indicate that the benefits to Vietnam depend very much on the level of ambition. A modest outcome under a hub and spokes arrangement, considered the most likely result, may lead to estimated welfare gains in 2020 of USD227 million in excess of the base rate of growth, while an Ambitious outcome might generate additional gains of USD485 million. However, even an Ambitious outcome leaves much on the table due to the remaining exemptions. A Free trade outcome, removing all tariffs, plus a 30 per cent improvement in services, leads to gains of USD2,239 million. This is shown in **Error! Reference source not ound.**.

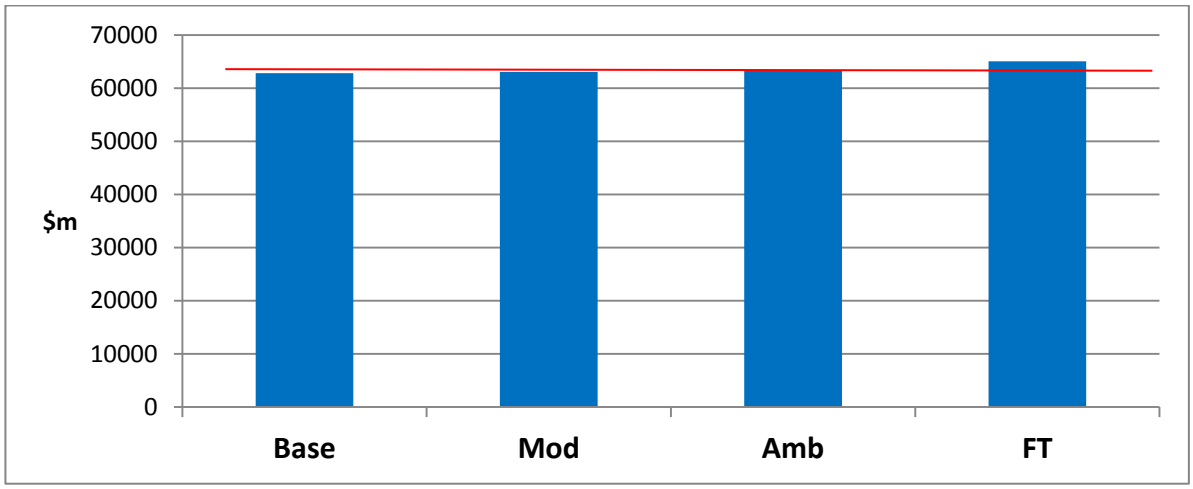
**Figure 22: Change in welfare from 2020 base**




*Source: GTAP simulation.*

These gains should be kept in perspective. Recall from Figure 20 that there is substantial growth in the economy over the implementation period. **Error! Reference source not found.**Figure 23 shows that the additional impact of the RCEP on the change in welfare since 2007 is marginal.

**Figure 23: Change in welfare in 2020 relative to 2007**



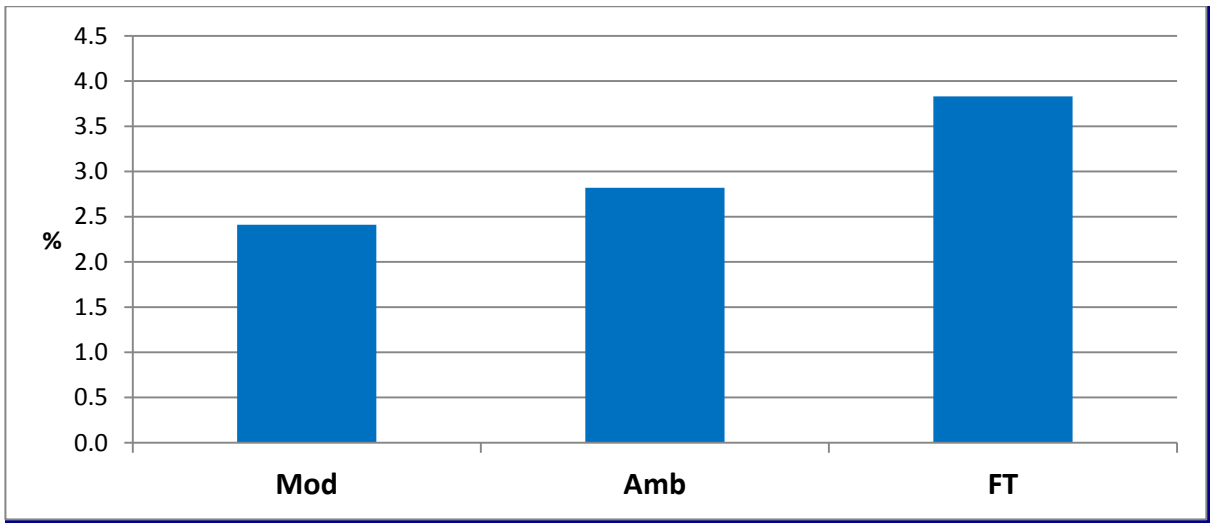

*Source: GTAP simulation.*

*Note: Base: Baseline scenario; Mod: Modest scenario; Amb: Ambitious Scenario; FT: Free trade scenario.*

*Exports*

The additional impact on trade of RCEP is also marginal. The change in Vietnam's national exports is shown in **Error! Reference source not found.**. These changes range from 2.4% to .9%. Exports are expected to grow by about 40% between 2015 and 2020 and as much again to 2025. In absolute terms, the largest increase in exports is directed to Japan and China, rather than Korea and India. However, there are also large increases in exports to the United States and Europe. This reflects removing tariffs on upstream imported inputs which makes exports more competitive. (The sectoral composition of exports will be discussed later.)

**Figure 24: Change in exports in 2020**




*Source: GTAP simulation.*

*Note: Mod: Modest scenario; Amb: Ambitious Scenario; FT: Free trade scenario.*

*Imports*

The impacts on imports are somewhat similar, although marginally greater, between 3.7% and 5.6%. The increase in imports is primarily from China and Japan, the largest of the six

non-ASEAN partners, and to a lesser extent, India. There are falls in imports from Korea and Australia, and only negligible gains in imports from New Zealand. There is quite an amount of trade diversion. The increase in imports from RCEP members is USD5.2 billion in 2020, but the total increase is only USD2.4 billion, implying a switch from other sources.

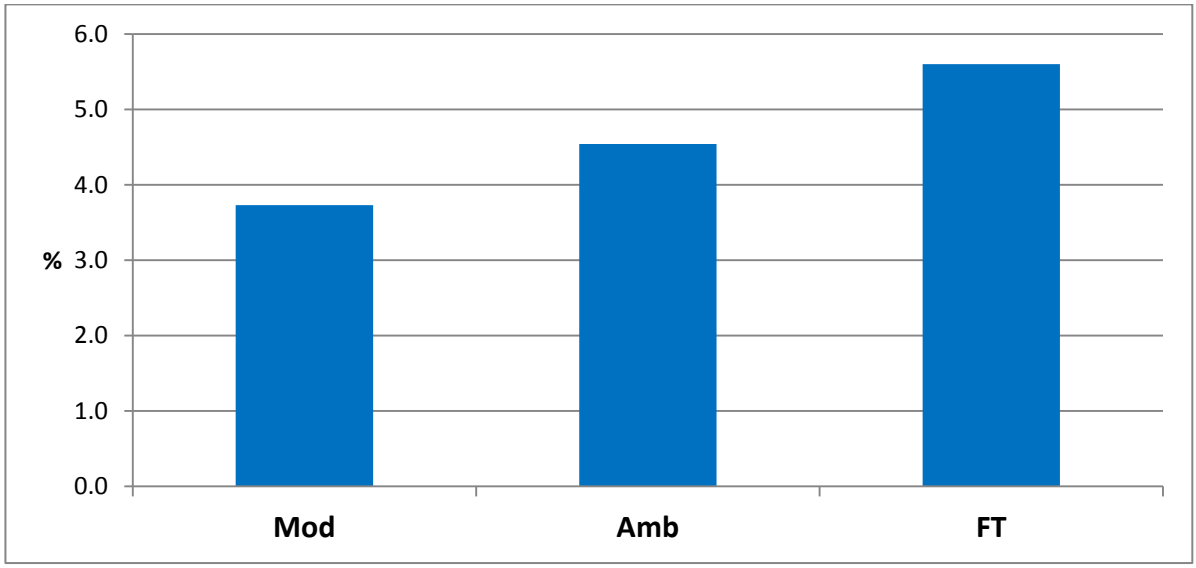
A problem for Vietnam is that tariff revenue is reduced, by some USD1.5 billion. Details of the switch in imports can be seen in table Appendix A3. Unfortunately, the reduction in revenue does not necessarily pass through to consumers, because Vietnam is no longer importing from low cost countries.

*The trade balance*

When tariffs are reduced, it is clear that imports will increase. However, this does not necessarily lead to a trade deficit. The key is what happens to exports. There are several factors influencing exports. First, the falling price of some imports lowers the cost of production of some exports, making them more competitive. Second, if government policies allow, the exchange rate will adjust to bring imports and exports into line. Vietnam does not have a floating exchange rate, so adjustment needs to occur in wages and employment.[46] Third, Vietnam's FTA partners are also cutting tariffs, so they will also increase their imports. Some of this increase will come from Vietnam. The balance of tariff cuts and initial trade flows will determine which countries experience deficits and which surpluses. Globally, surpluses and deficits must equate.

Vietnam normally runs a trade deficit, as do many developing countries. In the Modest simulation, the growth in imports (3.7%) outpaces the growth in exports (2.4%) and so the trade deficit worsens slightly as a result.

**Figure 25: Change in imports in 2020**




*Source: GTAP simulation.*

*Note: Mod: Modest scenario; Amb: Ambitious Scenario; FT: Free trade scenario.*

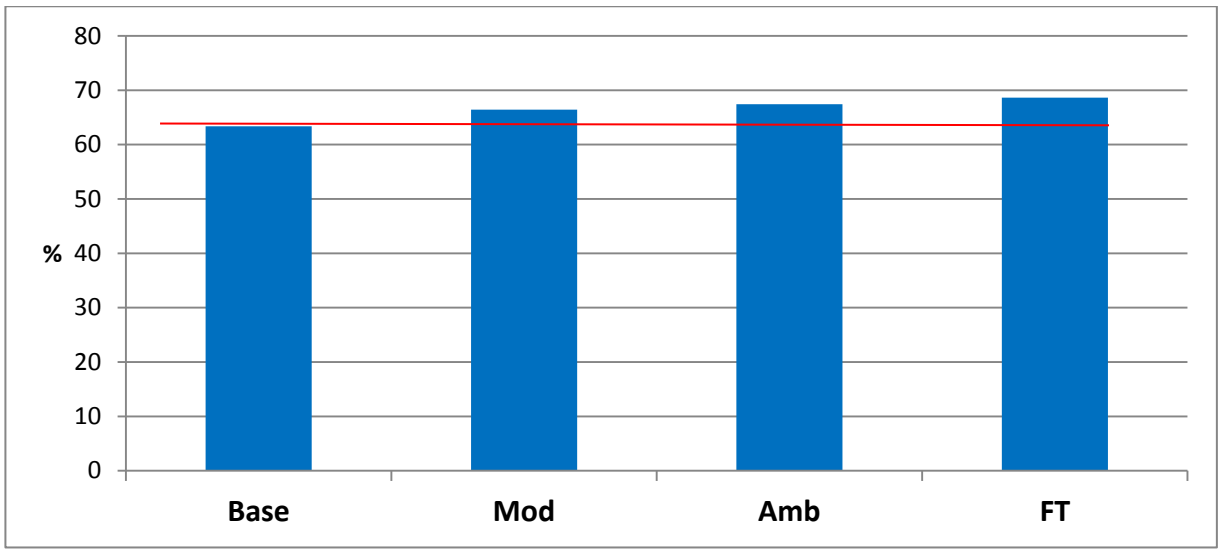
*Real wages*

The increased demand for labour intensive goods following trade liberalisation leads to an increase in both wages and employment of unskilled labour. The estimated changes in real wages are shown in Figure 26. Real wages increase with the expanding economy, and a

[46]Currently Vietnam implements a managed float, with the currency tied to the US dollar between adjustments.

Modest RCEP adds a further 3 per cent. The Free trade scenario generates real wage growth of 5% over and above the baseline.

**Figure 26: Change in real wages in 2020**




*Source: GTAP simulation. Change relative to base in 2007.*

*Note: Base: Baseline scenario; Mod: Modest scenario; Amb: Ambitious Scenario; FT: Free trade scenario.*

In summary so far, the macroeconomic results from the simulations indicate positive benefits for Vietnam from deepening the current hub and spokes arrangements. The estimated gains are small relative to the growth in income that can be expected in the absence of an RCEP, but significant enough to negotiate.

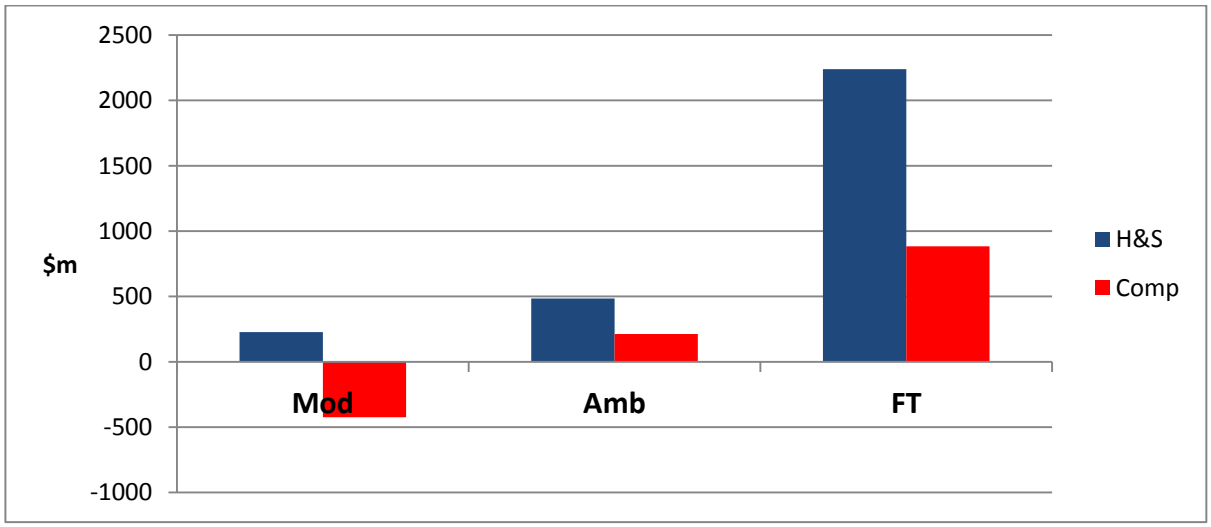
Nonetheless, there are two concerns. The first is possible trade diversion if RCEP involves the removal of trade barriers between non-ASEAN RCEP members, particularly Japan and China. The second concern is structural adjustment if some sectors, such as the Vietnamese sugar sector, suffer from competitive pressures. The first issue is examined next.

*A Comprehensive RCEP*

Under a comprehensive RCEP scenario, the tariff reductions would apply on trade between the six non-ASEAN members, that is, Australia, New Zealand, China, India, Japan and Korea. This is an important difference because it allows for trade diversion away from Vietnam when Japan and Korea open their markets to China in particular. If the trade diversion exceeds the trade creation effects the liberalisation will have a net negative impact on Vietnam. Whether this is the case or not depends on the specific details of the tariff cuts, and it appears that Vietnam would experience a welfare loss with modest reform but net gains with more ambitious liberalisation (Figure 27). This is because it is assumed under the Ambitious scenario Japan and Korea will open up their restrictive markets for agricultural products and textiles and apparel. At a more modest level, China gains from obtaining the preferential access that the ASEAN countries have negotiated with Japan and Korea.

These estimated welfare gains are shown in Figure 27 relative to the base in 2020.

**Figure 27: Change in welfare from 2020 base: comprehensive versus hub and spoke**




*Source: GTAP simulation.*

*Note: Mod: Modest scenario; Amb: Ambitious Scenario; FT: Free trade scenario.*

The problem for Vietnam is competition from China for access to markets in Japan and Korea. Vietnam currently has preferential access thanks to ASEAN FTAs with these countries, not to mention the on-going negotiation of bilateral FTA between Vietnam and Korea. These preferences would be eroded by a comprehensive RCEP. Vietnam's exports would increase by only 2.3% compared with 3.8$ in the hub and spokes scenario described earlier. Comparing the two scenarios, Vietnam's exports less to Japan and Korea and more to traditional partners the United States and the European Union, whereas China's exports would increase by 10% rather than 1%.

Japan and Korea would benefit from such an outcome, which includes liberalisation of their agricultural sectors. China gains from improved market access.

## 4.2 Sectoral Impact Assessment

Policy makers are sometimes reluctant to remove tariffs because of the possibility of falls in output and employment in some industries, particularly if these industries are concentrated in specific locations or particular groups. The most protected sectors in Vietnam are agriculture, textiles and motor vehicles. This section focuses on the impacts of RCEP on trade and output by sector.

Before considering the results, three points are worth keeping in mind. First, the sectors are somewhat arbitrarily defined. If we divided the 30 sectors into 5000 products, there would undoubtedly be greater variation, with greater expansion and contractions of output. Some industries, such as the Vietnamese wine industry, may shrink. This is not identified here.

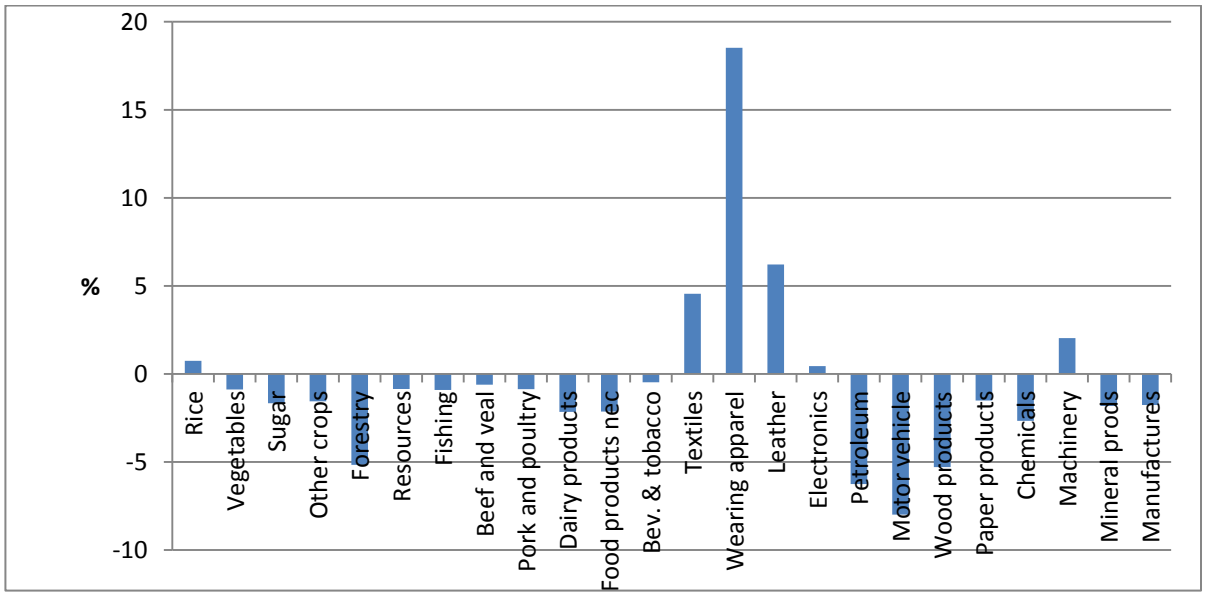
A second point is the sectoral changes occur against underlying growth, just as for the economy as a whole. For example, the rice sector is expected to expand output by 75% from 2007 to 2020 and by 113% in 2025. Against this expansion, a 5 or 10% contraction is easy to accommodate. The adjustment pressures are quite different because they do not involve the unemployment of labour or the writing off of capital.

A final consideration is the constraints imposed by general equilibrium analysis. Because each sector uses capital, labour and, perhaps, land, and these factors are in limited supply, an

expansion of one sector necessitates a contraction in others. Notwithstanding the previous point about underlying growth, the sectors compete with one another for these factors.

The changes in output are relatively modest. **Error! Reference source not found.** shows the hanges in merchandise output in each sector in 2020 relative to the base in that year for the Modest hub and spoke scenario. In percentage terms, the major expansion is in textiles, apparel (clothing) and leather (footwear). These changes are also large in value terms, as these are major industries in Vietnam. Apart from apparel, the changes in output are rather small, less than 5% in most cases. There is a contraction in most industries to release resources for the expanding industries. This occurs in agriculture where a small change in rice production accounts for a more sizeable reduction in other crops because rice is by far the largest sector.

**Figure 28: Change in output from 2020 base: Modest scenario**




*Source: GTAP simulation.*

Changes in output are partly determined by changes in imports and exports, which in turn are driven by changes in tariffs in Vietnam and of its trading partners. The changes in imports and exports in 2020 under the three scenarios are shown in Appendix tables A5 and A6. As with the macro changes, at the sectoral level the most noticeable features are the continued growth in trade, and relatively marginal changes as a result of the RCEP. For imports, the RCEP has a positive effect on almost all sectors, whereas for exports RCEP has a negative impact on many sectors, including most agricultural sectors except rice. This is shown in Figure 28.

Next we look in more detail at the agricultural, industrial and service sectors for each of the three levels of ambition.

*Agriculture*

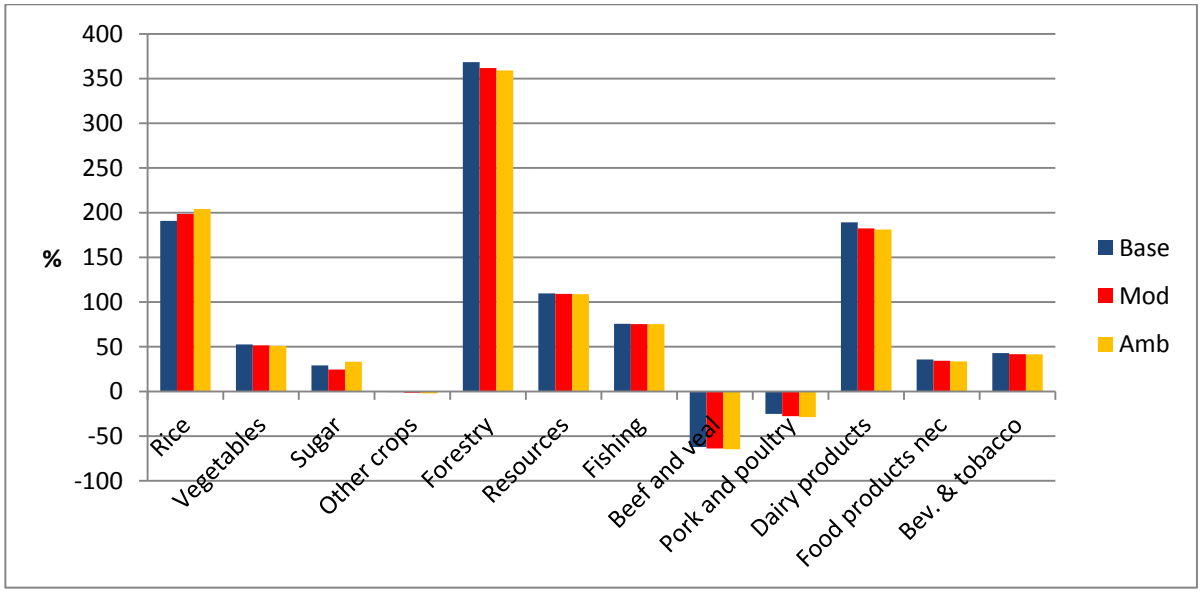
In the agricultural sector the estimated impacts are predominantly driven by two tariff lines, Japanese rice and Korean cassava. Under the Free trade scenario, these large tariffs are removed. The Japanese have not opened their rice market, and the tariff remains prohibitive. Although the Japanese tend to prefer the Japonica rice variety in contrast to the tropical Indica variety grown in Vietnam, this represents a substantial market if access could be provided. Vietnam exports cassava to Korea, where there is an outquota tariff of 887%. If this was removed Vietnam could export much more, but this would require a decrease in output of other crops that compete for land. Cassava is in the sector ‘Vegetables, fruit and nuts”.

Figure 29 shows increases in exports of such products as rice, vegetable exports, forestry and dairy products, etc. Some products may experience a contraction of exports, with the contraction being more significant under more the more ambitious liberalization scenarios. However, the Modest scenario is the more likely outcome.

On the defensive side, livestock products (meat and dairy) currently enjoy a high level of protection, although some of this is scheduled for removal under the existing FTAs. Further liberalization of these products may entail costs to Vietnam. Specifically, the economy may see a contraction in exports of beef and veal, pork and poultry.

Another sensitive sector is alcohol and tobacco. Tariffs are very high. There is an argument that the high tariffs are to discourage consumption because of the health benefits of doing so, but the low taxes on domestic production undermine this argument. A better policy would be to remove the tariff and place tax on all consumption.

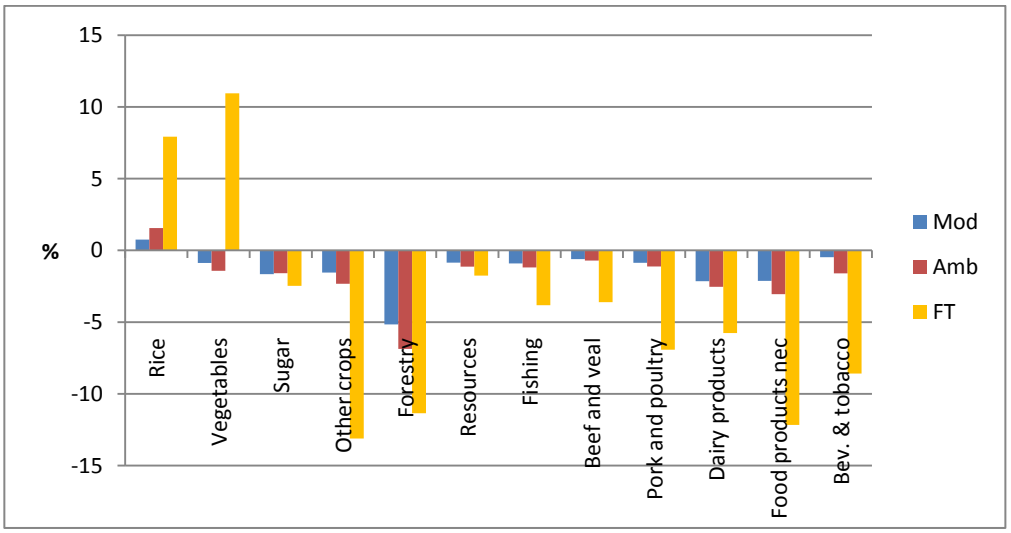
**Figure 29: Change in agricultural exports in 2020 base**




*Source: GTAP simulation.*

***Note: Base: Baseline scenario; Mod: Modest scenario; Amb: Ambitious Scenario.***

**Figure 30: Agriculture: Change in output from 2020 base**




*Source: GTAP simulation.*

*Note: Mod: Modest scenario; Amb: Ambitious Scenario; FT: Free trade scenario.*

**The changes in agricultural output are shown in**

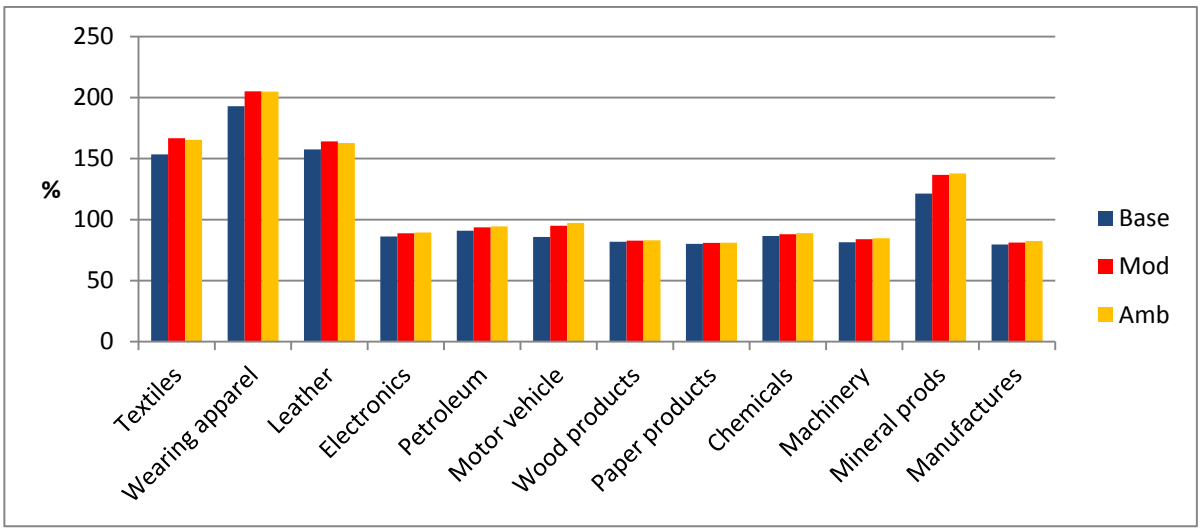
Figure 30. In contrast to the previous figure, this shows the changes from the 2020 base, excluding the growth from 2007. This highlights the negative impact of RCEP relative to the baseline. The Free trade scenario shows much greater changes than the more likely scenarios, highlighting the importance of the exemptions.

*Industry*

The industrial sector is also sensitive, particularly motor vehicles and components. The changes in Vietnam's imports of industrial products are shown in Figure 31. In this case the contribution of RCEP is generally to increase imports. These changes reflect reductions in import tariffs, although increased exports of apparel contributes to an increase in imports of textiles as an input in production.

On the export side the largest changes are for textiles, apparel and mineral products. The potential markets are Korea for textiles and Japan for apparel.

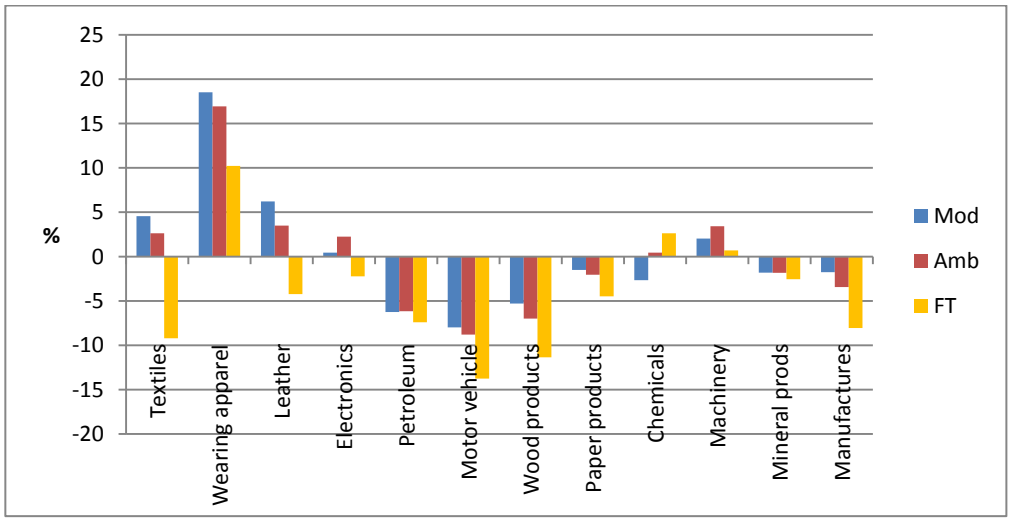
**Figure 31: Change in industrial imports in 2020**




*Source: GTAP simulation.*

***Note: Mod: Modest scenario; Amb: Ambitious Scenario; FT: Free trade scenario.***

**Figure 32: Industry: Change in output from 2020 base**



*Source: GTAP simulation.*

*Note: Mod: Modest scenario; Amb: Ambitious Scenario; FT: Free trade scenario.*

**The impacts on output are less significant than the changes in trade (**

Figure 32). Output of most goods is expected to increase sharply regardless of the RCEP, thanks to negotiated tariff reductions and expansion of foreign markets. To accommodate this expansion, factors of production need to be drawn out of other sectors. The most obvious sector is motor vehicles, which is subject to contraction, relative to the baseline, if the high tariffs are removed. Other manufactures and mineral products are also in line for a slight contraction in relative terms.

*Services*

Services contribute about one third of GDP, although the contribution to trade is only about ten per cent. For the GTAP simulation services are divided into six sectors — transport, communications, retail trade, finance and insurance, other business and other services. By far the biggest sector in Vietnam is 'Other services', which includes Government services, followed by the retail and wholesale trade.[47]

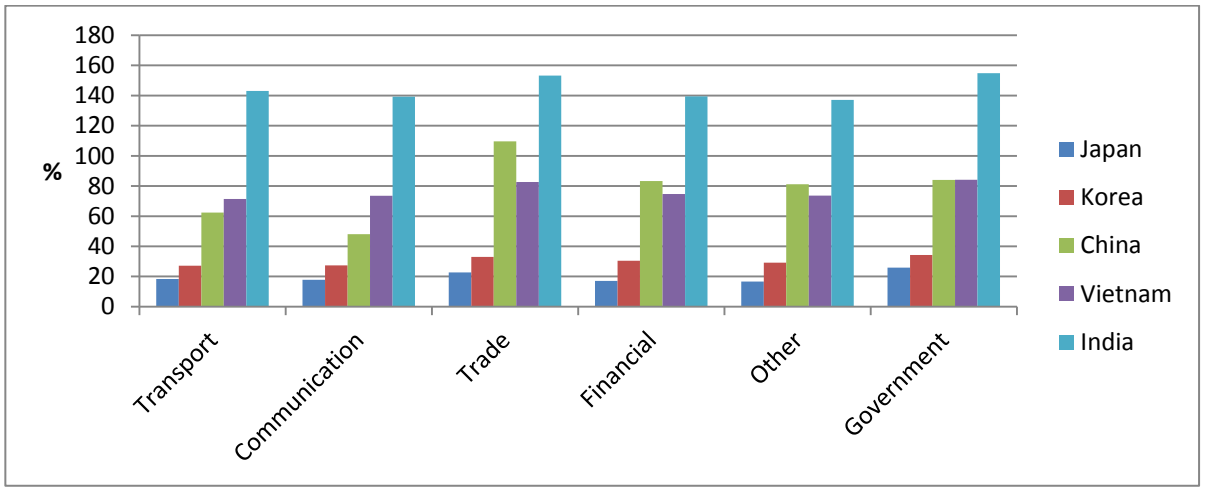
The trade costs themselves vary greatly across countries (Figure 33). Japan and Korea have quite liberal service sectors, whereas China and India have relatively more restrictions. In addition, there is some variation between specific sectors. In Vietnam, for example, coastal shipping is quite restrictive, whereas airlines are more open. Nonetheless, the general trend is relatively low barriers across the board in the more developed countries.

The trade costs used here, from Lee and Itakura (2013), are estimated using a gravity model. Such models estimate the level of bilateral trade that can be expected given each country's national income and the physical distance between them and a variety of other factors such as a common border and language and other factors. Where trade flows are less than expected, the difference is attributed to impediments. These are then converted to tariff equivalents, which can then be fed into the model. As mentioned, the removal of trade costs are modelled as bilateral productivity improvements, so tariff revenue is not removed.

Like goods trade, services trade is also subject to competition and trade diversion, and from resource constraints that imply the expansion of one sector requires a contraction of others to release capital and labour.

[47]As with goods, the classification is somewhat arbitrary, so it can be misleading to classify one sector as the largest.

**Figure 33: Services: Trade costs**

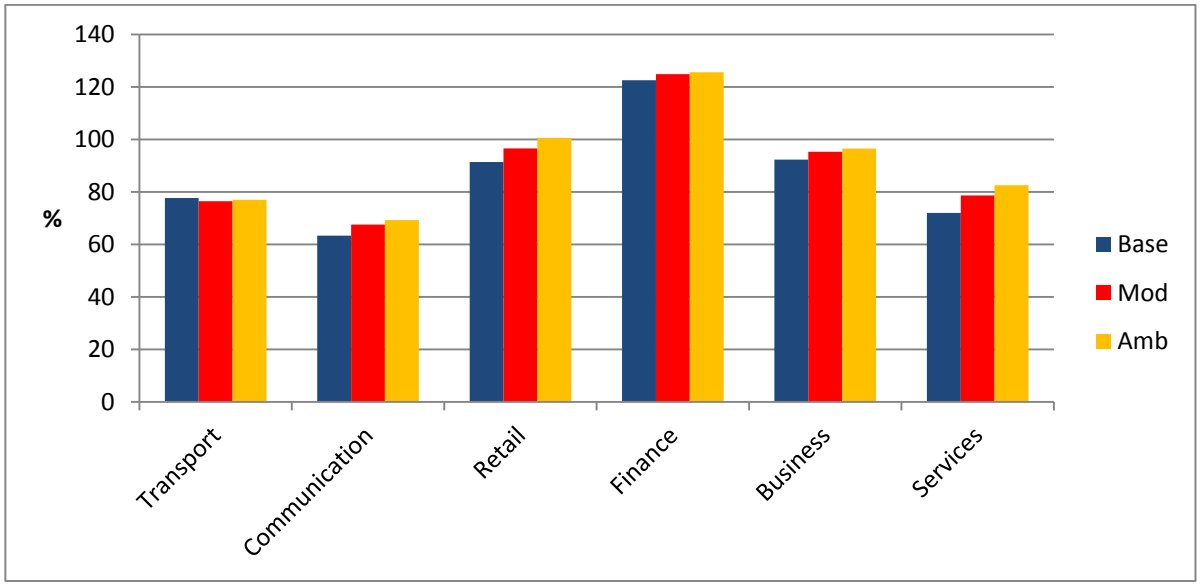



*Source: Lee and Itukara (2013)*

The reductions in trade costs are assumed here to be the same in each of the six service sectors. For example, there is a 10% reduction in trade costs for the Modest scenario in 2020. The results are shown in figure 26. The impacts are rather linear because the increased level of ambition involves 10%, 20% and 30% reductions.

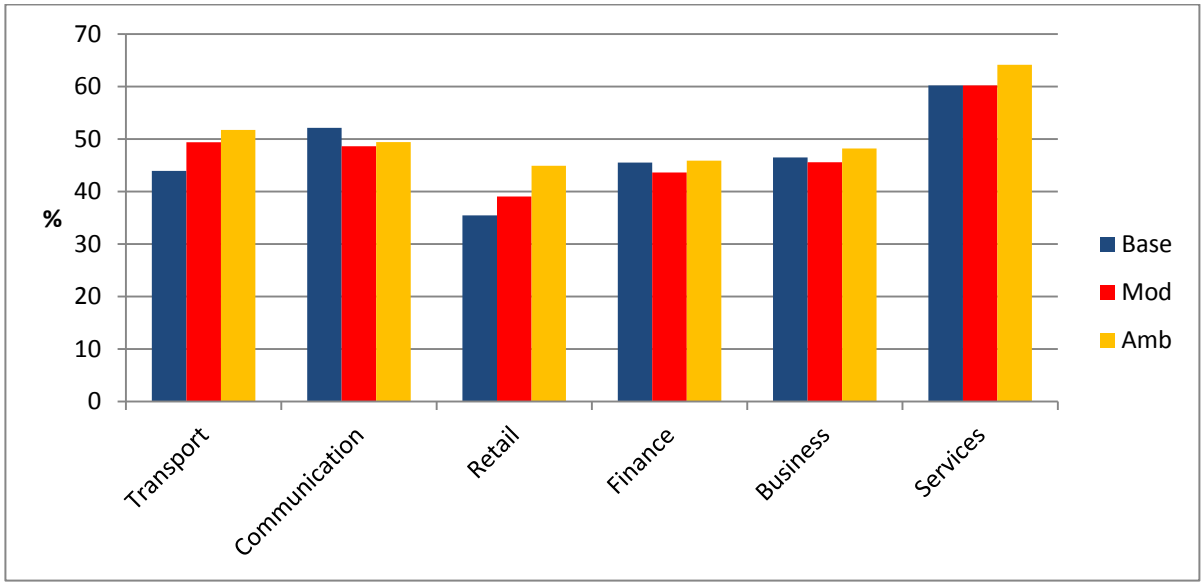
The changes in output are driven by changes in imports and exports of services. For Vietnam there is an increase in imports of all sectors except transport (Figure 34). There is also an increase in exports of transport services and trade, but a contraction of the other sectors (Figure 35).

**Figure 34: Change in services imports from 2020 base**




*Source: GTAP simulation.*

***Note: Base: Baseline scenario; Mod: Modest scenario; Amb: Ambitious Scenario.*Figure 35: Change in services exports from 2020 base**



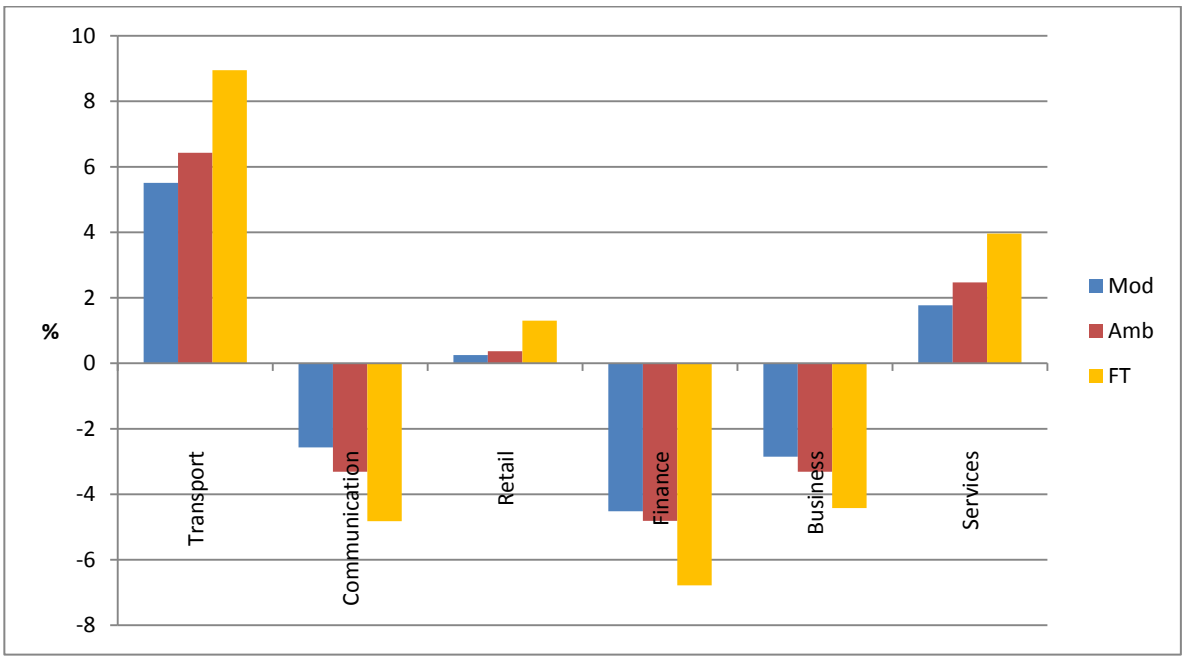

*Source: GTAP simulation.*

*Note: Base: Baseline scenario; Mod: Modest scenario; Amb: Ambitious Scenario.*

The resulting changes in output in the services sector are generally less than five per cent (Figure 36). In percentage terms the largest changes are in transport and this reflects reforms in other countries rather than in Vietnam. In Japan and Korea the trade costs are small but the potential market is large. However, transport is quite small relative to 'Other services', and changes here represent the largest impacts in absolute terms.

On the negative side the simulations suggest a decrease in output in communications, finance and insurance and business services relative to the baseline. This reflects the reduction in trade costs in Vietnam in these sectors, but little improvement in the partner countries.

**Figure 36: Services: Change in output from 2020 base**




*Source: GTAP simulation.*

*Note: Mod: Modest scenario; Amb: Ambitious Scenario; FT: Free trade scenario.*

The estimates of impacts of service liberalization are somewhat circumspect. First, the trade costs are difficult to measure, because the restrictions often involve a number of regulations. Some of these may not be binding, so their removal may have no impact. Second, it is not clear whether the impediments to trade would have bilateral or multilateral impacts. This is important for trade diversion. Third, the assumption here is that there would be a 10, 20 or 30 per cent reduction in trade costs. These reductions are arbitrary.

*

* *

In summary, the CGE analysis illustrates several points. The Vietnamese economy will continue to expand even in the absence of a RCEP agreement. Over the implementation period, say ten years, the economy is likely to double. Upon implementation, the RCEP would make a small but positive contribution to growth.

Vietnam already has a bilateral FTA with Japan, while the another one with Korea is to be signed at the end of 2014. Such preferential access would be eroded if China gained such access, as might happen if RCEP was truly comprehensive. China would compete with Vietnam and other ASEAN countries in supplying textiles, processed food and feed to Korea and rice and apparel to Japan. Vietnam may well lose from such an arrangement.

The level of ambition matters. Because exports tend to be concentrated in a few commodities, a few peak tariffs can prevent a large share of imports. The Free trade scenario appears to generate greater gains, and greater adjustment than the more likely Modest outcome.

The model used here is recursive dynamic, and excludes some of the so-called dynamic gains from improved competition, investment, technology transfer and trade facilitation. Other authors have shown that these effects can make a large contribution to welfare gains, although the specification of the appropriate shocks is uncertain.

The analysis also assumes that any agreement will be implemented as specified here. In reality non-tariff measures may prevent further meaningful liberalization as desired in implementing the existing and future FTAs.

Finally, some tariffs may be prohibitive, and it is not clear at what point they are no longer so. It is in this respect that the gains from tariff reform are overstated. Japanese rice is a particular example. As always, modelling results should be treated with care.

The CGE is subject to several limitations. First, it automatically assumes some changes in production and consumption behaviors in the face of tariff changes (and thus relative prices), whilst ignoring some practical factors which may affect the FTA utilization instead. In fact, various studies (such as ERIA 2013; Tran 2012) have shown that the FTA utilization by Vietnam's enterprises differed markedly across the ASEAN FTAs and can be below 50%. That is, actual changes in production and consumption behaviors may vary from those projected by the model.

Second, institutional improvement is hardly incorporated in the model. The experience of Vietnam after the WTO accession shows that the impacts were consistent with ex-ante analyses in terms of direction, yet the scale of impacts were far larger than the projections as they were magnified by the institutional changes in the country.[48]

Third, the scenarios are quite useful in the sense that they help focus on the impacts of the RCEP without taking account of the range of other FTAs that are being negotiated. Still,

[48] For more elaborated discussion, see Vo and Nguyen (2009), CIEM (2010).

interactions between RCEP and other important FTAs such as TPP and EVFTA may have significant impacts on the projected changes of key economic variables in the model. However, this issue could be addressed in the future studies.

# V. POLICY RECOMMENDATIONS

This Report builds off the 2010 FTA-HOR report of MUTRAP by incorporating its methodology and structure. In that report, there were a number of key points relevant to future negotiations identified, including from stakeholder interviews, which are also relevant to the viable implementation of the RCEP. It has been four years since the completion of the 2010 report and there have been a number of important dynamic developments that need to be incorporated into the points, for example the implementation of several regional trade agreements like the RCEP along with more bi-laterals, some small glimmers of hope from the WTO on a few issues like trade facilitation but then this being threatened by a handful of members (e.g. India), extension of the highly successful ITA being similarly threatened, and fewer instances of unilateral liberalisation (e.g. Australian autos following the departure of several carmakers from Australia due to a lack of scale, export competitiveness, etc).

The previous analyses show that the RCEP can be beneficial for Vietnam in several aspects. Overall welfare is expected to rise, though being subject to the extent of Vietnam's own liberalization efforts as well as enhancement of access to other RCEP markets. A range of benefits, especially in terms of export growth and employment, may also be evident in a number of sectors and sub-sectors, including agriculture-forestry and fishery, industry and services. More importantly, the RCEP is expected to add a substantial ingredient to strengthening the production networks in the ASEAN+6 region, which is still an on-going process. At the same time, the RCEP constitutes an effort toward multilateralizing the process of comprehensive trade and investment liberalization, in the context of other multilateral frameworks such as the Doha Development Round not progressing as rapidly as expected. Accordingly, the question is not whether Vietnam should join the RCEP, but how to undertake its own and joint efforts in order to facilitate the conclusion and implementation of the agreement itself.

The projected benefits of the RCEP have several explanations. *First*, the RCEP comprises of many important economic partners of Vietnam such as China, Japan, Australia, and ASEAN. These also represent the markets for major export commodities of Vietnam, and access to the markets may be enhanced thanks to more meaningful tariff reductions, service trade and investment liberalization. *Second*, FDI inflows to Vietnam are expected to increase considerably in certain sectors so as to take advantage of the new opportunities and incentives induced by the RCEP. In particular, FDI projects from many advanced partners may bring about substantial positive spillover impacts, including transfer of technology and management know-how of relevance to Vietnam's absorptive capacity. *Finally*, the fulfilment of RCEP commitments will help build a transparent and competitive investment environment in Vietnam, thereby facilitating the efficient allocation of capital resources.

The above analyses, still, fail to incorporate consideration of several factors. *First*, the structure of the RCEP remains unclear at this stage, especially in terms of membership as well as the stated centrality of ASEAN. While possible changes in membership present a small issue, the hub-and-spoke structure in which China, Japan and Korea do not liberalize among themselves is essential to the welfare improvement of Vietnam. *Second*, the analyses assume a gradual approach, with initial progress expected to be in liberalizing trade in goods and trade in services. The outcomes may thus be altered if the RCEP rests instead on a single-undertaking approach, though the chance of this is appears rather small considering ASEAN's traditional FTA process. *Third*, the analyses exclude other on-going FTA processes such as the TPP, the ASEAN-EU, and the TTIP, etc. which may add further complications to the patterns of trade creation and trade diversion effects. In fact, the RCEP is arguably a process to rival the US-driven TPP and the contents of RCEP negotiations also seem to await progress in the TPP itself. Therefore, excluding the TPP may actually cause a

neglect of interesting factors affecting the RCEP process. *Finally*, the net benefits may even be magnified if Vietnam undertakes relevant reforms (including institutional ones), including both horizontal and sector-specific policies. These policies could hardly be analyzed in full, even qualitatively. As the lesson for Vietnam after 7 years of WTO membership, opportunities may instead become challenges in the absence of appropriate macroeconomic policy responses and necessary domestic reforms.

Bearing in the above exclusions in mind, this Section proposes several recommendations as follows:

## *1. Horizontal Policy*

*First*, the Government should further enhance information dissemination of the RCEP to facilitate deeper involvement of the relevant stakeholders in the RCEP process. The business communities and their employees need to have better understandings and knowledge of possible RCEP commitments, associated opportunities and challenges upon implementing these commitments. For other sectors that need rapid improvement of competitiveness, such as SMEs in rural areas, labour-intensive enterprises, etc., better understandings and knowledge may prove to be vital. At the same time, effective sharing of information on the RCEP and associated policy changes between line ministries, authorities, localities and enterprises needs to be ensured. In return, Vietnam should make wider use ofthe participation of private sector, sectoral associations, socio-political organizations and the people in the RCEP process, not only at the implementation stage but even at the negotiation stages as well.

*Second*, Vietnam should accelerate business environment reforms for a more favorable business environment. Resolution 19 in early 2014 represented an attempt to revitalize the reforms of administrative procedures, but should be materialized via further concrete and effective measures to enhance the ease of doing business for entrepreneurs. At the same time, the transparency of the legal system, policies, plans, development strategies at the sectoral, subsectoral, product and local levels should be enhanced. Merely focusing on technical measures[49] to improve rankings in terms of global competitiveness indicators (such as ease of doing business indicators of the World Bank) is by no means sufficient; in fact, such measures must be inclusive and beneficial to the enterprises, at least in their belief.

*Third*, Vietnam should further enhance competitiveness so as to take advantage of opportunities[50] arising from the RCEP, in particular the international economic integration process. Improvement of competitiveness should take place simultaneously at national, enterprise and product levels. Strengthening production capacity and exports of domestic enterprises, promoting the development of supporting industries and improving product quality may present other directions of policy efforts so as to ensure Vietnam can benefit more from engaging in the RCEP-induced production networks. Focusing solely on price competitiveness may not be viable in the long-term; instead, Vietnam should pay greater attention to improvement of product quality, which in turn may require extensive use of advanced technology. It should be noted that improvement of competitiveness should take place boldly and comprehensively right from the initial stage of implementing the RCEP (and other FTAs), even though Vietnam may be given special and differential treatment (SDT).

*Finally*, other supporting policies for enhanced competitiveness should also be implemented. The restructuring of the financial and banking sector should be accelerated to minimise

[49] Such as those to reduce the number of administrative procedures related to business and investment activities without caring about fundamental benefits driven by abolishing such procedures.
[50] Particularly in terms of access to foreign markets, foreign resources (capital, skilled labours, technology), etc.

systemic risks for production and trade activities. Measures to selectively attract FDI inflows should also be enforced,[51] whilst managing sudden changes (even reversals) of capital flows, especially short-term ones. Besides, cost-effective hard and soft infrastructures should be developed to reduce costs of production and doing business. Enhancing both institutional and physical connectivity for domestic products and services to participate in the regional linkages should be deepened. Reducing behind-the-border barriers to trade and accelerating trade and investment facilitation may also serve to enhance domestic and international connectivity, whilst ensuring a credible pressures to domestic enterprises to fundamentally innovate.

## *2. Incorporating RCEP in a harmonized FTA policy*

From the experience over the past three decades of economic reforms in Vietnam, pursuing further trade and investment liberalization under comprehensive FTAs such as the RCEP – as other frameworks for universal liberalization such as the WTO is not making sufficient progress – continue to be beneficial, subject to the right design and implementation.

As mentioned above, the right design of an FTA determines beforehand whether the arrangement will deliver *ex post* benefits or not. There have been a number of recent references to design characteristics that make one FTA better than another (see for example World Bank 2005, RIRDC (2005), APEC 2006, PECC 2006, PC 2010, Hill and Menon 2010, and MUTRAP 2010). A number of researches, including this one, show that open regions perform better. The RCEP, as a materialization of "open regionalism" in which preferences are multilateralized and rules of origin made least restrictive, creates more efficient trade through access to competitive low cost suppliers and production network, avoiding trade diversion and adverse terms of trade, and results in a domestic economy that is better placed to compete in an increasingly integrated world market. The arrangement may also help avoid the low utilization rates that are currently exhibited in the ASEAN FTAs via integration of the wider, more harmonized and more comprehensive regional production network.

A comprehensive agreement is another important design feature. Again, liberalization in selected aspects such as trade in goods and trade in services may actually lead to the benefits to participating parties being undermined due to distortion to the margin of preference that are not necessarily compliant with their long-term interests. At the same time, failure to attain comprehensive liberalization may showcase the lack of mutual respect and confidence among the participating parties, even in the context of FTA negotiation and implementation. Sensitive sectors should not be those where Vietnam has a comparative advantage and making them sensitive would lock them out of global supply chains (e.g. raw and processed shrimp), nor should they be those that will never have a comparative advantage (e.g. wine) and withhold resources from those that could have (e.g. fruit and vegetables). Many services are embedded in goods trade and Vietnam needs to "import" efficient services if it cannot supply them as this would benefit the overall economy rather than just vested interests in some service sectors by not doing so. Furthermore, for Vietnam a broad coverage of agricultural trade liberalization may be beneficial, but the benefits should be magnified if commitments related to services trade liberalization, trade facilitation and quality standards that will not be restricted are achieved. In this respect, the single-undertaking approach may offer the best solution, despite taking more time. The traditional gradual way of FTAs in ASEAN may also work, so long as the participating parties set out a credible agenda and coverage of areas for liberalization. Similarly, exemptions and/or special and differential

[51] Apparently, such selective attraction can not violate the WTO rules and principles (especially MFN principle). Whilst allowing for FDI in a range of sectors, Vietnam should align FDI into a shorter list of industries/products where strategic attempts for development should be prioritized.

treatment (SDT) need to be phased out after a credible deadline to ensure that the benefits of FTAs and associated reforms are not foregone.

The same justifications of need also applies to the implementation of the RCEP, for failure to materialize commitments "on paper" may cause reduction, even reversal, of expected benefits. Tariff reductions may take place and be meaningful only if these are not *intentionally* replaced by restrictive non-tariff barriers such as restricting points of entry, quota, tariff quota or custom clearances, since the implications for protecting the domestic industries would otherwise prevail. Addressing short-term adjustment costs is no easy task; yet the political will is in this case required so long as those short-term costs can be exchanged for greater good in the longer term. Building consensus for understanding, accepting and implementing the RCEP is therefore an important line of efforts.

Path dependence is another aspect that should be carefully considered. If capital investments are made on the basis of preferences and these disappear, as they invariably do, then the residual capital could be wasted (MUTRAP 2010). Avoiding path dependence is hardly possible. It should be noted, however, that the adjustment costs can be minimized if the sequence of FTA negotiation and implementation can be transparently communicated to the society so that the relevant decisions can be made at various levels. Besides, harmonization of commitments under various integration arrangements proves to be critical, as compliance costs for firms to enjoy benefits from these arrangements may otherwise be immense. An advantage to Vietnam is that the level of commitments under the WTO is already high, so the marginal changes under new FTAs may not be significant relative to those in other FTA partners. The Vietnamese negotiators and policymakers in this context should avoid adding policy- and procedure-induced burdens that may complicate the adjustment process of firms ahead of or in the face of these marginal changes.

At the same time, Vietnam also has to harmonize commitments under various integration tracks. As discussed previously, memberships in many FTAs show the commitment to establish a more favorable investment environment in the country. Yet the benefits of such agreements may be reversed if the commitments under these FTAs are inconsistent or developed without sequential consideration. Should this happen, businesses will encounter difficulties in developing an appropriate investment strategy since the adjustment cost may turn out to be significant.

Vietnam should make efforts to address other concerns on FTAs. Many of these concerns are not new, as they have arisen to various extents after the WTO accession.[52] First, trade diversion is potentially a concern, especially if the change in preference is larger in the products that currently exhibit competitiveness in non-RCEP markets. This is a high probability in the current context of on-going TPP and EVFTA negotiations, while no concrete actions so far within the RCEP show that this agreement may attain similar coverage and depth in a similarly short time frame.

*Second,* competition from China emerges as another source of concern, not only because of the partner's wide and deep engagement in regional production networks but also due to the similarity in export structure that it possesses relative to Vietnam. As a major caveat, the quantitative assessments using GTAP model show that comprehensive liberalization among China, Japan and Korea (which in fact may be realized by the CJK FTA) may undermine the benefits to Vietnam, *other things being unchanged*. More importantly, Vietnam is importing a lot of consumer products and intermediate products from China, which threatens the former to be in a further disadvantaged position if bilateral trade was liberalized and facilitated. This should not be a proper justification for a Vietnamese protectionist stance within the RCEP.

[52] See CIEM (2013) for further details.

Instead, it should be an inducement for bolder Vietnamese efforts towards reforming the current production under *properly* selective industrial policy. The key thing here is to identify relevant products and/or market segments for Vietnamese products.

*Third*, unemployment or underemployment in certain industries, geographical areas may rise due to the implementation of the RCEP (alongside other FTAs and WTO commitments) that (jointly) leads to the contraction, even bankruptcy of many enterprises in Vietnam. Documenting the situation of unemployment and underemployment is no easy task, as the agriculture and retail trade sectors may absorb at least partially the number of labours being laid off in industrial enterprises. Still, the issue is whether the laid-off labours in certain uncompetitive industries are able to move to other industries and/or sub-sectors. Otherwise the current golden demographic structure [53] of Vietnam may not be utilized. A key requirement is thus the flexibility of the economy that can facilitate necessary structural adjustment through dynamic sectoral growth, retraining, etc.

*Fourth*, tariff revenue loss was another area of potential concern. Still, one should not be overly concerned since the loss may be associated with rising trade volume and economic expansion, which in turn may induce revenues from other taxes. From previous experience, even with the WTO, this reduction of tariff revenues was more than compensated by other taxes (CIEM 2010). Looking forward, other forms of taxation that will grow with the positive economy-wide impacts of trade liberalization should be developed to the extent that they also help address the marginal externality. As noted in MUTRAP (2010), also, the tariff revenue loss under the RCEP as an FTA may go to the profits of the foreign exporters obtaining the preferences as well as to domestic consumers through lower prices.

*Finally*, the rise of a current account deficit and associated negative impacts on balance of payments may present another concern. Vietnam, along with many other countries, is suffering from a widening trade deficit with China and the trend shows hardly any sign of being reversed in the near term. Meanwhile, the possible further emergence of China thanks to the RCEP may even crowd out exports of Vietnam to other important markets and investors in Vietnam such as Japan and Korea. Accordingly, the net impacts may be a worsening trade deficit for Vietnam. Still, the trade deficit is a multifaceted issue concerning demand management, inflation control, incoming investment, etc. that would require multiple policy instruments, many more directly related to the underlying issues than bilateral trade controls, such as the flexibility of the exchange rate and associated change in real effective exchange rate. One should go back to the more fundamental issue of how to enhance the competitiveness of Vietnam's export products, at least at the RCEP level. Otherwise, trying to avoid trade diversion away from non-RCEP markets such as the EU and United States may still be an important policy direction.

There exist a number of other non-trade issues that can enter FTAs such as environment, social, and labor issues. The TPP represents a contemporary approach to dealing with these issues comprehensively. Meanwhile, other important agreements such as the EVFTA and even the RCEP seem to pay undue attention to the issues. This study does not incorporate a full discussion of these issues due to limited resources. Still, it should be emphasized that while trade and investment flows induced by the RCEP (and other FTAs) affect the environment and labor markets, one should think in the first stage to deal with these issues directly rather than through trade policy. More importantly, as a principle, each policy should serve only one objective rather than trying to address many (potentially conflicting) ones at the same time. Therefore, environmental policy should be used to tackle environmental problems, and social policy to tackle social problems. The question then lies in how to build

[53] For more details, see results of the Census survey on population by the GSO in 2011.

relevant capacity and incorporate these policies in the process of implementing the RCEP and other FTAs.

## *3. Sector-Specific Recommendations*

### 3.1. Agriculture

*First*, it should be noted that despite a very low starting point and the lack of investment, agricultural exports have been very successful due to the comparative advantage of the agriculture sector following a number of unilateral reforms under *Doi Moi*. Therefore, the restructuring process should focus more on an export-oriented strategy by setting up consistent value chains from production to processing, promotion for some strategic commodities of high value-added and demand in the global market. Policies and investment have to be consistent with the selected direction.

*Second*, market development strategies have to focus on standards, technical regulations in order to meet regional and international standards, which in turn will strengthen Vietnam's market access. Improving the enforcement of those standards and regulation across the nation is another important issue.

*Third*, the Government should attract more investment in agriculture and channel the investments into advantageous commodities, of which foreign and private investment is strongly encouraged. PPP can be a potential approach. Joint venture should also be promoted to improve the quality of Vietnamese agricultural products in accordance with international standards and to connect domestic industries to the global distribution network and value chain. Currently, Vietnam and Japan cooperation in formulating and implementing the action plan to develop the agricultural and fishery processing industry is expected to promote foreign investment to the sector.

*Fourth*, to improve the linkage between material producers and export enterprises as well as developing cost effective storage and processing units.

*Fifth*, to strengthen the capacity to forecast the supply and demand of the world and important trading partners, focusing on products exposed to price volatility or with large export volume. This issue is critical for Vietnam to avoid adverse impacts from external shocks in demand and supply (of inputs)

*Sixth*, to promote the participation of exporters in associations (both domestic and international) to strengthen effectiveness of import and export activities.

*Seventh*, to promote export diversification, both in terms of products and destinations while strengthening the development of support industries to serve domestic production.

*Eighth*, import guidelines should put priority on materials and equipment that cannot be produced locally or in sufficient supply to meet demand; to prioritize imports of advanced and energy-saving technologies, thus enhancing competitiveness of locally produced goods. Additionally, import management should go in line with narrowing the investment-savings gap by economizing on materials in investment and improving investment effectiveness.

*Ninth*, taken into consideration the trend of using NTBs by trading partners, Vietnam should pay attention to develop sufficiently sophisticated protection measures in accordance with commitments under trade agreements.

*Tenth*, from Input-Output perspective, liberalization of various industrial sub-sectors (fertilizers, pesticides, etc.) that supply inputs for agricultural production also help facilitate the expansion and development of the agriculture sector itself.

## 3.2. Iron and steel

As the majority of Vietnamese steel factories are small in scale, equipped with outdated technology, old-fashion operation method, and especially have had inconsistencies in the production process, it is very important to renovate the planning of the steel and iron subsectors nation-wide. *First of all*, it is crucial to temporally halt the licensing of the small and outdated technology projects allowing larger and modern technology projects with a sufficient supply of iron ore for high-quality steel production.

*Second*, the Government should provide WTO/RCEP-consistent support to foster domestic steel companies to enter the markets of RCEP. In doing so, frequent consultation and/or dialogues between related government agencies and steel producers may be appropriate.

*Third,* to restructure the steel firms through M&A ensuring a competitive environment and strengthening enforcement over the anti-competitive practices.

*Fourth*, to improve the planning of steel sector development focusing on development of an efficient upstream sector to help improve efficiency of the steel sector and ensure a stable supply and better economic security.

*Fifth,* to enhance the role of the Vietnam Association of Steel Enterprises in providing necessary information about foreign and domestic performances plus changes, and promoting an efficient network of steel firms and other stakeholders.

*Sixth,* to develop and adopt credible and justifiable mechanisms that are consistent with the WTO and the RCEP to prevent the dumping of iron and steel products in Vietnam's markets.

## 3.3. Plastics

*First,* to develop an efficient upstream industry of plastics (for instance, plastics powder) to ensure higher value-added and stable inputs for the plastics products manufacturing. Restructuring in the plastics industry should be towards production of high-quality, locally high-demand products focusing on long-term demand such as for technical plastics and construction plastics products.

*Second,* to promote the collaboration of research and production institutions of plastics production paying sufficient attention to plastics recycling.

*Third,* to enhance the quality of evaluation/appraisal of plastics projects;

*Fourth*, to diversify capital mobilization for plastics industry development; and

*Fifth,* to improve the quality of human resource.

*Sixth,* to promote marketing to enter efficiently to RCEP members' markets.

## 3.4. Electronics

*First,* to develop efficient supporting industry and electronics-industry clusters for electronics products manufacturing by providing sufficient, appropriate financial and technical/technological support. This may enable Vietnam to take advantage of new opportunities from the shifting production network of electronics products in the RCEP region.

*Second,* to encourage enterprises of all ownership to invest in electronics industry and its supporting industry; fostering the network of electronics stakeholders; inviting more capable foreign companies, especially MNCs;

*Third,* to develop and enforce appropriate mechanisms, including incentives to transfer appropriate/high technology from FIEs and domestic firms to domestic, particularly SMEs;

*Fourth,* to build up efficient institutions for information about the electronics markets in Vietnam and the world, and enhancing the information exchange among the market stakeholders, particularly foreign investors and domestics ones.

*Fifth,* to develop a solid education system of basic science, especially chemical science, physics and mathematics for sustainable development of domestic electronics industry. To enhance the substance of demand-driven factors, cooperation between education institutions and electronics companies should be strengthened, perhaps with the intermediation by government agencies.

*Sixth,* to promote marketing to enter efficiently to RCEP members' markets.

As for smart phones, printers, flat panel TVs, their current development and position in the value chain and production network are currently very much based on FIEs /MNCs. In the long term, in order to move up the higher-value chain, Vietnam should prepare necessary conditions for developing efficient institutions for R&D, enhancing the quality of education and human resource, and integrate further into regional and international networks.

## 3.5. Paper

*First,* to strengthen the domestic retail market, including renovation of products sale networks, methods and customer's approaches;

*Second,* to enhance the quality of human resource; applying appropriate/high and environmentally friendly technology

*Third,* to accelerate the process of equitization and restructuring through different types such as M&A;

*Fourth,* to adjust the paper industry planning to ensure efficient inputs for the paper industry whilst sustaining forestry resources and the environment.

## 3.6. Services

*First,* Vietnam should strive to enhance the consistency of service commitments under AFAS, WTO and RCEP. Even though the negotiation of services under RCEP may take some time (perhaps after the conclusion of trade in goods, under the gradualism approach), it is necessary to foresee such developments. It should be borne in mind that any inconsistency among those commitments may reduce the benefits from meaningful liberalization, whilst undermining the effectiveness of supply-sided reforms with the domestic service market.

Other recommendations made by CIEM (2013) still retain their validity. These include proposals to: upgrade quality of services, especially high-grade ones; improve productivity of service provision by encouraging innovation and creativity; promote competition; improve quality of human resources for service industry; enhance linkages among services sub-sectors and between services and industry; and develop key economic regions and key services to drive national economic development.

In the domestic market, Vietnam should promote further competition by two basic solutions: (i) equitization or restructuring of SOEs in the services sub-sectors without the nature of natural monopoly or without government dominance; and (ii) enhancement of publicity and transparency by competitive bidding in Government and SOE procurement of service, thereby promoting the development of private SMEs.

The analysis in Section III also shows the need to focus on developing of some prioritized services sub-sectors with large spillover effects on the economy, namely: telecommunication, finance, transport, tourism, education and business service. Apart from room for meaningful liberalization and supply-sided benefits within these sub-sectors, they (apart from tourism and

education) largely help to reduce the services link costs, thereby enhancing the connectivity of Vietnam with RCEP members.

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# APPENDICES

*Table A1 Sectoral aggregation*

| No. | Label | Description |
|---|---|---|
| 1 | RCE | Rice |
| 2 | VFN | Vegetables, fruit and nuts |
| 3 | SUG | Sugar |
| 4 | CRPS | Other crops |
| 5 | FRS | Forestry |
| 6 | RES | Resources |
| 7 | FSH | Fishing |
| 8 | BV | Beef and veal |
| 9 | PP | Pork and poultry |
| 10 | DRY | Dairy products |
| 11 | OFD | Food products nec |
| 12 | B_T | Beverages & tobacco |
| 13 | TXT | Textiles |
| 14 | WAP | Wearing apparel |
| 15 | LEA | Leather |
| 16 | ELE | Electronics |
| 17 | P_C | Petroleum and coal products |
| 18 | MVT | Motor vehicle & transport equipment |
| 19 | LUM | Wood products |
| 20 | PPP | Paper products, publishing |
| 21 | CRP | Chemical, rubber & plastics |
| 22 | OME | Machinery and equipment nec |
| 23 | NMM | Mineral products nec |
| 24 | MAN | Manufactures |
| 25 | TSP | Transport |
| 26 | CMN | Communication |
| 27 | TRD | Retail & wholesale trade |
| 28 | FI | Finance & insurance |
| 29 | BSV | Business services |
| 30 | SVC | Other services |

*Table A2 Vietnam's tariff cut exemptions*

| Chapter | Product description | Exempt Modest | Exempt Ambitious |
|---|---|---|---|
| 1 | Live animals | | |
| 2 | Meat and edible meat offal | X | X |
| 3 | Fish and crustaceans, molluscs and | | |
| 4 | Dairy produce; birds' eggs; … | X | X |
| 5 | Products of animal origin, nec | | |
| 6 | Live trees and other plants; bulbs, … | | |
| 7 | Edible vegetables and certain roots … | | |
| 8 | Edible fruit and nuts; peel of citrus … | X | X |
| 9 | Coffee, tea, maté and spices | | |
| 10 | Cereals | | |
| 11 | Products of the milling industry; … | | |
| 12 | Oil seeds and oleaginous fruits; … | X | |
| 13 | Lac; gums, resins and other veg … | X | |
| 14 | Vegetable plaiting materials; … | | |
| 15 | Animal or vegetable fats and oils … | | |
| 16 | Preparations of meat, of fish … | X | |
| 17 | Sugars and sugar confectionery | X | X |
| 18 | Cocoa and cocoa preparations | | |
| 19 | Preparations of cereals, flour, starch | | |
| 20 | Preparations of vegetables, fruit, nuts | | |
| 21 | Miscellaneous edible preparations | | |
| 22 | Beverages, spirits and vinegar | X | |
| 23 | Residues and waste from the food industries; … | | |
| 24 | Tobacco and manuf. tobacco … | X | X |
| 25 | Salt; sulphur; earths and stone; … | X | |
| 26 | Ores, slag and ash | | |
| 27 | Mineral fuels, mineral oils … | X | |
| 28 | Inorganic chemicals; organic … | | |
| 29 | Organic chemicals | | |
| 30 | Pharmaceutical products | | |
| 31 | Fertilisers | | |
| 32 | Tanning or dyeing extracts; tannins … | | |
| 33 | Essential oils and resinoids; … | | |
| 34 | Soap, organic surface-active agents, … | | |
| 35 | Albuminoidal substances; modified … | | |

| | | | |
|---|---|---|---|
| 36 | Explosives; pyrotechnic products; … | X | |
| 37 | Photographic or cinematographic … | | |
| 38 | Miscellaneous chemical products | | |
| 39 | Plastics and articles thereof | | |
| 40 | Rubber and articles thereof | X | |
| 41 | Raw hides and skins … | | |
| 42 | Articles of leather; saddlery and … | | |
| 43 | Furskins and artificial fur; … | | |
| 44 | Wood and articles of wood; … | | |
| 45 | Cork and articles of cork | | |
| 46 | Manufactures of straw, of esparto … | | |
| 47 | Pulp of wood or of other fibrous … | | |
| 48 | Paper and paperboard; articles of … | | |
| 49 | Printed books, newspapers, pictures | | |
| 50 | Silk | | |
| 51 | Wool, fine or coarse animal hair; … | X | |
| 52 | Cotton | X | |
| 53 | Other vegetable textile fibres; … | | |
| 54 | Man-made filaments; strip … | X | |
| 55 | Man-made staple fibres | X | |
| 56 | Wadding, felt and nonwovens; … | X | |
| 57 | Carpets and other textile floor … | X | |
| 58 | Special woven fabrics; tufted textile … | X | |
| 59 | Impregnated, coated, covered … | X | |
| 60 | Knitted or crocheted fabrics | X | |
| 61 | Articles of apparel and clothing … | | |
| 62 | Articles of apparel and clothing … | | |
| 63 | Other made-up textile articles; sets; … | X | |
| 64 | Footwear, gaiters and the like; … | | |
| 65 | Headgear and parts thereof | | |
| 66 | Umbrellas, sun umbrellas, walking … | | |
| 67 | Prepared feathers and down and … | | |
| 68 | Articles of stone, plaster, cement, … | | |
| 69 | Ceramic products | | |
| 70 | Glass and glassware | X | |
| 71 | Natural or cultured pearls, precious … | | |
| 72 | Iron and steel | X | X |
| 73 | Articles of iron or steel | | |
| 74 | Copper and articles thereof | | |

| | | | |
|---|---|---|---|
| 75 | Nickel and articles thereof | | |
| 76 | Aluminium and articles thereof | | |
| 78 | Lead and articles thereof | | |
| 79 | Zinc and articles thereof | | |
| 80 | Tin and articles thereof | | |
| 81 | Other base metals; cermets; … | | |
| 82 | Tools, implements, cutlery, spoons … | | |
| 83 | Miscellaneous articles of base metal | | |
| 84 | Nuclear reactors, boilers, machinery… | X | X |
| 85 | Electrical machinery and equipment | | |
| 86 | Railway or tramway locomotives, … | | |
| 87 | Vehicles other than railway … | X | X |
| 88 | Aircraft, spacecraft, and parts thereof | | |
| 89 | Ships, boats and floating structures | X | |
| 90 | Optical, photographic, … | | |
| 91 | Clocks and watches and parts thereof | | |
| 92 | Musical instruments; … | | |
| 93 | Arms and ammunition; … | X | |
| 94 | Furniture; bedding, mattresses, … | | |
| 95 | Toys, games and sports requisites; … | | |
| 96 | Miscellaneous manufactured articles | | |
| 97 | Works of art, collectors' pieces … | | |

Tariffs are selected at the 6 or 8 digit levels. This table indicates the chapters that contain some exemptions at the 6 digit level. Note "…" denotes the product description is incomplete. A full description can be found at WCO (2014).

*Table A3 Source of Vietnam's imports in 2020*

| | Base in 2020 | Modest in 2020 | Difference |
|---|---|---|---|
| | $m | $m | $m |
| **Australia** | 1248 | 1202 | -46 |
| **New Zealand** | 581 | 583 | 2 |
| **Japan** | 10952 | 12767 | 1815 |
| **Malaysia** | 4632 | 4406 | -226 |
| **Singapore** | 7690 | 7262 | -428 |
| **Viet Nam** | 0 | 0 | 0 |
| **Canada** | 541 | 524 | -17 |
| **United States of America** | 4736 | 4569 | -167 |
| **Mexico** | 159 | 155 | -4 |
| **Chile** | 178 | 173 | -5 |
| **Peru** | 101 | 99 | -2 |
| **China** | 37339 | 40648 | 3309 |
| **Korea** | 14048 | 13599 | -449 |
| **India** | 4266 | 4821 | 555 |
| **Rest of ASEAN** | 13978 | 13078 | -900 |
| **Latin America** | 1447 | 1364 | -83 |
| **European Union** | 8051 | 7674 | -377 |
| **Other developed** | 1420 | 1356 | -64 |
| **Africa** | 859 | 834 | -25 |
| **Rest of the World** | 10825 | 10317 | -508 |
| **Total** | 123049 | 125430 | 2381 |

Source GTAP simulation.

*Table A4 Trade costs of services*

| | Transport | Communi-cation | Trade | Financial | Other business | Govern-ment |
|---|---|---|---|---|---|---|
| | % | % | % | % | % | % |
| **Australia** | 14 | 13 | 18 | 14 | 14 | 24 |
| **NZ** | 6 | 4 | 8 | 4 | 4 | 10 |
| **Japan** | 18 | 18 | 23 | 17 | 17 | 26 |
| **China** | 62 | 48 | 110 | 83 | 81 | 84 |
| **Korea** | 27 | 27 | 33 | 30 | 29 | 34 |
| **Malaysia** | 28 | 30 | 36 | 30 | 30 | 37 |
| **Vietnam** | 71 | 74 | 83 | 75 | 74 | 84 |
| **Rest of ASEAN** | 17 | 33 | 33 | 20 | 7 | 24 |
| **India** | 143 | 139 | 153 | 140 | 137 | 155 |

Source: Lee and Itakura (2013).

*Table A5 Change in Vietnam's imports in 2020*

| | Base | Modest | Ambitious | Free trade |
|---|---|---|---|---|
| Rice | 238 | 252 | 261 | 392 |
| Vegetables | 123 | 125 | 124 | 154 |
| Sugar | 114 | 125 | 126 | 138 |
| Other crops | 74 | 75 | 75 | 75 |
| Forestry | 48 | 46 | 45 | 43 |
| Resources | 105 | 114 | 114 | 113 |
| Fishing | 10 | 10 | 10 | 4 |
| Beef and veal | 140 | 140 | 140 | 145 |
| Pork and poultry | 167 | 172 | 174 | 202 |
| Dairy products | 95 | 96 | 97 | 103 |
| Food products nec | 57 | 59 | 60 | 63 |
| Bev. &tobacco | 76 | 78 | 83 | 107 |
| Textiles | 153 | 167 | 165 | 160 |
| Wearing apparel | 193 | 205 | 205 | 204 |
| Leather | 158 | 164 | 163 | 159 |
| Electronics | 86 | 89 | 90 | 90 |
| Petroleum | 91 | 94 | 94 | 96 |
| Motor vehicle | 86 | 95 | 97 | 102 |
| Wood products | 82 | 83 | 83 | 83 |
| Paper products | 80 | 81 | 81 | 80 |
| Chemicals | 87 | 88 | 89 | 89 |
| Machinery | 82 | 84 | 85 | 86 |
| Mineral prods | 121 | 137 | 138 | 141 |
| Manufactures | 80 | 81 | 83 | 82 |
| Transport | 78 | 76 | 77 | 77 |
| Communication | 63 | 68 | 69 | 72 |
| Retail | 91 | 97 | 101 | 108 |
| Finance | 123 | 125 | 126 | 129 |
| Business | 92 | 95 | 97 | 99 |
| Services | 72 | 79 | 83 | 89 |

Source GTAP simulations. Change is relative to 2007 base.

*Table A6 Change in Vietnam's exports in 2020*

| | Base | Modest | Ambitious | Free trade |
|---|---|---|---|---|
| Rice | 191 | 199 | 204 | 266 |
| Vegetables | 53 | 52 | 51 | 181 |
| Sugar | 29 | 24 | 33 | 81 |
| Other crops | -1 | -1 | -2 | -12 |
| Forestry | 368 | 362 | 359 | 353 |
| Resources | 110 | 109 | 109 | 108 |
| Fishing | 76 | 75 | 75 | 80 |
| Beef and veal | -62 | -64 | -65 | -75 |
| Pork and poultry | -25 | -28 | -29 | -46 |
| Dairy products | 189 | 182 | 181 | 197 |
| Food products nec | 36 | 34 | 34 | 28 |
| Bev. &tobacco | 43 | 42 | 42 | 40 |
| Textiles | 118 | 125 | 124 | 114 |
| Wearing apparel | 121 | 134 | 133 | 129 |
| Leather | 159 | 164 | 162 | 157 |
| Electronics | 93 | 95 | 96 | 92 |
| Petroleum | 259 | 255 | 255 | 251 |
| Motor vehicle | 48 | 59 | 62 | 65 |
| Wood products | 45 | 41 | 40 | 37 |
| Paper products | 89 | 86 | 85 | 82 |
| Chemicals | 98 | 95 | 105 | 115 |
| Machinery | 61 | 63 | 64 | 62 |
| Mineral prods | 59 | 56 | 55 | 52 |
| Manufactures | 76 | 76 | 77 | 74 |
| Transport | 44 | 49 | 52 | 56 |
| Communication | 52 | 49 | 49 | 48 |
| Retail | 35 | 39 | 45 | 49 |
| Finance | 46 | 44 | 46 | 46 |
| Business | 47 | 46 | 48 | 49 |
| Services | 60 | 60 | 64 | 67 |

Source GTAP simulations. Change is relative to 2007 base.