

# Utilising New Generation FTAs for Import and Export Growth: Potentials for Viet Nam When Joining CPTPP

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## Abstract

*In its process to accelerate market reforms and deepen international economic integration, Viet Nam has strengthened its bilateral and multilateral trade agreements, including new generation FTAs such as EVFTA, CPTPP. Although the negotiations are still under way or in the process of ratification, these new generation FTAs include commitments that are comprehensive and in-depth with high standards. They deal with traditional and non-traditional trade issues as well as non-trade ones. New generation FTAs are expected to have significant impact on Viet Nam's export and import growth and economic development, with both positive and negative aspects. Analysis of the current status of FTAs has shown that Viet Nam has achieved great success in utilising FTAs to develop import-export activities and attract foreign investment. It is one of the main drivers of Viet Nam's economic growth. However, in practice, the utilisation of FTAs in Viet Namese enterprises in recent times has many limitations. In addition, the number of enterprises with full understanding of FTAs and capabilities to take advantage of the tax and other incentives from FTAs are few and far between. These issues have negative impacts on socio-economic development and place a huge burden on Viet Nam's economics resources.*

*The CPTPP (formerly known as TPP, or the Trans-Pacific Partnership) consists of 11 countries: New Zealand, Canada, Japan, Mexico, Singapore, Brunei, Chile, Malaysia, Peru, Australia, and Viet Nam. It was signed on March 8, 2018 in Santiago, Chile. By December 2018, seven countries have issued CPTPP ratifications, including New Zealand, Canada, Japan, Mexico, Singapore, Australia, and Viet Nam. The Agreement will enter into force on December 30 2018. This is a new generation and high standard FTA, expected to have great impact on participating countries. Utilised well, the Agreement can create a breakthrough in the economics and import-export growth of Viet Nam.*

*This paper will analyse the current situation and forecast the possibility of utilising new generation FTAs in Viet Nam. Based on this, the paper will present policy recommendations and implications to best take advantage of the benefits when participating in new generation FTAs, especially CPTPP, for the import-export and economic development of Viet Nam.*

*The paper features a combination of research methodologies, including desk research, field research, in-depth interviews with experts and business owners. It also utilises existing qualitative and quantitative research results using the SMART model.*

*A part of this paper is based on the results of the state-level research project titled "Scientific arguments for the development of Viet Nam's product import-export market in the context of the implementation of new generation free trade agreements (FTAs)", code DDHD/XH.07/16, with Dr. Tran Tuan Anh as chairman.*

## **Literature Review**

In recent years there have been domestic and international research projects that explored the potential behind utilising new generation FTAs for the development of Viet Nam's import-export. Examples include: MUTRAP (2010), *Impact Assessment of Free Trade Agreement on Viet Nam's Economy*; Stefano Inama et al. (2011), *Assessing the Impact of Rules of Origin in Viet Nam's Free Trade Agreements*; Nguyen Van Long (2011), *Impact of 15 Years of Participating in ASEAN on Viet Nam's Trade in Goods*; Dinh Van Thanh (2012), *Strategic Direction for Free Trade Area (FTA) in the Age of Industrialization and Modernization*; Phung Thi Van Kieu (2014), *Experimental Studies on Utilising Benefits of the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) and Its Application for Viet Nam*; VCCI (2015), *Use of Trade Remedies Tools in the Context of Viet Nam's Implementation of FTAs and AECs*; EIU (2014), *FTAs in South-east Asia: Towards the next generation*; Munim Kumar Barai et al. (2017), *Viet Nam: Achievements and Challenges for Emerging as an FTA Hub*; Nguyen An Hoa and Hoa Huu Cuong (2013), *Free Trade Agreement between Viet Nam - EU: Opportunities and Threats for Viet Nam's Economy*; Petri, P., & Plummer, M. (2016), *The Economic Effects of the Trans-Pacific Partnership: New Estimates*; Tran Toan Thang and Tran Anh Son, (2018), *Impact of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership on Viet Nam*; Vu Thanh Huong, (2017), *Viet Nam-EU Free Trade Agreement: Impacts on Trade in Goods Between the Two Partners and Implications for Viet Nam*; Vu Tien Loc, (2015), *The Economy Faces the New Generation FTA Challenge*; WB (2018), *Economic and Distributional Impacts of Comprehensive and Progressive Agreement for Trans-Pacific Partnership: The Case of Viet Nam...*

### **1. Overview of Viet Nam's Participation in Bilateral and Multilateral FTAs and Import-Export Results in Recent Years**

#### ***1.1. Situation of Viet Nam's Participation in FTAs***

After more than 30 years of Doi Moi reforms, moving to a market economy and opening to international economic integration, Viet Nam has actively participated in many bilateral and multilateral FTAs. The first FTA that Viet Nam joined was AFTA in 1996 (now the ASEAN Economic Community - AEC). Since the signing and implementation of the BTA with the United States in 2001, Viet Nam has strengthened its international economic integration. Viet Nam joined the FTAs in ASEAN+, became a member of the World Trade Organization in January, 2007, and most successfully, in 2015, signed four FTAs with the EU, South Korea, the Eurasian Economic Union (EAEU), and the TPP. By the end of 2018, Viet Nam has signed, implemented, and is negotiating 16 FTAs. Out of the 16 FTAs, 10 FTAs were implemented (six of them as ASEAN members, the other four FTAs with Chile, Japan, South Korea, and EAEU). Three other FTAs were signed and will come into effect in

early 2019, which are CPTPP (the United States withdrew TPP and the remaining 11 members negotiated and signed the CPTPP on 8 March 2018 and CPTPP will come into effect on 30 December 2018); the ASEAN-Hong Kong FTA, signed on 12 November 2017 and will be effective on 1st January 2019; and the FTA between Viet Nam and the EU (EVFTA), awaiting ratification. The three FTAs being negotiated are the Comprehensive Economic Partnership Agreement (RCEP), and FTA with Israel, and the European Free Trade Association (EFTA).

In addition to the increasing number of FTAs, the content of FTAs features more comprehensive and deeper commitment, particularly with respect to environmental protection, employee rights, and intellectual property rights. Of the 16 FTAs that Viet Nam is currently affiliated with, the FTAs with Japan, Australia-New Zealand (through ASEAN), CPTPP, and EVFTA all address intellectual property issues. In terms of environmental issues and worker rights, EVFTA and CPTPP have specific provisions on these issues.

FTAs are opening a thriving space for Viet Nam whereby the country has free trade relations with 55 partners worldwide, including all G7 countries and 15 of G20 members.

### ***1.2. Viet Nam's export-import development***

Boosting international economic integration and joining of bilateral, regional, and multilateral FTAs have helped broaden the market access conditions for exporting goods. It is also an important reason for the growth of Viet Nam's export and import of goods, even in the unfavourable context of the international business environment after the financial crisis of 2008-2009.

According to the General Department of Viet Nam Customs, Viet Nam's export turnover has increased from 48.56 billion USD in 2007 to \$215.12 billion USD in 2017, which is a 4.43-fold increase in ten years, achieving an average annual growth rate of 16.05%. Import turnover of the same period increased from 62.76 billion USD to 213 billion USD – 3.39 times higher with annual average import growth of 13%. The export growth faster than import one has improved the trade balance, from trade deficit to trade balance, even surplus in recent years. The two-digit growth in import-export also led to a sharp increase in Viet Nam's international trade volume. It rose from just 111.326 billion USD in 2007, which amount to 143% of Viet Nam's GDP, to 428,126 billion USD in 2017, or 194.6% of GDP. Import-export has become one of the most important factors behind Viet Nam's economic growth over the years.

**Table 1. Import and Export of Viet Nam in the period of 2007 - 2017**

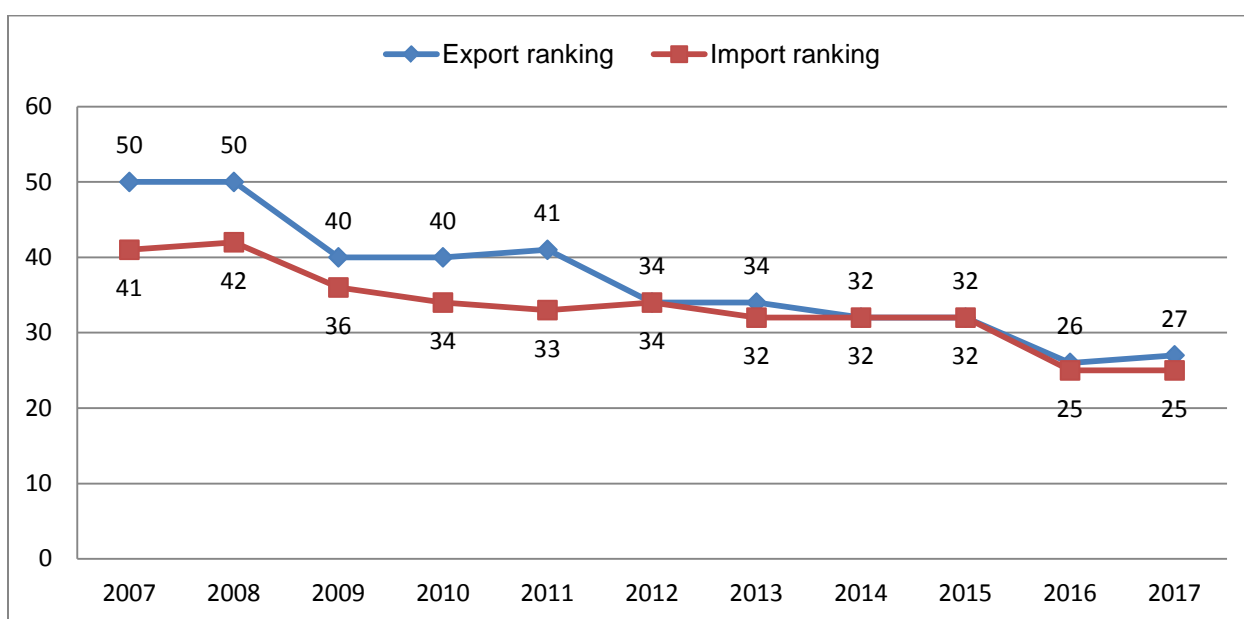
Targets Year	Export		Import		Trade Balance (Billion USD)	GDP (Billion dollars)	Export/GDP (%)	Trade balanc/export ratio (%)
	Export turnover (Billion USD)	Export growth (%)	Import turnover (Billion USD)	Import growth (%)				
<b>2007</b>	48.561	21.93	62.765	39.82	-14.204	77.392	62.75	-29.25
<b>2008</b>	62.685	29.09	80.714	28.60	-18.029	97.451	64.32	-28.76
<b>2009</b>	57.098	-8.91	69.949	-13.34	-12.851	99.834	57.19	-22.51
<b>2010</b>	72.237	26.51	84.839	21.29	-12.602	110.696	65.26	-17.45
<b>2011</b>	96.905	34.15	106.749	25.83	-9.844	132.492	73.14	-10.16

<b>2012</b>	114.530	18.19	114.347	7.12	183	155.191	73.80	0.16
<b>2013</b>	132.134	15.37	132.125	15.55	9	170.104	77.68	0.01
<b>2014</b>	150.220	13.69	147.850	11.90	2.370	185.592	80.94	1.58
<b>2015</b>	162.020	7.86	165.570	11.99	-3.550	191.310	84.69	-2.19
<b>2016</b>	176.581	8.99	174.804	5.58	1.777	200.962	87.87	0.44
<b>2017</b>	215.119	21.89	213.007	21.8	2.112	220.030	97.77	0.98
<b>2007-2017 (%)</b>		<b>16.05</b>		<b>13.0</b>				

Source: Calculations based on data from Viet Nam Ministry of Industry and Trade, General Department of Customs

In addition, the rapid increase in trade volume also helped Viet Nam improve its position rapidly, ranking higher in the global import-export map. In the case of exports, after 10 years, Viet Nam grew from being the world's 50<sup>th</sup> largest exporter in 2007 to 27<sup>th</sup> in 2017. On imports, in 2017, Viet Nam has risen to the 25<sup>th</sup> position in the world market compared with 41<sup>st</sup> in 2007.

**Figure 1. Viet Nam's export and import rankings in the global market**



Source: Customs Statistical Yearbook of Import and Export, Viet Nam's General Customs Department (2018)

By establishing an important position as a major trading partner in the world, Viet Nam increased its power and reputation in negotiating international agreements. Therefore, Viet Nam can better protect national interests as well as contribute to the development of fairer and more equal international trade laws. This strengthens Viet Nam's political position in the international arena, creating more room for economic and trade policy in particular and foreign policy in general.

## **2. Assessment of the capabilities of utilising FTAs for Viet Nam's import-export development in recent years.**

Viet Nam's successful utilisation of the incentives and opportunities when joining FTAs can be considered an important factor that contribute to Viet Nam's rise to the world's top import export leaders.

When analysing the process of utilising FTA in Viet Nam's recent export development, it was clear that Viet Nam has made better use of FTAs to boost export and diversify its supply sources. This in turn helped promote economic restructuring and the import-export goods structure in the direction of industrialization and modernization, increasing economics value. On the other hand, joining FTAs also helped Viet Nam boost import-export with FTA partners, diversifying the market and improving import-export markets in a more balanced and stable manner. This enhanced Viet Nam's independence, autonomy, and economic sustainability.

**Table 2. Viet Nam's utilisation of FTAs**

FTA / Form of C / O	Total export volume to FTA market (bil.USD)				Export volume using preferential C/O (bil.USD)				Using preferential rate (%)			
	2015	2016	2017	2018 *	2015	2016	2017	2018 *	2015	2016	2017	2018 *
ASEAN (Form D)	18.3	17.473	21.68	12.186	4.43	5.32	6.536	4.063	24.2	30	30	33
ACFTA (Form E)	17.1	21.970	35.463	16.623	5.5	6.779	9.171	5.492	32.2	31	26	33
AKFTA (Form AK) VKFTA (Form VK)	8.9	11.418	14.813	17.439	5.3	6.359	7.621	4.874	59.6	56	51	28
AANZFTA (Form AANZ)	3.2	3.225	3.757	2.217	0.9	1.085	1.23	0.664	28.1	34%	33	30
AJCEP (Form AJ) VJEP (Form VJ)	14.1	14.676	16.841	17.772	4.8	5.162	5.834	3.382	34	35	35	18
VCFTA (Form VC)	0.65	0.805	0.999	0.443	0.37	0.514	0.685	0.3	57	64	69	68
AIFTA (Form AI)	2.5	2.688	3.756	3.359	0.8	1.165	1.807	1.461	32	43	48	44
VN-EAEU FTA (Form EAV)	-	1.616	2.167	1.244	-	0.093	0.484	0.282	-	6	22	23
Laos (Form S)	-	0.478	0.524	0.3	-	0.047	0.051	0.03	-	10	10	10
Cambodia (form X)	-	2.200	2.776	1.748	-	0.0005	0.0003	0.0006	0	0	0	0
<b>Total</b>	<b>64.75</b>	<b>73.874</b>	<b>99.487</b>	<b>53,677</b>	<b>22.1</b>	<b>26,547</b>	<b>33420</b>	<b>20.451</b>	<b>34</b>	<b>36</b>	<b>34</b>	<b>38</b>

(\* ) Data for the first six months of 2018

Source: Viet Nam import-export report for the years 2015 - 2017 and the first 6 months of 2018, Ministry of Industry and Trade.

On the use of preferential tariffs, Table 2 showed that with the use of FTA-approved certificate of origin, the total export value with preferential C/O was 20.4 billion USD in the first six months of 2018, representing 38% of total exports to FTA markets, which was 53.7 billion USD. This account for four percent increase from 2017 and before. Compared with the first years of the FTA, when C/O rate is only 10%, the increase to 38% in 2018 was an indication that Viet Nam was making better use of FTA incentives.

Along with the rapid increase of import and export scale with FTA markets, there are important changes in the restructuring of commodity and import- export market structure of Viet Nam in a more positive and effective manner.

Since 2007, Viet Nam's export goods structure has shifted in a positive trend, with the increase in the proportion of processed goods and decrease in raw and semi-processed goods. The proportion of

processing technology also went up, while agriculture-forestry-fishery products went down. There was an increase in the proportion of processed products such as textiles, footwear, electronics and components,...

Table 3 demonstrated the shift in export goods in the direction of processed products. The proportion of processed or refined products in total exports has increased significantly, from 55.2% in 2007 to 83.6% in 2017, whereas raw or semi-processed goods have dropped from 44.2% in 2008 to 16.3% in 2017.

**Table 3. Viet Nam's export structure by SITC group**

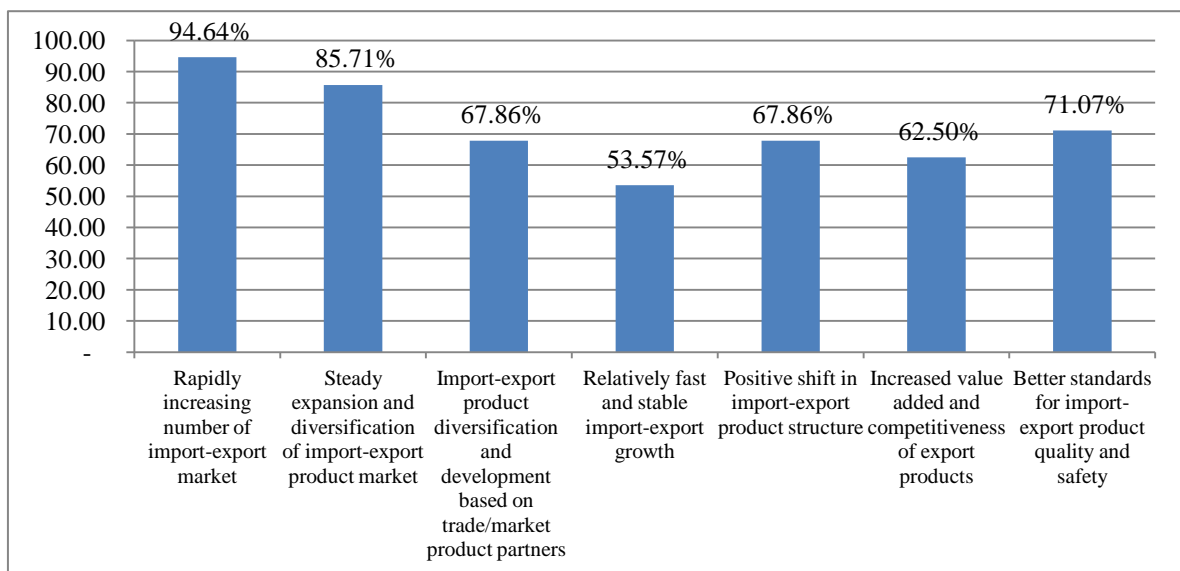
*Unit: %*

	2008	2011	2012	2013	2014	2015	2016	2017
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Raw or semi-processed goods, including:</b>	<b>44.2</b>	<b>34.8</b>	<b>30.7</b>	<b>25.5</b>	<b>23.8</b>	<b>18.7</b>	<b>17.2</b>	<b>16.3</b>
Food and live animals	19.4	18.0	16.4	14.0	14.3	12.6	12.5	11.7
Beverages and tobacco	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.2
Crude materials, inedible, except fuels	4.0	4.9	3.7	3.6	2.8	2.5	2.3	2.4
Mineral fuels, lubricants and related materials	20.3	11.3	9.9	7.3	6.1	3.1	2.0	1.9
Animal and vegetable oils, fats and waxes	0.2	0.2	0.3	0.2	0.2	0.2	0.1	0.1
<b>Processed or refined products, including:</b>	<b>55.2</b>	<b>65.1</b>	<b>69.2</b>	<b>74.4</b>	<b>76.1</b>	<b>81.2</b>	<b>82.7</b>	<b>83.6</b>
Chemicals and related products	2.3	3.0	3.3	2.9	2.8	2.5	2.3	2.1
Manufactured goods classified chiefly by material	10.2	11.2	10.7	10.5	11.0	10.5	10.1	10.4
Machinery and transport equipment	11.7	19.4	26.8	32.6	32.3	37.3	39.6	41.7
Miscellaneous manufactured articles	31.0	31.5	28.4	28.4	30.0	30.9	30.7	29.4
<b>Commodities/transactions not classified in the SITC</b>	<b>0.6</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

*Source: General Statistics Office, 2017 Statistical Yearbook*

On the development of import-export markets, surveys with professionals and experts showed that international economic integration, especially the successful participation and implementation of FTAs, has led to positive results in the development of import-export market. As many as 90% of respondents said that Viet Nam's import-export market had developed rapidly in terms of quantity and quality.

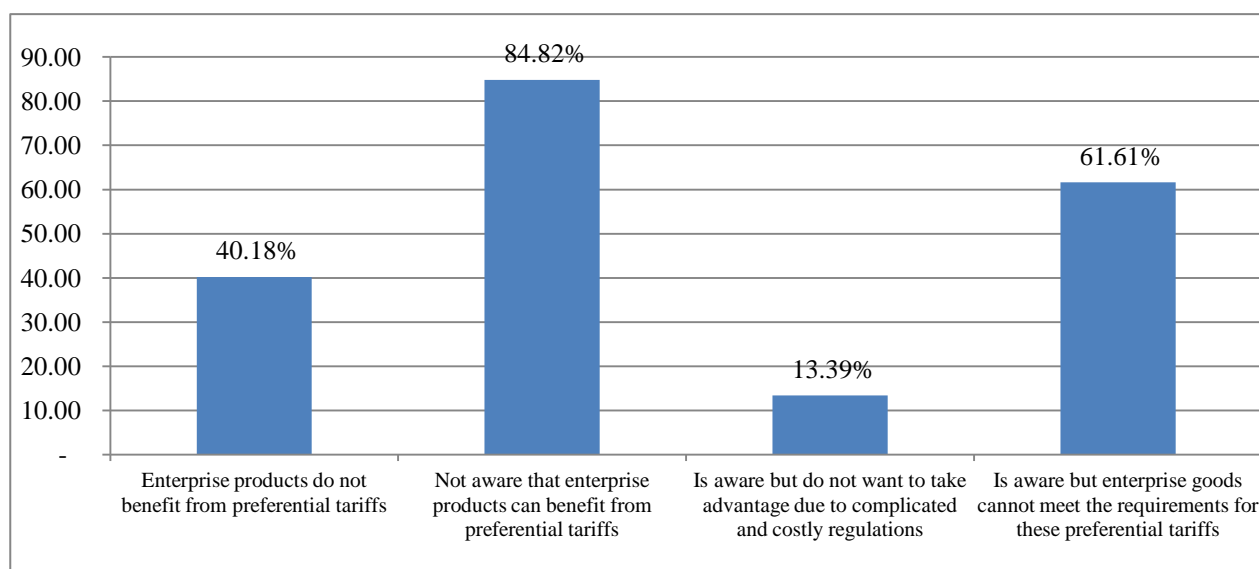
**Figure 2. Assessing the success of Viet Nam's export-import market**



Source: Research project DTDL/XH.07/16, Experts Survey Results, December 2017

However, the results of Viet Nam's utilisation of FTAs were still low. According to the EIU (2014), average usage rates for FTAs signed by Vietnam is only 37%, still low considering the export ambitions of the country, where exports of goods have grown to more than 97 % of GDP in 2017 from 63% in 2007. Surveys on businesses outlined a number of reasons behind the low utilisation rate of Viet Nam's FTAs, shown in Figure 3.

**Figure 3. Reasons why enterprises have not taken advantage of preferential treatment when developing import-export market**



Source: Research project DTDL/XH.07/16, Enterprises Survey Results, December 2017

As a result, in the future, in order to improve the capacity of utilising FTAs for export import development, it is necessary for business community to restructure export import markets and products; improve product quality, upgrade standards and technical requirements; gain deeper understanding of FTAs, with the support and facilitation of the government and trade support organisations.

### **3. CPTPP Participation: Opportunities and Challenges for developing Viet Nam's import-export and economy**

The CPTPP (formerly known as TPP, or the Trans-Pacific Partnership) consists of 11 countries: New Zealand, Canada, Japan, Mexico, Singapore, Brunei, Chile, Malaysia, Peru, Australia, and Viet Nam. CPTPP talks closed on January 23, 2018 in Tokyo, Japan. The agreement was signed on March 8, 2018 in Santiago, Chile.

The TPP was originally expected to create the largest global free-trade zone with US involvement. However, after taking office, President Trump removed Washington from the agreement, forcing the remaining 11 countries to re-negotiate a new version called CPTPP.

The 11 countries participating in CPTPP have a total GDP of 10,000 billion USD, about 13% of global GDP. China, the United Kingdom, and South Korea are said to be considering joining the CPTPP.

In 2017, CPTPP countries accounted for 16% of total export turnover and 15.7% of total import turnover of Viet Nam. The two-way trade turnover between Viet Nam and most members of the CPTPP has reached over one billion USD/year.

Of the ten remaining members of the CPTPP, Japan is Viet Nam's largest trading partner. Japan is also Vietnam's fourth largest trade partner, after China, South Korea, and the United States. In 2017, two-way trade turnover between Viet Nam and Japan reached over 33.4 billion USD, of which Viet Nam achieved a trade surplus of 250 million USD. Other major trading partners include Malaysia (export value of 4.209 billion USD, import of 5.86 billion USD); Singapore (2.961 billion USD in export, 5.3 billion USD in import); Australia (export of 3.3 billion USD, import reached 3.16 billion USD); Canada (2.7 billion USD of export, import of 774 million USD); Mexico (export value of 2.34 billion USD, import of 567 million USD); Chile (1 billion USD in export, 283 million in import).

In addition, Viet Nam has maintained a trade surplus with most of its partners. Viet Nam suffered trade deficits with only three partners and all three countries are located in Southeast Asia: Singapore (deficit of more than 2.33 billion USD); Malaysia (deficit of more than 1.65 billion USD) and Brunei (deficit of more than 13 million USD). As Viet Nam's economy is focusing on boosting export production, CPTPP can bring significant opportunities for import-export companies in Viet Nam with preferential tariffs and reduction in technical barriers.

The major groups of Vietnam's exports to the CPTPP countries are textiles, footwear, seafood, machinery, and mineral fuels. With the opening of the market under CPTPP commitments, many key export sectors of Viet Nam will have the opportunity to increase turnover, especially significant export fields such as telephones, computers, textiles, footwear, seafood, wood product, transport equipment, machinery... For example, in the case of Japan – the largest partner market, five export groups of Viet Nam had recorded a turnover of more 1 billion USD. In the five groups, textiles and garments had the largest export value of over 3.1 billion USD. It was followed by transport equipment with 2.177 billion USD; machinery reached with 1.718 billion USD; seafood with USD 1.3 billion; and wood furniture



with 1.022 billion USD. Industries such as textiles and seafood had been heavily dependent on the US market; and the recent shift to Japan was a positive sign. Key export sectors such as textiles, footwear, and seafood were major categories in Canada, Chile and Australia... They will continue to enjoy many opportunities when CPTPP officially comes into effect. Meanwhile, Viet Nam imported mainly fuels, machinery, plastic materials, steel, transportation equipment... from the CPTPP countries.

In the report "*Economic and Distributional Impacts of Comprehensive and Progressive Agreement for Trans-Pacific Partnership: The case of Vietnam*," World Bank argued that in the case of Viet Nam, multilateral trade agreements such as the CPTPP will further add incentives to Viet Nam's growth model based on investment and exports. In addition, it forecasted that CPTPP would help boost foreign investment and drive growth in the service sector and labor productivity in Viet Nam. As a result, domestic private firms will have more opportunities to participate in the global value chain and the SMEs sector will grow. Furthermore, CPTPP can promote reforms in many areas such as competition management, services (finance, telecommunications, and temporary entry of service providers), customs, electronics trade, environment, government procurement, intellectual property, investment, labour standards, legislation, market access, rules of origin, non-tariff measures, trade remedy... This institutional reform, when done well, will create breakthroughs for the development of Vietnam import-export and economy.

On the other hand, according to many economic experts, although the tariff barriers are still being removed with CPTPP (gradually reducing to ~0% in 2030), Viet Nam will not benefit much from the commitments of tariff reduction because it has already signed bilateral and multilateral trade agreements with seven out of ten countries in CPTPP and enjoyed previous tariff preferences. On the contrary, Viet Nam's trade liberalisation commitments for imports from partner countries may have a negative impact on some domestic industries such as animal feed, food, beverages and tobacco... In addition, stringent regulations on technical standards will be a major obstacle to Viet Nam's exports. Compliance with these regulations may require fundamental changes, not only for finished goods, but also for cultivation and exploitation process (aquaculture, wood and wood products...) or the processing, packaging, and transporting products (agricultural products, vegetables and fruits, food, beverages ...).

Research project DTDL/XH.07/16 used the SMART model to assess the impact of tariff reductions on CPTPP to Viet Nam's import and export. Viet Nam's increase in export to CPTPP was just over 1.42 billion USD, equivalent to 3.93%. This is mainly due to the fact that average tariffs of CPTPPs applied to Viet Nameese goods were already very low. Of the 10 CPTPP partners in Viet Nam, three countries have or will apply 0% tariffs to Viet Nam in 2020, namely Singapore, Australia, and New Zealand. Some countries had high tariffs with Viet Nam such as Chile, Mexico, and Peru but the export turnover of Viet Nam was not high. Among Viet Nam's main export items to the CPTPP market, Viet Nam is likely to increase the export of *textile and garment* group, with 27.91% increase,

followed by *footwear*, accounting for 25.24%, followed by *telecommunication and electronic components* (6.8%) and *agricultural products* (5.9%) (Table 4).

**Table 4. Increase export value of Viet Nam to CPTPP by group**

Product Groups	Extra value (1,000 USD)	Percentage (%)	Growth (%)	Creation effects		Diversion effects (1,000 USD)
				1,000 USD	%	
1. Seafood	39,054	2.75	3.71	30,990	79.35	8,064
2. Agricultural products	84,151	5.92	7.52	41,537	49.36	42,615
3. Textile	396,652	27.91	7.48	181,639	45.79	215,013
4. Telecommunication and electronic components	96,913	6.82	0.81	43,262	44.64	53,651
5. Footwear	358,717	25.24	15.36	148,482	41.39	210,235
6. Machinery	35,782	2.52	1.26	17,487	48.87	18,295
7. Vehicles and transport equipment	15,989	1.13	2.51	6,778	42.39	9,212
8. Wood and wood products	34,347	2.42	1.40	23,220	67.60	11,127
<b>Total 08 groups</b>	<b>1,061,606</b>	<b>74.69</b>	<b>3.99</b>	<b>493,393</b>	<b>46.68</b>	<b>568,213</b>
<b>Export total</b>	<b>1,421,282</b>	<b>100.00</b>	<b>3.93</b>	<b>682,026</b>	<b>47.99</b>	<b>739,256</b>

*Source: Research Project DTDL.XH.07/16, SMART simulation results*

The SMART model also showed that in the CPTPP markets, Viet Nam has the opportunity to boost exports to Mexico with many groups such as *Seafood, Agricultural products, Telecommunication and electronic components, Wood and wood products*. Viet Nam also has the opportunity to boost export to Japan in the sectors of *Seafood, Footwear, Wood and wood products*. With Canada, Viet Nam can increase export in *Textiles and Vehicles and Transport equipment*. With Malaysia, Viet Nam can boost export in *Wood and wood products, Machinery, and Agricultural products*.

In the opposite direction, Viet Nam will increase imports from the CPTPP of about 1.416 billion USD, with the main sector being *Textiles*, accounting for 20.98% of import increase, followed by *Vehicles and transport equipment* (20.75%), then *Telecommunication and electronic components* (5.1%), *Seafood* (5%), *Agricultural products* (4%) ...

**Table 5. Increase import of Viet Nam by commodity group with CPTPP countries**

Product Groups	Increase in value 1,000 USD	Percentage (%)	Growth (%)	Creation Effects		Diversion Effects (1,000 USD)
				1,000 USD	%	
1. Seafood	71,473	5.05	54.58	63,731	89.17	7,742
2. Agricultural products	57,482	4.06	4.31	55,993	97.41	1,489
3. Textile	297,156	20.98	28.59	266,591	89.71	30,566
4. Telecommunication and electronic components	72,851	5.14	1.15	49,017	67.28	23,834
5. Footwear	720	0.05	19.55	573	79.55	147
6. Machinery	50,297	3.55	1.15	36,924	73.41	13,373

7. Vehicles and transport equipment	293,893	20.75	29.42	225,729	76.81	68,164
8. Wood and wood products	649	0.05	0.28	469	72.32	180
<b>Total 08 groups</b>	844,521	59.63	5.85	699,026	82.77	145,495
<b>Total Import</b>	<b>1,416,201</b>	<b>100.00</b>	<b>5.04</b>	<b>1,093,752</b>	<b>77.23</b>	<b>322,449</b>

*Source: Research Project, calculated based on SMART simulation results*

Viet Nam committed to eliminate tariffs on 65.8% of tariff lines immediately after CPTPP comes into effect and up to 86.5% of tariff lines in the fourth year. As a result, in the first four years of the agreement, Vietnamese enterprises will face great competitive pressure from CPTPP enterprises. Firms producing beef, dairy, plastics, chemicals, paper, and wood furniture will have to prepare for CPTPP integration as soon as possible. This is because the tariffs of these industry will be eliminated immediately or within in short time. Meanwhile, companies producing products such as pork, chicken, processed meat, steel, petrol, vehicles and transport equipment will have a longer preparation period before the tariffs in these industries are also removed.

With the CPTPP partners, Viet Nam will increase import from Japan in many commodity groups such as *Seafood, Textile, Telecommunication and electronic components, Machinery, and Vehicles and transportation equipment*. In addition, Viet Nam will import from Canada more *Agricultural products*, from Mexico *Telecommunication and electronic components and Vehicles and transport equipment*.

*In conclusion, there are great opportunities for the development of Viet Nam's economy, as well as its import-export sector, by joining and capitalizing on CPTPP. For example, CPTPP brings direct benefits to Viet Nam through trade liberalization and increased market access, etc. Most importantly, the Agreement will push and accelerate the domestic reform process in a number of areas, as well as promote transparency and establish the modern state. These are decisive factors for realizing Viet Nam's goals for development and prosperity. Nonetheless, the benefits of CPTPP are not without challenges. If Viet Nam does not fully capitalize on the coming favorable opportunities, it will face even greater challenges and difficulties. Therefore, the country will need clear vision, sufficient capacity, as well as practical actions to implement CPTPP successfully, and steer Vietnam toward a more effective, innovative and modern development direction.*

#### **4. Some recommendations and policy implications**

*Firstly, policy makers and business leaders will need breakthroughs in ideas and visions, together with practical and progressive institutional reforms. They ensure that Viet Nam not only upholds its commitment of international integration, but also fully encourage nationwide and worldwide capabilities for economic development. In other word, Viet Nam will need to be proactive and innovative in its market economy reform. This means that its business environment has to be improved to meet international standards, in order to stimulates manufacturing, trading, and strengthens the national import-export industries when joining new generation FTAs.*

*Secondly*, it is necessary to formulate a strategy to join new FTAs in an effective and practical manner: The current international business landscape is rapidly altering with multitudes of crises. To name a few, there are conflicts of interests, rampant protectionism, the trade war between the United States and China - the two largest economic powers in the world, geopolitical crises, climate change, natural disasters, and epidemics. Furthermore, globalization and the Industrial Revolution 4.0 have been expeditiously integrating deeply into every aspects of society. Facing this new landscape without sufficient strategies, including clear goals and visions, long-term and flexible methods of adaptation, will lead to confusion, passivity, inept actions, and ultimately, the inability to to meet the development demands of the nation. Therefore, sufficient strategies for joining new-generation FTAs are seriously needed. The situation demands that national policy-makers be enthusiastic, visionary, talented, proactive, quick to make sense of the international environment, efficiency in monitoring and managing the national economy in general, and the import-export landscape in particular.

*Thirdly*, in terms of institutional reform, it is essential for Viet Nam to build capable and effective state institutions. Effective market institutions, transparency, and accountability are fundamental elements behind developing and increasing the effectiveness of the implementation of new FTAs in Vietnam. Implementing the new generation FTAs requires reformation in areas such as competition management, services (financial services, telecommunications, and temporary entry of service providers), customs, e-commerce, environment, government procurement, intellectual property, investment, labour standards, legal, market access, rules of origin, non-tariff measures, trade remedy... State owned enterprise reform should focus on adopting the best international practices in corporate governance, through the newly established State Capital Management Committee. On the other hand, Viet Nam should promote and increase equitation and divestment of SOEs, especially commercial investments. Foreign direct investment also needs to shift from quantity to quality, focusing on high-tech investment and high added value. Viet Nam should also encourage closer collaboration between domestic and foreign firms. This will help the domestic private sector to participate effectively in the global value chain.

*Fourthly*, it is recommended to develop policies for breakthroughs in developing and upgrading common infrastructure as well as the trade and logistics infrastructure in Viet Nam. In order to do so, Viet Nam will need to develop a comprehensive strategy for multimodal transport with international standards, connecting the country with the region and the world. It is essential to pay attention to key infrastructure projects on roads, airports, and seaports. These projects will require substantial investment. Appropriate policies to liberalise private investment are essential to form public-private partnerships that are capable of dealing with Viet Nam's high investment needs.

*Fifthly*, human resource development is essential. We now work in an environment of globalisation, international integration, new generation FTAs, and industrial revolution 4.0. The Vietnamese workforce will need the knowledge and skills of the 21<sup>st</sup> century to increase productivity and efficiency. This requires a focus on the quality and relevance of higher education and vocational

training. Therefore, Viet Nam should build appropriate institutions and policies that encourage enterprises and industry associations to invest in the education and training of human resources for production, business, and import-export.

*Sixthly*, there should be policies that encourage domestic and foreign investment in support industries, material production, inputs for production and processing. There should be support for Vietnamese enterprises to actively participate in regional and global value chains, especially in the fields of mechanics, electronics, hi-tech...

*Lastly*, it is necessary to study and develop mechanisms for dispute resolution between the State and investors. These mechanisms should be in the direction of open and transparent, with rooms to recognize and ensure the enforcement of court decisions, foreign arbitrators. These will protect the legitimate rights and interests of organizations and individuals in investment and business activities.

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