CHAPTER IV
VIETNAM'S INTEREST JOINS INTO TRANS-PACIFIC PARTNERSHIP AGREEMENT

In general, the dynamic of international trade and foreign investment has a significant contribution toward the performance of economic development in Vietnam and it is supported by the direction of Vietnam's government policy which gradually accelerates its transition to the modern market economy as a catalyst in obtaining deeper and wider integration into global economy. In this case, the presence of Trans-Pacific Partnership (TPP) classified as comprehensive trade agreement will encourage the quality of export-orientation strategy and the quantity of foreign direct investment for Vietnam in order to improve the socio-economic development for the sake of welfare state. However, the fundamental motivation of Vietnam joined into TPP due to it will achieve its national interest related to an economic capacity building consisting of penetrating the export market for economic growth, attracting foreign direct investment for economic development and restructuring economic reform for global competitiveness.

A. Penetrating export market for massive economic growth

All of the member countries enrolled in TPP agreement are potentially a huge market for Vietnam so that it will give a significant access toward the penetration of various its featured commodities and services aimed to pursue the economic growth. Currently, among 12 members of TPP, Vietnam conducted the framework of Free Trade Agreements (FTAs) covered by ASEAN Plus with Brunei Darussalam, Malaysia Singapore, Japan, Australia and New Zealand. While Vietnam signed the concept of Bilateral Trade Agreements with Chile, Peru, and Mexico in which trade accounts for less than 1% of the Vietnam trade share (Trung, 2017). However, the real contribution of TPP agreement toward the performance of Vietnam trade share is mainly from the United States as the largest country importer (see table 4.1). However, Vietnam's interest confidently wants to raise the trade turnover in gaining the surplus based on the balance of trade and it is completely supported by the abolishment of trade barriers which will alternatively become a potential market for Vietnam in implementing the export-oriented strategy with TPP member countries.

Table 4.1: Vietnam's trade with TPP countries in 2014

Country	Export (mil.USD)	Import (mil.USD)	Total (mil.USD)	Share (%)
Vietnam's total international trade	150,042	148,058	298,100	100
Total trade with TPP partners	58,216	33,934	92,151	30,9
Brunei Darussalam	48	70	118	0,04
Malaysia	3,994	4,187	8,182	2,74
Singapore	2,833	7,010	9,843	3,30
Japan	14,716	12,706	27,422	9,2
Australia	4,011	2,081	6,092	2,04
New Zealand	313	483	796	0,27
Canada	2,068	382	2,450	0,82
United States	28,503	6,294	34,797	11,67
Chile	508	361	869	0,29
Mexico	1,039	258	1,296	0,43
Peru	185	102	287	0,096

Source: Vietnam Ministry of Industry and Trade 2015

In the context of export, after signing in several bilateral trade agreement with other countries followed by joining the WTO accession in 2007, the top 10 most featured commodities categorized as main export sectors of Vietnam has raised drastically in international market supported by achieving an annual growth rate about 22%, so that Vietnam has an offensive interest in expanding greater and deeper market access on these main sectors addressed to the TPP agreements (Workman, 2018).

Table 4.2: The top 10 most featured commodities as the main export sectors of Vietnam in 2012

Product	Rank	Turnover ($billions)	GDP (%)
Textiles and Apparel	1	15,09	13,2
Telephones & accessories	2	12,72	11,1
Raw oil	3	8,21	7,2
Computers & electronic product	4	7,84	6,8
Footwear	5	7,26	6,3
Fishery products	6	6,10	5,3
Machinery, equipment, & accessories	7	5,54	4,8
Wood & Wood Products	8	4,67	4,1
Motor vehicles & parts	9	4,58	4,0
Rice	10	3,67	3,2

Source: Vietnam General Statistics Office (GSO)

Regarding the textile and apparel (T&A), the development of industry in T&A is the leading export sector for Vietnam. This thing is supported by the trade turnover of T&A reaching for about $15.09 billion in 2012 and it has been enrolled in ranking number one toward total export revenue in Vietnam. Actually, there are several countries such as China, India, Indonesia and Bangladesh categorized as the primary competitor for Vietnam in accessing the U.S. and Japan market due to those countries are under Most Favored Nations (MFN) rate about 5-25%. In this case, when the TPP agreement comes into force, T&A tariff line exporting to the TPP countries mainly the U.S. and Japan are automatically eliminated from an average of 17.3% to the lowest rate of 0%. In addition, regarding footwear, Vietnam could increase exports sharply since the US import duty is quite high (about 12%). However, for the two commodities, Vietnam must meet the very strict standard of origin of TPP (Tien, 2012). However, it will potentially facilitate export opportunity addressed to all of T&A and footwear enterprises in Vietnam followed by adjustment in the input supply chain.

Regarding the food products, the developed countries in TPP mainly the United States and Japan strongly protect their product by implementing a high-level subsidy in their country. In this case, Vietnam can obtain a profit related to export the featured commodities in term of agricultural products to TPP member countries by supporting the abolishment of protection referred to TPP agreements. For example, Vietnam’s rice will have a great opportunity in penetrating export to the U.S. and Japan due to the competitors of Vietnam such as Thailand, Cambodia, and India does not enjoy the lowest tariff of 0% imposed only for TPP member countries. While import duties on Vietnam's rice in the US, Japan are quite high about 17%, so that the TPP will have a major impact on this product. However, Vietnam's rice needs to improve its quality much higher to be consumed in developed countries.

Regarding the wood products, Vietnam will not obtain many opportunities to raise the exports of this product due to the U.S. has currently implemented the low tariff rates for about 0.02%. In another hand, regarding the fishery products, the current tax rates in the U.S. is relatively low (0.01% -0.07%, except for seafood processing at 5%). However, Vietnam does not have a large margin for increasing export of this product. Regarding trade in services, TPP member countries, especially for the United States, Japan, Australia, New Zealand, and Singapore, has improved in service sectors which is relatively higher than Vietnam. As a result, TPP will directly give an outstanding effect especially for financial and banking service in Vietnam. In essence, those countries have a huge demand on market opening in the banking and financial system in Vietnam which is conducting consolidation in reaching some middle-income countries such as Laos and Cambodia. As matter of fact, Vietnam has not stipulated to take a step and target in expanding the market of other countries so that the advantage of a market opening in financial and banking services is not quite high for Vietnam. However, all of the local banks have a similar chance to promote cooperation with various strategic investors from developed countries in TPP like the US, Japan, Australia, and Singapore in order to improve competitiveness. Nonetheless, the quality of service sector in Vietnam must quickly restructure the institution and prepare the foundation aimed to improve operational efficiency for the sake of maximum profit in TPP.

In the context of import, the enforcement of Vietnam's import tariffs on products from the TPP member countries will automatically decrease after joining the TPP agreements. In this case, many products will easily access Vietnam's market. Positively, many developed countries in TPP such as the U.S., Japan, Australia, Singapore, and New Zealand are performing relatively better than Vietnam in the level of technology development so that it is a great point for Vietnam in conducting the import of machinery products from these countries. However, Vietnam strongly emphasizes a sustainable transformation for restructuring the economic institution and improving the trade balance because Vietnam has successful export in gaining the trade surplus with these countries (the U.S., Canada, Japan, and Australia). If imports from these markets are increased, imports from other markets such as China, ASEAN will be automatically decreased.

B. Attracting foreign investment for economic development

Foreign Direct Investment (FDI) is classified as a key part of external economic affairs in Vietnam supported by various comparative advantages in the productivity so that it will create a powerful investment climate as well as give a huge incentive for the investor. In addition, the effort of Vietnam's government consistently conducts a sustainable renovation for the business and investment sector by recognizing that FDI will essentially restructure the domestic economy and raise national competitiveness. Therefore, it will potentially stimulate the investors to utilize their machines as efficient as possible into production in Vietnam, so that they have a big opportunity to be exported back addressed to their countries in maximizing the profit due to the tariff was eliminated to the lowest rate of 0% or they also can obtain beneficial things from the free market that is forced by Vietnam.

According to General Statistic Office of Vietnam, the total number of FDI in Vietnam raised significantly from US$ 428.5 million in 1991 to US$ 11 billion in 2011. Cumulatively, Japan ranked 1st as FDI source during 1988-2012 by investing US$ 28.7 billion. Taiwan and Singapore ranked 2nd and 3rd during the same period by investing US$ 27.1 billion and US$ 24.8 billion. While the US ranked 7th by investing US$ 10.5 billion. In this case, the performance of economic development in Vietnam cannot be separated with the huge contribution of FDI categorized as a catalyst for industrial production passing through a contribution from the revenue of State Owned Enterprises (SOEs) and domestic enterprises. The involvement of FDI has massively raised from only 25.1 percent in 1995 to 46.3 percent in 2012, while the performance of SOEs decreased from 50.3 percent to 16.4 percent. However, Vietnam relies strongly on the presence of FDI for its economic development such as export-import activity, transfer of technology and employment creation.

Table 4.3: Share of Industrial Production (Percent)

	1995	2000	2005	2010	2012
State-owned	50.3	34.2	25.1	18.2	16.4
Domestic non-state	24.6	24.5	31.2	39.3	37.3
FDI Sector	25.1	41.3	43.7	42.5	46.3

Source: Lee (2014b), p. 32

Basically, there are several reasons related to the escalation of foreign investment in Vietnam, as follows: First, the socio-political stability. Vietnam is well-known by one of the most dynamic countries in term of the economy supported by the fact of economic growth between 1991 and 2010 for about 7.5% each year. In addition, the gross domestic product (GDP) growth still raise to about 5.6% although Vietnam faced many difficulties between 2011 and 2013. However, this situation has a positive impact toward the exhibition of socio-political stability in Vietnam. Second, the bonus demography. Vietnam relies on the potential asset of golden population structure supporting the domination of working age that is approximately 60% of its population. In addition, Vietnam also has a lucrative geographical location exactly in the heart of East Asia categorized as the center of large and vibrant economies. However, this asset will greatly develop the frameworks of international economic integration, including free trade agreements with partners both within and outside the region. Third, the institutional economic reform. Vietnam's government consistently provides a fair and attractive business environment for foreign investors, and continually improves a legal and formal framework and institutions related to business and investment. However, the government has gradually conducted in restructuring the model of the economy, as well as enhancing national competitiveness (Dung, 2014).

After Vietnam officially joined as the permanent member in TPP, it will bring a great potential in attracting and increasing the foreign investment from several developed countries in TPP such as the U.S., Australia, New Zealand, Singapore, etc (Syarip, 2015). In addition, the TPP agreement will stimulate in increasing the number of foreign investment inflow especially in some strategic areas such as high- tech industries, raising the level of sectors of industry, services, agriculture, enabling Vietnam to participate better in the value chain of the region and the globe. However, there are many foreign firms to invest more investment projects in Vietnam. Texhong Group and TAL company from Hongkong will invest US$ 300 million and US$ 200 million, while Unisoll Vina Company of Hansol Textile from South Korea will invest US$ 50 million with factory's capacity of 90 million pieces per year. Some other firms expressing interest for more investments are Toray International from Japan, Sunrise from China and Lenzing from Australia. During a meeting between Lefaso and Footwear Distributors and Retailers of America (FDRA), there would be flows of American firms moving investment from China to Vietnam.

C. Restructuring economic reform for the competitiveness

Actually, Vietnam has gradually conducted many changes related to the renovation of economic institution after WTO accession in 2007, but it does not affect toward the improvement of institutional quality which still become a fundamental barrier in actualizing the paradigm of development that are the economic discrimination between state-owned enterprises (SOEs) and private enterprise, the lack of economic transparency, the inefficient enforcement of public investment, the ineffective management of government, etc (Trung, 2017). Therefore, the emerging of TPP agreement associated with a broad and deep commitment for the non-commercial sector will greatly provide a positive signal toward the economic affairs of institutional reform in Vietnam by adopting the construction of legal system and order completely.

Regarding to the enactment of TPP agreement, Vietnam is facing a huge pressure which is characterized by various policies in economic liberalization that are the adoption of free market system by inflowing all goods, services and capitals, the reduction of all trade barriers related to tariff and non-tariff, the protection of intellectual property by implementing harsher sanctions, the development of transparent government by publicizing the entire national budget, the adjustment in setting up labor standards by emphasizing the right of labor freedom, etc. Impressively, it will become a great challenge for Vietnam's government, but it is factually defined as a huge opportunity due to these requirements are an alternative way of achieving the institutional reform of Vietnam.

Furthermore, the commitment of Vietnam's government in TPP agreement will encourage all of the Vietnamese enterprises and people to adjust with the competitive values of human resource. In this case, Vietnam realized that the integration of businesses sector in TPP agreement is much higher than the negotiations of WTO or ASEAN Free Trade Agreement (AFTA) because it opens up a chance in accommodating the business affairs aimed to construct the common institution of a cohesive unit. In addition, TPP also will impose businesses to review and to understand the rules of game related to the extensive market penetration, particularly in the U.S. market. However, the reduction of tariffs rate will give a positive impact toward the empowerment of domestic industries in Vietnam such as textiles, footwear, furniture, and assembly components.

In essence, the TPP member countries will be imposed to focus on the reformation of SOEs after the TPP agreement comes into force. As a result, the dynamic of SOEs in Vietnam faced real competition due to the absence of protection referred to a collective agreement in TPP. In this case, the nature of TPP contains a clear legal basis for recognizing the abolishment of preferential treatment addressed to any particular business with a separate pattern of SOEs. If Vietnam's government operates totally about the performance of SOEs without the involvement of competitive market by giving a lot of privileges like accessing to land and credit from the state's resources, so it will potentially stimulate the dominance of interest groups in controlling the economic resources of the country. However, TPP emphasizes the enforcement of transparency and equal treatment as a form of collaboration between domestic and foreign enterprises to compete fairly in the game. After joining in TPP, the economic reform in term of SOEs is merely not a new issue in Vietnam, but it creates strongly a potential pressure to actualize the reformation of SOEs. As a result, the business environment in Vietnam will be healthier to promote the development of private sector with TPP member countries.

Finally, joining in TPP will open opportunities for Vietnam to strengthen economic ties with countries such as the United State of America, Canada, Australia, New Zealand. Thus, Vietnam has the opportunity to reduce economic dependence on China and expand and diversify the suppliers of high quality and sustainable products instead of concentrating on the import of low and average quality goods from China. Moreover, due to the fact that origin of products is required being among country members of TPP, Vietnamese enterprises will have to shift to import inputs from members of TPP.