



Aus4Reform Program



AUSTRALIA SUPPORTS ECONOMIC REFORM IN VIETNAM

**Implementing CPTPP as a Part of Economic Integration
Roadmap in Vietnam: Requirement for Structural
Reforms and Firms' Preparedness**

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Viet Nam has been undergoing increasingly vigorous changes in a new stage of economic reforms and international integration. On one hand, Viet Nam has gradually realized the orientation of deepening international integration with a focus on economic integration. On the other hand, Viet Nam has officially affirmed the objective of effectively implementing the international economic integration process. Discussions on impacts of international economic integration – in particular trade, foreign investment, etc. – have become more “multi-dimensional”. The need of more broaden and deeper institutional reform to address inherent issues of the economy has been recognized more directly. In this context, effectively implementing the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP) is an important requirement in terms of both institutional reform and enterprise level.

This Report focuses on identifying requirements for economic institutional reforms and capacity building for Vietnamese enterprises to effectively implement the CPTPP. The research team was led by Dr. Tran Thi Hong Minh, with contributions by Dinh Thu Hang, Nguyen Anh Duong, Tran Binh Minh, Do Thi Le Mai, Pham Thien Hoang, Do Thi Nhan Thien, Le Phuong Nam, Le Mai Anh and Dr. Dang Thi Thu Hoai.

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All opinions and judgements presented in the Report are solely of the authors and not necessarily reflect those of the Aus4Reform Program and/or of the Central Institute for Economic Management (CIEM).

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ACRONYMS

| | |
|---------|---|
| AANZFTA | ASEAN-Australia-New Zealand Free Trade Agreement |
| ACFTA | ASEAN – China Free Trade Agreement |
| ADB | Asia Development Bank |
| AFF | Agriculture, Forestry, Fishery |
| AIFTA | ASEAN – India Free Trade Agreement |
| AJCEP | ASEAN – Japan Comprehensive Economic Partnership |
| AKFTA | ASEAN-Korea Free Trade Agreement |
| ASEAN | Association of Southeast Asian Nations |
| ATIGA | ASEAN Trade in Goods Agreement |
| BDS | Business Development Services |
| C/O | Certificate of Origin |
| CAF | Center for Analysis and Forecast of the Academy of Social Sciences |
| CAR | Capital Adequacy Ratio |
| CBT | Cross Border Trade |
| CC | Climate Change |
| CCVI | Climate Change Vulnerable Index |
| CIEM | Central Institute for Economic Management |
| CIIS | Ho Chi Minh Centre for International Integration Support |
| CPTPP | Comprehensive and Progressive Agreement for Trans-Pacific Partnership |
| CSR | Corporate Social Responsibility |
| EAEUFTA | Viet Nam-Eurasian Economic Union Free Trade Agreement |
| EFTA | European Free Trade Association |
| EPI | Environmental Performance Index |
| ES | Export Similarity Index |
| EU | European Union |
| EVFTA | European Union – Viet Nam Free Trade Agreement |
| FDI | Foreign Direct Investment |
| FTA | Free Trade Agreement |
| GCI | Global Competitiveness Index |
| GDP | Gross Domestic Product |
| GSO | General Statistics Office of Viet Nam |
| GVA | Gross Value Added |
| HDI | Human Development Index |
| HS | Harmonized System Classification |
| ICOR | Incremental Capital Output Ratio |
| ICT | Information and Communication Technology |
| ILO | International Labor Organization |
| ILSSA | Institute for Labor Science and Social Affairs |

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| IMF | International Monetary Fund |
| IPR | Intellectual Property Rights |
| IR 4.0 | Industrial Revolution 4.0 |
| ISDS | Investor-State Dispute Settlement |
| ISPONRE | Institute of Strategy and Policy on Natural Resources and Environment |
| JETRO | Japan External Trade Organization |
| LP | Labor Productivity |
| MA | Market Access |
| MFN | Most Favored Nation |
| MOIT | Ministry of Industry and Trade |
| MOLISA | Ministry of Labors, Invalids and Social Affairs |
| MONRE | Ministry of Natural Resources and Environment |
| MPI | Ministry of Planning and Investment |
| NOIP | National Office for Intellectual Property |
| NSW | National Single Window |
| NT | National Treatment |
| NTM | Non-Tariff Measures |
| OECD | Organization for Economic Cooperation and Development |
| PCI | Provincial Competitiveness Index |
| PPP | Purchasing Power Parity |
| R&D | Research and Development |
| RCA | Revealed Comparative Advantage |
| RCEP | Regional Comprehensive Economic Partnership |
| ROA | Return on Assets |
| ROE | Return on Equity |
| RoO | Rules of Origins |
| ROS | Return on Sales |
| SBV | State Bank of Viet Nam |
| SMBD | Senior Managers and Board of Directors |
| SME | Small and Medium Enterprise |
| SOE | State-Owned Enterprise |
| SPS | Sanitary and Phytosanitary Measures |
| TBT | Technical Barriers to Trade |
| TC | Trade Complementarity Index |
| TFP | Total Factor Productivity |
| TI | Trade Intensity Index |
| TiVA | Trade in Value Added |
| UNDP | United Nations Development Program |

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|---------|--|
| UNESCAP | United Nations Economic and Social Commission for Asia – Pacific |
| USD | US Dollar |
| VCCI | Viet Nam Chamber of Commerce and Industry |
| VCFTA | Viet Nam – Chile Free Trade Agreement |
| VEPR | Viet Nam Institute for Economic and Policy Research |
| VKFTA | Viet Nam – Korea Free Trade Agreement |
| WB | World Bank |
| WEF | World Economic Forum |
| WGI | World Governance Index |
| WTO | World Trade Organization |

EXECUTIVE SUMMARY

1. Viet Nam has paid more adequate attention on renovation of growth model and economic reforms, aiming at improving growth quality and effectiveness of state management of social-economic development, in particular since 2012. Economic growth has gradually shifted from input-based approach to the combination of input-based and efficiency-based. Economic growth rate attained relatively rapid paces in the 2011-2019 period: 6.21% p.a. in the 2011-2015 period; and 6.84% p.a. in the 2016-2019 period. However, average GDP growth rates took the downward trend in long terms (1991 – 2000: 7.34% p.a.; 2001 – 2010: 6.82% p.a.; 2011-2020: estimated to be 6.35% p.a.).
2. By economic sector, the contribution of the private and FDI sectors to economic growth increased and became more stable, even in certain times of economic difficulties (2018-2019). Industry-construction sector expanded rapidly and constituted an important share in GDP growth; the dependence of GDP growth in mining and quarrying was lessen. By GDP expenditure, final consumption accounted for significant share (more than 70% in the 2007-2018 period) and grew at relatively high and stable paces, which was partly attributed by stronger consumer confidence and the expansion of middle-income class. The increase of investment was the driving force for economic growth recently, investment efficiency was improved (reflecting in decreasing ICOR). The savings-investment gap changed drastically, showing reversion since 2012.
3. The quality of economic growth has improved though at modest level, the contribution of TFP increased uninterruptedly over times, labor productivity grew at stable paces. Growth potential, however, upgraded slowly. Growth indicators and GDP per capital of Viet Nam remained below those of many ASEAN countries and CPTPP members. As the result, it will be challenging for Viet Nam to narrow the development gap and effectively take advantage of international integration, in particular of new generation Free Trade Agreements (FTAs).
4. International trade of Viet Nam has been expanded in terms of both scale, markets and commodities. Trade balance was surplus after 2011 (from USD 748.8 million in 2012 to USD 11.1 billion in 2019). These outcomes were more impressive in the context of highly uncertain economic and trade landscape worldwide, increasingly complicated trade tensions among major countries (in particular the US – China trade war), thus implying significant improvement of trade policy management of Viet Nam. Nevertheless, trade surplus heavily depended on FDI firms, casting challenges on enhancing capacity for domestic enterprise to better utilize FTA preferences. Export structure has gradually changed with larger share of European and the US markets and smaller share of Asian markets. By commodity group, consumer goods accounted for the biggest proportion in total exports; the share of

capital goods increased rapidly at high levels (24.3% in 2017; 33.8% p.a. in the 2009-2017 period). Intermediate goods composed the largest share in total imports.

5. Exports to markets that ratified CPTPP increased by 8.3% after 1 year of CPTPP implementation. There remain highly potential room for Viet Nam to promote exports to CPTPP market. Imports from other CPTPP members grew at lower pace, only 1% in 2019. The share of CPTPP countries in Viet Nam's import structure was modest, accounting for 17.9% in the 2011-2018 period.
6. The participation of Vietnamese enterprises in global value chains (GVCs) has been improved considerably (from 34% in 1995 to 56% in 2015), which was dominated by backward linkage (45%) while forward linkage accounted for only 11%.¹ Domestic value added ratio in total exports of Viet Nam took the downward trend (from 63.9% in 2005 to 56.4% in 2016) and was at low position in international and regional comparison (ranked 79th out of 83 countries and territories)². The figure decreased in key export industries of Viet Nam in the GVCs such as garment and textiles, food, computers and spare parts, etc.
7. Findings from calculation of trade indicators showed that Viet Nam has competitive advantages in exporting traditional commodities such as footwear, tea and coffee, bamboo and rattan products, clothes and apparel. Viet Nam's export structure is highly similar to that of ASEAN countries, China, members of RCEP and CPTPP. Export similarity has been increasing since 2008. Trade Intensity Index with CPTPP, ASEAN and RCEP indicated the importance and potentials of those markets to Viet Nam. Exported goods from Viet Nam increasingly complement well demands of major partners like Japan, the US, etc.
8. Viet Nam's preference utilization of FTAs has been enhanced; utilization rates of some FTAs were relatively good (for instance AIFTA, VCFTA, AKFTA, etc.). However, the utilization rate was modest (attained about 39% in 2018-2019). Key export commodities such as fishery products, footwear, clothes and apparel, etc. have high preference utilization rates. In case of the CPTPP, Vietnamese firms has taken advantages of preference utilization in some markets at certain extent (such as Canada, Mexico), but there remain significant room to better utilize the agreement's preferences. Vietnamese firms are exposed to the challenge of enhancing capacity to meet requirement of rules of origins (RoO) in order to increase preferences utilization rates of FTAs in general and CPTPP in particular. This issue becomes more critical as the supporting industry remains insufficiently developed and Viet Nam heavily relies on imported inputs.
9. FDI attraction has been accelerated steadily. In the 2010-2019 period, FDI inflows to Viet Nam increased by 12.4% p.a. in terms of projects, by 5.1% p.a. in terms of registered capital and 7.4% p.a. in terms of implemented capital. Implemented FDI

¹ VEPR (2015)

² OECD (2018)

capital achieved many recorded levels, including the unprecedented figure of USD 20.4 billion in 2019. Investor confidence is increasingly consolidated thanks to more stable macroeconomic conditions, more favorable business – investment environment, improved FDI policies, *among many others* (for instance the withdrawal of FDI capital from China due to the US – China trade war, etc.). On this basis, the CPTPP plays the important role in facilitating reforms of business – investment environment in Viet Nam. On the contrary, policy formulation bodies and business community will be better prepared for opportunities that derive from the CPTPP. However, FDI mainly concentrated in low stages in GVCs, using medium technologies, low domestic value added. Attraction of high-quality FDI or FDI inflows to some prioritized sectors/industries remained limited.

10. Financial services contributed relatively significant share in GDP (about 5%) and grew at relatively high pace in recent years (increased by 7.1% p.a. in the 2010-2018 period). Together with fundamental obligations (such as national treatment, most favored nations, etc.), the CPTPP contains higher commitments in market access for financial services in comparison to those in other FTAs and the WTO (for instance new obligations related to offering new financial services, fast-licensing for insurance services, etc.). Banking services, insurance services and securities services are key areas being affected from the CPTPP implementation. The CPTPP as well as other new generation FTAs bring about both opportunities and challenges for businesses in those areas. The Government has been undertaking necessary reforms on harmonizing regulatory frameworks of these services with those under CPTPP commitments, which aim at approaching international regulations and best practices.
11. Regarding labor – employment, Viet Nam has advantages of abundant, young and skilled labor force in relative to other ASEAN countries and CPTPP members; labor quality has improved, labor structure shifted positively. However, there remain concerns on more obvious trend of ageing trend, inadequate employment structure by qualification (“too many chiefs, no Indians”), the existing gap of job opportunities between male and female workers; etc., which may have adverse impacts on labor supply and productivity growth of Viet Nam in the long run. Labor productivity increased at slow and unstable paces; labor productivity gap between Viet Nam and that of other countries has widened. Viet Nam developed a set of indicators of labor relations, nevertheless statistical data on labor relations in Viet Nam remained inadequate in relative to ILO’s data set. The CPTPP dedicates special focus on labor rights, leading to requirements on improving regulatory framework of labors that are consistent with ILO standards.
12. The CPTPP is among FTAs with toughest provisions on environment, which are in general in line with Viet Nam’s international commitments on environment and the orientation of sustainable development. The implementation of CPTPP commitments on environment derives not only from CPTPP preparation but also

from internal demand of the economy. Despite of significant progress on policy formulation and enforcement, the enforcement of environmental polices remains challenging at both micro and macro levels.

13. Regulatory adjustments for effective implementation of the CPTPP have been implemented with recognized achievements and high consistency of awareness and actions by relevant agencies and organizations. The quantity of amended and supplemented legal documents was moderate thanks to a long period of regulatory improvement being associated with requirements of development and integration process. Regulatory development and improvement to implement the CPTPP has been undertaken in the context of more transparent approach. However, Viet Nam's regulatory framework remains inappropriate in comparison to international best practices as well as that of other FTA partners, being reflected in international rankings of business environment by the World Bank (WB), World Governance Index, Global Competitiveness Index, etc. Requirements of institutional improvements for effective implementation of the CPTPP includes but not limited in the followings: (i) accurate and sufficient understandings of CPTPP provisions; enhancing the effectiveness of cooperation among relevant ministries, line ministries; and (iii) timely reviewing and promulgating legal documents to implement the CPTPP.
14. At enterprise level, enterprise development efforts have resulted in impressive achievements, which are partly attributed to improvements of enterprise development and supporting policies. Enterprises themselves are paying more adequate attentions to grasping opportunities from FTAs. However, there remain critical issues should be appropriately addressed for better preparation for the CPTPP. In specific, in terms of understanding and acknowledgement, firms tend to excessively focus on short-term targets; own knowledge about tariff and tariff reduction instead of thorough and systematic understanding of other aspects such as RoO, Sanitary and Phytosanitary measures (SPS), Technical Barriers to Trade (TBT), etc. and lack information on the network of domestic and foreign suppliers. In terms of technological capacity, the ratio of firms using high technologies, having adequate investment on R&D or technological upgrading was modest. Vietnamese enterprises also face with the shortage of skilled laborers and in appropriate capability of managers and directors. Linkages between domestic and FDI firms have been improved, Vietnamese firms are still struggling in taking part in global supply chains, their participation remains modest in relative to other ASEAN countries.
15. The CPTPP opens abundant opportunities for Vietnamese firms, including: (i) market access, export expansion and participation into GVCs; (ii) access to investment; (iii) access to technologies and management skills; (iv) enhanced efficiency of economic activities thanks to the improvement of market-oriented institutions; and (v) changes in mindset of policy makers and improvement of

quality of policy formulation process. Nevertheless, there are challenges needed to be appropriately addressed, in particular improving competitiveness, taking advantage of opportunities, especially harmonized implementation of the CPTPP with other existing integration paths. Enterprises will enjoy more positive impacts if social consensus is further consolidated regarding such issues as restructuring process and measures, the balance among policy objectives, creating more policy space for supporting enterprises.

16. The international landscape is undergoing fast movements that have widespread and complicated effects on the economy as well as international integration process, regional and global supply-production chains and wide-effect movements. Potential risks include the possibility of economic recession in major economies, trade tensions among giant partners, protectionism and populism, Industrial Revolution 4.0 (IR 4.0), etc. Given deeper and wider international integration process, Viet Nam has become more vulnerable to external risks. The economy witnessed not only significant progress but also new challenges in renovating and enhancing effectiveness of growth paradigm, improving competitiveness, upgrading position in GVCs, taking advantage of achievements of IR 4.0, etc.
17. Domestic and international context has reinforced new challenges and requirements for policy management and formulation, which should be more consistent and timely to better support more effective integration of enterprises. For trade institution, appropriate focus should replace on enhancing the capacity to utilize FTAs' preferences in particular and those under the CPTPP in particular; taking advantage to join global production and value chains; grasping opportunities to expand exports of key commodities; promoting trade facilitations; improving information dissemination to business community and business consultation effectiveness. Adjustment of FDI institutions emphasizes fundamental issues of attraction, preferences and selection of FDI projects that are linked with supply chains of key products and have positive spillover effects on the economy. Besides, notable institutional improvements include industrial policies, non-tariff measures (NTMs), intellectual property rights (IPR), prevention and responses to trade-investment disputes. There is also the need to exert appropriate focus on overall orientation on institutional reforms toward strengthening macroeconomic stability and foundations of market-oriented economy.
18. Policy recommendations focus on further strengthening macroeconomic stability through flexible and proactive policy management; enhancement of policy collaboration and coordination; establishment of concrete foundation for policy formulation and enforcement; creation of favorable environment for business – production activities and acceleration of economic resilience of the economy. Policy recommendations on trade policy adjustments focus on renewing policies, mechanism and management of import-export activities; enhancing competitiveness of Vietnamese goods; promoting trade facilitations; facilitating

exports in association with appropriate regulating of imports. Recommendations on FDI policy adjustments include enhancing awareness and consistency of FDI activities; improving FDI institutions (on FDI attraction; strengthening investors' responsibilities; protecting investors; investment supervision; investment promotion; state management). In parallel, it is necessary to continue promote the development of private sector and enhancement of business – investment environment; taking advantage of IR 4.0 to strengthen linkages within firms' supply chains through such measures as developing and improving institutional capacity; formulating and implementing policies on utilizing digital economy, supporting digital transformation of enterprises; promoting human resource development.

1 Introduction

In more than 30 years of implementing the Doi Moi (Renovation), Viet Nam has implemented comprehensive economic reforms, which rested on three major pillars, namely: (i) market-oriented institutional reforms; (ii) macroeconomic stability; and (iii) proactive market openness and international economic integration. The periods with more meaningful efforts on international economic integration (1989-1996, 2000-2007, 2017-2019), were also those with comprehensive reforms of domestic economic institutions and most significant socio-economic achievements.

After the accession to the World Trade Organization (WTO), the process of market opening and international economic integration of Viet Nam has been further accelerated with significant changes of mindset, reflecting in such aspects as (i) participating in many regional, bilateral and plurilateral FTAs; (ii) mindset of effective implementation of international economic integration instead of solely passive implementation of international economic integration commitments; and (iii) international economic integration is no longer the most important/solely driving force of internal economic institutional reforms. Instead, reforms of domestic economic institutions are increasingly induced by self/unilateral fulfillments (in particular since 2014), focusing on reforming of microeconomic foundation and strengthening macroeconomic foundation and resilience of the economy. Business environment witnesses significant improvements, in which the private sector is considered the backbone of the economy. However, legal and regulatory framework for market-oriented economy in Viet Nam remains inadequate in relative to international best practices, the national and enterprise competitiveness is still weak in order to effectively take advantage of opportunities of international economic integration. Without effective solutions, challenges for economic reforms and business restructuring will be reinforced, in particular in the context of the Industrial Revolution (IR) 4.0 with widespread impacts.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) took effect on January 14, 2019. The Agreement is expected to create additional inducements for further promoting trade and investment and fostering economic reforms in Viet Nam. Many studies (for instance by the World Bank (WB), 2018) finds that Viet Nam may enjoy benefits from the CPTPP. However, taking advantage of potential benefits from the CPTPP strongly relies on institutional stance and capacity of domestic enterprises. This inter-connection is recognized in existing FTAs; however, strict requirements and highly potential benefits of the CPTPP are key inducers for Viet Nam to take more serious consideration in effectively implementing the Agreement.

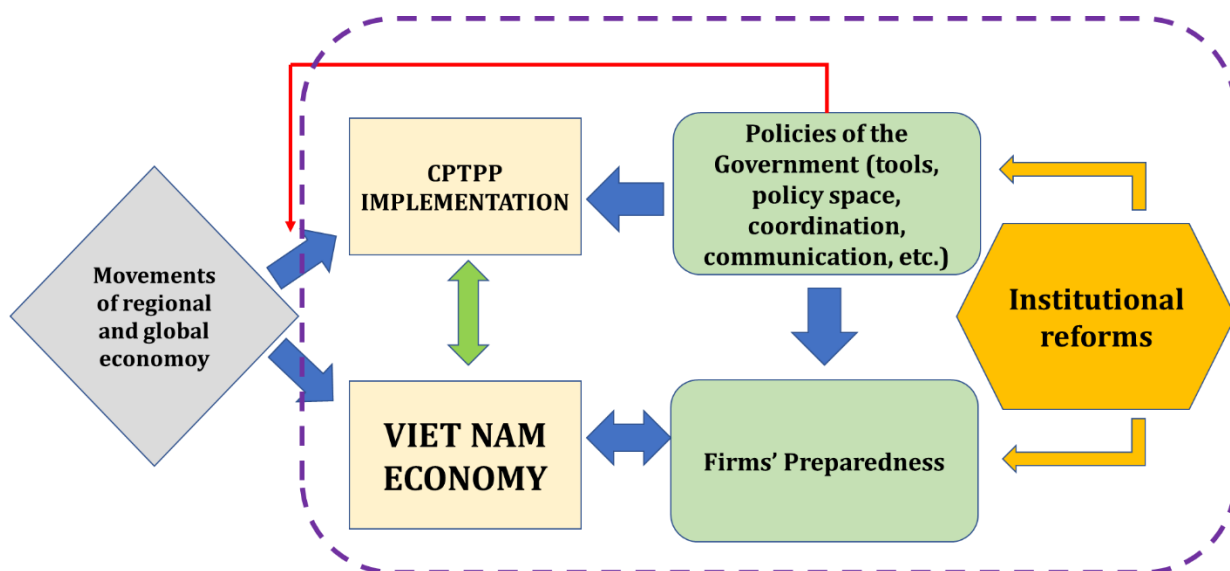
With this perspective, this Report aims at identifying requirements for effective implementation of the CPTPP in the process of international economic integration;

addressing challenges for business community and preparation for CPTPP implementation at both micro and macro levels.

In specific, the Report set out the following objectives: (i) To review socio-economic development of Viet Nam and preparation for CPTPP implementation (at national, industrial/sectoral and business levels); (ii) To identify opportunities and challenges for business community and the Government to effectively implement the CPTPP; and (iii) To propose policy recommendations on institutional improvement and enhancement of capacity for enterprises in order to effectively implement the Agreement. As the result, the Report utilizes qualitative approach and identifies institutional and capacity gaps of enterprises for effective implementation of the CPTPP, which will be the basis for policy recommendations for Viet Nam in the coming period.

Figure 1 presents the analytical framework. The implementation of the CPTPP is influenced by structural characteristics of Viet Nam economy. On the contrary, strict commitments and requirements of the CPTPP implementation – the playing ground of the world-leading countries in terms of economic capability and competitiveness – will help induce positive changes of Viet Nam economy. Government’s policies may directly affect the implementation of the CPTPP as well as firms’ preparedness. If more fundamental institutional reforms are in place, the effectiveness of policy formulation and enforcement as well as preparedness of enterprises will be improved.

Figure 1: Analytical framework



Source: Authors.

Excluding the Introduction, the Reports includes 3 parts. Part 1 reviews socio-economic development of Viet Nam and requirements for effective implementation of the CPTPP. Part 2 focuses on analyzing firms’ preparedness for implementing the CPTPP as well as opportunities and challenges arising from international integration

process in general and CPTPP implementation in particular. Part 3 covers policy recommendations for the coming period based on analysis of requirements of institutional improvements and capacity enhancement of enterprises.

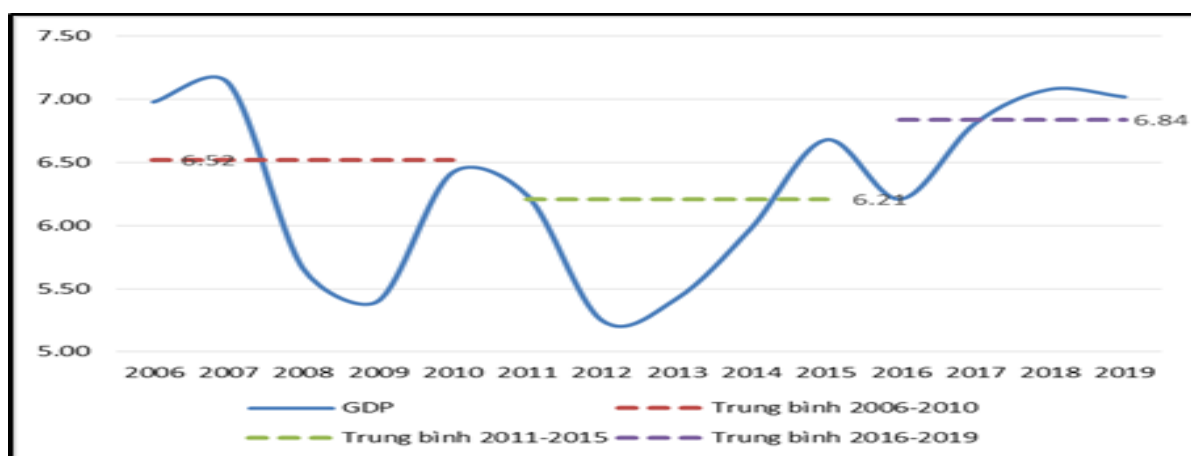
2 Overview of Vietnam's socio-economic situation and requirements for effective implementation of CPTPP

2.1 Economic growth

After more than 30 years of implementing the Doi Moi (Renovation), Viet Nam has achieved remarkable achievements in socio-economic development in general and economic growth in particular. Accordingly, Viet Nam has focused more on renovating the growth model and economic restructuring, aiming at improving growth quality as well as the effectiveness of socio-economic management, especially since 2012. As a result, in recent years, Viet Nam's growth has initially shifted from input-based approach to productivity-based approach.

Specifically, the economic growth rate in the 2011 - 2019 period gradually improved, attaining relatively high levels in recent years and always being among leading countries with the highest growth rates in the region and in the world. The economy grew at the rate of 7.08% and 7.02% in 2018 and 2019, respectively. Average economic growth rate in the 2016-2019 period was 6.84% p.a., outpaced the figure for the 2011-2015 period (6.21% p.a.).

Figure 2: Average GDP growth rate, 2006-2019 (%)



Source: Calculation from GSO's statistical data.

In the longer term, however, GDP growth follows the decreasing trend. The average growth rate in the period of 2011-2020 (estimated to be about 6.35% p.a.) may be significantly below that of previous periods (7.34% p.a. in the 1991-2000 period; 6.82% p.a. in the 2001-2010 period). Being a developing country, Viet Nam will face with tremendous challenges being induced from the decreasing economic growth in long run, in particular regarding international competition and narrowing and catching up with development gap with advanced economies in the region and in the world.³

³ South Korea's average GDP growth reached 9.58% p.a. in 30 years of 1960-1990 period, in which 14 years attained growth rate of above 10%; the highest growth rate was 14.8% (in 1973); economic scale increased by 15.4 times at 2010 constant price in USD or by more than 70 times at current price. During 30 years of reform and development (1977 - 2007), China's average GDP growth rate was 10.02% p.a.; the highest growth rate (in 1984) was 15.14%; 15 years of GDP growth rate reached more than 10%.

By types of economic ownership, the private and foreign investment sectors were key locomotives of economic growth. Private sector increased by over 9.1% on average in the period of 2010-2018; the annual growth rate was around 12% p.a. since 2012. Foreign investment sectors expanded at the rate of 9.57% p.a., and the annual growth rate was always over 11% since 2015. The non-state economic sector accounted for the highest proportion of Viet Nam's GDP despite of decreasing share in GDP (from 47.7% in 2007 to 42.08% in 2018). Meanwhile, the proportion of foreign investment sector increased from 16.96% to 20.28% in the same period. In 2018, this sector continued to attain high growth rate of 12.18%. The large and rapidly growing share of the foreign investment sector also reflects the deeper market openness and integration of the country.

Table 1: Structure and growth rate of GDP by economic sector, 2007-2018 (%)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| GDP structure | | | | | | | | | | | | |
| TOTAL | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| State sector | 35.35 | 35.07 | 34.72 | 29.34 | 29.01 | 29.39 | 29.01 | 28.73 | 28.69 | 28.81 | 28.63 | 27.67 |
| Non-state sector | 47.69 | 47.5 | 47.97 | 42.96 | 43.87 | 44.62 | 43.52 | 43.33 | 43.22 | 42.56 | 41.74 | 42.08 |
| Foreign investment sector | 16.96 | 17.43 | 17.31 | 15.15 | 15.66 | 16.04 | 17.36 | 17.89 | 18.07 | 18.59 | 19.63 | 20.28 |
| Products taxes less subsidies on production | .. | .. | .. | 12.55 | 11.46 | 9.95 | 10.11 | 10.05 | 10.02 | 10.04 | 10 | 9.97 |
| GDP growth rate | | | | | | | | | | | | |
| TOTAL | 7.13 | 5.66 | 5.4 | 6.42 | 6.24 | 5.25 | 5.42 | 5.98 | 6.68 | 6.21 | 6.81 | 7.08 |
| State | 5.91 | 4.36 | 3.99 | 4.64 | 4.79 | 5.8 | 4.76 | 4.05 | 5.37 | 5.2 | 4.22 | 3.6 |
| Non-state | 6.03 | 5.82 | 6.63 | 7.08 | 7.93 | 6.01 | 4.73 | 5.85 | 6.32 | 5.51 | 6.23 | 7.33 |
| Foreign investment sector | 13.04 | 7.85 | 4.81 | 8.07 | 7.69 | 7.42 | 7.86 | 8.45 | 10.71 | 9.55 | 12.66 | 12.18 |
| Products taxes less subsidies on production | | | | | 2.07 | -1.6 | 6.42 | 7.93 | 5.54 | 6.38 | 6.34 | 6.08 |

Source: GSO.

By economic sector, the industry - construction and service sectors played the leading role to economic growth (contributing 2.82 percentage point and 2.76 percentage point to GDP growth in the 2016-2018 period, respectively). In particular, the strong growth of the processing - manufacturing sector is an important factor inducing the growth of industry - construction in particular and the economy in general. The share of this sector in GDP increased from 12.9% in 2011 to 16.0% in 2018, attaining the average growth rate of 10.9% over the period of 2011-2018, contributing 2.26 percentage point to the overall economic growth (higher than the figure of 1.86 percentage point in 2011). In 2019, the processing and manufacturing industry sub-

sector grew at 11.29%, which was below than the YoY growth rate in the last 2 years⁴. Industrial production has not overcome the reduction period as the Index of Industrial Production (IIP) increased by 9.2% in 2019, which was slower than that in the period of 2017-2018⁵. Mining and quarrying sub-sector attained the positive growth rate of 1.29% in 2019 after 3 consecutive years of reduction. Coal mining was soaring⁶, offsetting the decline in crude oil exploitation⁷ (Figure 4). This raises concern on the return of the mining and exporting of mineral-led growth model - as it was before 2016

Figure 3: GDP growth by economic sector, 2012 - 2019 (%)

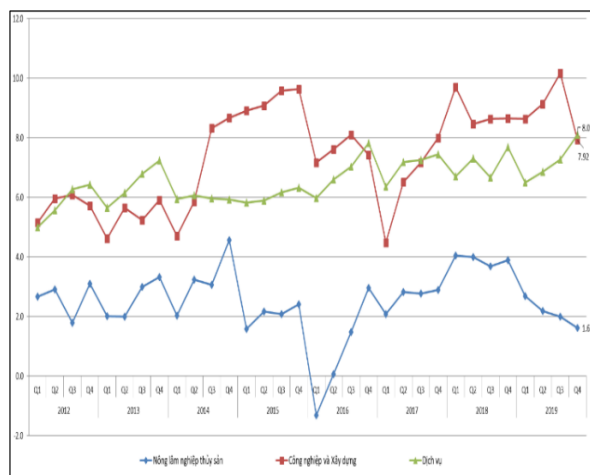
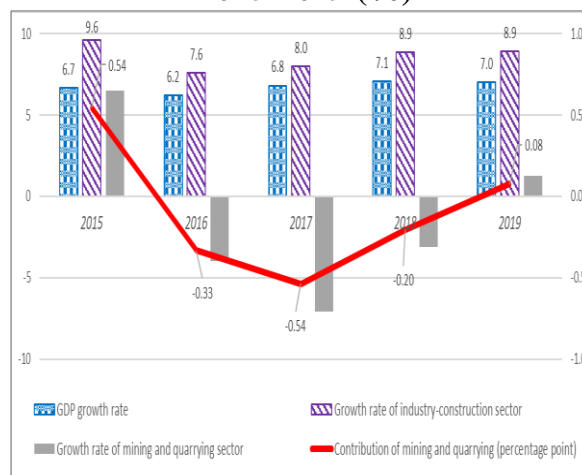
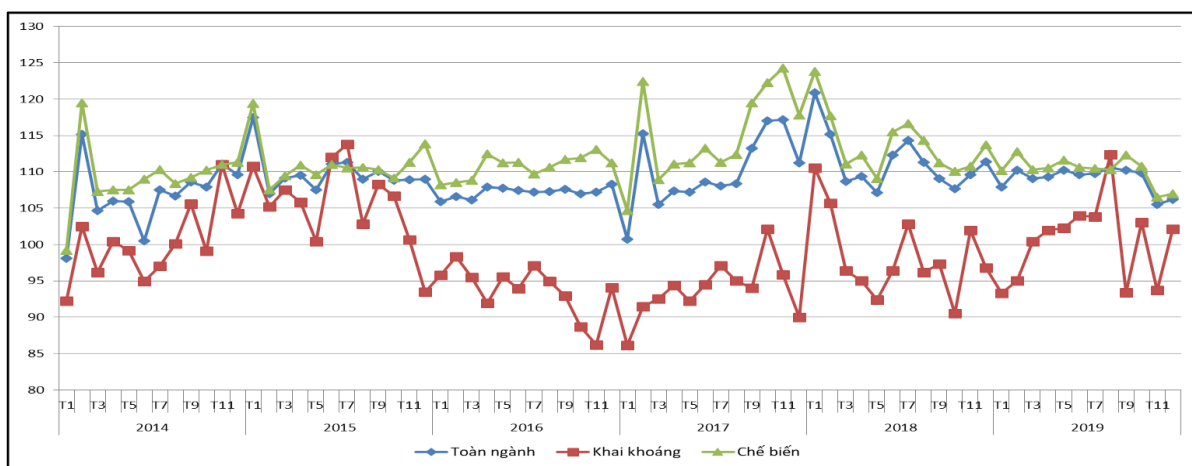


Figure 4: GDP growth rate and contribution of mining and quarrying, 2015-2019 (%)



Source: GSO.

Figure 5: Index of Industrial Production, 2013-2019 (%)



Source: GSO.

Meanwhile, the agriculture, forestry and fishery (AFF) sector only reached an increase of 2.67% p.a. in the 2016-2018 period (lower than the rate of 3.12% p.a. in the

⁴ The growth rate of added value of processing and manufacturing industries in selected: 9.05% in 2012; 7.22% in 2013; 7.41% in 2014; 10.60% in 2015; 11.90% in 2016; 14.40% in 2017; 12.98% in 2018; and 11.92% in 2019.

⁵ IIP increased by 11.3% and 10.2% in 2017 and 2018, respectively.

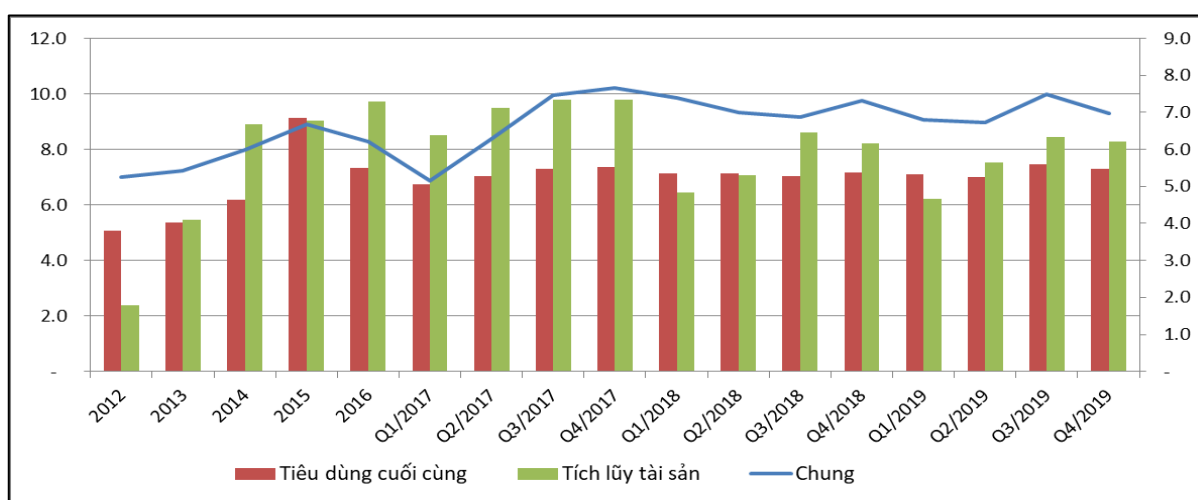
⁶ Production index of coke and refined petroleum products increased by 38.3%; of metal ores increased by 21.2%; of hard coal and lignite production increased by 12.4%.

⁷ Crude oil exploitation decreased by 7%, natural gas exploitation increased by 1.9%.

2011-2015 period). The difficulty of the AFF sector is more evident in the context of strong fluctuation in external market (for instance the US imposed anti-dumping duties on Vietnamese seafood, China tightened official trade and raised requirements/standards for imported goods, etc.); complicated diseases flared up (such as African swine fever in 2019), etc.

In contrast, the service sector grew steadily at high rate of 7.15% p.a. in the 2016-2018 period (compared to the figure of 6.88% p.a. in the 2011-2015 period) and was up by 7.30% in 2019. However, the robust growth and/or large-scale of this sector has not always been positively perceived. For example, digital economy development has been widely discussed, but the size of the information and communication sector was only equivalent to 0.67% of GDP. Similarly, logistic sector accounted for relatively large share (about 18-21% of GDP) and is often considered as a bottleneck for production and business activities in terms of cost.

Figure 6: Growth rate of gross capital formulation, final consumption, and GDP (%)



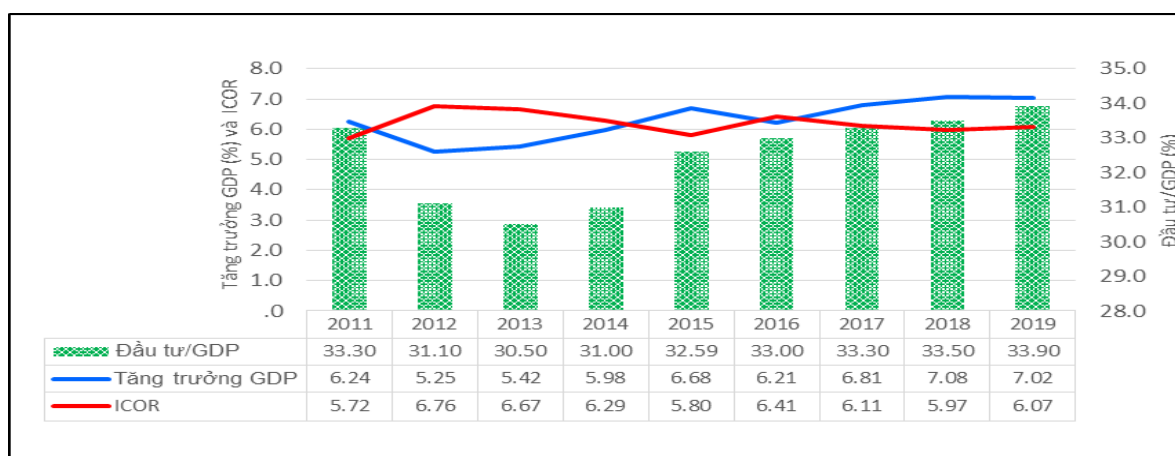
Source: GSO.

By GDP final expenditure, final consumption accounted for the largest proportion of GDP and remained relatively stable at the average of 73.43% in the 2007-2018 period (of which the share of the state sector was 6% of GDP, and of households was 68% of GDP). The share of gross capital formation in GDP took the downward trend, from 39.57% in 2007 to 26.53% in 2018, and this ratio was almost unchanged in the 2012-2018 period. Final consumption grew at relatively stable rates since 2016, partly attributed to stable inflation at low rates in relatively long time, which helped strengthen consumer confidence. It is noteworthy that the growth rate of final consumption and capital formation was at the lowest level since 2015, mainly attributed to low growth rate of credit and investment disbursement.⁸ Accordingly, concerns on improving future growth potential remain visible.

⁸ Will be discussed in more details in section 2.3 and 2.4.

Investment expansion has been an important driving force for Viet Nam's economic growth over the past time. The ratio of social investment over GDP in the 2016-2018 period reached 33.3%, higher than that in the period of 2011-2015 (31.7%). However, the ratio of investment/GDP declined drastically in comparison to the 2007-2010 period, which helped narrow the gap between aggregate demand-supply and lessen the pressure on the macroeconomic environment. As a result, Viet Nam has been able to focus on economic reforms, including strengthening investment management and investment efficiency. Investment efficiency initially improved although the level of improvement was modest. The ICOR attained 6.07 in 2019 and 6.16 in the 2016-2019 period (which was higher than the figure of 6.25 in the 2011-2015 period). The ICOR of Viet Nam was lower than that of some other neighboring countries such as China (6.0 in the 2011-2015 period), Malaysia (4.6 in the 2011-2015 period)⁹, etc. This is a significant advantage for Viet Nam when the CPTPP came into force in 2019. In other words, *assuming that the CPTPP was implemented before 2014, the concern on investment structure and investment efficiency would be more serious.*

Figure 7: Viet Nam's ICOR, 2011-2019

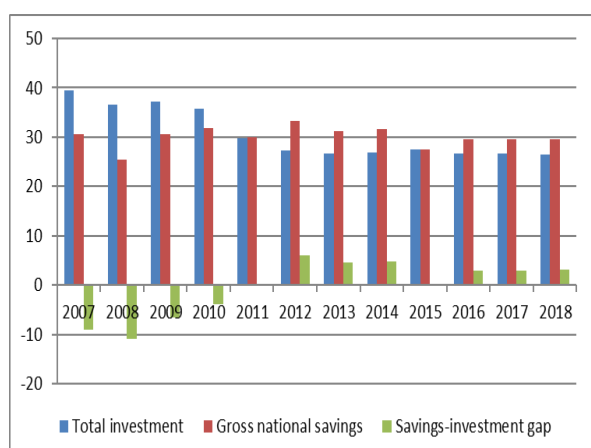


Source: GSO.

The correlation between savings ratio (as of % of GDP) and investment ratio (as of % of GDP) changed significantly in the period of 2007-2018. Until 2010, the investment ratio was always higher than that of savings. However, since 2011, the saving ratio was higher than investment ratio, and the savings-investment gap was widened in the 2016- 2018 period. Among CPTPP members, Viet Nam was the one that experienced the most significant improvement of narrowing savings-investment gap in the period of 2012-2018.

⁹ CIEM (2019a)

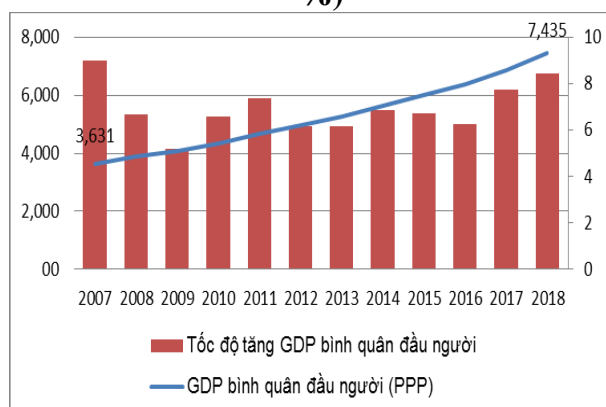
Figure 8: Viet Nam's savings and investment, 2007-2018 (as of % of GDP)



Source: IMF¹⁰.

Viet Nam's per capita income increased from USD 3,631.2 in 2007 to USD 7,434.7 in 2018, maintaining high growth rate compared to the world (an average growth rate of 6.92% p.a. in the 2007- 2018 period). However, in relative to the level of ASEAN as well as other CPTPP countries, Viet Nam's GDP per capita remained modest, only equivalent to about 7.3% of that of Singapore and about 17.5% of the average of CPTPP members. In this context, the requirement of improving growth quality and sustainability has become more critical for Viet Nam on the development path that is away from “a race to bottom” – which is normally visible in FTAs among developing economies.

Figure 10: GDP per capita and growth rate of GDP per capita of Viet Nam (USD, %)



Source: WB¹¹.

The growth quality has improved, albeit modestly. In 2019, the total factor productivity (TFP) contributed 46.11% to GDP growth, higher than the figure of 43.5% in 2018 and of the 2016-2019 period (44.46%) as well as the 2011-2015 period

Figure 9: Savings – investment/GDP gap in the period of 2007-2011 and 2012-2018 of CPTPP countries (%)

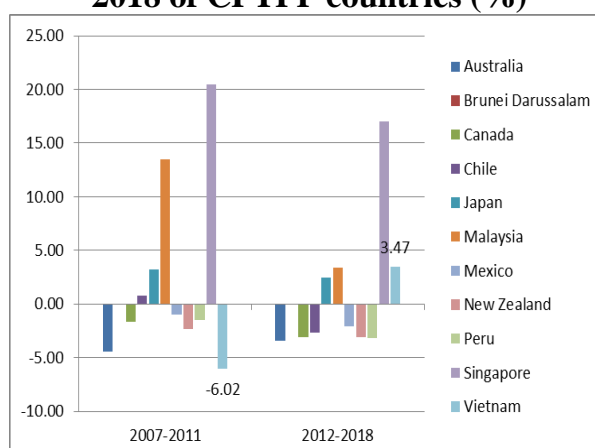
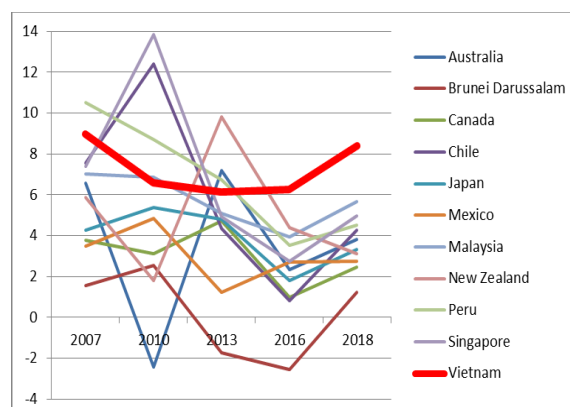


Figure 11: Growth rate of GDP per capita of selected countries (%)



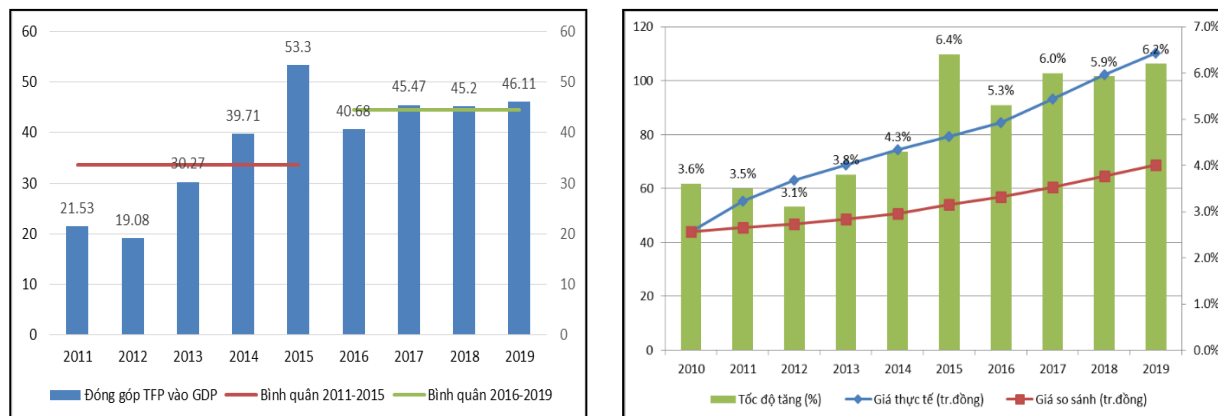
¹⁰ <https://www.imf.org/external/pubs/ft/weo/2019/01/weodata/weoselco.aspx?g=2001&sg=All+countries>

(Accessed on July 10, 2019)

¹¹ <https://data.worldbank.org/indicator/NY.GDP.PCAP.KD.ZG?locations=VN> (Accessed on July 10, 2019)

(30.16%). However, TFP's contribution to Viet Nam's GDP growth remained below that of other countries in the region, such as Thailand (TFP contributed 59% to growth in the 2011-2015 period), the Philippines (46% in the 2011-2015 period)¹², etc.

Figure 12: TFP's contribution to GDP, 2011-2019 (%) **Figure 13: Viet Nam's labor productivity, 2010-2019**



Source: GSO.

Labor productivity increased significantly and steadily over time. In 2019, labor productivity at current prices reached VND 110.4 million per laborer, up by 6.2% compared to that in 2018. On the average, labor productivity increased by 5.75% per annum in the period of 2016-2018, which was outpaced the figure of 4.35% p.a. in the period of 2011-2015 and exceeded the target of 5% for the 2016-2020 period. In the overall 10-year period of 2008-2017, the labor productivity in the 2011 purchasing power parity (PPP 2011) of Viet Nam increased by 4% p.a., which was higher than that of Singapore (0.9% p.a.); of Malaysia (1.1% p.a.); of Thailand (2.6% p.a.); of the Philippines (3.3% p.a.); and of Indonesia (3.4% p.a.). However, Viet Nam's labor productivity remained modest compared to that of other countries in the region. Viet Nam's labor productivity attained USD 11,142 (PPP 2011), which was equivalent to 7.3% of that of Singapore, 19% of Malaysia, 37% of Thailand, 44.8% of Indonesia and 55.9% of the Philippines.

2.2 Trade

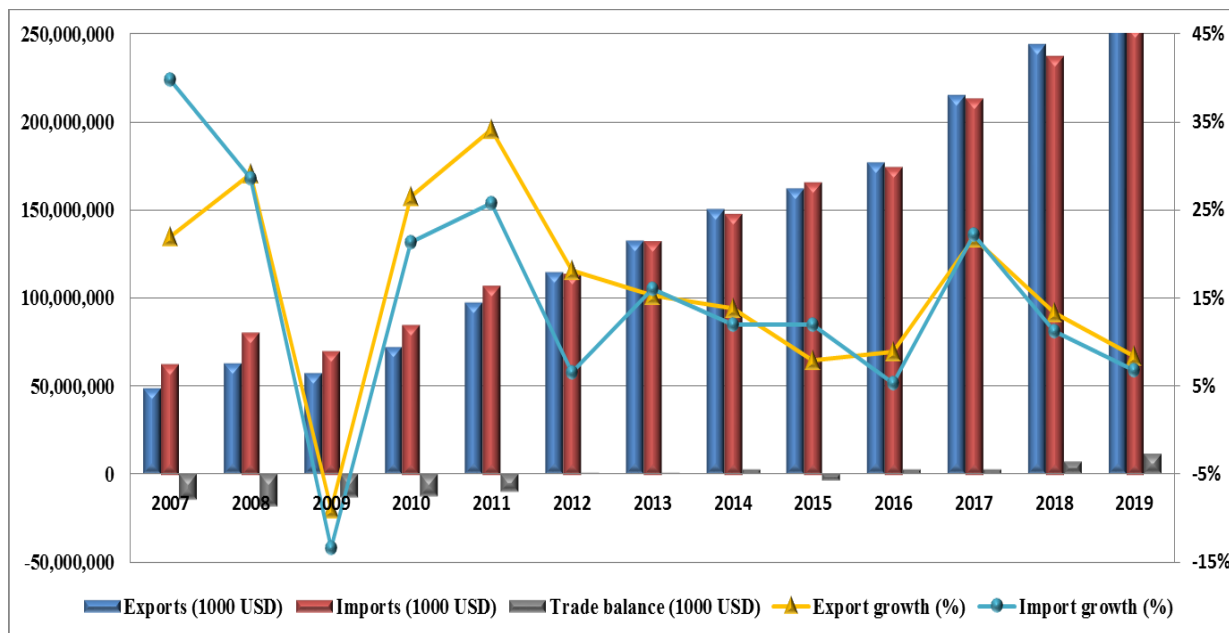
2.2.1 Trade performance

Viet Nam's import and export continuously expanded in terms of scale, market and commodity. In the period of 2007-2010, both imports and exports increased robustly (except in 2009), in which the growth rate of imports was outpaced that of exports, resulting in increasing trade deficit. In the period of 2011-2019, thanks to the recovery of domestic and international economy, Viet Nam's import and export rebounded strongly. Gross exports of goods increased from USD 96.9 billion in 2011 to USD 264.2 billion in 2019, attaining the average growth rate of 15.5% p.a. Imports increased by 12.9% p.a. in the same period. The trade balance gained surplus after

¹² GSO (2018), page 15

2011, from 748.8 million USD in 2012 to over 9.9 billion USD in 2019 (except in 2015 with trade deficit of USD 3.8 billion). The reduction of trade deficit and the shift to trade surplus in addition to the increase of domestic savings (as of % of GDP) indicate significant improvement of Viet Nam’s trade policy management capacity.

Figure 14: Exports, Imports and Trade Balance, 2007-2019



Source: ITC (2007-2009), General Department of Customs (2010-2019).

Findings from various studies have shown that trade surplus mainly comes from FDI firms, while the domestic sector has limited competitiveness and high trade deficit. In other words, the implementation of FTAs by 2018 seemed to be more beneficial to FDI enterprises. If competitiveness of Vietnamese firms is not appropriately enhanced, they would likely to face with difficulties in implementing the CPTPP as well as other FTAs.

Export market structure has gradually shifted towards increasing the proportion of exports to Europe and the US (accounting for 18.4% and 23.4% respectively in 2018 compared to 15.2% and 13.4% in 2007); gradually reducing the share of Asian markets (from 65.8% to 53.6%)¹³. In contrast, China, Korea and ASEAN were the main import markets of Viet Nam in the period of 2007-2018 (accounting for 26.62%; 16.04% and 16.3% in total imports, respectively). Import growth from South Korea reached the highest level among trading partners of Viet Nam in the period of 2007-2018 (23.16%), followed by China (19.94%). In many years, Viet Nam at certain extent has participated in the value chain in Asia and exported products to Europe and the US markets.

¹³ Anh Ngoc (2019), Removing barriers for exports. Institute of strategy and financial policy.

Table 2: Structure and growth rate of Vietnam's import and export by partners, 2007-2018 (%)

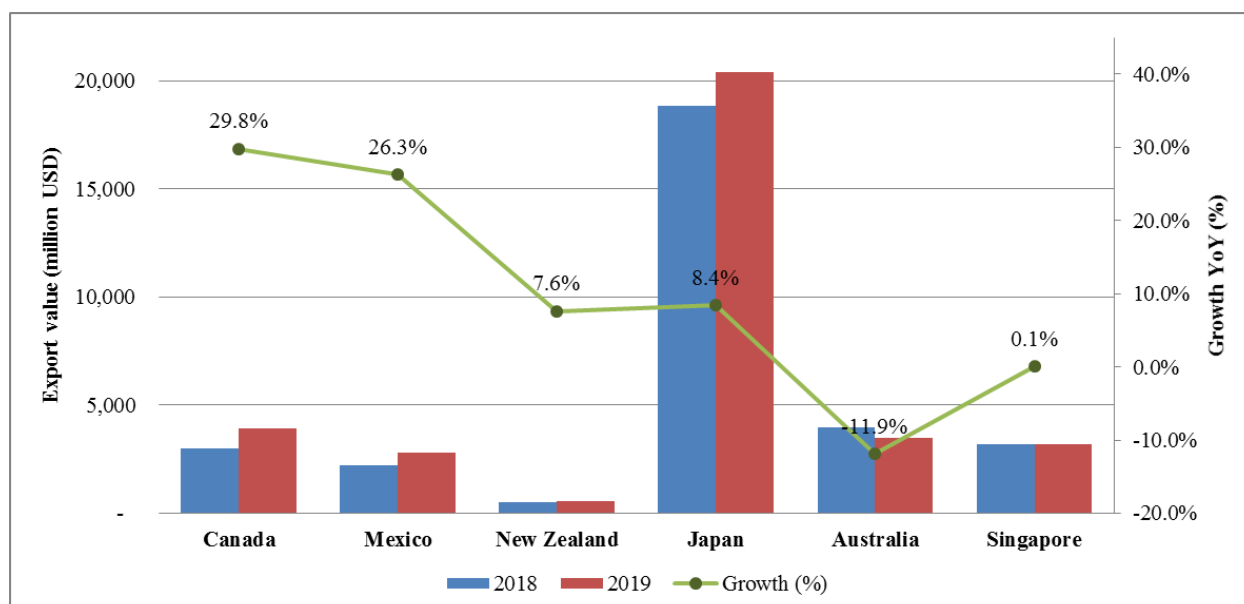
| | Share in total exports | | Share in total imports | | Export growth rate | | Import growth rate | |
|--------------------|------------------------|-----------|------------------------|-----------|--------------------|-----------|--------------------|-----------|
| | 2007-2010 | 2011-2018 | 2007-2010 | 2011-2018 | 2007-2010 | 2011-2018 | 2007-2010 | 2011-2018 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 16.1% | 16.4% | 17.2% | 13.7% |
| EU28 | 17.0% | 18.2% | 7.1% | 6.4% | 12.4% | 17.7% | 19.3% | 10.2% |
| ASEAN | 15.6% | 11.7% | 17.0% | 15.0% | 12.8% | 11.6% | 6.9% | 8.6% |
| South Korea | 3.4% | 6.0% | 7.4% | 8.7% | 38.4% | 24.8% | 17.7% | 9.8% |
| US | 19.8% | 19.4% | 6.6% | 17.5% | 16.0% | 16.3% | 25.7% | 21.9% |
| ANZ | 5.6% | 2.2% | 0.2% | 0.3% | -6.8% | 5.9% | 21.9% | 5.3% |
| Japan | 11.9% | 9.0% | 1.3% | 1.7% | 10.2% | 11.8% | 9.3% | 11.5% |
| China | 8.8% | 13.0% | 12.2% | 27.7% | 22.5% | 24.2% | 28.3% | 16.0% |
| Canada | 1.1% | 1.3% | 0.2% | 0.3% | 16.2% | 18.0% | 18.3% | 11.9% |
| Mexico | 0.7% | 0.9% | 0.1% | 0.3% | 14.4% | 21.0% | 47.9% | 37.3% |
| CPTPP | 26.4% | 18.0% | 11.6% | 17.9% | 6.4% | 10.8% | 8.0% | 8.8% |

Source: Calculation using statistical data of International Trade Center (ITC) (2007-2009) and of General Department of Customs of Viet Nam (2010-2018).

Total exports of Viet Nam to CPTPP member countries accounted for 26.4% in total exports in the period of 2007-2010, but gradually declined to 18% in the period of 2011-2018. However, exports to those markets grew robustly, from 6.4% in 2007-2010 period to 10.8% in the latter period. Almost a year after the CPTPP agreement officially came into effect, Viet Nam has achieved positive results. *Firstly*, in 2019, Viet Nam's exports to six member countries that ratified the CPTPP, reached USD 34.4 billion (up by 8.3%), while the import value was USD 30.1 billion (increased by only 1%). *Secondly*, the trade connectivity between Viet Nam and these markets has been strengthened. Viet Nam's exports to those that ratified the CPTPP all increased (except Australia), in which highest growth rate attained in Canada (29.8%, which was significantly outpaced the figure of 11.9% p.a. in the period of 2011-2018). This implies that Viet Nam has initially explored export opportunities from those markets while high potential to further promote exports to those markets remain visible¹⁴. Imports from CPTPP members increased at slower rate (from 26.1% in the 2007-2008 period to 8.8% in the 2011-2018 period). Viet Nam's import demand did not depend much on CPTPP partners, accounting for 17.9% of total imports of Viet Nam in the period of 2011-2018.

¹⁴ Vietnam's exports increased sharply, but accounted for less than 1% of total imports of Canada.

Figure 15: Exports into CPTPP markets, 2018-2019



Source: General Department of Customs of Viet Nam.

By commodity category, the proportion of consumer goods accounted for the largest proportion of total exports, attaining 46.6% in 2008, growing to 50.4% in 2010 and gradually decreasing to 37.4% in 2017. Intermediate goods accounted for the second largest proportion, increasing from 26.5% to 35.9% in the same period. The share of capital goods expanded most robustly (from 6% in 2008 to 24.3% in 2017). In import structure, the share of intermediate goods was the largest, increasing from 59.5% in 2008 to 70.9% in 2017 (an average growth rate of 13.5% p.a.). Capital goods accounted for the second largest but shrinking share in total imports, from 18.6% in 2008 to 15.8% in 2017.

According to a study by Viet Nam Institute for Economic and Policy Research (VEPR), the GVC participation of Vietnamese enterprises improved significantly, increasing from 34% in 1995 to 56% in 2015. However, this increase only came from the backward linkage (accounting for 45%), while the share of forward linkage was only 11%. In terms of position in GVCs, the position index in the value chain of all sectors was negative, indicating Viet Nam does not have any upstream industry.

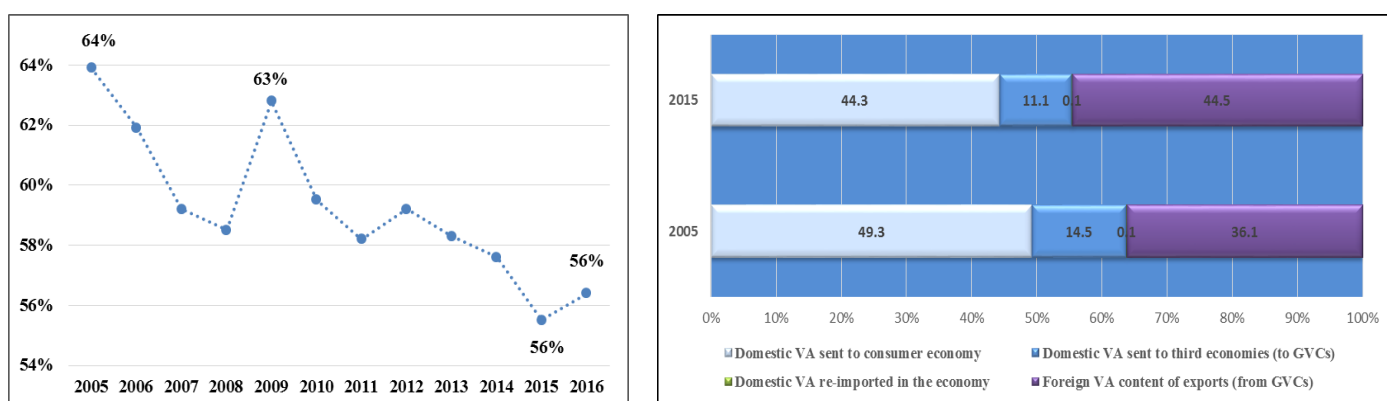
Table 3: Structure and growth rate of Viet Nam's exports and imports by commodity category¹⁵

| Category | Share (%) | | | | | | Growth rate (%) | |
|--------------------|-----------|-------|-------|--------|-------|-------|-----------------|-----------|
| | Export | | | Import | | | Export | Import |
| | 2008 | 2009 | 2017 | 2008 | 2009 | 2017 | 2009-2017 | 2009-2017 |
| Consumer goods | 46.6 | 50.2 | 37.4 | 6.3 | 7.7 | 8.9 | 11.9 | 15.7 |
| Intermediate goods | 26.5 | 26.1 | 35.9 | 59.5 | 60.6 | 70.3 | 18.6 | 13.5 |
| Capital goods | 6.0 | 8.1 | 24.3 | 18.6 | 20.9 | 15.7 | 33.8 | 9.4 |
| Petroleum | 20.2 | 14.9 | 2.3 | 15.1 | 10.4 | 5.1 | -10.0 | -1.4 |
| Others | 0.7 | 0.7 | 0.2 | 0.5 | 0.4 | 0.1 | 2.1 | -13.3 |
| Total exports | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 14.7 | 11.4 |

Source: WITS Trade Database of World Bank.

However, it is noteworthy that the domestic value added share in total exports of Viet Nam took the downward trend. The database of trade in value added (TiVA) of the Organization for Economic Co-operation and Development (OECD) indicated that this proportion decreased from 63.9% in 2005 to the lowest level of 55.5% in 2015, then increased slightly to 56.4% in 2016. Meanwhile, the foreign value added content accounted for 44.5% of total exports in 2015, 8.4 percentage points higher than the figure in 2005. Among 83 countries and territories listed in the TiVA-OECD statistics, Viet Nam ranked 79th in terms of the domestic value added content in total exports in 2016, and the lowest position among the 7 ASEAN countries included in the list. The largest proportion of foreign value added content in Viet Nam's exports was from China (24.7%), followed by ASEAN (11.4%), EU (10.7%) and South Korea (9.6%) in 2015.

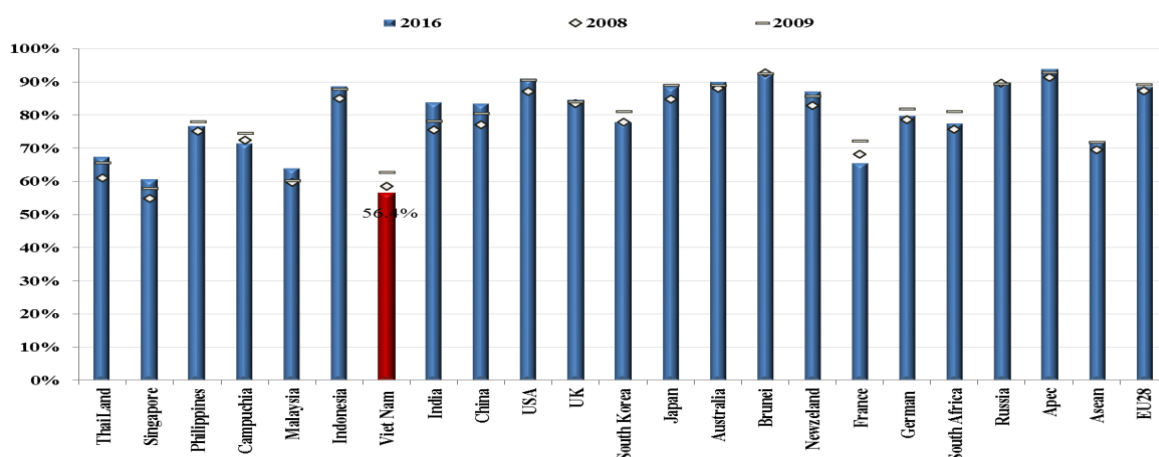
Figure 16: The domestic value added content in Viet Nam's exports



Source: TiVA-OECD database.

¹⁵ Classification of goods according to the BEC system includes consumer goods, intermediate goods, capital goods, petroleum and other goods. Noted that cars, whether for family or business use, are included in capital goods.

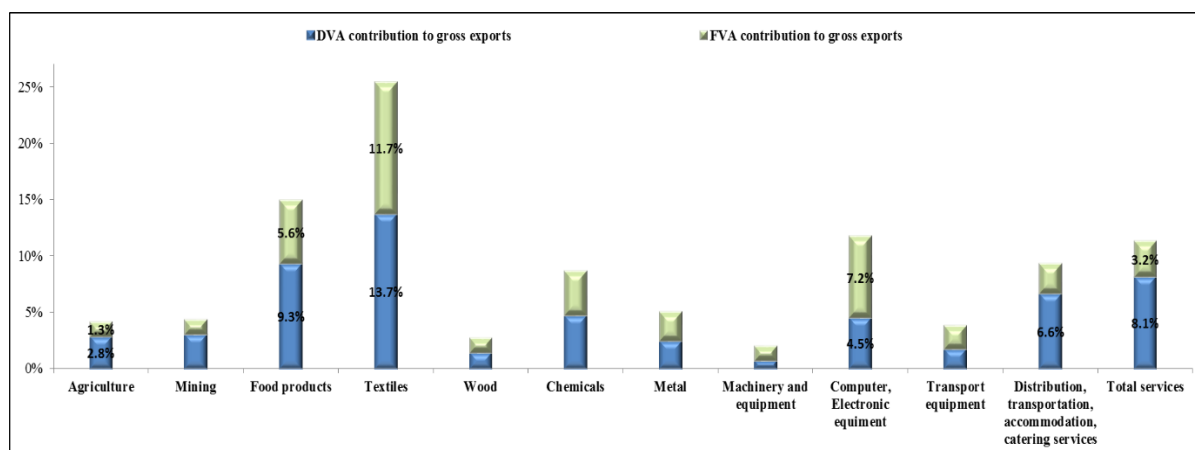
Figure 17: Domestic value added content in exports of selected countries, 2008-2016



Source: TiVA-OECD database.

By economic sectors, Viet Nam's domestic value added content in exports was low and decreased even in key export industries of Viet Nam in GVCs such as garment and textiles, food, computers and components, etc. In particular, the proportion of domestic value added content was highest in the garment and textile industry, but only accounted for 13.7% of the total export value, followed by the food industry (accounting for 9.3%), computers, electronics and spare parts (accounting for 4.5%). As export growth rate remained outpaced the decreasing rate of domestic value added content in exports, Viet Nam still enjoys positive growth rates of domestic value added and benefits from exports (though unsolid and even decreasing in some key sectors/industries). However, in the future, if exports do not maintain the momentum of rapid growth, Viet Nam's domestic value added content may continue to decline, leading to the challenges for economic growth.

Figure 18: Viet Nam's domestic and foreign value added contents of gross exports by sectors, 2015



Source: TiVA-OECD database.

2.2.2 Trade indicators of Viet Nam

2.2.2.1 Revealed Comparative Advantage index

According to the calculation of the Revealed Comparative Advantage Index (RCA)¹⁶, Viet Nam generally has a competitive advantage in exporting traditional products such as footwear (HS 64), tea and coffee (HS 09), manufactures of straw, of esparto or of other planting materials, basket wear and wickerwork (HS 46), articles of apparel and clothing accessories (HS 61, HS 62). For fish, crustaceans, molluscs and other aquatic invertebrates (HS 03), Viet Nam also has export competitive advantage, but the RCA index decreased rapidly in recent years (from 13.58 in 2008 to around 6-7 in the period of 2013-2014, and currently only above 4). This situation also occurred with some key export products of Viet Nam. For example, RCA indices of vegetables (HS 07), ceramic products (HS 69) and other vegetable textile fibers, paper yarn and woven fabrics of paper yarn (HS 53) dropped to below 1 since 2015; the RCA index of furniture products (HS 94) decreased from 3.59 in 2008 to approximately 2 from 2012, etc.

Table 4: RCA of selected commodities of Viet Nam, 2008-2017

| HS code | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------|-------|-------|-------|-------|-------|-------|-------|------|------|------|
| 03 | 13.56 | 10.96 | 10.18 | 9.37 | 7.88 | 6.88 | 6.37 | 4.75 | 4.15 | 4.41 |
| 07 | 1.10 | 1.69 | 1.06 | 1.63 | 1.81 | 1.11 | 1.81 | 0.85 | 0.62 | 0.69 |
| 08 | 3.77 | 3.41 | 3.67 | 3.73 | 3.56 | 2.96 | 3.07 | 3.24 | 3.74 | 4.18 |
| 09 | 20.58 | 16.21 | 13.78 | 13.56 | 14.96 | 11.71 | 12.09 | 8.29 | 8.89 | 7.20 |
| 10 | 6.70 | 7.19 | 7.75 | 5.52 | 4.50 | 3.20 | 2.90 | 2.57 | 1.91 | 2.11 |
| 11 | 3.40 | 4.02 | 5.34 | 5.72 | 7.11 | 5.63 | 5.06 | 5.40 | 3.97 | 3.85 |
| 14 | 2.52 | 2.32 | 2.13 | 2.21 | 2.89 | 2.80 | 2.65 | 2.39 | 2.40 | 1.45 |
| 16 | 3.71 | 3.86 | 4.90 | 4.76 | 3.97 | 4.50 | 4.91 | 3.74 | 3.57 | 3.56 |
| 25 | 0.81 | 1.00 | 1.20 | 1.95 | 2.40 | 2.97 | 3.06 | 2.23 | 1.91 | 1.98 |
| 40 | 3.09 | 2.64 | 3.42 | 3.05 | 2.49 | 2.16 | 1.71 | 1.47 | 1.51 | 1.78 |
| 41 | 2.33 | 1.82 | 1.73 | 1.49 | 1.30 | 1.14 | 1.25 | 1.58 | 1.44 | 1.41 |
| 42 | 3.39 | 3.56 | 3.69 | 3.48 | 3.33 | 3.55 | 4.02 | 3.77 | 3.84 | 3.17 |
| 44 | 1.16 | 1.21 | 1.65 | 1.93 | 1.90 | 2.19 | 1.89 | 1.99 | 1.59 | 1.48 |
| 46 | 12.92 | 13.21 | 13.73 | 11.45 | 9.87 | 10.07 | 9.74 | 8.24 | 7.69 | 7.16 |
| 50 | 2.68 | 2.47 | 2.77 | 3.05 | 2.58 | 2.86 | 2.88 | 2.80 | 2.95 | 3.51 |
| 52 | 1.41 | 1.98 | 2.52 | 2.13 | 1.98 | 2.36 | 3.09 | 3.11 | 3.59 | 3.73 |
| 53 | 1.73 | 2.22 | 1.87 | 1.86 | 1.49 | 1.12 | 1.42 | 0.86 | 0.80 | 0.71 |
| 54 | 1.97 | 2.32 | 2.44 | 2.63 | 2.31 | 2.14 | 2.02 | 1.67 | 1.48 | 1.59 |
| 55 | 1.88 | 2.69 | 2.87 | 2.88 | 2.69 | 2.10 | 1.60 | 1.23 | 1.21 | 1.11 |
| 56 | 0.94 | 1.18 | 1.21 | 1.18 | 1.16 | 1.14 | 1.16 | 1.06 | 1.05 | 1.05 |
| 59 | 1.23 | 1.81 | 2.58 | 2.91 | 2.50 | 2.48 | 2.42 | 2.17 | 1.79 | 1.69 |
| 60 | 1.10 | 1.02 | 1.26 | 1.32 | 1.19 | 1.19 | 1.24 | 1.52 | 1.67 | 1.69 |
| 61 | 5.56 | 5.58 | 5.81 | 5.39 | 5.00 | 4.91 | 5.21 | 4.61 | 4.86 | 4.77 |
| 62 | 6.58 | 6.28 | 6.59 | 6.65 | 6.17 | 6.12 | 6.08 | 5.14 | 5.17 | 4.70 |
| 63 | 2.44 | 2.59 | 3.34 | 2.67 | 2.38 | 2.56 | 2.39 | 2.16 | 1.96 | 1.84 |

¹⁶ The Revealed Comparative Advantage (RCA) is used to assess a country's export potential and identify products that a country has a comparative advantage in international trade. If a product has $RCA > 1$ and greater, suggests that product has more and more competitive advantages in export.

| | | | | | | | | | | |
|-----------|-------|-------|-------|-------|------|------|------|------|------|------|
| 64 | 13.35 | 11.18 | 11.36 | 10.99 | 9.96 | 9.52 | 9.30 | 9.12 | 9.07 | 8.75 |
| 65 | 5.23 | 4.91 | 5.16 | 4.69 | 4.05 | 3.67 | 3.67 | 3.24 | 3.43 | 2.95 |
| 69 | 1.89 | 1.61 | 1.61 | 1.41 | 1.39 | 1.23 | 1.09 | 0.80 | 0.74 | 0.69 |
| 70 | 0.84 | 1.06 | 1.17 | 0.94 | 1.18 | 1.03 | 1.23 | 1.33 | 1.08 | 1.13 |
| 85 | 0.52 | 0.60 | 0.80 | 1.22 | 1.78 | 2.20 | 2.13 | 2.28 | 2.49 | 2.42 |
| 94 | 3.59 | 3.48 | 3.61 | 3.06 | 2.72 | 2.53 | 2.47 | 2.21 | 2.17 | 2.17 |
| 96 | 1.11 | 1.19 | 1.33 | 1.44 | 1.34 | 1.30 | 1.21 | 1.10 | 1.08 | 0.91 |

Source: Calculation using the UNCOMTRADE database

2.2.2.2 Export Similarity Index

Viet Nam's Export Similarity Index (ES)¹⁷ with selected partners showed that Viet Nam's export structure was highly similar to that of other trading partners such as ASEAN, China, RCEP, and CPTPP; and export similarity tended to increase in the 2008-2017 period. Notably, ES index of Viet Nam with the RCEP member countries increased faster than the figure with CPTPP countries. This implies larger export potential to the CPTPP market, in particular such markets as Canada, Australia and Chile. Meanwhile, high similarity of export structure between Viet Nam and ASEAN and China may make it more difficult to promote exports to those destinations.

Table 5: Export Similarity Index between Viet Nam and selected trading partners, 2008-2017

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| RCEP | 45.84 | 48.60 | 53.73 | 59.57 | 64.64 | 65.45 | 64.84 | 63.74 | 61.77 | 62.07 |
| CPTPP | 48.06 | 48.47 | 50.26 | 54.71 | 54.28 | 53.02 | 52.63 | 51.40 | 49.89 | 50.33 |
| Australia | 39.71 | 39.06 | 32.92 | 32.04 | 28.71 | 25.08 | 24.38 | 22.66 | 20.82 | 19.41 |
| Canada | 48.73 | 46.38 | 43.16 | 42.22 | 40.35 | 38.67 | 36.20 | 33.90 | 31.61 | 30.62 |
| Chile | 24.10 | 23.20 | 21.11 | 23.74 | 21.64 | 21.69 | 21.96 | 21.14 | 20.74 | 19.91 |
| Japan | 29.70 | 29.73 | 33.74 | 38.26 | 40.47 | 41.14 | 41.44 | 40.53 | 39.40 | 39.88 |
| Mexico | 48.03 | 47.70 | 48.25 | 51.53 | 55.64 | 55.36 | 54.05 | 52.07 | 49.91 | 49.52 |
| NZL | 33.09 | 31.53 | 32.21 | 31.82 | 29.77 | 27.12 | 25.75 | 25.45 | 24.62 | 23.63 |
| Peru | 30.30 | 32.40 | 31.80 | 33.47 | 30.27 | 27.59 | 29.11 | 25.14 | 22.72 | 21.01 |
| Singapore | 41.66 | 41.18 | 39.79 | 43.02 | 48.58 | 51.74 | 50.00 | 51.97 | 53.31 | 54.31 |
| ASEAN | 52.25 | 54.35 | 56.15 | 60.16 | 64.25 | 63.88 | 63.18 | 63.33 | 62.91 | 66.27 |
| China | 46.58 | 48.18 | 52.25 | 56.42 | 62.59 | 68.08 | 68.35 | 69.21 | 68.61 | 67.74 |
| South Korea | 36.01 | 34.01 | 38.63 | 45.27 | 53.38 | 55.73 | 54.79 | 53.27 | 52.87 | 54.51 |
| The US | 39.62 | 41.14 | 46.27 | 48.14 | 46.12 | 44.18 | 43.10 | 40.25 | 38.07 | 38.16 |
| EU25 | 42.94 | 42.73 | 47.49 | 48.31 | 47.14 | 48.14 | 47.68 | 44.78 | 43.16 | 43.51 |

Source: Calculation using the UNCOMTRADE database

¹⁷ Export Similarity Index (ES) is calculated based on the comparison of Vietnam's export structure with that of its trading partners. The index takes the value between 0 and 100, with a value of 0 indicating complete export dissimilarity and 100 indicating complete similarity. If an economy has a low ES index with a trading partner, it has the potential to increase exports to the partner in the future. In contrast, if the ES index between the economy and a partner is high – indicating similar export structure - the possibility of the economy to export to the partner is limited.

2.2.2.3 Trade Intensity Index

Trade Intensity index (TI)¹⁸ of Viet Nam's exports to CPTPP, ASEAN and RCEP markets all received the value of greater than 1, indicating the importance of these markets for Viet Nam. Important partners for Viet Nam's exports are Australia, ASEAN, China, Japan, South Korea and the United States because the TI indices are always greater than 1. However, except for South Korea with increasing attractiveness, the attractiveness of other markets has been eroding. The trade intensity of Vietnamese exports to the US was relatively stable at around 1.5-1.6 points during the period of 2008-2017, implying a moderate expectation for this market. Although the EU is one of major markets for Viet Nam's, exports to this market remained below expectation.

Table 6: Trade Intensity Index of Viet Nam's exports to selected trading partners, 2008-2017

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------|------|------|------|------|------|------|------|------|------|------|
| Australia | 6.35 | 3.56 | 3.15 | 2.21 | 2.17 | 2.27 | 2.33 | 1.51 | 1.42 | 1.31 |
| Brunei Darussalam | 0.54 | 0.68 | 0.95 | 0.47 | 0.42 | 0.30 | 0.89 | 0.50 | 0.53 | 0.62 |
| Canada | 0.43 | 0.46 | 0.46 | 0.45 | 0.43 | 0.52 | 0.61 | 0.63 | 0.65 | 0.56 |
| Chile | 0.30 | 0.59 | 0.36 | 0.37 | 0.35 | 0.43 | 0.95 | 1.06 | 1.25 | 1.31 |
| Japan | 4.07 | 3.32 | 3.07 | 3.13 | 3.21 | 2.98 | 2.83 | 2.63 | 2.57 | 2.56 |
| Mexico | 0.43 | 0.41 | 0.43 | 0.39 | 0.35 | 0.40 | 0.38 | 0.47 | 0.52 | 0.55 |
| Malaysia | 3.27 | 3.03 | 2.48 | 2.58 | 3.31 | 3.12 | 2.18 | 1.88 | 1.67 | 1.77 |
| NZL | 0.67 | 0.67 | 0.92 | 0.86 | 0.87 | 1.13 | 1.02 | 0.97 | 0.99 | 1.09 |
| Peru | 0.32 | 0.28 | 0.27 | 0.39 | 0.39 | 0.38 | 0.60 | 0.67 | 0.75 | 0.74 |
| Singapore | 3.57 | 2.29 | 1.81 | 1.34 | 1.23 | 1.21 | 1.14 | 1.18 | 0.84 | 0.86 |
| ASEAN | 3.53 | 2.79 | 2.37 | 2.31 | 2.32 | 2.11 | 1.87 | 1.60 | 1.40 | 1.45 |
| China | 1.81 | 1.59 | 1.59 | 1.76 | 1.64 | 1.43 | 1.42 | 1.48 | 1.76 | 1.83 |
| CPTPP | 2.54 | 1.95 | 1.75 | 1.65 | 1.67 | 1.60 | 1.48 | 1.30 | 1.22 | 1.20 |
| EU25 | 0.42 | 0.43 | 0.45 | 0.51 | 0.55 | 0.59 | 0.58 | 0.60 | 0.59 | 0.56 |
| South Korea | 1.44 | 1.71 | 1.86 | 2.14 | 2.17 | 2.23 | 1.98 | 2.27 | 2.71 | 2.85 |
| RCEP | 2.87 | 2.24 | 2.09 | 2.13 | 2.09 | 1.96 | 1.83 | 1.72 | 1.77 | 1.81 |
| The US | 1.56 | 1.69 | 1.64 | 1.55 | 1.44 | 1.57 | 1.60 | 1.56 | 1.65 | 1.50 |

Source: Calculation using the UNCOMTRADE database

Meanwhile, the TI index of Viet Nam's exports with individual CPTPP members took the upward trend, but mostly remained below expectation. Specifically, the TI index of Viet Nam's exports with Mexico, Canada, and Peru was less than 1 and improved modestly. After the Viet Nam - Chile Free Trade Agreement came into force (in 2014), the TI index between the two parties climbed to over 1 in 2015 and witnessed steady increase until 2017. TI index of Viet Nam with New Zealand also improved (from below 1 before 2012 to over 1 in the period of 2012-2017), but in general the improvement was lower than expected.

¹⁸ The Trade Intensity Index (TI) is used to determine trade value between two countries is bigger or smaller than expectation, based on their importance in world trade. This index is calculated based on the proportion of a country's exports to a partner divided by the proportion of world exports to that partner. TI > 1 implies that bilateral trade flows are larger than expectation. In contrast, TI < 1 implies that bilateral trade flows are smaller than expectation.

2.2.2.4 Trade Complementarity Index

The Trade Complementarity Index (TC)¹⁹ indicated that Viet Nam's exports were increasingly satisfy import demand of its major trading partners. The TC index of Viet Nam's exports to Japan and the US attained the highest level among that with other trading partners, maintaining the score of over 50 points in the period 2008-2017 despite of the downward trend. The TC index with CPTPP members increased from 49.1 in 2006 to 56.56 in 2011 but decreased gradually to only 53.06 in 2017. This situation also occurred with some other important partners such as China, South Korea, the US, EU, and Japan when trade complementarity index took the downward trend in the period of 2007-2017. This issue implies both challenges and opportunities for Viet Nam to improve its export structure to traditional markets, as well as to exploit other potential markets such as Canada, Chile, etc.

Table 7: Trade complementarity index of Viet Nam's exports with selected trading partners, 2008-2017

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| RCEP | 53.68 | 50.37 | 50.43 | 54.35 | 53.52 | 52.51 | 51.70 | 52.50 | 52.85 | 51.32 |
| CPTPP | 55.61 | 52.77 | 52.22 | 56.56 | 56.31 | 55.66 | 54.70 | 54.09 | 53.09 | 53.06 |
| Australia | 50.02 | 52.42 | 53.51 | 52.94 | 50.47 | 48.93 | 48.59 | 46.77 | 45.80 | 44.52 |
| Brunei Darussalam | - | 34.34 | 43.42 | 46.84 | 50.64 | 50.81 | 46.35 | 43.34 | 41.24 | 39.05 |
| Canada | 47.91 | 47.91 | 47.91 | 47.91 | 47.91 | 47.91 | 47.91 | 47.91 | 47.91 | 44.50 |
| Chile | 54.02 | 50.40 | 49.71 | 50.07 | 50.32 | 50.54 | 49.53 | 49.07 | 48.70 | 46.82 |
| Japan | 55.68 | 55.38 | 53.71 | 54.99 | 53.38 | 52.72 | 52.20 | 54.28 | 52.82 | 51.96 |
| Malaysia | - | 41.53 | 47.46 | 53.95 | 58.08 | 60.82 | 58.85 | 59.24 | 58.93 | 58.69 |
| Mexico | 41.94 | 38.88 | 43.99 | 50.62 | 57.01 | 58.65 | 57.01 | 53.78 | 51.91 | 51.17 |
| NZ | 52.09 | 51.71 | 50.73 | 50.20 | 50.22 | 48.71 | 47.11 | 46.03 | 44.14 | 42.97 |
| Peru | 52.61 | 50.13 | 50.78 | 52.12 | 51.64 | 49.96 | 49.91 | 47.56 | 44.40 | 43.86 |
| Singapore | 46.18 | 44.37 | 43.51 | 47.04 | 52.33 | 55.22 | 53.62 | 55.58 | 54.19 | 53.15 |
| ASEAN | 51.04 | 48.22 | 49.09 | 54.30 | 57.73 | 56.41 | 55.65 | 55.49 | 55.00 | 56.26 |
| China | 43.91 | 41.82 | 43.78 | 47.80 | 51.35 | 50.74 | 49.44 | 50.72 | 52.78 | 49.06 |
| South Korea | 50.60 | 45.95 | 46.34 | 50.25 | 49.60 | 49.37 | 49.32 | 51.19 | 51.02 | 49.45 |
| The US | 55.86 | 54.46 | 54.20 | 56.98 | 54.73 | 53.95 | 53.89 | 52.79 | 51.48 | 51.56 |
| EU25 | 52.56 | 53.10 | 55.10 | 55.36 | 52.01 | 50.83 | 50.54 | 48.59 | 46.98 | 47.07 |

Source: Calculation using the UNCOMTRADE database

2.2.3 Utilization of FTAs' preferences

According to the Ministry of Industry and Trade (MOIT), average tariff rates among WTO members range between 5 - 25% while average tariff rates under Viet Nam's FTAs are much lower, only 0 - 5%. However, in order to be eligible for FTA's preferential tariff, Viet Nam's exports must satisfy Rules of Origins (RoO) of specifically designed under each FTA.

¹⁹ The Trade Complementarity Index (TC) can provide information on international trade prospects based on the complementarity of import and export structures between the two partners. The trade complementarity index takes the value from 0 to 100. The larger is the TC index, the higher level of conformity between the goods imported from the partner. Note that this index only compares export structure of one country to the import structure of the other, regardless of the trade scale of the two parties.

Table 8: Comparison of De Minimis threshold²⁰ in selected FTAs of Viet Nam

| FTAs | Commodity | De Minimis threshold | |
|---------|--|--|---|
| ATIGA | All goods | 10% of the FOB value | |
| AKFTA | Excepted goods under chapter 50-60 | 10% of the FOB value | |
| AANZFTA | Textile goods of Chapter 50-63 | 10% of the FOB value | |
| AJCEP | Goods of Chapter 16, 19, 20, 22, 23, 28-49 and 64-97 | 10% of the FOB value | |
| | Goods of Chapters 18 and 21 | 7% or 10% of the FOB value | |
| | Textiles of Chapter 50-63 | 10% weight of goods | |
| AIFTA | No defined provisions | | |
| ACFTA | No defined provisions | | |
| CPTPP | Goods (except for some milk and dairy goods, fruit juices, cooking oils) | 10% of transaction value of goods | |
| | Some automobile components | 5% or 10% of transaction value of goods | |
| | Textiles | Not in Chapter 61 - 63 | 10% weight of goods |
| | | In Chapter 61-63 using non-originating fibers or yarns | The weight of the non-originating fibers or yarns do not exceed 10% of the composition that determines the classification of the goods using those fibers or yarns. |
| | | Containing elastic yarn in the main component to determine the classification of goods codes | Elastic yarns are spun entirely in the territory of one or more member states |

Source: Import-Export Department - MOIT

According to statistics of the Import-Export Department (MOIT), the utilization rate of FTAs' preferences of Viet Nam was about 39% in 2018-2019, and generally, Vietnamese enterprises have better taken advantage of signed FTAs. Specifically, the preference utilization rate of the AANZFTA increased from 8.9% in 2010 to 33.8% in 2018; of the AIFTA was up from 2.4% in 2010 to 32% in 2015 and 72.4% in 2018; etc. Some agreements have good utilization rate such as AIFTA (preference utilization rate of 72.4%), VCFTA (66.5%), AKFTA (34.9%), ATIGA (34.4%), AANZFTA (33.8%), VKFTA (25.5%), etc. By the end of 2018, the total export turnover using preferential certificates of origin (C/O) reached USD 50.9 billion in 2018 (YoY growth rate of 34.6%).

²⁰ For processed goods, there are usually two basic criteria for determining the origin of goods, Change in Tariff Classification (CTC) and Regional Value Content (RVC). These two criteria show that the non-originating material, after undergoing a fundamental transformation in processing, becomes an originating good. In FTAs, negotiating countries often set the maximum "flexibility" ratio to allow the use of a small amount of non-originating materials and do not meet CTC criteria for production and goods, but still considered originating. This ratio is referred to as "**De Minimis**" threshold, a negligible proportion of raw materials without going through the process of converting product codes, but still considered origin. This provision is included by the participating countries with the aim of reducing difficulties in meeting CTC origin criteria and diversifying to enjoy preferential tariffs in FTAs.

Table 9: FTAs' preference utilization rate of Viet Nam, 2010- April 2019 (%)

| C/O FORM | Preferential utilization rate | | | | Export growth rate (YoY) | |
|--------------------------|-------------------------------|-------|--------------|------------------------|--------------------------|------------------------|
| | 2010 | 2015 | 2018 | First 4 months of 2019 | 2018 | First 4 months of 2019 |
| Form AANZ (AANZFTA) | 8.9% | 28.1% | 33.8% | 35.5% | 22.6% | 10.2% |
| Form AI (AIFTA) | 2.4% | 32.0% | 72.4% | 61.6% | 162.0% | 8.1% |
| Form AJ (AJCEP) | 30.5% | 34.0% | 30.0% | 31.4% | 23.0% | 13.4% |
| Form VJ (VJEPA) | | | 7.8% | 8.6% | 19.1% | 8.5% |
| Form AK (AKFTA) | 65.8% | 59.6% | 34.9% | 26.3% | 39.2% | 8.2% |
| Form VK (VKFTA) | | | 25.5% | 25.6% | 52.1% | 20.3% |
| Form CPTPP (CPTPP) | - | - | - | 0.6% | - | |
| Form D (ATIGA) | 14.1% | 24.2% | 34.4% | 32.0% | 30.0% | 7.8% |
| Form E (ACFTA) | 25.2% | 32.2% | 29.2% | 36.4% | 31.3% | 33.8% |
| Form EAV (VN – EAEU FTA) | - | - | 28.0% | 24.5% | 41.3% | 59.0% |
| Form S (Laos) | - | - | 10.0% | 10.0% | 16.8% | 18.0% |
| Form VC (VCFTA) | - | 56.9% | 66.5% | 62.0% | -24.1% | -27.1% |
| Form X (Cambodia) | - | - | 0.0% | 0.0% | 258.3% | 168.1% |
| Total | | | 39.4% | 39.0% | 34.6% | 16.4% |

Source: Import-Export Department - MOIT

The CPTPP came into force in early 2019, as the result the preference utilization rate of this agreement remained modest in relative to other agreements. By July 2019, Viet Nam issued 12,514 sets of certificates of origin (C/O) in the CPTPP form, with a total export value of USD 246.13 million. In particular, a significant proportion was C/O exports to Canada and Mexico. This shows that Vietnamese firms have recognized and grasped opportunities from the CPTPP, especially for potential markets - especially those without FTAs with Viet Nam and promoted exports to these markets effectively. Industries with high utilization rates include fishery, textiles, footwear, etc., which have strong export advantageous advantage to many markets. According to the Import and Export Department of the MOIT, the preference utilization rate of fishery products to FTA markets reached over 55.5% in 2017, of which the rate to Korean market was over 90%, to Japan was over 66%, to ASEAN market was above 64%, etc.

Whistle remarkable improvements, FTAs' preference utilization of Vietnamese enterprise remained modest and below expectation. Vietnamese firms, at certain extent, had effectively exploited CPTPP markets without FTAs previously (such as Canada and Mexico). However, exports to CPTPP markets with existing FTAs did not improved significantly. For example, by July 2019, total exports with C/O issued in Form CPTPP (under CPTPP agreement) was equivalent to 28% of export value with C/O issued in From AANZ (under AANZFTA). Exports to Canada, in particular, did

not grow significantly in relative to natural growth (in case of without FTA).²¹ On a broader perspective, the preference utilization rate of about 39% implies that there remains a significant proportion - if not the majority – of goods are subjected to higher tariffs than preferential tariffs under FTAs (0 - 5%).

For some industries, taking advantage of preferential origins provisions is not easy because Vietnamese firms still highly relies on imported inputs while undeveloped domestic supporting industry. For instance, up to 70% of materials for the garment and textiles industry were imported from abroad; of which 42% are from China, and the remaining were from other countries such as South Korea, ASEAN countries. In addition, many firms do not thoroughly understand requirement and criteria to be eligible for preferential treatments. As the result, without proactive effort on capacity building of enterprises themselves (updating information, gaining knowledge, etc.) or without timely supports for relevant authorities (timely and regular training, information support, etc.), it will be challenging to enhance FTAs' preference utilization or to increase value added content in exports of Viet Nam as expectation.

In comparison to other FTAs, De Minimis threshold under the CPTPP is more complex (Table 8 **Error! Reference source not found.**). In particular, the CPTPP has a strict requirement that RoO of apparel and clothing must be from yarns (instead of from fabrics like some other FTAs). This is the biggest challenge for Vietnamese garments and textile enterprises, because the textile supporting industry currently heavily relies on imported materials from China, India and some ASEAN countries. In addition, the CPTPP allows member states to self-certify origin of the products they are importing, but the C/O that is self-certified by importers won't be applied to goods imported into Viet Nam for up to 5 years after the CPTPP took effect. This is a deliberate approach to fight against fake certificates, meaning that Vietnamese importers are only able to issue self-certified C/O for their imported goods since January 14, 2024. This is a huge challenge for the business community, especially as RoO of the new FTAs tends to be more complex and stricter.

2.3 Foreign direct investment

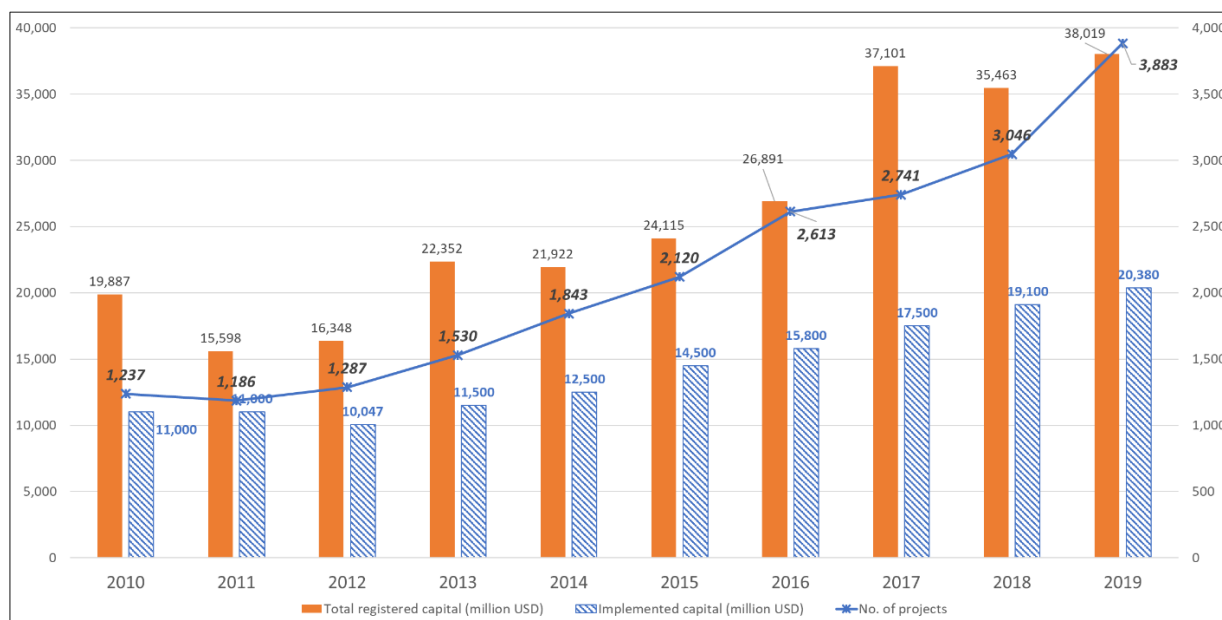
Attracting foreign direct investment (FDI) into Viet Nam has achieved remarkable results recently. The momentum of FDI attraction is maintained thanks to the strengthened confidence of investors in the context of stabilized macroeconomy, favorable investment environment, and highly competitive policy on FDI attraction, adequate focus on taking advantage of opportunities from signed-FTAs, especially expectation on new-generation FTAs such as EVFTA and CPTPP.

By the end of 2019, Viet Nam attracted 30,827 FDI projects with a total registered capital of nearly USD 362.6 billion; implemented capital reached USD 211.5 billion (equivalent to 58.3% of total registered capital). In the 2010-2019 period, Viet

²¹ Exports of Viet Nam to Canada attained the growth rate of over 30% p.a. in the 2013-2014 period; the rate was 11% in 2018, which was 5 times higher than the figure in 2017 (2%). Source: WTO Center – VCCI (2020).

Nam's FDI attraction increased by 12.4% p.a. in number of projects, by 5.1% p.a. in registered capital, and by 7.4% p.a. in terms of implemented capital. In 2019, the country granted licenses for 3,883 FDI projects with a total registered capital (both newly registered and adjusted capital, excluding capital contribution and purchase of shares) of over USD 22.4 billion (decreased by 36.4% YoY). However, disbursed FDI capital witnessed positive changes, attaining USD 20.4 billion in 2019, increasing by 6.8% YoY and being the highest level in many years.

Figure 19: FDI attraction to Viet Nam, 2010-2019



Source: GSO.

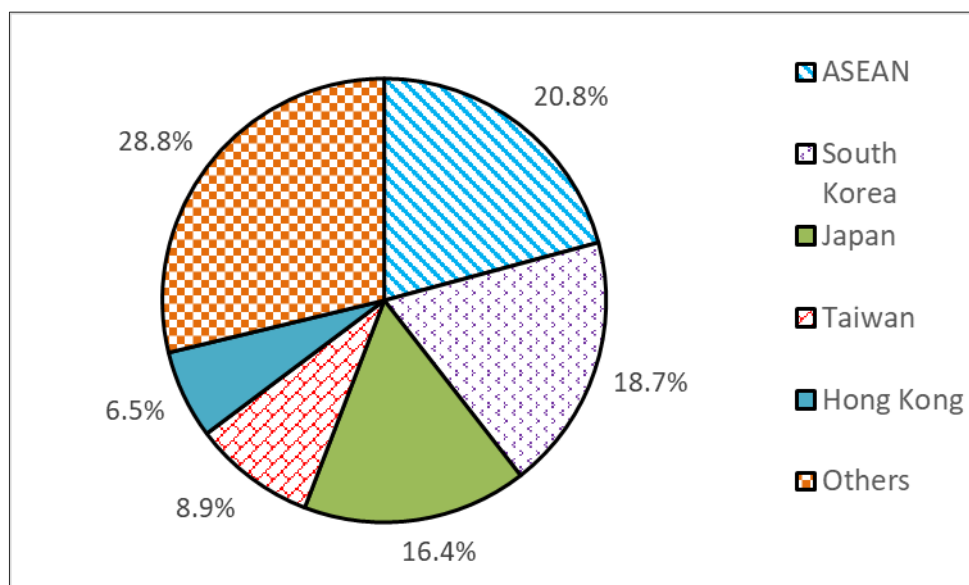
Note: (*) Including newly registered capital, additional capital, capital contribution and purchase of shares of foreign investors by December 12, 2019

By investment partners, there are currently 135 countries and territories investing in Viet Nam, however the top 15 countries and territories accounted for 92.9% of the total registered capital in effect by 2019, which are mainly from Asia. By country groups, statistics by 2019 show that ASEAN countries ranked 1st with about 20.8% of total capital, followed by South Korea with 18%, Japan with 16.4%, and Taiwan with 8.9%. The EU and the US, despite being the key export markets, bringing a large export surplus for Viet Nam, and also being considered to possess "original technologies", FDI inflow from these strategic partners was very modest (accounting for only 7% of total registered FDI for the EU and only 5% for the US investors). This implies that the way to access "advanced" technologies from foreign investors of Vietnamese enterprises remains challenging.

After Vietnam's accession to the WTO, FDI inflows into high-tech industries are on the rise, but basically still focus on the lower segments of the value chain (processing, assembling, etc.) to take advantage of the abundant labor resource. FDI enterprises mainly use medium technology (about 80% of the technology was transferred), 14% of technology is considered outdated, and the number of high

technology only accounted for 6% (Nguyen Minh Thuong, 2019). Accordingly, the domestic value added content was low, while the majority of high-tech components must be imported. The majority of FDI firms are relatively small in scale and have low-profit margins, mainly acting as "subcontractors" for larger multinational companies, and thus they are often positioned at lower segments in the value chain. As the result, their contribution to the economy as well as positive spillover effects to domestic enterprises are limited at certain extent.

Figure 20: FDI attraction by partners, 2008-2018 (%)



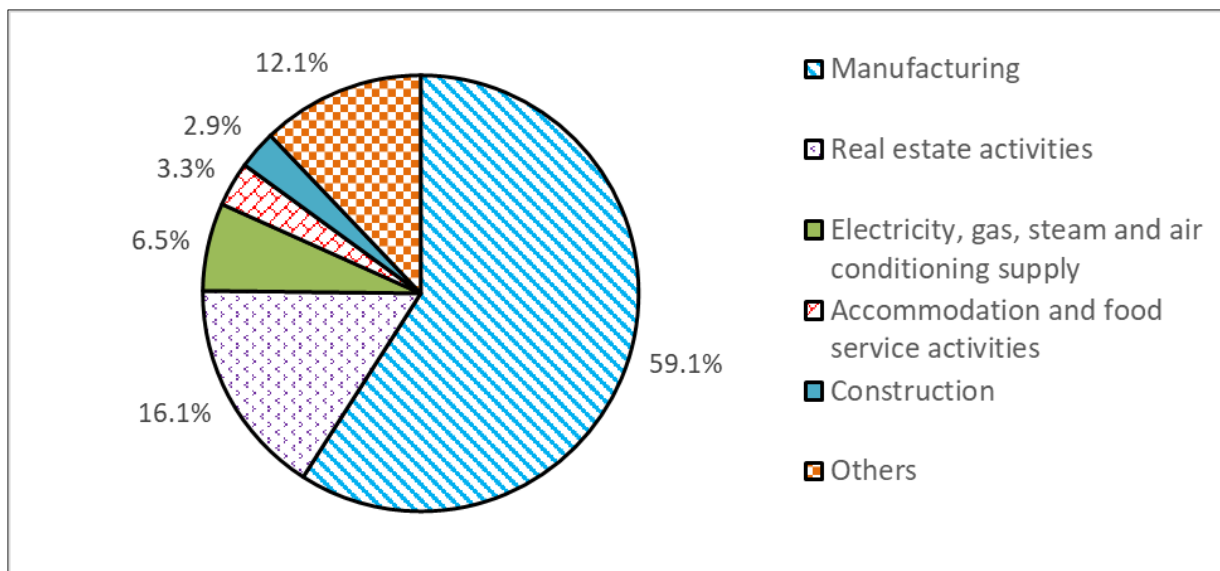
Source: MPI. Accumulation as of December 20, 2019

By economic sector, by December 20, 2019, foreign investors have invested in 19/21 industries/sectors under Vietnam Standards Industrial Classification, of which manufacturing sector accounted for the highest proportion of nearly 59.1% of the total registered capital, followed by real estate (16.1%), the supply of electricity, gas, steam and water (6.5%). FDI increasingly focused on some key sectors (Registered FDI capital poured on the top 5 industries/sectors accounted for upto 87.9% of total registered capital). From 2001 until now, FDI inflows into services, especially real estate, increased rapidly and this sector currently ranked 2nd in terms of FDI attraction, only after the manufacturing sector. In the past 32 years, the number of projects in real estate accounted for only 2.8% of the total number of projects but accounted for 16.1% of the total registered capital; the average investment capital was up to USD 67.3 million per project, which was 4.5 times larger than the average capital scale of each project in the manufacturing sector.

Meanwhile, the attraction of FDI in some prioritized sectors remained modest. For instance, the agriculture sector accounted for only 1.7% of the total number of projects and 1% of the total FDI capital into Viet Nam. Given such a low level of investment, the contribution of FDI to agriculture and rural development in Viet Nam was very limited. In this context, the CPTPP and EVFTA are expected to create more

incentives to boost investment in agriculture sector to take advantage of tariff preferences for a series of agricultural products that enjoy tax reductions.

Figure 21: FDI structure by economic sector



Source: MPI. Accumulation as of December 20, 2019

According to MPI's accumulated statistical data of FDI projects having in effect as of December 20, 2019, almost all CPTPP member countries (except Peru) had investment projects in Viet Nam. The total FDI of CPTPP member countries to Viet Nam was about USD 130.0 billion, accounting for 35.8% of the total registered FDI capital to Viet Nam. In which, FDI capital from countries that ratified CPTPP was USD 116.3 billion, equivalent to 32.0% of total registered capital. Among CPTPP members, Japan, Singapore and Malaysia were three biggest investors in Viet Nam with total registered capital accounting for 93.6% of CPTPP's registered capital. Investment from other CPTPP members was relatively small, accounting for only 2.3% of the total registered capital of all CPTPP members to Viet Nam. However, it is noteworthy that identifying of investment origin by country or territory is unlikely to be accurate because investors can invest in Viet Nam through a third country or territory.

2.4 Financial service²²

In recent years, financial services have contributed significantly to the structure of Viet Nam's GDP (approximately 5%). The average growth rate of the sector was 7.1% p.a. in the 2010 – 2018 period and 8.62% in 2019. Therefore, negotiation of financial services was one of toughest issues in Viet Nam's participation in FTAs, especially new-generation FTAs such as the CPTPP and EVFTA. Financial services-related issues in new-generation FTAs usually fall into three groups of commitments: (i) legal environment; (ii) market access for financial services that are allowed to offer; and (iii) payment, money transfer, measures to secure the balance of payments and other commitments that affect policies on monetary and exchange rate management.

²² This section was referenced and extracted from Ngo Tuan Anh and Vu Kim Dung (2019).

CPTPP contains higher commitments on market access than those under other FTAs and WTO. Accordingly, CPTPP allows the supply of specific cross-border financial services to one CPTPP member from a supplier of the others without requesting the supplier to open an operation establishment in the former. Quantitative restrictions on the provision of services (limitation on the number of suppliers or the number of services) are prohibited, excluding exceptions specified in the CPTPP. Core obligations related to financial services that Viet Nam committed under CPTPP included: National Treatment²³, Most-Favored-Nation Treatment²⁴, Market Access²⁵, Cross-Border Trade²⁶, Senior Management and Boards of Directors²⁷. In addition to the above-mentioned obligations, CPTPP also contains new obligations compared to WTO such as the provision of new financial services, information processing, measures on transparency and management, fast licensing for insurance services, etc.

In the context of deep and broad integration, joining new-generation FTAs will positively contribute to the development of Viet Nam's financial services. On the one hand, opening the domestic financial services for international institutions to offer their services in Viet Nam will facilitate the market's dynamics, reduce transaction costs, enhance efficiency of resource allocation of the economy. On the other hand, the Government's direct intervention in the market operations and entities will be diminished, domestic financial institutions are forced to strengthen their competitiveness against competition from international ones. In addition, opportunities for further development will be opened for relevant markets, which will ultimately bring about benefits to consumers and businesses. For instance, experience of China showed that the development of financial services infrastructure will foster e-commerce activities.²⁸ This makes sense for Vietnam: China's experience shows that the development of financial service infrastructure can significantly boost e-commerce activities (CIEM, 2018). More relaxed market access of financial services will promote the mobilization of international capital, capital attraction and the diversification of Viet Nam's financial market. Simultaneously, it is an opportunity to promote outward investment of Viet Nam's financial institutions. Finally, management capacity and transparency of relevant authorities in Viet Nam will be gradually improved in line with requirements and market development.

²³ National Treatment (NT) is the requirement that Each Party shall accord to investors of another Party treatment no less favourable than that it accords to its own investors, in like circumstances, with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of financial institutions and investments in financial institutions in its territory.

²⁴ Most-Favored-Nation (MFN) requires a Party not to discriminate between investors of FTA members and non FTA members. As such, Viet Nam must give equal preferential treatment to countries that are members or non members of CPTPP.

²⁵ Market Access (MA) request a Party not to maintain measures on financial institutions of another party seeking to establish those institutions in its territory.

²⁶ Cross-Border Trade (CBT) requires member countries not to restrict customers in the consumption of financial services provided by cross-border service providers according to the list of authorized services that are committed.

²⁷ Senior Management and Boards of Directors (SMBD) stipulates that a Party shall not impose a nationality requirement on senior managers or the number of members in the BoDs having nationality or residency in the country.

²⁸ CIEM (2018).

However, there remain challenges for the financial services. State management of banking and financial services will face with critical issues. In specific, passive internalization of the CPTPP commitments will fails to meet requirements and/or demand of enterprises; but more “open” approach on policy formulation will raise concerns on inadequate capacity of state management in relative to the development of financial innovation or technological application in the banking-financial sector (fintech). Besides, domestic financial institutions may be exposed to uneven competition from foreign financial service suppliers. Other risks include financial instability; challenges in approaching and applying technologies in the context of IR 4.0, etc.

Banking services, insurance and securities are three groups that are likely to be significantly affected by the CPTPP implementation. The Government has been taking necessary reforms to harmonize regulatory frameworks of these areas with CPTPP commitments, and to create favorable conditions to enhance the competitiveness of domestic financial institutions in the context of deeper integration. Concerns on challenges are reasonable, however, one should not underestimate the competitiveness and the adaptation capability of domestic financial institutions and enterprises. It should be noted that some foreign financial institutions (such as Australian institutions) have narrowed their operation or withdrawn from Viet Nam recently.

Financial market reforms to meet the requirements of integration

Reforms of insurance market

Insurance has relatively more liberal commitments on market access among financial services. Since the accession to the WTO, the specialized regulatory framework of insurance in Viet Nam has been reviewed, amended and supplemented to implement Viet Nam's international commitments. The Law on Insurance Business was promulgated in 2000, amended and supplemented in 2010 and most recently in 2019²⁹. The amended Law on Insurance Business and its guiding documents have removed barriers and discrimination against foreign-invested insurance enterprises. The 2019 Law also added Chapter 5 regulating cross-border insurance business, one of the new requirements for financial services of the CPTPP commitments.

Regulatory framework of insurance has been gradually improved towards more detailed, clear and transparent regulations on specific insurance categories. In specific:

- Criteria of licensing for insurance business have been published transparently and quantified (including financial capacity, years of operation, management capability of investors, etc.) in order to screen and select reputable investors that have prudent financial capacity, high potentials and commit to do business in Viet Nam in long term.

- Barriers and discriminated treatments have been eliminated, creating equal treatments for investors who contribute capital to establish insurance businesses.

²⁹ Promulgated on June 14, 2019 and took effect on November 1, 2019

Domestic and foreign insurance firms currently are regulated by a single regulatory framework (market entry regulations such as minimum capital, deposits, licensing procedures and regulations on ensuring solvency, v.v.). More restricted regulations imposed on foreign investors in some areas have been removed.³⁰

- The legal framework for the establishment of foreign non-life insurance branches in Viet Nam and the provision of cross-border insurance services has been developed in accordance with committed roadmap.

- Regulations on accounting regime applicable for insurance companies have been amended in line with international and domestic accounting standards.³¹

- Criteria for monitoring insurance companies have been amended towards enhancing their autonomy in financial management. Besides, these criteria allow management authorities to evaluate and classify companies in order to develop more appropriate management and monitoring mechanisms.³²

- Regulations on the financial regime applicable for insurance companies have been formulated to ensure the prudent and sound development of the insurance market, preventing adverse impacts from economic-financial crisis on the insurance companies.

Reforms of banking sector

Given the integration process and competition with international credit institutions, who own rich experience, high-quality services and modern management methods, improving risk management and reducing the proportion of non-performing assets are key requirements for the banking sector. In order to realize this objectives, since 2014, the Government and the State Bank of Vietnam (SBV) have issued various decrees and circulars regulating the capital adequacy ratio and risk control criteria applicable for the banking sector. Specifically, new regulations on restructuring credit institutions to settle bad debts were stipulated in Decision No. 1058/QD-TTg dated July 19, 2017. In addition, the roadmap of Basel II application was promulgated by the SBV in Decision No. 34/QD-NHNN dated January 7, 2019 in order to improve the prudence of Viet Nam's credit institutions. The SBV also encouraged banks to achieve Basel II standard before the deadline (January 01, 2020) by rewarding them with higher credit growth limit.

In addition to the general orientation and policies, the SBV issued Circular No. 41/2016/TT-NHNN regulating the capital adequacy ratio (CAR) for banks and foreign

³⁰ For example, the limitation on the years of operation in Viet Nam for foreign insurance firms were reduced from 10 to 7 years according to Article 11 of Decree 151/2018/ND-CP. The requirement for certificate of permission to set up insurance branch in Viet Nam issued by the country where the insurance headquarter is located was removed. The requirement for document on authorizing the branch director to take full legal responsibility for the operation of the foreign branch, etc.

³¹ Circular No. 232/2012/TT-BTC

³² Circular No. 195/2014/TT-BTC

bank branches (took effect on January 01, 2020) with stricter regulations compared previous circulars.³³

Box 1: Amendments of Circular No. 41/2016/TT-NHNN on the capital adequacy ratio for banks and foreign bank branches

- Circular No. 41/2016/TT-NHNN (Circular No. 41) applies CAR in accordance with Basel II. In specific, though CAR is adjusted from 9% to 8%, the Circular requires additional capital for market risks and operational risks beside credit risk, which has been applied in previous circulars.

- According to Circular No. 41, regulations on credit risk weight of receivable assets based on Moody', Fitch or Standard and Poor's credit ratings are more meticulous than thoes stipulated in Circular No. 36/2014/TT-NHNN (Circular No. 36). The new classification is more complex and requires higher accuracy, however, it will help credit institutions access the risk of their assets much more precisely.

- Circular No. 41 also differs from Circular No. 36 because it takes into account the value of collaterals to estimate the required capital. Circular No. 41 recognizes 4 techniques of credit risk mitigation that banks can apply to reduce their receivables, including (1) eligible collaterals (such as cash, gold and valuable papers, etc.); (2) on-balance sheet netting; (3) third-party guarantee; and (4) credit derivatives, thereby reducing required capital.

Source: Author's compilation.

In addition to capital requirement and risk management based on Basel II, the SBV started to rank credit institutions and foreign bank branches since April 01, 2019 in line with Circular No. 52/2018/TT-NHNN. The ranking criteria in Circular No. 52/2018/TT-NHNN include qualitative indicators (measuring the level of compliance with legal regulations) and quantitative ones (measuring the soundness of banking activities based on operating data of credit institutions). However, an inadequacy of Circular No. 52 is that the rankings of credit institutions are not published as previously required in Circular No. 06/2008/TT-NHNN. Instead, the result is merely informed to credit institutions and provincial and municipal state banks.

Together with enhancing the prudence and risk management for credit institutions, the Government and SBV also proactively facilitate the modernization of the banking system and financial services to meet the requirements of integration and enhance the competitiveness of domestic credit institutions. Developing a cashless payment system, establishing and renovating the national payment infrastructure are key objectives that the SBV have been consistently implementing since 2011. This is also the preparation for newly-emerged financial services in Viet Nam after the CPTPP took effect. Decision No. 986/QĐ-TTg in 2018 and Directive No. 01/CT-NHNN dated

³³ Replaced Circular No. 13/2010/TT-NHNN; updated Circular No. 36/2014/TT-NHNN and Circular No. 06/2016/TT-NHNN.

January 08, 2019 by the SBV identifies promoting non-cash payment as one of seven major tasks of the banking sector in the 2019 – 2025 period, vision towards 2030.³⁴

Simultaneously, the SBV developed a strategy on financial services development toward diversification and modernization. Ensuring information security for banking activities is a requirement of the SBV in the context of increasing integration between banking services and information technology in near future. The SBV introduced a plan on information technology application of credit institutions for the period of 2017-2020.

Reforms of securities market

The domestic securities market has witnessed remarkable reforms to meet the requirements of the economy and integration. Decision No. 242/QĐ-TTg dated February 28, 2019 approving the project on “Restructuring the securities market and the insurance market to 2020, orientations towards 2025” set out the objective of comprehensively restructuring the securities market so that it will become an important channel for medium and long-term capital demand of the economy; establishing an appropriate structure between the monetary and capital markets, between the stock and bond markets, between government bond and corporate bond in order to facilitate market opening and integration into the regional and global markets.³⁵

One of key areas of restructuring the domestic stock market is to improve regulatory framework for investment activities in the stock market to enhance transparency and safety, to protect investors’ rights and to develop new investment services. Accordingly, the newly amended Law on Securities was promulgated in 2019 (will take effect on January 1, 2021), aiming at further improving regulatory framework for stock investment activities in the new context. The amended Law on Securities sets out new regulations on public offerings of stocks. The purposes of those new regulations are to tighten the criteria on public companies; to improve the quality of securities listed in the securities market and to standardize conditions, sequences and procedures for the issuance of each type of securities. Noticeably, the amended Law on Securities relaxed regulations on the ceiling of foreign investors’ ownership in domestic public companies from 49% to 100%, except for specific cases prescribed in international treaties of which Viet Nam is a member, or specialized legislation stipulating that the ownership of foreign investors must be less. The loosening regulation will allow more stocks of Vietnamese companies eligible for being included in the MSCI emerging markets index, which will eventually enable domestic companies to mobilize abundant capital from foreign investors.

³⁴ The target set the ratio of cash to total payment is below 10% by the end of 2020; below 8% by the end of 2025.

³⁵ Specifically, Decision sets out the target to expand the size of the stock market to reach 100% of GDP by 2020 and 120% of GDP by 2025; the size of the bond market to reach 47% of GDP by 2020 and 55% of GDP by 2025; the number of investors in the market will account for 3% of the population by 2020 and 5% by 2025; ensure a reasonable structure between individual investors and institutional entities, between domestic and foreign investors; and simultaneously promote the development of professional investors in the stock market. By 2025, the quality of corporate governance of Viet Nam's listed companies will reach the ASEAN-6 average; and before 2025, upgrading Viet Nam's rankings among emerging markets.

Diversification of instruments in the stock market is another focus of the restructuring plan. In which, derivatives are targeted to improve the structure of the stock market. Promoting the development of derivative market as well as securities market was specified since 2007, stipulated in various legal documents such as Decision No. 128/2007/QĐ-TTg of the Prime Minister approving the Project on developing Viet Nam's capital market til 2010, visions towards 2020 ; Decision No. 252/QĐ-TTg dated March 1, 2012 on the development strategy of Viet Nam's securities market for the period of 2011-2020; Decision No. 366/QĐ-TTg dated March 11, 2014 of the Prime Minister approving the Project on the establishment and development of Viet Nam's derivative market, etc.

2.5 Labor - Employment

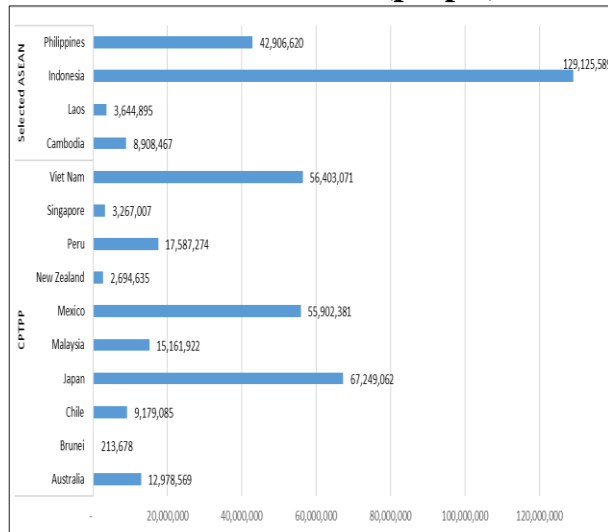
2.5.1 Labor force

By end of 2019, total working labor force (at 15 years of age and above) was 54.7 million, attaining the YoY increase of 0.8%. However, in recent years, the labor force growth rate experienced a downward trend, attaining 3% in 2006, maintaining at the average level of 2% p.a. during 2007-2010, and reducing to only 0.71% and 0.85% in 2017 and 2018, respectively. This was partly attributed such factors as population aging; the increase of schooling years of population aged 15 and over, which eventually affects times of joining the labor market, especially for women. Nevertheless, Viet Nam's labor force has been considered to be relatively young and abundant to meet development needs. Statistics figures also show that Viet Nam is in the "golden population" period, being regarded as a favorable condition for the development of competitive human resources, particularly in the deeper and wider international economic integration of the country.

Compared to ASEAN and CPTPP member countries, Viet Nam is considered as having advantages of human resources. Statistical data of the WB³⁶ show that, by the end of 2017, Viet Nam was among the leading countries in both ASEAN and CPTPP groups in terms of working-age population (2nd in ASEAN - behind Indonesia and CPTPP – behind Japan). Viet Nam also had high rate of labor force participation, even at the highest among CPTPP member countries (76.3% in 2017).

³⁶ Database on World Development Indicators, <https://databank.worldbank.org/source/world-development-indicators#> (Accessed on July 12, 2019)

Figure 22: Working labor force (at 15 years of age and above) in selected countries in 2017 (people)



Source: World Bank (2019)

Figure 23: Labor participation rate in selected countries (%)

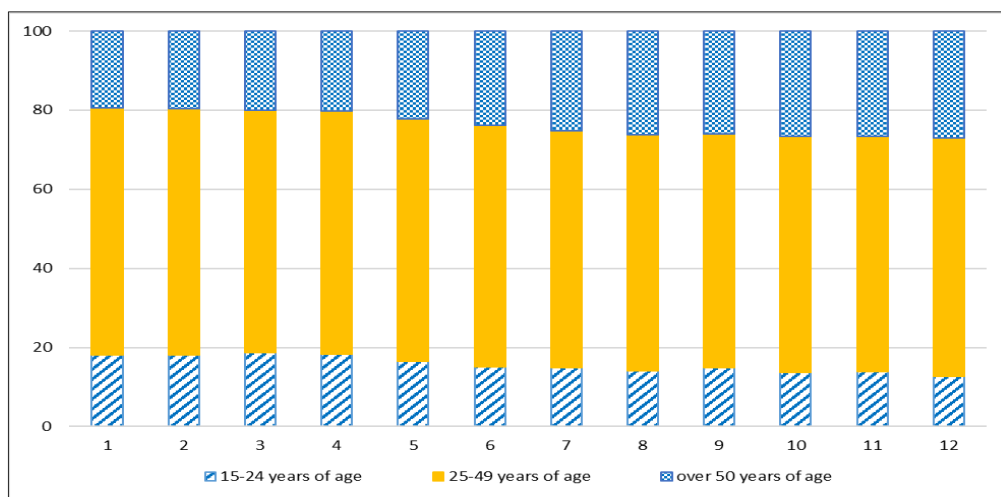


Source: ILO (2019).

Note: 2017 figures for Brunei and Viet Nam, and 2018 figures for remaining countries.

By age group, labor force is quite young, over 60% was under age group of 25-49 (in 2018). However, population aging has become more increasingly obvious. Structure of labor force has shifted towards reducing the share of under 34 years of age, remaining stable for middle-aged group, and increasing the share of elderly. The proportion of the population aged 65 and above was 6.5% in 2017, expected to reach 21% by 2050. This situation may create adverse impacts on Viet Nam's labor supply and long-term productivity growth.

Figure 24: Structure of Viet Nam's labor force by age group, 2007-2018 (%)



Source: GSO.

In line with economic growth, Viet Nam has paid tremendous efforts on enhancing human development and quality of human resources. Viet Nam's Human

Development Index (HDI) was at relatively good level and increased stably (attained 0.694, ranked 116/189 countries in 2018, among the upper-average level).³⁷ However, the process of HDI improvement over the past three decades was uneven (increasing by 0.26% in 1980-1990 period, accelerating to 2% p.a. in the 1990-2000 period, but reducing to about 1.35% p.a. in the 2000-2008 period, and took downward trend to 0.94% p.a. in the following years). In addition, Viet Nam's HDI was lag behind other countries in the Asia-Pacific region. In 1990, HDI score was 8.1% below the average of East Asia-Pacific region, narrowing to 4.7% in 2008, but widening to 5.3% in 2017. According to UNDP, this gap can be attributed to faster progress of other countries in the region in terms of human development, particularly in education. In this aspect, Viet Nam has paid sufficient attention on promoting inclusive growth instead of merely economic growth and liberalization of trade and investment.

Educational level of Viet Nam's labor force has been improved significantly, which plays as foundation for developing skilled workforce in the future. In comparison to other ASEAN members, total trained labor and graduated workers in Viet Nam was larger than that of Brunei Darussalam, Laos, Cambodia and Singapore.³⁸ In addition, the share of adult population with advanced education³⁹ of Viet Nam ranked 5th in ASEAN, reaching 11.7% in 2017, below Singapore, Philippines, Malaysia and Thailand.⁴⁰ It can be regarded as favorable and advantageous condition for Vietnamese labor in the domestic market and potential export of skilled labor in the region.

Laborers graduating from lower secondary and upper secondary schools accounted for a lion share in the labor force structure, however, the ratio of technical and professional qualifications remained modest and inappropriate. Upon general requirement of development process, the share of workers with intermediate and primary qualifications is normally the highest. The standard international benchmark is 1/4/10 or 1/4/20, i.e. each college or university degree worker requires 4-5 mid-level workers and 10-20 primary/vocational workers. In Viet Nam, however, the situation is completely inverse. In 2000, this ratio was 1/1.2/0.9 and declined to 1/0.3/0.5 in 2017. This fact indicates the low and decreasing share of mid-level professional and vocational workers of Viet Nam in some recent years, leading to the situation of "too many chiefs, not enough Indians" in the country.

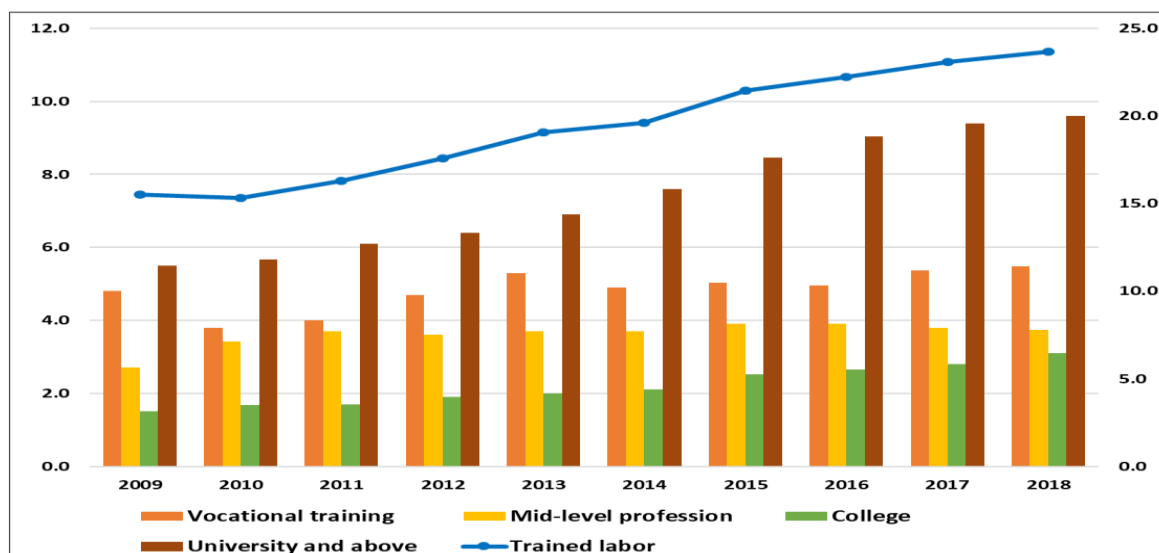
³⁷ UNDP's 2018 Human Development Report.

³⁸ VEPR (2019)

³⁹ According to ILO's concept, adult population are people at 25 years of age and above. This ratio is the percentage of adult population with advanced educational level (from college, university and above).

⁴⁰ According to ILO's statistics, this ratio was 3% in Singapore, 24.5% in the Philippines, 22.1% in Malaysia, and 14.9% in Thailand.

Figure 25: Working age labor by qualification, 2009-2018 (%)



Source: GSO.

Statistical data of GSO and the Ministry of Labor, Invalids and Social Affairs (MOLISA) also shows that, during 2009-2018, the share of unskilled labor decreased, yet at slow pace and remained at high rate, accounting for 76.3% at the end of 2018. The proportion of trained workers with certificates/degrees increased from 15.5% in 2009 to 23.7% in 2018. However, the labor structure by technical/professional qualification remained inappropriate: (i) over 50% of the total trained workers was in the group of college/university or above (accounting for 3.1% and 9.6 in 2018, respectively), meanwhile, those with mid-level vocational certificates accounted for only 3.7% and short-term (primary) vocational certificates accounted for 5.5%; (ii) the share of male workers with technical/professional training was higher than that of females (25.4% and 21.6% in 2018, respectively); and (iii) the employed workers in the informal sector was over 18 million, which is a barrier toward sustainable employment.

2.5.2 Employment

Employed labor accounts for a high proportion in the labor force and shows an upward trend in line with economic development. According to GSO statistics, this ratio has been maintained at high level (about 96% in the period of 2000-2010, increasing to 98% from 2011 to present).⁴¹ However, in terms of employment status, wage earners and owners of business establishments accounted for only 46.1% of total employed labor in 2018 despite of the upward trend since 2010. In contrast, the share of self-employed workers, household workers and cooperative members accounted for 53.9%; which was the highest level in relative to ASEAN countries.⁴² These figures partly show limited quality of Vietnamese employment, with high proportion of informal workers. A recent study by GSO and International Labor Organization (ILO)

⁴¹ Of which, the ratio of employed labor was 97.9% in 2016, 97.96% in 2017 and 98.0% in 2018, respectively.

⁴² According to GSO (2018), in the period of 2010-2016, the proportion of self-employed workers, household workers and cooperative members in total employed labor force was 21.5% in Malaysia; 38.8% in the Philippines; 50.9% in Indonesia and 52% in Thailand.

shows that the number of workers in informal sector of Viet Nam was relatively high with more than 18 million people, accounting for 57.2% of total non-farm workers and up to 78.6% if including agricultural household laborers. The share of trained informal workers was quite low (14.8%), 5.7 percentage points below the average of employed workers of the whole economy, and 17.4 percentage lower than that of formal workers. Moreover, informal labor accounted for 71.9% of total unskilled workers in non-agricultural sector.⁴³

Table 10: Employment status, 2010-2018 (thousand people)

| | 2010 | 2012 | 2014 | 2016 | 2017 | 2018 |
|-------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Wage earners | 16,572.7 | 17,862.1 | 18,801.2 | 21,958.4 | 23,000.8 | 23,835.3 |
| Employers | 1,687.0 | 1,387.1 | 1,102.6 | 1,510.3 | 1,092.4 | 1,161.7 |
| Self-employed | 21,242.6 | 23,175.4 | 21,534.2 | 21,251.0 | 21,225.5 | 21,146.3 |
| Household workers | 9,523.9 | 8,981.6 | 11,298.6 | 8,557.4 | 8,374.2 | 8,101.9 |
| Members of cooperatives | 22.3 | 16.2 | 7.9 | 25.7 | 10.5 | 4.2 |
| Total | 49,048.5 | 51,422.4 | 52,744.5 | 53,302.8 | 53,703.4 | 54,249.4 |

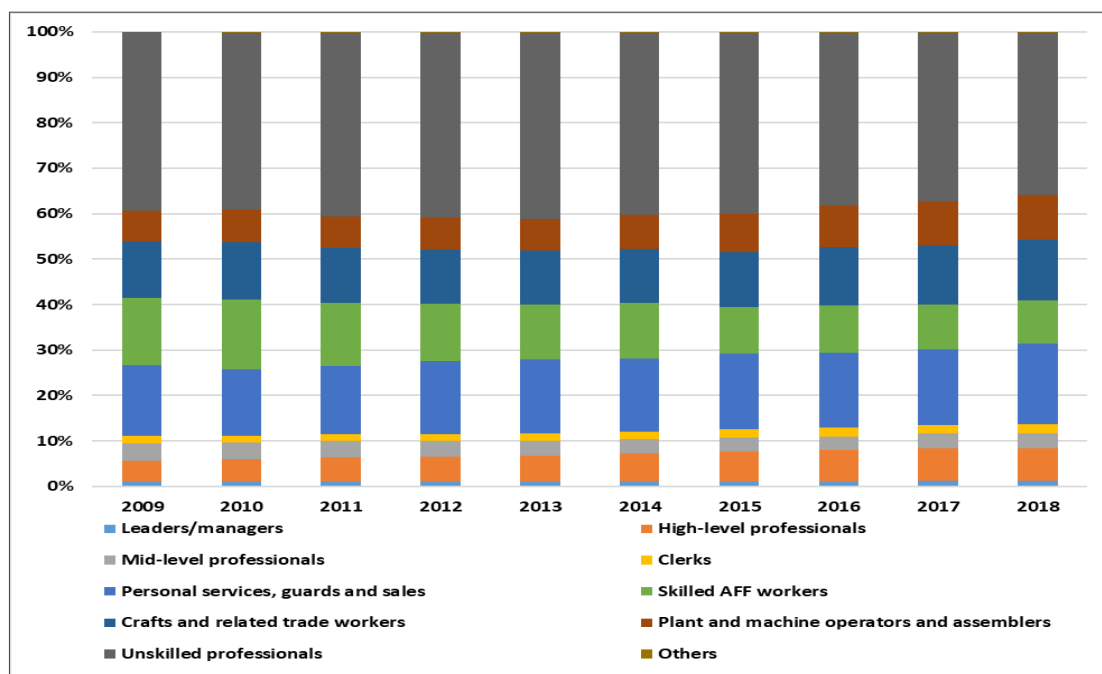
Source: GSO.

Profession structure has shifted progressively, being induced by industrialization-modernization process. The share of unskilled labor increased slightly from 39.4% in 2009 to 40.9% in 2013, then decreased to 35.6% in 2018. Notably, the share of skilled labor in AFF sector showed downward trend, implying difficulty in improving productivity of the sector.

Labor structure by economic sector shifted rapidly during 2012-2018, especially after 2014, partly resulted from the economic restructuring. Employed labor in AFF sector decreased considerably, from 47.3% in 2012 to 37.7% in 2018. In parallel, proportion of labor in industry-construction grew from 21.2% in 2012 to 26.7% in 2018, and that of services went up from 31.4% to 35.6% in the same period.

⁴³ GSO and ILO (2018).

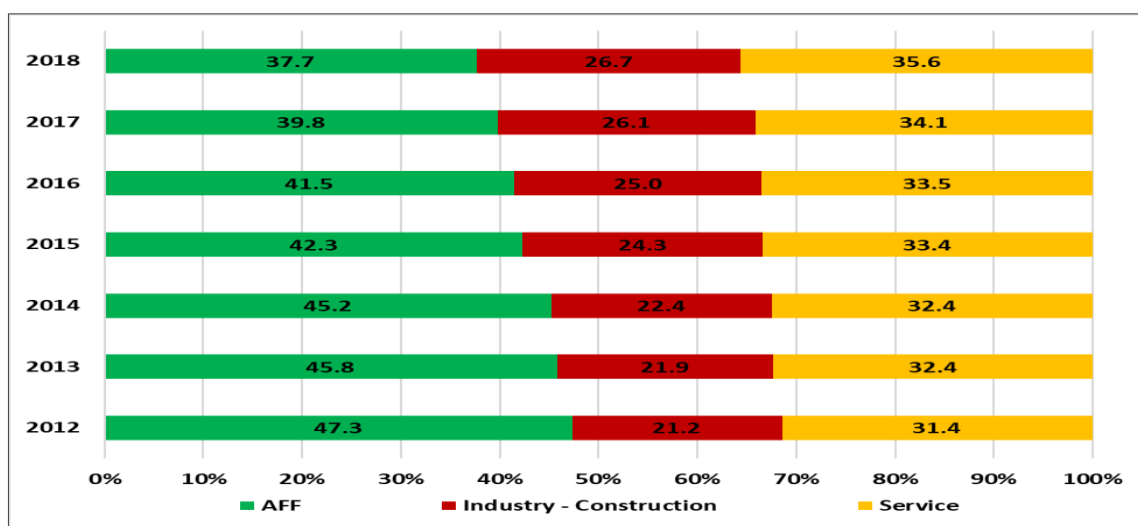
Figure 26: Structure of employed labor by profession, 2009-2018 (%)



Source: GSO.

By economic ownership, labor structure has shifted towards increasing the number of employed labors in non-state and foreign-invested sector and reducing labor in the state sector. By the end of 2018, employment in the state sector accounted for only 8.3%, non-state economic sector was 83.3%, and foreign-invested sector made up 8.4% of the labor force.

Figure 27: Employment structure by economic ownership, 2012-2018 (%)



Source: Authors' calculation from annual Labor – Employment Survey of GSO.

Despite of rapid changes by economic sector, the structure of trained labor in Viet Nam remained inappropriate. In agriculture sector, which attracted 40% of total labor in the economy, the percentage of certified labor only accounted for 6% of the total labor in the whole country (equivalent to 4.2% of labor in this sector). Certified labor has concentrated mostly in services sector (over 70%) while the number of labors

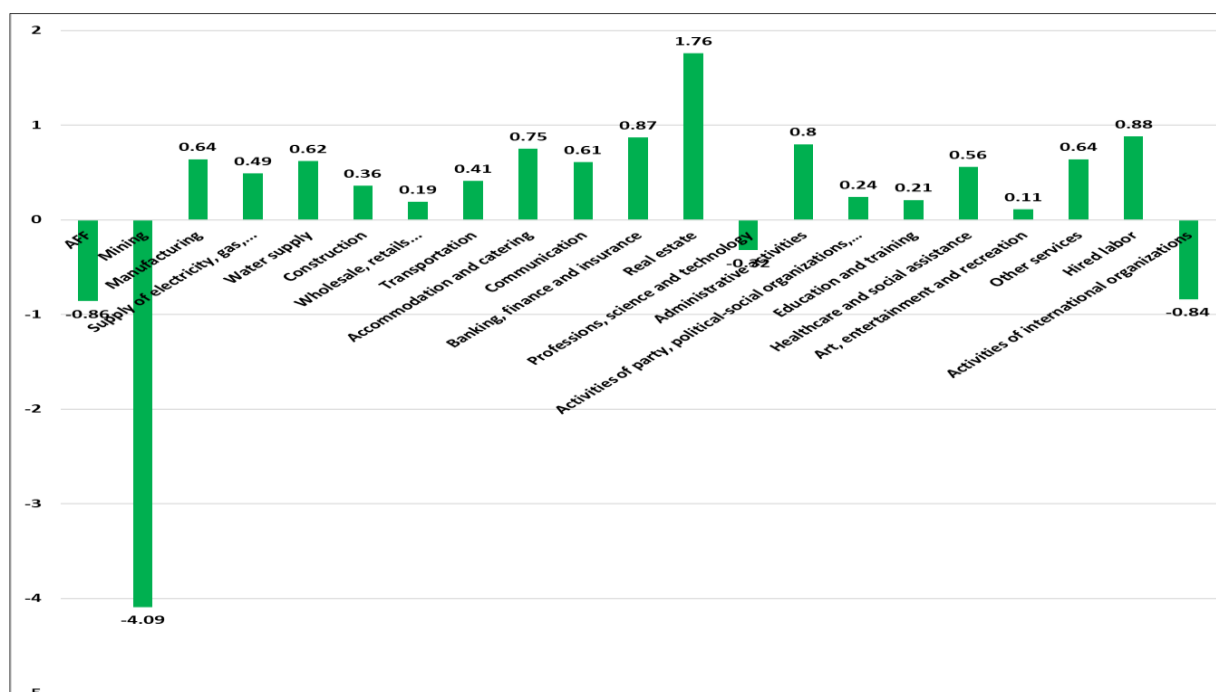
in this sector accounted for only 35%. The share of certified labors in industry sector accounted for 20%. Such low proportion of technical and qualified workers in agriculture has casted challenges for improving labor productivity as well as competitiveness of the sector in the context of international integration and widespread IR4.0.

Table 11: Structure of qualification by economic sector, 2000-2017 (%)

| Structure | | 2000 | 2010 | 2015 | 2017 |
|-------------------------|-----------------------|-------|-------|-------|-------|
| Unskilled | AFF | 67.65 | 56.57 | 52.85 | 53.00 |
| | Industry-Construction | 12.48 | 20.98 | 23.15 | 21.10 |
| | Service | 19.87 | 22.45 | 24.00 | 24.90 |
| Vocational training | AFF | 21.15 | 12.99 | 14.21 | 14.00 |
| | Industry-Construction | 30.42 | 37.81 | 30.87 | 31.10 |
| | Service | 48.44 | 49.21 | 54.92 | 54.90 |
| Mid-level professionals | AFF | 17.58 | 13.22 | 19.62 | 19.80 |
| | Industry-Construction | 11.19 | 14.91 | 15.81 | 16.00 |
| | Services | 71.23 | 71.87 | 64.58 | 64.2 |
| College | AFF | 4.87 | 5.70 | 11.36 | 11.40 |
| | Industry-Construction | 4.84 | 10.94 | 20.37 | 20.50 |
| | Services | 90.28 | 83.39 | 68.27 | 68.10 |
| University and above | AFF | 4.35 | 2.28 | 3.70 | 4.00 |
| | Industry-Construction | 15.62 | 15.73 | 17.33 | 18.00 |
| | Services | 80.03 | 81.99 | 78.97 | 78.00 |

Source: GSO.

Figure 28: Elasticity of employment to GDP, 2012-2016



Source: Institute of Labor Science and Social Affairs and ILO (2018).

A recent study of Institute of Labor Science and Social Affairs (ILSSA) and ILO showed that, during 2012-2016, economic growth created more jobs, however the quantity of jobs gradually decreased, and growth of sectors did not always create more jobs. Elasticity of employment to GDP⁴⁴ by 21 economic sub-sectors was below zero for 4 sub-sectors including mining, AFF, professional-scientific and technological activities, and operations of international organizations and agencies; and above zero for the remaining 17 sub-sectors. The decreasing of jobs in AFF sector (since 2015) was partly attributed to higher attraction of industry-construction and services as well as application of advanced science and technology in the AFF sector. The negative value of elasticity of employment to GDP of mining mostly resulted from the application of technological advancement and decreasing scale of exploitation of natural resources, leading to a decrease in labor demand.

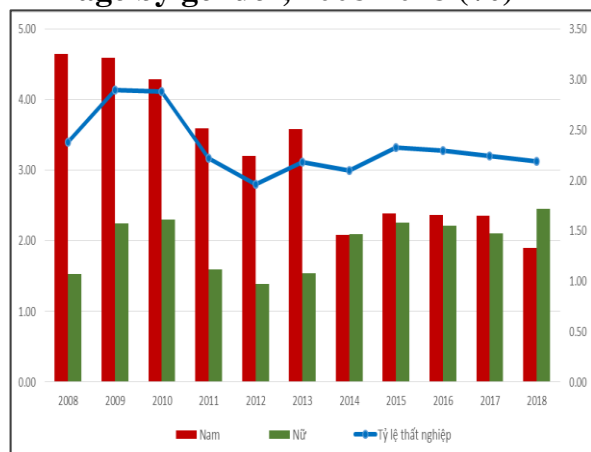
2.5.3 Unemployment

The unemployment rate is relatively low and stable in Viet Nam, ranging from 2.0-2.5% in the period from 2010 to present, attained the highest rate of 2.88% in 2019. Viet Nam's unemployment rates are relatively low in comparison to CPTPP member.⁴⁵ The male unemployment rate was higher than that of female and overall rate in 2010 (4.29%) but took the downward trend (1.90% in 2018 compared to the figure of 2.46% of female). This indicated that, to some extent, men have more job opportunities than women. However, low unemployment rate does not necessarily mean the labor market of Viet Nam has well developed. In fact, the quality of jobs remains modest due to economic transformation, large informal sector, and low labor productivity. Notably, high unemployment rate of young population and its upward trend as compared to other age groups has been one of major challenges for the economy. In specific, unemployment rate for the age group of 15-24 was up from 5.48% in 2012 to 6.92% in 2018; young people also accounted for 48.9% of total unemployment in 2016 (ILSSA, 2018).

⁴⁴ The elasticity of employment to GDP indicates the percentage of increase in employment if GDP growth increases by 1%, and is determined by the employment growth divided by GDP growth.

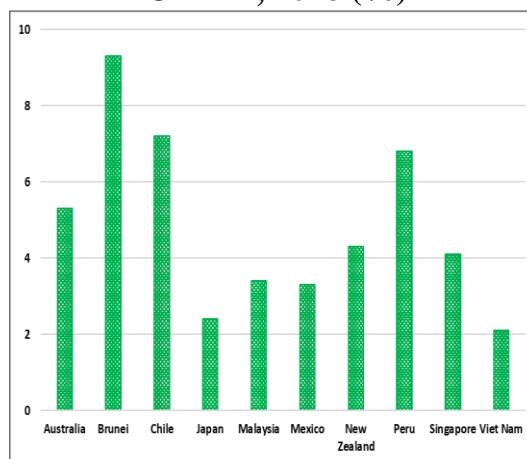
⁴⁵ Some countries experienced high unemployment rate such as Brunei (9.3%), Chile (7.2%) and Peru (6.8%).

Figure 29: Unemployment of working age by gender, 2008-2018 (%)



Source: GSO.

Figure 30: Unemployment rate of CPTPP, 2018 (%)



Source: ILO (2018).

2.5.4 Labor productivity

At the national level, labor productivity (LP) showed steadily upward trend over the years but at low and unstable pace (Table 12). As compared with countries with high economic achievements, Viet Nam has not experienced sufficiently rapid and sustainable productivity growth. The improvement of labor productivity has lacked a breakthrough, and partly offset declining contribution of labor force expansion. Some more underdeveloped countries such as Laos and Myanmar have been narrowing down the gap of labor productivity with Viet Nam. This casts a challenge for Viet Nam to catch up with that of other countries, which requires the country to exert more efforts on improving labor productivity at higher pace compared to that in the past (UNDP, 2019).

Table 12: Labor productivity of Viet Nam and other Asia countries, 2000-2015 (Thousand USD)

| | 2000 | 2010 | 2012 | 2013 | 2014 | 2015 | Compared to Viet Nam's LP in 2010 (times) | Compared to Viet Nam's LP in 2015 (times) |
|-------------|------|-------|-------|-------|-------|-------|---|---|
| Singapore | 98.5 | 113.7 | 114.4 | 121.9 | 125.4 | 127.8 | 15.4 | 13.3 |
| Japan | 64.6 | 66.2 | 66.9 | 71.4 | 72.2 | 77.2 | 8.9 | 8.0 |
| Malaysia | 38.3 | 45.0 | 46.6 | 50.2 | 54.4 | 55.7 | 6.1 | 5.8 |
| Korea | 42.2 | 53.8 | 54.8 | 61.5 | 61.8 | 63.4 | 7.3 | 6.6 |
| Thailand | 16.4 | 21.8 | 22.9 | 24.5 | 25.5 | 26.5 | 2.9 | 2.8 |
| Indonesia | 19.5 | 18.1 | 20.0 | 21.9 | 23.0 | 24.3 | 2.4 | 2.5 |
| Philippines | 11.9 | 13.7 | 14.7 | 15.7 | 16.9 | 18.1 | 1.9 | 1.9 |
| Laos | 4.7 | 7.1 | 7.9 | 8.4 | 9.0 | 11.1 | 1.0 | 1.2 |
| China | 6.1 | 14.5 | 16.9 | 18.8 | 21.0 | 22.3 | 2.0 | 2.3 |

| | | | | | | | | |
|----------|-----|-----|-----|-----|-----|-----|-----|-----|
| Myanmar | 2.5 | 6.1 | 6.7 | 7.7 | 8.4 | 5.7 | 0.8 | 0.6 |
| Viet Nam | 4.8 | 7.4 | 7.9 | 8.4 | 8.9 | 9.6 | 1.0 | 1.0 |

Source: APO.

Note: The level of labor productivity is based on PPP2011

Table 13: Number of years required for Viet Nam to catch up with regional countries in labor productivity

| Countries | Absolute LP in 2016 (in USD, PPP 2011) | Relative LP in 2016 (Viet Nam = 1) | The number of years required, if LP of other countries keep growing as in the period of | |
|-------------|--|------------------------------------|---|-----------|
| | | | 1991-2016 | 2007-2016 |
| Brunei | 156,100 | 15.8 | 48 | 46 |
| Singapore | 144,424 | 14.6 | 149 | 101 |
| Malaysia | 55,350 | 5.6 | 81 | 59 |
| Thailand | 27,165 | 2.7 | 60 | 666 |
| Indonesia | 23,352 | 2.4 | 45 | 135 |
| Philippines | 17,373 | 1.8 | 20 | 39 |
| Laos | 11,192 | 1.1 | 2 | Never |
| Viet Nam | 9,891 | 1.0 | | |
| Cambodia | 6,254 | 0.6 | Never | Never |
| China | 25,530 | 2.6 | Never | Never |
| India | 16,282 | 1.6 | Never | Never |

Source: UNDP, 2019.

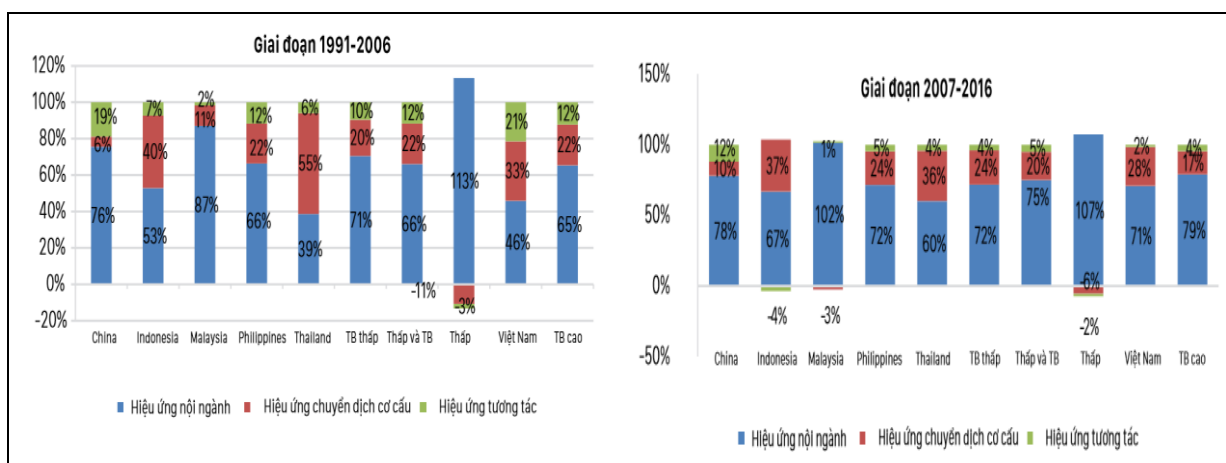
By economic ownership, labor productivity of non-state sector was the lowest (increasing from VND 21.9 million in 2010 to VND 33.3 million in 2018). The FDI sector took the leading position of labor productivity, however, its growth rate showed downward trend since 2014. Labor productivity of SOE sector was far higher than that of the private sector. However, labor productivity of the SOE was not derived from efficiency or preeminence of the sector but relied on preferential treatments in terms of capital, technology and market monopoly. With the enforcement of CPTPP, these advantages can be significantly reduced and without timely adjustments, the risk of declining labor productivity for SOE may be more serious.

On the contrary, private sector employed the largest labor force in the economy, but its labor productivity was at the lowest, partly attributed by constraints of scale and capacity (technology, finance, linkage, etc.), resulting in difficulties in improving labor productivity due to: (i) difficulties in accessing and applying technology to production process; (ii) difficulties in participating and learning from FDI-led value chains; and (iii) incapacity to fully exploit efficiency of economic to scale. However, it should be noted that available statistical data may not adequately reflect the level of labor productivity of non-state sector because of (i) limitations in the survey of underemployment, particularly in rural areas; and (ii) limitations in calculating the level of economic activity, revenue, etc. of informal sector.

By economic sector, the gap of labor productivity between the AFF sector and other sectors has been widen (AFF's LP was equivalent to 29.4% in relative to the figure of industry-construction and 31.8% compared to service sector). Manufacturing sector was the driving force for LP's growth, but highly concentrated to export-oriented industries with low technology (textiles, footwear, food processing) or medium technology (metal manufacturing). Meanwhile, the high-tech industry (electronics), mostly seen in the foreign-invested sector, mainly involved in assembling and import of spare parts and components with relatively low domestic value.⁴⁶ More importantly, the high-tech industry mainly utilized low-cost labor and preferential policies instead of creating adequate spillover effects on domestic sector, resulting in moderate breakthrough of labor productivity growth. On the contrary, modest labor productivity growth also hindered contribution in terms of value added as well as the capacity to satisfy RoO requirements, in particular of high-standard FTAs such as the CPTPP. Addressing this issue in a harmonious manner requires technology/skill transfer from FDI sector, which may accompany with concerns of raising labor costs.⁴⁷

The growth of labor productivity in Viet Nam was mainly driven by structural shift from low labor productivity industries to higher labor productivity ones; the contribution from increasing intra-industry productivity has improved, remained low. A study by the UNDP on analyzing driving forces of Viet Nam's labor productivity in two periods of 1991-2006 and 2007-2016 showed that contribution of 'structural shift effect' to labor productivity growth in Viet Nam decreased over time, from 33% in 1991-2006 to 28% in 2007-2016; meanwhile, the impacts of 'intra-industry effect' increased significantly (from 46% to 71%). The 'interactive effect' went down sharply from 21% in 1991-2006 to only 2% in 2007-2016.

Figure 31: Sources for labor productivity growth in Viet Nam



⁴⁶ The highest share of domestic supply for consumption electronics was about 30-35%; of informatics electronics, telecommunications was 15%; of electronic applications was 5%. Source: Draft report for supporting industry project. Ministry of Industry and Trade (2014).

⁴⁷ The share of wage expenditure in total value added of enterprises increasingly expanded, from 50.9% in 2000 to 64.5% in 2012. According to a survey of JETRO (2018), the most serious risk for Japanese enterprises doing business Viet Nam in 2017 was high labor costs (61.6% of respondents, increasing by 3.1 percentage points as compared to 2016). Meanwhile, Viet Nam ranked fifth in the 15 surveyed markets (in ASEAN, Southwest Asia and Oceania) in terms of the risk of employees' job changing in the 2017 survey.

Source: UNDP (2019).

2.5.5 Industrial relations

In Viet Nam, the regulatory framework on labor has clearly defined labor standards; rights, obligations and responsibilities of employees, employers, representatives of employees, representatives of employers in industrial relations and other relationships directly related to industrial relations; state management on labor issues. Accordingly, existing legal documents affirm the employees' rights to freely find, choose jobs and workplaces. Regulations on labor contracts have continuously amended, supplemented and improved in order to promote negotiation mechanism based on principles of voluntariness, equality, willingness, cooperation and honesty. Labor standards have been improved in accordance with the standards of International Labor Organization (ILO). These above-mentioned provisions create fundamental and core basis for defining and developing industrial relations; building harmonious, stable and progressive labor relations at the workplace.

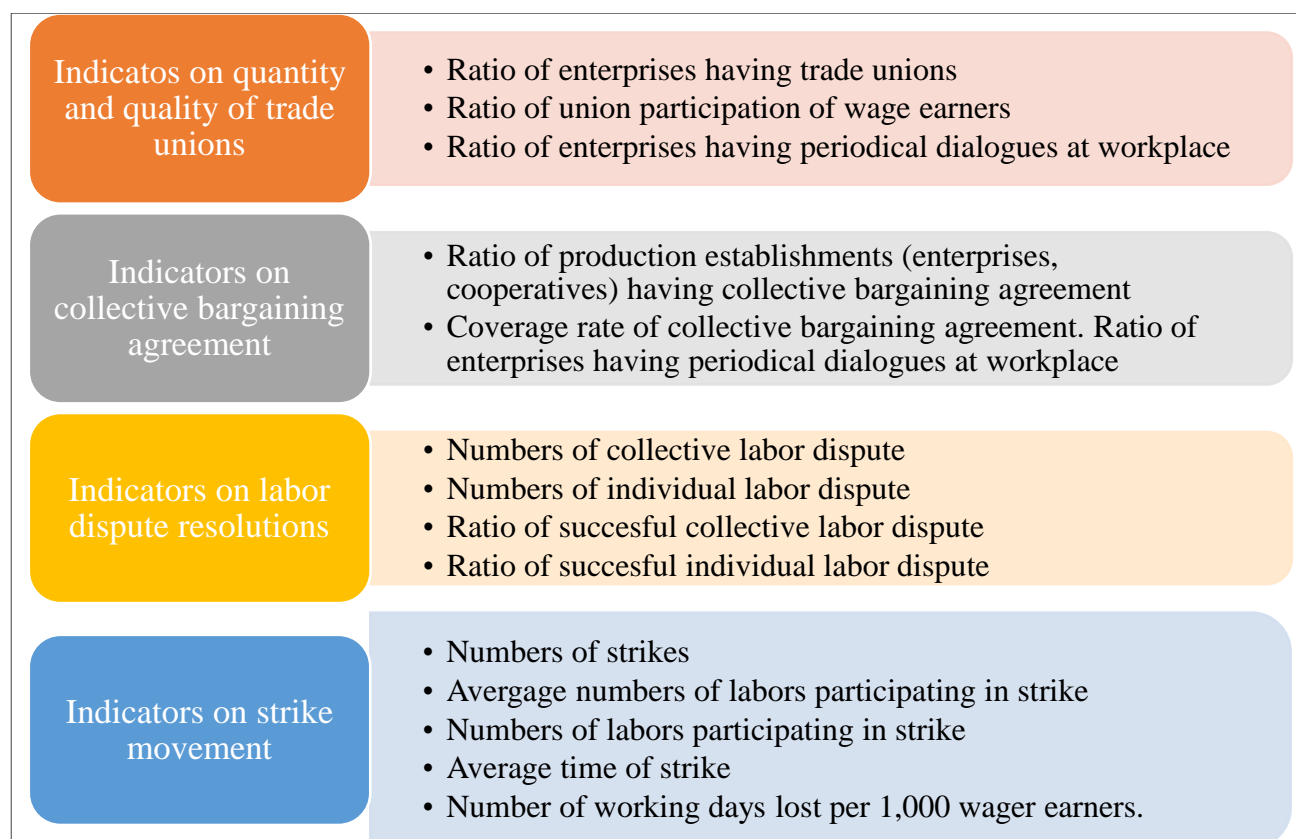
However, by 2019, there remained obstacles and shortcomings in legal provisions on labor, including not guaranteeing the equal rights between employees and employers in industrial relations, especially rights to unilaterally terminate labor contracts; rights to join union and to negotiate collective bargaining of the employees have not yet been complied with ILO standards; the regulations on role of upper-direct trade unions for enterprises with no trade unions remain coercive and infeasible; the role of the representatives of employers in industrial relations has not been legalized; conciliation and arbitration are compulsory, inflexible and the scope of Labor Arbitration Council is narrow; lack of legal framework for promoting tripartite labor relations at both central and local levels.

The CPTPP has not set specific standards on labor or referenced to any standards. Instead, the CPTPP applies to labor standards stated in 1998 Declaration on principles and basic labor rights of ILO, notably the freedom of association and bargaining collectively. In addition, the CPTPP also set guiding principles such as prohibition of using labor standards as disguised barriers to trade, prohibition of reducing labor standards to gain competition advantages in trade. The 2019 Labor Code (taking effect from January 1, 2021) has amended and supplemented 10 major contents in order to intensify the identification of industrial relations in practice, to regulate new relations in labor market, to ensure rights and benefits of parties involved in industrial relations and to adapt to changes of the labor market in the new context.⁴⁸ On June

⁴⁸ 10 significant amendments include labor contract, working time, maximum overtime hours, wages, minimum wage, retirement age, conditions against discrimination at workplace (in terms of gender, forced labor, sexual harassment), the prevention and elimination of the worst forms of child labor, organization of workers at enterprises outside the system of Viet Nam General Confederation of Labor, workplace dialogues - collective bargaining, and mechanisms for labor dispute resolution, and strikes in the context of multi-organization of workers at enterprises.

2019, Viet Nam ratified the ILO Convention 98 on the right of collective bargaining, as a step to fulfill its CPTPP commitments.

Figure 32: Selected indicators related to industrial relations in Viet Nam



Source: Center for Industrial Relations Development.

In Viet Nam, some annual indicators have been identified to assess current situation of industrial relations, however statistic data remains inadequate in accordance with ILO. Currently, the Ministry of Labor, Invalids and Social Affairs (MOLISA) has been developing a set of labor relations indicators including 4 basic groups of (i) indicators on quantity and quality of trade unions' activities; (ii) indicators on collective bargaining agreements; (iii) indicators on labor dispute resolution; and (iv) indicators on strike movement.

According 2018 figures, Viet Nam had a total of 10.05 million trade union members at 12,633 trade unions; the ratio of enterprises having trade unions signing collective agreements was 67%; 98 strikes occurred nationwide; the rate of strike in labor-intensive enterprises was 65.86%. From 2013 to present, the number of strikes showed downward trend, and nature and scale of strikes have been changed as compared to previous years before 2012.

Table 14: Selected indicators on industrial relations in Viet Nam in 2018

| Indicators | 2018 |
|--|-------|
| Total members of trade union (million labor) | 10.05 |

| | |
|--|---------|
| Total trade unions | 126,313 |
| Number of federal unions | 83 |
| Number of trade union members based on new approach | 97,231 |
| Number of trade union established by new approach | 1,010 |
| Number of effective collective labor agreement | 27,866 |
| Number of enterprises signing collective labor agreement (%) | 67 |
| Number of collective labor agreement at industrial level | 4 |
| Number of collective labor agreement at group of enterprise | 4 |
| Number of strikes | 98 |
| Ratio of strike in labor-intensive enterprises | 65.86 |

Source: Center for industrial relations.

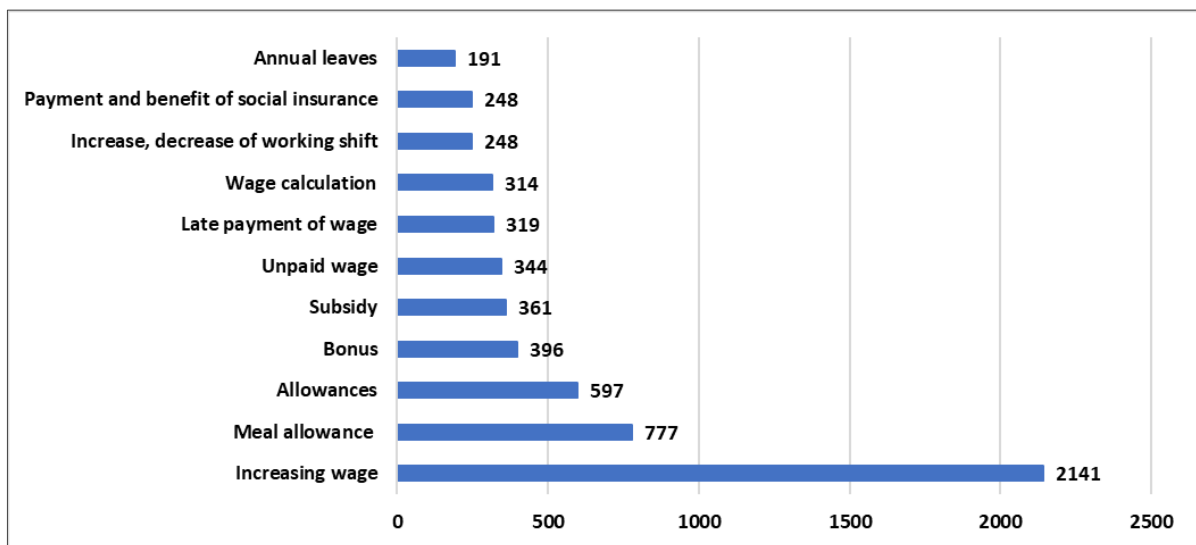
Generally, labor disputes and strikes primarily mostly derived from concerns of workers' rights and benefits, of which, increase of wage, meals allowance during working shift and wage allowances were the top three reasons (In the coming time, there have some advantages for the development of industrial relations, including: (i) Orientation on improving business environment; strengthening macroeconomic stability and development; promoting enterprise development; creating more jobs, improving job efficiency, facilitating labor market development, gradually balancing labor supply and demand as prerequisite for the development of industrial relations; (ii) intensified competition, together with the implementation of IR 4.0, creates a driving force to increase labor productivity, being prerequisite and facilitating conditions to increase wages and income, to improve working conditions, physical and spiritual life for employees; to improve the position of employees in negotiation with employers and to enhance the relationship between the two parties; and (iii) the establishment of representatives organizations of employees will intensify competition with trade unions, which will bring more benefits for employees and enable them to choose a representative organization that best protect their rights and benefits.

Figure 33). Moreover, regulations on rewards and benefits of employees are primarily implemented in accordance with relevant legal documents or regulations set by employers, yet not originating from negotiation and agreements. Therefore, the role of negotiation and conciliation has not been functioning, hindering the movement of industrial relations under the market mechanism.

Joining CPTPP, in the near future, Viet Nam Trade Union will have to compete with representative organizations of employees, which were a unprecedented concern. The current Vietnamese trade union has a lot of advantages, but there also appear some shortcomings in the organizational structure, administrative operations, its nature of superficial activities, slow adaptation to new situation. When a new representative organization of employees is established, it may initially attract workers to join or even leave the previous organization (i.e. Viet Nam Trade Union) to join the new one. This cast the risk of reduction of union members and/or difficulty in attracting new members of Viet Nam Trade Union in the coming time.

In the coming time, there have some advantages for the development of industrial relations, including: (i) Orientation on improving business environment; strengthening macroeconomic stability and development; promoting enterprise development; creating more jobs, improving job efficiency, facilitating labor market development, gradually balancing labor supply and demand as prerequisite for the development of industrial relations; (ii) intensified competition, together with the implementation of IR 4.0, creates a driving force to increase labor productivity, being prerequisite and facilitating conditions to increase wages and income, to improve working conditions, physical and spiritual life for employees; to improve the position of employees in negotiation with employers and to enhance the relationship between the two parties; and (iii) the establishment of representatives organizations of employees will intensify competition with trade unions, which will bring more benefits for employees and enable them to choose a representative organization that best protect their rights and benefits.

Figure 33: 10 requirements with the highest frequency of strikes



Source: Center for Industrial Relations Development.

However, challenges still exist. *First*, IR 4.0 has rapidly affected and resulted in changes of human resource management and industrial relations. The definition of formal labor should be more carefully considered as workers can provide labor supply via technological platform, electronic-based contracts rather than paper-based contracts with traditional regulations (on social security, etc.). *Second*, when employees have the right to join organization of their choice, various organizations may be established within an enterprise, potentially resulting in conflicts and disputes among those organizations, which will adversely affect industrial relations. *Third*, intensified competition pressure among enterprises and among countries induce reduction of expenditures and costs, including labor costs and reduction of employment, which may have direct impact on industrial relations.

2.6 Environment

Among recent mega-FTA, CPTPP is one of the strictest trade agreements with regards to environmental commitments. In specific, the CPTPP identifies specific environmental commitments, including: Multilateral environmental agreements; biodiversity and alien and commercial organisms; climate change; protection of the ozone layer; fishing; environmental goods and services; corporate social responsibility; voluntary mechanism of environmental protection; eco-labels; sustainable development, protection of human and animal life and health; protection of marine environment from ship pollution; enforcement of environmental regulations; conservation and trade.⁴⁹ In spite of highly demanding, these commitments are generally consistent with Viet Nam's international commitments on environment as well as recent orientation of the country on sustainable development. So far, Viet Nam has joined 21 multilateral environmental agreements.⁵⁰

Table 15: Comparison of selected environmental commitments in some new mega-FTA

| No. | Content/Responsibility | CPTPP | EVFTA | EFTA |
|-----|---|---------|---------|---------|
| 1 | Multilateral agreement on environment | Average | Average | Average |
| 2 | Biodiversity | Average | Average | Average |
| 3 | Conservation of wild plants and animals | High | Average | Average |
| 4 | Climate change | Low | Average | Average |
| 5 | Protection of ozone layer | High | - | - |
| 6 | Protection marine environment from shipping pollution | High | - | - |
| 7 | Fishing | High | - | - |
| 8 | Environmental goods and services | Average | Average | - |
| 9 | Corporate social responsibility | Average | - | - |
| 10 | Voluntary mechanism for environmental protection | Average | - | - |
| 11 | Eco-labels | Average | - | - |
| 12 | Management and protection of forest and its products | High | High | - |

Source: ISPONRE, 2019.

In addition, Viet Nam also promulgated and implemented the National Strategy on Green Growth⁵¹, aiming at reduction of greenhouse gas emissions in energy industry from 10% to 20% as compared to normal development plan during the period of 2011-2020 (Of which, the voluntary level is about 10% and the remaining 10% is targeted with international support). By 2030, reduction of greenhouse gas emissions in energy

⁴⁹ Here, environmental commitments are understood in the traditional sense, not taking into account other commitments such as reduction of import duties on environmental goods, etc.

⁵⁰ Including: 7 agreements on biodiversity conservation and sustainable use; 1 treaty on land management, 1 convention on the management of international water resources; 2 conventions on protection of marine environment; 2 conventions on protection of ozone layer, 4 conventions/agreements on climate change, 1 convention on waste management and 3 conventions on chemical management.

⁵¹ Decision 1393/QĐ-TTg dated September 25, 2012 approving the National Strategy on Green Growth, Decision 403/QĐ-TTg dated March 20, 2014 approving Action Plan for Implementing National Strategy on Green Growth in the period of 2014-2020.

industry is targeted of about 20% to 30% as compared to normal development plan (Of which, the voluntary level is about 20%, and the remaining 10% is targeted with international support). The strategy also proposes solutions to promote effective exploitation and to increase the share of renewable energy sources and new energy sources in the nation's energy production and consumption.

Similar to the above-mentioned objectives, the UN's sustainable development goals committed by Viet Nam related to renewable energy are indicated in Goal 7.2 of the Roadmap for Implementing Sustainable Development Goals to 2030. Accordingly, Viet Nam commits “by 2030, significantly increase the share of renewable energy in the country's total primary energy consumption, attaining 31% by 2020 and 32.3% by 2030”.⁵²

Under the framework of commitment to implement the Paris Agreement on Climate Change (CC), Viet Nam set a goal to voluntarily reduce greenhouse gas emissions by 8% compared to normal scenario by 2030 and by 25% with international support.⁵³ The Government approved the plan on implementing these commitments in Resolution No. 93/NQ-CP dated October 31, 2016 and the first nationally determined contributions (NDC) of Viet Nam was recognized by the Climate Convention since November 3, 2016.

Table 16: Contribution of sectors in Viet Nam's commitment on emission reduction under the NDC

| Sector | Nation implemented | | With international support | |
|--------------------|--------------------|---|----------------------------|---|
| | Target (%) | Amount of GHG (million tons CO ₂ eq) | Target (%) | Amount of GHG (million tons CO ₂ eq) |
| Energy | 4.4 | 29.46 | 9.8 | 65.93 |
| Agriculture | 5.8 | 6.36 | 41.8 | 45.78 |
| Waste | 8.6 | 4.16 | 42.1 | 20.23 |
| LULUCF* | 50.05 | 22.67 | 145.7 | 66.0 |
| Total | 8% | 62.65 | 25% | 197.94 |

* Land Use, Change of Land Use and Forestry.

Source: Department of Climate Change, 2018.

These afore-mentioned commitments originated from awareness of CC with rapid and significant impacts on sectors and regions of Viet Nam. According to the Climate Change Vulnerability Index (CCVI), Viet Nam is considered as one of the top 30 countries that are exposing to "extremely risky" in the world.⁵⁴ Coastal and island areas are frequently affected by climate-related phenomena such as storms and tropical

⁵² Decision 681/QĐ-TTg dated June 4, 2019 promulgating the roadmap for implementation of Viet Nam sustainable development goals by 2030.

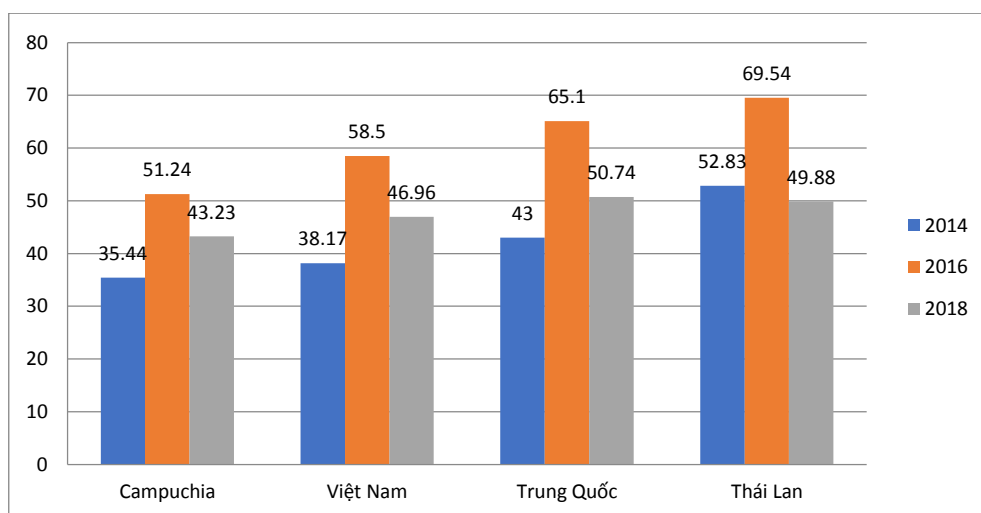
⁵³ According to the 2015 Viet Nam Intended Nationally Determined Contribution (INDC) Contribution Report under the United Nations Framework Convention on Climate Change (UNFCCC)

⁵⁴ The 2017 Report of The GermanWatch also stated that Viet Nam ranked 8th out of 10 countries most affected by climate change. Research by Sönke Kreft, David Eckstein, & Melchior (2016) showed that in the period of 1996-2015, Viet Nam experienced 206 natural disasters, with the estimation of losses of about 0.621% of GDP.

depressions, floods and landslides. Delta areas are affected by typhoons and tropical depressions, flooding and erosion during rainy and drought, salinity intrusion during dry season.⁵⁵ Climate change, sea level rise have affected socio-economic activities such as agriculture, forestry, fishery, energy, construction, transportation, tourism, health, etc. as well as all geographic regions across the country. In particular, agriculture is one of industries experienced severe losses and damages due to the impacts of climate change.

Favorable conditions for the implementation of international commitments on greenhouse gas emission reduction in Viet Nam have been reflected in various guidelines and policy orientation, positive changes in awareness of leaders, the implementation of many practical solutions, etc. However, in reality, challenges remain, including low technological level in the economy, resulting in significant pressure for technology transfer; weak policy enforcement; high investment for mitigation of greenhouse gas emissions; lack of legal corridors, mechanisms and policies to manage and encourage activities to reduce greenhouse gas emissions. Viet Nam's environmental capacity index (EPI) is low in ASEAN region.

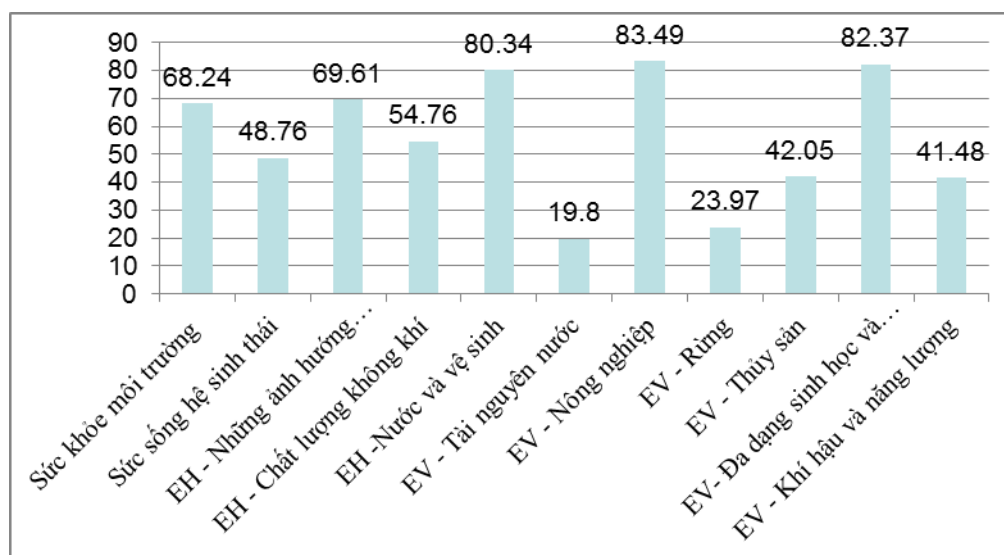
Figure 34: EPI scores of Viet Nam and selected countries in the region



Source: <https://epi.envirocenter.yale.edu/2018-epi-report/introduction>

Figure 35: Ranking of policies in Viet Nam's EPI index in 2016

⁵⁵ According to the Viet Nam Climate Change Scenario and Sea Level Rise in 2016, if the sea level rises 100cm and there are no coping measures, approximately 16.8% of Red River Delta area, 1.5% of coastal Central provinces from Thanh Hoa to Binh Thuan, 17.8% of Ho Chi Minh City area, 38.9% of Mekong Delta area is at risk of being flooded. The mountainous and midland areas are often affected by floods, flash floods, landslides, forest fires and prolonged drought.



Source: <https://epi.envirocenter.yale.edu/2018-epi-report/introduction>

Table 17: EPI ranking of selected countries in the region, 2014-2018

| Year | Cambodia | Viet Nam | China | Thailand | Malaysia | Indonesia |
|------|----------|----------|-------|----------|----------|-----------|
| 2014 | 145 | 136 | 118 | 78 | 51 | 112 |
| 2016 | 148 | 131 | 109 | 91 | 63 | 146 |
| 2018 | 150 | 132 | 120 | 121 | 75 | 133 |

Note: Out of 180 listed countries.

Source: <https://epi.envirocenter.yale.edu/2018-epi-report/introduction>.

Although environmental commitments in CPTPP are basically consistent with development orientation and international commitments of Viet Nam, Viet Nam still face with lots of difficulties and challenges in complying with these commitments. The scope of CPTPP commitments on environment is relatively broad, but the strictness of commitments is quite “weak” as most commitments are in the form of “efforts” instead of “compulsoriness”, except: (i) guiding principles such as gradually raising environmental protection level, non-commercial purposes, etc.; and (ii) issues related to subsidies for fishing and prohibition of catching and merchandising of wide animals and plants across border. The CPTPP also requires higher transparency of compliance and implementation than traditional FTAs, for instance transparent disclosure of information about waste; environmental protection solutions; specialized agency/individual in charge of environmental issues in organizations and enterprises. These requirements pose significant challenges for state management agencies as well as enterprises given environmental policies and regulations remain inadequate; the legal framework on environment is incomplete and even overlapping in some specific areas, leading to difficulties in implementation of international commitments; capacity in dealing with international trade issues related to environment of some officials is still insufficient; etc. In particularly, the fishery sector will be exposed to significant challenges related to compliance with illegal, unreported and unregulated (IUU) fishing requirements. Incompliance with or non-implementation of these requirements would definitely adversely affect benefits gained from the CPTPP of Viet Nam.

With direct preparation of implementing environmental commitments in the CPTPP, the Government have assigned relevant ministries and agencies to: (i) Review, report and recommend measures for effective implementation of multilateral agreements on environment, conservation and protection of wildlife and plants that Viet Nam is participating in; (ii) Implement measures to combat illegal, undeclared and illegal fishing practices, and illegal trade of wildlife and animals; and (iii) Develop and promulgate harmonized regulations, policies and programs related to the implementation of commitments to eliminate subsidies for fishing that adversely affect marine resources, which have been under excessive exploitation. The 12th Central Executive Committee also issued Resolution 36-NQ/TW dated October 22, 2018 on “*Strategy for sustainable development of Viet Nam's marine economy by 2030, vision to 2045*”, which affirms the orientation of sustainable exploitation and development of marine economy, including fishing.

To this extent, thus, Viet Nam has exerted great efforts on implementing environmental commitments in CPTPP, although these contents are currently being postponed. This indicates a positive perception because the implementation of environmental commitments is not only meant to prepare for compliance with the provisions of CPTPP, but also derives from internal requirements of the economy, given the current situation of degradation of environmental quality, depletion of natural resources, resulting in severe consequences and serious impacts on sustainable development of the country. Therefore, proactive preparation for environmental requirements in the CPTPP should be seen as an opportunity for Viet Nam to better implement its development strategy, and also more effectively grasp benefits from the CPTPP. Accordingly, in the coming time, more attention should be paid to the following aspects:

(i) Enhancing awareness of Vietnamese enterprises and social community on environmental protection, sustainable development, minimizing the emission of polluted sources, and supporting enterprises to identify environmental challenges and requirements under mega-FTA with related to their export products.

(ii) Improving legal framework on natural resources and environment, transparency of information and promulgating policies to encourage green lifestyle and production, improving environmental quality. Developing mechanisms and policies to encourage socialization of environmental protection, encouraging enterprises for clean and energy-efficient production, and promoting the production models of environmental-friendly products

(iii) Taking advantage of international assistance under the framework of supporting CPTPP implementation for less developed countries like Viet Nam. Strengthening cooperation, diversifying financial resources and promoting effective investment. Enhancing international cooperation, taking advantage of assistance from

international organizations and countries in cleaning up environment, promoting green growth, implementing climate change mitigation and adaptation measures.

2.7 Institution

2.7.1 Improvements of institutional environment – legal framework

Resolution No. 72/2018/QH14 on ratifying the CPTPP and relevant documents (Resolution No. 72) assigned relevant agencies and organizations with their authorized mandates to review laws and legal regulations to propose competent authorities to amend, supplement or promulgate new documents promptly, ensuring the consistency of the legal system and the roadmap for implementing CPTPP commitments. According to Resolution No. 72, 15 groups of commitment have been applied directly, 07 laws should be amended and supplemented according to the committed schedule of the CPTPP. In order to carry out the tasks assigned by the National Assembly, on January 25, 2019, the Prime Minister issued Decision No.121/QD-TTg approving the Plan on implementation of the CPTPP, emphasizing the importance of fully, strict and effective implementation of CPTPP commitments on regulatory and institutional development.

Table 18: Issuance of legal documents to implement the CPTPP by the end of 2019

| Documents | Date of issuance |
|--|------------------|
| Issued documents | |
| Law No. 25/2018/QH14 on Denunciation | 12/06/2018 |
| Resolution No. 72/2018/QH14 of the National Assembly on the ratification of CPTPP and relevant documents | 12/11/2018 |
| Law No. 36/2018/QH14 on Anti-Corruption | 20/11/2018 |
| Circular No. 03/2019/TT-BCT of the MOIT on RoO in the CPTPP | 22/01/2019 |
| Circular No. 07/2019/TT-BCT of the MOIT on export of textile and apparel goods to Mexico under the CPTPP | 19/04/2019 |
| Law No. 42/2019/QH14 on amendments of Law on Insurance Business and Law on Intellectual Property | 14/06/2019 |
| Resolution No. 80/2019/QH14 on joining Convention 98 of ILO on application of principles of right to organize and collective bargaining | 14/06/2019 |
| Decree No. 57/2019/ND-CP on promulgating the Preferential export tariff schedule and Special preferential import tariff schedule under the CPTPP in the 201-2022 period | 22/06/2019 |
| Circular No. 62/2019/TT-BTC on amending Circular No. 38/2018/TT-BTC on identifying origins of imports and exports | 05/09/2019 |
| Circular No. 19/2019/TT-BCT regulating the application of special safeguard measures to implement the CPTPP | 30/09/2019 |
| Labor Code No. 45/2019/QH14 | 20/11/2019 |
| Circular No. 32/2019/TT-BYT on amending and supplementing clause 4, article 4 and Appendix 01-MP of Circular No. 06/2011/TT-BYT dated January 25, 2011 on cosmetics management | 16/12/2019 |
| Documents to be issued | |
| Decree of the MPI on guiding tender package under the CPTPP | |
| Other regulating documents | |
| Decision No. 121/QD-TTg on approving the plan on implementation of the CPTPP | 24/01/2019 |

| | |
|--|------------|
| Decision No. 734/QD-TTg on assigning focal points to implement the CPTPP | 14/06/2019 |
| Document No. 4993/TCHQ-GSQL of the General Department of Customs on guiding the declaration, acceptance and examination of the validity of C/O under the CPTPP | 05/08/2019 |

Source: WTO Center (2020).

By the end of 2019, regulatory adjustments to implement the CPTPP have been undertaken with certain achievements. Specifically, in accordance with Resolution No. 72 of the National Assembly, 04 laws were promulgated at various plenary meetings of the 14th National Assembly, including: Law on Denunciations; Law on Anti-corruption; (amended) Law on Insurance Business and Law on Intellectual Property; Labor Code. According to the review and tasks assigned by the National Assembly, the Criminal Code 2015 (amended and supplemented in 2017) and the Criminal Procedure Code 2015 (amended and supplemented in 2017) have not been amended because relevant commitments related to these two Codes are due after 3 years from the effective date of the CPTPP for Viet Nam (in 2022). The Resolution on joining Convention 98 was passed by the National Assembly on June 14, 2019. The Ministry of Science and Technology (the NOIP) has coordinated with the Ministry of Culture, Sports and Tourism and the Ministry of Agriculture and Rural Development to study and finalize draft proposal to formulate a Law amending and supplementing a number of articles of the Law on Intellectual Property in order to implement a number of articles with transitional periods in the CPTPP⁵⁶. Regarding under law documents, the review results proposed to amend 03 decrees and 01 decision of the Prime Minister; newly issue 04 decrees, 01 decision of the Prime Minister and 01 relevant guiding circular. Compilation of issuance of legal documents to implement the CPTPP by the end of 2019 is presented in Table 18.

In general, the number of documents to be amended and supplemented to implement the CPTPP is few thanks to a long process of regulatory improvement to meet requirements of domestic socio-economic development and international integration. High consensus has been witnessed in terms of awareness and actions among relevant authorities such as the National Assembly and its sub-bodies, the Government, ministries and localities during the process of regulatory review, amendment and improvement to implement the CPTPP, because basically conflicts between Vietnamese legal regulations and international commitments had been identified during the negotiation process. The amendments and supplements of regulatory documents in 2019 was driven by not only the obligation to fulfill international commitments but also the needs of Viet Nam's socio-economic development. In addition, regulatory improvement to implement the CPTPP have been undertaken in the context of the strengthened and more transparent policy formulation

⁵⁶ The proposal was submitted to the Government in November 2019

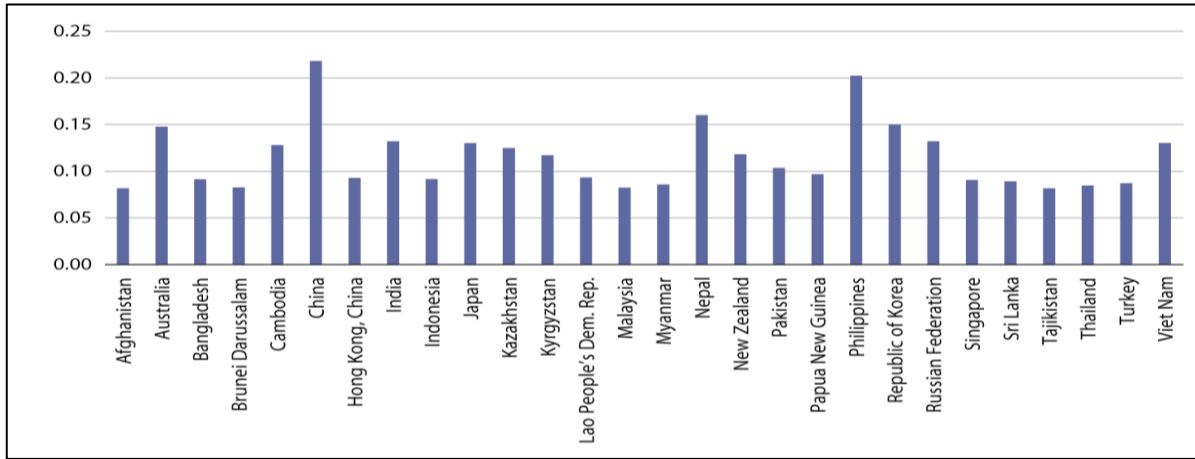
process with supervision of citizens, foreign investors and domestic and foreign stakeholders in order to effectively implement international commitments.

However, the process of institutional improvement for effective integration and implementation of the CPTPP has faced with many challenges. *Firstly*, it is not easy to fully and accurately understand all legal and judicial contents of the CPTPP, which is among the most extensive and complex agreements worldwide, which in turns may affect the review results and policy recommendations on regulatory improvements to implement relevant commitments. *Secondly*, coordination among related ministries and agencies in reviewing and implementing international commitments remained insufficient, especially in such fields that are under the state management of several agencies. This may also hinder the quality of policy recommendations on regulatory amendments. *Thirdly*, the review and issuance of legal documents to implement the CPTPP has not been timely; many legal documents have been in the process of drafting or seeking comments from relevant stakeholders and yet not been promulgated. For instance, in accordance with Decision No. 121/QĐ-TTg on approving the plan on implementation of the CPTPP, ministries and localities (at provincial level) must develop their action plans by March 01, 2019. However, by August 30, 2019, the task was completed by only 27/28 ministries, line ministries and agencies at central level and by 62/63 provinces. As the result, the implementation of these action plans will be further delayed.⁵⁷ *Finally*, the review mainly assessed and improved legal documents to implement Viet Nam's commitments instead of paying appropriate attention on addressing and monitoring regulatory risks that may occur.

At a larger extent, there remains significant gap between Viet Nam's legal framework and international best practices, as well as those of FTA partners. International regulatory cooperation is mainly in the form of attending conferences, seminars, exchange of experts, etc. Meanwhile, higher forms of cooperation such as mutual recognition agreements, joint supervision of legal documents, etc. has been limited, even has not been implemented. Despite of large number of signed and implemented FTAs, Viet Nam's non-tariff measures (NTM) are relatively different from those of FTA partners. Notably, the distance is higher than that of many CPTPP countries such as Japan, New Zealand, Singapore, Brunei, and lower than the figure of Australia (Figure 36).

⁵⁷ Source: WTO Center – VCCI (2020).

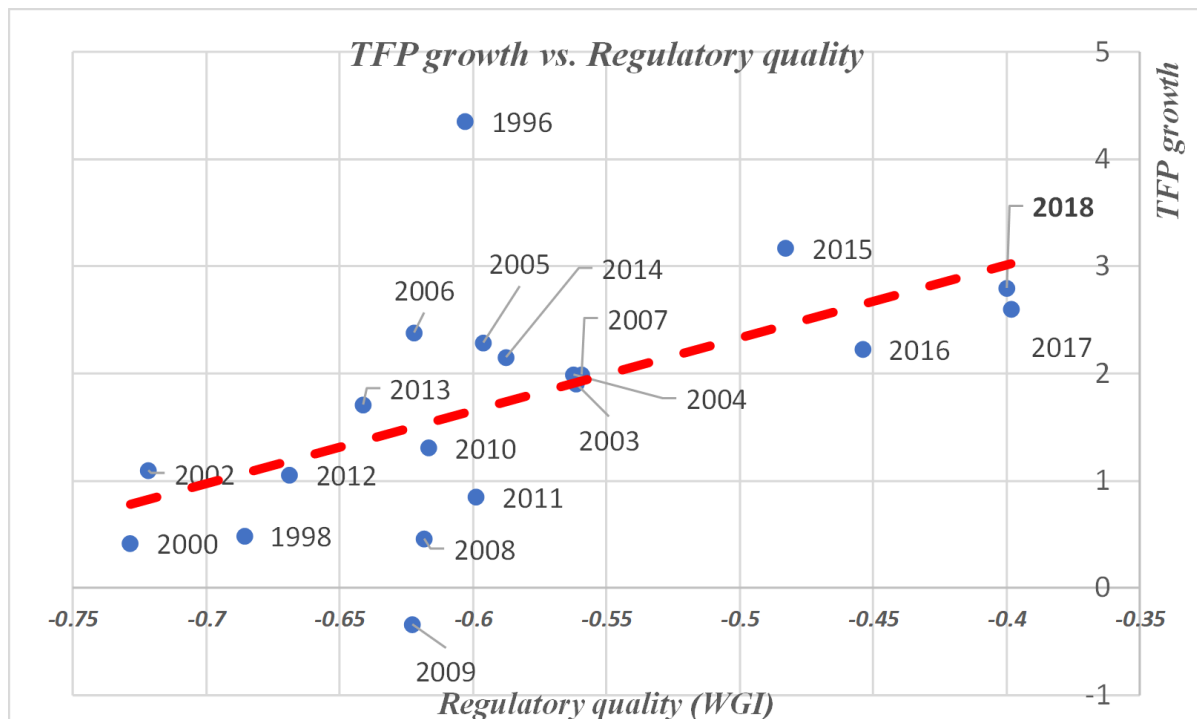
Figure 36: Regulatory distance with FTA partners



Source: UNESCAP (2019).

Note: The regulatory distance indicator ranges between 0-1; in which the value of 0 indicates that NTMs are completely harmonized and value of 1 means that NTMs are diametrically opposed.

Figure 37: The importance of institutional reforms to economic growth in Viet Nam



Source: CIEM (2019).

Meanwhile, the economic institutional reforms and the improvement of business environment has contributed to the growth recovery in recent years. A study by the CIEM (2019) shows that TFP growth has been significantly improved thanks to economic institutional reform (**Error! Reference source not found.**). Accordingly, if the quality of legal regulations increases by 1%, the TFP growth rate will be up by 1.37 percentage point. Therefore, the continuous focus of the Government on improving

business environment - despite of concerns on economic growth in the short term – remains the importance factor to facilitate growth in Viet Nam.

2.7.2 Quality of economic institutions of Viet Nam according to selected international comparative indicators

2.7.2.1 Doing Business of the World Bank

Since 2014, the Government has consistently and firmly directed the process of enhancing business environment and national competitiveness. An important point is that changes in the business environment are assessed through international comparative indicators instead of solely relying on indicators and reports of ministries, line ministries and localities. These authorities are also more open in discussing with international partners on business environment reforms.

Accordingly, Viet Nam’s score and ranking have been significantly improved in the World Bank’s Doing Business report. The Doing Business series also recognizes Viet Nam as one of the countries with the highest number of reforms over the past 17 years with 44 reforms. In particular, in 6 years of implementing Resolution No.19, 20 reforms were recorded by the WB. Notably, the indices of “Paying tax” and “Payments of social insurance”, “Getting electricity”, “Getting credit” have been continuously reformed in recent years and have been recognized by the WB, which are consistent with evaluation and analysis of performance of relevant ministries. According to the Doing Business 2020, Viet Nam’s score increased by 1.44 points from the previous year (from 68.36 points to 69.8 points), however the ranking decreased by one place. Lower position, though insignificant, implies that Viet Nam’s improvement is slower than other countries.

Table 19: Viet Nam’s ranking and scores of Doing Business, 2018-2019

| | 2018 | | 2019 | | |
|-----------------------------------|--------------|------------|--------------|------------|------------------------|
| | Score | Ranking | Score | Ranking | Average score of CPTPP |
| Total | 68.36 | 69 | 69.80 | 70 | 76.99 |
| Starting a business | 84.82 | 104 | 85.10 | 115 | 91.09 |
| Dealing with construction permits | 79.05 | 21 | 79.30 | 25 | 79.56 |
| Getting electricity | 87.94 | 27 | 88.20 | 27 | 83.78 |
| Registering property | 71.09 | 60 | 71.10 | 64 | 73.77 |
| Getting credit | 75.00 | 32 | 80.00 | 25 | 80.45 |
| Protecting minority investors | 55.00 | 89 | 54.00 | 97 | 69.27 |
| Paying taxes | 62.87 | 131 | 69.00 | 109 | 78.54 |
| Trading across borders | 70.83 | 100 | 70.80 | 104 | 79.16 |
| Enforcing contracts | 62.07 | 62 | 62.10 | 68 | 67.39 |
| Resolving insolvency | 34.93 | 133 | 38.00 | 122 | 66.65 |

Source: WB (2020).

Table 20: Viet Nam’s reform are recognized in World Bank Doing Business Report

| Component of Business environment reform is recognized | Quantity |
|--|----------|
|--|----------|

| | | |
|------|--|-----------|
| 2014 | <ul style="list-style-type: none"> - Getting credit (established credit information center) - Paying tax and social insurance (reduce the corporate income tax) | 2 |
| 2015 | <ul style="list-style-type: none"> - Starting a business (reduce time for seal engraving and registration of seal samples) - Getting electricity (reduce time, enhance the efficiency of electricity connection, abolish procedures with fire prevention and fighting agencies) - Getting credit (improve the credit information system, ensure the interests of secured creditors) - Paying tax and social insurance (reduce the corporate income tax, time and number of tax payments) - Resolving insolvency (some new contents of the Law on Bankruptcy: simplifying procedures for liquidation and recovery of enterprises; adjust regulations on invalid transactions; supplement regulations on asset manager, asset management and liquidation) | 5 |
| 2016 | <ul style="list-style-type: none"> - Protecting minority investors (increase rights of minority shareholders; increased requirement on transparency) - Paying tax and social insurance (simplify procedures, reduce the record content, abolish environmental protection fees) - Trading across borders (customs procedure reform and specialized management and inspection) | 3 |
| 2017 | <ul style="list-style-type: none"> - Getting electricity (Application of effective electrical management system SCADA) - Getting credit (expand the range of assets used as collateral) - Paying tax and social insurance (apply electronic transactions in social insurance payment, limit cash transactions in tax refund) - Trading across borders (customs procedure and goods clearance) - Enforcing contracts (applying voluntary mediation) | 5 |
| 2018 | <ul style="list-style-type: none"> - Starting a business (online procedure and fee reduction) - Paying tax and social insurance (carry out online procedures and combine the payment of license tax and VAT; reduce unemployment insurance rate) - Enforcing contracts (public judgment) | 3 |
| 2019 | <ul style="list-style-type: none"> - Getting credit (improve access to credit information) - Paying tax (facilitate tax payment activities through upgrading information technology infrastructure of tax authorities) | 2 |
| | TOTAL | 20 |

Source: Compilation from Doing Business Report, 2015-2020

Reforms in customs procedures and management and specialized inspection have been recognized, reflecting in reduction of time and cost of customs clearance. However, due to low pace and modest results of reforms in relative to other countries, rankings of these indicators of Viet Nam decreased. In fact, barriers in specialized management, especially animal quarantine procedures and quality control, is the main reason leading to the prolonged time of customs clearance. Compared with other ASEAN countries, customs clearance in Viet Nam takes longer time and larger costs. In specific, time for customs clearance in Viet Nam is double than in Thailand, 3 times longer than in Malaysia and much longer than in Singapore. The customs clearance cost for imported goods in Viet Nam is equivalent to that in Indonesia, more than double that in Thailand, Malaysia and Singapore.

Among CPTPP member countries, Viet Nam's rankings in most indicators are relatively low, except such indices as getting credit, dealing with construction permits and getting electricity. Nevertheless, there remain opportunities for further improvement if Viet Nam exerts sufficient determination. It should be noted that other countries in CPTPP have very high rankings, if not leading positions, in many fields such as starting a business, getting credit, registering property, etc.

Table 21: Ranking of CPTPP countries in Doing Business 2019

| Country | Raking | Starting a Business | Dealing with Construction Permits | Getting electricity | Registering Property | Getting credit | Protecting Minority Investors | Paying Taxes | Trading across Borders | Enforcing Contracts | Resolving Insolvency |
|-------------------|--------|---------------------|-----------------------------------|---------------------|----------------------|----------------|-------------------------------|--------------|------------------------|---------------------|----------------------|
| New Zealand | 1 | 1 | 7 | 48 | 2 | 1 | 3 | 9 | 63 | 23 | 36 |
| Singapore | 2 | 4 | 5 | 19 | 21 | 37 | 3 | 7 | 47 | 1 | 27 |
| Malaysia | 12 | 126 | 2 | 4 | 33 | 37 | 2 | 80 | 49 | 35 | 40 |
| Australia | 14 | 7 | 11 | 62 | 42 | 4 | 57 | 28 | 106 | 6 | 20 |
| Canada | 23 | 3 | 64 | 124 | 36 | 15 | 7 | 19 | 51 | 100 | 13 |
| Japan | 29 | 106 | 18 | 14 | 43 | 94 | 57 | 51 | 57 | 50 | 3 |
| Mexico | 60 | 107 | 93 | 106 | 105 | 11 | 61 | 120 | 69 | 43 | 33 |
| Brunei Darussalam | 66 | 16 | 54 | 31 | 144 | 1 | 128 | 90 | 149 | 66 | 59 |
| Chile | 59 | 57 | 41 | 39 | 63 | 94 | 51 | 86 | 73 | 54 | 53 |
| Peru | 76 | 133 | 65 | 88 | 55 | 37 | 45 | 121 | 102 | 83 | 90 |
| Viet Nam | 70 | 115 | 25 | 27 | 64 | 25 | 97 | 109 | 104 | 68 | 122 |

Source: WB (2020).

2.7.2.2 World Governance Indicators

Worldwide Governance Indicators (WGI) consists of 6 groups of components: Government Effectiveness⁵⁸, Rule of Law⁵⁹, Political Stability and Absence of Violence⁶⁰, Control of Corruption⁶¹; Regulatory Quality⁶², and Voice and Accountability⁶³. Study of these indicators can help Viet Nam identify areas related to state governance quality that the country should pay more attention to determinedly and drastically address in order to promote the effectiveness of institutional reform.

Table 22: Score of Governance Effectiveness of CPTPP countries, 2007-2018

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|------|------|------|------|------|------|------|------|------|------|------|------|
|--|------|------|------|------|------|------|------|------|------|------|------|------|

⁵⁸ Government Effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies

⁵⁹ Rule of Law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular, the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence

⁶⁰ Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically - motivated violence, including terrorism

⁶¹ Control of Corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

⁶² Regulatory Quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development

⁶³ Voice and Accountability captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media

| | | | | | | | | | | | | |
|-------------------|-------|--------|--------|--------|-------|-------|-------|--------|--------|--------|--------|--------|
| Australia | 96.12 | 95.63 | 94.26 | 95.22 | 94.79 | 94.31 | 94.79 | 92.31 | 92.31 | 92.31 | 92.31 | 92.79 |
| Brunei Darussalam | 79.61 | 78.64 | 77.51 | 77.99 | 77.25 | 76.30 | 74.88 | 82.21 | 82.21 | 82.21 | 84.13 | 87.02 |
| Canada | 94.66 | 95.15 | 95.69 | 95.69 | 96.21 | 95.26 | 97.16 | 95.19 | 94.71 | 95.19 | 97.12 | 94.71 |
| Chile | 87.38 | 84.47 | 85.17 | 86.60 | 85.31 | 86.26 | 86.73 | 84.62 | 83.17 | 79.33 | 77.88 | 81.73 |
| Japan | 88.83 | 88.35 | 88.52 | 90.43 | 89.57 | 88.63 | 93.84 | 96.15 | 95.19 | 95.67 | 93.27 | 94.23 |
| Malaysia | 85.44 | 82.52 | 78.95 | 82.78 | 81.04 | 76.78 | 79.15 | 82.69 | 76.92 | 75.96 | 75.48 | 81.25 |
| Mexico | 58.74 | 60.68 | 60.29 | 60.29 | 63.51 | 63.51 | 63.03 | 61.54 | 61.54 | 58.65 | 52.40 | 47.60 |
| New Zealand | 93.69 | 93.69 | 97.61 | 96.65 | 98.10 | 96.21 | 96.21 | 98.56 | 98.56 | 97.60 | 95.19 | 93.75 |
| Peru | 35.44 | 44.66 | 41.63 | 48.33 | 48.34 | 49.29 | 49.76 | 44.23 | 44.23 | 45.67 | 48.56 | 44.23 |
| Singapore | 100.0 | 100.00 | 100.00 | 100.00 | 99.53 | 99.53 | 99.53 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| Viet Nam | 46.60 | 47.09 | 48.33 | 46.41 | 47.39 | 45.97 | 46.45 | 51.44 | 55.29 | 53.85 | 53.37 | 53.37 |

Source: Worldwide Governance Indicators (WGI) in 2018.

Table 23: Score of Rule of Law of CPTPP countries 2007-2018

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Australia | 94.26 | 95.19 | 94.79 | 95.26 | 95.77 | 95.77 | 95.77 | 96.15 | 94.71 | 94.71 | 93.27 | 92.79 |
| Brunei Darussalam | 62.20 | 65.38 | 72.04 | 72.51 | 76.53 | 73.24 | 68.08 | 69.23 | 66.83 | 71.63 | 74.52 | 75.00 |
| Canada | 96.17 | 96.15 | 96.68 | 96.68 | 94.37 | 95.31 | 95.31 | 95.19 | 95.67 | 96.63 | 95.67 | 94.71 |
| Chile | 88.04 | 88.46 | 88.15 | 88.15 | 88.73 | 88.73 | 87.79 | 87.98 | 87.02 | 85.10 | 81.73 | 83.65 |
| Japan | 89.47 | 88.94 | 87.68 | 87.68 | 87.32 | 87.79 | 90.14 | 89.42 | 89.42 | 89.42 | 89.90 | 90.38 |
| Malaysia | 63.16 | 60.10 | 63.51 | 64.93 | 64.79 | 64.79 | 63.85 | 73.56 | 68.75 | 69.23 | 64.42 | 74.52 |
| Mexico | 37.80 | 29.81 | 35.55 | 35.55 | 34.27 | 37.09 | 35.68 | 37.98 | 38.46 | 31.73 | 31.73 | 27.40 |
| New Zealand | 96.65 | 97.12 | 99.05 | 98.10 | 98.59 | 98.59 | 98.12 | 98.56 | 98.08 | 98.56 | 98.08 | 98.08 |
| Peru | 26.79 | 25.96 | 32.70 | 34.12 | 31.92 | 34.74 | 34.74 | 34.13 | 37.50 | 34.13 | 33.17 | 32.69 |
| Singapore | 91.39 | 91.35 | 91.47 | 91.94 | 92.96 | 94.37 | 94.37 | 93.27 | 94.23 | 96.15 | 96.63 | 97.12 |
| Viet Nam | 38.28 | 38.46 | 36.97 | 32.70 | 34.74 | 35.21 | 39.91 | 41.83 | 43.75 | 56.73 | 56.25 | 54.33 |

Source: Worldwide Governance Indicators (WGI) in 2018.

Table 24: Score of Political Stability and Absence of Violence of CPTPP countries, 2007-2018

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Australia | 78.74 | 80.29 | 76.78 | 78.20 | 74.88 | 82.46 | 83.41 | 85.24 | 75.71 | 89.05 | 79.52 | 82.86 |
| Brunei Darussalam | 90.82 | 89.90 | 97.16 | 93.36 | 86.73 | 75.36 | 87.20 | 94.76 | 93.81 | 91.43 | 90.00 | 91.90 |
| Canada | 82.13 | 85.10 | 89.10 | 81.04 | 86.26 | 89.10 | 86.73 | 92.86 | 95.24 | 93.81 | 88.10 | 84.76 |
| Chile | 58.94 | 58.65 | 66.82 | 68.25 | 62.09 | 57.82 | 59.72 | 60.00 | 60.00 | 60.48 | 61.90 | 61.43 |
| Japan | 82.61 | 77.40 | 84.83 | 77.73 | 81.99 | 78.20 | 82.94 | 80.00 | 89.05 | 82.38 | 88.57 | 88.10 |
| Malaysia | 49.28 | 48.56 | 42.65 | 51.18 | 49.29 | 44.08 | 47.39 | 57.62 | 56.67 | 49.52 | 51.43 | 54.29 |
| Mexico | 23.67 | 19.23 | 22.27 | 23.22 | 26.07 | 24.64 | 23.22 | 17.62 | 21.43 | 23.81 | 20.48 | 25.71 |
| New Zealand | 94.69 | 91.83 | 86.73 | 91.47 | 97.63 | 96.68 | 98.58 | 99.52 | 99.05 | 99.52 | 98.57 | 99.05 |
| Peru | 20.77 | 17.31 | 13.74 | 16.59 | 21.80 | 19.43 | 20.38 | 27.14 | 32.38 | 38.10 | 36.19 | 37.14 |
| Singapore | 92.75 | 99.04 | 90.52 | 90.52 | 91.00 | 97.16 | 96.68 | 93.33 | 96.19 | 99.05 | 99.05 | 98.57 |
| Viet Nam | 52.17 | 49.52 | 53.08 | 51.66 | 54.03 | 55.92 | 56.87 | 44.29 | 50.00 | 54.76 | 56.67 | 53.81 |

Source: Worldwide Governance Indicators (WGI) in 2018.

Among the WGI's components in 2018, Viet Nam achieved the best results in such aspects as "Government effectiveness", "Political stability", and the "Rule of law". However, except "Government effectiveness" which did not change much compared to the score in 2017, the score of "Political stability" and "Rule of law" indices all decreased (from 56.67 to 53.81, and from 56.25 to 54.33, respectively). However, by the income quintile, the score of these three indicators of Viet Nam are

relatively high, approximately equal to that of many upper middle-income countries and better than the figure for many lower middle-income countries.

However, the score of “Regulatory quality” index of Viet Nam is the lowest among CPTPP countries, attaining only 36.54 points in 2018. Despite of the upward trend, the improvement progress of this index remained slow. As the result, Viet Nam should exert more efforts in order to catch up with high-income countries such as Singapore (99.52 points), New Zealand (98.56 points), Australia (98.08 points), Canada (93.75 points). The two remaining components – Control of Corruption and Voice and Accountability – are generally modest. Viet Nam’s score of the two indices were low and insignificantly improved. In specific, Control of corruption’s score was 37.98 points in 2018, which was only higher than that of Peru (34.62 points) and Mexico (18.75 points). Viet Nam’s performance of “Voice and Accountability” index was worst with lower score in relative to in previous years.

Table 25: Score of Regulatory Quality of CPTPP countries, 2007-2018

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Australia | 95.63 | 96.60 | 99.04 | 96.65 | 98.10 | 97.16 | 97.16 | 98.08 | 96.15 | 97.60 | 98.08 | 98.08 |
| Brunei Darussalam | 79.61 | 74.27 | 82.30 | 82.30 | 84.36 | 84.83 | 82.46 | 79.81 | 76.92 | 71.15 | 75.48 | 74.52 |
| Canada | 94.17 | 95.63 | 96.65 | 96.17 | 95.73 | 95.73 | 95.26 | 97.60 | 93.75 | 94.23 | 97.60 | 93.75 |
| Chile | 92.23 | 92.72 | 92.34 | 91.39 | 91.47 | 92.42 | 91.94 | 91.83 | 88.94 | 89.90 | 88.94 | 88.94 |
| Japan | 84.95 | 83.50 | 82.78 | 81.82 | 81.99 | 84.36 | 82.94 | 84.13 | 85.10 | 90.38 | 89.90 | 87.98 |
| Malaysia | 66.99 | 61.17 | 61.72 | 70.33 | 71.09 | 70.14 | 73.46 | 75.96 | 74.04 | 75.48 | 74.52 | 74.04 |
| Mexico | 63.59 | 62.62 | 57.89 | 58.37 | 58.29 | 67.77 | 67.30 | 66.83 | 64.90 | 64.42 | 61.54 | 60.58 |
| New Zealand | 96.60 | 98.06 | 99.52 | 98.56 | 100.0 | 98.58 | 98.10 | 99.04 | 99.04 | 99.04 | 99.04 | 98.56 |
| Peru | 60.19 | 63.11 | 63.64 | 65.07 | 66.82 | 68.25 | 66.35 | 68.75 | 69.23 | 69.71 | 67.31 | 71.15 |
| Singapore | 98.06 | 98.54 | 97.61 | 98.09 | 96.68 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 99.52 | 99.52 |
| Viet Nam | 30.10 | 30.10 | 28.23 | 28.71 | 30.33 | 27.96 | 28.44 | 30.77 | 35.58 | 35.10 | 36.54 | 36.54 |

Source: Worldwide Governance Indicators (WGI) in 2018.

Table 26: Score of Control of Corruption of CPTPP countries, 2007-2018

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|-------|
| Australia | 95.63 | 96.12 | 96.17 | 95.24 | 96.21 | 95.73 | 93.84 | 95.19 | 94.23 | 93.27 | 92.79 | 92.79 |
| Brunei Darussalam | 62.14 | 71.36 | 79.90 | 78.10 | 77.25 | 71.56 | 72.99 | 69.71 | 69.23 | 70.19 | 75.00 | 79.81 |
| Canada | 95.15 | 95.63 | 96.65 | 96.19 | 95.26 | 95.26 | 95.26 | 94.23 | 95.19 | 96.15 | 95.67 | 94.71 |
| Chile | 90.78 | 90.78 | 89.47 | 90.48 | 90.05 | 91.00 | 90.52 | 90.87 | 87.50 | 82.69 | 82.21 | 81.73 |
| Japan | 85.44 | 88.83 | 89.00 | 91.43 | 91.00 | 91.94 | 92.42 | 92.79 | 91.35 | 90.87 | 90.38 | 89.42 |
| Malaysia | 61.65 | 56.80 | 56.94 | 60.95 | 57.82 | 63.98 | 67.30 | 66.83 | 63.46 | 60.10 | 58.17 | 63.94 |
| Mexico | 49.03 | 50.00 | 47.85 | 42.86 | 41.71 | 42.65 | 37.44 | 24.52 | 24.04 | 25.96 | 16.35 | 18.75 |
| New Zealand | 99.03 | 98.54 | 99.52 | 99.52 | 99.53 | 99.53 | 99.53 | 100.00 | 100.00 | 100.00 | 100.00 | 99.52 |
| Peru | 50.00 | 53.40 | 47.37 | 51.90 | 52.13 | 43.60 | 41.23 | 34.13 | 34.62 | 43.27 | 38.94 | 34.62 |
| Singapore | 98.06 | 98.06 | 98.09 | 98.57 | 96.68 | 97.16 | 96.68 | 96.15 | 96.63 | 97.12 | 97.60 | 99.04 |
| Viet Nam | 30.58 | 28.16 | 34.45 | 31.43 | 32.70 | 36.02 | 38.86 | 40.87 | 41.83 | 37.50 | 31.25 | 37.98 |

Source: Worldwide Governance Indicators (WGI) in 2018.

Table 27: Score of Voice and Accountability of CPTPP countries, 2007-2018

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Australia | 94,23 | 94,71 | 94,31 | 94,79 | 95,77 | 95,77 | 94,37 | 93,60 | 93,10 | 94,09 | 94,58 | 95,57 |
| Brunei Darussalam | 18.27 | 19.23 | 28.91 | 29.86 | 29.11 | 30.99 | 30.99 | 29.06 | 26.11 | 23.15 | 22.66 | 24.63 |

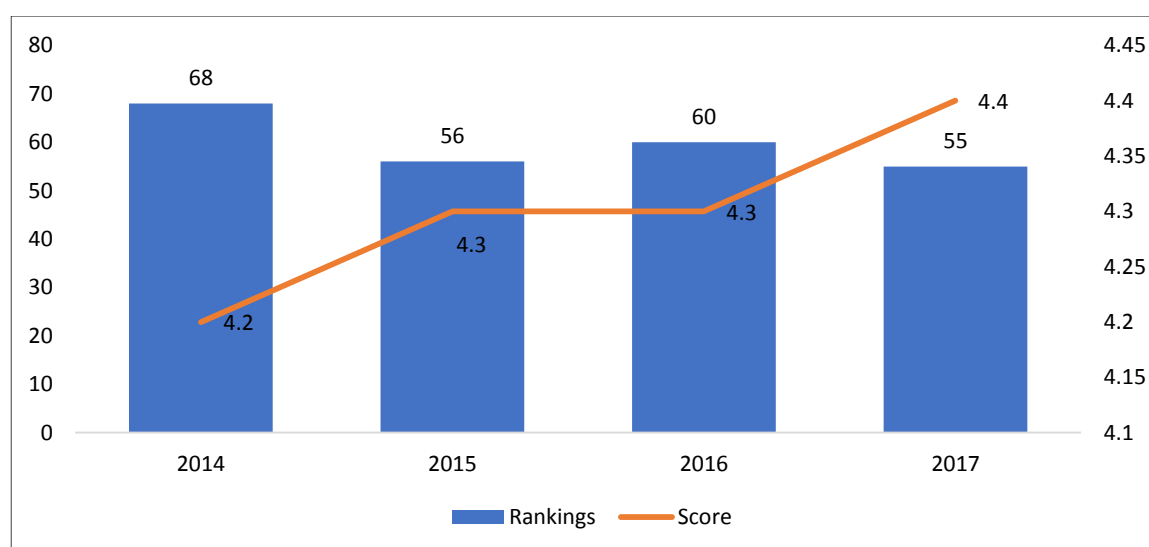
| | | | | | | | | | | | | |
|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Canada | 95.19 | 95.19 | 95.26 | 93.84 | 94.37 | 94.37 | 95.31 | 95.57 | 96.06 | 96.06 | 96.06 | 96.06 |
| Chile | 85.10 | 80.29 | 79.15 | 82.94 | 82.63 | 83.10 | 84.51 | 80.79 | 79.31 | 77.83 | 79.31 | 82.27 |
| Japan | 75.96 | 75.48 | 79.62 | 81.04 | 82.16 | 84.51 | 84.98 | 79.31 | 78.82 | 77.34 | 80.30 | 80.30 |
| Malaysia | 32.69 | 29.81 | 31.28 | 32.23 | 31.46 | 36.15 | 37.09 | 35.47 | 33.99 | 33.99 | 34.48 | 41.38 |
| Mexico | 52.40 | 51.92 | 55.45 | 54.98 | 53.05 | 53.99 | 53.05 | 48.77 | 44.33 | 43.84 | 42.86 | 45.81 |
| New Zealand | 97.60 | 97.12 | 97.16 | 97.16 | 98.12 | 97.65 | 97.65 | 96.55 | 98.03 | 98.03 | 98.52 | 99.51 |
| Peru | 51.44 | 52.40 | 51.18 | 52.61 | 53.52 | 54.46 | 52.11 | 54.68 | 54.68 | 55.17 | 55.17 | 55.17 |
| Singapore | 35.58 | 35.10 | 40.76 | 40.28 | 45.07 | 51.64 | 50.70 | 45.81 | 41.38 | 40.89 | 41.38 | 41.87 |
| Viet Nam | 8.17 | 8.17 | 8.06 | 7.58 | 8.45 | 8.92 | 10.80 | 9.36 | 10.34 | 10.34 | 10.84 | 9.36 |

Source: Worldwide Governance Indicators (WGI) in 2018.

2.7.2.3 Global Competitiveness Index

According to Global Competitiveness Index (GCI) of World Economic Forum (WEF), from 2014 to 2017, Viet Nam's score continuously improved despite of the unsustainable rankings. In particular, in 2017, score of 5/12 pillars and rankings of 6/12 pillars increased (in which 32/114 sub-indices increased in terms of both score and rankings, 24/114 sub-indices had better rankings but scores were unchanged or had higher scores but rankings were unchanged). This indicates uninterrupted reforms of Viet Nam over the years, but many pillars have not been improved or the improvement has been unsustainable.

Figure 38: Ranking and score of Viet Nam in the Global Competitiveness Index, 2014-2017



Source: WEF's Global Competitiveness Index report (2014-2017)

In the context of drastic, rapid and complicated changes of technology and the global political – economic landscape, the World Economic Forum (WEF) modified the methodology of global competitiveness index, exerting more adequate attention on driving factors of long-term growth and incomes. Due to the new approach, the index was named as Global Competitiveness Index 4.0 (GCI 4.0). In 2018, the WEF officially adopted a new method and published The GCI 4.0 Report. Because of the different approach, it is unfeasible to compare the GCI 4.0 with previous Global Competitiveness Index.

Table 28: Score and ranking of GCI 4.0 of Viet Nam, 2018-2019

| | 2018 | | 2019 | |
|---|-------------|-----------|-------------|-----------|
| | Score | Ranking | Score | Ranking |
| GCI 4.0 | 58 | 77 | 61.5 | 67 |
| 1st pillar: Institutions | 49.5 | 94 | 49.8 | 89 |
| Social capital | 48 | 93 | 48 | 90 |
| Budget transparency | 65.4 | 42 | 15 | 84 |
| Judicial independence | 40.2 | 89 | 40.9 | 85 |
| Efficiency of legal framework in challenging regulations | 38.1 | 69 | 42.9 | 59 |
| Freedom of the press | 25 | 139 | 25.1 | 139 |
| Burden of government regulation | 34.6 | 96 | 39.8 | 79 |
| Efficiency of legal framework in settling disputes | 38.5 | 88 | 43.0 | 76 |
| E-Participation | 69.1 | 69 | 69.1 | 69 |
| Future orientation of government | 43.9 | 75 | 60.8 | 40 |
| Government ensuring policy stability | - | - | 50.3 | 67 |
| Government's responsiveness to change | - | - | 49.4 | 53 |
| Legal framework's adaptability to digital business models | - | - | 43.1 | 71 |
| Government long-term vision | - | - | 52.5 | 58 |
| Transparency | 35 | 91 | 33 | 101 |
| Property rights | 47.9 | 104 | 49.8 | 98 |
| Intellectual property protection | 42.2 | 105 | 44.4 | 105 |
| Quality of land administration | 46.7 | 78 | 46.7 | 80 |
| Strength of auditing and accounting standards | 42.5 | 128 | 43.2 | 128 |
| Conflict of interest regulation | 43 | 112 | 43 | 112 |
| Shareholder governance | 67 | 32 | 67 | 37 |

Source: Global Competitiveness Index report 2019

According to the assessment of WEF, Viet Nam's GCI 4.0 in 2019 increased by 10 positions and by 3.5 points (from 58 points in 2018 to 61.5 points). Thus, Viet Nam achieved the fastest improvement in the world. This result was attributed to the improvement of 8/12 pillars in terms of both ranking and score, including such important areas as Institutions; ICT adoption; Business dynamism; Innovative capacity; Skills; etc.⁶⁴ These progress indicated significant contribution of innovation inducers to catch up with IR 4.0 in Viet Nam.

Table 29: Ranking of GCI 4.0 of CPTPP countries in 2019

| | Australia | Brunei Darus | Canada | Chile | Japan | Malaysia | Mexico | New Zealand | Peru | Singapore | Viet Nam |
|--|-----------|--------------|--------|-------|-------|----------|--------|-------------|------|-----------|----------|
|--|-----------|--------------|--------|-------|-------|----------|--------|-------------|------|-----------|----------|

⁶⁴ In specific, Institutions pillar increased by 0.3 points (from 49.5 to 49.8) and 5 places (from 94 to 89); ICT adoption pillar increased by 25.7 points (from 43.3 to 69.0) and 54 places (from 95 to 41); Product market pillar increased by 1.9 points (from 52.1 to 54) and 32 places (from 102 to 79); Business dynamism pillar increased by 2.8 points (from 53.7 to 56.5) and 12 places (from 101 to 89); Labor market pillar increased by 2.6 points (from 55.6 to 58.2) and 7 places (from 90 to 83); Innovative capacity pillar increased by 3.4 points (from 33.4 to 36.8) and 6 places (from 82 to 76); Skills pillar increased by 2.7 points (from 54.3 to 57) and 4 places (from 97 to 93); Market size pillar increased by 0.9 points (from 70.9 to 71.8) and 3 places (from 29 to 26).

| | | salam | | | | | | | | | |
|---|----|-------|----|----|----|-----|-----|----|-----|-----|-----|
| GCI | 16 | 56 | 14 | 33 | 6 | 27 | 48 | 19 | 65 | 1 | 67 |
| 1st pillar: Institutions | 17 | 50 | 13 | 32 | 19 | 25 | 98 | 3 | 94 | 2 | 89 |
| Public Institutions | | | | | | | | | | | |
| Social capital | 2 | 40 | 11 | 62 | 98 | 30 | 121 | 1 | 80 | 15 | 90 |
| Budget transparency | 10 | | 16 | 34 | 27 | 52 | 6 | 1 | 13 | | 84 |
| Judicial independence | 10 | 70 | 15 | 32 | 5 | 29 | 103 | 2 | 122 | 14 | 85 |
| Efficiency of legal framework in challenging regulations | 38 | 129 | 24 | 48 | 19 | 12 | 98 | 9 | 105 | 15 | 59 |
| Freedom of the press | 20 | 125 | 18 | 40 | 55 | 100 | 118 | 7 | 68 | 124 | 139 |
| Burden of government regulation | 80 | 83 | 38 | 77 | 31 | 5 | 116 | 25 | 128 | 1 | 79 |
| Efficiency of legal framework in settling disputes | 30 | 60 | 23 | 50 | 16 | 15 | 112 | 10 | 134 | 1 | 76 |
| E-Participation | 5 | 93 | 27 | 45 | 5 | 32 | 17 | 5 | 35 | 13 | 69 |
| Future orientation of government | 22 | 64 | 18 | 30 | 17 | 25 | 67 | 41 | 108 | 8 | 40 |
| Government ensuring policy stability | 36 | 50 | 26 | 23 | 21 | 14 | 94 | 25 | 78 | 2 | 67 |
| Legal framework's adaptability to digital business models | 30 | 102 | 27 | 39 | 34 | 5 | 53 | 13 | 107 | 3 | 71 |
| Transparency | 13 | 29 | 9 | 26 | 18 | 55 | 116 | 2 | 91 | 3 | 101 |
| Property rights | 9 | 74 | 19 | 32 | 5 | 24 | 86 | 12 | 121 | 3 | 98 |
| Intellectual property protection | 11 | 62 | 24 | 42 | 8 | 25 | 67 | 10 | 124 | 2 | 105 |
| Quality of land administration | 47 | 55 | 41 | 80 | 22 | 6 | 69 | 11 | 59 | 1 | 80 |
| Private institution | | | | | | | | | | | |
| Strength of auditing and accounting standards | 14 | 90 | 12 | 21 | 16 | 29 | 43 | 8 | 78 | 3 | 128 |
| Conflict of interest regulation | 53 | 34 | 6 | 27 | 27 | 4 | 53 | 2 | 27 | 2 | 112 |
| Shareholder governance | 64 | 55 | 28 | 89 | 89 | 17 | 75 | 28 | 75 | 37 | 32 |

Source: GCI 4.0 Report (2020)

Compared within ASEAN nations, Viet Nam remains lagged behind most of ASEAN members. Despite of narrowing gap between Viet Nam and CPTPP countries, Viet Nam is still at lower position in relative to CPTPP partners, far from Singapore, Japan, Australia and Canada. Regarding the institutions pillar, among the CPTPP countries, Viet Nam's ranking was only better than Mexico and Peru. In terms of sub-indices, Viet Nam's performance of Shareholder management was relatively good, only behind Canada, Malaysia and New Zealand. Sub-index of Budget transparency was also better in comparison to CPTPP countries. However, Viet Nam's performance of institution of Property rights and intellectual property protection was bad, the score was only higher than that of Peru and much lower than the figure of other partners. Regarding the institutions for the private sector, except the shareholder governance index, both indices on the strength of auditing and accounting standards and the conflict of interest regulation of Viet Nam were adversely evaluated with low rankings, which was much lower than other CPTPP countries. This fact implies that Viet Nam should exert further efforts on promoting economic development in line with IR 4.0 trend;

improving institutions and business environment; fostering IT application nationwide, including in public administration; improving market efficiencies; developing mechanisms to encourage and facilitate creativity and dynamism in business instead of creating barriers for management purposes.

In conclusion, Viet Nam's economic growth has achieved significant progress, but remained input-based approach, heavily depending expansion of scale, capital, natural resources, low-skill labor; meanwhile the contribution of knowledge, science and technology, skilled labor was modest. In addition, Viet Nam's growth has been significantly back on FDI and exports instead of fully exploring the large-scale and potential domestic market. The domestic business sector has not acquired sufficient international competitiveness to survive and develop in the context of fulfilling deeper integration commitments. The proportion of low-tech exports remained high. FDI quality is low, some projects resulted in environmental pollution, leading to serious socio-economic consequences. Linkage between the FDI and domestic economic sector is also weak. Some industries have joined the GVCs but remained at low value-added stages. Therefore, even the competitiveness of the industry has increased, the value added has been low. Growth has significantly counted on the expansion of labor-intensive and low-tech industries. The number of high-tech is modest while supporting industries are underdeveloped, leading to small proportion of domestic value added content and heavy dependence on imported inputs.

Current situation shows that Viet Nam's economic institutions remain inadequate to meet requirements of development, not keeping up with actual domestic and international movements, especially in the context of more clearly defined and robust renovation in international relations and international integration. No significant improvement has been witnessed in fostering other economies to recognize Viet Nam's market economy status in 2019 - the starting year of CPTPP implementation. Improving the business environment remains a challenge for Viet Nam, the distance to frontiers in each index of doing business indicators is still significant. The competitiveness of the economy is improved at low pace. The quality of growth is modest, mainly based on increasing capital and labor, the contribution of TFP is limited, the productivity is improved slowly. Viet Nam is also facing significant challenges on the environmental issues and climate change. These factors can adversely affect the capacity to grasp opportunities and overcome challenges in implementing CPTPP in particular and Viet Nam's international economic integration in general.

3 Firms' preparedness for CPTPP

3.1 Overview of enterprises in Viet Nam

3.1.1 Policies on enterprise development

In 1986, the 6th National Congress of the Communist Party promulgated the “Doi Moi” policy, formally recognizing the private sector as an integral part of the socialist-oriented market economy of Vietnam. Many legal documents have been amended, supplemented and newly issued to create favorable conditions for the development of all enterprises of all types of economic ownership, in particular SMEs, including the Law on Investment (amended)⁶⁵, the Law on Enterprise (amended)⁶⁶, the Law on Value Added Tax⁶⁷, the Law on Corporate Income Tax 2013⁶⁸, the Law on Bankruptcy⁶⁹, the Law on Customs (amended)⁷⁰, the Law on State Budget (amended)⁷¹, the Law on Public Investment⁷², etc. The resolution of the 5th Party Central Committee meeting (Session XII) on June 03, 2017 (Resolution No. 10/NQ-TW) affirmed the importance of developing the private sector into a driving force of the socialist-oriented market economy in Viet Nam. To further improve the jurisdiction and enforcement of supporting policies for enterprises, especially SMEs, the National Assembly passed the Law on Support for SMEs (took effect on January 01, 2018, which is expected to be stimulus for the development of the private sector in the future.

Simultaneously, reforms on facilitating the enhancement of business - investment environment and improving quality of services of the government and local authorities have been drastically implemented, including a series of Resolution No. 19/NQ-CP (currently named as Resolution No. 02/NQ-CP) on improving business environment and national competitiveness; Resolution No. 35/NQ-CP⁷³ in 2016 and Directive No. 26/CT-TTg⁷⁴ in 2017 on supporting and developing enterprises till 2020; Resolution No. 139/NQ-CP⁷⁵ on cutting fees and costs for businesses; Resolution No. 98/NQ-CP promulgating the Government's action plan to implement Resolution No. 10/NQ-TW, etc. Many guiding documents on supporting enterprises, thereby, have been issued such as Decree No. 126/2017/ND-CP on transforming SOEs to joint-stock companies⁷⁶, Decree No. 111/2015/ND-CP on developing supporting industry⁷⁷;

⁶⁵ Law No. 67/2014/QH13 dated November 26, 2014 (took effect on July 01, 2015).

⁶⁶ Law No. 68/2014/QH13 dated November 26, 2014 (took effect on July 01, 2015).

⁶⁷ Law No. 33/2013/QH13 dated June 19, 2013 (took effect on January 01, 2014).

⁶⁸ Law No. 32/2013/QH13 dated June 19, 2013 (took effect on January 01, 2014).

⁶⁹ Law No. 51/2014/QH13 dated June 19, 2014 (took effect on January 01, 2015).

⁷⁰ Law No. 54/2014/QH13 dated June 23, 2014 (took effect on January 01, 2015).

⁷¹ Law No. 83/2015/QH13 dated June 25, 2015 (took effect on January 01, 2016).

⁷² Law No. 49/2014/QH13 dated June 18, 2014 (took effect on January 01, 2015, expired on December 31, 2019); Law No. 39/2019/QH14 dated June 13, 2019 (took effect on January 01, 2020).

⁷³ Resolution 35/NQ-CP dated May 15, 2016.

⁷⁴ Directive 26/CT-TTg of June 6, 2017 on the effective implementation of Resolution No. 35/NQ-CP.

⁷⁵ Resolution 139/NQ-CP dated 9/11/2018 on action plan on cutting fees and costs for enterprises.

⁷⁶ Decree 126/2017/ND-CP on transforming SOEs into one-member limited liability companies with 100% of charter capital invested by SOEs into joint stock companies.

⁷⁷ Decree 111/2015/ND-CP of November 3, 2015 on developing supporting industries.

Decree No. 34/2018/ND-CP on the Credit Guarantee Funds for SME⁷⁸s; Decree No. 38/2018/ND-CP on investment in SMEs innovative startups⁷⁹; Decree No. 39/2018/ND-CP guiding the implementation of the Law on Supports for SMEs⁸⁰; Decree No. 108/2018/ND-CP on business registration⁸¹; Decree No. 57/2018/ND-CP on mechanisms and policies to encourage enterprises to invest in agriculture and rural area; Decree No. 55/2019/ND-CP on legal support for SMEs⁸², etc.

In addition to the aforementioned direct reforms, the economic space for the private sector having been constantly expanded. SOEs reform has been undertaken in various forms such as equitization, divestment, establishment of State capital management committee of enterprises, reviewing regulations to create more level legal environment between SOEs and private enterprises, etc. Moreover, the policies aim at attracting foreign investment, encouragement of technology transfer and linkage between FDI and domestic enterprises have been studied and concretize in many mechanisms and policies.

3.1.2 Outcomes of enterprise development

Enterprise sector of Viet Nam has witnessed significant changes in recent years. The number of newly established enterprises increased considerably (Figure 39). In 2019, 138,139 enterprises were newly established with the registered capital of VND 1,730.2 trillion, increasing by 5.2% (YoY) in terms of quantity and by 17.1% (YoY) in terms of registered capital. The majority of enterprises are in the non-state sector, of which over 98% are micro, small and medium enterprises (MSMEs) (the share of each type is 75%, 22% and 1.6 %, respectively).

The scale of the enterprise sector has increasingly expanded. Since 1990, the scale of capital, assets and revenues of enterprises has been growing continuously. According to the White Book on Viet Nam Enterprises in 2019, the total assets value of registered and acting enterprises by December 31, 2017, was over VND 33 quadrillion (up by 17.2% compared to that in 2016); net sales reached VND 20.66 quadrillion (increased by 18.5% compared to the figure in 2016); profit before taxes attained more than VND 876.7 trillion (grew by 23.1% compared to 2016), creating regular jobs for 14.5 million labors.

Figure 39: Number of newly established, dissolved and returned enterprises, 2013-2019

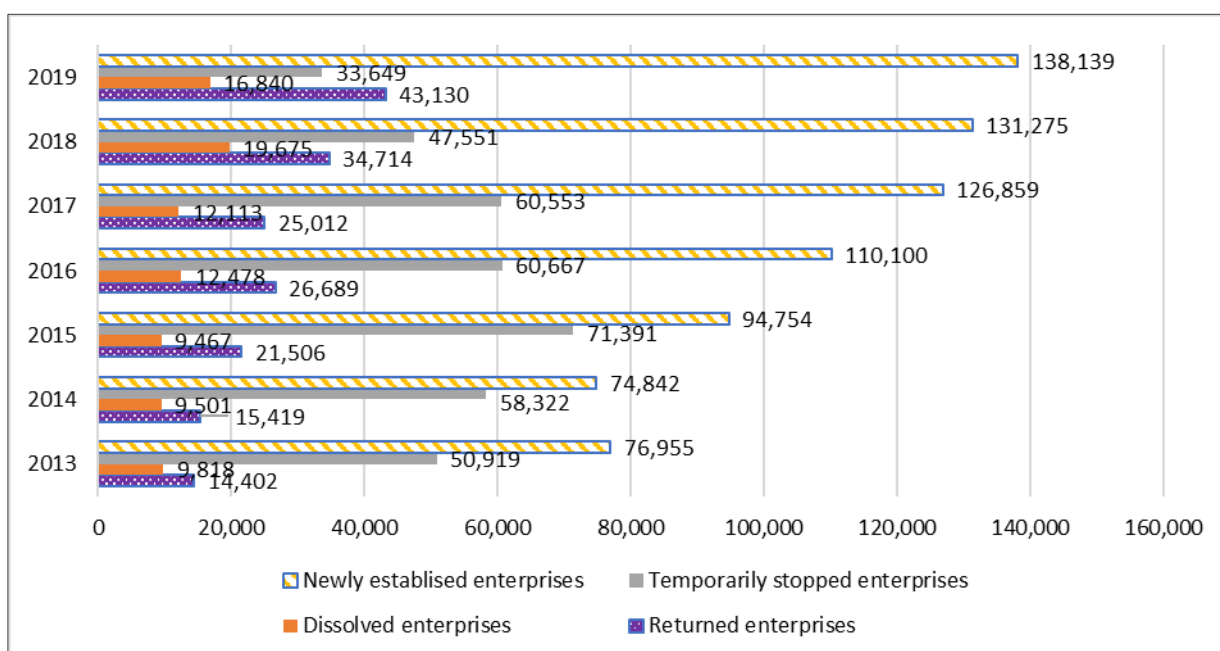
⁷⁸ Decree No. 34/2018/ND-CP dated March 08, 2018 on the establishment, organization and operation of Credit Guarantee Funds for small and medium-sized enterprises.

⁷⁹ Decree No. 38/2018/ND-CP dated March 11, 2018 detailing regulations on investment for small and medium-sized start-up businesses.

⁸⁰ Decree No. 39/2018/ND-CP dated March 11, 2018, detailing a number of articles of the Law on Supports for Small and Medium Enterprises.

⁸¹ Decree No. 108/2018/ND-CP dated March 28, 2018 amending and supplementing Decree No. 78/2015/ND-CP on business registration.

⁸² Decree No. 55/2019/ND-CP dated June 24, 2019 on legal support for small and medium enterprises.



Source: National Business Registration Portal (2020).

Thanks to the orientation on promoting the development of enterprises of all economic ownership, the non-state enterprise sector, especially SMEs, has developed robustly. Meanwhile, the role of the state sector has declined despite of its leading role in key sectors and industries. In 2000, SOEs held nearly 68% of capital, 55% of fixed assets (such as land), 45% of bank credit and created 59% of jobs. By the end of 2017, the development of private enterprises reduced the share of SOEs in total enterprises' capital, fixed assets and employment to 28.9%; 32.7% and 8.3%, respectively. Meanwhile, the non-state sector accounted for 96.7% of the total number of enterprises, 60.6% of the labor force, 53.0% of total capital, and 33.3% of total profit before tax. In the period of 2016-2017, operation indicators of non-state enterprises grew at faster pace in relative to the average level of the economy, in particular in terms of capital indicators (for example, total production and business capital increased by 74.8%; net turnover was up by 64.4% compared to that in the period of 2011-2015). The expansion of the non-state enterprise sector was accompanied by the reduction in the number of state-owned enterprises and labor force in this sector (decreasing by 17.4% and 17%, respectively in the period of 2016- 2017 in comparison to the figure in the period of 2011-2015).

Table 30: Growth rate of operation indicators of enterprises in the period of 2016-2017 compared to the period of 2011-2015 (%)

| | <i>Non-state enterprises</i> | <i>SOEs</i> | <i>FDI</i> | <i>Total</i> |
|------------------------------|------------------------------|-------------|------------|--------------|
| Number of acting enterprises | 41.3 | -17.4 | 47.4 | 41.0 |
| Number of employees | 23.5 | -17.0 | 39.4 | 22.5 |
| Growth rate of capital | 74.8 | 44.0 | 60.3 | 62.3 |
| Net turnover | 64.4 | 5.0 | 74.7 | 53.3 |
| Employees' income | 39.8 | 31.0 | 33.7 | 34.2 |

Source: MPI (2019).

The domestic sector also achieved positive outcomes in terms of contribution to the State Budget. In the 2011-2016 period, while the average growth rate of tax payment of the FDI sector was only 8.6%, the corresponding figure of the non-state sector reached 20.73%. Moreover, the growth rate of corporate income tax of SOEs and non-state enterprises were 9.6% and 20.86%, respectively, in comparison to the rate of only 7.5% of FDI enterprises. This fact, again, raises concerns about modest contribution of the FDI sector to the state budget given preferential treatments and incentives that are offered FDI enterprises.

Table 31: Growth rate of tax payment indicators of enterprises by types of ownership, 2011-2016 (%)

| | <i>Average growth rate of tax payment in the period of 2011-2016</i> | <i>Average growth rate of direct tax payment in the period of 2011-2016</i> |
|------------------|--|---|
| SOEs | 8.60 | 9.6 |
| Non-state sector | 20.73 | 20.86 |
| FDI sector | 8.60 | 7.5 |

Source: CIEM (2019).

Despite the achieved results, enterprise development in Viet Nam is still facing many difficulties and challenges. *First*, the resource utilization efficiency and business efficiency of Vietnamese enterprises are generally low. Calculations from annual enterprise survey results show that the capital-output ratio has been increasing. In the period of 2011-2015, on the national average, 1.51 dong of capital generated 1 dong of net turnover. The figure, however, increased to 1.60 dong in 2017, indicating the decrease of 5.6% of capital utilization efficiency. The efficiency of capital utilization of the domestic sector (including SOEs and non-state enterprises) declined more drastically. In specific, SOEs used 2.13 dong of capital for 1 dong of net turnover in the period of 2011-2015, which was up to 3.05 dong in 2017.

Table 32: Capital – net turnover ratio of enterprises by type of ownership, 2011-2017

| | <i>Average of the 2011-2015 period</i> | <i>2016</i> | <i>2017</i> |
|------------------|--|-------------|-------------|
| SOEs | 2.13 | 2.79 | 3.05 |
| Non-state sector | 1.42 | 1.54 | 1.49 |
| FDI sector | 1.13 | 1.05 | 1.03 |
| Total | 1.51 | 1.61 | 1.60 |

Source: MPI (2019).

Note: The non-state enterprise here is a private enterprise under the Enterprise Law.

Table 33 indicates that indicators of business performance and financial soundness of the domestic sector were also significantly worse than those of the FDI sector. Specifically, the capital turnover of SOEs was only 0.3 times compared to 0.7 times of the all enterprises and 1.1 times of the FDI sector. The Return on Assets (ROA) of SOEs and non-state enterprises were only 2.2% and 1.8% compared to 7.0% of FDI enterprises. Return on Equity (ROE) of domestic firms was better but remained far below the figure of foreign firms (11.4% for SOEs and 6.0% for non-state enterprises in compared to 18.1% of FDI firms).

Table 33: Indicators reflect business performance by ownership type

| | <i>Debt ratio (times)</i> | <i>Capital turnover (times)</i> | <i>Return on Asset (ROA) (%)</i> | <i>Return on Sales (ROS) (%)</i> | <i>Return on Equity (ROE) (%)</i> |
|--------------------|-------------------------------|---|--|--|---|
| All enterprises | 2.5 | 0.7 | 2.9 | 4.2 | 10.0 |
| + SOEs | 4.1 | 0.3 | 2.2 | 6.4 | 11.4 |
| + non-state sector | 2.3 | 0.7 | 1.8 | 2.5 | 6.0 |
| + FDI sector | 1.6 | 1.1 | 7.0 | 6.6 | 18.1 |

Source: MPI (2019).

Regarding the debt indicators, SOEs had liabilities of 4.1 times higher than equity, while the average of all enterprises was 2.5 times. In the period of 2011-2016, the liabilities growth rate at current prices was approximately 15% p.a. while the average growth rate of gross value added (GVA) of the economy at current prices was only 10.1% p.a. Notably, the average annual growth of the liabilities of the non-state sector in the period of 2011 - 2016 was very high (16.2%) while the average annual GVA growth rate of this sector in the same period achieved only about 9.5% p.a. Similarly, the average GVA of the SOE sector grew at lower pace compared to the national average (9.98% p.a.).

Table 34: Growth of liabilities and GVA of enterprises by types of ownership, 2011-2016 (%)

| | Average growth rate of liabilities in the period of 2011-2016 | Average growth rate of GVA in the period of 2011-2016 |
|------------------|--|--|
| <i>Total</i> | <i>14.87</i> | <i>10.13</i> |
| SOEs | 12.37 | 9.98 |
| Non-state sector | 16.19 | 9.46 |
| FDI sector | 16.41 | 13.97 |

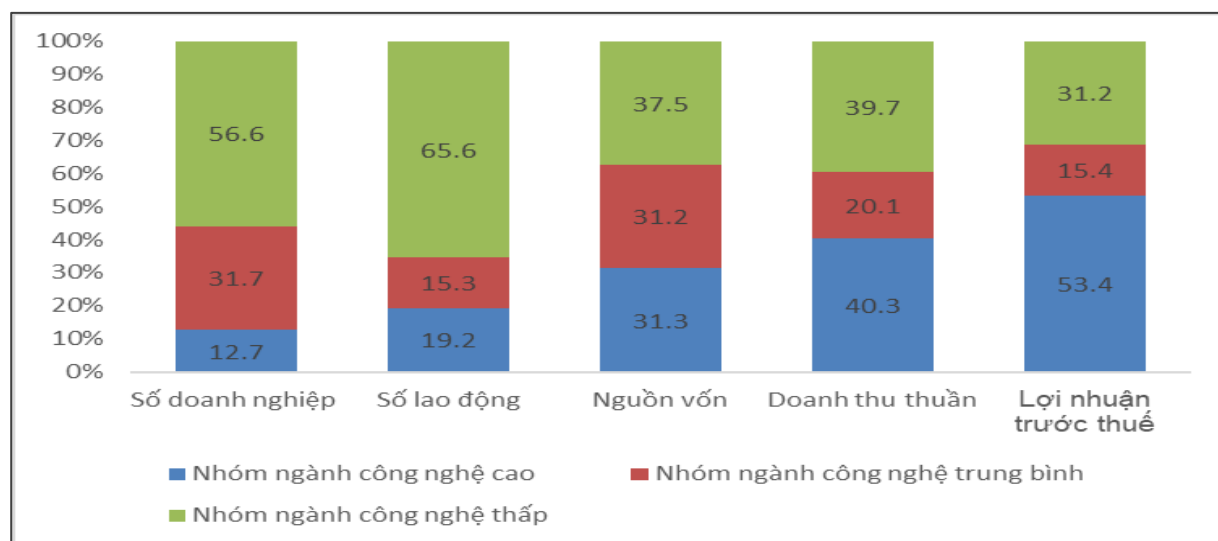
Source: CIEM (2019).

Second, the resource structure has not shifted significantly to industries with high labor productivity and efficiency; processing and manufacturing industries have mainly focused on the lower stages in the value chain, which create low value-added and low labor productivity

Statistics also show that registered capital of enterprises in some important industries accounted for a small proportion of the total registered capital of all enterprises. In 2018, registered capital mainly concentrated in some areas such as real estate (29.1%); wholesale, retail, repair of motorbikes (21.31%) and construction (11.59%). Meanwhile, the share of manufacturing and AFF sectors were relatively low (10.41% and 2.07%, respectively). Especially, the share of manufacturing and transporting and logistics industries witnessed a reduction in terms of both number of registered enterprises and registered capital in the last 3 years.

The registered capital of enterprises in innovative industries also accounted for modest shares such as professional, scientific and technical activities (4.34%), information and communication (1.35%), transportation and storage (1.81%), etc. Even in the manufacturing sector, most enterprises were in low-tech industries (accounting for 56.6% of the total number of enterprises and 65.6% of the total number of employees). Although high-tech enterprises only accounted for 12.7% of the total number of enterprises, they contributed to 40.3% of net turnover and 53.4% of profit before tax of the total manufacturing industry. This fact implies the potential room for further improvement of enterprises' efficiency through upgrading scientific and technological capacity.

Figure 40: Structure of the manufacturing sector by technological level (%)



Source: GSO (2018).

Third, there remains a growing gap between the number of registered enterprises and acting ones. Statistics show that the number of acting enterprises accounted for only about 50% of the total registered enterprises. The situation has hardly improved over years. The rate of dissolved and stopped enterprises was also high, while the number of returned ones stood at about more than 20% of the total newly established enterprises (Figure 39). In other words, improving regulations, time and costs for market entry are only necessary conditions, not enough to ensure business efficiency.

This, on one hand, indicates difficulties and challenges for Vietnamese enterprises arising from business environment. On the other hand, a large proportion of enterprises eliminated by market rules also reflects low competitiveness of Vietnamese enterprises with constraints on capital, management capacity, innovation, labor productivity, etc. Low productivity and modest productivity growth rate of enterprises are partly attributed to the large proportion of micro and small-sized firms. Small scale and informality, in turn, induce the capacity of domestic enterprises to take advantage of the economy of scale, specialization, capacity building, increase of investment in research and development, technology and innovation and creativity, which are all critical factors for enhancing productivity.

In addition, the process of restructuring SOEs has progressed at low pace, partly affecting the efficiency of resource allocation and business activities of SOEs as well as economic space for the development of private enterprises. By 2020, the following targets have been identified: (i) to fully divest state capital from SOEs that are not necessarily more than 50% state-owned capital; (ii) to divest state capital to the floor level in such industries that have been restructured and rearranged; (iii) to equitize SOEs (keeping only 103 by 2020); (iv) to completely handle inefficient SOEs that have prolonged losses; and (v) to improve the competitiveness of SOEs, meeting international standards of corporate governance. However, in fact, equitization progress remains slow compared to the plan. In the period 2016-2019, there were 168 enterprises having their equitization plans approved by the authorities, of which only 36 enterprises are in the list of 128 enterprises to be equitized according to document No. 991/TTg-DMDN and Decision No. 26/2019/QD-TTg of the Prime Minister (equivalent to 28% of the plan), thus there are remaining 92 enterprises to be equitized by the end of 2020.⁸³

Although the project on resolving inefficient 12 projects and SOEs was issued, the lack of resources and inadequacy of implementation mechanisms have led to many obstacles for implementation. Furthermore, the quality of equitization and divestment of state capital has showed insignificant improvement compared to previous periods; unable to attract private investment and strategic shareholders and failed to reach the target of ownership restructuring in order to improve corporate governance, strengthen financial soundness, promote market access and application of new technologies. The implementation of equitization regulations and policies is still facing with many difficulties, in particular regarding land issues and financial matters (such as business valuation, identifying the proportion of capital for equitization and divestment, v.v.) as stipulated in Decree No. 126/2017/ND-CP, Decree No. 167/2017/ND-CP, Decree No. 32/2018/ND-CP, Decision No. 22/2015/QD-TTg, etc. In addition, a number of weaknesses in the implementation of SOE restructuring also restraint the progress and efficiency of SOE restructuring, including the passiveness and inappropriate determination of some ministries, line ministries, localities and enterprises in directing

⁸³ <http://tapchitaichinh.vn/su-kien-noi-bat/toc-do-co-phan-hoa-thoai-von-tai-dnnn-van-rat-cham-316404.html>

and organizing the implementation; inadequate enforcement of administrative disciplines and unclear mechanism of handling violations of administrative requirements; institutional changes; transfers of state ownership representative; etc.⁸⁴

In short, in recent years, thanks to economic reform and restructuring of the economy, the development of Viet Nam's enterprises has made remarkable achievements, thereby contributed significantly to the socio-economic development. The number of registered enterprises increased robustly, reflecting the formalization of household businesses and the establishment of new enterprises. The expansion of the enterprises has been associated with a considerable increase in total capital, assets, revenue, profits, contribution to the state budget, job creation. However, the quality of enterprise development remains modest and challenging in terms of competitiveness, access to capital, management skills, human resources, and innovation. These factors, in turn, may have impacts on enterprises' readiness to grasp opportunities and effectively response to challenges of the international integration process in general and CPTPP implementation in particular.

3.2 Firms' preparedness for the CPTPP

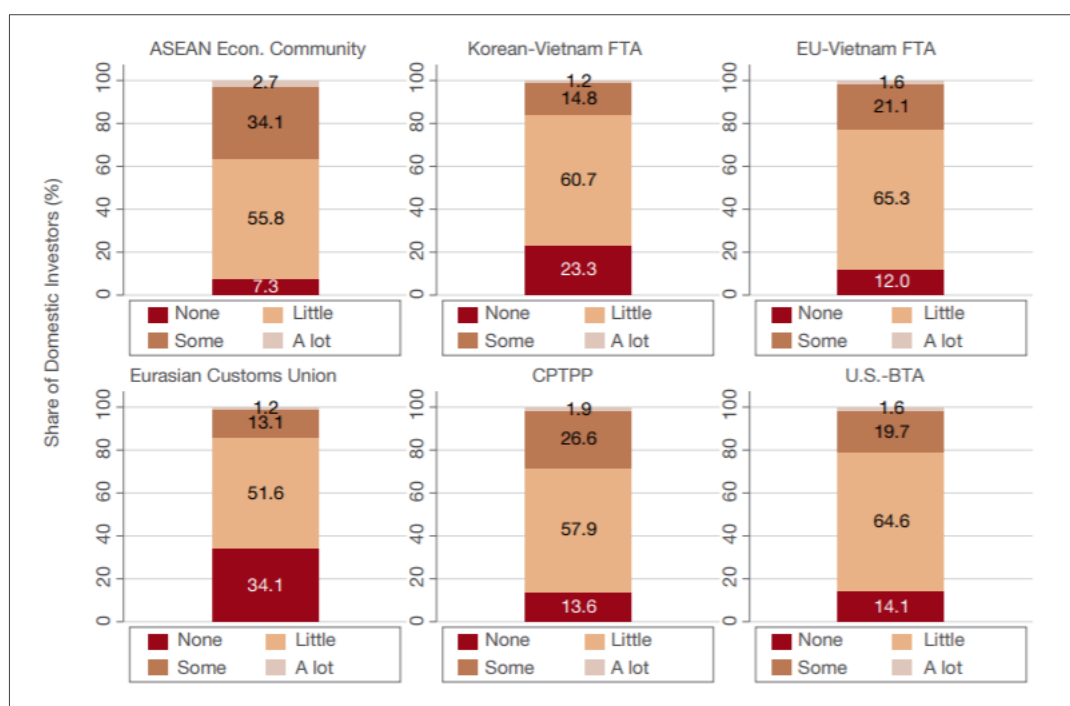
Regarding knowledge of business community, despite of high eagerness about the new FTA, most Vietnamese enterprises have not yet taken specific actions to prepare for the implementation of the CPTPP. According to the 2018 Provincial Competitiveness Survey (PCI) of the Vietnam Chamber of Commerce and Industry (VCCI) conducted with nearly 9,000 firms across the country, 13.6% of domestic respondents did not know about CPTPP, 57.9% knew little, 26.6% knew some details and only 1.9% knew relatively well about the CPTPP. A positive point is that the depth of knowledge (knowing relatively well and knowing some details) of enterprises about CPTPP has been improved compared to some other FTAs such as EVFTA, VKFTA, Vietnam - Eurasian Economic Union, Vietnam - US Bilateral Trade Agreement. Many firms have proactively studied the content of CPTPP before the agreement took effect in order to develop new business strategies to take advantages of the opportunities of CPTPP.

However, the majority of Vietnamese enterprises, especially SMEs and those in provincial, rural and mountainous areas, has paid inadequate attention to the CPTPP, therefore, had inappropriate preparation for CPTPP. The Agreement was signed in 2018 but knowledge of enterprises of the Agreement remains relatively modest. In addition, many firms are facing with such obstacles as market information, legal knowledge, foreign language, and especially technology and capital to make necessary adjustments of production or market diversion to utilize opportunities from CPTPP.

⁸⁴ See CIEM (2019) for more details.

Results of in-depth discussions and field surveys revealed some issues that hamper the readiness of enterprises for CPTPP. *First*, enterprises seem focus too much on short term issues. Many firms considered mega FTAs like CPTPP or EVFTA as an ambiguity, while their daily concerns such as technical barriers, quality requirements of the Chinese market, enforcing contract and creating jobs for employees have taken most of their time and mind. *Second*, enterprises have mainly acquired some understanding of tariffs and tariff reduction instead of thorough understanding of other aspects such as RoO, SPS, TBT, etc. *Third*, Vietnamese enterprises lack sufficient information on the network of domestic and foreign suppliers so that they can consider, cooperate and appropriately meet the requirements of CPTPP.

Figure 41: Understanding of domestic enterprises on selected FTAs of Viet Nam



Source: VCCI (2019), PCI Survey 2018.

Regarding scientific and technological capacity, only 10% of machinery and equipment being used in Vietnamese enterprises were modern, 38% were on the average and 52% were outdated; the rate of using high technology was only 2% (compared to the rate of 31% in Thailand, 51% in Malaysia, and 73% in Singapore)⁸⁵. According to GSO (2018), 76% of industrial production lines in Viet Nam were of the 1960-1970 generation, 75% were fully depreciated; 50% were refurbished. Only about 7% of manufacturing enterprises invested in research and development (R&D) or technology upgrading.⁸⁶ The ratio of R&D spending was only about 0.2-0.5% of total revenue⁸⁷. Viet Nam ranked 70/141 on R&D expenditure in the WEF's GCI, below other countries in the region such as Malaysia (15th), Indonesia (29th), Thailand (43rd).

⁸⁵ Nguyen Thi Nhu Quynh, Nguyen Thi Thuy (2016).

⁸⁶ CIEM-GSO-Copenhagen University (2015), page 54.

⁸⁷ GSO survey (2014).

The pace of product innovation of enterprises remained slow, failing to meet the development requirements. Findings from the enterprise survey (2015) showed that up to 71% of enterprises and business households did not introduce any new products in the period of 2013-2015⁸⁸. A study of the WB (2016) also showed that only about 23% of Vietnamese enterprises introduced one new product or service or upgraded their existing product in the same period. The 2019 GCI 4.0 report indicated weaknesses of Vietnamese enterprises regarding scientific and technological indicators. For instance, University-industry collaboration in R&D sub-index ranked 67/141; patent application sub-index ranked 91/141; etc. In the context of rapidly changing technology, the slow pace of product innovation would make Vietnamese enterprises face many disadvantages in competition, taken into consideration the fact that CPTPP member countries are highly advantageous – if not outstanding – in terms of innovation aspect.

Enterprises have increasingly applied typical technologies of IR 4.0 in a number of services such as tourism, trade, finance-banking, education, transportation, etc. According to the results of the Survey on Readiness for IR 4.0 conducted by MOIT-UNDP- and the Center for Analysis and Forecast of the Academy of Social Sciences (CAF), some enterprises started applying typical technologies of the IR 4.0 such as cloud computing, terminal technology, 3D printing, Big data analysis and management, etc. The application of these technologies has been increased in accordance with firms' size. However, in general, the rate of application or planning to apply IR 4.0 technologies remained modest. Only about 20% of industrial enterprises were planning to apply cloud computing technology; while this figure for 3D printing technology or big data was only about 4-5%. About 50% of surveyed SOEs were not ready to offer services based on Big data; more than 85% of the private companies did not have any activity related to cloud computing; nearly 80% of enterprises said that they did not have a plan to address impacts of new technologies. The situation is consistent with the WEF's report on "Readiness for the Future of Production" (2018), in which Viet Nam was among "Nascent countries" that had not yet ready for IR 4.0. Accordingly, Viet Nam's score was 4.9/10 for IR 4.0 readiness (while that of Thailand was 5.4; of Malaysia was 6.5). Viet Nam's ranking of sub-indices was also low, for instance Technology and Innovation index ranked 90th out of 100 listed countries and territories; Technological Platform placed at 92nd position; Ability to Innovate ranked 77th, Human Resource ranked 70th.

Table 35: The application of typical IR 4.0 technologies in Vietnamese industrial enterprises

| <i>Technologies</i> | <i>Currently applied</i> | <i>Will apply</i> | <i>Do not have plans to apply</i> | <i>Irrelevant</i> | <i>Total</i> |
|----------------------------|--------------------------|-------------------|-----------------------------------|-------------------|--------------|
| Cloud computing | 15.1 | 4.5 | 65.6 | 14.8 | 100.0 |
| Kết nối thiết bị với thiết | 12.4 | 6.1 | 68.9 | 12.6 | 100.0 |

⁸⁸ Enterprises survey 2015.

| bị/sản phẩm) | | | | | |
|----------------------------------|-----|-----|------|------|-------|
| Sensor technology | 9.8 | 4.7 | 64.6 | 21.0 | 100.0 |
| Mobile data terminal | 4.0 | 4.1 | 70.1 | 21.8 | 100.0 |
| Real-time location | 1.7 | 3.5 | 72.2 | 22.7 | 100.0 |
| Radio frequency Identification | 1.3 | 1.9 | 58.7 | 38.1 | 100.0 |
| Artificial Intelligence | 1.3 | 3.0 | 72.8 | 22.9 | 100.0 |
| 3D printing | 0.9 | 2.7 | 51.4 | 45.0 | 100.0 |
| Big Data Analysis and Management | 0.5 | 4.0 | 14.1 | 81.5 | 100.0 |

Source: MOIT-CAF-UNDP (2018).

Qualification and skills of workers in the enterprises remain modest, especially in comparison to other countries in the region. According to the Report on "Global Human Capital" of the WEF in 2017, Viet Nam's ranking of skilled labor was in the low-average group. In particular, the ranking of Viet Nam in “medium-skilled employment” sub-index was closed to the bottom (128th out of 130), of “high-skilled employment” sub-index ranked 99th. It should be noted that a significant proportion of trained labor force still lacks professional knowledge and occupational skills, thus do not meet the requirements of employers. According to the General Department of Vocational Training, 1/3 of vocational graduates had professional knowledge and practical capacity of above average. A survey of 100 enterprises in Hanoi and Ho Chi Minh City in 2015 also showed that 47.8% of newly recruited workers did not have sufficient skills. Number of full-time equivalent (FTE) R&D personnel of Viet Nam was only 61,663 in 2013, equivalent to an average of 6.8 per 10,000 people. Although the figure is higher than that of Indonesia and the Philippines, it is far below the figure of Malaysia (17.9) and other developing and developed countries in Asia (China - 11; Singapore: 66.9).⁸⁹

⁸⁹ Source: MOST (2016).

Table 36: Ranking of "Human capital" by occupational skills of Viet Nam and selected countries

| Countries | Age group of 15-24 | Age group of 25 - 64 | | |
|-----------------|----------------------------------|----------------------|------------------------|-------------------------------------|
| | Diversity of skills of graduates | High-skilled workers | Medium skilled workers | The availability of skilled workers |
| South Korea | 33 | 65 | 79 | 28 |
| Singapore | 81 | 2 | 38 | 19 |
| Japan | - | 51 | 25 | 29 |
| India | 58 | 89 | 120 | 47 |
| China | - | 97 | 45 | 41 |
| Thailand | 8 | 93 | 59 | 83 |
| Malaysia | 46 | 48 | 81 | 10 |
| Philippines | - | 58 | 125 | 46 |
| Indonesia | 66 | 100 | 96 | 42 |
| Viet Nam | 70 | 99 | 128 | 84 |
| Laos | 102 | 118 | 2 | 79 |
| Cambodia | 106 | 127 | 94 | 118 |

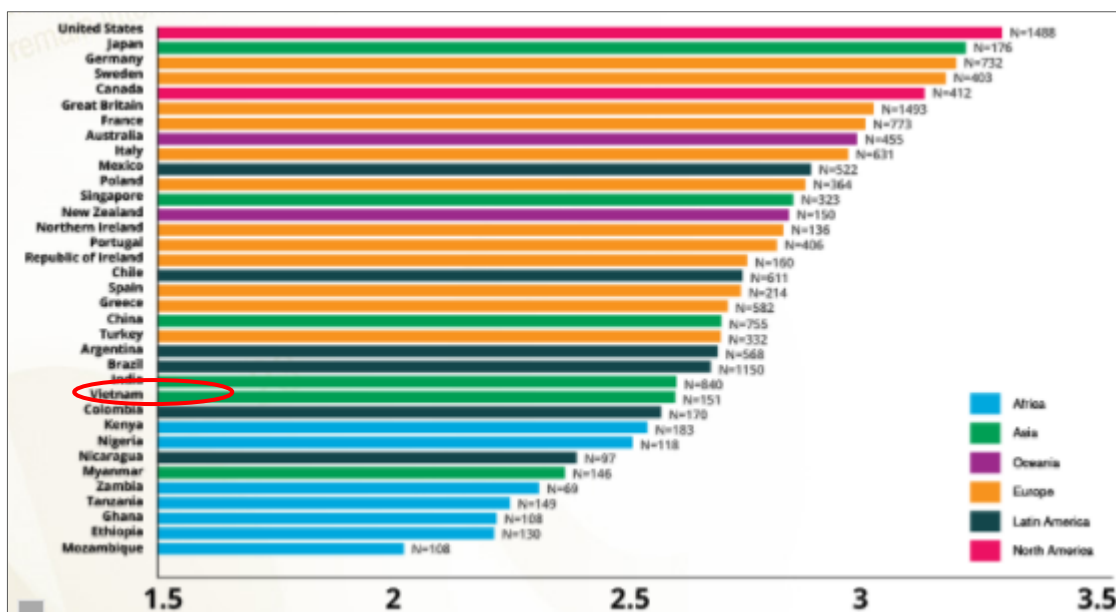
Source: WEF (2017).

Trình độ của đội ngũ quản lý, lãnh đạo doanh nghiệp của Việt Nam còn hạn chế, trong khi đây là nhân tố quyết định đường lối, chiến lược kinh doanh và cách thức vận hành doanh nghiệp, khả năng chấp nhận rủi ro để thực thi các điều chỉnh, cải cách thông qua đầu tư, đổi mới công nghệ, cách thức quản lý, v.v. Theo Điều tra Năng lực quản lý toàn cầu (2017), trình độ quản lý của doanh nghiệp Việt Nam chỉ đạt mức điểm trung bình là 2,66/7, thấp hơn rất nhiều so với mức trung bình của thế giới. Các chỉ số thành phần cũng cho thấy đội ngũ quản lý tại các doanh nghiệp Việt Nam được đánh giá cao về khả năng giám sát, nhưng rất yếu về khả năng hoạch định kế hoạch trong dài hạn, xây dựng các chính sách phát triển nguồn nhân lực và phát triển các công nghệ mới. Thực tế, không ít doanh nghiệp còn chưa hiểu về CPTPP và cách lồng ghép việc thực hiện hiệp định này trong tổng thể các FTA mà Việt Nam đang thực hiện.

The competence of managers and leaders of Vietnamese firms remains modest while this is a decisive factor to determine business strategies, business operation, capacity of risk taking to implement adjustments and reforms through investment, technological innovation, management practices, etc. According to the Global Management Competitiveness Survey (2017), the management capacity of Vietnamese enterprises only reached an average score of 2.66/7, much lower than the world average. The sub-indices also showed that the management personnel of Vietnamese enterprises were highly evaluated in terms of supervisory capability, but very weak in terms of developing long-term plans and identifying policies on human resource development and new technology innovation. In fact, many enterprises have not yet had

thorough understanding of the CPTPP and how to integrate the implementation of this agreement into the overall FTAs of Viet Nam.

Figure 42: Results of the survey on management quality of manufacturing enterprises in selected countries



Source: Global Management Competitiveness Survey (2018).

Regarding the linkage between domestic enterprises with foreign partners, along with the process of economic integration, Vietnamese enterprises are increasingly aware of the critical role of more proactive participation in the regional and global supply chain. Vietnamese enterprises also have more thoroughly understanding of competition in the international business environment, not only related to competition in terms of price and quality, but also in other aspects such as in-time delivery, economy of scale, suitable distribution channel and business reputation, etc. With that vision, many Vietnamese enterprises have exerted efforts on renovating and improving their capacity to participate in supply chains, whether in low or high stages.

In fact, the linkage between domestic enterprises and foreign-invested ones has gradually improved. The number of Vietnamese enterprises participating in the supply chains of multinational corporations (MNCs) such as Samsung, Canon, LG, Panasonic, etc. is growing. According to the Japan External Trade Organization (JETRO) survey, 39.6% of Japanese firms sourced inputs from domestic suppliers in 2018 compared to only 27.9% in 2012. By the end of 2017, 29 Vietnamese enterprises became tier 1 suppliers to Samsung Viet Nam in comparison to only 4 enterprises in 2014. This number is expected to increase to 50 firms by 2020. The localization content of Samsung also increased accordingly from 35% in 2014 to 57% in 2017.

However, Vietnamese enterprises are facing many difficulties in participating in GVCs. The proportion of domestic firms that could take part in the supply chain of MNCs or FDI enterprises remains modest (only about 300 out of 1,800 supporting firms), of which the majority supplies only simple or low valued-added goods and

services (such as raw materials, semi-final products, packaging, etc.). Even in such sectors that Viet Nam has strong export competitiveness in the global market such as textiles, footwears and electronic equipment, Vietnamese firms are mainly at low stages in the value chain, and this situation has hardly improved over the years. For example, many large global electronic corporations such as Samsung, Canon and Panasonic set up their manufacturing factories in Viet Nam; however, most tier-1 suppliers of those corporations are FDI enterprises; most Vietnamese domestic firms are tier-3 or tier-4 suppliers.

According to the Vietnam Chamber of Commerce and Industry (VCCI), only 36% of Vietnamese enterprises could participate in the global production and value chain (including both direct and indirect export). The corresponding rate of Malaysia and Thailand were about 60%. Compared to other ASEAN nations, the rate of Vietnamese enterprises that export directly was at average level while the value of direct exports in total exports is also modest. The size of enterprises also significantly affects export capacity of enterprises. Specifically, Vietnam's direct export participation rate is 36.1% for large-scale enterprises; 11.5% for medium-sized ones and only 4.0% for small-sized firms. Direct export value in total export revenue is 21.6% for large enterprises; 6.6% and 2.2% for medium and small scale enterprises, respectively.

Table 37: Exporting firms and direct export value in ASEAN by firm size (%)

| | Share of firms exporting directly (%) | | | Share of total sales that are exported directly (%) | | |
|-------------|---------------------------------------|--------|-------|---|--------|-------|
| | Small | Medium | Large | Small | Medium | Large |
| Cambodia | 6.9 | 19.1 | 26.9 | 6.8 | 16.7 | 26.3 |
| Indonesia | 5.3 | 7.9 | 25.2 | 2.9 | 5.0 | 11.7 |
| Lao PDR | 1.1 | 19.8 | 21.9 | 0.7 | 7.7 | 17.7 |
| Malaysia | 4.3 | 19.2 | 69.0 | 2.2 | 7.6 | 30.3 |
| Myanmar | 1.2 | 10.7 | 39.6 | 1.2 | 5.3 | 38.2 |
| Philippines | 3.9 | 9.0 | 23.6 | 1.8 | 6.1 | 16.6 |
| Thailand | 2.2 | 3.4 | 28.1 | 0.8 | 2.0 | 18.9 |
| Viet Nam | 4.0 | 11.5 | 36.1 | 2.2 | 6.6 | 21.6 |

Source: OECD/ERIA (2018), cited from WB's enterprises survey (2015, 2016).

Note: Data for Cambodia, Laos, Myanmar and Thailand from 2016; for Viet Nam, Indonesia, Malaysia and the Philippines from 2015.

In addition, according to VCCI's 2018 PCI, the proportion of domestic private enterprises participating in the supply of goods and services in the production chain of FDI enterprises has improved but at low pace. The proportion of FDI enterprises sourced inputs from domestic private companies rose from 53.6% in 2010 to 68.9% in 2015 but dropped to 60.2% in 2018. Many FDI firms, especially those operating in high-tech manufacturing industries, tend to choose suppliers who are FDI enterprises from their original countries (47.1%) and from the third country (22.8%).

Table 38: Suppliers for FDI firms in Viet Nam

| Year | SOEs (%) | Private firms (%) | Individuals, households (%) | Self-produced (%) | Firms from original countries (%) | Firms from third country (%) |
|------|----------|-------------------|-----------------------------|-------------------|-----------------------------------|------------------------------|
| 2010 | 13.5 | 53.6 | 12.8 | 7.4 | 28.3 | 34.0 |
| 2011 | 7.6 | 30.4 | 7.4 | 8.6 | 15.9 | 18.6 |
| 2012 | 5.6 | 43.1 | 4.8 | 6.6 | 39.7 | 24.5 |
| 2013 | 9.5 | 47.9 | 10.1 | 12.8 | 45.6 | 34.0 |
| 2014 | 11.5 | 62.6 | 15.9 | 8.3 | 55.5 | 34.8 |
| 2015 | 11.9 | 68.9 | 19.3 | 8.5 | 58.0 | 38.3 |
| 2016 | 12.1 | 68.5 | 18.4 | 9.9 | 58.7 | 39.0 |
| 2017 | 10.0 | 62.5 | 16.1 | 6.9 | 49.2 | 26.6 |
| 2018 | 6.8 | 60.2 | 15.0 | 5.7 | 47.1 | 22.8 |

Source: Provincial Competitiveness Index (PCI) 2018.

In general, the domestic and FDI enterprises have not established a strong linkage to jointly participate in the value chain due to some important reasons. *First*, when investing in Viet Nam, most FDI enterprises have already set up a network of supporting partners that have taken part in the global supply chain with sufficient competitiveness in export markets. *Second*, low skill of laborers has restrained SMEs from creating and maintaining business relations with FDI firms. *Third*, domestic suppliers lack formal channels to access information about FDI firms (regarding such issues as quality requirements, cost, delivery, management standards, purchasing strategies, etc.), thus hardly able to create business relations. *Fourth*, the capability of domestic enterprises to receive technology transfers remains modest due to their weak capacity and the short-term supply contracts with FDI partners. *Finally*, government programs to improve the competitiveness and innovation of the domestic private sector, including technological innovation, creativeness, market development, skills training as well as independent financial packages (such as guarantee funds and enterprise support funds, etc.) have showed unclear outcomes, partially due to the lack of a comprehensive monitoring and evaluation system.

3.3 Opportunities for Vietnamese firms from CPTPP

3.3.1 Opportunities to expand market and increase exports

Participation in the CPTPP will help Vietnamese goods and services more favorably access markets of member countries thanks to tariff reduction and removal of restrictions on investment and services. Expected increase of exports of goods from the CPTPP is induced by enjoying preferential tariff (0-5%) in partner markets.

Viet Nam commits to apply a common tariff for all CPTPP member countries, eliminating nearly 100% of the tariff lines according to the Agreement. According to the CPTPP roadmap, Viet Nam will eliminate import duties on 65.8% of tariff lines as soon as the Agreement comes into effect; 86.5% of tariff lines after 3 years; 97.8% of tariff lines after 10 years. Commitments on removing import duties for the remaining

items is scheduled by the 16th years at the maximum or being imposed by tariff quotas. For some sensitive items such as beer, wine, iron and steel, cars with a cylinder capacity of 3,000 cc or higher, Viet Nam's reduction schedule was over 10 years. Viet Nam applies tariff quotas on sugar, eggs and salt (within the WTO quotas) and used cars⁹⁰.

Schedule of tariff elimination of other CPTPP members is faster than Viet Nam. Accordingly, CPTPP partners will eliminate from 97% to 100% of import tariff lines for goods from Viet Nam. Many key export products of Viet Nam to CPTPP markets are entitled to the import duties of 0% immediately after the Agreement comes into effect or after 3-5 years (for instance agricultural products, aquatic products, some textile and apparel products, footwear, furniture, electrical goods, electronics, rubber, etc.). Tariff imposed on remaining items will be eliminated within 5-10 years, except for some sensitive items that have a schedule of more than 10 years or are subjected to tariff quotas. Canada commits to immediately eliminate 94.9% of tariff lines and 96.3% in the 4th year. Japan commits to immediately eliminate 86% of tariff lines (equivalent to 93.6% of Viet Nam's export revenue to Japan) and 95.6% of tariff lines in the 11th year. In addition, other member countries also commit to abolishing import duties for Vietnamese goods at a high rate such as Peru (abolishing 80.7%); Mexico (77.2%); Chile (95.1%); Australia (93%); New Zealand (94.6%); Singapore (100%); Malaysia (84.7%); Brunei (92%).

Regarding trade facilitation, the member parties committed to promote trade facilitation, improve transparency of customs procedures. The CPTPP members reached agreement on such issues as principles of advanced rulings; regulations on sanctions in customs areas to ensure the fair and transparent implementation of these regulations; implementation of simplified customs procedures; etc. To prevent smuggling and tax evasion, the parties agree to provide information when necessary to help each other enforce their respective customs laws.

Thanks to commitments on tariff elimination and trade facilitation, the CPTPP is expected to have substantial positive impacts on trade between Viet Nam and other member countries. In particular, due to the relatively high difference between MFN rates and preferential tariffs in the CPTPP, tariff reductions will significantly benefit Viet Nam's exports in new markets in the Americas that do not have FTAs with Viet Nam. For some key export products (for example, seafood) that Viet Nam could not reach agreements to eliminate tariffs on many fishery items under a bilateral framework (e.g., Viet Nam-Japan FTA) or a regional framework (e.g., ASEAN-Japan FTA), now under the CPTPP, some Vietnamese seafood products (tuna, surimi, shrimp, crab, some squid types, etc.) will get tariff elimination right after the agreement takes effect. The

⁹⁰ Applying tariff quotas on used cars with the initial quota of 66 units, the quota will increase gradually and reach 150 units from the 16th year. The quotas tariff will be reduced to 0% by the 16th year; Out-of-quota tariffs are subjected to MFN tariff rate. For sugar, egg and salt: eliminate the WTO quota tariff by the 6th year for egg and by the 11th year for sugar and salt. Out-of-quota tariffs remain similar to MFN rates.

WB's report (2018) shows the enforcement of the CPTPP may help Viet Nam's export growth increase by 4.2% by 2030 under normal conditions, and by 6.9% if productivity improves rapidly.

Another impact that is not usually taken into consideration in modelling is the enhancement of competitiveness through improving quality of goods. If Vietnamese enterprises can promptly improve the quality of exported goods to meet the quality standards of highly demanding markets (such as Japan, Australia, etc.), they will be more capable of penetrating other non-CPTPP markets. It should be noted that the process of improving the quality of goods does not necessarily rely solely on costs and efforts of the enterprises themselves. The CPTPP has a Chapter on Cooperation and Capacity Building to support Viet Nam. If this Chapter can be utilized appropriately, Vietnamese enterprises may get accessed to necessary technical assistance.

Impacts on imports are almost similar as those on exports. According to the World Bank, the increase of Viet Nam's imports due to CPTPP may range from 5.3% to 7.6%, depending on Viet Nam's capability in improving productivity. The CPTPP will also help Viet Nam balance trade relations with key markets, avoiding excessive dependence on certain markets. At the same time, in order to take advantage of the (big enough) incentives when exporting to CPTPP market, using inputs from CPTPP countries will be an important condition to meet the RoO requirements. With that approach, Viet Nam can improve trade deficits with China and ASEAN.

In the long term, benefits gained from CPTPP are not solely to increase exports but also to improve technological content in exports. Increased investment by taking advantage of the CPTPP will help exports less dependent on imported materials and focus more on domestic supply chains for replacement, and thereby overcome limitations of origins of Viet Nam's exports, and simultaneously *encourage domestic enterprises to participate in the global value chain*.

3.3.2 Opportunities to access investment

As mentioned above, participating in the CPTPP, Vietnamese goods has the opportunity to penetrate in larger export markets thanks to commitments on tariff reduction and market access. As a result, Vietnamese firms are able to access and attract more diversified foreign capital with larger scale. Viet Nam will become more attractive to foreign investors because they can better access CPTPP markets via Viet Nam.

CPTPP's Chapter 9 on Investment stipulates quite comprehensive content related to cross-border investment, including the MFN, NT, rights of investors, rights of the host country, dispute settlement in investment, minimum standards of treatment, stripping of ownership in case of necessity, transferring profits, not imposing "performance requirements" (PR), personnel requirements and especially investor-state dispute settlement (ISDS).

According to ISDS, the CPTPP allows foreign investors to proceed lawsuits via international arbitration in some cases when the interests of investors are infringed by the host country, which is contrary to the standards set by the Agreement (for example, expropriation, stripping of ownership, minimum standards of treatment, etc.), except in the case of disputes arising from the fulfillment of commitments or obligation of investment contracts and investment approvals. In case of disputes, the CPTPP encourages involved parties to attempt to resolve through measures such as consultation, negotiation, or third parties. In case of unsuccessful consultation, the investor may unilaterally submit a request to arbitration. The investor - as the complainant, may choose a court to resolve the dispute. When establishing a panel, the investor may also select one of the three jurors. Moreover, the investor can negotiate to apply relevant rules and provide guidance to ensure that the arbitrators are independent and unbiased. As a result, the CPTPP provides foreign investors with more time and channels to protect their investments abroad. The scope of advices has also been expanded to avoid political tensions resulted from disputes (if any).

However, there are certain exceptions applicable to Viet Nam. If the court's sentences are beneficial to investors, but Viet Nam refuses to comply, foreign investors may appeal to their home countries to request a suspension of benefits for Viet Nam until getting Vietnam's compliance. There are some exceptions for the implementation of ISDS under certain bilateral agreements of the CPTPP. For example, New Zealand and Viet Nam agree not to apply a dispute settlement mechanism to each country's government under Section B of Chapter 9, unless the governments agree on the application of the dispute settlement mechanism in some special cases. This bilateral agreement restricts certain freedoms of investors when filing dispute documents to arbitration. In this case, investors from New Zealand may still use a different mechanism under Vietnamese law or other treaties that Vietnam and New Zealand are both participated in.

Currently, among 11 CPTPP member countries, except Peru, all the remaining members have invested in Viet Nam. The CPTPP member countries have invested in Viet Nam around USD 123 billion of registered capital, accounting for nearly 37% of the total registered capital in Viet Nam. In which, Japan, Singapore, Malaysia are the major foreign investors with a total registered capital of over USD 100 billion. Investment from the other member countries in Viet Nam remains modest: Canada with USD 5.1 billion; Australia with USD 1.8 billion; New Zealand with USD 102 million; and Chile and Mexico with only one investment project worth about USD 10,000.

Joining the CPTPP is expected not to cause much disturbance to intra-regional investment flows from member countries to Viet Nam. The first easily noticeable reason is that the major investment partners in the CPTPP, such as Japan and Singapore, have had FTAs with Viet Nam, which in relevant investment commitments are basically compatible with international practices, and these two countries are both among the largest investors in Viet Nam for many years. In addition, given tremendous

efforts on reforming and improving the legal framework to ensure compliance with commitments in many FTAs to which Vietnam is a member, the difference between Viet Nam's current legal framework and CPTPP's commitments on investment is relatively modest.

The expectation of attracting investment into Viet Nam through CPTPP is not only aimed at member countries but more importantly to attract indirect FDI from other non-member countries. The notable and "progressive" features of the CPTPP also lie at the open and flexible regulations, which can help Viet Nam attract foreign investment associated with high technology transfer and improved governance capability. Accordingly, the CPTPP is expected to help Viet Nam attract many better investors, at the same time, enable the country to screen and eliminate weak and unprofessional investors, thereby improving the quality of FDI inflows. With the pressure to reform and improve legal regulations to ensure compliance with progressive commitments of the CPTPP, Viet Nam's business environment is expected to have breakthroughs, especially in terms of improving the transparency and predictability of policies. Such fundamental legal reforms will enhance opportunities for Viet Nam to attract investment from other partners such as the UK, Canada, etc, and furthermore to attract "high quality" investors from developed industrial countries like the US, France, Germany, etc. The potential presence of these "high quality" investors from advanced technology sources would likely be a "strong push" that helps Viet Nam improve the national competitiveness and participate more effectively in the GVCs.

Many studies, such as of the World Bank (2018), share the view that the greatest benefit derived from CPTPP is to promote institutional reforms, enhance the transparency of the investment and business environment, and create strong pressure to facilitate SOEs reforms. Most of Viet Nam's commitments under the CPTPP are in line with the requirements of reform, integration and significant improvement of investment and business environment. Therefore, participating in the CPTPP will contribute to creating a framework and favorable conditions to enhance the attractiveness and competitiveness of the investment environment in Viet Nam. Moreover, more tightened provisions on protection of intellectual property rights, e-commerce, investor protection, and ISDS also help Vietnam attract more FDI thanks to better provisions on protection for investors. Not only promoting FDI increase in terms of quantity, the CPTPP also presents an opportunity for Viet Nam to improve the quality of FDI inflows. The CPTPP will enable Viet Nam to attract investment from development partners with great potentials in high-tech and source technology and/or from other member countries that Viet Nam does not have FTAs such as Canada, Mexico and Peru.

The World Bank report (2018) predicts the strong diversion effect of FDI inflows to upstream industries of such sectors that are expected to get the most benefits from tariff reduction such as textiles, apparel, and leather. Accordingly, this investment diversion effect will contribute to the development of supporting industries and

strengthening of the linkage between FDI firms and domestic enterprises in supplying materials and inputs for manufacturing export goods. This advantage has been further amplified since 2019, as investors have been leaving China amidst the context of a complex and escalating US – China trade war. The CPTPP also helps attract more FDI into the agriculture sector, in particular high-tech agricultural products to promote export of those products to CPTPP members. Viet Nam currently ranks 2nd in ASEAN and 15th in the world in exporting agricultural products, but FDI into this sector only accounts for 1% of total FDI in Viet Nam, leaving highly potential room for further expansion. However, according to the World Bank, Viet Nam should adjust policies on FDI attraction to be able to select and receive FDI projects with advanced and environmental-friendly technologies in order to maximize overall benefits of the economy from CPTPP.

3.3.3 Opportunities to access technology and managerial skills from foreign partners

Most CPTPP members are developed economies with high levels of science and technology and abundant capital such as Japan, Singapore, Australia, New Zealand, etc. Viet Nam currently lags behind, even quite far away, all other CPTPP members in terms of technology indicators. In this context, the CPTPP offers opportunities for these countries to promote investment to Viet Nam, especially in prioritized areas of Viet Nam such as hi-tech industries, thus will contribute to the development of Viet Nam's industrial, agricultural and services sectors as well as enhance Viet Nam's capability to better participate in global and regional value chains. More importantly, the leading competence of CPTPP members will also create opportunities for Viet Nam to access the best available technologies, accompanied by the best governance standards. In the garment and textile industry, for instance, in order to prepare for challenging RoO requirement of “yarn forwards”, domestic firms in the sector have proactively implemented investment projects with modern and advanced technologies. Also, there is a wave of foreign investment to Viet Nam in the field of manufacturing of yarns, fabrics, and accessories for the garment industry with typical investors such as Texhong (Hong Kong), Mitsui (Japan), Sunrise (China), or recently with Kyungbang (South Korea) and Hyosung (Turkey). This presents a valuable opportunity for the garment and textile industry to take advantage of technologies and management skills of partners; or to promote domestic production of materials.

Besides, Vietnam can also take advantage of cooperation and capacity building provisions in the Agreement. The Chapter on Cooperation and Capacity Building of the Agreement provides supports for implementation of the CPTPP, aiming at promoting economic growth and development. Areas of cooperation and capacity building include: (i) supporting the implementation of the provisions of the Agreement; (ii) supporting capacity building to take advantage of economic opportunities from the Agreement; and (iii) supporting the promotion and facilitation of trade and investment among the member parties. Specific activities may include but are not limited to

agriculture, industry and services, education, culture, gender equality, and environmental risk management. The above fields can integrate support and cooperation activities in the field of science - technology and creativity. Forms of cooperation and capacity building may include conferences, workshops, joint initiatives, technical assistance, etc. For example, Viet Nam can negotiate and discuss with CPTPP members to receive direct supports on fulfilling requirements of slaughtering process of the most demanding markets. In particular, the requirement of humanitarian slaughter remains a big challenge for most enterprises in Viet Nam. Without improving the capacity to meet these regulations, the livestock industry of Viet Nam will be suffered from losses and its bad image may spread to other fastidious markets.

3.3.4 Opportunities to promote market-oriented institutional reforms

International economic integration and participation in trade agreements have generated positive impacts on significantly strengthening economic institutions in Viet Nam, which are reflected in various aspects, including (i) the legal framework has continuously be developed and improved; (ii) the organizational structure for implementation and management of economic activities has been enhanced; and (iii) supporting policies and mechanisms have been formulated and improved toward ensuring the true competitiveness of the business environment and appropriate intervention of the Government to address market failures if necessary.

The CPTPP is considered the next turning point in the process of Viet Nam's economic integration with a broad scope that directly covers not only traditional trade-related issues but also non-trade ones. Therefore, the negotiation process of CPTPP had facilitated regulatory review and reforms of domestic institutions with a broader scope and a deeper level. For example, regarding trade in services (including banking, insurance, telecommunications, education, etc.), the CPTPP applies the "negative list" approach. Therefore, Viet Nam had to review all relevant legal documents to make a reservation list of "non-conformity measures". When joining the WTO, Viet Nam was not necessary to do that job with the "positive list" approach.

With the broader scope, higher enforcement requirements and larger institutional impacts, the participation in CPTPP will provide an impetus for institutional reforms and will be an opportunity to establish comprehensive market economy institutions. Accordingly, Viet Nam will have to further improve its market economy institution through vigorous SOE reform, strengthening a level competition environment among enterprises of all types of economic ownership. In addition, Viet Nam also needs to create an open, transparent and predictable business environment, consistent implementation of the market price mechanism. The strengthening of enforcement institutions and sanctions should also be more appropriately emphasized to ensure the effective participation of relevant stakeholders in dispute settlement process.

Another important issue of the CPTPP is that SOEs will no longer enjoy excessive incentives or privileges (in terms of getting access to capital or preferential treatments or protection) in relative to other types of enterprises. This presents an opportunity for private enterprises to develop and compete on an equal playing ground, and simultaneously creating pressure for SOEs to proactively improve their competitiveness. However, the scope of application for SOEs is only limited to trade of goods but not trade of services, therefore governments of CPTPP countries are not restricted in supporting their SOEs to provide services in the domestic markets. Accordingly, Viet Nam's SOEs operating in areas with large capital and high expectation of restructuring (finance, telecommunications, healthcare, education, distribution, etc.) are not affected by the CPTPP, implying that the pressure of innovation on these SOEs is insignificantly. The limited scope of SOEs to be regulated under the SOE Chapter in CPTPP also indicates that the direct impact is modest. Nevertheless, participating in CPTPP is basically consistent with the orientation of SOEs reform in Viet Nam.

To other extent, commitments on competition policy in the CPTPP also requires that the competition policy framework must aim to promote both economic efficiency and consumer welfare. This reinforces the requirement of improving the Competition Law in Viet Nam, which must be closely accompanied with better protection of consumer interests rather than physically being separated from the Law on Consumer Protection. More importantly, competition regulations should be amended to allow the enforcement of "private right of action"⁹¹, that is, to allow a person to seek a remedy from a court or other independent council for their losses in business or personal property due to an act of violation of the competition law or after the competition authority detects the breach. If Viet Nam wants to maintain the "monopoly" position of the domestic competition authority (at the end of 2019 was the Department of Competition and Consumer Protection and the Competition Council) concerning judgments related to competition, Viet Nam must grant an individual the right to request the competition authority to initiate an investigation, while the individual can still seek remedies from a court, or another independent council after the competition authority detects a violation. At that time, the anti-competitive behaviors of large enterprises, especially SOEs that are of monopoly or dominant position in many areas, may be subjected to investigation. The pressure from these regulations may induce: (i) SOEs and regulatory agencies to thoroughly understand and strictly comply with competition regulations; and (ii) management authorities to restrict the use of policy supports as a basis for anti-competitive behaviors.

Pressure on institutional reform can be seen in many other aspects. The public procurement market will be gradually opened with the implementation of CPTPP commitments. This will be an opportunity to address shortcomings of public procurement contracts and tender activities derived from the lack of transparency.

⁹¹ In English: Private right of action.

Similarly, the requirements on the implementation of labor and environmental standards, although they may cause difficulties for Viet Nam, especially regarding compliance cost for enterprises and implementation cost for the state, also force Viet Nam to introduce policies, legal frameworks and sanctions to ensure environmental and labor protection, especially concerning investment projects of the CPTPP partner countries. These changes, though would hardly occur on a large scale, will also be important, creating a driving force for more profound and substantive reforms. For example, the CPTPP aims to improve labor relations regarding freedom of negotiation between employees and employers. Obviously, substantive improvement of labor-related institutions and regulations will significantly contribute to the fulfillment of criteria of a market economy in Viet Nam. From that perspective, CPTPP commitments actually present a good opportunity for Viet Nam to carry out reforms of labor relations.

Finally, it should be clearly recognized that the CPTPP is not the ending of reform of market-oriented economic institutions in Viet Nam. Nothing can guarantee that the fulfillment of commitments under the CPTPP and other agreements are decisive factors for other major partners to recognize a market economy status in Viet Nam. To that extent, the implementation of mega FTAs such as the CPTPP - with the highest and most specific standards - should be based on the principle of being proactive and voluntary rather than being passive or responsive.

3.3.5 Opportunities to change mindset and improve quality of policy formulation

New generation FTAs all aim to promote fair competition and transparency in the policy formulation process, and encourage public participation in this process, albeit at different levels. Thus, joining the CPTPP will facilitate reforms of administrative procedures, especially in the areas related to the business environment. In this regard, the recognition of the rankings of doing business of the World Bank and the implementation of a series of Resolutions No. 19 since 2014 have been *initial* foundations for substantial changes in the business environment, including regulations and procedures related to import and export.

From another aspect, one of the first reforms on encouraging public participation in the process of negotiating, planning, and implementing trade policies in Viet Nam was the enactment of Decision No. 06/2012/QĐ-TTg dated January 20, 2012 of the Prime Minister on business consultation about international trade agreements. According to this Decision, enterprises can directly participate in the process of negotiation, policy formulation and implementation of trade policies in Viet Nam through their representatives, namely, the VCCI. The Decision is considered the turning point of the thinking in policymaking in Viet Nam. In implementing new generation FTAs, enhancing the effectiveness of policy consultations, including policies related to production and business activities, will still play an important role.

Finally, meeting environmental, social, and labor standards, etc., of export goods, is not only the duty of enterprises but also the responsibility of regulators. In particular, strengthening capacity of relevant management authorities on the appraisal of environmental and social impacts will be crucial. Monitoring and supervision of the compliance with environmental regulations and standards remains a weakness of Viet Nam, which has been recognized for many years but has not been substantially addressed. To that extent, new generation FTAs (including CPTPP) may provide additional motivation and technical assistance for Viet Nam to improve its capacity to appraise, monitor, and supervise social and environmental impacts of economic projects.

The above-mentioned issues are even more complicated in localities. *Firstly*, the awareness of international integration commitments and implementation of policies for effective international integration remains limited at certain extent. Although the strategy for international integration was issued since the beginning of 2016, not many agencies and localities thoroughly understand the difference between CPTPP and other integration routes (ASEAN, WTO, etc.), not to mention the interaction and harmonization among these integration routes. The common perception is that the process of economic integration mainly involves tariff reduction, while the attention to new issues (such as protection of intellectual property, competition, etc.) is inadequate. However, this is not only a problem at localities but also at many state bodies. At the same time, many localities only pay attention to fulfill international commitments (focusing on tariffs) instead of policy measures to take advantage of opportunities and address challenges of integration in general and the CPTPP in particular.

In some localities, the problem is further amplified due insufficient coordination with agencies that directly involved in negotiations or the focal point of CPTPP implementation. Obviously, it is not easy for local officials to thoroughly understand contents of a complex agreement like CPTPP, even a narrow field (because that job goes beyond their major fields of expertise). However, without a close coordination with focal points (in negotiation or in implementation), it will be difficult for localities to receive timely support and advice on specific issues of their interests.

Secondly, some localities showed inadequate attention to ensure the harmony between competition and cooperation in economic development. In principle, competition between localities - such as measured through the Provincial Competitiveness Index (PCI), administrative reform and improvement of investment environment, etc. can help improve the efficiency of socio-economic development in the region and the whole country. However, competition based on investment attraction only without paying appropriate attention to specific characteristics, development desires and advantages of each localities will lead to similar economic structure in these localities, which in turn hamper harmonious development of the whole region. It should be noted that the world has strongly developed value chains, in which a product from

the initial stage (e.g. design) to the final user will pass through many regions/countries, depending on the competitiveness of localities in each stage. To that extent, if localities can establish and maintain cooperation and coordination at the regional level, they can develop many product chains and service chains (such as tourism, industry, etc.).

Thirdly, localities have not had many dialogues and direct recommendations with the central agencies on policies and measures to support enterprises and local people in handling issues arising during the implementation of FTAs in general and CPTPP in particular. It should be realized that such dialogues and recommendations will be helpful for central bodies to better understand the common or specific issues of these localities, thus facilitating timely solutions.

Lastly, the localities have more or less not yet adapted to the new policymaking approach in line with the requirements of CPTPP. Many policies have been issued with low quality, lack of scientific and practical basis, lack of adequate consultation with local stakeholders. In some cases, public consultations on draft documents and policies are merely formal. This situation poses significant challenges in integration process, especially international economic integration. For example, the issuance of unreasonable policies without appropriate accountability (that often cause damages for investors because they are not consulted in advance) may lead to the risk of being sued to the international tribunal.

3.4 Challenges for Vietnamese firms from CPTPP

The actual process of international economic integration also poses many challenges for Vietnamese enterprises. The first and most important challenge is how to improve competitiveness. Vietnamese enterprises mainly pay attention to compete in terms of price, but this is only the beginning. If firms fail to improve their competitiveness in other aspects - such as quality, capability to fulfill large orders, just-in-time delivery, and distribution channels - it will be difficult for them to penetrate into the market of FTA partners, even lose at the domestic market.

In another aspect, challenges also come from the ability to take advantage of opportunities from international economic integration. As a latecomer, Viet Nam needs to take advantage of opportunities from international economic integration to earn more revenue, accumulate capital and experience in order to create foundation to advance to a higher production level. However, many firms just focus on exploring the existing advantages (static comparative advantage) with low cost and easiness. Meanwhile, due to high cost, more risks, and higher difficulties, very few enterprises have aspiration and develop professional strategies to create new competitive advantages (dynamic comparative advantage) with higher revenue. To another extent, better market access may be accompanied with reduction of time for appraisal of economic, environmental and social impacts; but consequences will be amplified in case of insufficient monitoring capacity of management authorities or inadequate sanctions.

Enhancing the fair competition between SOEs and private enterprises is an important issue, though it is always easier said than done. The pressure from the CPTPP forces Viet Nam to be more determined in concretizing the orientation of private sector development through creating a competitive environment and more level playing ground for the private sector (compared to the SOE sector). To other extent, strengthening and ensuring competition must be associated with anti-economic concentration, especially in important sectors. Improving competition policy must also be accompanied with reforms of other areas, particularly market entry and exit. The market mechanism and the pressure from this mechanism must have a central role in determining the efficiency of allocation of resources by allowing the most competitive enterprises to survive and develop.

Despite of opportunity to increase exports to partners' markets, Vietnamese enterprises also face with challenges in meeting the RoO requirements under the CPTPP as well as other FTAs. Different agreements set different RoO, and special groups of goods may have their own RoO. FTAs with large market and great potentials like the CPTPP often set strict RoO. In fact, as mentioned above, the capacity to take advantage of preferential treatments and to meet RoO of Vietnamese enterprises remains relatively modest. Addressing this challenge, on the one hand, depends on information and policy support of the government; on the other hand, will be determined by capacity of enterprises and their flexibility in adjusting business strategy as well as the nature of different commodities.

Meanwhile, the fact that Viet Nam has not been recognized as a full market economy status also poses many difficulties for Vietnamese exporters. The most significant consequence is the possibility of being sued against dumping. In case of an anti-dumping investigation conducted by foreign countries with Vietnamese goods, if such countries do not recognized Viet Nam to have a full market economy status, they will use information about the production costs of a third country with market economy status for reference. In that case, production cost savings of Vietnamese exporters do not make much sense, because the export price may be lower than the cost in the third country being used for reference (which is considered to the act of dumping). Being considered dumping will likely lead to a range of other consequences, such as the application of anti-dumping duties, which will eventually lead to impacts on exports and production scale. As discussed above, Viet Nam cannot solely wait for partner's automatic recognition of its market economy status under WTO commitments. To that extent, in addition to political and diplomatic efforts, substantive efforts on market-oriented economic reforms play an essentially crucial role.

Vietnamese enterprises also face challenges in implementing various international economic integration commitments. Because of differences in scope, level of commitments, and schedules of various FTAs, enterprises may be unable to take full

advantage of opportunities generated by these agreements. Another important question is how to gradually take advantage of not only low standard agreements but also higher standard ones. Vietnamese enterprises can take advantage of opportunities from FTAs with Korea, Eurasian Economic Union (with not very strict requirements), but it is not easy to accumulate capital, experience and brand name in order to be able to competitive in FTAs with the EU and CPTPP (higher standard agreements). The challenge is even greater if firms do not have the vision and thorough understanding of FTAs as well as and they do not have appropriate guidance and support from relevant authorities.

In this context, the policy space for enterprise supports has significantly narrowed down in comparison to that in the past. Government's supports for enterprises (if any) are mainly in the form of supports for SMEs, supports for labor training, promoting R&D, trade promotion, etc. Meanwhile, the application of reasonable technical barriers and NTMs to implement policy objectives or support domestic firms in Viet Nam remained ineffective and has been inappropriately taken into consideration, thus partly induce the effectiveness of supports for Vietnamese firms in integration process.

Challenges for domestic enterprises also derives from more incentives given to foreign firms. According to international commitments, Viet Nam must give preferential treatment to foreign businesses no less than domestic ones. However, in reality, most incentives applicable for foreign firms are higher than those for domestic ones. This can partly be attributed to priority being placed on FDI attraction, especially competition in attracting FDI among localities to facilitate socio-economic development in their region. Moreover, despite of concerns on more incentives applicable for foreign firms, the reduction of incentives granted to these businesses could put the government at risk of being sued under ISDS mechanism⁹². From another perspective, concerns of potentially being sued under ISDS mechanism may make governmental agencies hesitate to implement policies or reforms that may adversely affect FDI firms.

In addition, although FDI brings about tremendous opportunities and benefits, the increase of incentives and/or the excessive ease in attracting foreign investment may lead to many environmental and social consequences in the future. In many years, Viet Nam still lacks appropriate criteria for screening good and environmental-friendly projects. The shift from "pre-inspection" to "post-inspection" has not been accompanied with the improvement of monitoring capacity of management authorities. Consequently, many FDI projects use low technology and create adverse impacts on the environment. From another perspective, it is not easy for localities themselves to decide on the selection or rejection of labor-intensive FDI projects, while these projects can lead to the increase of migrant labor from other localities and reinforce pressure on

⁹² Reffer to CIEM's report (2015b).

social services (such as housing for workers, provision of education and healthcare services for migrant workers, etc.). The Politburo's Resolution No. 50-NQ/TW dated August 20, 2019 on improving institutions, policies, quality and effectiveness of foreign investment to 2030 represents an important step to enhance the legal framework for FDI management (in particular in the context of CPTPP implementation and the US – China trade war), but it can only be truly effective if it can be concretized in a timely manner and implemented strictly and responsively.

From another aspect, deeper and broader international economic integration may amplify the speed and the extent of price transmission from international market into the domestic market, leading to more significant fluctuation of inflation. Noteworthy, inflation targeting has not yet been implemented in Viet Nam. If impacts of international prices are not appropriately regulated, domestic prices may be significantly affected. In that case, Viet Nam will have to pay more attention on inflation stabilization instead of focusing on creating favorable conditions for business – investment activities, as happened in the 2011-2015 period.

Finally, but may be the most importantly, Viet Nam continues to face with the challenge in maintaining and strengthening social consensus on the process and reform measures related to international economic integration. International economic integration commitments have touched upon many sensitive behind-border issues such as trade union rights, policy sovereignty, intellectual property associated with proprietary medicines and plant varieties, etc. Accordingly, there is an increasing gap between the beneficiary and disadvantaged groups from the international economic integration process and related reforms. Different perceptions of scope, depth, opportunities, challenges, and implications of international economic integration commitments - especially in new generation FTAs - also significantly affect the quality and effectiveness of the implementation of complementary measures to these commitments. Balancing policy objectives is not easy, which is becoming increasingly challenging. Having the consensus on removing unreasonable investment and business conditions is only of principle; reaching mutual agreement on the boundary between reasonable and unreasonable conditions is extremely difficult due to such factors as: (i) differences in perception on specialized management; (ii) differences between industry interests and benefits of the country/business community; and (iii) the thinking of being afraid of losing management power of the state authorities. The challenge will be further amplified if best regulatory practices - including public consultations, impact assessments before and after the issuance of documents - are not well implemented.

4 Policy recommendations

4.1 Domestic and international context

4.1.1 International context

The world economy is expected to witness unpredictable movements. Such risks as global economic downturn, slowdown of economic growth of major economic partners like the EU, Japan, and China, etc. may adversely affect Viet Nam's investment flows and export demand. Trade tensions between major economies (US, China, EU, etc.) or centrifugal trend (such as the UK left the EU) can lead to adjustments in global production and supply chains, which pose both opportunities and challenges for Vietnamese enterprises to move up in the regional and global supply chains. The development momentum for the global economy has shifted from developed countries to developing countries, but somewhat at slower pace.

Despite slow progress, international economic integration remains the dominant trend in the world. Many countries have been under transformation of growth models by taking full advantage of benefits of economic integration to improve growth quality, increase labor productivity and competitiveness through enhancing the contribution of science and technology, more heavily counting on high value-added industries, increasing expenditure on R&D and human capital development. Production activities are increasingly linked with regional and global production chains and taking advantage of national comparative advantages. The Asia-Pacific region remains an attractive destination for multinational corporations, which is considered a favorable condition for Vietnamese firms to participate in the regional and global value chains. Some countries have been emerging as competitors with Viet Nam in exporting and attracting foreign investment thanks to the advantage of cheap labor, namely Cambodia and Myanmar. Meanwhile, African countries have penetrated more deeply in such industries and sectors that Viet Nam has significant FDI attraction.

The IR 4.0 has progressed rapidly in various fields, the world economy is entering a period of growth mainly based on technology and innovation. These are new, maybe unlimited, impetus for growth that help promote production efficiency, innovation and development in the long run instead of input-based growth that relies heavily on exploitation of natural resources, capital and unskilled labor – which are traditional and finite inputs. The IR 4.0 witnessed the introduction of advanced technologies in many fields and was highly synchronized. This leads to new products and services, increasing production efficiency, promoting innovation and long-term development. In fact, some new technologies of the IR 4.0 has led to significant changes in production and business activities at different stages. Notably, some studies emphasize that developing countries and low-income countries will not necessarily be lagging behind in accessing to and taking advantage of IR 4.0 technologies. Nevertheless, with unprecedented pace and scope of development; the IR 4.0 may interact with international economic integration process. Thus, accessing to the IR 4.0

should be accompanied with flexible, practical and wisdom approach in implementing FTAs, in particular the CPTPP.

4.1.2 Domestic context

With high trade openness, up to nearly 200% in 2019, Viet Nam is exposed to more speedy and stronger impacts from developments in the regional and global economic landscape (less positive prospects of major economies in coming years, geopolitical risks, unexpected and complicated natural disasters and diseases, FDI flows, etc.). These issues, along with the rise of protectionism and the US – China trade war, may result in global value chain disruption. The slowdown of global economic growth will, at certain extent, adversely affect foreign demand for exports and capital flows of developing countries in Asia, including Viet Nam. At the same time, fluctuation of the world prices of commodities and raw materials also potentially have impacts on domestic production and exports.

Rapid growth and structural changes over the past decades have helped Viet Nam transform into a low-middle-income country. However, the path from a low-middle income to a high-income country is not guaranteed and is not easy. Traditional growth model based on agriculture, low-cost production and cheap labor are unlikely to take Viet Nam advanced on global value chains and increase national income. Accordingly, economic progress requires a shift to more appropriately focus on boosting TFP in all industries and get out of being excessively dependent on and/or excessive exploitation of inputs and cheap labor.

The macro economy has gradually strengthened, macroeconomic stability has been consistently prioritized and emphasized. Consequently, Viet Nam is under more favorable conditions to implement fundamental reforms, in particular reforms of microeconomic foundation. However, policy space of macroeconomic management has been significantly narrowed down in comparison to that prior to 2010. Solely counting on macroeconomic policies to foster economic growth, thus, will be ineffective and infeasible. Meanwhile, the capacity to response to adverse impacts of the domestic economy will be drastically induced if policy space of macroeconomic management cannot be maintained and expanded.

Viet Nam's growth model remains heavily relied on exports and the participation of the country in the global value chain is led by multinational companies. In this context, Viet Nam will face with significant challenges because automation in production process will lead to a shift of employment from the low-skilled labor market to the high-skilled labor market, and an integrated production model will bring production plants closer to customers. Viet Nam will be at higher risks if multinational companies leave to other countries for one or both purposes. Therefore, Vietnam needs to quickly upgrade to become the focal point that governance the entire chain, not merely participating in some stages.

Viet Nam is requested to upgrade to a higher stage in the value chain in the context of escalating protectionism. Currently, Viet Nam is still at beginning stages of the value chain, mainly simple manufacturing, assembling and packaging. In the context of IR 4.0, automation, application of robots and artificial intelligence have been creating favorable conditions for commercial activities, cost reduction and development of enterprises. Viet Nam is speeding up studies to access and catch up with IR 4.0, reflecting in strong determined political will as well as various policies and measures to be developed and implemented. Application of IR 4.0 technologies may help Viet Nam's GDP increase by USD 28.5 – USD 62.1 billion by 2030, income per capital increases by USD 315-640 (CIEM, 2018). Mastering digital economy will enable Viet Nam to maintain rapid and sustainable growth in the next development period. This will help Viet Nam to comprehensively upgrade its value chain including: Product upgrade, Process upgrade, Functional upgrade, and industry upgrade; thus, being transformed from assembly intermediaries to local manufacturers. On another aspect, these advances can blur advantage of cheap labor - which has long been Viet Nam's advantage in manufacturing industries.

The development of the global value chain is uneven, many countries are still at the bottom of the value chain, focusing on selling resources, raw materials, raw agricultural products and materials. Some other countries are advanced to simple manufacturing (textiles). And some others have moved to higher levels, mainly engaged in electronics, high-end machinery and gradually shifted to services. In Viet Nam, the software industry currently has developed strong forward linkage in the global value chain (providing inputs for finished software) but only in the midstream, mainly manufacturing/processing software for large companies. Meanwhile, the assembly industry has established strong backward linkage (as opposed to the software industry). If the two industries change positions, Viet Nam will create more added value in joining the chain. In the medium and long term, the IR 4.0 is expected to be a leverage for Viet Nam to escape from the "middle source" trap, gradually taking up the stages in both upstream and downstream.

Vietnam will further prioritize deeper integration of private enterprises into the global value chain. Enhancing competitiveness for enterprises beyond price, in particular SMEs, will be a crucial priority. Other important aspects of competitiveness in value chains include quality, timely delivery, capacity to fulfill bulk orders, et. The shift of foreign investors to Viet Nam in the context of CPTPP implementation (and then may be the EVFTA) and the US – China trade war will be an important force to urge Vietnamese SMEs to upgrade their capacity in order to participate in value chains. Policies on leveraging SMEs' access to capital and science and technology should be more drastically concretized. However, effectiveness of Vietnamese SMEs' participation in value chains also depends on linkages between them and other types of ownership (for instance FDI firms, SOEs that are capable of leading value chains)

4.2 Requirements of institutional adjustments to support enterprises

4.2.1 Requirement for trade institution

Trade institutions require improvement/adjustment of five issues, including (i) improving the utilization of FTAs preferential treatments in general and CPTPP in particular; (ii) taking advantage of opportunities to participate in the global production networks and value chains; (iii) taking advantage of opportunities to increase exports of key products; (iv) trade facilitation; and (v) disseminating information and consulting business community to support their effective integration and implementation of international commitments (including CPTPP). More importantly, efforts on improving and amending the above contents must be implemented simultaneously and consistently and urgently. For deeper though, implementation of the CPTPP should be put in the general approach in implementing all FTAs in Viet Nam, but at higher level with more sophisticated technical measures rather than a special or totally new approach.

i) Institutional requirements to better take advantage of FTAs' preferential treatments

One of the biggest opportunities of CPTPP as well as FTAs is to expand markets thanks to tariff reduction and removal of trade barriers in order to participate more deeply in the global production and supply chains. In order to be able to enjoy preferential tariffs from new-generation FTAs, manufactured goods must meet the RoOs. In general, the CPTPP requires that products exported from one member countries to the others must have "sufficient" "intra-regional" content to be eligible for preferential tariffs.

Some studies point out the reasons that impede Viet Nam's capacity to utilize FTAs' preferential treatments, including: (i) insignificant difference between preferential treatments under FTAs and those in other mechanisms (e.g., the WTO); (ii) the high costs of time and money in obtaining and managing certificates of origin; (iii) shortcomings in procedures and documentation due to not directly managing the value chain; and (iv) the failure to meet the RoOs in related FTAs. To this extent, institutional reforms need to focus on certain aspects. *Firstly*, in the short term, simplifying the time and procedures of issuing certificates of origin, associated with improving the understanding and capacity of enterprises to meet the RoO in FTAs. *Secondly*, in the medium and long term, sectoral policies and investment policies should aim to create more strengthened linkages between domestic and foreign enterprises, between domestic manufacturing enterprises and direct import-export enterprises in order to ensure a chain approach to take advantage of preferential treatments in FTAs.

(ii) Institutional requirements to take advantage of opportunities to participate in global value chains

In the context of the strong expansion of global and regional value chains, Viet Nam must identify key stages in the value chain - especially those in which Viet Nam has static comparative advantages and/or dynamic comparative advantages. In other words, Viet Nam should aim at participating in the value chain at specific segments and stages with different jobs performed in different locations.

Multinational corporations play a dominant role in providing services from their headquarters, including coordination between suppliers and product developers. In the coming time, the domination of multinational corporations remains unavoidable. Accordingly, Viet Nam should focus on building capacity for enterprises to upgrade to higher stages in the value chain. In order to support domestic enterprises to effectively participate in the value chain without adversely affecting the principle of maintaining a fair competitive environment, it is important to build a suitable institutional structure and infrastructure, creating momentum for the strong development of the private economy as well as favorable conditions for competitive enterprises to attract and utilize resources effectively, possibly led by other groups of enterprises (such as SOEs).

With deeper look, the mindset of policy formulation regarding Viet Nam's participation in the CPTPP's value chain needs a comprehensive change. *Firstly*, it is infeasible to pursue an ambitious policy, aiming to execute many or all stages in the value chain. The more complex the value chain is, the more stages the value chain has, the more critical it is to establish and maintain concrete competitive advantages in one or some specific stages. *Secondly*, policy perspective should aim to increase the absolute values (and the growth rate of these values) that Vietnamese enterprises contribute to final products instead of being concerned with the proportion that domestic firms can contribute to that product. In other words, the proportion that Vietnamese enterprises can contribute may decrease, but the absolute value that Vietnamese firms enjoy must maintain the increasing trend⁹³. *Thirdly*, FDI policy should focus on not only attracting foreign investors to Viet Nam but also maintaining frequent dialogues with them, acting as an intermediate to introduce these enterprises to potential domestic partners. It would be a mistake to expect foreign investors to actively seek for domestic partners, because: (i) these investors often have their own supply network; and (ii) the cost of searching may be relatively significant given the large number and the dispersion of Vietnamese enterprises. The mistake will be more severe if putting excessive importance on attracting foreign investors from CPTPP members and inappropriately paying attention to jointly share benefits gained from the CPTPP in association with strengthened confidence and technological transfer from foreign investors. *Finally*, the involvement of Vietnamese enterprises in the beginning stages with a low value in the value chain should be evaluated more objectively, instead of negative, even discriminatory assessments. The important point is that such participation can be the foundation for enterprises to get acquainted and gain experience and preparation for the other more important stages. Accordingly, mindset of policy

⁹³ Mindset “small piece in a big pie”.

formulation should be sufficiently concrete, consistent and transparent to support this transitional process.

Taking advantage of opportunities from the CPTPP should not and cannot be done separately from other FTAs. It should be noted that many agreements without strict standards (such as ASEAN, FTA with South Korea, etc.) have been implemented, while the CPTPP still needs more time to fully realize. To that extent, Viet Nam needs to guide enterprises to take advantage of the available opportunities of more easy and more flexible agreements, thereby accumulating experience and resources, establishing brand and a network of suppliers in order to prepare for agreements with higher standards like the CPTPP and EVFTA.

(iii) Institutional requirements to increase exports of key products

Enhancing exports of key products must focus on creating a sound foundation for market access, focusing on exporting processed goods that have high export competitiveness, high added value, high processed content or high-tech and environmental-friendly ones, etc. Promoting the export of key products must be based on the effective exploitation of Viet Nam's comparative advantages; make good use of advantages of natural resources and strengths of the abundant labor force; effectively use and increase the scale of investment from available resources in combination with promoting mobilization of new investment sources, expanding export scale and raising added value of exports.

(iv) Institutional requirements for trade facilitation

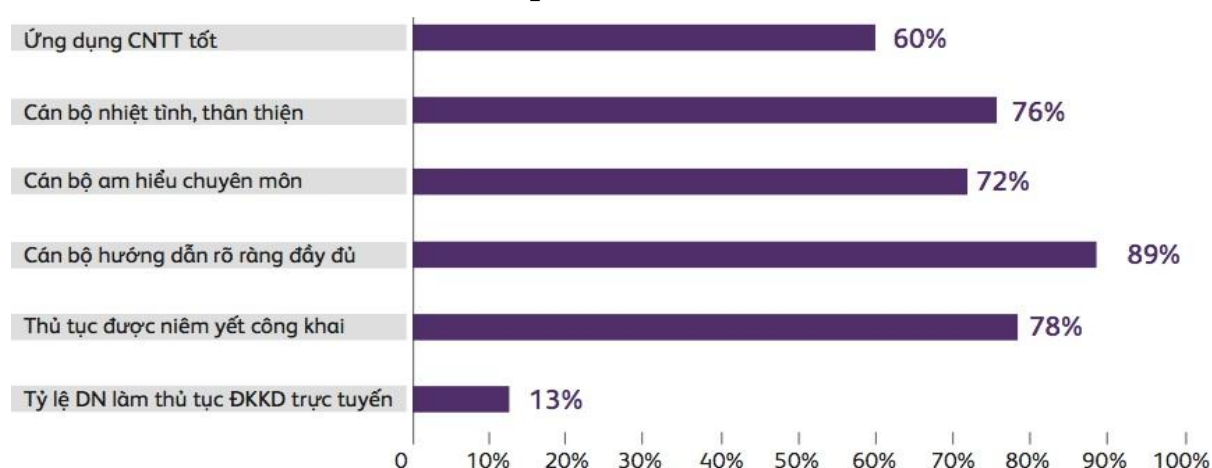
In the process of international economic integration in general and preparation for CPTPP in particular, Viet Nam has made tremendous efforts on improving legal framework, negotiating, ratifying and actively implementing commitments and regulations on trade facilitation in international agreements. However, policymaking authorities still lack consistent approach and harmonized awareness of trade facilitation as well as the great importance of these issues as a decisive factor in improving the competitiveness of Viet Nam's exports. One of the fundamental reasons is the overlapping and duplicated functions, authorities, and responsibilities of the ministries and agencies responsible for trade facilitation. This situation makes it difficult to manage and guide localities in implementing plans and strategies of trade facilitation; at the same time causing a lot of confusion for implementing units.

Regarding specialized management and inspection activities, reforms of specialized management and inspection regulations have achieved initial results in some ministries such as Health, Industry and Trade, Construction, Natural Resources and Environment, Agriculture and Rural Development (plant quarantine), but remained modest in relative to requirements, and the level of the participation of ministries significantly varies across various ministries. Obstacles of specialized management and inspection such as a large number of items, overlapping management, in application of

risk management standards, high cost of specialized inspection, etc. have reinforced barriers for production and business activities of enterprises.

Regarding the application of information technology and electronic transactions, in general, there remains significant room for further improvement. By December 15, 2019, 188 administrative procedures of 13 ministries and branches was integrated in the National Single Window (NSW); in which 37 procedures were connected in 2019. However, the results were still modest in comparison to committed plans of ministries (equivalent to about 66% of plan for 2019)⁹⁴. The actual implementation of the NSW mechanism shows that only very few procedures are fully electronically connected. Some procedures are conducted online, but still require enterprises to directly submit original documents or pay fees. Most of the existing connected procedures can be conducted both online and manually (submitting hard copies). With management approach, enterprises may hesitate to do online because it will take more time and efforts.

Figure 43: Result of survey on ITC application in conducting administrative procedures



Source: VCCI (2018).

In the context that rapid changes of the world economy in response new production platforms of IR 4.0, the Government needs to set new requirements on improving the business environment and enhancing national competitiveness. Accordingly, in addition to pursue the objectives of improving the business environment according to international practices (such as the World Bank approach) and developing areas/sectors where Viet Nam has comparative advantages, it is necessary to focus on enhancing elements of technology, innovation, quality of human resources, quality of public services, etc. In the period of 2019-2021, two priorities to promote trade facilitation and adaptation to new production models include (i) cashless payment and provision of online public services at level 4, including the development

⁹⁴ By the end of 2018, 11 ministries and agencies connected to the Vietnam National Single Window with about 140 administrative procedures. According to the plans of the ministries, there would be 270 procedures by the end of 2018 and 284 procedures by the end of 2019.

and implementation of the National Public Service Portal; and (ii) facilitation of an innovation ecosystem, supporting and encouraging start-ups.

(v) Dissemination of information and business consultation to support enterprises' effective integration and implementation of international commitments

Updating information on the negotiation and implementation of FTAs, difficulties and advantages in partner markets, etc. is always a critical requirement. Most Vietnamese enterprises businesses are SMEs, who may find it difficult to pay for legal advisory services and related information. In this context, the State can provide the most fundamental public services to firms in such forms of information, policy and legal advices, etc. The information herein is not merely the commitments which are presented in a "rigid" manner on websites, online databases, online portals, etc. but it should be accompanied by interpretations, analysis, and updates in a way that makes it easy for enterprises to thoroughly understand.

Public consultation on such issues as adjustment and formulation of relevant policies and laws also plays a vital role as this activity benefits both sides. For business community, consultation and information sharing provide enterprises with opportunity to access to relevant policy in advanced in order to take initiative in business and to give comments on such policies that may create long-term benefits for them. For the State agencies, opinions of enterprises will provide more information to make more practical and feasible policy recommendations. Public consultation should be conducted at early stages of policy formulation process (policy ideas) and information should be made available for public, which will eventually help strengthen the trust of people and business community. The responsibility for information disclosure about the explanatory report on the absorption of comments must be identified in the consultation mechanism. At the same time, it is necessary to set a sufficient time for public consultation so that all people and enterprises can follow and give comments. Finally, the consultation mechanism needs to be convenient and cost-savings for all parties.

4.2.2 Requirements for investment institution

Opportunities from FDI attraction are difficult to realize if Viet Nam's investment environment does not show significant improvements. On the one hand, the procedures related to the implementation of investment projects in Viet Nam should be further simplified. Investment conditions should be reviewed in order to eliminate unnecessary business conditions. On the other hand, it is important to maintain regular and substantive dialogues between government agencies, localities and foreign-invested enterprises in order to timely identify and address obstacles for their businesses.

In addition, in order to enhance the attraction of FDI waves from the new-generation FTAs such as the CPTPP, policies on FDI attraction should be adjusted to address critical issues as incentives and selection of investment projects associated with the supply chain of key products, and encouraging positive spillover effects of foreign investment. These adjustments should focus on determining the priority scope of FDI

attraction according to four factors, including: (i) sectors/industries; (ii) operation; (iii) products; and (iv) capacity of investors.

Encouraging FDI to sectors/industries: In manufacturing sector, priority should be given to high-tech industries that are suitable to Viet Nam's development level; energy-savings and environmental-friendly industries; processing of safety food made of significant domestic inputs; and supporting industries for prioritized industries to attract investment. In services sector, encouraging commercial presence of multinational companies in Viet Nam such as establishing regional representative offices, regional distribution centers, production and logistics support services.

Encouraging FDI according to operation: Adjust policies to attract FDI into capital-intensive and knowledge-intensive activities that still have very limited capacity, e.g., R&D, technology transfer, and vocational training in order to serve the transformation of the growth model and economic restructuring.

Encouraging FDI to products: Give priority to attract FDI into projects that create high value-added products, energy-saving products, environmental protection equipment, products made of significant domestic inputs, capital-intensive and knowledge-intensive products to take advantage of the FDI sector over the domestic enterprises.

Encouraging FDI based on locations: Adjust policies to attract FDI into some specialized/specific industrial zones in developed urban areas and growth poles. These specialized industrial parks are built to prioritize the attraction of FDI into industries/activities/products that can help strengthen the capacity of domestic industries and enhance widespread linkage with the domestic industry. It should be noted to give priority on enhancing the efficiency of FDI rather than quantity.

Encouraging FDI based on capacity of investors: In this regard, priority should be given to investors who have a sustainable business strategy, are capable of using clean technologies, applying effective environmental management measures, having the potential to create the cohesion with the domestic enterprises, especially through transferring knowledge and clean technology to domestic enterprises. The implementation of corporate social responsibility (CSR) can be used as a criterion for selecting investors.

4.2.3 Industrial/sectoral policies

Enhancing export competitiveness also requires capacity building on new dimensions, such as the ability to organize large-scale production, just-in-time delivery, and distribution channels. Meanwhile, the mechanism for implementing industrial policies in Viet Nam remains inadequate in many aspects. *Firstly*, from a long-term development perspective in relative to management process, the sectoral/industrial policy has not yet been an inclusive and guiding policy that can direct other policies towards a common objective of industrial development. *Secondly*, the use of policy

instruments (including trade policies, tax policies, etc.) to promote industrial development, in some cases, has been excessively utilized in quite a long period. *Thirdly*, instruments of industrial development policy are unstable and unpredictable. The lack of long-term and inclusive approach on sectoral/industrial policies has led minor or inconsistent policy adjustments. *Fourthly*, the coordination among relevant ministries involved in the execution of industrial policies is inadequate. The model of the Steering Committee to promote industrial development is ineffective because the members of the Steering Committee work on a part-time basis, and thus they sometimes are unable to closely monitor their work.

Thus, requirements for adjustment of industrial institution regarding industrial/sectoral policies should pay appropriate attention to some major issues, including:

(i) The approach of formulating industrial/sectoral policies should be more focused and more flexible to better adapt to the new context of economic integration and IR 4.0. In particular, the policy adjustment process should aim at taking the most advantages of domestic resources, and at the same time, effectively and reasonably mobilizing other sources of capital from abroad, especially foreign capital flows. Market mechanism should be implemented more broadly and more effectively in allocating resources for industrial development.

(ii) Industrial policy instruments should be coherent, aims at a common objective rather than being restricted and vanished each other. Ensure a consistent and synchronized coordination between industrial policy and other policies such as trade policy, FDI attraction policy, enterprise development policy, policy on science and technology, human development policy, etc.

(iii) Industrial/sectoral development policy should be closely connected to enterprise development, in particular SMEs. Appropriate incentives that are not biased with international commitments should be identified to help domestic firms access to capital, and, human development, technological renovation, etc., which in turn will enable them to promote production with long vision. Simultaneously, sharing of information, creating connection between domestic firms and their customers and facilitating trade promotion are also critical.

4.2.4 Requirement for macroeconomic institution

In order to create a stable environment for investment, production - business and trade activities as well as concrete foundation for related domestic reforms, maintaining macroeconomic stability is crucially important. The Government has been more determined with the priority of macroeconomic stabilization and inflation control since 2011 (especially after Resolution No.11/NQ-CP). However, the requirement to consolidate macroeconomic stability remain essential. *Firstly*, the volatility from the international financial and commodity markets have a faster and stronger effect on domestic prices. The level of transmission of world price movements and exchange

rates to domestic prices is relatively significant. *Secondly*, information, statistics, forecasts, and warnings have not met the requirements of macroeconomic management. It should be noted that export growth and foreign investment itself - if not appropriately handled - may put additional pressure on the management of domestic exchange rates and/or foreign exchange market. On the contrary, effects of reverse foreign capital flows also need to be measured, reviewed and responded appropriately to avoid pressures on the domestic foreign exchange market.

4.2.5 Institutional requirements related to non-tariff measures

The increasing trend of protectionism and nationalism in many economies, including Viet Nam's major economic partners, may affect the cooperation between nations to deal with common issues and/or propagation effects. Although tariff barriers are gradually eliminated, non-tariff measures (NTMs) (including regulations on animal and plant quarantine, technical barriers to industrial goods) tend to increase and become increasingly sophisticated. NTMs can be requirements related to the environment, health, labor protection, labor relations, corporate social responsibility. These measures may vary and be specific to each type of goods and/or to different export markets.

In the context of implementing the CPTPP, the mindset on NTMs is subjected to substantial change. Superficial and even extreme views on the need to reduce business costs may result in the removal of necessary NTMs, which in turn may adversely affect sustainable export capacity of enterprises. It should be noted that some NTMs are essential in ensuring the quality of goods as well as providing appropriate information on customer tastes, thereby facilitate trade promotion. United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP, 2019) estimates that each additional NTM may lead to an increase of 12% of FDI in the Asia-Pacific region. To that extent, careful review and consultation is essential to distinguish between trade-restricting measures and those that can promote "trade creation". With further considerations, Vietnamese agencies and enterprises must also pay more attention to regulations of foreign markets, right from the policy drafting stage, to make appropriate recommendations and responses. It should be noted that benefits from increased transparency of trade policy in the CPTPP will not make sense if Vietnamese agencies and enterprises do not pay timely and appropriate attention to policy adjustments of CPTPP members.

4.2.6 Institutional requirement related to intellectual property

For Viet Nam, intellectual property (IP) is not a new issue; however, the implementation of IPR remains inadequate, which is considered as a critical factor that induces technology transfer, transfer of property rights or technological know-how from foreign firms to Vietnamese partners. With strict provisions on monitoring and supervising the implementation process, the CPTPP will reinforce pressure to renovate socio-economic policies aiming at addressing adverse impacts of IP protection mechanism. For example, the health policy ensures affordable access to drugs for the

entire population amidst the enforcement of TRIPS “plus” provisions; the rural development policy ensures access to agricultural materials at reasonable prices; cultural and educational policies ensure the accessibility to new creative products in culture and education; policies to support the implementation of procedures for establishing rights to geographical indications in the country and in potential markets to avoid duplicated trademark registration by foreign organizations and individuals; etc.

4.2.7 Institutional requirements related to prevention and responses to trade and investment disputes

The CPTPP set out many strict provisions on RoOs, intra-regional content and localization rate, which pose significant challenges for Viet Nam's exports. In addition, strict regulations on environmental protection, labor and protection of IPRs will set very high requirements for domestic enterprises. This also indicates the potential risk of Vietnamese firms of being involved in trade disputes with foreign partners. ISDS mechanism of the CPTPP empowers foreign private firms to initiate lawsuit against national policies or behaviors of the host countries that adversely affect investment projects of foreign investors.

In order to cope with the above-mentioned potential risk, Viet Nam should pay appropriate attention to the following institutional requirements:

Firstly, to exert efforts on preventing disputes through promoting propaganda to raise the awareness of the risk of being sued in particular and thoroughly understand the true nature of FTA commitments in general with state authorities and officials in charge of foreign investment in localities and the business community. According to economic experts, the prevention of disputes should be conducted at early stages such as compliance with licensing and appraisal procedures; clear explanation of preferential policies of localities and relevant laws and regulations of Viet Nam and good cooperation to settle disputes with foreign investors in case of misunderstandings.

Building capacity of application good practices on policy formulation (such as public consultation, regulatory impact assessment of legal documents/policies, etc.) is also an important issue. Promoting administrative reforms is significantly meaningful for improving the competitiveness of local enterprises. Handling disputes on competition, intellectual property, etc. is also an important issue that needs to be further improved.

Secondly, to promote studies, analysis, review, and comparison between FTA commitments (in particular the CPTPP) and those of other agreements or treaties, domestic regulations and legal regulations of other member countries. It is necessary to develop a portal or forum for information sharing, discussions, Q&A, and organize workshops, seminars and training courses on new-generation FTA commitments in consultation with international legal experts with rich and deep knowledge of international trade. To appropriately pay attention on enhancing knowledge of CPTPP, international trade, international laws and professional English at least at minimum

level for businessman and businesswomen, middle and senior managers of enterprises of all sectors of Viet Nam.

Thirdly, to appropriately focus on human resources development in order to sufficiently deal with trade disputes, through building capacity for arbitrators in line with requirements of FTAs (in particular the CPTPP) and legal experts who are equipped with thorough understandings of regulations of international arbitration organizations. It is necessary to enhance the role of the Vietnam International Arbitration Center (VIAC) and relevant agencies and organizations in providing legal supports for enterprises related to integration commitments. To initiate studies on and promote the application of new dispute settlement method (namely online dispute resolution).

4.2.8 Institutional requirements related to trade remedy

In Viet Nam, legal regulations on trade remedies has relatively well developed, contributing to the re-establishment of competition disciplines between imported and domestic goods. For more effective use of trade remedy instruments in Viet Nam, enterprises need to actively update and search for information about the risks of unfair competition and massive imports (the plaintiff); about the risks of a lawsuit affecting its interests (the related party). Business associations should share information, strengthen consultation activities, provide guidance on reducing costs for enterprises and enhance business connections. State management authorities need to improve the legal corridor for trade remedy in Viet Nam with more specific regulations. At the same time, adjust regulations on information disclosure mechanism, expand the scope of import and export information available for enterprises; provide in-depth information for enterprises. Improve pre-litigation and litigation support mechanisms such as giving advice on filing complaints, supporting access to information within the scope of state agencies; providing assistance during litigation (especially during field investigation and verification of the plaintiff's information); guiding and supporting stakeholders (particularly adversely affected groups).

4.3 Policy recommendations

4.3.1 General recommendations

- Concretize and implement Resolutions of the Central Committee of the Communist Party on renovating growth paradigm and effective implementation of international economic integration, private sector development, IR 4.0. To reaffirm priority of stabilizing macroeconomy, creating broader space for management of macroeconomic policy; flexibly implement macroeconomic policies depending on different scenarios in response to adverse developments of the regional and global economy. To promote restructuring of the economy, industries and sectors; to enhance resilience of the economy against unpredicted changes of international trade and the world economy.

- Promote information dissemination on CPTPP and new-generation FTAs for business community and all people, in particular about contents of commitments, opportunities and challenges in implementing those commitments, responses to technical barriers of partners. At the same time, to appropriately and effectively share information on relevant policy adjustments among ministries, authorities, localities and business community. To encourage active and enthusiastic participation of the private sector, business associations, political and social organizations and citizens in the implementation process of international commitments.

- Drastically facilitate reforms of business environment to create favorable condition for enterprises. To enhance competitiveness in order being able to take advantage of opportunities from new-generation FTAs (including the CPTPP). To strengthen production and export capacity of domestic enterprises; to encourage the development of supporting industries and to improve quality of goods in line with requirements for participating in the global production network and value chains.

- Harmonize different commitments and integration agreements. Liberalization process should be closely associated with strengthening cooperation to promote not only internal economic reforms but also deeper and broader economic cooperation with partners. To further improve legal regulations for CPTPP implementation and preparation for other FTAs and international treaties that Viet Nam is negotiating, has concluded or signed.

- Proactively conduct studies, implement or propose recommendations on reforms of fundamental foundation of market economy. More importantly, awareness of and driving force for reforms must be reinforced and maintained, aiming at improving benefits of business community and all citizens in association with a more concrete interaction among the State – enterprises – market. To monitor and access new movements of major countries toward non-market economies in order to make appropriate policy recommendations.

4.3.2 Specific recommendations

4.3.2.1 To further strengthen macroeconomic stability

(i) Flexibly and proactively regulate macroeconomic policies

- Implement macroeconomic policies prudently, consistently, synchronously, promptly and flexibly, aiming at stabilizing macroeconomy and thereby creating a favorable environment for reforms, economic growth and trade expansion.

- Continue to implement prudent and effective monetary policies; flexible and effective use of monetary policy instruments; maintain close and synchronous links with the fiscal policy to ensure fulfilling the objectives of curbing inflation, stabilizing the macroeconomy and sustaining reasonable growth, in line with characteristics and socio-economic conditions of the country in each period.

- Prudently and effectively implement fiscal policies; to flexibly and effectively implement instruments of monetary policies; to synchronously and effectively coordinate monetary policies with fiscal policies to ensure objectives of inflation control, macroeconomic stability and appropriate economic growth that are suitable with characteristics and socio-economic conditions of Viet Nam in specific periods.

- Strictly, effectively and economically implement fiscal policies. To focus on synchronous and effective implementation of solutions on budget revenue and expenditure in association with improved publicity, transparency and accountability. To ensure budget balance according to the appropriate medium-term budget plans; to gradually reduce state budget deficit, maintain a reasonable public debt ratio, and ensure the soundness of national financial status.

- Stabilize trade balance and current account balance. To combine different measures to improve the export competitiveness of Vietnamese goods while encouraging the import of machinery aimed at enhancing export production capacity.

- Further strengthen the financial system and market, focusing on restructuring commercial banks and resolving with bad debts, thereby creating a sound foundation for better implementation and enforcement of the monetary policy.

- Promote information dissemination to the market to avoid adverse effects on market stability due to inaccurate information. To further strengthen the mechanism of policy review and accountability. To seriously consider the trade-off between short-term benefits of policy adjustments to meet market expectations and long-term losses due to eroded trust in policies.

- Actively coordinate with other countries in the region to monitor the mobility of capital flows, and simultaneously timely respond to common risks to financial and monetary security at the regional level; to learn from experience from countries in the region to be more proactive in preventing financial and monetary risks.

- Strengthen control of prices and market management; to ensure the balance between supply and demand of essential commodities; to closely monitor domestic and foreign market developments, to timely apply measures to regulate supply and demand and stabilize the market. To consistently implement price management policy based on market mechanism with the State's regulation on essential commodities and public services with appropriate schedule and levels to ensure inflation-control target.

(ii) Enhance coordination effectiveness among macroeconomic policies

- Enhance the coordination between fiscal and monetary policies in identifying specific prioritized macroeconomic objectives (associated with the general objective of macroeconomic stability) in specific period and strictly follow the overall coordination toward these objectives.

- Develop and implement a policy target framework for the medium term, which will enable a proactive and flexible approach in coordination to achieve objectives. To

develop a master financial - monetary plan for each year, covering such issues as budget deficit, public investment, and investment efficiency associated with monetary policy management.

- Strengthen fiscal discipline, improve transparency and publicity in the budgeting process, expand the forms and scope of published contents; to enhance accountability.

- Coordination between fiscal and monetary policy must take into account the coordination with other macroeconomic policies, especially macro-prudential supervision.

4.3.2.2 Trade policy

(i) Improve mechanisms and policies on import and export management and administration

- Strengthen import and export management mechanisms and policies to ensure compliance with the requirements of regional and international economic integration, and at the same time, ensure consistency, clear long-term objectives, transparency, and predictability. To study new models and commercial activities that require special mechanisms, sandbox to propose policy recommendations (e.g. digital commerce, online trade dispute resolution, supply chain finance, etc.).

- Develop harmonized standards of goods quality, food hygiene and safety, environmental standards in trade, NTMs, safeguard and emergency measures, anti-dumping duties, special consumption tax, etc.

- Improve regulations on management of origin of goods to promote official trade and simultaneously effectively prevent trade frauds.

- Enhance the degree of initiative and self-responsibility of diplomatic agencies and trade representatives abroad in creating connections, seeking information and developments of export markets to promptly inform ministries, industries and enterprises in the home country.

- Further study long-term vision on coordinating export and import, both at national level and with key commodities. It is necessary to have rational policies and decisions in attracting investment, aiming at enhancing the independence and autonomy of the economy in trade relations.

(ii) Improve the competitiveness of Vietnamese goods

- Study and implement initiatives to support, advise and sharing experience for enterprises in adjusting business strategies associated with CPTPP in particular and FTAs in general. In which, pay more attention on improving the responsiveness of enterprises in the aspects of competitiveness, including price, quality, ability to execute large orders, on-time delivery, distribution channels, and resilience to natural disasters.

- Review and adjust industrial and trade policies to increase efficiency and consistency in promoting manufacturing of products that have competitive advantages to meet the demand of international markets. Focus on building famous national brands. The State creates a favorable environment and supports enterprises to register trademarks in the international market in a timely manner.

- Restructure the domestic distribution system and access retail distribution channels in foreign markets. Promote communication and trade promotion activities both in the domestic and foreign markets.

- Taking advantage of competitive advantages must create differentiated products and goods. Establish mechanisms, policies and raise awareness of enterprises about product diversification and regular renovation to increase the attractiveness of products. Provide advices for enterprises on exploring domestic market in a sustainable manner, which in turn will help create a solid foundation for export. Consider harmonizing regulations at an appropriate level and promote investment to improve product quality and meet standards of importing countries.

- Coordinate trade policies with related policies (services, labor, environment, education, training, etc.) to ensure that trade brings more benefits to the business community and domestic residents.

(iii) Trade facilitation

- Effectively implement the WTO's trade facilitation agreement. Establish a unified and easily accessible portal with relevant information (tariffs, non-tariffs, etc.) of FTAs, including CPTPP.

- Speed up the implementation of the fully functioning and effective NSW and ASEAN Single Window.

- Review and effectively simplify specialized inspection of import and export goods.

- Implement urgently and effectively the pilot mechanism of goods customs clearance guarantee.

(iv) Promote exports in combination with regulating imports

- Develop market research services to improve understanding of foreign markets, including opportunities and economic - cultural - legal barriers to overcome.

- Closely and effectively coordinate national export promotion programs and promotion programs of industries, localities, and enterprises.

- Study more concentrated and more effective mechanisms to encourage the import of inputs in the value chain with orientation of supporting export but not leading to significant crowding-out effects on production activities of domestic enterprises in the value chain.

- Strictly regulate temporary import for re-export. Improve policies and ensure proper assignment and coordination in controlling cross-border trade.

4.3.2.3 Foreign investment policy

(i) Renovate and raise awareness and mindset of and promote consistent actions on foreign investment. Organize the thorough and extensive propaganda and dissemination of the contents of Resolution No. 50-NQ/TW promulgating orientations to improve institutions and policies on enhancing the quality and efficiency of foreign investment. Promote FDI attraction must associated with appropriate monitoring, inspection, examination and control; ensure public and transparent implementation; prevent and effectively address shortcomings of foreign investment activities in all sectors, industries and localities. Quality and efficiency of FDI attraction and utilization should be the most important criteria. Determinedly restrict and address the limitation of tiny-capital scale or inadequate fund.

(ii) Enhance general institutions and policies on foreign investment

- Review and propose solutions to consistently improve regulatory framework of attracting, utilizing and monitoring foreign investment (regulations on investment, enterprises, taxes, customs, land, housing, real estate, construction, environmental protection, technology, technology transfer, supporting industries, etc.).

- Amend and supplement regulations on investment procedures and conditions; definition of investment activities; list of geographical areas, sectors and entities that are eligible for investment incentives under foreign investment laws and relevant laws to harmonize implementation and ensure compliance with international commitments of Viet Nam.

(iii) Improve institutions and policies on attracting foreign investment

- Develop and submit to competent authorities for promulgating a list of investment restrictions in accordance with international commitments; identify investment criteria (e.g., investment rate, employment, technology, environment, domestic added value, connections/linkages, spillover effects, etc.) to select and attract prioritized investment projects in comply with the planning and development orientation of sectors, industries and localities.

- Supplement regulations on not expanding and extending operations of projects using outdated technologies, natural resource-intensive projects, projects with potential threats for environmental pollution.

- Issue a assessment and screening mechanism of foreign investment projects and activities that may have adverse impacts on national security.

- Develop breakthrough institutions and preferential policies to create favorable business conditions to attract mega projects, national prioritized projects, high-tech

projects, etc.; to attract strategic investors, multinational corporations to invest, set up headquarters, and establish R&D centers, innovation centers in Viet Nam.

- Develop institutions and policies for economic zones, industrial parks, hi-tech parks, hi-tech applied agricultural zones, and other similar models with clear identification and justification of development focus and special mechanisms suitable with the characteristics of each model, ensuring connectivity and synchronization with other areas;

- Improve policies on diversification and effective promotion of the public-private partnership (PPP) model in infrastructure investment, mergers and acquisitions and (M&As); to implement policy sandbox for new investment and business models to take advantage of opportunities from IR 4.0.

- Develop results-based investment incentive mechanisms and policies, including the level of participation in the value chain, domestic added value, high-tech components, R&D, innovation, CSR; incentive mechanisms for enterprises operating effectively and fulfilling commitments; etc.

- Formulate adequate incentive mechanisms to enhance the linkage between foreign and domestic investment, and prioritized areas to attract foreign investment; develop industrial clusters and value chains, thereby contributing to the enhancement of domestic added-value content, product competitiveness and national position in the global value chain.

- Improve standards and technical regulations on products, environmental protection, conservation of natural resources, and energy savings in accordance with regional and global standards. Promulgate policies that encourage FDI firms to train and improve skills and qualifications for Vietnamese workers, recruit Vietnamese personnel who have worked and studied in advanced countries.

(iv) Improve institutions and policies on protection of investors and encouraging investors' responsibilities. Amend, supplement regulations on ensuring rights, obligations of foreign investors; recognize and protect legal ownership of assets, IPR, investment capital, incomes and other lawful interests of investors and related entities in line with international commitments. Clearly stipulate investors' responsibility for environmental protection. Promote and strengthen CSR.

(v) Strengthen institutions and policies on investment management and monitoring

- Improve the analytical and forecasting capacity of authorities responsible for policy formulation. Timely submit to the competent authorities for the promulgation of regulations on addressing new economic relations, new business models and modalities, etc. in order to facilitate business- investment activities of investors and state management.

- Foster the assignment, decentralization, authorization and coordination mechanisms among state management agencies; adopt the one-stop-shop mechanism. Develop criteria to evaluate the efficiency of foreign investment on economic, social, environmental aspects, national defense and security, etc.

- Develop the law on anti-transfer pricing. Improve and supplement strict regulations on taxes, foreign exchange, customs, investment, science and technology, database, information disclosure, etc. to effectively control, manage and prevent transfer pricing right from the establishment and during operation of foreign-invested enterprises. Build a strong and capable specialized units and develop inter-sectoral and specialized inspection mechanism to ensure effective implementation of anti-transfer pricing measures to prevent and restraint transfer pricing of foreign-invested enterprises.

- Strengthen regulations on antitrust in line with international practices. Improve mechanisms and policies on protecting the domestic distribution market, thus facilitating domestic enterprises to develop in accordance with international commitments.

- Amend, supplement and improve regulations on enhancing quality and efficiency of dispute settlement and enforcement institutions.

- Consolidate the state management apparatus of foreign investment towards streamlining, effectiveness, efficiency; identify focal point in ministries, line ministries, and localities in order to meet the requirements of inter-sectoral and inter-regional management in localities and nationwide. Pay adequate attention on building capacity and morality of official responsible for foreign investment in ministries, line ministries and localities in comply with new requirements and mandates of foreign investment management.

- Comprehensively improve a synchronized and interconnected national database on investment, covering such issues as labor, land, tax, customs, credit, foreign exchange, etc. as well as relevant information on localities.

(vi) Renovate and improve the effectiveness of investment promotion.

- Enhance the coordination and connection between the Central Government and localities, among regions, between state management agencies and business associations in investment promotion activities.

- Proactively carry out investment promotion programs with clearly-identified objectives and focus associated with new investment cooperation criteria; continue to maintain traditional markets and partners, simultaneously explore new markets and new partners. Diversify investment promotion activities and modes; focus on promoting local investment through specific successful cooperation projects.

- Allocate adequate funding for promotion activities. Give priority to the implementation of national, regional and inter-sectoral investment promotion activities.

4.3.2.4 Vigorously develop the private sector associated with improving business environment

Strictly and effectively implement Resolution No. 02 / NQ-CP dated January 01, 2020 on implementation of major tasks and solutions to improve business environment and enhance national competitiveness in 2020, and Resolution No. 35/NQ-CP dated May 16, 2016 on supporting enterprise development to 2020, incorporating the following additional contents:

- Formulating policies for key economic sectors should appropriately focus on development investment, associated with incentives to encourage the participation of the private sector in these sectors. Accelerate the development of special policies and mechanisms to develop such industries and sectors as creative start-ups; human resources for information technology; promote the participation of SMEs in regional and global value chains, etc.

- Further improve the legal framework and take appropriate measures to promote the attraction of social resources for infrastructure investment, focusing on and encouraging private investment, especially PPP investment.

- Develop and improve policies on encouraging and supporting the private sector to enter the market; apply electronic records; integrate specialized inspection procedures; establish and operate the national data sharing system on enterprises. Drastically reform administrative procedures on investment, business and trade. Review and remove unnecessary business conditions and administrative procedures and informal costs and expenses.

- Examine and implement capital support programs for the private sector, especially for SMEs; including capital support for an initial investment to set up the business, loans guarantee for businesses, as well as other forms of financing to help enterprises to participate more effectively in the value chain. Expand the scope of credit guarantees for private enterprises through various forms such as setting up guarantee companies; agreements between the State, associations, businesses, and commercial banks, factoring, etc.

- Develop and improve financial mechanisms for the real estate market. Direct, regulate and control the real estate market in the direction of creating favorable conditions for the participation of all types of economic ownership.

- Develop, improve and strengthen the legal system to encourage the development of the business development services (BDS) market; examine and remove unreasonable barriers that induced the need of using BDS. Enhance propaganda, dissemination, and raising of knowledge and awareness of policies on BDS.

- Strengthen and encourage the participation of the private sector in the process of formulating investment and business policies. Promptly absorb and adequately explain recommendations of businesses.

- Tăng cường và khuyến khích sự tham gia của khu vực tư nhân trong quá trình xây dựng và hoạch định các chính sách đầu tư – kinh doanh. Kịp thời tiếp thu, giải trình đầy đủ kiến nghị của các doanh nghiệp

4.3.2.5 Taking advantage of IR 4.0 to enhance connectivity of national and regional supply chains and effective participation in GVCs

(i) Establish and improve institutions, mechanisms and policies for development and application of digital economy

- Develop and implement the Project on the development of electronic commerce and digital economy and the Project on digital transformation. These projects cover general measures to promote and support the digital transformation of enterprises, develop and apply e-commerce and e-business solutions, aiming at establishing a favorable ecosystem for digital economy activities of people and enterprises

- Improve the legal framework for e-commerce with the mindset of avoiding restrictions of free and sound development of e-commerce and e-business models and activities.

- Establish and consolidate a full-time state governance apparatus on e-commerce in localities. The number of official responsible for e-commerce management is not a prerequisite. Instead, it is critical to strengthen capacity of enforcers of e-commercial regulation (inspectors, market management agencies, police, procuracy, courts); support the monitoring, supervision, dispute settlement and handling violations of e-commerce activities on the online platforms.

- Accelerate the implementation of objectives and tasks related to e-Government development, especially providing online public services related to production and business activities and enhancing IT application in public administrative procedures.

- Improve the tax policy for e-commerce in particular and for the economy in general towards harmonization with best practices. Mindset of management should focus more on raising the awareness and responsibility of e-commerce taxpayers instead of focusing on the amount of state budget revenue from these activities.

- Regularly review the domestic legal framework, policies in relative to relevant commitments in FTAs, especially new generation FTAs (CPTPP, EVFTA, etc.). Regularly have open and substantive discussions and dialogues with existing and potential enterprises in the field of e-commerce, IT, etc. to promptly identify problems and make appropriate and timely policy adjustments.

(ii) Establish and operate essential infrastructures for e-commerce; build architectural frameworks and integrated technology platforms for e-business models.

- Build and develop a national e-commerce payment system; e-payment integrated utilities for widespread use in e-commerce models, including business to

consumer (B2C), business to business (B2B), government to citizen (G2C), government to businesses (G2B). Harmonize with Fintech development policy. Consider more open and more appropriate thinking to facilitate e-commerce development, avoiding excessive control of “positive-list” approach.

- Develop standards, technologies, and techniques for the application of digital economy; develop smart linkage and sharing solutions in commerce via platforms of card technology and mobile devices.

- Build infrastructure for authentication of e-documents and support the authentication of information in e-commerce transactions through ICT and internet platforms.

- Enhance safety and security infrastructure for e-commerce through the establishment of systems for management and monitoring e-commerce transactions, rating e-commerce websites, mechanisms for disputes settlement and handling of violations in e-commerce.

- Take advantage of cooperation mechanism of relevant forums (such as APEC, ASEM, etc.) and the chapter on capacity building in FTAs to better access to best practices in the world and the region on building policies for e-commerce development and data movement, prevention of related risks, after-sales consumer protection, new technology trends, etc. and capacity building for Vietnamese management agencies and enterprises (if any).

- Strengthen statistical capacity on e-commerce at national, sectoral and local levels.

(iii) Support digital transformation of enterprises

- Develop and implement mechanisms to encourage and support the start-ups of businesses and individuals with new business models based on digital platform in ways that are not contrary to international commitments, avoid misuse of physical and time-limited supports.

- Assist studies, conduct pilot projects and gradually replicate upgraded production models; promote the application of digital technology in manufacturing; catch up breakthrough trends of IR 4.0 such as big data, cloud computing, IoT, robotics technology, 3D printing technology.

- Establish digital business models and new business models using technological platforms, support research on the application of IT and digital technologies in business management and organization of enterprises.

- Develop digital products and solutions and assist firms in applying these achievements in each stage of the business cycle; develop integrated services based on advanced technologies such as smart card technology, blockchain technology, object and barcode recognition technologies.

- Establish and improve business culture of enterprises on the electronic environment.

(iv) Develop and improve connectivity of national and regional supply chains and effective participation in the GVCs

- Support the development of e-commerce and e-business in key economic regions, economic routes and corridors to facilitate the distribution and circulation of goods, enhance competitiveness of enterprises, and improve local business and consumption practices.

- Focus on promoting e-commerce applications for key export sectors to enhance market access capability and further expansion of exports.

- Study, develop and implement intelligent supply chain models; apply big data technology in forecasting market movements and creating effective linkage between production and market demand, simultaneously supporting enterprises to strengthen the linkage via industrial clusters and value chains with orientations towards connecting with international markets.

- Improve transport and logistics infrastructure within overall policy framework of trade facilitation for Vietnamese enterprises to effectively participate in GVCs. Create conditions to encourage the application of new technology in logistics (such as blockchain technology, etc.).

- Implement concentrated and effective solutions to improve the linkage between domestic and foreign enterprises.

(v) Human resources development for e-commerce and digital economy

- Develop training programs for managers and intensive programs for staff in charge of e-commerce and new technology (such as blockchain and application in commerce, fintech, etc.).

- Organize training programs, short-term training courses for enterprises on e-commerce, focusing on in-depth topics that are suitable to localities and business fields.

- Promote propagation, dissemination and raise awareness of communities on e-commerce through various forms of mass media such as printed newspapers, e-newspapers, radio, television, publications, social networks and other forms.

- Promote formal trainings on e-commerce, connect training activities with production and business practices of enterprises.

- Promote the application of online training; encourage linkages between universities, colleges, businesses and professional social organizations to build online training systems and learning materials systems for the purposes of research, teaching and learning about e-commerce.

- Build capacity for officials in charge of international cooperation in the field of e-commerce, education and training, science and technology to establish networks, promote cooperation and harmonize Viet Nam's e-commerce policies with those of relevant countries./.

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