



Aus4Reform Program



AUSTRALIA SUPPORTS ECONOMIC REFORM IN VIET NAM

Making RCEP work for economic well-being and autonomy in Viet Nam: Required reforms of trade and investment institutions

Authors:

Dr. Tran Thi Hong Minh

Nguyen Anh Duong

Do Thi Lê Mai

Nguyen Thi Phuong Loan

Pham Thien Hoang

ACKNOWLEDGEMENT

Despite facing various difficulties and negative economic consequences due to the COVID-19 pandemic in 2020, Viet Nam continued active and comprehensive efforts towards international economic integration. Viet Nam has successfully accomplished its role as ASEAN Chair 2020; ratified and implemented the EU – Viet Nam Free Trade Agreement (EVFTA); and signed Regional Comprehensive Economic Partnership (RCEP) Agreement. Unlike high-quality trade agreements such as EVFTA or Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Viet Nam participates in the RCEP with a more “gradualism” approach. The debate on the impact of international economic integration - especially trade, foreign investment, etc. - has become more “multidimensional”; in that context, the impacts of RCEP were perceived to include both positive and negative aspects. Besides the articulated net benefits of RCEP, there are material concerns about the modest impact of this Agreement on Viet Nam’s institutional quality. In addition, after prolonged trade deficit with RCEP members and the disruptive impact of the COVID-19 pandemic on the supply chain, an emerging policy issue is how to improve the economic autonomy of Viet Nam upon implementing RCEP.

This Report elaborates on the institutional requirements to making RCEP work for economic well-being and autonomy in Viet Nam. The research team was led by Dr. Tran Thi Hong Minh, supported by Nguyen Anh Duong, Do Thi Le Mai, Nguyen Thi Phuong Loan, and Pham Thien Hoang. The consultants who have provided inputs and data are Le Thi Kim Phung, Nguyen Thi Huyen Trang, Vu Tri Tuan, Dinh Thu Hang, Dr. Tran Thi Anh Thu and Dr. Nguyen Thi To Quyen.

The research team would like to thank the Australia Supports Economic Reform in Vietnam Program (Aus4Reform) for supporting the preparation of this Report. The Team also dedicates special thanks to Dr. Pham Thi Lan Huong for valuable and practical comments for improving the Report. The authors have received valuable comments of Dr. Nguyen Thi Thu Trang (Director of the WTO and International Trade Center, Viet Nam Chamber of Commerce and Industry), Dr. Ha Thi Hong Van (Institute of Chinese Studies, Viet Nam Academy of Social Sciences), Dr. Can Van Luc (Chief Economist, President of BIDV Training and Research Institute), and Prof. Dr. Tran Tho Dat (Chairman of National Economics University) at the Seminar “*Effective implementation of Regional Comprehensive Economic Partnership (RCEP): Requirements to improve trade and investment institutions in Viet Nam*”. Finally, the Report benefits from information, survey responses, straightforward and insightful opinions by representatives from governmental and provincial agencies, private sector and experts.

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

Dr. Tran Thi Hong Minh

President of the Central Institute for Economic Management

Director of Aus4Reform Program

TABLE OF CONTENTS

LIST OF TABLES	ii
LIST OF FIGURES	iii
ACRONYMS.....	iv
EXECUTIVE SUMMARY	vi
1 Introduction	1
1.1 Context.....	1
1.2 Objectives	3
1.3 Approach, methodologies and scope of the Report.....	3
1.3.1 Approach	3
1.3.2 Methodologies.....	4
1.3.3 Scope of the Report	5
1.4 Structure of the Report	5
2 RCEP: Process, key contents and characteristics	6
2.1 Negotiation process of RCEP.....	6
2.2 RCEP in Viet Nam's international economic integration process.....	9
2.3 Key contents of RCEP	11
2.4 Characteristics	14
3 Trade with RCEP from institutional perspective	16
3.1 Overall trade performance.....	16
3.1.1 Imports and exports.....	16
3.1.2 Trade deficit from RCEP market	27
3.1.3 Trade in value-added.....	27
3.2 Viet Nam's trade indicators	30
3.2.1 Revealed Comparative Advantage (RCA).....	30
3.2.2 Export Similarity	33
3.2.3 Trade Complementarity	33
3.2.4 Trade Intensity.....	35
3.3 Some opportunities and challenges from RCEP to Viet Nam's trade.....	36
3.3.1 Some opportunities.....	36
3.3.2 Some challenges	43
4 Investment in RCEP from an institutional perspective	47
4.1 Brief overview of foreign investment.....	47
4.2 Some opportunities and challenges from RCEP regarding investment activities.....	54
4.2.1 Some opportunities.....	54
4.2.2 Some challenges	63
5 Some conclusions and policy recommendations.....	70
5.1 Some conclusions	70
5.2 Some policy recommendations	71

5.2.1 Policy approach	71
5.2.2 Specific policies	73
Bibliography	81

LIST OF TABLES

Table 1: Structure of RCEP Agreement	12
Table 2: Contents of RCEP vs other FTAs of Viet Nam	12
Table 3: Objectives, content and quality of RCEP vs. CPTPP	15
Table 4: Viet Nam's trade/GDP ratio in 2010-2019	17
Table 5: RCEP countries' trade/GDP ratio in 2010-2019.....	17
Table 6: Share and growth rate of Viet Nam's exports by country and FTA partner, 2010-2019.....	19
Table 7: Share and growth rate of Viet Nam's imports by country and FTA partner, 2010-2019.....	19
Table 8: Share and growth rate of Viet Nam's exports by product category in 2010-2019	21
Table 9: Share and growth rate of Viet Nam's exports to RCEP market by product category in 2010-2019.....	22
Table 10: Share and growth rate of Viet Nam's imports by product category in 2010- 2019	23
Table 11: Share and growth rate of Viet Nam's imports from RCEP market by product category, 2010-2019.....	24
Table 12: Share and growth rate of Viet Nam's exports by technology content to some partner countries in 2010-2019.....	25
Table 13: Share and growth rate of Viet Nam's imports by technology content from some partner countries in 2010-2019	26
Table 14: Viet Nam's RCA index with RCEP market, 2001-2018.....	31
Table 15: Share of Viet Nam's exports to RCEP market by RCA.....	33
Table 16: Export similarity index of Viet Nam compared to some partners, 2001-2018	33
Table 17: Viet Nam's Trade Complementarity Index with selected partners, 2001-2018	34
Table 18: Trade Complementarity Index of some partners with Viet Nam, 2001-2018	35
Table 19: Viet Nam's Trade Intensity Index with selected partners, 2001-2018	36
Table 20: Trade Intensity Index of some partners with Viet Nam, 2001-2018	36
Table 21: Utilization rate of preferential C/O under Viet Nam's FTAs	43

LIST OF FIGURES

Figure 1: Analytical framework of impacts of RCEP on Viet Nam's trade and investment associated with improvement of economic autonomy	4
Figure 2: Viet Nam's FTA as of November 2020	10
Figure 3: Viet Nam's imports and exports, 2010 - October 2020	16
Figure 4: Export growth of FIEs, 2010 – October 2020	18
Figure 5: Viet Nam's trade with RCEP market, 2009 - 2019	27
Figure 6: Share of domestic value-added in total exports of Viet Nam and some partners, 2005-2016 (%).....	28
Figure 7: Share of domestic value-added in some industries/fields in 2005-2015	30
Figure 8: Impacts on real GDP of RCEP16 versus RCEP15	38
Figure 9: Scenarios of RCEP structure.....	39
Figure 10: FDI inflows to Viet Nam	47
Figure 11: Movement of registered capital components	48
Figure 12: Share of FDI by partner.....	49
Figure 13: FDI by partner	49
Figure 14: Key sectors as recipients of FDI (cumulative as of September 20, 2020)...	50
Figure 15: Share of FDI inflows to ASEAN, 2015-2018.....	51
Figure 16: FDI inflows to Viet Nam and ASEAN-4	51
Figure 17: Investment attraction from RCEP countries, 2010-2019.....	52
Figure 18: Ten largest investment partners in Viet Nam as of September 20, 2020	52
Figure 19: Institutional reforms related to FDI attraction in Viet Nam	60
Figure 20: Competitiveness ranks and scores of Viet Nam and RCEP countries in 2019	61
Figure 21: Ranks and scores of Viet Nam's business environment, 2014-2019.....	62
Figure 22: Business environment of Viet Nam vs. RCEP countries in 2019.....	62
Figure 23: GCI Institutions of Viet Nam vs. RCEP countries in 2019	63
Figure 24: Number of anti-dumping cases initiated by exporter, 2011-2019	64
Figure 25: Proposed policy framework for making RCEP work for economic well-being and autonomy in Viet Nam	72

LIST OF BOXES

Box 1: RCEP creates or diverts trade?	7
Box 2: Concerns about environmental protection in FDI projects.....	66

ACRONYMS

ACFTA	ASEAN-China Free Trade Area
AEC	ASEAN Economic Community
AFF	Agriculture, Forestry, Fishery
AIFTA	ASEAN-India Free Trade Area
AJCEP	ASEAN-Japan Comprehensive Economic Partnership
APEC	Asia-Pacific Economic Cooperation forum
ASEAN	Association of Southeast Asian Nations
BRI	Belt and Road Initiative
BTA	Bilateral Trade Agreement
CEPEA	Comprehensive Economic Partnership for East Asia
CIEM	Central Institute for Economic Management
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
C/O	Certificate of Origin
CPV	Communist Party of Viet Nam
EAFTA	East Asia Free Trade Area
EHP	Early Harvest Program
ES	Export Similarity Index
EVFTA	European Union – Viet Nam Free Trade Agreement
EU	European Union
FDI	Foreign Direct Investment
FIE	Foreign-invested enterprise
FTA	Free Trade Agreement
FTAAP	Free Trade Area of the Pacific
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GSO	General Statistics Office of Viet Nam
GVA	Gross Value Added
GVC	Global value chain
HS	Harmonized System Classification
ICT	Information and Communication Technology
IMF	International Monetary Fund
IR 4.0	Industrial Revolution 4.0
IT	Information Technology
ISDS	Investor-State Dispute Settlement
MFN	Most-Favored Nation

MUTRAP	Multilateral Trade and Investment Project
M&A	Merger and acquisition
NT	National Treatment
NTM	Non-tariff measure
OECD	Organization for Economic Cooperation and Development
PPR	Prohibition of Performance Requirement
R&D	Research and Development
RCA	Revealed Comparative Advantage
RCEP	Regional Comprehensive Economic Partnership
RoO	Rules of Origins
ROS	Return on Sales
SMBD	Senior management and board of directors
SME	Small- and Medium-sized Enterprise
SOE	State-owned enterprise
SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
TC	Trade Complementarity Index
TFP	Total Factor Productivity
TII	Trade Intensity Index
TiVA	Trade in Value Added
TPP	Trans-Pacific Partnership Agreement
TRIMS	Trade-Related Investment Measures
TTIP	Transatlantic Trade and Investment Partnership
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNESCAP	United Nations Economic and Social Commission for Asia – Pacific
USD	US Dollar
VA	Value added
VCCI	Viet Nam Chamber of Commerce and Industry
VJEPA	Viet Nam – Japan Economic Partnership Agreement
VKFTA	Viet Nam-Korea Free Trade Agreement
WB	World Bank
WEF	World Economic Forum
WTO	World Trade Organization

EXECUTIVE SUMMARY

1. After more than 7 years since the first negotiation session, the Regional Comprehensive Economic Partnership (RCEP) Agreement was signed on November 15, 2020. Similar to the new generation FTAs (CPTPP, EVFTA) that have already entered into force, RCEP may broaden opportunities for Viet Nam to expand trade and investment, while supporting Vietnamese enterprises to participate more effectively in the regional value chain.
2. Unlike the CPTPP and EVFTA, the reception of the RCEP is somewhat more skeptical, arguably because this Agreement may create smaller net benefits and less prominent impact on institutional reform - which Viet Nam often anticipates from large-scale FTAs, *among others*.
3. The idea of RCEP was initiated in the context of progressive trade and investment liberalization in East Asia and the broader Asia-Pacific region. Even with increasing trade tensions and protectionism in the region during period 2017-2020, efforts to revive international economic integration and incubate new ideas on trade and investment cooperation have been constantly promoted. Thus, RCEP has been integral to the regional integration process, instead of being an initiative solely for increasing regional influence.
4. For Viet Nam, RCEP was not ad hoc, but instead was obtained after a period of continuous efforts. Concurrent negotiations of 03 high quality and/or large-scale FTAs - including TPP/CPTPP, EVFTA and RCEP - requires a lot of efforts, coordination, and considerations of Viet Nam. On the contrary, institutional preparations of Viet Nam might have been different and its considerations of RCEP content and progress may have followed other scenarios, had there been neither TPP/CPTPP nor EVFTA. In fact, the most significant economic and institutional implications seem to be associated with TPP/CPTPP and EVFTA. Consensus on these agreements also increased the acceptability of RCEP - even when RCEP receives more adverse comments than CPTPP and EVFTA.
5. Apart from the Introduction, the RCEP agreement comprises of 20 Chapters and annexes. Excluding the relatively traditional content such as trade in goods, RoO, SPS and TBT, RCEP includes some new contents such as e-commerce, competition, etc. Compared to CPTPP and EVFTA, RCEP does not include Chapters on environment, labor, SOEs, etc. However, compared to other ASEAN+1 FTAs, RCEP has various new contents, “closer” to new generation FTAs such as e-commerce, competition, government procurement, etc. RCEP incorporates a “gradualism” approach, thereby creating room to improve commitments even after the agreement enters into force.
6. Regarding trade in the period 2010 - 2019, Viet Nam’s export structure gradually shifted towards smaller share of ASEAN and higher shares of China and Korea market. These countries have been the main import markets of Viet Nam. However, Viet Nam hardly built new competitiveness in trade with RCEP countries during this period. The trade deficit of Viet Nam with RCEP market was also widened.

7. RCEP may create several opportunities and challenges to Viet Nam's trade. Covering countries with populations up to 2.2 billion, equivalent to 30% of the global population, RCEP establishes a large and potential market for exports. The quantitative assessments show that RCEP has trade creation effects, instead of sole trade diversion. Viet Nam can also benefit from higher quality of imported goods for domestic consumption. Along with increasing trade in intermediate goods, Vietnamese enterprises can participate more deeply in the regional value and production chain. Impacts on institutional reforms of Viet Nam may also be evident, mainly in the direction of promoting the reforms in line with commitments under CPTPP and EVFTA. However, RCEP implementation may encounter challenges on the capacity to utilize preferences, capacity to maintain and improve export competitiveness, and the risk of widening trade deficit.
8. FDI inflows have increased, especially in the period 2017-2019. FDI mainly came from 15 countries and territories. 6 out of 10 largest investment partners of Viet Nam are RCEP members, namely Korea, Japan, Singapore, China, Malaysia, and Thailand.
9. Regarding foreign investment, RCEP also has both opportunities and challenges. Viet Nam has more opportunities to attract FDI as investors shift away from China due to the US-China trade and technology war, and investors may have new consideration during and after the COVID-19 pandemic. However, Viet Nam faces significant challenges due to: (i) identifying and effectively handling trade deficit associated with foreign investment in RCEP is no easy, and may become even more complicated; (ii) screening the quality of FDI projects appropriate, but hard to implement after the RCEP enters into force; (iii) managing foreign investment flows from RCEP and their implications for macroeconomic stability is a complex matter; and (iv) balancing between attracting and protecting investment and preserving policy sovereignty in Viet Nam presents a delicate institutional issue. These challenges more or less affect Viet Nam's economic autonomy, but can be addressed. Addressing institutional challenges depends on the comprehensiveness of Viet Nam's approach, and can hardly be effective if trade and foreign investment are considered separately when implementing RCEP.
10. This Report proposes an approach to effectively implement RCEP while improving Viet Nam's economic autonomy. Effective implementation of RCEP requires further reforms of microeconomic foundation; improving trade and investment policies; addressing key bottlenecks; and preventing and fighting against COVID-19 pandemic. The improvement of Viet Nam's economic autonomy will be driven by unilateral reforms, promotion of ASEAN centrality, and further support to multilateralism. With this approach, this Report elaborates on some groups of policy recommendations./.

1 Introduction

1.1 Context

Since the initiation of Doi Moi (Renovation) in 1986, Viet Nam has made significant socio-economic achievements. Economic growth has achieved relatively high levels (about 7.0% p.a. during 1990–2010; about 6.1% p.a. during 2011–2016, and almost 7.0% p.a. during 2017–2019). Despite severe impacts of the COVID-19 pandemic and response measures in various markets in 2020, Viet Nam maintained a positive growth of over 2.1% in the first 9 months of 2020 (year-on-year). An important reason under such economic performance was the consistent efforts to broaden opportunities and enhance quality of exports and investment, including foreign investment.

Throughout the process, ensuring benefits from international economic integration has always been among the top priorities of Viet Nam; the orientation on integration has gradually adapted to the evolving development context. Before 1986, Viet Nam only considered the directions of “*opening the economy*”, “*multilateralizing, diversifying and expanding foreign relations*”. The 9th National Congress of the Communist Party of Viet Nam (CPV) set out the orientation of “*proactive integration into international economy*”. The 10th Congress affirmed a more radical change in integration orientation, emphasizing that “*international economic integration is the focus, integration in other areas must facilitate economic integration and actively contribute to economic development*”. These orientations and policies were concretized in the Politburo's Resolution No. 07-NQ/TW in 2001; Resolution No. 08-NQ/TW in 2007 and Resolution No. 22-NQ/TW in 2013 of the Central Executive Committee on international economic integration. Most recently, the 12th Congress emphasized the requirement of “*effectively implementing international integration in the new context, further improving Viet Nam's international position and reputation*”. Resolution 06-NQ/TW in 2016 by the CPV Central Executive Committee set out the task of effectively implementing the international economic integration process in the new context, associated with new requirements on strengthening economic autonomy; participating effectively in global value chains (GVCs); sustainable and inclusive development; enhancing international position and reputation of Viet Nam. Accordingly, Viet Nam is not only attentive to export growth or investment attraction, but also focuses on taking advantage of international economic integration to participate in developing and changing institutions of international trade and investment; the level of participation and effectiveness for business community and domestic residents.

In addition to the changes in integration mindset, international economic integration and economic institutional reforms in Viet Nam always have close interactions with each other. Accordingly, domestic economic institutional reform is a fundamental factor, with decisive role in ensuring proactive and effective international integration. In return, international economic integration catalyzes and motivates reforms of domestic institutions. Institutional reform in the context of proactive and active international economic integration is not merely about adapting regulations and laws to implement integration commitments. More importantly, a synchronous reform process of economic institutions serves for better realization of integration benefits.

With that essence, in recent years, especially since 2014, the microeconomic and macroeconomic foundation reforms to improve market efficiency have been prioritized, especially the institutional reform on competition, state-owned enterprises (SOEs), development of private enterprises, improvement of business environment, land, trade remedies, use of technical barriers, innovation, etc. In fact, the periods with most concrete reforms in Viet Nam were also those of Viet Nam's deepened efforts towards international economic integration. The consistency between domestic institutional reform and trade and investment liberalization has broadened economic opportunities for the people and businesses; and has gradually contributed to achievements in many other areas such as small- and medium-sized enterprise (SME) development, business development, gender equality, poverty reduction, towards sustainable development.

However, deeper integration commitments, especially under new-generation FTAs, can significantly affect Viet Nam's policy space. On the other hand, due to high economic openness, Viet Nam may become more vulnerable to external shocks. The COVID-19 pandemic with associated supply chain disruptions is a remarkable example of these challenges, while the resilience has been limited. Thus, Viet Nam is compelled to improve economic autonomy in its international economic integration in terms of: (i) the resilience at both economy and enterprise levels to external shocks, especially through trade and investment; (ii) ensuring that market access is sufficiently diversified and/or ample to avoid excessive dependence on any particular market (both supply and demand); and (iii) retaining policy choices and policy sovereignty.

After more than 7 years since the first negotiation session, the Regional Comprehensive Economic Partnership (RCEP) agreement was signed on November 15, 2020. Similar to the new generation FTAs (CPTPP, EVFTA) already in force, RCEP can further induce trade and investment and enable Vietnamese enterprises to effectively participate in the regional value chain. Like other FTAs, the earlier the preparation for RCEP, the higher the benefits, even though Viet Nam has already had experiences of implementing ASEAN FTAs with partners in the RCEP.

During RCEP negotiation process, a vast literature was dedicated to assess the economic impact of this Agreement on member economies. Petri et al (2012, 2017), and Petri and Plummer (2014) used the Global Trade Analysis Project (GTAP) model to assess the impact of different RCEP scenarios compared to TPP scenarios for member countries. Wignaraja (2014) used the computable general equilibrium (CGE) model for assessing economic impacts of RCEP on Asia. Itakura (2015, 2019) also used the GTAP model to assess the economic impact of RCEP on ASEAN member. These studies considered the 16-nation RCEP (including India) and showed the net economic benefits of RCEP to Viet Nam. After the withdrawal of India from RCEP, only Li (2019) assessed the impact of 15-nation RCEP (RCEP without India) and also showcased the net benefits for members, however, smaller than when including India.

Several quantitative studies focused on the impact of RCEP on Viet Nam's economy. MUTRAP (2015) used GTAP model to assess the economic impact of RCEP on Viet Nam based on two scenarios: (i) RCEP with hub-and-spoke structure; and (ii) RCEP comprehensive liberalization model. Despite no assessment of distributional impact, both scenarios show net benefits for national income and exports of Viet Nam,

of which, the net benefit of the comprehensive liberalization scenario is smaller. World Bank (WB, 2018) also employed GTAP model to assess impacts of the RCEP, though focusing more on the impact of the CPTPP on Viet Nam.

The literature on RCEP hardly elaborated on RCEP's institutional aspects and could not use the official full text of RCEP which was only released after its signing on 15/11/2020. Notably, the expected economic benefit from RCEP is more modest than CPTPP and EVFTA. The reasons may include: (i) limited new opportunities from the RCEP due to the existence of ASEAN FTAs with partners; (ii) limited impacts on institutional reforms, so it may hardly interact with the domestic reforms; (iii) less binding commitments under RCEP than those under CPTPP and EVFTA, while some contents will be negotiated after RCEP enters into force; (iv) uneven transition of RCEP countries "out of the COVID-19 pandemic"; (v) concerns about more sizeable trade deficit of Viet Nam with many RCEP partners which had existed for years before 2020; and (vi) ability to improve Viet Nam's economic autonomy upon implementing RCEP.

In this context, this Report analyzes the dual requirements for effective implementation of RCEP and improving economic autonomy in Viet Nam. Specifically, the Report aims to (i) look into the scale and quality of Viet Nam's trade and investment with RCEP members; (ii) identify institutional and structural issues for trade and investment that could affect Viet Nam's realization of net benefits from RCEP; and (iii) propose recommendations for medium- and long-term institutional reforms to effectively implement RCEP whilst improving economic autonomy in Viet Nam.

1.2 Objectives

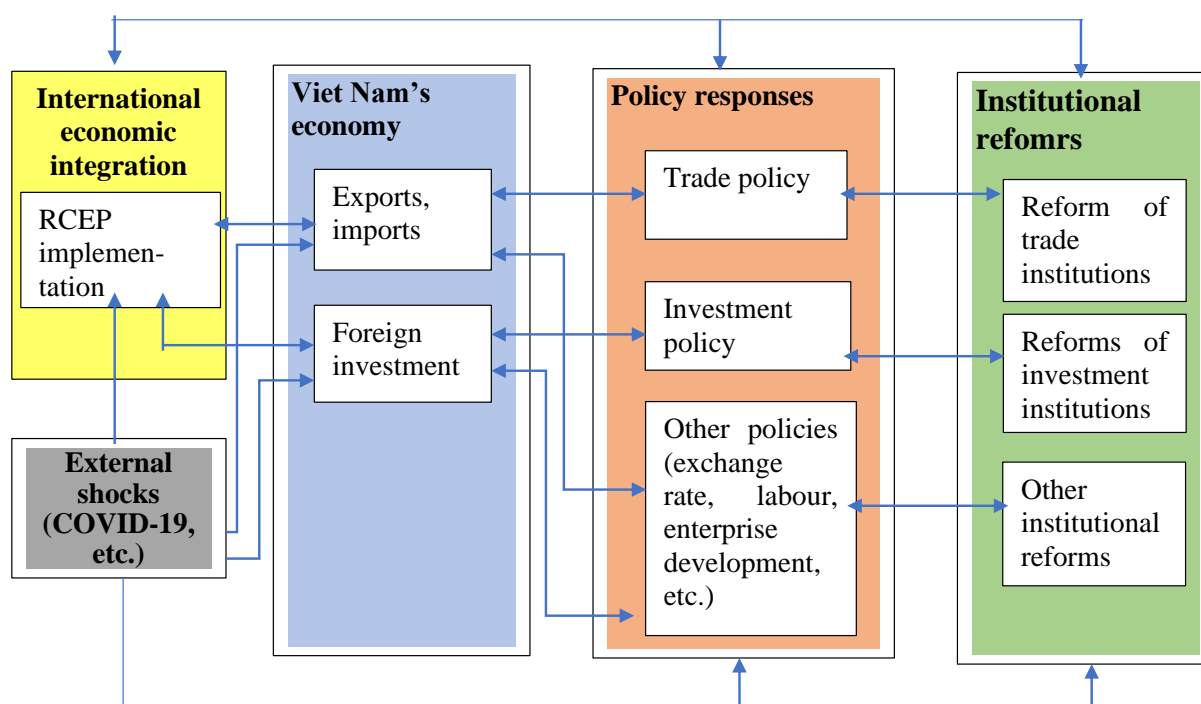
- General objective: Identify the required reforms of trade and investment institutions for effective implementation of RCEP whilst improving economic autonomy in Viet Nam.
- Specific objectives:
 - Investigating the qualitative impacts of RCEP on Viet Nam's trade and investment;
 - Elaborating on the institutional and structural bottlenecks affecting the autonomy in trade and investment during RCEP implementation;
 - Proposing institutional and policy reforms on trade and investment for effective implementation of the RCEP Agreement while improving economic autonomy.

1.3 Approach, methodologies and scope of the Report

1.3.1 Approach

Figure 1 depicts the analytical framework used in this Report. The authors use a qualitative approach, examining and recognizing issues that can affect the effective implementation of RCEP as well as the economic autonomy, focusing on trade and investment aspects.

Figure 1: Analytical framework of impacts of RCEP on Viet Nam's trade and investment associated with improvement of economic autonomy



Source: Authors' compilations.

Accordingly, imports, exports and investment of Viet Nam are subject to domestic trade, investment and other relevant policies (labor policy, exchange rate policy, enterprise development, etc.). The global context (including external shocks, especially COVID-19 pandemic and the US-China trade war) and the implementation of the international economic integration commitments (including implementation of RCEP) have affected export demand, supply of imported inputs and FDI; and along with that are the requirements for policy adjustments, related institutional reforms to enhance production capacity, competitiveness and improve the investment and business environment in Viet Nam. On the contrary, more fundamental institutional reforms will have a positive impact on economic development and international economic integration; and enhance economic autonomy in the integration process.

1.3.2 Methodologies

The Report combines qualitative and quantitative methods, including:

- Reviewing, analyzing, comparing, and using available literature and data on imports, exports and investment to assess the development of Viet Nam's trade and FDI; thereby investigating impacts, opportunities and challenges of RCEP on Viet Nam's trade and investment as well as its economic autonomy.
- Calculating trade indicators (such as Revealed Comparative Advantage, Trade Intensity, Export Similarity, and Trade Complementarity) to assess current situation and trade potential of Viet Nam with some main partners.
- Expert consultation: consulting and interviewing in-depth with experts and researchers on assessing potential impacts of RCEP on Viet Nam's trade and investment, opportunities, and challenges for strengthening and improving Viet Nam's autonomy on

trade and investment; proposing recommendations for institutional reforms to effectively implement RCEP and improve economic autonomy.

1.3.3 Scope of the Report

- Regarding the content: This Report focuses only on reviewing impacts of RCEP on imports, exports and FDI; trade and investment policies and reforms. The review and assessment of policy impacts, proposing institutional reforms in other areas can be mentioned to support the focus on trade and investment. Due to limited scope, this Report refrains from investigating Viet Nam's industrial policy.

- Regarding time: This report focuses on the period 2010-2019.

1.4 *Structure of the Report*

Excluding the Introduction, this Report includes 4 Sections. Section 1 provides an overview of the RCEP Agreement. Sections 2 and 3 look into the respective impacts of RCEP on trade and investment, some opportunities and challenges, and structural and institutional issues which affect the autonomy of Viet Nam's trade and investment in RCEP implementation. Section 4 proposes several orientations for reforming trade and investment institutions and other related areas for effective implementation of RCEP while ensuring Viet Nam's economic autonomy.

2 RCEP: Process, key contents and characteristics

2.1 *Negotiation process of RCEP*

In the late 1990s, institutions for regional economic integration emerged in East Asia, mainly supported by the establishment of free trade agreements (FTAs). Of which, the most prominent was the formation and development of the Association of Southeast Asian Nations (ASEAN) Community, with one pillar being the ASEAN Economic Community. Formed in 1967, the ASEAN only signed an Agreement establishing an ASEAN Free Trade Area (AFTA) in 1992. Upon establishment, AFTA included only Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand. Viet Nam, Myanmar, Laos and Cambodia joined ASEAN and AFTA later, but all accession dates fell in the 1990s.

The two external factors influenced the formation of AFTA, and AEC are: (i) the trend of regionalization in the world; and (ii) increasing competition from China to receive FDI. China began to attract significant FDI inflows since the late of 1980s, based on its advantages in cheap labor, huge market size and growth potential, along with its improvement in investment environment through reform policies, open market access, upgrading infrastructure, and investment incentives. In addition, the internal dynamism of ASEAN contributed to promoting deeper integration to establish the Economic Community in the region. It was the 1997-1998 financial-monetary crisis that made ASEAN leaders recognize the need to foster close cooperation in order to avoid similar crises and/or contagious effects in the future.

The early 2000s witnessed the signing of a series of FTAs by East Asian countries. After China joined the WTO in 2001, it promoted regional strategies through FTA. China's FTA approach is quite different from other countries: while Japan and South Korea pursue bilateral FTAs, China worked towards FTAs with a group of countries. The ASEAN-China FTA (ACFTA) was signed in 2002, and then upgraded in 2015. China offered several frameworks to strengthen cooperation with ASEAN, including the Early Harvest Program (EHP), ASEAN-China Expo, etc.

Besides other factors, ACFTA has increased competition pressure on Japan, South Korea, Australia, New Zealand and India in access and economic and trade cooperation with ASEAN. From the ASEAN's perspective, promoting trade cooperation with partners such as Japan, South Korea, Australia, New Zealand and India is also important. Accordingly, a series of FTAs have been negotiated and signed separately by ASEAN with these countries. Until 2010, 5 FTAs following the ASEAN+1 approach (with China, Japan, Korea, India and Australia - New Zealand) have been signed. These FTAs are mainly close to traditional trade agreements, i.e. focusing mainly on liberalizing trade in goods.¹ However, the ambition to cut tariffs differed markedly across the FTAs, while the ability to satisfy the associated rules of origin (RoO) is not entirely uniform either.

However, the ideas of broader free trade areas with the participation of ASEAN and East Asian countries arose quite early. At the ASEAN+3 Summit (China, Japan,

¹ Commitments in other sectors (services, etc.) have been mentioned in different scopes under the agreements, however they have not been really profound.

Korea) in 1998, the President of the Republic of Korea proposed the establishment of the East Asian Vision group to study the possibility of promoting long-term economic cooperation. The group made policy proposals including the establishment of an East Asia Free Trade Area (EAFTA) to its leaders in 2002 and a feasibility study in 2005. Japan came up with the idea of a Comprehensive Economic Partnership for East Asia (CEPEA) in 2006 includes FTA with ASEAN+3+3 (China, Japan, Korea, India, Australia and New Zealand) and feasibility study in 2007. Although covering markets of different sizes, the proposed FTAs associated with ASEAN+3 and ASEAN+6 are all aiming to promote deeper integration in East Asia, and further development of regional production networks and supply chains. Besides, these initiatives all recognize the role of ASEAN, because separated FTAs between pairs/groups of countries such as China - Japan - Korea or India - China encounter various difficulties and obstacles due to economic and non-economic factors.

Notably, in the year of APEC in Viet Nam in 2006, the US proposed the Free Trade Area of the Asia-Pacific (FTAAP) covering all APEC member economies, including 7 ASEAN members. At the APEC Summit held in Yokohama in 2010, FTAAP was considered of strategic significance in the economic integration of the Asia-Pacific region; and EAFTA, CEPEA and TPP would be pathways to realize FTAAP. In 2014, at the APEC meeting in Beijing, China and the US launched a feasibility study entitled “*Collective Strategic Study on Issues related to the Realization of FTAAP*”, the report was then released issued at the APEC Leadership Conference in Peru in 2016. The annex to the 2016 APEC Summit Declaration affirmed efforts towards FTAAP without straight realization; instead through various pathways - including the 2 initiatives involving ASEAN countries, namely the Trans-Pacific Partnership Agreement (TPP, transformed into CPTPP after the US withdrew from TPP) and RCEP. In particular, the TPP only attracted attention when the US and a number of other economies (including Japan and Viet Nam) negotiated to join.

Thus, the idea of RCEP was formed in the context of East Asia and the broader Asia-Pacific region actively promoting trade and investment liberalization. Even in the period 2017-2020 with the increasing rivalry/confrontation over trade policy and protectionism in the region, efforts to revive international economic integration and incubate ideas of trade and investment cooperation continued to be deepened. Even the CPTPP was revived in 2017 in the spirit of retaining high standards of commitment under TPP. As a result, the RCEP itself is under pressure to adapt, with considerations to incorporate commitments in relatively new areas (for East Asia) such as e-commerce, investor-State dispute settlement (ISDS), etc. On the contrary, when Asia-Pacific economic integration process slowed down, the momentum for promoting RCEP negotiation is arguably affected as well. In other words, RCEP is associated with the regional integration process, instead of being an instrument purely for acquiring regional influence.

Box 1: RCEP creates or diverts trade?

Although RCEP was only realized after ASEAN had a series of separate FTAs with its partners (China, Japan, Korea, Australia and New Zealand, India), this Agreement still adds considerable value to global trade and GDP. According to Petri

and Plummer (2018), RCEP can increase real global income by about USD 286 billion each year (equivalent to 0.2% of global GDP) by 2030. Accordingly, RCEP is equivalent to an investment of USD 7.2 trillion with a rate of return of 4% p.a. RCEP could increase global trade by about 1.9%. Contrary to the concern, Petri and Plummer's quantitative assessments showed that the "trade diversion" impact would be quite small: non-RCEP countries still benefit from the multilateral nature of the liberalization process and its spillover effects from the increased productivity of RCEP members.

Source: Nguyen Anh Duong (2020).

The concept of RCEP was first introduced at the 19th ASEAN Summit held in November 2011 in Bali, Indonesia. By November 2012, the senior leaders approved the ASEAN framework on RCEP, and declared the start of the negotiation. The guiding principles for RCEP negotiation do not specify membership, though the terms and conditions for participation of new members must be agreed upon by all participating members. 16 countries participated in the negotiation from the beginning, including 10 ASEAN members and 06 partner countries - namely China, Japan, Korea, India, Australia and New Zealand.

At the start of the negotiation, RCEP was one of the three largest free trade agreements in the world, besides the TPP and the Trans-Atlantic Trade and Investment Partnership (TTIP, between the US and the European Union). In particular, the TPP market accounts for 11% of the world's population, more than 38% of global GDP and more than 25% of export turnover; TTIP market accounts for 11% of the world's population, 33% of global GDP and more than 30% of merchandise exports; and RCEP market (even without India) accounts for 30% of the world's population, nearly 30% of global GDP and more than 27% of export turnover of goods.²

From May 2013 to September 2019, RCEP members conducted 28 rounds of negotiations, not to mention a series of group meetings and exchanges from working level to Ministerial level. Compared with the original target of concluding the negotiation by the end of 2015, the RCEP negotiation process has been continuously extended. The negotiation efforts towards RCEP more or less encountered hurdles and were somewhat less comparable to those towards higher standard FTAs such as TPP/CPTPP and FTAs with the EU. In fact, by the end of 2015 (the original deadline for concluding negotiation), RCEP countries had only conducted 10 negotiation rounds, i.e. less than half of the number of negotiations rounds as of September 2019. Even when adopting a relatively flexible "gradualism" approach - consistent with ASEAN FTAs - RCEP member economies also faced many disagreements in traditional areas such as trade in goods, particularly the phasing out of tariff and harmonizing RoO. In addition, the slow progress in RCEP negotiation was arguably due to the missing comprehensive economic agreements between various participating countries, significant heterogeneity in economic and political conditions among RCEP countries.

² Compilations from several sources.

Even the final stage of negotiations saw new challenge to RCEP. In the first half of 2019 emerged concerns about the possibility that RCEP negotiation would be further delayed, as various member economies (such as India, Thailand, Indonesia) conducted elections. After resuming negotiation, at the East Asia Summit in Bangkok on 4th November 2019, the leaders of the RCEP member countries announced the conclusion of the negotiation as well as the agreement on most market access issues between 15 countries. At that time, India announced its withdrawal from RCEP. Concerns about the possible domino effect - as some other countries might consider withdrawing from the Agreement following India exit- became more explicit in late 2019. Besides, concern was about an RCEP without India being possibly dominated by China.

In 2020, the remaining members of RCEP continued to negotiate and actively exchange with India on the possibility of it returning to the Agreement. However, in-person meeting on the sidelines of the negotiations have been limited, due to the COVID-19 pandemic and travel restrictions that compelled RCEP members to conduct online meetings. Without India, the remaining members managed to quickly resolve differences. On November 15, 2020, RCEP was officially signed within the framework of the ASEAN Summit in Viet Nam, as the Chair of ASEAN 2020.

Notably, the duration from the start of the negotiation to RCEP signing is more than 7 years for Viet Nam, equivalent to the time from its official participation to the signing of the CPTPP (from November 2010 to March 2018) and the time from the negotiation kick-off to the signing of EVFTA (from June 2012 to June 2019). In addition, both CPTPP and RCEP overcame the final difficulties when Viet Nam was the host of major events: with CPTPP, the country was the host of APEC in 2017, and in the case of RCEP, Viet Nam was the Chair of the year ASEAN 2020.

As mentioned above, the Declaration of APEC Economic Leaders in 2016 has a separate Annex expressing interest in and efforts towards a Free Trade Area for the Asia-Pacific region (FTAAP). In which, economic leaders of APEC member economies emphasized that FTAAP can be realized through different pathways such as TPP and RCEP. From early 2017 to the early November 2020, in the context of increasing protectionism even in the region's largest economies, this viewpoint was hardly reiterated. However, after the US presidential election in November 2020, trade and investment cooperation in the region saw renewed hopes for drastic changes, even a reversal. In this respect, RCEP not only contributes to creating economic recovery opportunities for member economies in the post-COVID-19 context, but together with the CPTPP will also renew the momentum for international economic integration, starting from the Asia-Pacific region itself.

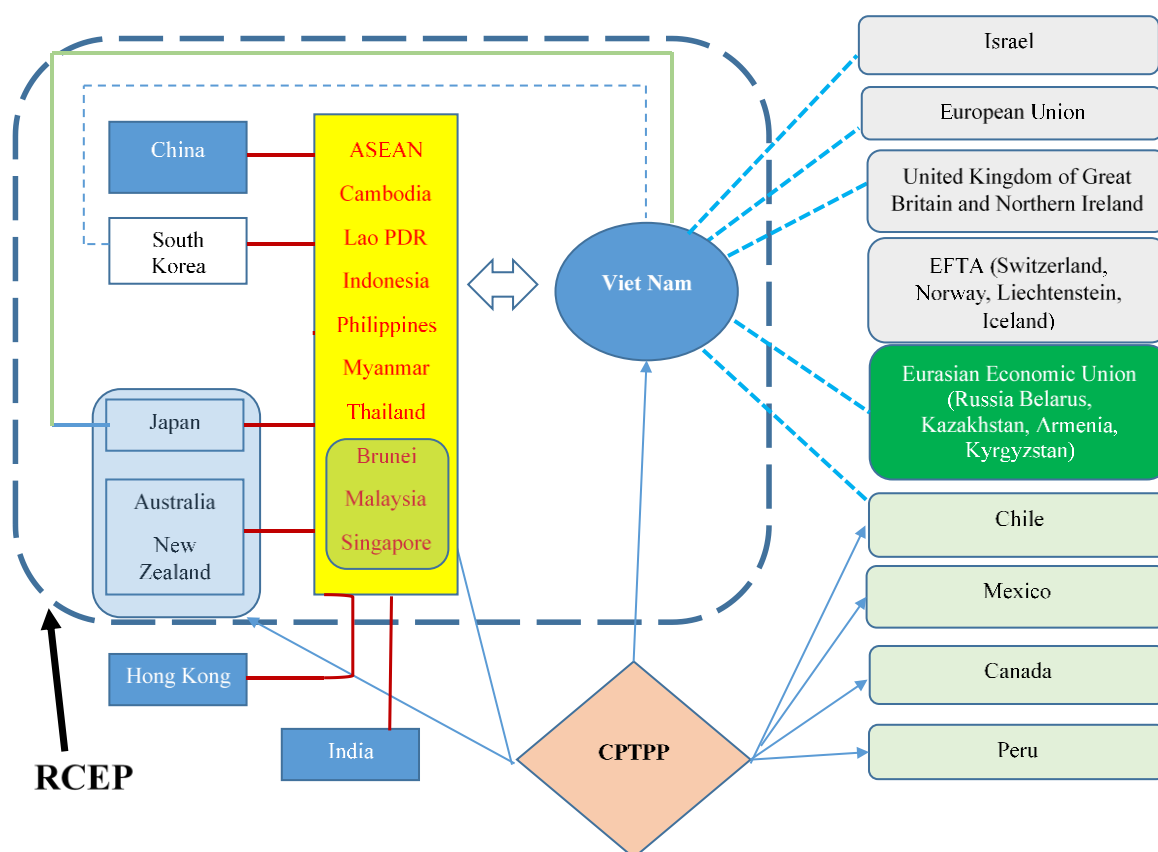
2.2 RCEP in Viet Nam's international economic integration process

Viet Nam's open-door process and international economic integration have four important milestones. The first milestone was the accession to ASEAN in 1995 and accordingly AFTA. After that, Viet Nam gradually integrated more deeply into the regional market with specific liberalization commitments in many areas (trade, investment, connectivity, etc.). Together with the accession and implementation of commitments under AFTA, Viet Nam undertook numerous domestic reforms in order

to improve its trade policy, especially trade policy instruments such as export tax. Import tariff, quota, tariff quota, etc.

The second milestone was the signing of the Bilateral Trade Agreement with the US (BTA) in 2000. Up to 2000, the BTA with the US was the most comprehensive and closest to the “standard” of the WTO that Viet Nam had signed. On the one hand, this BTA opened up new opportunities for Viet Nam to promote exports and attract FDI. On the other hand, reform pressures and good practices across many sectors - such as intellectual property protection, etc. - contributed to guiding and inducing Viet Nam to improve its policies, laws and management methods before joining WTO.

Figure 2: Viet Nam’s FTA as of November 2020



Source: Authors' update based on CIEM (2017).

The third milestone was Viet Nam’s accession to the WTO in 2007. Accordingly, Viet Nam was treated equally with other member countries in the WTO. This could be seen as the time when Viet Nam completed its horizontal integration process and considered directions to deepen integration, with long-term steps in the selection of strategic partners. Also, during 11 years of WTO negotiations, Viet Nam issued a huge number of domestic legal documents, including the Investment Law, Enterprise Law, Commercial Law, etc. The capacity to conduct economic policy in general and the institution of international economic integration in particular have been upgraded towards enhanced compatibility with international economic integration commitments.³

³ For reference, see CIEM (2013).

The WTO accession itself is not the end point in Viet Nam's international economic integration process. After joining the WTO, Viet Nam's integration process transited to a new phase, from horizontal integration to deeper integration. In that context, Viet Nam enhanced its strategic partnerships, comprehensive strategic partnerships, and comprehensive partnerships with FTAs. As of November 2020, Viet Nam has negotiated, signed and implemented a series of bilateral, plurilateral and multilateral FTAs (Figure 2).

In that process, RCEP did not happen by chance, but is instead realized only after continuous effort. More importantly, the concurrent negotiations of all three highest quality and/or large-scale FTAs (i.e. RCEP, TPP/CPTPP, and EVFTA) required a lot of efforts, coordination and consideration of Viet Nam. On the contrary, assuming there had been neither TPP/CPTPP nor EVFTA, Viet Nam's institutional preparations may have been different and Viet Nam's considerations of RCEP contents and progress could have followed other scenarios. In fact, the most important economic and institutional implications seem to be attached to the TPP/CPTPP and EVFTA agreements. Achieving consensus on these Agreements also increases the likelihood of RCEP adoption - even though RCEP receives relatively more adverse comments.

2.3 Key contents of RCEP

Apart from the Introduction, the RCEP Agreement comprises of 20 Chapters and annexes. Beside relatively traditional contents such as trade in goods, RoO, SPS and TBT, RCEP incorporates some newer contents such as e-commerce, competition, etc. However, the contents of RCEP arguably lack important areas such as environment, labor, SOEs, etc. This has scoped RCEP narrower than CPTPP and EVFTA.

Even in some covered areas, the RCEP's commitments are arguably less binding. For example, the ISDS mechanism will be further discussed after the RCEP enters into force. Even if the "negative list" approach was adopted by some members to liberalize services and investment, this does not necessarily imply high openness. The Asia Trade Center (2020) provides a counter example about Indonesia with the reservation list of up to 111 pages.

Viet Nam's tariff reduction offered to ASEAN countries and partner countries is no higher than the committed levels under existing ASEAN+ FTAs, specifically 90.3% for ASEAN, 89.6% for Australia and New Zealand, 86.7% for Japan and Korea. For China, Viet Nam offers to liberalize 85.6% of tariff (in line with Viet Nam's commitments under ACFTA and Viet Nam's contemporary tariff policy). Meanwhile, partner countries offer Viet Nam a higher rate of tariff liberalization than Viet Nam offers to them respectively, specifically Australia removes 92%, New Zealand removes 91.4%, Japan removes 90.4%, Korea removes 90.7% and China removes 90.7%.⁴

⁴ The key contents of RCEP in this sub-Section is extracted from the Ministry of Industry and Trade (2020).

Table 1: Structure of RCEP Agreement

1. Initial provisions and general definitions	7. Trade remedies	12. Electronic commerce	18. Institutional provisions
2. Trade in goods	8. Trade in services - Financial services; - Telecommunication services; - Professional services.	13. Competition	19. Dispute settlement
3. RoO		14. SMEs	20. Final provisions
4. Customs procedures and trade facilitation	9. Temporary movement of natural persons	15. Economic and technical cooperation	
5. Sanitary and Phytosanitary measures (SPS)	10. Investment	16. Government procurement	
6. Standards, technical regulations, and conformity assessment procedures	11. Intellectual property	17. General provisions and exceptions	

Source: Ministry of Industry and Trade (2020).

Table 2: Contents of RCEP vs other FTAs of Viet Nam

	RCEP	EVFTA	CPTPP	AFTA	ACFTA	AKFTA	AJCEP	AIFTA	AANZFTA	AHKFTA
Tariff reduction	x	x	x	x	x	x	x	x	x	x
RoO	x	x	x	x	x	x	x	x	x	x
Textile and garment	x	x	x						x	
Customs procedures and trade facilitation	x	x	x	x	x	x	x	x	x	x
Trade remedies	x	x	x		x	x	x	x	x	
SPS	x	x	x	x			x		x	x
TBT	x	x	x	x					x	x
Services	x	x	x	x	x	x	x	x	x	x
Financial services	x	x	x	x		x			x	
Investment	x	x	x	x	x	x	x	x	x	
ISDS			x	x	x	x		x	x	
Temporary entry for business persons	x	x	x	x					x	
Telecommunication	x	x	x						x	
Electronic commerce	x	x	x						x	
Government procurement	x	x	x							
Competition policy	x	x	x						x	
SOEs		x	x							
Intellectual property	x	x	x						x	
Labour		x	x							
Environment		x	x							
SME	x									
Cooperation and capacity building	x	x	x	x	x		x		x	x
Dispute settlement	x	x	x	x	x	x	x	x	x	x

Source: Authors' update based on VCCI (2019).

Under the RoO of the RCEP Agreement, a good is deemed to be originating if it satisfies one of the following three cases, namely: (i) good wholly obtained or produced in a Party; (ii) good produced in a Party exclusively from originating materials from one

or more of the Parties; (iii) good produced in a Party using non-originating materials, provided the good satisfies the applicable requirements under the Product Specific Rules. In the Product Specific Rules, in addition to the Regional Value Content (RVC) rule or the Change of Tariff Classification (CTC) rule, some chemical products in Chapters 29 and 38 are allowed to apply Chemical Reaction rule. Chemical Reaction Rule is equivalent to RVC or CTC.

For the process of issuing and checking certificates of origin, proof of origin includes Certificate of Origin (C/O), declarations of origin by approved exporters, declarations of origin by certain exporters or producers. Viet Nam, together with the RCEP member countries (excluding Cambodia, Laos, and Myanmar), began to implement the declarations of origin by certain exporters or producers no more than 10 years after the entry into force of RCEP. In case it cannot be implemented within 10 years, Parties are allowed to extend up to 10 more years for implementation.

The Chapter on Trade in services permits both “positive list” and “negative list” approaches. Viet Nam follows a “positive list” approach, with liberalization commitments equivalent to those within the framework of ASEAN and being no higher than the current law. Viet Nam choose 6 fully liberalized sub-sectors to apply the principle of automatic MFN and the principle of unilateral liberalization. The Agreement includes a transition schedule from a “positive list” commitments to “negative list” ones that does not require improvement in commitment levels (including the number of subsectors for which the automatic MFN principle is applied).

The Investment Chapter of RCEP fully covers the four elements of an investment agreement, including investment liberalization, promotion, facilitation and protection. The Investment Chapter includes commitments on investment treatment, national treatment, MFN, prohibitions of performance requirements (PPR), senior management and board of directors (SMBD), remittances, expropriation, etc. The Investment Chapter of RCEP contains a number of higher commitments than the signed ASEAN+ FTAs, such as the addition of obligations in addition to those under the WTO Agreement on Trade-Related Investment Measures (TRIMs); commitment to automatic MFNs; unilateral liberalization obligations on Ratchet basis for Schedule A in the Reservations List and non-conforming measures of countries. However, the Ratchet obligation applies only after 5 years from the date of entry into force of RCEP. In addition, the Investment Chapter of the RCEP Agreement has supplemented a mechanism to consider and support resolutions of problems for investors in investment implementation process in a RCEP country in accordance with the laws of that country.

Compared with the ASEAN+ FTAs that Viet Nam had signed by the conclusion of RCEP negotiation, the Investment Chapter does not have binding ISDS and expropriation related to tax. This content will continue to be discussed after the entry into force of the RCEP Agreement. In addition, Viet Nam reserves the right to refrain from applying automatic MFN clauses in investment with Viet Nam. For obligations such as national treatment, board of directors, operation requirements, commitments of Viet Nam in the RCEP Agreement do not exceed the corresponding commitments under other signed FTAs such as CPTPP and EVFTA.

The content of e-commerce in the RCEP Agreement includes only commitments on cooperation, encouraging member countries to improve trade processes and management by creating an environment that promotes the use of electronic means. Settling disputes (if any) arising from this Chapter only stop at consultation and mediation. The structure of the E-Commerce Chapter in the RCEP Agreement are similar to those in the CPTPP Agreement but with lower levels of commitment. In particular, for the management of information for cross-border trade, or the location of computing facilities (servers) as a condition of doing business in the national territory of a country, the RCEP Agreement still allow the parties to issue or maintain any measure deemed necessary to protect safety and security of their essential network environment, in accordance with the requirements of Viet Nam's Cyber-Security Law.

The Competition Chapter includes the obligations to: adopt or maintain laws and regulations that prohibit anti-competitive activities and to establish or maintain competent authorities to enforce its competition laws; recognizing each other's sovereignty in formulating and enforcing competition laws and its policies; adopt or maintain domestic laws and regulations to prevent fraud, misunderstandings, or misrepresentation in commerce; improving consumer awareness and access to problem-solving mechanisms; cooperation in consumer protection. RCEP's dispute settlement mechanism shall not apply to this Chapter. In addition, the Competition Chapter does not mention about SOEs.

The Chapter on SMEs requires member states to promote sharing of information about the RCEP Agreement relating to SMEs, including the full text of the Agreement, relevant trade and investment laws and regulations, and other useful business-related information, in order to build capacity for SMEs to take advantage of and benefit from the opportunities created by the RCEP Agreement.

Regarding economic and technical cooperation, RCEP countries will explore and implement economic and technical cooperation activities focusing on areas such as trade in goods, trade in services, investment, intellectual property, e-commerce, competition, SMEs and other issues by agreement between countries. Priority will be given to capacity building and technical assistance activities for developing and least developed member countries.

The Government Procurement Chapter has a much lower level of commitment than under CPTPP and EVFTA, only including obligations to enhance transparency, cooperation and information exchange among parties on public procurement policies and does not include a commitment to liberalize the market. The dispute settlement mechanism in the RCEP Agreement shall not apply to the Government Procurement Chapter.

2.4 *Characteristics*

A comparison of RCEP relative to CPTPP on the objectives, content and quality of commitments yields the main differences and characteristics of RCEP as follows:

Table 3: Objectives, content and quality of RCEP vs. CPTPP

RCEP	CPTPP
<p style="text-align: center;"><i>General characteristics</i></p> <ul style="list-style-type: none"> - Comprehensive commitments towards liberalization of trade in goods, services, and investment. - Commitment to behind-the-border liberalization. - Recognition of the requirement to promote cooperation for development and capacity building. - Among the largest FTAs upon their start. - Identified as pathways towards FTAAP. - Having big members that joined the negotiation from the onset but later withdrew from the agreement. 	
Started in 2013 and signed in November 2020	Started in 2010; Negotiation concluded in October 2015; TPP was signed in February 2016; CPTPP was signed in March 2018 and implemented in November 2018 (Viet Nam implemented from January 14, 2019).
ASEAN is the driving force/center	The US led TPP negotiations; when the US withdrew from the TPP, Japan played the most important role in reviving and promoting ratification of CPTPP.
The objective is to formulate broader agreements compared with ASEAN + 1 FTAs and facilitate cooperation for more equitable development	The aim is to establish a 21st century FTA that addresses new problems (labor standards, environment, competition, SOE, government procurement, intellectual property, etc.)
A “single undertaking” Agreement, but with a gradualism approach after its entry into force.	A “single undertaking” Agreement

Source: Authors’ update based on Vo Tri Thanh (2014) and CIEM (2017).

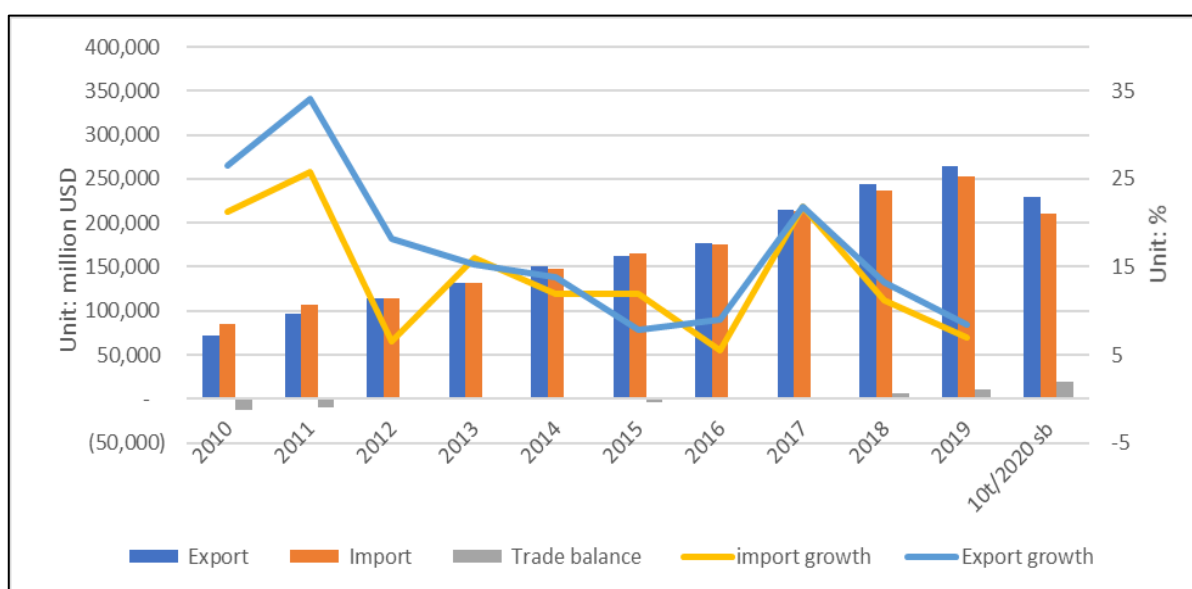
3 Trade with RCEP from institutional perspective

3.1 Overall trade performance

3.1.1 Imports and exports

Viet Nam's imports and exports in the period 2010 - 2019 continued to expand in terms of size, market, and category. In 2010-2015, amid the domestic and world economic recovery after the 2008-2009 financial crisis, imports and exports grew relatively quickly. Export increased from USD 72.2 billion in 2010 to USD 162.0 billion in 2015, with an average annual growth rate of 19.3%. Imports grew more slowly by 15.6% p.a. on average, up from USD 84.8 billion to USD 165.6 billion in the 2010-2015 period. During 2016-2019, both exports and imports maintained positive growth rates, albeit slower than the previous period. Specifically, exports increased on average by 17.0% p.a., and imports increased by 11.5% p.a. on average. In the period 2010-2019 as a whole, imports rose on average by 11.4% p.a., slower than the exports (14.7% p.a.). Hence, the overall trade balance was gradually reversed from deficit to surplus expansion.

Figure 3: Viet Nam's imports and exports, 2010 - October 2020



Source: Calculation from statistics of the General Department of Viet Nam Customs.

Viet Nam's imports and exports became more resilient in the 2018-2020 period. In this period, the economy was adversely affected by the US-China trade war (from mid-2018), plus the impacts of the COVID-19 pandemic and associated policy responses to the pandemic in many markets (from early 2020). Viet Nam still retained import and export growth in the years 2018-2019. Even in the first ten months of 2020, the country recorded positive export growth (5%, year-on-year), while the corresponding import growth rate reached 0.3%. Beside the adaptive efforts of the business community, especially domestic ones, the enhanced resilience of the economy partly derives from the consistent measures to improve the business environment and enhancing competitiveness, especially in terms of trade facilitation and e-commerce development.

Table 4: Viet Nam's trade/GDP ratio in 2010-2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Exports of goods/GDP (%)	62.3	71.5	73.5	77.1	80.7	83.8	86.0	96.1	99.4	101.0
Imports of goods/GDP (%)	73.2	78.8	73.0	77.1	79.4	85.8	85.2	95.3	96.6	96.8
Exports of goods and services/GDP (%)	72.0	79.4	80.0	83.6	86.4	89.8	93.6	101.6	105.8	106.8
Imports of goods and services/GDP (%)	80.2	83.5	76.5	81.5	83.1	89.0	91.1	98.8	102.5	103.6

Source: Calculations from the WB database.

Viet Nam became more open to trade (Table 4). The ratio of its exports to GDP increased from 62.3% in 2010 to 101.0% in 2019. Total exports of goods and services to GDP rose from 72.0% to 106.8%. These ratios and annual changes were relatively high compared to other RCEP countries (Table 5). This pattern reaffirms the earlier statement in MUTRAP (2015) that Viet Nam could optimally utilize its export potential even in an unstable environment. Both the ratio of imports of goods to GDP and that of imports of goods and services to GDP decreased in 2012 but then rose again, reaching 96.8% and 103.6% in 2019, respectively.

Table 5: RCEP countries' trade/GDP ratio in 2010-2019

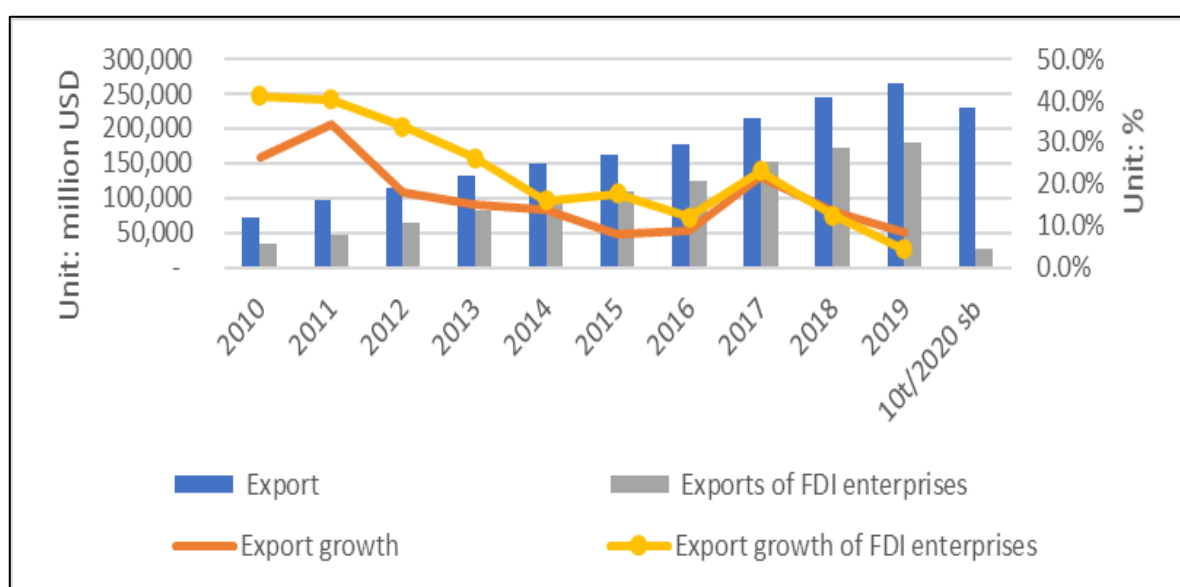
	Merchandise exports/GDP		Merchandise imports/GDP	
	2010-2015	2016-2019	2010-2015	2016-2019
Viet Nam	74.82	95.64	77.88	93.47
Australia	16.77	16.87	15.87	16.38
Brunei	62.39	44.94	20.45	26.54
Cambodia	45.88	50.85	52.58	65.62
China	23.54	18.60	18.72	14.32
Indonesia	20.27	16.47	19.27	16.05
Japan	13.68	14.58	14.10	13.73
South Korea	42.52	36.61	38.87	31.00
Laos	21.55	27.10	28.39	29.72
Malaysia	72.13	66.70	62.27	59.17
Myanmar	16.52	20.85	18.38	26.94
New Zealand	21.11	18.02	22.08	20.03
Singapore	136.97	109.89	123.49	96.79
Thailand	56.70	51.33	56.64	47.65

Source: Authors' calculations.

Foreign-invested enterprises (FIEs) still accounted for the lion's share in total exports, but this share tended to decrease in the period 2010-2020. In the years 2010 -

2015, exports of FIEs continued to increase faster than the country's export growth. Notably, the average export growth rates of the FIEs and the whole country were 29.2%/year and 19.3%/year, respectively. Since 2016, domestic enterprises have increased their exports more rapidly, thereby contributing more to the country's export growth. In particular, Viet Nam's export growth in the years 2018-2020 was mainly contributed by the domestic business sector. Meanwhile, the FIEs attained slower export growth since 2018, even reaching negative growth in the first ten months of 2020. However, trade surplus and exports in absolute terms were still largely from FIEs. As an implication, implementing the RCEP – with some partners as major sources of trade deficit for Viet Nam - may be challenging.

Figure 4: Export growth of FIEs, 2010 – October 2020



Source: Calculations from statistics of General Department of Viet Nam Customs.

** Trade by partner*

In the period 2010 - 2019, Viet Nam's export structure gradually shifted towards smaller shares of ASEAN countries and higher shares of China and Korea. This shift mainly resulted from the different growth rates of exports to various markets, not because of Viet Nam's export decrease in absolute terms. Of which, exports to China increased faster, on average by 21.8% p.a. in the 2010-2015 period and 27.7% p.a. in the 2016-2019 period. Exports to Korea increased on average by 28.7% p.a. in the period 2010-2015, then slowed down in the 2016-2019 period to 22.3% p.a.

The European countries and the US remained key exports of Viet Nam. The export shares of EU27 and the US in 2019 were 15.6% and 23.2%, respectively. In the period 2010-2015, exports to the EU27 and the US increased relatively rapidly, on average by 22.3% p.a. and 19.7% p.a. Export growth to both markets was slowed down in the period 2016-2019, reaching 7.9% p.a. and 16.6% p.a., respectively.

Table 6: Share and growth rate of Viet Nam's exports by country and FTA partner, 2010-2019

	Share (%)										Growth rate (%)	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2015	2016-2019
ASEAN	14.3	14.1	15.2	14.1	12.7	11.2	9.9	10.1	10.1	9.4	13.7	8.7
RCEP	44.0	45.4	45.7	42.2	40.1	37.7	38.9	43.0	44.1	41.8	16.7	16.6
China	10.7	12.0	11.2	10.0	9.9	10.2	12.4	16.5	17.0	15.7	21.8	27.7
Korea	4.3	5.0	4.9	5.1	4.8	5.5	6.5	6.9	7.5	7.5	28.7	22.3
Japan	10.7	11.4	11.4	10.3	9.8	8.7	8.3	7.8	7.7	7.7	15.2	9.8
Australia	3.7	2.7	2.8	2.6	2.7	1.8	1.6	1.5	1.6	1.3	4.8	5.5
New Zealand	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	31.0	13.9
CPTPP	22.4	21.2	22.2	21.0	19.8	17.9	16.6	15.9	15.1	15.0	13.7	8.2
EU27	15.8	17.1	17.7	18.4	18.6	19.0	19.2	17.8	17.2	15.6	22.3	7.9
EU25	15.6	17.0	17.6	18.3	18.5	18.9	19.2	17.7	17.1	15.6	22.5	7.8
USA	19.7	17.5	17.2	1.1	19.1	20.7	21.8	19.3	19.5	23.2	19.7	16.6
India	1.4	1.6	1.6	1.8	1.7	1.5	1.5	1.8	2.7	2.5	40.8	31.2

Source: Calculations based on WB WITS database for 2010-2019.

Table 7: Share and growth rate of Viet Nam's imports by country and FTA partner, 2010-2019

	Share (%)										Growth rate (%)	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2015	2016-2019
ASEAN	19.3	19.6	18.3	16.1	15.5	14.3	13.8	13.3	13.4	12.7	9.9	8.1
RCEP	67.4	67.3	69.6	70.0	70.1	70.8	71.0	72.4	71.0	70.7	16.9	11.4
China	23.8	23.3	25.5	27.9	29.5	29.8	28.6	27.5	27.7	29.8	19.9	11.4
Korea	11.5	12.3	13.7	15.7	14.7	16.6	18.4	22.0	20.1	18.5	26.3	15.6
Japan	10.6	9.7	10.2	8.8	8.7	8.6	8.6	7.9	8.0	7.7	11.5	8.4
Australia	1.7	2.0	1.6	1.2	1.4	1.2	1.4	1.5	1.6	1.8	14.3	22.1
New Zealand	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	8.8	11.27
CPTPP	22.6	22.7	22.4	18.8	18.7	17.0	16.6	15.9	15.9	15.0	10.1	8.0
EU27	7.5	7.3	7.7	7.1	6.0	6.2	6.4	5.7	5.8	5.9	10.3	9.7
EU25	7.4	7.2	7.7	7.1	5.9	6.1	6.2	5.6	5.8	5.8	10.3	9.9
USA	4.5	4.3	4.3	4.0	4.3	4.7	5.0	4.4	5.4	5.7	17.4	17.1
India	2.1	2.2	1.9	2.2	2.1	1.6	1.6	1.9	1.8	1.8	10.0	15.3

Source: Calculations based on WB WITS database.

China, Korea, and ASEAN were the main import markets of Viet Nam, with their respective shares in Viet Nam's imports in 2019 of 29.8%, 18.5%, and 12.7%. The

import growth rate from Korea averaged 26.3% p.a. in the period 2010-2015, which decreased to 15.6% p.a. in the 2016-2019 period. The import share of Japan decreased gradually to 7.7% in 2019 (compared to 10.6% in 2010).

** Trade by commodity/industry*

In general, Viet Nam's export structure in the period of 2010 - 2019 shifted towards smaller share of agricultural, forestry, and fishery (AFF) products (from 19.9% to 9.9%) and higher share of industrial goods from 80.1% to 90.1%). Exports of AFF products increased from USD 14.3 billion in 2010 to USD 26.0 billion in 2019, an average growth rate of 6.9% p.a. Exports of industrial products grew faster, from USD 57.9 billion in 2010 to USD 238.5 billion in 2019, increasing by 17.0% p.a. However, while exports of industrial goods continued to grow, AFF exports decreased in some years (such as 2015 and 2019, down by 4.8% and 3.1%, respectively). In general, the export growth was slower in 2016-2019 (compared to the 2011-2015 period, Table 9). An institutional reason may have been the "hesitation" in issuing regulations to increase the standards and quality of exported agricultural products, while the markets applied more restrictive non-tariff measures on imported agricultural products.

With AFF exports: the export structure has shifted towards smaller share of exports of animal products and vegetables and higher share of foodstuff products. However, vegetables and fruits were still the main export commodities, accounting for 5.1% of gross exports in 2019. Viet Nam's top export products were rice, coffee, pepper, tea, etc., all in this category. The proportion of foodstuff remained relatively low, accounting for only 2.4% of gross exports in 2019. As an indication, Viet Nam still had difficulty in increasing exports of processed agricultural products; exported ones were mainly raw materials and products.

Regarding industrial products: Textile, footwear, and electrical machinery were the main export items of Viet Nam, altogether accounting for 64% of total exports in 2019. Exports of machinery and electrical equipment grew rapidly, on average by 30.3% p.a. Accordingly, the export share of this category soared from 14.1% in 2010 to 41.7% in 2019. Export of fuel fell sharply, on average by 8.3% p.a. in the period 2010-2019.

The structure of exports to RCEP countries has also shifted towards smaller share of agricultural products and increasing share of industrial products. In the period 2010-2019, the average growth rate of AFF exports to RCEP countries was only 10.0% p.a. (higher than the growth rate of overall AFF exports). The export growth rate of industrial products reached 15.8% p.a. on average (lower than the growth rate of overall exports of industrial products). Thus, compared to exports in general, Viet Nam relies more on the RCEP market for AFF products, while industrial goods are exported more to markets outside of RCEP.

Regarding industrial goods, fuel exports decreased rapidly on average by 8.1% p.a. in the period 2010-2019. Meanwhile, metal, and machinery and electrical equipment had high average export growth rates of 15.8% p.a. and 26.8% p.a. respectively in the period 2010-2019.

Table 8: Share and growth rate of Viet Nam's exports by product category in 2010-2019

Products by HS category	Share (%)										Growth rate (%)	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2015	2016-2019
AFF products	19.9	19.3	17.9	15.1	15.4	13.6	13.4	12.6	11.0	9.9	11.1	4.5
01-05 Animal	5.9	5.3	4.5	4.1	4.1	3.2	3.2	3.0	2.6	2.4	6.3	5.1
06-15 Fruits and vegetables	11.1	11.0	10.7	7.9	8.4	7.5	7.6	7.1	6.0	5.1	11.1	3.2
16-24 Foodstuff	2.9	3.0	2.7	3.2	3.0	2.9	2.7	2.4	2.4	2.4	21.5	7.5
Industrial products	80.1	80.7	82.1	84.9	84.6	86.4	86.6	87.4	89.0	90.1	21.1	14.4
25-26 Mineral	0.5	0.7	0.7	0.9	0.9	0.7	0.5	0.5	0.7	0.7	29.9	16.5
27 Fuel	11.0	11.4	9.9	7.3	6.2	3.1	2.0	2.3	1.6	1.4	-5.1	-4.8
28-38 Chemicals	1.7	1.9	1.9	1.8	1.8	1.6	1.5	1.5	1.6	1.6	22.3	13.4
39-40 Plastics, rubber	6.0	5.9	5.1	4.3	3.6	3.2	3.2	3.3	3.3	3.4	14.8	15.4
41-43 Leather	1.5	1.5	1.4	1.6	1.8	2.0	2.0	1.7	1.5	1.5	26.0	5.0
44-49 Wood	2.0	1.9	1.9	2.1	2.0	2.0	1.8	1.7	1.9	1.9	24.0	12.1
50-63 Textile and garment	18.4	17.3	15.8	16.3	16.8	16.8	16.3	14.8	15.0	14.9	17.6	9.7
64-67 Footwear	7.5	7.2	6.8	6.8	7.3	7.9	7.9	7.3	7.1	7.4	20.1	11.2
68-71 Stone, glass	5.1	3.7	1.5	1.4	1.5	1.5	1.5	1.2	1.1	1.6	-1.9	16.2
72-83 Metal	3.9	4.0	3.7	3.6	3.8	3.5	3.6	3.9	4.5	4.3	29.1	19.6
84-85 Machinery, electrical equipment	14.1	17.6	24.7	30.7	30.2	35.5	37.9	40.2	40.3	41.7	45.0	17.9
86-89 Transport	1.8	1.9	2.1	1.9	2.1	1.9	1.8	1.6	1.7	1.6	26.2	7.7
90-99 Others	6.7	5.9	6.4	6.1	6.4	6.7	6.7	7.5	8.6	8.2	18.1	19.8

Source: Calculations based on WB WITS database for 2009-2019.

Table 9: Share and growth rate of Viet Nam's exports to RCEP market by product category in 2010-2019

Products by HS category	Share (%)										Growth rate (%)	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2015	2016-2019
AFF products	18.7	18.3	18.3	16.2	16.9	16.9	16.2	14.4	13.2	12.7	14.0	8.3
01-05 Animal	4.7	4.1	3.8	3.7	3.9	3.7	3.8	3.5	2.8	3.0	9.9	10.9
06-15 Fruits and vegetables	10.9	10.7	11.3	8.4	9.1	9.6	8.8	7.9	7.3	6.4	14.1	5.3
16-24 Foodstuff	3.2	3.5	3.3	4.1	3.8	3.6	3.6	2.9	3.1	3.3	22.1	13.9
Industrial products	81.3	81.7	81.7	83.8	83.1	83.1	83.8	85.6	86.8	87.3	17.4	18.1
25-26 Mineral	0.7	0.8	0.8	1.0	1.0	0.9	0.6	0.6	0.9	1.2	17.4	30.5
27 Fuel	23.3	23.5	20.6	16.2	14.3	7.8	4.8	4.4	3.5	3.1	-4.1	-5.8
28-38 Chemicals	2.4	2.7	2.9	2.8	3.0	2.7	2.2	2.0	2.2	2.3	22.4	12.4
39-40 Plastics, rubber	8.6	8.2	7.1	6.4	5.3	4.8	4.6	4.4	4.2	4.5	13.6	14.5
41-43 Leather	1.0	0.9	0.8	0.9	1.2	1.5	1.5	1.2	1.0	1.0	26.9	5.0
44-49 Wood	2.9	2.9	2.9	3.7	3.5	3.8	3.4	2.9	3.2	3.3	30.2	12.5
50-63 Textile and garment	10.1	10.8	10.3	12.4	13.8	14.8	14.5	12.6	13.2	13.7	26.8	13.9
64-67 Footwear	2.0	2.2	2.3	2.6	3.1	3.8	3.9	3.5	3.7	4.2	32.6	19.0
68-71 Stone, glass	1.6	1.3	1.6	1.5	1.6	1.8	1.6	1.4	1.3	1.2	17.8	4.3
72-83 Metal	5.3	5.2	4.9	5.2	5.6	5.3	4.6	4.7	5.2	5.7	31.4	19.2
84-85 Machinery, electrical equipment	16.4	16.1	20.4	24.3	23.2	27.8	33.1	39.3	39.7	39.8	30.2	28.6
86-89 Transport	2.2	2.4	2.9	3.0	3.4	2.7	2.1	1.8	1.9	1.9	29.0	6.9
90-99 Others	5.0	4.7	4.2	3.7	4.3	5.5	6.7	7.0	6.8	5.5	16.4	18.6

Source: Calculations based on WB WITS database for 2009-2019.

The structure of Viet Nam's imports shifted towards lower share of AFF products and higher share of industrial goods; however, the shift was slower than the export structure. The machinery and electrical equipment always accounted for the largest share in total imports, increasing from 25.4% in 2010 to nearly 39.9% in 2019. This category also had the fastest import growth rate, averaging 18.8% p.a. in the period 2010-2019.

Table 10: Share and growth rate of Viet Nam's imports by product category in 2010-2019

Product by HS category	Share (%)										Growth rate (%)	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2015	2016-2019
AFF products	8.8	8.7	8.6	8.6	8.9	8.7	9.0	8.3	8.2	7.8	17.2	8.5
01-05 Animal	1.3	1.3	1.3	1.4	1.8	1.6	1.4	1.4	1.4	1.6	23.1	12.4
06-15 Fruits and vegetables	3.5	3.8	3.7	3.5	3.7	3.9	4.3	4.3	4.1	3.6	21.5	9.8
16-24 Foodstuff	4.1	3.6	3.5	3.7	3.4	3.2	3.2	2.6	2.7	2.6	11.8	5.7
Industrial products	91.2	91.3	91.4	91.4	91.1	91.3	91.0	91.7	91.8	92.2	15.5	11.7
25-26 Mineral	0.5	0.5	0.4	0.4	0.4	0.3	0.4	0.4	0.5	0.6	5.5	30.5
27 Fuel	9.7	11.8	10.1	7.7	7.1	4.8	4.4	5.2	6.3	6.1	3.3	20.33
28-38 Chemicals	9.5	9.3	9.1	8.5	8.0	7.4	7.3	7.1	7.0	6.7	10.2	8.9
39-40 Plastics, rubber	7.8	7.9	7.6	7.6	7.6	7.0	7.3	7.4	7.5	7.3	15.7	12.7
41-43 Leather	1.2	1.0	1.0	1.0	1.3	1.3	1.1	1.0	0.9	0.8	20.3	0.1
44-49 Wood	3.2	2.9	2.8	2.8	3.1	2.7	2.5	2.4	2.3	2.2	12.8	5.4
50-63 Textile and garment	10.0	10.1	9.6	9.7	9.8	9.3	9.2	8.4	8.6	8.2	16.3	7.9
64-67 Footwear	0.4	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.4	0.5	20.1	15.7
68-71 Stone, glass	2.1	2.8	1.1	1.1	1.2	1.1	1.2	1.1	1.0	1.1	21.0	13.0
72-83 Metal	14.7	12.9	12.2	11.6	11.9	11.3	10.9	10.3	11.0	9.9	11.4	8.0
84-85 Machinery, electrical equipment	25.4	25.9	31.3	35.0	34.6	38.0	39.1	40.5	37.8	39.9	23.1	12.9
86-89 Transport	3.8	3.3	2.8	2.4	2.5	4.3	3.4	2.4	2.2	2.9	17.1	2.3
90-99 Others	3.0	2.7	2.9	3.2	3.3	3.5	3.8	4.9	6.1	5.9	18.0	28.6

Source: Calculations based on WB WITS database for 2009-2019.

The structure of imports from RCEP countries shifted toward smaller share of agricultural products and higher share of industrial ones. In the period 2010-2019, the average growth rate of AFF imports was 9.9% p.a., while that of industrial products increased by more than 13.3% p.a. Machinery and electrical equipment accounted for the largest share of imports from RCEP, up from 29% in 2010 to 45.0% in 2019.

Table 11: Share and growth rate of Viet Nam's imports from RCEP market by product category, 2010-2019

Product by HS category	Share (%)										Growth rate (%)	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2015	2016-2019
AFF products	5.9	5.8	5.5	4.8	4.8	4.4	4.7	4.3	4.4	4.4	12.7	11.2
01-05 Animal	0.8	0.7	0.8	0.8	1.0	1.0	0.9	0.8	0.9	1.1	24.2	15.9
06-15 Fruits and vegetables	3.1	3.3	2.9	2.4	2.2	2.0	2.2	2.4	2.1	1.9	10.3	11.0
16-24 Foodstuff	2.1	1.8	1.8	1.6	1.6	1.4	1.6	1.2	1.3	1.3	11.4	10.8
Industrial products	94.1	94.2	94.5	95.2	95.2	95.6	95.3	95.7	95.6	95.6	17.2	11.4
25-26 Mineral	0.5	0.5	0.4	0.3	0.3	0.2	0.3	0.3	0.4	0.4	-0.5	29.3
27 Fuel	11.4	13.3	11.0	7.6	7.0	5.4	5.4	6.2	6.6	5.7	3.1	14.0
28-38 Chemicals	8.1	8.0	7.7	7.1	6.6	6.1	5.9	5.8	5.8	5.6	11.2	9.0
39-40 Plastics, rubber	7.7	7.6	7.3	7.1	7.1	6.7	7.2	7.4	7.5	7.4	16.0	14.3
41-43 Leather	0.7	0.6	0.7	0.7	0.8	0.8	0.8	0.6	0.6	0.7	24.4	5.7
44-49 Wood	3.3	3.0	2.7	2.7	3.0	2.6	2.1	2.0	1.9	1.9	12.6	2.9
50-63 Textile and garment	9.6	9.7	9.4	9.6	9.9	9.2	9.2	8.2	8.7	8.4	17.9	8.9
64-67 Footwear	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.5	19.3	16.0
68-71 Stone, glass	1.3	1.5	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.2	16.6	17.1
72-83 Metal	15.4	13.6	12.7	12.4	13.4	13.4	12.7	10.9	11.6	10.9	18.6	5.8
84-85 Machinery, electrical equipment	29.0	30.2	36.9	42.2	40.8	43.0	43.2	45.1	43.4	45.0	24.6	12.8
86-89 Transport	3.9	3.2	1.8	1.8	2.7	4.1	3.4	2.7	2.4	3.1	17.9	5.6
90-99 Others	2.8	2.6	2.6	2.2	2.3	2.7	3.5	5.1	5.3	4.9	14.1	32.4

Source: Calculations based on WB WITS database for 2009-2018.

** Trade by technology content*

Viet Nam has attempted to restructure exports towards higher technology content. The share of exports with high technology content gradually improved, from 18.7% in 2010 to 48.2% in 2019. Those with low technology content accounted for high, albeit decreasing, shares of exports to RCEP, CPTPP, Japan, the US, and the EU.

Table 12: Share and growth rate of Viet Nam's exports by technology content to some partner countries in 2010-2019

	Share in total exports (%)										Growth rate (%)	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2015	2016-2019
Total	100	100	100	100	100	100	100	100	100	100	26.3	14.9
High	18.7	25.5	36.0	41.6	40.1	44.2	45.8	49.6	49.0	48.2	51.3	17.6
Medium	14.2	14.5	14.7	12.9	13.2	11.6	11.3	11.3	11.6	11.5	23.1	14.6
Low	67.1	59.9	49.2	45.6	46.7	44.2	42.8	39.2	39.3	40.3	17.1	12.2
ASEAN	100	100	100	100	100	100	100	100	100	100	26.6	11.5
High	27.9	28.7	38.5	44.3	39.9	37.9	42.4	43.7	36.4	31.7	32.1	7.8
Medium	29.7	32.4	29.2	26.0	26.7	27.2	24.1	22.3	24.4	24.7	26.1	9.0
Low	42.4	38.9	32.3	29.7	33.4	34.9	33.5	34.0	39.2	43.6	24.4	17.9
RCEP	100	100	100	100	100	100	100	100	100	100	27.4	21.2
High	24.0	25.6	31.3	33.6	30.4	34.6	41.4	50.6	49.2	47.2	34.6	33.1
Medium	28.2	28.2	28.0	25.3	25.5	22.4	19.4	16.5	17.3	17.6	23.4	13.7
Low	47.8	46.3	40.8	41.0	44.2	43.0	39.2	32.8	33.6	35.2	25.9	14.7
China	100	100	100	100	100	100	100	100	100	100	45.7	38.7
High	42.8	45.0	55.1	51.4	43.3	49.1	54.8	70.4	69.6	67.8	53.8	55.4
Medium	12.2	12.0	10.4	11.6	17.4	11.5	12.1	8.3	10.2	9.8	44.0	31.4
Low	45.0	43.0	34.5	37.0	39.3	39.4	33.0	21.3	20.3	22.4	41.2	17.1
Japan	100	100	100	100	100	100	100	100	100	100	16.9	11.5
High	16.2	15.3	13.1	10.6	11.1	11.7	15.8	17.5	16.4	17.1	7.3	23.4
Medium	39.4	37.4	39.0	37.3	36.2	33.7	30.6	30.8	30.0	29.1	15.9	7.5
Low	44.3	47.3	47.8	52.1	52.7	54.6	53.6	51.7	53.6	53.8	21.2	11.1
Korea	100	100	100	100	100	100	100	100	100	100	39.3	26.3
High	12.9	13.9	14.6	18.8	21.2	39.0	49.7	54.4	54.0	54.2	72.8	38.8
Medium	11.4	17.9	28.5	24.2	18.2	16.0	12.9	12.4	12.7	14.8	54.3	23.8
Low	75.7	68.2	56.9	57.0	60.6	45.0	37.4	33.2	33.3	30.9	28.3	14.9
CPTPP	100	100	100	100	100	100	100	100	100	100	22.2	11.4
High	19.3	21.2	26.8	30.6	25.4	29.4	34.4	36.2	31.4	31.6	29.6	14.3
Medium	31.1	30.5	28.7	25.8	26.9	24.9	21.6	20.9	22.5	21.5	19.5	7.6
Low	49.6	48.3	44.5	43.6	47.7	45.7	44.0	42.9	46.1	46.8	21.0	12.1
USA	100	100	100	100	100	100	100	100	100	100	21.4	18.4
High	8.6	9.2	11.1	15.6	20.0	24.3	26.9	25.3	26.8	35.0	45.2	32.0
Medium	5.5	5.6	6.4	5.4	4.9	4.6	5.9	7.3	6.3	6.2	18.5	28.6
Low	85.9	85.2	82.4	79.0	75.1	71.1	67.2	67.4	66.9	58.8	17.7	12.6
EU28	100	100	100	100	100	100	100	100	100	100	27.7	8.5
High	16.7	34.6	49.6	56.0	51.5	55.2	57.1	56.6	58.0	55.6	78.4	8.9
Medium	7.5	5.6	5.1	4.1	4.6	4.4	4.7	5.3	5.2	5.4	18.4	14.3
Low	75.8	59.8	45.4	39.9	43.8	40.4	38.2	38.2	36.8	39.0	13.2	7.4

Source: Calculations based on WB WITS database for 2009-2019.

The products with high technology content accounted for 24.0% of Viet Nam's exports to RCEP market in 2010. This figure rose to 47.2% in 2019. Its average export growth rate was 34% p.a. Notably, the share of low-tech goods exports to Japan - the market that Viet Nam expects a lot in the RCEP - tended to increase in 2010-2019.

Table 13: Share and growth rate of Viet Nam's imports by technology content from some partner countries in 2010-2019

	Share in total imports (%)										Growth rate (%)	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2015	2016-2019
Total	100	100	100	100	100	100	100	100	100	100	17.6	11.3
High	21.7	25.0	33.7	37.4	35.4	37.5	39.3	43.5	43.4	45.1	29.2	16.8
Medium	45.4	43.2	37.4	34.8	36.2	37.3	35.7	33.9	32.7	32.0	13.2	7.1
Low	32.8	31.8	28.9	27.8	28.4	25.2	25.0	22.6	23.9	22.9	14.2	8.5
ASEAN	100	100	100	100	100	100	100	100	100	100	11.8	10.4
High	17.2	20.7	33.3	41.4	43.0	36.5	32.8	34.3	32.5	31.5	29.6	6.6
Medium	22.9	21.7	19.1	16.2	16.1	17.1	16.3	14.9	15.8	16.1	5.8	9.1
Low	59.8	57.6	47.6	42.4	40.9	46.4	51.0	50.8	51.7	52.4	7.9	13.7
RCEP	100	100	100	100	100	100	100	100	100	100	20.0	11.6
High	23.1	26.5	34.5	39.3	37.1	36.9	38.7	43.8	44.1	44.2	29.5	17.3
Medium	44.1	41.9	36.8	33.9	35.2	37.5	35.7	34.3	32.5	33.0	15.9	8.1
Low	32.8	31.6	28.7	26.8	27.8	25.6	25.6	22.0	23.4	22.9	17.9	8.4
China	100	100	100	100	100	100	100	100	100	100	22.6	11.0
High	29.1	30.6	36.1	40.1	36.9	35.4	35.4	38.8	37.5	39.2	24.0	14.3
Medium	38.1	39.2	35.4	32.2	32.7	34.9	32.0	31.4	30.8	31.3	20.3	8.3
Low	32.8	30.1	28.5	27.8	30.4	29.7	32.7	29.9	31.7	29.5	26.0	10.6
Japan	100	100	100	100	100	100	100	100	100	100	10.2	9.1
High	20.0	20.3	25.8	25.3	27.5	27.8	33.1	34.9	36.9	38.6	16.7	18.7
Medium	46.6	43.4	40.2	38.7	40.8	45.6	41.4	39.2	37.1	36.8	8.6	3.3
Low	33.4	36.3	34.0	36.1	31.7	26.6	25.6	25.9	26.0	24.6	9.2	7.1
Korea	100	100	100	100	100	100	100	100	100	100	30.1	15.6
High	19.4	28.8	39.5	44.9	39.6	44.3	49.2	56.4	60.4	60.0	64.4	25.8
Medium	39.8	33.0	29.3	29.2	33.5	34.0	32.1	30.7	25.6	25.7	23.6	8.2
Low	40.8	38.3	31.2	26.0	26.9	21.6	18.6	12.9	14.0	14.3	17.0	3.0
CPTPP	100	100	100	100	100	100	100	100	100	100	10.6	6.8
High	21.4	23.3	32.8	38.6	41.5	38.2	39.0	40.2	41.0	42.2	23.0	9.5
Medium	48.3	45.5	38.8	34.3	35.0	40.7	39.5	38.1	36.9	36.5	6.6	3.9
Low	30.3	31.2	28.3	27.1	23.5	21.1	21.5	21.7	22.1	21.3	6.7	7.1
USA	100	100	100	100	100	100	100	100	100	100	20.1	16.9
High	28.5	37.1	52.9	42.4	45.4	61.0	64.9	66.5	60.6	73.3	48.3	23.4
Medium	50.7	42.3	31.5	37.5	32.9	26.2	24.1	21.1	18.7	15.6	3.2	2.7
Low	20.8	20.6	15.6	20.1	21.7	12.7	11.0	12.4	20.7	11.1	15.7	21.5
EU28	100	100	100	100	100	100	100	100	100	100	9.2	4.8
High	27.7	28.9	40.8	38.8	26.9	33.6	23.5	26.0	26.0	29.0	15.7	3.5
Medium	55.8	55.1	44.5	44.6	53.4	50.1	57.8	54.7	55.0	50.1	7.7	4.8
Low	16.5	15.9	14.8	16.6	19.7	16.4	18.7	19.3	19.0	20.9	10.2	11.1

Source: Calculations based on WB WITS database for 2009-2019.

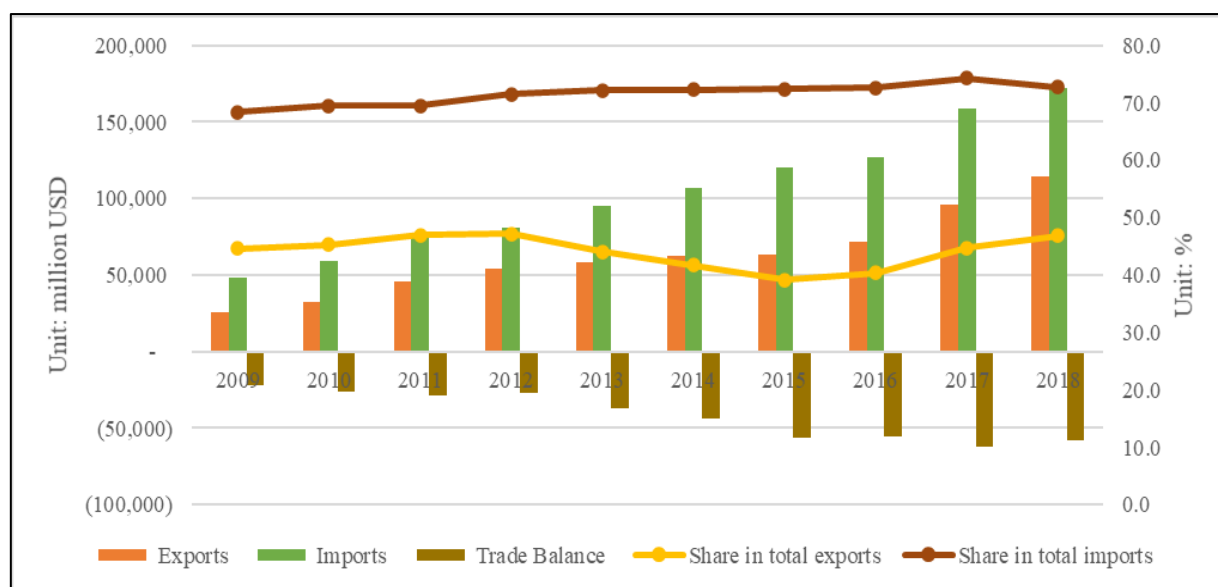
In the 2010-2019 period, imports into Viet Nam gradually shifted toward higher share of high-tech goods. The goods with high technology content accounted for large shares in imports from China and Korea. The proportion of this product category in total imports from Korea increased from 19.4% in 2010 to 60% in 2019, with an average growth rate of 64.4% p.a. in the 2010-2015 period and 25.8% p.a. in the period 2016-2019. In imports from China, the proportion of goods with high technology content increased from 29.1% in 2010 to 39.2% in 2019, while that of goods with low technology content decreased. Together with higher share of low-tech goods exported to China, this indicates Viet Nam's material risk of being pushed further behind China in the value chain.

3.1.2 Trade deficit from RCEP market

Viet Nam's imports and exports with RCEP countries in general depicted an upward trend. Specifically, the export share RCEP countries increased from 44.0% in 2010 to 44.1% in 2018, then decreased to 41.8% in 2019. However, the share of RCEP in total imports was even higher, reaching 70.7% in 2019 compared with 67.4% in 2010. Overall, during the 2009-2019 period, Viet Nam had larger trade deficits with RCEP market.

Viet Nam had large trade deficits with Korea, China and ASEAN. Trade deficit with China increased continuously, especially in the period 2010-2015, and gradually decreased from 2016. Trade deficit with Korea increased especially rapidly since 2015. Specifically, this figure rose on average by 22.3% p.a. in the period 2010-2014, accelerating to 31.4% p.a. in the period 2015-2017 after Viet Nam-Korea FTA (VKFTA) was signed in 2015.

Figure 5: Viet Nam's trade with RCEP market, 2009 - 2019



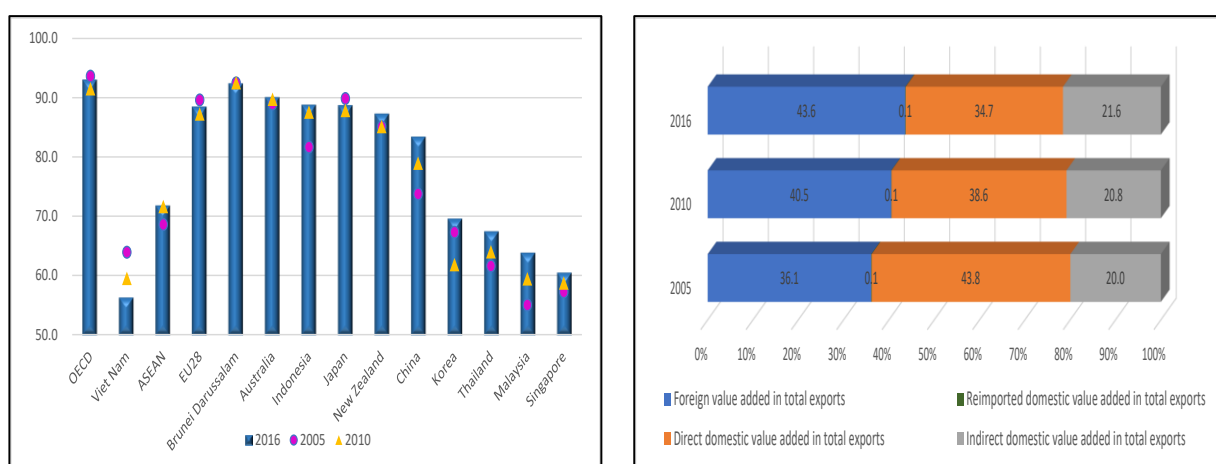
Source: Calculation based on WB WITS database for 2009-2019.

3.1.3 Trade in value-added

According to OECD's Trade in Value-added database (TiVA-OECD), the share of domestic value-added in Viet Nam's gross exports decreased gradually, from 63.9% in 2005 to only 56.4% in 2016 (down by 7.5 percentage points). Of which, the share of

direct domestic value-added in gross exports⁵ decreased from 43.8% to 34.7% in the period 2005-2016; the respective shares of indirect domestic value-added and re-imported domestic value-added remained relatively stable at about 20-22% and 0.1% during the same period. Accordingly, Viet Nam ranked 77th out of 83 countries, country blocs, and territories listed by the OECD in 2016 with a significantly lower share of domestic value-added than observed ASEAN countries (Malaysia 63.9%; Thailand 67.5%; Cambodia 71.0%; Philippines 76.6%; Indonesia 88.7%; etc). As an implication, the domestic supporting industry has not kept pace with Viet Nam's export expansion, leading to a decline in the share of value-added in gross exports. Meanwhile, most countries in ASEAN and China had gradual increase in the share of domestic value-added in gross exports in the period 2005-2016⁶. As an implication, the ability to develop supporting industries will be decisive to increasing the net benefits that Viet Nam can gain from international trade while also ensuring greater autonomy in raw materials and inputs to cope with adverse external effects (as seen during the COVID-19 pandemic).

Figure 6: Share of domestic value-added in total exports of Viet Nam and some partners, 2005-2016 (%)



Source: Calculations from TiVA-OECD database 2018.

In line with the decreasing share of domestic value-added, the share of foreign value-added in Viet Nam's total exports increased from 36.1% in 2005 to 43.6% in 2016. The largest share of foreign value added in Viet Nam's exports in 2015 came from China (14.1%), followed by Korea (5.1%), ASEAN (4.6%), EU (3.6%). Among them, the shares of foreign value-added in Viet Nam's total exports originating from many countries/regions tended to increase in the period 2005-2015; for example, China's share increased by 9.3 percentage points, Korea's share rose by 1.8 percentage points, the US' share rose by 0.9 percentage point, the EU's share rose by 0.1 percentage point, etc. In contrast, the share of value-added of Japan and some ASEAN countries (such as Malaysia, Singapore, Thailand, etc.) in total exports of Viet Nam decreased in the period 2005-2015, albeit modestly (around 0.3-0.7 percentage points). Aggregated by group of

⁵ Measure the share of value added by industry *i* contributing to the production of goods and/or services exported by industry *i*.

⁶ In the period 2005-2016, the share of domestic value added in gross exports of Malaysia increased by 8.9 percentage points (from 55.0% to 63.9%); Thailand increased by 5.9 percentage points; China increased by 9.6 percentage points; Indonesia increased by 7.0 percentage points; etc.

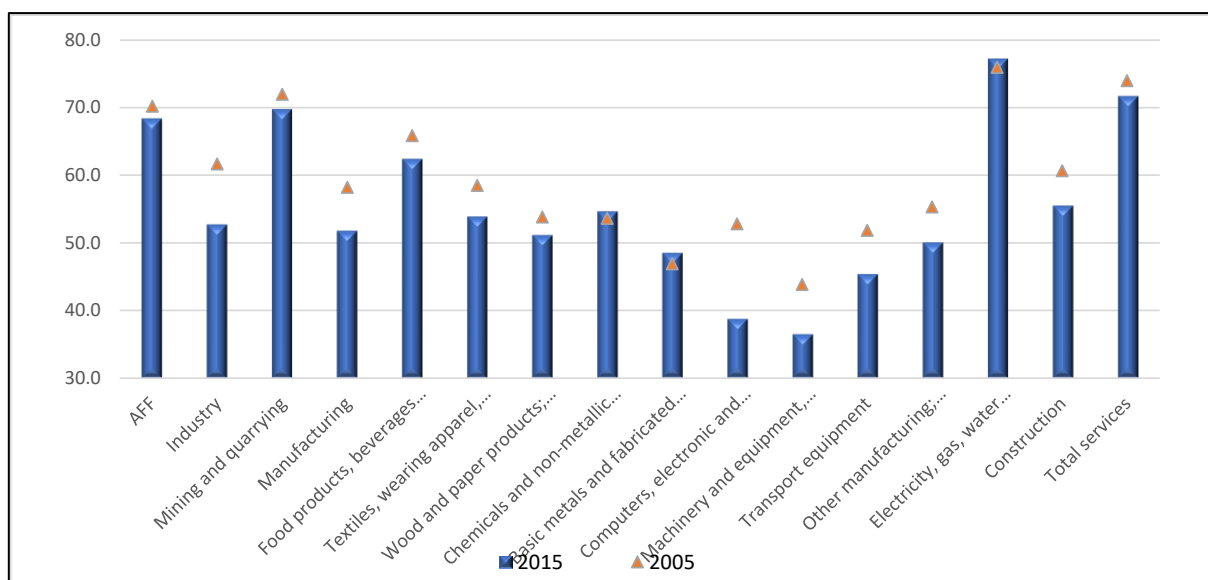
FTA partners, in the period 2005-2015, the RCEP region contributed up to 28% of Viet Nam's total exports, mainly due to China (up 9.3 percentage points), the CPTPP contributed 6.5% (down by 1.3 percentage points), the ASEAN contributed 4.6% (down by 1.0 percentage point).

Thus, the foreign value-added in Viet Nam's exports was largely sourced from some partners in RCEP, such as China, ASEAN, etc. The positive added value from these partners also implies that the trade deficit of Viet Nam with these partners is not a big problem as it can get trade surpluses from other markets (such as the US and the EU, etc.), *at least in the short term*. However, this deficit is often accompanied by a problem well-documented in the literature concerning the lack of linkages between domestic firms and FIEs. As RCEP comes into effect, given that foreign investors already have existing networks of suppliers in the region, the absence of such linkages may pose a long-term challenge for Viet Nam.

By industry, the ratio of domestic value-added in exports of products often considered as Viet Nam's strengths when participating in the GVCs, such as textile, food, computers, and components, etc., was also low and depicted a downward trend (Figure 7). Except for such sectors as services; AFF; and mining and quarrying, most manufacturing sub-sectors had very low domestic value-added in exports, including important categories of Viet Nam's exports: e.g. computers, electrical and electronic equipment (domestic value-added content contributed only 38.8% of the sub-sector's total export in 2015), other machinery (36.5%), means of transport (45.4%), wood and paper products (51.1%), textiles and footwear (53.9%), etc. For the whole manufacturing sector, domestic value-added only contributed 51.8% of total exports in 2015, significantly lower than that of 58.2% in 2005. Of which, the sub-sectors with large declines included computers, electronic and electrical equipment (down by 4.1 percentage points), machinery and equipment (down by 7.3 percentage points), transport equipment (down by 6.5 percentage points), textile, wearing apparel and footwear (down by 4.6 percentage points), etc.

The above figures again evidence a major challenge to Viet Nam in maintaining and increasing benefits from future exports. While current export growth is more rapid than the decline in domestic value-added content in exports, the total value-added that Viet Nam creates and benefits from exports is still increasing (despite instability, even signs of a gradual decrease in some important sectors/fields). However, if Viet Nam's exports fail to sustain rapid growth or are disrupted (as encountered during the COVID-19 pandemic in early 2020), Viet Nam's domestic value-added in absolute terms may decrease further, posing challenges for economic growth.

Figure 7: Share of domestic value-added in some industries/fields in 2005-2015



Source: Calculations from the TiVA-OECD database 2018.

3.2 Viet Nam's trade indicators

3.2.1 Revealed Comparative Advantage (RCA)

The computed Revealed Comparative Advantage (RCA)⁷ indices regarding Viet Nam's exports to the RCEP market at the 2-digit HS level are presented in Table 14. In general, Viet Nam had a competitive advantage in exporting traditional goods to RCEP markets (processed and capital- or labor-intensive goods) with relatively high RCA such as vegetables and fruits (HS 06-14), processed foodstuff (HS 16 -24), leather and leather products (HS 41-43), wood and wood products (HS 44-46), textile and apparel products (HS 50-63), footwear (HS 64- 67), furniture (HS 94).

Some product categories had higher RCA to RCEP than RCA to the world, implying higher comparative advantage on the RCEP market than in the global market (for example, fruit, citrus - HS 08; cereals - HS 10; milling products, malt, starch, gluten, wheat - HS 11; hides and skins and leather - HS 41; cotton - HS 52; etc.). In addition, certain Vietnamese products had no competitive advantage at the global scale, but only in RCEP market (shown by RCA index with RCEP greater than unity, but RCA with the world less than unity), such as live trees and plants - HS 06; Residues and waste from food industries; prepared animal feed - HS 23; Tobacco and manufactured tobacco substitutes - HS 24; glass and glass products - HS 70; and lead and lead articles - HS 78; etc.

⁷ The Revealed Comparative Advantage (RCA) index is used to evaluate a country's export potential, identifying products for which a country has a comparative advantage in international trade. The higher the RCA index, the more competitive the product becomes in exports.

Table 14: Viet Nam's RCA index with RCEP market, 2001-2018

HS code	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
'03	7.77	8.47	9.03	9.01	8.42	8.90	8.46	7.83	7.40	6.93	5.71	4.98	4.74	4.84	4.20	3.84	3.91	3.66
'06	2.06	0.41	0.26	1.24	1.50	1.37	1.24	1.32	1.74	2.01	1.76	1.75	2.01	1.76	2.25	2.44	1.99	1.83
'07	2.11	1.77	2.45	2.20	1.85	2.84	3.59	3.02	4.23	2.00	2.70	3.03	2.14	2.07	1.59	1.11	1.16	1.15
'08	8.36	5.89	6.46	6.32	7.16	6.20	6.28	7.04	6.84	7.00	6.11	5.70	4.56	4.59	5.02	6.01	6.04	4.93
'09	9.97	9.94	11.23	9.38	9.58	12.21	15.58	15.91	14.36	14.28	11.19	12.10	10.32	11.17	8.37	8.07	5.96	6.45
'10	8.41	6.62	8.15	9.79	13.80	14.19	13.45	15.61	14.05	13.81	9.87	9.16	6.75	7.41	6.90	5.00	4.46	4.59
'11	3.61	3.42	7.31	5.49	5.60	8.07	7.69	6.50	8.52	10.06	10.44	11.34	9.81	9.03	9.64	7.49	6.49	5.26
'12	3.42	3.46	3.29	1.50	1.64	0.65	1.33	0.62	0.66	0.73	0.35	0.20	0.32	0.26	0.34	0.74	0.51	0.50
'13	1.80	1.24	1.02	1.89	2.18	1.65	0.91	0.59	0.53	0.07	0.21	0.09	0.31	0.14	0.35	0.78	1.06	0.84
'14	11.62	6.78	6.80	4.33	3.98	5.13	3.81	2.46	2.21	2.25	1.87	2.95	3.03	2.97	2.46	2.10	1.00	0.93
'16	0.55	0.86	1.50	1.92	1.85	2.00	2.21	2.44	2.92	3.33	2.86	2.50	2.80	3.24	2.68	2.51	2.26	2.01
'17	1.84	0.94	1.01	0.54	0.46	0.62	0.69	0.94	1.15	1.19	2.35	0.83	2.48	1.47	0.77	0.31	0.37	0.33
'19	1.56	1.55	1.61	1.60	1.65	1.52	1.47	1.36	1.30	1.51	1.39	1.33	1.25	1.09	1.08	1.03	0.89	0.85
'20	0.73	0.84	0.57	0.64	0.49	0.95	0.60	0.83	0.76	0.76	0.76	0.53	0.68	0.68	0.79	1.00	0.91	1.11
'21	1.31	1.55	0.35	0.31	0.45	0.45	0.40	0.53	0.70	0.81	1.00	1.11	1.59	1.14	1.07	1.13	1.05	1.00
'22	0.62	0.92	0.70	0.57	0.60	0.57	0.83	0.89	0.99	1.16	1.43	1.58	1.48	1.36	1.04	0.83	0.60	0.54
'23	0.18	0.36	0.80	0.33	0.21	0.50	0.50	0.49	0.83	1.37	1.53	1.82	1.97	2.46	2.82	2.91	2.49	2.24
'24	1.10	2.27	5.84	5.42	4.06	3.14	2.18	1.68	2.22	2.46	2.17	2.03	2.42	1.91	1.70	1.54	1.21	1.26
'25	0.30	0.41	0.44	0.60	0.74	0.84	1.22	1.52	2.33	2.18	2.41	2.40	3.23	3.26	2.71	2.39	1.90	2.93
'27	3.74	4.15	4.12	4.27	3.81	3.39	3.28	2.46	2.34	1.75	1.50	1.34	1.10	1.03	0.76	0.54	0.42	0.30
'28	0.06	0.06	0.11	0.07	0.10	0.14	0.10	0.11	0.27	0.30	0.27	0.50	0.85	1.25	1.17	0.99	0.97	0.75
'31	0.61	1.53	1.42	1.06	0.96	1.14	0.75	1.88	1.65	1.42	2.20	2.58	2.20	1.64	0.96	0.88	1.01	0.89
'34	1.85	1.51	1.30	1.26	1.34	1.38	1.28	1.38	1.50	1.29	1.26	1.23	1.07	0.96	0.92	0.85	0.70	0.64
'40	1.48	2.27	2.80	3.05	3.20	3.68	3.51	3.17	3.17	3.78	3.11	2.78	2.51	2.16	2.00	1.91	1.63	1.59
'41	0.31	0.33	0.31	0.32	0.68	1.00	2.50	3.93	3.94	4.15	2.80	2.11	1.67	1.78	2.53	2.65	2.62	2.46
'42	2.28	2.06	2.32	1.96	1.67	1.40	1.38	1.34	1.49	1.92	2.02	1.59	1.82	2.29	2.13	2.04	1.67	1.54
'43	2.58	0.14	0.07	0.16	0.22	0.05	0.22	0.77	0.16	0.11	0.03	0.06	0.18	1.09	3.53	3.95	2.45	1.89
'44	0.69	0.77	0.74	0.93	1.14	1.27	1.79	1.78	2.03	2.91	2.98	2.67	3.36	3.12	3.35	2.73	2.45	2.75
'46	5.05	6.48	6.61	5.62	4.90	4.89	3.40	1.74	2.04	3.00	2.24	2.04	2.45	2.63	2.67	2.38	1.96	1.94
'50	3.71	3.53	2.37	2.23	1.96	2.01	1.82	1.66	1.69	1.90	2.03	1.71	2.34	2.50	2.62	2.63	2.97	3.40
'52	0.40	0.52	0.59	0.46	0.45	0.54	0.65	1.85	3.01	3.23	2.51	2.17	2.29	3.33	3.91	4.21	4.09	4.01
'53	1.40	4.03	4.73	3.95	3.44	5.20	3.84	3.92	3.71	3.14	2.64	2.29	1.70	1.86	1.34	1.10	0.85	0.85
'54	0.19	0.32	0.42	0.60	0.70	1.21	1.25	1.23	1.52	1.61	1.68	1.51	1.52	1.49	1.38	1.23	1.25	1.30
'55	0.57	0.89	0.94	1.17	1.25	1.68	2.10	1.40	2.03	2.07	1.79	1.37	1.05	0.87	0.74	0.76	0.69	0.73
'56	1.09	1.33	1.55	1.15	1.18	1.49	1.48	1.18	1.58	1.58	1.50	1.35	1.35	1.40	1.41	1.34	1.27	1.21
'59	0.11	0.15	0.16	0.27	0.30	0.42	1.20	1.43	1.25	1.75	1.78	1.59	1.43	1.44	1.43	1.21	1.08	1.07
'60	0.08	0.11	0.49	0.34	0.25	0.49	0.71	0.82	0.80	1.11	1.02	0.80	0.90	1.03	1.29	1.38	1.41	1.58
'61	0.82	0.96	1.32	1.08	1.00	0.86	0.79	1.00	1.33	1.66	1.86	1.49	1.78	2.26	2.50	2.77	2.72	2.98
'62	3.65	3.12	2.40	2.28	2.34	2.27	2.32	2.34	2.94	3.46	4.18	4.17	4.46	4.34	4.19	4.01	3.63	3.82
'63	1.70	1.67	1.56	1.54	1.40	1.69	2.03	1.90	2.24	3.28	2.63	2.15	2.33	2.16	2.01	1.94	1.90	1.88
'64	3.29	3.38	3.63	3.65	3.80	4.42	4.43	4.27	3.89	4.56	5.09	4.63	4.37	4.70	4.87	5.12	4.94	5.22
'65	3.22	2.72	3.06	2.85	2.86	2.53	2.49	2.09	2.33	2.66	2.48	2.27	2.31	2.23	2.00	1.92	1.84	1.99
'67	2.04	1.26	1.15	1.11	1.12	2.58	1.07	0.39	0.60	1.16	1.30	0.78	0.91	0.87	0.49	0.43	0.34	0.47
'69	1.41	2.02	1.88	1.77	1.45	1.40	1.53	1.37	1.49	1.62	1.56	1.44	1.14	0.95	0.63	0.61	0.56	0.54
'70	0.20	0.20	0.30	0.25	0.25	1.01	1.20	1.27	1.66	1.78	1.39	1.88	1.76	2.21	2.47	1.93	2.04	1.74
'78	0.02	0.09	0.02	0.04	0.05	0.09	0.05	0.10	0.20	0.91	0.67	1.17	1.34	1.46	1.02	1.30	1.26	1.02
'85	0.25	0.25	0.31	0.33	0.31	0.32	0.43	0.39	0.52	0.68	0.77	0.97	1.15	1.04	1.10	1.33	1.59	1.66
'94	1.96	2.87	3.02	2.96	2.84	3.04	2.94	2.46	2.44	2.39	2.13	1.68	1.62	1.69	1.59	1.64	1.51	1.47
'96	0.69	0.70	1.01	1.09	0.90	1.02	0.87	0.80	0.85	1.14	1.13	1.06	1.09	1.08	1.01	0.88	0.74	0.77

Source: Calculation from ITC database.

However, the RCA index with RCEP for the period 2001-2018 showed some unfavorable developments:

- The RCA index of various product categories decreased continuously, even rapidly in the 2001-2018 period, including prolonged export products. As an implication, the competitiveness of some of Viet Nam's product categories in the RCEP market has been decreasing. Specifically, the RCA index of fish and crustaceans (HS 03) decreased from 7.77 in 2001 to 3.66 in 2018; The RCA index of cereals (HS 10) decreased from about 14-15 in the period of 2005-2010 to 4-5 in the period 2016-2018.

- Some product categories had RCA index decreased from above 1 to below 1, reflecting the loss of export competitiveness in the RCEP market (for example, oilseeds and fruits - HS 12; soap and washing and lubrication preparations - HS 34; ceramics - HS 69; etc.).

- Some product categories had a lower RCA index in the RCEP market than to the world, implying that their competitiveness in the RCEP market was less than in the world market (for example, electrical equipment - HS 85, footwear - HS 64, furniture - HS 94, etc.). Specifically, the RCA with RCEP of footwear fluctuated around 4-5, while reaching over 9 in the global trade; or the RCA of HS 46 (straw and products from straw, grass, thorns, rattans) was around 1-3 in the period 2001-2018 (compared with RCA scores of 6-11 in global trade).

In addition, Viet Nam's RCA index in the RCEP market has notable implications. Specifically: (i) some product categories have improved competitive advantages in RCEP market compared to other partners in the world, partly explained by the trade diversion effects of RCEP on products that had less comparative advantage in global trade, but appear relatively competitive within the bloc thanks to the Agreement; (ii) the product categories with declining competitive advantages included some major and traditional export products of Viet Nam, which can be explained by highly similar export structures of Viet Nam and some RCEP partners (especially ASEAN and China), leading to fierce competition for Viet Nam's exports in RCEP market. This requires Viet Nam to strengthen its competitiveness relative to other partners if it wants to maintain and/or enhance export penetration of these product categories in RCEP market.

Table 15 shows the share of Viet Nam's exports to the RCEP market by 3 product categories in the period 2010-2018 as follows: (i) Those having comparative advantage in 2018 ($RCA_{2018} > 1$); (ii) Those having no comparative advantage in 2018 but with improvement compared to 2010 ($RCA_{2018} < 1$ and $RCA_{2018} > RCA_{2010}$); and (iii) those having neither comparative advantage in 2018 nor improvement compared to 2010 ($RCA_{2018} < 1$ and $RCA_{2018} < RCA_{2010}$). Accordingly, the products with comparative advantage in 2018 ($RCA_{2018} > 1$) accounted for a large share of Viet Nam's total exports to the RCEP market, and this share increased from 54.8% in 2010 to 63.0% in 2014 and over 77% in 2017-2018. The exports of this category also increased rapidly in the period 2011-2018 (on average by 21.97% p.a.). In contrast, the export share of those having neither comparative advantage in 2018 nor improvement during 2010-2018 plummeted from 35% in 2010 to only 12% in 2018. That is, Viet Nam further exploited export items that already had comparative advantages in RCEP market - many of which had low technology content. Meanwhile, Viet Nam hardly created new competitiveness, reflected by slight increase in the share of the product categories without comparative advantage in 2018 but with improved competitiveness during the period 2010-2018.

Table 15: Share of Viet Nam's exports to RCEP market by RCA

	2010	2011	2012	2013	2014	2015	2016	2017	2018
RCA2018>1	54.8	54.6	57.5	61.8	63.0	70.1	74.9	77.1	77.1
RCA2018<1 and RCA2018>RCA2010	10.2	10.4	10.3	11.0	12.0	11.8	10.8	10.5	10.9
RCA2018<1 and RCA2018<RCA2010	35.0	35.1	32.2	27.2	25.0	18.0	14.3	12.4	12.0

Source: Calculations from ITC database.

The share of the product categories that did not have a competitive advantage in RCEP market (RCA2018 <1) but had the RCA score improved (RCA2018> RCA2010) was relatively stable (accounting for 10.91% of exports to RCEP market in the period 2010-2018). The export growth rate of this category was relatively high (averaging 17.94% p.a. in the period 2011-2018). Thus, despite no static competitive advantage, the export competitiveness of this category had gradually improved and may improve further with increased exports to the RCEP market.

3.2.2 Export Similarity

As illustrated by the Export Similarity Index (ES),⁸ Viet Nam's export structure had a relatively high similarity compared to other RCEP member countries, and this similarity increased rapidly, especially in the period 2012- 2018. Accordingly, Viet Nam's export similarity index with RCEP increased from 37.5 in 2001 to 52.8 in 2010 and 61.1 in 2018 (Table 16).

Table 16: Export similarity index of Viet Nam compared to some partners, 2001-2018

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Viet Nam vs. RCEP	37.5	35.7	35.8	36.5	37.5	39.8	42.1	47.6	48.6	52.8	58.7	63.9	64.7	63.9	62.8	60.7	60.4	61.1
Viet Nam vs. CPTPP	33.3	31.5	32.8	34.1	36.0	37.5	40.3	47.2	46.7	48.8	52.9	52.3	50.6	49.7	47.8	45.9	45.9	46.0

Source: Calculations from ITC database.

Compared with the group of CPTPP partners, Viet Nam's export similarity index with RCEP was higher, and its pace of change was also faster. As an implication, Viet Nam's exports may face more competition in RCEP than in CPTPP because RCEP has ASEAN and China with highly similar export structure as Viet Nam. Meanwhile, increasing exports to non-RCEP markets (such as CPTPP or EU) seems to be relatively less challenging.

3.2.3 Trade Complementarity

Table 17 shows the Trade Complementarity (TC) Index⁹ of Viet Nam with selected partners in the period 2001-2018. Accordingly, Viet Nam's exports generally

⁸ Export Similarity Index (ES) is based on the comparison of export structure between Viet Nam and its trading partners. This index ranges from 0 to 100 where 0 represents a completely different export structure and 100 represents complete similarity. When an economy has a low export similarity with a trading partner, it means that the economy has the potential to export to the partner's market in the future. Conversely, if the export similarity index between the economy and its partner is high - i.e., the structure of exports is the same, then the ability of that economy to export to its partner market is limited.

⁹ The Trade Complementarity Index (TC) provides information on the prospects of international trade based on the relevance of import and export structures between two partner countries. The trade complementarity index ranges in value from 0 to 100, with greater value indicating a higher degree of relevance between goods

better met the import needs of main partners such as ASEAN, Japan, the US, China, RCEP, and CPTPP (i.e., both inside and outside RCEP). The TC index of Vietnamese exports to Japan remained above 50 during the period 2001-2018 but tended to decrease gradually, from 56.1 in 2001 to 51.4. Meanwhile, the TC index of Viet Nam's exports with ASEAN and China improved significantly, from about 30-35 in the period before 2005 to over 50 in the period 2012-2018. Meanwhile, the level of trade complementarity between Vietnamese exports and Korea was relatively modest, with scores below 50. As another note, the level of trade complementarity of Vietnamese exports to key partners such as China, Korea, the US, EU, and Japan all tended to decrease in the period 2007-2018 (the TC index of exports to the EU27 and Korea dropped most sharply to about 47 in 2018). This trend implies more intense competition that Vietnamese businesses face in these markets. Thus, without adaptive approach, Viet Nam may have its ability to meet the import demand of RCEP market weakened further.

Table 17: Viet Nam's Trade Complementarity Index with selected partners, 2001-2018

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
ASEAN	34.7	34.2	35.0	36.7	39.7	42.3	45.2	51.4	47.6	48.5	53.4	57.0	55.0	54.3	54.7	53.9	52.3	51.9
RCEP	43.9	41.2	41.3	42.6	44.6	47.6	49.7	53.1	50.0	50.1	53.9	54.3	53.4	52.4	53.1	52.5	51.7	50.9
CPTPP	42.2	40.3	41.7	42.9	44.9	47.0	50.1	55.0	52.6	52.0	56.3	55.7	54.7	53.7	52.8	52.0	51.5	51.3
EU27	41.0	39.5	39.8	40.5	43.0	45.2	46.8	52.9	52.4	54.1	54.6	52.7	51.2	51.0	49.4	48.1	47.7	47.1
US	41.6	41.2	44.0	46.0	48.7	50.5	53.4	55.9	54.5	54.2	57.0	55.1	54.2	53.9	52.8	51.5	51.5	51.1
China	29.3	27.2	27.8	30.2	31.3	34.7	36.3	42.1	40.4	43.5	47.4	52.9	54.0	52.4	54.2	52.9	52.0	51.4
Japan	56.1	54.4	55.2	56.5	58.9	58.0	55.9	55.7	55.4	53.7	55.0	53.3	52.7	52.2	53.1	52.8	51.9	50.7
Korea	47.9	45.6	45.0	47.2	50.0	50.2	49.2	50.6	46.0	46.3	50.3	49.6	49.4	49.3	51.2	51.0	49.5	47.2

Source: Calculations from ITC database.

Meanwhile, exports of major trading partners seemed to better meet Viet Nam's import needs: the TC index of most partners' exports to Viet Nam had very high scores (ranging between 55-75 in the 2001-2018 period) (Table 18). The TC index of goods imported from Korea to Viet Nam increased continuously in the period 2001-2018 (up by 12.6) and stayed above 70 during 2012-2018, the highest among Viet Nam's main trading partners. Although the TC indices of ASEAN and China with Viet Nam was not the highest, the levels of improvement were quite impressive (up by 13.3 and 12.2 in the same period, respectively). Nevertheless, in the period 2010-2018, the TC indices of markets such as the EU27, Japan, and the US - often perceived with higher production and technology level - decreased (for example, the US' TC decreased from 67.4 in 2010 to 60.4 in 2018; the EU27's TC decreased from 69.3 to 61.2).

Notably, the trade complementarity index of RCEP countries with Viet Nam was generally high and steadily increasing (from 64.3 in 2001 to 66.6 in 2010 and 71.9 in 2018). Viet Nam could therefore rely more on imports from the RCEP partners (in a relative sense compared to other trading partners) when the Agreement enters into force. While this trend may bring ambiguous benefits depending on from meeting RoO and

imported from its partner. Note that this index only compares the export structure of one country with the import structure of another, regardless of the size of the trade of those two partners.

enjoying preferential tariffs, challenges will mount on the domestic manufacturing sector.

Table 18: Trade Complementarity Index of some partners with Viet Nam, 2001-2018

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
ASEAN	56.9	57.8	60.0	59.5	61.1	63.1	66.9	67.7	66.1	64.2	66.9	69.1	68.2	69.3	71.9	70.7	69.2	70.2
RCEP	64.3	62.6	62.4	59.9	60.2	60.0	63.9	65.9	66.9	66.6	69.1	70.4	70.4	71.2	73.3	71.9	70.8	71.9
CPTPP	62.4	62.1	64.3	62.2	63.7	64.0	68.4	71.3	69.3	67.7	70.8	66.4	63.9	64.4	66.2	64.3	63.1	63.4
EU27	67.2	66.4	67.9	64.5	64.2	64.2	66.9	66.7	68.0	69.3	67.7	65.4	64.4	64.2	65.4	63.0	62.2	61.2
US	59.7	59.8	62.5	59.8	59.5	59.1	61.8	64.6	66.2	67.4	67.9	64.1	62.4	62.5	63.3	61.5	60.8	60.4
China	55.1	55.0	55.0	51.8	51.0	52.0	55.2	55.0	55.7	56.3	57.6	60.6	64.2	65.8	69.4	70.3	68.4	67.3
Japan	50.7	50.4	50.5	47.2	48.3	48.9	53.2	55.0	59.8	58.1	58.9	56.9	56.7	57.5	59.4	56.9	56.1	55.6
Korea	62.8	60.5	61.5	57.6	57.7	57.6	58.8	60.4	61.4	61.5	65.2	70.5	71.1	71.3	72.7	74.5	74.9	75.4

Source: Calculations from ITC database.

3.2.4 Trade Intensity

Table 19 shows Viet Nam's Trade Intensity (TII) Index¹⁰ with key partners. Accordingly, the TII of Viet Nam with Japan, Korea, China, the US, CPTPP, ASEAN, and RCEP all received values of greater than 1. That is, these markets were important in trade to Viet Nam. Among them, the TII of Viet Nam with Japan remained relatively stable at over 2 during the period 2001-2018. The trade intensity of Viet Nam's exports to the US market increased from 0.4 in 2001 to more than 1 since 2003, relatively stable around 1.4-1.6 during the 2007-2018 period, implying moderate expectations with this market.

Viet Nam's TII with ASEAN decreased relatively rapidly (decreased by nearly half over the same period, from 3.3 in 2001 to only 1.7 in 2018). Similarly, trade intensity of Viet Nam with RCEP, CPTPP, and China decreased relatively rapidly, reflecting that exports had quickly reached their full potential; as such, the room for further penetration - given Viet Nam's existing export capacity - is very limited.

Viet Nam's trade intensity with Korea fluctuated significantly in the period 2001-2018. Specifically, the Korean market was becoming more and more attractive: TII increased from less than 1 to above 1 since 2007 and continued to climb throughout the period 2008-2018. In the period 2016-2018, TII of Viet Nam with Korea was above 2.5, the highest among all major partners under consideration. The increase was more apparent since the signing of the VKFTA. Thus, Viet Nam exploited the Korean market quite effectively - exceeding the trade potential of the two countries.

Despite considering the EU as one key market, Viet Nam's exports to this market were still below expectations with a very low TII, hardly improved throughout the

¹⁰ The Trade Intensity Index (TII) is used to determine the amount of trade between two countries that is greater or less than expected basing on their importance in world trade. This index is calculated basing on the share of a country's exports to a partner divided by the share of the world's exports to that partner. Accordingly, if the index $TI > 1$ implies that the bilateral trade flow is larger than expected, on the contrary, $TI < 1$ implies that the bilateral trade flow is smaller than expected.

period 2001-2018 (fluctuating around 0.4-0.6). The role of EVFTA for exploiting the potential of these markets remains unclear.

Table 19: Viet Nam's Trade Intensity Index with selected partners, 2001-2018

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Viet Nam with ASEAN	3.3	2.7	2.9	3.0	3.4	3.1	3.3	3.1	2.9	2.5	2.4	2.5	2.4	2.2	2.0	1.8	1.7	1.7
Viet Nam with RCEP	2.8	2.5	2.4	2.3	2.4	2.2	2.2	2.1	1.8	1.7	1.7	1.7	1.6	1.5	1.5	1.6	1.7	1.7
Viet Nam with CPTPP	2.0	2.0	2.0	2.0	2.2	2.1	2.1	2.1	1.7	1.5	1.5	1.5	1.5	1.4	1.3	1.2	1.2	1.1
Viet Nam with EU27	0.5	0.5	0.5	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.5	0.5
Viet Nam with US	0.4	0.8	1.1	1.1	1.1	1.2	1.4	1.4	1.5	1.5	1.4	1.4	1.5	1.5	1.5	1.6	1.4	1.5
Viet Nam with China	2.4	2.0	1.7	1.8	1.6	1.2	1.1	1.1	1.2	1.2	1.2	1.1	1.0	1.0	1.0	1.3	1.6	1.5
Viet Nam with Japan	2.9	2.8	2.8	2.7	2.7	2.7	2.8	2.8	2.5	2.3	2.4	2.4	2.3	2.3	2.2	2.2	2.1	2.0
Viet Nam with Korea	1.2	1.2	1.0	0.9	0.8	0.8	1.0	1.0	1.4	1.5	1.7	1.7	1.9	1.7	2.1	2.6	2.5	2.7

Source: Calculations from ITC database.

In the opposite direction, the analysis of the TII of some major partners with Viet Nam is presented in Table 20. Viet Nam was a very attractive market for Korea, Japan, China, ASEAN, and RCEP with a TII greater than 1 and relatively high. This index was the highest for Korea - consistently above 3 for the entire study period, rising fast and maintaining above 5 since 2013, and peaking at 6.9 in 2017. China's trade intensity with Viet Nam also increased during the study period, but the increase was not as dramatic as South Korea, reaching 2.8 in 2018. ASEAN's trade intensity index with Viet Nam decreased relatively rapidly, from above 4 in the period 2004-2008 down to only 3.0-3.6 in the period 2009-2016, and further to about 2.7-2.8 in 2018, equivalent to China.

Table 20: Trade Intensity Index of some partners with Viet Nam, 2001-2018

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
ASEAN with Viet Nam	3.9	3.6	3.4	4.0	4.1	4.3	4.0	4.0	3.8	3.6	3.6	3.5	3.2	3.1	3.0	3.0	2.7	2.8
RCEP with Viet Nam	2.8	2.6	2.5	2.6	2.6	2.7	2.6	2.6	2.7	2.7	2.8	2.9	3.1	3.2	2.9	2.9	2.9	2.9
CPTPP with Viet Nam	1.6	1.5	1.4	1.5	1.6	1.8	1.7	1.7	1.7	1.6	1.7	1.7	1.6	1.6	1.4	1.4	1.3	1.3
EU with Viet Nam	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
US with Viet Nam	0.2	0.3	0.5	0.4	0.4	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.4	0.5
China with Viet Nam	2.6	2.1	2.2	2.0	2.1	2.1	2.1	2.1	2.4	2.6	2.6	2.7	3.1	3.5	2.9	2.7	2.6	2.8
Japan with Viet Nam	1.7	1.7	1.6	1.6	1.7	1.7	1.7	2.0	2.0	1.9	2.0	2.2	2.1	2.2	2.0	1.8	1.8	1.8
Korea with Viet Nam	4.3	4.5	3.9	3.7	3.4	3.2	3.4	3.7	3.5	3.7	4.1	4.7	5.4	5.0	5.3	6.0	6.9	6.6

Source: Calculations from ITC database.

Notably, except for the EU and Japan, the TII of most partners (such as Korea, China, ASEAN, the US) was higher than Viet Nam's TII with these partners. As an implication, Viet Nam gained net benefits in trade with Japan and the EU, while benefits from trade with other partners were not as large as expected.

3.3 Some opportunities and challenges from RCEP to Viet Nam's trade

3.3.1 Some opportunities

a. RCEP as additional boost for export growth

Covering markets with total population of up to 2.2 billion persons, equivalent to 30% of the global population, RCEP creates a large and potential market for exports.

With a rapidly developing economy and high living standards, RCEP has a great demand for consumption. Some countries are not as demanding in terms of product quality as those in CPTPP, EVFTA, etc. - and therefore penetrable for most domestic firms. In addition, consumption in RCEP markets continued to grow thanks to the interactions of such factors as: (i) the rise of middle-income class¹¹; (ii) the development of new business models that are highly experimental and adaptive (such as e-commerce); and (iii) economic growth dynamism. Therefore, RCEP opens up more opportunities for Vietnamese businesses to increase exports and expand markets, especially for products of Viet Nam's advantages such as rice, coffee, pepper, cashew, and aquatic products, real estate, etc.

Under the scenario of RCEP including India, the vast literature suggested that the Agreement would significantly boost GDP growth (Petri (2012)¹²; Petri and Plummer (2014, 2018); WB (2018)¹³), and increase national income (Itakura 2019)¹⁴, expand exports (Petri et al. (2017); WB (2018)¹⁵), etc. of all member states. By phasing out tariff, RCEP is expected to benefit Vietnamese enterprises. Nguyen Tien Dung (2018) also contended that trade liberalization in RCEP could bring many significant benefits to Viet Nam, including fostering GDP growth and boosting private consumption and exports. Ji (2019) compared the impact of RCEP with India (RCEP16) and RCEP without India (RCEP15), confirming that RCEP15 still increases the GDP of members, including Viet Nam, although the impact magnitude is smaller than RCEP16 (Figure 8).¹⁶ Besides, despite certain overlap in the structure of comparative advantage between Viet Nam and the member countries, this overlap may be less material. Meanwhile, the trade complementarity between Viet Nam and RCEP partners is on the rise. Higher complementarity and less competition may increase the possibility of trade expansion when tariffs and non-tariff barriers are removed.

¹¹ It is forecasted that by 2022, 5 countries including Indonesia, Malaysia, the Philippines, Thailand and Viet Nam will have an additional 50 million people joining the middle-income class. <https://www.bain.com/insights/understanding-southeast-asias-emerging-middle-class/>.

¹² Petri et al. (2012) shows that, by the end of 2025, the additional income that RCEP contributes to Viet Nam's GDP is USD 17.3 billion (equivalent to 5.1% of GDP).

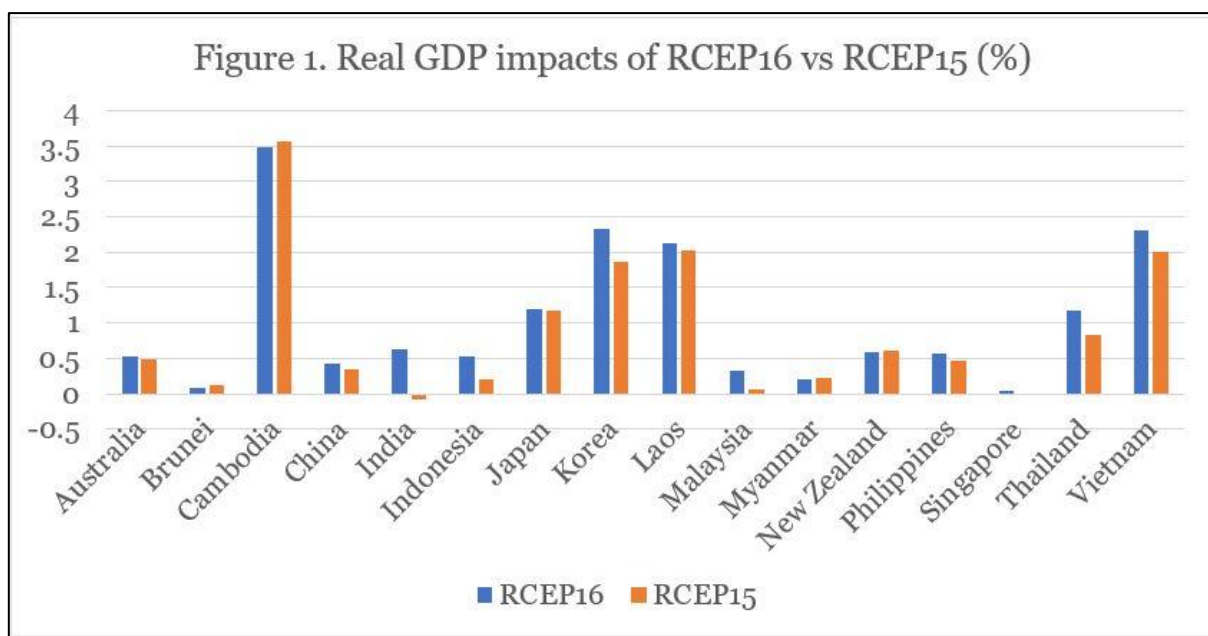
¹³ According to a World Bank (2018), participating in RCEP would help Viet Nam's GDP increase by 0.4% by 2030 under a normal productivity assumption; and increase by 1% in case of productivity increase.

¹⁴ Itakura (2019) shows that the increase in income of Viet Nam when joining RCEP could be 0.6-5.4% in 2035 (compared with the scenario without RCEP).

¹⁵ By 2030, exports are projected to increase by 3.6%, assuming normal productivity; and a 4.3% increase in case of productivity increase.

¹⁶ <https://thediplomat.com/2019/11/rceps-economic-impact-in-asia/>

Figure 8: Impacts on real GDP of RCEP16 versus RCEP15

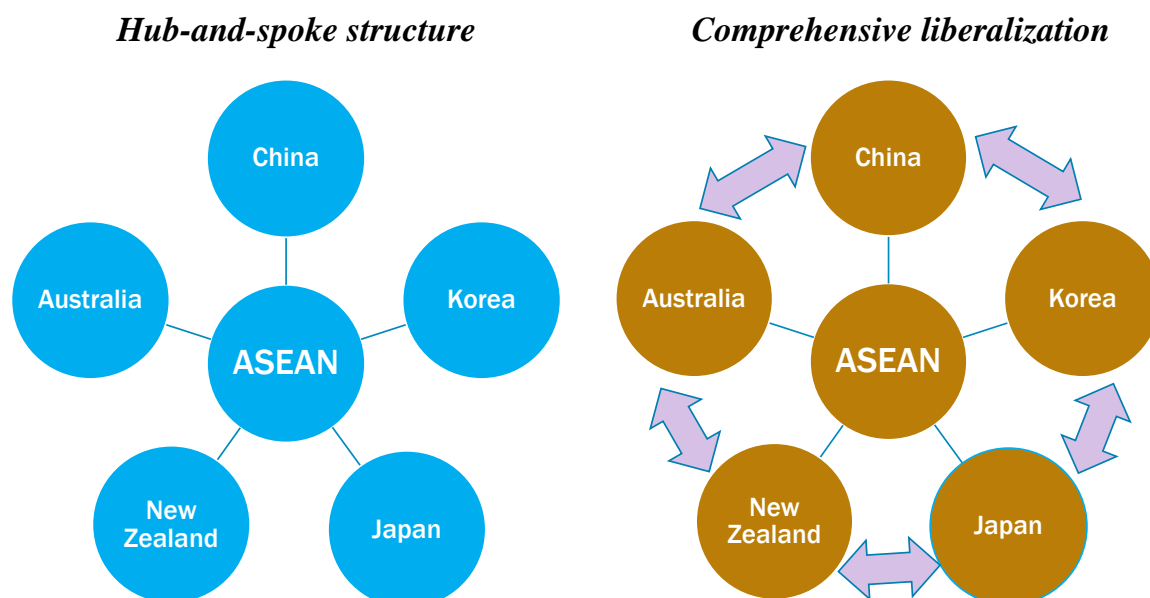


Source: Ji (2019).

MUTRAP (2015) introduces two scenarios for RCEP (including India) with different ASEAN roles. *In the first scenario*, ASEAN acts as the hub, and the other six countries are satellites (also known as the hub-and-spoke model). In other words, this model follows the structure of two-way trade relations between ASEAN and individual countries (ASEAN + 1) and does not liberalize trade flows among partner countries (China, Japan, Korea, Australia, New Zealand, and India). Under this scenario, in 2020, social welfare could increase from USD 227 million to USD 2.239 million, and exports increase by 2.4-3.9%.

In the second scenario, RCEP follows comprehensive liberalization structure: all tariffs are eliminated, and a reduction of 30% of service trade costs, social welfare could increase by nearly USD 900 million USD compared with the scenario without RCEP. However, this scenario will entail more competitive pressure for Viet Nam as China enjoys preferences similar to Viet Nam. Under the full liberalization scenario, exports to Japan and China will increase most rapidly, and exports to the US and Europe will also increase significantly. In this scenario, exports may increase by only 2.3%, lower than the corresponding figure for the hub-and-spoke scenario (3.9%).

Figure 9: Scenarios of RCEP structure



Source: Authors' compilations.

Thus, even if RCEP (without India) follows a comprehensive liberalization structure, Viet Nam still has the opportunity to increase exports and thus boost its economic growth. According to some preliminary assessments of foreign experts, the level of tariff reductions among China, Japan, and Korea under RCEP is less than full liberalization. As an implication, import diversion in Japan and Korea - from Vietnamese goods to Chinese goods - may be limited.

In fact, production chains for a wide range of Vietnamese products are dependent on the supply of raw materials (such as electronics, textiles, footwear, processed foods, etc.) from RCEP countries (e.g., from China, Korea, etc.). For example, in the textile and garment production chain, 80% of raw materials must be imported from abroad, most of which are from China, Taiwan, and Korea¹⁷. Despite capacity to produce yarn, Viet Nam still has to export raw materials to China and import fibers and fabrics to serve the sewing process. Specifically, in 2019, Viet Nam exported USD 4.2 billion of yarn and USD 2.1 billion of fabrics of all kinds but had to import up to USD 13.2 billion of fabric. Of which, USD 1.3 billion of fiber and USD 7.7 billion of fabric was imported from China, and USD 2.4 billion of fiber was exported to China. Meanwhile, according to the FTA between ASEAN and Japan, if the fabric is manufactured by Japan and ASEAN countries and is sewn in Viet Nam, it will be exempted from duty when exported to Japan. If the fabric is manufactured outside the region and sewn in Viet Nam, the finished product exported to Japan will be subject to a 9-10% tariff rate. In other words, it is difficult for the textile and apparel industry to take advantage of the tariff preferences. In this respect, RCEP may help reduce the difficulties and challenges associated with existing RoOs, thereby contribute to renewing regional value chains and enhance utilization of preferences by firms.

¹⁷ See <http://www.baodienbienphu.info.vn/tin-tuc/kinh-te/175823/nganh-det-may-can-chu-dong-nguon-nguyen-lieu-de-go-kho>

As of 2020, ASEAN already had separate FTA agreements with Australia, China, Japan, India, New Zealand, and Korea. With the signing of RCEP, trade between the member states will be promoted through lower tariff, more flexible RoO, and standardized customs regulations and procedures. In addition, RCEP will provide for general rules to minimize non-tariff measures (NTM), and at the same time, make customs procedures more consistent, thus promoting trade facilitation.

As the COVID-19 pandemic remains complicated and China is recovering relatively quickly (compared to key markets such as the EU and the US), RCEP becomes more important for Viet Nam's exports. This Agreement is also expected to open up more opportunities for services such as logistics, telecommunications, etc., creating a better e-commerce platform, a more transparent and competitive investment and business environment. By managing to keep the quality of products exported to RCEP similar to those exported to CPTPP and the EU, Viet Nam may further penetrate RCEP market during the post-COVID-19 period and participate more deeply into the GVCs.

b. Increasing high-quality imported inputs for consumption and export production

Even with imports, Viet Nam can also benefit from increased quality of imports for consumption. As shown in Table 13, the share of high-tech goods in imports from some RCEP markets tended to increase. Without guidance on product quality, import costs may decrease due to lower import duties. If Viet Nam strictly enforces the regulations toward raising product quality, import costs may not decrease, but the quality of imported goods from RCEP may increase, thereby better meeting production demand and or consumption domestically.

According to MUTRAP (2015), RCEP would lead to more imports for most industries, increasing by 3.7-5.6%, depending on the scenario. In which, only three industries, namely textile, garment, and leather goods, have a relative increase in output, and most of the remaining industries have output decreased. Similar results were found by Tu Thuy Anh and Le Minh Ngoc (2015). Accordingly, RCEP increases imports. Of which, imports of fabric details and accessories made of textile materials, knitting for garment production witness the largest increase by 803%. Meanwhile, WB (2018) showed that the sectors with the highest export growth rate would be foodstuff, beverage, and tobacco, agriculture, and mining and quarrying. Accordingly, total imports would increase by 5.4% under normal productivity assumptions and by 6.3% in the case of productivity gains.

RCEP opens up opportunities for Viet Nam to get easier access to diverse goods and services exported by partners both in terms of category and price. Phasing out tariff will give Vietnamese enterprises the opportunity to import raw materials and machinery from countries with a high level of science and technology, with lower prices. As a result, businesses can increase productivity, improve product quality, and reduce production costs. Higher quality products at lower costs will contribute to increasing the competitiveness of Vietnamese exports in international markets.

In the context of trade liberalization, exports will increase, and the need to import raw materials for production will also increase. For example, to increase garment exports, enterprises need to import more fabrics and other materials as inputs for production and export. RCEP countries account for more than 69% of the import value

of raw materials of Viet Nam, so if the import tariff is phased out, the cost of raw materials for textile and garment manufacturing enterprises will be significantly reduced.

In the context of improved income and quality of life of the Vietnamese population, the domestic consumers has a stronger appetite quality products. Meanwhile, due to many factors such as outdated production lines and technology of Viet Nam, domestic products fail to meet domestic consumption demand. The phasing out of import tariff under RCEP will enhance Vietnamese consumers' access to higher quality products at cheaper prices, especially those that Viet Nam has no competitive advantage.

c. Participation in value chains

Joining a large market like RCEP, Vietnamese enterprises have the opportunity to participate more deeply in the regional production network. Through technical cooperation and trade in intermediate goods, Vietnamese enterprises have more opportunities to access and absorb technology transfer; to improve production and management capacity; and accordingly, to participate in more important production stages that require higher technical sophistication. This process will help businesses continuously improve and upgrade their qualifications, competitiveness, and strengthen their position in the GVCs.

Various experts shared the view that RCEP would bring ample opportunities, including increasing FDI inflows into Viet Nam, although quantifying this effect is almost impossible with the available models. Specifically, RCEP will reduce trade barriers and improve market access for goods and services and attract foreign investors to a more integrated ASEAN market. FIEs, especially those from developed countries, will produce positive spillover effects, including transfers of technology, business know-how, management skills, and market access, which are critical to Vietnamese enterprises. Accordingly, enterprises will gradually develop and upgrade their positions in the GVCs, with higher value added.

During the cooperation process, for example, the “holding factories” in Japan have supported factories overseas (Viet Nam) through local labor training programs and regular support. As a result, factories in Viet Nam gradually improved their capacity and capture the value of the Japanese production system, and pass it on to other factories. After that, for overseas factories to become more independent, decision-making authority and technological processes were transferred to them. Overseas factories will develop into holding factories and will take on the mandate of local lower tier factories. More specifically, the Global Production Center (GPC) system was established. In particular, the GPC in Japan plays the role of a trainer, training regional GPCs (e.g., AP-GPC in Thailand). This training program will continue to spread to other local businesses and factories (AP-GPC in Thailand is responsible for training factory staff in Southeast Asia). Therefore, GPCs play a crucial role in the efficient start-up and operation of factories overseas.

In addition, cooperating with large businesses brings about many other benefits for Vietnamese companies. First, companies may have the opportunity to get access to capital for investment and upgrading. For example, Thanh Long Electronics Production

Corporation received more preferential interest rates on foreign currency loans after exporting input goods to Germany. Tam Hop Company also noted easier access to finance after becoming a supplier for Toyota Boshoku, a reputable multinational corporation (World Bank, 2019). With improved access to finance and technology and skills transfer, Vietnamese enterprises have gradually enhanced their position in the production chain. Thanh Long Electronics Production Corporation has grown into a tier 1 supplier of more sophisticated electronic products. Tam Hop Company, via the partnership with Toyota, has expanded its customer base through the direct introduction of Toyota Boshoku and the prestigious image that the Company has built up (e.g., reaching an agreement with Kyoei Yamaha, becoming a direct supplier to Toyota Boshoku's subsidiaries in Australia and Japan). Furthermore, participating in the global value chain, especially working and cooperating with multinational corporations, domestic firms will be motivated and pressurized to constantly renovate and improve in response to their partners' requests. In the case of Lilama 18 Company, to get the recognition and acceptance of renowned partners globally, Company Lilama 18 has undergone a continuous process of "transforming" its entire production process under partners' strict supervision¹⁸.

d. Building institutional capacity

Institutional capacity building related to RCEP is controversial. Along with RCEP's negotiation and participation, Viet Nam made efforts to improve economic institutions in Viet Nam, in particular: (i) further improvement of legal framework; (ii) strengthening capacity of the organizational apparatus; and (iii) continuing to develop and improve supporting mechanisms and policies towards ensuring competitive neutrality with Government interventions only in cases of necessity to correct market failures. RCEP undeniably has impact on pushing institutional reforms. Concerns about fierce competition in RCEP markets may force the Government and ministries to consider and internalize good international practices associated with higher standard agreements such as CPTPP and EVFTA. In addition, the need to harmonize the RoO in RCEP with those under other FTAs (ASEAN + 1) requires more effective implementation in various aspects, including issuance of relevant guidelines, provision of information about supplier networks in RCEP countries eligible for "cumulative RoO", and implementation of related policy measures to effectively link domestic export manufacturers with other large FIEs in the value chain.

More specifically, RCEP is arguably less ambitious than CPTPP or EVFTA because it mainly deals with trade, without such contents as labor, environment, and SOEs. Also, commitments on competition and technical barriers are not as strict as under CPTPP. However, RCEP members made efforts to promote institutional reforms. A new feature in the RCEP concerns information sharing about SMEs, which can induce further appropriate reforms and policies to support SMEs, at least towards broadening the economic space for this business community in trade. RCEP also strives to introduce some relatively new areas such as competition, public procurement, e-commerce, etc. Besides, RCEP leaves various areas (like ISDS) open for a gradualism approach. In

¹⁸ <https://nhandan.com.vn/nhan-dinh/tien-len-nac-thang-cao-hon-trong-chuoi-gia-tri-toan-cau-ky-1-372537/>

other words, the possibility of promoting more binding content to foster institutional reforms - even if these reforms are more tied to the CPTPP and EVFTA - cannot be ruled out.

3.3.2 Some challenges

a. Ensuring capacity to utilize preferences under FTAs in general and RCEP in particular

According to the MOIT, the average tariff rate in Viet Nam's FTA commitments only ranges from 0-5%, much lower than the average figure of 5-25% between WTO members. However, in order to enjoy the preferential tariff rates offered under FTAs, Viet Nam's exports must meet the RoO tailored to each FTA. RoO are aimed to determine the eligibility of imported goods for preferential tariff rates.

Table 21 shows the utilization rate of preferential C/O under Viet Nam's trade agreements over time, i.e. the rate of exports subject to preferential tariff under FTAs over total exports. In 2019, out of USD 127.8 billion of total exports to FTA partners, a value of USD 47.6 billion was eligible for tariff preferences under FTAs, accounting for 37.2%. The rate of FTA utilization of Viet Nam in 2019 reached 37.2%, down from that of 39.0% in 2018.

Table 21: Utilization rate of preferential C/O under Viet Nam's FTAs

Agreement	Total exports with preferential C/O (billion USD)			Total exports (billion USD)			Utilization rate of FTA preferences (%)		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
ATIGA (Form D)	6.54	8.50	8.87	21.68	24.74	25.21	30	34	35.2
ACFTA (Form E)	9.17	12.04	13.08	35.46	41.27	41.41	26	29	31.6
AKFTA (Form AK) VKFTA (Form VK)	7.62	6.36	9.82	14.82	18.20	19.72	51	35	AK: 24.22 VK: 25.65
AANZFTA (Form AANZ)	1.23	1.51	1.54	3.76	4.47	4.04	33	34	38.16
AJCEP (Form AJ) VJEPA (Form VJ)	5.83	5.65	7.78	16.84	18.85	20.41	35	30	AJ: 30.27 VJ: 7.86
VCFTA (Form VC)	0.69	0.52	0.64	0.999	0.78	0.94	69	67	67.72
AIFTA (Form AI)	1.81	4.735	4.35	3.76	6.54	6.67	48	72	65.13
VN – EAEU FTA (Form EAV)	0.48	0.68	0.83	2.17	2.45	2.67	22	28	31
Laos (Form S)	0.05	0.06	0.07	0.52	0.60	0.7	10	10	9.59
Cambodia (Form X)	0.0026	0.009	0.23	2.78	3.741	4.36	0	0.02	0.01
CPTPP (Form CPTPP)			0.57			34.39			1.67
Total	33.42	46.18	47.55	99.49	117.3	127.81	34	39	37.2

Source: Compilations from data of MOIT and the General Department of Customs.

In absolute terms, Viet Nam's exports to China ranked first in utilizing tariff preferences from ACFTA with a total value of USD 13.1 billion. Exports to Korea (under AKFTA and VKFTA) and ASEAN followed with respective values subject to tariff preferences of USD 9.8 billion and USD 8.9 billion in 2019. Viet Nam's exports to Japan entitled to tariff preferences under AJCEP and VJEPA attained a value of USD 7.8 billion.

In general, Vietnamese enterprises have improved their capability to utilize FTA preferences over the years. Specifically, the utilization rate of ACFTA increased from 26% in 2017 to 31.6% in 2019; and that of ATIGA increased from 30% in 2017 to 35.2% in 2019. Some FTAs had relatively good utilization rates, such as the ASEAN-India Agreement (AIFTA), and VCFTA, being 67.7% and 65.1% respectively in 2019. Of which, the utilization rate of AIFTA decreased compared to 2018 (from 72.0%). The utilization rate regarding exports to Korea decreased sharply over the past 3 years, reaching only 24.2% under AKFTA and 25.7% under VKFTA in 2019, compared to 51.0% in 2017. Besides, the proportion of exports to Japan enjoying preferential treatment reached 30.3% under AJCEP and 7.9% under VJEPA.

Despite improvements, Vietnamese enterprises' ability to take advantage of FTA preferences remained modest and failed to live up to expectations. The rate of FTA utilization in 2019 was 37.2%, meaning that the majority of Viet Nam's exported goods were yet to enjoy preferential tariffs under FTAs.

Some studies contended that the ability to utilize preferences under ASEAN FTAs has improved but not substantial (Verico 2017; Tambunan and Chandra 2014; Hayakawa 2009). Accordingly, Vietnamese enterprises will face numerous difficulties and challenges in utilizing preferences under RCEP. The main reason is that enterprises do not thoroughly know the criteria and conditions for export goods to enjoy preferential treatment. Specifically, to enjoy preferential treatment under FTAs, exported goods must be certified as "originating" through C/Os. However, many enterprises failed to prove compliance with RoOs due to insufficient C/Os in the process of purchasing inputs for production and business; therefore, they are not entitled to the preferential tariff rate. In addition, the preferential utilization rate under FTAs was affected by the compliance costs associated with rules of origin. Hank Lim (2013) claimed that the impacts of ASEAN + 1 FTAs were constrained by restrictive RoOs, especially under ACFTA and AIFTA. The procedure to get C/Os to take advantage of FTA preferences is still administratively cumbersome and costly; notably, this cost is higher in ASEAN than in other regions (Medalla and Balboa 2009).

Besides, Vietnamese enterprises generally do not have vision and business strategy that are friendly to RoOs under FTAs in general and under ASEAN FTAs in particular. Not many businesses pay attention to the FTAs in negotiation stage, including those relatively penetrable within ASEAN. From another perspective, businesses put forward the sophistication of FTA provisions as the reason, but the main reason was their inadequate attention. Finally, businesses have difficulty in finding appropriate suppliers abroad, especially those who can fill the "origin gap" to be eligible for cumulative RoO.

The challenge to supply chain connectivity may be improved amid the COVID-19 pandemic. The reasons are: (i) businesses' reliance on digital platforms for advertising, production, sales, and trade activities; (ii) foreign investors' tendency to shift (wholly or partially) out of China, while Viet Nam rises as a potential alternative location. However, these improvements will hardly compensate for the businesses' lack of understandings of RCEP.

b. Ensuring export competitiveness

A common concern for Vietnamese enterprises is that RCEP can magnify the risk of trade diversion, more specifically, increased competition with China. Viet Nam currently has a comparative advantage relative to China in the markets of Japan and Korea, thanks to VJEPA, VKFTA, and ASEAN+1 FTAs. With RCEP, China enjoys more preferential tariffs when exporting to these markets and will increase competition with Viet Nam and ASEAN countries. For example, Viet Nam's textile and garments are currently exported to Japan with a preferential tariff rate of about 10%. Meanwhile, the tariff rate on Chinese textile is 15-20%. Another example is that Japan imposes tariff of less than 5% on Vietnamese leather and footwear products, while this figure is 30% for imports from China. With RCEP, China can enjoy lower tariff and enhance their competitiveness, at the expense of Vietnamese enterprises.

Besides, there are concerns about the possibility of the domestic agricultural and fishery sector being negatively affected by RCEP. China, Australia, and New Zealand export various agricultural products, while ASEAN countries are competitive in the seafood sector. Again, Viet Nam may face trade diversion challenges from Japan and Korea when these countries open their markets to China. If the trade diversion effect is larger than the trade creation effect, Viet Nam will suffer from overall negative impacts.

Viet Nam maintains a competitive advantage over a number of agricultural and aquatic products and industrial products, which are mainly raw products with low processing content or low quality. Meanwhile, these two sectors' export structure of Viet Nam is similar to that of other countries in ASEAN and China. Besides, the export similarity with Korea is increasing. This implies increased competition pressure between Viet Nam and other countries in the bloc. In a similar fashion to Laos, Cambodia, and Myanmar, Viet Nam will face immense competition from China. On the one hand, most of Viet Nam's exports are identical to those of China. On the other hand, Vietnamese enterprises are deficient in many aspects, including capital, equipment capacity, technology, management skills, and labor quality. Accordingly, Vietnamese enterprises, particularly textile and garment enterprises, will be at a much more disadvantageous position than China in sustaining and penetrating other markets, as Chinese firms may have better capacity to handle big contracts, just-in-time delivery, lower production costs, and more competitive product design.

c. Increasing trade deficits

The domestic manufacturing industry will face a huge challenge as goods from other countries may flood Viet Nam after tariff is phased out. If firms from RCEP's partners do not adjust prices before import tariff, their goods will be more competitive in price when entering Viet Nam and could put pressure on the trade deficit. In another scenario, if enterprises in RCEP countries use the costs saved from import tariff to

instead invest in technology and product quality, the after-tariff price may not change, but the import volume may become larger. Then, the implications for Viet Nam's trade deficit will be more severe. The fact that the pre-2020 trade deficit with RCEP countries has somewhat cemented this concern.

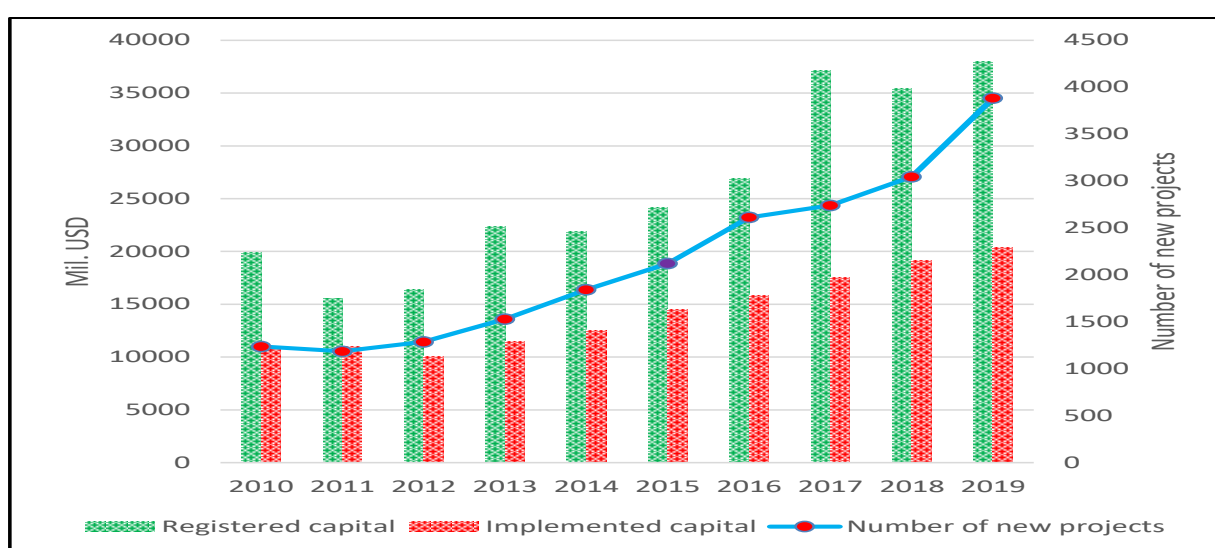
Increasing trade deficit with RCEP partners may have more implications to Viet Nam's economic autonomy. On the one hand, larger trade deficit can affect balance of payment and foreign exchange market, thereby challenging macroeconomic stability and monetary policy space in Viet Nam – an important policy issue in recent decades. On the other hand, even if trade surpluses from other markets could offset the larger trade deficit from RCEP partners, the risk of Viet Nam's exports being investigated for circumvention of duties still exists, thereby affecting Viet Nam's export considerations at both policy and firm levels.

4 Investment in RCEP from an institutional perspective

4.1 Brief overview of foreign investment

Along with economic renovation and reform over the past 35 years, Viet Nam recorded a rapid increase in FDI, especially associated with international economic integration milestones. Specifically, FDI inflows rose in terms of registered capital, implemented capital and number of new projects. In particular, registered capital increased sharply in the period 2017-2019, reaching USD 110.58 billion, approximately 92% of total registered capital during 2010-2016. Implemented capital has also improved significantly from 2015 onwards. Total implemented capital in the period 2015-2019 reached USD 87.28 billion, equivalent to 156% of the figure for 2010-2014 (Figure 10).

Figure 10: FDI inflows to Viet Nam

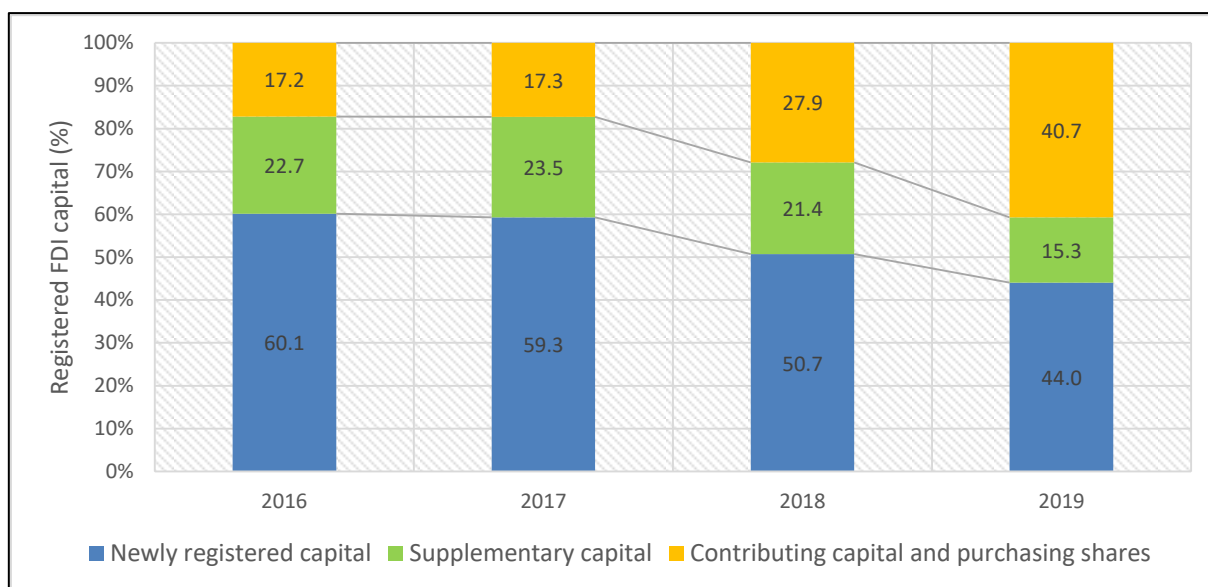


Source: GSO.

Note: Registered capital including newly registered capital, supplementary capital of existing projects. Since 2016: including contributing capital and purchase shares of foreign investors.

According to official statistics, since 2016, Viet Nam recorded the inflows of contributing capital and purchasing shares of foreign investors as part of registered capital. However, within just a few years, this capital flow has grown rapidly and crowded out the shares of newly registered capital and supplementary capital. The proportion of contributing capital and purchasing shares of foreign investors rose to 39.8%, up by 17.3 percentage points compared to 2018 (Figure 11). On the one hand, the strong growth of M&A activities has resulted from continuous efforts to improve the business environment, including the legal framework for M&A which was further improved and enabling to investors. However, the “disruptive” change in the structure of registered capital requires a close monitoring of this shift in order to adjust FDI policies, to minimize domestic enterprises suffering from predatory acquisition by foreign investors. In addition, the overheating growth of FDI inflows registered through M&A has raised concerns about the investment shift of foreign investors in order to circumvent the high duties in the context of complicated trade tensions between the US and China.

Figure 11: Movement of registered capital components



Source: GSO.

FDI by partner/investor: After more than 3 decades of attracting investment, Viet Nam has the presence of investors from over 160 countries and territories. However, most of them are small. FDI capital was mainly sourced by investors from 15 countries and territories, altogether accounting for about 90% of total registered capital in the period of 2008-2018, and 93% of the registered capital in the period 2010-2019, which was mainly concentrated in Asia. It should be noted that 6 out of the 10 largest investment partners in Viet Nam are RCEP members, namely Korea, Japan, Singapore, China, Malaysia and Thailand.

In the period 2010-2019, Viet Nam attracted a total registered capital of about USD 257 billion, of which the RCEP-5¹⁹ accounted for 47% of the total capital, followed by ASEAN countries with 19% of total capital. The EU and the US are the main export markets, sourcing large trade surpluses for Viet Nam, but the results of attracting FDI from these markets were still very modest, only 6% for the EU and only 2% for the US (Figure 12). These two partners were considered to own source technology, with the potential to promote high-quality FDI flows. However, many EU and US investors invested in Viet Nam through a third country, including RCEP ones. Tracing the origin of investment is no easy task. Therefore, it is important to appropriately consider investment data by partner/investor, avoiding an overly general comment that FDI inflows from RCEP are not of high quality.

Along with the process of joining FTAs + 1, Viet Nam's FDI inflows grew rapidly in the second half of 2010-2019, especially from RCEP-5 group and ASEAN countries. Registered capital from the RCEP-5 group increased by 90% in the period 2015-2019 compared to the period 2010-2014. FDI inflows from ASEAN increased by 46% in the same period (Figure 13).

¹⁹ RCEP-5 here refers to 5 RCEP countries which are non-ASEAN including Japan, Korea, China, Australia and New Zealand.

Figure 12: Share of FDI by partner

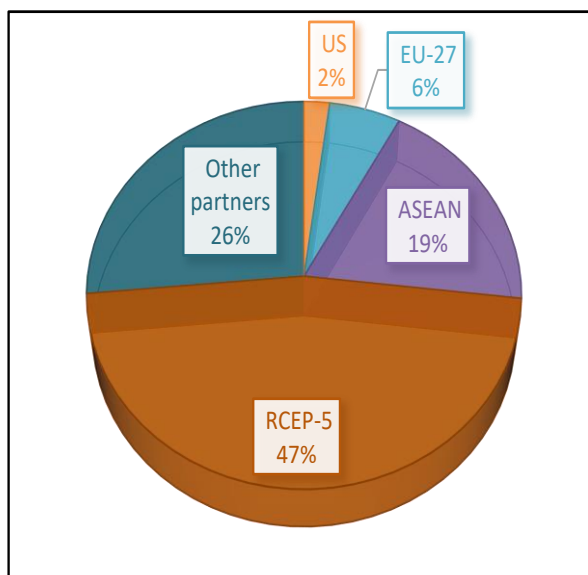
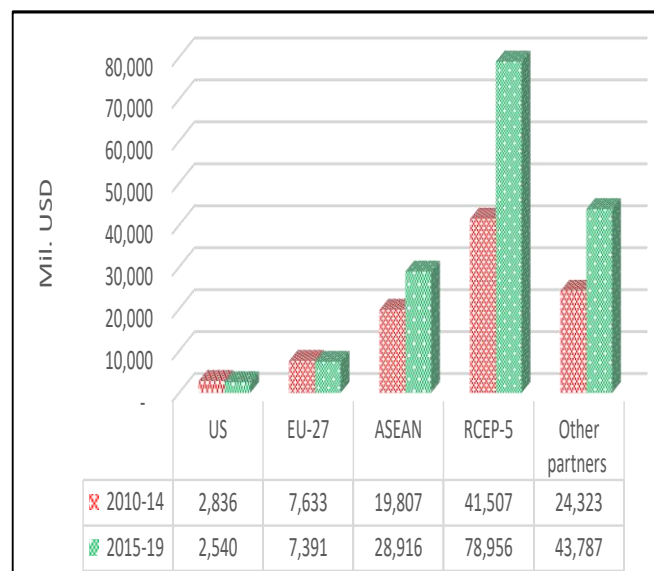


Figure 13: FDI by partner



Source: MPI.

FDI by sector

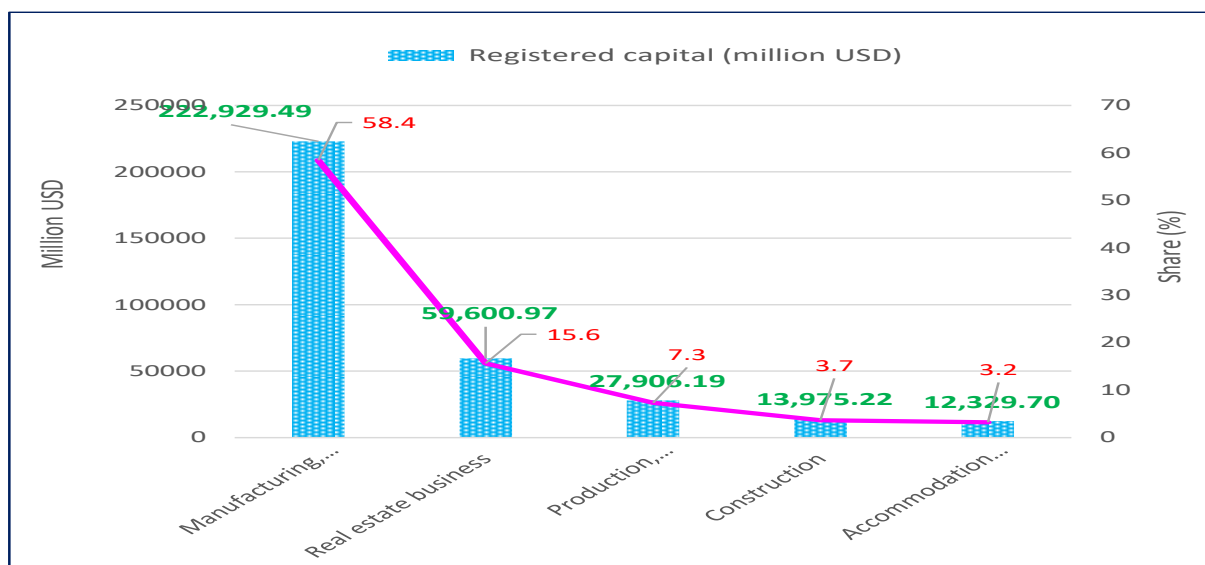
By September 20, 2020, the whole country had 32,658 projects in effect with total registered capital of USD 381.5 billion. Foreign investors have invested in 19/21 sectors in the system of national economic sectors. Manufacturing and processing sub-sector accounted for the highest proportion with USD 222.9 billion, or 58.4% of total registered capital, followed by real estate business with USD 59.6 billion (15.6%); the third was production and distribution of electricity, gas and water with USD 27.9 billion (7.3%, Figure 14). FDI capital increasingly focused more on a few key sectors, associated with the tariff liberalization roadmap and opening up of investment areas according to commitments under the FTAs. The top 5 sectors altogether accounted for 88.3% of total registered capital.

Notably, in the real estate business increased rapidly. This sub-sector currently ranked second in FDI attraction, only after manufacturing and processing. Specifically, the real estate business accounted for only 2.8% of the total number of projects, but 15.6% of the total registered capital; the average investment capital was 64 million USD/project, 4.3 times higher than the average capital scale of each project in manufacturing and processing.

In the past decades, FDI into Viet Nam focused more on unskilled-labor-intensive sectors such as garment, footwear - the main export industries. Only in recent years has the proportion of FDI in electronics industry increased. However, FIEs mainly focused on processing and assembling, raw materials were mainly imported, so the added value remained low. In addition, the linkages between FIEs and domestic enterprises were weak, reflected by the limited proportion of FIEs using domestic production inputs compared to other countries in the region. WB (2017) showed that the proportion of FDI enterprises in Viet Nam using domestic inputs was only 67.6% in 2015. This is a very low number compared to other countries like China (97.2% in 2012), Malaysia (99.9%

in 2015) and Thailand (96.5% in 2016). Infrastructure development and agricultural and rural development were the areas that Viet Nam prioritized in attracting investment and had great demand and potential, but the results of FDI attraction were still very limited. FDI in AFF remained modest, accounting for only 1% of total registered capital, but was dispersed over various projects with an average size of only USD 7 million/project.

Figure 14: Key sectors as recipients of FDI (cumulative as of September 20, 2020)



Source: MPI.

In recent years, Vietnamese enterprises have been trying to strengthen linkages with FIEs to penetrate the supply chain of the latters. For example, in the third quarter of 2019, there were 210 domestic enterprises participating in the Samsung supply chain as tier-1 and tier-2 suppliers. However, in general, despite improved linkage with FIEs, the improvement was still slow while competition in the region has elevated. WB (2017) showed that Vietnamese SMEs were predominantly tier-3 suppliers, engaged in the production of simple and low value-added raw materials and/or simple components. The request to support enterprises to strengthen linkages with FIEs to participate in the supply chain is legitimate, but achieving the linkage can not rely on support in a widespread manner. Instead, it is necessary to identify selective support, tailored to each industry, sector or product. The size of the business is another matter of concern. In fact, with small-sized enterprises, the linkage in various cases was ineffective. Practically, domestic enterprises need to have a certain scale to ensure effective linkage with FIEs and thus “win-win” in business cooperation. In addition, joint venture and linkages are the driving force for domestic companies to promote innovation, improve their ability to meet more demanding requirements of foreign customers for diversified products and designs, quality and price competitiveness. For enterprises linked with multinational corporations, they are more incentivized to innovate to meet global standards for their products, thereby increasing their capacity to participate in GVCs.

Over the past years, Viet Nam has made efforts to improve labor productivity and achieved higher annual labor productivity growth than the ASEAN average. However, due to a low starting point, the current labor productivity of Viet Nam remained very low compared to other countries in the region. According to GSO, labor productivity of Viet Nam (based on PPP 2011) in 2017 reached USD 10,232, only equal to 7.2% of

Singapore; 18.4% of Malaysia; 36.2% of Thailand; 43% of Indonesia and 55% of the Philippines (Manh Bon, 2019). Despite various debates about the accuracy as well as the calculation method, Viet Nam's labor productivity still ranked relatively low in ASEAN. Only with "breakthrough" measures in this respect can Vietnamese enterprises improve their competitiveness and link effectively with FIEs and participate in higher value-added stages of GVCs.

Low labor productivity is rooted in slow labor quality improvement. Without urgently and drastically improving labour quality, Viet Nam may risk lagging behind in the competition for high-quality FDI vis-a-vis ASEAN countries. Labor costs in Viet Nam are rising, which is undermining its advantage of cheap labor in the eyes of foreign investors. In addition to continuing efforts to reform and improve business environment, upgrading infrastructure and improving labor quality are a must to better appeal to foreign investors.

FDI from RCEP countries

In recent years, ASEAN has attracted an increasing interest of foreign investors. According to UNCTAD (2019), 2018 marked the third consecutive year of rising FDI flows into ASEAN, leading to the record level of USD 155 billion, accounting for 11.5% of global FDI. The report also contended that ASEAN's FDI outlook would be maintained in the coming years due to the industrial dynamism and improved business environment of member countries. In ASEAN, Viet Nam only ranked after Singapore and Indonesia in attracting FDI. Also, according to UNCTAD (2019), for the period 2015-2018, Viet Nam accounted for 10% of total FDI inflows to ASEAN (Figure 15). Compared with other ASEAN-4 countries, the volume of FDI inflows into Viet Nam has increased continuously (Figure 16).

Figure 15: Share of FDI inflows to ASEAN, 2015-2018

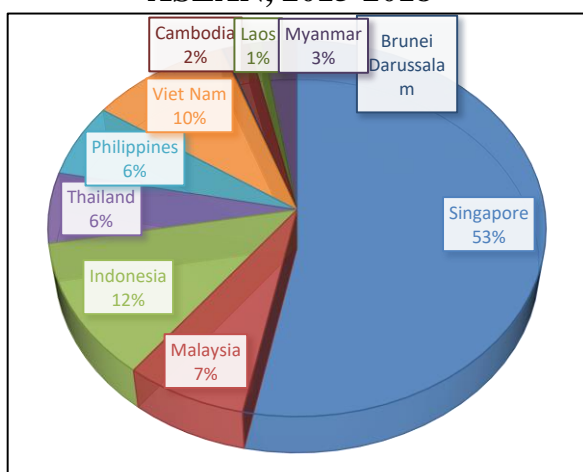
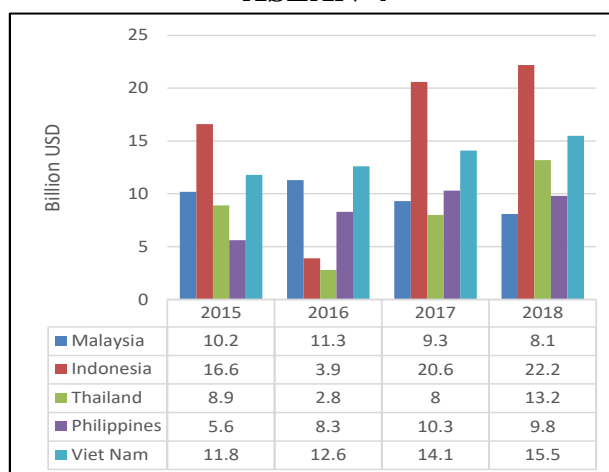


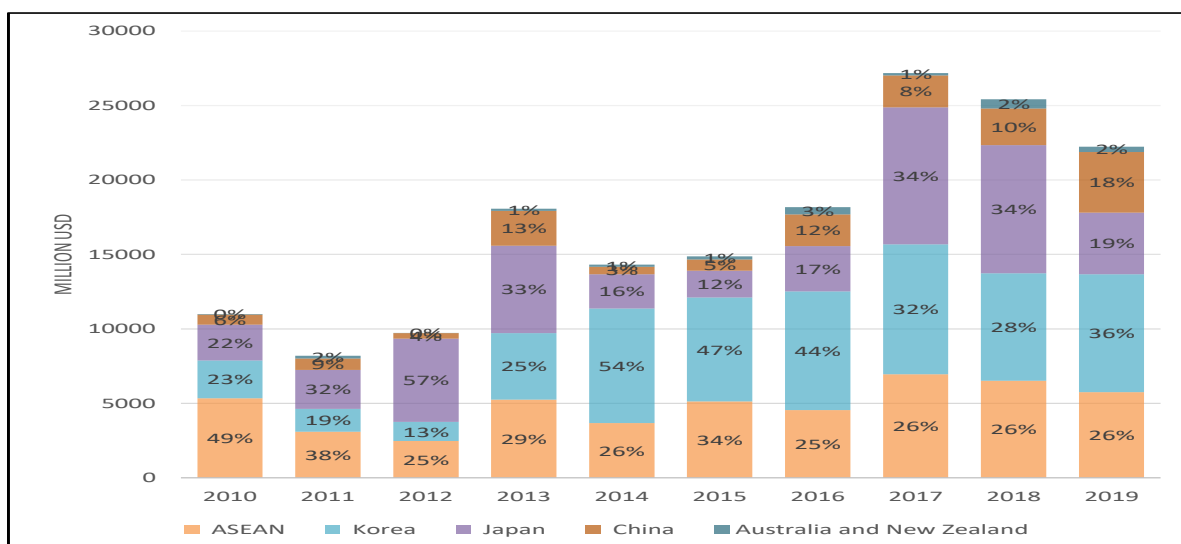
Figure 16: FDI inflows to Viet Nam and ASEAN-4



Source: UNCTAD (2019).

In the period 2010-2019, within the RCEP region, Japan, Korea, ASEAN (mainly Singapore), and China were the four main investing partners in Viet Nam. Investment capital from developed countries such as Australia and New Zealand remained very modest (Figure 17). For the whole period 2010-2019, RCEP countries accounted for 65.7% of total registered FDI capital in Viet Nam.

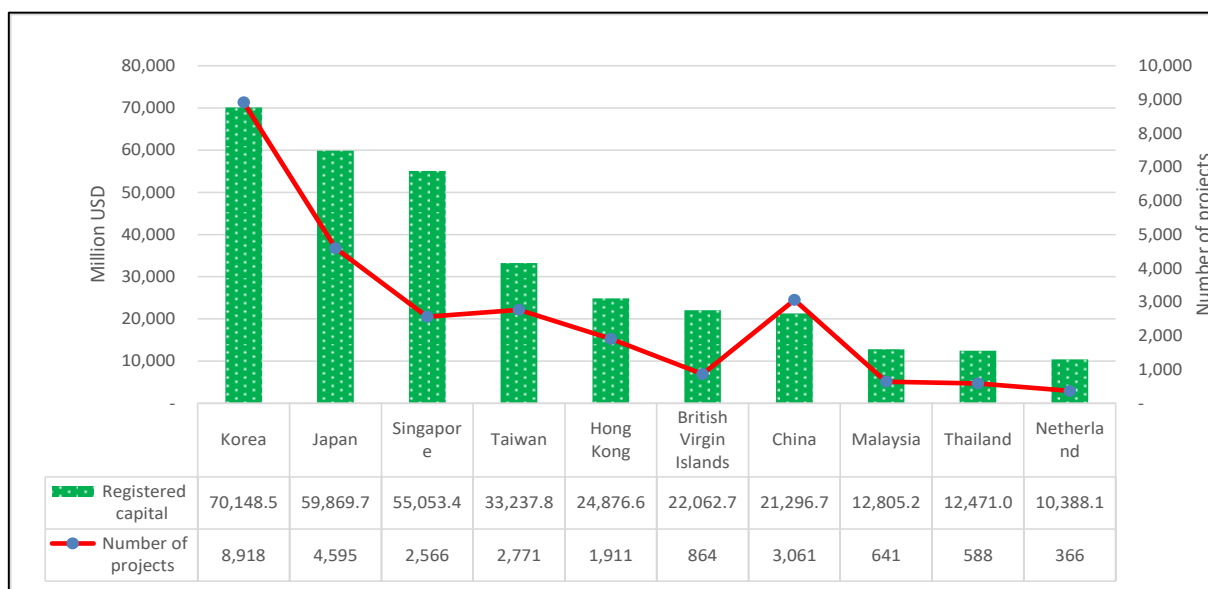
Figure 17: Investment attraction from RCEP countries, 2010-2019



Source: MPI.

By September 20, 2020, out of the 10 biggest investment partners in Viet Nam, there were 6 RCEP countries including Korea, Japan, China and 3 ASEAN countries (Singapore, Malaysia and Thailand). Total registered capital from these 6 countries was USD 231.6 billion, accounting for 60.7% of total registered FDI capital into Viet Nam. Korea, Japan and Singapore were the top three investors in Viet Nam. Notably, registered FDI from China into Viet Nam increased rapidly, accounting for 5.6% in terms of registered capital as of September 2020. China currently ranked seventh in the group of 10 largest foreign investors in Viet Nam (Figure 18).

Figure 18: Ten largest investment partners in Viet Nam as of September 20, 2020



Source: MPI.

FDI from Korea

Viet Nam - Korea relations have been cemented, especially in investment. Viet Nam has actively promoted the implementation of a strategic partnership between the two sides, in response to Korea's New Southern Policy. The FIEs of Korea has expanded

rapidly in Viet Nam, creating many jobs and making a great contribution to exports as an integral part of the economy. Viet Nam also encouraged Korean businesses to boost investment, supporting Viet Nam to develop supporting industries, thereby increasing the localization rate of products by Korean FIEs in Viet Nam (Nguyen Van Lan, 2019).

In ASEAN, Viet Nam is the top investment destination of Korea. Korean investment in Viet Nam began to increase sharply in 2013 and Korea became the largest investment partner in Viet Nam (Figure 18). Strong investment growth by Korea contributed to promoting economic restructuring of Viet Nam. Korea has increased investment in large-scale projects, focusing on industrial sectors such as electronics, steel, urban construction, offices and hotels. Viet Nam has the investment presence of major Korean industrial groups such as Posco, Doosan, Kumho, LG, Samsung, Charmvit, Keangnam, etc. Various large Korean corporations have been investing in high-tech projects, creating great added value, in line with the selection of foreign investment projects of Viet Nam.

However, the sizeable gap in development level and the quality of human resources are both opportunities for and hindrances to effective cooperation and linkage between Korean FIEs and Vietnamese enterprises. In fact, Korean businesses are quite active in cooperation and capacity building for Vietnamese businesses. A typical example is Samsung paying attention to developing a network of local suppliers in Viet Nam. However, as the gap in development level is quite large, bilateral cooperation cannot attain full effectiveness within a short timeframe. It is thus imperative that the two sides remain patient in cooperation - especially when the related commitments in the RCEP are assessed relatively looser than CPTPP and EVFTA.

FDI from Japan

Viet Nam encourages investment, especially FDI from the countries with high technology level, including Japan. However, only since Viet Nam joined the WTO has FDI inflows from Japan increased steadily. In the period 2010-2020, Japan has been always among the top investors in Viet Nam. Japan is currently the second largest investor in Viet Nam after Korea (Figure 18).

Although Japan is an industrial country with various technology of potential to transfer to Viet Nam, actual technology transfer from Japanese FIEs to Vietnamese enterprises has been modest. Among the key reasons was the low absorptive capacity of domestic enterprises, due to limited labor skills and little investment in R&D. Meanwhile, awareness of the importance of technology transferred by Japan to Viet Nam is always high. For example, the Cells Alive System transferred to Viet Nam has enabled many agricultural products (such as lychee fruits) to be preserved with better quality, thereby meeting import standards into demanding markets, including Japan.

In the context of the US-China trade war and the COVID-19 pandemic, Japanese enterprises' investment interest in Viet Nam has somewhat increased. The survey report in September 2019 of the Japan External Trade Organization (JETRO) - through a questionnaire on the performance of Japanese enterprises investing in 20 countries and territories in Asia and Oceania - showed Japanese investors' optimism in Viet Nam's economic outlook and their intention to shift from China to Viet Nam. The report showed that 63% of Japanese enterprises wanted to expand their business in Viet Nam

and 42.3% of Japanese enterprises in China wanted to open more production and business establishments in Viet Nam in order to diversify investment locations, minimize risk dispersion and production costs (Thu Hien, 2020). In 2020, out of 30 surveyed Japanese enterprises that wanted to leave China, 15 would like to move to Viet Nam.

In addition to investing in the processing and manufacturing industry to produce and process export goods, Japanese enterprises are interested in the domestic market of Viet Nam. Of which, popular investment areas in the domestic market include consumer goods, information technology (IT), digital technology, retail, construction, environmental engineering, and health care. In addition, some Japanese enterprises in China wanted to partially shift their investment to Viet Nam, both to avoid adverse effects from the US-China trade war, and also because of rising production costs, especially labor costs, in China. However, even if Japanese enterprises are determined to move to Viet Nam, the transition process still takes a lot of time and costs, because Japanese enterprises must also handle existing labor contracts with Chinese workers.

FDI from China

Various Chinese investment projects in Viet Nam did not have good image due to outdated technology, especially the lack of transparency. However, to be fair, China's FDI also contributed additional capital needed for economic development in Viet Nam, in terms of infrastructure construction, upgrading capacity to promote economic growth, and promoting economic restructuring. Chinese FDI has been shifting away from mining and quarrying to manufacturing and processing. Taking advantage of the geographical location, China also focuses on investment in remote areas and border areas such as Lang Son, Lao Cai, and Ha Giang, helping to reduce the development gap between regions of Viet Nam. Through FDI, Chinese enterprises partly contributed to technology transfer, transferring a number of necessary machineries to support production for domestic consumption and exports of Viet Nam. Concerns about the lifecycle and the generation of technology that China has transferred to Viet Nam should meanwhile be addressed by Viet Nam's own screening and absorptive capacity.

Still, FDI inflows from China exposed a number of fundamental limitations, some of which were the use of old technologies and risks of environmental pollution. Some Chinese FDI projects arguably extended Viet Nam's economic development paradigm in width, focusing on resource exploitation, simple assembly, discouraging domestic production, even pushing Vietnamese enterprises to a lower position in the value chain. Without effective screening and improvement, Viet Nam may not avoid reliance on FDI projects involving simple raw and preliminary products with low added value, small scale, simple technology, weak competitiveness, and ample risks.

4.2 Some opportunities and challenges from RCEP regarding investment activities

4.2.1 Some opportunities

Viet Nam has more opportunities to attract FDI from the shift of investment out of China amid the US-China trade and technology war, as well as new consideration during and after the COVID-19 pandemic.

Since 2018, the US-China trade and technology war has become more explicit and complicated. On the one hand, the US sought to curb the rise of China. On the other hand, the US increased confrontation with China in terms of economy and trade, especially in key technology areas (5G, artificial intelligence, next-generation microprocessors, etc.)²⁰. The US developed and built alliances to promote the Indo-Pacific initiative. China took more direct measures in the rivalry with the US in various areas and initiatives that were commonly perceived to be influenced/led by the US, such as WTO, APEC, etc. Most recently, China announced that it would consider applying for CPTPP, in the context that the US election result has gradually turned in favour of Mr. Biden and the possibility of the US return to the TPP has been re-opened.

Facing the challenges as well as contraction of global trade, the consequences of the global financial crisis, and slow growth due to cyclical and structural factors, China proceeded a series of reforms in both domestical and overseas spheres. Domestically, China proposed various reforms to boost innovation, creativity and increase productivity. In foreign affairs, China announced the “The Silk Road Economic Belt and the 21st Century Maritime Silk Road Development Strategy” - more commonly known as Belt and Road Initiative (BRI).

In the coming time, China’s BRI, with the potential to shape global trade, may create opportunities for Viet Nam to attract FDI. Several trade routes have been proposed for the new “Silk Road”. Viet Nam may be in a good position to join the BRI project. This will induce growth of trade, investment, and tourism sectors of Viet Nam. However, these opportunities may be accompanied by challenges, including the shared benefits to Vietnamese enterprises and people, as well as the capacity of Viet Nam to maneuver project design and implementation.

The countries along the BRI are widely different in terms of economic and infrastructure development, including 9 low-income countries; 16 low middle-income countries; 14 countries with upper middle income; and 7 high-income countries. Viet Nam may benefit from the Indochina-China Economic Corridor in terms of: Jointly planning and building an extensive transportation network and several industrial development projects; New way of collaborative funding; Promoting socio-economic development in a harmonious and sustainable manner. However, there are some prerequisites for realizing the benefits from BRI, including ensuring policy and institutional framework for effective implementation.

In addition to the trade-technology war between China, foreign investors themselves have to consider several factors, specifically: (i) The economic downturn has prompted China to shift its growth paradigm and restructure its economy; (ii) rising labor costs in China; (iii) China tightened some regulations on foreign investment (environment, technology transfer, exports of some important commodities, etc.); and (iv) competition for FDI inflows to other countries, especially ASEAN and India, etc.

²⁰ The US has tightened control, narrowed the scope of operations of Chinese technology companies; prohibited US government agencies from buying and selling equipment and services to five Chinese technology companies (Huawei, ZTE, Hytera Communications, Hangzhou Hikvision Digital Technology and Dahua Technology). On June 30, 2020, the US Federal Communications Commission (FCC) officially considered Huawei and ZTE as a national security threat.

These considerations have more or less induced shift of some stages and sectors of FDI to some emerging economies with relatively lower labor costs such as India, ASEAN, etc. Moreover, the possibility of further shift in the future is not ruled out.

According to A.T Kearney Consulting (2019), China dropped from 3rd (2017) to 7th (2019) among the best FDI destinations in the world. This ranking had been the lowest of China until 2019. This shows the decline of China's attractiveness to investors, due to rising labor costs, impact of US-China trade war and the impacts of the COVID-19 pandemic. According to Nomura Group (2019), from the beginning of 2018 to August 2019, 56 international enterprises left China to produce in other countries; 26 of which chose Viet Nam, 11 chose Taiwan, 11 chose Thailand and 3 chose India as an alternative investment destination. The shifting of FDI capital from China and other territories to Southeast Asian countries, including Viet Nam, are due to the 5 main reasons as follows:

First, investors are looking for new investment locations to avoid the risks of trade-technology war: Trade and technology tensions between the US and China have escalated, which compelled investors to look for a more stable, less risky, export-oriented manufacturing investment destination that can avoid high US tariffs.

Second, investors want to continue to diversify their production chain (“China +1” strategy): The “China +1” strategy was popularized over the past 10 years because China has started to lose its advantages in FDI attraction such as cheap labors, while gradually abolishing investment incentives, etc. At the same time, some countries and enterprises want to reduce their dependence on China and, therefore, seek a new investment location while retaining and utilizing the existing establishments in China. This forms parts of the strategy to minimize adverse impacts of shocks that disrupt the supply chain. Thus, even in the context of the COVID-19 pandemic, the apt to reduce dependence on the Chinese market does not imply complete divestment by investors away from China - a gigantic market and production base with economies of scale.

Third, investors want to take advantage of new opportunities from potential markets (India, Viet Nam, Indonesia, the Philippines etc.): Among the potential recipients of the investment shift, Viet Nam is considered to have some advantages due to the improved business environment, sizeable domestic market, and increasing living standards; similarity to China in terms of culture, politics and geographic location, which helps to minimize divestment costs and retain a close linkage with existing production facilities in China; Viet Nam’s extensive international integration in economics, trade, foreign affairs, culture, education, science and technology, etc.

Fourth, the COVID-19 pandemic promotes the rearrangement of global production chains: The COVID -19 pandemic disrupted the global production and supply chains, and evidenced the excessive dependence of supply chains on China. Therefore, multinational corporations want to shift their investment to other Asian countries such as Indonesia, Malaysia, India, Viet Nam, Thailand, the Philippines, etc. The shift trend of FDI has begun before the COVID-19 pandemic; however, the COVID-19 pandemic made this process faster and more drastic. The COVID-19 pandemic also causes investors to consider more seriously the needs to reduce dependence on a certain investment location, to avoid concentrating production in one country and to utilize

existing FTAs of the host country for exports. In this context was the concept of “glocalization” renewed, reflecting a combination of globalization and localization.

According to Chaisee (2020), 80% of FIEs left China because of the trade war and the remaining 20% due to the COVID - 19 pandemic. The COVID - 19 pandemic led to more rapid shift and reorganization of GVCs following some trends such as:

(1) Supply chain shifts involve investment flows, which move all or part of production lines back home or abroad;

(2) Restructuring, rearranging the supply chain through expanding the supplier network (outsourcing) to spread risks, not necessarily accompanied by investment shift. Specifically:

- Shortening the supply chain by bringing part or the whole of production back to the home country (reshoring) or to those with geographical proximity. This trend helps shorten transit time in the supply chain, improve autonomy and ability to control the supply chain, ensure national security in case of epidemics, natural disasters and crises.

- Decentralizing, diversifying risks through moving some chains/stages out of China, back to the home country, to a place near the market or to reliable countries (off-shore). This represents a continuation of the "China +1" investment trend (started in the mid-2000s) in a new context under the impact of the COVID-19 pandemic. In fact, this trend is not to find new places or "factories" to replace China, but to disperse risks and reduce dependence on China. As a note, for years there has been no country able to compete with China in terms of market, size, quality of human resources, infrastructure, supply-logistics system.

- Shifting stages closer to production centers and main markets: Accordingly, essential chains, stages using high technology and/or essential components are more likely to shift to the home country and/or geographically close countries or reliable partners. The supply chains more vulnerable to supply chain disruption in China will be more likely to be diversified (such as electronics, cars, machinery, textiles, etc.). Downstream stages can shift faster and earlier than those requiring high technology and specialization. The corporations backed and supported by the governments, especially high-tech corporations, are more likely to shift.

Under the impact of the COVID-19 pandemic, a number of sectors/fields have the potential to shift, including:

- + The IT - Telecommunication (ICT). In fact, the gap between China and the US in key technology areas has been narrowed down. China sees ICT as a key breakthrough area to overtake the US, while the US seeks to contain China's efforts. The outbreak of COVID-19 further induced nationalism and anti-globalization, thereby accelerating the technology divide that had existed before.

- + Medical protective equipment and pharmaceutical technology. The COVID-19 pandemic led to the re-definition of the "industries that directly affect US national security", thus becoming the areas of supply chain adjustment in the future. Currently the US is arguably dependent on Chinese supplies in 16 different important pharmaceuticals, for example rare earth minerals (68%), vitamins C and D (75%),

antibiotics (80-90%), paracetamol (70%), etc. In the future, supply chain adjustment could even extend from pharmaceuticals to medical devices and personal protection.

+ Other sectors such as assembly industry (textiles, footwear, consumer goods, etc.) are also prioritized to move away from China when the US-China trade war escalates after the COVID-19 pandemic. The companies will assess economic efficiency of specific routes and plans for shifting, to various extents and depending on the policies of each country.

In the process, upstream components/stages or associated with high technology tend to shift towards source technology countries (US, EU, Japan, etc.). The downstream and assembly stages may shift to many other countries in order to disperse risks and optimize production costs, including some potential destinations including India and ASEAN countries such as Viet Nam, Indonesia, Malaysia, Thailand, etc.

Fifth, governments of some countries such as the US, Japan, etc. actively encourage supply chain shift: In April 2020, Japan spent USD 2.2 billion in an economic stimulus package of nearly USD 1,000 billion to help Japanese manufacturers move their production chains out of China, and also launched a subsidy program worth ¥ 23.5 billion Yen (USD 220 million) to help companies diversify their supply chains to ASEAN countries. As an implication, the shift of foreign investors is not based on pure economic cost-benefit considerations, but more on geopolitical competition.

For the US, on May 14, 2020, President Donald Trump signed an order decree to help US companies relocate production out of China. US lawmakers are also drafting law aimed at reducing dependence of the US on China, including the idea of setting up a USD 25 billion fund to invest in companies looking to restructure relations with China. Many EU countries have also considered plans to reduce their dependence on Chinese suppliers.

However, this shift partly represents a diversification of the market, i.e. moving only a part, rather than the whole, of the supply chain out of China. The shift will not take place immediately and may not trigger a big wave of investment shift globally and in the region, at least in the medium and long term due to the following reasons:

First, no single country or location can completely replace China in the GVCs. China has a huge consumer market and production advantages due to its size, modern and synchronous infrastructure, a complete logistics system, good supporting industries, skilled workers as well as the high-tech supplier ecosystem, which meets the quality standards of the US, Europe, etc. on large scale production.

Second, the GVCs have been already complete and cannot shift rapidly. Various large corporations have close ties to China both in terms of market and production, have built production facilities and developed supply chains in China for decades, so they cannot leave China in the short term due to high costs and ample risks. In addition, as the shift out of China by some corporations such as Nike and Samsung had been going on for years, the room for further shift is arguably much narrower.

Even large US corporations (belonging to the Fortune 500 group) may not be ready to move all or most of their production out of China. According to an investigation by the US Chamber of Commerce, Japan and the EU in China, more than 70% of US

businesses in China had no plans to withdraw from China; 40% had a long-term supply chain strategy in China and would not change their plan despite the impact of COVID-19 pandemic and 52% of these enterprises thought it was too early to adjust the plan. 90% of Japanese enterprises in Eastern China have no plan to withdraw from China; Only less than 10% of enterprises have plans to relocate production to the home country, the rest one mainly diversifies supplies outside of China. The corporations most likely to move away from China are mainly corporations that want to disperse risk and optimize costs or corporations that are directly affected by US-China strategic competition.

Third, China strengthens measures to retain foreign investors, especially leading technology corporations, through improving investment environment; strictly implementing the revised Foreign Investment Law; expanding the pilot model of free trade zone with many incentives; easing restrictions on foreign investment through shortening the list of areas under investment restrictions, accelerating the liberalization of services, manufacturing, finance, agricultural production, education, etc.; increasing investment in IT infrastructure, especially 5G infrastructure; strengthening regional economic cooperation with a focus on China - Japan - Korea, ASEAN + 1, ASEAN + 3, and RCEP; formulating regulations and technical barriers to prevent/restrain investors from withdrawing capital and moving out of China; etc.

In this context, the opportunity to attract more FDI from RCEP is not insignificant. However, this opportunity is big or small will depend on (i) whether Viet Nam can increase cooperation with ASEAN countries, instead of a “race to the bottom”, to attract foreign investment; (ii) whether Viet Nam is wise and pragmatic enough not to ignore a good project just because it comes from a certain market; and (iii) whether Viet Nam can quickly attract some good projects right from the start, because these projects can offer lively examples to other investors to come to Viet Nam.

Accordingly, Viet Nam needs to fully and seriously recognize the advantages generated by the international economic integration process in general and FTAs in particular. In other words, the recognition of opportunities from RCEP should not and cannot be separated from the FTAs that Viet Nam has implemented, signed or is negotiating. As mentioned above, Viet Nam is deeply involved in the international economic integration process, including through a series of FTAs.

Moreover, the effective implementation of FTAs not only depends on the strategies and ways to harmonize these agreements, but also on Viet Nam’s internal institutional reforms. While Viet Nam has been performing very well in institutional reforms, such efforts were far from enough and must be continued. In fact, Viet Nam has continuously improved institutions and financial incentives to better attract and manage foreign investment resources, especially in the following areas:

First, creating a comprehensive institutional, legal and policy framework for FDI:

In the late 1980s and early 1990s, Viet Nam faced a serious shortage of investment capital. In order to attract investment capital from different regions of the economy, including FDI, a series of investment incentives have been issued. Along with the development of the country, the Foreign Investment Law underwent amendment by

the National Assembly to adapt to practical needs of each period. The amendments were made in 1990, 1992, 1996 and 2000. Even after being incorporated into the Investment Law since 2005, regulations related to foreign investment were further revised and supplemented. Most recently, the Resolution 50-NQ/TW dated August 20, 2019 of the Politburo on the orientation to improve institutions, policies, and quality and efficiency of foreign investment cooperation by 2030 concretizes Viet Nam's approach and thought towards FDI attraction in the new context (Figure 19).

Figure 19: Institutional reforms related to FDI attraction in Viet Nam



Source: Authors' compilations

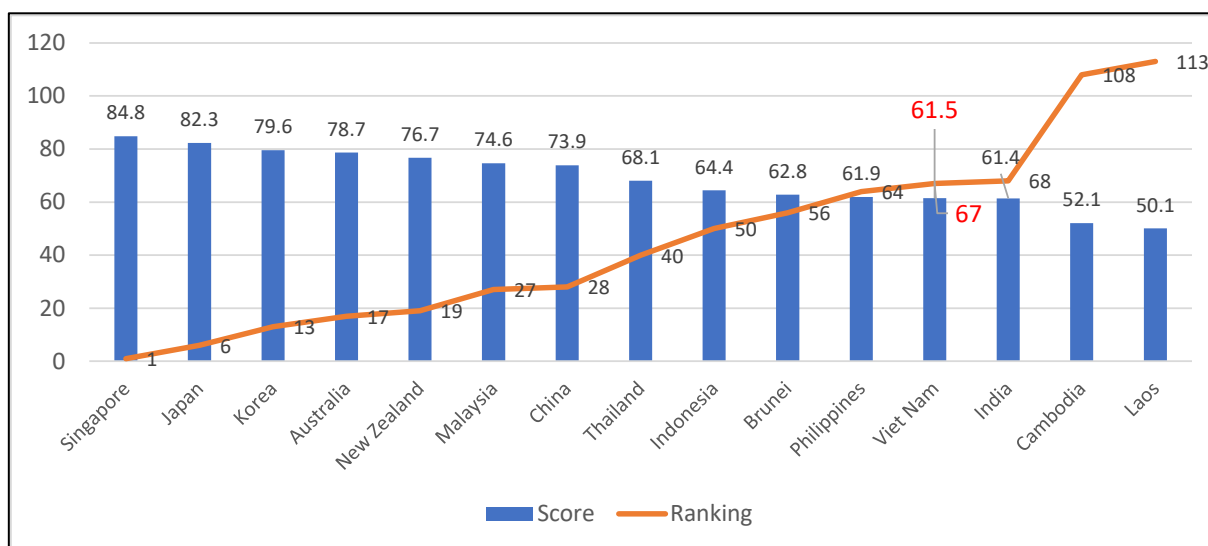
Second, Viet Nam has continuously improved institutions and preferential policies in terms of finance, taxes, and access to land to attract and manage foreign investment resources more effectively. The financial incentives focus on 3 areas: (i) Corporate income tax, (ii) Import tariff and export tax; and (iii) Access to finance and land.

Third, Viet Nam has continuously improved business - investment environment, especially since 2014.

Since the early 2000s, the Government has paid special attention to and focused on improving the business environment. However, in the period 2000-2010, reforms by the Government towards improving the business environment were yet to be in line with international practices. Only since 2014, through the series of Resolution 19/NQ-CP (2014-2018 period) and Resolution 02/NQ-CP (from 2019) has the Government aligned business environment improvement with international practices; actively referred to business environment rankings of international organizations (especially the WB's Doing Business) to identify reform issues and propose solutions. The Government's reforms focused heavily on measures to improve the business environment and on institutional arrangements. As a result, the score (representing quality) of the business environment and therefore national competitiveness of Viet Nam was upgraded.

The results were quite positive. By the end of 2019, the number of simplified business conditions was 3,551 out of 6,191 conditions (exceeding 11.5% of the target); simplified specialized inspection related to trade: 6,776 out of 9,926 lines (exceeding 36.5% of the target). In 2019, Viet Nam's Global Competitiveness Index 4.0 (GCI 4.0) reached 61.5/100 points, ranked 67th out of 141 economies. Compared to 2018, Viet Nam's GCI improved by 3.5 points and 10 positions, the most impressive increase in the world in 2019 (Figure 20).

Figure 20: Competitiveness ranks and scores of Viet Nam and RCEP countries in 2019



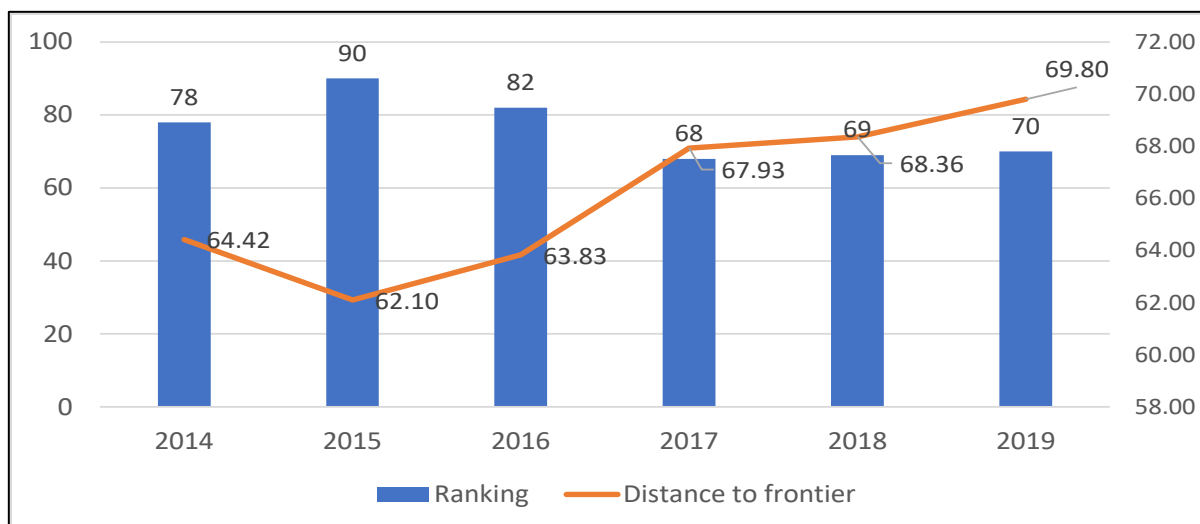
Source: WEF (2019).

Notably, only Viet Nam with Singapore, Brunei, Laos, and Cambodia improved points, and only Viet Nam with Singapore, Brunei and Cambodia moved up in terms of ranking. Viet Nam outperformed in terms of scores and rankings, narrowing the gap compared to ASEAN-4. Viet Nam also surpassed India and closed the gap with other countries in the RCEP including China, New Zealand, Australia, Korea and Japan.

Since 2015, Viet Nam's business environment scores have continuously improved (Figure 21). Ranking decreased by 1 place in each of the years 2018 and 2019,

but the score still increased (2018: 1.59 percentage points; 2019: 1.44 percentage points).

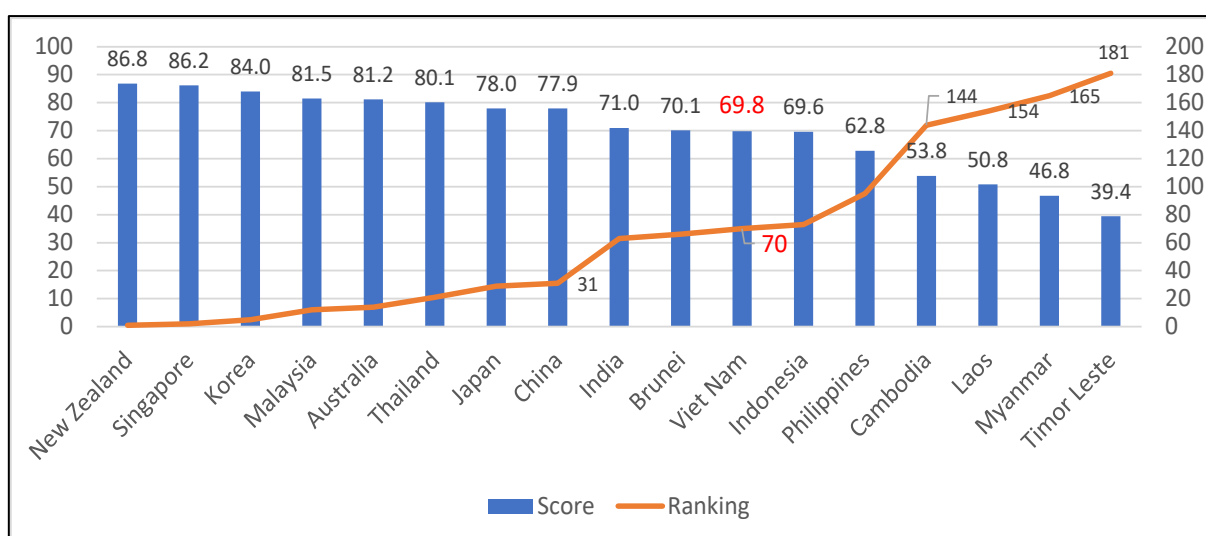
Figure 21: Ranks and scores of Viet Nam's business environment, 2014-2019



Source: WB (2014-2019).

According to the Doing Business Report 2019 of the WB, together with Indonesia, Viet Nam implemented the most reforms (42 each) in the previous 16 years. Of which, in the period 2014-2018 with the series of Resolution 19, Viet Nam already had 18 recognized reforms. Compared to other ASEAN countries, Viet Nam surpassed Indonesia and the Philippines to rank 5th, significantly narrowing its gap with ASEAN-4 countries. Compared to other countries in the RCEP, Viet Nam still needs to further concrete reforms in order to compete for FDI.

Figure 22: Business environment of Viet Nam vs. RCEP countries in 2019

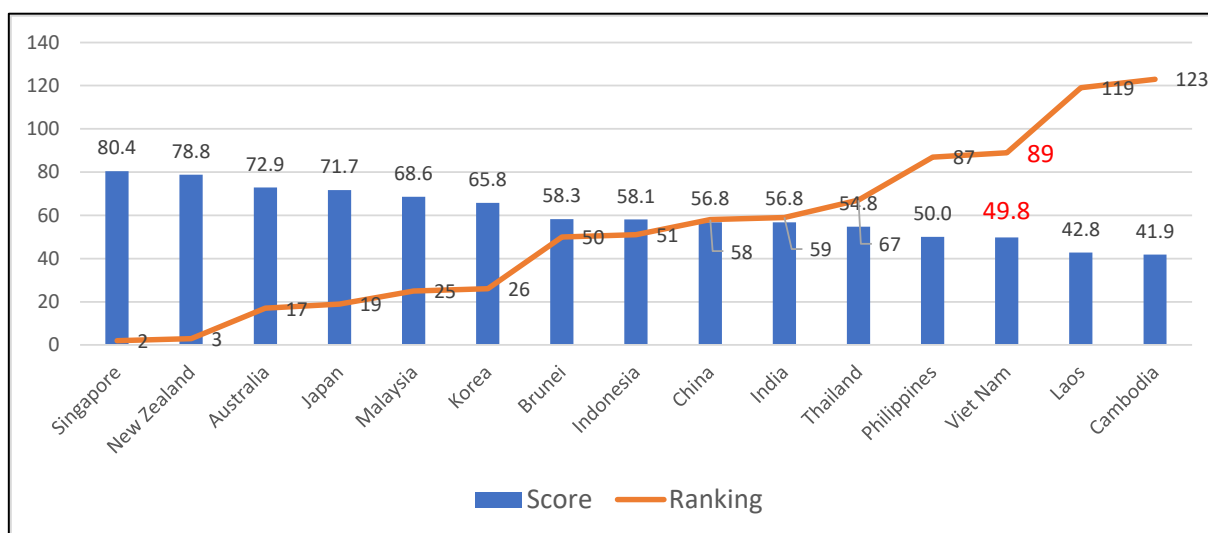


Source: WB.

As countries in the region all sought to improve the investment and business environment to attract FDI, quickly narrowing the gap will help create more opportunities for Viet Nam. In this respect, promoting business reforms just to outperform regional countries cannot suffice to attract FDI effectively; instead,

collaborating and jointly improving the business environment of ASEAN is even more important for Viet Nam and ASEAN to attract foreign investment from other RCEP partners.

Figure 23: GCI Institutions of Viet Nam vs. RCEP countries in 2019



Source: WEF (2019).

Viet Nam's unilateral institutional reforms will also help reduce the risk of undermining motivation for reforms. Even with relative improvement compared to ASEAN, Viet Nam's institutional arrangements exhibit various shortcomings. According to WEF (2019), in 2019, Viet Nam ranked 89th out of 141 countries. Of which, the most significant improvement was in future orientation of the government (40th position in 2019 compared to 75th in 2018). Meanwhile, the index on the legal framework's adaptability to digital business model was still low in terms of both score and ranking (43.1 points; 71st position). The index on government ensuring policy stability was only 50.3 points, ranked 67th. In terms of institutions, Viet Nam needs further concrete reforms to close the gap with ASEAN-4 countries and others in RCEP.

4.2.2 Some challenges

First, identifying and effectively handling trade deficit associated with foreign investment in RCEP is a big challenge, and may become even more complicated.

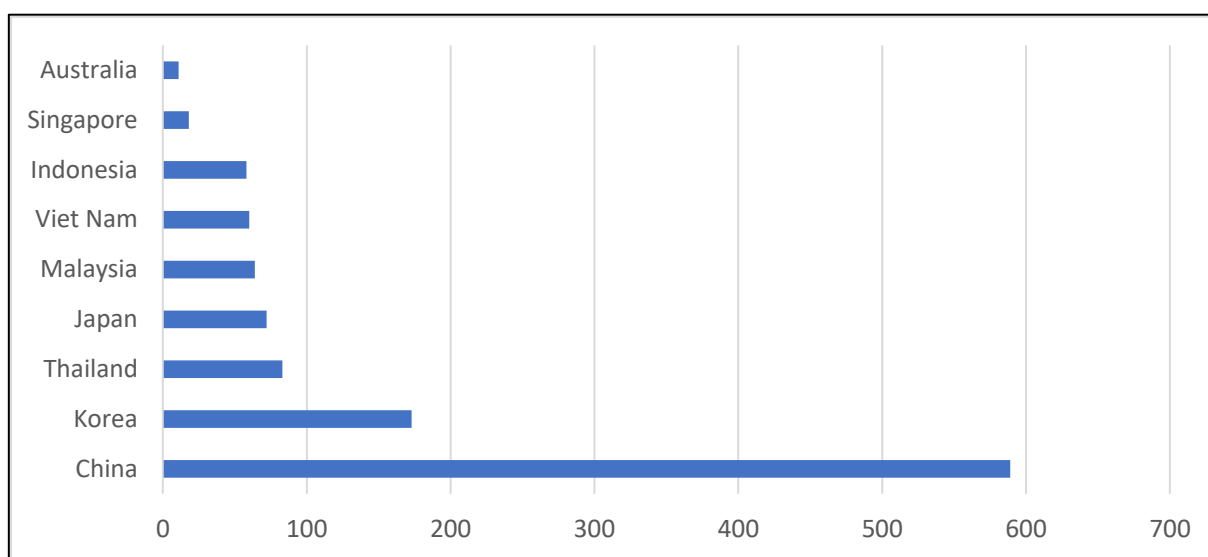
Increasing foreign investment may induce more imports of technology and inputs for FDI projects, thereby putting pressure on trade deficit. From the past performance when implementing ASEAN + 1 FTAs such as ASEAN-China, etc., Viet Nam's trade deficit from some ASEAN partner markets (such as China, Korea) has increased to a relatively large level (Figure 5).²¹ The assessments of possible impacts of RCEP on imports and trade deficit generally agreed that RCEP could increase Viet Nam's trade deficit. Without changing the perception that trade deficit is still acceptable as imported inputs from RCEP can be fully financed by exports to and trade surplus with non-RCEP markets, Viet Nam may face some major risks.

²¹ As discussed on the sub-Section on trade deficit.

On the one hand, the risks of supply chain disruption in the post-COVID-19 period are still material and may become more complicated. Such disruptions may result in the connection to export markets being less stable and/or less seamless as in earlier periods. This is not to mention the complicated impacts due to the shift of global and regional supply chains after COVID-19 pandemic. As a note, the industries that are assessed with high potential to increase exports to non-RCEP markets (such as textiles, food processing, etc.) - in which foreign investors are more or less interested - are also those most severely affected by the supply chain disruptions during the COVID-19 pandemic.

On the other hand, the major export markets themselves (such as the US, EU) may more be concerned about the origin of imported goods and/or the size of the trade deficit with Viet Nam. The issue of Chinese goods circumventing US duties in the context of the US-China trade war were mentioned more directly by the US in the period of 2018-2020 and may be monitored more closely after 2020. Viet Nam and RCEP countries (especially China) are also facing an array of trade remedies, such as anti-dumping (Figure 24), anti-subsidy, etc. These issues will be more complicated if “hidden” behind foreign-invested projects, because addressing them will then have to consider commitments on investment protection (if any) as well.

Figure 24: Number of anti-dumping cases initiated by exporter, 2011-2019



Source: WTO.

The above cases may see greater uncertainties of Viet Nam’s overall trade balance, especially when volatility in non-RCEP markets could alter the ability of Viet Nam to earn a surplus to offset the trade deficit with RCEP. Accordingly, Viet Nam’s economic autonomy could be significantly affected, at least in terms of: (i) the room to conduct macroeconomic policies; and (ii) vulnerability to abrupt import-export policy changes - not contrary to RCEP commitments - of a sufficiently large market in RCEP.

Another argument to support the trade deficit with RCEP associated with FDI projects is that such trade deficit can help improve Viet Nam’s production capacity in general and exports in particular (for example, see Truong Dinh Tuyen et al 2011; CIEM 2013, etc.). However, the precondition is that imports from RCEP must incorporate inflows of sufficiently modern technological lines, to contribute to improving Viet

Nam's production capacity. Even if this argument is legitimate, ensuring contribution in this aspect of goods imported from RCEP will be a matter of controversy. Table 13 shows that the fastest increase in import share of high-tech products in the period 2010-2019 was from Korea (more than 40 percentage points), while the corresponding increase from China was only about 10 percentage points. Table 15 also evidences that Viet Nam could hardly build new competitiveness in trade with RCEP in the period 2010-2019. Accordingly, the impact of increasing production capacity only originated rapidly from certain markets, not the entire RCEP region.

The impact of increasing trade deficit from RCEP markets may be easier to handle if such increase is largely induced by the product categories of poor quality or inappropriate to consumer tastes, environment and social considerations of Viet Nam. However, if the increase in exports of RCEP to Viet Nam mainly occurs in the product categories of high-quality products, meeting technical standards of "best practice" (and accordingly meeting the technical standards of Viet Nam), addressing the trade deficit will be much more difficult. This possibility cannot be ruled out in the context of the US trade tensions with various RCEP economies and these economies need to divert exports - including high quality products - to other markets (including Viet Nam).

Second, screening the quality of FDI projects appropriate, but not easy to implement after the RCEP enters into force.

Over the past years, various projects from several RCEP countries have spurred concerns about the quality of investment, such as in terms of environment, social development, etc. Along with economic development, China has taken steps to improve environmental regulations and standards. This results in lower-tech, less environment-friendly factories being relocated to surrounding countries, and Viet Nam may be one destination under consideration. This risk is even larger in the context of the US-China trade war while those projects and factories are more price-competitive and more sensitive to additional US tariff measures.

These concerns are no new, but not easy to address. On the one hand, international commitments limit Viet Nam's capacity to discriminate against investors. On the other hand, discriminating and rejecting foreign investors solely on the ground of investor's nationality can lead to loss of investment and business opportunities that are meaningful to Viet Nam. On the contrary, "favoring" an investor just because of their origin from a developed country may not help Viet Nam either, if the investor fails to meet/comply fully with regulations and standards on environment, social development, budget, etc. of Viet Nam. As a note, tracing the real country of origin of FDI project is no easy task.

In this context, the Politburo's Resolution 50-NQ/TW dated August 20, 2019 on the orientation of improving institutions and policies, quality and efficiency of foreign investment cooperation until 2030 marks an important regulatory change. The resolution sets out important tasks, including formulating regulations to overcome the situation of "small investors' equity", price transfer, hidden investment, investors' nominees. However, various discussions have shown that the tasks are technically difficult. For example, providing the scientific basis of the threshold for determining "small investors'

equity” is no easy. Similarly, whether response to “small investors’ equity” situation may affect Viet Nam’s export growth also needs to be clarified, though not easy.

These challenges stem in part from the limitations of information, data and appraisal capacity for foreign investment projects. For example, the assessment of foreign investment disaggregated by sector and by investment partner is currently based only on published data on registered capital. Meanwhile, investigating the implemented capital and the capital that foreign investors actually bring into Viet Nam disaggregated by sector and investment partner is virtually impossible. In this regard, a challenge to ensuring Viet Nam’s economic autonomy is the inability to effectively and/or promptly handle the shortcomings of FDI projects from RCEP - even though the general shortcomings with FDI projects were well-documented for years.

Box 2: Concerns about environmental protection in FDI projects

As a current issue, FIEs mainly invest in waste treatment after the production process already takes place. Environmental pollution will be addressed most effectively when enterprises invest in its prevention before proceeding to production, such as via investment in clean production technology, investment in waste and wastewater treatment systems, etc. In fact, this issue attracts no adequate attention by FIEs right from the stage of investment preparation. According to CIEM & MUTRAP (2016), only 2/3 of the surveyed firms had estimated environmental costs while preparing their investment plans. Out of them, only over half confirmed that they had budgeted costs related to the environment, 2 said that they did not have enough environmental awareness/understanding and budget for environmental protection. Similarly, according to NCIF (2011), the Industrial Park Management Boards said that FIEs focused most on investment in waste treatment after the production process had already taken place, while not paying attention to environmental protection measures before production.

Source: Extract from CIEM (2016a).

On the other hand, linking FIEs with domestic ones is expected to help Viet Nam improve production capacity, participate more deeply in the value chain, and reduce trade deficit. These expectations are even elevated in the context of foreign investors shifting due to the US-China trade war, and the supply chain disruption due to the COVID-19 pandemic. This expectation is well-grounded, but may not always be fulfilled. On the one hand, the possibility that some enterprises come to Viet Nam just to circumvent US import duties and/or find a temporary "shelter" cannot be ruled out. On the other hand, the large FIEs leading the supply chains, targeted by Viet Nam to connect with Vietnamese enterprises, already have available networks and supplies. In this respect, the challenge will be larger if Vietnamese enterprises fail to appropriately position themselves in linkages and cooperation with foreign investors. When foreign investors can not be “forced” to buy inputs from domestic enterprises, the latter cannot expect procurement commitments by the former; instead, the Vietnamese enterprises must at least actively demonstrate their competitiveness on price, quality, just-in-time delivery, and ability to fulfill large orders – the key aspects that characterize RCEP value chains.

Third, managing foreign investment flows from RCEP and their implications for macroeconomic stability is a material challenge. The opportunities from increasing foreign investment inflows into Viet Nam from RCEP countries may be less meaningful if the macroeconomic impacts on Viet Nam are not handled properly. As a note, available models to quantify the impact of FTAs in general and RCEP in particular fail to capture impact on FDI inflows. If not properly screened, some FDI projects can cause some adverse macro effects such as: (i) surge of merchandise imports and trade deficit, instead of linkages with domestic firms and improving domestic production capacity; and (ii) FDI inflows exceeding Viet Nam's absorptive capacity in terms of macroeconomic stability, infrastructure and human resources. These risks can hardly be ruled out, when large investors from RCEP have their own supplier network and are not bound to procure from domestic firms, and RCEP partners already accounted for a large proportion in registered FDI capital of Viet Nam. Meanwhile, macroeconomic instability in the period 2008-2009 stemmed in part from an inadequate response to a sharp increase in foreign investment flows after Viet Nam became a member of the WTO (Vo Tri Thanh and Nguyen Anh Duong 2009; CIEM 2013, etc.).

Fourth, balancing between attracting and protecting investment and preserving policy sovereignty in Viet Nam poses another institutional challenge. Attracting foreign investment projects with quality, financial potential and technology suitable to development requirements of Viet Nam in general and the localities in particular is relevant. However, limiting excessive competition towards a "race to the bottom" among localities in FDI attraction is still necessary. In fact, such a race had happened before and immediately after Viet Nam's accession to the WTO, and failed to help the localities apart from fiscal burden (Vu Thanh Tu Anh et al. 2007). Notably, new incentives for FDI projects are not only limited to preferential tax treatment, access to land, but also inclusive of sub-prime approval in relevant requirements, such as environmental impact assessment reports. On the other hand, adopting a balanced approach to tax policy for investors in technology, digital platforms, etc. can be difficult, especially as many developed countries (such as France) are progressive in compelling large tech corporations to pay taxes. At the same time, when foreign investors invest in infrastructure of industrial zones and economic zones, monitoring and punitive actions by management agencies to ensure timely and efficient project implementation while avoiding red tapes to investment is not simple either.

Compared to the fourth, the three previous challenges have been recognized for years and Viet Nam has more or less adopted some corrective measures. For example, despite doubts about its level and sustainability, exports of Viet Nam in general and domestic enterprises in particular became more competitive in the period of 2018-2020 - in the context of the US-China trade war and the COVID-19 pandemic. Even in the highly competitive ASEAN and East Asia due to export similarity, Viet Nam still creates a bit of new competitive advantage. In terms of FTA utilization, Viet Nam was more experienced in policy preparation the implementation, notably the early promulgation of Circular 11/2020/TT-BTC regulating RoO under EVFTA (not as late as is the case with CPTPP). In this respect, the above challenges of RCEP to Viet Nam's trade have been more or less identified and can be addressed effectively.

The above institutional challenge may be more remarkable for FDI from the RCEP region, which is often arguably associated with risks of tax evasion, origin fraud, etc. in imports into Viet Nam. The challenge will be more profound if Viet Nam fails to improve the information system and statistics related to investment in general and foreign investment in particular, thereby affecting its ability to justify decisions related to FDI project proposals from RCEP countries. Even if ISDS is yet to be specified in RCEP, handling investment-related cases in “very Asian” value chains such as those covered by the ASEAN + 5 region is also complex in many ways.

The above institutional challenges themselves have close interactions with structural issues related to foreign investment. For example, addressing structural issues affecting Viet Nam’s economic autonomy when implementing FTA/RCEP such as the relatively large proportion of FIEs in exports; heavy export dependence on imported inputs; etc. can hardly progress quickly and/or efficiently without relevant institutional actions, including the conduct of policies on foreign investment and linkage of FIEs and domestic enterprises. However, adding more regulations to align business activities is relatively “sensitive”, due to concerns about compliance costs for investors and businesses - even when investors and enterprises adopt a business strategy in line with the low standard FTAs.

Addressing institutional challenges depends on whether Viet Nam’s approach is sufficiently comprehensive. If trade and foreign investment are considered separately, the effectiveness of institutional reforms in general and those forging Viet Nam’s economic autonomy will be significantly affected.²² The most important factor in simultaneously dealing with both institutional and structural challenges in implementing RCEP is perhaps to renew and enforce an effective industrial policy. As a main advantage, the partners in RCEP such as China, Japan, and Korea all understand and implement industrial policies to different degrees. However, Viet Nam’s industrial policy framework was hardly improved, even after the Politburo’s Resolution 23-NQ/TW dated March 22, 2018 on the orientation of formulating national industrial development policies to 2030, with a vision to 2045.

More broadly, the institutional challenge also originates from the increasing competition among ASEAN countries to attract foreign investment. Forging investment cooperation and harmonization of the investment environment among ASEAN countries will be important to FDI attraction and economic recovery after COVID-19 pandemic, because no single ASEAN country substitute a large market and production base like China. Although this requirement is no new, its fulfillment is not easy either. In this context, calmness, preservation of policy sovereignty and exclusion from the “race to the bottom” will not cause loss to Viet Nam if and only if other ASEAN countries adopt a cooperative approach to attract FDI rather than excessive competition.

The COVID-19 pandemic also alter the motivations and dynamism of measures to address the institutional challenges associated with improving Viet Nam’s economic autonomy. A commonly mentioned risk associated with international economic integration process after COVID-19 pandemic is the uneven recovery of economies.

²² For this reason, the challenges discussed here also cover the aspects related to trade and economic autonomy.

Meanwhile, among the largest markets, China is widely perceived to recover most quickly after the COVID-19 pandemic. The recovery of small and open economies will then hardly be decoupled from this market. However, sole emphasis of economic recovery and international economic integration after COVID-19 pandemic without appropriate institutional reforms may delay efforts to address challenges to Viet Nam's economic autonomy.

5 Some conclusions and policy recommendations

5.1 Some conclusions

After more than 7 years since the first negotiation session, the RCEP Agreement was signed on November 15, 2020. Similar to the new generation FTAs (CPTPP, EVFTA) that have entered into force, RCEP is expected to further induce trade and investment expansion, while supporting Vietnamese enterprises to effectively participate in the regional value chain. However, unlike CPTPP and EVFTA, the reception of the RCEP is somewhat more skeptical, arguably because this Agreement may create smaller added benefits and less prominent impact on institutional reform - which Viet Nam often expects from large-scale FTAs, among others.

RCEP was initiated in the context of progressive trade and investment liberalization in East Asia and the broader Asia-Pacific region. Even with increasing trade tensions and protectionism in the region during period 2017-2020, significant efforts to revive international economic integration and to incubate new ideas on trade and investment cooperation were promoted. Thus, RCEP is integral to the regional integration process, instead of being an initiative to compete for regional influence.

For Viet Nam, the signing RCEP was not ad hoc, but instead the result obtained after continuous efforts. Concurrent negotiations of 03 high quality and/or large-scale FTAs - including TPP/CPTPP, EVFTA and RCEP – required a lot of efforts, coordination, and considerations of Viet Nam. On the contrary, institutional preparations of Viet Nam might have been different and its considerations of RCEP content and progress may have followed other scenarios, had there been neither TPP/CPTPP nor EVFTA. In fact, the most significant economic and institutional implications seem to be associated with the TPP/CPTPP and EVFTA. Consensus on these Agreements also increased the acceptability of RCEP - even when RCEP receives more adverse comments than CPTPP and EVFTA.

Apart from the Introduction, the RCEP agreement comprises of 20 Chapters and annexes. Excluding the relatively traditional content such as trade in goods, RoO, SPS and TBT, RCEP includes some new contents such as e-commerce, competition, etc. However, RCEP arguably lacks important areas such as environment, labor, SOEs, etc. This scopes RCEP narrower than CPTPP and EVFTA. However, compared to other ASEAN FTAs, RCEP has various new contents, “closer” to new generation FTAs such as e-commerce, competition, government procurement, etc. RCEP incorporates a “gradualism” approach, thereby creating room to improve commitments even after the agreement enters into force.

RCEP may create several opportunities and challenges to Viet Nam’s trade. Covering countries with populations up to 2.2 billion, equivalent to 30% of the global population, RCEP establishes a large and potential market for exports. The quantitative assessments show that RCEP has trade creation effects, instead of sole trade diversion. Viet Nam can also benefit from higher quality of imported goods for domestic consumption. Along with increasing trade in intermediate goods, Vietnamese enterprises can participate more deeply in the regional value and production chain. Impacts on institutional reforms of Viet Nam may also be evident, mainly in the direction of promoting the reforms in line with commitments under CPTPP and EVFTA.

However, RCEP implementation may encounter challenges on the capacity to utilize preferences, capacity to maintain and improve export competitiveness, and the risk of widening trade deficit.

Regarding foreign investment, RCEP also has both opportunities and challenges. Viet Nam has more opportunities to attract FDI as investors shift away from China due to the US-China trade and technology war, and investors may have new consideration during and after the COVID-19 pandemic. However, Viet Nam faces significant challenges due to: (i) identifying and effectively handling trade deficit associated with foreign investment in RCEP is no easy, and may become even more complicated; (ii) screening the quality of FDI projects appropriate, but hard to implement after the RCEP enters into force; (iii) managing foreign investment flows from RCEP and their implications for macroeconomic stability is a complex matter; and (iv) balancing between attracting and protecting investment and preserving policy sovereignty in Viet Nam presents a delicate institutional issue. These challenges more or less affect Viet Nam's economic autonomy, but can be addressed. Addressing institutional challenges depends on the comprehensiveness of Viet Nam's approach, and can hardly be effective if trade and foreign investment are considered separately when implementing RCEP.

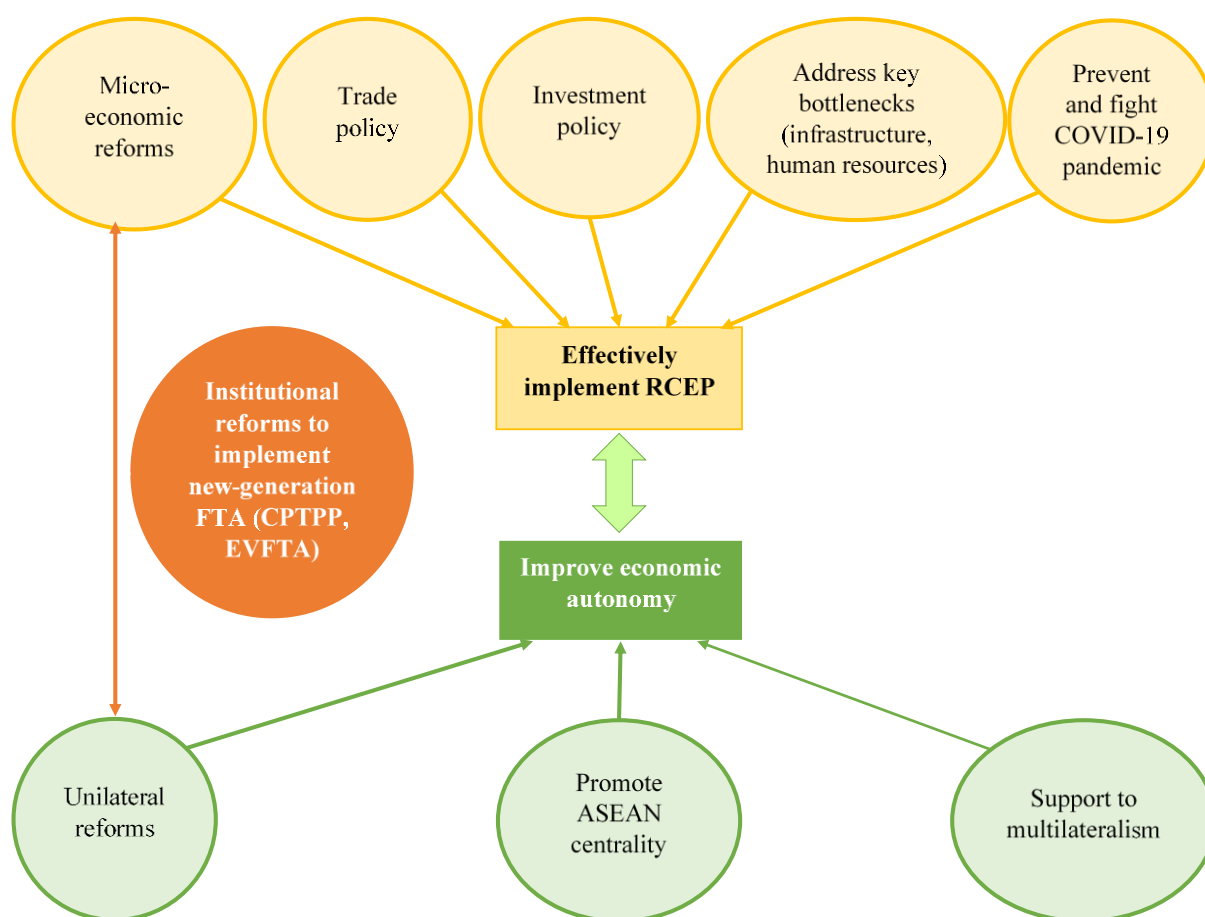
5.2 Some policy recommendations

5.2.1 Policy approach

The authors propose a policy framework for effective implementation of RCEP while improving economic autonomy of Viet Nam. Accordingly, effective implementation of RCEP requires 05 main groups of policy efforts. *First*, Viet Nam should continue reforms of microeconomic foundation, including competition policy, business environment, production factor markets. These reforms must be within a policy framework to maintain macroeconomic stability and strengthen economic resilience (CIEM 2018; CIEM 2020b). *Second*, investment policy must have a central role, reflecting a feasible and guiding approach to developing (a few) prioritized industries, the industries where free competition is required, participation level in the RCEP value chain, and the autonomy in attracting and utilizing FDI from the RCEP countries. *Third*, trade policy should be consistent with investment policy, thereby contributing to more effective and harmonious handling of trade deficit and imports of intermediate goods, and simultaneously be consistent with the participation of domestic enterprises into RCEP value chain. *Fourth*, Viet Nam needs to address the bottlenecks in infrastructure and human resources, with appropriate engagement of foreign investors and partners. *Fifth*, albeit mentioned last, effective prevention of the COVID-19 pandemic is an important prerequisite. More fundamentally, the reforms should be implemented immediately, instead of waiting after the pandemic.

To strengthen Viet Nam's economic autonomy during the implementation of RCEP, the reforms are of greater essence. In particular, the harmonization of the institutional reform process when implementing FTAs such as CPTPP, EVFTA and EVFTA plays a crucial role. However, since the CPTPP and EVFTA have higher standards and have already entered into force, the reforms in relevant areas should aim towards the standards underlying these agreements, instead of "waiting" for RCEP.

Figure 25: Proposed policy framework for making RCEP work for economic well-being and autonomy in Viet Nam



Source: Authors' compilation.

In addition, strengthening the economic autonomy upon RCEP implementation requires efforts to promote ASEAN centrality. To an important extent, Viet Nam and ASEAN assume a central role in the formulation and negotiation of RCEP. Therefore, Viet Nam and ASEAN must also play a central role in its implementation. Accordingly, ASEAN must increase effective cooperation instead of merely competing with each other. The key areas for continuing cooperation are those which need further discussion/clarification after the RCEP enters into force, as well as trade- and investment related reforms (such as investment environment, supply chain connectivity, etc.). This is an important premise to promote ASEAN centrality.

Finally, Viet Nam should further support multilateralism. RCEP is neither the only one FTA nor the last FTA of Viet Nam. Therefore, the implementation of RCEP should fit within a more holistic and comprehensive considerations of Viet Nam's contribution to multilateralism in the new context. A thorough elaboration of RCEP - an important pathway, similar to TPP/CPTPP, towards deeper Asia-Pacific integration - is important. As previously noted, beside trade-diversion effect, RCEP also has a trade-creation effect. In addition, the gradualism of RCEP can be consistent with the approach of APEC – incubator of new ideas for cooperation.

5.2.2 Specific policies

a. General policies

First, Viet Nam should further strengthen macroeconomic stability to ensure favorable and predictable environment for business – production – trade activities in the new normal context. The conduct of macroeconomic policies should be synchronous, consistent, timely and flexible, aiming at stabilizing macroeconomy, and thereby creating a favorable environment for economic reforms and growth. Information and statistical data should be improved to support more scientific, accurate analysis and forecasts based on different scenarios, including the volatility in major markets (US, EU, China, Japan, etc.). Viet Nam should: (i) promote information dissemination to the market to avoid adverse effects on market sentiment; (ii) strengthen policy review and accountability; (iii) enhance policy space for macroeconomic management (especially fiscal and monetary policies); (iv) actively coordinate with other countries to respond promptly to regionally common risks to financial and monetary security; and (v) learn from experiences from regional countries in preventing financial and monetary risks and adverse shocks (including the COVID-19 pandemic)

Second, Viet Nam should drastically reform its business environment to create favorable condition for enterprises. The series of Resolutions No. 19 on improving business environment and national competitiveness issued in 2014-2018 and a series of Resolutions No. 02 in 2019-2020 still needs to be succeeded. However, even the business environment reforms have to adapt to the new context, specifically avoiding an extremist view of simplifying “unnecessary” regulatory burden on businesses while there is only a thin line between “unnecessary” and “necessary” issues regarding regulations for sustainable development. Effective COVID-19 pandemic prevention remains the most important requirement and can hardly be relaxed via easing relevant processes and procedures to facilitate flows of goods and natural persons. Simultaneously, the transparency of policies, regulations, master plans and strategies at the sector, sub-sector, product level as well as local level should be strengthened.

Viet Nam needs to promote administrative reform in the areas of trade, services, and investment in order to improve competitiveness, and to take advantage of opportunities arising from the international economic integration process. Accordingly, focusing on measures to facilitate trade will help shorten transaction time, reduce administrative costs, thereby decreasing input costs and improving competitiveness. Among the key areas are to quickly connect and fully implement the National Single Window mechanism (integrating all import and export procedures into one focal point and electronization), and to integrate more deeply into ASEAN Single Window.

Third, the Government should further enhance information dissemination of the new generation FTAs to better engage all stakeholders. Developing a national trade policy portal is necessary but will only suffice if there is an integrated interaction mechanisms between import/export enterprises and policy-makers on trade and trade-related issues; simultaneous connection to the network of experts on SPS, TBT and the trade-related regulations. Accordingly, Viet Nam needs to harmoniously operate the trade policy portal as committed under ASEAN and CPTPP. The business community and people all need improved understanding of the commitments, as well as associated

opportunities and challenges. Simultaneously, the detailed and technical information about new FTAs and the proposed policy adjustments should be shared effectively between ministries, industries, localities, and enterprises.

Despite lively experience in implementing FTAs and especially EVFTA and CPTPP, Viet Nam should encourage broader and more active participation of the private sector, industry associations, socio-political organizations, and the people. All governmental agencies need to promote information and communication about opportunities and challenges when Viet Nam joins the new generation FTA to avoid complacency, i.e. perceiving that joining new FTAs (such as TPP, EVFTA, RCEP) will automatically produce benefits, leading to underestimation of difficulties, challenges, and failure to compete with foreign partners.

Fourth, Viet Nam needs to further strengthen its competitiveness to take advantage of opportunities from new generation FTA commitments. Competitiveness enhancement must take place simultaneously at the national, enterprise and product levels. Develop and implement supporting policies to strengthen competitiveness, especially to promote economic restructuring associated with post-COVID-19 economic recovery, reduce financial risks and instability; develop infrastructure compatible with infrastructure networks in regional linkages, reduce behind-the-border barriers together with trade and investment facilitation to enhance domestic and external connectivity. Implement mechanisms and policies to increase the value-added content of key manufacturing sectors through human resource development, technological advances, better access to source technology, and long-term cooperation with advanced partners in the respective areas. In this process, a feasible approach is to realize opportunities of ASEAN FTAs (and also RCEP after entry into force) to accumulate experience and capital, develop brands, and build network of suppliers in the value chains so as to compete in more demanding FTAs (such as CPTPP and EVFTA).

Fifth, Viet Nam should enhance production and export capacity of domestic enterprises, encouraging the development of supporting industries and improving product quality to ensure benefits from participating in the GVCs on the basis of forged cooperation with FTA partners. The attractiveness as a potential FDI recipient thanks to cheap labor cost and price competitiveness is only short-lived, not even feasible in the post-COVID-19 context. Viet Nam needs a systematic and long-term approach to attracting FDI and strengthening competitiveness with more attention to product quality improvement, employing technological advances. These efforts should be made as early as possible.

Sixth, Viet Nam should further harmonize integration commitments and tracks. With the membership in new generation FTAs such as CPTPP, EVFTA and RCEP, Viet Nam has basically committed to participate deeply in the regional and global economy. These FTAs are mutually reinforcing and complementary, thereby producing positive impacts on Viet Nam's economy. Harmonization of integration tracks also help prevent undesired impacts that can distort resource allocation. Furthermore, the liberalization process should be aligned with cooperation to promote domestic economic reforms and deepen economic cooperation with ASEAN members as well as other trade partners.

To contribute to setting global trade rules, Viet Nam should not stop at participating in and effectively implementing FTAs, including new generation ones. Instead, Viet Nam can work with relevant partners to take measures to overcome difficulties and uncertainties for FTA agreements so that these agreements can enter into force. This approach is even more meaningful in RCEP, as Viet Nam can contribute to dialogue and cooperation in ASEAN to promote its centrality in regional economic integration process.

Finally, the Government should actively study, implement or make recommendations to the CPV and the National Assembly to direct relevant reforms of the market economy. An appropriate approach might be to review the extent to which Viet Nam fulfills the criteria of market economy set by the US and the EU. More importantly, the attitude to and motivation of reforms must be aroused and self-fulfilled, aiming towards serving the interests of the business community and the people in a friendly State-business-market interaction. The US-China trade war, the COVID-19 pandemic and emerging non-traditional security challenges in the region may reduce direct opportunities from trade and investment for Viet Nam, but this can be compensated by substantive efforts to deepen domestic reforms.

b. Improve trade institution.

Trade policy should focus on four main areas, namely: (i) Improving mechanisms and policies on import and export management and administration; (ii) Improving competitiveness of Vietnamese products; (iii) Sustainable development of domestic market; (iv) Promoting exports in combination with aligning import activities; and (v) Facilitating trade in essential products in the context of COVID-19 pandemic.

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

Further improve import and export management mechanisms, aiming towards international best practices (especially under CPTPP and EVFTA), while ensuring sufficient flexibility for agencies and enterprises to adjust when implementing RCEP. Despite acknowledging RCEP's gradualism, future agreed contents of RCEP must remain compatible, with clear long-term goals, transparency and predictability. Coordinate closely with other ASEAN countries to implement related programs and activities, including the AEC Blueprint 2025, the Master Plan on ASEAN Connectivity 2025.

Harmonize standards of product quality, food hygiene and safety, environmental standards in trade, NTMs, safeguard and emergency measures, antidumping duties, special sales tax, etc. consistent with RCEP implementation. Develop long-term vision in coordinating exports and imports, at both economy and key commodity levels for enterprises' improved positions in the GVCs. Formulate reasonable policies to attract FDI, aiming to reduce dependence on certain trading partners in RCEP.

(ii) Improving competitiveness of Vietnamese products

First, Viet Nam needs to identify the potential products with advantages when implementing RCEP. In international trade, both comparative advantage, absolute advantage and competitive advantage must be considered. In RCEP value chains, goods

cover not only final ones, but also inputs and intermediate components. To that extent, trade policy must be consistent with industry policy when looking into goods. Furthermore, promoting competitiveness must take into account the value chain characteristics, including price, quality, ability to fulfill large orders, just-in-time delivery, distribution channels, and resilience to natural disasters. On that basis, Viet Nam should formulate and implement a strategy to manufacture products that have competitive advantages to penetrate international markets. In this respect, participation in and building of competitiveness in the RCEP region must fit in the broader consideration - making Vietnamese products competitive at the global level.

Second, focus on building strong national brands. The State creates a favorable environment and supports enterprises to register their trademarks in international market to avoid pre-registration by enterprises in RCEP markets - with relatively lower standards for intellectual property protection than counterparts in the CPTPP and the EU.

Third, reorganize the domestic distribution system, including the retail establishments of investors from RCEP countries, and access the retail distribution system in RCEP market. Increase communication activities and trade promotion in overseas market.

Fourth, exploiting competitive advantages must be via product differentiation. The key focuses here are to diversify products and to regularly innovate products for improved attractiveness. Investment is required to improve product quality and meet standards of importing countries. Effective trade promotion can be through the network of overseas Vietnamese in general and in RCEP markets in particular.

Fifth, closely monitor the incidence of COVID-19 pandemic, especially in RCEP markets, to promptly adjust the coordination of trade policy with related policies (services, labor, education - training, etc.).

(iii) Sustainable development of domestic market

As the supply chains are shifting and the domestic market may recover faster than other countries after the COVID-19 pandemic, policy efforts should aim to firmly develop domestic market. Some key focuses are: (i) to raise consumer awareness of Vietnamese products; (ii) to raise enterprises' awareness of improving quality of goods sold in the domestic market, minimizing the practices of "exporting best products, and keeping the rest for domestic market"; (iii) to develop new business models (directly and indirectly) serving for modern consumption such as e-commerce, sharing economy, etc.; (iv) to strengthen cooperation between retail supermarkets and domestic producers of consumer goods; and (v) to develop an appropriate roadmap to harmonize domestic product quality standards with the best ones in the world (even beyond the common standards of some RCEP countries).

(iv) Promoting exports in combination with aligning import activities

Carefully study and identify policies to penetrate RCEP markets, so as to create a pulling effect on Vietnamese goods from customers and importers abroad. At the same time, exploit the existing advantages of Vietnamese exports in major non-RCEP markets to promote re-entry into RCEP markets. Consider the statutory upgradation of quality

standards required for agricultural exports, in close consultation with the business community and farmers. Regularly monitor and evaluate export opportunities and potential markets, including via concrete understandings of barriers, draft regulations containing new barriers, in RCEP markets to coordinate follow-up consultation and response. Closely and effectively coordinate national export promotion programs, promotion programs of branches, localities and enterprises.

Study and review mechanisms to guide import activities, to enable enterprises to participate more deeply in the value chain. Avoid excessive negative views on merchandise imports from RCEP countries. Closely monitor developments of trade remedies in various markets against exporters from RCEP countries, to develop a timely response. Improve the system of national standards on imported goods, especially quality standards, environmental standards and hygiene and safety standards for domestic consumers. Enliven an effective early warning system on imports from RCEP markets. Improve policies and coordination to control border trade.

(v) Facilitating trade in essential products in the context of COVID-19 pandemic

Viet Nam needs to strengthen research, exchange, and coordination with ASEAN countries and RCEP partners to facilitate trade in essential products (medical supplies, food, etc.) in the context of complicated evolvement of COVID-19 pandemic. Thoroughly and comprehensively assess the impacts of establishing medical supply chain in the region in the context of COVID-19 pandemic. Coordinate with ASEAN countries to operate the ASEAN COVID-19 Response Fund and the ASEAN Regional Reserve of Medical Supplies, the ASEAN Strategic Framework on Public Health Emergencies and the ASEAN Comprehensive Recovery Framework.

c. Improving investment institutions

(i) Improving institutions on attract and utilize FDI

Viet Nam should not and cannot implement a separate FDI policy for investors from RCEP countries. The policies to attract FDI should follow a more holistic approach, focusing on shifting investment structure towards advantageous and highly competitive industries, including: (1) To reform the system of investment supports and incentives towards clearly-identified objectives and conditions, credible retreat, monitoring and evaluation, to: (i) mobilize investment in (a few) sectors with competitive advantage, spillover effects, high sensitivity and significant contribution to economic growth; (ii) induce FIEs to strengthen linkages with domestic enterprises, thereby implementing technology transfer, as well as incentives for domestic enterprises to absorb technology transfer; (iii) encourage investors to use energy-saving and resource-saving production processes and technologies; (2) To develop criteria for effective screening of FDI towards economizing natural resources, land, applying high technology, and focusing on high-tech, high-added value industries, and promoting appropriate technology transfer; and (3) To provide support measures and services to exports such as: market research, survey and forecast, studying technical barriers in foreign markets, engagement of foreign trade promotion agencies to support Vietnamese exporters and investors, etc.

Review and adjust policies to attract FDI in accordance with international commitments, to screen FDI projects using advanced and environment-friendly technologies. Policies and mechanisms to alter the FDI structure towards higher share of manufacturing, supporting higher production capacity and creating export advantages. The FDI strategy should be accompanied by more effective monitoring of its implementation and specific activities.

Study and improve mechanism to mobilize investment from all sources (including cooperation with foreign investors) for development of infrastructure, key sectors and areas to address bottlenecks and weaknesses of the economy, especially in key industrial clusters, growth poles, and projects that create large number of jobs.

Strengthen investment promotion; formulate policies to mobilize and attract investment by multinational corporations via diverse forms. Research and exchange with ASEAN countries on forging investment cooperation, attracting large investors and connecting SMEs in regional value chains in the post-COVID-19 context.

(ii) Improving business and investment environment, reviewing and adjusting policies that are restricting the attraction and utilization of FDI

Further simplify and improve administrative procedures related to FDI, etc. Review and supervise to ensure strict implementation of the Law on Legal Normative Documents; enforce strict punitive actions over ministries, industries and localities that violate general regulations or fail to fully comply with FDI regulations.

Stipulate clearly and transparently administrative procedures at all levels; publicize processes, deadlines for responses and responsibilities for handling administrative procedures. Review and reduce focal point and unnecessary administrative procedures. Enhance substantive dialogue with investors (including foreign investors) to promptly identify and address investment-related issues.

Further improve and popularize the Single Window mechanism, increase IT application in processing administrative procedures, investment licensing and certification. Promptly address issues related to tax and e-customs to reduce time and costs for enterprises, and to improve publicity, transparency, and confidence for investors.

Simplify visa issuance procedures, propose a long-term and multiple-entry visa for investors. Simplify licensing procedures for foreign workers; consider measures to restrict unskilled labor and encourage high-skilled workers.

(iii) Adjusting policies for developing industrial zones/clusters in the direction of prioritizing formation of industry clusters to facilitate all production linkages between FIEs and SMEs, thereby establishing and strengthening supplies among industrial zones and increasing FDI efficiency.

Review experiences of 30 years of developing industrial parks and economic zones in Viet Nam. Review and adjust development objectives of industrial clusters and amend investment promotion targets, give priority to large, competent investors who can cooperate with domestic enterprises, and acquire inputs from domestic sources. Induce transformation of existing industrial zones and economic zones towards modernity and friendliness to new requirements (such as sustainable development,

digitalization, etc.). Develop industrial parks and economic zones in harmony with the infrastructure system, avoiding excessive concentration which piles up pressure on infrastructure.

(iv) Strengthening FDI management capacity and reforming investment decentralization, strengthening monitoring and handling post-licensing issues.

Renew the FDI management organization model and its coordination with relevant agencies in performing management functions. The FDI management agency is responsible for foreign investment promotion, forging linkages between foreign investors and domestic enterprises, understanding investment trends and needs at home and abroad, thereby facilitating production linkages. The focal point for FDI management also considers environmental, labor, and customs issues, creating consistency in formulating and implementing policies. The reforms of FDI management decentralization requires concrete investment promotion policies, specific incentive policies, and a system of horizontal criteria to guide localities. Develop a clear coordination mechanism in implementing decentralization between the central and local levels as well as between line authorities within the same locality.

Regarding supervision and resolution of post-licensing issues: promptly improve and enliven the public updated data system, to support monitoring and evaluation of FDI at both country and local levels. At the provincial level, it is necessary to develop detailed FDI project data systems to support information dissemination and state management. Supplement and strengthen the function of supporting foreign investors to FDI management agencies from receiving investors, providing information to investors, monitoring, and addressing issues for foreign investors.

(v) Building capacity for and reforming investment promotion, harmonizing interests of the country, investors and the society

Review and build a synchronous, accessible investment promotion system, ensure transparency coordination between central agencies and localities. Renovate investment promotion activities, ensure consistency from the central to local levels on prioritized sectors and fields for investment attraction, and investment promotion by provinces in order to enable inter-provincial cooperation in FDI attraction while realizing strengths of each province. Investment promotion modalities must also adapt to the context during and after the COVID-19 pandemic. Improve quality of investment and targeting big transnational corporations, owning technology with potential technology transfer, capable of fostering linkages of firms and sectors. Reform, create fundamental changes in investment promotion quality; focus on coordination to minimize waste of resources, further strengthen the roles of associations, sectors and business. Investment promotion personnels need to be constantly updated on FDI developments in the world and in the RCEP region, capable of understanding domestic investment trends, investment trends and strategies of potential partners in RCEP to develop investment promotion plans.

(vi) Supporting for domestic enterprises as integral part of FDI attraction policy

Disseminate information to FIEs and domestic enterprises to facilitate their communication and cooperation. In parallel with establishing and operating investor

information system, Viet Nam needs to facilitate and encourage development of business associations and professional associations.

Build technological capacity of domestic enterprises to prepare them for participation in the FIEs-led production network. Review financial and non-financial policies to support enterprises in technological innovation in order to increase absorption and application of more modern technology; build capacity to produce inputs that meet the requirements of FIEs; consider to improve legal framework on and availability of supply chain finance, thereby increasing SME capacity to participate in value chains, linkage with FIEs, and at the same time improving compliance with RoO under RCEP.

Review current policies to support SMEs, promptly revise and improve regulations guiding the implementation of the Law on SME Support, thereby supporting upgradation of SMEs' technology capacity. Consider early preparation of proposals to more advanced RCEP partners to support Viet Nam as committed under the Chapter on Economic and Technical Cooperation, focusing on such areas as trade in goods and services, investment, intellectual property, e-commerce, competition, and SMEs.

Exchange and encourage large FIEs to have production linkages with and technology transfer programs for domestic enterprises.

d. Some other policy recommendations

First, study and popularize new economic models (such as circular economy) to increase autonomy in trade and participate in value chains in the new context.

Second, promote gender inclusion in trade and investment policies. Build capacity to connect and apply science and technology of women-owned/managed enterprises which have significant investment and trade activities. Increase the availability and quality of statistical indicators on women in trade and investment activities.

Third, cooperate and discuss with RCEP partners about the travel bubble for immigration business persons, professionals, and tourists in the post-COVID-19 context.

Fourth, monitor and assess impacts of the new FTAs that RCEP members may have with their partners. Assess the impacts under some scenarios, including the scenario that India returns to RCEP, or the scenario that India does not return to RCEP but has bilateral FTA with several RCEP members./.

Bibliography

Vietnamese:

- Bruno Angelet (2019), Free Trade Agreement between the European Union and Viet Nam: a short way for Viet Nam to attract high-quality FDI from the European Union [Hiệp định Thương mại tự do giữa Liên minh Châu Âu và Việt Nam: con đường ngắn để Việt Nam thu hút FDI chất lượng cao từ liên minh Châu Âu] *Proceedings of Symposium on Attracting Foreign Investment in Viet Nam: Vision and opportunities in a new era*.
- Bui Quy Thuan and Nguyen Duy Dong (2020), *Attracting new-generation FDI from the European Union in the context of the EVIPA Agreement* [Thu hút vốn FDI thế hệ mới từ Liên minh Châu Âu trong bối cảnh của Hiệp định EVIPA].
- CIEM (2013), *Assessment of Viet Nam's socioeconomic performance in five years after the WTO accession* [Đánh giá tổng thể tác động kinh tế xã hội sau 5 năm Việt Nam gia nhập Tổ chức Thương mại Thế giới]. Financial Publishing House. Hanoi.
- CIEM (2016a), *Macroeconomic Report Second Quarter 2016*. Financial Publishing House. Hanoi.
- CIEM (2016b), *The Viet Nam – EU Free Trade Agreement: Institutional impacts and policy adjustments in Viet Nam* [Hiệp định Thương mại tự do Việt Nam – EU: Tác động thể chế và điều chỉnh chính sách ở Việt Nam]. Hanoi: The Gioi Publishing House.
- CIEM (2017), *The participation of Viet Nam in new FTAs : Some requirements for the reform of trade and investment institution* [Việt Nam tham gia các hiệp định thương mại tự do mới: Một số yêu cầu từ cải cách thể chế thương mại và đầu tư]. Hanoi: Financial Publishing House.
- CIEM (2020a), *Implementing CPTPP as a Part of Economic Integration Roadmap in Vietnam: Requirement for Structural Reforms and Firms' Preparedness* [Thực hiện hiệu quả Hiệp định CPTPP trong tiến trình hội nhập kinh tế quốc tế: Yêu cầu hoàn thiện thể chế và nâng cao năng lực cho doanh nghiệp Việt Nam]. Hanoi: Dan tri Publishing House.
- CIEM (2020b), *Viet Nam's economy in the first half of 2020 - Enabling regulatory approach for the new normal* [Kinh tế Việt Nam 6 tháng đầu năm 2020 : Tinh thần kiến tạo trong bối cảnh bình thường mới].
- CIEM&MUTRAP (2016), *Minimize the environmental impact of foreign direct investment* [Giảm thiểu tác động môi trường của đầu tư trực tiếp nước ngoài].
- Đặng Thanh Bình (2020), Impacts of new-generation FTAs on Viet Nam and recommendations [Tác động của FTA thế hệ mới đối với Việt Nam và đề xuất giải pháp], *Economy and Forecast Review*, No. 10/04/2020.
- Đào Văn Hùng (2019), Viet Nam's competitiveness for FDI in the era of Industry 4.0 [Vị thế cạnh tranh của Việt Nam về thu hút FDI trong kỷ nguyên Cách mạng

công nghiệp 4.0], *Proceedings of Symposium on Attracting Foreign Investment in Viet Nam: Vision and opportunities in a new era*.

- GIZ (2020), Analysis of post-COVID-19 global trends and impacts on Viet Nam's economic restructuring in 2021-2025, vision for 2030 [Phân tích xu hướng toàn cầu hậu COVID-19 tác động tới cơ cấu lại nền kinh tế Việt Nam giai đoạn 2021-2025, tầm nhìn 2030].
- GSO (2018), Socio-economic development in Viet Nam and other regional countries [*Thực trạng kinh tế - xã hội Việt Nam so với các nước trong khu vực*]. Hanoi: Statistical Publishing House.
- GSO (2020), *White paper on Vietnamese enterprises* [*Sách trắng doanh nghiệp Việt Nam năm 2020*]. Hanoi: Statistical Publishing House.
- GSO. Annual statistics for 1988-2019 [Số liệu thống kê qua các năm từ 1988 – 2019] <https://www.gso.gov.vn/default.aspx?tabid=716>
- Kelhofer, K.F. (2019), Recommendation for the new FDI strategy 2020-2030 [Khuyến nghị cho Chiến lược thu hút FDI thế hệ mới 2020-2030], *Proceedings of Symposium on Attracting Foreign Investment in Viet Nam: Vision and opportunities in a new era*.
- Mạnh Bôn (2019), Viet Nam has very low labour productivity [Năng suất lao động của Việt Nam rất thấp]. Viet Nam Investment Review online. <https://baodautu.vn/nang-suat-lao-dong-cua-viet-nam-rat-thap-d105073.html>
- Minh Đức and Tuấn Anh (2019), RCEP – an important milestone in Viet Nam's international economic integration process [Hiệp định RCEP - dấu mốc quan trọng trong tiến trình hội nhập kinh tế quốc tế của Việt Nam]. Nhan Dan online. <https://nhandan.com.vn/tin-tuc-kinh-te/hiep-dinh-rcep-dau-moc-quan-trong-trong-tien-trinh-hoi-nhap-kinh-te-quoc-te-cua-viet-nam-376018/> (accessed 06/12/2020).
- Ministry of Planning and Investment (2019), Measures on improving legal framework for supply chain finance of enterprises in the regional and global value chains [*Giải pháp hoàn thiện khung pháp lý cấp vốn cho doanh nghiệp tham gia chuỗi giá trị toàn cầu và khu vực*]. Project to be submitted to the Prime Minister.
- Nguyễn Anh Dương (2020), RCEP creates new dynamism for Asia-Pacific region [RCEP đặt châu Á- Thái Bình Dương vào thế năng động mới], <https://baodautu.vn/rcep-dat-chau-a--thai-binh-duong-vao-the-nang-dong-moi-d133192.html> (accessed 15/11/2020).
- Nguyễn Đoàn Trang (2019), Using gravity models in projecting foreign direct investment in Viet Nam by 2025 [Ứng dụng mô hình trọng lực trong dự báo dòng vốn đầu tư trực tiếp nước ngoài vào Việt Nam đến năm 2025]. *Ministerial-level research project. Ministry of Planning and Investment*.
- Nguyễn Thị Tuệ Anh et al (2015), *Foreign direct investment in Viet Nam: Situation, Effectiveness and Policy Adjustments* [*Đầu tư trực tiếp nước ngoài ở Việt Nam: Thực trạng, hiệu quả và điều chỉnh chính sách*]. Ha Noi: Financial Publishing House.

- Nguyễn Tiến Dũng (2018), Trade liberalization under Regional Comprehensive Economic Partnership (RCEP): Impacts and policy issues on Viet Nam [Tự do hóa thương mại trong Hiệp định đối tác kinh tế toàn diện khu vực (RCEP): Tác động và các vấn đề chính sách đối với Việt Nam], *Research project of the National University*.
- Nguyễn Văn Lan (2019), Viet Nam – Korea: 25 years of cooperation and development (1992-2017) and outlook to 2022 [*Việt Nam – Hàn Quốc 25 năm hợp tác, phát triển (1992-2017) và triển vọng đến năm 2022*]. Hanoi: National Political Publishing House – The Truth.
- Tạ Thị Đoàn (2020), Viewpoints of FDI development in the context of new-generation FTAs [Quan điểm về phát triển FDI ở Việt Nam trong bối cảnh và kỷ nguyên FTA thế hệ mới], *Economy and Forecast Review*, No. 14 (05-2020).
- Thế Vũ (2020), RCEP still to be signed this year [Hiệp định RCEP dự kiến vẫn được ký kết trong năm nay]. <http://tapchitaichinh.vn/su-kien-noi-bat/hiep-dinh-rcep-du-kien-van-duoc-ky-ket-trong-nam-nay-322391.html> (accessed 12/10/2020).
- Thu Hiền (2020), JETRO: Japanese enterprises shift to Viet Nam to avoid risk [JETRO: Doanh nghiệp Nhật Bản đến Việt Nam để 'trốn rủi ro']. The world and Viet Nam report. <https://baoquoc.vn/jetro-doanh-nghiep-nhat-ban-den-viet-nam-de-tron-rui-ro-109539.html> (accessed 10/10/2020).
- Trần Thị Ngọc Quyên (2016), *Policy to attract foreign investment for sustainable development in some Southeast Asian countries* [Chính sách thu hút đầu tư nước ngoài theo hướng phát triển bền vững tại một số quốc gia Đông Nam Á], Hanoi: Labour Publishing House.
- Trần Văn Thọ (2016), *Time shock and Viet Nam's economy* [Cú sốc thời gian và kinh tế Việt Nam]. Hanoi: Knowledge Publishing House.
- Trương Đình Tuyển, Võ Trí Thành, Bùi Trường Giang, Phan Văn Chính, Lê Triệu Dũng, Nguyễn Anh Dương, and Phạm Sỹ An (2011), Impacts of Commitments on Opening the Market under WTO and other Free Trade Agreements on Vietnam's Production and Trade Activities and Mechanism to Improve Import and Export Management Scheme of the Ministry of Industry and Trade in 2011-2015 [Tác động của cam kết mở cửa thị trường trong WTO và các hiệp định thương mại tự do đến hoạt động sản xuất, thương mại của Việt Nam và các cơ chế hoàn thiện cơ chế điều hành xuất nhập khẩu của Bộ Công Thương giai đoạn 2011-2015]. *Report to MUTRAP III – FTA-HOR FOLLOW-UP*.
- Việt Dũng (2019), Using RCEP rules of origin to transform trade in Asia [Sử dụng bộ quy tắc xuất xứ của RCEP để tạo sự chuyển đổi thương mại ở châu Á]. <https://congthuong.vn/su-dung-bo-quy-tac-xuat-xu-cua-rcep-de-tao-su-chuyen-doi-thuong-mai-o-chau-a-129320.html> (accessed 10/6/2020)
- Viet Nam Academy of Social Sciences, MPI and UNDP (2019), *Productivity and competitiveness of Vietnamese enterprises – Part I: Manufacturing* [Năng suất và khả năng cạnh tranh của các doanh nghiệp Việt Nam – Phần I: Ngành công nghiệp chế biến chế tạo]. Hanoi. April.

- Vũ Kim Dung (2020), How to effectively utilize FTA preferences [Làm gì để vận dụng hiệu quả ưu đãi từ các hiệp định thương mại tự do]. *Economy and Forecast Review*, No. 07/03/2020.
- Vũ Thành Tự Anh, Lê Viết Thái, and Võ Tất Thắng (2007), Breaking fence for investment incentives by provinces in the context of decentralization: Good or bad idea [Xé rào ưu đãi đầu tư của các tỉnh trong bối cảnh mở rộng phân cấp ở Việt Nam: Sáng kiến hay lợi bất cập hại]. *Report to UNDP*.
- WB (2017), Viet Nam: Enhancing enterprise competitiveness and SME linkages [Việt Nam: tăng cường năng lực cạnh tranh và liên kết của DN vừa và nhỏ - Bài học kinh nghiệm trong nước và quốc tế].
- WB (2018), Economic and distributional impacts of the CPTPP: The case of Viet Nam [Tác động kinh tế và phân bổ thu nhập của Hiệp định Đối tác Toàn diện và Tiến bộ xuyên Thái Bình Dương: Trường hợp của Việt Nam]. <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/530071520516750941/economic-and-distributional-impacts-of-comprehensive-and-progressive-agreement-for-trans-pacific-partnership-the-case-of-vietnam> (accessed 10/03/2019).
- WTO and International Trade Center - VCCI (2020b), *FTA utilization of Viet Nam in 2019* [Tình hình tận dụng ưu đãi thuế quan theo các FTA của Việt Nam năm 2019]. <http://trungtamwto.vn/thong-ke/15396-tinh-hinh-tan-dung-uu-dai-thue-quan-theo-cac-fta-cua-viet-nam-nam-2019#> (accessed 30/6/2020)
- WTO and International Trade Center - VCCI (2019), Joint declarations during RCEP negotiation [Các Tuyên bố chung trong quá trình đàm phán RCEP]. <http://aecvcci.vn/tin-tuc-n5052/cac-tuyen-bo-chung-trong-qua-trinh-dam-phan-rcep.htm> (accessed 30/6/2020)
- WTO and International Trade Center - VCCI (2020a), Projection of Viet Nam's economy and FDI in 2020 [Dự báo kinh tế và FDI của Việt Nam năm 2020].
- WTO and International Trade Center - VCCI (2020c), Viet Nam outperforms Southeast Asian countries in attracting FDI [Việt Nam vượt các nước Đông Nam Á về sức hút vốn FDI].
- WTO and International Trade Center - VCCI (2020d), Trends of FDI and recommendations for Viet Nam [Xu thế dịch chuyển dòng vốn đầu tư và giải pháp đối với Việt Nam].

English:

- Itakura, K. (2019), Economic Effects of East Asian Integration on Southeast Asia, in Ing, L.Y., Richardson, M.R. and Urata, S. (eds.), *East Asian Integration: Goods, Services and Investment*. New York: Routledge.
- Ji, X. (2019), RCEP's Economic Impact in Asia. <https://thediplomat.com/2019/11/rceps-economic-impact-in-asia/> (accessed 25 June 2020).

- Kelsey, J. (2017), The Risks for ASEAN of New Mega-Agreements that Promote the Wrong Model of e-Commerce. *ERIA discussion paper series*. ERIA-DP-2017-10.
- MUTRAP (2015), Assessing the Impacts of the Regional Comprehensive Economic Partnership on Viet Nam's Economy, Report for MUTRAP project.
- Nayanima, B. (2020), India 'Won't Review' Decision Not to Join RCEP as Members Prepare to Sign Pact by 2020-end. <https://theprint.in/diplomacy/india-wont-review-decision-not-to-join-rcep-as-members-prepare-to-sign-pact-by-2020-end/454628/> (accessed 12 August 2020).
- New Zealand Ministry of Foreign Affairs and Trade, (2020), RCEP Overview. <https://www.mfat.govt.nz/en/trade/free-trade-agreements/agreements-under-negotiation/regional-comprehensive-economic-partnership-rcep/rcep-overview/#overview> (accessed 11 October 2020).
- OECD (2020), *TiVA 2018 database*. <https://www.oecd.org/sti/ind/measuring-trade-in-value-added.htm> (accessed 18 August 2020)
- Petri, P.A., Plummer, M.G. and Zhai, F. (2012), The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment. *Policy Analyses in International Economics* 98. Washington: Peterson Institute for International Economics.
- Petri, P.A., and Plummer, M.G. (2014), ASEAN Centrality and the ASEAN-US Economic Relationship, *Policy Series* 69. Honolulu: East-West Center, March. www.eastwestcenter.org/sites/default/files/private/ps069.pdf (accessed 12 October 2018)
- Petri, P.A., Plummer, M.G., Urata, S. and Zhai, F. (2017), Going It Alone in the Asia-Pacific: Regional Trade Agreements Without the United States, *Working Paper* 17-10. Washington: Peterson Institute for International Economics. October.
- Reinsch, W.A., Caporal, J., and Murray, L. (2019). At Last, An RCEP Deal. <https://www.csis.org/analysis/last-rcep-deal> (accessed 02 June 2020).
- Sugawara, J. (2019), RCEP Comes to A Crossroads even though An Agreement in Principle is Reached among 15 Nations, India Suggests that It May Withdraw. *Mizuho Research Institute*.
- The ASEAN Post Team (2019), How RCEP Can Help Small Businesses. <https://theaseanpost.com/article/how-rcep-can-help-small-businesses> (accessed 06 June 2020).
- UNCTAD (2019), ASEAN Investment Report 2019: FDI in Services: Focus on Health Care, *United Nations Conference on Trade and Development*.
- UNESCAP (2019), *Navigating Non-Tariff Measures towards Sustainable Development*. <https://www.unescap.org/publications/APTIR2019> (accessed 10 November 2019).
- Urata, S. (2014), A Stages Approach to Regional Economic Integration in Asia Pacific in Tang, G and Peter, A. P (eds), *New Directions in Asia-Pacific Economic Integration*. CNCPEC and USAPC. pp. 119-129.

- Urata, S. (2019), Trends of FTAs in East Asia from the 1990s to the 2010s: Defensive and Competitive Regionalism, in Ing, L.Y., Richardson, M.R. and Urata, S. (eds.), *East Asian Integration: Goods, Services and Investment*. New York: Routledge.
- Vo, T.T. (2015), Viet Nam's Perspectives on Regional Economic Integration, *Journal of Southeast Asian Economies*, Vol. 32, No. 1 (April 2015), pp. 106-124.
- Vo, T.T. and Nguyen, A.D. (2009), Viet Nam after Two Years of WTO Accession: What Lessons Can Be Learnt, *ASEAN Economic Bulletin*, Vol. 26, No. 1, pp. 115-135.
- Wignaraja, G. (2014), The Regional Comprehensive Economic Partnership: An Initial Assessment, in Tang, G. and Peter, A.P. (eds), *New Directions in Asia-Pacific Economic Integration*. CNCPEC and USAPC. pp. 93-104.
- World Bank (2019), Doing Business 2020.
- World Economic Forum (2019), The Global Competitiveness Report 2019.
- Xinhua (2019), Backgrounder: Negotiation Process of Regional Comprehensive Economic Partnership. http://www.xinhuanet.com/english/2019-11/02/c_138523134.htm (accessed 06 June 2020).