

# Opportunities and Challenges when Vietnam Joins TPP

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## Abstract

The Agreement on Trans-Pacific Partnership (TPP) currently undergoes 19 rounds of negotiations, with the participation of 12 member countries. With high standards, large space of 14 countries and regions (including the two potential members which are South Korea and Taiwan), with over 800 million people, contributing about 40% of gross domestic products (GDP) of the world and approximately 30% of global trade turnover, TPP is expected to be a "treaty of the 21st century", offering many opportunities for international trade and investment. Vietnam has participated in negotiations since 2010 and is facing opportunities and major challenges from TPP, especially in the field of trade. However, this study does not assess the impact of TPP for Vietnam on trade alone, but recognize the opportunity and challenge of TPP in the overall relationship with the progress of reform and development of the country in the coming years.

**Keywords:** Agreement on Trans-Pacific partnership (TPP), trade, investment, education, opportunity, challenge

## 1. What is TPP?

The Agreement on Trans-Pacific partnership (TPP) is currently derived from Trans-Pacific Strategic Economic Partnership Agreement - also known as P4) - a free trade agreement signed on 03 June 2005, effective from 28 May 2006 between 4 countries: Singapore, Chile, New Zealand and Brunei (as for the scope of the commitment of P4, see Appendix 1).

In 2007, the member states of P4 decided to expand the scope of negotiation of this Agreement to issues of financial services and investment and exchange with the United States about the possibility of this country being engaged in extended negotiations of P4. The United States also began to study the issue and did the internal consultations with interest groups and the Parliament on this issue. In September 2008, USTR notified the decision of the United States to participate in negotiations of P4 to expand and officially involved in some discussions of opening up the financial services market with the P4 countries. In November of the same year, Australia, Peru and Vietnam also expressed their interest and participated in the TPP negotiations, bringing the total number of participants to 8 countries (except Vietnam on 13 November 2010 which declared to get involved in negotiations as a fully qualified member, other countries decided to participate officially at the beginning). Also from this point, the P4 expanded negotiation was renamed as negotiation of Agreement on Trans-Pacific Partnership (TPP).

However, new TPP negotiations were delayed until late 2009 due to waiting for the United States to complete the presidential election and for the new government of President Obama to consult and review the participation in TPP negotiations. In December 2009 the new USTR notified the decision of President Obama that the United States continues to participate in TPP. Only this time TPP negotiations officially launched.

The first round of TPP negotiations were conducted in Melbourne - Australia in March 2010. In 2010 four rounds of negotiation within TPP (Rounds 2 and 3 were conducted in San Francisco - USA in June 2010 and October 2010 in Brunei, Round 4 just ended in mid December 2010 in New Zealand). The negotiating countries aimed to complete TPP negotiations by the end of 2011 after 5 rounds of negotiation expected in this year. This target is considered to be overly ambitious because the partners participating in TPP are still quite far apart on the views of a number of issues as well as the expectations in TPP. However, with the determination of the countries, the most important and most fundamental issues of TPP likely to be agreed before the end of 2011 were relatively realistic.

## 2. Scope of Regulation

Despite of going through 04 official rounds 04 (and 01 mid-term round of negotiation in Peru in August 2010), there is currently no agreement regarding the scope of TPP negotiations. Until the end of Round 4 recently, the parties only preliminarily discussed general issues (with the division into 24 groups of issues to discuss) and technical issues in preparation for the first welcoming version (expected to be launched in Round 5 held in coming February in Chile). The last 4 rounds are considered to be relatively successful of TPP (compared with the speed of negotiation commonly seen by FTAs). The countries are considered to have reached

basic agreement in the principles of negotiations and have established a framework for horizontal commitments (connecting and supporting small and medium-sized enterprises, competing...). This is considered an initial success, though it is still very general and disagreements still exist around these issues (in which particularly it remains separation in how to handle the relationship between TPP and FTAs existing between the partner countries in TPP as well as how to negotiate new commitments in TPP).

Although it is not gone into details, the future scope of regulation of TPP can be speculated somewhat when we look at the nature of FTAs in general, the current state of P4 in particular and the ambition for TPP of the US, a negotiating party with the greatest impact on the negotiation progress.

Specifically, the scope of regulation of TPP is considered to be "conditioned" by at least 03 following elements:

**- TPP - a free trade agreement of the new generation.**

In principle, the Free Trade Agreements - FTAs - require a level of commitment to be further opened than common trade opening commitments (shown mainly in the fields to be committed for wider opening, the degree of openness such as tariff reductions, removal of market access ...).

The process of integration and globalization of trade activities in the world has seen 03 generations of FTA, starting from the first generation of FTA focusing on liberalizing of trade in goods sector (tariff reductions, removal of non-tariff barriers) to the second generation of FTAs with the expansion of the scope of liberalization to certain fields of service (removal of market access conditions in related fields of services), and the third generation of FTAs continuing to expand the scope of freedom of services and investment.

FTAs in recent times (especially FTAs that negotiated by the United States) witnessed a new trend in which not only the fields of opened trade are mentioned but non-commercial issues like labor and environment are also included in the negotiation and signing.

As the latest agreement being negotiated at this time, obviously TPP hardly deviates this trend. The scope of this Agreement, therefore, is expected to be very large and complex, with commercial issues and noncommercial issues intertwined.

**- TPP - The development of P4.**

With the "foundation" as P4 Agreement, TPP is expected to expand and diversify the fields of commitment that P4 mentioned. Under a natural logic, TPP is speculated to have wider range than P4.

Meanwhile P4 has a strong commitment on tariff and non-tariff issues such as (origin of goods, trade defense measures, sanitary and phytosanitary measures, technical barriers for trade, intellectual property, public procurement, competition policy ... and non-commercial issues such as labor and environment).

Therefore, new TPP will certainly have a greater scope.

Joining TPP negotiations, the United States says it expects TPP will create a new benchmark for "FTAs of the 21st century". Obviously this is not a declaration in form when people look at the the FTAs that United States negotiated in recent times (FTAs with Panama, Colombia and especially FTAs with South Korea). The desire behind this statement is that the United States will try so that TPP has the possible greatest extent, and with the possible largest degree of openness.

With such ambitions of the "key" person, TPP negotiations can hardly be a negotiation at the level of "moderately free" or a scope of "limited freedom".

The above factors are a basis for many experts to say that although substantive contents of negotiations are not defined, TPP will have a broad scope, with powerful free trends of negotiation, for example:

- Tariffs: Cutting most tariff lines (at least 90%), performed immediately or performed with a very short route
- Services: Increasing the degree of openness of service sectors, particularly financial services
- Investment: Strengthening the provisions relating to foreign investment and protecting investors
- Intellectual property rights: Increasing the level of protection of intellectual property rights to be higher than the level in WTO (WTO +)
- SPS, TBT measures: Tightening the requirements for sanitary and phytosanitary and technical barriers;
- Competition and public procurement: Enhancing competition, especially in the field of public procurement
- Labor issues: especially the issues of the right to establish associations (unions), the right to collect and negotiate of laborers in general, provisions to prohibit the use of all forms of forced labor, provisions to prohibit child labor exploitation and provisions not to discriminate in the labor force
- Other non-trade issues: Increasing environmental requirements

Since the first round of TPP negotiations conducted in Melbourne (Australia) in March 2010, to date TPP has been joined by 12 countries. In addition to the founding members, the next applicant countries are the US, Australia, Vietnam, Peru, Malaysia and more recently Mexico, Canada and Japan. In addition, South Korea and Taiwan as potential member countries are conducting consultations with partners, considering the preparation for joining TPP negotiations. The countries mentioned above have undergone 19 rounds of negotiations; 04 TPP Ministerial Meetings (the 4th conference took place in Singapore, from 22-25 March 2014). Since 2011 the US and other countries determined to conclude TPP negotiations in 2014.

With its commitment as an open area link, the scope of regulation of TPP has 4 basic characteristics:

Firstly, TPP is an agreement removing common barriers in a time determined at all members.

Secondly, TPP must handle new policy issues related to electronic commerce, the segment of production and business process in the modern supply chain.

Thirdly, TPP seeks to maintain the link between the developed countries with developing countries, which Doha Round of negotiation failed. TPP avoids the measures for special treatment, but creates conditions for low-income economies to join. Fourthly, TPP mentioned many issues after the borders, ensuring transparent and predictable policies and regulations.

TPP has broad scope of regulation, covering both goods and services; food safety and SPS, technical barriers (TBT), competition policy, intellectual property, government procurement and transparency. In addition, there is a chapter on cooperation and 02 accompanying documents for Cooperation in Environment and Labour Cooperation; 02 important documents on investment and financial services. The most striking point of TPP is very strong liberalization in goods. Import tariffs are eliminated completely and mostly removed immediately after the Agreement came into force. In services, liberalization is strongly implemented by the method of selecting-removing. Accordingly, all service sectors are open, except for those on the list of exclusions.

One more new feature in TPP negotiations compared to the previous traditional FTAs is the involvement of the stakeholders such as businesses, associations and social organizations. In addition to the traditional contents of negotiations in FTAs, the member states also focus on discussion of many proposals and measures to push the cooperation in issues relating to policy planning, facilitating businesses, development of supply chain and production between the member countries, enhancement of the participation of small and medium enterprises in the flow of goods between TPP member states...

TPP will have a broad scope, with a powerful trend of free negotiation.

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\* Other non-commercial issues: Increasing environmental requirements.

### **3. Process of Joining the Negotiation of Vietnam**

- After P4 was formed, Singapore joined and expressed a desire to expand TPP and use TPP as a tool to realize the idea of a Free Trade Area of Asia-Pacific of APEC. Since 2006, this lion island actively invites Vietnam to participate in TPP, but because of considerations both in terms of economics and politics, Vietnam has not received this invitation.

- In September 2008, the US declared to join TPP. Subsequently, in November 2008, Australia and Peru also announced to participate in TPP. At the same time, the representatives of the parties assert to negotiate to establish a new framework for TPP. Since then, rounds of TPP negotiations are scheduled and take place so far. Before declaring to join TPP, the United States also invites Vietnam to join TPP. In early 2009, Vietnam decided to join the agreement as an associate member.

- In November 2010, after joining 3 sessions of TPP negotiations as an associate member, Vietnam has officially joined TPP negotiations and fully participated in the rounds of negotiation so far.

The priority of negotiation of Vietnam in TPP is to expand the market access for garments and footwear, as this is the main export items of Vietnam to the US market.

### **4. Opportunities from TPP for Vietnam**

#### *4.1 Opportunities for Regional Economy*

If launched, TPP will become one of the largest commercial areas in the world with over 800 million people, contributing over 40% of the world GDP and about 30% of global trade turnover. The impact of TPP in the prime time is relatively small, but in 2025, TPP can bring increased revenue for the global economy up to 104 billion US dollars.

This study refers to two roads towards liberalization in the Asia - Pacific region: firstly to come from free trade agreements of the countries in the region, which mainly started from ASEAN agreements, and moving on to a free trade agreement for the whole region; secondly to come from TPP, progressively extended to other countries in the region, and progressing to build an agreement for all countries in the region. In this study, TPP countries are understood that in addition to 11 countries which have officially accepted the invitation to join the negotiation there are also Japan and South Korea, a total of 13 countries. This study indicates that TPP is the path to regional liberalization which brings the most benefit for the countries. By 2025, the global GDP will increase 104.3 US billion, corresponding to 0.1% increase level. All countries participating in TPP gain benefits from this Agreement.

Table 1. GDP increases by country in 2025 with TPP scenario

Countries	GDP in 2025 (without TPP) (billion USD)	GDP increases thanks to TPP (billion USD)	% compared with GDP
<b>TPP countries</b>			
United States	20.337	13,9	0,07
Australia	1.426	2,4	0,17
Canada	1.982	2,3	0,12
Chile	289	2,3	0,78
Mexico	1.999	11,7	0,58
New Zealand	206	1,7	0,83
Peru	311	6,6	2,12
Brunei	22	0,1	0,48
Japan	5.332	30,7	0,58
South Korea	2.063	15,1	0,73
Malaysia	422	9,4	2,24
Singapore	386	1,4	0,35
Vietnam	235	33,5	14,27
<b>Some other countries</b>			
China	16.834	-15,7	-0,09
Russia	2.790	-1,0	-0,03
Europe	22.237	1,6	0,01
India	5.229	-0,6	-0,01
<b>World</b>	<b>101.967</b>	<b>104,3</b>	<b>0,1</b>

Source: Ministry of Planning and Investment.

#### Relations of trade and investment.

Compared with the world, currently the members participating in TPP negotiations account for 24.9% of the area; 11.1% of the population; 37.7% of GDP; 19.3% of exports, about 21.1% of imports.

Among 12 members of TPP, Vietnam ranks the 8th in terms of area, the 4th in population, the 11th in GDP, the 8th in export, the 8<sup>th</sup> in import. In 12 countries, there are 4 countries importing the largest, the largest is the US; there are 8 countries exporting the largest, including Vietnam. Vietnam accounts for 0.5% of GDP, 2.2% of total exports, accounting for nearly 2% of the total import value of TPP. The proportion of exports of Vietnam to TPP in 2010 accounted for 43.3%, in 2013 accounting for 39%. Vietnam's imports from TPP in 2013 accounted for 22.8% of the total import turnover of Vietnam. Vietnam's exports to TPP accounted for about 1% of total import turnover of TPP member countries. This demonstrates that TPP is a potential market of Vietnam.

In the trade relation between Vietnam and the remaining members of TPP, Vietnam is in a quite large trade surplus position (in 2013 it reached 21.4 billion USD, which equals to 41.5%

of exports). Among 11 countries, Vietnam is in trade surplus position with 6 countries, the largest ones are the US, Japan, Australia, Canada ...; and in trade deficit position with 5 countries, the largest one is Singapore. Direct investment of TPP members in Vietnam (from 1988 to the end of 2013) is as follows: Japan 30 billion USD, ranking the first; Singapore 27.89 billion USD, ranking the 3rd; the United States 10.56 billion USD, ranking the 7th; Malaysia 10.20 billion US dollars, ranking the 8th; Australia 1.38 billion USD, ranking the 15th. Only with these 5 partners, the total FDI registered capital has reached more than 80 billion US dollars, accounting for 30% of the total FDI in Vietnam.

Table 2. Some key indicators of TPP (Source: GSO)

Countries /Data	Area (1.000 km <sup>2</sup> )	Population 2012 (million persons)	GDP 2011 (thousand billion USD)	Export (billion USD)	Import (billion USD)
1. United States	9.512,1	313,9	14.991	2.094	2.662
2. Japan	377,5	127,6	5.867	893	947
3. Canada	11.633,3	34,9	1.736	541	562
4. Singapore	0,7	5,3	240	501	432
5. Mexico	1.967,8	116,1	1.153	365	381
6. Australia	7.333,3	22	1.379	294	273
7. Malaysia	329,5	20,9	288	264	218
8. Chile	756,5	17,4	249	93	86
9. Peru	1.308,7	30,1	177	51	44
10. Newzealand	275	4,4	160	48	46
11. Brunei	5,6	0,4	16	12	3
12. Vietnam	331,3 (8)	88,8 (4)	133 (11)	115 (8)	114
Total	33.831,3	781,8	26.389	5.271	5.768

Source: Ministry of Planning and Investment.

## 4.2 Opportunities for Vietnam

### 4.2.1 Opportunity to Boost Exports

Many countries participating in TPP are important export markets of Vietnam. Among them, there are 2 of the 3 largest importers of our country as the United States and Japan. Therefore, TPP will open up opportunities to increase exports of Vietnam to the United States, Japan and other members of TPP, thanks to stronger and higher commitments to open markets than the existing commitments in the region. As for the United States, through TPP, Vietnam will have the opportunity to increase exports the products with inherent strengths (textiles, seafood, footwear, wood products ...) to this market.

TPP poses very high demand that is to eliminate all import duties immediately after the Agreement comes into force (except for the group of goods with 3-5 year roadmap, few with a roadmap of less than 10 years). This requirement is both opportunity and challenge for

Vietnamese enterprises. With the elimination of all tariff barriers, export items of Vietnam will have a chance to penetrate the United States market.

If you look at the current members of TPP, the United States is the most important strategic partner. The United States is the largest export market of Vietnam. Vietnam exports to the United States an average of 3 years (2010-2012) reaching 17 billion US dollars with the impressive growth rate of 17.5%. If Vietnam does not join TPP, the possibility of establishing a bilateral FTA with the United States is extremely difficult.

Among traditional and mainstay exports of Vietnam, textile is at the top, followed by footwear, wood and wood products, seafood with exports turnover in 2012 respectively reaching 7.5 billion US dollars, 2.3 billion US dollars, 1.8 billion US dollars and 1.2 billion US dollars. If the United States eliminated import tariffs for these items that will be a huge advantage (textiles and footwear are the commodity groups that the United States imposes a very high tax (12-48%).

However, whether these advantages are really beneficial for exporters or not will depend on the rules to determine the origin of goods.

Besides the opportunities to import higher quality goods with cheaper price to replace sources of goods from countries with lower technological level as ASEAN, China, the enterprises will face the removal of tariff barriers dropped from an average of 11.7% today.

While the tax is almost the only protection tool, if being lifted, the request set out is to review a lot of plans and strategies to develop the sector at present, for example, the strategy to develop automobile industry.

#### 4.2.1.1 Financial Services

In the field of financial services, this is a field very interested by TPP countries, particularly the United States with extensive commitments on market access in the areas of banking, insurance and securities. With a low level of development, Vietnam faces new proposals and is under pressure to open its markets. These are certain pressures on domestic policy changes, allowing foreign investors to access some new financial sectors in the market and this leads to higher competitive pressure with domestic suppliers. However, the stronger and freer participation of the suppliers with great potential, with long experience, with the advantage of services in the world (especially the US service providers) can open up opportunities for businesses and consumers in the country to access competitive financial products and services with high quality.

#### 4.2.1.2 Agriculture and Rural Areas

For the agricultural sector, with about 70% of the population being engaged in agricultural activities, TPP has brought opportunities but also many challenges. Opportunities opened up when joining TPP are our agricultural products will have access to a large market with high consumption, especially in the US market. Many exports are more competitive by reducing taxes, such as rice, tea, coffee, pepper...

However, the tax reduction will inevitably lead to the rapid increase of imports flow from TPP countries to Vietnam with competitive price.

The indispensable consequence is that businesses now face stiff competition, commodity market of Vietnam will be reduced, or even the risk of losing domestic market share. This risk is particularly dangerous for agricultural products, which inherent with the object easily in vulnerability in the integration that are farmers.

#### 4.2.1.3 Textile Sector – Gaining Big Benefit from TPP

With Vietnam's textile industry, since the government issued a policy on innovation, implementation of the policy of international economic integration and deployment of the strategy of industrialization and modernization of the country, there have been outstanding developments. Textile industry in Vietnam has grown to become a key economic sector, leading the country in terms of export turnover. With nearly 4,000 businesses and about 2.5 million employees, in 2012 the textile of VN created the revenue of nearly 20 billion US dollars, accounting for 15% of GDP.

When joining TPP, in 16,000 HS 8-digit tariff lines, textiles are under chapters HS 50-63 that the United States has imported, Vietnam has exported to the United States about 1,000 tariff lines with an average MFN tariff of 17-18%. TPP is expected to cut these tariffs down to 0%. In theory, the rules of origin to encourage the use of raw materials of the contents of block TPP will boost the investment in the section of dyeing textile yarn in Vietnam.

With the prospect of TPP, textile exports from Vietnam to the United States could grow 13-20%/year over the period 2013-2017 and may reach 25-30 billion US dollars in 2025, making the scale of export of the whole industry by 2025 reach around 50 to 55 billion US dollars. Besides, if TPP promotes good investment in the raw materials as expected, the targets of trade surplus, value added and localization rate of the sector will be enhanced. It is expected that the industry will soon finish with the objective to reach the rate of localization of 60% by 2015 and 70% in 2020. TPP and FTAs are negotiating with the EU and the Customs Union of Russia - Belarus – Kazakhstan, which will be the next big opportunity for the textile sector of Vietnam.

For the textile industry, in order to benefit from TPP, the offers of tax need fast and strong tax cuts to create a motivation big enough; The rules of origin must be feasible; Challenges from rapid and strong investment trends of FDI sector with advantages both in finance, technology and markets, need to balance the interests of Vietnamese enterprises and FDI enterprises. Besides, the State authorities should build a plan to develop textile sector until 2030, with a vision of 2050, which clearly defines the role, position and size of the textile sector; There are policies to encourage the textile enterprises to develop vertical integration, linking supply chains; There is a mechanism for consultation between local authorities and ministries and associations when considering to license FDI projects in the textile sector ...

#### 4.2.1.4 Fisheries

The direct impact of TPP for Vietnam fisheries industry has been identified as coming from

the tariff measures (tax incentives for Vietnam's fisheries imported into TPP member countries as well as tax incentives for fisheries of TPP partner countries for import into Vietnam) and border measures related to the import (trade remedies, technical barriers, sanitary and phytosanitary measures, ...). TPP will allow Vietnam's fisheries industry to access preferential tariffs (0%) while exporting into TPP member countries, especially the United States and Japan - two key export markets accounting about 35% of total export turnover in 2012 of Vietnam's fisheries industry.

In other indirect aspects, TPP would also have a certain impact to the fisheries sector. For example, the commitments to the protection of foreign investors in the Chapter on Investments in TPP may affect the competition between Vietnamese enterprises with FDI enterprises in the field of fisheries. The contents of the Chapter on State Enterprises can directly impact the operations of State enterprises in the industry. The provisions of the Chapter on Public procurement can be a good opportunity for Vietnamese fisheries enterprises to be directly involved in the tender packages to supply the raw materials for kitchens using public funds of TPP countries. The high standards in the Chapters on Labor and Environment are a major challenge for the improvement of the model and cycle of production in the fisheries sector...

For fisheries export enterprises using imported materials, TPP does not bring major changes by imported raw materials to produce goods for export which is entitled to tax refund anyway, so whether the import duty is reduced is not a concern. However, enterprises importing raw materials from TPP countries will not have to do tax refund procedures, and do not tie up funds if they currently pay import duties, and this can be seen as a benefit, although not great.

Thus, considering the import perspective, TPP does not offer significant advantages in tariff for businesses in fishery exports but it leads to big challenges for fisheries enterprises trading domestically.

Maybe fisheries exporters understand better than anyone that, in export tariff is only one part - sometimes a very small part of a long story. The rest lies in the standards of food safety and SPS, technical barriers TBT (requirements in packaging, labeling, shipping ...) or in trade defense measures (anti-dumping, anti-subsidy ...).

TPP for the fisheries sector will not be a huge boost to be eagerly welcomed, but it is not a huge shock and considering to the last, in a future with TPP, to survive and grow, Vietnam's fisheries businesses will have to be active and ready for fair and decisive competition.

#### 4.2.1.5 Livestock Sector

The concern of the livestock industry about the ability to lose at home is totally reasonable.

Many Vietnamese livestock businesses will be heavily affected by livestock products imported under TPP commitments; especially the source of beef, chicken, pork from 4 countries as the United States, Canada, Australia and New Zealand ... currently flooded in Vietnam market.

12 member states have to open livestock industry by reducing import duties on livestock

products; many tariffs will be reduced immediately to 0%, or have very rapid reduction schedule when adopted by TPP. The average tariff of imported meat at 15% brought back to 0% will make the livestock industry suffer heavy losses.

Many TPP members, especially the United States, Canada, Australia and New Zealand, are the countries with the strength of exports of livestock products while Vietnam's products are of poor quality and cannot get into big markets mainly due to difficulties in scale and technical barriers.

Table 3: Increase in income and export turnover of Vietnam compared with TPP countries and some other countries in the region in 2025

No.	Countries	% GDP increase	% increase of export turnover
1.	Vietnam	14,27	25,8
2.	Malaysai	2,24	5
3.	New Zealand	0,78	5,7
4.	South Korea	0,73	7,7
5.	Japan	0,58	4,9
6.	Mexico	0,58	3,1
7.	Brunei	0,48	1,8
8.	Singapore	0,35	0,6
9.	China	-0,09	-0,5

Source: Ministry of Industry and Trade.

### 3.2.2 Promoting and Attracting Investment

Joining TPP, Vietnamese goods have opportunities to penetrate export markets more strongly thanks to lower taxes. Accordingly, Vietnam attracts foreign investors more strongly than the countries in the region. The foreign investors, especially from China, ASEAN will increase their investment in Vietnam to take advantage of a TPP member of Vietnam. Many experts said that this is the biggest benefit that Vietnam obtains from TPP.

Besides, within TPP member countries there are also countries which are important investment partners, with highly additional capabilities for Vietnamese economy such as the United States, Australia, New Zealand, Singapore ... When TPP is in effect, this agreement will also help promote and increase investment of the above countries in Vietnam, especially in some areas Vietnam wants to develop such as high-tech industries, raising the level of sectors of industry, services, agriculture, enabling Vietnam to participate better in the value chain of the region and the globe.

### 3.2.3 Stepping up International Integration and Empowerment of the Position of the Country

The participation in TPP will help Vietnam have further conditions and opportunities to implement the policy of enthusiastic and proactive international integration that the Eleventh

Party Congress in 2011 set out. This Agreement will also help Vietnam strengthen multifaceted relations with international partners in the Asia-Pacific, which has many important partners of Vietnam in particular and ASEAN in general, such as the United States, Japan, Korea ... Joining TPP with many provisions and high level of requirements in liberalization of trade and market of products, services and environment ... also demonstrates the determination and commitment to reform and change strongly of the Government of Vietnam. Thereby, it increases the attractiveness of Vietnam's market in particular and the prestige of Vietnam in general for investors and international community; contributing to raising Vietnam's position.

### 3.2.4 Promoting Institutional Reform, Restructuring and Improving the Competitiveness of the Economy

In fact, after nearly 30 years of innovation and opening, it is shown that the successful opening of the economy always motives to boost economic reforms and improve the development of Vietnam. At the same time, the active reforms and opening policies create opportunities for Vietnam's successful international integration. TPP has created challenges and also pressure on Vietnam to promote its institutional reform, improving the business environment, reforming SOEs, perfecting the legal system ... These reforms ahead is to ensure adequate conditions for Vietnam to enter the "playground" of TPP ... but in the long run, they have a positive impact on the healthy of the economy, promoting economic and social development of Vietnam.

Through TPP, relations of trade, investment and cooperation in education, science and technology between Vietnam with TPP members can improve and expand quickly. Accordingly, it creates more resources from outside to help Vietnam to develop and modernize the country in the new period.

According to the quantitative study of the East - West Center (US), the countries with economies of small scale, especially in Vietnam will be the country receiving the most benefit from TPP and the free trade agreements in the region. The center predicts that by 2025 Vietnam's GDP will increase by 14.7%, mainly due to the expansion of trade through TPP.

TPP is a comprehensive regional free trade agreement. With Vietnam, joining TPP is "an opportunity to make a leap" in areas such as economic development and export promotion, trade facilitation, efficiency in supply chain, modernization and upgrading service sectors, accelerating the equitization of State enterprises, opening the market ...

## 4. Some Challenges for Vietnam

However, besides opportunities, joining TPP would also pose many difficulties and big challenges for Vietnam. Here are the main challenges.

### 4.1 Increasing Pressure on Market Opening, Competition

- Joining TPP will increase the pressure on market opening, competition for enterprises of Vietnam, in the context of Vietnam's generally weak competition capacity and many inadequacies in the ability to manage. When TPP ends, it is likely that tariff reduction

commitments of Vietnam will be a little lower than the other countries, because Vietnam is still a developing country, but Vietnam is still facing import competition. Accordingly, if there is no good preparation, many production industries and services may face difficulties, even agricultural products and livestock production, which is an advantage of Vietnam; but many items are forecasted to be difficult in competition at the domestic market, such as pork, beef ...

- The opening degree of Vietnam's economy is still low and is protected more than any other TPP member countries. In fact, in Vietnam, services market, labor market, science and technology ... have not yet fully developed or have only been at the beginning to emerge. So when TPP officially takes effect, Vietnam will face demands from TPP countries on more open to foreign investment in many sectors that Vietnam has not opened its market, such as telecommunications and financial services. Satisfying these requirements will be challenges in terms of business and public policy.

- Participation in TPP also leads to big challenges of SOE reform in Vietnam, which in the judgment of the United States it is up to 40% of national GDP. The commitments from TPP may cause some negative social consequences for Vietnam as bankruptcies and unemployment in enterprises with weak competitiveness. Additionally, the results of labor negotiation content in TPP might have an impact on the working environment in Vietnam.

#### *4.2 Difficulties for Some Key Export Sectors*

TPP refers to all economic and social issues such as tariffs, technical barriers, non-traditional sectors (labor, environment and anti-corruption ...) in 22 groups of field. Besides tax reduction opportunities, the barriers as technical regulations, sanitary and phytosanitary or defense of trade with the regulation of non-market economy which the United States implemented are very likely to disable the benefit from reduction of tariffs on goods of Vietnam. For example, the provisions of TPP on rules of origin and environment ... will cause difficulties for some key export items of Vietnam, such as textiles, fisheries, seafood...

Typically in the rules of origin, the United States requires Vietnam's garment must be from the stage of yarn, which now Vietnam's enterprises is hard to meet and it is likely to have up to 80% of unsatisfactory goods. Meanwhile, Vietnam is pursuing the principle of origin of "cutting and sewing" in TPP which, regardless of the source of materials from countries that are not members of TPP, still enjoy tariff preferences in TPP. As for the environment, the requirements which prohibit fisheries and seafood fishing subsidies can be detrimental to the development policy of this sector ... [3]

#### *4.3 Pressure of Consolidating the Legal Framework and the Criteria According to International Standards*

The commitment and implementation of deep and broad commitments within the framework of TPP will require Vietnam to quickly strengthen its legal system, indicators on quality of products, environment, society, etc. according to international practices. Meanwhile, the legal system of Vietnam is less developed than the other partners in TPP.

Vietnam's law is weak from the stage of drafting to promulgation and enforcement. Currently Vietnam remains the state to use many bylaws to implement a law. The criteria for assessing the quality of products, the level of development of sectors and the economy in general was a big difference compared with international practices both in terms of quality and the method of calculation. For example, the target for poverty reduction is calculated according to the own standards of Vietnam.

To implement the commitments in TPP Agreement, Vietnam will have to adjust and modify many laws and regulations as well as quality indicators on trade, investment, procurement, intellectual property ... In the context of Vietnam today, bringing the law system and the quality indicators, economic and social indicators to a level equal to those of other parties in TPP is extremely difficult.

#### *4.4 Too Large Gap for the Level of Development*

The most serious challenge for Vietnam covering the above-mentioned challenges is that Vietnam has a too large gap in the level of development compared to all TPP members. Besides, Vietnam also has major differences with the partners in TPP such as:

- On the market economy: Vietnam has not had a true market economy. The market economy in Vietnam is "socialist", which does not really respect the laws of market in supply and demand, competition and price. The market in Vietnam is basically a new product market; markets of capital, labor, science and technology ... do not develop significantly. The United States is the largest partner in the current TPP also states that Vietnam is still a "non-market economy" and imposes restrictions for textile and aquaculture ... of Vietnam.
- Vietnam has made great strides in the process of liberalizing the economy and become a member of WTO. However, Vietnam still faces criticism over labor standards, intellectual property and the issue of corruption. Particularly on the issue of intellectual property rights, Vietnam remains in the list of countries with the US track, in part because of pirated and counterfeit products still widely consumed in the market, including piracy of copyright online.
- Trade relations between Vietnam and other partners in TPP are mainly related "vertically", which means the export of raw materials, processed products and the importation of technology, machinery, etc.

The above factors will significantly limit the ability to take advantage of opportunities and overcome challenges from TPP of Vietnam.

### **5. Some Measures and Proposals**

TPP or any other free trade agreements have two sides of theirs, including opportunities and challenges with the economy. The efficient utilization of opportunities that TPP brings depends largely on the maturity, vision and pragmatism required of each country. From practical opportunities and challenges posed by TPP to Vietnam as analyzed above, based on strategic research perspective, we propose a number of recommendations to contribute to help Vietnam take advantage of opportunities and cope better with the challenges, as follows:

Firstly, Vietnam should join TPP in the stage of negotiations with a more positive and more proactive spirit. Accordingly, we should promote the work of information and propaganda to enterprises and people in all sectors and fields to realize the opportunities and challenges; we should be well prepared to welcome TPP since the agreement is being negotiated. The lessons from joining WTO shows, if we only prepare the negotiations well without taking advantage of opportunities well, the economic performance that the agreement brings will not be significant.

Therefore, from this point, in parallel with the preparation of effective negotiation, we need to quickly build and deploy a strategy to take advantage of opportunities and respond to the challenges of TPP effectively. Accordingly, at the government level, we should set up an inter-agency steering committee, bringing officials and excellent experts from ministries, representatives of key businesses together to coordinate to build a policy, develop an overall strategy to put Vietnam to join TPP successfully in the coming years.

In the solutions to cope with the negative impacts of TPP, we should particularly emphasize to build the policies to support sectors and subjects most affected. For example, for the textile industry, we need to focus on developing supporting industries to reduce the import of raw materials from China; in aquaculture sector, we should strengthen the capacity to improve the quality and meet the increasing standards of the US market; with the State enterprise sector, we should have a scheme of insurance support and vocational training for workers losing their jobs ...

It is most likely that the time TPP negotiation ends is also when Vietnam ends a period of economic and social development strategy for 5 years and prepares to enter a new development phase (2015). Accordingly, if Vietnam takes initiative and takes good advantage of the opportunities that TPP brings, this will create a motivation with "resonance" with the drastic reform policies that Vietnam is and will be issueing after the XII Congress, contributing to pushing its strong economic growth.

Secondly, to participate in TPP effectively, Vietnam should accelerate the implementation of the commitments to reform and develop the market economy, improve the efficiency and competitiveness of the economy. In which, determining the economic institutional reforms is the key issue. In the recent period, Vietnam points out the right "disease" of the economy and make the commitments to reform the restructure of public investment, restructuring the banking system, restructuring State enterprises and perform "three breakthrough strategies", building a market economy. However, in fact, the reform process takes place slowly and inefficiently. For example, in business environment, the World Bank (WB) says that the ranking of Vietnam has not changed (still ranked 99/189 economies in 2013), although since 2005 to now, Vietnam has implemented 21 reforms, being the most in East Asia-Pacific.

On investment, since 2007, the Government has advocated improving the quality and efficiency of investment, but so far, the structure and quality of investment has not changed significantly [4]. The institutional reform turns to the market economy, eliminating monopolies in many sectors, despite the correct policy, but the implementation is very slow. Many strategic objectives of economic and social development to 2015 are forecasted to fail

[5]. Therefore, to remove the "barriers" to international economic integration in general and joining TPP firmly in particular, Vietnam needs to promote reforms, innovation and early build a market economy with its true sense.

Thirdly, it is necessary to quickly consolidate the legal system, the system of economic assessment indicators to be in conformity with international practice. In fact, most of the quality standards of Vietnam are far behind compared to other countries in TPP. The statistical data system in Vietnam is lacking and outdated compared to the world. Many quantitative indicators of economy, society, environmental, science - technology ... do not have enough data for assessment, [6] or are used improperly (i.e. paying too much attention to GDP growth speed).

Once the indicator system of Vietnam is still too much different from TPP members, the cooperation and integration will be very difficult. Thus, to enter the fully new "playground" of TPP, with the efforts to reform and renew the economy, the improvement of the legal system and building the criteria according to international practice, that each sector and each field rising to improve the quality under the general standards of the world has a very important meaning.

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