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## **Vietnam and the CPTPP: Achievements and Challenges**

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### **EXECUTIVE SUMMARY**

- The CPTPP, a high-standard regional economic agreement which Vietnam has ratified, is expected to bring the country much benefit but the challenges it has to grapple with are significant.
- Given its unique conditions, Vietnam could be a good example of how a developing Asian country and one with a dominant state-owned sector can successfully pursue economic integration via the CPTPP.
- Vietnam's contribution towards the successful conclusion of the CPTPP was evidently demonstrated during APEC 2017 held in Da Nang City.
- To meet the requirements of the CPTPP, Vietnam will need to significantly upgrade its industrial production structure and reform its economic institutions, domestic regulations and the SOE sector.

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## INTRODUCTION

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is among the most notable mega-free trade agreements (FTAs) in the world today. While vast existing studies have analyzed the benefits and challenges for participating countries as well as the roles of key players such as Japan and Australia in the CPTPP, little attention has been paid to the participation and contribution of smaller economies such as Vietnam. Vietnam offers an interesting case study as it is among the few ASEAN Member States and the only socialist economy joining the CPTPP.<sup>1</sup>

The aim of this paper is to shed light on Vietnam's position on the CPTPP, and begins with an overview of the agreement, followed by a discussion about the benefits and challenges to Vietnam stemming from this arrangement. The final section examines Vietnam's contribution to the CPTPP.

## OVERVIEW OF THE CPTPP

The TPP, originally known as the "P4 agreement" (Brunei, Chile, New Zealand and Singapore), was extended into a 12-member agreement, following the entry of Australia, Peru, Vietnam, the United States (US), Canada, Malaysia, Mexico and Japan. The fanfare surrounding the TPP declined significantly after US President Donald Trump announced the US withdrawal from this deal. Overcoming this setback, at the TPP summit in Chile on 14 March 2017, all 11-remaining member countries of the TPP affirmed that the TPP should maintain its high standards and be comprehensive in all areas. This commitment was reaffirmed by participating countries on the sidelines of the Asia-Pacific Economic Cooperation (25<sup>th</sup> APEC) Summit in Vietnam, held on 11 November 2017. At this summit, the TPP was renamed the "Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP)" to reflect the new configuration after the US withdrawal. The CPTPP officially came into force on 30 December 2018 following ratification by the first six countries, namely Mexico, Japan, Singapore, New Zealand, Canada and Australia.<sup>2</sup> Despite the US withdrawal, the CPTPP remains one of the largest FTAs in the world, accounting for 13.3 percent of global gross domestic product (GDP).<sup>3</sup>

The CPTPP aims to set a new standard for global trade, and incorporates new and emerging issues by holding forth five key features. Firstly, it aims to create a comprehensive market access that eliminates tariffs and other barriers to trade in goods and services and investment. Secondly, it aims to create a regional agreement by facilitating the development of production and supply chains among TPP members. Thirdly, it employs an approach of cross-cutting trade issues through building on work being done in the APEC and other fora by incorporating four new cross-cutting issues: regulatory coherence, competitiveness and business facilitation, small-and medium-sized enterprises, and development. Fourthly, it focuses on new trade challenges by addressing emerging trade issues such as those caused by digital technology. Fifthly, it is a living agreement that allows for the updating of the agreement in response to potential trade issues in the future as well as new issues stemming from expansion of the agreement to include new countries.<sup>4</sup>

Compared to the TPP, the CPTPP differs in several ways. Firstly, it suspends the application of 22 provisions from the chapters on trade facilitation, investment, services, public

procurement, intellectual property rights (IPR), environment and transparency, which were inserted in the TPP at the request of Washington. Notably, the chapter on intellectual property changed the most, with the reduction of copyright protection from 70 to 50 years after the death of the relevant author. Similarly, in the CPTPP investment chapter, “investors’ ability to litigate disputes under investment agreements and investment authorizations will be more limited relative to TPP”.<sup>5</sup> Secondly, the CPTPP emphasizes that when making policies, member states should first and foremost consider their own changing “country-specific” circumstances and priorities.<sup>6</sup> The adjustment and new flexibilities have been incorporated in the added provisions on entry into force, and on the withdrawal, accession and further review of the CPTPP. Thirdly, the CPTPP is a progressive agreement as it goes beyond reducing costs for businesses. For instance, it includes commitments to safeguard high labour and environmental standards across the Asia-Pacific region.<sup>7</sup>

As an open agreement, the CPTPP will admit other countries into the bloc if they are interested in and willing to follow and implement the rules and terms stipulated in this deal. In fact, the CPTPP is receiving the attention of several nations, such as Britain, South Korea and Thailand. The CPTPP also welcomes the return of the United States provided the world’s largest economy accepts the principles of this deal.

## **BENEFITS AND CHALLENGES TO VIETNAM**

Vietnam joined the CPTPP talks in 2008. There are many motivations behind Vietnam’s participation in this deal.

Thanks to tariff reduction, Vietnam will be able to benefit from increased exports to CPTPP markets, especially those with which Vietnam does not currently have FTAs such as Canada, Mexico, and Peru, and particularly of goods for which Vietnam enjoys comparative advantages such as textiles, footwear, electronic and agricultural products. In particular, Vietnam is predicted to be the biggest beneficiary, with expected growth in foreign trade and investment of 30.1 per cent and 14.4 per cent respectively by 2030.<sup>8</sup> By entering into production networks among the CPTPP members, Vietnam can further integrate itself in global production value chains, thereby promoting economic growth and reducing poverty. In particular, according to Ousmane Dione, World Bank Country Director for Vietnam, even under “conservative assumptions” a 2018 World Bank report “estimates that CPTPP would increase Vietnam’s GDP by 1.1 percent by 2030. Assuming a modest boost to productivity, the estimated increase of GDP will amount to 3.5 percent from CPTPP”.<sup>9</sup> At the same time, the increasing export to CPTPP markets can create about 20,000-26,000 jobs on average each year for Vietnam particularly in the manufacturing sector such as in textile and garment, thereby helping to reduce the number of people living under the poverty line, by nearly one million by 2030.<sup>10</sup>

Additionally, the commitments on services and investment in the arrangement can possibly help Vietnam improve its investment climate and attract more foreign direct investment (FDI) from countries within and outside CPTPP, thereby improving the production capability of the whole economy. Furthermore, Vietnam’s participation in CPTPP may spur the process of domestic economic restructuring, particularly regarding economic institutions and the reform of state-owned enterprises (SOEs),<sup>11</sup> while creating a more level-playing field for private sector and small and medium enterprises (SMEs).

Vietnam also faces remarkable challenges by signing on to the CPTPP. The industrial production structure of Vietnam is not consistent with the provisions of the CPTPP, particularly regarding the rules of origin. Due to the small scale of its domestic industries and the lack of strong supporting industries, Vietnam has to import most of its intermediate inputs. This makes it difficult for Vietnam to meet the requirements of domestic content under the CPTPP.

Vietnam also has to revise many existing regulations regarding trade, customs, intellectual property, and labour to bring them in line with the CPTPP as well as bridge any existing gaps between the CPTPP and other bilateral and multilateral agreements that Vietnam is participating in, such as the Regional Comprehensive Economic Partnership (RCEP). At the same time, Vietnam will also face a challenge in state budget revenue as the reduction and removal of import tariffs under the deals will lead to a decrease in state revenue.<sup>12</sup>

Other challenges include facing the increasing competition of exports and investment from other CPTPP members, promoting the participation of private sectors and SMEs in economic activities of the country, and carrying out comprehensive reforms of the SOEs.<sup>13</sup> In Vietnam, SOEs perform multiple significant economic and social roles such as generating employment and promoting social stability. However, under the CPTPP, these roles will be considerably constrained by new regulations that will restrict the SOEs from obtaining financing or preferential treatment from the Vietnamese government. Furthermore, all SOEs in CPTPP member states have to ensure transparency in operation and information provision.<sup>14</sup> With the additional need to promote fair competition between foreign companies and SOEs under the CPTPP, SOEs are further constrained from giving preferential treatment to local firms.<sup>15</sup> These conditions put strong pressure on SOEs to undertake critical reforms especially in the way they are run, managed and assessed.

## VIETNAM'S CONTRIBUTION

Given its unique conditions and status, Vietnam stands to enhance the value of the CPTPP in various ways. The first is the demonstration effect that developing Asian countries or countries with a dominant state-owned sector can take part in a high-standard trade deal such as the CPTPP. Though many considered the agreement as essentially a US-Japan deal, the involvement of Vietnam conveys a critical but different message, i.e. the CPTPP has the ability to incorporate members with different political systems and at different levels of development.<sup>16</sup>

Vietnam is the least developed economy in the CPTPP, with per capita income at around US\$2,500, while the average income of other member countries is about US\$30,000.<sup>17</sup> Additionally, being the only non-market economy joining the CPTPP, Vietnam's participation helps to advance a central rule-making goal which is to codify disciplines that restrain state capitalism practices that are not well covered by existing multilateral trading institutions such as the World Trade Organization (WTO).<sup>18</sup> Thus, Vietnam offers an excellent example of how even a small, low income and state-capitalism country can benefit from participating in a high-standard agreement.

Secondly, with an emerging market and strategic geographical position, Vietnam provides other CPTPP countries attractive opportunities to do business and expand their presence in

the region. Vietnam is predicted to be among the fastest growth economies in the world in the coming decades. This, along with a population of nearly 100 million, will surely enhance the import and investment demand from external countries. Additionally, being located centrally in East Asia and being in close proximity to China, Japan and South Korea, Vietnam provides a good platform for countries to not only expand their economic activities, but also to engage other major powers in political and security domains.

Thirdly, as a proactive member, Vietnam made crucial contributions in terms of hosting meetings and finalizing negotiations to complete the signing of the CPTPP. This was especially notable during the 2017 APEC Summit in Da Nang City, Vietnam. As host country, Vietnam worked together with other participating countries, particularly Japan to figure out ways to address the differing interests of countries in the CPTPP.<sup>19</sup> In the context of the US withdrawal as well as trade tensions between the United States and China, the successful conclusion of the negotiations, which led to the signing of the CPTPP, is considered a breakthrough achievement of APEC 2017.<sup>20</sup>

Efforts made by Vietnam on the CPTPP at the APEC 2017 have been widely acknowledged by Japan, Australia, New Zealand and Canada. Japan's Minister of Economy Toshimitsu Motegi stated that "Japan is very grateful to Vietnam for its effective cooperation during the past time", and reaffirmed that Japan will continue to fulfill its role to coordinate, guide and create linkages in order to make the CPTPP effective soon. Separately, Australian ambassador to Vietnam Craig Chittick said that Vietnam accomplished a great mission as host of APEC 2017 and played an important role in completing negotiations as well as in promoting free trade and economic integration in the Indo-Pacific region.<sup>21</sup>

Fourthly, the participation of RCEP countries such as Vietnam, Singapore and Malaysia which are also part of the CPTPP also helps to accelerate negotiations on the RCEP itself. With the experiences gained from the CPTPP negotiations, these countries are now in a better position to enhance and finalize the RCEP talks in the near future.

Fifthly, Vietnam's presence in the CPTPP will facilitate other countries' participation in this agreement in the future. Many economies such as the Philippines, Thailand, Taiwan and South Korea have expressed interest to accede to the CPTPP,<sup>22</sup> not only because this is a high-standard agreement but also because they do not wish to lose market access to CPTPP members such as Vietnam, Singapore and Malaysia. In this regard, the participation of Southeast Asian countries in the CPTPP will help to mitigate the potential losses caused by the US withdrawal, while offering an alternative to purely Chinese-led economic initiatives (such as the Belt and Road Initiative).<sup>23</sup> On the other hand, it is not entirely impossible that Vietnam's membership of CPTPP may make it more palatable for China to consider joining the CPTPP at some future point, since both are considered socialist economies and since the United States has withdrawn from it.

Finally, as a CPTPP member, Vietnam can capitalize on its unique position to play the role of a hub that offers investors services and a production base for entry into the lucrative CPTPP market. In recent years, Vietnam has become an increasingly attractive investment destination offering preferential access to the huge market of the CPTPP for foreign investors, including non-CPTPP countries such as South Korea, China and Thailand.

In summary, Vietnam has demonstrated positive and proactive participation and contribution towards regional free trade integration through the CPTPP. Vietnam has also re-affirmed its commitment to free trade and the rationale of its regional and international economic integration strategy.

## CONCLUSION

In short, Vietnam has been playing a proactive and important role in promoting mega-regional trade agreements such as the CPTPP. Vietnam's accession to the CPTPP created motivation for low-income countries or countries with a dominant state-owned sector to be part of a high-standard trade agreement as well as to play a role in rule-making. Vietnam has made positive contributions to the negotiations and signing of the CPTPP, particularly in the 2017 APEC summit held in Da Nang. With an emerging market and strategic geographic location, Vietnam provides other CPTPP members opportunities to promote exports and do business, thereby simultaneously expanding their presence in the region. Vietnam's participation in the CPTPP also contributes to speeding up the negotiation of the RCEP and encourages other RCEP members to take part in the CPTPP.

Yet to meet its commitments under the CPTPP, Vietnam will need to press on with much needed economic reforms in general and to upgrade its industrial production structure in particular. In addition, a more concerted effort should be put on improving domestic regulations and institutions as well as the competitiveness of SOEs.

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<sup>1</sup> Besides Vietnam, Brunei, Malaysia and Singapore are ASEAN Member States participating in the CPTPP.

<sup>2</sup> "CPTPP to be effective in Vietnam from January 14", <https://en.vietnamplus.vn/cptpp-to-be-effective-in-vietnam-from-january-14/145042.vnp>, accessed on 1 April 2019.

<sup>3</sup> "The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)", <https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/cptpp/cptpp-overview/>, accessed on 6 April 2019.

<sup>4</sup> "Outlines of the Trans-Pacific Partnership Agreement", [http://www.sice.oas.org/tpd/tpp/Negotiations/TPP\\_outlines\\_Nov11\\_e.pdf](http://www.sice.oas.org/tpd/tpp/Negotiations/TPP_outlines_Nov11_e.pdf), accessed on 7 April 2019; and see Ian F. Fergusson, Coordinator, Mark A. McMinimy, and Brock R. Williams (2015), "The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress", Congressional Research Service, <https://fas.org/sgp/crs/row/R42694.pdf>, accessed on 7 April 2019.

<sup>5</sup> Matthew P. Goodman (2018), "From TPP to CPTPP", Center for Strategic and International Studies (CSIS), <https://www.csis.org/analysis/tpp-cptpp>, accessed on 7 April 2019.

<sup>6</sup> Pradumna B. Rana and Ji Xianbai (2017), "TPP's Resurrection: Will It Be Finally Ratified?", RSIS Commentary, No. 219 – 17 November 2017.

<sup>7</sup> "The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)".

<sup>8</sup> "CPTPP Commission holds first meeting in Tokyo", <https://vietnamnews.vn/economy/484155/cptpp-commission-holds-first-meeting-in-tokyo.html#0tPqZdKgEgP1YGsH.97>, accessed on 8 April 2019.

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<sup>9</sup> The World Bank, “CPTPP Brings Vietnam Direct Economic Benefits and Stimulate Domestic Reforms”, PRESS RELEASE, <https://www.worldbank.org/en/news/press-release/2018/03/09/cptpp-brings-vietnam-direct-economic-benefits-and-stimulate-domestic-reforms-wb-report-says>, accessed on 8 April 2019.

<sup>10</sup> “Hiệp định đối tác toàn diện và xuyên Thái Bình Dương” (The Comprehensive and Progressive Agreement for Trans-Pacific Partnership), [http://cptpp.moit.gov.vn/?page=overview&category\\_id=9040e56c-c3f5-4592-9fe7-baa47f75a7c0](http://cptpp.moit.gov.vn/?page=overview&category_id=9040e56c-c3f5-4592-9fe7-baa47f75a7c0), accessed on 11 April 2019.

<sup>11</sup> Le Hong Hiep (2015), “The TPP’s Impact on Vietnam: A Preliminary Assessment”, ISEAS Perspective, No. 63 Issue 2015.

<sup>12</sup> “Vietnam gets to grips with CPTPP”, Vietnam Investment Review, <https://www.vir.com.vn/vietnam-gets-to-grips-with-cptpp-63736.html>, accessed on 28 March 2019.

<sup>13</sup> Bui Thanh Nam (2018), “CPTPP Serving Vietnam as Opportunities and Challenges”, Modern Diplomacy, <https://modern diplomacy.eu/2018/01/17/cptpp-serving-vietnam-opportunities-challenges/>, accessed on 28 March 2019.

<sup>14</sup> “SOE divestment a priority in CPTPP era”, Vietnam Investment Review, <https://www.vir.com.vn/soe-divestment-a-priority-in-cptpp-era-65586.html>, accessed on 7 April 2019.

<sup>15</sup> “The New CPTPP Trade Pact is Much Like the Old TPP”, <http://www.ipsnews.net/2018/03/the-new-cptpp-trade-pact-is-much-like-the-old-tpp/>, accessed on 7 April 2019.

<sup>16</sup> Mireya Solís (2017), “Why Vietnam will shape the future of the TPP”, <https://www.brookings.edu/blog/order-from-chaos/2017/05/19/why-vietnam-will-shape-the-future-of-the-tpp/>, accessed on 28 March 2019.

<sup>17</sup> “Vietnam gets to grips with CPTPP”.

<sup>18</sup> Mireya Solís (2017).

<sup>19</sup> For instance, at the 2017 APEC Summit, Vietnam had discussed with Japan and other TPP members that the absence of Canadian Prime Minister Justin Trudeau at the leaders’ summit of the TPP does not demonstrate the withdrawal of Canada from this arrangement. Shortly after that, Vietnam worked with Japan to set up a Ministerial-level meeting with the participation of the Canadian minister, which led to the renaming of the TPP and re-affirmation of promoting the CPTPP negotiations. See “Người trong cuộc tiết lộ cuộc đàm phán thâu đêm cứu TPP tại Đà Nẵng” (An insider revealed the last minute negotiations that saved the TPP in Da Nang), <http://cafef.vn/nguoi-trong-cuoc-tiet-lo-cuoc-dam-phan-thau-dem-cuu-tpp-tai-da-nang-20180309091410433.chn>, accessed on 8 April 2019.

<sup>20</sup> Nguyen Anh (2018), “Comprehensive and Progressive Agreement for Trans-Pacific Partnership: toward a progressive and inclusive trade model”, Communist Review, No. 907.

<sup>21</sup> “CPTPP và vai trò của Việt Nam” (CPTPP and role of Vietnam), <http://kinhtedothi.vn/cptpp-va-vai-tro-cua-viet-nam-310640.html> and See Nguyen Anh (2018).

<sup>22</sup> “The CPTPP Enters into Force: What Does it Mean for Global Trade?”, <https://www.whitecase.com/publications/alert/cptpp-enters-force-what-does-it-mean-global-trade>, accessed 7 April 2019.

<sup>23</sup> Mireya Solís (2017).

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