



Chapter 6

Viet Nam's Perspective

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1. Introduction

Since the start of Doi Moi (Renovation), Viet Nam has emphasised the importance of economic integration. Accession to the Association of Southeast Asian Nations (ASEAN) in 1995 and ASEAN integration thereafter were important milestones in Viet Nam's economic integration. Indeed, ASEAN offered the first international playground for Viet Nam to practise trade and investment liberalisation. Following its accession to ASEAN, Viet Nam joined important free trade agreements (FTAs) of ASEAN with Dialogue Partners, such as China (ASEAN–China Free Trade Area (ACFTA)); Japan (ASEAN–Japan Comprehensive Economic Partnership); the Republic of Korea (henceforth, Korea) (ASEAN–Korea Free Trade Agreement (AKFTA)); Australia and New Zealand (ASEAN–Australia–New Zealand Free Trade Area (AANZFTA)); and India (ASEAN–India Free Trade Area).

From Viet Nam's perspective, the ACFTA has been important for several reasons. First, it was the first FTA that ASEAN made joint efforts to negotiate with an external partner. This process had important lessons for subsequent ASEAN Plus FTA negotiations. Second, the ACFTA entered into force when China started to expand its economic scale. Third, the ACFTA entails an important approach (incorporating the Early Harvest Programme) and openness in discussing issues related to implementing the agreement (e.g. trade deficit).

By 2022, two new-generation FTAs – i.e. the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the European Union (EU)–Viet Nam FTA (EVFTA) – and the Regional Comprehensive Economic Partnership (RCEP) had entered into force for Viet Nam. These agreements did not mark the end of regional economic integration. Instead, they induced consideration of upgrading existing ASEAN FTAs. As of March 2023, some ASEAN Plus FTAs are undergoing negotiations for upgradation (e.g. the AANZFTA) or are under consideration for potential upgradation (e.g. the AKFTA). This paper attempts to assess the economic impacts of the ACFTA on Viet Nam's economy. In doing so, it focuses on the impacts of trade, investment, and technical assistance on Viet Nam. On that basis, it aims to make a set of recommendations on key areas for further improvements in ASEAN–China economic relations.

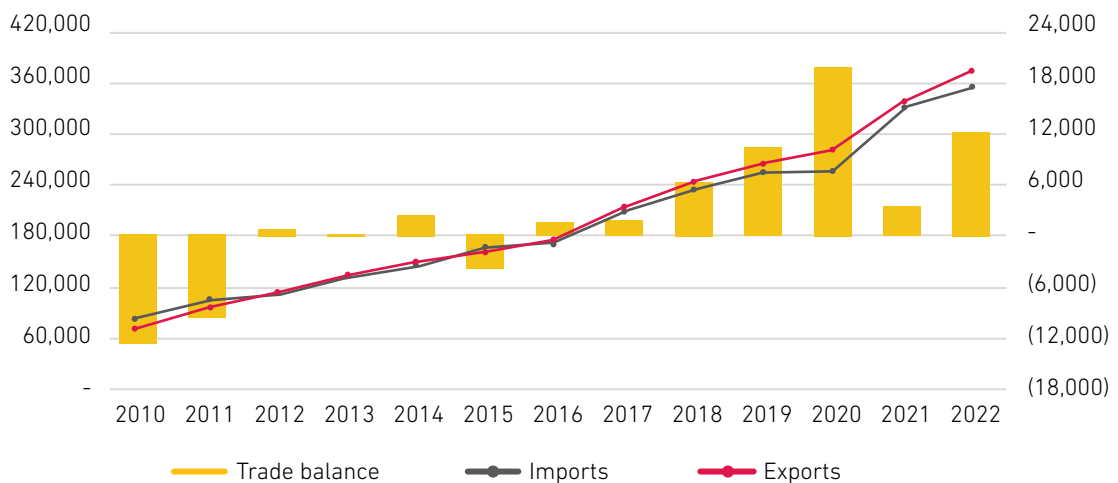
The remainder of the paper is structured as follows. Section 2 provides an overview of the trade, investment, and technical assistance of Viet Nam that can be attributed to the ACFTA. Section 3 elaborates on the key issues and lessons from implementing the ACFTA. Section 4 discusses the benefits of and cooperation measures for upgrading the ACFTA. Section 5 concludes with some recommendations.

2. Impacts of the ACFTA on Viet Nam's Economy

2.1. Trade

Viet Nam's imports and exports achieved continuous and rapid growth during 2011–2022. Exports grew on average by 14.6% per year, while imports attained average annual growth of 12.8% during this period. Most notably, the trade balance changed dramatically from a deficit of US\$9.8 billion in 2011 to a modest surplus in 2013, before consecutive surpluses during 2016–2022 (Figure 6.1). Besides, the rapid expansion of trade (including both exports and imports) during 2021 and 2022 was induced by Viet Nam's efforts to promote trade via major FTAs, including the RCEP, which also includes ASEAN and China. This has underlined the importance of the RCEP in tying Viet Nam's export and economic recovery to the regional economic recovery after the coronavirus disease (COVID-19) pandemic (Nguyen, 2023; CIEM, 2022).

Figure 6.1 Viet Nam's Imports and Exports, 2010–2022
(US\$ million)



Note: Exports and imports are measured on the left-hand axis. The trade balance is measured on the right-hand axis.

Sources: Calculation from statistics of the General Department of Vietnam Customs (n.d.), www.customs.gov.vn, (accessed 3 May 2023); and General Statistics Office (n.d.), www.gso.gov.vn (accessed 3 May 2023).

ASEAN and China have attained increasing importance in Viet Nam’s trade structure. During 2010–2020, while the United States (US) and the EU27 continued to be Viet Nam’s top export destinations, the share of exports of ASEAN Member States (AMS) gradually decreased while China and Korea’s shares increased (Table 6.1). Viet Nam’s exports to all major markets went up in absolute terms, but at different growth rates. Exports to China grew more quickly, on average by 21.8% per year between 2010 and 2015 and 25.7% per year between 2016 and 2020. In terms of imports, China and ASEAN were amongst the main sources of imports of Viet Nam, with respective import shares in 2020 of 40.4% and 13.8% (Table 6.2). Import growth from China reached an average of 19.9% per year during 2011–2015 and decelerated to 12.4% per year in 2016–2020.

Table 6.1 Share and Growth Rate of Viet Nam’s Exports by Country and FTA Partner, 2010–2020

FTA partner	Share (%)											Growth rate (%)	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2010–2015	2016–2020
ASEAN	14.3	14.1	15.2	14.1	12.7	11.2	9.9	10.1	10.1	9.4	8.2	13.7	5.3
RCEP	44.0	45.4	45.7	42.2	40.1	37.7	38.9	43.0	44.1	41.8	40.7	16.7	13.9
China	10.7	12.0	11.2	10.0	9.9	10.2	12.4	16.5	17.0	15.7	17.4	21.8	25.7
Rep. of Korea	4.3	5.0	4.9	5.1	4.8	5.5	6.5	6.9	7.5	7.5	6.8	28.7	16.7
Japan	10.7	11.4	11.4	10.3	9.8	8.7	8.3	7.8	7.7	7.7	6.8	15.2	6.5
CPTPP	22.4	21.2	22.2	21.0	19.8	17.9	16.6	15.9	15.1	15.0	13.7	13.7	6.0
EU27	15.8	17.1	17.7	18.4	18.6	19.0	19.2	17.8	17.2	15.6	12.5	22.3	5.9
US	19.7	17.5	17.2	1.1	19.1	20.7	21.8	19.3	19.5	23.2	27.4	19.7	18.3

ASEAN = Association of Southeast Asian Nations, CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership, EU = European Union, FTA = free trade agreement, RCEP = Regional Comprehensive Economic Partnership, US = United States.

Source: Nguyen and Doan (2023).

Table 6.2 Share and Growth Rate of Viet Nam's Imports by Country and FTA Partner, 2010–2020

FTA partner	Share (%)											Growth rate (%)	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2010–2015	2016–2020
ASEAN	19.3	19.6	18.3	16.1	15.5	14.3	13.8	13.3	13.4	12.7	13.8	9.9	5.5
RCEP	67.4	67.3	69.6	70.0	70.1	70.8	71.0	72.4	71.0	70.7	76.6	16.9	10.6
China	23.8	23.3	25.5	27.9	29.5	29.8	28.6	27.5	27.7	29.8	40.4	19.9	12.4
Rep. of Korea	11.5	12.3	13.7	15.7	14.7	16.6	18.4	22.0	20.1	18.5	17.2	26.3	12.5
Japan	10.6	9.7	10.2	8.8	8.7	8.6	8.6	7.9	8.0	7.7	6.1	11.5	7.5
CPTPP	22.6	22.7	22.4	18.8	18.7	17.0	16.6	15.9	15.9	15.0	14.8	10.1	5.8
EU27	7.5	7.3	7.7	7.1	6.0	6.2	6.4	5.7	5.8	5.9	3.4	10.3	2.9
US	4.5	4.3	4.3	4.0	4.3	4.7	5.0	4.4	5.4	5.7	3.0	17.4	11.2

ASEAN = Association of Southeast Asian Nations, CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership, EU = European Union, RCEP = Regional Comprehensive Economic Partnership, US = United States.

Source: Nguyen and Doan (2023).

ASEAN's exports to China grew from US\$136.8 billion in 2011 to US\$282.0 billion in 2021 (Table 6.3). This reflects an average annual growth rate of 7.5%. Viet Nam had relatively fast export growth to China, attaining 17.0% per year. As of 2021, Viet Nam ranked second (after Singapore) within ASEAN in terms of exports to China. By contrast, between 2011 and 2021, AMS altogether had their imports from China rise from US\$149.4 billion to US\$386.4 billion, i.e. an average annual growth rate of 10.0%. (Table 6.4). As of 2021, within ASEAN, Viet Nam was the largest importer of Chinese goods, with an average annual growth rate of 16.0%. ASEAN as a whole experienced a widening trade deficit with China, from US\$12.7 billion in 2011 to US\$104.4 billion in 2021. Viet Nam's trade deficit with China reached US\$54.0 billion in 2021.

Table 6.3 ASEAN's Exports to China, 2011–2021
(US\$ billion)

Country	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Brunei	0.5	0.3	0.2	0.1	0.1	0.2	0.3	0.2	0.4	1.2	2.2
Cambodia	0.2	0.2	0.3	0.4	0.4	0.6	0.8	0.9	1.0	1.1	1.5
Indonesia	22.9	21.7	22.6	17.6	15.0	16.8	23.1	27.1	28.0	31.8	53.8
Lao PDR	0.1	0.1	0.4	0.7	1.0	1.1	1.2	1.5	1.6	1.5	1.9
Malaysia	29.8	28.7	30.8	28.2	26.1	23.8	29.3	34.5	34.0	37.9	46.4
Myanmar	1.5	1.4	3.1	3.8	4.4	4.8	5.4	4.7	5.7	5.4	4.5
Philippines							8.0	8.7	9.8	9.8	11.5
Singapore	42.7	44.3	49.3	54.7	51.4	44.4	54.0	50.4	51.6	51.3	67.7
Thailand	27.4	26.9	27.2	25.1	23.7	23.7	29.5	30.2	28.1	29.8	36.6
Viet Nam	11.6	12.8	13.2	14.9	16.6	22.0	35.4	41.4	41.4	48.9	55.9
Total	136.8	136.4	146.9	145.5	138.7	137.3	187.0	199.6	201.7	218.6	282.0

ASEAN = Association of Southeast Asian Nations.; Note: Totals may not sum exactly due to rounding.

Source: Calculations from World Bank (2023), World Integrated Trade Solution. <https://wits.worldbank.org> (accessed 3 May 2023).

Table 6.4 ASEAN's Imports from China, 2011–2021
(US\$ billion)

Country	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Brunei	0.3	0.4	0.4	0.4	0.3	0.3	0.6	1.6	0.7	0.6	0.6
Cambodia	1.7	2.2	3.0	3.7	3.9	4.6	5.3	6.1	7.6	7.1	9.7
Indonesia	26.2	29.4	29.8	30.6	29.4	30.8	35.8	45.5	44.9	39.6	56.2
Lao PDR	0.4	0.5	0.5	0.6	0.7	0.7	1.5	1.3	1.7	1.3	1.3
Malaysia	24.7	29.7	33.7	35.3	33.2	34.3	38.3	43.5	42.4	41.0	55.3
Myanmar	2.3	2.5	3.7	5.0	6.4	5.4	6.1	6.2	6.4	6.5	4.2
Philippines							18.5	22.6	26.8	22.0	28.2
Singapore	38.3	39.7	44.0	44.4	42.1	40.5	45.3	49.6	49.0	47.4	54.6
Thailand	30.6	37.0	37.7	38.5	41.0	42.0	44.2	49.9	45.8	49.8	66.4
Viet Nam	24.9	29.0	36.9	43.6	49.4	50.0	58.5	65.5	75.6	84.2	109.9
Total	149.4	170.4	189.8	202.2	206.7	208.7	254.2	291.9	300.9	299.5	386.4

ASEAN = Association of Southeast Asian Nations.; Note: Totals may not sum exactly due to rounding.

Source: Calculations from World Bank (2023), World Integrated Trade Solution. <https://wits.worldbank.org> (accessed 3 May 2023).

During 2011–2021, the structure of ASEAN's exports to China shifted towards a slightly higher share of industrial products and a smaller share of agriculture, forestry, and fishery (AFF) products (Table 6.5). As for the case of Viet Nam, the structure of exports to China in 2011–2021 also shifted towards a smaller share of AFF products and a higher percentage of industrial goods (Table 6.6). Despite the small share, the total export turnover of AFF products increased from US\$2.9 billion in 2011 to US\$7.9 billion in 2021, accounting for 4.8% of gross exports to China in 2021. Exports of industrial products grew faster, from US\$33.6 billion in 2011 to US\$157.9 billion in 2021, accounting for 94.2% of gross exports to China in 2021 (Table 6).

Table 6.5 Share of ASEAN's Exports to China by Product Category, 2011–2021
(%)

Product group	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
AFF products	7.1	7.3	6.8	6.8	6.8	7.4	6.8	6.5	6.9	7.1	6.8
01-05_Animal	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.8	0.9	0.9	0.7
06-15_Vegetable	5.2	5.2	4.8	4.6	4.7	4.8	4.5	4.2	4.4	4.6	4.7
16-24_Foodstuff	1.3	1.5	1.4	1.5	1.5	1.9	1.6	1.5	1.6	1.6	1.5
Industrial products	92.9	92.7	93.2	93.2	93.2	92.6	93.2	93.5	93.1	92.9	93.2
25-26_Minerals	1.4	1.2	1.5	0.8	1.0	1.0	1.0	1.1	1.3	1.1	1.1
27-27_Fuels	10.2	8.7	8.4	7.6	6.3	6.3	7.5	7.3	7.8	5.6	6.6
28-38_Chemicals	8.0	7.6	7.5	7.8	6.7	6.9	6.9	7.6	6.9	6.8	8.2
39-40_Plastics rubber	9.6	8.6	8.3	7.4	6.8	7.0	7.4	7.1	7.1	7.0	6.6
41-43_Hides and skin	0.4	0.4	0.4	0.5	0.6	0.7	0.6	0.6	0.7	0.5	0.5
44-49_Wood	2.2	2.0	2.1	2.1	2.1	2.3	2.4	2.4	2.4	2.5	2.5
50-63_Textile and garment	4.5	4.5	4.8	5.3	5.9	6.4	5.8	6.1	6.2	5.5	4.9
64-67_Footwear	0.5	0.5	0.5	0.6	0.8	0.9	0.9	1.0	1.0	1.0	0.8
68-71_Stone and glass	1.4	1.5	1.7	2.5	2.6	2.0	2.5	2.1	2.6	1.8	1.7
72-83_Metals	6.7	7.2	7.9	8.4	9.2	9.2	8.4	9.1	8.5	9.4	10.7
84-85_Machinery, electrical equipment	42.5	44.3	43.9	43.6	43.6	42.4	42.3	42.0	41.5	45.2	43.5
86-89_Transport	1.9	2.2	2.2	2.4	2.9	2.4	2.4	2.1	2.2	2.0	2.0
90-99_Miscellaneous	3.5	3.9	3.8	4.2	4.6	5.2	5.0	4.9	4.9	4.5	4.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

AFF = agriculture, forestry, and fishery; ASEAN = Association of Southeast Asian Nations.

Note: Totals may not sum exactly due to rounding.

Source: Calculations from World Bank (2023), World Integrated Trade Solution. <https://wits.worldbank.org> (accessed 3 May 2023).

Table 6.6 Share of Viet Nam’s Exports to China by Product Category, 2011–2021
(%)

Product group	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
AFF products	7.8	10.2	8.8	7.9	7.7	8.8	8.4	7.6	6.7	5.4	4.8
01-05_Animal	0.8	0.9	1.1	1.2	1.0	1.4	1.4	1.3	1.4	1.1	0.8
06-15_Vegetable	5.2	7.6	5.8	5.1	5.4	6.0	5.9	5.2	4.1	3.2	2.9
16-24_Foodstuff	1.7	1.7	1.9	1.6	1.3	1.4	1.1	1.2	1.2	1.1	1.1
Industrial products	92.2	89.8	91.2	92.1	92.3	91.2	91.6	92.4	93.3	94.6	95.2
25-26_Minerals	0.9	0.6	0.6	0.4	0.3	0.2	0.3	0.5	0.7	0.8	0.7
27-27_Fuels	13.4	9.9	6.4	6.6	3.8	3.4	2.6	2.6	2.4	1.2	0.7
28-38_Chemicals	7.3	6.6	6.1	5.7	5.0	4.6	4.5	4.6	4.4	4.2	4.9
39-40_Plastics rubber	8.6	6.6	5.8	4.9	4.8	5.4	5.6	5.5	5.9	6.1	6.2
41-43_Hides and skin	0.7	0.7	0.7	0.9	1.2	1.1	0.9	0.9	0.8	0.6	0.6
44-49_Wood	2.7	2.7	3.0	2.4	2.4	2.3	2.1	2.1	2.2	2.3	2.3
50-63_Textile and garment	12.2	11.9	12.8	13.6	13.5	13.5	12.0	12.5	12.4	10.1	10.0
64-67_Footwear	1.2	1.2	1.3	1.4	1.8	1.9	1.9	2.1	2.2	2.3	1.6
68-71_Stone and glass	1.0	1.0	1.1	1.1	1.0	1.2	1.1	1.0	1.2	1.2	1.1
72-83_Metals	7.9	8.1	8.8	10.6	11.9	11.2	8.1	8.6	8.0	7.7	8.7
84-85_Machinery, electrical equipment	31.0	36.6	42.0	39.8	40.4	39.9	45.9	46.1	47.9	53.9	54.3
86-89_Transport	1.4	1.0	1.0	2.6	3.0	1.7	1.3	0.8	0.9	0.9	1.3
90-99_Miscellaneous	3.8	3.1	1.7	2.1	3.2	4.6	5.2	5.2	4.2	3.3	2.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

AFF = agriculture, forestry, and fishery; ASEAN = Association of Southeast Asian Nations.

Note: Totals may not sum exactly due to rounding.

Source: Calculations from World Bank (2023), World Integrated Trade Solution. <https://wits.worldbank.org> (accessed 3 May 2023).

Viet Nam's shares of high-tech exports to China, ASEAN, and RCEP partners have improved over time (Table 6.7). This could be explained by the numerous efforts of Vietnamese enterprises restructuring exports towards higher-tech products, meeting the high standards of quality and sustainable development of markets. The export share of products with low-tech content tends to decrease gradually but still accounts for a relatively high proportion of total exports to the RCEP and China. Meanwhile, Viet Nam's import structures from China, ASEAN, and RCEP partners in 2011–2021 also shifted gradually towards a higher share of high-tech goods and smaller shares of low-tech goods. However, the higher share of low-tech exports to China than that of low-tech imports from China may indicate Viet Nam's material risk of being pushed further behind China in the value chains.

Table 6.7 Share of Viet Nam's Imports and Exports by Technology Content to Selected Partners, 2011–2021 (%)

Exports	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
ASEAN	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
High-tech	28.7	38.5	44.3	39.9	37.9	42.4	43.7	36.4	31.7	29.9	32.9
Medium-tech	32.4	29.2	26.0	26.7	27.2	24.1	22.3	24.4	24.7	27.0	26.0
Low-tech	38.9	32.3	29.7	33.4	34.9	33.5	34.0	39.2	43.6	43.1	41.2
RCEP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
High-tech	25.6	31.3	33.6	30.4	34.6	41.4	50.6	49.2	47.2	49.8	49.4
Medium-tech	28.2	28.0	25.3	25.5	22.4	19.4	16.5	17.3	17.6	18.9	21.3
Low-tech	46.3	40.8	41.0	44.2	43.0	39.2	32.8	33.6	35.2	31.3	29.3
China	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
High-tech	45.0	55.1	51.4	43.3	49.1	54.8	70.4	69.6	67.8	69.6	66.3
Medium-tech	12.0	4.8	5.6	11.0	9.1	12.6	12.9	17.4	16.8	30.2	39.5
Low-tech	43.0	15.9	17.7	24.7	31.0	34.3	32.9	34.8	38.4	41.2	34.6
Imports											
ASEAN	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
High-tech	20.7	33.3	41.4	43.0	36.5	32.8	34.3	32.5	31.5	37.9	37.9
Medium-tech	57.6	47.6	42.4	40.9	46.4	51.0	50.8	51.7	52.4	46.8	47.4
Low-tech	21.7	19.1	16.2	16.1	17.1	16.3	14.9	15.8	16.1	15.3	14.7
RCEP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
High-tech	26.5	34.5	39.3	37.1	36.9	38.7	43.8	44.1	44.2	49.6	49.9

Exports	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Medium-tech	41.9	36.8	33.9	35.2	37.5	35.7	34.3	32.5	33.0	29.5	29.2
Low-tech	31.6	28.7	26.8	27.8	25.6	25.6	22.0	23.4	22.9	20.9	20.9
China	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
High-tech	30.6	36.1	40.1	36.9	35.4	35.4	38.8	37.5	39.2	46.0	45.5
Medium-tech	39.2	35.4	32.2	32.7	34.9	32.0	31.4	30.8	31.3	27.8	27.9
Low-tech	30.1	28.5	27.8	30.4	29.7	32.7	29.9	31.7	29.5	26.3	26.6

ASEAN = Association of Southeast Asian Nations, RCEP = Regional Comprehensive Economic Partnership.

Note: Totals may not sum exactly due to rounding.

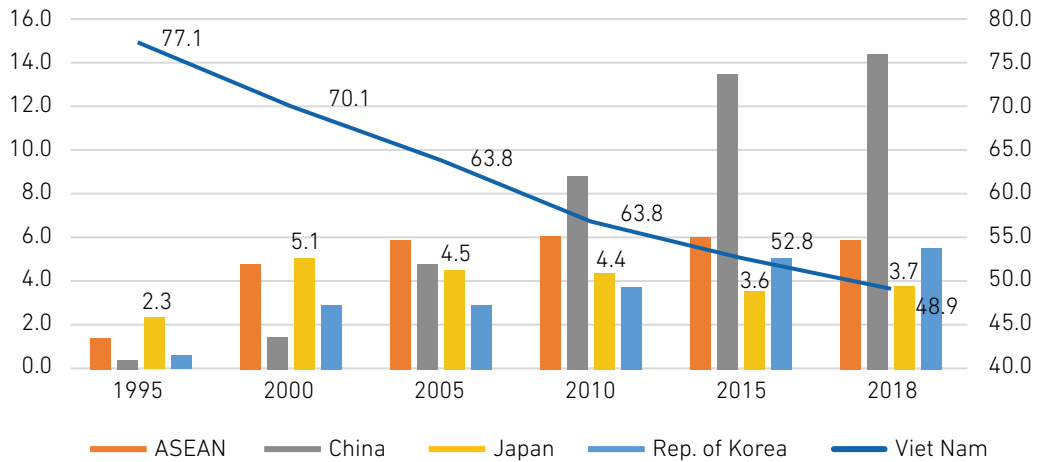
Source: Calculations from World Bank (2023), World Integrated Trade Solution. <https://wits.worldbank.org> (accessed 3 May 2023).

Nguyen and Doan (2023) updated the calculations of selected trade indicators – including trade complementarity and trade intensity – of Viet Nam and selected trade partners¹ for 2001–2020, yielding important findings. First, Viet Nam’s exports became more complementary to the import needs of all major partners, including ASEAN and China. Amongst the major partners, however, Viet Nam’s exports had the lowest trade complementarity level with China in 2020, while the level with ASEAN only ranked after the US and Japan. Second, the exports of major partners also attained higher complementarity to Viet Nam’s import needs. As of 2020, ASEAN’s exports had the highest level of complementarity, followed by Korea and China. Third, for all major partners (except the US), the complementarity of Viet Nam’s exports to the partner’s import needs is lower than that of the partner’s exports to Viet Nam’s import needs. This suggests the relatively weak competitiveness of Viet Nam’s products vis-à-vis those of the concerned partners. Finally, trade intensity indicators show that Viet Nam’s trade with China and ASEAN has exceeded the potential.

Over the past decades, East Asian countries – including ASEAN and China – have increased value added in Viet Nam’s exports. The share of domestic value added in Viet Nam’s exports went down from 77.1% in 1995 – the year of ASEAN accession – to 48.9% in 2018 (Figure 6.2). Meanwhile, foreign value added has become more important in contributing to Viet Nam’s exports. ASEAN had its value-added share in Viet Nam’s exports rise from 1.3% in 1995 to 5.9% in 2005, then fluctuate before remaining stable at 5.9% in 2017–2018. The figure for China rose almost continuously from 0.4% in 1995 to 4.8% in 2005, 13.5% in 2015, and 13.8% in 2018. In this regard, ASEAN and China have helped facilitate Viet Nam’s approach to East Asian trade resembling the acceptance of a ‘smaller share of a bigger pie’.

¹ Including ASEAN, China, Japan, Korea, the US, the EU-27, the RCEP, and the CPTPP.

Figure 6.2 Share of Value Added in Viet Nam's Exports (%)



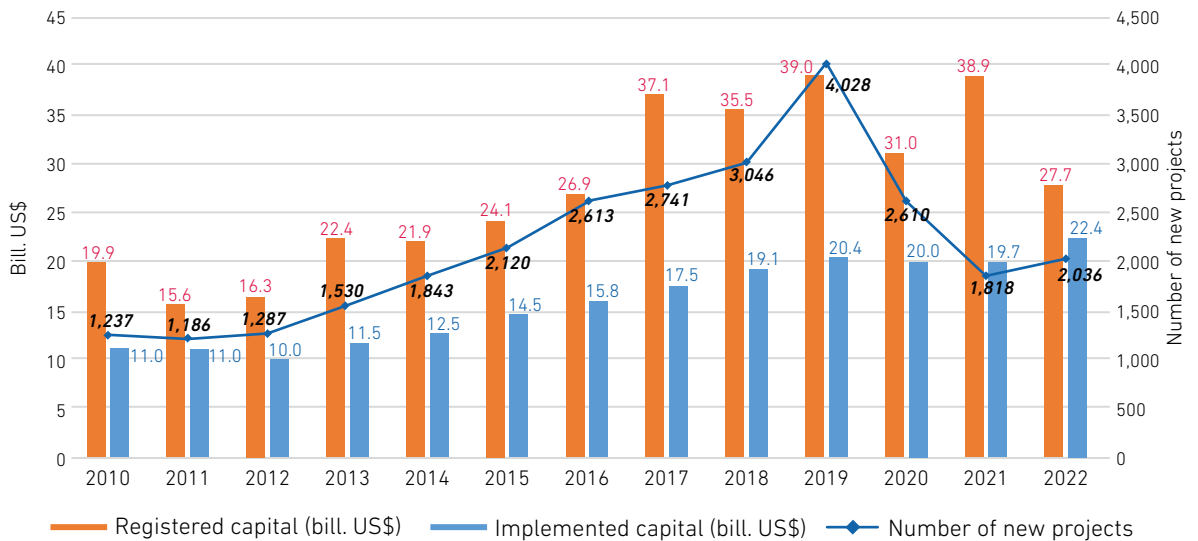
ASEAN = Association of Southeast Asian Nations.

Source: Nguyen (2023).

2.2. Investment

Viet Nam recorded a rapid increase in foreign direct investment (FDI) in terms of registered capital, implemented capital, and the number of new projects (Figure 6.3). This could be explained by such factors as Viet Nam's economic integration and FTAs, reforms to the domestic investment environment, and the diversification of investment locations by foreign investors (including during the US–China trade war and the COVID-19 pandemic). Registered capital increased sharply during 2017–2019 before fluctuating in 2020–2022. Implemented capital, meanwhile, depicts a clear upward trend from 2012 onwards, apart from some contraction during 2020–2021 due to the COVID-19 pandemic.

Figure 6.3 FDI Inflows to Viet Nam, 2010–2022

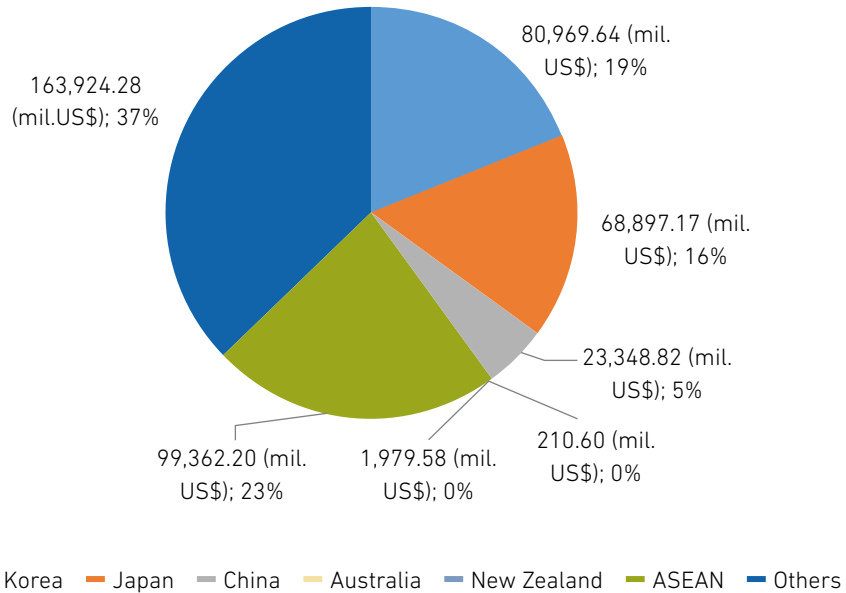


FDI = foreign direct investment.

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

Source: General Statistics Office, www.gso.gov.vn (accessed 19 October 2023).

By partner, Viet Nam has 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 93.2% of the registered capital by 2022. Those countries and territories were mainly concentrated in Asia. It should be noted that six out of the 10 largest investment partners in Viet Nam are East Asian countries: Korea, Japan, Singapore, China, Malaysia, and Thailand. Thus, China and selected AMS are already amongst the key investors in Viet Nam.

Figure 6.4 FDI Inflows by Partner, by End of 2022

ASEAN = Association of Southeast Asian Nations, FDI = foreign direct investment.

Source: Ministry of Planning and Investment (2022), www.mpi.gov.vn (accessed 26 March 2023).

The increase in investment from China in the first quarter of 2019 was noticeable. On the one hand, this increase reflects the shift of Chinese investors to Viet Nam in the context of the complicated US–China trade war. However, by 2019, China had already sharply increased its investment in Viet Nam and become the fourth largest investor in the country. T.T.A. Nguyen (2019, cited in CIEM (2019)) pointed out that China has expanded its investment in Viet Nam in many sectors, diversified investment methods, and more than tripled its project size from only US\$1.5 million per project in 2007 to US\$5.0 million per project in 2017. In the processing and manufacturing industry, Chinese investors invest heavily in the metal processing and textile industries, with estimates reaching more than half of the capital volume. CIEM (2019) noted that the shift in Chinese investment to labour-intensive industries in Viet Nam, such as textiles and garments and metal processing, was most likely aimed at taking advantage of opportunities from rules of origin and preferential tariff treatment within the framework of the CPTPP and EVFTA.

Another aspect concerns the linkage between FDI and local firms. Exports have increased thanks to foreign investment, both directly and indirectly. Nguyen, Vo, and Do (2018) and Vo and Nguyen (2011a), using macroeconomic data and error-correction models, demonstrated that an increase in implemented FDI tends to enhance exports, with the gain being bigger in the long term than the short term. The effects of FDI spillover on the exports of other domestic businesses account for the greater long-term impact. In a similar vein, an even higher contribution of FDI to total employment may be expected when additional employment generated indirectly by FDI in domestic enterprises is taken into account.

Linkages between FDI and domestic companies are still inadequate. About 1,500 Vietnamese businesses have received only a small amount of technology and knowledge transfer from FDI on a sectoral level (UNIDO and Ministry of Planning and Investment of Viet Nam, 2012). The primary sources of supply for FDI businesses are imported raw materials and intermediary commodities, with no established connections to domestic supply chains (MUTRAP, 2015; Ministry of Planning and Investment, 2022). Nguyen and Truong (2022) argued further that in many manufacturing industries, Viet Nam only engages in the lowest midstream activities of global value chains (GVCs), such as sub-assembly and finished products.

2.3. Development cooperation

The ACFTA did not incorporate explicit provisions related to development cooperation as part of the Trade in Goods Agreement. However, the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China, which entered into force on 1 July 2003, already includes such provisions. Article 7 on Other Areas of Economic Cooperation includes generic provisions on various sectors, via such measures as increasing the competitiveness of small and medium-sized enterprises (SMEs), capacity building, and technology transfer. Item 4 of Article 7 states that 'the Parties agree to implement capacity building programmes and technical assistance, particularly for the newer ASEAN Member States, in order to adjust their economic structure and expand their trade and investment with China' (ASEAN, 2002).

It should be noted that development cooperation is not confined to ASEAN–China cooperation. Vo and Nguyen (2010) argued that development cooperation has been a key feature of ASEAN Plus FTAs, and this argument remains valid even in the case of the RCEP. First, East Asian economies have attempted to build and improve socio-economic infrastructure, particularly economic infrastructure. This has been amongst the key factors contributing to expanding regional trade and investment and, ultimately, promoting economic growth. Second, cooperation has been enhanced in the development of human resources and of institutional capacities in both the public and private sectors. Such cooperation has been in various forms, including capacity building and technical assistance. Third, development cooperation also incorporates trade and investment linkages, which in turn helps deepen regional economic integration, creates economic opportunities, and promotes domestic production. Finally, East Asian economies have been involved in intra-regional cooperation to help address social issues and to promote social development. This serves to enhance social stability and narrow development gaps at both national and regional levels, thereby contributing to regional economic growth and cooperation.

Besides, parallel cooperation with China has been extended under various frameworks. The leaders of China and Viet Nam have reached a common understanding on strengthening coordination and promoting cooperation in the areas of economy and trade, production capacity and investment, infrastructure, finance and money, and stable and sustainable development. China and Viet Nam have established and signed many mechanisms, such as the Working Group on Cooperation on Infrastructure and Working Group on Monetary Cooperation; the agreement on extending and supplementing the five-year development plan for economic and trade cooperation between Viet Nam and China for 2017–2021; the Amended Border Trade Agreement (2016); and many cooperation memoranda of understanding on developing infrastructure cooperation plans, cooperation in production capacity, etc., thereby continuing to create a framework to strengthen and promote bilateral economic and trade cooperation (Nhan Dan, 2022).

Viet Nam and China are also members of the Greater Mekong Subregion (GMS). On the initiative of the Asian Development Bank (ADB), the GMS was established in 1992 with six members – Cambodia, China (Yunnan Province and Guangxi Zhuang Autonomous Region), the Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam. The GMS identified 10 priority areas for cooperation. Amongst them, infrastructure connectivity is the top priority. The GMS countries have approved large infrastructure projects, including three economic corridors (the North–South Economic Corridor, the East–West Economic Corridor, and the Southern Economic Corridor), amongst many others.

The GMS Economic Cooperation Program Strategic Framework, 2012–2022, adopted in 2011, was anchored in the development of economic corridors and expanded the GMS Program from conventional infrastructure to multisectoral investments designed to foster economic corridor development. In 2014, GMS members ratified the GMS Cross-Border Transport Facilitation Agreement and agreed on a memorandum of understanding for 'Early Harvest'² implementation of the agreement, allowing subregional movement of commercial vehicles and containers to begin. In 2017, a midterm review of the Strategic Framework, 2012–2022 was conducted to ensure the programme's continued effectiveness and responsiveness. The review called for the expansion of economic corridors to boost connectivity between countries and within rural and urban centres to ensure that the benefits of economic growth are more broadly distributed (Nguyen, Dinh, and Vo, 2020).

The Mekong–Lancang Cooperation (MLC) framework includes six countries – Viet Nam, Cambodia, China, the Lao PDR, Myanmar, and Thailand. It was established at the First MLC Leaders' Meeting in China on 23 March 2016, and the Sanya Declaration on Mekong–Lancang Cooperation was adopted at this event, which defined the '3+5' cooperation framework, i.e. three cooperation pillars³ and five key priority areas.⁴ Within 4 years, the MLC cooperation framework had achieved impressive outcomes, including the completion of all 45 Early Harvest projects in the priority areas.

The MLC has been highly institutionalised, with the holding of a Leaders' Meeting every 2 years, and the annual Foreign Ministers' Meeting and Senior Officials' Meeting. Member states also set up national secretariats for the MLC in 2017. The second MLC Summit in January 2018 adopted two important documents: the Phnom Penh Joint Declaration and the Plan of Action on the MLC, 2018–2022, which focused on strengthening sectoral cooperation planning and implementing small and medium-sized cooperation projects. The MLC's characteristics of 'pragmatism, high efficiency, [and a] focus on concrete projects' are considered the key factors for the impressive outcomes of the MLC mechanism (Lancang–Mekong Cooperation, 2017). The MLC had provided financial support for about 214 projects and reports in the Mekong region as of January 2018 (Le, 2018).

² The memorandum of understanding allows each GMS country to issue up to 500 GMS road transport permits and temporary admission documents for goods and passenger vehicles registered, owned, and/or operated in that country (GMS, 2018).

³ The three cooperation pillars are (i) political and security issues, (ii) economic and social areas, and (iii) sustainable development and humanities.

⁴ The five key priority areas are (i) connectivity; (ii) production capacity; (iii) cross-border economic cooperation; (iv) water resources; and (v) agriculture, and poverty reduction.

With regards to the challenging new regional and international context, MLC leaders have reaffirmed their focus on consolidating coordination between countries in handling regional challenges; bringing about long-term benefits for people; raising the technological capacity of businesses; improving market stability; and pushing the implementation of the MLC Plan of Action, 2018–2020 on regional connectivity, production capacity, water resources, trade, and agriculture. Most recently, the Fifth MLC Foreign Ministers' Meeting in Vientiane in February 2020 emphasised important areas of cooperation in the coming period, including (i) enhancing trade connectivity, firstly focusing on promoting synergies between the MLC and the Belt and Road Initiative; the Master Plan on ASEAN Connectivity, 2025; and the Ayeyarwady–Chao Phraya–Mekong Economic Cooperation Strategy Master Plan, 2019–2023; (ii) advancing cooperation in public health; (iii) deepening water resources cooperation; (iv) promoting agricultural cooperation, in particular promptly implementing the MLC Three-Year Action Plan on Agricultural Cooperation, 2020–2022; (v) promoting efforts to improve people's livelihoods; (vi) actively conducting non-traditional security cooperation, enhancing exchanges over governance, sharing development experiences, and jointly defending peace and tranquillity in border areas; and (vii) facilitating coordinated development of subregional mechanisms such as the GMS, the Mekong River Commission (MRC), and the Ayeyarwady–Chao Phraya–Mekong Economic Cooperation Strategy to produce a greater effect.

3. Key issues and lessons for effective design and implementation of the ACFTA

3.1. General

First, the current ACFTA settings lack harmonisation with other ASEAN FTAs. The ACFTA appears to lack significant harmonisation with the RCEP (Table 6.8). It should be noted that the RCEP resembles an effort to harmonise the ASEAN Plus One FTAs (including the ACFTA, AANZFTA, AKFTA, and others). However, the RCEP does not mark the end of regional economic integration. Indeed, the entry into force of the RCEP arguably induced efforts to promote the upgradation of existing ASEAN Plus One FTAs (such as the AANZFTA, AKFTA, and ACFTA). In this regard, the revision of the ACFTA, should preserve the approach towards harmonisation. For instance, the ACFTA should consider adding provisions related to areas already incorporated in other FTAs, such as textiles and garments, sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBTs), and SMEs.

Table 6.8 Content of Viet Nam’s FTAs

Item	RCEP	EVFTA	CPTPP	AFTA	ACFTA	AKFTA	AJCEP	AIFTA	AANZFTA	AHKFTA
Tarif 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

AANZFTA = ASEAN–Australia–New Zealand Free Trade Area; ACFTA = ASEAN–China Free Trade Area; AFTA = ASEAN Free Trade Area, AHFTA = ASEAN–Hong Kong, China Free Trade Agreement; AIFTA = ASEAN–India Free Trade Area; AJCEP = ASEAN–Japan Comprehensive Economic Partnership; AKFTA = ASEAN–Korea Free Trade Area; ASEAN = Association of Southeast Asian Nations; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; EU = European Union; EUFTA = European Union Vietnam Free Trade Agreement; FTA = free trade agreement; ISDS = investor–state dispute settlement; RCEP = Regional Comprehensive Economic Partnership; RoO = rules of origin; SME = small and medium-sized enterprise; SOE = state-owned enterprise; SPS = sanitary and phytosanitary; TBT = technical barrier to trade.

Source: CIEM (2022).

Second, new-generation FTA issues may be incorporated in the revised ACFTA, which can be supported by the experience of some AMS. As a signatory of new-generation FTAs such as the CPTPP and EVFTA, Viet Nam has already made commitments on several relatively new issues such as intellectual property, e-commerce, and competition policy. It should be noted that although RCEP is not a new-generation FTA, it also attempts to incorporate newer content such as e-commerce and competition (CIEM, 2021). For instance, the structure of the E-Commerce Chapter in the RCEP Agreement is similar to that of the CPTPP Agreement, but with lower levels of commitment. A key lesson would thus be to try exploring the possibility of incorporating new-generation issues in the revised ACFTA.

3.2. Trade

Despite rapid export growth to China and ASEAN, Viet Nam can only enjoy limited tariff preference under the ACFTA and the ASEAN Free Trade Area (AFTA)/ASEAN Trade in Goods Agreement (ATIGA). Under both frameworks, Viet Nam could see its FTA utilisation rates improve over 2006–2021. However, these utilisation rates are more limited than those of other FTAs (e.g. the AKFTA/Viet Nam–Korea Free Trade Agreement (VKFTA), and Viet Nam–Chile Free Trade Agreement (VCFTA)), while being higher than those of new-generation FTAs (the CPTPP, EVFTA, and United Kingdom–Viet Nam Free Trade Agreement (UKVFTA)) (Table 6.9). This brings about two major considerations. On the one hand, ASEAN and China should consider reviewing rules of origin to ensure more adequate ACFTA utilisation. In this regard, ASEAN and China may learn from the design of the AKFTA, which allows for sufficient flexibility that can enable traders (including those from Viet Nam) to benefit from tariff preference. On the other hand, Viet Nam should investigate the issues that prevent its utilisation of FTAs in general and the ACFTA in particular. Such issues may include the capacity to meet rules of origin, lack of information, limited incentives (due to small trade volume and small differences between normal and preferential tariffs), and complicated certificate-of-origin procedures.

Table 6.9 FTA Utilisation Rate
(%)

Country	2006	2007	2008	2009	2010	2011	2012–2014	2015	2016	2017	2018	2019	2020	2021
ASEAN	7.1	9.4	12.8	11.4	14.1	20.2	-	24.2	30.0	30.0	34.0	35.2	38.8	40.0
ACFTA	8.9	6.3	9.8	21.7	25.2	23.1	-	32.2	31.0	26.0	29.0	31.6	31.7	33.9
AKFTA VKFTA				79.1	65.8	90.8	-	59.6	56.0	51.0	35.0	49.8	52.1	50.9
AANZFTA					8.9	15.9	-	28.1	34.0	33.0	34.0	38.2	40.2	39.2
AJCEP VJEPA				27.8	30.5	31.2	-	34.0	35.0	35.0	30.0	38.1	37.9	34.7
VCFTA							-	56.9	64.0	69.0	67.0	67.7	65.5	61.8
AIFTA					2.4	7.4	-	32	43.0	48.0	72.0	65.1	70.0	68.7
VN-EAEU FTA							-		6.0	22.0	28.0	31.0	29.6	39.0
AHKFTA													0.1	0.1
CPTPP												1.7	4.0	6.3
EVFTA														20.2
UKVFTA														17.2
Overall									36.0	34.0	39.0	37.2	33.1	32.7

AANZFTA = ASEAN–Australia–New Zealand Free Trade Area; ACFTA = ASEAN–China Free Trade Area; AHKFTA = ASEAN–Hong Kong, China Free Trade Area; AIFTA = ASEAN–India Free Trade Area; AJCEP = ASEAN–Japan Comprehensive Economic Partnership; AKFTA = ASEAN–Korea Free Trade Area; ASEAN = Association of Southeast Asian Nations; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; EVFTA = European Union–Viet Nam Free Trade Agreement; FTA = free trade agreement; UKVFTA = United Kingdom–Viet Nam Free Trade Agreement; VCFTA = Viet Nam–Chile Free Trade Agreement; VJEPA = Viet Nam–Japan Economic Partnership Agreement; VKFTA = Viet Nam–Korea Free Trade Agreement; VN-EAEU = Viet Nam–Eurasian Economic Union Free Trade Agreement.

Source: VCCI (2023)

Besides, to support more efficient trade flows, ASEAN and China should consider making more explicit commitments related to trade facilitation. Specific areas where additional commitments may be needed include border trade and customs clearance, paperless trading, SPS measures, and TBTs. In addition, the commitments should be accompanied by parallel efforts to build capacity for selected AMS (e.g. Cambodia, the Lao PDR, Myanmar, and Viet Nam). An example is paperless trading, where ASEAN and China could consider the adaptation of available frameworks such as the Framework Agreement on Cross-Border Paperless Trade in Asia and the Pacific or Digital Economy Partnership Agreement amongst Singapore, China, and New Zealand.

In parallel, enhancing mutual trust between ASEAN and China in the areas of SPS measures and TBTs is crucial. An alternative would be to strengthen the dispute settlement mechanism related to these chapters. It should be noted that while the RCEP incorporates SPS and TBT chapters, the dispute settlement mechanisms are still lacking for these chapters. However, pursuing this alternative may take time, as AMS and China have diverse non-economic objectives that justify the need for SPS and TBT regulations. Another alternative would thus be to enhance the good regulatory practices of ASEAN and China. At a minimum, this requires more effective implementation and resourcing of the enquiry points under the WTO. Still, ASEAN and China could do more to ensure that the traders could be informed (at best, consulted) and prepared for changes in SPS and TBT regulations. This should require not only government-to-government efforts, but also government-to-business programmes that engage and support the firms within each country.

Several lessons can be summarised from Viet Nam's experience with Decrees 248 and 249 of China. These decrees were issued by China in April 2021 and entered into force on 1 January 2022. From April to September 2021, exporters in Viet Nam were barely aware of the content of these decrees, despite notifications of these documents via the SPS Office of Viet Nam (serving as the WTO Enquiry Point on SPS). Issues with these decrees were only discussed in various fora and workshops in Viet Nam in the last quarter of 2021. At that time, Vietnamese exporters were concerned about the lack of capacity to meet requirements under the decrees, and thus missing the opportunities induced by the RCEP (supposedly at the time to enter into force in early 2022). However, after nearly 1 year of implementation, by 5 December 2022, 2,426 product codes were licensed to be imported into China. Of these, 1,236 product codes belonged to the group of 18 items registered through the competent authority (accounting for 50.9%), while the remaining 1,190 product codes were not on the list that must be registered through the competent authority. Amongst these two groups, seafood products are approved by China Customs the most, followed by nut products (cashew nuts, coffee, etc.) and vegetable oil products, flour cakes, etc. Underlying these results were the efforts of Viet Nam's SPS Office in implementing Decrees 248 and 249, which presents a typical example of inter-sectoral coordination in the state management of food safety in the face of new developments in the requirements of importing countries. This case highlights two important lessons. First, building awareness for firms in terms of keeping track of potential regulatory changes in importing markets in general and in China in particular is essential. Second, there needs to be a clear and unambiguous delineation of the responsibility and authority of the functional agencies of ministries and branches in coordinating the preparation and adaptation of firms amid foreign regulatory changes.

3.3. Investment

In terms of investment, ASEAN and China should consider revising investment measures in a way that makes FDI work for local economic prosperity. In particular, the presence of FDI within the ACFTA region should promote and be accompanied by the transfer of technology and know-how for GVC participation. It should be noted that FDI enterprises and Vietnamese enterprises, in general, have not yet established a robust linkage in the value chain due to various reasons. First, when investing in Viet Nam, most FDI enterprises already have a network of supporting industry enterprises in the GVC, which could compete in export markets. Second, low labour skills are hindering SMEs from linking together and maintaining business relations with FDI enterprises. Third, domestic suppliers lack formal channels to collect information on the purchasing strategies of FDI enterprises, thus failing to create business relationships (World Bank, 2017). The lack of information on the quality, cost, delivery, and management standards of FDI enterprises leaves domestic firms at a disadvantage in terms of linkage opportunities. Fourth, the ability of domestic enterprises to receive technology transfer is limited, partly because of the popularity of short-term supply contracts for FDI enterprises.⁵ Finally, Vietnamese government programmes to improve the competitiveness and innovation of the domestic private sector, including technological innovation, market development, technical training, and independent financial packages (guarantee funds, business support funds, etc.), are all unclear in terms of effectiveness due to the lack of a comprehensive monitoring and evaluation system (CIEM, 2020).

Furthermore, ASEAN cooperation in FDI will be essential to avoid race-to-the-bottom competition. As the global minimum tax mechanism will be implemented in 2024, this may reduce the possibility of excessive tax incentives offered by AMS in a race to attract FDI. AMS could also consider alternative measures, instead of tax incentives, to support the operations of foreign invested enterprises. While competition is not necessarily undesirable, AMS should be reminded that they are also striving for a single production base in line with the ASEAN Economic Community Blueprint. Cooperation in terms of FDI policy would thus be an area that requires joint efforts by AMS. In this regard, the amendment of the ACFTA should foster those joint efforts.

⁵ Foreign invested enterprises also often participate in longer-term contracts with foreign suppliers. Some 89.5% of enterprises in the Enterprise Census survey signed only short-term contracts (terms of less than 3 years) with component suppliers (Nguyen, 2018).

3.4. Development cooperation

In past development cooperation projects, the Chinese government provided financial support to the Vietnamese government in the form of concessional loans and loans that focus mainly on areas such as railways, thermal power, and industrial production. Compared with other foreign loans of the Vietnamese government, loans from China arguably had binding conditions and low preferences, leading to relatively high capital costs. The procurement method under Chinese loans is to select a contractor from the list of Chinese contractors offered, which by nature reduces competition. In addition, the regulations on investment and construction management of Viet Nam and China still exhibit differences. On the other hand, as a loan condition, most goods and equipment must be purchased from China. This arguably increases dependence on Chinese goods, affecting the progress and quality of works. For instance, the Cat Linh–Ha Dong sky train project experienced further delays⁶ during the COVID-19 pandemic as the mobilisation of experts and personnel from China was disrupted.

Meanwhile, despite the diversity, ongoing Mekong-related cooperation mechanisms involving Viet Nam and China exhibit some limitations. First, such cooperation mechanisms present a complex web, which may be prone to duplication and inefficient use of resources. For instance, GMS cooperation covers transportation, energy, environment, tourism, telecommunications, trade, investment, human resources development, agricultural and rural development, and urban development along economic corridors – many of which may be similar to the three pillars and five priority areas under the MLC. Dr An Pich Hatda, head of the MRC Secretariat, acknowledged that ‘overlapping is unavoidable, but what is vital is to create a more coherent and effective coordination mechanism that ensures joint efforts’ (MRC, 2019b). Consequently, any new initiatives in the Mekong Subregion will have to address the explicit question of potential duplication and coordination with existing cooperation mechanisms.

Second, the existing mechanisms are yet to sufficiently improve efficiency in water use and management. The MRC (2017: 2) noted that:

The absence of joint planning and collaboration between border provinces has resulted in inappropriate infrastructure development in the Mekong Delta. Uncoordinated development of flood control and irrigation systems, such as dykes and embankments, could cause floods and drought in other areas of the floodplain and may result in water pollution and shortages, and less agricultural production.

More recent analysis and data also show that the natural flow of water in the Mekong River has been adversely affected by various infrastructure projects along the river (Nguyen et. al., 2020). According to the MRC (2019a), the water level in Thailand’s Chiang Saen was 2.10 metres during June–July 2019, 0.92 metres lower than its long-term average (3.02 metres).

⁶ The project was already delayed for years before the COVID-19 pandemic due to various reasons.

Third, notwithstanding the range of cooperation mechanisms, the diversity of their funding sources has not been improved significantly. For instance, Cambodia, the Lao PDR, Myanmar, and Thailand (the CLMV) and Thailand are yet to fund activities under the MLC. Vannarith (2016) asserted that the main challenge for the MRC during 2016–2020 was the mobilisation of funding. Given the COVID-19 outbreak, which may drain the fiscal space of Mekong Subregion countries and external donors, ensuring sufficient funds for Mekong projects may become no easy task.

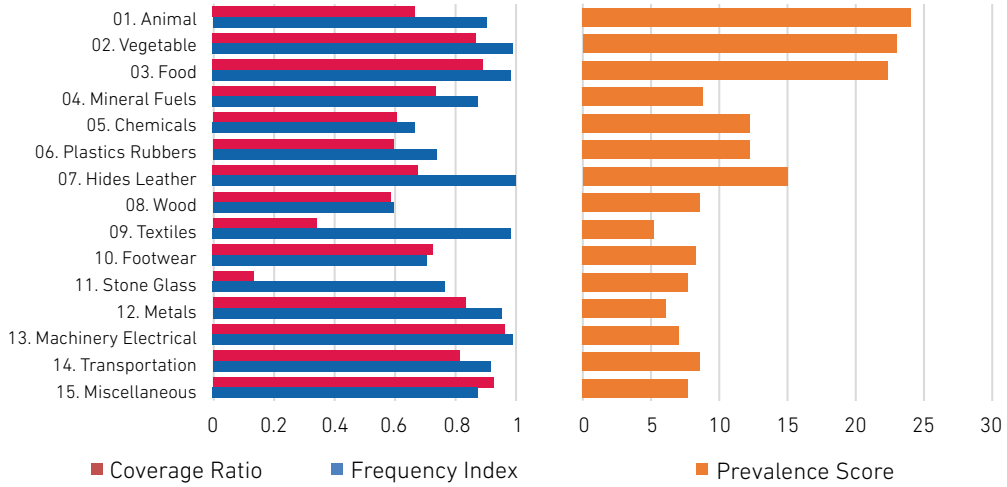
4. Renewing the ACFTA: potential benefit and cooperation measures

From a Vietnamese perspective, the amendment of the ACFTA could focus on some key cooperation measures that would bring potential benefits to concerned member economies. First, traders may benefit from more flexible rules of origin, which may reduce compliance costs for firms and improve the utilisation of the ACFTA. As the first scenario, if the rules of origin under the ACFTA could be adapted to attain the same trade utilisation level as under the ASEAN Trade in Goods framework (2021 baseline, Table 9), tariff preferences could apply for at least an additional 6.1% of Viet Nam's exports to China. This could equal more than US\$3.5 billion each year if the calculation were based on export values in 2022.⁷ Alternatively, if ASEAN and China could modify the rules of origin to attain similar flexibility to the AKFTA/VKFTA (Table 9), the scope of Vietnamese exports to China that could enjoy tariff preferences would be even bigger, amounting to up to US\$9.8 billion each year (based on export values in 2022).

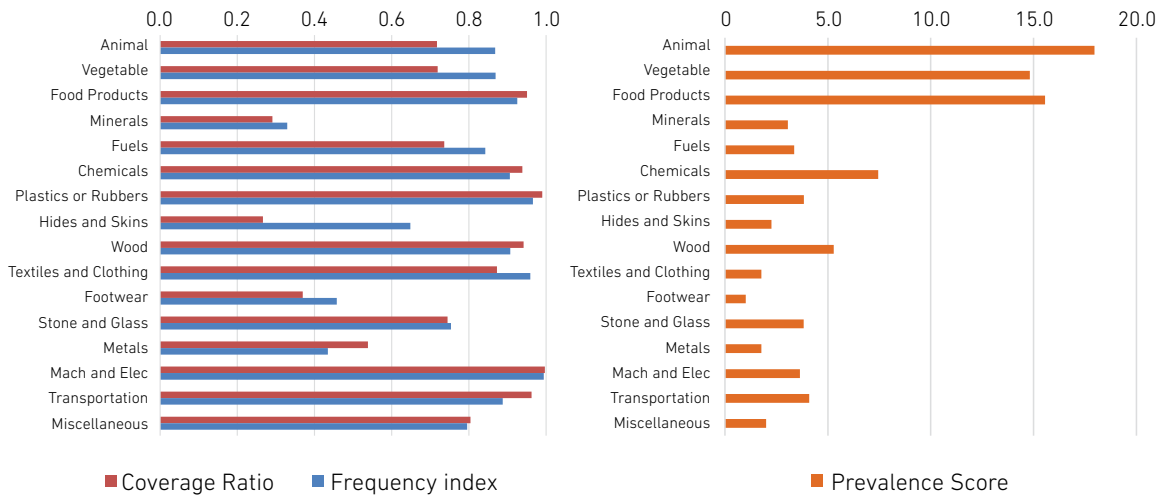
Second, trade facilitation measures should be emphasised in the revised ACFTA. Such measures may cover those related to the transparency of trade regulations, border trade and customs clearance, paperless trading, etc. Such measures could help reduce trade costs and improve supply chain resilience, especially in the post-COVID-19 pandemic era. As e-commerce platforms have expanded operations in cross-border trade between ASEAN and China, cooperation in the modernisation of customs and paperless trading could be crucial to complement and facilitate firms' efforts.

⁷ No detailed calculation of the benefits from the tariff reduction level because of rules of origin compliance

Figure 6.5 NTM Indicators of China and Viet Nam
China



Viet Nam



NTM = non-tariff measure.

Source: Ing and Hadiwidjaja (2022) and Nguyen et al. (2019).

Third, Viet Nam and China have enormous scope to streamline SPS and TBT regulations (Figure 6.5). The non-tariff measure (NTM) coverage ratio suggests that technical regulations could be streamlined towards less burden for machinery and electrical appliances, animal, vegetable, and food products. Meanwhile, the NTM prevalence scores are high for imports of animal, vegetable, and food products into both China and Viet Nam. This comparison shows that streamlining efforts could at the minimum work for animal, vegetable, and food products.

Fourth, ASEAN and China should consider explicit provisions that enable capacity building for trade and investment promotion in line with new contextual needs. On the one hand, such trade and investment promotion should be more aligned with digital transformation and sustainable development. On the other hand, ASEAN and China should make joint efforts for human resources development. This direction requires concrete programmes to upskill and reskill labour to meet the standards and related requirements of GVC participation, and the development of new products and sectors (e.g. the creative economy and e-commerce). In this area, the ACFTA could induce more innovative and resilient growth and GVC development in the ASEAN–China region.

Finally, the ACFTA should promote dialogue on issues related to the impacts of crisis on the legal infrastructure for trade, relaxing foreign ownership limits in finance and banking, trade in essential goods, etc. While the focus may be on trade in goods, which can be easier and advance more rapidly, the agreement should create a pull factor for more progressive efforts towards services liberalisation by ASEAN and China. On another note, China already operates online dispute resolution in Guangzhou to help resolve cross-border business-to-business disputes, including those under the RCEP. Therefore, fostering dialogue on structural reform issues to promote online dispute resolution could be beneficial for SME-targeted policymakers in ASEAN and China. At the same time, ASEAN and China should continuously share best practices and experiences in the rule-making process, especially for trade-related regulations concerning health standards, essential products, etc. Only by this approach can ASEAN and China foster mutual understanding, strengthen regulatory transparency, and devise concrete joint and/or individual plans to streamline the concerned regulations.

5. Recommendations

The authors make several recommendations as follows.

First, ASEAN and China should consider favourably the possibility of negotiating an amended version of the ACFTA. In doing so, ASEAN and China should quickly and, at the same time, carefully devise a tentative timeline and scope for negotiation, to facilitate the domestic buy-in process. Besides, the ACFTA should preserve the harmonisation approach embodied under the RCEP and existing ASEAN FTAs. This requires coordination by and cohesion of ASEAN in the negotiation process. Key areas that may need strong focus are rules of origin, SPS measures, TBTs, new-generation FTA issues, development cooperation, and a concrete mechanism to facilitate dialogue and sharing of experience.

Second, Viet Nam should adopt a set of concrete policies that enable harmonised implementation of the amended ACFTA with existing FTAs, especially the CPTPP, EVFTA, and RCEP, while supporting the multilateral trading system (i.e. the WTO). The country should thus continue reforms of the microeconomic foundation, including competition policy, the business environment, and markets for production factors. These reforms must be within a policy framework to maintain macroeconomic stability and strengthen economic resilience. Investment policy must have a central role, guiding and incentivising the development of (a few) prioritised industries, leaving others for free competition. The investment policy must also target deeper participation in the global and regional value chains, and autonomy in attracting and utilising FDI from ASEAN and China. Trade policy should be consistent with investment policy, thereby contributing to more effective and harmonious handling of trade deficits and imports of intermediate goods, and simultaneously be consistent with the participation of domestic enterprises in regional value chains. In addition, Viet Nam needs to address the bottlenecks in infrastructure and human resources, with appropriate engagement of foreign investors and partners.

Third, Viet Nam should improve mechanisms and policies on import and export management and administration. It should also strengthen import and export management mechanisms, aiming towards international best practices (especially under the CPTPP and EVFTA), while ensuring sufficient flexibility for agencies and enterprises to adjust when implementing ASEAN FTAs in general and the ACFTA in particular. Viet Nam should coordinate closely with other AMS to implement related programmes and activities, including the AEC Blueprint 2025 and the Master Plan on ASEAN Connectivity 2025. It should harmonise 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 ACFTA implementation.

Fourth, Viet Nam should leverage efforts to enhance the competitiveness of Vietnamese products. The country needs to identify potential products with comparative advantages when implementing the ACFTA. In ACFTA 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 consider the value chain characteristics, including price, quality, ability to fulfil large orders, just-in-time and/or just-in-case 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 ASEAN–China markets. In this respect, participation in and building of competitiveness in the ACFTA region must fit in the broader consideration – making Vietnamese products competitive at the global level. Besides, Viet Nam should focus on building strong national brands. Exploiting competitive advantages must be via product differentiation. Effective trade promotion could be through the network of overseas Vietnamese in general and in ACFTA markets in particular.

Fifth, Viet Nam should build capacity for promoting exports in combination with aligning import activities. In doing so, the policy mindset should avoid the perception that imports are unfavourable. The country should carefully study and identify policies to penetrate ACFTA markets to create a pulling effect on Vietnamese goods from customers and importers abroad. At the same time, it should exploit the existing advantages of Vietnamese exports in major non-ACFTA markets to promote re-entry into ACFTA markets. It should also consider the statutory upgradation of quality standards required for agricultural exports, in close consultation with the business community and farmers. Furthermore, it should study and review mechanisms to guide import activities to enable enterprises to participate more deeply in the value chain.

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