

Trans-Pacific Partnership

Advantages & Disadvantages for Vietnam Based Businesses

November 2015

TPP

Impact on Vietnam's Prospects



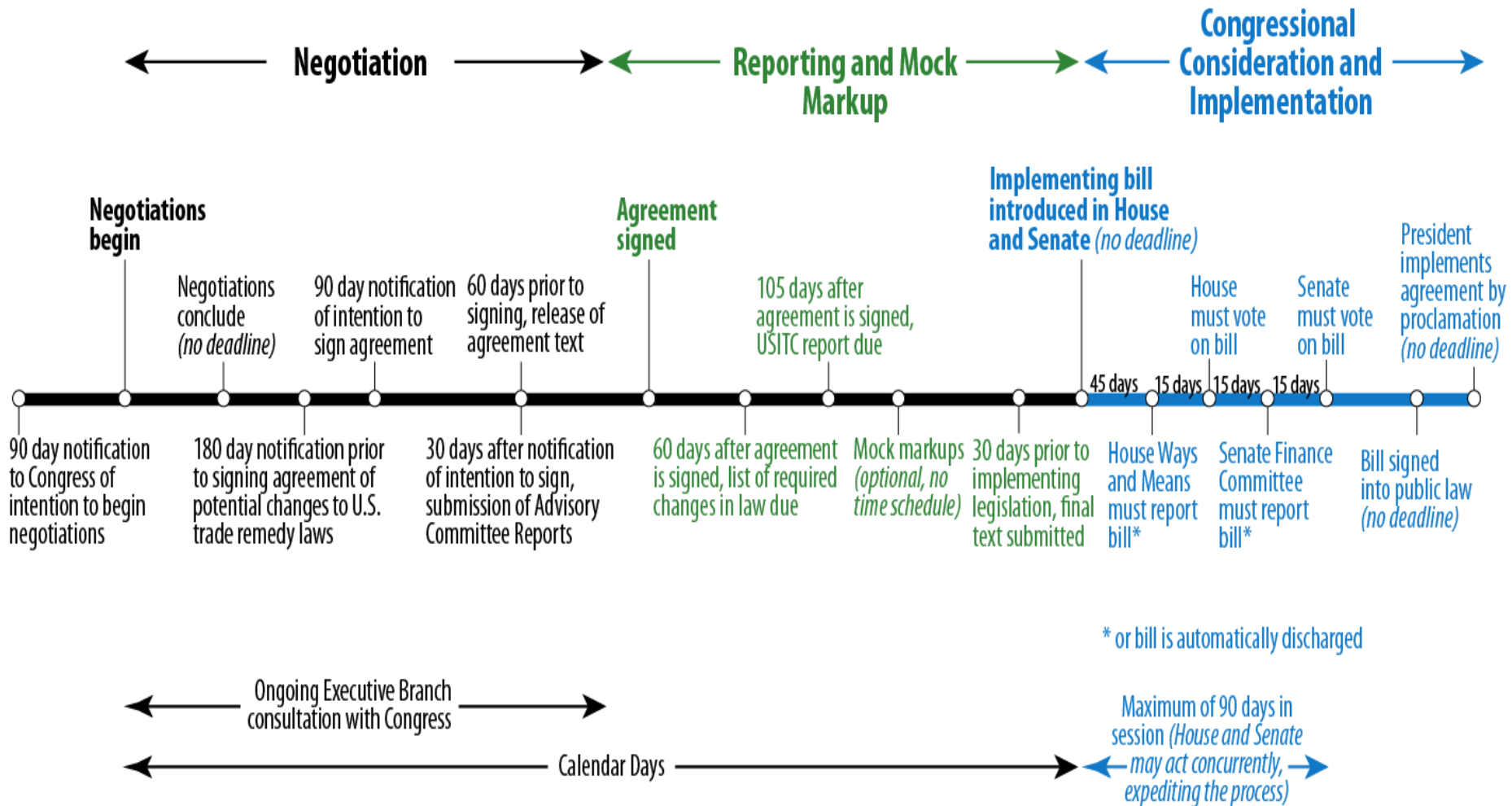
12 Countries:

- **Asia:** Brunei, Malaysia, Singapore, Vietnam, Japan*
- **America:** Canada, Chile, Mexico, Peru, USA
- **Oceania:** Australia, New Zealand

Background

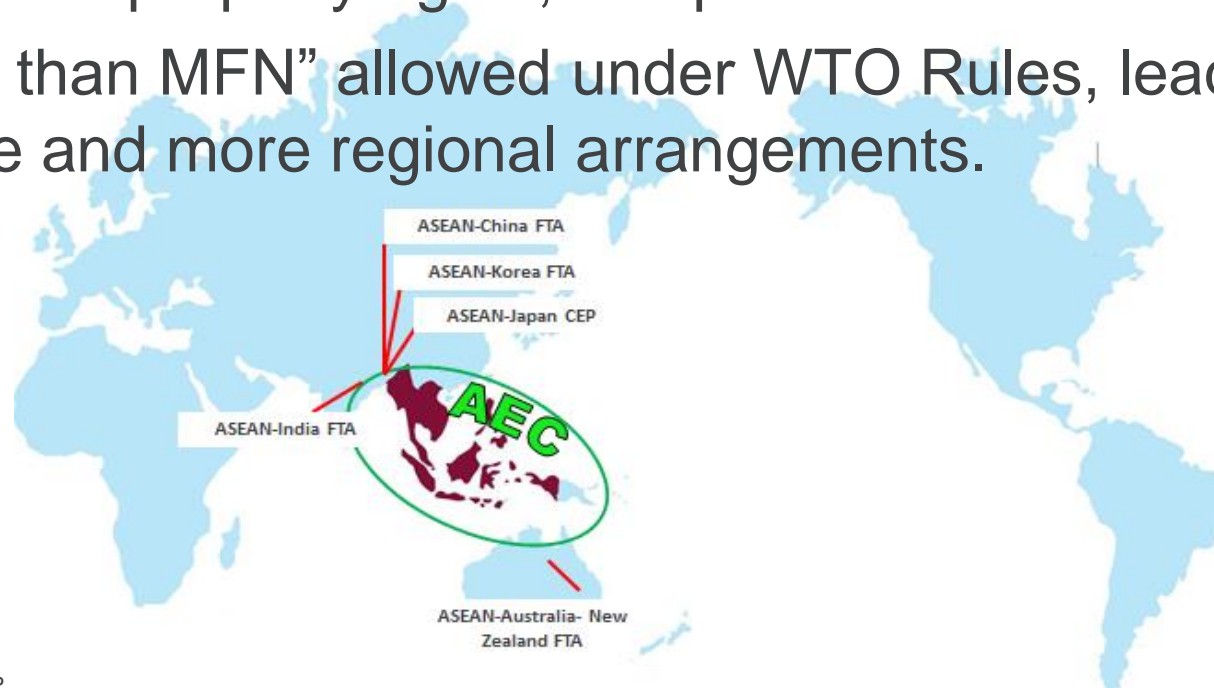
- GDP of TPP-12 is \$27.5 trillion, 40% of global output, \$5.4 trillion in exports, 33% of global exports
- TPA & TAA have already passed in US Congress.
- Atlanta Ministers' Meeting agreed to TPP Agreements for formal signing at Manila APEC in November.
- Text to be posted for 60 days' comment period.
- Ratification process – 12 National Legislatures, but only 6 with 80% GDP for Entry into Effect.

US Ratification Process



Interface with ASEAN FTAs

- ASEAN FTAs traditionally focused on trade in goods
- Focus has since expanded to areas such as trade in services, investment protection, capital, skilled labour, intellectual property rights, competition ...
- “Better than MFN” allowed under WTO Rules, leading to more and more regional arrangements.



TPP + RCEP

Regional Comprehensive Economic Partnership (RCEP)

- ASEAN + 6 : Australia, China, India, Japan, New Zealand and South Korea
- More than 50% of global population
- 27% of world's GDP
- RCEP less ambitious, more feasible for China, India, Philippines...



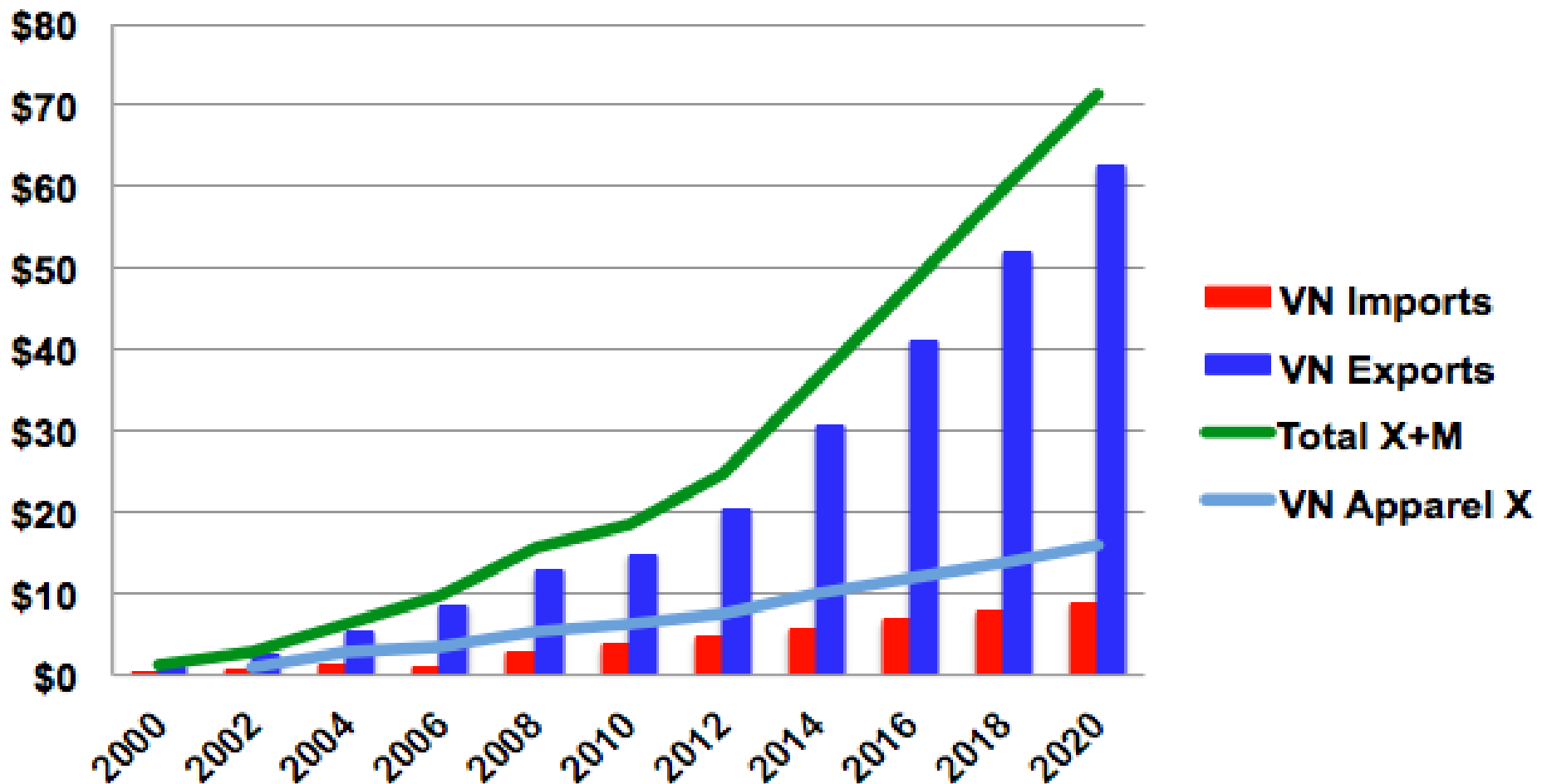
The TPP's Broad Scope

RECP	TPP
<p>ASEAN + 6 and open accession</p>	<p>United States, Brunei, Chile, Singapore, New Zealand,, Australia, Peru, Vietnam, Malaysia, Mexico and Canada</p>
<p>Negotiations expected to commence in 2013 and conclude in 2015</p>	<p>The 16th round of negotiations will be conducted in March 2013</p>
<ul style="list-style-type: none"> • Trade in goods • Trade in services • Investment • Economic and technical cooperation • Intellectual property • Competition • Dispute Settlement 	<ul style="list-style-type: none"> • Competition • Cross-border services • Customs • E-commerce • Environment • Financial services • Government procurement • Intellectual property • Investment • Labour • Market access for goods • Rules of origin • Sanitary and Phytosanitary standards • Technical barriers to trade • Telecommunications • Temporary entry • Textiles and apparel • Trade remedies

Quantitative Assessment

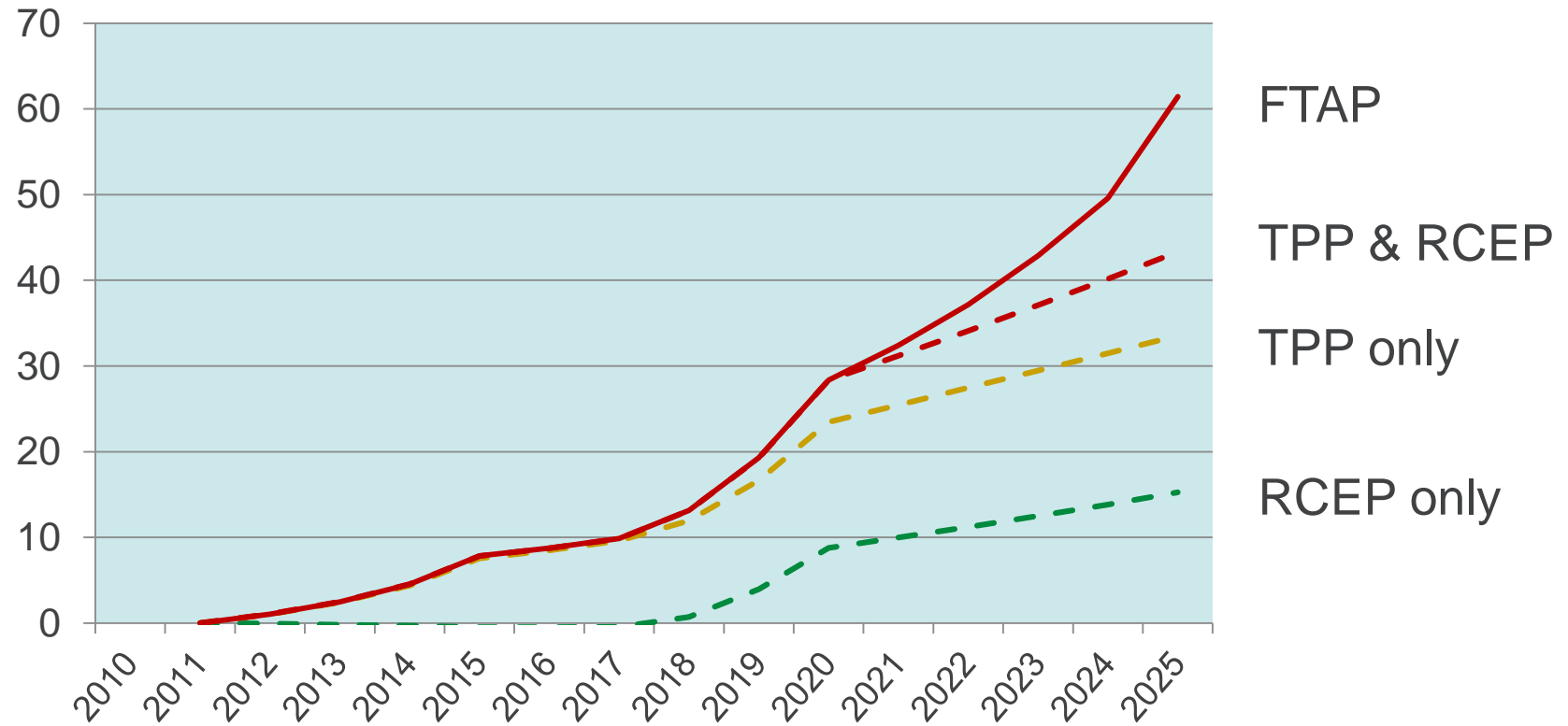
VN-US Trade after BTA (2001), WTO (2007)

Vietnam - U.S. Trade, 2000 - 2020e
(US\$ billion • Not including impact of TPP)



Vietnam: income gains

(US\$ bill.)



Source: Petri, Plummer, Zhai,
www.asiapacifictrade.org

Global effects of the TPP

- **Large global benefits**
 - Income up \$223 billion (0.7 percent)
 - Exports up \$305 billion (4.6 percent)
 - Imports up \$315 billion (4.2 percent)
 - FDI stocks up \$255 billion (2.5 percent)
- **Moderate trade diversion effects**
 - \$67 billion of \$290 billion gains (23 percent)
- **Comparisons with other agreements**
 - Benefits bigger with RCEP (roughly 3x)
 - Benefits much bigger with FTAAP (roughly 9x)

Source: Petri, Plummer, Zhai,
www.asiapacifictrade.org

Scenario assumptions

Agreement	Preference utilization rate	Reduction Factors			
		Final tariffs	Goods NTBs	Service NTBs	FDI Barriers
KORUS	0.50	0.94	0.54	0.53	0.52
TPP	0.58	0.96	0.53	0.52	0.52
RCEP	0.60	0.90	0.36	0.28	0.28

Source: Petri, Plummer, Zhai,
www.asiapacifictrade.org

Largest income gains in TPP

	GDP 2025	Income gains (\$bill)		% of baseline	
		TPP11	TPP11 + Japan	TPP11	TPP11 + Japan
United States	20,273	23.9	76.6	0.1	0.4
Japan	5,338	-1.2	104.6	0.0	2.0
Vietnam	340	26.2	35.7	7.7	10.5
WORLD	103,223	74.5	223.4	0.1	0.2

Source: Petri, Plummer, Zhai,
www.asiapacifictrade.org

Why such large gains?

- **More exports** of manufactures (34%)*
- **More imports** of consumer and production goods (27%)*
- **More inward FDI** due to investor optimism
- **Stronger links** to international supply chains
- **Productivity gains** from competition
- **Momentum for reforms** boosting growth and opportunity

* Source: Petri, Plummer, Zhai,
www.asiapacifictrade.org

Variable – Textiles & Garments

Rules of Origin (ROO) for Garments:

The “Yarn Forward Rule” and the “Short Supply Compromise” – Textile Investment needed.

Phase in period, “consistency plan”, speed of localization will matter.



TPP Impact on Textile & Garment Industries

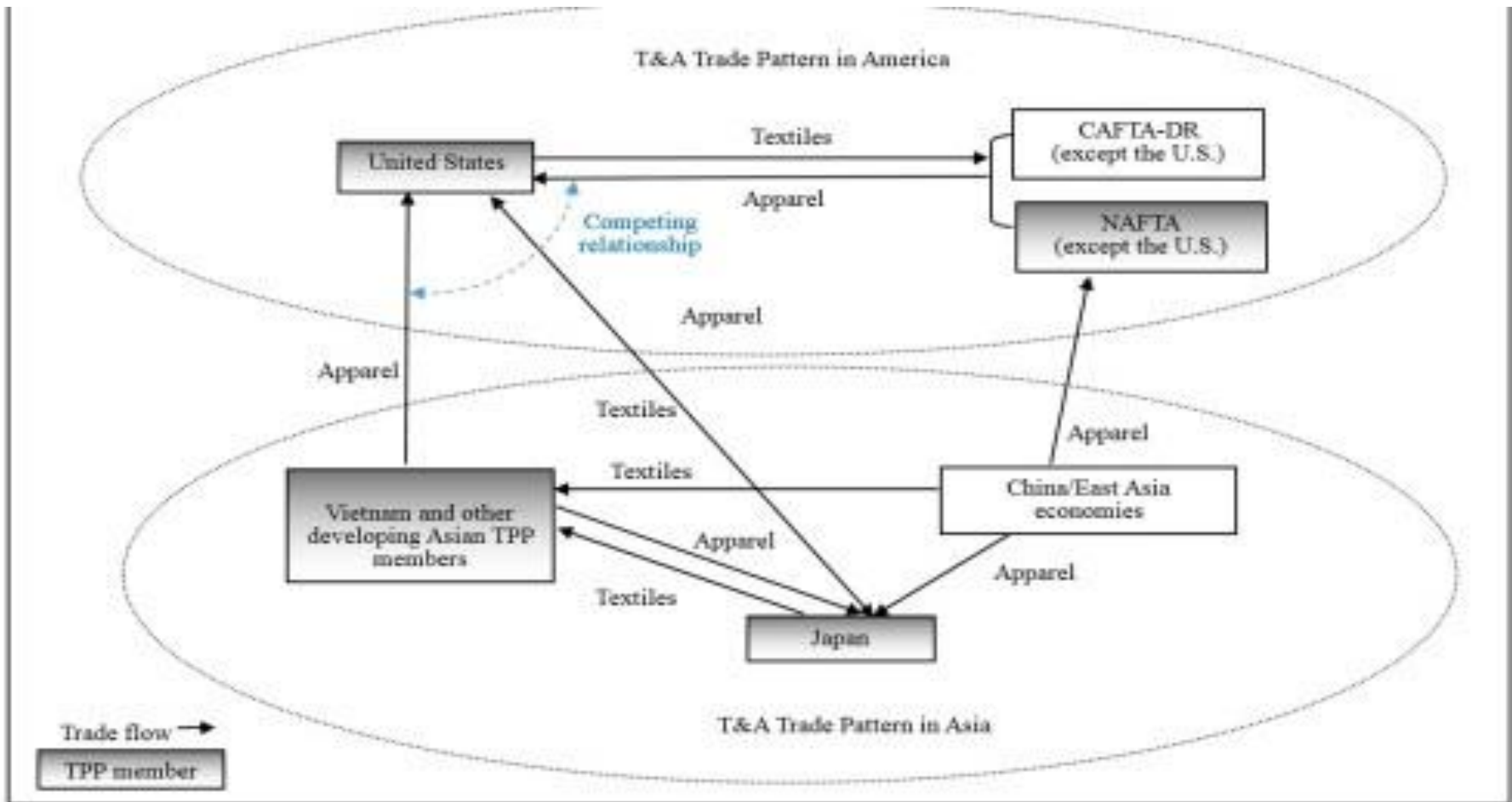


Figure 1 T&A Trade Flows in the TPP Region

US – Vietnam trade relations: Duties

Preferential tariffs will reduce the cost of Vietnam products for US consumers:

2012

- Total US Duties Collected from TPP-10 countries - \$2,501 billion
- Total US Duties Collected from Vietnam - \$1,751 billion
 - \$1,280 Billion - Apparel Chapters 61 & 62 of the HTSUS
 - \$,300 Billion - Footwear Chapter 64 of the HTSUS
 - \$,175 Billion - other VN imports

2013

- Total US Duties Collected from TPP-11 countries - \$5,265 billion
- Total US Duties Collected from Vietnam - \$2,048 billion (up 16.8% YOY)
 - ranks second amongst 11 TPP partners (after Japan)
 - 72% of all TPP-10 Duties Collected - 40% of all TPP-11 Duties Collected

Source: Annual 2012, 2013, 2014 and Jan+Feb 2015 Data, U.S. International Trade Commission's (ITC) Trade Dataweb - <http://dataweb.usitc.gov>

US – Vietnam trade relations: Duties

Preferential tariffs will reduce the cost of Vietnam products for US consumers:

2014

- Total US Duties Collected from TPP-11 countries - \$5,537 billion
- Total US Duties Collected from Vietnam - \$2,380 billion (up 16.2% YOY)
 - ranks first amongst 11 TPP partners (Japan ranks 2nd)
 - **73.4% of all TPP-10 Duties Collected - 42.9% of all TPP-11 Duties Collected**

Jan+Feb 2015

- Total US Duties Collected from TPP-11 countries - \$,885 billion
- Total US Duties Collected from Vietnam - \$,402 billion
 - ranks first amongst 11 TPP partners (Japan ranks 2nd)
 - **74.1% of all TPP-10 Duties Collected - 45.4% of all TPP-11 Duties Collected**

Source: Annual 2012, 2013, 2014 and Jan+Feb 2015 Data, U.S. International Trade Commission's (ITC) Trade Dataweb - <http://dataweb.usitc.gov>

What's New about TPP?

New Areas – the 21st Century FTA

- Environment – Potential for protectionist abuse?
- Labour – “consistency plan”
- Regulatory coherence
- Cross border data flows
- State-owned enterprises engaged in commercial competition
- Limits on use of Investor-State Dispute Settlement
- IP – Sensitive Pharma Issues
 - Biologics and Data Exclusivity Period, “Evergreening”...

Will TPP cure all ills? “Market Access”?

- Example: Vietnam’s WTO Commitments Limit investor to One Foreign Owned Retail Shop: Further shops each subject to an “**Economic Needs Test**” (normally *banned* by the General Agreement on Trade in Services).
- Will TPP fix this issue? **<500 sq/m in malls and after 5 years, all.**
- **Other logistics services will still be subject to various jv requirements, local driver requirements, etc.**



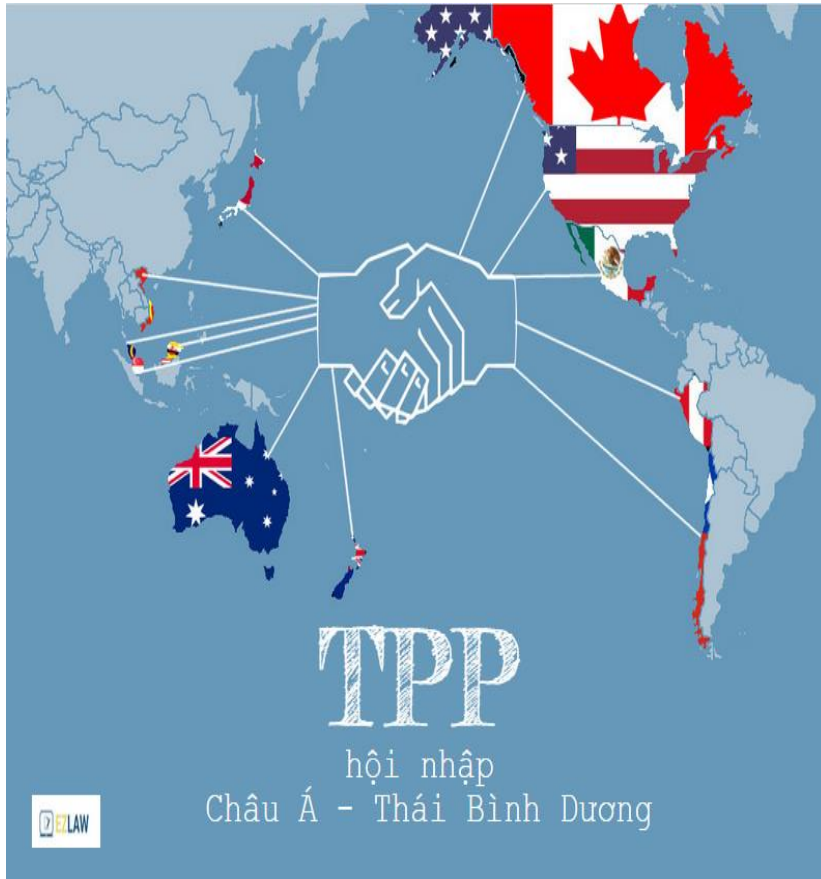
What Else is Happening?



ASEAN Integration – “AEC 2015”



What else is happening?



The “Noodle Bowl”:

- China-ASEAN FTA (done)
- Korea–Vietnam FTA (done)
- EU-Vietnam FTA
- HK-ASEAN FTA
- Trade Facilitation Agreement (WTO TFA)
- US-VN Tax Treaty
 - but Paul Rand
- More...

Conclusions

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TPP will be hotly debated in 12 Legislatures, but is likely to enter into effect by late 2016. When it does, TPP will:

- Provide an immediate «bump» to Vietnam's GDP
- Sustain long-term growth
- Set standards for future trade and investment
- Converge with EU-FTA, TFA, AEC 2015, RCEP...

Did pressure to reach agreement lead to last minute compromises?

- Yes, and the devil is in the details.

Do other agreements matter too?

- Yes.