

# HELPING VIETNAM'S GLOBAL INTEGRATION THROUGH TRADE

## Context:

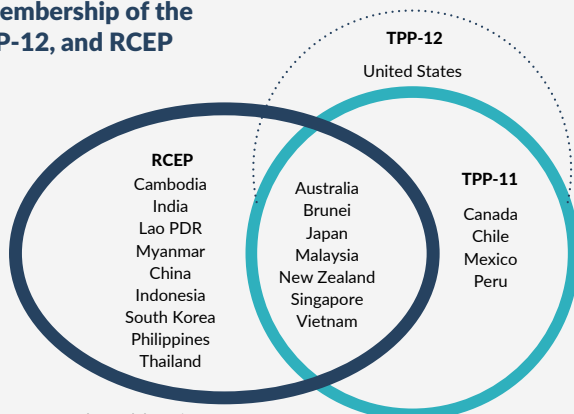
In Vietnam, poverty fell sharply following a series of trade reforms which helped propel the country to become an export powerhouse in the last 30 years following 20 years of conflict. Approaching 200%, its trade to GDP ratio is now the highest among all middle-income countries. Today, exports now generate 30% of employment in the enterprise sector.

At the time of the World Bank Group's engagement, the Government of Vietnam was evaluating the economic gains from deepening regional trade integration under potential free trade agreements. Major new agreements under negotiation included the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP or TPP11) and the Regional Comprehensive Economic Partnership (RCEP). The TPP was originally negotiated with 12 economies in America, Asia, and the Australian continent.

Early in 2017, the United States, the largest economy in the TPP block, formally withdrew its participation leaving most policymakers with serious doubts about the benefits of continuing the agreements of TPP among the remaining eleven members. Later that year, the Vice Minister of Vietnam's Ministry of Industry and Trade, Vietnam's Chief Negotiator for CP-TPP asked the World Bank in Hanoi to help with an objective analysis of the CP-TPP's impacts on Vietnam. The negotiations have since resumed under the CPTPP or TPP11. There are also proposals for RCEP - a free trade agreement between the ten member states of the Association of Southeast Asian Nations (ASEAN).

This work program informed the policy discussion to help deepen Vietnam's international trade integration by evaluating the economy-wide and distributional implications supporting the continuation of TPP11 despite the US departure and developments with RECP.

**Figure 1. Membership of the CPTPP, TPP-12, and RCEP**



Source: Authors' elaboration.

## PROJECT TITLE:

Umbrella Facility for Trade; Second Australia World Bank Partnership

## PROGRAM:

Multi-Donor Trust Fund for Trade and Development 2; Umbrella Facility for Trade; Second Australia World Bank Partnership

## TEAM LEADER:

Maryla Maliszewska

## TIME PERIOD:

July 1, 2017 - March 30, 2018

## ACTIVITY:

- + Analysis, advisory services and diagnostics
- + Research
- + Knowledge sharing

## COUNTRIES:

Vietnam

## TRADE AREA:

- + Trade integration
- + Preferential Trade Agreements
- + Distributional Impact of Trade Reform

## STAKEHOLDERS:







- + Policymakers
- + Parliament
- + Academia

# Intervention:

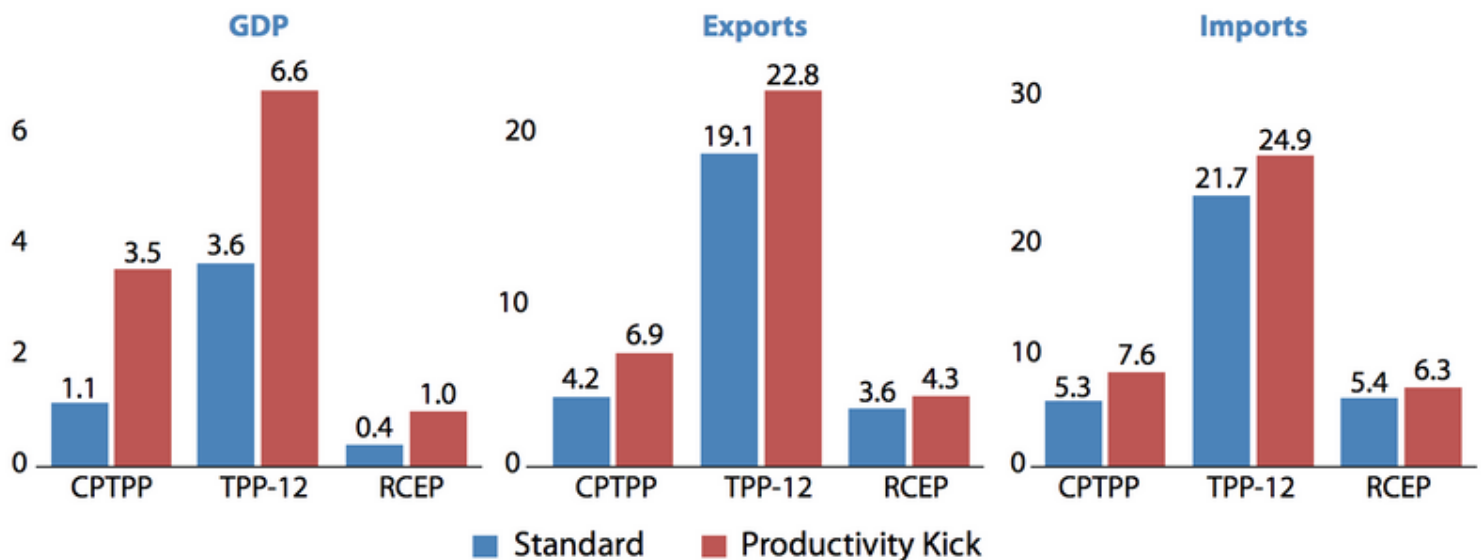
The Umbrella Facility for Trade supported a comprehensive analysis of the impacts of joining CPTPP to assess winners and losers within the country. The study used innovative economic modeling (global dynamic Computable General Equilibrium Model (CGE)) linked with a top down microsimulation model relying on Vietnamese Household Living Standard Surveys, and found that the distribution of gains from trade will not be equally shared by all segments of the population. Other complementary assistance included a legal gap assessment for Vietnam's implementation of CP-TPP, and technical assistance for Investor state dispute settlement (ISDS) capacity enhancement.

Under such circumstances, analyzing the distributional consequences of the FTAs opened the policy discussion towards the implementation of policies to ameliorate the possible negative consequences of FTAs on specific segments of the population that might be most adversely affected.

This included the following distributional analysis:

-  Composition of labor income gains in each type of industry
-  Gains by type of workers (skilled/unskilled)
-  The effects on gender gaps in earnings
-  Long-term effects on extreme and moderate poverty
-  Detailed distributional analysis
-  World Bank Shared Prosperity Goal of (Bottom 40% vs Top 60%)

**Figure 2. Macroeconomic impact of potential FTA's on Vietnamese economy by 2030 (% deviations from the baseline)**



Source: Authors' estimates..

## Economic and Distributional Impacts of Comprehensive and Progressive Agreement for Transpacific Partnership: the Case of Vietnam

On February 2018, the team presented the final findings of the impact assessment to the National Community Investment Fund (NCIF) and other government agencies. The Hanoi World Bank team was informed subsequently that the findings were reported at a top meeting comprising country authorities, as one of the third party's analytical sources, for them to decide whether or not Vietnam would sign the CP-TPP.

The main output of this project was a report: Economic and Distributional Impacts of Comprehensive and Progressive Agreement for Transpacific Partnership: the Case of Vietnam, published on March 5, 2018 and was officially presented to Vietnam Deputy Prime Minister, Mr. Vương Đình Huệ† the same day. Three days prior to this event, Vietnam joined the other ten member countries to sign the CP-TPP. The paper contributed to the ongoing discussion on further trade integration of Vietnam.

### Output

By 2030, under conservative assumptions, Vietnamese GDP is estimated to be 1.1% higher, compared with 0.4% higher under RCEP, and 3.6% higher under TPP-12 with respect to baseline economic conditions. Assuming a modest boost to productivity, the estimated increase of GDP would amount to 3.5% from CPTPP, compared with 6.6% for TPP12 and 1% from RCEP.

### Exports and Imports

Under CPTPP, exports are projected to grow by 4.2%, and imports by 5.3%; with larger increases of 6.9% and 7.6% respectively assuming productivity gains.

### Tariffs

In the case of tariffs faced by Vietnam, under CPTPP average trade weighted tariffs faced by Vietnamese exporters to CPTPP markets will fall from 1.7% to 0.2%.

### Non-Tariff Measures

NTMs faced by Vietnam in CPTPP markets are expected to decline, on average, 3.6 percentage points in ad-valorem tariff-equivalent terms.

### Sectoral Impacts

For CPTPP, the largest growth in output is estimated to be in food, beverages and tobacco; clothing and leather; textiles; along with more modest growth in several manufacturing sub-sectors, as well as services. Export growth is expected to be strongest in food, beverages and tobacco; clothing and leather; chemical, leather and plastic products; transport equipment; and machinery and other equipment. Imports are expected to grow in all sectors.

### Distributional Impacts

CPTPP is projected to reduce poverty by 0.6 millions at poverty line \$5.50 a day relative to baseline conditions in 2030. Although all income groups are expected to benefit, the benefits will be higher for higher-skilled workers in the top 60% of the income distribution. This underlines the importance of investments in human capital for benefiting fully from the agreement.

### Looking Forward

NCIF now requests a further analysis on economic and distributional impacts of the EU-Vietnam Free Trade Agreement (EVFTA) – another major new-generation FTA for Vietnam.

